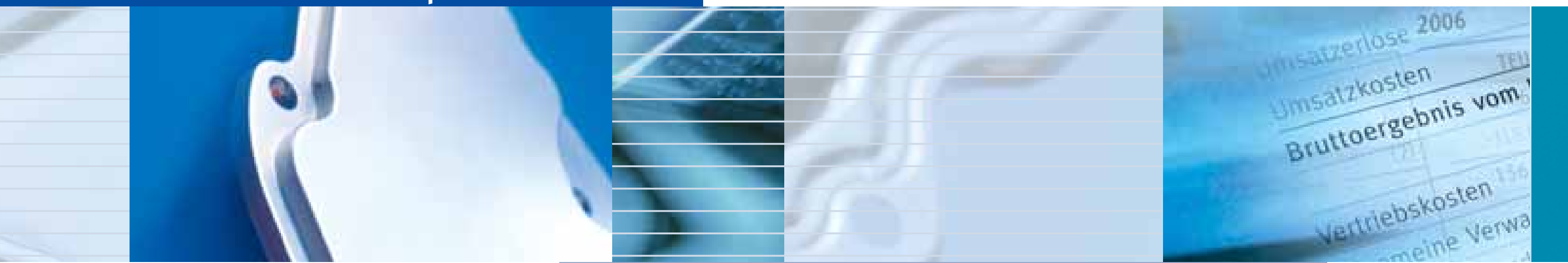
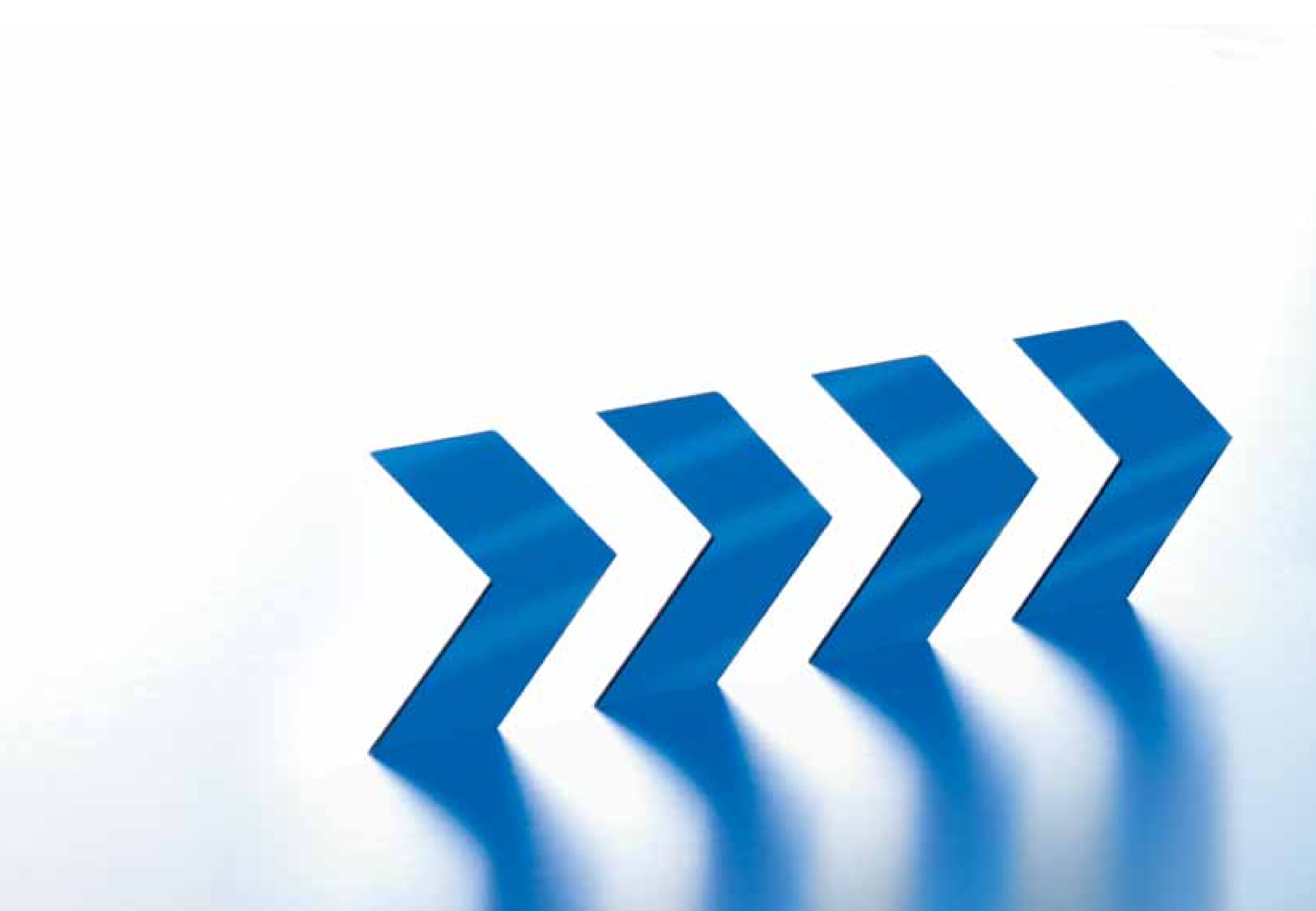
elringklinger

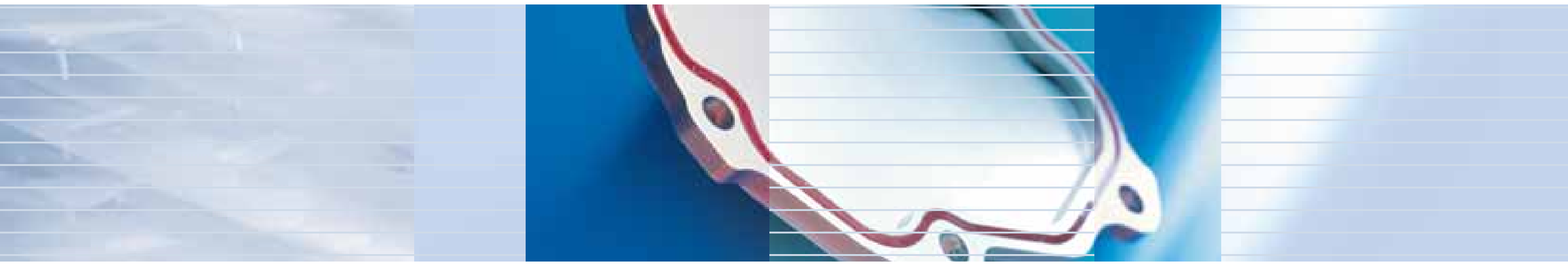
Annual Report 2006



Experience mobility – Drive the future.



Drive the future.



Continuous and sustainable growth in sales, earnings and dividends – that is the goal and expectation of ElringKlinger. As a dependable development partner and supplier to the automotive industry and other sectors, we are there for our customers, worldwide. With innovative, environmentally-sound products, we expand new and existing business areas for profitable growth.

ElringKlinger Group in Figures

IFRS	2006	2005	2004	HGB	2003	2002
	€ million	€ million	€ million		€ million	€ million
Sales revenues	528.4	474.6	459.5	Sales revenues	416.8	392.5
Cost of sales	338.7	318.0	305.0	Material expenses	154.1	153.1
Gross margin	189.7	156.6	154.5	Personnel expenses	131.7	123.9
Selling expenses	38.9	36.5	33.9	Amortization and depreciation on intangible and tangible assets	42.6	41.0
General and administrative expenses	22.7	22.9	22.2	Other operating income/ expenses	37.9	38.5
Research and development expenses	26.0	24.3	22.9			
Operating result	96.1	75.0	72.3			
Financial result and earnings from affiliated companies	-8.4	-4.1	-7.1			
Earnings before taxes	87.6	70.9	65.2	Earnings before taxes	50.5	36.0
Net income	61.9	46.6	40.4	Net income	27.2	20.2
Net income after minorities	57.8	42.4	36.0	Net income after minorities	23.7	17.0
Total dividend amount	24.0[1]	19.2	16.8	Total divident amount	14.4	12.0
Earnings per share (IAS 33) in € (split-adjusted)	3.01	2.21	1.88	Earnings per share (DVFA/SG) in € (split-adjusted)	1.40	0.87
Dividend per share in €	1.25[1]	1.00	1.75[2]	Dividend per share in €	3.00[3]	2.50
Market capitalization (31.12.)	931.6	586.8	576.0	Market capitalization (31.12.)	364.8	144.2
Investment in tangible and intangible assets	49.1	54.7	40.8	Investment in tangible and intangible assets[4]	58.0	32.3
EBIT[5]	93.3	77.2	71.9	EBIT[5]	54.0	40.6
EBIT margin	17.7%	16.3%	15.7%	EBIT margin	13.0%	10.4%
Net cash from operating activities	89.9	70.1	75.4	Cash flow from operating activities	66.0	69.1
Balance sheet total	476.6	456.3	423.9	Balance sheet total	343.2	321.3
Equity	231.2	196.1	163.9	Equity	113.2	105.9
Equity ratio	48.5%	43.0%	38.7%	Equity ratio	33.0%	33.0%
Return on total assets after taxes	14.5%	12.0%	11.3%	Return on total assets after taxes	9.9%	8.3%
Return on equity after taxes	29.0%	25.9%	26.4%	Return on equity after taxes	24.8%	19.9%
ROCE	26.7%	23.8%	23.8%	ROCE	22.1%	16.5%

[1] Proposal to the 2007 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

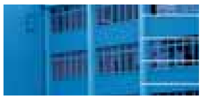
Original Equipment

Aftermarket

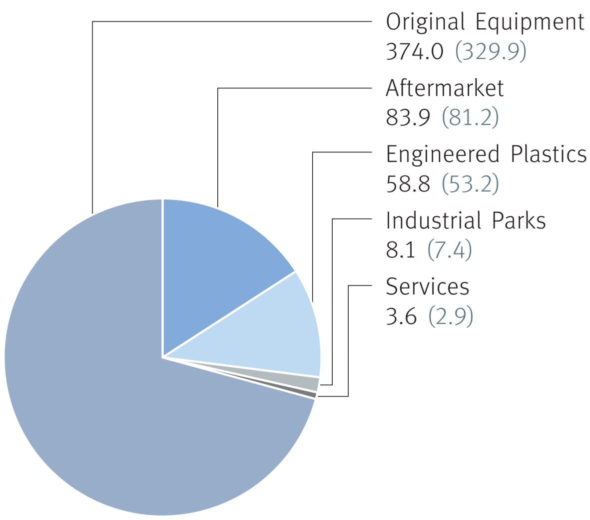
Engineered Plastics

Services

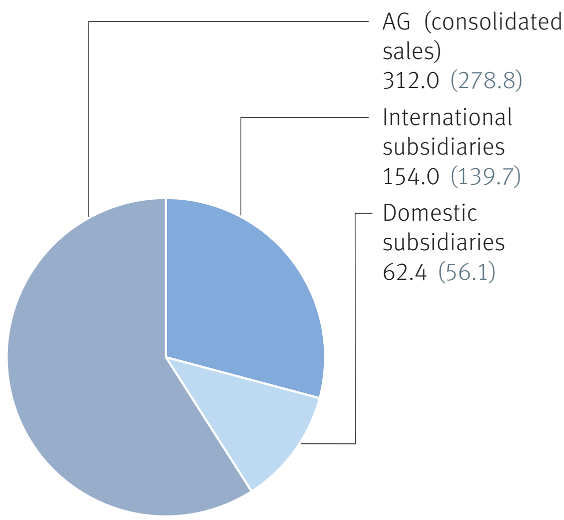
Industrial Parks



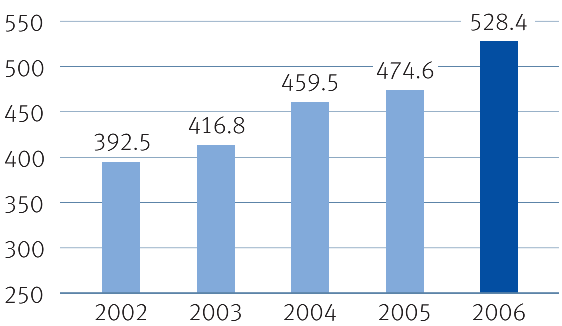
Sales revenues by Segment in 2006 (prior year)
in € million



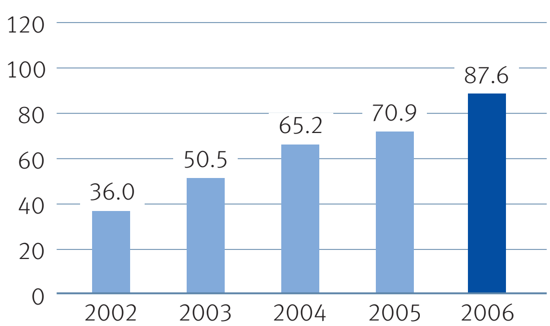
Sales revenues in 2006 (prior year)
in € million



5-Year Review of Sales revenues*
in € million



5-Year Review of Earnings Before Taxes*
in € million



* 2002 and 2003 in accordance with HGB, 2004–2006 in accordance with IFRS

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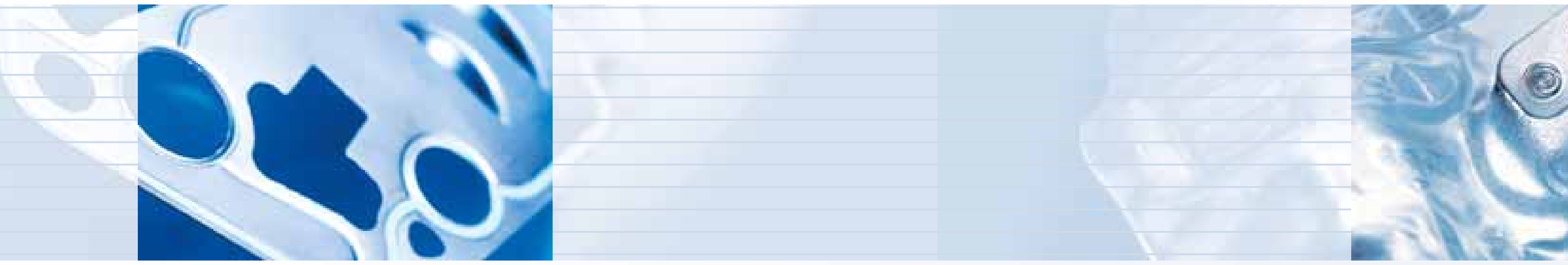


LETTER TO THE SHAREHOLDERS FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Theo Becker | Dr. Stefan Wolf (Chairman) | Karl Schmauder

Letter to the Shareholders from the Chairman of the Management Board

Dear Shareholders,
Dear Colleagues, Partners and
Friends of ElringKlinger,

In 2006, the ElringKlinger Group stayed on its successful course of development. Sales revenues and earnings continued to rise. Consolidated sales revenues increased by 11.3% to EUR 528.4 million. Compared with 2005, earnings before taxes at EUR 87.6 million were up 23.6%.

Economic conditions were more positive in 2006 than in the prior year. The German economy experienced growth of 2.5%. In the Eurozone, the gross domestic product was up 2.7%. The US economy remained at a high level, attaining growth of 3.3%. The Asian countries enjoyed the strongest growth, especially China with a rate of 10.5% and India at 8.7%.

Despite the positive economic growth overall, the economy in the automotive industry, the key sector for ElringKlinger, was confronted with difficult conditions around the world. Significant rises in material prices, high energy costs, sluggish profitability amongst vehicle manufacturers and the resulting pressure on prices represented a major challenge for the automotive supplier industry. The world's production of cars and light commercial vehicles was up 3.8% in 2006. In the traditional vehicle markets – Europe, the US and Japan – 35.8 million vehicles were produced in 2006, or 1.2% fewer than in 2005. Considerable increases were experienced by the vehicle markets in China, India, Korea and Brazil.

Facing these conditions, the ElringKlinger Group was able to boost sales revenues by approximately EUR 53.8 million over the prior year, with the Original Equipment segment making the most significant contribution to this achievement. New products in the fields of cylinder-head gaskets, specialty gaskets, shielding technology and plastic cam cover modules were successfully introduced in-series. ElringKlinger in 2006 managed to gain market shares with existing and new customers. Nearly all subsidiaries were in a position to boost their market share. The free aftermarket business recorded gratifying increases in sales, especially in Eastern Europe and in the Middle East. The Engineered Plastics segment also upped sales over 2005.

ElringKlinger's share price performed well in 2006. Coming from an Xetra closing price of EUR 30.56 on December 31, 2005, during the year, the share price peaked at EUR 49.41, and closed at EUR 48.52 on the final day of trading in 2006. ElringKlinger' shares are in the meanwhile a standard component in the portfolios of small and mid cap funds oriented towards capital appreciation and dividends. In 2006, ElringKlinger continued to intensify its communication activities with the capital market. On a regular basis, talks were held with institutional investors locally in Europe's key capital markets and in North America, as well as with investors visiting the company's headquarters in

Dettingen/Erms. Participation in capital market conferences in Germany, France, Great Britain and the US increased ElringKlinger's name recognition. Further analysts started reporting on ElringKlinger in 2006, with 16 credit institutes now featuring information about ElringKlinger on a regular basis.

The Management Board will propose a dividend of EUR 1.25 per share to its shareholders at the 102nd Annual General Meeting on May 25, 2007, in Stuttgart, representing an increase of 25%, following last year's dividend payment of EUR 1.00. This year's total dividend payment amounts to EUR 24.0 million. With this payout, ElringKlinger is thus continuing its approach of allowing its shareholders to participate in the company's corporate achievement through increases in the dividend, and this will remain the goal of the company.

The future holds good growth opportunities for the ElringKlinger Group. The vehicle manufacturers – the main customers of ElringKlinger – are dealing intensively with the topics of emissions reduction, consumption reduction, alternative energies and the development of alternative drive technologies. And ElringKlinger can contribute significantly to these key topics of the automotive industry. Innovative, technically-sophisticated sealing concepts help reduce emissions and consumption. The substitution of metal parts with plastic components in vehicles saves weight, in turn reducing fuel consumption. ElringKlinger has replaced metal cam covers with plastic cam cover modules for many years. In the future, ElringKlinger will offer numerous covers and housing parts that were previously made of metal as much lighter plastic parts – a contribution to the responsible use of natural resources. ElringKlinger is now benefiting from the expertise acquired in recent years by its Brazilian subsidiary regarding the sealing of alcohol and FlexFuel engines, applying this expertise in projects worldwide for the advancement of alternative fuels. Sustainable sealing concepts are offered for these applications. Several years of intensive research and development in the fuel cells area has put ElringKlinger in a good starting position. Ever more often, customers involve the company as development partner in research projects for drive concepts as alternatives to the combustion engine.

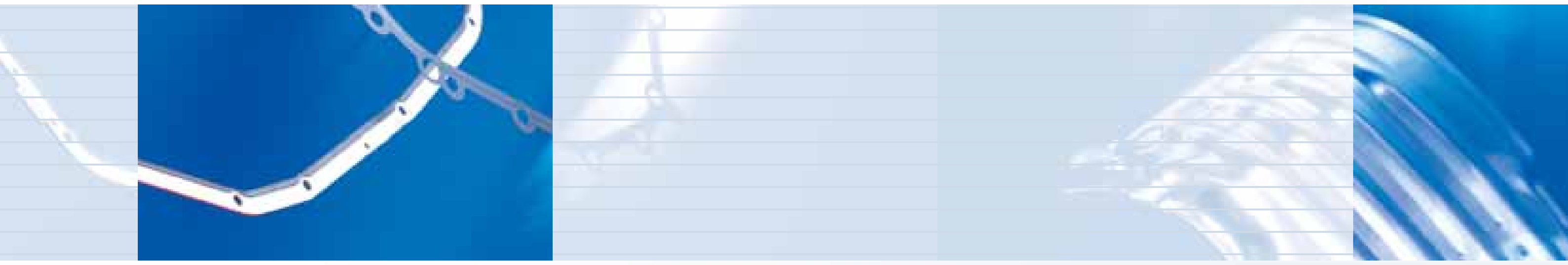
ElringKlinger puts the focus on innovative, future-oriented technologies, creating a competitive edge for the group. The corporate culture plays an important role here. Together with our highly motivated and productive employees, we will grasp the opportunities presented to the company in these fields, now and in the future.

An aim of the ElringKlinger Group for 2007 is to successfully implement the numerous new product start-ups and investment projects. In addition, we want to expand our position with the Japanese, Korean and Chinese vehicle producers, whose market shares are on the rise worldwide. In the current year ElringKlinger with its own subsidiary that was founded just recently will also start production in the promising Indian market. The 2007 business year has started off well. Our goal for this year is, once again, to increase sales revenues and earnings even 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 convened four scheduled meetings over the course of 2006. As part of these meetings with the Management Board, the Supervisory Board discussed and assessed a number of key issues based on comprehensive reports furnished by the Management Board. These discussions and consultations focused on the 2005 annual financial statements, recent market trends, the economic and political environment and their impact on the company's state of affairs and prospects for the future, in addition to the course of business, corporate strategy and its incorporation in budgeting and medium-term financial planning, the pursuit of corporate policy plans, the Management Board's risk report, significant events and circumstances, as well as Management Board measures subject to prior authorization.

Issuing written reports on a monthly basis, the Management Board informed the Supervisory Board of the revenue and earnings performance of the Group, the AG, their divisions and of the subsidiaries and provided comments relating thereto.

A continuous exchange of views and information took place between the Chairman of the Supervisory Board and his counterpart on the Management Board, the main focus being on the course of business, the progression of current projects, the strategic direction, the risk situation and specific events or occurrences deemed to be of particular importance. The Chairman of the Supervisory Board passed on to the other members of the Supervisory Board all the key insights and details derived from the aforementioned discussions, thus providing them with the same scope of information on all relevant issues and giving them the opportunity to offer advice and present their assessment of the situation.

At its meeting of March 28, 2006, the Supervisory Board discussed the efficiency of its work from the viewpoint of each Supervisory Board member. This dialogue resulted in a number of suggestions being put forward to improve risk management.

At its meeting of December 5, 2006, the Supervisory Board passed the joint Declaration of Conformity issued by the Management Board and the Supervisory Board as documentary evidence of its compliance with the German Corporate Governance Code in the version of June 12, 2006. The Declaration was subsequently published and made permanently available on the company's website.

The Personnel Committee of the Supervisory Board convened on three occasions during 2006. It assessed the actions of the Management Board and discussed preliminary points relating to resolutions on Management Board compensation and contracts to be passed at the beginning of 2007.

On recommendation by the Personnel Committee, the Supervisory Board appointed Dr. Stefan Wolf as Chairman of the Management Board on March 28, 2006, with the express purpose of achieving a more focused representation of the company in its dealings with third parties and further enhancing decision-making processes at Management Board level.

To date, there has been no need to constitute additional committees of the Supervisory Board, e.g. an Audit Committee or a Strategy Committee, as the full body has always been able to discuss all issues in a responsible and comprehensive manner.

For the same reason, the board decided against convening separate meetings of employee and shareholder representatives for the purpose of preparing Supervisory Board meetings.

The financial statements of ElringKlinger AG, the consolidated financial statements, the management report of the AG and the management report of the Group as well as the financial statements of the domestic subsidiaries were audited by the auditors reappointed at the 2006 Annual General Meeting of shareholders, namely KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart branch. With the exception of two smaller entities the financial statements for which the audit was conducted by local auditing firms in accordance with the auditing regulations established by KPMG, the financial statements of the foreign subsidiaries and affiliates were audited by partner companies of KPMG in the respective countries of operation. All financial statements for 2006 within the Group received an unqualified audit opinion.

The complete documentation of the annual financial statements and the management reports for the AG and the Group were presented to the Supervisory Board on schedule prior to its meeting convened on March 28, 2007, at which the company's balance sheet was approved. All documents were reviewed, discussed and assessed with the Management Board and in the presence of the appointed auditors. The Supervisory Board had the opportunity to put questions to the auditors on matters concerning the financial statements and the audit procedure, without the Management Board being present. The Supervisory Board raised no objections to the audit or the financial statements.

Therefore, the Supervisory Board approved the financial statements of ElringKlinger AG and the consolidated financial statements for the 2006 financial year at its meeting on March 28, 2007. It also approved the proposal for the appropriation of earnings put forth by the Management Board. The financial statements of the AG have thus been adopted, while the consolidated financial statements of the Group have been approved.

In accordance with Section 289 (4) and Section 315 (4) HGB, the Management Board included the corresponding disclosures in the management report of the AG and the Group management report. The Supervisory Board explains the follwing:

The families Klaus Lechler and Walter Herwarth Lechler, both domiciled in Stuttgart, in total have a direct and indirect interest of 54.6% of shares in the company.

There are no preferential rights or restrictions of rights associated with individual shareholders of ElringKlinger AG nor have such preferences or restrictions been envisaged in any way.

At present, the Management Board and Supervisory Board do not consider appropriate the introduction of employee profit-sharing schemes.

The Supervisory Board sees no necessity for agreements with the Management Board or with employees concerning specific clauses to take effect in the case of a public takeover offer.

The appointment and removal of Management Board members is governed, without any special provisions, by Sections 84 and 85 of the German Stock Corporation Act and the Articles of Association.

The authority vested in the Management Board with regard to the execution of capital specific measures shall be seen within the context of the pursuit of commercial opportunities arising in the short term; the procedures associated therewith conform with standard arrangements applicable within this area.

In 2006, the Supervisory Board comprised Gert Bauer (employee representative), Walter Greiner (until March 31, 2006, employee representative), Dr. Rainer Hahn, Karl Uwe van Husen, Dr. Thomas Klinger-Lohr, Walter Herwarth Lechler (Deputy Chairman), Dr. Helmut Lerchner (Chairman), Markus Siegers (from March 31, 2006, employee representative), Manfred Rupp (employee representative) and Manfred Strauß. At its meeting on June 1, 2006, the Supervisory Board reappointed Dr. Helmut Lerchner as its Chairman and Mr. Walter Herwarth Lechler as its Deputy Chairman.

In 2006, the Personnel Committee was formed by Karl Uwe van Husen, Walter Herwarth Lechler, Dr. Thomas Klinger-Lohr and Dr. Helmut Lerchner (Chairman), as was the case in the previous year.

The Supervisory Board would like to take this opportunity to thank Mr. Walter Greiner for his successful contribution as an employee representative. Mr. Greiner was a member of the Supervisory Board of ElringKlinger AG and its preceding companies for more than 27 years, up until his retirement. During this time, he channeled his efforts into maintaining and developing the company under favorable and challenging conditions, displaying a highly constructive, creative and incisive approach, while tirelessly and successfully representing the interests of the workforce. Working in close cooperation with Mr. Greiner, ElringKlinger was able to implement the idea of co-determination in a manner that has proved highly effective and sustainable.

The Supervisory Board wishes to thank the Management Board and all members of staff within the Group for the superior level of commitment shown throughout the year 2006 and their outstanding work during this period, without which our highly encouraging results would not have been possible.

Aichtal, March 28, 2007

The Supervisory Board

Dr. Helmut Lerchner

Chairman of the Supervisory Board

Growth for the future.

Those with the ambition of driving tomorrow's world and accelerating revenues and earnings by drawing on today's accomplishments have to be among the first to chart new courses for the future.

Growth strategy of the ElringKlinger Group

The automotive industry as a whole will be faced with a number of issues in the coming years. Within this context, reduction of consumption and emissions, alternative fuels and new drive technology are likely to be key topics. Committed to excellence, ElringKlinger will also be focusing on these overriding priorities.

Core competence in key areas

- Reducing emissions
- Lowering fuel consumption
- Introducing alternative fuels
- Developing new drive technologies

Focusing on key requirements in the automotive industry

Against the backdrop of surging fuel prices and limited reserves of fossil fuels, the development of internal combustion engines with lower consumption has become a top priority within the industry.

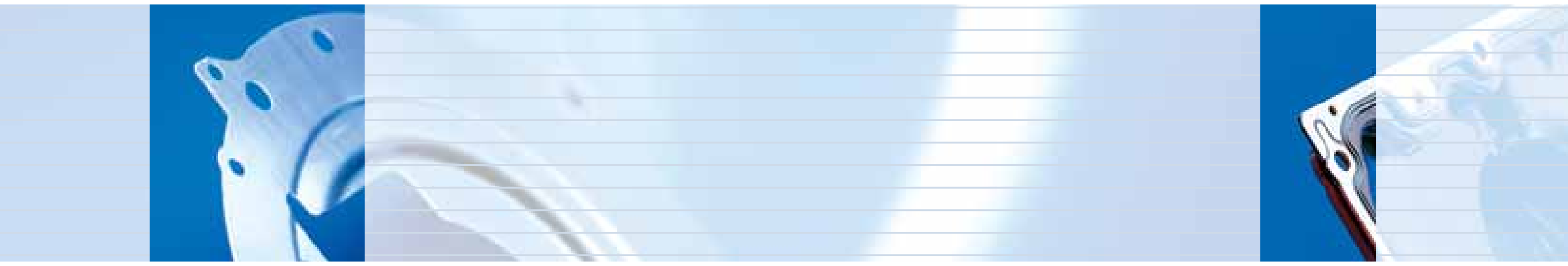
In view of the stricter emission limits implemented by many countries around the globe, the reduction of pollutants, particularly CO_2, has emerged as a major challenge in engine design.

The rise in energy prices has prompted extensive research into alternative fuels and their use in motor vehicles. Despite this fresh impetus, however, the internal combustion engine is likely to remain the driving force behind personal mobility around the globe mid term. Within this context, the true potential of diesel engines has not yet been fully tapped. Increasingly, alternative energy sources such as biodiesel, BTL (biomass to liquid) and bioethanol are also being used.

In the long term, there is little doubt that fuel cell concepts will achieve greater prominence as an alternative to conventional combustion engines.

Identifying market trends and driving innovation – the key to success

As a development partner to major vehicle manufacturers, ElringKlinger has established an outstanding track record in embracing issues that lie at the heart of automotive engineering. Drawing on its capacity to identify new trends as they emerge, the company is in the enviable position of being able to unlock solid opportunities in a sector generally associated with moderate growth. ElringKlinger offers innovative, technologically demanding solutions tailored to the core requirements of today's vehicle manufacturers. Newly developed sealing and gasketing concepts are designed to contribute to the reduction of fuel consumption and emissions. The use of alternative fuels such as biodiesel represents a formidable challenge within the field of engine sealing. ElringKlinger has developed cutting-edge solutions in this category. By replacing metal covers and parts as well as metal oil pans with plastic components, manufacturers can reduce the weight of a vehicle and thus achieve lower fuel consumption. A prime example: plastic cam covers, which ElringKlinger has been supplying for the past ten years. As a result of design-specific measures aimed at emission reductions in the exhaust tract, temperatures frequently reach up to 1,000°C in this section of the vehicle. This is where ElringKlinger provides innovative thermal shielding and gasketing systems. Fuel cells – as an alternative drive concept – call for highly sophisticated components. Here, too, ElringKlinger has emerged as a true pioneer, developing components for prototype fuel cell stacks.



Growth in four directions.

Committed to sustainable organic growth, we have identified four key directions: new products, new markets, new customers and new technologies. This is how we expand our leading-edge position in the future.

Growth in four directions

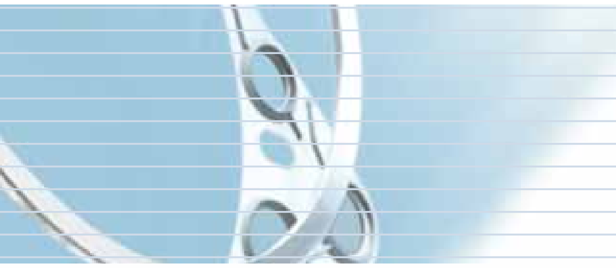
One of the prime objectives of the ElringKlinger Group is to raise sales revenue and earnings in a sustainable manner. The essential prerequisites: innovative ideas and concepts as well as solid financial resources for future investments required within this area.

ElringKlinger's growth strategy is centered around the following components:

A key element of ElringKlinger's game plan for the coming years is to keep on generating organic growth. This may be complemented by the purchase of viable technologies as well as the acquisition of other companies or corporate divisions – to extend the Group's existing product portfolio or to provide faster access to markets with untapped potential.

Our innovative products and finely honed skills in R&D provide the basis for future growth within the international arena. Armed with this competitive advantage, we will attract new customers.

Growth through new customers.



Growth through new customers

ElringKlinger's customer base includes many of the world's leading car and commercial vehicle manufacturers. Boasting a range of new technologies and an extensive portfolio of well-established products, the company is committed to extending this client base by winning new customers in the vehicle industry as well as in the segment of Tier 1 suppliers.

The ElringKlinger Group attracted a number of new customers in North America over the course of 2006. Among the new arrivals were several US engine and commercial vehicle manufacturers, who in future will contribute increasingly to ElringKlinger's revenue flows. Stricter US legislation on emission limits has buoyed demand for modern diesel technology, particularly for heavy goods vehicles and light trucks, and given rise to more demanding standards in exhaust after-treatment. ElringKlinger has benefited from this trend, experiencing a surge in demand for high-performance cylinder-head gaskets, plastic cam cover modules as well as gasketing and thermal shielding systems for the exhaust tract.

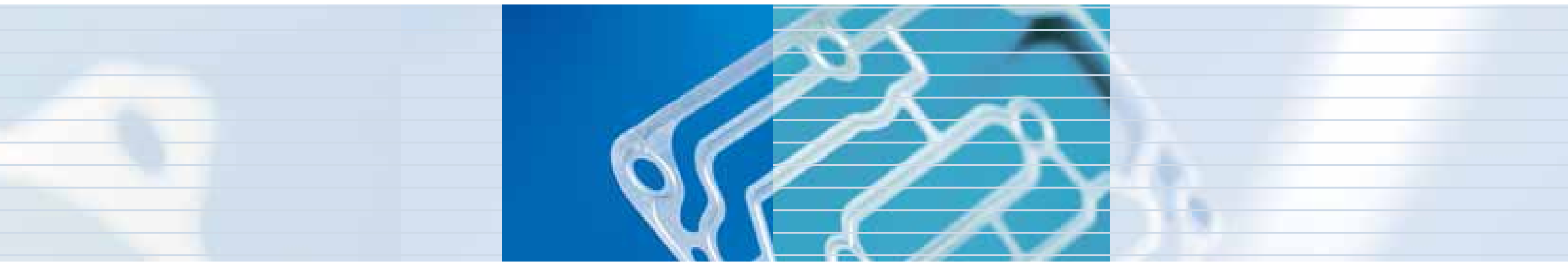
Asia has emerged as one of the key regions in which to prospect for new customers. Committed to maintaining its forward momentum in the international arena, ElringKlinger is drawing on its strong position as a technology leader in gasketing and shielding systems for diesel engines, an area which is becoming increasingly important in Asia, particularly when it comes to the so-called transplants by Asian automakers in Europe and North America.

In India the company has gained access to new customers. And there is further potential in future. The Chinese automobile industry is growing at a rapid pace. ElringKlinger is putting a strong emphasis on expanding its sales with new clients in that region.

Eastern Europe, too, has also produced a number of success stories. ElringKlinger received its first orders from Russian manufacturers for products marketed by its original equipment segment.

Growth through new markets.

We will strengthen our global presence by expanding existing and building up new ElringKlinger sites and penetrating new growth markets. Our goal is to establish ourselves within the markets of the future, with the express purpose of bolstering our position and capturing additional market share with existing and next-generation products.



Growth through new markets

Having set its sights on growth markets, ElringKlinger was among the first to recognize the need for international expansion. Today, the Group boasts a total of 21 production sites in Europe, the Americas, Asia and Africa. ElringKlinger is determined to continue on this path of global growth.

One of the key regions for expansion is Asia. Given the fact that the majority of countries will eventually adopt the European emission standards Euro 3 and Euro 4, there is little doubt that Asia harbors tremendous potential for manufacturers of high-end gaskets and sealing systems. In addition, products within the area of shielding technology and cam cover modules are emerging as formidable growth drivers in the Asian market.

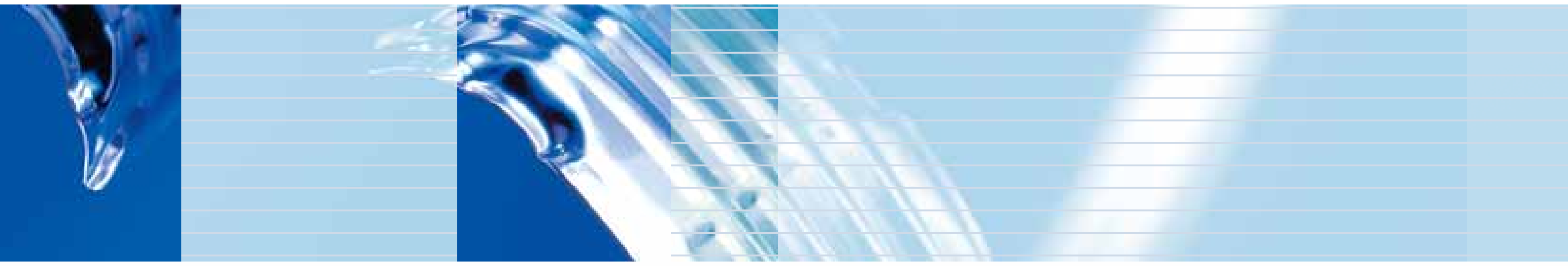
At present, India is among the fastest-growing automobile markets worldwide. Within this context, local production facilities are considered an essential prerequisite for growth in this region. Having identified the tremendous potential emanating from the Indian subcontinent, ElringKlinger has taken a decisive step forward in this market and is building its own plant in Pune in 2007. The new factory will be located in close proximity to a number of plants operated by vehicle manufacturers. Production is to commence in the second half of 2007.

China currently holds pole position in the league table of countries with rapidly growing vehicle sales. ElringKlinger will continue to build its presence in this burgeoning market. Production will also be stepped up in Korea.

Determined to boost its position in Japan, ElringKlinger has charted a course for future expansion within this market. In 2007, in order to meet the level of demand in Japan, the company aims to extend its existing partnership with Marusan Corporation or, alternatively, establish its own local production facility. ElringKlinger has built a close rapport with Marusan Corporation over the years, maintaining a highly successful development and sales joint venture by the name of ElringKlinger Marusan Corporation.

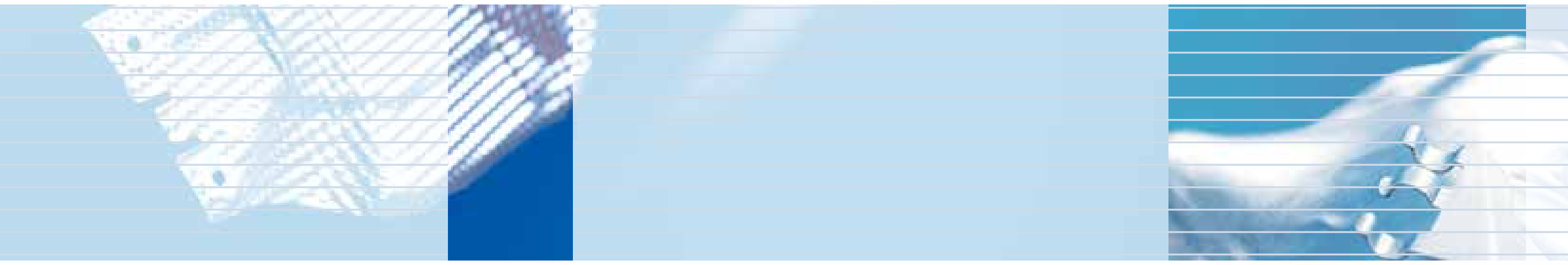
Turning to other regions, Russia has been recording dynamic growth in demand for motor vehicles recently. The number of vehicles produced in Russia is forecast to grow in double digits over the coming years – a lucrative trend that ElringKlinger wishes to exploit. ElringKlinger further strengthened its business relations with Russian vehicle manufacturers in 2006 and is currently assessing the possibility of establishing local operations.

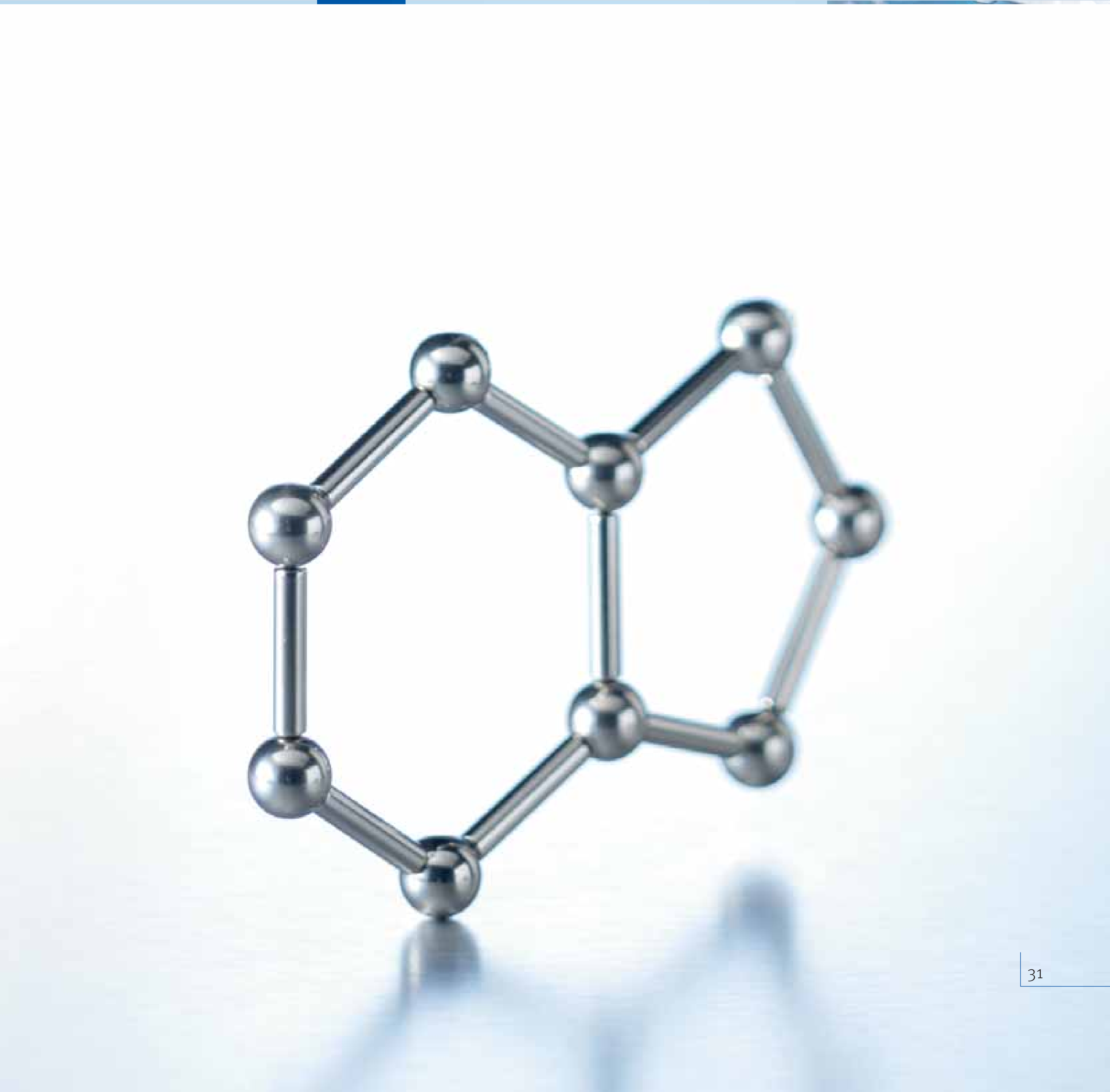
The Russian market is already among the three most prominent growth regions served by the Group within the area of aftermarket sales.



We will transfer to new fields of application the technological expertise gained within our core business. As a specialist in engine components, we have extended our range of applications and product designs to include transmission, exhaust tract, underbody and other vehicle applications.

Growth through new fields of application.





Growth through new fields of application

ElringKlinger looks set to leverage new growth opportunities by transferring its existing product and process expertise to new fields of application. Among the core competencies of the ElringKlinger Group within the area of production are among others precision punching, embossing of intricate parts, elastomer coating and sealing, as well as chemical and mechanical process technology.

Control plates for automatic transmissions are precision-punched and coated as part of a fully automated process, before being delivered to the customer as a ready-to-install product. They are responsible for the hydraulic control of oil flow in the hydraulic block of automatic transmission systems. Mass production of this product commenced at the beginning of 2006. ElringKlinger anticipates that European demand for automatic transmissions will rise significantly over the coming years.

The company has also developed innovative housing and cover modules with integral gasketing for transmission applications. Within this field existing know-how was successfully transferred to new applications. This also applies to the newly developed composite pistons with elastomer gasketing, which are also used in transmission systems.

The urea (AdBlue) injection module, deployed to reduce nitrogen oxide emissions (NO_x) in commercial vehicle diesel engines, combines a heat shield, specialty gaskets and an injection nozzle mount. This new application, which was developed as part of a concerted effort by bringing together the Shielding Technology and Specialty Gaskets divisions, is also based on existing know-how within the ElringKlinger Group.

Stricter US and European emission standards have brought greater complexity to the exhaust tract. It comprises an ever-increasing volume of individual parts, many of which require gasketing within a high-temperature environment. The Specialty Gaskets division is responsible for developing new gasketing solutions tailored to the sophisticated requirements of modern exhaust systems and state-of-the-art exhaust recirculation. A connector module for diesel particulate filters, featuring two integrated specialty gaskets, is currently being rolled out.

The Elastomer Technology/Modules division is applying development and manufacturing expertise gained within the area of plastic cam covers to produce ready-to-install plastic oil pans and other plastic components used in engines and transmission systems.

ElringKlinger's thermal shielding components are destined mainly for the engine compartment. There is a growing trend in engine development towards space-saving, encapsulated systems producing higher performance as well as lighter, more heat-conductive materials such as magnesium and aluminum. As a result, demand for heat shields to be deployed in the new generation of engines has risen considerably. Additionally, ElringKlinger develops and supplies state-of-the-art underbody shielding components for the exhaust tract. Existing know-how is also being put to good use when it comes to developing shielding systems for diesel particulate filters and oxidation catalytic converters.

Growth through new technologies.

Focusing on innovative technology and product development, we have our sights firmly set on growth. Our aim is to deliver cutting-edge solutions to our customers within the automotive industry and for new customers in other sectors – and to supply products of best-in-class quality in-series. With our proven track record in supplying sophisticated components made of high-performance plastics we are attracting customers within the manufacturing sector as well as in the medical technology industry.


250
200
250 ml
H_2O

Growth through new technologies

The development of new technologies is seen as an important foundation from which to launch a decisive campaign for additional growth within the ElringKlinger Group. When selecting and establishing new fields of business, one of the prime objectives – particularly within the area of increasing energy efficiency and emissions reduction – is to gain competitive advantages in the global arena and build viable new product concepts.

Fuel cell technology is a case in point: ElringKlinger has developed extensive know-how within this field in recent years. Against the backdrop of ever-increasing fuel prices and broader public debate over the need to reduce emissions, fuel cell technology is being heralded as an alternative to internal combustion engines. A number of vehicle manufacturers have been stepping up their efforts within the area of fuel cell technology. Supplying turnkey, ElringKlinger has positioned itself as a highly sought-after partner to companies operating in this field. The Group develops and produces high-tech SOFC components, which are combined to produce complete fuel cell stacks.

The SOFC (solide oxide fuel cell) operates in temperature ranges from 700°C to 850°C. One of the key advantages over the more widespread PEM (Proton Exchange Membrane) fuel cell is that energy carriers such as petrol, diesel, natural gas, biogas, etc. can be transformed into electrical energy more effectively. Therefore, this type of fuel cell does not require a hydrogen infrastructure. On-board hydrogen supply remains one of the greatest challenges facing fuel cell technology.

One of the key objectives is to introduce solid oxide fuel cells (SOFCs) as an integral component of a new energy management concept. In this case, the SOFC is to be deployed as the vehicle's auxiliary power unit (APU) for providing energy instead of powering the drive train. This approach is designed to increase the overall scope and efficiency of energy use, while at the same time reducing fuel consumption.

ElringKlinger is currently working on an SOFC-APU solution that can be used in commercial vehicles. For instance for environmental reasons, US legislation on non-idling operation prohibits the use of engines for heating and air conditioning purposes when the vehicle is parked. In order to address this issue, one possible choice is to deploy an additional diesel-powered unit. Within this context, however, there can be little doubt that an SOFC-APU is the more effective solution.

High-temperature fuel cells can be used in a wide range of stationary applications. Indeed, fuel cells are also a viable solution for combined heat and power generation plants supplying residential and commercial buildings.

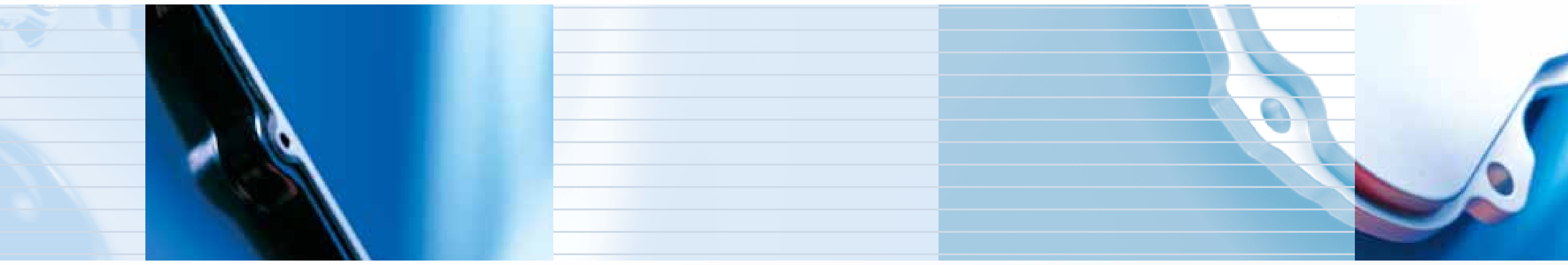
Towards the end of 2006, ElringKlinger was awarded another interesting development contract by a major vehicle manufacturer, the emphasis being on developing high-precision bipolar plates featuring coating and integrated gasketing to be used in the stack of PEM fuel cells. In the long term, this concept is to be used as a basis for vehicle drive technology.

Political and public debate over the risks of particulates, combined with stricter emission limits in Europe and North America, has prompted a surge in demand for diesel particulate filters. Indeed, particulate filters will be a standard component in the next generation of diesel vehicles.

ElringKlinger has channeled considerable resources into the development of a diesel particulate filter. Initial prototypes manufactured under laboratory conditions have produced encouraging test results. The company has invested around one million euros in a facility that will allow testing under serial production conditions. The new line is to be phased in as from the second half of 2007, the main focus being on producing samples and small batches for the purpose of testing them in engines and vehicles.

The main emphasis of development activities in this area is on enhancing the quality of existing filter technology. One of the prime objectives is to improve the rate of absorption, while at the same time scaling down the size of filters and thus reducing the volume of raw materials required for their production. The new concept, which has been patented worldwide, is to unlock new opportunities when it comes to optimizing exhaust back pressure, soot loading and incineration. Pollutants can be reduced by improving the filter's performance, while a reduction in exhaust back pressure has a positive effect on fuel consumption. Testing is likely to be completed by mid-2007, which means production could commence early in 2008.

ElringKlinger Kunststofftechnik, the segment responsible for engineered plastics, has also been working on a new high-tech project. In 2006, it acquired a global license for the production and sale of injection-moldable PTFE. The chemical composition of Moldflon® is similar to that of conventional PTFE. However, in contrast to standard PTFE, Moldflon® is melt-processable. Due to its versatility when it comes to injection molding, Moldflon® is a perfect choice for the production of highly intricate component geometries that are difficult or even impossible to achieve with standard machining units. Moldflon® can be used for a diverse range of applications. Another benefit associated within this material is that it can replace the fluoroplastic PFA, which is easier to process than PTFE but also much more expensive. ElringKlinger Kunststofftechnik is currently developing the process technology required for industrial production, as well as working in close cooperation with suppliers to establish a program that qualifies them for the supply of raw materials. Production of the first small-scale batches is to commence in the second half of 2007.



GROUP MANAGEMENT REPORT

Macroeconomic Conditions and Business Environment

Stable economic growth worldwide

Despite high oil prices and the increasing cost of raw materials and energy, the global economy achieved above-average growth in 2006, a trend that was particularly pronounced in Asia, North America and Latin America.

For the first time in many years the German economy in 2006 recorded solid growth of 2.5% in its gross domestic product and ranked among the winning economies. This was mainly due to a 12.4% improvement in export figures as well as renewed investment and construction activity. Private household spending also grew faster than in previous years, with the upcoming three percentage point rise in Value Added Tax providing a temporary boost to domestic demand, especially in the fourth quarter of 2006, as consumers brought forward their purchases.

Within the eurozone, gross domestic product rose by 2.7%, although growth was again relatively weak compared to the overall global trend.

Despite the ongoing malaise witnessed within the real estate sector and further interest rate increases by the Federal Reserve, US consumer demand remained buoyant. The US economy grew by 3.3%.

The Asian economic boom continued unabated, led by India, that grew by 8.7%, and by China, which, after the impressive results of 2005, gained another 10.5% in 2006. Japanese GDP was also up 2.7%.

Challenging environment for the supplier industry

Market conditions for the automobile and automotive supplier industries in 2006 were marked by rising prices for raw materials, high energy costs and intense competition. Automobile manufacturers continued to exert and even strengthen downward pressure on suppliers' prices, while the demands on suppliers in terms of research and development increased.

Unfortunately, the generally benign economic conditions were of little benefit to Europe's carmaking industry. A small increase in new vehicle registrations in Western Europe was largely down to the boost in demand created at the end of the year by the rise in VAT in Germany – Europe's largest vehicle market. With regard to the European and North American automobile markets that are of key importance to the success of the ElringKlinger Group, the picture was marked by only moderate developments in vehicle production and new car registrations.

Growth in vehicle production and registrations outside the Europe-US-Japan triangle

Worldwide production of passenger cars and light commercial vehicles in 2006 rose by 3.8% to 66.3 (63.9) million units. Within the established triade markets – Europe, the US and Japan – passenger car sales fell by 1.2% from 36.3 million to 35.8 million units. Growth in global demand for passenger cars was led by the Asian markets. Demand from China increased further. The number of car sales in China rose by 27.3% to 4.1 million in 2006.

Year-end demand for automobiles in Germany boosted by 2007 VAT rise

After years of continued weakness, there were signs of improved demand in the German market, which accounts for almost a quarter of all European vehicle sales. At

3.5 million, new car registrations were up 3.8%, the best figure achieved in seven years. In Germany the VAT increase on January 1, 2007, created a surge in demand for motor vehicles over the last two months of the year 2006, with additional car sales of around 90,000 units. For December, this represented a year-on-year increase of 17.7%.

Automobile production in Europe up slightly on 2005

Automobile production in Europe as a whole was up 2.2% on 2005 at 18.1 million. However, new registrations in Western Europe showed only a small rise of 0.7% to 14.6 million passenger vehicles. Japanese manufacturers were able to make gains in the Western European market, with car sales up 4.2% on the previous year.

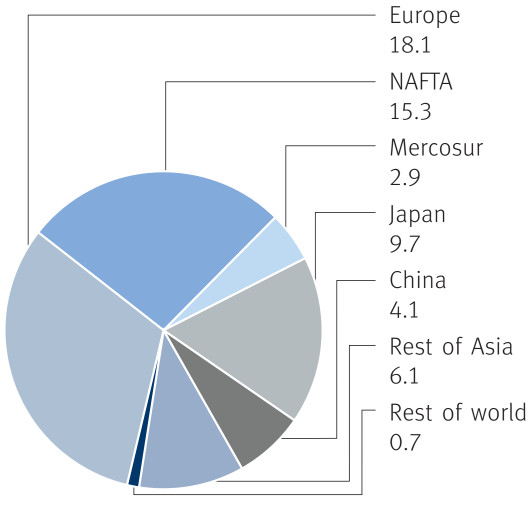
North American car market highly competetive

Competition in the North American market became even more intense in a year dominated by over-capacity and sales promotions. US sales figures of 16.6 million cars and light trucks were around 400,000 units down on the previous year (17.0 million). At the same time, US production of passenger cars and light trucks was down 6.3%. Some US manufacturers introduced cuts in production volume of more than 10 per cent.

Brasilian market upbeat

In South America it was above all the Brazilian automobile market that successfully maintained the forward momentum seen over the course of 2005. In 2006, Brazil's total production of passenger cars and light commercial vehicles stood at 2.5 million, up 4% on the previous year, with an increasing trend towards export in addition to satisfying the local market.

Global Automobile Production in 2006
in millions of vehicles



Dynamic growth in the commercial vehicle sector

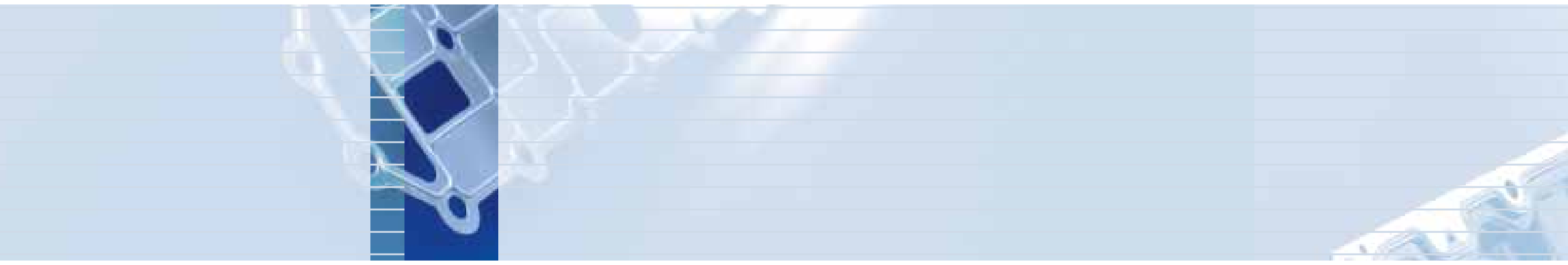
The commercial vehicle sector, which is responsible for around 11% of ElringKlinger's sales revenues, again showed evidence of growth in 2006. The introduction of stricter legislation on emissions in 2007 also persuaded some buyers in Europe and North America to bring forward their purchases. In total, the number of commercial vehicles produced globally rose by 3.7%.

Diesel captures additional market share in Europe

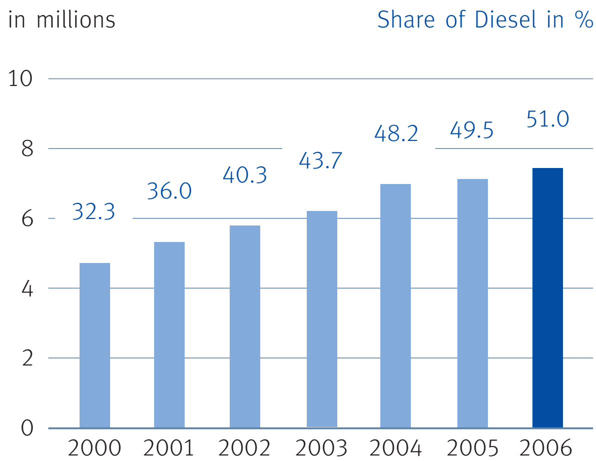
The trend towards diesel continued in Western Europe during 2006. High petrol prices favored sales of more fuel-efficient diesels. For the first time, over half the vehicles purchased in Western Europe were diesels – around 7.5 million cars making up 51.0% (49.5%) of new registrations.

Market share for diesel engines in Germany rose from 42.7% in 2005 to 44.3% in 2006. Nevertheless this is still below the European average. Following a period of uncertainty among potential domestic buyers as a result of political debate over the risks of diesel soot and particulates, there was renewed demand in 2006.

Alongside Germany, the strongest rises in diesel registrations were recorded in Scandinavia and the Benelux region. In the UK, where just a few years ago the market share for diesel was below 20%, diesel sales reached a new high of 38.3% (36.8%). In France as well, diesel registrations were up on the previous year at 71.4% (69.1%) of total passenger car registrations.



New Diesel Passenger Car registrations
in Western Europe



Scoure: Automotive Industry Data

Particulate filters are now fitted to most new vehicles and are promoted by means of tax incentives in many European countries. The current debate in Germany on a possible shift to a CO_2-based vehicle tax has also tended to boost demand for diesel cars.

ElringKlinger as a specialist for diesel engine gasketing benefited from this trend.

Diesel ready to take off in North America
Despite stagnation in the US automobile market as a whole, sales of diesel cars and diesel SUVs have grown by over 40% in the last five years, with buyers in the country's popular light truck market, which accounts for over half of all new vehicle sales, attracted by the high-torque, fuel-efficient diesel engine as an alternative to other engine types. US sales of diesel cars and light trucks reached around 700,000 in 2006. Against a background of consistently high petrol prices there are good prospects for growth within this area.

Net Assets, Financial Position and Results of Operations

Results of operations

Double-digit revenue growth under challenging market conditions
The ElringKlinger Group succeeded yet again in propelling sales revenues and earnings upwards in the 2006 financial year. Consolidated sales revenues increased by 11.3% to EUR 528.4 (474.6) million in the period under review, prompted by organic growth. Thus, the Group managed to lift sales revenues slightly beyond the target of EUR 520 million, which had been revised upwards in the fourth quarter of 2006.

Sales revenues by region – Strongest growth in Asia
The ElringKlinger Group was able to generate growth in all regions. The share of foreign sales revenues in total consolidated revenues rose to 63.5% (61.4%), thus reaching EUR 335.4 (291.6) million. In absolute terms, domestic sales revenues increased by 5.5% to EUR 193.0 (183.0) million. In contrast, domestic sales revenues as a percentage of consolidated revenue contracted from 38.6% to 36.5%.

In Europe – excluding Germany – sales revenues rose by 13.9% to EUR 164.6 (144.5) million. 2006 saw the start of in-series production of ElringKlinger products supplied to a number of European customers. Moreover, the Group managed to capture additional market share in the period under review.

Within the NAFTA region, sales revenues increased by 9.9% to EUR 92.1 (83.8) million despite weak car production figures in this region. Engines featuring components supplied by ElringKlinger fared better than expected. There was a particular emphasis on products within the area of shielding technology and exhaust system gaskets. In 2006, the NAFTA region accounted for 17.4% (17.7%) of consolidated sales revenues, thus remaining virtually unchanged year on year.

The Asian markets produced the most tangible growth rates for ElringKlinger over the course of 2006. Exports processed by the parent company as well as sales revenues from subsidiaries in Korea and China grew significantly. The Group succeeded in extending its market share in the case of several Japanese and Korean manufacturers, as well as securing major new development contracts. Sales revenues grew from EUR 42.4

million to EUR 54.3 million. This corresponds to an increase of 28.1%. The share in consolidated revenues rose to 10.3% (8.9%).

ElringKlinger also generated above-average growth in South America and the Rest of the World. At EUR 24.4 (21.0) million, sales revenues in this region surged by 16.3% year on year. The increase was achieved by the Brazilian subsidiary predominantly. The percentage share of consolidated revenues rose slightly to 4.6% (4.4%).

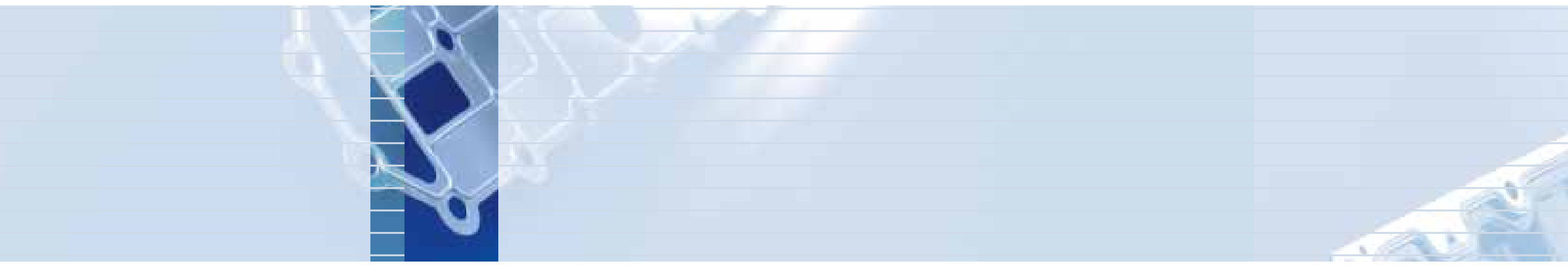
Development of Sales Revenues and Earnings in the Segments

Original Equipment drives growth

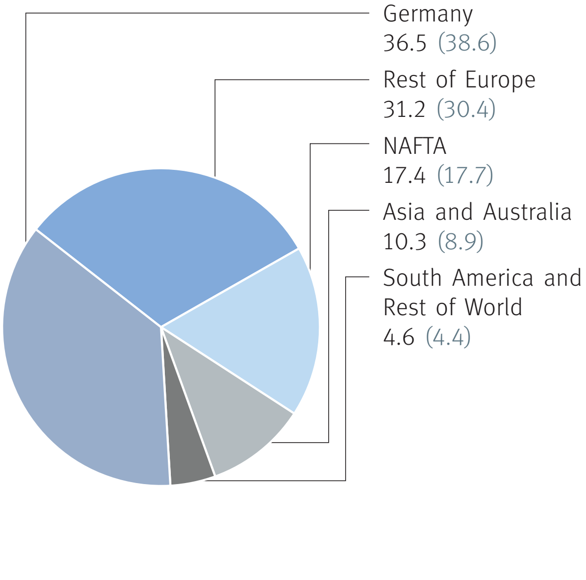
New product ramp-ups and higher than expected delivery forecasts, i.e. customer take rates, combined to produce dynamic revenue growth within the Original Equipment segment. Indeed, the forward momentum generated was more pronounced than the overall revenue increase achieved by the Group as a whole. Sales revenues were propelled upwards by 13.4% to EUR 374.0 (329.9) million. Earnings before taxes rose to EUR 56.6 million, up on the figure of EUR 41.9 million recorded in the previous year.

All four divisions within the Original Equipment segment – Cylinder-Head Gaskets, Specialty Gaskets, Elastomer Technology/Modules and Shielding Technology – reported double-digit revenue growth.

Despite production downsizing by several customers based in North America and a further contraction in European demand for cylinder-head gaskets used in petrol



Consolidated Sales Revenues by Region in 2006 (prior year)
in %



engines, the Cylinder-Head Gaskets division managed to increase sales revenues over the course of the 2006 financial year. Cylinder-head gaskets for car and commercial-vehicle diesel engines produced solid growth.

The ramp-up of ElringKlinger's new generation of cylinder-head gaskets with coined meander or honey comb stoppers proved successful. The new coined segment stopper is recognised as a highly innovative technology for cylinder-head gaskets. ElringKlinger predicts that 80 to 90% of next-generation engines will be equipped with these new types of gaskets.

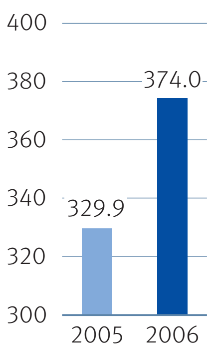
In 2006, the Cylinder-Head Gaskets division was commissioned to carry out more than 150 new product developments by customers around the globe.

The Speciality Gaskets division also achieved solid revenue growth. Within this area, product ramp-ups proved particularly advantageous. ElringKlinger's automatic transmission control plate also produced its first positive contribution. An additional order was secured for this product. In parallel, demand for speciality gaskets used in the exhaust tract and transmission applications was more buoyant. In response to the ever-increasing complexity of the exhaust tract in passenger and commercial diesel vehicles, customer demand for exhaust system gaskets capable of withstanding extremely high temperatures grew palpably.

Operating within a highly competitive market, the Elastomer Technology/Modules division also managed to grow sales revenues. This was driven mainly by cam covers used in passenger vehicles as well as higher volumes of metal-elastomer cylinder-head

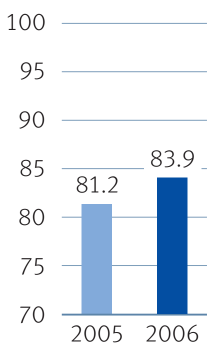
Sales Revenues
for the Original
Equipment Segment

in EUR million



Sales Revenues
for the Aftermarket
Segment

in EUR million



gaskets for commercial vehicle engines. Metal-elastomer gaskets for oil pans and control housings also contributed to growth.

The Shielding Technology division achieved above-average revenue growth. It benefited from increased customer demand for complex heat shields. Within this context, customers were particularly impressed by the concept of equipping heat shields with add-on features such as integrated air extraction in catalytic converters or integral exhaust system gaskets. This resulted in additional orders. ElringKlinger has increasingly developed and shipped thermal shielding parts for the exhaust system, e.g. for oxidation catalytic converters and diesel particulate filters. Alongside product ramp-ups, orders for specialty parts produced in smaller quantities contributed to revenue growth.

Aftermarket segment lifts sales revenues by 3%

Global Aftermarket activities produced a further increase in sales revenues over the course of 2006. Despite sluggish demand in some regions, sales revenues grew by 3.3% to EUR 83.9 (81.2) million. Among the most prominent growth regions were the Eastern European markets and the Middle East. The level of demand recorded by the Group's international sales enterprises Elring of North America, Inc., Branchburg, New Jersey, USA, Elring Gaskets (Pty) Ltd., Johannesburg, South Africa, and in particular Elring Parts Ltd., Gateshead, United Kingdom, fell short of expectations and achieved unsatisfactory results. Overall, the Aftermarket segment within the ElringKlinger Group generated earnings before taxes on income of EUR 14.6 (14.6) million, thus remaining unchanged year on year.

Engineered Plastics

The Engineered Plastics segment within the ElringKlinger Group develops and markets products made from the high-performance plastic PTFE. Segment revenues rose by 10.7% in 2006, up from EUR 53.2 million in 2005 to EUR 58.8 million. Growth was achieved through customer sales in the automotive, mechanical engineering and packaging technology markets. In parallel, the segment gained particular momentum in the medical technology sector.

Due to the expansion of sales structures and input associated with the start-up of production of the new injection-moldable PTFE material Moldflon® in 2007, the increase in segment earnings before taxes was less pronounced than growth achieved in sales revenues. Earnings before taxes for the Engineered Plastics segment rose by 5.1% to EUR 11.4 (10.8) million.

Growth within Industrial Parks segment

To a large extent, the Industrial Parks operated by the ElringKlinger Group in Ludwigsburg, Idstein and Kecskemét-Kádafalva, Hungary, developed favourably over the course of 2006. In the case of Idstein, follow-up rental agreements generated slightly lower rental income due to the decline in the local rent level. Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary, achieved a year-on-year increase in rental income. In total, rental income within the Industrial Park segment amounted to EUR 8.1 (7.4) million. Earnings before taxes rose to EUR 4.2 (3.1) million in 2006, a year-on-year increase of 38.0%. Within this context, a property sale at Technik-Park Heliport Kft., Kecskemét, Hungary, which generated EUR 1.1 million, proved particularly favorable.

Services segment records revenue growth

The Services segment within the ElringKlinger Group comprises ElringKlinger Logistic Service GmbH and Elring Klinger Motortechnik GmbH. The segment increased sales revenues to EUR 3.6 (2.9) million in 2006. Earnings before taxes amounted to EUR 0.9 (0.5) million.

Moderate increase in expenses

The Group's cost of sales rose by 6.5% to EUR 338.7 (318.0) million, thus trailing revenue growth in the period under review.

Raw-material prices continued to rise over the course of the 2006 financial year. Prices for high-grade steel, but also for carbon steels, edged upwards substantially; the same applied to surcharges for alloys. Energy-related costs and prices for semi-finished products also trended higher.

Having said that, a certain proportion of the supply-side price increases witnessed over the course of the year were offset by cost streamlining within the Group. A tangible improvement in productivity levels also had a favorable effect. Additionally, ongoing optimization within the area of product design made a significant contribution to cost structures.

Where possible, purchasing quantities were pooled for greater efficiency. In addition, the Group's procurement base became more international. Within this context, several new suppliers were included in the portfolio, particularly in Asia.

ElringKlinger was not in a position to pass on to its markets the full rise in raw-material prices.

ElringKlinger has applied hedge accounting to approximately half of its steel alloy requirements in 2006. By using these financial instruments, the Group managed to reduce material expenses by EUR 0.9 million in the period under review.

Other operating income amounted to EUR 4.8 (6.7) million, thus falling below the figure posted a year ago. The sale of a property belonging to the industrial park Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary, produced a gain of EUR 1.1 million.

Other operating expenses rose by EUR 6.4 million to EUR 10.9 (4.5) million. Provisions for warranties were extended by EUR 3.0 million year-on-year in connection with product liability cases. Provisions for onerous contracts increased by EUR 0.9 million, while allowances for accounts receivable rose by EUR 0.9 million. The increase in other operating expenses was also attributable to the write-down of EUR 2.0 million in connection with a license acquired in 2003 for a single-layer, topographically coined cylinder-head gasket design concept.

Selling expenses increased by 6.6% to EUR 38.9 (36.5) million. ElringKlinger expanded its sales unit at AG level within the areas of commercial vehicles and Tier 1 suppliers. In addition, the international scope of sales activities at ElringKlinger Kunststofftechnik was further extended.

Applying a program aimed at cost control and efficiency improvements, the Group managed to rein back general and administrative expenses. In total, general and administrative expenses accounted for EUR 22.7 (22.9) million, a year-on-year reduction of EUR 0.2 million.

Further increase in research and development expenses

Committed to maintaining its competitive edge and strengthening its current position within the marketplace, the ElringKlinger Group again invested in the development of new products and technologies in 2006. Expenses attributable to research and development rose by 6.9% compared with the previous financial year, taking total R&D costs to EUR 26.0 (24.3) million. The capitalization of research and development costs in accordance with International Financial Reporting Standards had no material effect on earnings. In 2006 a total of EUR 1.9 million of development costs incurred by the Group was capitalized. At EUR 1.1 million, the corresponding systematic amortization expense associated with capitalized research and development costs was slightly lower than the capitalized expense.

Financing ability further enhanced

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 17.8%, thus outpacing revenue growth. The ElringKlinger Group generated EBITDA of EUR 139.0 (117.9) million in 2006.

Higher amortization and depreciation

Amortization of intangible non-current assets and depreciation of tangible assets as well as investment property, increased by EUR 5.0 million to EUR 45.7 (40.7) million at Group level. This was attributable to more expansive investment activities in prior years, as well as the write-down of EUR 2.0 million in connection with a licensed cylinder-head gasket design concept, as outlined above. Depreciation of tangible assets rose from EUR 36.8 million to EUR 39.6 million.

EBIT growth outpaces revenue gains

Supported by an improved cost base and a particularly favorable product mix with a greater proportion of higher-margin items, the Group was able to enhance its operational performance in the period under review. This was also driven by additional large-scale capital expenditure on production processes at all sites operated by the Group, the prime objective being to extend the level of automation and leverage efficiency gains. Additionally, performance at some of the international subsidiaries within the Group was improved with the help of targeted streamlining measures and the operational relocation of manufacturing processes for specific product groups.

Thus, the operating result of the ElringKlinger Group as a whole improved by 28.1% to EUR 96.1 (75.0) million. The operating margin stood at 18.2% (15.8%). Having accounted for negative exchange rate effects of EUR 2.6 million, earnings before interest and taxes (EBIT) grew faster than sales revenues, rising by 20.9% to EUR 93.3 (77.2) million. In the 2005 financial year, EBIT had been buoyed by positive exchange rate effects of EUR 2.2 million.

Lower financial result

Whereas the interest result improved to EUR -5.7 (-6.3) million due to the sustained reduction in long-term bank borrowings, the remaining other financial result was down to EUR -2.7 million year on year. This was attributable mainly to negative exchange rate effects, particularly due to the trend of the Canadian dollar and the US dollar. In total, the financial result stood at EUR -8.4 (-4.1) million.

Increase in earnings before taxes

Earnings before taxes rose by 23.6%, up from EUR 70.9 million in 2005 to EUR 87.6 million in 2006.

The income tax rate within the Group was 4.9 percentage points lower than in the previous year and stood at 29.4% (34.3%). This was attributable to an amendment to the German Corporation Tax Act. Prior to 2001, non-distributed profits were subject to higher taxation than distributed profits. Subsequent distribution of these retained profits resulted in corporation tax credits. As a result of new tax legislation, these credits have the effect of reducing taxable income. ElringKlinger capitalized the existing entitlement at a discounted present value of EUR 5.3 million in the period under review and thus recorded one-time additional income in the same amount.

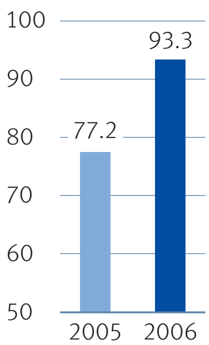
Increase in consolidated net income after minority interests

Consolidated net income for the year thus rose faster than earnings before taxes, increasing by 32.9% to EUR 61.9 million, compared with EUR 46.6 million in the prior financial year. The net income margin recorded by the ElringKlinger Group stood at 11.7% (9.8%).

After deducting minority interests, which remained almost unchanged year on year at EUR 4.1 (4.2) million, ElringKlinger recorded consolidated net income of EUR 57.8

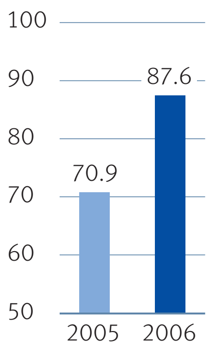
EBIT

in EUR million



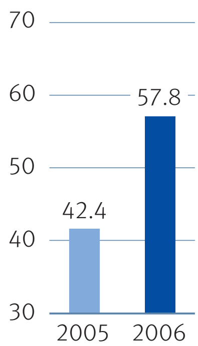
Earnings before taxes

in EUR million



Consolidated net income after minorities

in EUR million



million. Thus, consolidated net income after minority interests rose by EUR 15.4 million or 36.3% on the previous year's figure. Sustainable, i.e. adjusted, consolidated net income after minority interests – excluding the one-time income from corporation tax credits – increased by 23.7% to EUR 52.5 (42.4) million.

Proposed dividend increase

ElringKlinger is committed to a consistent dividend policy centered around earnings growth. With this in mind, shareholders are given the opportunity to reap the rewards of the Group's performance through higher dividend payments. The Management Board of ElringKlinger AG, with the consent of the Supervisory Board, proposes to the Annual General Meeting of shareholders a dividend payment of EUR 1.25 per share for the 2006 financial year. This would correspond to a 25% increase in payout. The total dividend amount proposed to the Annual General Meeting of shareholders stands at EUR 24.0 (19.2) million, which in relation to consolidated net income after minority interests corresponds to a dividend ratio of 41.6%.

Earnings per share

Earnings per share calculated in accordance with IFRS (calculated on the basis of consolidated net income excluding minority interests) increased by 36.3% to EUR 3.01 per share. Earnings per share in the prior year had amounted to EUR 2.21. Without accounting for non-recurring income from corporation tax credits, earnings per share amounted to EUR 2.73 (2.21), 23.5% higher than in the previous year. Calculated on the basis of consolidated net income (with minority interests), earnings per share stood at EUR 3.22 (2.43).

Net Assets

The balance sheet structure of the ElringKlinger Group can be characterized as solid. At December 31, 2006, the balance sheet total for the Group was EUR 476.6 (456.3) million. This corresponds to a year-on-year increase of EUR 20.3 million or 4.5%.

Intangible assets declined to EUR 28.2 (30.9) million, mainly due to the already mentioned impairment charge of EUR 2.0 million in connection with a licensed cylinder-head gasket design concept.

Tangible assets increased slightly to EUR 211.9 (210.5) million at Group level. Capital expenditure was mainly directed at production plant, the main emphasis being on extending capacity levels; funds were also used for streamlining measures. In total, capital expenditure on technical plant and machinery amounted to EUR 30.2 (34.7) million. The less pronounced increase in tangible assets, in comparison with total assets, was mainly attributable to higher depreciation.

Other non-current assets amounting to EUR 5.4 million mainly comprise the capitalization of corporation tax credits, as discussed in earlier sections of this report.

In total, non-current assets rose slightly to EUR 291.0 (289.0) million.

Inventories increased by 9.4% to EUR 90.0 (82.3) million at Group level, which was less pronounced than growth recorded within the area of Group sales revenues. The increase in inventories was attributable to more expansive business and additional merchandise, i.e. traded goods, for the Aftermarket segment. The increasing internationalization of procurement activities, with a strong emphasis on Asia, meant that minimum inventory levels had to be raised to safeguard production. Having said that, the costs associated with this approach are outweighed by the price-related benefits of purchasing abroad. ElringKlinger decided to raise inventory levels in the case of specific raw materials with particularly volatile prices. This strategy proved very propitious, delivering tangible benefits with regard to material expenses.

Trade receivables increased by 9.2% to EUR 81.0 (74.2) million but remained below the growth rate achieved in sales revenues. The significant year-on-year increase in product and tooling revenue witnessed in the period between October and December 2006 resulted in an accumulation of receivables that are not due until 2007.

One of the integral elements of the current program aimed at optimizing working capital within the ElringKlinger Group is the timely collection of receivables in accordance with the agreed terms and conditions.

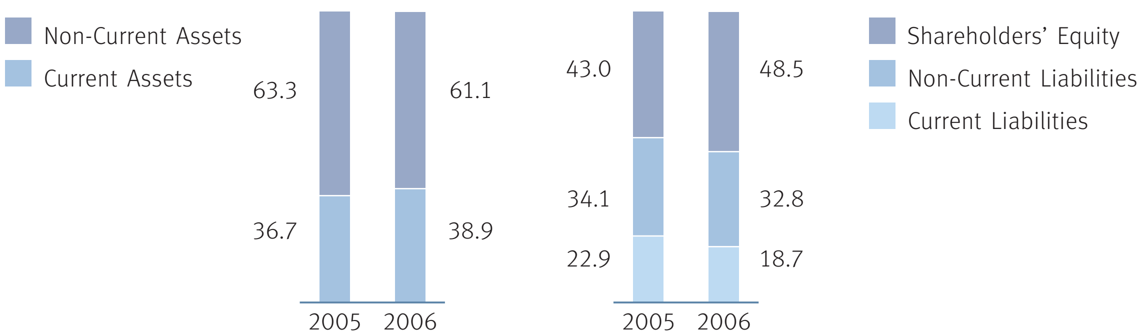
Other current assets increased to EUR 9.2 (6.4) million, driven mainly by a EUR 2.8 million year-on-year (2005: EUR 2.0 million) rise in income and value added tax receivables at Elring Klinger México, S.A. de C.V.

In total, the Group's current assets rose by 11.0% to EUR 185.6 (167.3) million.

Total Balance Sheet ElringKlinger Group

Assets
in % of Balance
Sheet Total

Liabilities and
Shareholders' Equity
in % of Balance
Sheet Total



As a result of the allocation from consolidated net income after minority interests, revenue reserves increased by 29.3%. At December 31, 2006, they amounted to EUR 154.9 (119.8) million. Minority interests in equity remained virtually unchanged year on year at EUR 16.0 million.

Shareholders' equity increased by 17.9% to EUR 231.2 (196.1) million. Despite an increase in the balance sheet total, the equity ratio rose by 5.5 percentage points to 48.5% (43.0%).

ElringKlinger allocated EUR 1.0 million to pension provisions in order to account for an increase in existing benefit entitlements. As a result, pension provisions amounted to EUR 53.5 (52.4) million.

Non-current liabilities remained more or less stable, totaling EUR 156.5 (155.8) million. In line with the Group's medium-term financial planning, long-term bank loans were extinguished in 2006 and replaced by new loans with more favorable interest rates. More than half of the short-term bank loans, bank overdrafts and other current liabilities were repaid in 2006. In total, short-term financial liabilities were scaled down by EUR 18.7 million to EUR 16.3 (35.0) million.

Trade payables increased in line with revenue growth by 9.8% to EUR 28.2 (25.7) million.

Overall, the Group reduced current liabilities by EUR 15.4 million to EUR 89.0 (104.3) million.

Financial Position

In 2006, the Group was able to finance all capital expenditure on property, plant and equipment as well as intangible assets from operating cash flow. Net cash from operating activities rose by EUR 19.8 million to EUR 89.9 (70.1) million.

This was attributable mainly to the year-on-year increase of EUR 16.7 million in earnings before taxes as well as the EUR 5.0 million increase in depreciation/amortization of non-current assets.

In addition, the increase in inventories and trade receivables was less pronounced than a year ago, despite expanding sales revenues. This had a positive effect of EUR 2.1 million on cash flow.

With a cash flow return on sales (operating cash flow as a percentage of sales revenues) of 17.0% (14.8%), the ElringKlinger Group yet again achieved a very solid position, allowing it to finance from its own funds the program of growth it has planned for the future as well as the development projects already initiated within the New Business unit.

Net cash used in investing activities amounted to EUR 47.0 (53.7) million. After a particularly high level of investments in capacity expansion, preparations of new product ramp-ups and streamlining measures recorded a year ago, the cash outflow for investments in tangible assets as well as investment property was EUR 8.5 million lower than in 2005. It amounted to EUR 46.7 million in 2006, compared with EUR 55.2 million in the prior financial year.

Free operating cash flow (net cash from operating activities less net cash from investing activities) amounted to EUR 42.9 million, after EUR 16.5 million in 2005, and thus exceeded the original target range of EUR 30 to 35 million.

Net cash used in financing activities amounted to EUR 41.7 (23.8) million. The significant year-on-year change was attributable principally to the considerable reduction of mainly short-term financial liabilities payable to banks. Compared with the previous year, ElringKlinger AG also distributed EUR 2.3 million more in dividends to shareholders for 2005.

At December 31, 2006, cash and cash equivalents for the Group amounted to EUR 5.5 (4.4) million.

Based upon the solid net assets, financial position and results of operations the Management Board sees ElringKlinger Group well-positioned to fully realize its opportunities for growth in the upcoming business years.

Group Companies

Composition of the consolidated Group
In the 2006 financial year the ElringKlinger Group was made up of ElringKlinger AG, 18 active and fully consolidated subsidiaries and two joint ventures. The consolidated Group therefore comprises 21 companies including the parent company. The Group's Polish subsidiary ElringKlinger Polska Sp. z o. o., Walbrzych, Poland, which had never actually been active and was liquidated in 2006, is no longer accounted for in the latest consolidation.

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.

ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Elring Klinger Motortechnik GmbH, Idstein, ElringKlinger Logistic Service GmbH, Rottenburg/Neckar and Gedächtnisstiftung Karl Müller Belegschaftshilfe GmbH, Dettingen/Erms are based in Germany. The Group's remaining subsidiaries are distributed throughout Europe (6), the NAFTA zone (5), South America (1), Asia (3) and South Africa (1).

Global presence

In 2006, ElringKlinger Group was represented in almost every important vehicle market in the world. One of the Group's major advantages over those of its competitors which operate from a single region is its ability to make the same products at all its global production sites as part of an international network, while maintaining consistently high quality. By establishing a local presence, the Group is able to meet the requirements of globally-based automobile manufacturers and at the same time promote its technology to regional vehicle and engine producers.

ElringKlinger's subsidiaries and affiliated companies contributed EUR 216.4 (195.8) million to consolidated Group revenues in 2006. The 10.5% increase in the revenue figures for sub-sidiaries and affiliates was only marginally below that of the AG. Out of the subsidiaries' total sales revenues, EUR 62.4 (56.1) million was generated in Germany and EUR 154.0 (139.7) million in other countries. Subsidiaries and affiliates contributed EUR 34.3 (24.6) million to the Group's earnings before taxes.

All subsidiaries and affiliates returned a profit in the year under review, with the exception of the Mexican entity.

ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany

ElringKlinger Kunststofftechnik GmbH develops and produces components using PTFE (Polytetrafluoroethylene) – widely known by the trademark Teflon®. Sales are concentrated in the automobile and automotive supplier industry, though other sectors such as medical technology, engineering and packaging account for an increasing volume.

Rising demand for PTFE products and new applications in medical technology and vehicle manufacturing combined to produce substantial growth in 2006, with ElringKlinger Kunststofftechnik GmbH generating sales revenues of EUR 58.9 (54.7) million, up 7.7% on the previous year. 2006 was marked by an expansion of the Group's research and development activities and the internationalization of business, which had previously been strongly focused on Germany.

Elring Klinger Motortechnik GmbH, Idstein, Germany

Elring Klinger Motortechnik GmbH conducts motor test bench projects at the Idstein site and offers a wide range of engineering services, especially for external customers from the automobile and automotive supplier industries.

In 2006, Elring Klinger Motortechnik generated sales revenues of EUR 3.4 (4.6) million. The previous year's results included bench testing revenue from the Dettingen/Erms site. This operation was sold to ElringKlinger AG on January 1, 2006. Sales revenues at the Idstein site – the only one now remaining after the sale – finished up on the previous year.

Thanks to its technical expertise, Elring Klinger Motortechnik is in a position to benefit both from the trend for suppliers to develop their own products and above all from increasingly complex exhaust cleaning systems. The company offers advanced development know-how and the very latest high-tech testing equipment.

ElringKlinger Logistic Service GmbH, Rottenburg/Neckar, Germany
ElringKlinger Logistic Service GmbH supplies the AG's Aftermarket division with tailor-made gasket sets. This is achieved by combining gaskets produced by the Group with bought-in parts.

ElringKlinger Logistic Service GmbH also carries out logistics services and assembly work for external customers.

Sales revenues rose from EUR 2.6 million to EUR 3.0 million for the year under review. Earnings before taxes remained at the same level as 2005.

Elring Klinger (Great Britain) Ltd., Redcar, United Kingdom
Following the transfer of production of metal-layer cylinder-head gaskets to ElringKlinger AG's Dettingen/Erms site in 2005 and 2006, Elring Klinger (Great Britain) Ltd., Redcar, now specializes in the production of specialty gaskets and shielding parts for the vehicle industry and engine producers. Mainly as a result of this move and the corresponding fall in sales, revenue for 2006 was down EUR 3.1 million from EUR 19.9 million to EUR 16.8 million. The company's cost structure was adjusted, and targeted rationalization measures were implemented. Thus earnings before taxes improved slightly.

ElringKlinger, S.A., Reus, Spain
ElringKlinger holds a 51% share in ElringKlinger, S.A., Reus. The company makes rubber gaskets, sealing materials and cylinder-head and specialty gaskets with a focus on the independent aftermarket business. At EUR 29.9 (32.4) million, sales revenues declined slightly year on year, mainly resulting from lower intragroup revenues as parts for the aftermarket were to some extent either manufactured by other ElringKlinger subsidiaries or sourced externally. Earnings were affected by strong downward pressure on prices within some areas of the product portfolio, higher costs for raw materials and weaker demand for metal-elastomer cylinder-head gaskets.

ElringKlinger Sealing Systems, S.L., Reus, Spain
As a manufacturing company, Spanish subsidiary ElringKlinger Sealing Systems, S.L., Reus, makes plastic cam covers. A substantial percentage of sales revenues is generated through a major customer operating within the automotive OEM sector who has been relocating engine production from Spain to Mexico. Due to the relocation of part of the production volume to Elring Klinger México S.A. de C.V., Toluca, in 2006 sales revenues and earnings before taxes were down on last year's figures. Sales revenues amounted to EUR 7.9 million, compared to EUR 8.8 million in 2005.

Elring Klinger S.p.A., Mazzo di Rho, Italy
Elring Klinger S.p.A., Mazzo di Rho, makes cylinder-head gaskets and specialty gaskets for the Italian vehicle industry and for scooter and motor cycle manufacturers. Sales revenues for 2006 were up slightly on the previous year at EUR 3.0 (2.9) million. The earnings situation was stable.

ElringKlinger Sealing Systems Inc., Leamington, Canada

ElringKlinger Sealing Systems Inc., Leamington, Ontario, supplies automobile manufacturers in the US and Canada with cylinder-head gaskets and plastic cam covers. In 2006, the company had to deal with a much weaker US market and production cuts by the major manufacturers. Nevertheless, sales revenues rose to EUR 45.4 (43.4) million. Measures implemented in the prior year with the express purpose of raising efficiency levels have now taken effect. Together with an improved product mix, this resulted in a tangible rise in earnings in the period under review.

ElringKlinger Sealing Systems (USA), Inc., Livonia, USA

ElringKlinger Sealing Systems (USA), Inc., Livonia, Michigan, had a solid year in its role as the Group's sales and development center for the North American market. In 2006, the company won over USD 70 million of new orders for other ElringKlinger production sites from US commercial vehicle and engine producers. These orders will be phased in between 2008 and 2010 at several ElringKlinger production sites. In 2006, the transfer of heat shield production to the Group's Mexican site led to an expected fall in sales revenues from EUR 12.3 million to EUR 8.3 million.

Elring Klinger México, S.A. de C.V., Toluca, Mexico

Elring Klinger México, S.A. de C.V., Toluca, manufactures the Group's entire product range from cylinder-head gaskets, specialty gaskets and thermal shielding parts to plastic cam cover modules. Sales revenues rose by EUR 9.6 million to EUR 24.7 (15.1) million in 2006. The Mexican subsidiary has meanwhile been developed as the Group's production hub for the complete North American market.

Increasingly, the required steel volumes are being sourced in the USD zone. This means that material costs and sales revenues are in the same currency, which limits the negative impact of the rise in value of the euro against the US dollar on the procurement side. Having said that, the sharp rise in the price of steel had an impact within this area.

Elring Klinger do Brasil Ltda., Piracicaba, Brazil

The Group's Brazilian subsidiary Elring Klinger do Brasil Ltda., Piracicaba, makes cylinder-head and specialty gaskets and heat shields primarily for the South American market. The company's sustained growth over recent years has been underpinned by the forward momentum of the industry and the economy as a whole across South America. In 2006, sales revenues rose from EUR 17.2 million to EUR 20.4 million, with a corresponding increase in earnings. The Brazilian subsidiary of ElringKlinger AG has developed considerable expertise in sealing bioethanol engines, and it secured a number of interesting orders for heat shields from American vehicle manufacturers.

Changchun ElringKlinger Ltd., Changchun, China

Production at Changchun ElringKlinger Ltd., Changchun has now been expanded to cover the Group's entire portfolio. Changchun ElringKlinger has taken a leading position in the flat-gasket market. The company supplies both the factories of major international car makers and most Chinese vehicle and engine manufacturers.

In 2006, the company profited from strong growth in the Chinese vehicle market. Sales revenues rose by EUR 5.0 million to EUR 11.2 (6.2) million, with an above-average increase in earnings before taxes.

Elring Klinger Korea Co., Ltd., Changwon, South Korea

The Group's Joint Venture Jeil Elring Co., Ltd., Changwon changed its name to Elring Klinger Korea Co., Ltd., Changwon, in 2006. The company makes cylinder-head gaskets and specialty gaskets for Korean vehicle manufacturers. Amongst other achievements in 2006, it won a large order from a Korean vehicle manufacturer to produce a new plastic cam cover. In 2006, in order to prepare the ground for the strong growth expected in the next few years, the company began construction of a new production facility. Sales revenues at ElringKlinger Korea rose from EUR 5.6 million in 2005 to EUR 6.0 million in 2006. In the medium term, the company should benefit from growth in the country's automobile industry.

ElringKlinger Marusan Corporation, Tokyo, Japan

ElringKlinger Marusan Corporation, Tokyo, is the Group's development and sales center for the Japanese market. The company is currently expanding its local development and applications capacity in order to strengthen ties with domestic vehicle manufacturers. In 2006 it won a number of new development orders. In order to prepare for new product start-ups within the Japanese market, ElringKlinger plans either to construct its own manufacturing facility or to increase the Group's existing holding in its partner company Marusan Corporation, Tokyo.

ElringKlinger companies in the aftermarket segment

The global aftermarket segment is served by the AG's Aftermarket segment in Dettingen/Erms in conjunction with the Group's international sales companies Elring Parts Ltd., Gateshead, United Kingdom, Elring of North America, Inc., Branchburg, New Jersey, United States, and Elring Gaskets (Pty) Ltd., Johannesburg, South Africa.

In 2006, UK sales subsidiary Elring Parts Ltd. achieved sales revenues of EUR 5.8 (5.7) million despite lower demand than anticipated. There are signs of improved demand in the independent aftermarket for 2007.

ElringKlinger AG holds a 60% interest in Elring of North America, Inc., where sales revenues remained largely unchanged from 2005 at EUR 2.4 (2.6) million.

Sales revenues at Elring Gaskets (Pty) Ltd., Johannesburg, South Africa, fell from EUR 1.9 million to EUR 1.6 million.

Procurement

Continued pressure from high raw-materials and energy prices

2006 saw further significant increases in raw-materials and energy costs, with prices for stainless steel in particular – ElringKlinger's most essential material – rising substantially as a result of increasing alloy surcharges. This development was partly caused by sustained high levels of demand from the Chinese economy and rising demand in the construction industry as well as from manufacturers of white goods. The base price for some varieties of steel rose by over 30%. One of the key tasks of ElringKlinger AG's procurement unit was to ensure the supply of sufficient quantities of steel. As a consequence of strong market demand and a significant rise in prices in the first six months of 2006, some suppliers were reluctant to provide the quantities they had promised in the second half of the year. ElringKlinger was able to obtain all the supplies it ordered under existing agreements. Some requirements were met by switching to new suppliers where this allowed the company to achieve a lower price. In the end, however, all the measures implemented by ElringKlinger could only make up for a part of the increase in prices.

Rise in purchasing volume

The ElringKlinger Group's purchasing volume rose by 5.7% to EUR 274.8 (260.0) million. The key factors behind this rise were higher raw-materials and energy costs and increased materials requirements as a result of improved sales.

Steel, aluminum and alloys accounted for almost 30% of purchasing volume. On top of the base prices for steel negotiated at the end of 2005, it was the exchange-driven alloy surcharges for individual steel varieties that largely caused the rise in material-related costs. Alloys such as nickel are used to prevent steel from corroding and to facilitate processing of the material during the forming element of the production process. The price of nickel on the London Metal Exchange rose from around USD 13,000 per metric ton at the beginning of January to over USD 35,000 per metric ton at the end of December 2006.

Other elements of ElringKlinger's purchasing costs are bought-in parts for products in the original equipment market, traded goods for the independent after-market, synthetic granules for the production of plastic parts such as cam covers and transmission covers, in addition to machines, plant and tools as well as energies.

The price of intermediate plastic products fell slightly in the second half of 2006 as a result of lower oil prices.

As a manufacturing company, ElringKlinger requires large amounts of energy. Thanks to the two-year supply agreements it concluded at the end of 2005, it was able to mitigate in part the effects of a significant increase in market prices for electricity over the course of 2006.

Increasing globalization of procurement and approved supplier network

The Group actively sought out new suppliers in response to downward pressure on prices from customers and higher raw materials and energy costs. Increasingly, materials are procured in Asia and Eastern Europe. ElringKlinger is growing at an encouraging pace in China, Korea, India and Japan. For this reason, the Group is committed to extending its network of Asian suppliers. Quality management procedures are applied to all suppliers and every stage of the supply chain. Approved suppliers are also contacted by the AG and considered for orders where they offer attractive terms and conditions. In this way, the Group's overall supply network is becoming increasingly global in scope.

EDP-based in-house scrap metal trade

Scrap produced during die-cutting is dealt with using a computer-based processing/ recycling system. The system is controlled centrally by the AG and covers the Group's entire international production network, allowing ElringKlinger to take advantage of currency movements and variations in pricing across different markets.

Ensuring long-term availability of supplies

The ElringKlinger Group was able to hedge around 50% of its nickel requirements through a number of forward purchases made during the year. The increasing use of these financial instruments helped the company reduce spending on materials by EUR 0.9 million in 2006. In addition, by importing a larger quantity of steel from the North American region, it was possible to take advantage of a slightly lower price than that offered by European suppliers. Beginning at the end of 2006, ElringKlinger concluded a series of tiered framework agreements, each with a duration of one year, to counteract the rise in base prices for steel. This allowed the Group to guarantee supplies of the quantity it requires up to spring 2008. At the same time, ElringKlinger took advantage of price fluctuations, allowing it to build up its stock of certain steel varieties with special characteristics.

Investing for the long term

The 2006 financial year saw investment of EUR 46.2 (52.8) million in tangible assets, including tooling, in order to increase capacity and allow the ramp-up of several new products. Overall, an amount of EUR 2.9 (1.9) million was allocated to intangible assets. The corresponding investment ratio associated with property, plant and equipment, including tooling, as well as intangible assets was 9.3% (11.5%) of sales revenues.

Capital expenditure was directed at all manufacturing divisions. In the Cylinder-Head Gaskets division ElringKlinger purchased equipment in the form of e.g. a 1500-metric-ton press for the production of cylinder-head gaskets with coined stoppers. The press will also be used to manufacture newly developed products such as metal transmission housing modules and bipolar plates for fuel cells.

The Shielding Technology division increased its capacity for production of thermal shielding parts at the Langenzenn factory. This involved the acquisition of automatic laser cutting equipment and welding machines.

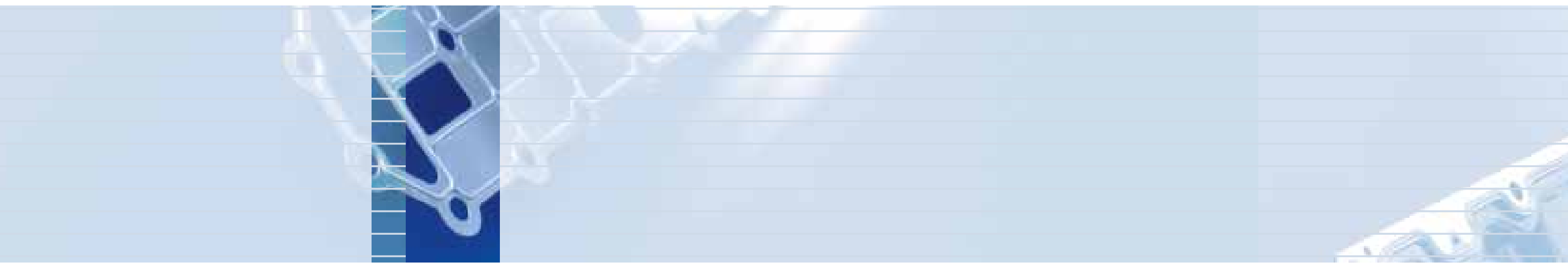
The Specialty Gaskets division installed an eccentric press for manufacture of specialty gaskets. The Dettingen/Erms site installed an assembly line for manifold gaskets and a final assembly line for an injection module for exhaust systems (AdBlue module).

The Elastomer Technology/Modules division began operating an automation cell and a pressing system in the Dettingen/Erms factory to manufacture metal-elastomer cylinder-head gaskets for commercial vehicles. Other machines and equipment were purchased for the production of plastic cam covers.

Tool production facilities were enhanced by the purchase of a precision erosion center.

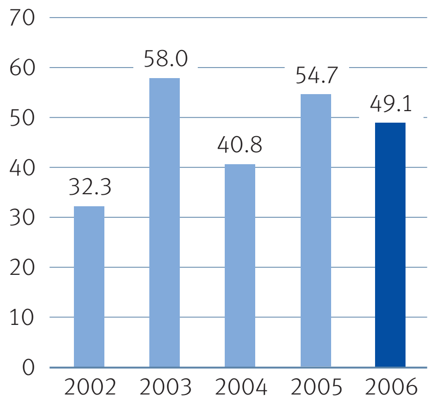
ElringKlinger invested around EUR 1 million in its New Business division, most of which was spent on measuring and testing instrumentation and laboratory equipment for fuel cell component production and the early development of a new particulate filter design for diesel engines.

Investments were also channeled into the subsidiaries and affiliated companies of the ElringKlinger Group, the main emphasis being on expanding production capabilities. Within this context, the majority of capital expenditure was directed at ElringKlinger Kunststofftechnik as well as the subsidiaries in Mexico, Canada and China. 2005 saw



5-Year Overview of Investment in Plant, Property and Equipment and Intangible Assets

EUR million



a substantial level of investment associated with the newly built facility in Brazil and the relocation of heat shield production from Livonia, USA, to Toluca, Mexico. As these expense items were not applicable in 2006, total capital expenditure on affiliated companies and subsidiaries was lower than in the previous year.

Research and Development

Research and Development lies at the heart of ElringKlinger's long-term growth strategy. The aim of research and development work is to reinforce the company's already strong position with regard to product and process innovation.

R&D ratio above average for the sector

During the 2006 business year, 229 (214) employees were directly involved in research and development work within the ElringKlinger Group. This corresponds to 7.0% of the entire workforce within the Group.

Expenditure on research and development in 2006 was up 6.9% on the previous year at EUR 26.0 (24.3) million.

Most of ElringKlinger's research and development work is carried out in Germany by the AG. A major effort is made to protect the company's intellectual property and know-how. The parent company performs a large number of development services on behalf of the Group's subsidiaries and affiliated companies worldwide in return for licensing payments. Thus, at 6.9 % the R&D ratio within the AG was higher than within the Group.

New generation of cylinder-head gaskets

In the Cylinder-Head Gaskets division, introduction of the segment stopper has allowed the company to develop a new technology to improve the performance of coined cylinder-head gaskets. The new stopper technologies were used in almost 90% of over 150 development projects for new engines.

New applications in shielding technology

The current trend in the development of vehicle motors towards the use of space-saving, higher performance encapsulated engines together with lighter but at the same time more heat-conductive materials such as magnesium and aluminum has led to a significant increase in demand for shielding parts for the new generation of engines. One of the main focuses of the company's development activities in the field of shielding technology was on complex heat shields with add-on functions. Increasingly, ElringKlinger is developing thermal shields for the exhaust tract where operating temperatures in some parts can reach up to 1,000 degrees Celsius.

Exhaust tract core issue for specialty gaskets

The Specialty Gaskets division developed new varieties of ElringKlinger's hydraulic control plate for vehicles with automatic transmission. It also worked on high-temperature gaskets for the increasingly complex exhaust tract in diesel vehicles. The division developed a connecting module for diesel particulate filters with two integrated high-temperature gaskets.

Elastomer technology/modules

The Elastomer Technology/Modules division developed an integrated oil trap for plastic cam covers. These parts had previously been bought in. The trapping of oil is important with regard to emissions. The Group's development competence in this field was further enhanced by the purchase of cutting-edge inspection and testing equipment. A plastic bearing plate cover with an integrated elastomer gasket was designed for vehicle manual transmissions and will be launched in 2007.

Bipolar plates and fuel cell stacks

ElringKlinger has been working for several years on the development of fuel cell components, drawing on its core expertise in the field of pressing and stamping technology. The New Business division is developing bipolar plates for fuel cells but also produces complete fuel cell stacks for SOFC (solid oxide fuel cell) applications. Other promising applications of fuel cell technology lie in the field of combined power and heat generation in the home.

New diesel particulate filter at the design stage

In 2006, the New Business division worked on an innovative type of particulate filter design for diesel vehicles. This involved building up its development and testing capacity. Most of the initial development work on the filter was concluded in 2006. The basic trial period should be completed by fall 2007. The company invested in a suitable small-batch production system at the beginning of 2007 in order to manufacture samples and small-batch parts for engine and vehicle testing.

Employees

All companies depend on the commitment and motivation of their workforce for their long-term success. The broad range of skills and experience of employees, along with their dedication and the technical know-how they acquire through service over what is often many years are fundamental to the company's ability to grow.

Expansion of the workforce

The number of employees within the Group as at December 31, 2006, was up 5.1% on the previous year at 3,269 (3,111). The key factors behind this rise were a greater use of available production capacity, growth in product development and expansion of the sales force. A number of additional posts were created at the ElringKlinger's German site, with a particular emphasis on high-caliber development engineers. The average headcount for the year within the ElringKlinger Group was 3,185 (3,079).

Training – an investment in the future

At ElringKlinger, the process of investing in its future workforce begins with training. The Group places great emphasis on this and offers a wide range of apprenticeships and combined college and in-house training. As at December 31, 2006, the ElringKlinger Group employed 84 (74) young apprentices.

For ElringKlinger it is vital to attract future specialist staff and leaders to the company to help it maintain the same momentum for growth in the technology field. In order to achieve this, the company targets its recruitment activities at higher education establishments. In 2006 ElringKlinger took part in regional employment fairs organized by universities and colleges of of Applied Sciences. ElringKlinger made it possible for 30 interns, students and undergraduates to combine the knowledge they had acquired with actual business operations as part of a program of project work.

Highly qualified workforce

To ensure that the company not only maintains but builds on its current level of performance, it is essential that each employee contributes to the overall effort. Without this highly qualified workforce the company cannot meet the challenging demands. For this reason, ElringKlinger offers all employees the opportunity to develop their skills through targeted training courses with appropriate qualifications.

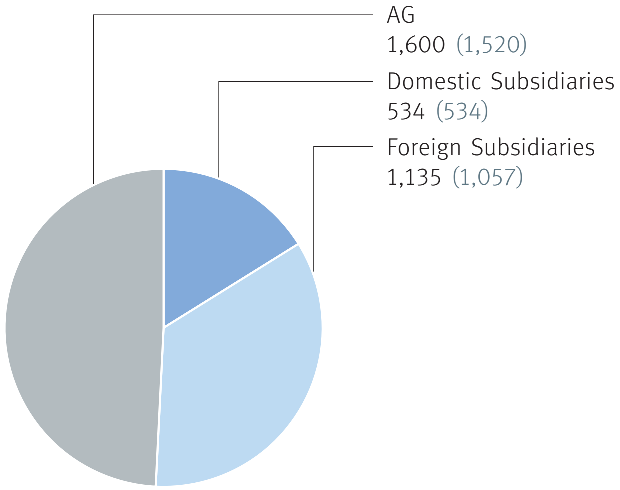
ElringKlinger also recruits specialist staff and managers from its own ranks. In 2006, as part of an academic thesis, a program was developed to select and support those with the greatest potential with the aim of developing the next generation of executives. The program is due to be implemented in 2007.

Low staff fluctuation rate

Staff turnover at ElringKlinger AG was below 0.3 per cent in 2006. Overall, staff fluctuation was also low within the subsidiaries and affiliated companies. This figure highlights the degree of loyalty felt by ElringKlinger employees towards the company.

The introduction of the new framework collective wage agreement between the metal industry employers' association and the IG Metall union was successfully implemented in full in 2006 at ElringKlinger AG's German sites in Dettingen/Erms and Runkel.

ElringKlinger Group Employees Worldwide
December 31, 2006 (prior year)



Compensation Report

Compensation structure for members of the Management Board

Contracts for members of the Management Board are drawn up by the Personnel Committee led by the Chairman of the Supervisory Board. The level of compensation is reviewed by the Personnel Committee at regular intervals and if necessary adjusted.

The compensation paid to members of the Management Board is made up of fixed and variable, i.e. performance-based, elements. The variable figure includes a component related to the last financial year and a long-term bonus linked to the growth in enterprise value.

The annual management bonus is based on the Group’s earnings before tax.

The value enhancement bonus is determined on the basis of the enterprise value of the ElringKlinger Group which is calculated by applying standard methods and assessed by the statutory 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.

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%.

Each member of the Management Board is provided with a company car.

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

In accordance with the recommendations of the Corporate Governance Code, the compensation paid to members of the Supervisory Board is made up of fixed and variable components. The level of compensation is set by the Annual General Meeting and was last adjusted on June 8, 2005. The variable element is linked to the Group’s earnings from ordinary activities in the past financial year. Since the adoption of IFRS, this figure corresponds to the Group’s earnings before tax.

The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to the other Supervisory Board members.

Those disclosures which belong in the Notes to the Financial Statements in accordance with Section 314 (1) no. 6 a of the German Commercial Code (HGB) are presented there.

Details of share capital and disclosure of potential takeover obstacles (Section 315 (4) German Commercial Code (HGB))

The nominal capital of ElringKlinger AG as at December 31, 2006, was EUR 57,600,000 and is divided into 19,200,000 registered shares. Each share has a notional interest of EUR 3.00 in the nominal capital. Each share also confers a voting right. 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.

Shareholders with a direct holding of more than 10% of voting rights are listed in the following table.

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

No shareholder is equipped with special rights constituting controlling powers.

There are no employee profit-sharing schemes.

Members of the Management Board are appointed and dismissed in accordance with Sections 84, 85 of the Stock Corporation Act in conjunction with Section 7 of the Articles of Association.

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 June 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 in accordance with Section 4 no. 3 of the Articles of Association with the approval of the Supervisory Board.

ElringKlinger AG 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.

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 2006. All processes underwent continuous assessment as to their compatibility with environmental standards and efficiency within the area of resource allocation. The general approach applied to production processes is centered around a reduction and, where possible, an avoidance of waste. Investing in state-of-the-art environmental technology, ElringKlinger is committed to protecting the soil, air and water from contaminants, as well as ensuring the efficient use of water and energy.

Extended quality and environmental management reporting

As a matter of course, all operational levels are involved in the standardized product and process audits conducted by ElringKlinger, the prime objective being to safeguard the efficiency and safety of systems and machinery throughout the company. The various segments and plant facilities of the group companies are subject to internal system audits performed by the centralized Quality and Environmental Management department on an annual basis. In addition, the plant facilities are assessed every three years as to their level of environmental and health protection. All production sites of the Group companies have ISO/TS 16949:2002 and DIN EN ISO 14001:2005 certification. In 2006, ElringKlinger further extended its central quality and environmental management reporting and established a uniform, database-aided documentation system covering key performance indicators.

Many suppliers with certified environmental management system

The Group maintains high quality standards throughout the value chain. These are safeguarded by means of predefined information management processes and regular supplier audits.

In order to meet both the requisite quality and sustainability targets, ElringKlinger operates a procurement process that is firmly incorporated within the quality assurance system. The quality of finished products is dependent to a large extent on the nature and condition of materials supplied. Therefore, high-quality raw materials, semi-finished products and components are essential. As a technology and quality leader, ElringKlinger places particular importance on ensuring that enterprises to be selected as suppliers are fully compliant with the applicable environmental provisions and laws in all areas and processes. In 2006, all suppliers were certified to ISO 9001:2000; more than a third had TS 16949:2002 certification and over 50% had in place a certified environmental management system according to DIN ISO 14001. As in previous years, ElringKlinger once again selected a "Supplier of the Year" in 2006.

Continued fall in complaints rate

The prime goal identified for all company processes is to strive to achieve zero-defect quality. ElringKlinger's ability to produce large volumes of high-tech components in a consistently high quality represents a significant competitive advantage for the company. Given the importance of the products manufacturing excellence is essential. The company recorded another fall in the customer complaints rate over the course of 2006 – in all business segments. The complaints rate of less than 10 ppm (parts per million) was extremely encouraging.

All locations within the production group have staff members responsible for emission control, waste separation, hazardous goods, water management and fire protection ensuring that the environmental and quality guidelines are implemented uniformly. All activities are coordinated by the central quality and environmental management department, which regularly audits and evaluates the relevant processes at plant level. The central management system is centered around an electronic quality and environmental management manual that applies to activities worldwide. This is complemented by site-specific instructions, process descriptions and documentation.

Improved occupational safety

Occupational safety forms an integral part of quality management at ElringKlinger. In the period under review the number of work-related accidents at the plants operated by ElringKlinger AG fell by approximately 10% compared with 2005.

Energy savings

ElringKlinger made considerable progress in its efforts to rein back energy costs, reduce emissions and avoid waste during 2006.

Expressed in absolute terms, consumption of energy increased at a less pronounced rate than total output. Compared with the increase in sales revenues of 11.3% and the significant rise in production volumes, energy consumption within the Group grew by just 5.2% to 122.000 MWh (116,000 MWh).

Electricity consumption also rose at a slightly slower pace, increasing by just 10.5% from 57,000 MWh to 63,000 MWh.

Avoiding waste through efficient management

The total volume of waste produced by the ElringKlinger Group in 2006 was 22,900 metric tons (24,300 metric tons), i.e. 5.8% less than in the previous financial year. More than 96% of waste and residual materials was recycled.

By extending the use of screen printing within production, instead of spray-coating processes, the Group was able to reduce solvents consumption by 16.5% in 2006, down from 1,206 metric tons to 1,007 metric tons.

Opportunities and Risk Report

Risk management system

ElringKlinger has had in place for several years a risk management system for the early identification, assessment and management of risk.

Through continuous monitoring it is possible both to identify in a timely manner any developments which represent a danger to the company, thereby limiting risk, and also to exploit any opportunities which may present themselves.

The divisional heads of the business and service sections, as well as the general managers of domestic and foreign subsidiaries, report extensively on any developments within their spheres of responsibility. They identify risks, evaluate them on the basis of the probability that they will materialize and propose measures which will allow risks to be avoided. Monitoring the implementation of such measures is an integral element of ElringKlinger AG's quality management procedures.

In 2006, once again, four audits were carried out by an independent firm of auditors. Compliance with any applicable legal provisions and internal procedural regulations is assessed within those parts of the business subject to the audit.

In the 2006 financial year ElringKlinger do Brasil Ltda., Piracicaba, Brazil, the ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Heidenheim plant, as well as the purchasing and elastomer technology/modules sections of ElringKlinger AG were audited. These audits established that the sections and the subsidiaries audited had complied with statutory and internal regulations. Possibilities for structuring procedures in a more efficient manner were identified. These proposals have promptly been implemented.

The Management Board has assessed risks and has regularly reported its evaluation on the company's risk situation to the Supervisory Board.

Risks

Market risks

As a supplier to the automotive industry, ElringKlinger is subject to the economic trends within the car manufacturing sector. Car manufacturers are the essential clients of ElringKlinger Group. Any downturn in client sales volumes represents a risk. Any such downturns in demand are countered through adjustments to costs and staffing levels. By broadening its client base across the automotive industry and with other suppliers in recent years, it has been possible for the company to reduce the proportion of its sales revenues generated through large accounts, although the company's sales revenues from these clients have grown in absolute terms. Thus the effects of manufacturer-specific or regional reductions in sales volumes have been minimized.

Customer risks

The unfavorable earnings performance of certain customers continues to represent a risk. The restructuring measures partially implemented by them have reduced this risk to a certain extent. Also in 2006 in some cases the company was exposed to late payment practices on the part of individual clients. In some instances the settlement of requests for payment took place considerably later than the actual due date for payment. ElringKlinger has stepped up its efforts in accounts receivable management.

Risks from development of material prices

The increase in crude oil prices and the trends visible in the costs of materials overall, as well as the shortage of resources, have persisted. ElringKlinger is conscious of risk mainly in the price trends for high-grade steels, particularly in relation to the alloy surcharges quoted by the exchanges. The alloy surcharge for one of the company's principal materials increased by approximately 280% in 2006 from EUR 0.83/kg to EUR 2.33/kg.

In 2006, alloy surcharges on approximately 50% of the company's steel requirements were hedged. Through the use of financial instruments it proved possible to limit partially the cost increase arising from the consumption of materials. ElringKlinger is attempting to minimize the residual risk through measures aimed at reducing costs. Material price allowances were adressed with the customers and in parts accomplished.

Pricing risks

In spite of this generally known situation on the procurement side, customers are still demanding price reductions. ElringKlinger is able to satisfy such demands in part through costs savings. If, however, it does not prove possible to agree on a price which generates a profit, the order in question will have to be rejected.

Two global competitors continue to be subject to Chapter 11 proceedings. Companies which find themselves subject to Chapter 11 proceedings are no longer obliged to service former debts, which results in the cash flow of such companies increasing substantially. This provides an opportunity of offering price deals which would not provide a sufficient margin to companies operating under normal financing conditions. Yet, the clients are increasingly placing more emphsis on collaborating with economically stable and creditworthy suppliers.

Currency risks

The company sees a further risk in currency exchange rate trends. ElringKlinger AG as a parent company has a central responsibility for the management of currency-related risk. In the year under review ElringKlinger hedged 50% of exchange rate risk through derivatives in the form of forward contracts.

Legal risks

ElringKlinger is furthermore exposed to legal risks. Allowance is made for these in the form of provisions in the annual accounts.

In 2006 it proved possible to settle definitively a claim for the infringement of a patent brought in the USA by an American competitor. After the competent arbitration tribunal had largely accepted ElringKlinger's case, it proved possible to reach a settlement. The risk of having to make an extensive payment by way of damages in the USA, which under the American legal system may also sometimes occur in proceedings without merit, has therefore been eliminated.

In those few product liability claims brought against ElringKlinger, when the case was submitted to a court, damages are being sought by customers claiming that ElringKlinger manufactured faulty products.

Reports have been made on numerous occasions about the claim brought by ElringKlinger against one of its licensors. In December 2006 an oral hearing took place before Mannheim the district court. The Court instructed the parties to attempt to reach a settlement. ElringKlinger complied with these instructions; no agreement was however reached with the licensor as the licensor's offer was inadequate.

Opportunities

ElringKlinger sees opportunities mainly in the growth of new product sectors and the opening of new markets but also in the rising demand for diesel vehicles in the USA and the development of alternative drive technologies.

Emissions reduction, reductions in the consumption of carbon-based fuels, the use of alternative fuels and new drive technologies are topics of significant importance to the automotive industry. ElringKlinger can make a tangible contribution in this area through its existing products and innovative technical solutions, but also through products which are currently in development. New opportunities also exist here for further profitable growth.

Until recently, automatic transmissions have played a subordinate role within the European automotive markets. New technologies bring about less consumption and improved functionality. The market share of automatic-transmission vehicles amongst new cars is set to increase in Europe from less than 15% in 2005 to over 35% in the coming years. There will be interesting market opportunities for ElringKlinger in this sector thanks to its transmission products, such as the control plate for automatic transmissions, but also thanks to its plastic housing covers and gaskets.

In view of rising crude oil and fuel prices, there is an increasing demand for diesel even within the North American market. In view of diesel's consumption advantage and high torque, diesel engines deployed in the light trucks popular throughout the US perform significantly better than petrol engines. Many car manufacturers are currently developing new and particularly low-emission diesel engines for the American market, where the current market share of diesel is a mere 5%. ElringKlinger would profit from an increase in the demand for diesel vehicles.

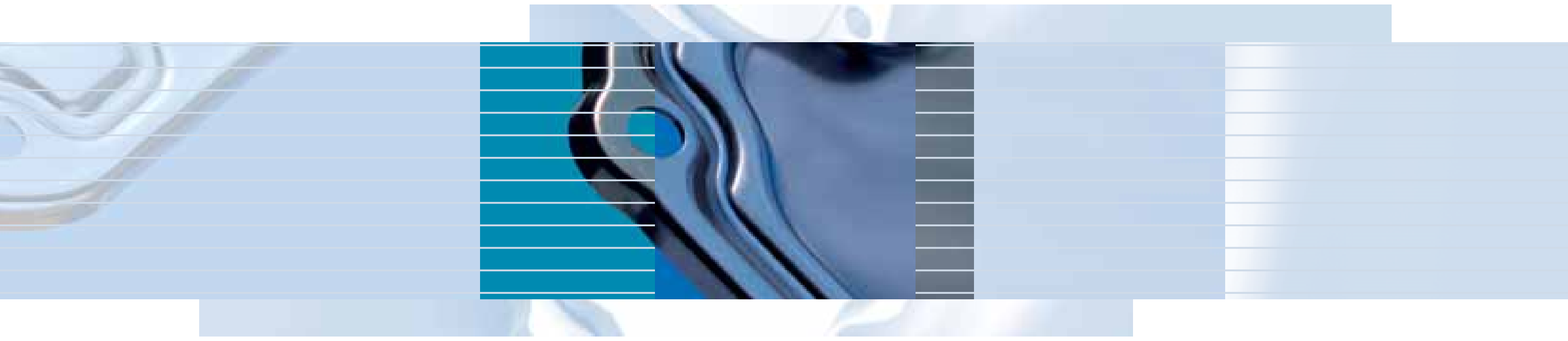
The market share of diesel vehicles could also grow in Europe as a result of the current debate about a mandatory reduction in CO_2 emissions by passenger vehicles and the taxation of passenger vehicles on the basis of CO_2 emissions proposed in Germany. On account of its higher energy efficiency diesel performs better in terms of CO_2 emissions. As a result of its strong position within the markets for diesel cylinder-head gaskets and specialty gaskets for diesel exhaust systems, ElringKlinger would benefit from such a development.

ElringKlinger can draw on many years of experience in the field of fuel cell technology. A stronger trend towards using this technology as an auxiliary unit, in stationary applications in the context of combined heat and power (CHP) or as a drive train would lead to increased demand for the bi-polar plates and stacks already developed by ElringKlinger.

More stringent emissions legislation worldwide – such as Euro 5 in Europe or Tier 2 Bin 8 in the USA – is giving rise to an increased demand for more efficient products which are able to contribute to a reduction in emissions. In particular thanks to products such as cylinder-head gaskets with coined stoppers, specialty gaskets for exhaust systems and diesel particulate filters, which are currently in the pre-development phase, there will be additional product and market opportunities for ElringKlinger. As important emerging markets such as India, Korea or China are to a large extent implementing European emissions standards with a delay clause, there exists interesting fresh potential for suppliers with the corresponding experience within these markets in terms of original equipment.

Assessment of aggregated risk

In light of the company's strong net assets, financial position and results of operations, its long-term relationships with clients and good position technologically, aggregated risk for ElringKlinger does not appear to be critical. With the production for new products already having begun and a sustainable product portfolio, ElringKlinger is in a good position to achieve its targeted operational and strategic objectives in the years to come.



Outlook

Slower economic growth expected

ElringKlinger anticipates a slight weakening in global economic growth in 2007 prompted by fears of recession in the United States, although stable growth in Europe, Latin America and Asia will probably act to cushion the impact of any cooling in North America. The global economy ought to achieve growth of around 4%, half a percentage point below the average of the last five years. This growth is driven primarily by China and India, with Asia as a whole expected to put on 7%. By contrast, the eurozone should achieve GDP growth of a little over 2%.

The German economy is likely to show signs of weakness in the first quarter following the increase in Value Added Tax on January 1, 2007. Any weakness is expected to be temporary, however, and 2.0% growth is anticipated in Germany for the year as a whole, below the figure for 2006.

Trends in the automobile industry

Worldwide production of passenger cars and light commercial vehicles should grow slightly in 2007. The rise in global demand for cars is largely a consequence of dynamic growth in the Chinese vehicle market and in the developing markets of India, Eastern Europe and Latin America. Total car production and new registrations in ElringKlinger's important traditional markets in Europe, Japan and North America are likely to fall below the already low levels of 2006.

US vehicle demand is predicted to continue its downward trend in 2007 as a result of slower economic growth. Automobile manufacturers expect new registrations of cars and light trucks to fall by up to 500,000 in the US to a little over 16 million (16.7 million) units. Japanese, Korean and also German manufacturers are likely to gain further market share in the United States.

New car registrations in Western Europe during the first two months of 2007 were around half a percentage point up on the same period in the previous year. However, taking 2007 as a whole, ElringKlinger believes that the European automobile market will be more subdued. During the first half of 2007 it will be particularly affected by the probable slowdown in the German vehicle market.

Following the increase in VAT, Germany recorded a 10.5% fall in new car registrations for January 2007 compared to the corresponding period in the preceding year. Market observers predict a fall of 2.0% for 2007 as a whole. Passenger car production by German manufacturers is expected to remain at around the same level as 2006 at 9.6 million vehicles.

Growth in market segments: diesel and automatic transmission

ElringKlinger anticipates sustained growth in the diesel segment. Following on from 2006, when around every second new car registration in Europe was fitted with a diesel engine, the company predicts a market share of around 52.6% for 2007. Over the next four years, the number of new diesel car registrations in Europe should rise by 16% to 8.6 million.

The large number of engine development projects suggests that demand for diesel engines will also increase in North America and Asia. Expectations are that diesel share in new registrations in the US will reach over 5% in 2007. As a specialist provider of gaskets for diesel engines, ElringKlinger stands to benefit from this development.

There are predictions that the number of automatic transmission vehicles, which already have a market share of over 90% in the US, will rise sharply in the European market over the next few years from less than 15% in 2005 to 35%. This again represents a positive step for ElringKlinger as the company has increasingly developed gaskets, housing parts and hydraulic control plates for the transmission market.

High levels of investment to prepare for new product start-ups in the next few years

The ElringKlinger Group plans to make investments of around 11% of consolidated sales revenues in 2007. An amount of approximately EUR 32 million (excl. tooling) is to be invested at ElringKlinger AG.

The company will purchase new plant and machines to allow it to expand capacity in the Cylinder-Head Gaskets and Specialty Gaskets divisions.

As a result of new orders received by the Elastomer Technology/Modules division, ElringKlinger is now constructing an additional production facility for plastic cam covers at its factory in Dettingen/Erms.

A new production facility is under construction at the Langenzenn site to boost capacity in the Shielding Technology division.

As detailed above, the AG's New Business division purchased a small-batch production system for diesel particulate filters at the beginning of 2007. Other investments include plant and testing systems for the Fuel Cell Components division.

Capital expenditure planned for subsidiaries and affiliated companies amounts to more than EUR 30 million.

Capacity levels are to be expanded significantly at the sites in Changchun, China, and Changwon, Korea. Committed to expansion in Asia, ElringKlinger will also be establishing a new site in Ranjangaon, India, the focus being on a plant for cylinder-head gaskets and specialty gaskets.

Another focal point is Mexico. The local facility will install an additional facility for the manufacture of plastic cam covers supplied to a US customer.

At ElringKlinger Kunststofftechnik investments go into augmenting capacity levels and driving international expansion within the area of PTFE, which until recently has been focused mainly on the German market. In addition, capital expenditure will be directed at the production ramp-up of Moldflon®, a new injection-moldable material.

Committed to raising efficiency levels and reining back costs, ElringKlinger will transfer responsibility of aftermarket logistics to the ElringKlinger Logistic Service subsidiary. For this purpose, the Group will be investing at the Rottenburg site.

The ElringKlinger Group anticipates that capital expenditure on intangible assets, property, plant and equipment as well as investment property will return to approximately 9% of sales revenues in 2008.

Year-on-year improvement in order intake and backlog

Order intake and order backlog for the Group developed well in 2006, thus providing ElringKlinger with a solid level of orders. New orders rose by 12.8% to EUR 558.9 (495.4) million. At December 31, 2006, order backlog stood at EUR 208.2 (177.7) million, which was 17.2% higher than at the end of 2005.

Outlook for sales revenues and earnings in 2007 and 2008

As long as there is no significant downturn in the overall economic situation, ElringKlinger expects to see organic growth in sales revenues for 2007 of 5 to 7%. Consolidated net income after minority interests is expected to be approx. 10% higher than the adjusted consolidated net income after minority interests in 2006 (adjusted for the one-off corporation tax effect). This non-recurring item accounted for EUR 5.3 million.

For 2008, assuming a degree of stability in the car markets, sales revenues within the ElringKlinger Group are expected to grow organically by 5 to 7%. Looking forward at consolidated net income after minority interests for 2008, ElringKlinger again anticipates a rise above the figure for growth in sales revenues.

ElringKlinger is of the opinion that implementation of the corporate tax reform planned by the German Federal Government for 2008 in its current form will lead to a fall in the normalized income tax rate of approximately 6 percentage points.

Events after the balance sheet date

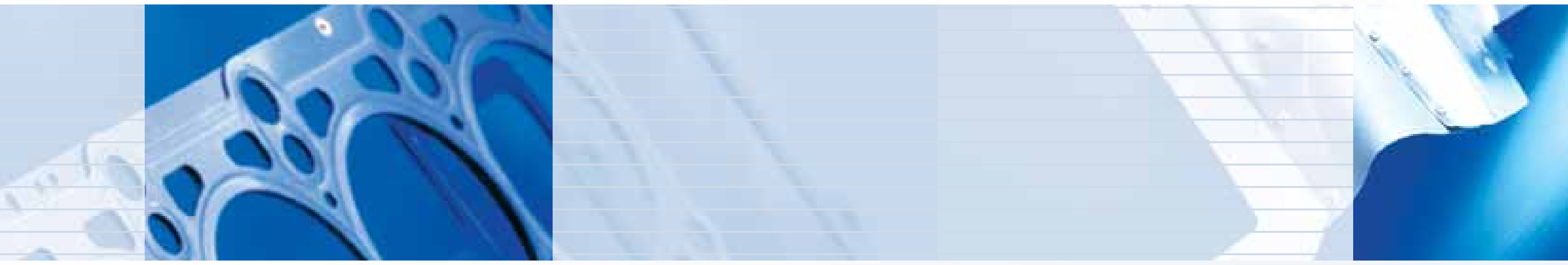
On February 26, 2007, ElringKlinger Automotive Components (India) Pvt. Ltd., which is based in Ranjangaon, India, was entered in the commercial register of Mumbai in the state of Maharashtra. ElringKlinger AG holds 100% of the shares in the entity.

At the end of February 2007, the Supervisory Board of ElringKlinger AG extended the Management Board contracts of Dr. Stefan Wolf and Karl Schmauder with effect from February 1, 2008, by five years. In accordance with the Corporate Governance Code, the first appointment was made in January 2005 for a period of three years.

Dettingen/Erms, March 28, 2007

The Management Board

Dr. Stefan Wolf Theo Becker Karl Schmauder



CORPORATE GOVERNANCE REPORT

Corporate Governance Report

Corporate governance relates to the entire system of management and control of the company. First published in 2002 and amended in June 2006, the German Corporate Governance Code contains specific statutory provisions as well as a series of recommendations and suggestions for the responsible management of companies listed on the stock exchange. Its aim is to strengthen the trust of investors, business partners and the general public.

ElringKlinger places great importance on the implementation of a transparent and responsible corporate policy that emphasizes sustainable growth in value.

The Management Board and Supervisory Board work closely together to achieve their joint goal of sustainable value creation. The Management Board governs and acts in the interests of the company. It provides prompt, regular and comprehensive reports to the Supervisory Board on all relevant aspects of the company's activities, including risk management, and decides on strategic issues in conjunction with the Supervisory Board.

ElringKlinger supports an open and transparent corporate policy. For this reason, the remuneration of Management and Supervisory Board members is published on an individual basis. The basic principles and structures of the compensation system for the Management Board and Supervisory Board are outlined in the Compensation Report. Compensation details for individual members are published in the Notes to the Financial Statements.

As at December 31, 2006, members of the Management Board and Supervisory Board collectively held the following direct or indirect shares in the company:

Supervisory Board:	10,492,208 shares
Management Board:	1,480 shares

Details of directors dealings, as required by Section 15a WpHG (German Securities Trading Act), are available on the company's website at www.elringklinger.de. For this reason, they are not included as a separate item in this Corporate Governance Report.

ElringKlinger keeps shareholders promptly informed of all major occurrences within the company. We hold regular meetings with institutional investors and analysts as part of our Investor Relations activities. Together with the company's financial statements, all press releases and ad hoc announcements are published on the Internet and are available in both German and English.

ElringKlinger adopted International Financial Reporting Standards (IFRS) in 2005. Our auditor KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, was re-appointed for the financial year 2006 by the Annual General Shareholder Meeting held on June 1, 2006.

ElringKlinger follows the recommendations of the German Corporate Governance Code as amended on June 12, 2006, with the exceptions detailed below. The following joint declaration of compliance by the Management Board and Supervisory Board, as required by Section 161 of the AktG (German Stock Corporation Act), was published on

the Internet on December 22, 2006:
“The Supervisory Board and Management Board of ElringKlinger AG hereby declare compliance with the recommendations of the German Corporate Governance Code as amended on June 12, 2006, with the following exceptions:

Section 4.2.5 and Section 5.4.7
Itemized details of the compensation given to members of the Management Board and Supervisory Board are disclosed in the Compensation Report, which forms part of the Group/AG Management Report. They are not included as a separate item in this Corporate Governance Report.

Section 5.1.2
No specific age limit for members of the Management Board has been stipulated.

Section 5.3.2
The Supervisory Board has chosen not to establish an Audit Committee. As the Supervisory Board consists of only nine members, it can effectively assume the duties of such an audit committee.

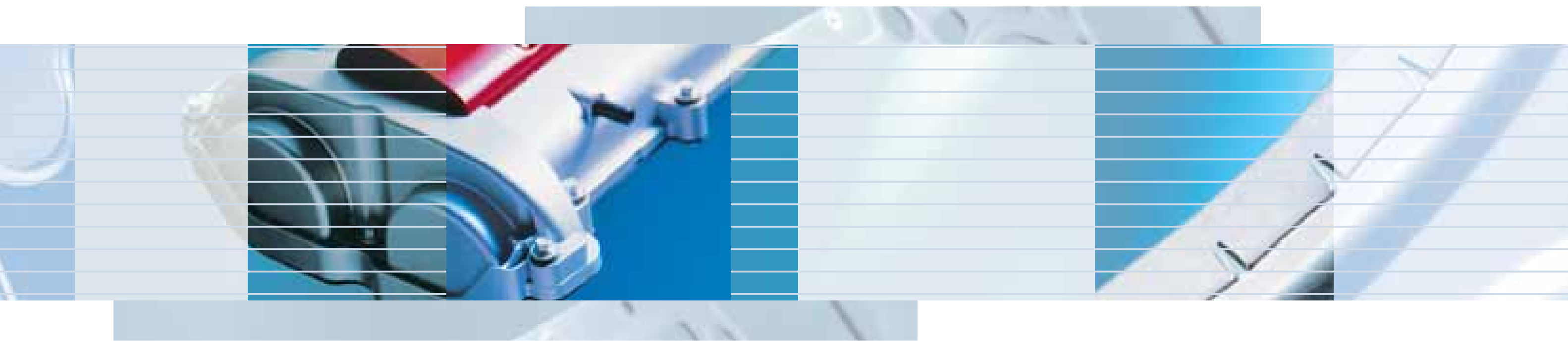
Section 5.4.1
No specific age limit for members of the Supervisory Board has been stipulated.

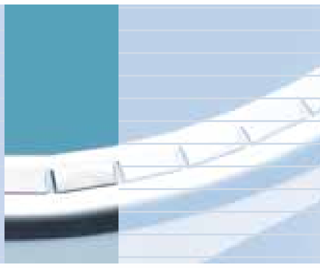
Section 5.4.3
The names of candidates proposed for the chair of the Supervisory Board are not made available to shareholders.

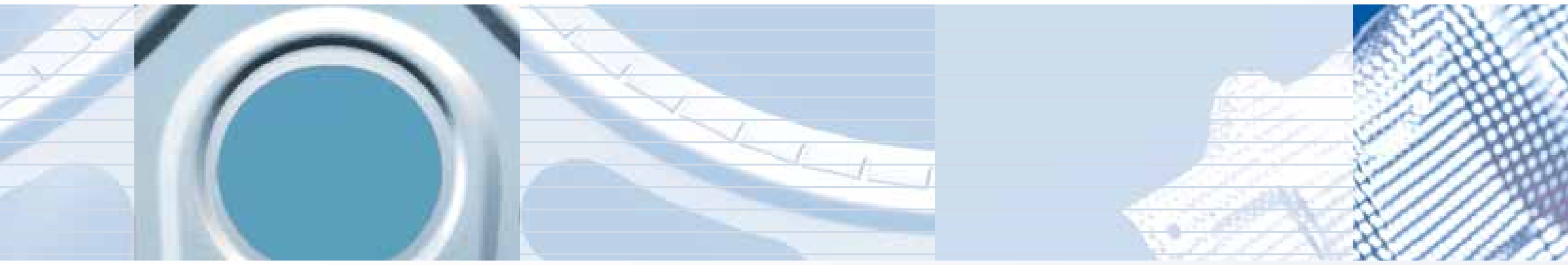
Section 6.6.
Details of the purchase or sale of company shares by Board members or managers with insider knowledge are not published in the Corporate Governance Report. This information is disclosed on the Internet at www.elringklinger.de.

Dettingen/Erms, December 5, 2006

Supervisory Board and Management Board
ElringKlinger AG”







ELRINGKLINGER AND THE CAPITAL MARKETS

ElringKlinger and the Capital Markets

ElringKlinger AG strives to meet the communication needs of the capital markets and private investors in all situations and in equal measure whilst also taking account of the interests of the media and members of the public. For ElringKlinger, the crucial aim of corporate communication is to provide prompt, comprehensive and transparent information about the company.

Share price up in 2006

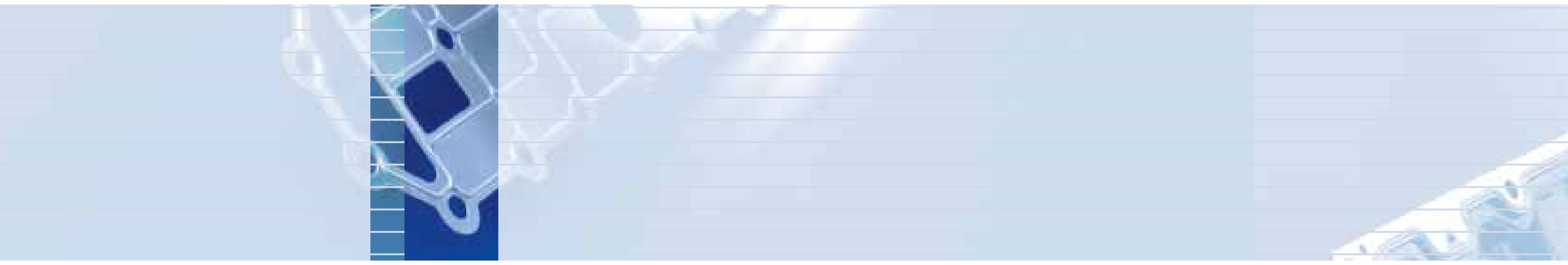
From the beginning of 2006, shares in ElringKlinger, which are listed in the SDAX index, were able to rise on the back of favorable company news, a more positive outlook on the capital markets with regard to the automobile industry and a generally buoyant stock market environment.

The share price moved up from EUR 31 to just under EUR 50 over the year. In contrast with the preceding year, it outperformed both the DAX and SDAX indices, closing the year at EUR 48.52, up 59% on its 2005 closing value (EUR 30.56). Germany's DAX index rose 22% over the same period, while the SDAX gained 30%.

ElringKlinger shares began the new year (2007) in impressive form, climbing to over EUR 57 by the end of February. As a result of turbulence on the capital markets in early March, the price receded below the EUR 50 mark. Nevertheless, it still managed to outperform the DAX and SDAX by a small margin.

Enhanced communication

In order to ensure that all corporate publications offer up-to-date and simultaneous information to those concerned, i.e. institutional and private investors, analysts and



Share movements from January 1, 2006, compared with DAX/SDAX

members of the press, ElringKlinger now makes even greater use of the Internet as a means of disseminating relevant information. News of current events and product developments can be found on the company's website at www.elringklinger.de. ElringKlinger has published quarterly and half-year reports on a regular basis and has also informed the public via ad hoc announcements and press releases in both German and English. The company has supported a large number of private investors through corporate presentations at banks, by telephone, on the Internet and by means of regular reports and informative e-mails. 2006 saw the first issue of an "Annual Document" of the type prescribed by Section 10 of the Securities Prospectus Act (Wertpapierprospektgesetz – WpPG) collating all the relevant publications of ElringKlinger AG. There was also a significant rise in the number of press articles about the company.

Active dialog with the capital markets

During the year under review, ElringKlinger strengthened its dialog with analysts and investors and further increased the international profile of the company.

A number of road shows were held in Scandinavia, the UK, Italy, France, Switzerland, Austria and North America, in addition to regular discussions with investors in Frankfurt. The company's Management Board presented ElringKlinger's business model and details of current developments at a series of capital market conferences in London, Paris, Milan, Frankfurt and New York. ElringKlinger also conducted a large number of one-to-one meetings and organized several visits to its production site. Furthermore, analysts and institutional investors were invited to take part in teleconferences following the publication of the company's new quarterly results.

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

Strong attendance at the 2006 Annual General Meeting

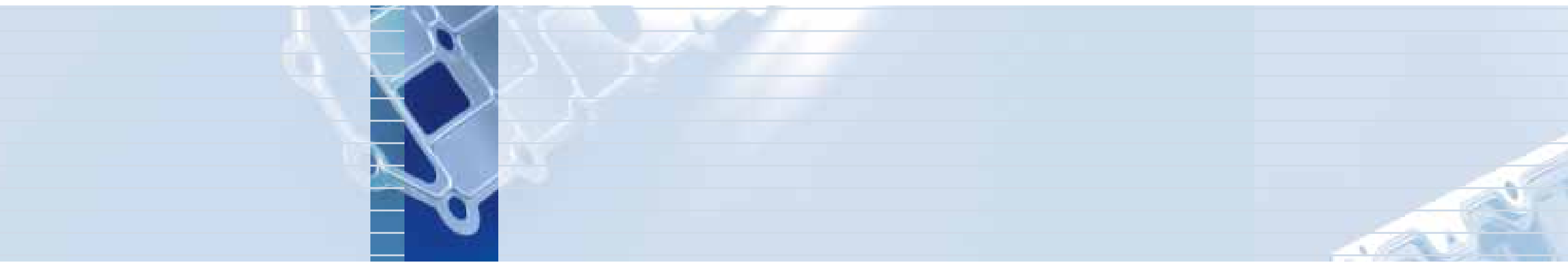
The active interest of shareholders in the company was evident at the 101st Annual General Meeting held on June 1, 2006, at the Liederhalle, Stuttgart's Cultural and Congress Centre. Over eight hundred shareholders, bank representatives, representatives of shareholder associations, journalists and guests took the opportunity to learn about the company's activities in the 2005 financial year. The Management Board's proposal to increase the dividend to EUR 1.00 (EUR 0.88) per share was accepted by the AGM. This was a clear demonstration of the company's resolve to ensure that shareholders continue to participate in its success. Since 1997 the total dividend payout has risen from EUR 1.5 million to EUR 19.2 million. The proportion of net income after minorities distributed in 2006 was 45.3%. Both during and after the AGM, those attending were able to find out more about the company and its product portfolio in discussions with senior executives and employees and through an exhibition of products.

Proposed dividend increase for 2006 of 25%

The 102nd Annual General Meeting of ElringKlinger AG for the 2006 financial year will again be held at the Liederhalle Cultural and Congress Centre – on May 25, 2007. The Management and Supervisory Boards will propose a dividend increase of 25% to EUR 1.25 (1.00) per share, taking the total payout up to EUR 24.0 million.

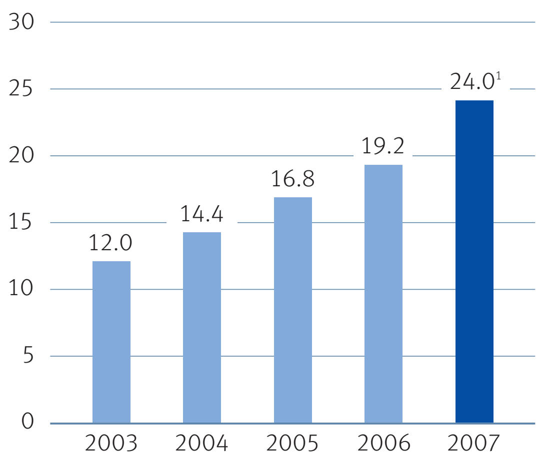
Improved share liquidity

The average daily volume of shares traded on the exchange rose from around EUR 637,000 in 2005 to over EUR 700,000 in 2006, an increase of 10%. This positive trend



Total dividend payments

in EUR million



[1]proposal to the AGM 2007

continued in 2007 during the early weeks of trading, with the daily volume of share trades again moving up.

By the end of the 2006 financial year, ElringKlinger AG's market capitalization had risen to around EUR 930 million with a free float of around EUR 420 million.

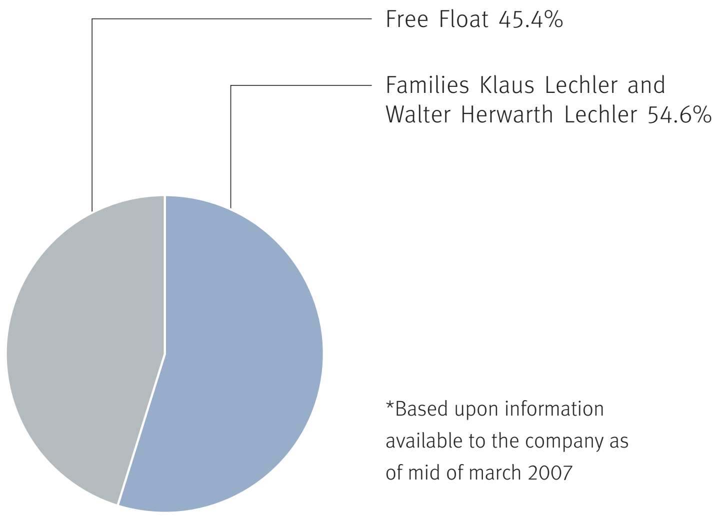
Stable shareholder structure

The company's shareholder structure remained stable in 2006. 54.6% (55.3%) of shares were held by the families of Klaus Lechler and Walter Herwarth Lechler. The free float rose slightly to 45.4% (44.7%), helping to boost the share's liquidity on the exchange. Institutional investors increased their holdings with around 43% of the free float. Among the company's principal investors are international investment companies, banks and insurers from the UK, the US, Switzerland, France, Spain, Austria, Scandinavia and the Benelux. ElringKlinger's sustained dividend policy and a solid dividend yield have also attracted a large number of private investors.

Annual report awarded "Gold" by the LACP

In July, ElringKlinger's 2005 annual report received a Gold Award from the LACP (League of American Communications Professionals) as part of the international "Vision Awards Annual Report Competition". ElringKlinger achieved 96 out of a possible 99 points putting it in 49th position out of over 1,900 participating companies across the world. The judges were particularly impressed by the report's structure and clarity of layout, its use of plain language and the presentation of key figures. The award was also largely in recognition of the consistency of the message throughout the entire report and the clear formulation of corporate objectives and future prospects.

Shareholder structure*



*Based upon information available to the company as of mid of march 2007

Financial report approved by Handelsblatt survey

In 2006, the financial newspaper Handelsblatt assessed the group financial statements of 130 quoted industrial, commercial and service companies in Germany. Handelsblatt's checklist covered quality of information and transparency of the annual report and analyzed over 250 criteria. ElringKlinger was awarded 925 out of a possible 1000 points, placing it well above the SDAX average (770) in 12th position, 63 places higher than in the previous year.

ElringKlinger AG also achieved a very good result in the Handelsblatt 2006 Ranking, which evaluates earnings performance. Assessments were based on equity ratio, return on investment, cash flow in relation to sales revenues and cash flow in relation to total capital. As the survey makes clear, earnings strength plays a decisive role in allowing the company to invest in the new technology and equipment required to ensure the long-term success of ElringKlinger and to safeguard jobs. ElringKlinger was ranked thirteenth among the 130 quoted companies in the survey, and its earnings strength was judged to be "above average".

ElringKlinger voted "Top Supplier"

In January 2007, ElringKlinger was voted Top Supplier for the last five years by the trade review Automobilwoche. In addition to its share performance, the award took into account improvements in profitability over the period and the company's track record within the area of innovation.

On track for 2007 with improved communications

Since the beginning of 2006, three more banks have started to cover ElringKlinger AG. The company aims to pursue an intensive dialog with investors and the public in 2007 and to focus on specific areas where that dialog can be expanded. Following the complete revamping of the Elring brand website, which is used as an information platform for the worldwide sale of spare parts, the new ElringKlinger Group corporate website will go online by the middle of the year.

The aim of the 2007 Investor Relations Program is to present the ElringKlinger business model, which focuses increasingly on the important issues of reducing emissions and consumption and alternative energy and drive concepts. To achieve this goal, the company will endeavor to be more active in those global financial markets, such as North America, Southern Europe and Asia, where there is still plenty of scope for it to enhance its profile.

Share in ElringKlinger – key figures

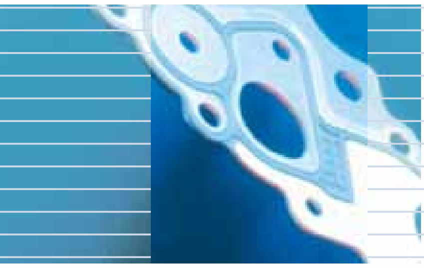
	2006	2005[4]
Earnings per share according to IFRS (before minority interests, in EUR)	3.22	2.43
Earnings per share according to IFRS (after minority interests, in EUR)	3.01	2.21
Shareholders' equity per share (in EUR)	11.17	10.21
High (in EUR)	49.41	36.56
Low (in EUR)	31.07	25.26
Closing price at December 31 (in EUR)[1]	48.52	30.56
P/E (price to earnings ratio)[2]	16.1	13.8
Dividend per share (in EUR)	1.25[3]	1.00
Daily average trading volume on the German exchanges (in units)	17,707	21,300
Daily average trading volume on the German exchanges (in EUR)	704,000	637,400
Market capitalization (in EUR million)[2]	931.6	586.8

[1] XETRA

[2] As of December 31

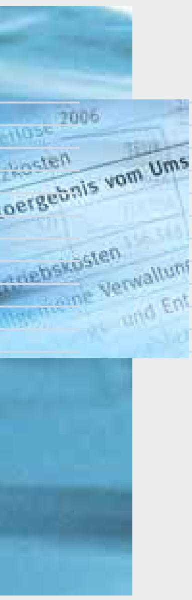
[3] Proposal to the AGM

[4] Share price, earnings figures and dividend adjusted for 2-for-1 stock split



CONSOLIDATED FINANCIAL STATEMENTS FOR THE ELRINGKLINGER GROUP

Consolidated income statement
for the period from January 1 to December 31, 2006



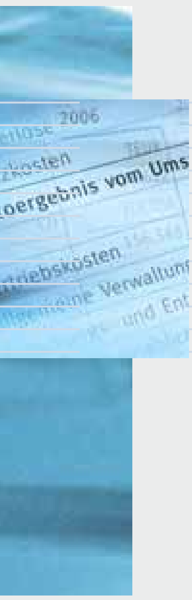
	Notes	2006	2005
		EUR'000	EUR'000
Sales revenues	(1)	528,421	474,622
Cost of sales	(2)	-338,700	-318,034
Gross profit		**189,721**	**156,588**
Selling expenses	(3)	-38,925	-36,520
General and administrative expenses	(4)	-22,650	-22,948
Research and development expenses	(5)	-26,011	-24,334
Other operating income	(6)	4,815	6,697
Other operating expenses	(7)	-10,886	-4,490
Operating result		**96,064**	**74,993**
Earnings from affiliated companies		8	6
Net interest	(8)	-8,453	-4,101
Financial result		**-8,445**	**-4,095**
Earnings before taxes		**87,619**	**70,898**
Taxes on income	(9)	-25,718	-24,320
Consolidated net income		**61,901**	**46,578**
Minority interests		-4,143	-4,216
Consolidated net income after minority interests		**57,758**	**42,362**
Earnings per share in EUR	(10)	3.01	2.21

Consolidated balance sheet as at December 31, 2006

ASSETS	Notes	Dec. 31, 2006	Dec. 31, 2005
		EUR'000	EUR'000
Intangible assets	(11)	28,187	30,913
Tangible assets	(12)	211,909	210,452
Investment property	(13)	31,641	32,390
Financial assets	(14)	4,528	4,543
Other non-current assets	(15)	5,414	0
Deferred taxes		9,313	10,732
Fixed assets		**290,992**	**289,030**
Inventories	(16)	89,956	82,246
Trade receivables	(17)	80,993	74,154
Other current assets	(17)	9,227	6,433
Cash and cash equivalents	(18)	5,453	4,434
Current assets		**185,629**	**167,267**
		476,621	456,297

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2006	Dec. 31, 2005
		EUR'000	EUR'000
Share capital		57,600	57,600
Capital reserve		2,747	2,747
Revenue reserves		154,894	119,791
Shareholders' equity before minority interests	(19)	**215,241**	**180,138**
Minority interests	(20)	**15,957**	15,975
Shareholders' equity		**231,198**	**196,113**
Provisions for pensions	(21)	53,451	52,429
Non-current provisions	(22)	8,784	9,212
Non-current financial liabilities	(23)	50,380	50,504
Deferred taxes		31,152	32,517
Other non-current liabilities	(24)	12,684	11,173
Non-current liabilities		**156,451**	**155,835**
Current provisions	(22)	9,009	6,252
Trade payables	(24)	28,210	25,685
Liabilities to affiliated companies		0	17
Current financial liabilities	(23)	16,251	34,985
Tax payables		6,628	7,096
Other current liabilities	(24)	28,874	30,314
Current liabilities		**88,972**	**104,349**
		476,621	456,297

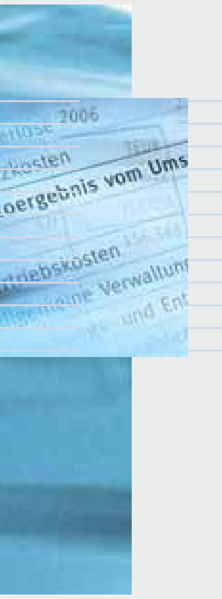
Statement of Changes in Equity



	Share capital	Capital reserve	Revenue reserves
			Revaluation reserve
	EUR’000	EUR’000	EUR’000
As of Dec. 31, 2004	57,600	2,747	26,181
Capital increase			
Dividends paid			
Changes in consolidated companies			
Adjustments due to consolidation			
Other changes			
Consolidated net income			
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			
Consolidated net income			
As of Dec. 31, 2006	57,600	2,747	26,181

Currency translation differences	Group equity generated	Minority interests	Group equity
EUR'000	EUR'000	EUR'000	EUR'000
-7,798	**70,216**	**14,977**	**163,923**
			0
	-16,800	-3,571	-20,371
			0
5,595		353	5,948
	35		35
	42,362	4,216	46,578
-2,203	**95,813**	**15,975**	**196,113**
			0
	-19,200	-3,866	-23,066
	-8		-8
-3,503		-295	-3,798
	56		56
	57,758	4,143	61,901
-5,706	**134,419**	**15,957**	**231,198**

Consolidated cash flow statement



	2006	2005
	EUR'000	EUR'000
Earnings before taxes	87,619	70,898
Amortization and depreciation	45,650	40,610
Net interest	5,724	6,309
Increase in provisions	1,030	1,791
Profit (p.y. loss) from disposal of intangible assets and of property, plant and equipment	-533	237
Changes in inventories, receivables and other assets not resulting from financing and investing activities	-16,932	-19,045
Changes in liabilities not resulting from financing and investing activities	2,825	3,347
Income taxes paid	-32,528	-29,832
Interest paid	-3,326	-3,882
Interest received	352	305
Foreign currency translation changes	3	-595
Net cash from operating activities	**89,884**	**70,143**
Proceeds from disposals of intangible assets and of property, plant and equipment	2,603	3,457
Proceeds from disposals of financial assets	419	25
Payments for investments in intangible assets	-2,897	-1,941
Payments for investments in tangible assets and investment properties	-46,662	-55,212
Payments for investments in financial assets	-417	0
Net cash used in investing activities	**-46,954**	**-53,671**
Dividends paid	-23,066	-20,371
Changes in financial liabilities	-18,858	-2,162
Foreign currency translation changes	203	-1,307
Net cash used in financing activities	**-41,721**	**-23,840**
Net decrease (p.y. increase) in cash and cash equivalents	1,209	-7,368
Foreign currency translation changes in cash and cash equivalents	-238	524
Other changes	48	35
Cash and cash equivalents at beginning of period	4,434	11,243
Cash and cash equivalents at end of period	**5,453**	**4,434**

Notes to the consolidated financial statements for the year 2006

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 3614242. The company is domiciled in Dettingen/Erms. The articles of incorporation are dated June 1, 2006. The registered name of the company is ElringKlinger Aktiengesellschaft. 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, 2006, 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.

For the financial year 2006 the following Standards and accordingly appendices for the existing policies became mandatory:

Changes of IAS 39 Financial Instruments: Recognition and Measurement with the addition of the provisions on the use of the fair value option. Due to this change the choice of valuing every financial asset and every financial liability as at fair value through profit and loss is limited (Fair-Value-Option). Additional changes apply for the intragroup hedging relationships.

Changes of IAS 19 Employee benefits: Option of recognising actuarial gains and losses of defined benefit plans outside profit and loss.

IFRS 6 Exploration for and evaluation of mineral resources

IFRIC 4 Determining whether an arrangement contains a lease

IFRIC 5 Rights to Interests arising from decommissioning, restoration and environmental rehabilitation funds

IFRIC 6 Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment

This new or changed standards and interpretations did not have significant influences on the net assets, financial position and results of operations.

The following Standards already endorsed by the EU were published, but had not become mandatory for the financial year 2006.

IFRS 7 Financial instruments: Disclosures was approved by the IASB in August 2006. It applies to financial years beginning on or after January 1, 2007. IFRS 7 relates in particular to explanatory presentations on financial instruments that will be fulfilled by the ElringKlinger group when the standard becomes mandatory.

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.

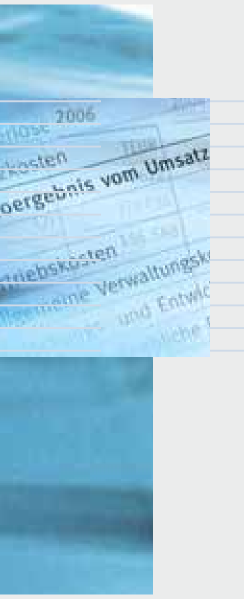
The preparation of the consolidated financial statements in compliance with the pronouncements of the IASB requires estimates and assumptions to be made that have an effect on the values recognised in the balance sheet and in the income statement as well as on the disclosure of contingent assets and liabilities.

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:

Scope of consolidation



Apart from the single entity statements of ElringKlinger AG, the consolidated financial statements of ElringKlinger AG as at December 31, 2006, include the annual financial statements of four (2005: 4) domestic and 14 (2005: 15) 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.

During the financial year 2006, the subsidiary Elring Klinger Polska Sp.z o.o., Walbrzych, Poland, that had been fully consolidated in the prior year, was liquidated. This subsidiary has therefore been de-consolidated.

The two joint ventures, ElringKlinger Korea Co., Ltd., Changwon, Southkorea (formerly JEIL Elring), and ElringKlinger Marusan Corp., Tokyo, Japan, have been included in the consolidated financial statements proportionately pursuant to IAS 31. In the proportionate consolidation, all assets and equity & liability items, and all expenses and income of the joint venture are included in the consolidated financial statements at the level of the participatory proportion (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:

	2006	2005
	EUR'000	EUR'000
Non-current assets	1,780	909
Current assets	2,433	1,331
Non-current liabilities	86	161
Current liabilities	1,498	625
Income	3,541	3,084
Expenses	3,232	2,826

The participatory investment Marusan Packing Manufacturing Co. Ltd., Tokyo, Japan, has been recognised at acquisition cost.

There is an overview of the 18 companies included, the two joint ventures and one participatory investment in the explanations to ”Financial assets“ in the form of a ”List of shareholdings and scope of consolidation“.

Consolidation methods

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

On acquisition of a company, the assets and liabilities of the subsidiaries concerned are measured at their fair value at the time of acquisition. If the purchase price of the participation exceeds the identified assets and debts that are to be measured at their current market value, the difference is capitalised as goodwill. Negative differences (negative goodwill) are recorded immediately as expense.

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

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 revenues, other income and expenses within the scope of consolidation are eliminated. Accumulated results from intragroup supplies of inventories are eliminated.

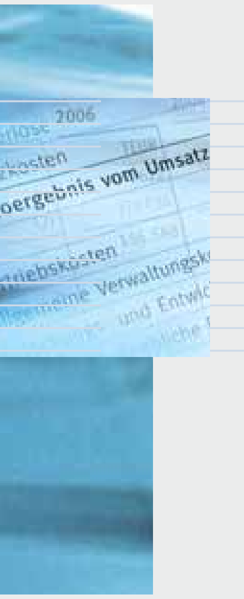
Currency translation

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 organisational respects, the functional currency is identical with the relevant national currency of the company. In the consolidated financial statements, expenses and income from the financial statements of included companies that are prepared in foreign currency are translated at the average rate for the year, while assets and liabilities are translated at the rate on the balance sheet date. Goodwill is treated as an asset or debt and translated at the balance sheet 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 balance sheet date Dec. 31, 2006	Rate on balance sheet date Dec. 31, 2005	Average exchange rate 2006	Average exchange rate 2005
US Dollar (USA)	USD	1.3184	1.1833	1.26287	1.23786
Pound (United Kingdom)	GBP	0.6716	0.6874	0.68184	0.68312
Canadian dollar (Canada)	CAD	1.5287	1.3750	1.42531	1.49865
Real (Brazil)	BRL	2.8135	2.7503	2.73972	2.99513
Peso (Mexico)	MXN	14.3040	12.6021	13.77909	13.47397
RMB (China)	CNY	10.2921	9.5471	10.04633	10.12873
WON (South Korea)	KRW	1,225.4500	1,186.8000	1,199.86583	1,264.23000
Rand (South Africa)	ZAR	9.2300	7.4900	8.63148	7.87479
Yen (Japan)	JPY	156.7000	139.1000	146.73167	136.90250
Forint (Hungary)	HUF	251.9000	253.0000	264.30417	248.78333
Zloty (Poland)	PLN	3.8300	3.8650	3.90043	4.02573



Goodwill

Goodwill is capitalised 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.

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 use values of the cash generating unit are determined by discounting future cash flows. The computation is based on the following material 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 rate used is a cost of capital rate of 8.1%.

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

Intangible assets

Purchased intangible assets, mainly patents, licences and software, are capitalised at acquisition cost. Internally generated intangible assets, with the exception of goodwill, are capitalised 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 assets are determined on the basis of directly attributable individual costs as well as their proportion of overheads.

The intangible assets are amortised normally using the straight line method over their useful lives. Patents, licences and software have useful lives of 10 years. Capitalised 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 recognised.

Tangible assets

Tangible assets are measured at acquisition or manufacturing costs less scheduled straight-line, use-related depreciation, as well as, if appropriate, impairment. The manufacturing costs of internally generated tangible assets are determined on the basis of directly attributable individual costs as well as their proportion of overheads. Financing costs for the period of manufacture are not included. The allowed alternative of revaluation is not applied.

Assets whose acquisition or manufacturing costs do not exceed EUR 410 are recognised as expense immediately in the year of addition.

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

Category of tangible asset	years
Buildings	15 to 40
Plant and machinery	12 to 15
Special toolings	3
Operating and office equipment	5 to 15

Investment property

Investment property is measured in the same way as tangible assets, i.e. at acquisition or manufacturing costs less scheduled, use-related, straight-line depreciation, or else at a lower market value. It is shown separately under long-term 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 tangible assets and of intangible assets other than goodwill

As at each balance sheet date, tangible assets and intangible 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 net sales value and 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.

Any revaluation is made up to at most the acquisition or manufacturing cost, if in the following periods the recoverable amount exceeds the carrying value.

The impairment and any revaluation are recorded in the income statement.

Financial instruments

Original financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet if the group is a contractual party with respect to the contractual provisions of the financial instrument. The financial instruments are recognised at the settlement day at acquisition cost. The financial investments held in the group are divided into the following categories:

- financial investments held to maturity
- loans extended and receivables.

Since there are no stocks of financial instruments held for trading or available for sale in the consolidated financial statements of ElringKlinger AG, no further explanations are given here on the accounting treatment of the two categories.

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

Financial instruments are recognised in the category of ”held-to-maturity financial investments“ when the group has the intention and the legal capacity to hold these until their due date.

Participations are recognised at adjusted acquisition costs.

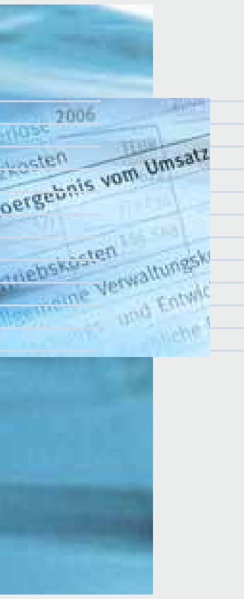
Financial assets are classified as loans extended and receivables that result from monetary transactions, or the supply of merchandise to or the rendering of services for outside parties. The current assets and debts classified in this category are measured at acquisition costs, whereas the non-current financial assets and debts are measured at adjusted acquisition costs using the effective interest method.

Trade receivables are recognised at acquisition costs less appropriate adjustments for amounts assessed to be unrecoverable.

Trade payables are shown at their repayment values.

Financial assets are retired when the contractual rights relating to the cash flows from a financial asset come to an end.

Financial liabilities are retired when the obligations underlying this liability have been fulfilled or rescinded or have expired.



Derivative financial instruments and accounting for hedge transactions

Under IAS 39 all derivative financial instruments, such as currency, price and interest swaps as well as currency forward transactions, must be recognised in the balance sheet at market value, irrespective of the reason or purpose for which they are held. Since the ElringKlinger group does not use hedge accounting, market value changes of derivative financial instruments are always recorded in the income statement.

The derivative financial instruments deployed in the ElringKlinger group are currency forward, interest, and price hedging 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 recognised at acquisition or manufacturing costs or, if lower, their net realisable value. Raw materials, supplies and consumables as well as merchandise are measured at their adjusted average acquisition costs. The manufacturing costs of work in progress and finished goods are determined on the basis of directly attributable individual costs as well as a proportion of production-related overheads. The overhead proportions are computed on the basis of normal employment. The manufacturing costs do not include selling expenses, general and administrative expenses or financing costs. The net sales value is the estimated selling price less all estimated costs to be incurred until completion as well as costs for marketing, sale and distribution. Markdowns are made for detectable impairment on account of lower marketability and quality as well as to account for lower selling prices.

Cash and cash equivalents

Cash and cash equivalents are cash in hand, cheques and immediately available bank balances as well as non-current term deposits and securities the original term of which is not more than three months. They are recognised at their nominal values.

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 cautious estimates of the relevant influences. The computation is based on actuarial reports that apply biometrical bases.

Actuarial gains and losses are offset with effect on the income statement when they are outside a corridor of 10% of the expected defined benefit obligations of the prior year. Deviations of up to 5% more are accrued immediately and in full. Deviations of more than 15% are 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 pensions) or 30 years (vested pensions).

Non-current and current provisions

Other 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 that is necessary to fulfill the obligation. Refund claims are capitalised separately, if required.

Leases

Net rental payments on operating leases are recorded over the term of the lease as expense.

Realisation of profits

Sales revenues are measured at the fair market 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 revenues are recorded when the owing supplies and services have been rendered and the receipt of the payment can 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.

Income taxes and deferred taxes

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

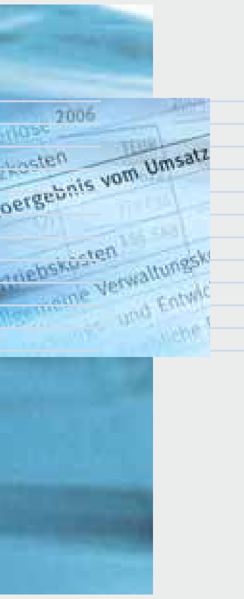
The current tax expense is determined on the basis of the taxable income for the relevant year. The taxable income is different from the net income for the year shown in the income statement since it excludes expenses and income which will be tax deductible in later years or which will never become taxable 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 charge or relief arising from differences in the carrying values of assets and debts in the financial statements and the tax values. Here the balance sheet oriented liability method is applied. In general, deferred tax liabilities are recorded for all taxable temporary differences, and deferred tax assets are recorded to the extent that it is probable that taxable profits will be available for which the deductible temporary differences can be used. Such assets and debts are not recognised if the temporary difference arises from goodwill or 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. Otherwise, deferred taxes are set up on tax 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 realisation.

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



Segment reporting

The ElringKlinger group is organised around five business areas. Correspondingly, the segments analysed are Original Equipment, Spare Parts, Engineered Equipment, 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 motorised vehicles (Powertrain). Additionally, services are rendered that are connected with this activity.

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

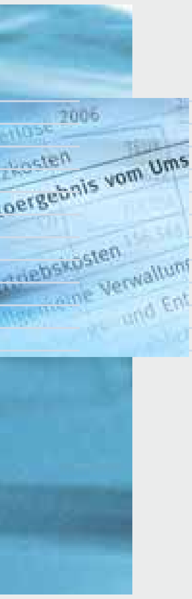
The reporting segment ”Services“ relates mainly to the operation of motor test benches and contributions for engine development.

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

In the following overview, ”Segment reporting“ revenues, results as well as assets and debts of the individual group segments are presented. With the exception of the supplies in the area of Original Equipment to the Spare Parts area, trading between the different segments is only slight. The trade relationships between segments have been consolidated. Trade between the segments is conducted at prices that would also have been agreed with parties outside the group.

Segment reporting

	Original Equipment		Spare Parts		Engineered Equipment	
	2006	2005	2006	2005	2006	2005
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenues	**445,533**	**403,635**	**91,000**	**92,167**	**58,887**	**54,688**
Intersegment revenues	-16,523	-15,931	0	0	0	0
Consolidation	-55,019	-57,775	-7,086	-10,966	-69	-1,536
Sales revenues	**373,991**	**329,929**	**83,914**	**81,201**	**58,818**	**53,152**
Segment expenses	-312,808	-282,843	-68,803	-65,912	-47,406	-42,452
Segment profit/loss	**61,183**	**47,086**	**15,111**	**15,289**	**11,412**	**10,700**
Net interest	-4,571	-5,190	-559	-640	-42	114
Earnings before taxes	**56,612**	**41,896**	**14,552**	**14,649**	**11,370**	**10,814**
Amortisation & depreciation*	41,804	36,191	412	553	1,788	1,722
Investments**	44,663	51,150	450	1,059	3,430	1,658
Segment assets	346,590	328,047	42,668	43,974	35,306	36,568
Segment debts	115,629	108,666	15,537	15,211	10,292	10,621



* Amortisation & 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

	2006	2005
	EUR'000	EUR'000
Non-current assets acc. to consolidated balance sheet	290,992	289,030
- Deferred tax assets/non-current assets on income tax	-14,727	-10,732
Non-current assets of the regions	**276,265**	**278,298**
Current assets	185,629	167,267
Receivables on income tax	-1,930	-1,424
Others	4,052	6,331
Segment assets	**464,016**	**450,472**

Reconciliation segment debts

	2006	2005
	EUR'000	EUR'000
Non-current liabilities	156,451	155,835
Current liabilities	88,972	104,349
- Financial liabilities	-66,631	-85,489
- Deferred tax liabilities	-31,152	-32,517
- Tax liabilities on income Tax	-4,041	-5,168
Segment debts	**143,599**	**137,010**

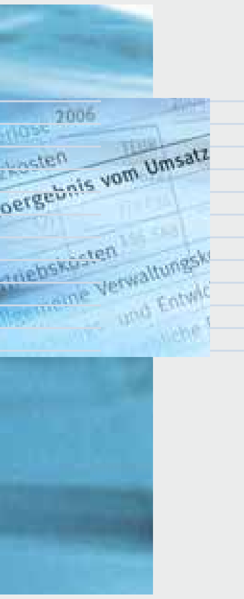
	Industrial Parks		Services		Group	
	2006	2005	2006	2005	2006	2005
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenues	8,251	7,529	6,388	7,215	610,059	565,234
Intersegment revenues	0	0	0	0	-16,523	-15,931
Consolidation	-126	-125	-2,815	-4,279	-65,115	-74,681
Sales revenues	**8,125**	**7,404**	**3,573**	**2,936**	**528,421**	**474,622**
Segment expenses	-3,329	-3,765	-2,732	-2,443	-435,078	-397,415
Segment profit/loss	**4,796**	**3,639**	**841**	**493**	**93,343**	**77,207**
Net interest	-579	-584	27	-9	-5,724	-6,309
Earnings before taxes	**4,217**	**3,055**	**868**	**484**	**87,619**	**70,898**
Amortisation & depreciation*	1,132	1,097	764	964	45,900	40,527
Investments**	495	2,474	521	812	49,559	57,153
Segment assets	33,126	35,532	6,326	6,351	464,016	450,472
Segment debts	1,171	1,163	970	1,349	143,599	137,010

Region

		Sales revenues	Non-current assets	Investments**
		EUR'000	EUR'000	EUR'000
Germany	2006	193,005	200,089	36,297
	2005	182,996	201,659	39,177
Rest of Europe	2006	164,590	31,417	4,088
	2005	144,460	30,580	5,067
NAFTA	2006	92,082	31,582	5,437
	2005	83,750	34,175	8,446
Asia and Australia	2006	54,309	6,463	2,929
	2005	42,408	5,163	1,308
South America and others	2006	24,435	6,714	808
	2005	21,008	6,721	3,155
Group	**2006**	**528,421**	**276,265**	**49,559**
	2005	474,622	278,298	57,153

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

Individual disclosures on the income statement



(1) Sales revenues

Sales revenues increased by EUR'000 53,799 to EUR'000 528,421 in comparison with 2005.

The sales revenues of the group are made up as follows:

	2006	2005
	EUR'000	EUR'000
Sale of goods and services	520,296	467,218
Income from rental and leasehold	8,125	7,404
Total	**528,421**	**474,622**

Breakdown by geographical market:

	2006	2005
	EUR'000	EUR'000
Domestic	198,309	188,067
Foreign	335,416	291,626
	533,725	**479,693**
Discounts, bonuses	-5,304	-5,071
Total	**528,421**	**474,622**

(2) Cost of sales

The costs of sales increased in all by EUR'000 20,666 to EUR'000 338,700 in comparison with 2005. The costs of sales shows the costs incurred to obtain the sales revenues.

(3) Selling expenses

The selling expenses increased by EUR'000 2,405 to EUR'000 38,925 in comparison with the prior year. The selling expenses comprise mainly personnel expenses, material and marketing costs as well as amortisation & depreciation relating to the distributive ability.

(4) General and administrative expenses

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

(5) Research and development expenses

The research and development expenses comprise the personnel expenses and amortisation/depreciation relating to these activities as well as the costs of test materials and tools.

(6) Other operating income

	2006	2005
	EUR'000	EUR'000
Charged costs	1,095	1,366
Release of provisions/accrued liabilities	664	954
Public subsidies	368	408
Income from disposals of non-current assets	1,354	273
Sundry	1,334	3,696
Total	**4,815**	**6,697**

The other operating income includes out-of-period income of EUR'000 2,052 (2005: EUR'000 1,227). This is comprised mainly of income from the release of provisions and accruals (EUR'000 664) and gains on disposals of non-current assets (EUR'000 1,354).

(7) Other operating expenses

	2006	2005
	EUR'000	EUR'000
Warranties	3,030	0
Impairments on intangible assets	1,969	0
Adjustments on receivables	993	121
Losses on disposal of non-current assets	768	510
Other taxes	182	179
Provision for pensions for former employees and pensioners	0	74
Sundry	3,944	3,606
Total	**10,886**	**4,490**

The other operating expenses includes out-of-period expenses of EUR'000 770 (2005: EUR'000 566). These comprise mainly losses on the disposal of non-current assets (EUR'000 768).

(8) Net interest

	2006	2005
	EUR'000	EUR'000
Interest income	358	694
– thereof from derivative financial instruments	(0)	(3)
Interest expenses	-6,082	-7,003
– thereof from derivative financial instruments	(34)	(305)
Income/loss from exchange rate fluctuations	-2,633	2,215
Sundry	-96	-7
Total	**-8,453**	**-4,101**

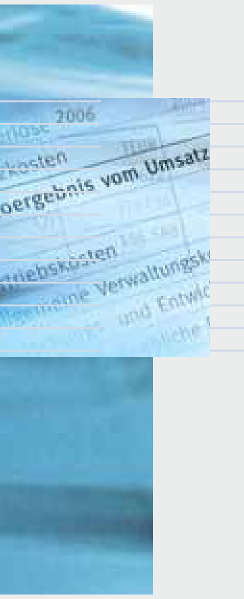
The interest income includes interest for making funds available. Of interest expenses, EUR'000 2,340 (2005: EUR'000 2,381) related to interest portions of the pension plans and the remainder to bank interest.

(9) Taxes on income

The income tax expense is composed as follows:

	2006	2005
	EUR'000	EUR'000
Current tax expense	25,560	27,776
Deferred taxes (expense, p.y. income)	158	-3,456
Tax expense shown	**25,718**	**24,320**

The domestic income taxes are computed at 37% (2005: 37%) of the estimated taxable profit for the financial year. The foreign taxation is computed at the tax rates that apply in the countries concerned and lies between 15% and 40% (2005: between 16% and 41%). The average foreign tax rate is 29% (2005: 33%).



The tax reconciliation from the earnings before taxes to income tax expense is shown below:

	2006	2005
	EUR'000	EUR'000
Earnings before taxes	87,619	70,898
Expected tax rate	**37.0%**	**37.0%**
Expected tax expense	**32,419**	**26,232**
Changes in the expected tax expense on account of:		
– changes in tax rates	-1,490	-2,469
– non-deductible expenses	338	229
– use of non-capitalised loss carryforwards	-166	267
– out-of-period taxes	124	-104
– capitalised corporation taxes	-5,336	0
– tax effect from corporation tax reduction	-524	0
– other differences	353	165
Actual tax expense	**25,718**	**24,320**
Effective tax rate	**29.4%**	**34.3%**

At the balance sheet date, the ElringKlinger group has tax loss carryforwards of EUR'000 1,427 (2005: EUR'000 7,771) for offsetting against future profits.

Of the tax loss carryforwards EUR'000 1,369 are derived from ElringKlinger Sealing Systems (USA), Inc., Livonia, USA, and EUR'000 58 from Elring Klinger do Brasil Ltda., Piracicaba, Brazil.

The tax loss carryforwards can be carried forward as follows:

	EUR'000
until 2007	58
until 2008	0
until 2009	0
until 2010	0
until 2011	0
until 2012	0
can be carried forward indefinitely	1,369
Loss carryforwards as at December 31, 2006	**1,427**

It is expected that it will be possible to use the tax loss carryforwards in an amount of EUR'000 71 (2005: EUR'000 5,915). A deferred tax claim of EUR'000 24 (2005: EUR'000 2,017) has been recorded on these loss carryforwards. For the disregarded loss carryforwards of EUR'000 1,356 (2005: EUR'000 1,856) there is probably no future income and hence no deferred tax claim.

The following deferred tax assets and liabilities in the balance sheet relate to recognition and measurement differences for the individual balance sheet items and on tax loss carryforwards:

Balance sheet items	Deferred tax assets Dec. 31, 2006	Deferred tax assets Dec. 31, 2005	Deferred tax liabilites Dec. 31, 2006	Deferred tax liabilites Dec. 31, 2005
	EUR'000	EUR'000	EUR'000	EUR'000
Intangible assets	196	202	1,894	1,578
Tangible assets	310	84	27,897	27,754
Investment property	0	0	153	1,948
Inventories	998	1,023	636	548
Trade receivables	489	397	445	618
Other current assets	0	0	1	1
Provisions for pensions	5,093	5,024	0	13
Non-current provisions	1,175	1,284	0	12
Non-current financial liabilities	0	0	2	0
Current provisions	758	422	0	6
Trade payables	0	68	8	0
Current financial liabilities	0	0	116	39
Other current liabilities	270	211	0	0
Loss carryforwards	24	2,017	0	0
Shown in the balance sheet	**9,313**	**10,732**	**31,152**	**32,517**

All changes in deferred taxes have been recorded with effect on income.

(10) Earnings per share

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

The earnings per share (basic and diluted) are computed as follows:

	2006	2005
Net income attributable to the parent company in EUR'000	57,758	42,362
Dividend-bearing shares	19,200,000	19,200,000
Earnings per share in EUR	**3.01**	**2.21**

Individual disclosures on the balance sheet

(11) Intangible assets

	Development costs	Goodwill	Patents, licences, software	Payments on account	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Acquisition/manufacturing costs Balance 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 at Dec. 31, 2006	**5,279**	**35,199**	**20,231**	**400**	**61,109**
Amortisation & depreciation Balance 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 at Dec. 31, 2006	**2,614**	**13,164**	**17,144**	**0**	**32,922**
Net carrying value at Dec. 31, 2006	**2,665**	**22,035**	**3,087**	**400**	**28,187**
Net carrying value at Dec. 31, 2005	**1,857**	**22,505**	**6,551**	**0**	**30,913**

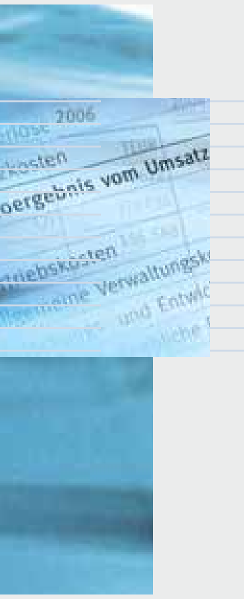
In a licence agreement dated March 21 and 25, 2003, ElringKlinger purchased the exclusive worldwide licence for a cylinder head sealing design developed and patented by the licensor, that is allocated to the Original Equipment segment.

In 2006 ElringKlinger came to the conclusion that the technical know-how purchased in connection with the licence purchase is insufficent to generate future revenues. The use was therefore discontinued. For this reason, impairment of EUR'000 1,969 was recorded in the reporting year, in addition to the normal amortisation, to a residual carrying value of EUR 1.00.

The impairment of EUR'000 1,969 has been recorded in the financial year 2006 under other operating expenses.

(12) Tangible assets

	Land and buildings	Plant and machinery	Other plant and operating equipment	Prepayments and assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
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**
Amortisation & 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
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**
Net carrying value at Dec. 31, 2006	59,644	129,017	11,201	12,047	211,909
Net carrying value at Dec. 31, 2005	61,792	122,714	14,654	11,292	210,452



(13) Investment property

	Investment property	Investment property under construction	Total
	EUR'000	EUR'000	EUR'000
Acquisition			
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**
Amortisation & 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**
Net carrying value at Dec. 31, 2006	**31,565**	**76**	**31,641**
Net carrying value at Dec. 31, 2005	**30,151**	**2,239**	**32,390**

The landed property held as financial investment includes industrial parks in Ludwigsburg, Idstein and Kecskemét-Kádafalva (Hungary). The fair market value determined using the discounted cash flow method is EUR'000 74,362 (2005: EUR'000 72,551).

The measurement of the fair market values was not made by an independent expert.

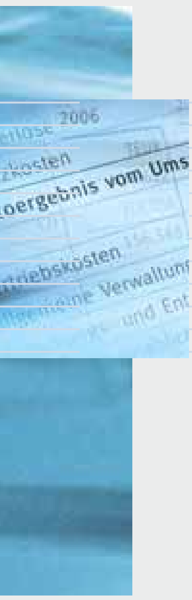
All investment property is rented out under operating leases. The resulting rental income came to EUR'000 8,125 (2005: EUR'000 7,404). The expense directly connected with this financial investment was EUR'000 3,908 (2005: EUR'000 4,349).

	Participations	Non-current securites	Other financial investments	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Acquisition **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**
Amortisation & depreciation **Balance at Jan. 1, 2006**	**0**	**12**	**0**	**12**
Currency changes	0	0	0	0
Additions	0	12	0	12
Disposals	0	11	0	11
Balance at Dec. 31, 2006	**0**	**13**	**0**	**13**
Net carrying value at Dec. 31, 2006	**3,086**	**1,406**	**36**	**4,528**
Net carrying value at Dec. 31, 2005	**3,086**	**1,403**	**54**	**4,543**
Market value Dec. 31, 2006		**1,422**	**36**	
Market value Dec. 31, 2005		1,424	54	

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

The securities of non-current assets are pledged in full to secure pension claims.

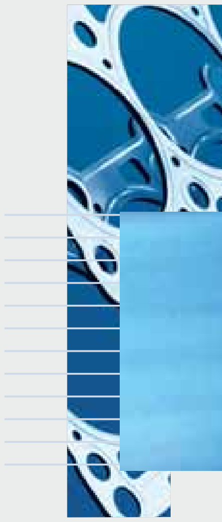
Schedule of shareholdings as at December 31, 2006 and scope of consolidation



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	67.00
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
Changchun ElringKlinger Ltd.	Changchun (China)	CEK	78.00
Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)			
Foreign			
ElringKlinger Korea Co., Ltd.	Changwon (Southkorea)	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 '000	HB I Profit/Loss in '000	Local currency	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
73	-9	EUR	100.0000	73	-9	31.12.2006
2,707	1,150	EUR	100.0000	2,707	1,150	31.12.2006
588	274	EUR	100.0000	588	274	31.12.2006
19,791	7,426	EUR	100.0000	19,791	7,426	31.12.2006
5,759	171	GBP	148.8982	8,575	255	31.12.2006
1,481	296	EUR	100.0000	1,481	296	31.12.2006
1,525,106	286,333	HUF	0.3970	6,054	1,137	31.12.2006
2,503	377	EUR	100.0000	2,503	377	31.12.2006
1,430	284	GBP	148.8982	2,129	423	31.12.2006
6,598	1,439	EUR	100.0000	6,598	1,439	31.12.2006
17,532	6,334	CAD	65.4151	11,469	4,143	31.12.2006
423	287	USD	75.8495	321	218	31.12.2006
170,494	-1,998	MXN	6.9911	11,919	-140	31.12.2006
14,248	2,725	MXN	6.9911	996	191	31.12.2006
34,558	6,965	BRL	35.5429	12,283	2,476	31.12.2006
1,877	173	USD	75.8495	1,424	131	31.12.2006
8,262	2,479	ZAR	10.8342	895	269	31.12.2006
89,336	20,090	CNY	9.7162	8,680	1,952	31.12.2006
6,497,950	637,557	KRW	0.0816	5,302	520	31.12.2006
17,845	4,839	JPY	0.6382	114	31	31.12.2006
4,391,834	96,689	JPY	0.6382	28,027	617	31.7.2006

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

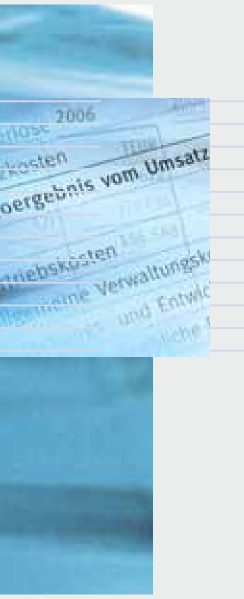


(15) Other non-current assets

The other non-current assets contain mainly the corporation tax credit of ElringKlinger AG in the amount of EUR'000 5,336, which has been capitalised at its net present value. The corporation tax credit will be disbursed to ElringKlinger AG in ten equal annual instalments from 2008 on to 2018.

(16) Inventories

	Dec. 31, 2006	Dec. 31, 2005
	EUR'000	EUR'000
Raw materials, consumables and supplies	32,083	25,365
Work in progress	10,107	11,223
Finished goods and merchandise	47,300	45,354
Prepayments	466	304
Total	89,956	82,246



Under inventories, markdowns of EUR'000 9,596 2005: EUR'000 8,604 have been made made to account for marketability risks.

(17) Trade receivables and other current assets

Trade receivables and other current assets are recognised at acquisition costs.

Adjustments in the amount of EUR'000 3,049 (2005: EUR'000 2,528) were set up for recognisable individual risks as well as the probable utilisation of discounts.

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

(18) Cash and cash equivalents

The item cash and cash equivalents comprises cash and current account balances that are held by the group.

The carrying value of these assets corresponds to their fair market 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 2006, ElringKlinger AG distributed to the shareholders a dividend of EUR'000 19,200 (EURO 1.00 per share) from the retained earnings 2005. In the financial year 2005 the dividend amounts to EUR'000 16,800 (EURO 1.75 per share) from the retained earnings 2004.

The management board and the supervisory board of the parent company ElringKlinger AG will propose to the shareholders' meeting to be held on May 25, 2007, distribution of a dividend of EURO 1.25 per share with dividend entitlement, representing a total distribution of EUR'000 24,000.

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

The minority interest shown within equity shown in the consolidated financial statement relates to outside shareholders of subsidiaries. They relate in the amount of EUR'000 8,318 (2005: EUR 8,361) to shares in the capital, in the amount of EUR'000 2,413 (2005: EUR'000 2,473) to interests in the revaluation reserve and in the amount of EUR'000 5,226 (2005: EUR'000 5,141) to the profit of the year.

(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 company 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 company 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'000 488 (2005: EUR'000 194).

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 of BodeHewitt AG & Co. KG 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 last monthly salary.

The most important assumptions are:

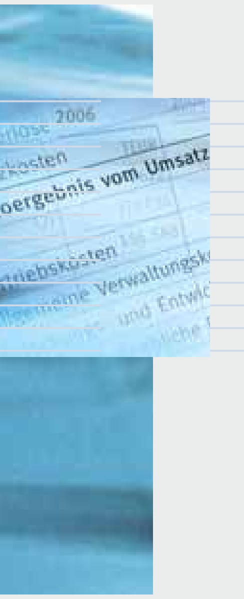
Measurement at	Dec. 31, 2006	Dec. 31, 2005
Discount rate (weighted)	4.57%	4.10%
Expected percentage of salary increases	2.00%	2.00%
Future pension increases	1.50%	1.50%

The following amounts are recorded in the income statement with regard to defined benefit plans:

	2006	2005
	EUR'000	EUR'000
Current service costs	1,306	1,106
Interest expense	2,340	2,381
Accrued actuarial gains and losses	9	2,536
Total expense	**3,655**	**6,023**

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

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



	2006	2005
	EUR'000	EUR'000
Present value of the pension claims as at Jan. 1	**58,515**	**54,568**
Current service costs	1,306	1,106
Interest expense	2,340	2,381
Disbursements/Utilisation	-2,637	-2,577
Actuarial gains/losses	-3,655	3,002
Other changes	23	35
Present value of the pension claims as at Dec. 31	**55,892**	**58,515**

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

	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
	EUR'000	EUR'000	EUR'000
Present value of obligations covered by funds and not covered by funds	**55,892**	**58,515**	**54,568**
Fair market value of plan assets	-180	-160	-225
Present value of net obligations	55,712	58,355	54,343
Actuarial losses not booked	-2,261	-5,926	-5,460
Net debt recorded in the balance sheet	**53,451**	**52,429**	**48,883**

Of the fair market value of the plan assets, EUR'000 128 relates to asset values from reinsurance policies and EUR'000 52 to investments in state pension funds.

The actual income from the plan assets came to EUR'000 20 (2005: EUR'000 27).

(22) Current and non-current provisions

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

	Dec. 31, 2006	Dec. 31, 2005
	EUR'000	EUR'000
Current provisions	9,009	6,252
Non-current provisions	8,784	9,212
Total	**17,793**	**15,464**

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, 2006	**11,467**	**1,291**	**861**	**1,072**	**773**	**15,464**
Exchange rate difference	-22	-3	0	0	0	-25
Disposal	-34	0	0	0	0	-34
Utilisation	-3,369	-20	-861	-587	-133	-4,970
Release	-244	0	0	-207	-37	-488
Addition	2,236	3,169	1,822	142	477	7,846
Balance as at Dec. 31, 2006	**10,034**	**4,437**	**1,822**	**420**	**1,080**	**17,793**

Provisions in the personnel area are set up for the pre-retirement part-time scheme, long-service anniversary benefits and similiar 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. Essentially on account of two cases of product liability the provision for warranties is increased by EUR'000 3,169.

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.

(23) Current and non-current financial liabilities

	Domestic	Foreign	Total Dec. 31, 2006	Domestic	Foreign	Total Dec. 31, 2005
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Overdrafts	8,044	2,861	10,905	23,364	5,871	29,235
Bank loans						
– up to one year	5,346	0	5,346	5,750	0	5,750
– more than one year	50,380	0	50,380	50,423	81	50,504
	55,726	0	55,726	56,173	81	56,254
Total	63,770	2,861	66,631	79,537	5,952	85,489
The loans have the following residual terms:						
Payable on demand or less than one year	5,346	0	5,346	5,750	0	5,750
More than one and less than five years	9,983	0	9,983	12,960	81	13,041
More than five years	40,397	0	40,397	37,463	0	37,463
Total	55,726	0	55,726	56,173	81	56,254

Breakdown of bank borrowings by category, residual term and currency:

Currency	Category	Residual term	Weighted interest rate	Amount in local currency in thousands	Amount in Euro
			%		EUR'000
as 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	Bank loans	‹ 1 year	3.99	5,346	5,346
EUR	Bank loans	1–5 years	4.57	9,983	9,983
EUR	Bank loans	› 5 years	4.57	40,397	40,397
	Total				55,726
Total					66,631

Currency	Category	Residual term	Weighted interest rate	Amount in local currency in thousands	Amount in Euro
			%		EUR'000
as at Dec. 31, 2005					
EUR	Overdraft	< 1 year	3.42	24,564	24,564
CAD	Overdraft	< 1 year	4.25	2,608	1,897
GBP	Overdraft	< 1 year	5.75	1,265	1,840
BRL	Overdraft	< 1 year	1.50	1,452	528
USD	Overdraft	< 1 year	7.25	480	406
	Total				29,235
EUR	Bank loans	< 1 year	4.00	5,750	5,750
EUR	Bank loans	1–5 years	4.71	12,960	12,960
KRW	Bank loans	1–5 years	0.00	96,892	81
EUR	Bank loans	> 5 years	4.71	37,463	37,463
	Total				56,254
Total					85,489

The average interest rates were:

	Dec. 31, 2006	Dec. 31, 2005
	%	%
Overdrafts:		
Domestic	4.24	3.50
Foreign	3.67	4.21
Bank loans:		
Domestic up to one year	3.99	4.00
Domestic more than one and less than five years	4.57	4.71
Domestic more than five years	4.57	4.71
Foreign: more than one and less than five years	–	–

For bank loans of EUR' 55,726 (2005: EUR'000 56,173), fixed interest rates were agreed. The fixed interest applies for EUR'000 50,226 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 11,476 (2005: EUR'000 20,295).

As at December 31, 2006, the group had available loan facilities that had not been used.

(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.

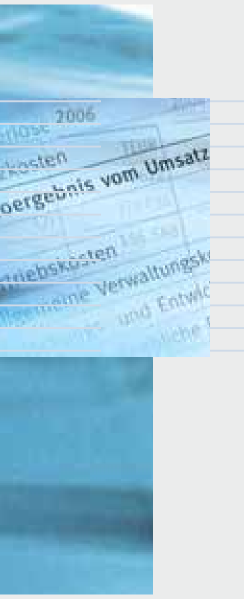
The carrying value of the trade payables corresponds approximately to their fair market value.

Supplementary disclosures

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

Currency risks from current receivables, payables and debts are hedged using forward exchange transactions. The hedging of value fluctuations of future cash flows involves mainly budgeted revenues and financing in foreign currency.

As at the balance sheet date, there are currency hedges. During the year, forward exchange transactions were concluded for the currencies US dollar and Canadian dollar.

Interest risk

Fixed interest rates have been agreed essentially for bank loans of the ElringKlinger group. Hence there is a slight risk due to fluctuations in interest rates.

Market price risk

In order to lessen fluctuations in the purchase prices for raw materials, ElringKlinger has concluded one hedge for purchases of nickel.

Default risks

The default risk for financial assets exists in the danger of the default of a contractual partner (i.e. counterparty risk) and hence at a maximum in the amount of the positive market values in respect of the contractual partners concerned. Adjustments are made for detectable individual risks and for the probable utilisation of discounts in order to account for the default risk for original financial instruments.

The default risk on derivative financial instruments is minimal since derivative financial transactions are entered into with large banks with perfect creditworthiness in accordance with uniform guidelines.

Derivative financial instruments

As at the balance sheet date, December 31, 2006, there were the following financial derivatives, that serve exclusively to hedge risks arising from changes in interest rates and to smoothen fluctuations in the procurement prices for raw materials (nickel):

	Fair market value	Carrying value	Provision
	EUR'000	EUR'000	EUR'000
Interest-related derivatives			
Interest swap	-152	-152	-152
Derivatives relating to raw materials			
Accrual swap	-84	-84	-84
Total	-236	-236	-236

The negative fair market values are shown under the current provisions as provisions for impending losses from pending transactions.

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

Contingent liabilities

The ElringKlinger group is subject to contingent liabilities of EUR'000 436 (2005: EUR'000 320) from the issue and transfer of bills. The ElringKlinger group is subject to contingent liabilities of EUR'000 116 (2005: EUR'000 5,654) from the granting of sureties and contract fulfillment guarantees.

ElringKlinger AG has undertaken to suppliers of subsidiaries to stand in for future receivables of the suppliers of subsidiaries, should the subsidiaries fail to meet their payments obligations within a certain period.

The carrying value of the pledged land was EUR'000 11,476 (2005: EUR'000 20,295).

Operating leases

The expense includes payments from operating leases of EUR'000 2,945 (2005: EUR'000 2,734).

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

	Dec. 31, 2006	Dec. 31, 2005
	EUR'000	EUR'000
Up to one year	1,556	1,485
More than one and up to five years	3,602	3,640
More than five years	401	597
Total	5,559	5,722

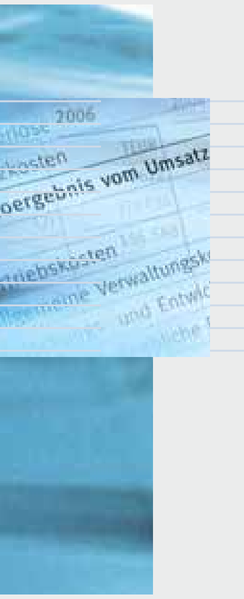
Number of employees

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

	2006	2005
Workers	2,144	2,021
Salaried staff	968	986
	3,112	**3,007**
Apprentices	73	72
Total	**3,185**	**3,079**

Personnel expenses

Personnel expenses in the reporting year came to EUR'000 140,676 (2005: EUR'000 139,810).



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 28, 2007.

Related party disclosures

Transactions between the parent company and its subsidiaries, 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:

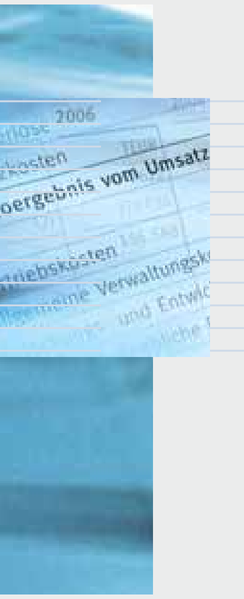
- Compensatory payment from the rental contract between ElringKlinger AG and Klinger GmbH, Idstein, that was set aside with effect at December 31, 2005,
- Rental relationship between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary, and Lechler Kft, Kecskemét-Kádafalva, Hungary,
- Framework supply contract for EWP elastomers between Rich. Klinger Dichtungstechnik GmbH & Co. KG, Gumpoldskirchen (Austria) and the ElringKlinger group,
- Contract between ElringKlinger Logistic Service GmbH, Rottenburg/Neckar, and Lechler GmbH, Metzingen, on assembly activities and storage of components.

All the above business relationships are conducted at normal market terms and conditions ("at arm's length").

Corporate bodies

Supervisory board

Dr. Helmut Lerchner, Aichtal, Chairman	Corporate advisor Member of the supervisory board of Deutz AG, Cologne, and 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
Walter Greiner, Hohenstein, Employee Representative (until March 31, 2006)	Chairman of the works council of ElringKlinger AG
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; Member of the shareholder committee with TÜV SÜD GbR, Munich and Member of the administrative board of TÜV SÜD e. V., Mannheim
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; and Uni Klinger Ltd., Mumbai, India
Manfred Rupp, Pfullingen, Employee Representative	Chairman of the works council of ElringKlinger AG
Markus Siegers, Metzingen-Neuhausen, (since April 1, 2006)	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'000 358 (p.y. EUR'000 316).

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

	fixed (prior year)	variable (prior year)	total (prior year)
	EUR	EUR	EUR
Dr. Helmut Lerchner	36,000 (36,000)	36,000 (28,200)	72,000 (64,200)
Walter Herwarth Lechler	27,000 (27,000)	27,000 (21,100)	54,000 (48,100)
Gert Bauer	14,000 (13,000)	18,000 (14,086)	32,000 (27,086)
Walter Greiner (until Mar. 31, 2006)	3,500 (14,000)	4,500 (14,086)	8,000 (28,086)
Dr. Rainer Hahn	14,000 (14,000)	18,000 (14,086)	32,000 (28,086)
Karl-Uwe van Husen	18,000 (18,000)	18,000 (14,086)	36,000 (32,086)
Dr. Thomas Klinger-Lohr	18,000 (18,000)	18,000 (14,086)	36,000 (32,086)
Manfred Rupp	14,000 (7,000)	18,000 (7,042)	32,000 (14,042)
Markus Siegers (since Apr. 1, 2006)	10,500 (0)	13,500 (0)	24,000 (0)
Manfred Strauß	14,000 (14,000)	18,000 (14,086)	32,000 (28,086)
Total	169,000 (168,000)*	189,000 (147,900)*	358,000 (315,900)*

*) The total remuneration of the prior year includes also the remuneration of Mr Rauscher (member of the supervisory board until June 8, 2005).

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 2006.

The difference between the provision for the variable remuneration for the financial year 2005 and the amounts actually paid was EUR 974.50. This amount was paid proportionately to the members of the supervisory board.

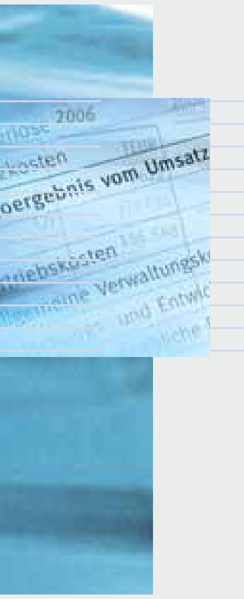
Management board

Dr. Stefan Wolf, Leinfelden-Echterdingen, Chairman	responsible for the participations, the central divisions finance, controlling, law, human resources, investor relations, IT and public relations as well as the business divisions spare parts 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 the Runkel factory
Karl Schmauder, Hülben	responsible for the distribution of original equipment and new business fields
Seats on supervisory boards and other bodies performing oversight	Since Januar 1, 2007 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 2006 totalled EUR’000 2,908 (p.y. EUR’000 2,585). This is composed of fixed (EUR’000 733; p.y. EUR’000 774) and variable (EUR’000 2,175; p.y. EUR’000 1,811) parts. The variable parts are composed of the results-related remuneration for the financial year 2006 in the amount of EUR’000 991 (p.y. EUR’000 943) and long-term results-dependent bonuses relating to the company value in the amount of EUR’000 1,184 (p.y. EUR’000 868).

The total remuneration of the management board is 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 resultsdependent bonuses* (bonus for increase in value) (prior year)	Total (prior year)
	EUR	EUR	EUR	EUR
Dr. Stefan Wolf	288,671.05 (260,503.85)	449,904.62 (327,204.00)	479,107.09 (329,162.00)	1,217,682.76 (916,869.85)
Theo Becker	226,171.93	270,012.00	345,095.76	841,279.69
Karl Schmauder	218,280.08 (197,197.02)	271,232.77 (196,323.00)	359,329.81 (246,872.00)	848,842.66 (640,392.02)
Total Total**	733,123.06 (773,805.88)	991,149.39 (942,806.00)	1,183,532.66 (868,202.00)	2,907,805.11 (2,584,813.88)

* 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 2006. Furthermore, differences are included between the provisions formed as at December 31, 2005 and the amounts actually disbursed in 2006.

** The total for 2005 also includes the remuneration of the former management board members Horst Klusmann and Sebastian Merz.

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

Provisions of EUR’000 11,677 (p.y. EUR’000 12,450) 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’000 862 (p.y. EUR’000 939) in the financial year 2006.

The **fees of the auditor** were:

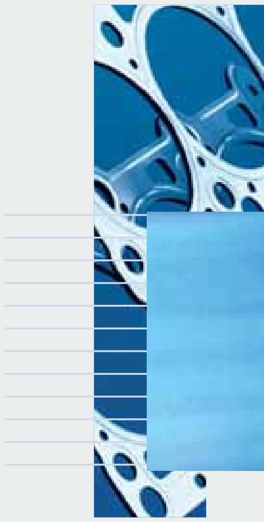
	2006	2005
	EUR’000	EUR’000
Audit of the financial statements	273	230
Other confirmatory performances	3	3
Other services	71	0
Total	347	233

Statement of compliance with the German Corporate Governance Code

The management board and the supervisory board issued on December 5, 2006, 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 22, 2006. 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 28, 2007

The Management Board



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, 2006 to December 31, 2006. 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 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 [Handelsgesetzbuch „German Commercial Code“] 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 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 28, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burchards	Münz
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 and cash equivalents.

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 or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

EBIT/Operating result
EBIT (earnings before interest and taxes) refers to a company's earnings before interest and taxes. At international level, this figure is commonly used to compare companies' earnings power. In contrast to operating result, EBIT presented by ElringKlinger 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
The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

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 and cash equivalents – 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.

German Commercial Code (HGB)
HGB is the abbreviation for German Commercial Code (Handelsgesetzbuch).
IFRS
IFRS is the abbreviation for International Financial Reporting Standards, formerly referred to as International Accounting Standards (IAS). These include accounting principles for capital market oriented companies and were made mandatory by the EU starting in January 2005. In 2004, ElringKlinger AG transitioned its reporting from HGB to IFRS.
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.
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)
Diesel particulate filters are an integral part of the exhaust system and now in use in almost 90% of all new diesel vehicles in Europe. A DPF is designed to filter out fine dust particles. The most common filter material is SiC (silicon carbide). In Germany, planned legislation offers a tax incentive for retrofitting older vehicles 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 engineered plastics subsidiary 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 percent 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. 90ºC. 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

Desgin & Layout: Lorenz & Company Werbeagentur, Reutlingen, Germany

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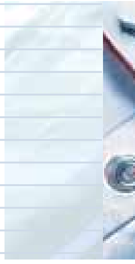
Disclaimer Future-oriented Statements and Predictions

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.

This report is published in German and as an English translation. In the event of any conflict or inconsistency between the English and the German versions, only the German version shall be deemed authoritative.

Calendar

Annual Press Conference (Stuttgart)	March 29, 2007
Analysts’ Meeting (Frankfurt)	March 29, 2007
AMITEC Automotive Parts Trade Fair (Leipzig)	April 14–18, 2007
Interim Report on the 1st Quarter of 2007	May 10, 2007
102nd Annual General Shareholder Meeting Cultural and Congress Centre Liederhalle, Stuttgart, Hegelsaal, 10.00 CET	May 25, 2007
Dividend distribution	May 29, 2007
Interim Report on the 2nd Quarter of 2007	August 9, 2007
IAA International Motor Show (Frankfurt)	September 13–23, 2007
Engine Trade Show “Motoren-Kolloqium Aachen”	October 8–10, 2007
Equip Auto (Paris)	October 15–20, 2007
Interim Report on the 3rd Quarter of 2007	November 8, 2007
German Equity Forum (Frankfurt)	November 12–14, 2007
International Automotive Transmission Symposium Berlin	December 3–6, 2007
103rd Annual General Shareholder Meeting Cultural and Congress Centre Liederhalle, Stuttgart, Hegelsaal, 10.00 CET	May 30, 2008



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Please send your e-mail adress to:
kathrin.mueller@elringklinger.de or give us a call at
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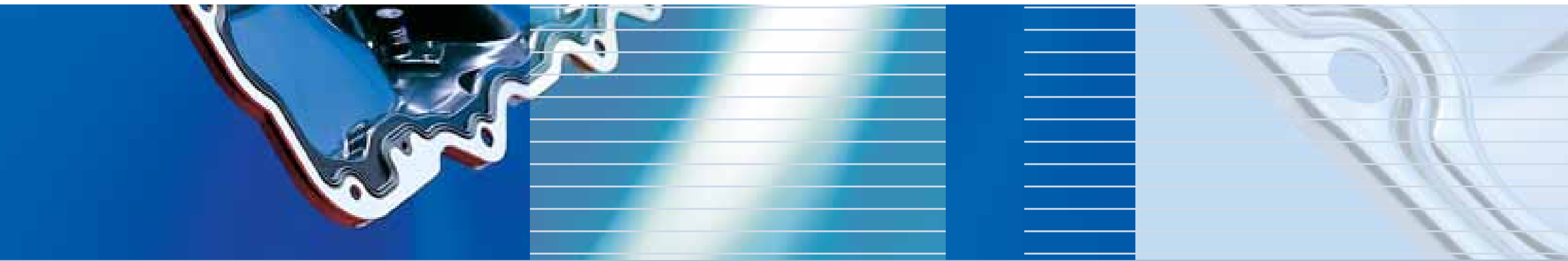

ElringKlinger AG | Max-Eyth-Straße 2 | D-72581 Dettingen/Erms | Phone +49 (0)71 23/724-0 | Fax +49 (0)71 23/ 724-90 06 | www.elringklinger.de