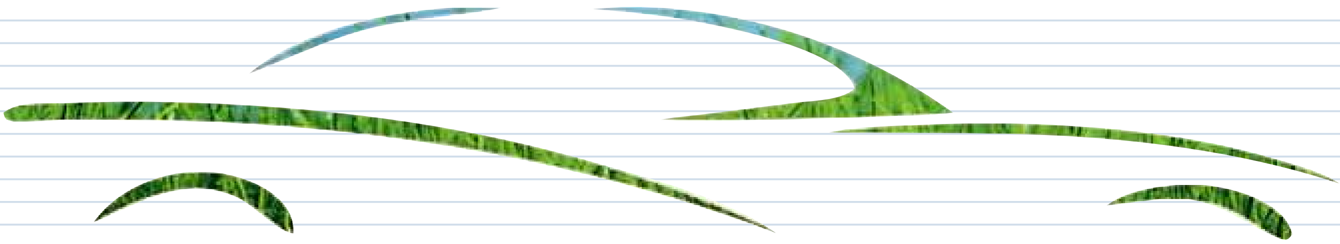


Experience mobility – Drive the future.

Annual report 2007

elringklinger

Developing the Future.

Sustainability – in the way we think and act with regard to the environment and to our commercial success. Continued growth in revenues, earnings and dividends – this is the goal we are working towards. As a trusted development partner and supplier to the automobile industry and other sectors, we have established a strong presence in the global arena. Committed to innovative, environment-focused products, we are expanding within existing and new fields of business – and unlocking additional opportunities for tomorrow's growth.

ElringKlinger Group in Figures

FRS	2007	2006	2005	2004
	€ million	€ million	€ million	€ million
Sales revenues	607.8	528.4	474.6	459.5
Cost of sales	400.1	338.7	318.0	305.0
Gross margin	207.7	189.7	156.6	154.5
Selling expenses	41.1	38.9	36.5	33.9
General and administrative expenses	22.1	22.7	22.9	22.2
Research and development expenses	29.8	26.0	24.3	22.9
Operating result	123.0	96.1	75.0	72.3
Financial result	-8.1	-8.4	-4.1	-7.1
Earnings before taxes	114.9	87.6	70.9	65.2
Net income	80.3	61.9	46.6	40.4
Profit attributable to shareholders of ElringKlinger AG	75.9	57.8	42.4	36.0
Total dividend amount	26.9[1]	24.0	19.2	16.8
Earnings per share (IAS 33) in € (split-adjusted)	3.95	3.01	2.21	1.88
Dividend per share in €	1.40[1]	1.25	1.00	1.75[2]
Market capitalization (31.12.)	1,632.0	931.6	586.8	576.0
Investment in tangible and intangible assets	102.1	49.1	54.7	40.8
EBIT[5]	121.0	93.3	77.2	71.9
EBIT margin	19.9%	17.7%	16.3%	15.7%
Net cash from operating activities	99.3	89.9	70.1	75.4
Balance sheet total	572.5	476.6	456.3	423.9
Equity	281.1	231.2	196.1	163.9
Equity ratio	49.1%	48.5%	43.0%	38.7%
Return on total assets after taxes	16.5%	14.5%	12.0%	11.3%
Return on equity after taxes	31.3%	29.0%	25.9%	26.4%
ROCE	30.3%	26.7%	23.8%	23.8%

HGB	2003
	€ million
Sales revenues	416.8
Material expenses	154.1
Personnel expenses	131.7
Amortization and depreciation on intangible and tangible assets	42.6
Other operating income/ expenses	37.9
Earnings before taxes	50.5
Net income	27.2
Net income after minorities	23.7
Total divident amount	14.4
Earnings per share (DVFA/SG) in € (split-adjusted)	1.40
Dividend per share in €	3.00[3]
Market capitalization (31.12.)	364.8
Investment in tangible and intangible assets[4]	58.0
EBIT[5]	54.0
EBIT margin	13.0%
Cash flow from operating activities	66.0
Balance sheet total	343.2
Equity	113.2
Equity ratio	33.0%
Return on total assets after taxes	9.9%
Return on equity after taxes	24.8%
ROCE	22.1%

[1] Proposal to the 2008 Annual General Shareholder Meeting

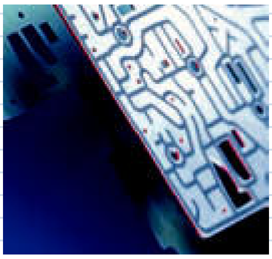
[2] Prior to 2-for-1 stock split

[3] Prior to capital increase from corporate funds and issuance of new shares at a ratio of 2-for-1

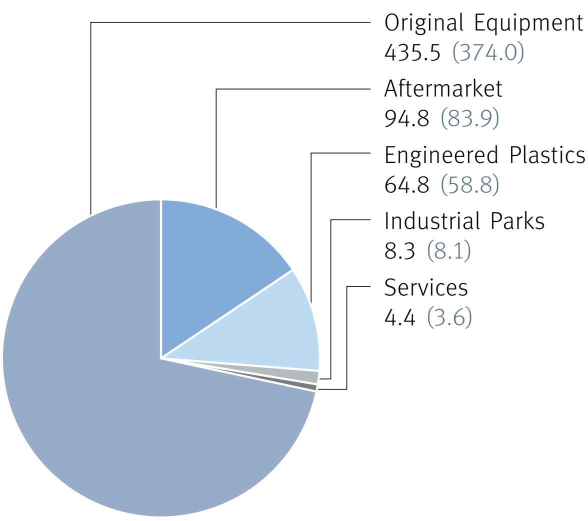
[4] Incl. investments in real estate held as financial investments

[5] Incl. foreign currency translation

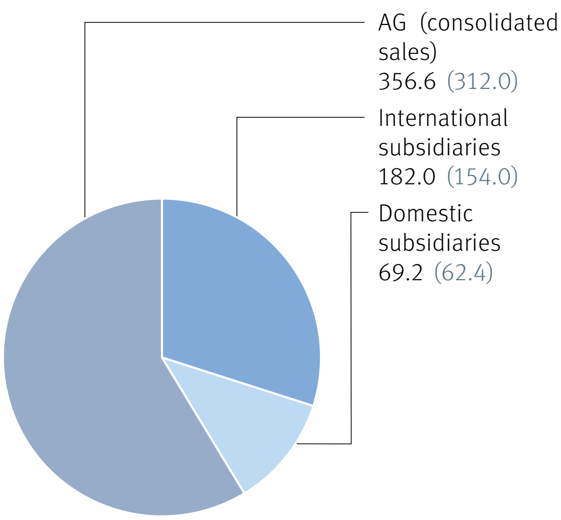
ElringKlinger Group Segments

Original Equipment	Aftermarket	Engineered Plastics	Services	Industrial Parks
				

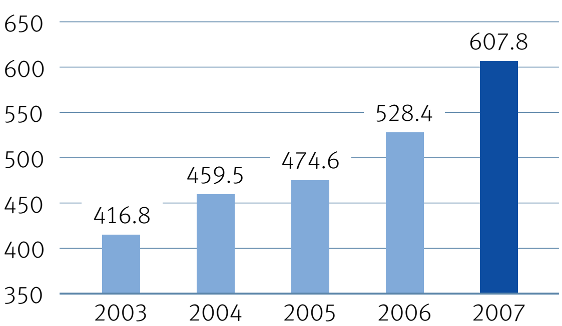
Sales revenues by segment in 2007 (prior year)
in € million



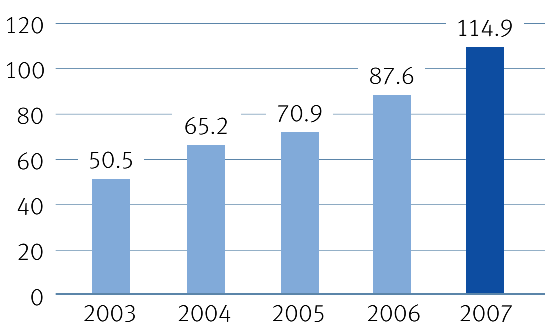
Sales revenues in 2007 (prior year)
in € million



5-year review of sales revenues*
in € million

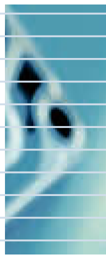


5-year review of earnings before taxes*
in € million



*2003 in accordance with HGB, 2004–2007 in accordance with IFRS

Contents



Letter to Shareholders from the Chairman of the Management Board



Dr. Stefan Wolf (Chairman)

Letter to Shareholders from the Chairman of the Management Board

Dear Shareholders,
Ladies and Gentlemen,
Friends of ElringKlinger,

The ElringKlinger Group delivered a satisfactory performance in the 2007 financial year. Sales at Group level rose by 15.0% year on year, from EUR 528.4 million to EUR 607.8 million. Earnings before taxes amounted to EUR 114.9 million, which represents a 31.1% increase on the figure posted for 2006. Net income rose by 29.7% year on year to EUR 80.3 million.

We believe that our shareholders should benefit directly from the encouraging performance of the Group and shall therefore be proposing to the Annual General Meeting on May 30, 2008, a dividend increase from EUR 1.25 per share to EUR 1.40 per share. The proposed dividend amount thus totals EUR 26.9 million.

In 2007, a total of more than 200 newly developed solutions went into series production within the ElringKlinger Group. All four production divisions – Cylinder-Head Gaskets, Specialty Gaskets, Elastomer Technology/Modules and Shielding Technology – were able to make a contribution within this area. As regards product development, the ElringKlinger Group continued to focus on the core issues facing today's market players in the automobile industry. ElringKlinger products are playing an increasingly important role when it comes to reducing fuel consumption, scaling back emission levels and introducing alternative fuels. Heavy metal parts are being replaced by a range of plastic housing modules produced by the Group, as a result of which the overall weight of vehicles has been reduced significantly. Ultimately, lower weight translates into greater fuel economy and reduced emissions. Due to the use of lightweight components in engine design and the increasing complexity of exhaust tract systems, the temperatures recorded in these areas of the vehicle have increased considerably in recent years. This, in turn, has led to an increase in the number of thermal shielding components required. Here, too, the ElringKlinger Group has been able to make a valuable contribution to automotive technology.

The use of alternative fuels requires certain adjustments to the overall sealing systems deployed in vehicles. In response to such fields of application, ElringKlinger was quick off the mark to develop high-tech solutions that have now made their way into series production.

The approach taken by ElringKlinger involves transferring existing products to new fields of application and developing new products with the help of proven manufacturing technology. In applying this incisive game plan, the Group is able to generate above-average growth in what is considered a relatively stagnant automobile market. We shall continue to pursue this strategy in the future.

In addition, we plan to enter entirely new areas of business. Within this context, we made good progress in the field of sealing technology for fuel cell units. Prototypes of these fuel cell components are currently being supplied to a manufacturer responsible for the production of the entire power supply unit. Fuel cell sealing technology, in particular, is an area in which we see good potential for the ElringKlinger Group in the medium to long term.

The 2007 financial year also marked the beginning of a project that is aimed at developing a new diesel particulate filter concept through to series-production level; this project is one of the core goals for the Group in 2008, the aim being to offer a new, technically enhanced component.



Theo Becker

Karl Schmauder

We were also encouraged by the momentum generated in our Aftermarket segment over the course of 2007. The above-average rates of sales growth achieved in this area were driven in particular by business in Eastern Europe as well as the Middle East and South East Asia. Our product portfolio underwent considerable expansion.

In establishing a new facility in India, the ElringKlinger Group further extended its global reach in 2007. The domestic vehicle market in India has seen dynamic growth in recent years, and in view of the fact that Indian engine and vehicle manufacturers will be faced with stricter emission laws as from 2009, demand for technologies that are capable of meeting these requirements has risen significantly. ElringKlinger has positioned itself solidly in the Indian market. We anticipate that initial profits will be generated by Elring-Klinger Automotive Components (India) Private Limited, Ranjangaon/Pune, in the enterprise's first full financial year 2008.

ElringKlinger's share price developed well in 2007. Our stock began trading on January 2, 2007, at a price of EUR 49 and reached an annual high of EUR 87 in December. At the end of the financial year, ElringKlinger's share price stood at EUR 85. The annual increase recorded between January 2 and December 30, 2007, amounted to EUR 36, which represents a gain of around 70%.

We have set ourselves some ambitious goals for 2008. ElringKlinger is currently working on preparations for several new product ramp-ups, in addition to coordinating the successful implementation of plant expansions and other investment projects planned for the Group. We are committed to strengthening our market position in Asia, particularly in China and India, by drawing on the sophisticated technologies developed by our company, the objective being to further expand our business relations with rapidly growing vehicle manufacturers in Asia and capture an additional share of this market.

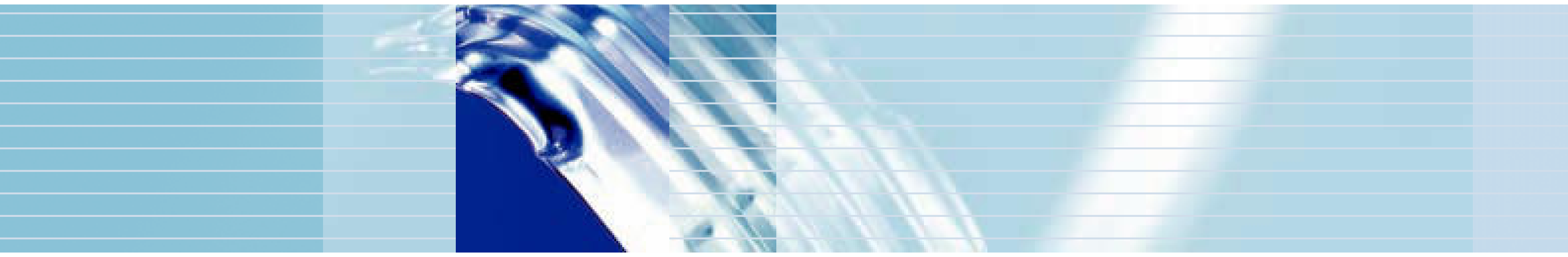
If a good opportunity arises, we may also implement targeted acquisitions to complement the Group's organic growth.

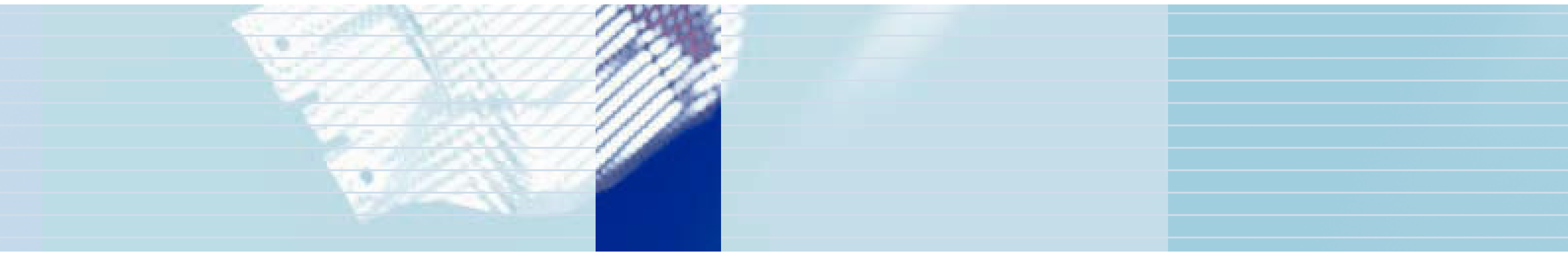
Despite the challenges facing today's automobile markets, the 2008 financial year has begun in line with our forecasts. We have set ourselves a target of raising both sales and earnings in 2008 further.

We hope you enjoy reading this year's annual report.

Sincerely,

Dr. Stefan Wolf





Report by the Supervisory Board

Dr. Helmut Lerchner, Chairman of the Supervisory Board

Report by the Supervisory Board

The Supervisory Board of ElringKlinger AG discharged its advisory and monitoring duties during the 2007 financial year on a basis of trust and in close cooperation with the Management Board.

Interaction between the Management Board and Supervisory Board
Over the course of the financial year, the Chairman of the Supervisory Board remained in regular contact – several times a week on some occasions – with the Chairman of the Management Board, kept himself informed as to the course of business and significant events, and consulted with the latter. Key decisions were discussed directly and in a timely manner.

The Chairman of the Supervisory Board informed the other members of the Supervisory Board either by e-mail or phone of any significant issues, requested their opinions on such matters and included them in the ongoing activities of the Supervisory Board.

The Management Board regularly informed the Supervisory Board, in the form of prompt and comprehensive oral and/or written reports, about all important aspects relating to corporate planning as well as the strategic and ongoing development of the company. In addition, the Management Board submitted written monthly reports to the Supervisory Board. These included details relating to sales, costs and earnings as well as an outlook for the full annual period and information on the financial and employment situation at ElringKlinger AG, within the individual business areas and at the subsidiaries.

The Management Board also submitted to the Supervisory Board in a timely manner all matters requiring the consent of the Supervisory Board. Authorizations were granted after extensive examination of the documents and, where necessary, after supplementary explanations had been furnished by the Management Board.

As regards interaction between the Management Board and Supervisory Board, the process of forming an opinion and arriving at a decision on the basis of thorough and pertinent information was always consensual, swift and, also when viewed against the backdrop of the Group's business development, successful.

Supervisory Board meetings

The Supervisory Board of ElringKlinger AG convened four scheduled and one extraordinary meeting over the course of the 2007 financial year.

At the four scheduled meetings, the members discussed the reports issued by the Management Board with regard to the company's state of affairs, the economic environment, sales and earnings performance as well as significant events. In addition, the Supervisory Board members exchanged views on expectations relating to the future course of the 2007 financial year as well as the company's medium-term planning and risk position.

In particular, the Supervisory Board's deliberations covered the following topics:

Meeting on March 28, 2007: Adoption of the 2006 financial statements, Management Board's proposal for the appropriation of profits, business performance to date and outlook for 2007, assessment of the efficiency of the Supervisory Board.

Meeting on May 25, 2007: Details relating to the Annual General Meeting, business performance to date and outlook for 2007, elections for the positions of Chairman and Deputy Chairman of the Supervisory Board.

Extraordinary meeting on September 3, 2007, in respect of the Management Board's plans for a company acquisition and the disposal of property, both of which are subject to the approval of the Supervisory Board.

Meeting on September 25, 2007: Business performance to date and outlook for 2007, development of new business areas, status of innovation projects, impact of a more extensive climate policy on the company's development activities and business prospects, particularly against the backdrop of anticipated political endeavors to reduce drastically the level of CO_2 emissions in motor vehicles.

Meeting on December 6, 2007: Business performance to date and outlook for 2007, budget for 2008 and medium-term planning 2008 to 2012, forward projection of corporate strategy, adjustments to the rules of procedure of both the Management Board and the Supervisory Board in line with the amendments made to the Corporate Governance Code. In addition, discussion of the effects of the amended Corporate Governance Code and adoption of the Declaration of Conformity with regard to the Corporate Governance Code, including explanations as to the company's departure from specific recommendations.

The board decided against convening separate meetings of employee and shareholder representatives for the purpose of preparing Supervisory Board meetings.

Formation of committees and committee meetings

The Supervisory Board of ElringKlinger AG has formed a Personnel Committee, which convened on two occasions during 2007. As in the past, the members of the Personnel Committee were Messrs. Karl-Uwe van Husen, Walter H. Lechler, Dr. Thomas Klinger-Lohr and Dr. Helmut Lerchner.
No other committees were in place during 2007. At its meeting of December 6, 2007, the Supervisory Board established an Audit Committee. The Supervisory Board members Karl-Uwe van Husen, Walter H. Lechler und Dr. Helmut Lerchner were elected as members of the Audit Committee. The Audit Committee was formed at the beginning of 2008, thus commencing its work effective from this date.

At its meetings over the course of 2007 the Personnel Committee of the Supervisory Board furnished advice on matters relating to compensation of the Management Board as well as Management Board contracts. Furthermore, an extensive dialog was conducted by e-mail and phone.

In mid-February 2007 the Personnel Committee proposed to the Supervisory Board that the Management Board contracts for Dr. Stefan Wolf (Chairman) and Mr. Karl Schmauder be extended as from February 1, 2008, by five years up to January 31, 2013, on the basis of the successful first two years of service on the Management Board. The Supervisory Board approved the aforementioned proposal.

Corporate Governance

In December 2007 the Supervisory Board and Management Board issued a Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) concerning ElringKlinger AG's compliance with the recommendations of the Corporate Governance Code. The Declaration has been made available to shareholders on the company's website.

The efficiency assessment relating to the duties of the Supervisory Board, as recommended by the Corporate Governance Code, was performed on the basis of a questionnaire. The results were presented to the members of the Supervisory Board and were subsequently analyzed.

Audit of the financial and consolidated financial statements

The financial statements of ElringKlinger AG, including the management report, for the 2007 financial year as well as the consolidated financial statements and Group management report for the 2007 financial year, as prepared by the Management Board, were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart. The audit mandate relating thereto had been issued by the Supervisory Board in accordance with the resolution passed by the General Meeting of Shareholders on May 25, 2007.

In accordance with Section 315a of the German Commercial Code (Handelsgesetzbuch – HGB), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (IFRS).

The auditor granted unqualified audit opinions for the financial statements, including the management report, of ElringKlinger AG as well as the consolidated financial statements, including the Group management report.

The Supervisory Board was in possession of the documents relating to the financial and consolidated financial statements together with the Management Board's proposal for the appropriation of profits, as well as the two audit reports compiled by the auditor. The aforementioned documents were studied in depth by the Audit Committee and the Supervisory Board and subsequently discussed in the presence of the auditor, who reported on the findings of his audit. The Supervisory Board concurred with the outcome of the audit and concluded on the basis of its own review that there were no objections to be raised. It approved the financial statements of ElringKlinger AG and the consolidated financial statements, together with the associated management and Group management reports, as prepared by the Management Board for the 2007 financial year. Thus, the financial statements of ElringKlinger AG have been adopted in accordance with Section 172 AktG.

At its meeting of March 20, 2008, the Supervisory Board examined the Management Board's proposal for the appropriation of profit and granted its approval.

The Supervisory Board would like to thank the Management Board and all members of staff within the ElringKlinger Group for their commitment and successful work over the course of the financial year just ended. The encouraging performance of 2007 would not have been possible without this contribution.

Aichtal, March 20, 2008

The Supervisory Board

Dr. Helmut Lerchner

Chairman of the Supervisory Board

Achieving Growth through New Developments.

It is today's success that shapes the future. With this in mind, we set out on new paths before others find them and strive to remain not one but two steps ahead. In doing so, we are able to create the nucleus for successful growth – through innovative developments that cover the entire range of core issues currently facing the automobile industry and through the launch of new product areas. And, ultimately, it is this success that generates growth in earnings.

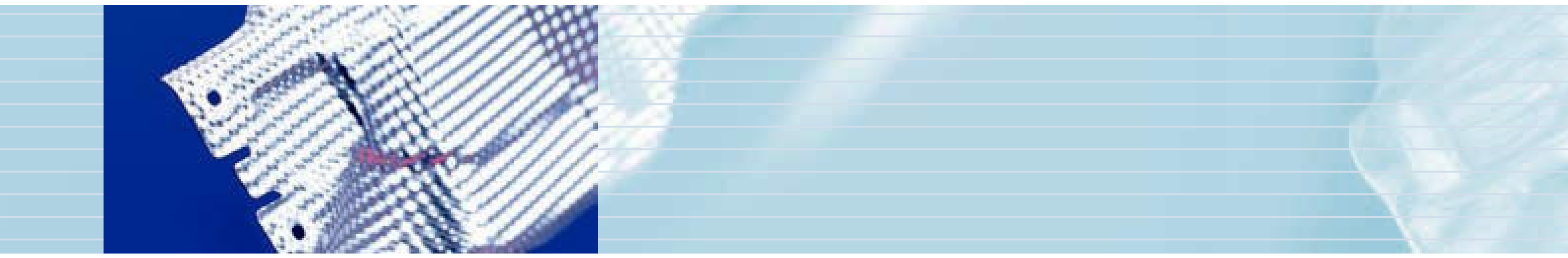
Focus on Core Issues

Achieving Growth through New Developments

At the heart of new developments

For the ElringKlinger Group, as a performance-driven partner to the automobile industry, the development of innovative solutions tailored to customers' core needs lies at the heart of day-to-day operations.

Research and development are given a very high priority. Success lies in identifying new technological challenges and market requirements at an early stage, rapidly converting the results of R&D activities from an initial concept into series production and then focusing on marketing efforts. This requires a level of investment that goes beyond the average capital expenditure seen within the industry.



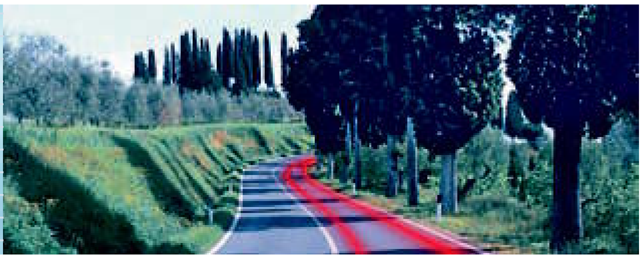
The ElringKlinger Group applies its core competences and technologies to finding innovative solutions to the four main challenges facing the automobile industry:

- the reduction of fuel consumption,
- the reduction and avoidance of emissions,
- the use of alternative fuels, and
- the development of new drive technologies.

These are the core issues facing our customers. ElringKlinger is well equipped to handle the increased pressure exerted on the industry when it comes to developing new solutions in the field of engines, transmissions and exhaust cleaning systems. The company is also well positioned to benefit from the opportunities associated with these challenges. Over the coming years, we expect to deal with a series of new tasks, each of which offers its own potential for growth.

Reducing Consumption.

Less is more. Our innovative solutions can help to save weight in the vehicle and thus reduce fuel consumption. Good for the environment and good for business.



Reducing Consumption

Against the background of rising fuel prices, reducing consumption has become a major issue, with a focus on the automobile industry's wider socio-political role in conjunction with the issues of climate protection and sustainability.

Losing weight. Replacing metal with plastic

The replacement of metal components with lighter materials can help reduce fuel consumption by a significant amount. On behalf of manufacturers, ElringKlinger analyzes which engine and transmission components can be replaced by lighter and less expensive plastic parts. By using lightweight constructions such as cam cover and oil pan modules or gearbox covers, it is possible to achieve a substantial reduction in overall weight and thus cut the vehicle's consumption figures. In the area of cam cover modules, the combination of a lightweight plastic part with the sealing system marks ElringKlinger out from its competitors and allows the company to extend the depth of value-creation processes and increase profitability, while offering customers more added value.

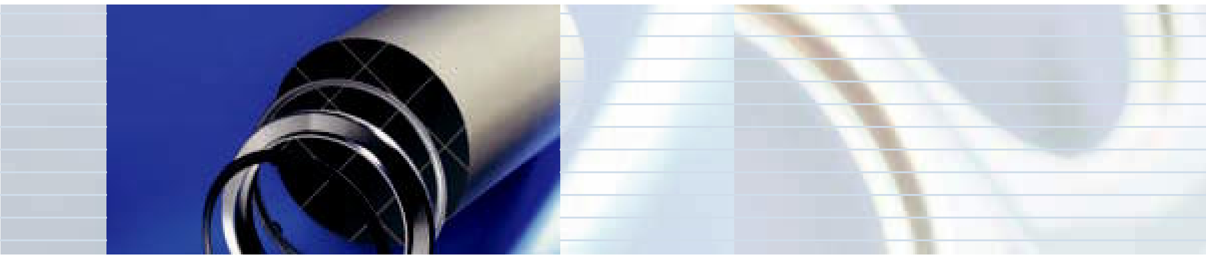
Downsizing – improving heat-resistance in the engine, transmission and exhaust tract

Downsizing is the trend towards building more compact and turbo changed engines that consume less fuel. This requires the use of new, lighter materials such as magnesium and aluminum, which conduct the high temperatures and make it necessary to provide thermal shielding for heat-sensitive components inside the engine. Together with the increasing use of electronics, sensors and plastics in the engine area, these higher temperatures create even more potential applications for ElringKlinger's sealing and shielding systems.

New trends in transmission systems

Optimized automatic transmissions can help to reduce consumption significantly. The current trend is towards eight-stage automatic transmission, dual clutch and CVT (continuously variable transmission) applications, which greatly improve vehicle economy. ElringKlinger has positioned itself to respond to these new applications and has extended its customer base for transmission parts. The product portfolio now includes specialty gaskets, automatic transmission control plates, operating pistons, metal-elastomer gaskets for mechatronic components, covers with integrated gaskets and lightweight plastic gearbox covers.

Reducing Emissions.



Our entire development expertise is devoted to the task of creating new technologies that help to reduce emissions and so benefit our customers, the environment and the company itself.

Reducing Emissions

The task of reducing emissions is now one of the main challenges facing the automobile industry. Lower CO_2 output can be critical to the success of new models, and it is in this area that industry suppliers have an important role to play by developing low-emission solutions.

At the end of 2007, the EU Commission presented its plan to cut the CO_2 emissions of new vehicles from 2012 onwards to an average of 120g per kilometer, with engine technology expected to achieve an average value of 130g. Car makers who fail to meet the demanding limits will be fined. In addition to the current debate over the scope for cuts in CO_2, the focus is also on further reductions in nitric oxide, hydrocarbons and particulates following the stricter rules adopted by Euro 5 and 6 in Europe and Tier 2 in North America. Plans for a major tightening up of the CAFE (Corporate Average Fuel Economy) fleet consumption rules in the United States show that the drive to reduce consumption is now being felt also in the world's biggest automobile market.

Reducing weight

In order to reduce emissions of carbon dioxide, it is essential to reduce consumption. By reducing weight and thus using less fuel, it is possible to cut the amount of CO_2 generated. In fact, weight savings alone can produce a cut of up to 10% – a reduction which ElringKlinger's portfolio of lightweight plastic components is helping to achieve.

New components for exhaust cleaning

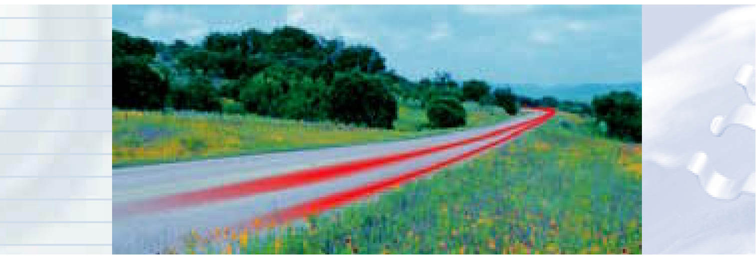
For some time, ElringKlinger has been investing in research and development in response to new demands on engines and exhaust systems that in turn necessitate new products and solutions. With regard to cutting exhaust emissions, we have developed specialty gaskets, $DeNO_x$ modules and heat shields to meet the requirements of catalytic converters, particulate filters and SCR (selective catalytic reduction) systems, which all rely on sealing concepts and gasket materials with a high degree of thermal resistance. Higher temperatures and exhaust recirculation rates as well as dynamic relative movements demand a new approach and new materials for gaskets deployed for example in the exhaust manifold and the turbocharger. As a result of all these new applications, the number of associated products supplied by ElringKlinger is also on the increase. Alongside high-temperature-resistant gasket and shielding technology for components throughout the entire exhaust system, the company is busy developing a new type of diesel particulate filter.

International opportunities

The role of automobile industry suppliers in providing the technology and added value for exhaust emission-reduction concepts will continue to expand in the coming years. For suppliers such as ElringKlinger, who are used to making products that meet strict European emissions rules, there are good opportunities to be seized in the fast-growing developing countries. Countries such as China, Korea, Thailand and India are introducing demanding emissions limits similar to the European Euro 3 and Euro 4 regulations.

Alternative Fuels.

Demanding alternatives. The proportion of alternative biological and synthetic fuels is growing – and we are keeping pace. Thanks to our wide-ranging expertise and new solutions, we are able to meet the increasing and broader demands from our customers and the environment.



Alternative Fuels

The development of alternative fuels is currently progressing at a tremendous pace as a result of major increases in the price of crude oil. For engine designers the challenge is to substitute fossil fuels with alternatives.

Thanks to the use of bio fuels and high-quality synthetic fuels based on the sustainable cultivation of plants such as rape, maize, soy and beet, it is also possible to reduce the output of CO_2. Bioethanol, which is produced from plants and has excellent anti-knock properties, is gaining in importance as a non-fossil fuel, especially in a mixture with petrol fuels.

As a specialist in cylinder-head and specialty gaskets, ElringKlinger's activities go far beyond the diesel engine, where sealing requirements make particularly high demands when it comes to technology and product design. Today, our development activities are equally geared towards sealing design for bioethanol and flex-fuel engines. In Brazil, for example, two-thirds of all vehicles already run on bioethanol produced from sugar cane. In the United States, a large number of sites are set to commence production in 2008. In Europe, too, bioethanol is used to make up blends E-5 to E-85.

Due to its relatively aggressive chemical properties, bioethanol makes considerable demands on sealing technology. Given the fact that new fuels such as biodiesel often contain plasticizers, the materials used in automotive systems have to display a high level of resistance.

The variety of these fuel concepts and the need to keep developing new, technologically advanced sealing solutions and resistant elastomers provide ElringKlinger with a host of opportunities to develop products for alternative fuel concepts.

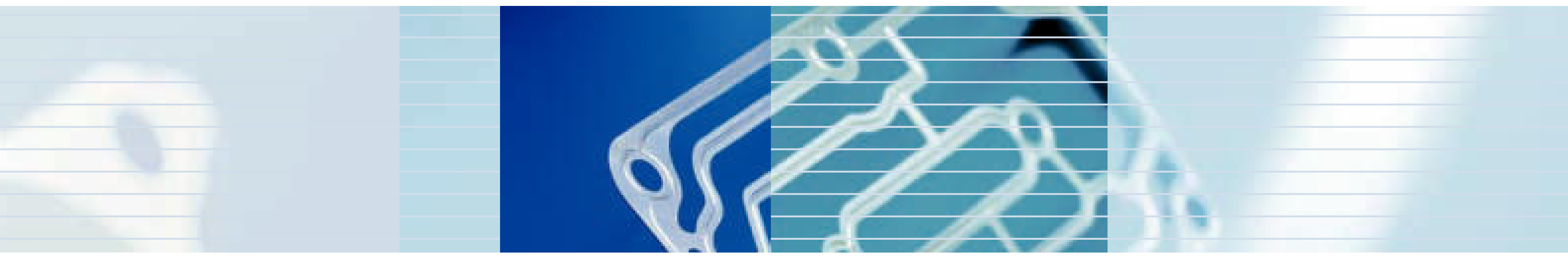
Alternative Drive Technologies.

At ElringKlinger, we have always been driven by the future. That is why we are already hard at work developing the technology for tomorrow's drive concepts – a technology that will act as a stimulus for further growth in our business.

Alternative Drive Technologies

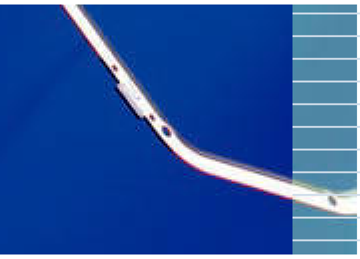
Finite fossil fuels and ever-increasing energy prices are driving forward the pace of development in the field of alternative drive technology, with car makers placing new demands on the particular technological expertise and readiness to invest of their suppliers.

Modern drive technologies range from petrol, low-emission BlueTec diesel and natural gas through to hybrid and fuel cell systems. At present, with the development, for example, of new injection processes and uniform combustion methods (HCCI), the combustion engine still offers considerable scope for optimization and will remain the dominant drive concept on the world’s automobile market for the foreseeable future. Nevertheless, new drive technologies look set to gain market share in the medium term. During the next few years the aim will be to transform the concepts developed under laboratory conditions into industrial-scale solutions.



Thanks to its New Business Areas division, ElringKlinger has been ready to meet this technological challenge right from the beginning. In order to offer innovative solutions to forward-looking drive technologies such as the fuel cell, the company makes full use of its existing core competences in the field of sealing technology to develop components such as coated bipolar plates and sealing frames. The components and fuel cells are combined to form the actual fuel cell aggregate. ElringKlinger can boast wide-ranging technological expertise in SOFC (Solid Oxide Fuel Cell) and PEM (Proton Exchange Membrane) concepts and in direct-methanol fuel cells. To ensure that in the future we can play a leading role on the world market in this field, we have taken out patents to protect our specific know-how.

The increased use of alternative drive technologies opens up considerable opportunities for ElringKlinger, as the achievable value of our products in fuel cell drives will exceed that for the combustion engine.



The charts featured on pages 36 to 67 are not part of the Group management report.

Group Management Report

Macroeconomic Conditions and Business Environment

Global economy records stable growth

The global economy continued to expand over the course of 2007. In the second half of the year, however, the surge in oil prices as well as the high costs associated with raw materials and energy had a dampening effect on growth. In addition, the financial markets were severely buffeted by the US subprime mortgage crisis. Despite these adverse factors, the world economy managed to expand by 5.1%. Yet again, the economies of Asia and Latin America were among the principal growth drivers within the global economic arena.

The German economy remained on track in 2007, with GDP edging up by 2.5%. Growth was driven in particular by more dynamic exports, which rose by 8.3% despite the continued strength of the euro.

The eurozone as a whole also recorded robust economic growth. Here, GDP increased by 2.7%. Having said that, Europe was once again unable to match the growth rate achieved at a global level.

Similarly, the US economy expanded by just 2.2%. The recent malaise witnessed in the domestic real estate market, coupled with the restrictive approach pursued by the Federal Reserve over an extended period of time and waning consumer confidence, had an adverse effect on economic growth and fueled fears of a recession in the United States.

By contrast, the Asian economies again generated significant forward momentum. The Chinese economy grew by 11.4% in 2007, while India gained 8.9%. At 2.1%, Japan's economic growth rate was relatively modest.

Automobile sector: Conditions within supply industry remain challenging

Both the automobile industry and the associated automotive supply industry yet again had to contend with high material prices, spiraling energy costs and intense competition over the course of 2007. The pressure on prices exerted by vehicle manufacturers increased even further. In parallel, the automobile industry made greater demands on suppliers with regard to research and development activities.

Global vehicle production and new registrations

Global vehicle production figures rose by 5.1% to 69.7 (66.3) million units. Car sales in the world's three most established markets, i.e. Western Europe, the US and Japan, contracted by 1.7%, down from 36.0 million to 35.3 million units.

As in previous years, the principal growth markets in terms of global vehicle sales were the Asian economies. Contrary to the general concerns raised over the sustainability of demand in China, the overall volume of vehicles sold in the Chinese market expanded by 21.7% to 5.0 million units.

Weak demand for automobiles in Germany

The German automobile market failed to reap the rewards generally associated with a more buoyant economy. The increase in value-added tax effective from January 1, 2007, had led to a tangible rise in demand within the domestic car market toward the end of 2006. These pre-emptive purchases in anticipation of the rise in value-added tax translated into a significant reduction in new vehicle registrations during 2007. In addition, demand was adversely affected by the significant rise in fuel prices as well as by growing uncertainty among consumers as to the government's policy on vehicle taxation. The volume of new car registrations in Germany fell by around 9.2% year on year to 3.1 million units. However, weak domestic demand was more than offset by exports, which grew by approx. 11% year on year to 4.3 million units sold, thus boosting Germany's domestic output figure for 2007 to a new high of 5.7 million cars produced, an increase of 6.0%.

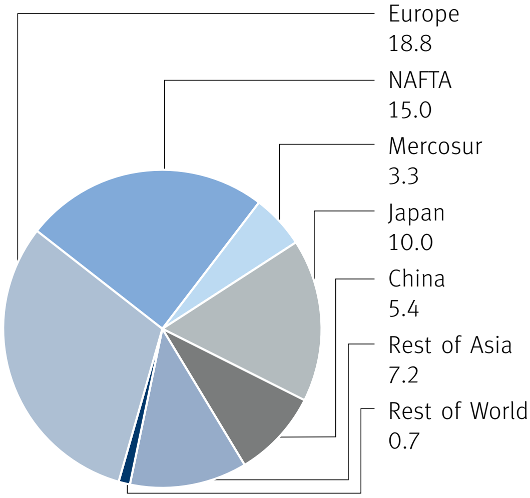
Year-on-year rise in European automobile production

Reaching 18.8 million units, Europe's production figure for 2007 was 6.5% higher than in the previous year. Having said that, sales volumes remained virtually unchanged. New vehicle registrations in Europe as a whole stood at 16.0 million, which represents a 1.1% increase on last year's figure. While sales in Western Europe remained unchanged, demand in the new EU member states of Eastern Europe showed signs of increasing buoyancy. Demand for new vehicles was supported by dynamic consumer spending and capital expenditure in Eastern Europe as well as by the growing need for replacement purchases. As a result, Eastern Europe recorded a 14.5% increase in new vehicle registrations compared with 2006.

Significant market decline in North America

Competition within the North American market was particularly pronounced during 2007, prompted mainly by the significant fall in demand for new vehicles. As a result, the market as a whole was dominated by overcapacity and a string of promotional campaigns involving price discounts. In total, 16.1 million cars and light commercial vehicles were sold in the US over the course of 2007, which corresponds to a year-on-year decline of 400,000 units or 2.8%. The weak demand for new vehicles also had a

Global Automobile Production in 2007
in million



detrimental effect on production figures, with the latter declining by 4.7% in the US. Production in the NAFTA region as a whole stood at 15.5 million vehicles, a 3.0% decline compared with 2006.

Boom in South America

The South American car industry developed at an encouraging pace over the course of 2007. Brazil, in particular, managed to emulate its strong performance of 2006. Here, the overall production figure for cars and light commercial vehicles rose to 2.8 (2.5) million units in 2007, up 13.2% on the previous year.

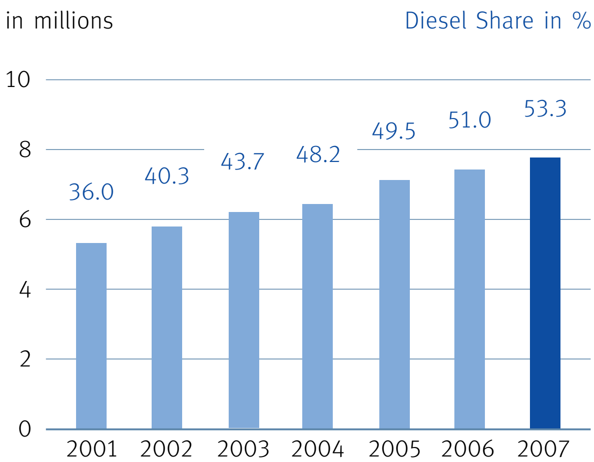
Commercial vehicle sector remains robust

The commercial vehicle industry continued to prosper in 2007. Overall, global production of commercial vehicles rose by 5.8%. Despite pre-emptive truck purchases made in 2006 in response to stricter emission guidelines to be adopted in Europe as from the beginning of 2007, the commercial vehicle sector continued to develop well. European production output of commercial vehicles rose by 15.1% in 2007 to 664,000 units.

In Germany, new registrations of light commercial vehicles up to 6 tons increased by 12.0% to 229,000 units, while the number of newly registered commercial vehicles weighing more than 6 tons rose by 6.0% to 100,000 units.

As forecast, the market for commercial vehicles in the United States remained weak, having been buoyed in 2006 by advance purchases made in anticipation of stricter emission laws.

New Diesel Passenger Car Registrations
in Western Europe



Scoure: Automotive Industry Data

Diesel in the fast lane

The growing trend toward diesel engines continued in Western Europe, driven in particular by high prices for crude oil and, in turn, a stronger focus on fuel economy in the form of diesel technology. In Western Europe 53.3% of consumers purchasing a new car in 2007 opted for diesel-powered solutions.

With minor exceptions, diesel technology captured additional market share throughout Europe. In Germany, diesel-powered vehicles accounted for 47.7% of all new registrations in 2007, up from 44.3% in 2006. By contrast, the number of vehicles powered by gasoline engines continued to decline in 2007. Despite the forward momentum achieved by diesel-powered vehicles, the overall share of diesel engines in Germany remained below the European average.

The Scandinavian countries, in particular, recorded significant growth in the number of new diesel registrations. In the UK, the share of diesel-powered vehicles reached a new record of 40.2% (38.3%). In France, diesel accounted for 73.9% of new registrations in 2007, a further increase on last year's figure of 71.4%.

Diesel in North America

Against the backdrop of a stagnating or declining market, the number of diesel vehicles sold in the US has risen by almost 50% in the last five years, particularly in the light truck/SUV segment. In 2007, the overall share of diesel in the passenger and light commercial vehicle category stabilized at a level comparable to that recorded a year earlier and stood at approx. 5% of new registrations. US vehicle manufacturers are currently developing a new generation of diesel engines.

Net Assets, Financial Position and Results of Operations

Results of Operations

Double-digit growth in sales

The ElringKlinger Group increased its sales by 15.0% in the 2007 financial year, taking the figure to EUR 607.8 (528.4) million. Despite ongoing stagnation in the European motor vehicle industry and the prevailing malaise of the North American automobile market, the Group succeeded in beating its target of 5 to 7% sales growth. Within this context, growth was driven in particular by additional market share gains and newly introduced products.

Global sales growth in all regions

The ElringKlinger Group managed to lift sales volumes in all regions around the globe. Recording growth of 18.6%, the international markets as a whole continued to gain in importance during the period under review.

In 2007 the ElringKlinger Group propelled sales upwards by EUR 62.4 million in its foreign markets, taking the total to EUR 397.7 (335.4) million. Thus, the percentage share of foreign sales in relation to total Group revenue grew to 65.4% (63.5%).

The Group produced particularly solid growth rates in North and South America as well as in non-domestic European markets. At the same time, the Asian market produced double-digit growth in sales.

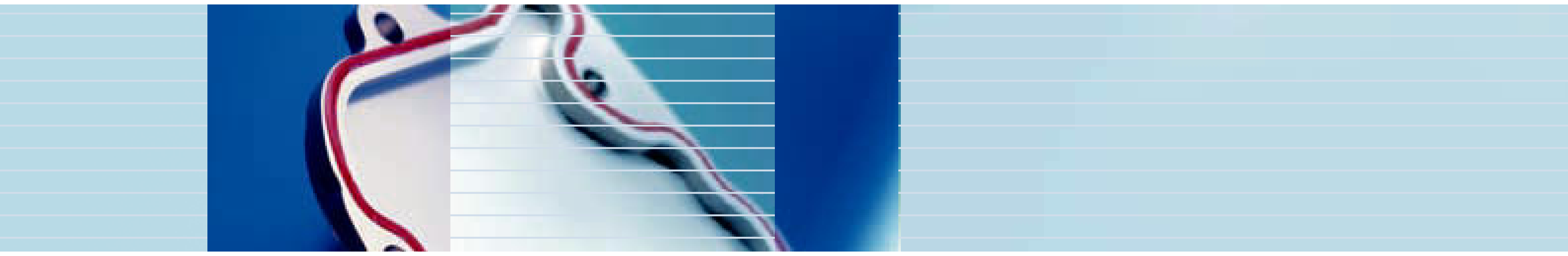
The Group recorded an 8.8% increase in sales generated domestically, taking its total to EUR 210.1 (193.0) million. The proportion of Group sales generated in Germany receded to 34.6% (36.5%).

Sales attributable to the rest of Europe grew considerably faster than domestically, rising by 21.0% to EUR 199.2 (164.6) million. Growth within this area was driven, among other factors, by new series ramp-ups in the French automobile industry. Additionally, German vehicle manufacturers are producing a larger proportion of their engines at Eastern European facilities.

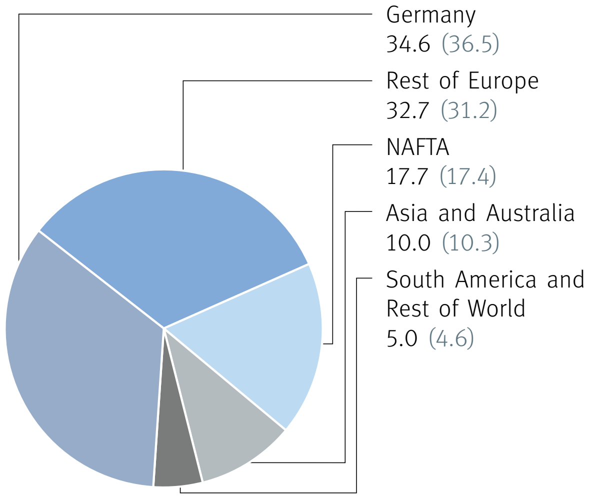
Despite the significant decline in vehicle production in North America, the ElringKlinger Group managed to lift sales in the NAFTA region by 16.7% to EUR 107.5 (92.1) million in 2007. This region accounted for 17.7% (17.4%) of total Group sales.

Asia provided a good stage for expansion over the course of the financial year. The ElringKlinger enterprises based in China and Korea, in particular, recorded buoyant demand for plastic cam covers, cylinder-head gaskets and specialty gaskets used in exhaust systems. Sales attributable to customers based in Asia and Australia grew by a total of 12.1% year on year to EUR 60.9 (54.3) million.

South America advanced to become the strongest growing region for the ElringKlinger Group in 2007. The subsidiary ElringKlinger do Brasil Ltda. continued to generate solid growth within all product groups. In total, ElringKlinger propelled sales by 23.6% to EUR 30.2 (24.4) million in South America/Other Regions.



Consolidated Sales by Region in 2007 (prior year)
in %



Sales and Earnings Growth in All Segments

All segments within the ElringKlinger Group produced organic growth and managed to generate forward momentum both in sales and earnings.

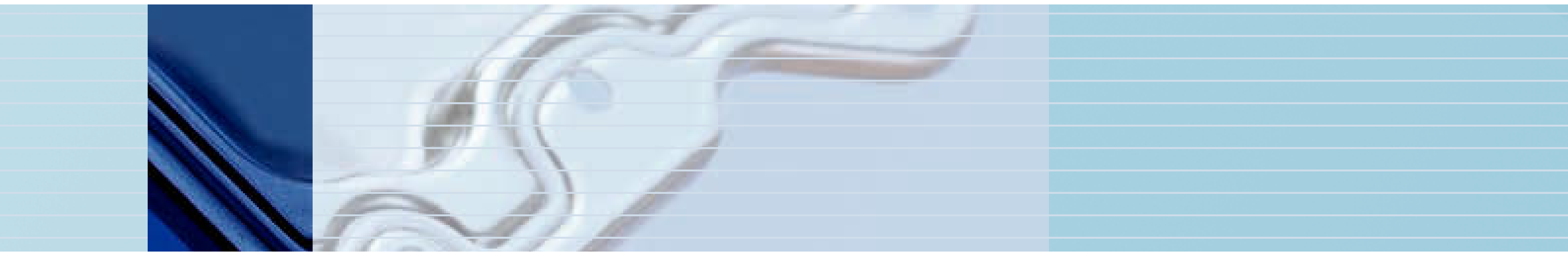
Strong growth in Original Equipment segment

The Original Equipment segment displayed the most dynamic growth in the period under review, boosting sales by 16.5% to EUR 435.5 (374.0) million. In relation to Group sales as a whole Original Equipment accounted for 71.1% (70.8%).

All areas of business – Cylinder-Head Gaskets, Specialty Gaskets, Elastomer Technology/ Modules and Shielding Technology – contributed to the year-on-year increase in sales. Within this context, growth was driven mainly by the introduction of new products and applications, but also by buoyant demand for products within the existing portfolio. Furthermore, the Group succeeded in capturing additional market share.

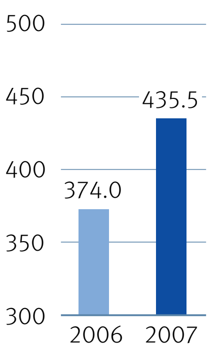
The most visible growth was achieved by the Shielding Technology division. ElringKlinger supplied an increasing number of complex heat shields for applications in the exhaust tract, e.g. for oxidation catalytic converters and diesel particulate filters as well as for turbochargers.

The division responsible for the production of cylinder-head gaskets succeeded in extending its sales with the help of an even more advanced generation of gaskets featuring coined stopper systems. Cylinder-head gaskets for car diesel engines and for commer-



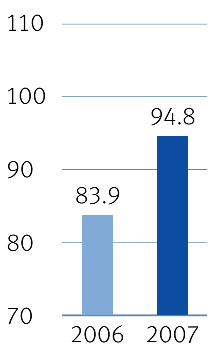
Sales
in the Original
Equipment Segment

in EUR million



Sales
in the Aftermarket
Segment

in EUR million



cial vehicles generated significant growth. This more than offset the production cuts made by some US vehicle manufacturers as well as the downward trend associated with gasoline engines in Europe.

The Specialty Gaskets division produced double-digit growth, mainly through business in the area of transmission control plates and gaskets used in the exhaust tract.

The Elastomer Technology/Modules division benefited from growing demand for weight-reduced modules made of plastic.

Earnings performance within the Original Equipment segment benefited from a more favorable product mix and the higher share of new products within its portfolio. As a result, earnings before taxes rose to EUR 77.6 (56.6) million. This figure includes an exceptional item in the form of insurance proceeds of EUR 5.0 million relating to the fire at the Runkel plant.

Significant gains in Aftermarket segment

Sales generated in the Aftermarket segment rose by 13.0% to EUR 94.8 (83.9) million in 2007. This was accomplished through continued improvements to product availability as well as the gradual expansion of the Group's product portfolio within the area of gasket sets.

The markets of the Middle East, South East Asia, Africa and Eastern Europe proved to be particularly buoyant. The launch of the Elring brand in Brazil in January 2007 helped to drive local sales up by more than a third. Sales growth within the Western European market for spare parts was more moderate.

Earnings before taxes rose to EUR 18.8 (14.6) million.

Engineered Plastics segment

The Engineered Plastics segment, which specializes in the development and production of PTFE (polytetrafluoroethylene), increased its sales by 10.2% to EUR 64.8 (58.8) million. Against the backdrop of solid growth in the economy as a whole, demand for PTFE components gathered pace in a number of sectors. Additionally, the Engineered Plastics segment strengthened its presence within the international arena. In 2007, ElringKlinger Kunststofftechnik, the company that produces engineered plastics, generated the majority of its sales in the German-speaking region of Europe.

Entry into the Chinese market was implemented in September 2007 in the form of a newly established local sales enterprise owned by ElringKlinger.

ElringKlinger Kunststofftechnik manufactured its first small batches of Moldflon® serial products for the telecommunications industry. Moldflon® is a new injection-moldable PTFE material. It also qualified its first supplier of materials within this area. Capacity levels for the processing and industrial manufacture of Moldflon® products are currently being built up.

Despite the charges associated with establishing Moldflon® production as well as higher R&D and selling expenses, earnings remained solid within this segment. Earnings before taxes amounted to EUR 12.9 (11.4) million.

On July 31, 2007, ElringKlinger AG acquired from the entity's co-partners an additional interest of 7.5% in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, and currently holds an overall interest of 74.5% in the subsidiary.

Industrial Parks and Development Services

The industrial parks operated by the ElringKlinger Group in Ludwigsburg, Idstein (both in Germany) and Kecskemét-Kádafalva (Hungary) produced slightly higher rental income of EUR 8.3 (8.1) million. At EUR 4.3 (4.2) million, earnings before taxes remained largely unchanged year on year. The sale of land belonging to Technik-Park Heliport Kft. contributed an additional EUR 0.8 (1.1) million to earnings before taxes.

The Services segment, which primarily offers development services for vehicle manufacturers and suppliers, reaped the rewards of more buoyant demand by OEMs for technology services and test stand capacities. Elring Klinger Motortechnik GmbH received a number of particularly interesting development projects within the area of exhaust cleaning technology. The newly introduced service of providing mobile test stands was well received by both manufacturers and suppliers. Sales within this segment rose by 22.0% to EUR 4.4 (3.6) million.

Stringent cost management

Supported by programs aimed at raising efficiency levels throughout the Group, ElringKlinger was able to achieve additional productivity gains during the financial year under review. Stringent cost management, significant investments in automation, improvements in workflow as well as the systematic use of synergies between the individual Group companies helped to establish more streamlined cost structures. Despite the 15% increase in sales, administrative expenses were scaled back by 2.3% compared with the 2006 financial year.

Surge in price of materials

Earnings performance was influenced to a large extent by spiraling material costs and high energy prices. Prices for high-grade steel, but also for carbon steels, rose significantly; the same applied to surcharges for alloys. The alloy surcharges for nickel surged to record highs in the second quarter of 2007. At almost USD 54,000 per ton, they were three times higher than at the beginning of 2006. The gradual reduction in nickel prices on the world's commodity futures exchanges, witnessed from mid-2007 onward, has not yet filtered through fully to suppliers of high-grade steel. The US dollar, which remained weak in relation to the euro, had a dampening effect on prices. By contrast, revenues generated by ElringKlinger with scrap metal have already been severely impacted by the aforementioned decline in prices, as the scrap metal price reacts directly to price reductions on the commodity exchanges.

The company was only able to pass on a part of the higher costs for raw and other materials to its customers. By directing more extensive investments toward automation and measures aimed at raising productivity levels, as well as by successfully hedging part of the nickel requirements with the help of derivative financial instruments, ElringKlinger AG managed to offset some of the effects associated with higher material prices. Without the use of such derivatives, the cost of materials would have been another EUR 7.2 million higher.

In total, however, the cost of sales increased at a slightly faster rate than the growth in sales, edging up by 18.1%. The gross margin stood at 34.2%, i.e. 1.7 percentage points lower than in the same period a year ago.

Expansion of research and development

The ElringKlinger Group spent EUR 29.8 (26.0) million on research and development (R&D) in 2007. In order to protect its know-how and exploit cross-sectoral synergies in the best way possible, ElringKlinger continued to concentrate its R&D activities at the German sites within the Group, the main focus being on its facility in Dettingen/Erms.

The New Business Areas division saw an expansion of its development capacities for diesel particulate filter technology and fuel cell components. In 2007, approximately EUR 3.4 million were spent on developing these pioneering activities.

Capitalization of research and development expenses was permitted only for a relatively small portion of this item. Consequently, the majority of R&D expenses had a direct impact on bottom-line results. A total of EUR 3.0 (1.9) million was capitalized. Systematic amortization of capitalized development costs amounted to EUR 1.5 (1.1) million.

Impact of fire at Runkel plant

A fire that broke out in one of the production buildings at ElringKlinger's Runkel plant in mid-April 2007 affected parts of the local cylinder-head gasket operations. Owing to the extent of the damage to the building, the entire complex had to be rebuilt. The interruption of operations resulted in a temporary fall in productivity levels at the Runkel plant as well as additional costs related to logistics. ElringKlinger had a comprehensive insurance policy that covered damage caused by both the fire and the interruption of operations.

The full impairment of the residual amounts associated with inoperable property, machinery and inventories, as well as the costs in connection with interruptions to operations and maintenance expenses produced a total charge of EUR 9.3 million. Mainly as a result of these items, other operating expenses thus grew by 22.1% or EUR 2.4 million to EUR 13.3 (10.9) million.

As a result of compensation proceeds from the insurance company, other operating income increased by EUR 14.3 million. In total, it rose by EUR 16.9 million to EUR 21.7 (4.8) million.

The insurance proceeds exceeded the residual amounts to be written off, which produced non-recurring extraordinary income of EUR 5.0 million.

Operating result grows faster than sales

Earnings performance benefited from high plant capacity utilization and the growing proportion of new products within the portfolio. Significant investments in plant technology aimed at automation and process streamlining also had a contributory effect. In addition, the targeted relocation of individual product groups to more favorable sites within the Group's international manufacturing network proved beneficial.

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 21.6% to EUR 169.0 (139.0) million. Adjusted for extraordinary gains from insurance proceeds, EBITDA growth stood at 18.0%. In view of the fact that ElringKlinger mainly invests in buildings and equipment with longer depreciation periods, total depreciation/amortization expense rose by just EUR 2.4 million, despite more extensive investments and the impairments recognized in connection with the fire in Runkel. Within this context, it should be noted that last year's figure was elevated due to the non-recurring effect of an impairment amounting to EUR 2.0 million, which had been recognized in 2006 in connection with a single-layer cylinder-head gasket design concept that was considered impaired.

The ElringKlinger Group managed to strengthen its operating result by 28.0% to EUR 123.0 (96.1) million. Adjusted for the non-recurring gains of EUR 5.0 million in connection with insurance pay-outs, the operating result grew by 22.8% year on year.

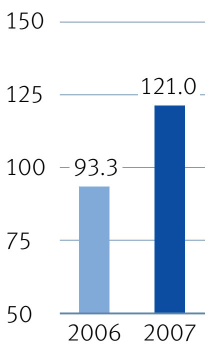
Earnings before interest and taxes (EBIT), taking into account negative foreign currency effects, grew by 29.6% to EUR 121.0 (93.3) million, thus outpacing sales growth in the period under review. Having deducted the non-recurring gains associated with insurance pay-outs, year-on-year EBIT growth amounted to 24.3%. Correspondingly, the adjusted EBIT margin for 2007 stood at 19.1% (17.7%).

Net finance costs declined year on year, mainly due to the EUR 0.5 million increase in finance income. Due to higher borrowings, interest expenses rose to EUR 6.7 (6.1) million. The negative exchange rate effects were attributable principally to the weakness of the US dollar and the Mexican peso. In total, net finance costs amounted to EUR 8.1 million, after EUR 8.4 million a year ago.

Earnings before taxes at Group level grew faster than the operating result, up 31.1% to EUR 114.9 (87.6) million. After deducting the above-mentioned non-recurring gain associated with insurance pay-outs, the year-on-year increase amounted to 25.4%.

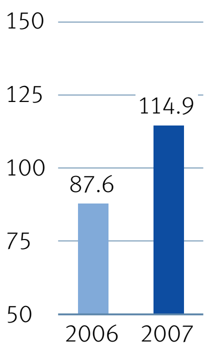
EBIT

in EUR million



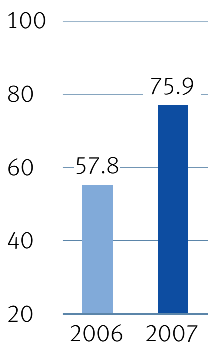
Earnings before Taxes

in EUR million



Profit attributable to Shareholders of ElringKlinger AG

in EUR million



One-time income from taxes following corporate tax reform

Among other elements, the corporate tax reform passed by the German government includes a significant reduction in domestic corporation tax rates effective from 2008. As a result, companies based in Germany have been required to revalue their deferred tax assets and deferred tax liabilities on the basis of a tax rate of 27.5% (prev. year: 37.0%). This resulted in tax income of EUR 5.5 million, which was offset with income tax expenses.

The Group's income tax rate thus amounted to 30.1% (29.4%). Within this context, it should be taken into account that – again as a result of the corporate tax reform – a corporation tax credit of EUR 5.3 million had also had a tax-reducing effect in 2006.

Net income rose by 29.7% to EUR 80.3 (61.9) million.

Adjusted for the non-recurring gain from insurance payments after the fire in Runkel (EUR 3.2 million after taxes) and the one-time income from the revaluation of deferred tax items (EUR 5.5 million), net income amounted to EUR 71.5 million, thus exceeding last year's net income, also adjusted for non-recurring tax effects, by 26.3%.

After deducting minority interest, the share of profit attributable to the shareholders of ElringKlinger AG was EUR 75.9 (57.8) million, a year-on-year increase of 31.4%. Adjusted for non-recurring effects, profit attributable to shareholders of ElringKlinger AG rose by 28.0% to EUR 67.2 (52.5) million.

In its group management report for the 2006 financial year, ElringKlinger had presented a forecast of 5 to 7% sales and approx. 10% earnings growth for 2007, after adjustment for the one-time effect of corporation tax credits on profit and loss. As outlined above, the company managed to exceed this forecast.

Basic earnings per share, which corresponds to diluted earnings per share, grew from EUR 3.01 to EUR 3.95. Before one-time effects, ElringKlinger's earnings per share stood at EUR 3.50 (2.73).

Higher dividend proposed

In line with the consistent, performance-oriented dividend policy pursued by ElringKlinger, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders a dividend of EUR 1.40 (1.25) per share for 2007. Thus, the proposed dividend amount is EUR 26.9 (24.0) million, i.e. 12.0% higher than in the previous year.

Net Assets

Solid position

The net assets presented by the ElringKlinger Group as at December 31, 2007, provided a solid foundation for the Group to finance its planned product ramp-ups and the future development of its New Business Areas division from its own funds. Thus, it provides the basis for continued growth.

The balance sheet total increased in parallel with sales and earnings growth. As at December 31, 2007, it amounted to EUR 572.5 (476.6) million, a rise of 20.1% compared with the previous year.

Compared with the figure reported at December 31, 2006, intangible fixed assets increased by EUR 8.9 million to EUR 37.0 (28.2) million, driven mainly by the acquisition of minority interests in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen. The additions related principally to licenses and goodwill.

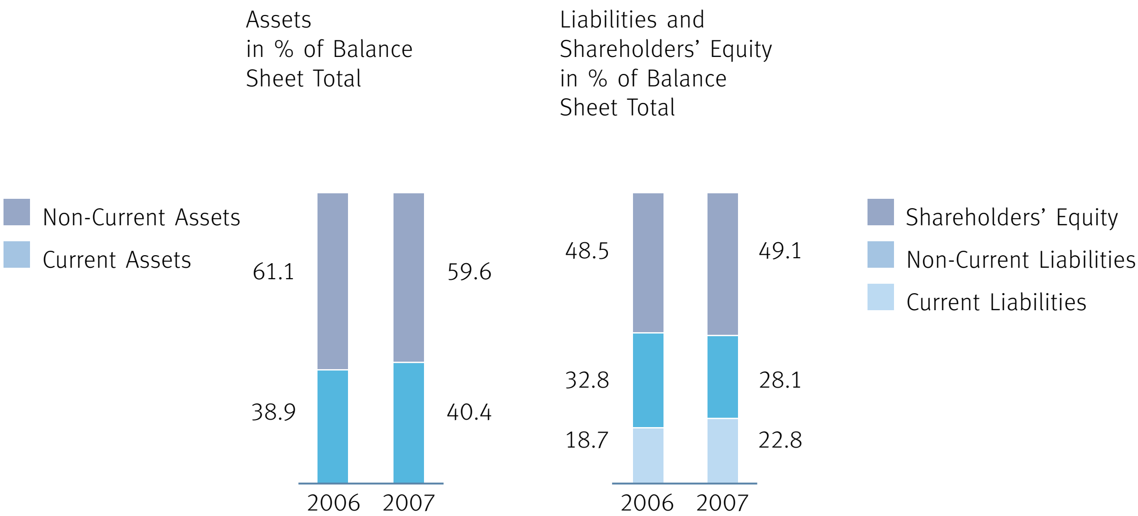
Due to the significant investments made by the ElringKlinger Group within the area of rationalization, facility expansion and production plant start-ups, property, plant and equipment rose by EUR 44.4 million to EUR 256.3 (211.9) million.

As a result of the reduction of Germany's corporation tax rate, deferred tax assets were revalued. This is the main reason why deferred tax assets were scaled back by EUR 1.9 million to EUR 7.5 (9.3) million in total.

Despite the significant increase in absolute terms, fixed assets accounted for 59.6% of the balance sheet total, down from 61.1%. This was attributable to the even more pronounced increase in current assets.

Inventories at Group level rose by 26.0% to EUR 113.4 (90.0) million. The year-on-year increase in inventories was mainly the result of higher production levels. At the end of 2007, the Group took advantage of favorable market conditions for high-grade steel alloys and expanded its stock of related materials, with the aim of circumventing future price rises. Inventories of merchandise rose as a result of double-digit growth recorded in the Aftermarket segment. As an integral element of Elring's spare-part sets, such items are being sourced increasingly from suppliers in the Far East. The more complex

Balance Sheet Structure ElringKlinger Group



logistical activities required to ship these goods to Germany, together with larger quantities purchased, translated into higher inventory levels.

Trade receivables rose by EUR 12.6 million year on year to EUR 93.6 (81.0) million, thus moving in line with Group sales growth. This was attributable principally to higher sales generated with spare parts as well as sales growth associated with customers with longer than average payment terms.

Other current assets rose as a result of higher receivables from insurance claims – following the fire in Runkel – as well as higher refund claims relating to input VAT.

Higher equity ratio

Shareholders' equity rose by EUR 49.9 million to EUR 281.1 (231.2) million. As a result of net income, revenue reserves increased by EUR 50.3 million to EUR 205.2 (154.9) million. The dividend payment for 2006, amounting to EUR 24.0 million, had a contrary effect. Minority interests remained largely unchanged year on year.

At December 31, 2007, the equity ratio for the Group was 49.1%, compared with 48.5% at December 31, 2006.

The expansion of provisions for pensions is due to an increase in benefit rights for entitled staff.

Non-current liabilities rose by 3.0% to EUR 161.2 (156.5) million. The slight increase was attributable mainly to higher non-current financial liabilities and other liabilities associated with tooling cost allowances.

The revaluation of deferred tax liabilities, particularly due to the reduction of the corporation tax rate in Germany, resulted in a decline in deferred tax liabilities to EUR 26.5 (31.2) million. This corresponds to a year-on-year reduction of EUR 4.6 million.

Non-current liabilities accounted for 28.1% of the balance sheet total, down from 32.8%. By contrast, the proportion of current liabilities rose from 18.7% to 22.8%.

Due to bank loans taken out for the purpose of funding more expansive investments, current financial liabilities rose by EUR 25.0 million to EUR 41.2 (16.3) million. Trade payables increased by EUR 10.2 million as a result of higher procurement volumes.

In addition, tax liabilities rose by EUR 3.5 million or 52.4%, while other current liabilities increased by EUR 3.6 million or 12.4% due to higher staff-related accruals.

At December 31, 2007, total current liabilities were EUR 41.3 million higher than at the same reporting date a year earlier. They rose to EUR 130.3 (89.0) million.

While the share of interest-bearing financial liabilities rose by EUR 31.5 million year on year to 17.1% (14.0%) of the balance sheet total, aggregate liabilities in relation to the balance sheet total receded to 50.9% (51.5%).

Off-balance-sheet financial instruments

Lease arrangements and derivatives are utilized only to a limited extent by the ElringKlinger Group. The company has not entered into arrangements involving securitization of receivables, sale-and-lease-back contracts or similar financial instruments.

Financial Position

Net cash from operating activities rises by 10%

The ElringKlinger Group achieved a significant cash return (net cash from operating activities in relation to sales) of 16.3% (17.0%) in 2007. To a large extent, investments in property, plant and equipment as well as investment property were funded by net cash from operating activities. Net cash from operating activities amounted to EUR 99.3 million, thus exceeding last year's figure by EUR 9.4 million or 10.4% despite higher working capital.

Within this context, the increase in earnings before taxes by EUR 27.3 million to EUR 114.9 (87.6) million was partially offset by the rise in inventories, trade receivables and other assets as well as income taxes paid.

The EUR 15.0 million higher year-on-year increase in trade payables in particular, as well as other liabilities and higher depreciation/amortization of non-current assets contributed to an increase in cash flow.

Investments for continued growth

ElringKlinger invested considerably more over the course of 2007 than during the previous financial year. Due to new orders secured by the Group, payments for investments in property, plant and equipment as well as those attributable to investment property were higher than originally planned, rising to EUR 90.9 (46.7) million. Within this context, the main focus was on expanding production capacities and initiating production ramp-ups for new products in the portfolio.

Within the Cylinder-Head Gaskets division, the main focus was on rebuilding the facility in Runkel previously destroyed by fire. ElringKlinger built a new replacement facility spanning 5,000 m^2 and also purchased new machinery. Among the new purchases were a complete production line for the manufacture of cylinder-head gaskets.

The Specialty Gaskets division bought a new 125-ton press for the production of exhaust gaskets. In addition, a dynamic hot-gas test stand was installed for the purpose of assessing individual assemblies featuring high-performance specialty gaskets used in exhaust systems.

Owing to significant business growth in the area of heat shields, the Shielding Technology division established a new production and logistics center as well as fully automated high bay storage facilities for 6,000 pallets at the company site in Langenzenn, Germany.

At the end of the year, the Elastomer Technology/Modules division put a new production facility into service at the site in Dettingen/Erms. The facility manufactures weight-reduced polyamide modules with integrated sealing systems, such as cam covers, oil pans and gearbox end-shield covers.

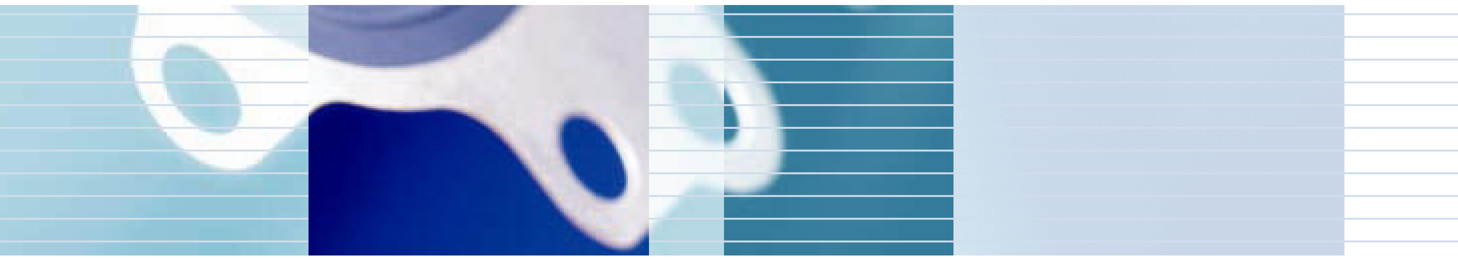
The New Business Areas division, which underwent significant expansion in 2007, invested approx. EUR 2.0 million in plant and laboratory equipment. A new fuel cell test stand was installed in order to optimize production processes relating to fuel cell stacks. Existing laboratory-based production is currently being industrialized. In addition, ElringKlinger invested in a first production unit for diesel particulate filters – based on entirely new process-engineering specifications – at its facility in Dettingen/ Erms; the new system is to be used for the manufacture of material samples, prototypes and specimen components. This plant includes a number of innovations within the field of process engineering, all of which are considered essential when it comes to ensuring reproducible manufacturing results for the ElringKlinger filter.

The ElringKlinger Group also invested heavily in the expansion of production plants at its subsidiaries and affiliated companies. In this area, the main focus was on the Asian sites, Mexico and ElringKlinger Kunststofftechnik.

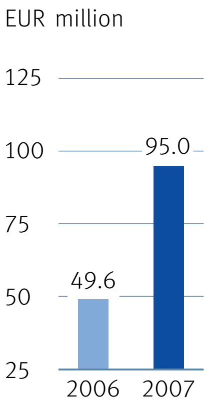
In India, the ElringKlinger Group has spent around EUR 3.5 million to date on the establishment of a facility located in Ranjangaon near Pune, spanning approx. 4,000 m^2. In making this investment, the Group hopes to serve the rapidly growing vehicle market via its own local operations. Additionally, ElringKlinger completed a number of far-reaching facility extension projects in Changchun, China, and Changwon, South Korea.

At 14.9% (8.8%) in relation to sales, the investment ratio – related to capital expenditure on property, plant and equipment as well as investment properties – was signific-antly higher than in 2006. Around two-thirds of investment-related payments went directly into capacity expansion and rationalization projects.

ElringKlinger spent EUR 4.2 (2.9) million in connection with investments in intangible assets. The year-on-year increase within this area was attributable principally to licenses and goodwill from the acquisition of an additional ownership interest in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen.



Payments for Investments in Property, Plant and Equipment, Investment Properties and Intangible Assets



Net cash used in investing activities amounted to EUR 101.9 (47.0) million.

The more extensive investments were funded by an increase in financial liabilities by EUR 31.5 million. In 2006, ElringKlinger had scaled back its bank borrowings.

At December 31, 2007, cash and cash equivalents amounted to EUR 7.4 (5.5) million.

Group Companies

Composition of consolidated Group
In the 2007 financial year the ElringKlinger Group was made up of ElringKlinger AG, 20 active and fully consolidated subsidiaries and two joint ventures. Therefore, at December 31, 2007, the consolidated Group comprised a total of 23 entities.

Joint venture companies ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, were included in the consolidated accounts in the proportion of the Group's ownership interest.

Subsidiaries based in Germany include ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, ElringKlinger Motortechnik GmbH, Idstein, Elring Klinger Logistic Service GmbH, Rottenburg/Neckar and Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH, Dettingen/Erms. Of the remaining subsidiaries, six are located in Europe, five in the NAFTA region, five in Asia and one in South Africa and South America respectively.

In 2007, ElringKlinger founded ElringKlinger Automotive Components (India) Pvt. Ltd., Ranjangaon, India, as well as ElringKlinger Engineered Plastics (Qingdao) Commercial, Qingdao, China.

The enterprise based in India will serve the rapidly growing market with locally produced ElringKlinger technology. A number of attractive contracts have already been negotiated with local customers. The enterprise commenced production at the end of 2007.

The new enterprise located in China was founded as a subsidiary of ElringKlinger Kunststofftechnik GmbH, with the express purpose of prospecting the highly attractive Chinese market in its capacity as a local sales unit for engineered plastics. Future plans include establishing a local production plant.

Global presence
The ElringKlinger Group is now represented in 14 countries with a total of 16 production companies, three sales units and three aftermarket enterprises. ElringKlinger continued to pursue its strategy of expansion over the course of 2007, establishing new technologies at its subsidiaries and joint ventures in order to provide a suitable launch pad for future growth. The main focus was on extending activities in North and South America as well as Asia.

ElringKlinger's subsidiaries and affiliated companies contributed EUR 251.2 (216.4) million to Group sales in 2007. Recording a 16.1% increase in sales, the affiliates performed slightly better than the parent company (AG), which grew by 14.3%.

Overall, the affiliated companies located abroad produced stronger growth. Of total sales, EUR 69.2 (62.4) million was generated in Germany and EUR 182.0 (154.0) million in other countries. Revenue from foreign sales thus increased by 18.2%, while sales generated in Germany grew by 10.9%.

Profitability benefited from ongoing programs aimed at raising efficiency levels as well as more extensive investments in process automation. With earnings before taxes of EUR 39.7 (34.3) million in total, the subsidiaries and affiliated companies contributed 15.7% more than in the previous financial year.

Employees

Higher staffing levels

The number of people employed within the Group at December 31, 2007, was 3,602 (3,269), up 10.2% on the previous year. Thus, the workforce expanded at a less pronounced rate than sales. The overall increase in staffing levels was attributable to higher capacity utilization within the area of production as well as the expansion of sales and more extensive development activities. On average, the ElringKlinger Group employed 3,431 (3,185) people in 2007. The domestic headcount rose from 2,134 to 2,303, while the number of employees at foreign subsidiaries and affiliated companies expanded by 14.4% to 1,299 (1,135).

Training for the future of the company

ElringKlinger AG believes in actively fostering the next generation of employees and has therefore developed tailor-made vocational training programs. The aim is to provide young people with solid qualifications. With this in mind, the Group again offered a comprehensive range of commercial and technical training courses in 2007, as well as degree programs based on the dual system of on-the-job training and vocational university studies. The number of openings within the Group's vocational training program was extended further. At December 31, 2007, the ElringKlinger Group employed 86 (74) apprentices in 13 vocational training professions.

Procurement

Rising cost of raw materials

Prices for those raw materials that are of particular importance to the ElringKlinger Group continued to rise in the course of the 2007 financial year. Within this context, the price hike proved particularly severe in the case of carbon steel, high-grade steel as well as intermediate plastic products. The surge in prices for materials and energy, together with the qualifying process required for new international suppliers, constituted a significant challenge for the Group's purchasing unit.

The base prices for some varieties of steel rose by more than 20% in 2007. The prices for carbon steel were about 5% higher than those recorded a year ago.

Alloy surcharges for nickel, in particular, climbed to all-time highs. The price of one ton of nickel stood at USD 16,000 at the beginning of 2006. By the beginning of 2007 it had spiraled to USD 40,000. Towards mid-2007, futures exchanges were quoting prices of USD 54,000 per ton. In the second half of the year prices eventually receded to a level of around USD 30,000 per ton in response to more extensive stocks held by steel manufacturers. Despite this trend, the average costs calculated for the 2007 annual period as a whole were significantly higher than in 2006.

Substantial energy costs

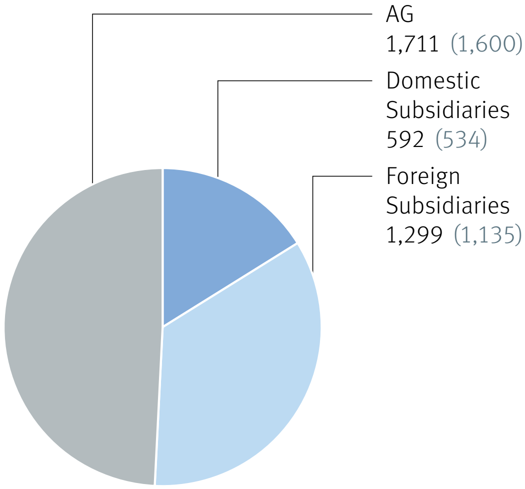
As a manufacturing unit, the ElringKlinger Group once again had a significant overall energy requirement in 2007. However, by deploying state-of-the-art technology and implementing targeted energy-saving concepts, the company managed to keep the increase in energy consumption well below the overall growth levels in production output.

ElringKlinger was also able to cushion the rise in market prices for electricity by means of two-year supply contracts concluded at the end of 2005. Higher energy requirements led to an increase in costs by approx. 15%. In order to rein back energy cost, ElringKlinger plans to install its own cogeneration heating system at its plant in Dettingen/Erms. In addition to delivering a number of ecological benefits, the system will help to reduce electricity costs by approx. 10%. Surplus electricity generated by the system can be sold to the energy utility company and redirected to the local electricity grid.

Further rise in purchasing volume

Owing to the double-digit increase in sales, together with the rising cost of raw materials and more extensive investments in new buildings and plant, the purchasing volume of the ElringKlinger Group grew by 40.7% to EUR 387.7 (274.8) million in the period under review.

ElringKlinger Group Employees Worldwide
December 31, 2007 (prior year)



Approximately one-third of the overall procurement volume was made up of carbon steel, high-grade steel and alloys, as well as aluminum and other industrial metals. At around 4%, polymer granules and other intermediate plastic products accounted for a larger share of the overall purchasing volume than last year.

Global procurement extended

Over the course of 2007, the ElringKlinger Group further expanded its procurement activities in Asia and Eastern Europe, the aim being not only to scale down costs but also to implement the Group's global growth program. As part of its efforts to extend capacity levels at its facilities in China and Korea, as well as to establish a production site in Ranjangaon/India, ElringKlinger expanded its local supplier base in the respective countries, which will allow the Group to source a more extensive range of materials in the Asian market, keep the logistics chain as compact as possible and reduce overall costs. These activities are managed by the parent company's central purchasing department in Dettingen/Erms.

Qualification of new suppliers

In view of the broader scope of international purchasing, one of the main tasks facing both the procurement and quality management teams in 2007 was the qualification of new suppliers in Asia and Eastern Europe. Each supplier has to comply with the quality management program implemented by the ElringKlinger Group, which means fulfilling not only international EC and ISO standards but also the extensive quality requirements specified by the company itself.

Metal recycling

ElringKlinger has been operating its own metal recycling system for several years. The scrap produced as part of the production process, e.g. during stamping and cutting, is subsequently recycled or traded. In 2007, ElringKlinger introduced a new, IT-based global scrap-metal management system that encompasses monthly inventory reporting for all manufacturing facilities in the Group. The system calculates and compares the potential revenue to be achieved for the various types of scrap metal in the respective markets. This optimizes the overall trading process and allows the purchasing office of ElringKlinger AG to coordinate activities on a centralized basis. Currently, preparations are being made to incorporate the facilities in Korea and India within this system.

Long-term materials requirement planning and hedging

In 2007, the ElringKlinger Group secured part of its overall nickel requirement via futures contracts. As a result of these hedging instruments, the overall increase in material costs was approx. EUR 7.2 million lower than it would have been if such hedging contracts had not been in place.

ElringKlinger also established contacts with new steel suppliers in 2007. The overall volume of steel sourced from North America was expanded by a significant margin, thus allowing the company to take advantage of more favorable pricing structures. Furthermore, this approach meant that revenues generated in the North American sales region were largely covered by local procurement volumes.

Research and Development

Innovations

The ElringKlinger Group is committed to developing new solutions by deploying the very latest technology. With this in mind, the company's product portfolio is analyzed on a continual basis and realigned where necessary. Among the key drivers are technological and socio-political trends, together with legislation and, above all, customer requirements.

ElringKlinger believes that, even more so than today, the automotive supply industry of the future will require specialists capable of delivering technologically complex solutions as closely integrated strategic development partners to vehicle manufacturers.

Alongside new applications for existing technologies as well as the development of new product solutions for the core areas of business, i.e. cylinder-head gaskets, specialty gaskets, shielding technology and plastic modules, the main focus in 2007 was on expanding the New Business Areas division. Among the new technologies developed in this area were fuel cell components and an innovative diesel particulate filter concept.

Extended R&D capacities

ElringKlinger further expanded its research and development resources in 2007. At December 31, 2007, 252 (229) members of staff – i.e. approx. 7.0% of the workforce – were employed in the area of research and development. Additional employees were recruited to the applications technology unit. Compared with 2006, ElringKlinger increased research and development expenses by EUR 3.8 million to EUR 29.8 (26.0) million. The R&D ratio (research and development costs in relation to sales) remained unchanged at 4.9%.

Most of ElringKlinger's research and development work was carried out by the parent company's sites in Germany. In addition to exploiting synergies between the development teams, the focus is on protecting ElringKlinger's intellectual property and company expertise. The parent company provides an extensive range of research and development services for the entire Group.

Third generation of metal-layer cylinder-head gaskets

Among the key issues to be addressed by development engineers within the area of cylinder-head gaskets were the trend towards higher ignition and injection pressures as well as the emergence of alternative fuels. The use of meander, honeycomb and segment stopper technology has led to more even pressure distribution, as well as reducing distortion and stress exerted on individual engine components. Over the course of 2007 a number of development projects for such cylinder-head gaskets were executed within the area of diesel and gasoline engine technology. In addition, ElringKlinger presented a new material suitable for partial elastomer coating within the area of microsealing. Owing to its overall stability, this new coating material is particularly suited to the advanced performance specifications of modern vehicle engines.

Specialty gasket concept for exhaust tract and transmission

Prompted by stricter emission guidelines, the exhaust systems installed in diesel-powered vehicles have become increasingly complex. Among the components now frequently deployed within this area are oxidation catalytic converters, particulate filters and SCR systems. ElringKlinger develops and produces specialty gaskets tailored precisely to the requirements of such applications, the emphasis being on solutions that are capable of withstanding operating temperatures of up to 1,000 degrees Celsius. This portfolio includes connector components and high-temperature gaskets for diesel particulate filters as well as specialty gaskets for $DeNO_x$ modules. R&D also focused on new sealing concepts and materials for exhaust manifolds as well as turbo in- and outlets.

In addition, a number of new specialty gaskets were developed for newly launched dual-clutch transmission systems.

New applications in shielding technology

The growing trend towards “downsizing” has seen the emergence of increasingly compact charged engines that are capable of delivering more power and consuming less fuel. The introduction of new heat-conducting materials as well as the high temperatures produced in a relatively small area call for special thermal shielding solutions to protect heat sensitive components installed in the engine compartment. The Shielding Technology division unveiled a host of new developments and shielding concepts geared precisely to these requirements. In 2007, ElringKlinger also concentrated its R&D efforts on solutions for underbody heat shields as well as components to be used in the exhaust tract. The main focus within this area was on solutions for exhaust recirculation, turbocharging and catalytic converters. In response to this challenge, the Shielding Technology division developed complex shielding systems, some of which feature integrated sensors.

Elastomer Technology/Modules embraces low-weight solutions

One of the key solutions to reducing emission levels is to lower fuel consumption by scaling back the overall weight of vehicles. ElringKlinger is able to make a significant contribution within this area by deploying lightweight components made of high-performance plastics. In 2007, the Elastomer Technology/Modules division developed new multifunctional, ready-to-assemble cam covers with an integrated oil trap system as well as oil pan modules for commercial vehicles. The product range within the area of transmission components was also extended by adding several newly developed solutions. Here, the main focus was on gearbox covers with complete sealing technology and decoupling elements as well as innovative shift pistons and plastic oil pans with integrated filter systems.

Innovative diesel particulate filter under development

Having completed its pre-development work on an innovative diesel particulate filter concept, in 2007 the New Business Areas division was able to focus on the next stages of development.

The test specimens showed great potential in terms of overall functionality. With the help of a new production process, which has been patented worldwide, the division managed to improve the general design scope of the filter’s channel geometry, thus unlocking a host of new opportunities within this area.

Towards the end of the year a pilot system for the production of prototypes was put into service. Once the relevant functionality tests on the specimen components have been successfully completed in an operating environment, customers are likely to be supplied with the first samples in the second half of 2008.

Fuel cell components

Over the course of 2007 the New Business Areas division also continued its development work on fuel cell components, which resulted in a number of important patents being filed within this area.

Significant progress was made as regards the production of high-temperature SOFC (Solid Oxide Fuel Cell) stacks. ElringKlinger produces significant components for this application as well as complete stacks. This type of fuel cell is capable of converting energy carriers such as petrol, diesel, natural gas or biogas into electrical energy in a highly efficient manner. The division is looking at the possibilities of mass production of such stacks, which are currently being produced under laboratory conditions. As part of new hybrid concepts, the potential fields of application include low-emission automobile propulsion systems, truck a/c solutions and stationary cogeneration units.

Within the area of PEM (Proton Exchange Membrane) low-temperature fuel cells, which in the long term are likely to be used in drive train applications, ElringKlinger succeeded in developing bipolar plates, as well as extending its know-how to innovative coating methods and integrated sealing systems. In order to be able to manufacture the higher unit volumes planned for the future, the Group commenced development work on progressive die solutions and production methods that can be used for series manufacturing.

ElringKlinger also developed precision-stamped and coated sealing frames for direct methanol fuel cells and is currently producing them at series level. Almost 500,000 of these sealing frames are already in use as key components of direct methanol fuel cells that supply electricity in caravans and recreational vehicles.

Compensation Report

Compensation structure for members of the Management Board

Contracts for members of the Management Board are drawn up by the Personnel Committee, negotiated with the respective members of the Management Board and, upon approval, signed by the entire Supervisory Board.

The level of compensation is reviewed by the Personnel Committee at predefined intervals and adjusted where necessary.

Management Board compensation is made up of fixed and variable, i.e. performance-based, elements. The variable components are made up of a short-term component, which relates to Group earnings before taxes, and a long-term component that is measured on the basis of growth in enterprise value.

The value enhancement bonus (long-term component) is determined each year on the basis of changes in the enterprise value of the ElringKlinger Group, as calculated by the company's tax adviser and reviewed by the auditor. Each member of the Management Board may opt to postpone payment of this value enhancement bonus once or several times, albeit not beyond the end of the respective member's current contractual term. As a result, the annual bonus is calculated retroactively in line with the increase or decrease in value in the year of payment compared to the base year. The annual bonus may not exceed an amount equal to double the fixed annual salary. The value enhancement bonus will be replaced by variable compensation based on share price performance for all Management Board contracts that are extended effective from February 1, 2008, or January 1, 2009.

Members of the Management Board have a right to a pension, provided that their contract has expired, or they have reached 65 years of age and started to receive a statutory pension, or in the event of occupational disability. This pension entitlement amounts to 2% of the last monthly fixed salary prior to leaving the company for each completed year of service, not to exceed 45%.

Members of the Management Board do not receive compensation for their activity as members on the supervisory bodies of subsidiaries and affiliated companies.

Compensation structure for members of the Supervisory Board

The compensation structure for Supervisory Board members remained unchanged compared with last year.

In accordance with the recommendations of the Corporate Governance Code in the version of June 14, 2007, compensation is comprised of a fixed component and a variable component, the latter being calculated on the basis of Group earnings before taxes in the financial year ended.

The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on June 8, 2005.

In accordance with the recommendations of the Corporate Governance Code in the version of June 14, 2007, the role of the Supervisory Board chairman and that of his deputy were taken into account when determining the level of compensation. The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to other Supervisory Board members.

Details of Share Capital and Disclosure of Potential Takeover Obstacles (Section 315 (4) of the German Commercial Code (HGB))

The nominal capital of ElringKlinger AG as at December 31, 2007, remained unchanged at EUR 57,600,000 and is divided into 19,200,000 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 3.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

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

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as at December 31, 2007, are as follows:

Elgarta GmbH, Basel	10.004%
Elrena GmbH, Basel	10.003%
Lechler Beteiligungs GmbH, Ludwigsburg	10.0003%
Walter H. Lechler, Stuttgart	Total of 24.61% (of which 10% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

The Management Board is not authorized to buy back company shares. However, subject to the approval of the Supervisory Board, it is authorized to increase the nominal capital in the period up to July 15, 2010, through the issue of new shares for cash contributions on one or more occasions by up to EUR 28,800,000. The conditions applying to such a capital increase are established by the Management Board with the approval of the Supervisory Board (Section 4 no. 3 of the Articles of Association).

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

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

Report on Opportunities and Risks

Risk management system and internal control mechanisms

The ElringKlinger Group has had in place for several years a risk management system for the early identification, assessment and management of risk. As a result, risks applicable to the Group as a whole can be identified at an early stage and minimized to the greatest extent possible.

All the divisional heads of the respective business and service sections, as well as the general managers of ElringKlinger's domestic and international subsidiaries, report regularly on any developments within their spheres of responsibility. Potential risks are categorized according to the probability of occurrence, and subsequently measures to avoid or mitigate them are formulated by those responsible. The reports are checked by the Management Board and form the basis for its risk report to the Supervisory Board. One of the key duties incorporated into quality management at the ElringKlinger Group involves supervising and monitoring the execution of proposed measures.

In 2007, an external auditing firm performed seven assessments in areas managed by the parent company and subsidiaries. Among the integral components of such audits is an assessment of compliance with statutory provisions and internal procedural guidelines in the areas examined.

The audits concluded that the areas examined had complied with both statutory provisions and internal regulations defined for the Group. At the same time, the audits highlighted possibilities of structuring individual processes in an even more effective manner. The majority of proposals were implemented accordingly.

The Management Board evaluates the risks for the Group as a whole and regularly submits to the Supervisory Board an overall assessment of the risk situation.

ElringKlinger AG, as the parent company, directs the entire Group and performs the key research and development activities. The general managers of the subsidiaries and affiliated companies report directly to the Management Board. The Management Board monitors the respective areas of business as well as the subsidiaries by means of an indicator-based internal management system (sales, earnings before taxes and return on investment). With the help of this ongoing monthly reporting system, risks can be identified at an early stage and countermeasures can be initiated where appropriate.

Risks

Risks related to the economy

The US subprime mortgage crisis triggered in 2007 poses risks to the overall consumer climate in the United States, which in turn may have a detrimental effect on the volume of vehicles sold by car makers. It is possible that this crisis will have repercussions for other countries.

Market risks

As an automotive supplier, ElringKlinger is dependent on vehicle market trends as well as the financial performance of its customers. A downturn in sales experienced by vehicle manufacturers constitutes a risk to ElringKlinger.

The continuing weakness in demand for new vehicles in the markets of North America, Europe and Japan is to be seen as a risk to sales volumes. ElringKlinger addresses this issue by gradually expanding its product portfolio and penetrating new, burgeoning markets such as South America, China and India.

Customer risks

The unfavorable earnings performance of some customers continues to represent a risk. However, the restructuring measures initiated by the company have reduced the risk of payment default. By contrast, there were signs of significant improvement to the financial situation – particularly earnings performance – of some of the company's European customers.

As in the past, a small minority of customers were late in settling their accounts during 2007. In some cases, invoices were paid well after the due date. ElringKlinger counteracts such practices by taking a strict approach to receivables management.

In recent years, the company has managed to reduce its dependency on the three largest customers by broadening its client base within the international motor vehicle industry and by expanding its sales through business relations with other automotive suppliers. The percentage share of revenues attributable to the company's three largest customers declined despite the fact that revenue generated through these customers has increased in absolute terms.

Risk associated with material prices

Prices for crude oil as well as carbon steel, high-grade steel, aluminum and oil-based intermediate plastic products, all of which are key raw materials used by ElringKlinger, continued their upward trend in 2007.

One of the most significant risks identified by ElringKlinger relates to the price trend for high-grade steel, particularly when it comes to alloy surcharges for nickel and aluminum.

The alloy surcharges for around 75% of the company's high-grade steel requirement were hedged with the help of financial instruments in the period under review. Through the use of derivatives in connection with raw materials it proved possible to offset partially the cost increase arising from the consumption of materials.

ElringKlinger generally endeavors to minimize the residual risk associated with raw materials by pursuing cost reduction measures, introducing less expensive materials as substitutes and, where feasible, optimizing product design. Owing to the significant increase in raw material prices, ElringKlinger requested allowances from its customers in response to rising material prices and succeeded in implementing parts of this program.

Pricing risks

Despite challenging market conditions as regards the price of raw materials, customers continue to push for further price reductions. This has contributed to the further increase in pricing pressure. ElringKlinger counteracts the effects of price erosion by reining back costs and implementing measures to improve efficiency levels, the rationale being to offset part of the price discount with the help of productivity gains. However, the company will choose to reject contracts if attaining a sufficient price level proves impossible over an extended period of time.

In the case of major development projects, ElringKlinger has observed that customers increasingly are looking to establish business relations with suppliers with a solid financial track record and stable ownership structures, the focus being on partners who are able to finance new projects and investments, while at the same time guaranteeing long-term supply capabilities. ElringKlinger is well positioned in these areas.

Currency risks

The future development of exchange rates in relation to the euro is considered a risk. The currencies of particular importance to ElringKlinger are the Canadian dollar, the US dollar, the Mexican peso and the Brazilian real.

Currency risks are mitigated by means of so-called natural hedging. In this case, sales in the respective foreign currency are covered almost entirely by the regional procurement volumes. The management of currency risk is performed on a centralized basis by the parent company.

In the period under review, ElringKlinger hedged 50% of the currency risk associated with the Canadian dollar and 100% in the case of the Mexican peso by entering into derivate transactions in the form of foreign exchange forward contracts. The overall risk from exposure to foreign exchange movements is considered manageable.

Legal risks

Legal risks arise principally from product liability cases or customer claims for compensatory damages. Potential claims relating to such occurrences are accounted for by means of provisions recognized in the financial statements.

A limited number of product liability claims were brought against ElringKlinger as part of legal proceedings in connection with alleged product faults.

Opportunities

ElringKlinger believes that its activities in new business areas, high-tech development and new product rollouts will provide key opportunities for profitable growth.

Climate change

The significance of climate change for society as a whole and the demands placed on the global automobile industry in response to such trends present an opportunity for ElringKlinger to establish new product areas and enter into new markets. Drawing on its existing product portfolio and innovative technical solutions as well as products currently in the development pipeline, ElringKlinger can make a tangible contribution to the reduction of emission levels, the lowering of fuel consumption as well as the deployment of alternative fuels and new propulsion technologies.

The growing demand for diesel vehicles in the United States and Asia is also considered to be a potential source of profitable growth in the future. Against the backdrop of spiraling crude oil and fuel prices, diesel-powered vehicles have become increasingly popular, as highlighted by the series of diesel engines now being developed by US vehicle manufacturers. Due to its fuel economy and high torque, the diesel engine is an attractive alternative to its less efficient gasoline counterpart, particularly for use in the light trucks that are so popular in the US.

Fuel cell technology

ElringKlinger has gained many years of experience in fuel cell technology. If government support for this technology, e.g. in the area of combined heat and power generation, becomes more extensive or a more dynamic trend emerges with regard to the use of such technology in auxiliary power units, stationary applications or in drive units, Elring-Klinger looks set to benefit from such developments. The demand for bipolar plates, sealing frames and stacks developed and produced by ElringKlinger points to good growth potential within this area.

Acquisitions

In addition to promoting organic growth within the Group, ElringKlinger has taken a proactive approach to possible acquisitions. The main focus is on attractive complementary or new technologies, together with a game plan aimed at capturing new customer groups and markets as well as exploiting market consolidation. In the wake of the US subprime mortgage crisis, the process of securing funds from financial investors for the purpose of company acquisitions has become increasingly difficult. As a result, the asking prices set by potential takeover candidates have been falling. Operating in this environment, ElringKlinger is favorably positioned to make targeted, value-enhancing acquisitions.

Assessment of aggregated risk

In view of the company's solid standing in terms of its net assets, financial position and results of operations, and given its close, well-established customer relations and favorable technological positioning, it would appear that – provided global economic conditions do not deteriorate significantly – the ElringKlinger Group is not exposed to aggregated risk at a level deemed critical.

With the rollout of new products already having begun and a future-oriented campaign currently being pursued by the New Business Areas division, the ElringKlinger Group is well placed to achieve its operational objectives for the coming years and attain its favored strategic positioning.

Outlook

Economic slowdown expected

ElringKlinger anticipates a significant slowdown in the world economy over the course of 2008. Economic growth is likely to be lower than originally expected at the end of 2007. Among the key contributing factors are the US subprime mortgage crisis, with the current financial market turbulence that it triggered, and ongoing fears of a recession in the United States.

The global economy is forecast to grow by 4.1% in 2008.

The US economy looks set to expand by just 1.5% in 2008.

The growth forecast for the eurozone has been revised downward from 2.1% at the beginning of 2008 to 1.6% at present. After 2.5% last year, economic growth for Germany is now only expected to reach 1.6% in the current year.

At the same time, the continued forward momentum likely to be generated by the economies of Brazil, Russia and in particular India and China will not be sufficient to offset the slowdown in North America and Europe. In China, gross domestic product is forecast to increase by 9.6%, while India's economy is expected to grow by 8.5%.

Stagnating automobile markets

The sluggish global economy is also likely to have an impact on the automobile market. Global sales volumes for passenger and light commercial vehicles are expected to rise by just 2.1% in 2008. Within this context, demand will be driven entirely by the dynamic development of vehicle markets in Eastern Europe, China, India and Latin America.

The traditional automobile markets – Western Europe, Japan and North America – are likely to see a further year-on-year reduction in the number of new registrations relating to passenger and light commercial vehicles – on the back of what was a relatively lackluster performance in 2007.

Owing to the subdued economic performance and a considerable reluctance on the part of consumers to purchase new vehicles, the US market will probably have to contend with a further decline in automobile sales over the course of 2008. Registrations of passenger and light commercial vehicles in the US are expected to contract to around 15.0 (16.1) million units. Within this context, Japanese, Korean and also German manufacturers are likely to secure an additional share of the market, whereas the three major US car makers will be faced with declining volumes.

The most important market in South America, Brazil, is expected to see a rise in automobile sales of 10.0% to 15.0% in 2008.

The growth forecast for vehicle sales in Europe is much more modest. With an estimated sales volume of 22.0 million passenger and light commercial vehicles, the region as a whole is expected to sell 1.7% more vehicles in 2008 than a year ago. While Eastern Europe is likely to experience a 9.0% rise in new vehicle registrations, Western Europe will have to contend with stagnating sales volumes.

The domestic market should recover slightly in the months ahead. After a slowdown in demand following the hike in value-added tax on January 1, 2007, and a rise in the average vehicle age to eight years, market analysts have forecast an increase in the number of new cars sold in 2008. Sales volumes in Germany are expected to edge up to 3.5 million passenger cars, which represents 4.5% growth compared with lackluster sales in 2007. This positive outlook is confirmed by data published for January 2008.

Diesel segment and new transmission technology as growth drivers

The trend toward more fuel-efficient diesel engines looks set to continue. In 2007 more than one in two new vehicles sold in Western Europe was fitted with a diesel engine. In 2008 diesels are expected to account for 55.0% (53.3%) of new vehicle registrations.

Against the backdrop of surging oil and fuel prices, North America and Asia are also likely to see more buoyant demand for cleaner, more efficient diesel engines. The diesel vehicle share of new registrations is expected to rise from around 5% at present to approx. 15% by the year 2015.

As a specialist provider of gaskets for diesel engines, ElringKlinger sees good opportunities for growth in this area.

A new generation of 6- to 8-speed automatic and dual-clutch transmissions is currently being developed, with the express purpose of lowering fuel consumption. These systems are likely to become more widespread in Europe in the future. Offering a range of newly developed products for such transmission systems, ElringKlinger will be able to unlock additional market opportunities within this area. The company has developed a comprehensive portfolio tailored to this new field of application, consisting of specialty gaskets, plastic housing components, composite pistons and hydraulic control units.

Other investments

ElringKlinger AG plans to invest approx. EUR 39 million during 2008. The focus will be on streamlining production and logistics processes, as well as extending capacity levels. This will provide a solid basis for future growth, which is reflected in a double-digit increase in order intake.

The main focus of capital expenditure at ElringKlinger's subsidiaries and affiliated companies will also be on measures aimed at raising efficiency as well as on the purchase of machinery and equipment needed for the expansion of production capacities in response to newly acquired projects.

The total investment of the ElringKlinger Group with regard to land and buildings, machinery, plant and intangible assets is likely to be between EUR 65 and 70 million. Due to significant input in 2007 and 2008, ElringKlinger anticipates that investments will return to a slightly lower level again in 2009.

Higher order intake

The ElringKlinger Group began the new financial year with solid order books. At December 31, 2007, order backlog stood at EUR 245.1 (208.2) million, up 17.7% on last year's figure. Order intake at Group level continued to develop well over the course of 2007 and grew by 15.4% to EUR 644.7 (558.9) million.

Sales, earnings and financial position in 2008 and 2009

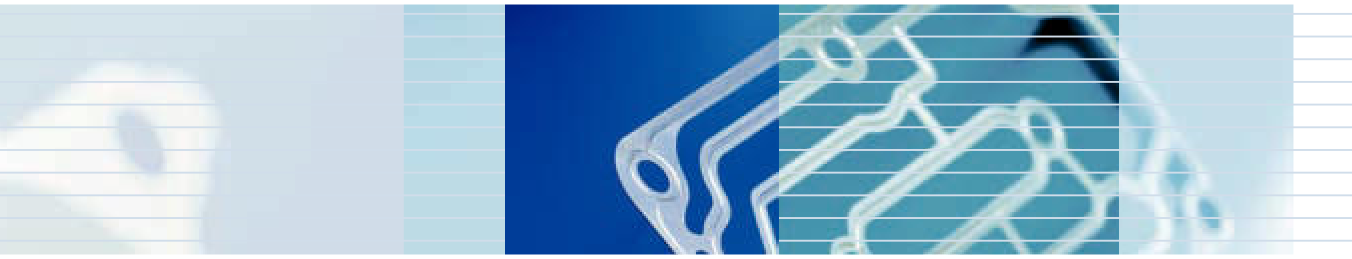
Provided that the economic climate does not deteriorate any further, the ElringKlinger Group anticipates organic sales growth of approx. 5 to 7% in 2008.

Against the backdrop of the corporate tax reform in Germany, ElringKlinger anticipates a reduction in the income tax rate to approx. 30.0%. The Group's exceptional income from insurance payments in connection with the fire at ElringKlinger's plant in Runkel, amounting to EUR 3.2 million after taxes, and one-time income from the revaluation of deferred tax items in the amount of EUR 5.5 million will no longer apply in 2008.

As regards net income after minority interests and adjusted for the non-recurring effects outlined above, ElringKlinger plans to achieve a growth rate that is in excess of growth generated within the area of sales.

Based on the current order situation and conditions relating to raw material prices, organic growth in sales and earnings looks set to continue in 2009, provided that the international automobile markets remain stable.

On the whole, the Group's financial situation should remain similar to that seen in the 2007 financial year, with a healthy balance between equity and borrowings.



Events after the Balance Sheet Date

ElringKlinger in takeover negotiations with SEVEX AG

At the end of February 2008, ElringKlinger AG announced its plans to take over SEVEX AG, Sevelen, a Swiss manufacturer of thermal and acoustic shielding systems. In addition, the US subsidiary SEVEX North America, Inc., Buford, USA, as well as SEVEX Asia, based in Suzhou, China, are to be acquired. Negotiations have reached an advanced stage. The final execution of the takeover transaction is subject to the usual provisos, in particular the receipt of official approval by the antitrust authorities. The acquisition would result in funds being tied up in the assets of the SEVEX Group, as well as lead to an increase in financial liabilities. The investment should deliver positive earnings contributions in the short term.

ElringKlinger acquires minority interests in Spain

On March 7, 2008, ElringKlinger acquired the minority interests in Elring Klinger, S.A., Reus, Spain (49.0%), and ElringKlinger Sealing Systems S.L., Reus, Spain (10.0%), two entities already included in the consolidated financial statements. Thus, ElringKlinger now holds the full ownership interests in these entities

Management Board contract extended

On February 22, 2008, the Supervisory Board extended Theo Becker's Management Board contract, scheduled to end on December 31, 2008, by five years to December 31, 2013.

Dettingen/Erms, March 20, 2008

The Management Board

Dr. Stefan Wolf Theo Becker Karl Schmauder

Corporate Governance Report

Joint Corporate Governance Report by the Management Board and Supervisory Board of ElringKlinger AG

Good corporate governance is essential to the sustained success of a business. ElringKlinger understands this to mean that a company should be managed in a responsible, value-driven manner. Additionally, good corporate governance reinforces the overall transparency of company information and enhances shareholder confidence in the enterprise, as well as that of staff, customers and suppliers. The German Corporate Governance Code introduces generally accepted standards relating to good corporate governance.

ElringKlinger is committed to an open and transparent approach with regard to corporate policy and communication. ElringKlinger provides its shareholders with prompt and comprehensive information about company developments by utilizing communication vehicles such as the Internet, road shows and analyst meetings, as well as by means of financial reports and ad hoc and press releases published on a regular basis.

As is the case with all German stock corporations, ElringKlinger operates on the basis of a dual system of corporate governance. The division of responsibilities between the Management Board and the Supervisory Board is governed by the German Stock Corporation Act and the Articles of Association. The Management Board directs the company and manages its business on a day-to-day basis. The Supervisory Board monitors the activities of the Management Board and acts in an advisory capacity. The Management Board and Supervisory Board operate in close collaboration for the purpose of determining the strategic route to be taken by the Group and safeguarding the long-term and sustained success of the company as a whole. The Management Board informs the Supervisory Board promptly and comprehensively about the company's course of business as well as its corporate planning, strategy and risk management.

ElringKlinger again implemented the majority of recommendations set out in the Code in the version of June 14, 2007. The Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was passed by the Management Board and Supervisory Board on December 6, 2007, and was subsequently published on the company's website on December 6, 2007.

The points in which ElringKlinger departed from the recommendations of the Code are discussed below:

Section 2.3.2:
To date, the invitation to the General Meeting of Shareholders has been sent out by mail, and this method of dispatch will also be applied in 2008.
The amendment to the Articles of Association adopted at the last Annual General Meeting, allowing the company to communicate with its shareholders by e-mail, facilitates the overall process of communication. However, this does not encompass the process of convening the General Meeting of Shareholders. At present, for organizational reasons the company does not comply with the Code's recommendation on the electronic dispatch of invitations to the General Meeting of Shareholders. Irrespective of this, the invitation to the 2008 General Meeting of Shareholders can also be downloaded from the company's website.

Section 4.2.5:

The compensation report describes the fundamentals of the compensation system as part of the management report. Rather than being presented in the compensation report, details of Management Board remuneration are disclosed in the notes to the financial statements.

ElringKlinger presents data relating to Management Board and Supervisory Board compensation in an itemized format, i.e. separately for each member. However, contrary to the recommendation, the components of compensation are disclosed in the notes to the financial statements.

Section 5.1.2:

No general age limit has been set for members of the Management Board.

No general age limit has been set in respect of the members of the Management Board. The main focus for ElringKlinger is on the qualifications as well as the experience required by candidates to be appointed to the board. Given the provisions set out in the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – AGG), which does not apply directly to this case but at the very least provides a basis for further discussion, we believe that the approach of specifying an age limit is inappropriate.

Section 5.3.2:

To date, the Supervisory Board has not formed an Audit Committee. An Audit Committee is to be established effective from January 1, 2008.

ElringKlinger has decided to establish an Audit Committee effective from January 1, 2008, in order to meet the more extensive demands on the Supervisory Board as regards the examination of the annual financial statements in particular, but also to give effect to the planned changes to legislation within this area.

Section 5.3.3:

The company has no Nomination Committee to propose possible candidates for the election of shareholder representatives to the Supervisory Board.

Given the size of the Supervisory Board, both the Management Board and the Supervisory Board of ElringKlinger AG are of the opinion that there is no need to form a Nomination Committee.

Section 5.4.1:

No age limit has been set for members of the Supervisory Board.

No general age limit has been set for members of the Supervisory Board, as the main focus is on ensuring the competence of this body. Given the provisions set out in the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – AGG), which does not apply directly to this case but at the very least provides a basis for further discussion, we believe that the approach of specifying an age limit is inappropriate.

Section 5.4.3:

Proposals regarding candidates for the Chair of the Supervisory Board are not disclosed to shareholders.

The Supervisory Board itself makes proposals for the appointment of a Chairperson, as it is in the best position to assess the requisite suitability of the individual candidates.

Section 5.4.7:

The compensation report describes the fundamentals of the compensation system as part of the management report. Rather than being presented in the compensation report, details of Supervisory Board remuneration are disclosed in the notes to the financial statements.

Please refer to the comments relating to 4.2.5, as they also apply to this point.

Section 6.6:

No reports of the kind specified in Section 6.6 of the Code are made beyond the statutory disclosure requirements.

We believe that transparent communication is essential in order to maintain shareholder confidence. The legislator has extended disclosure requirements by a considerable degree in recent years, particularly as regards securities transactions subject to specific disclosure (so-called Directors' Dealings).

We publish such information in compliance with statutory provisions. Since the coming into force of the Transparency Directive Implementing Act at the beginning of 2007, this information is published at a pan-European level, thus reaching a wider target group than in the past. Furthermore, this information can be accessed via our website.

The additional disclosure requirements set out in the Code do not provide greater transparency for investors. In view of this, ElringKlinger has elected not to make additional disclosures.

The majority of suggestions set out in the Code in the version of June 14, 2007, have also been observed.

Sustainability

Sustainability

Sustainability as an integral element of corporate strategy

The ElringKlinger Group is fully aware of its responsibilities toward the environment, its employees and society as a whole.

This also extends to the efficient use of scarce resources such as water and energy, as well as the avoidance, reduction and recycling of waste materials. For this purpose, ElringKlinger has set up an extensive quality and environmental management system.

ElringKlinger accords great importance to staff development and community issues. Staff qualifications, performance and dedication are essential to the successful progression of the company. With this in mind, ElringKlinger is committed to maintaining a friendly working atmosphere and a program of sustained personnel development.

Quality and environmental management

Against the backdrop of surging raw material and energy prices, quality and environmental management contributed significantly to the Group's commercial success over the course of 2007. All processes within the company underwent continuous assessment as to their compatibility with environmental standards and efficiency within the area of resource allocation. By investing in state-of-the-art environmental technology, ElringKlinger was able to make a committed contribution to the avoidance and reduction of waste as well as the protection of the soil, air and water.

Furthermore, ElringKlinger operates a global benchmarking system, with the express purpose of identifying potential areas for improvement as regards environmental protection and occupational safety. In support of this program, data relating to key environmental indicators specified by the company is regularly collected and assessed at all sites within the ElringKlinger Group. In 2007, the indicator-based system deployed for the purpose of measuring key consumption and environmental data was extended throughout the Group.

Careful use of resources

Total energy consumption – electricity, gas and other sources of energy – within the ElringKlinger Group amounted to 131,000 MWh in 2007, i.e. just 3.9% above the figure recorded a year ago. Thus, the year-on-year increase was significantly lower than sales growth within the Group, which stood at 15%. The overall use of energy for heating purposes was scaled back by means of extensive streamlining measures implemented at all sites.

Electricity consumption also increased slower than sales, a trend attributable chiefly to investments in low-energy equipment as well as optimization efforts relating to production processes.

The overall quantity of water used at Group level was 75,500 m^3, 0.1% less than a year ago. Within this context, the fact that the method applied within the area of cylinder-head and specialty gasket production was changed from full to partial coating had a positive effect. The quantity of solvents required for surface-coating procedures was scaled down by 7.4% to 945 tons in 2007.

Waste management

Special Waste Management Officers have been appointed at all sites within the ElringKlinger Group. They are responsible for addressing the issues of waste avoidance and efficient waste disposal. The overall volume of waste material generated by the ElringKlinger Group in 2007 was 26,900 tons, which corresponds to a year-on-year increase of 15.6%. This was attributable mainly to the significant rise in production output and the associated increase in the quantity of metal raw materials required as part of the manufacturing process. The damage caused by the fire at one of ElringKlinger's facilities in Germany in mid-April 2007 also translated into more extensive waste within the area of raw materials, consumables and supplies as well as intermediate goods.

At 96%, the waste recycling rate at the plants operated by ElringKlinger AG was comparable to last year's figure. The proportion of disposable packaging was further reduced over the course of the year. The overall quantity of used oil was also scaled down by deploying more micro-filters and extending the standard oil-change cycles.

Even during production, the focus is always on ensuring that the environment is protected to the greatest extent possible. Safety data sheets are compiled for all substances used as part of the manufacturing process, the purpose being to outline the risks and handling requirements for each substance and provide details relating to the correct disposal of such materials.

Furthermore, customers are informed about all the substances contained within the respective products as well as the recyclability of such items. All substances are recorded via the International Material Data System (IMDS).

ElringKlinger fulfills the requirements specified in the EU Directive on end-of-life vehicles. No prohibited heavy metals are used. In 2007, other hazardous substances were eliminated in close collaboration with ElringKlinger's customers. For instance, chromium (VI) was fully replaced.

CO_2 reduction

Emission levels of CO_2 equivalents were reined back by 4.9% to 14,600 tons in 2007. Thus, emission levels were reduced by a significant margin despite the expansion of production output.

In 2008, ElringKlinger plans to invest approx. EUR 2 million in the construction of an on-site cogeneration heating system at its plant in Dettingen/Erms, Germany. This system supplies energy as well as heat for the ovens required during production. Surplus energy can be re-routed into the public grid. As a result of this investment, ElringKlinger will be able to reduce its energy costs while also lowering its CO_2 emission levels.

Environmental management reporting extended

Standardized product and process audits are performed at ElringKlinger on a regular basis, encompassing all levels of operation. This ensures the safety and efficiency of equipment and plant deployed by the company. The respective areas and facilities within the Group are inspected by the central quality and environmental management department as regards environmental and health protection as part of annual system audits. Furthermore, the environmental management system ISO 14001:2004 is applied fully to the relevant processes performed in accordance with ISO 9001/TS 16949:2002 at the Group’s production sites around the globe. These standards are supplemented by factory-specific regulations relating to procedures and workflow. All certifications, environment-specific data and other reports issued by ElringKlinger’s production facilities are compiled by the central quality and environmental management department in Dettingen/Erms.

Consistent quality standards at international level

ElringKlinger has established a target of zero-defect quality for all processes within the Group. A global quality management system ensures that products are of uniform quality. Indeed, one of the key competitive advantages created by ElringKlinger is its ability to produce large volumes of high-tech components in a consistently high quality. Due to the program of continuous improvement implemented by the company, customer complaints developed favorably in all areas of the business during 2007. The defect rate of under 10 ppm (parts per million) remained at an encouragingly low level, thus underscoring the overall quality of supply.

Long-term relations with suppliers

The manufacture of high-end products is dependent on the supply of premium-quality raw materials and other components. With this in mind, suppliers are fully integrated into the quality management system operated by ElringKlinger. By applying specified information processes and conducting regular supplier audits, the Group is able to maintain exceptional quality standards in all areas covered.

When selecting a new supplier, ElringKlinger places particular importance on ensuring that all applicable environmental laws and regulations have been complied with in full, as well as checking whether procedures have been put in place to safeguard continuous improvement within the area of environmental protection. The standards to be met by suppliers have also been set out in the Corporate Code of Ethics drawn up by the ElringKlinger Group.

In 2007 all suppliers to the ElringKlinger Group were certified in accordance with ISO 9001:2000; more than 40% of companies supplying the three plants operated by ElringKlinger AG were TS 16949:2002 certified; and more than half had ISO 14001 environmental management certification.

As in the past, ElringKlinger presented a “Supplier of the Year” award to its best supplier in 2007.

Innovation award for ElringKlinger

ElringKlinger’s success as a supplier is underpinned by its ability to meet customer demands with an extensive range of highly innovative solutions. In recognition of these accomplishments, in 2007 ElringKlinger was presented with the “ZF Supplier Award” by ZF Friedrichshafen AG. Within this context, the key criteria supporting ElringKlinger’s nomination were quality, technology, efficient logistics processes and competitive price structures. ElringKlinger also received the supplier award for innovation.

Employees promote culture of innovation

Qualified employees are the cornerstone of a company's success. The knowledge accumulated by ElringKlinger's staff, often over many years of service, as well the sense of responsibility displayed by staff on a day-to-day basis provide a solid foundation for the culture of innovation embraced by the Group as a whole.

Staff turnover remains low

Staff attrition, i.e. the natural turnover of staff, at ElringKlinger AG was approx. 0.3% in 2007. Similarly, the rate of staff turnover also remained low at ElringKlinger's subsidiary and affiliated companies. This underscores the degree of loyalty felt by ElringKlinger employees towards the company.

Higher staffing levels

ElringKlinger believes it has an entrepreneurial duty to create employment opportunities and provide people with jobs. One of the essential prerequisites for this idea to be seen through to fruition is the financial success of the company. During the period under review, more than 300 new jobs were created at sites operated by the ElringKlinger Group. At December 31, 2007, the headcount at Group level was 3,602 (3,269). Thus, the total number of employees rose by 10.2% compared with the same period a year ago.

Extended training programs

ElringKlinger continues to focus on company-run training programs for the purpose of fostering the next generation of staff. The company offers vocational training courses for both commercial and technical disciplines. These are complemented by special degree programs based on the dual system of on-the-job training and vocational university (Berufsakademie) studies. A number of positions in the company are filled by means of recruitment from within the Group. In 2007, ElringKlinger increased the number of vocational training places offered, employing a total of 86 young apprentices at the end of the financial year under review. Of these, 82.6% were male and 17.4% female.

Focusing on personal development

As an automotive supplier, ElringKlinger performs significant tasks within the field of research and development on behalf of vehicle manufacturers. The ability displayed by ElringKlinger's staff when it comes to embracing innovation has given the Group a considerable edge in the competitive arena. In order to take this expertise to the next level, ElringKlinger actively promotes advanced training and qualification programs for its employees.

Attractive employer for graduates

The ability to attract a new generation of qualified staff and managers is essential to the future success of a growing technology company such as ElringKlinger. For this reason, the company launched an extensive promotional campaign at university and college level in 2007. As part of these measures, ElringKlinger attended a number of regional contact fairs and career events. At the end of November, the company was represented at the nationwide graduates congress staged in Cologne. In 2007 ElringKlinger also gave 45 interns, students and undergraduates the chance to apply the knowledge they had acquired as part of their studies to a number of real-world projects.

Developing management staff

ElringKlinger is committed to recruiting specialist staff and managers also from its own ranks. In 2007, a program was launched to select and support those candidates with the greatest potential. This program comprises three key components. The participants receive advanced training within the area of team leadership, personal skills and business expertise. Within this context, ElringKlinger opted for an executive development program conceived within the company. Experienced managers from the various Group companies impart their specialist knowledge and convey the unique enterprise culture associated with ElringKlinger.

Staff appraisal and qualification program

A staff appraisal and qualification scheme is in place for those personnel employed at ElringKlinger AG on the basis of collective wage agreements. As part of annual one-on-one meetings, the individual staff member receives feedback on his or her performance. Together with the supervisor, an individual program is drawn up for the staff member in question, outlining specific targets and measures to promote personal and professional development.

Company suggestion scheme

As part of the company suggestion scheme operated by ElringKlinger, some 250 ideas were submitted at the three parent-company sites during 2007. Around half of these recommendations were implemented, resulting in further cost savings and an improvement in workflow. Additionally, a number of suggestions were made for new potential products. At the same time, working conditions and the quality of specific areas of employment were further improved.

Integration of minorities

ElringKlinger is committed to integrating social and ethnic minorities within the company. In 2007, ElringKlinger employed 254 foreign members of staff at its plant in Dettingen/Erms, spanning nineteen different nationalities. Thus, at December 31, 2007, the ratio of foreign personnel at this site was 20.7%.

Employees with severe disabilities accounted for 4.7% of the total headcount at sites operated by ElringKlinger AG. ElringKlinger grants a number of contracts to workshops employing disabled people. For the past five years, the company has been collaborating closely and successfully with Stiftung BruderhausDiakonie, whose facilities include specialist workshops for people with disabilities. These business relations were further extended over the course of 2007, as a result of which the twenty existing jobs for disabled employees have been secured for the future. Furthermore, an additional four openings were created.

Responsibility for occupational safety and health protection

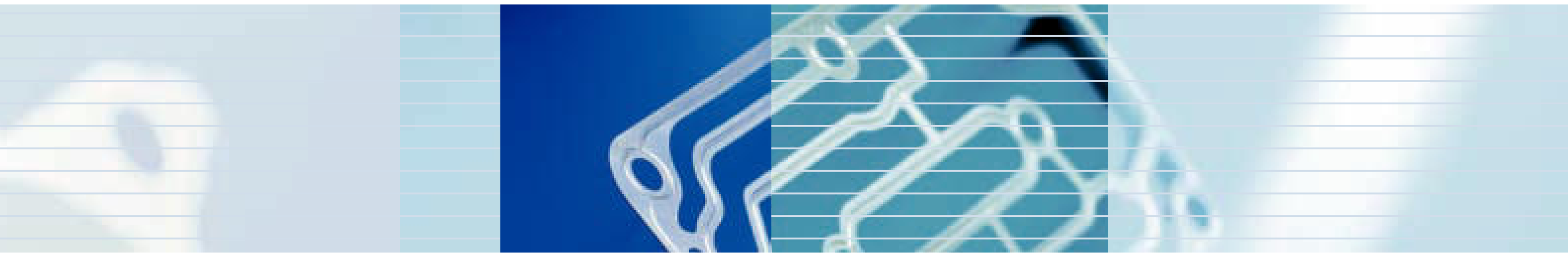
A sustained approach to business management also encompasses safety at the workplace. Within this context, all production sites are obliged to observe stringent occupational safety standards. What is more, the safety of machinery and plant as well as the ergonomic design of processes and workflow are monitored and improved on a continual basis. As part of regular training workshops, every employee is encouraged to act in a responsible way for his/her own safety and that of other personnel.

Business model geared toward sustainability

In 2007, ElringKlinger was one of the few companies within the automotive supply industry to present comprehensive reports within the framework of the International Carbon Disclosure Project 2007.

The Corporate Social Responsibility Rating issued by Ökom provided valuable input for the continued improvement of these processes. The Group plans to extend the scope of information presented in connection with sustainability.

Committed to channeling additional investments into quality, environmental technology and staff skills over the course of 2008, ElringKlinger will establish a strong foundation for profitable growth well into the future.



ElringKlinger and the Capital Markets

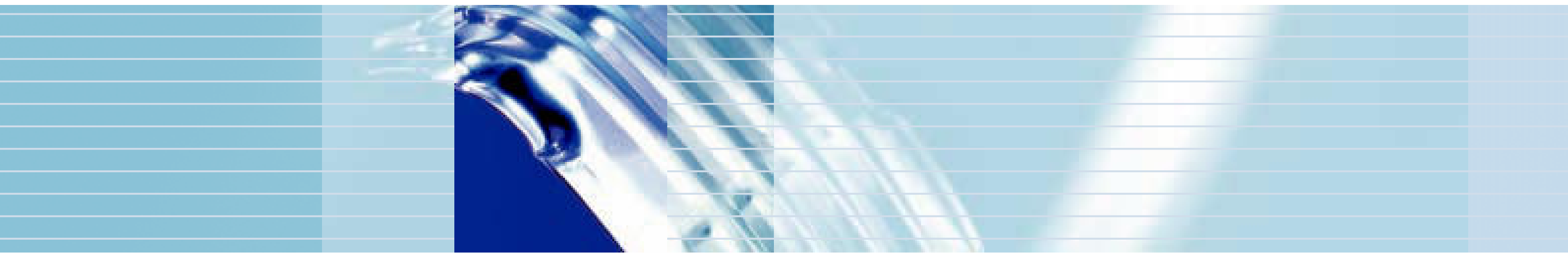
ElringKlinger and the Capital Markets

ElringKlinger is fully committed to meeting the communication needs of its shareholders and customers as well as those of interested parties in the general public. In pursuit of this goal, both the capital markets and the media as well as private investors are furnished equally with prompt, comprehensive and transparent information on the latest developments within the company.

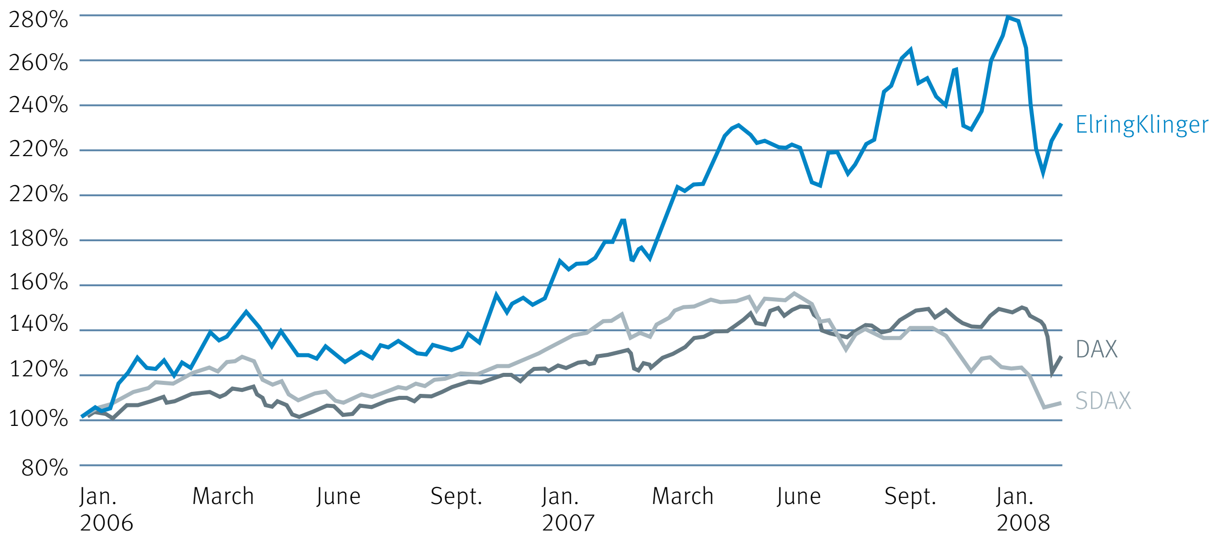
Market outperformed by ElringKlinger stock

On the back of a gain of almost 60% in 2006, the company's shares continued to generate additional momentum during the 2007 financial year. The overall performance of ElringKlinger's stock was a reflection of the company's solid growth over the period under review, coupled with the capital markets' largely positive assessment of the automotive industry and a favorable investment climate. ElringKlinger's share price moved between EUR 49 and EUR 87 in 2007, eventually closing the year at EUR 85, i.e. more than 70% up on the previous year's closing price (EUR 48.52). Thus, ElringKlinger shares again outperformed the benchmark DAX and SDAX indices. The DAX rose by just 22% in 2007, while the SDAX recorded a loss of around 7% at the end of the period under review.

Against the backdrop of the US subprime mortgage crisis, together with the capital market turbulence that this produced and growing fears of a recession in the United States, ElringKlinger's share price receded to below EUR 54 in mid-January 2008, followed by recovery at the beginning of February when it clawed its way back to a level of around EUR 70. Overall, the company's share performance since the beginning of 2008 has exceeded that of its industry peer group.



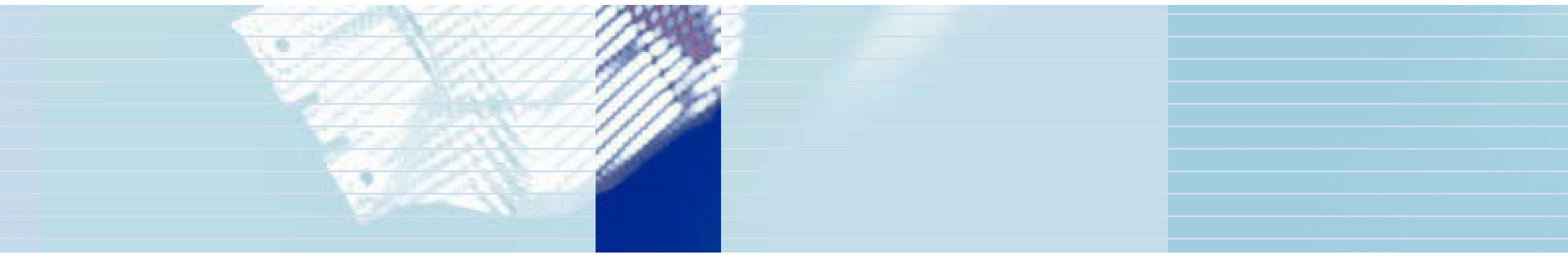
ElringKlinger's Share Price Performance (XETRA) since January 1, 2006, compared to SDAX and DAX



Strong focus on communication
ElringKlinger has embraced the Internet as an effective medium for information exchange. The company website at www.elringklinger.de is used for the purpose of reporting on the latest developments and presenting product-related news. Additionally, ElringKlinger issues ad hoc announcements and press releases, as well as publishing quarterly and half-yearly financial reports in German and English. ElringKlinger maintained a close line of communication with both institutional and private investors as well as investment advisers by organizing company presentations at various banks, responding to telephone inquiries and issuing reports and e-mail news releases on a regular and timely basis.

Media coverage relating to ElringKlinger was also much more extensive in 2007 than in previous years, which helped to raise public awareness of the company both at home and abroad.

Active dialog with the capital markets
ElringKlinger further extended its dialog with analysts and investors in 2007, with a particularly strong emphasis being placed on activities in the international arena. In view of the company’s potential contribution to environmental protection through products capable of reducing emissions and fuel consumption, together with its strong focus on alternative propulsion technology, a growing number of environmental and sustainability funds voiced their interest in ElringKlinger’s business activities.



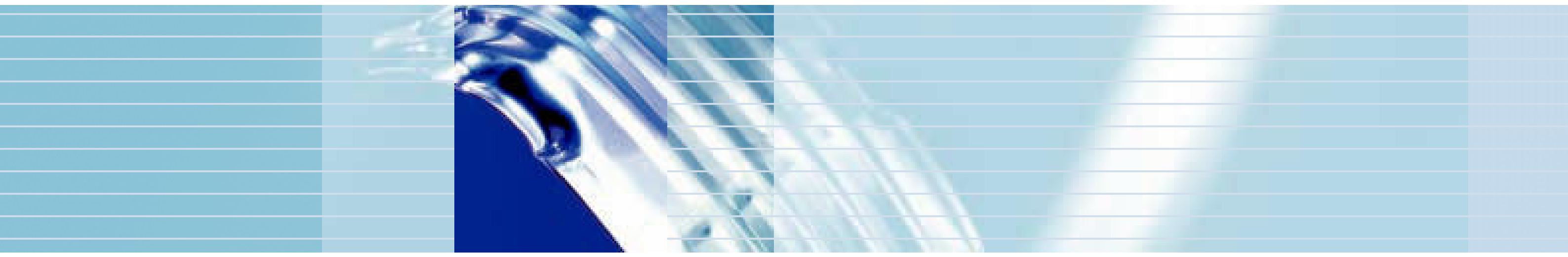
Shares in ElringKlinger – Stock Details

ISIN	DE 0007856023
Security identification number (CUSIP)	785 602
Bloomberg/REUTERS	ZIL2/ZILGn.DE
Capital stock	EUR 57,600,000
Number of shares outstanding	19,200,000
Stock exchanges	for official trading: Frankfurt, Stuttgart, XETRA, Munich, Düsseldorf, Hamburg, Berlin-Bremen
Market segment	Prime Standard
Index	SDAX

The company's management organized road shows in Europe and North America during 2007. In Europe, the main emphasis was on Germany, the United Kingdom, Italy and Switzerland. The Management Board and Investor Relations team attended capital markets conferences in Frankfurt, Paris, Zürich and New York, as well as organizing a number of meetings for the purpose of informing institutional investors about the company's business performance, providing status reports on product development and outlining growth opportunities. The company also scheduled various on-site meetings at ElringKlinger Group facilities with international investors and analysts as well as with representatives of the press in order to give them a better impression of local operations. In mid-September 2007, ElringKlinger attended a major capital markets conference in Frankfurt, which had been organized as part of the IAA International Motor Show. Beyond this, the company also played host to a number of media representatives and investors at its IAA exhibition booth, presenting a range of information that was well received by those attending the event. In November, ElringKlinger again showcased its business to a broad range of international investment experts at the German Equity Forum organized by Deutsche Börse.

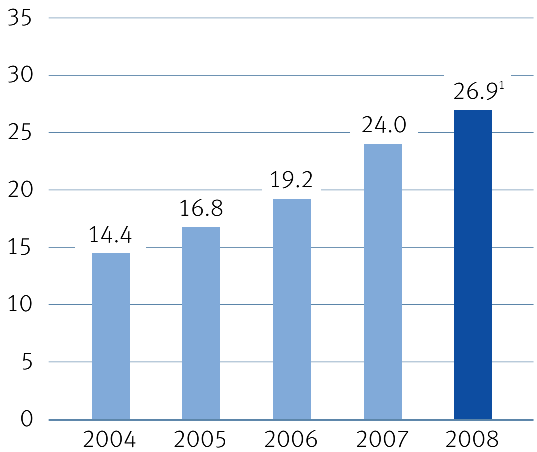
2007 Annual General Meeting underlines close rapport with shareholders

The 102nd Annual General Meeting held at the Stuttgart Cultural and Congress Center on May 25, 2007, yet again highlighted the keen interest shown by shareholders in ElringKlinger's business activities and the close bond that exists between the company and its investors. In total, more than 800 shareholders, banking experts, shareholder-association representatives, journalists and guests attended the event. Guests were given the opportunity to discuss ElringKlinger's business performance and product port-



Total Dividend Payments

in EUR million



[1] Proposal to the AGM 2008

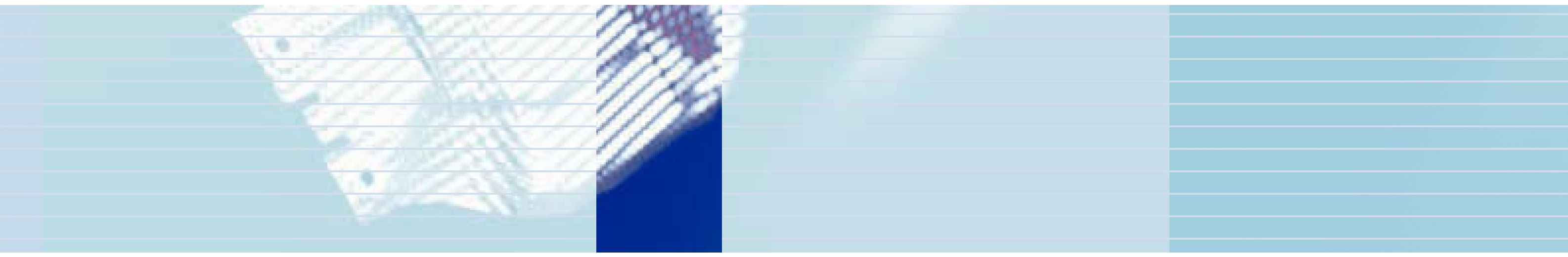
folio during and after the meeting as well as at an extensive exhibition organized in parallel with the event. The shareholders present adopted the Management Board's proposal to increase the dividend to EUR 1.25 Euro (EUR 1.00) per share. In line with the consistent dividend policy pursued by ElringKlinger, the aim of which is to allow shareholders to participate in the company's success in a sustained manner, the total dividend paid over the course of the last ten years has risen from EUR 1.5 million to EUR 24.0 million. In 2007, the dividend ratio stood at 41.5% of profit attributable to shareholders of ElringKlinger AG (consolidated net income after minority interests).

Proposal for 12% dividend increase

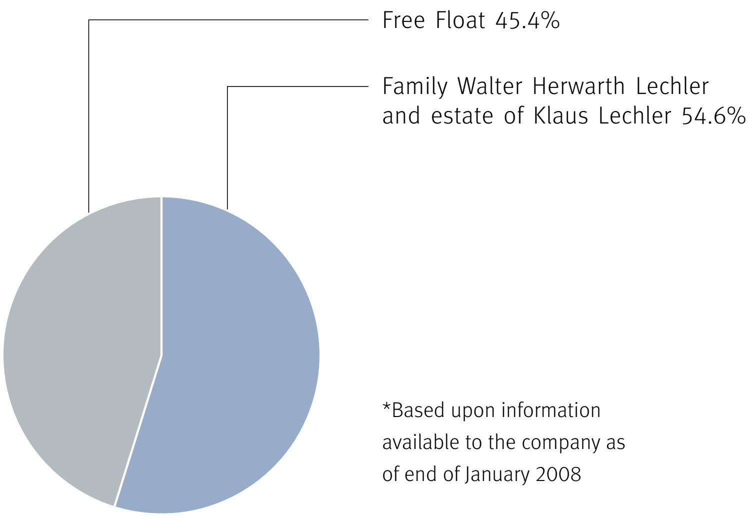
The 103rd Annual General Meeting of ElringKlinger AG takes place on May 30, 2008, at the Liederhalle Congress Center in Stuttgart. The Management Board and Supervisory Board will put forward a proposal to the Annual General Meeting for a 12% dividend increase, taking the dividend to EUR 1.40 (1.25) per share. The total dividend payout will thus rise to EUR 26.9 million.

Significant improvement in stock liquidity

The 2007 financial year saw an encouraging rise in trading volumes of ElringKlinger shares, one of the essential criteria for inclusion in the MDAX and a key prerequisite for stock purchases by larger investment funds. The average daily volume of shares traded on the stock exchange rose from around EUR 700,000 in 2006 to over EUR 1,600,000 in 2007. This represents an increase of 130%. Despite the higher share price, the number of shares traded on average per day increased from 17,700 to 24,800 units. This positive trend continued into the early weeks of trading in 2008.



Shareholder Structure*



*Based upon information available to the company as of end of January 2008

At the end of the 2007 financial year, the overall market capitalization of ElringKlinger AG stood at approx. EUR 1.6 billion. Calculated on the basis of free float, market capitalization was roughly EUR 740 million.

Stable shareholder structure as a basis for success

The company's shareholder structure remained stable in 2007. In total, 54.6% of ElringKlinger shares were held by the families of Walter Herwarth Lechler and Klaus Lechler (deceased). The free float remained unchanged at 45.4%.

Institutional investors expanded their shareholders during 2007. At January 31, 2008, they held approx. 34% of ElringKlinger stock. Among ElringKlinger's principal investors are international investment companies, insurers and banks from the United Kingdom, the US, Germany, Switzerland, Spain and France. Approx. 12% of the company's shares are held by private investors.

Multiple awards for 2006 annual report

In July 2007, the League of American Communications Professionals (LACP) honored ElringKlinger AG with a Vision Award in Platinum in recognition of the company's 2006 annual report. Overall, ElringKlinger was ranked 22nd in a group of more than 2,500 participating companies from around the globe. ElringKlinger took first place within the category of automobile manufacturers and suppliers, as well as coming an impressive third in the separate category focusing on the best financials section. The judges were particularly impressed by the creative concept, the visual appearance, the front cover design and the overall message of the report, as well as the use of plain language and the well-conceived presentation of financial data both in terms of copy and graphics. Another contributing factor was the clarity with which ElringKlinger defined its corporate objectives and future prospects.

In 2007, the Handelsblatt financial newspaper again teamed up with the Institut für Wirtschaftsprüfung at the University of Saarbrücken (IWP) for the purpose of analyzing and assessing the principal financial data of 124 exchange-listed industrial, retail and service enterprises in Germany. The main focus of the assessment panel is on the annual reports published by these companies. Among the most important criteria are the overall quality and presentation of information as well as the transparency of the annual reports. ElringKlinger achieved 920 out of a possible 1000 points and was thus ranked fourth within the SDAX category. The company took pole position in the segment comprising automobile manufacturers and automotive suppliers.

"European Shareholder Value Award 2007" for ElringKlinger

In June 2007, ElringKlinger received the "European Shareholder Value Award 2007" in response to achieving the highest increase in value within the European automotive supply industry over the last three years. Covering the three categories "manufacturers", "parts suppliers" and "retailers", the award is presented annually by management consultants PricewaterhouseCoopers and the industry journal Automotive News Europe. The overall assessment is made on the basis of how much a company has raised its share price, having factored in dividend payments and stock buy-backs. With value accretion of 209% in the past three years, ElringKlinger was able to secure the award for the third time. The company had already won the "European Shareholder Value Award" in 2004 and 2005 in recognition of its three-year performance, as well as being honored in 2003 for the most pronounced increase in value over a one-year period.

ElringKlinger AG also achieved a very good result in the Handelsblatt 2007 Company Ranking, which evaluates earnings performance. Assessments were based on equity ratio, return on investment, cash flow in relation to sales revenue and cash flow in relation to total capital. ElringKlinger was ranked 10th among the 124 quoted companies in the survey, thus moving up from 13th place in the 2006 league table. It was judged as having produced “exceptionally strong earnings”.

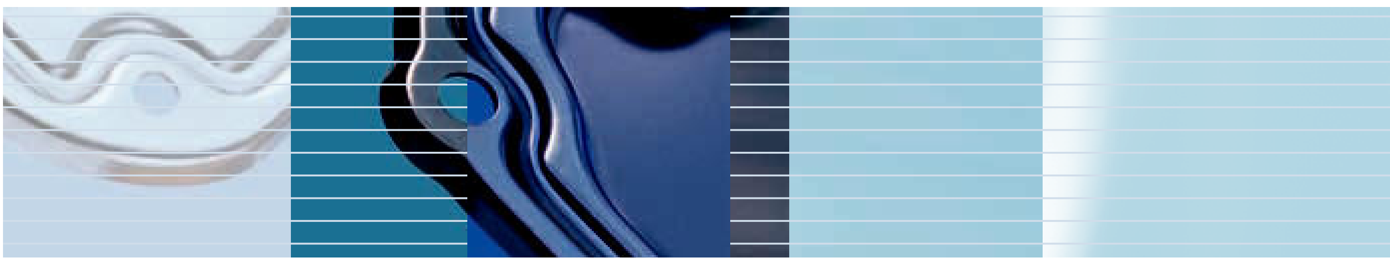
Broader analyst coverage

In 2007 two more banks and brokers added ElringKlinger to the list of exchange-listed companies covered by their stock analysts. ElringKlinger remains fully committed to maintaining and indeed extending its intensive dialog with investors and the public in 2008. The aim of the 2008 Investor Relations Program is to present the ElringKlinger business model to the capital markets, focusing in particular on increasingly important issues facing the automobile industry of the future – the reduction of emissions and fuel consumption, together with the introduction of alternative energies and propulsion concepts. In 2008, ElringKlinger also plans to step up its communication efforts within the international financial arena, e.g. in North America, Southern Europe and the Middle East and Asia.

Shares in ElringKlinger – Key Figures

	2007	2006
Earnings per share IFRS (after minority interests in EUR)	3.95	3.01
Shareholders’ equity per share (in EUR)[1]	14.64	12.04
High (in EUR)	87.00	49.41
Low (in EUR)	49.10	31.07
Closing price at Dec. 31 (in EUR)[2]	85.00	48.52
P/E (price to earnings ratio)[1]	21.5	16.1
Dividend per share (in EUR)	1.40[3]	1.25
Daily average trading volume on German exchanges (in units)	24,800	17,700
Daily average trading volume on German exchanges (in EUR)	1,629,000	704,000
Market capitalization (in EUR million) Dec. 31[1]	1,632.0	931.6

[1] As of December 31
[2] XETRA
[3] Proposal to the AGM 2008



Consolidated Financial Statements for the ElringKlinger Group

Consolidated Income Statement
for the Period from January 1 to December 31, 2007

	Notes	2007	2006
		EUR '000	EUR '000
Sales	(1)	607,841	528,421
Cost of sales	(2)	-400,145	-338,700
Gross profit		**207,696**	**189,721**
Selling expenses	(3)	-41,139	-38,925
General and administrative expenses	(4)	-22,135	-22,650
Research and development expenses	(5)	-29,849	-26,011
Other operating income	(6)	21,674	4,815
Other operating expenses	(7)	-13,293	-10,886
Operating result		**122,954**	**96,064**
Financial income		3,471	2,952
Financial costs		-11,545	-11,397
Net finance costs	(8)	**-8,074**	**-8,445**
Earings before taxes		**114,880**	**87,619**
Taxes on income	(9)	-34,587	-25,718
Net income		**80,293**	**61,901**
Minority interests	(20)	-4,389	-4,143
Profit attriutable to shareholders of ElringKlinger AG		**75,904**	**57,758**
Diluted and undiluted earnings per share in EUR	(10)	3,95	3,01

Consolidated Balance Sheet as at December 31, 2007

ASSETS	Notes	Dec. 31, 2007	Dec. 31, 2006
		EUR '000	EUR '000
Intangible fixed assets	(11)	37,037	28,187
Property, plant and equipment	(12)	256,339	211,909
Investment property	(13)	30,442	31,641
Financial assets	(14)	4,543	4,528
Other non-current assets	(15)	5,127	5,414
Deferrend tax assets	(9)	7,452	9,313
Fixed assets		**340,940**	**290,992**
Inventories	(16)	113,371	89,956
Trade receivables	(17)	93,585	80,993
Other current assets	(17)	17,224	9,227
Cash	(18)	7,405	5,453
Current assets		**231,585**	**185,629**
		572,525	476,621

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2007	Dec. 31, 2006
		EUR '000	EUR '000
Share capital		57,600	57,600
Capital reserve		2,747	2,747
Revenue reserves		205,229	154,894
Shareholders' equity before minority interests	(19)	**265,576**	**215,241**
Minority interests	(20)	15,484	15,957
Shareholders' equity		**281,060**	**231,198**
Provisions for pensions	(21)	54,430	53,451
Non-current provisions	(22)	6,508	8,784
Non-current financial liabilities	(23)	56,877	50,380
Deferred tax liabilities	(9)	26,505	31,152
Other non-current liabilities	(24)	16,857	12,684
Non-current liabilities		**161,177**	**156,451**
Current provisions	(22)	8,105	9,009
Trade payables	(24)	38,375	28,210
Current financial liabilities	(23)	41,245	16,251
Tax payables	(9)	10,104	6,628
Other current liabilities	(24)	32,459	28,874
Current liabilities		**130,288**	**88,972**
		572,525	476,621

Statement of Changes in Equity

	Share capital	Capital reserve	Revenue reserves
			Revenue reserve first-time adoption of IFRS
	EUR '000	EUR '000	EUR '000
As of Dec. 31, 2005	**57,600**	**2,747**	**26,181**
Capital increase			
Dividends paid			
Changes in consolidated companies			
Adjustments due to consolidation			
Other changes			
Period income			
Other consolidated net income			
as of Dec. 31, 2006	**57,600**	**2,747**	**26,181**
Capital increase			
Dividends paid			
Changes in consolidated companies			
Adjustments due to consolidation			
Other changes			
Period income			
Other consolidated net income			
as of Dec. 31, 2007	57,600	2,747	26,181

Currency translation differences	Group equity generated	Total	Minority interests	Group equity
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
-2,203	**95,813**	**119,791**	**15,975**	**196,113**
		0		0
	-19,200	-19,200	-3,866	-23,066
	-8	-8		-8
-3,503		-3,503	-295	-3,798
	56	56		56
	57,758	57,758	4,143	61,901
		0		0
-5,706	**134,419**	**154,894**	**15,957**	**231,198**
		0		0
	-24,000	-24,000	-3,007	-27,007
		0		0
-1,569		-1,569	-192	-1,761
		0	-1,663	-1,663
	75,904	75,904	4,389	80,293
		0		0
-7,275	186,323	205,229	15,484	281,060

Consolidated Cash Flow Statement

	Notes	2007	2006
		EUR '000	EUR '000
Earnings before taxes		114,880	87,619
Depreciation/Amortization (less write-ups) of non-current assets	(12)	48,030	45,650
Net interest	(8)	6,138	5,724
Increase (p.y. decrease) in provisions		-4,690	1,030
Gain from disposal of intangible assets and of property, plant and equipment		-417	-533
Increase in inventories, trade receivables and other assets not resulting from financing and investing activities		-43,488	-16,932
Increase in liabilities not resulting from financing and investing activities		17,781	2,825
Income taxes paid	(9)	-34,889	-32,528
Interest paid	(8)	-3,800	-3,326
Interest received	(8)	357	352
Currency effects on items relating to operating activities		-630	3
Net cash from operating activities		**99,272**	**89,884**
Proceeds from disposals of intangible assets and of property, plant and equipment		1,237	2,603
Proceeds from disposals of financial assets		226	419
Payments for investments in intangible assets	(11), (27)	-4,158	-2,897
Payments for investments in property, plant and equipment and investment properties	(12), (13), (27)	-90,850	-46,662
Payments for investments in financial assets	(14)	-245	-417
Payments for the acquisition of consolidated entities	(27)	-8,153	0
Net cash from investing activities		**-101,943**	**-46,954**
Dividends paid to shareholders and minorities		-27,007	-23,066
Changes in current financial liabilities	(23)	24,994	-18,734
Changes in non-current financial liabilities	(23)	6,497	-124
Currency effects on items relating to financing activities		-76	203
Net cash from financing activities		**4,408**	**-41,721**
Changes in cash		1,737	1,209
Currency effects on cash		215	-238
Other transactions		0	48
Cash at beginning of period	(18)	5,453	4,434
Cash at end of period	(18)	7,405	5,453

Notes to the Consolidated Financial Statements for the Year 2007

General Disclosures

Presentation of the consolidated financial statements

ElringKlinger AG, the parent company of the group, is filed in the commercial register at the municipal court of Stuttgart 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 May 25, 2007. The registered name of the company 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, gaskets, sealing materials, plastic products and modules for the automotive sector and for 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 at December 31, 2007, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) as applicable in the EU, and the supplementary commercial law regulations pursuant to § 315a (1) HGB. All IFRS and IFRICs mandatory for the financial year 2007 have been observed.

The following regulations and amendments to existing regulations became mandatory for the financial year 2007 for the first time:

IFRS 7 Financial instruments: Disclosures

This standard requires disclosures to be made on the meaning of the financial instruments for the financial situation and the results of operations of the Group. Under IFRS 7 further disclosures must be made describing the nature and extent of risks arising from the financial instruments and to which the entity was exposed during the reporting period and at the time of reporting as well as on the nature and manner of dealing with the risks.

IAS 1 Presentation of Financial Statements (see the comments in the section “Capital Management”).

This amendment has given rise to new disclosures that enable the users of the financial statements to form a judgement on the goals, methods and processes of the group on capital management.

These new or amended standards did not have any significant effects on the net assets, financial position and results of operations of the group, since they relate exclusively to disclosures to be made in the notes. Moreover, the standards IFRIC 7, IFRIC 8, IFRIC 9 and IFRIC 10 became mandatory for the first time as at December 31, 2007. However, they do not have any relevance for these consolidated financial statements.

The following published standards that are not mandatory for the financial year 2007 are not yet applied by ElringKlinger.

IFRS 8 Segment Reporting

IFRS 8 governs which financial information an entity must make in its reporting on its operating segments. IFRS 8 follows the so-called “management approach” under which information on the operating segments must be given on the basis of the internal reporting of the entity. This standard is mandatory as from January 01, 2009.

The other standards that have been approved but are not yet mandatory (IAS 23, IFRIC 11/IFRS 2, IFRIC 12, IFRIC 13, IFRIC 14/IAS 19) will probably not give rise to any effects on the net assets, financial position and results of operations or on the cash flow.

The consolidated financial statements have been prepared in Euro. Unless otherwise stated, all amounts are in thousand EURO (EUR ‘000).

For the income statement the cost of sales method has been used. In order to enhance the clarity of presentation, various items in the balance sheet and in the income statement have been aggregated.

Scope of consolidation

Apart from the single entity statements of ElringKlinger AG, the consolidated financial statements of ElringKlinger AG as at December 31, 2007, include the annual financial statements of four (2006: 4) domestic and 16 (2006: 14) foreign subsidiaries. Subsidiaries are companies in which the parent enterprise exercises more than half the voting rights or is able to control their financial and business policy for other reasons (control relationship). Inclusion commences at the time from which the control relationship exists; it ends when the possibility of control ceases.

The newly formed subsidiary ElringKlinger Automotive Components (India) Private Limited, Ranjangaon, India, in which ElringKlinger AG is the sole shareholder subsidiary, has been included for the first time in the financial year 2007.

The newly formed subsidiary ElringKlinger Engineered Plastics (Qingdao) Commercial, Qingdao, China, in which ElringKlinger Kunststofftechnik GmbH is the sole shareholder, was also included for the first time in the financial year 2007.

The two joint ventures, ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corp., Tokyo, Japan, have been included in the consolidated financial statements proportionately pursuant to IAS 31. Under proportionate consolidation, all assets and equity & liability items, and all expenses and income of the joint ventures are included in the consolidated financial statements in the proportion held in the participation (50%).

The business activity of ElringKlinger Korea Co. Ltd. is the production and distribution of cylinder head gaskets. ElringKlinger Marusan Corp. is a development and distribution company.

On the basis of the proportion held in joint companies, the following values are attributable to the group:

	2007	2006
	EUR '000	EUR '000
Fixed assets	2,277	1,780
Current assets	2,034	2,433
Non-current liabilities	219	86
Current liabilities	1,717	1,498
Income	4,102	3,541
Expenses	4,067	3,232

An overview of the 20 entities included, the two joint ventures and one participation is given on the following page.

Schedule of Shareholdings as at December 31, 2007 and Scope of Consolidation

Name of company	Domicile	Abbreviation	Capital share in %
Parent company			
ElringKlinger AG	Dettingen/Erms		
Shares in affiliated companies (fully consolidated in the consolidated financial statements)			
Domestic			
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	KMBH	100.00
Elring Klinger Motortechnik GmbH	Idstein	EKM	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	EKLS	76.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	EKT	74.50
Foreign			
Elring Klinger (Great Britain) Ltd.	Redcar (United Kingdom)	EKGB	100.00
Elring Klinger S.p.A.	Mazzo di Rho (Italy)	EKI	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	TPH	100.00
ElringKlinger Sealing Systems, S.L.	Reus (Spain)	EKSL	90.00
Elring Parts Ltd.	Gateshead (United Kingdom)	EP	90.00
Elring Klinger, S.A.	Reus (Spain)	EKSA	51.00
ElringKlinger Sealing Systems Inc.	Leamington (Canada)	EKSS	100.00
ElringKlinger Sealing Systems (USA), Inc.	Livonia/Michigan (USA)	EKSU	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	EKMX	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	EKAS	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	EKB	100.00
Elring of North America, Inc.	Branchburg/New Jersey (USA)	ELNA	60.00
Elring Gaskets (Pty) Ltd.	Johannesburg (South Africa)	EGS	51.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	EKIA	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	CEK	78.00
ElringKlinger Engineered Plastics (Qingdao) Commercial	Qingdao (China)	EKTC	74.50
Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)			
Foreign			
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	EKKO	50.00
ElringKlinger Marusan Corporation	Tokyo (Japan)	EKMA	50.00
Participations (measured in consolidated financial statements at acquisition cost)			
Foreign			
Marusan Corporation	Tokyo (Japan)	MARUSAN	10.00

HB I Share-holders' equity in LC '000	HB I Profit/Loss in LC '000	Local currency (LC)	Exchange rate[1] on closing date	HB I Share-holders' equity in EUR '000	HB I Profit/Loss in EUR '000	Most recent financial statements
64	-9	EUR	100.0000	64	-9	31/12/2007
2,322	365	EUR	100.0000	2,322	365	31/12/2007
760	441	EUR	100.0000	760	441	31/12/2007
21,954	8,162	EUR	100.0000	21,954	8,162	31/12/2007
5,735	384	GBP	136.1100	7,806	523	31/12/2007
1,640	442	EUR	100.0000	1,640	442	31/12/2007
1,765,708	240,602	HUF	0.3968	7,006	955	31/12/2007
2,566	393	EUR	100.0000	2,566	393	31/12/2007
1,601	371	GBP	136.1100	2,179	505	31/12/2007
7,236	2,039	EUR	100.0000	7,236	2.039	31/12/2007
27,026	8,902	CAD	69.2042	18,703	6,161	31/12/2007
2,445	2,022	USD	67.9440	1,661	1,374	31/12/2007
171,064	-5,838	MXN	6.2352	10,666	-364	31/12/2007
17,141	2,357	MXN	6.2352	1,069	147	31/12/2007
38,122	7,764	BRL	38.1563	14,546	2,962	31/12/2007
1,943	217	USD	67.9440	1,320	147	31/12/2007
7,582	1,819	ZAR	9.9701	756	181	31/12/2007
154,133	-5,312	INR	1.7283	2,664	-92	31/12/2007
113,523	24,681	CNY	9.3028	10,561	2,296	31/12/2007
533	0	CNY	9.3028	50	0	31/12/2007
6,624,483	126,533	KRW	0.0726	4,809	92	31/12/2007
22,116	3,734	JPY	0.6057	134	23	31/12/2007
4,416,860	79,675	JPY	0.6057	26,753	483	31/7/2007

[1] 100 units local currency as at balance sheet date

Acquisition of minority interests

ElringKlinger AG acquired in the financial year 2007 a further 7.5% of the interests in the subsidiary ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen (EKT). This increased the interest of ElringKlinger AG in EKT as at July 31, 2007, from 67% to 74.5%.

The price of the acquisition was EUR '000 8,153, of which EUR '000 19 related to incidental costs.

The purchase of additional minority interests is modeled in the consolidated financial statements using the purchase method. This means that, in an initial step, the proportions of dormant reserves and liabilities were identified and revealed in the assets and debts of EKT, both on and off the face of the balance sheet (i.e. both recognized and unrecognized). After additionally accounting for deferred tax liabilities on the revealed dormant reserves, a remaining difference of EUR '000 4,816 was recognized as goodwill. A portion of the purchase price relating to the goodwill was paid mainly for the positive earnings prospects of EKT.

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs.

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

Consolidation methods

The assets and debts of the domestic and foreign companies included in the consolidated financial statements are recognized and measured using the accounting and measurement methods that apply uniformly across the ElringKlinger Group.

On 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 interests exceeds the identified assets and debts to be measured at fair value, the difference is capitalized as goodwill. If the difference is negative, a remeasurement is made of the identifiable assets and debts and of the acquisition costs. Any negative difference remaining is recorded in income.

Uncovered dormant reserves and charges are adjusted, written off or released under the subsequent consolidation in accordance with the corresponding assets and debts. Capitalized goodwill is not amortized, but is subject to an annual impairment test instead, pursuant to IFRS 3.

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

The results of the subsidiaries acquired or sold in the course of the year are included correspondingly in the consolidated income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all companies included corresponds to the financial year of the parent company.

All receivables, liabilities, sales, other income and expenses within the scope of consolidation are eliminated. Accumulated results from intragroup supplies of inventories are eliminated from inventories or fixed assets.

Currency translation

The reporting currency of the ElringKlinger is the Euro.

Foreign currency transactions are translated in the individual financial statements of ElringKlinger AG and its consolidated companies at the rates pertaining at the time of the transactions. As at the balance sheet date, assets and debts in foreign currency are measured at the rate on the balance sheet date. Differences arising on translation are recorded in the income statement.

The financial statements of the foreign companies are translated to EURO since this is the functional currency of the parent company. Since subsidiaries and joint ventures operate their business independently in financial, economic and organizational respects, the functional currency is identical with the relevant national currency of the company. In the consolidated financial statements, the expenses and income from financial statements of entities included that have been prepared in foreign currencies, are, for reasons of simplification and with due regard to the principle of materiality, translated at the average rate for the year, itself determined from daily rates, since the foreign currencies existing in the group are not generally subject to any sharp fluctuations in comparison with the Euro. Assets and debts are translated at the rate on the closing date. Goodwill is treated as an asset or debt and therefore it, too, is translated at the closing rate. Currency differences are treated without effect on the income statement and are shown under equity. In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the sales profit or loss.

The rates used for currency translation are shown in the table below:

Currency	Abbr.	Rate on the closing date Dec. 31, 2007	Rate on the closing date Dec. 31, 2006	Average rate in 2007	Average rate in 2006
US Dollar (USA)	USD	1.4718	1.3184	1.37871	1.26287
Pound (United Kingdom)	GBP	0.7347	0.6716	0.68727	0.68184
Canadian Dollar (Canada)	CAD	1.4450	1.5287	1.46517	1.42531
Real (Brazil)	BRL	2.6208	2.8135	2.65601	2.73972
Peso (Mexico)	MXN	16.0381	14.3040	15.06080	13.77909
RMB (China)	CNY	10.7494	10.2921	10.44672	10.04633
WON (South Korea)	KRW	1,377.4600	1,225.4500	1,279.07417	1,199.86583
Rand (South Africa)	ZAR	10.0300	9.2300	9.66725	8.63148
Yen (Japan)	JPY	165.1000	156.7000	162.09167	146.73167
Forint (Hungary)	HUF	252.0000	251.9000	251.35000	264.30417
Indian Rupee	UNR	57.8600	58.3200	56.59667	57.17324

Goodwill

The goodwill is allocated to the cash generating units (these being equivalent to segments) as follows:

	2007	2006
	EUR '000	EUR '000
Original Equipment	22,279	22,035
Engineered Plastics	4,816	0
Total	**27,095**	**22,035**

Goodwill is capitalized and subjected to an impairment test, that must be performed annually. If the value is no longer recoverable, impairment is recorded. Otherwise the valuation of the prior year is retained. Impairment of goodwill is not reversed, even if the impairment has ceased to apply.

ElringKlinger conducts an impairment test of goodwill at least once annually. The recoverable amount of the cash generating unit is compared with its carrying value. The value in use that is applied is the recoverable amount.

The values in use of the cash generating unit are determined by discounting future cash flows. The computation is based on the following principal assumptions:

A detailed plan is made of the cash flows for the cash generating units over the forecast period of five years. Subsequent periods are accounted for by an perpetual annuity that is determined on the basis of the average cash flow during the period of the detailed forecast.

The discount factor applied as at December 31, 2007 was a uniform capital cost rate of 9.02% (2006: 8.10%).

Goodwill from company purchases prior to April 1, 2004, is mainly capitalized and otherwise offset against reserves. On divestment of a consolidated company, any goodwill relating to it is included in the computation of the de-consolidation result. The goodwill that was offset against reserves, however, is not considered in determining the profit or loss made on the divestment.

Intangible fixed assets

Purchased intangible fixed assets, mainly patents, licenses and software, are capitalized at acquisition cost. Internally generated intangible fixed assets, with the exception of goodwill, are capitalized if it is sufficiently probable that a future economic benefit will flow from the use of the asset and the costs of the asset can be determined reliably. The manufacturing costs of internally generated intangible fixed assets are determined on the basis of directly attributable individual costs as well as their proportion of overheads.

All intangible fixed assets in the group – with the exception of goodwill – have determinable useful lives and are amortized normally straight-line over these useful lives. Patents, licenses and software generally have useful lives of 10 years. Capitalized development costs and simple standard software have useful lives of 5 years. If the actual useful life is materially longer or shorter than 10 or 5 years, the actual useful life is recognized.

Property, plant and equipment

Material assets that are used in the business operation for a period longer than one year are measured as property, plant and equipment at acquisition or manufacturing costs less scheduled straight-line depreciation in accordance with use as well as any necessary impairment. The manufacturing costs of internally generated property, plant and equipment are determined on the basis of directly attributable individual costs as well as their proportion of overheads. Finance costs for the period of manufacture are not included. The allowed alternative of revaluation is not applied.

The following useful lives are applied for scheduled depreciation group-wide:

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

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

Investment property

Investment property is measured at acquisition or manufacturing costs less scheduled, use-related, straight-line depreciation, or else, if lower, the fair value. It is shown separately under fixed assets.

The useful lives of the investment property is 40 years in the case of buildings and 20 years in the case of outside plant.

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

As at each balance sheet date, property, plant & equipment and intangible fixed assets are submitted to an impairment test pursuant to IAS 36 if there is evidence of impairment. If the carrying value of an asset exceeds its recoverable value, an impairment is made to the recoverable amount. The recoverable amount is the higher of the net realizable value less probable costs to sell and the value in use. If the recoverable amount for an individual asset cannot be determined, an estimate is made of the recoverable amount at the level of next higher cash generating unit.

Revaluations are made up to, at most, the adjusted acquisition or manufacturing cost, if in the following periods the recoverable amount exceeds the carrying value.

Impairments and revaluations are taken to profit and loss.

Financial Instruments

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

Original financial instruments

The financial instruments held in the group are divided into the following categories:

- Financial assets measured at fair value under profit and loss
- Financial liabilities measured at fair value under profit and loss
- Loans and receivables
- Financial investments held to maturity
- Other financial liabilities that are measured by the effective interest rate method at adjusted acquisition costs.

The financial instruments are classified at the time of acquisition on the basis of their intended use:

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

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

Financial assets

All usual purchases and sales of financial assets are recorded in the balance sheet on the day of the trade, i.e. on the day that the group has entered the obligation to purchase or to sell an asset.

When first recorded, financial assets are measured at fair value. In the case of all financial investments that are not classified as "measured at fair value under profit and loss" transaction costs are included that are directly attributable to the purchase.

Financial assets that have not been allocated to the category "fair value taken to profit and loss" are reviewed for recoverability at each balance sheet date. If the fair value of a financial asset is lower than the carrying value, the carrying value is written down to its fair value. This reduction represents an impairment expense and is charged as expense. Any impairment previously recorded as expense is reversed and credited to the income statement if warranted by events occurring after the original recognition of the impairment.

The fair values recognized in the balance sheet generally correspond to the market prices of the financial instruments. If market prices are not available, the fair values are computed using recognized measurement models and with recourse to current market parameters. The measurement methods include using the most recent transactions between knowledgeable, consenting and independent business partners (i.e. "at arm's length"), comparison with a current fair value of another, substantially identical financial instrument, the analysis of discounted cash flows and the application of other measurement models.

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

Financial assets are classified as **assets measured at fair value to profit and loss** if they have been acquired for the purpose of sale in the near future ("financial instruments held for sale"). These are derivatives for which the preconditions for hedge accounting do not apply.

Financial assets are classified as **loans and receivables** when they result from money transfer, the rendering of services or the procurement of merchandise involving third parties. The current assets and debts classified in this category are measured at acquisition cost, whereas the non-current financial assets and debts are measured at adjusted acquisition cost using the effective interest method.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables involving the creditworthiness of the customer concerned. The impairments on trade receivables are recorded initially on an adjustments account. When the receivable is classified as unrecoverable, the impaired receivable is retired.

Financial instruments are recorded in the category **"financial investments held to maturity"** when the group has the intention and the legal ability to keep them until maturity.

The **assets classified as available for sale** are interests in unlisted entities. Measurement is at acquisition cost, since measurement to fair value by means of discounted expected cash flows is not possible due to the inability to determine reliably the cash flows. It has therefore been assumed for reasons of simplification that the fair value corresponds to the carrying value.

Cash and cash equivalents recognized in the balance sheet comprise cash in hand, bank deposits and short-term deposits with an original term of less than three months; they are measured at adjusted acquisition cost.

Financial liabilities

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

The financial liabilities are measured on initial recognition at their fair value less any transaction costs directly connected with the take-up of the credit.

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

Financial liabilities that are measured at adjusted acquisition costs comprise at ElringKlinger the trade payables and interest-bearing loans. They are measured using the effective interest method at adjusted acquisition costs. Gains and losses are recognized in the income statement when the debts are retired or have been redeemed.

Financial liabilities measured at fair value in profit and loss comprise the financial liabilities held for trading purposes and, in this case, derivatives and any embedded derivatives that have been separated from the underlying contract, since these are not included as instruments of collateral in hedge accounting. Gains and losses are recorded in the income statement.

Derivative financial instruments and treatment of hedges

Under IAS 39, all derivative financial instruments (for example, currency, price and interest swaps as well as forward exchange transactions) must be recognized at market values, independently of the purpose or the intention of the agreement under which they were concluded. Since in the ElringKlinger group, no hedge accounting is applied, the changes in the fair value of the derivative financial instruments are always recognized in the period results.

The derivative financial instruments used in the ElringKlinger Group are forward exchange, interest and price hedge transactions. The purpose of the derivative financial instruments is to reduce the negative effects of currency, interest and price risks on the net assets, financial position and results of operations of the group.

Inventories

The inventories are recognized at acquisition or manufacturing costs or, if lower, their net realizable value. Raw materials, supplies and consumables as well as merchandise are measured at adjusted average acquisition costs. The manufacturing costs of the semi-finished and finished products are determined on the basis of directly attributable individual costs and a portion of the production-related overheads. The overhead portions are determined on the basis of normal levels of employment. The manufacturing costs do not include distribution costs, costs of general administration or finance costs. The net realizable value represents the estimated sales price less all estimated costs until completion as well as the costs for marketing, sale and distribution. Markdowns are made for detectable impairment due to lack of marketability and quality defects as well as in order to account for falls in sales prices.

Cash

Cash includes cash in hand, cheques and bank deposits held on demand. No cash equivalents are held. Cash is recognized at face value.

Provisions for pensions

The provisions for pensions are computed using the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, consideration is given to expected future increases in pensions and salaries with the spirit of a cautious estimate of the relevant influences. The computation is based on actuarial reports that apply biometrical bases.

Actuarial gains and losses are offset, if the actuarial gains and losses unaccounted for exceed 10% of the higher of (i) the obligation from the defined benefit plan and (ii) the fair value of the plan assets. In such cases, if the 10% corridor is exceeded by up to a further 5%, this amount is accrued in full. In the case of overshooting by more than 15%, the excess is distributed over ten years. If the average remaining service life of the employees with pension entitlements should be lower than ten years, the distribution is over this shorter remaining service life.

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

Non-current and current provisions

Provisions are recorded when a past event gives rise to a present obligation to outside parties which is likely to be claimed and if the probable amount of the necessary provision can be estimated reliably.

The measurement of these provisions is at full cost or at the presently 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 probably necessary to meet the obligations. Refund claims are capitalized separately, if required.

Leases

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

If economic ownership under a lease rests with the lessor (i.e. operating leases), it is the lessor that records the leased item in its balance sheet. The lease expenditures incurred are then recorded as expense, straight-line, over the term of the lease.

Realization of income and expense

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

Sales are recognized when the performances due have been rendered and the principal opportunities and risks associated with ownership have passed to the purchaser and receipt of the payment may be expected reliably.

Interest income is accrued to the proper period according to the outstanding loan and the applicable interest rate. The applicable interest rate is specified in the loan agreement and discounts the estimated future inflows of funds over the term of the financial asset to the net carrying value.

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

Other income is recognized in the proper period in accordance with the provisions of the underlying contract.

Operating expenses are recorded in the income statement on the basis of a direct link between costs incurred and the corresponding income at the time the performance is called on or at the time of origination.

Research and non-capitalized development costs

Research costs are recorded as expense at the time they arise. Development costs are also recognized at the time they arise unless they meet the criteria for capitalization as internally generated intangible asset.

Costs of outside capital

Costs of outside capital are recorded as expense when incurred.

Income taxes and deferred taxes

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

The current tax expense is determined on the basis of the taxable income for the relevant year. The taxable income is different from the net income for the year shown in the income statement since it excludes expenses and income which will be tax deductible in later years or which will never become taxable or tax deductible. The liability of the group for current tax expense is computed on the basis of the valid tax rates or of tax rates which have been announced by the balance sheet date.

Deferred taxes are the expected tax charges and reliefs from the differences in the carrying values of assets and debts in the fiscal balance sheets of the individual companies compared with the valuations in the consolidated financial statements under IFRS. Here the balance-sheet oriented liability method is applied. Such assets and debts are not recognized if the temporary difference arises from (i) goodwill arising from a purchase of interests (a share deal) or (ii) from the first-time recognition of other assets and debts resulting from occurrences that do not affect the taxable income or the net income for the year. Deferred taxes are recorded on all taxable temporary differences when it is probable that taxable profits will be available against which it will be possible to offset the deductible temporary differences. Otherwise, deferred tax assets are set up on loss carryforwards to the extent that it may be expected that it will be possible to use them in future.

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

The measurement of the deferred taxes is at the future tax rates, i.e. those that will probably be valid at the time of realization.

The changes in deferred taxes are recognized in the income statement as tax income or expense unless they relate directly to items recognized under equity, i.e. without effect on income; in this case the deferred taxes are shown under equity without effect on income.

Contingent debt and contingent receivables

No contingent debts are recognized. They are shown in the notes, unless the possibility of an outflow of resources with economic benefit is very improbable. Contingent receivables are not recognized in the financial statements. They are shown in the notes if the inflow of economic benefits is probable.

Use of estimates

For the preparation of financial statements in accordance with the pronouncements of the IASB estimates are necessary that influence the valuations in the balance sheet, the nature and the scope of contingent debts and contingent receivables as at the balance sheet date and the level of income and expenses in the reporting period. The assumptions and estimates relate at ElringKlinger mainly to the specification of useful lives, the recoverability of receivables, the recoverability of inventories, the recognition and measurement or provisions and the realization of future tax relief. Actual results may deviate from these estimates. When changes occur in the light of improved knowledge, these are recorded in profit and loss.

Warranty obligations may arise by force of law, by contract or for policy reasons. Provisions are set up for the expected claims 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 about to occur. The warranty risk is derived depending on the circumstances from individual estimates or from past experience and appropriate provisions are set up.

Provisions are formed for risks arising from litigation if an entity of the Elring-Klinger group is the defendant and the weight of evidence speaks for rather than against a negative outcome of the lawsuit. The provision is in the amount that the entity will probably lose in the case of a negative outcome. This amount comprises 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 costs of the lawsuit only.

The use of estimates in other items of the consolidated balance sheet and the consolidated income statement are described in the accounting principles for the items in question. This affects in particular the following matters: impairments of goodwill, impairments of property, plant & equipment and of intangible fixed assets; impairments of receivables; and the valuation of provisions for pensions.

Individual Disclosures on the Income Statement

(1) Sales

Sales increased by EUR ‘000 79,420 in comparison with 2006 to stand at EUR ‘000 607,841.

The sales of the group are made up as follows:

	2007	2006
	EUR ‘000	EUR ‘000
Sale of goods	595,172	516,723
Proceeds from the rendering of services	4,360	3,573
Income from rental and leasehold	8,309	8,125
Total	**607,841**	**528,421**

Breakdown by geographical market:

	2007	2006
	EUR ‘000	EUR ‘000
Domestic	213,946	198,309
Foreign	400,160	335,416
	614,106	**533,725**
Discounts, bonuses	-6,265	-5,304
Total	**607,841**	**528,421**

(2) Cost of sales

The cost of sales increased in all by EUR ‘000 61,445 in comparison with 2006 to EUR ‘000 400,145. The cost of sales shows the costs incurred to obtain the sales.

The cost of sales include:

	2007	2006
	EUR ‘000	EUR ‘000
Cost of materials	222,925	174,736
Personnel expenses	98,073	92,063
Amortization & depreciation	38,252	36,841
Other expenses	40,895	35,060
Total	**400,145**	**338,700**

(3) Selling expenses

The selling expenses increased by EUR ‘000 2,214 in comparison with the prior year to stand at EUR ‘000 41,139. The selling expenses comprise mainly personnel expenses, material and marketing costs as well as amortization/depreciation relating to the distribution function.

(4) General and administrative expenses

The general and administrative expenses include personnel expenses and material costs as well as the amortization/depreciation relating to the administrative area.

(5) Research and development expenses

The research and development expenses comprise the personnel expenses attributable to these activities, depreciation & amortization, as well as the costs of experimental material and tools, except in the case of development costs, which, pursuant to IAS 38, must be capitalized.

(6) Other operating income

	2007	2006
	EUR '000	EUR '000
Insurance claims	14,400	74
Release of provisions/accrued liabilities	2,325	664
Reimbursements from third parties	1,320	1,095
Income from disposals of fixed assets	1,064	1,354
Public subsidies	990	368
Sundry	1,575	1,260
Total	21,674	4,815

The insurance claims are connected in the amount of EUR '000 14,339 with the fire at the Runkel facility of ElringKlinger AG.

The other operating income includes out-of-period income of EUR '000 3,450 (2006: EUR '000 2,052). This is comprised mainly of income from the release of provisions and accrued liabilities (EUR '000 2,325; 2006: EUR '000 664) and gains on disposals of fixed assets (EUR '000 1,064; 2006: EUR '000 1,354).

The income from the release of provisions includes a positive one-off effect of EUR '000 1,711 from the release of the ERA adjustment fund at the Dettingen facility of ElringKlinger AG on account of the supplementary collective agreement concluded on December 17, 2007 between the employers' association, Verband der Metall- und Elektroindustrie Baden-Württemberg e.V. (Südwestmetall) and the trade union, Industriegewerkschaft Metall, Bezirksleitung Baden-Württemberg.

(7) Other operating expenses

	2007	2006
	EUR '000	EUR '000
Other expenses fire at Runkel	6,107	0
Impairments of property, plant & equipment	3,480	0
Adjustments on receivables	747	993
Losses on disposal of fixed assets	648	768
Warranties	195	3,030
Other taxes	184	182
Impairments on intangible fixed assets	19	1,969
Sundry	1,913	3,944
Total	13,293	10,886

The other expenses in connection with the fire at Runkel comprise mainly impairments of inventories, costs of the interruption in operations and expenses for the repair of damaged machinery.

The impairments on property, plant and equipment result in the amount of EUR '000 3,233 from the fire at the Runkel facility of ElringKlinger AG.

The other operating expenses include out-of-period expenses of EUR '000 659 (2006: EUR '000 770). These comprise mainly losses on the disposal of fixed assets (EUR '000 648).

(8) Financial result

	2007	2006
	EUR '000	TEUR
Financial income		
Interest income	536	358
Earnings from affiliated entities	8	8
Income from currency differences	2,921	2,578
Sundry	6	8
Financial income, total	**3,471**	**2,952**
Financial expenses		
Interest expenses	-6,674	-6,082
– thereof from derivative financial instruments	(-4)	(-34)
Expenses from currency differences	-4,869	-5,211
Sundry	-2	-104
Financial expenses, total	**-11,545**	**-11,397**
Financial result	-8,074	-8,445

The interest income includes interest for making funds available. Of interest expenses, EUR '000 2,489 (2006: EUR '000 2,340) related to interest portions of the pension plans and the remainder to bank interest.

(9) Expenses for taxes on income

The income tax expense is composed as follows:

	2007	2006
	EUR '000	EUR '000
Current tax expense	38,072	25,560
Deferred taxes	-3,485	158
Tax expense shown	34,587	25,718

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

The income tax rate computed for the companies in Germany is 37.0% (2006: 37.0%). The foreign taxation is computed at the tax rates that apply in the countries concerned and lies between 18.0% und 40.0% (2006: between 15.0% and 40.0%). The average foreign tax rate is 30.4% (2006: 29.2%).

The deferred taxes are computed 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. Therefore, in measuring the deferred taxes in Germany, account was taken of the effect of the reform of corporation tax as a result of which, as from 2008, there will be a fall in the average tax rate in Germany to about 27.5%.

The following table shows a reconciliation of the income tax expense that might theoretically be expected to arise from application of the current domestic income rate if it were unchanged at 37.0% with the income tax expense that is in fact shown.

	2007	2006
	EUR '000	EUR '000
Earnings before taxes	114,880	87,619
Expected tax rate	**37.0%**	**37.0%**
Expected tax expense	**42,506**	**32,419**
Change in the expected tax expense on account of:		
– changes in tax rates	-5,532	-1,490
– non-deductible expenses	319	338
– use of non-capitalized tax loss carryforwards	-331	-166
– out-of-period taxes	104	124
– deviations due to foreign tax-rates	-1,680	-1,334
– capitalized corporation tax assets	0	-5,336
– tax effect from corporation tax reduction	0	-524
– other effects	-799	1,687
Actual tax expense	34,587	25,718
Effective tax rate	**30.1%**	**29.4%**

The use of non-capitalized tax loss carryforwards (EUR '000 331, 2006: EUR '000 166) is related to the result of ElringKlinger Sealing Systems (USA), Inc., Livonia, USA.

The tax deferrals relate to the following line items:

Balance sheet items	Deferred tax assets Dec. 31, 2007	Deferred tax assets Dec. 31, 2006	Deferred tax liabilities Dec. 31, 2007	Deferred tax liabilities Dec. 31, 2006
	EUR '000	EUR '000	EUR '000	EUR '000
Intangible fixed assets	172	196	2,068	1,894
Property, plant and equipment	148	310	21,545	27,897
Investment property	0	0	316	153
Inventories	1,261	998	610	636
Trade receivables	190	489	407	445
Other current assets	33	0	5	1
Provisions for pensions	3,824	5,093	0	0
Non-current provisions	605	1,175	0	0
Non-current financial liabilities	0	0	0	2
Other non-current liabilities	61	0	0	0
Current provisions	353	758	0	0
Trade payables	0	0	1	8
Current financial liabilities	0	0	72	116
Other current liabilities	805	270	1,481	0
Loss carryforwards	0	24	0	0
Shown in the balance sheet	**7,452**	**9,313**	**26,505**	**31,152**

In the year under review there was an increase, without effect on the income statement, in deferred tax liabilities of EUR '000 625 on account of the purchase of a further 7.5% of the shares in EKT. Otherwise, all changes in deferred taxes have been recorded with effect on income.

Adjustments on deferred taxes are not necessary.

(10) Diluted and undiluted earnings per share

To obtain the undiluted (basic) earnings per share, the period profit attributable to the shareholders of the parent company is divided by the number of individual shares.

The diluted earnings per share corresponds to the undiluted earnings per share and is calculated as follows:

	2007	2006
Profit attributable to shareholders of ElringKlinger AG in EUR '000	75,904	57,758
Dividend-bearing shares	19,200,000	19,200,000
Earnings per share in EUR	**3.95**	**3.01**

Individual Disclosures on the Balance Sheet

(11) Intangible fixed assets

	Development costs (internally generated)	Goodwill (purchased)	Patents, licences, software (purchased)	Tangible fixed assets under construction (purchased)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition/manufacturing costs Balance as at Jan. 1, 2007	**5,279**	**35,199**	**20,231**	**400**	**61,109**
Currency changes	0	262	-59	0	203
Additions	3,044	4,816	944	2,051	10,855
Disposals	606	0	10	0	616
Balance as at Dec. 31, 2007	**7,717**	**40,277**	**21,106**	**2,451**	**71,551**
Amortization & depreciation Balance as at Jan. 1, 2007	**2,614**	**13,164**	**17,144**	**0**	**32,922**
Currency changes	0	18	-51	0	-33
Additions	1,543	0	679	0	2,222
Impairment	0	0	19	0	19
Disposals	606	0	10	0	616
Balance as at Dec. 31, 2007	**3,551**	**13,182**	**17,781**	**0**	**34,514**
Net carrying value as at Dec. 31, 2007	4,166	27,095	3,325	2,451	37,037
Acquisition/manufacturing costs Balance as at Jan. 1, 2006	**4,612**	**35,705**	**20,723**	**0**	**61,040**
Currency changes	0	-506	-77	0	-583
Additions	1,864	0	633	400	2,897
Reclassifications	0	0	129	0	129
Disposals	1,197	0	1,177	0	2,374
Balance as at Dec. 31, 2006	**5,279**	**35,199**	**20,231**	**400**	**61,109**
Amortization & depreciation Balance as at Jan. 1, 2006	**2,755**	**13,200**	**14,172**	**0**	**30,127**
Currency changes	0	-36	-75	0	-111
Additions	1,056	0	1,753	0	2,809
Impairment	0	0	1,969	0	1,969
Reclassifications	0	0	3	0	3
Disposals	1,197	0	678	0	1,875
Balance as at Dec. 31, 2006	**2,614**	**13,164**	**17,144**	**0**	**32,922**
Carrying value as at Dec. 31, 2006	2,665	22,035	3,087	400	28,187

The scheduled amortization on intangible assets is contained in full under the following line items in the income statement:

	2007	2006
Cost of sales	76	62
Selling expenses	86	93
General and administrative expenses	371	408
Research and development expenses	1,689	2,246
Total	2,222	2,809

The additions in 2007 include goodwill of EUR ‘000 4,816 and intangible assets under construction of EUR ‘000 1,881 from the acquisition of minority shares in a consolidated entity.

The impairment in the year under review of EUR ‘000 19 is connected with the fire at the Runkel factory of ElringKlinger AG and is contained under other operating expenses. For further information on this, see (12).

In a license agreement dated March 21 and 25, 2003, ElringKlinger purchased the exclusive worldwide license for a cylinder head sealing design developed and patented by the licensors, that is allocated to the Original Equipment segment. In 2006 it was recognized that the technical know-how purchased together with the license would be insufficient to generate future revenues. The use was therefore discontinued. For this reason, impairment of EUR ‘000 1,969 was recorded in the financial year 2006, in addition to the normal amortization, to a reminder value of EUR 1.00. The impairment was recorded in the financial year 2006 under other operating expenses.

As at the balance sheet date, there were contractual payments obligations to acquire a licensed PTFE machining process of EUR ‘000 1,600, 55% of which will be offset against future sales-related license fees.

(12) Property, plant and equipment

	Land and buildings	Technical plant and machinery	Other plant, office equipment	PPE under construction	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition/manufacturing costs Balance at Jan. 1, 2007	**92,639**	**281,469**	**108,111**	12,047	**494,266**
Currency changes	-336	-1,503	-312	-90	-2,241
Additions	6,858	42,876	3,848	37,616	91,198
Reclassifications	74	10,630	180	-10,884	0
Disposals	1,992	10,053	2,759	16	14,820
Balance at Dec. 31, 2007	**97,243**	**323,419**	**109,068**	**38,673**	**568,403**
Amortization & depreciation Balance at Jan. 1, 2007	**32,995**	**152,452**	**96,910**	**0**	**282,357**
Currency changes	-102	-527	-191	0	-820
Additions	2,322	36,218	2,554	0	41,094
Impairment	762	2,632	70	16	3,480
Reclassifications	-5	11	-6	0	0
Disposals	1,920	9,709	2,402	16	14,047
Balance at Dec. 31, 2007	**34,052**	**181,077**	**96,935**	**0**	**312,064**
Carrying value as at Dec. 31, 2007	63,191	142,342	12,133	38,673	256,339
Acquisition/manufacturing costs Balance at Jan. 1, 2006	**92,347**	**250,101**	**110,702**	**11,292**	**464,442**
Currency changes	-976	-4,055	-261	-276	-5,568
Additions	1,507	30,178	2,899	11,596	46,180
Reclassifications	51	10,346	39	-10,565	-129
Disposals	290	5,101	5,268	0	10,659
Balance at Dec. 31, 2006	**92,639**	**281,469**	**108,111**	**12,047**	**494,266**
Amortization & depreciation Balance at Jan. 1, 2006	**30,555**	**127,387**	**96,048**	**0**	**253,990**
Currency changes	-116	-1,880	-119	0	-2,115
Additions	2,691	30,793	6,145	0	39,629
Impairment	0	0	0	0	0
Reclassifications	-3	0	0	0	-3
Disposals	132	3,848	5,164	0	9,144
Balance at Dec. 31, 2006	**32,995**	**152,452**	**96,910**	**0**	**282,357**
Carrying value as at Dec. 31, 2007	59,644	129,017	11,201	12,047	211,909

The additions under the item Land and buildings include in 2007 EUR '000 418 from the acquisition of minority interests in a consolidated entity.

In April 2007 a production hall and the machinery and other operating equipment therein at the Runkel factory of ElringKlinger AG was entirely destroyed by a fire. There was extensive insurance cover for the material damage and the operational disruption caused by the fire. ElringKlinger expects insurance compensation for the property, plant and equipment that was destroyed to total EUR '000 9,200, a major part of which was paid in the financial year 2007. The fire gave rise to impairment expense of EUR '000 3,233, corresponding to the carrying values at the time of the fire of the fixed assets that were destroyed. Of this amount, EUR '000 19 related to intangible fixed assets.

Further impairment expense has been recorded on technical equipment and machinery in an amount of EUR '000 246. These were machines that, following the discontinuation of cylinder head seal production in the United Kingdom, were no longer in use for the generation of revenues and for which no sales proceeds can be obtained.

The impairment expenses on property, plant and equipment is contained in the item "Other operating expenses" in the income statement.

(13) Investment property	Investment property	Investment property under construction	Total
	EUR '000	EUR '000	EUR '000
Acquisition/manufaturing costs Balance at Jan. 1, 2007	**53,302**	**76**	**53,378**
Currency changes	-6	0	-6
Additions	70	0	70
Disposals	47	0	47
Balance at Dec. 31, 2007	**53,319**	**76**	**53,395**
Amortization & depreciation Balance at Jan. 1, 2007	**21,737**	**0**	**21,737**
Currency changes	-1	0	-1
Additions	1,217	0	1,217
Balance at Dec. 31, 20077	**22,953**	**0**	**22,953**
Carrying value as at Dec. 31, 2007	30,366	76	30,442
Acquisition/manufaturing costs Balance at Jan. 1, 2006	**50,648**	**2,239**	**52,887**
Currency changes	55	10	65
Additions	482	0	482
Reclassifications	2,173	-2,173	0
Disposals	56	0	56
Balance at Dec. 31, 2006	**53,302**	**76**	**53,378**
Amortization & depreciation Balance at Jan. 1, 2006	**20,497**	**0**	**20,497**
Currency changes	9	0	9
Additions	1,231	0	1,231
Balance at Dec. 31, 2006	**21,737**	**0**	**21,737**
Carrying value as at Dec. 31, 2006	31,565	76	31,641

The investment property includes industrial parks in Ludwigsburg, Idstein and Kecskemét-Kádafalva (Hungary). The fair value determined using the discounted cash flow method is EUR '000 79,235 (2006: EUR '000 74,362). This was determined by discounting the surplus of expected future rental payments over the expected cash expenses to the valuation date. The capitalization factor applied was a risk-adjusted interest rate of 5.5%. The measurement of the fair values was not made by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR '000 8,309 (2006: EUR '000 8,125). The expense directly connected with this financial investment was EUR '000 3,988 (2006: EUR '000 3,908).

(14) Financial assets

	Participations	Non-current securites	Other financial investments	Total
	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition cost Balance at Jan. 1, 2007	**3,086**	**1,419**	**36**	**4,541**
Currency changes	0	-6	0	-6
Additions	0	220	25	245
Disposals	0	215	12	227
Balance at Dec. 31, 2007	**3,086**	**1,418**	**49**	**4,553**
Amortization & depreciation Balance at Jan. 1, 2007	**0**	**13**	**0**	**13**
Additions	0	2	0	2
Revaluations	0	4	0	4
Disposals	0	1	0	1
Balance at Dec. 31, 2007	**0**	**10**	**0**	**10**
Carrying value as at 31.12.07	3,086	1,408	49	4,543
Fair value Dec. 31, 2007		1,425	49	
Acquisition cost Balance at Jan. 1, 2006	**3,086**	**1,415**	**54**	**4,555**
Currency changes	0	-1	0	-1
Additions	0	416	1	417
Disposals	0	411	19	430
Balance at Dec. 31, 2006	**3,086**	**1,419**	**36**	**4,541**
Amortization & depreciation Balance at Jan. 1, 2006	**0**	**12**	**0**	**12**
Additions	0	12	0	12
Disposals	0	11	0	11
Balance at Dec. 31, 2006	**0**	**13**	**0**	**13**
Carrying value as at Dec. 31, 2006	3,086	1,406	36	4,528
Fair value Dec. 31, 2006		1,422	36	

The securities shown will all be held to maturity. The fair value disclosed is derived from publicly listed market prices on an active market.

Of the securities of non-current assets, EUR ‘000 1,354 is pledged in full to secure pension claims.

(15) Other non-current assets

The other non-current assets contain mainly the corporation tax credit of ElringKlinger AG in the amount of EUR ‘000 4,836 (EUR ‘000 5,336), which has been capitalized at its net present value. The corporation tax credit will be disbursed to ElringKlinger AG in ten equal annual installments from 2008 until 2017.

(16) Inventories

	Dec. 31, 2007	Dec. 31, 2006
	EUR ‘000	EUR ‘000
Raw materials, consumables and supplies	42,379	32,083
Work in progress	11,302	10,107
Finished goods and merchandise	56,075	47,300
Prepayments	3,615	466
Total	113,371	89,956

Under inventories, markdowns of EUR ‘000 11,062 (2006: EUR ‘000 9,596) have been made to account for marketability risks. Moreover, inventories of EUR ‘000 995 were retired in the financial year 2007 as a result of the fire at ElringKlinger AG’s Runkel factory with presentation under other operating expenses.

(17) Trade receivables and other current assets

For trade receivables and other current assets, impairments of EUR ‘000 2,919 (2006: EUR ‘000 3,049) were set up for specific detectable risks and probable use of discounts.

The carrying value of the trade receivables and other assets corresponds to their fair value.

Trade receivables do not carry interest and are generally due in 30 to 120 days.

The adjustment account for trade receivables has developed as follows:

	2007	2006
	EUR ‘000	EUR ‘000
Balance as at Jan. 1	3,049	2,528
Addition	1,744	1,787
Release/utilization	-1,855	-1,205
Exchange rate effects	-19	-61
Balance as at Dec. 12	2,919	3,049

All expenses and income from impairment of trade receivables are presented under other operating expenses or income.

A breakdown of the due dates of the trade receivables is given below:

	Dec. 31, 2007	Dec. 31, 2006
Neither overdue nor impaired:	**75,982**	**64,120**
Overdue, not impaired:		
– less than 30	10,205	10,783
– from 30 to 60	2,175	1,809
– from 60 to 90	1,112	646
– from 90 to 180	326	0
– more than 180	520	11
Total	14,338	13,249
Impaired	**3,265**	**3,624**
Carrying value	**93,585**	**80,993**

With regard neither to the overdue nor to the impaired receivables was anything identified to indicate that the debtors will not meet their payments obligations.

Other current assets contain mainly tax receivables (EUR ‘000 10,177; 2006: 6,590) and claims for insurance reimbursements for the fire in the Runkel factory of ElringKlinger AG (EUR ‘000 3,728; 2006: EUR ‘000 0).

(18) Cash

The item cash comprises cash and deposits held by the group on current accounts. As in the prior year, there were no cash equivalents.

The carrying value of these assets corresponds to their fair value.

(19) Shareholders’ equity

The changes in the individual items of equity in the group are shown separately in the “Statement of changes in equity”.

The share capital shown is the nominal capital of the parent company ElringKlinger AG. The nominal capital of ElringKlinger AG amounts to 57.6 million Euro; as before, it is divided into 19,200,000 individual shares and fully paid up. The shares are registered.

Under the German stock corporation act, the distributable dividend is measured by the retained earnings, which are shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German commercial code (HGB). In the financial year 2007, ElringKlinger AG distributed to its shareholders a dividend of EUR ‘000 24,000 (EUR 1.25 per share) from the retained earnings for 2006. In the financial year 2006 the distribution was EUR ‘000 19,200 (EUR 1.00 per share) from the retained earnings for 2005.

The management board and the supervisory board of the parent company ElringKlinger AG will propose to the shareholders’ meeting to be held on May 30, 2008, distribution of a dividend of EUR 1.40 per share with dividend entitlement, representing a total distribution of EUR ‘000 26,880.

At the shareholders’ meeting held on June 8, 2005, the approved capital was set at EUR ‘000 28,800. With the consent of the supervisory board, the management board can call this capital in until June 15, 2010.

(20) Minority interests in equity and period result

ElringKlinger AG holds less than 100% in some of the companies that have been included in the consolidated financial statements. In accordance with IAS 27, the relevant minority shareholdings are shown in the consolidated balance sheet, under equity, separate from the equity relating to the shareholders of the parent company. Similarly, in the consolidated income statement, minority interests in the period result are shown separately.

The minority shares in equity shown in the consolidated financial statements relate to non-group shareholders in subsidiaries. In an amount of EUR '000 7,610 (2006: EUR '000 8,318) they relate to interests in the capital; in an amount of EUR '000 2,078 (2006: EUR '000 2,413) to interests in the revenue reserves from the initial application of IFRS; and in the amount of EUR '000 5,796 (2006: EUR '000 5,226) to profit shares.

The sale by ElringKlinger of 7.5% of the interests in EKT resulted in 2007 in a reduction of the minority interests in equity of EUR '000 1,663.

(21) Provisions for pensions

The pension obligations at the foreign companies mainly take the form of defined contribution plans while in the case of domestic companies it is on the basis of defined benefit and defined contribution plans.

Under the defined contribution plans the entity pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. On payment of the contributions, the entity does not have any further obligations. The current contribution payments are shown as pension expense of the relevant year: they came to a group total of EUR '000 464 (2006: EUR '000 488).

The defined benefit plans are accounted for in the group by setting up provisions for pensions that are determined by the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, consideration is given to expected future increases in pensions and salaries with cautious estimate of the relevant influences. In the case of the domestic companies, the computation is based on actuarial reports using biometric calculations (guideline tables 2005 G of Prof. Dr. Klaus Heubeck).

Under the defined benefit plans, on reaching the retirement age of 63 years, employees have a claim to benefits that depend of their length of time with the company. Employees that come under the collective agreement receive a pension claim of 0.16% of the remuneration per year of employment, with the maximum being 30 years of employment and 4.87% of remuneration. The company pension for senior employees is a maximum of 32% of the final monthly salary.

The most important assumptions are:

Measurement at	Dec. 31, 2007	Dec. 31, 2006
Discount rate (weighted)	5.52%	4.57%
Expected percentage of salary increases	2.00%	2.00%
Future pension increases	2.00%	1.50%

The following amounts are recorded in the income statement for defined benefit plans:

	2007	2006
	EUR '000	EUR '000
Current service costs	1,174	1,306
Interest expense	2,489	2,340
Accrued actuarial gains (-)/losses	-8	9
Total expense	**3,655**	**3,655**

The current service costs and the recording of actuarial gains/losses are generally recorded under the personnel costs of the functional areas; the annual interest expense is shown under net interest.

The changes in the present value of the defined benefit obligations of the current financial year are as follows:

	2007	2006
	EUR '000	EUR '000
Present value of the pension claims as at Jan. 1	55,892	**58,515**
Current service costs	1,174	1,306
Interest expense	2,489	2,340
Disbursements/Utilization	-2,699	-2,637
Actuarial gains/losses	-4,767	-3,655
Other changes	18	23
Present value of the pension claims as at Dec. 31	**52,107**	**55,892**

The amount shown in the balance sheet for the group's obligation is derived as follows:

	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
	EUR '000	EUR '000	EUR '000	EUR '000
Present value of obligations covered by funds and not covered by funds	**52,107**	**55,892**	**58,515**	**54,568**
Fair market value of plan assets	-175	-180	-160	-225
Present value of net obligations	51,932	55,712	58,355	54,343
Actuarial losses not booked	-2,498	-2,261	-5,926	-5,460
Net debt recorded in the balance sheet	**54,430**	**53,451**	**52,429**	**48,883**
Experience adjustments arising on the plan liabilities	**-4,767**	**-3,655**	**3,002**	**8,029**

Of the fair value of the plan assets, EUR '000 131 (2006: EUR '000 128) relates to asset values from reinsurance policies and EUR '000 44 (2006: EUR '000 52) to investments in state pension funds.

The actual income from the plan assets came to EUR '000 4 (2006: EUR '000 20).

(22) Current and non-current provisions

The current and non-current provisions are comprised as follows:

	Dec. 31, 2007	Dec. 31, 2006
	EUR '000	EUR '000
Current provisions	8,105	9,009
Non-current provisions	6,508	8,784
Total	14,613	17,793

The provisions break down as follows:

	Personnel obligations	Warranty obligations	Losses in orders on hand	Litigation costs	Other risks	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance as at Jan. 1, 2007	**10,034**	**4,437**	**1,822**	**420**	**1,080**	**17,793**
Exchange rate difference	-13	-2	0	0	-30	-45
Utilization	2,128	10	1,822	84	445	4,489
Release	1,872	15	0	75	39	2,001
Addition	1,702	225	1,324	17	87	3,355
Balance as at Dec. 31, 2007	**7,723**	**4,635**	**1,324**	**278**	**653**	**14,613**

Provisions in the personnel area are set up for the pre-retirement part-time scheme, long-service anniversary benefits and similar obligations.

The provision for warranties represents the best estimate of management and was set up on the basis of past experience and the industrial average for defective products with regard to the group liability for a warranty of twelve months.

The other risks refer to numerous detectable individual risks and uncertain obligations, which have been taken into consideration in line with the probability of their incidence.

Effects from discounting and changes to the discount rates had only an immaterial impact in the reporting year on the level of the provision.

(23) Current and non-current financial liabilities

	Domestic	Foreign	Total Dec. 31, 2007	Domestic	Foreign	Total Dec. 31, 2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Overdrafts	32,912	3,385	36,297	8,044	2,861	10,905
Financial liabilities						
– up to one year	4,948	0	4,948	5,346	0	5,346
– more than one year	56,768	109	56,877	50,380	0	50,380
	61,716	109	61,825	55,726	0	55,726
Total	94,628	3,494	98,122	63,770	2,861	66,631

The financial liabilities have the following terms:

	Domestic	Foreign	Total Dec. 31, 2007	Domestic	Foreign	Total Dec. 31, 2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Payable on demand or less than one year	4,948	0	4,948	5,346	0	5,346
More than one and less than five years	15,081	109	15,190	9,983	0	9,983
More than five years	41,687	0	41,687	40,397	0	40,397
Total	61,716	109	61,825	55,726	0	55,726

Breakdown of financial liabilities by category, residual term and currency:

Currency	Category	Residual term	Weighted interest rate	Amount in local currency	Amount in Euro
			%	'000	EUR '000
at Dec. 31, 2007					
EUR	Overdraft	< 1 year	4.89	34,112	34,112
GBP	Overdraft	< 1 year	6.00	847	1,152
BRL	Overdraft	< 1 year	1.15	2,569	980
KRW	Overdraft	< 1 year	5.25	50,000	36
USD	Overdraft	< 1 year	7.75	25	17
	Total				36,297
EUR	Financial liabilities	< 1 year	4.02	4,948	4,948
EUR	Financial liabilities	1–5 years	4.20	15,081	15,081
KRW	Financial liabilities	1–5 years	5.25	150,000	109
EUR	Financial liabilities	> 5 years	4.55	41,687	41,687
	Total				61,825
Total					98,122
at Dec. 31, 2006					
EUR	Overdraft	< 1 year	4.08	9,244	9,244
GBP	Overdraft	< 1 year	5.00	791	1,178
BRL	Overdraft	< 1 year	1.18	1,200	426
USD	Overdraft	< 1 year	8.00	75	57
	Total				10,905
EUR	Financial liabilities	< 1 year	3.99	5,346	5,346
EUR	Financial liabilities	1–5 years	4.57	9,983	9,983
EUR	Financial liabilities	> 5 years	4.57	40,397	40,397
	Total				55,726
Total					66,631

The average interest rates were:

	Dec. 31, 2007	Dec. 31, 2006
	%	%
Overdrafts:		
Domestic	4.94	4.24
Foreign	3.76	3.67
Financial liabilities:		
Domestic up to one year	4.02	3.99
Domestic more than one and less than five years	4.20	4.57
Domestic more than five years	4.55	4.57
Foreign: more than one and less than five years	5.25	–

Fixed interest rates have been agreed for financial liabilities of EUR '000 61,716 (2006: EUR '000 55,726). The fixed interest applies for EUR '000 44,266 until October 31, 2009, and for the remaining loans until September 30, 2015.

As collateral, land charges on works grounds have been issued in the amount of EUR '000 12,361 (2006: EUR '000 11,476).

As at December 31, 2007, the group had unused credit lines of EUR '000 92,635 (2006: EUR '000 78,355).

(24) Trade payables and other current and non-current liabilities

Trade payables and other current and non-current liabilities comprise outstanding obligations from trade and running costs.

The carrying value of the trade payables corresponds approximately to their fair value.

The trade payables and other current and non-current liabilities are not secured except for the reservations of title that are usual in trading relationships.

Current and non-current liabilities include accrued liabilities of tooling revenue and accrued expenses.

(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 and interest rates and in prices of raw materials have effects on the net assets, financial position and results of operations of the company. 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. In concluding hedges the management board of ElringKlinger has the objective of controlling the risk factors that may affect the net assets, financial position and results of operations adversely and hence of minimising these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the management board. Hedging transactions are concluded only in order to secure existing underlying or planned transactions. Hedge accounting in the meaning of IAS 39 (revised 2000) is 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.

The exchange rate risk arises for the group in its operating business principally when sales are made in a different currency to the related costs. Sales are generated generally in the functional currency (which is usually the relevant national currency) of the group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activates are generally accounted for in the functional currency of the group entity. The group also endeavours to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

In order to limit the currency risk, ongoing receivables, liabilities and debts in foreign currency are hedged with forward currency transactions. Hedging against fluctuations in the value of future cash flows affects mainly the budgeted revenues and finance in foreign currency. As at the balance sheet date, there were currency hedges for the Canadian dollar and the Mexican peso.

The units are not permitted to take up finance in foreign currency or to invest it for speculative reasons. Intragroup finance and investment is usually denominated in the relevant functional currency.

A number of subsidiaries of ElringKlinger AG are domiciled outside the euro area. Since the reporting currency of the ElringKlinger Group is the Euro, income and expenses of these participations are translated into euro on consolidation. Changes in the average exchange rates in comparison with the prior period can therefore have transaction effects that are reflected in the net profit of the group.

Due to these subsidiaries the group also presents assets and liabilities outside of the euro area that are denominated in national currencies. When these assets are translated into euro, currency exchange fluctuations can lead to changes in the values stated. The changes in these net assets are reflected in group equity.

In order to quantify the possibly effects of exchange rate changes on the consolidated results, consolidated revenues and group equity, a sensitivity analysis has been conducted. This represents the negative change in the consolidated results, consolidated revenues and group equity in the event that the Euro is revalued by 10% in comparison with the other group currencies.

	2007	2006
	EUR '000	EUR '000
Group sales	14,620	12,157
Consolidated result	1,358	1,108
Group equity	7,495	6,270

Interest risk

The interest risk arises mainly from financial liability. The group controls the interest risk with the aim of optimizing interest income and expense.

Fixed interest rates have been agreed generally for financial liabilities of the ElringKlinger group. Hence the risk due to fluctuations in interest rates is only slight.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials used in production. In order to lessen fluctuations in the purchase prices for raw materials, ElringKlinger has concluded one hedge for purchases of nickel.

Credit risk

Liquid funds

Liquid funds comprise essentially bank deposits available on demand. In connection with the investment of liquid funds, the ElringKlinger Group would be exposed to losses from credit risks if financial institutions failed to meet their obligations. In order to minimise this risk, care is taken in selecting the financial institutions used for investment. The maximum risk exposure corresponds to the carrying value of the liquid funds as at the balance sheet date.

Trade receivables

Trade receivables relate mainly to the global sales of gaskets, sealing materials, plastic products and modules for the vehicle and for general industries. The credit risk resides in the possibility of default by a contractual partner.

In domestic business, most receivables are secured by reservation of title. In order to limit the credit risk, creditworthiness reviews are performed in the form of enquiries with credit information services for selected counterparties. Moreover, internal processes are in place to monitor continually receivables where a partial or complete default may be anticipated.

In its export business, ElringKlinger forms judgements on the credit standing of its counterparties by submitting enquiries to credit information services and on the basis of the specific country risk. Moreover, in certain cases credit guarantee insurance policies are concluded or letters of credit required as collateral for credit.

Moreover, adjustments are made to account for the default risk in the case of detectable individual risks as well as the probable utilization of discounts. The maximum risk exposure from trade receivables corresponds to the carrying value of these receivables as at the balance sheet date. The carrying values of trade receivables, together with a separate presentation of overdue and adjusted receivables, are given in note 17.

Derivative financial instruments

Derivative financial instruments comprise derivatives that are not included in hedge accounting. In the ElringKlinger Group, derivatives are used only for purposes of risk management. The group controls the credit risk of derivatives by entering derivative financial transactions exclusively with major banks with unimpeachable credit standing and applying uniform guidelines.

Liquidity risk

The liquidity risk describes the danger of ElringKlinger being unable to meet its payments obligations sufficiently.

ElringKlinger generates liquid funds mainly through its operating business and, to a slight extent, from external finance. These funds are applied mainly to finance the working capital and investments.

ElringKlinger ensures its ongoing liquidity by maintaining sufficient liquid funds, apart from the inflow of funds from operating activity, and by maintaining credit facilities with banks. As at the balance sheet date, the group had facilities available of EUR ‘000 92,635 (2006: EUR ‘000 78,355).

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognized in the balance sheet, including derivative financial instruments that have a negative market value.

	Trade liabilities	Financial liabilities	Derivatives	Total
as at Dec. 31, 2007	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000
Carrying value	**38,375**	**98,122**	**124**	**136,621**
Payments outflows				
expected payments outflows:	**38,375**	**118,073**	**127**	**156,575**
– up to one month	25,098	2,352	8	27,458
– from one to three months	13,200	4,710	27	17,937
– from three months to one year	77	12,866	85	13,028
– from one to five years	0	52,085	7	52,092
– more than five years	0	46,060	0	46,060

Further explanations on financial liabilities are given in note 23.

(26) Additional information on financial instruments

This section provides an overview of the meaning of financial instruments and gives additional information on balance sheet line items containing financial instruments.

The following table shows the carrying values and the fair values of the financial assets:

	Cash		Trade receivables		Derivatives		Other financial instruments	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
per Dec. 31, 2007	**EUR ‘000**	**EUR ‘000**	**EUR ‘000**	**EUR ‘000**	**EUR ‘000**	**EUR ‘000**	**EUR ‘000**	**EUR ‘000**
Cash	7,405	7,405	0	0	0	0	0	0
Loans and receivables	0	0	93,585	93,585	0	0	25	25
to be held until maturity	0	0	0	0	0	0	1,408	1,425
held for trading purposes	0	0	0	0	17	17	0	0
available for sale	0	0	0	0	0	0	3,086	3,086
Total	**7,405**	**7,405**	**93,585**	**93,585**	**17**	**17**	**4,494**	**4,511**
as at Dec. 31, 2006								
Cash	5,453	5,453	0	0	0	0	0	0
Loans and receivables	0	0	80,993	80,993	0	0	0	0
to be held until maturity	0	0	0	0	0	0	1,406	1,422
available for sale	0	0	0	0	0	0	3,086	3,086
Total	**53453**	**5,453**	**80,993**	**80,993**	**0**	**0**	**4,492**	**4,508**

The fair value of loans and receivables coincides with their carrying values. This is in view of the short term to maturity of such instruments. For the financial instruments held to maturity, ElringKlinger applies as the fair value the market rate in an active market.

In the case of financial assets available for sale, it is assumed that the fair value coincides with the carrying value (see also the explanations in the section "Financial instruments").

The following table shows the carrying values and the fair values of the financial liabilities:

	Trade payables		Other financial liabilities	
	Carrying value	Fair value	Carrying value	Fair value
as at Dec. 31, 2007	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Trade payables	38,375	38,375	0	0
Financial liabilities	0	0	98,122	98,122
Financial liabilities measured at acquisition cost	**38,375**	**38,375**	**98,122**	**98,122**
held for trading purposes *)	0	0	124	124
Financial liabilities measured at fair value under profit and loss	**0**	**0**	**124**	**124**
as at Dec. 31, 2006				
Trade payables	28,210	28,210	0	0
Financial liabilities	0	0	66,631	66,631
Financial liabilities measured at acquisition cost	**28,210**	**28,210**	**66,631**	**66,631**
held for trading purposes *)	0	0	236	236
Financial liabilities measured at fair value under profit and loss	**0**	**0**	**236**	**236**

*) These are derivatives that are not included in hedge accounting.

Net gains and losses on financial instruments:

	2007	2006
	EUR '000	EUR '000
Financial instruments held for trading purposes *)	8,035	1,742
Assets available for sale	8	8
Financial investments held to maturity	3	-12
Loans and receivables	118	-565
Financial liabilities measured at acquisition cost	-391	-391

*) These are derivatives that are not included in hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values that have been recorded in full in the result for the period.

The net gains of the assets available for sale include income from participations.

Net gains and losses of financial instruments held until maturity include impairments and revaluations.

Net gains and losses on loans and receivables contain mainly impairments and revaluations.

Net losses from financial liabilities measured at acquisition costs include amortization on discounts.

Total interest income and expense for financial assets and liabilities that are not measured at fair value to profit and loss was as follows:

	2007	2006
	EUR '000	EUR '000
Total interest income	376	354
Total interest expense	-3,610	-3,204

Of the total interest income, EUR '000 5 (2006: EUR '000 8) results from impaired financial assets.

Derivative financial instruments

As at the balance sheet date, December 31, 2007, there were the following financial derivatives, that serve exclusively to hedge risks arising from changes in interest and currency exchange rates and to smoothen fluctuations in the procurement prices for raw materials (nickel):

	Fair value	Carrying value	Provision
	EUR '000	EUR '000	EUR '000
Interest-related derivatives			
Interest swap	-57	-57	-57
Derivatives relating to raw materials			
Accrual swap	-66	-66	-66
Derivatives related to exchange rates			
Forward currency transactions	16	16	-1
Total	-107	-107	-124

The negative fair values are shown under the current provisions as provisions for impending losses from pending transactions. The positive fair values of EUR '000 17 are included under other current assets.

The computation of the market values of the financial derivatives, which are confirmed by a bank, uses recognized mathematical methods and the market data available as at the balance sheet date (mark-to-market method).

(27) Capital management

ElringKlinger considers a solid financial base of the group as constituting the condition for further growth. Good capital resources enable investments to be made in organic growth or external growth.

The supervisory board and management board of ElringKlinger have set the minimum equity ratio in the AG and in the group at 40%. The articles of incorporation of ElringKlinger AG do not define any capital requirements. ElringKlinger is not authorized to acquire own shares. There are no share option schemes with an effect on the capital structure.

The following table shows equity and balance sheet total (total assets) as at December 31, 2007 in comparison with December 31, 2006.

	2007	2006
	Million Euro	Million Euro
Shareholders' equity	**281,0**	**231,2**
as % of total capital	49.1	48.5
Non-current liabilities	161,2	156,5
Current liabilities	130,3	156,5
Outside capital	**291,5**	**245,4**
as % of total capital	50.9	51.5
Total capital	572,5	476,6

The rise in equity from December 31, 2006, to December 31, 2007, is due to the increase in revenue reserves. Outside capital rose from December 31, 2006 to December 31, 2007 by 18.8%. The principal increase was in current financial liabilities. The investment volume of the ElringKlinger group was much higher than in the prior year and involved investments in buildings, machinery and plant in order to implement future growth.

With equity ratios of 51.1% in the AG and 49.1% in the group, the equity ratio of 40% defined by the supervisory and management boards was comfortably exceeded.

(28) Explanations on the cash flow statement

The consolidated cash flow statement shows how the liquidity of the ElringKlinger Group has changed as a result of inflows and outflows in the course of the financial year. Pursuant to IAS 7, a distinction is made between payments flows from operating activity and from investing and financing activities.

The cash considered in the cash flow statement comprises liquid funds shown in the balance sheet, i.e. cash in hand, cheques and bank deposits.

The cash flows from investing and financing activity are determined by reference to payments. The cash flow from operating activity is derived indirectly from the net profit for the year. For the indirect computation, effects from currency translation and the scope of consolidation are eliminated from the changes to the balance sheet items arising from operating activity. For this reason, it is not possible to reconcile the changes in the relevant balance sheet items with the corresponding figures evident from the published consolidated balance sheet.

The disbursement for the acquisition of consolidated entities contains in full the purchase price made in cash for acquisition of 7.5% of the minority interests in the subsidiary ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, which was already fully consolidated.

The disbursements for investments in intangible fixed assets (EUR ‘000 4,158) and disbursements for investments in property, plant and equipment and for investment property (EUR ‘000 90,850) shown in the consolidated cash flow statement do not contain the additions from the acquisition of consolidated entities, in contrast to the schedule of fixed assets (pursuant to (11) and (12)).

(29) Segment reporting

The ElringKlinger Group is organized around five business areas. Correspondingly, the segments analyzed are Original Equipment, Aftermarket, Engineered Plastics, Services, and Industrial Parks.

The activities in the reporting segments Original Equipment and Spare Parts relate to the manufacture and distribution of parts and modules for engine, gear and exhaust applications in motorized vehicles (Powertrain). Additionally, services are rendered that are connected with this activity.

In the segment "Engineered Plastics", technical products are manufactured and distributed for the vehicle and general industry made of heavy-duty PTFE plastics.

The reporting segment "Services" relates mainly to the operation of motor test benches and contributions for engine development.

The segment "Industrial Parks" comprises the administration and rental of landed property and buildings.

The following overview, entitled "Segment reporting", presents revenues and results as well as assets and debts of the individual group segments. With the exception of the supplies in the area of Original Equipment to the Aftermarket area, trading between the different segments is only of an insignificant magnitude. Trade between the segments is conducted at prices that would also have been agreed with parties outside the group.

In the results of the Original Equipment segment, an impairment expense of EUR '000 3,233 is included on account of the fire at Runkel. Moreover, a further EUR '000 246 has been recorded in the Original Equipment area as impairment expense.

Segment Reporting

	Original Equipment		Aftermarket		Engineered Plastics	
	2007	2006	2007	2006	2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Segment sales	**522,857**	**445,533**	**102,424**	**91,000**	**64,994**	**58,887**
- Intersegment sales	-21,015	-16,523	0	0	0	0
- Consolidation	-66,310	-55,019	-7,610	-7,086	-168	-69
Sales	**435,532**	**373,991**	**94,814**	**83,914**	**64,826**	**58,818**
- Segment expenses	-352,783	-312,808	-75,490	-68,803	-51,849	-47,406
Segment profit/loss	**82,749**	**61,183**	**19,324**	**15,111**	**12,977**	**11,412**
- Net interest	-5,156	-4,571	-520	-559	-96	-42
Earnings before taxes	**77,593**	**56,612**	**18,804**	**14,552**	**12,881**	**11,370**
Amortization & depreciation*	43,733	41,804	522	412	1,945	1,788
Investments**	89,056	44,663	877	450	10,952	3,430
Segment assets	431,902	346,590	45,549	42,668	46,645	35,306
Segment debts	129,056	115,629	16,883	15,537	11,548	10,292

* Amortization & depreciation on the basis of the average rates of the year

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

Reconciliation segment assets

	2007	2006
	EUR '000	EUR '000
Non-current assets acc. to consolidated balance sheet	340,940	290,992
- Non-current assets on income tax	-12,288	-14,727
- Sundry	-291	0
Non-current assets of the regions	**328,361**	**276,265**
+ Current assets	231,585	185,629
- Receivables on income tax	-1,640	-1,930
+ Others	3,762	4,052
Segment assets	**562,068**	**464,016**

Reconciliation segment debts

	2007	2006
	EUR '000	EUR '000
Non-current liabilities	161,177	156,451
Current liabilities	130,288	88,972
Total liabilities	**291,465**	**245,423**
- Financial liabilities	-98,122	-66,631
- Deferred tax liabilities	-26,505	-31,152
- Tax liabilities on income tax	-7,274	-4,041
Segment debts	**159,564**	**143,599**

	Industrial Parks		Services		Group	
	2007	2006	2007	2006	2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Segment sales	**8,435**	**8,251**	**7,762**	**6,388**	**706,472**	**610,059**
- Intersegment sales	0	0	0	0	-21,015	-16,523
- Consolidation	-126	-126	-3,402	-2,815	-77,616	-65,115
Sales	**8,309**	**8,125**	**4,360**	**3,573**	**607,841**	**528,421**
- Segment expenses	-3,590	-3,329	-3,111	-2,732	-486,823	-435,078
Segment profit/loss	**4,719**	**4,796**	**1,249**	**841**	**121,018**	**93,343**
- Net interest	-398	-579	32	27	-6,138	-5,724
Earnings before taxes	**4,321**	**4,217**	**1,281**	**868**	**114,880**	**87,619**
Amortization & depreciation*	1,137	1,132	695	764	48,032	45,900
Investments**	70	495	1,168	521	102,123	49,559
Segment assets	31,964	33,126	6,008	6,326	562,068	464,016
Segment debts	1,081	1,171	996	970	159,564	143,599

Region

		Sales	Non-current assets	Investments**
		EUR '000	EUR '000	EUR '000
Germany	2007	210,067	239,333	77,314
	2006	193,005	200,089	36,297
Rest of Europe	2007	199,181	30,777	4,451
	2006	164,590	31,417	4,088
NAFTA	2007	107,498	36,444	9,546
	2006	92,082	31,582	5,437
Asia and Australia	2007	60,883	12,172	7,458
	2006	54,309	6,463	2,929
South America and others	2007	30,212	9,635	3,354
	2006	24,435	6,714	808
Group	2007	607,841	328,361	102,123
	2006	528,421	276,265	49,559

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

Other Disclosures

Contingent liabilities

The ElringKlinger Group is subject to contingent liabilities of EUR '000 233 (2006: EUR '000 436) from the issue and transfer of bills. The ElringKlinger Group is subject to contingent liabilities of EUR '000 60 (2006: EUR '000 116) from the granting of sureties and contract fulfillment guarantees.

The carrying value of the pledged land was EUR '000 12,361 (2006: EUR '000 11,476).

A lawsuit against ElringKlinger in Brazil involves a contingent liability with a maximum risk of less than EUR 1 million.

Operating leases

The expense includes payments from operating leases of EUR '000 3,351 (2006: EUR '000 2,945).

As at the balance sheet date, the group had outstanding obligations arising from binding operating leases that fall due as follows:

	Dec. 31, 2007	Dec. 31, 2006
	EUR '000	EUR '000
Up to one year	1,617	1,556
More than one and up to five years	3,109	3,602
More than five years	129	401
Total	**4,855**	**5,559**

Number of employees

The workforce in the ElringKlinger Group, as an annual average and excluding board members, was as follows:

	2007	2006
Workers	2,324	2.144
Salaried staff	1,033	968
	3,357	**3,112**
Apprentices	74	73
Total	**3,431**	**3,185**

Personnel expenses

Personnel expenses in the reporting year came to EUR '000 150,525 (2006: EUR '000 140,676). A share of 7.3% (2006: 7.2%) of the personnel expenses relate to contributions to the statutory pension scheme.

Events after the balance sheet date

The management board of ElringKlinger AG released the consolidated financial statements for approval by the supervisory board on March 20, 2008.

At the end of February, ElringKlinger announced that it was planning to take over SEVEX AG, a Swiss producer of thermal and acoustic shielding systems, that is domiciled in Sevelen. The acquisition is also planned of the US subsidiaries SEVEX North America, Inc., Buford, USA, and SEVEX Asia, which is domiciled in Suzhou, China. Negotiations are at an advanced stage. Completion of the takeover is subject to the usual reservations, and in particular is subject to approval by the anti-trust authorities.

On March 07, 2008 the minority interests were acquired in the entities ElringKlinger S.A., Reus, Spain (49.0%) and ElringKlinger Sealing Systems S.L., Reus, Spain (10%), these already being included in the scope of consolidation. Hence ElringKlinger now holds all the interests in these two companies.

On February 22, 2008 the supervisory board extended the management contract of Mr Theo Becker, which was due to expire on December 31, 2008, by five years to December 31, 2013.

Related party disclosures

Transactions between the parent company and its subsidiaries and participations, that are related parties, were eliminated in the course of consolidation and are not described in these disclosures in the notes.

In addition, there are business relationships between companies in the ElringKlinger Group and related persons or companies, that are controlled by related persons, as follows:

1. Rental contract between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary, (TPH), and Lechler Kft, Kecskemét-Kádafalva, Hungary. The rental income of TPH from this contract was EUR '000 157 (2006: EUR '000 157) in the year under review. As at the balance sheet date the outstanding balance was EUR '000 37 (2006: EUR '000 16).
2. Contract between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, on assembly activities and storage of components. In the year under review this gave rise to sales of EUR '000 299 (2006: EUR '000 229). As at the balance sheet date, December 31, 2007, there was a receivable in this connection of EUR '000 18 (2006: EUR '000 24).
3. Framework contract between Rich. Klinger Dichtungstechnik GmbH & Co. KG, Gumpoldskirchen, Austria, and companies of the ElringKlinger Group on the procurement of material. Under this contract, ElringKlinger AG obtained material for EUR '000 2,056 (2006: EUR '000 1,907) in 2007. The outstanding balance as at the balance sheet date was EUR '000 176 (2006: EUR '000 136).
4. Framework contract between Klinger AG Egliswil, Switzerland, and ElringKlinger on the procurement of material. Under this contract, ElringKlinger AG purchased material for a price of EUR '000 150 (2006: EUR '000 115) in 2007. As at the balance sheet date, there were liabilities in this connection of EUR '000 14 (2006: EUR '000 0).
5. By contract of November 22, 2007, the affiliated enterprise ElringKlinger, S.A:, Reus, Spain (EKSA), acquired assets of the firm Wunder Motor Service, S.L. for a total price of EUR '000 640 with effect at January 1, 2008. The enterprise Wunder Motor Service S.L. is under the control of the 49% minority shareholder of EKSA, Inverwunder S.L.
6. The joint venture ElringKlinger Korea Co., Ltd. (EKKO), which is included in the consolidated financial statements by proportional consolidation, procured raw materials and merchandise for a price of EUR '000 595 (2006: EUR '000 658) from ElringKlinger's joint venture partner in the year under review. As at the balance sheet date EKKO had liabilities arising from these supplies in the amount of EUR '000 41 (2006: EUR '000 264).

Corporate Bodies

Supervisory board

Dr. Helmut Lerchner, Aichtal, Chairman	Corporate advisor Member of the supervisory board of Deutz AG, Cologne Member of the Südwest advisory board of Dresdner Bank AG, Stuttgart
Walter Herwarth Lechler, Stuttgart, Deputy Chairman	Managing shareholder Positions on advisory boards or administrative boards at Lechler Inc., St. Charles/USA; Lechler Ltd., Sheffield, United Kingdom; Lechler India Pvt. Ltd., Thane, India; Lechler Kft, Kecskemét, Hungary; Lechler France S.A., Montreuil, France; Lechler AB, Hagfors, Sweden; Lechler SA, Wavre, Belgium; Lechler S.A., Madrid, Spain; and ETS-Elex (India) Pvt. Ltd., Thane, India
Gert Bauer, Reutlingen, Employee Representative	First commissioner of IG Metall Reutlingen, Tübingen Member of the supervisory board of Hugo Boss AG, Metzingen
Dr. Rainer Hahn, Stuttgart	Former member of the management of Robert Bosch GmbH, Stuttgart Supervisory board seats at Robert Bosch GmbH, Stuttgart; Bosch Rexroth AG, Stuttgart; Rieter Holding AG, Winterthur, Switzerland; Shareholder committee seat with TÜV Süddeutschland Holding AG, Munich; and Member of the administrative board of TÜV Bayern Hessen Sachsen Südwest e.V.
Karl-Uwe van Husen, Waiblingen	Managing director Member of the supervisory board of Schaltbau Holding AG, Munich

Dr. Thomas Klinger-Lohr, Egliswil/Switzerland	President of the board Dr. Klinger-Lohr is a member of the advisory or administrative council, as the case may be, of the following subsidiaries of Betal Netherland Holding B.V., Rotterdam, Netherlands, of which holding company he is also the managing director: Klinger Holding Plc., Sidcup, United Kingdom; Klinger Holding Austria GmbH, Gumpoldskirchen, Austria; Klinger S.p.A., Mazzo di Rho, Italy; Saidi, Madrid, Spain; Klinger AG, Egliswil, Switzerland; Klinger Finnland OY, Masala, Finland; Uni Klinger Ltd., Mumbai, India; and Armiag AG, Glarus, Switzerland
Manfred Rupp, Pfullingen, Employee Representative	Chairman of the works council of ElringKlinger AG
Markus Siegers, Altbach, Employee Representative	Deputy chairman of the works council of ElringKlinger AG
Manfred Strauß, Stuttgart	Managing director Member of the advisory council in the Pro Stuttgart Verkehrsverein

Remuneration of the supervisory board

In the reporting year, the total remuneration of the supervisory board of ElringKlinger AG was EUR '000 420 (2006: EUR '000 358).

The remuneration of the supervisory board is distributed among the individual supervisory board members as follows:

	fixed (prior year) EUR	variable (prior year) EUR	total (prior year) EUR
Dr. Helmut Lerchner	38,000 (36,000)	45,962 (36,000)	83,962 (72,000)
Walter Herwarth Lechler	28,500 (27,000)	34,471 (27,000)	62,971 (54,000)
Gert Bauer	15,000 (14,000)	22,981 (18,000)	37,981 (32,000)
Dr. Rainer Hahn	15,000 (14,000)	22,981 (18,000)	37,981 (32,000)
Karl-Uwe van Husen	19,000 (18,000)	22,981 (18,000)	41,981 (36,000)
Dr. Thomas Klinger-Lohr	18,000 (18,000)	22,981 (18,000)	40,981 (36,000)
Manfred Rupp	15,000 (14,000)	22,981 (18,000)	37,981 (32,000)
Markus Siegers	15,000 (10,500)	22,981 (13,500)	37,981 (24,000)
Manfred Strauß	15,000 (14,000)	22,981 (18,000)	37,981 (32,000)
Walter Greiner (until 31.03.2006)	0 (3,500)	0 (4,500)	0 (8,000)
Total	**178,500 (169,000)**	**241,300 (189,000)**	**419,800 (358,000)**

The variable remuneration shown reflects the expense for which provisions have been set up, based on the provisional figures of the group results before taxes in accordance with IFRS for the year 2007.

There was a difference between the provision for the variable remuneration for the financial year 2006 and the amounts actually paid of EUR 4,999.78. This is recorded under other operating income.

Management board

Dr. Stefan Wolf, Leinfelden-Echterdingen, Chairman of the Management Board	Responsible for the participations, the central divisions finance, controlling, law, human resources, investor relations, IT and public relations as well as the business divisions aftermarket and industrial parks
Theo Becker, Reutlingen-Rommelsbach	Responsible for the business divisions cylinder head gaskets/central research & development, special gaskets, casings/modules/elastomer technology, shielding technology and the central divisions quality and environment, procurement and Runkel plant
Karl Schmauder, Hülben	Responsible for the distribution of original equipment and new business fields
Seats on supervisory boards and other bodies performing oversight	Dr. Stefan Wolf is a member of the regional state advisory board Baden-Württemberg of Commerzbank AG, Frankfurt.

Remuneration of the management board

The remuneration of the management board in the financial year 2007 totaled EUR '000 3,211 (2006: EUR '000 2,908). It comprises fixed (EUR '000 750; 2006: EUR '000 733) and variable (EUR '000 2,462; 2006: EUR '000 2,175) portions. The variable components are made up of results-related remuneration for the financial year 2006 in the amount of EUR '000 1,223 (2006: EUR '000 991) and long-term results-dependent bonuses relating to the company value in the amount of EUR '000 1,239 (2006: EUR '000 1,184).

The total remuneration of the management board was distributed among the individual management board members as follows:

	fixed components (prior year)	components dependent on the results of the reporting year* (prior year)	long-term results-dependent bonuses* (prior year)	total (prior year)
	EUR	EUR	EUR	EUR
Dr. Stefan Wolf	301,854.27 (288,671.05)	555,711.94 (449,904.62)	496,790.98 (479,107.09)	1,354,357.19 (1,217,682.76)
Theo Becker	226,248.96 (226,171.93)	333,426.30 (270,012.00)	365,093.24 (345,095.76)	924,768.50 (841,279.69)
Karl Schmauder	221,494.15 (218,280.08)	333,426.30 (271,232.77)	377,093.24 (359,329.81)	932,013.69 (848,842.66)
Total	**749,597.38**	**1,222,564.54**	**1,238,977.46**	**3,211,139.38**
Total	**(733,123.06)**	**(991,149.39)**	**(1,183,532.66)**	**(2,907,805.11)**

* The variable remuneration shown reflects the expense for which provisions have been set up, based on the provisional figures of the group results before taxes in accordance with IFRS for the year 2007. Furthermore, differences are included between the provisions formed as at December 31, 2006, and the amounts actually disbursed in 2007.

Provisions for pensions and remuneration for former members of the management board

Provisions of EUR '000 11,131 (2006: EUR '000 11,677) have been set up for pension obligations to former members of the management board, the management of merged companies and their surviving dependants. The total remuneration of former members of the management board – including remuneration of former members of corporate bodies of merged companies – came to EUR '000 810 (2006: EUR '000 862) in the financial year 2007.

The fees of the **auditor** were:

	2007	2006
	EUR '000	EUR '000
Audit of the financial statements	370	273
Other confirmatory performances	3	3
Tax services	13	0
Other services	24	71
Total	**410**	**347**

On account of the merger of KPMG Deutschland and KPMG UK to KPMG Europe, the disclosure for the year 2007 includes, for the first time, fees for services rendered by KPMG UK.

Notifications Pursuant to § 21 (1) Securities Trading Law (WpHG)

ElringKlinger AG received the following voting rights announcements for the financial year 2007 and published them in accordance with the legal regulations.

1. Voting rights notification

Details of the party required to give notice:
Name: Lieselotte Lechler
Country: Germany
Published on April 30, 2007

Mr. Gottfried Wunsch, as executor of a will, made the following notification about the bequest on behalf of Mrs Lieselotte Lechler, pursuant to § 21 (1) WpHG :

1. Klaus Lechler

Mr. Klaus Lechler died on April 1, 2007. His voting rights in the ElringKlinger AG fell below the thresholds of 20%, 15%, 10%, 5% and 3% and amounted to 0% (0 voting rights).

2. Lieselotte Lechler

The percentage of voting rights of Mrs Lieselotte Lechler in the ElringKlinger AG at April 1, 2007 exceeded the thresholds of 3 %, 5% and 10% and amounted to 10,02% (1.922.912 voting rights). These voting rights are in the percentage of 10,02% (1.922.912 voting rights) attributable to Mrs Lieselotte Lechler pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

The voting rights, which are attributable to Mrs Lieselotte Lechler, are held by the following companies that are controlled by her and hold at least 3% or more of the voting rights in ElringKlinger AG:

- Elgarta GmbH
- EROCA AG
- Klaus Lechler Beteiligungs GmbH

2. Voting rights notification

Details of the party required to give notice:
Name: Threadneedle Asset Management Limited
Place: London
Country: United Kingdom
Published on April 30, 2007

Threadneedle Investments informed us as follows:

"The following notification is made in the names of Threadneedle Asset Management Limited, Threadneedle Asset Management Holdings Limited, both with registered seat at London, United Kingdom and in the name of Ameriprise Financial, Inc., Minneapolis, USA. Ameriprise Financial Inc. is the parent company of Threadneedle Asset Management Holdings Limited which is the parent company of Threadneedle Asset Management Limited. Please be advised that on 30 March 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Strasse 2, 72581 Dettingen/Erms, Germany went below the threshold of 3% of the total voting stocks of the company. The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at 30 March 2007 amounted to 2,937% (563,987 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 30 March 2007 amounted to 2,937% (563,987 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 No. 6 sent. 2 and sent. 3 WpHG.
The percentage of voting rights of Ameriprise Financial, Inc. in ElringKlinger AG at 30 March 2007 amounted to 2,937% (563,987) shares. These voting rights are in their entirety attributable to Ameriprise Financial, Inc. pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG.“

3. Voting rights notification
Details of the party required to give notice:
Name: Lechler GmbH, and others
Place: Metzingen
Country: Germany
Published on May 7, 2007

Parties required to give notice:
1. Lechler GmbH (formerly Lechler GmbH & Co. KG), Metzingen, Germany
2. Walter Herwarth Lechler, Germany
ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen / Erms, Germany, received the following notification to § 41 para. 2 and § 21 para. 1 WpHG from Lechler GmbH, Metzingen, Germany:
”On behalf of Lechler GmbH, Metzingen, Germany, and Mr Walter Herwarth Lechler, Germany, we inform you pursuant to § 41 para. 2 and § 21 para. 1 WpHG (in the respective current version) for the purpose of correction and supplement to notifications made in the past by the parties required to give notice as follows:
1. Lechler Verwaltungs GmbH, Metzingen, Germany:
a) The voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG (formerly ZWL Grundbesitz- und Beteiligungs- AG) at July 31, 1998 exceeded the threshold of 5% and amounted to 6,94% (332.920 voting rights). These voting rights were in the percentage of 6,94% (332.920 voting rights) attributable to Lechler Verwaltungs GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding with § 22 para. 1 No. 2 WpHG valid on July 31, 1998).
The voting rights, which were attributable to Lechler Verwaltungs GmbH, were held by the following company that was controlled by it and hold at least 3% or more of the voting rights in ElringKlinger AG:
• Lechler GmbH & Co. KG (today: Lechler GmbH).
b) The percentage of voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG at November 21, 2001, exceeded the threshold of 10% and amounted to 12,06% (578.720 voting rights). The voting rights were in the percentage of 6,94% (332.920 voting rights) attributable to Lechler Verwaltungs GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding with § 22 para. 1 No. 2 WpHG valid on November, 21, 2001).
c) The voting rights, which were attributable to Lechler Verwaltungs GmbH, were held by the following company that was controlled by it and hold at least 3% or more of the voting rights in ElringKlinger AG:
• Lechler GmbH & Co. KG (today: Lechler GmbH).
d) The percentage of voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG at April 1, 2002 amounted to 12,06% (578.720 voting rights). These voting rights were in the percentage of 6,94% (332.920 voting rights) attributable to Lechler Verwaltungs GmbH) pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

e) The voting rights, which are attributable to Lechler Verwaltungs GmbH, are held by the following company that is controlled by it and hold 3 % or more of the voting rights in ElringKlinger AG:
   - Lechler GmbH & Co. KG (today: Lechler GmbH).

f) The percentage of voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG at April 4, 2002 fell below the threshold of 10% amounted to 5,12% (245.800 voting rights).

g) The percentage of voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG at April 4, 2002 fell below the threshold of 5% and amounted to 3,38% (162.005 voting rights).

h) Lechler Verwaltungs GmbH was merged in Lechler GmbH without winding up pursuant to §§ 2 ff. UmwG at November 28, 2003 (entry date of filing in the trade register of Lechler GmbH).

2. Lechler GmbH (formely Lechler GmbH & Co. KG), Metzingen, Germany:

a) The percentage of voting rights of Lechler GmbH (formerly Lechler GmbH & Co. KG) in ElringKlinger AG at April 1, 2002, amounted to 6,94% (332.920 voting rights).

b) The percentage of voting rights of Lechler GmbH in ElringKlinger AG at November 28, 2003 exceeded the threshold of 10 % and amounted to 10,00 % (480.000 voting rights).

c) Today, at May 3, 2007, the percentage of voting rights of Lechler GmbH in ElringKlinger AG amounts as it was to 10% (1.920.000 voting rights).

3. Walter Herwarth Lechler, Germany:

a) The percentage of voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG on April 1, 2002 amounted to 27,26 % (1.308.620 voting rights). These voting rights were in the percentage of 12,06 % (578.720 voting rights) attributable to Mr Walter Herwarth Lechler) pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.
   The voting rights, attributable to Mr Walter Herwarth Lechler, were hold by the following companies that were controlled by him and hold 3 % or more of the voting rights in ElringKlinger AG:
   - Lechler GmbH & Co. KG (today: Lechler GmbH),
   - Lechler Verwaltungs GmbH.

b) The percentage of voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG at September 2, 2003, fell below the threshold of 25 % and amounted to 24,89 % (1.194.825 voting rights). These voting rights were in the percentage of 10,31 % (494.925 voting rights) attributable to Mr Walter Herwarth Lechler) pursuant to § 22 para. 1 sent 1 No. 1 WpHG.
   The voting rights, which were attributable to Mr Walter Herwarth Lechler, were held by the following companies that were controlled by him and hold 3 % or more of the voting rights in ElringKlinger AG:
   - Lechler GmbH & Co. KG (today: Lechler GmbH),
   - Lechler Verwaltungs GmbH.

c) The percentage of voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG exceeded the threshold of 25 % on July 4, 2005 and amounted to 25,31 % (2.429.650 voting rights). These voting rights were in the percentage of 10,10 % (969.850 voting rights) attributable to Mr Walter Herwarth Lechler pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.
   The voting rights, which were attributable to Mr Walter Herwarth Lechler, were held by the following company that was controlled by him and hold 3 % or more of the voting rights in ElringKlinger AG:
   - Lechler GmbH.

d) The percentage of the voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG at December 6, 2006, fell below the threshold of 25 % and amounted to 24,61 % (4.724.600 voting rights). These voting rights were in the percentage 10,00 % (1.920.000 voting rights) attributable to Mr Walter Herwarth Lechler pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.
The voting rights, which were attributable to Mr Walter Herwarth Lechler, were held by the following company that was controlled by him and hold at least 3 % or more in ElringKlinger AG:
• Lechler GmbH.
e) Today, at May, 3 2007, the percentage of voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG amounts just as it was to 24,61 % (4.724.600 voting rights). These voting rights are in the percentage of 10,00 % (1.920.000 voting rights) attributable to Mr Walter Herwarth Lechler pursuant to § 22 Abs. 1 Satz 1 Nr. 1 WpHG.
The voting rights, which are attributable to Mr Walter Herwarth Lechler, are hold by the following company that is controlled by him and holds at least 3 % or more in ElringKlinger AG:
• Lechler GmbH.“

4. Voting rights announcement
Details of the parties required to give notice:
Name: Elgarta GmbH, and others
Place: Basel
State: Switzerland
Published on May, 7, 2007

Parties required to make the notification:
1. Elgarta GmbH, Basel, Switzerland
2. Eroca AG, Basel, Switzerland
3. Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany
4. Lechler Beteiligungs- GmbH, Ludwigsburg, Germany
5. Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany
6. INLOVO GmbH, Ludwigsburg, Germany
7. Frau Lieselotte Lechler, Germany
ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen / Erms, Deutschland, received the following notification pursuant to § 41 para. 2 and § 21 para. 1 WpHG from Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:
”On behalf of Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany, and on behalf of the following companies and Mrs Lieselotte Lechler, we inform you pursuant to § 41 Abs. 2 and § 21 Abs. 1 WpHG (in the respective current version) for the purpose of correction and supplementary to notifications made in the past by the parties required to give notice as follows:
1. Elgarta GmbH, Basel, Switzerland:
a) The percentage of voting rights of Elgarta GmbH in ElringKlinger AG at April 1, 2002, amounted to 13,25 % (635.878 voting rights).
b) Today, May 3, 2007,the percentage of voting rights of Elgarta GmbH in ElringKlinger AG amounts to 10,004 % (1.920.712 voting rights).
2. Eroca AG, Basel, Switzerland:
a) The percentage of voting rights of Eroca AG in ElringKlinger AG at April 1, 2002, amounted to 13,25 % (635.878 voting rights). These voting rights were in the percentage of 13,25 % (635.878 voting rights) attributable to Eroca AG pursuant to § 22 para. 1 sent. 1 No.1 WpHG.

b) The voting rights, which were attributable to Eroca AG, were held by the following company that was controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:

- Elgarta GmbH.

c) Today, May 3, 2007, the percentage of voting rights of Eroca AG in ElringKlinger AG amounts to 10,004 % (1.920.712 voting rights). These voting rights are entirely attributable to Eroca AG pursuant to § 22 para. 1 sent. 1 no. 1 WpHG.

d) The voting rights, which are attributable to Eroca AG, are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:

  - Elgarta GmbH.

3. Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

a) The percentage of voting rights of Klaus Lechler Beteiligungs- GmbH in ElringKlinger AG at May 8, 2002, exceeded the thresholds of 5 % and 10 % and amounted to 10,35 % (496.678 voting rights). These voting rights were entirely attributable to Klaus Lechler Beteiligungs- GmbH pursuant to § 22 para. 1 sent. 1 no. 1 WpHG.
The voting rights, which were attributable to Klaus Lechler Beteiligungs- GmbH, were held by the following companies that were controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:

  - Elgarta GmbH,
  - Eroca AG.

b) Today, May 3, 2007, the percentage of voting rights of Klaus Lechler Beteiligungs- GmbH in ElringKlinger AG amounts to 10,02 % (1.922.912 voting rights). These voting rights are in the percentage of 10,004 % (1.920.712 voting rights) attributable to Klaus Lechler Beteiligungs- GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.
The voting rights, which are attributable to Klaus Lechler Beteiligungs- GmbH, are held by the following companies that are controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:

  - Elgarta GmbH,
  - Eroca AG.

4. Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

1. The percentage of voting rights of Lechler Beteiligungs- GmbH in ElringKlinger AG at Novermber 30, 2001, exceeded the thresholds of 5 % and 10 % and amounted to 12,13 % (582.012 voting rights).
2. The percentage of voting rights of Lechler Beteiligungs- GmbH in ElringKlinger AG at April 1, 2002 amounted to 12,13 % (582.012 voting rights).
3. Today, at May 3, 2007, the percentage of voting rights of Lechler Beteiligungs- GmbH in ElringKlinger AG amounts to 10,0003 % (1.920.048 voting rights).

5. Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:

a) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at November 30, 2001, exceeded the thresholds of 5 % and 10 % and amounted to 13 % (582.012 voting rights). These voting rights were in the percentage of 12,13 % (582.012 voting rights) attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to § 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding with § 22 para. 1 No.2 WpHG valid on 30. November 2001).
The voting rights, which were attributable to Paul Lechler Gesellschaft bürgerlichen Rechts, were held by the following company that was controlled by it and hold 3 % or more of the voting rights in ElringKlinger AG:

  - Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at April 1, 2002, amounted to 12,13 % (582.012 voting rights). These voting rights were entirely attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

   The voting rights, which are attributable to Paul Lechler Gesellschaft bürgerlichen Rechts, were held by the following company that was controlled by it and hold at least 3 % of voting rights in ElringKlinger AG:

   • Lechler Beteiligungs- GmbH.

c) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at December 4, 2003, fell below the thresholds of 10 % and 5 % and have amounted since then to 0,00 % (0 voting rights).

6. INLOVO GmbH, Ludwigsburg, Germany:

a) The percentage of voting rights of INLOVO GmbH in ElringKlinger AG at December 4, 2003, exceeded the thresholds of 5 % and 10 % and amounted to 10,04 % (482.012 voting rights). These voting rights were in the percentage of 10,04 % (482.012 voting rights) attributable to INLOVO GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

   The percentage of voting rights, which were attributable to INLOVO GmbH, were held by the following company that was controlled by it and hold at least 3 % or more of the voting rights in ElringKlinger AG:

   • Lechler Beteiligungs- GmbH.

b) Today, May 3, 2007, the percentage of voting rights of INLOVO GmbH in ElringKlinger AG amounts to 10,0003 % (1.920.048 voting rights). These voting rights are entirely attributable to INLOVO GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

   The percentage of voting rights, which are attributable to INLOVO GmbH, are held by the following company that is controlled by it and holds at least 3 % or more of the voting rights in ElringKlinger AG:

   • Lechler Beteiligungs- GmbH.

7. Klaus Lechler, Germany:

a) The percentage of voting rights of Mr Klaus Lechler in ElringKlinger AG at April 1, 2002 amounted to 25,37 % (1.217.890 voting rights). These voting rights were in the percentage of 13,25 % (635.878 voting rights) attributable to Mr Klaus Lechler pursuant to § 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 12,13% (582.012 voting rights) pursuant to § 22 para. 1 sent. 1 No. 2 WpHG.

   The voting rights, which were attributable to Mr Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3 % or more in ElringKlinger AG :

   • Elgarta GmbH,
   • Eroca AG,
   • Klaus Lechler Beteiligungs- GmbH.

   The voting rights of the following shareholder, who hold 3 % or more in ElringKlinger AG, were assigned to him:

   • Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Mr Klaus Lechler in ElringKlinger AG at June 18, 2003 fell below the threshold of 25% and amounted to 23,29 % (1.117.890 voting rights). These voting rights were in the percentage of 13,25 % (635.878 voting rights) attributable to Mr Klaus Lechler pursuant to § 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 10,04% (482.012 voting rights) pursuant to § 22 para. 1 sent. 1 No. 2 WpHG.

   The voting rights, which were attributable to Mr Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3 % or more in ElringKlinger AG:

   • Elgarta GmbH,

- Eroca AG,
- Klaus Lechler Beteiligungs- GmbH.

The voting rights of the following shareholder, who hold at least 3 % or more in ElringKlinger AG, were assigned to him:

- Lechler Beteiligungs- GmbH.“

5. Voting rights announcement

Details about the person obligated to give notice:

Name: Elrena GmbH, and others

Place: Basel

State: Switzerland

Published on May 7, 2007

Parties required to give notice:

1. Elrena GmbH, Basel, Switzerland

2. Karl Uwe van Husen, Germany

ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen / Erms, Germany, received the following notification pursuant to § 41 para. 2 and § 21 para. 1 WpHG from Elrena GmbH, Basel, Switzerland:

”On behalf of Elrena GmbH, Basel, Switzerland, and Mr Karl Uwe van Husen, we inform you pursuant to § 41 para. 2 and § 21 para. 1 WpHG (in the respective current version) for the purpose of correction and supplement to notifications made in the past by the parties on which notification is incumbent as follows:

1. Karl Uwe van Husen, Germany:

a. The percentage of voting rights of Mr Karl Uwe van Husen in ElringKlinger AG (formerly ZWL Grundbesitz- und Beteiligungs- AG) at September 4, 1997, fell below the thresholds of 10 % and 5 % and amounted to 0,025 % (900 voting rights).

b. Today, at May 3, 2007, the percentage of voting rights of Mr van Husen in ElringKlinger AG amounts to 0,016 % (3.000 voting rights).

2. Elrena GmbH, Basel, Switzerland:

a. The percentage of voting rights of Elrena GmbH in ElringKlinger A at April 1, 2002 amounted to 10,69 % (512.012 voting rights).

b. Today, at May 3, 2007, the percentage of voting rights of Elrena GmbH in ElringKlinger AG amounts to 10,003 % (1.920.648 voting rights).“

6. Voting rights announcement

Details of the party required to give notice:

Name: Threadneedle Asset Management Limited, and others

Place: London

Country: United Kingdom

Published on May 14, 2007

ElringKlinger AG, Dettingen/Erms, Deutschland, received the following notification:

”Notification pursuant to § 21 para. 1 WpHG

Ladies and Gentlemen,

The following notification is made in the names of Threadneedle Asset Management Limited, Threadneedle Asset Management Holdings Limited, both with registered seat at London, United Kingdom and in the name of Ameriprise Financial, Inc., Minneapolis, USA.

Ameriprise Financial Inc. is the parent company of Threadneedle Asset Management Holdings Limited which is the parent company of Threadneedle Asset Management Limited.

Please be advised that on 09 May 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Strasse 2, 72581 Dettingen/Erms, Germany went above the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at 09 May 2007 amounted to 3,069 % (589,225 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 09 May 2007 amounted to 3,069% (589,225 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 No. 6 sent. 2 and sent. 3 WpHG.

The percentage of voting rights of Ameriprise Financial, Inc. in ElringKlinger AG at 09 May 2007 amounted to 3,069% (589,225 shares). These voting rights are in their entirety attributable to Ameriprise Financial, Inc. pursuant to § 22 para. 1 sent. 1 No. 6 sent. 2 and sent. 3 WpHG.“

7. Voting rights announcement

Details of the party required to give notice:

Name: Prudential plc.

Place: London

Country: United Kingdom

Published on June, 13, 2007

ElringKlinger received the following notification from M&G Investment Management Limited, London, United Kingdom:

”Notification of voting rights (Stimmrechtsmitteilung) pursuant to §§ 21, 22 WpHG:

Below, we, Prudential plc., London, United Kingdom, would like to make the following notifications regarding the holding of voting rights held in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany according to § 21, 22 WpHG in our own name. Prudential plc. is the parent holding company of the following group companies:

- M&G Investment Management Limited
- M&G Limited, the parent company of M&G Investment Management Limited
- M&G Group Limited, the parent company of M&G Limited
- Prudential Asset Management (Singapore) Limited

None of the above companies have a 3% holding in their own right.

Notification of voting rights in our own name

We, Prudential plc, exceeded the 3 % threshold of § 21 para. 1 WpHG on 31 May 2007 and held 3,03 % of the voting rights in ElringKlinger AG. The number of shares held with voting rights is 582,845. We were attributed these 3,03 % of the voting rights pursuant to § 22 para. 1 sent. 1 no. 6 in connection with § 22 para. 1 sent. 2 WpHG. The voting rights were directly held by M&G Investment Management Limited and Prudential Asset Management (Singapore) Limited.“

8. Voting rights announcement

Details of the party required to give notice:

Name: Prudential plc

Place: London

Country: United Kingdom

Published on September, 12, 2007

ElringKlinger received the following notification:

"Notification of voting rights (Stimmrechtsmitteilung) pursuant to §§ 21, 22 WpHG

We, Prudential plc., London, United Kingdom, would like to make the following notification regarding the holding of voting rights held in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen / Erms, Germany according to § 21, 22 WpHG.

Notification of voting rights in our own name

Prudential plc. has fallen below the 3 % threshold of § 21 para. 1 WpHG on 04 September 2007 and now holds 2.94 % (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG. It was attributed these 2.94 % (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG pursuant to § 22 para. 1 sent. 1 no. 6 in connection with § 22 para. 1 sent. 2 WpHG."

9. Voting rights announcement

Details of the party required to give notice:

Name: Threadneedle Investment Services Limited, and others

Place: London

Country: United Kingdom

Published on September, 12, 2007

ElringKlinger AG received the following notification:

"Notification pursuant to § 21 para. 1 WpHG

The overall holdings in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany have been disclosed correctly, however the crossing of the 3 % threshold by the legal entities Threadneedle Investment Services Limited and Threadneedle Investment Funds ICVC have not been made promptly. Please accept our apologies for the delay in making this disclosure.

The following notification is made in the name of Threadneedle Investment Services Limited, registered in London, United Kingdom.

Please be advised that on 17 May 2007 the share of voting stocks of the Threadneedle Investment Services Limited in ElringKlinger AG went above the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Investment Services Limited in ElringKlinger AG at 17 May 2007 amounted to 3,090 % (593,278 shares). These voting rights are in their entirely attributable to Threadneedle Investment Services Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The following notification is made in the name of Threadneedle Investment Funds ICVC, registered in London, United Kingdom.

Please be advised that on 31 May 2007 the share of voting stocks of the Threadneedle Investment Funds ICVC in ElringKlinger AG went above the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Investment Funds ICVC in ElringKlinger AG at 31 May 2007 amounted to 3,029% (581,640 shares). These voting rights are held by subfunds of Threadneedle Investment Funds ICVC."

10. Voting rights announcement

Details about the person obligated to give notice:

Name: Threadneedle Asset Management Limited
Place: London
Country: United Kingdom
Published on September 24, 2007

Reference: Correction of the notification pursuant to § 26 WpHG published by ElringKlinger AG, Dettingen / Erms, Germany, on May 14, 2007

ElringKlinger received the following notification:

"Notification pursuant to § 21 para. 1 WpHG (amendment to the notification made 11 May 2007)

Ladies and Gentlemen,

The following notification is made in the names of Threadneedle Asset Management Limited, Threadneedle Asset Management Holdings Limited, both with registered seat in London, United Kingdom.

Please be advised that on 10 May 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany went above the threshold of 3% the total voting stocks of the company.

The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at 10 May 2007 amounted to 3.045% (584,660 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 10 May 2007 amounted to 3.045% (584,660 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG."

11. Voting rights announcement

Details of the party required to give notice:

Name: Threadneedle Investment Services Limited
Place: London
Country: United Kingdom
Published on October 10, 2007

"Notification pursuant to § 21 para. 1 WpHG

The following notification is made in the name of Threadneedle Investment Services Limited, registered in London, United Kingdom.

Please be advised that on 02 October 2007 the share of voting stocks of the Threadneedle Investment Services Limited in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Investment Services Limited in ElringKlinger AG at 02 October 2007 amounted to 2,992% (574,392 shares). These voting rights are in their entirety attributable to Threadneedle Investment Services Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The following notification is made in the name of Threadneedle Investment Funds ICVC, registered in London, United Kingdom.

Please be advised that on 02 October 2007 the share of voting stocks of the Threadneedle Investment Funds ICVC in ElringKlinger AG went below the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Investment Funds ICVC in ElringKlinger AG at 02 October 2007 amounted to 2,992 % (574,392 shares). These voting rights are held by subfunds of Threadneedle Investment Funds ICVC.“

12. Voting rights announcement

Details of the party required to give notice:
Name: Threadneedle Asset Management Limited and others
Place: London
Country: United Kingdom
Published on October 16, 2007

ElringKlinger has received the following notification:
”Notification pursuant to § 21 para. 1 WpHG
The following notification is made in the names of Threadneedle Asset Management Limited and Threadneedle Asset Management Holdings Limited, both with registered seat in London, United Kingdom and in the name of Ameriprise Financial, Inc., USA.
Ameriprise Financial Inc. is the parent company of Threadneedle Asset Management Holdings Limited, which is the parent company of Threadneedle Asset Management Limited.
Please be advised that on 08 October 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3 % of the total voting stocks of the company.
The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at 08 October 2007 amounted to 2,603 % (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.
The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 08 October 2007 amounted to 2,603% (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG.
The percentage of voting rights of Ameriprise Financial, Inc. in ElringKlinger AG at 08 October 2007 amounted to 2,718 % (521,799 shares). These voting rights are in their entirety attributable to Ameriprise Financial, Inc. pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG.“

13. Voting rights announcement

Details of the party required to give notice:
Name: New Star Asset Management
Place: London SW1X 7NE
Country: Great Britain
Published on February 22, 2008

We received the following notification from New Star Asset Management, Great Britain, on February 19, 2008:
”Notification pursuant to sec. 21 para. 1 WpHG
We hereby give notice, pursuant to sec. 21 para 1 of the WpHG, that on 18th February 2008 our voting interest in ElringKlinger AG fell below the threshold of 3 % and amounts to 2.97 % (569,624 voting rights) on this day.
2.97 % of the voting rights (569,624 voting rights) are attributable to us inaccordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.“

Statement of compliance with the German Corporate Governance Code

The management board and the supervisory board issued on December 6, 2007, a declaration of compliance pursuant to § 161 AktG on the German Corporate Governance Code and published it on the internet site of ElringKlinger AG on December 6, 2007. This declaration of compliance will be available on the Internet for the next five years and therewith made durably accessible to shareholders. It will be published in the Annual Report as part of the Corporate Goverance Report.

Dettingen/Erms, March 20, 2008

The Management Board

Dr. Stefan Wolf   Theo Becker   Karl Schmauder

Responsibility Statement According to §§ 297(2) Sentence 4 and 315(1) Sentence 6 HGB (German Commmercial Code)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Dettingen/Erms, March 20, 2008

Dr. Stefan Wolf   Theo Becker   Karl Schmauder

Auditor’s Report

We have audited the consolidated financial statements prepared by the ElringKlinger AG, Dettingen/Erms, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2007 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 of the German Commercial Code (HGB) and supplementary provisions of the shareholder agreement are the responsibility of the parent 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 § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 group management report. We believe that our audit provides a reasonable basis for our opinion.

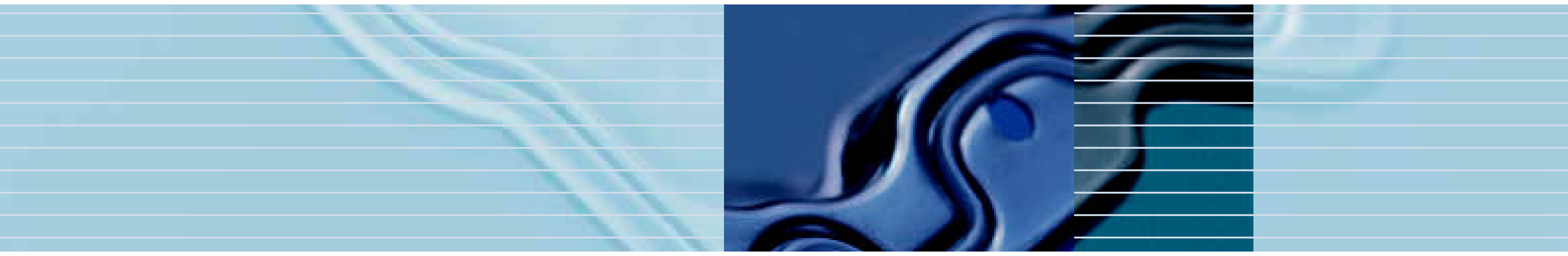
Our audit has not led to any reservations.

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 § 315a Abs. 1 HGB and supplementary provisions of the shareholder agreement and give a true and fair view of the net assets, financial position and results of operations of the ElringKlinger 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 20, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burchards	Hagg
Wirtschaftsprüfer	Wirtschaftsprüfer



Additional Information

Glossary

Financials

Cash flow
Figure used to determine a company's financial strength and earnings power. It is calculated by taking the difference between cash inflows and outflows in the accounting period. Net cash from operating activities (also known as operating cash flow) is the cash surplus generated by operating activities over a certain period of time. Operating cash flow includes the net profit in the accounting period, the change in depreciation as well as the increase/decrease in long-term provisions.

Cash flow statement
The cash flow statement shows the calculation for the flow of funds generated or used by a company from ongoing operating, investing and financing activities in the financial year. In addition, cash and cash equivalents at the beginning of the financial year are reconciled with the amount at year-end. The cash flow statement helps determine the company's ability to generate cash.

Corporate governance
Term that describes responsible company management and monitoring procedures focused on adding value over the long-term. Corporate governance refers to a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled.

Earnings per share
Earnings per share is used to evaluate a company's profitability. This figure is calculated by dividing profit attributable to shareholders of ElringKlinger AG by the weighted average number of ordinary shares outstanding during the period.

EBIT/Operating profit
EBIT stands for earnings before interest and taxes; it corresponds to operating profit before net finance costs and taxes. At international level, this figure is commonly used to compare companies' earnings power. In contrast to operating result, EBIT presented by Elring-Klinger includes factors relating to foreign exchange movements.

EBIT margin
The EBIT margin is a financial indicator of a company's profitability over a specific time period. It is defined as EBIT divided by sales revenues and is reported in percentage terms.

Equity method
A valuation method for interests in entities over which the investor has a significant influence (associate). The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment.

Free cash flow
Free cash flow represents the funds freely available to the company. This figure is calculated as follows: cash flow – surplus in cash – minus investment expenditure minus dividend payments.

Free float
Free float refers to a company's shares which are freely traded on the exchange and which are not firmly held by certain groups of investors. According to the definition of Deutsche Börse AG, share packages under 5% belong to the free float.

HGB
Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the AG are prepared in accordance with HGB.

IFRS
IFRS stands for International Financial Reporting Standards, formerly International Accounting Standards (IAS). They comprise the accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. In 2004, ElringKlinger made the transition from HGB to IFRS for its consolidated financial reporting.

MDAX
The Mid Cap Dax (MDAX) is a German share index introduced in 1996. The index contains the 50 mid-cap issues which, in terms of market capitalization and trading volume, rank below the DAX.

SDAX
The SDAX comprises the next 50 issues that are ranked below the MDAX in terms of market capitalization and trading volume. The SDAX came into existence in 1999.

Technology

AdBlue
AdBlue is a fluid used to reduce nitrogen oxide (NO_x) exhaust emissions from vehicles. With the help of AdBlue, diesel commercial vehicles are able to convert poisonous nitrogen oxides in the exhaust to water vapor and elemental nitrogen (a natural component of air). From a chemical perspective, AdBlue is a highly-purified, synthetically produced solution consisting of 32.5% urea. It is considered to be a key technology in achieving the stricter emissions standards of Euro 5 for commercial vehicles, Euro 5 for passenger cars as well as the future US 07 Tier 2.

Bipolar plate
The bipolar plate is a standard component of fuel cells. Its main function is to create an electrical interconnection between two levels (cells) within a fuel cell stack. In addition, a biploar plate is used for the purpose of supplying the reactant gases to the anode and cathode, as well as distributing the cooling fluid within an individual specific level. Metal bipolar plates perform these tasks simply and efficiently. Among the essential prerequisites for a well-designed bipolar plate are high-precision metalforming within the contact area (in the micrometer range) and accurate, low-distortion laser welding of the cathode and anode plates.

C-steel
C-steel (or carbon steel) refers to steel with a carbon content of › 0.25% and is used for such applications as the production of cylinder-head gaskets and heat shields.

DPF (Diesel Particulate Filter)
The diesel particulate filter is a component of the exhaust tract in diesel-powered vehicles. Its tasks is to remove diesel particulate matter or soot from the exhaust gas. One of the most commonly used filter materials is SiC (silicon carbide). In the EU, the Euro 5 emission standard to be introduced in September 2009 specifies a further reduction of around 80% in the level of particulates emitted by new vehicles. Industry experts predict that by 2009 almost every diesel car newly registered in Europe will be equipped with a DPF.

Elastomer

Elastomers are fixed-form but elastically-malleable plastics. In the vehicle, these are used for applications such as engine or transmission gasketing. As such, elastomers must create a seal under various engine conditions – at temperatures of -25°C as well as at operating temperatures of +150°C, independent of the degree of sealing gap movements. ElringKlinger utilizes proprietary applications for its elastomer materials, which are then optimized to meet individual customer requirements. ElringKlinger's specialization in high-performance materials underscores its system integration competence for sealing systems in the area of engines and transmissions.

Fuel cell technology

Fuel cell technology has opened up new opportunities for energy generation. Fuel cells enable chemical energy to be converted directly to highly-effective electricity with minimal harmful emissions.

Hybrid engine

In the automotive industry, the term hybrid engine refers to the combination of various engine types or energy sources; this includes, for instance, the combination of a diesel or gasoline internal combustion engine with one or more electric motors. Depending on how they are used, hybrids can result in reduced emissions and lower fuel consumption. However, they are often heavier and more expensive than conventional engines.

Meander, honey comb and segment stoppers

New coining technologies provide engineers with various possibilities for influencing the distribution of pressure in the sealing gap. Aside from being cost-effective, metal layer cylinder-head gaskets with coined meander, honey comb or segment stoppers provide other significant advantages. The meander stoppers in spring steel layers enable the optimal use of the geometric space provided by the engine. In the case of diesel engines, differing thickness upon installation is typically used to compensate for engine manufacturing tolerance, and the exact calibration occurs through variable supporting plate thickness. The coined stopper in the carrier layer has a geometrical honey comb shape.

Metal-elastomer

Metal-elastomer gaskets are tailor-made, robust and long-lived sealing systems made from a metal core with vulcanized elastomer profiles.

Metaloflex®

Metaloflex® by ElringKlinger is an internationally recognized brand for innovative metal layer cylinder-head gaskets (CHG) made from beaded, elastomer-coated spring steel layers – single-layer or multi-layer, depending on the application. Due to the modular construction element, this sealing system can be individually tailored to specific engine demands.

Metaloseal®

Metaloseal® by ElringKlinger is a highly effective sealing system based on elastomer-coated and uncoated metal carrier materials.

Moldflon®

Moldflon®, a brand belonging to the plastics company ElringKlinger Kunststofftechnik, is injection moldable PTFE.

NO_x

Nitrogen oxide is a generic term for gaseous oxides of nitrogen. These are also abbreviated as NO_x, as numerous nitrogen and oxygen connections exist due to the numerous levels of oxidation. In 1998, road traffic accounted for 45% of NO_x emissions in Germany. However, overall emissions in this segment have halved since 1980 and continue to decline. There is a trade-off in engine technology between low fuel consumption and the reduction of NO_x emissions. Efficient engines have a high combustion temperature and thus produce more NO_x.

PEM

PEM stands for ”Proton Exchange Membrane“. In this low-temperature fuel cell the working temperatures are approx. 90°C. This type of fuel cell is operated by merging two elements, oxygen and hydrogen, which react with one another aided by a catalyst (usually platinum). In the synthesis reaction, so-called ”cold combustion“, water forms and electricity is released.

Shielding systems

Shielding systems are used in vehicle engines to protect temperature-sensitive engine parts. In light of increasing power density, higher temperatures inside the engine and increasingly scarce interior space in modern engines have placed high demands on shielding systems.

SOFC

SOFC stands for Solid Oxide Fuel Cell and refers to ”hot“ fuel cells which function at operating temperatures of around 800°C. The hydrogen required for the cell can be extracted from gasoline, ethanol, natural gas and diesel. SOFC maintains a high degree of overall efficiency.

Teflon® (Polytetrafluoroethylene)

Polytetrafluoroethylene (PTFE), commonly known as Teflon®, is a thermoplastic fluoropolymer. Compared to other thermoplastic synthetics, PTFE maintains a unique position due to the special properties of its composition. In producing Teflon®, PTFE powder is pressed into blocks. In doing so, the incorporation of filler material (compounding) makes it possible to adapt the physical properties of PTFE to specific applications. The offsetting with filler material helps avoid the tendency to flow cold when under mechanical stress. PTFE has the following advantages: PTFE shows no changes when it comes into contact with most chemicals, and it is non-reactive in conjunction with solvents and other aggressive chemicals. Its surface is so smooth and slippery that hardly any foreign substance can take hold of it. Moisture and UV radiation do not cause changes in volume, decomposition or brittleness. PTFE can withstand cold up to -200°C and is resistant to ongoing heat of up to +260°C.

Imprint

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.de

IR-Contact: Stephan Haas, Phone +49 (0)71 23/724-137, Fax +49 (0)71 23/724-641
stephan.haas@elringklinger.de

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Disclaimer – Future-oriented Statements and Predictions

This report contains statements about the future. These statements are based on current expectations, market evaluations and predictions by the Management Board, and on information that is currently available to them. The statements about the future should not be interpreted as guarantees of the future developments and results that they refer to. Whilst the Management Board are convinced that the statements that have been made, and the convictions and expectations on which they are based, are realistic, they rely on suppositions that may conceivably prove to be incorrect; future results and developments are dependant on a multitude of factors, they involve various risks and imponderabilities that can affect whether the ongoing development deviates from the expectations 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.

The English version of this report is a translation of the original German report. Only the German version of this report is legally binding.

Calendar

Annual Press Conference (Stuttgart)	March 27, 2008
Analysts' Meeting (Frankfurt)	March 27, 2008
Interim Report on the 1st Quarter of 2008	May 8, 2008
103rd Annual General Shareholder Meeting Cultural and Congress Centre Liederhalle, Stuttgart, Hegelsaal, 10.00 CET	May 30, 2008
Dividend distribution	June 2, 2008
Interim Report on the 2nd Quarter of 2008	August 7, 2008
Automechanika (Frankfurt)	September 16–21, 2008
Engine Trade Show “Motoren-Kolloquium Aachen”	October 6–8, 2008
International Supplier Fair (IZB) (Wolfsburg)	October 29–31, 2008
Interim Report on the 3rd Quarter of 2008	November 6, 2008
German Equity Forum (Frankfurt)	November 10–12, 2008
Absolventenkongress (Cologne)	November 19–20, 2008
International Automotive Transmission Symposium Berlin	December 1–5, 2008
104th Annual General Shareholder Meeting Cultural and Congress Centre Liederhalle, Stuttgart, Hegelsaal, 10.00 CET	May 28, 2009

If you would like to receive our interim reports
by e-mail please send your details to:
stephan.haas@elringklinger.de or give us a call at
+49 (0)71 23/724-137

Further information is available at www.elringklinger.de

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.de