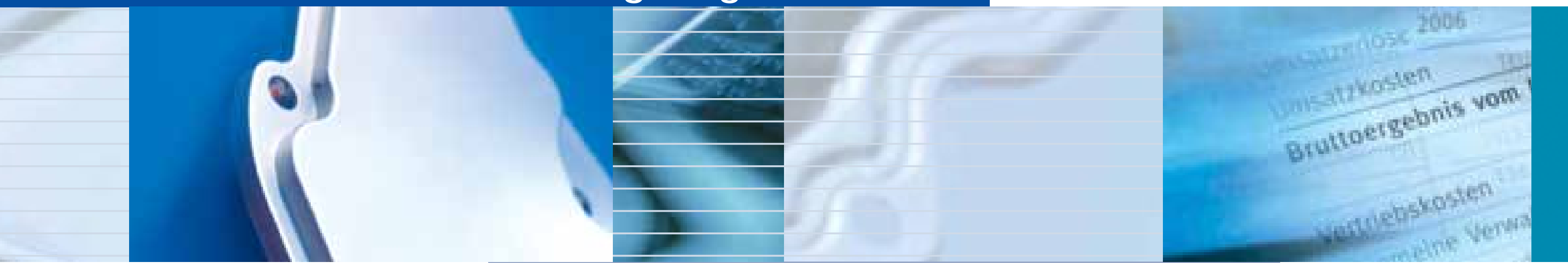
Financial Statements of ElringKlinger AG 2006



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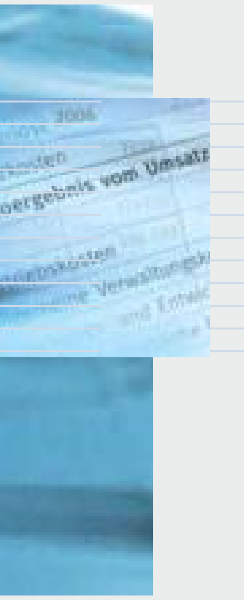
Contents

ElringKlinger AG Balance Sheet as at December 31, 2006

ASSETS	Dec. 31, 2006	Dec. 31, 2005
	EUR' 000	EUR' 000
Fixed Assets		
Intangible Assets	1,203	4,633
Tangible Assets	125,535	122,975
Financial Assets	147,068	143,492
	273,806	**271,100**
Current Assets		
Inventories	49,182	**42,557**
Accounts receivable and other assets	69,659	67,736
Cash and cash equivalents	266	126
	119,107	**110,419**
Prepaid and deferred expenses	**74**	**90**
	392,987	381,609



LIABILITIES AND SHAREHOLDERS' EQUITY	Dec. 31, 2006	Dec. 31, 2005
	EUR' 000	EUR' 000
Shareholders' Equity		
Share Capital	57,600	57,600
Capital reserve	2,747	2,747
Revenue reserves	132,889	112,919
Retained earnings	24,000	19,200
	217,236	**192,466**
Provisions		
Provisions for pensions	36,723	35,623
Provisions for taxes	1,570	2,740
Other provisions	25,575	21,169
	63,868	**59,532**
Liabilities	**111,883**	**129,611**
	392,987	381,609

ElringKlinger AG Income Statement
for the period from January 1 to December 31, 2006

	2006	2005
	EUR' 000	EUR' 000
Sales revenues	344,023	313,256
Change in inventories of finished goods and work in progress	2,205	-147
Other capitalized items	7,498	7,456
Other operating income	11,727	12,356
Material expenses	-138,710	-128,413
Personnel expenses	-86,427	-82,755
Amortization and depreciation on intangible and tangible assets	-31,698	-27,148
Other operating expenses	-48,737	-42,172
Income from affiliated companies	3,235	4,496
Net interest result	-3,101	-2,080
Income from ordinary activities	**60,015**	**54,849**
Taxes on income	-15,902	-19,223
Other taxes	-143	-28
Net income	**43,970**	**35,598**
Transfer to legal reserve	0	-1,191
Transfer to other revenue reserves	-19,970	-15,207
Retained earnings	**24,000**	**19,200**

Notes to the financial statements for 2006

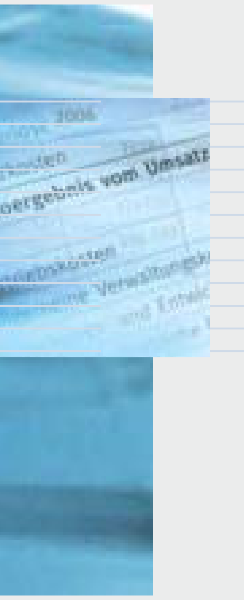
General disclosures

The financial statements of ElringKlinger AG, Dettingen/Erms, have been prepared according to the provisions of the stock corporation act and the commercial code that apply for large corporations.

In order to improve the clarity of presentation, we have prepared the financial statements with figures given in thousand euros (EUR'000), have combined items in the balance sheet and the income statement, and have broken these down in the notes. Moreover, all annotations in the notes have been furnished with supplementary commentary.

Accounting and valuation principles

Fixed assets



Purchased intangible assets as well as tangible assets and financial assets have been measured at acquisition or manufacturing cost. The manufacturing costs include individual material and production costs as well as the overheads and the amortisation & depreciation, all of which are mandated by fiscal law.

Objects whose useful life is limited are depreciated using the highest rates that are fiscally permitted over their probable useful life.

Intangible assets are amortised and buildings and other landed equipment are depreciated using the pro rata straight-line method or declining rates permitted under fiscal law.

Plant & machinery as well as other plant, operating & office equipment are, where permissible, depreciated using the declining balance method when this leads to higher depreciation than use of the straight-line method.

Where necessary or permissible, non-scheduled and fiscally possible depreciation is made.

Current assets

Items of current assets are recognised at acquisition or manufacturing costs or, if lower, their fair value. Raw materials, supplies & consumables as well as merchandise are measured at their average acquisition costs. In some cases fixed values have been formed.

In addition to the individual costs, the valuation of the finished products and work in progress includes appropriate and necessary material and production overheads at the fiscally minimum level. When replacement costs have fallen, these are the values that are recognised. Markdowns are made for detectable impairment and quality and to make adjustments to net realisable value.

Adjustments have been set up for detectable individual risks to receivables and other assets. The general default risk has been accommodated by general adjustments.

Securities of current assets are measured at acquisition cost or, if lower, their fair value at the balance sheet date.

Liquid funds have been recognised at face value.

Provisions and liabilities

Provisions for pensions are recognised in full at the entry age value determined on actuarial principles using a notional interest rate of 6% and applying the guideline tables 2005G of Prof. Dr. Klaus Heubeck.

In accordance with the IDW accounting commentary: Accounting of obligations arising from pre-retirement part-time work schemes under IAS and commercial law provisions (IDW RS HFA 3), the provision for obligations arising from pre-retirement agreements includes, besides the release credit, obligations for topping-up. The provisions for the topping-up payments have been set up for pre-retirement employment relationships agreed as at the balance sheet date and – on account of the corresponding commitment under a works agreement – for pre-retirement employment relationships that will probably be taken up during the term of the works agreement.

The provisions cover the detectable risks for impending losses and uncertain obligations and are measured in accordance with reasonable business judgement.

Liabilities have been recognised at their repayment amounts.

Foreign currency items and currency translation

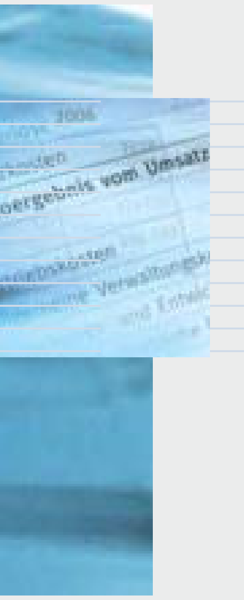
Receivables and payables in foreign currency are measured at the rate when incurred, except that there is recognition of any losses arising from unfavourable changes in exchange rates as at the balance sheet rate.

Explanations on the balance sheet

Fixed assets

The development of the fixed assets of ElringKlinger AG and the schedule of shareholdings are shown on the following pages.

Changes in fixed assets as at December 31, 2006

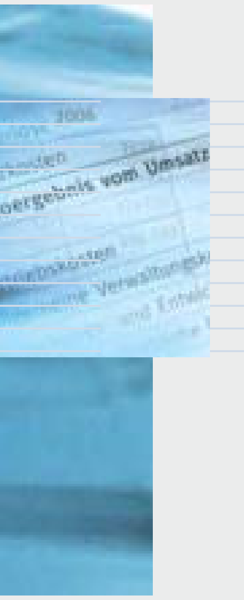


	Historical acquisition cost				
	Jan. 1, 2006	Additions	Reclassifi-cations	Disposals	Dec. 31, 2006
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
I. Intangible assets					
Patents, licences	18,821	488	6	1,176	18,139
II. Tangible assets					
1. Land and buildings	109,928	751	4	64	110,619
2. Plant and machinery	149,319	18,450	7,166	1,995	172,940
3. Other plant, operating and office equipment	97,708	3,029	38	4,922	95,853
4. Prepayments and assets under construction	7,345	8,441	-7,214	0	8,572
	364,300	**30,671**	**-6**	**6,981**	**387,984**
III. Financial assets					
1. Shares in affiliated companies	121,480	7,500	0	8	128,972
2. Financial investments in affiliated companies	23,851	8,352	0	5,738	26,465
3. Participations	4,412	1,018	0	0	5,430
4. Non-current securities	625	0	0	0	625
5. Other financial investments	33	0	0	9	24
	150,401	**16,870**	**0**	**5,755**	**161,516**
	533,522	48,029	0	13,912	567,639

Financial assets show loans, reinsurance policies and securities, as well as the shares held in affiliated companies.

	Accumulated amortisation and depreciation				Net carrying value	
	Jan. 1, 2006	Deprecia-tion of the financial year	Disposals	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2005
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
	14,188	3,910	1,162	16,936	1,203	4,633
	58,668	2,265	64	60,869	49,750	51,260
	92,862	20,137	1,724	111,275	61,665	56,457
	89,795	5,386	4,876	90,305	5,548	7,913
	0	0	0	0	8,572	7,345
	241,325	**27,788**	**6,664**	**262,449**	**125,535**	**122,975**
	6,908	5,655	0	12,563	116,409	114,572
	0	1,881	0	1,881	24,584	23,851
	0	0	0	0	5,430	4,412
	1	3	0	4	621	624
	0	0	0	0	24	33
	6,909	**7,539**	**0**	**14,448**	**147,068**	**143,492**
	262,422	39,237	7,826	293,833	273,806	271,100

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



Name of company	Domicile	Abbreviation	Capital share in %
Shares in affiliated companies			
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			
Foreign			
ElringKlinger Korea Co., Ltd.	Changwon (Southkorea)	EKKO	50.00
ElringKlinger Marusan Corporation	Tokyo (Japan)	EKMA	50.00
Participations			
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

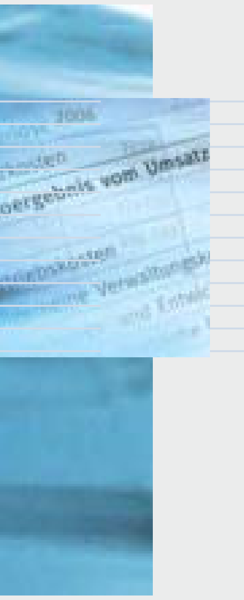
[1] 100 units local currency as at balance sheet date

Current assets

Inventories

	Dec. 31, 2006	Dec. 31, 2005
	EUR’000	EUR’000
Raw materials, consumables and supplies	14,045	10,045
Work in progress	5,845	4,712
Finished goods and merchandise	29,104	27,665
Prepayments	188	135
	49,182	42,557

Accounts receivable and other assets



	Dec. 31, 2006	Dec. 31, 2005
	EUR’000	EUR’000
Trade receivables	45,242	41,641
Receivables from affiliated companies	15,725	22,548
Receivables from participations	803	870
Other assets	7,889	2,677
	69,659	67,736

Of the trade receivables, EUR’000 12 have a remaining term of more than one year. Of the receivables from affiliated companies, EUR’000 9,321 (p.y. EUR’000 15,242) relates to financial transactions, and the rest to trade. The receivables from participations relate fully, as in the prior year, to trade. Of the other assets, EUR’000 5,336 (p.y. EUR’000 0) have a residual term of more than one year.

Shareholders’ equity

The nominal capital is divided into 19,200,000 individual shares. The shares are registered.

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.

An amount of EUR’000 19,970 was appropriated from the net profit for 2006 to other revenue reserves.

As at December 31, 2006, the revenue reserves contain the statutory reserve of EUR’000 3,013 (p.y. EUR’000 3,013) and other revenue reserves of EUR’000 129,876 (p.y. EUR’000 109,906).

The **retained earnings** developed as follows:

	EUR'000
Retained earnings as at December 31, 2005	19,200
Profit distribution for 2005 (EUR 1.00 per share)	-19,200
Profit brought forward	**0**
Net profit for 2006	43,970
Appropriation to other revenue reserves	-19,970
Retained earnings at December 31, 2006	**24,000**

Other Provisions

The other provisions relate to:

	Dec. 31, 2006	Dec. 31, 2005
	EUR'000	EUR'000
People-related obligations	14,126	13,645
Warranty obligations	5,828	2,063
Losses in orders in hand	1,459	613
Litigation costs	420	1,069
Other risks	3,742	3,779
Total	**25,575**	**21,169**

Liabilities

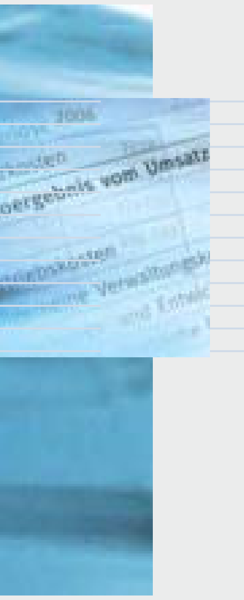
	Total amount as at Dec. 31, 2006	of which with a remaining term: up to one year	from one up to five years	more than five years	of which secured	Total amount as at Dec. 31, 2005
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Bank debts	68,699	17,911	10,391	40,397	11,476	87,161
Prepayments received	309	309	0	0	0	120
Trade payables	14,615	14,615	0	0	0	13,748
Payables to affiliated companies	1,401	1,337	64	0	0	1,088
Payables to participations	0	0	0	0	0	19
Other liabilities	26,859	15,893	10,966	0	0	27,475
	111,883	**50,065**	**21,421**	**40,397**	**11,476**	**129,611**

Of the bank debts, EUR'000 11,476 is secured by land charges on works grounds. The other liabilities are not secured, except in respect of the usual reservation of title with respect to trade payables.

Of the liabilities to affiliated companies, EUR'000 73 (p.y. 83) relates to financial transactions, and the rest to trade.

Of the other liabilities, EUR'000 1,366 (p.y. EUR'000 946) relates to tax, and EUR'000 209 (p.y. 1,713) to social security charges.

Explanations on the income statement



Sales revenues

Breakdown by geographical markets

	2006	2005
	EUR'000	EUR'000
Domestic	148,993	141,953
Foreign	199,356	175,511
Gross sales	**348,349**	**317,464**
Discounts, bonuses	-4,326	-4,208
Total sales	**344,023**	**313,256**

In terms of areas of activity, sales revenues of EUR'000 339,329 (p.y. EUR'000 308,506) relate to automotive markets and EUR'000 4,694 (p.y. EUR'000 4,750) to industrial parks.

Other operating income

The other operating income relates to out-of-period income of EUR'000 610 (p.y. EUR'000 2,650). This is comprised mainly of income from the release of provisions (EUR'000 408) and gains on disposals of fixed assets (EUR'000 185).

The other operating income included in the prior year revaluations on loans and securities of fixed assets in the amount of EUR'000 564.

Cost of materials

	2006	2005
	EUR'000	EUR'000
Expenses for raw materials, supplies & consumables and for merchandise	126,988	117,793
Expenses for purchased services	11,722	10,620
	138,710	**128,413**

Personnel expense

	2006	2005
	EUR'000	EUR'000
Wages and salaries	69,960	66,745
Social security charges and expenses for retirement pensions	16,467	16,010
– of which, for retirement pensions –	(3,534)	(3,231)
	86,427	**82,755**

Amortisation & depreciation

The amortisation & depreciation of the financial year 2006 includes EUR'000 1,969 (p.y. EUR'000 19) in non-scheduled amortisation & depreciation of intangible assets.

Other operating expenses

The other operating expenses include out-of-period items of EUR'000 98 (p.y. EUR'000 970) from the disposal of fixed assets (EUR'000 96) and from defaults on receivables (EUR'000 2).

Income from affiliated companies

	2006	2005
	EUR'000	EUR'000
Income from affiliated companies	8,890	8,596
Writedowns on financial assets	-5,655	-4,100
	3,235	**4,496**

Of the income from participations, EUR'000 8,882 (p.y. EUR'000 8,428) is derived from affiliated companies.

Net interest result

	2006	2005
	EUR'000	EUR'000
Income from other securities and loans of financial assets	1,374	607
Other interest and similar income	475	884
Writedowns on loans and securities	-1,884	-1
Interest and similar expenses	-3,066	-3,570
	-3,101	**-2,080**

The interest result includes income from loans of financial assets to affiliated companies of EUR'000 1,355 (p.y. EUR'000 567), interest income from affiliated companies in the amount of EUR'000 379 (p.y. EUR'000 854) and interest expense to affiliated companies of EUR'000 149 (p.y. EUR'000 125).

Tax on income

The income tax shown included income of EUR'000 5,336 from the capitalisation of corporate tax credits. Out-of-period income of EUR'000 7 (p.y. EUR'000 4) relates to the release of tax provisions of earlier years.

Other taxes

The other taxes include out-of-period income of EUR'000 19 (EUR'000 128) from refunds of valued added tax.

Contingent liabilities

There are contingent liabilities from the issue and transfer of bills in the amount of EUR'000 436 (p.y. EUR'000 320), from sureties granted and guarantees of contract fulfilment in the amount of EUR'000 1,684 (p.y. EUR'000 4,207), of which on behalf of affiliated companies EUR'000 1,625 (p.y. EUR'000 4,123).

ElringKlinger AG has undertaken to furnish an affiliated company with funds such that it will at all times be able to meet its payment obligations from a contract for work and services.

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

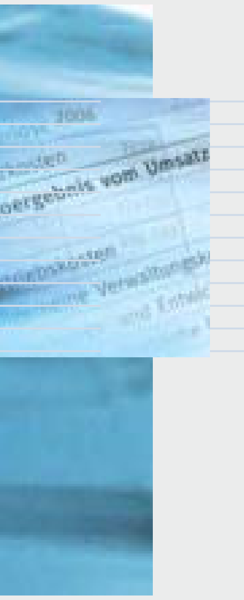
Other financial obligations

There are financial obligations under current business transactions in the magnitude that is usual in business.

Other disclosures

Number of employees

The numbers employed on average during the year (excluding board members) were as follows:



	2006	2005
Workers	997	996
Salaried staff	509	468
	1,506	**1,464**
Apprentices	61	62
	1,567	**1,526**

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
	-236	**-236**	**-236**

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

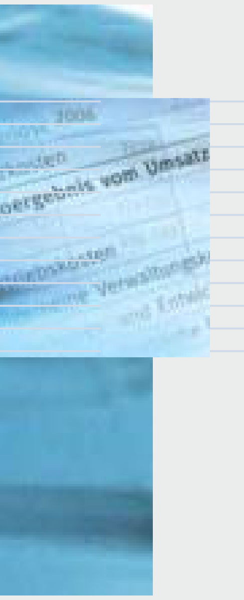
The computation of the bank-confirmed market values of the financial derivatives uses recognised mathematical methods and the market data available as at the balance sheet (mark-to-market method).

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)	variabel (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 March 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 April 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.

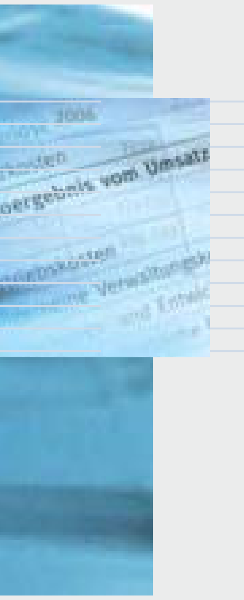
Management board

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 results-dependent bonuses* (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	733,123.06	991,149.39	1,183,532.66	2,907,805.11
Total**	(773,805.88)	(942,806.00)	(868,202.00)	(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 8,825 (p.y. EUR’000 7,058) 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	219	170
Other confirmatory performances	3	3
Other services	71	0
	293	173

Notifications pursuant to § 21 (1) securities trading law (WpHG)

Shareholder	Notification dated/ Publication	Notification/Share of voting rights
Walter Herwarth Lechler, Stuttgart	December 12, 2006	Notification pursuant to § 21 (1) WpHG Mr Walter H. Lechler, Germany, submitted a notification pursuant to § 21 (1) WpHG that his share of voting rights in ElringKlinger AG fell below the threshold of 25% on December 6, 2006 and now stands at 24.61%. Of these, 10.00% of the voting shares are attributable to him pursuant to § 22 (1) sentence 1 number 1 WpHG. Dettingen, December 20, 2006 ElringKlinger AG The Management Board

These notifications relate to the notification made by the shareholders concerned. The shareholdings shown here may therefore be different to the shareholdings recorded in the share register as at December 31, 2006.

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.

Proposal on application of profits

The management board proposes, with the consent of the supervisory board, to the shareholders' meeting to use the retained earnings of EUR'000 24,000 shown as at December 31, 2006 to distribute a dividend of EUR 1.25 per share.

Dettingen/Erms, March 28, 2007

The Management Board

Dr. Stefan Wolf　　Theo Becker　　Karl Schmauder

ElringKlinger AG Management Report for the 2006 Financial Year

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 and renewed investment and construction activity. Private household spending also grew faster than in previous years, with the 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.

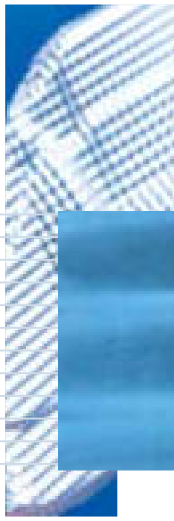
Within the eurozone, gross domestic product rose by 2.7%, although growth was again relatively weak compared to the overall global trend.

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 once again 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 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 has continued to rise. Car sales in China were up by 27.3% to 4.1 million in 2006.

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.

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.

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.

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

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 sales of around 90,000 units. For December, this represented a year-on-year increase of 17.7%.

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 crude oil 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.

The vast majority of European countries saw an increase in the market share of diesel vehicles in 2006, with further dynamic growth in demand in Eastern Europe. Alongside Germany, the strongest rises in diesel registrations were recorded in Scandinavia and the Benelux region, while 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%). New diesel registrations also in France were up on the previous year at 71.4% (69.1%).

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 in 2005 as a result of political debate over the risks of diesel soot and particulates, there was renewed demand in 2006.

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 could also 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 700,000 in 2006. Against a background of consistently high fuel prices and with diesels currently accounting for just 4% of all new registrations, there are good prospects for growth within this area.

Net Assets, Financial Position and Results of Operations

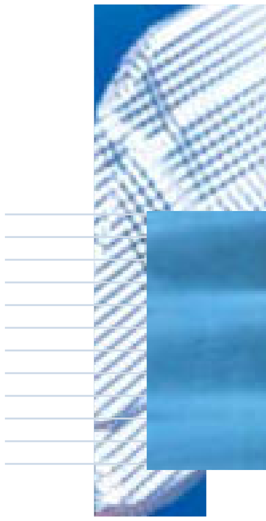
Results of Operations

Continued growth under challenging conditions

ElringKlinger AG succeeded yet again in propelling sales revenues and earnings upwards in the 2006 financial year. Sales revenues increased by 9.8% to EUR 344.0 (313.3) million prompted by organic growth. The proportion of sales revenues generated abroad rose to 57.2% (55.3 %).

Buoyant growth in Original Equipment segment

Growth generated within the Original Equipment segment was more pronounced than the overall gains achieved. Original Equipment recorded an 11.8% increase in sales revenues, taking its total to EUR 266.3 (238.2) million. Growth was driven by new product ramp-ups and a gain in market share.



The Cylinder-Head Gaskets, Specialty Gaskets, Elastomer Technology/Modules and Shielding Technology divisions all recorded solid revenue growth.

Despite production downsizing by several customers based in North America and subdued demand for cylinder-head gaskets for petrol engines in Europe, 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. In some cases, the delivery forecasts, i.e. the take rates, by customers in Europe were higher than originally planned.

The ramp-up of ElringKlinger's new generation of cylinder-head gaskets with coined meander or honey comb stoppers proved particularly successful. The coined segment stopper features yet another new and 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.

The Specialty 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 specialty gaskets used in the exhaust system and for transmissions was more buoyant.

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 gaskets for commercial vehicle engines.

The Shielding Technology division achieved above-average revenue growth. It benefited from increased customer demand for complex heat shields. Among the most prominent growth drivers within this area were 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.

Solid growth in Aftermarket segment

The Aftermarket segment increased its sales revenues by 3.8% to EUR 73.0 (70.3) million. While revenue generated in Germany and Western Europe remained virtually unchanged year on year, business in Eastern Europe delivered double-digit growth rates. ElringKlinger also expanded in the Middle East as well as in Africa.

Stagnation in Industrial Parks segment

Rental income from the industrial parks in Ludwigsburg and Idstein was comparable to that generated in the previous financial year. In the case of Idstein, follow-up rental agreements generated slightly lower rental income due to the decline in the local rent level. Overall rental income amounted to EUR 4.7 (4.8) million.

Surge in material prices

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; 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 company. A tangible improvement in productivity levels also had a favorable effect.

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

The company was not in a position to pass on to customers the full rise in raw material prices.

ElringKlinger applies hedge accounting to approximately half of its steel alloy requirement. In 2006, material expenses were reduced by EUR 0.9 million with the help of such financial instruments,

In total, material expenses rose from EUR 128.4 million to EUR 138.7 million. This corresponds to a year-on-year increase of 8.0%. Material expenses as a percentage of sales revenues fell slightly to 40.3% (41.0%).

Improved personnel expenses ratio

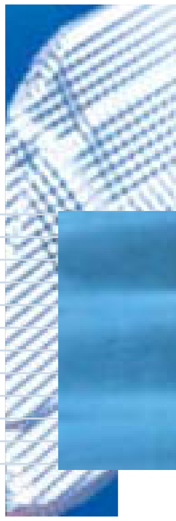
Personnel expenses rose from EUR 82.8 million to EUR 86.4 million. This corresponds to a year-on-year increase of 4.4%, which was less pronounced than growth in sales revenues. ElringKlinger's accomplishments within this area were mainly attributable to additional automation of production processes at all parent company sites. The personnel expenses as a percentage of sales were scaled back from 26.4% in the 2005 financial year to 25.1% in the period under review.

Higher depreciation/amortization expense

Amortization of intangible non-current assets and depreciation of tangible assets rose to EUR 31.7 (27.1) million, an increase of EUR 4.6 million compared with the previous year. This was attributable to an impairment charge of EUR 2.0 million relating to a license acquired in 2003 for a single-layer, topographically coined cylinder-head gasket design concept, which was deemed impaired in the period under review. Beyond this, the rise in depreciation and amortization expense is also the result of depreciation on tooling procured in the preceding two years for a large number of new products. At 9.2% (8.7%), depreciation and amortization in relation to sales re-venues was slightly higher than in the previous year.

Operating profit grows faster than sales revenues

ElringKlinger AG's profitability remained stable year on year. Despite the slightly more pronounced rise in depreciation/amortization expense and other operating expenses, operating profit (income from ordinary activities excluding net interest result and income from affiliated companies) increased by 14.2% to EUR 59.9 (52.4) million.



This was driven by a program of ongoing cost streamlining and continuous improvements. Changes to the product mix as a result of ramp-ups also had a favorable impact. The operating margin (operating profit as a percentage of sales revenues) came in at 17.4% (16.7%).

Year-on-year reduction in income from affiliated companies

Due to write-downs associated with the carrying amounts of investments, income from affiliated companies declined from EUR 4.5 million to EUR 3.2 million. The total write-down amounted to EUR 5.7 million. Following the relocation of production of metal-layer cylinder-head gaskets from Elring Klinger (Great Britain) Ltd., Redcar, to the parent company's plant in Dettingen/Erms, an amount of EUR 5.4 million was written down in connection with this investment. The carrying amount of an investment in Elring of North America, Inc., Branchburg/New Jersey, was written down by EUR 0.3 million.

Higher net interest expense

Net interest result was adversely affected by currency-related write-downs on financial assets in the amount of EUR 1.9 million. In 2006 Elring Klinger México, S.A. de C.V., Toluca, converted into equity loans of EUR 7.5 million originally granted by the AG. This eliminated interest income. Having recognized net interest expense of EUR 2.1 million in the 2005 financial year, the AG recorded net interest expense of EUR 3.1 million in 2006.

Higher income from ordinary activities

Due to lower net interest result and income from affiliated companies income from ordinary activities increased at a slower pace than operating profit. In contrast, it grew faster than sales revenues edging up by 9.4% to EUR 60.0 (54.8) million.

Tax rate benefits from corporation tax credits

The tax rate fell by 8.3 percentage points year on year to 26.7% (35.0%). 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. These credits have the effect of reducing taxable income. According to Germany's revised tax legislation, corporation tax credits from previous years are now to be capitalized as an entitlement to payout, i.e. a tax asset. 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.

Net income up

Net income reported by ElringKlinger AG rose by 23.5% year on year to EUR 44.0 (35.6) million, thus outpacing growth within the area of sales revenues.

Higher dividend

After allocation of EUR 20.0 million to other revenue reserves, net retained earnings for ElringKlinger AG amounted to EUR 24.0 (19.2) million. The Management Board and Supervisory Board shall propose to the Annual General Meeting a dividend of EUR 1.25 per share. Thus, the total dividend payment would be 25% higher than in the previous year.

Net Assets

Net assets of the AG as at December 31, 2006, were solid. The balance sheet total increased by 3.0% to EUR 393.0 (381.6) million compared with the previous year. The equity ratio was 55.3% (50.4%).

Tangible assets increased by 2.1% to EUR 125.5 (123.0) million. This was attributable to capital expenditure of EUR 30.7 (34.9) million on new production facilities, tooling and machinery.

Intangible assets fell to EUR 1.2 (4.6) million as a result of systematic amortization and impairment charges. As outlined above, the company wrote down an amount of EUR 2.0 million in the third quarter in connection with a license acquired in 2003. The AG invested EUR 0.5 (0.8) million in intangible assets in the year under review, the emphasis being on software licenses.

The subsidiary Elring Klinger México, S.A. de C.V., Toluca, in 2006 received a loan of EUR 8.4 million. Thus, loans to affiliated companies amounted to EUR 24.6 (23.9) million as at December 31, 2006. In total, financial assets grew by 2.5% to EUR 147.1 (143.5) million.

Fixed assets increased to EUR 273.8 (271.1) million.

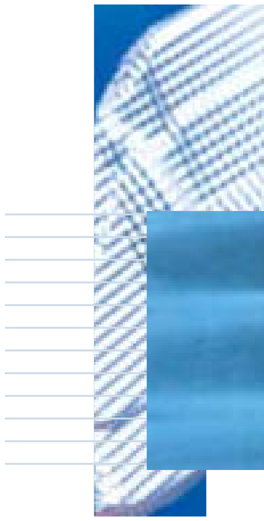
Compared with the 2005 financial year, current assets grew by 7.9% to EUR 119.1 (110.4) million and thus accounted for 30.3% (29.0%) of total assets. Growth in sales revenues prompted a rise in inventories. Towards the end of fiscal 2006 it became apparent that alloy surcharges would rise substantially in 2007. Against this backdrop, the company increased its stocks of high-grade steel. Inventories rose by 15.6% to EUR 49.2 (42.6) million. Receivables were up by EUR 1.9 million or 2.8% to EUR 69.7 (67.7) million thus growing at a slower pace than sales revenues. Operating within the parameters of its program to optimize working capital, ElringKlinger is committed to collecting all receivables in a timely manner.

Buoyed by net income, shareholders' equity rose to EUR 217.2 (192.5) million in 2006. The return on equity (earnings before taxes in relation to average equity of the AG) thus stood at 29.3% (30.0%).

Due to an increase in benefit rights, provisions for pensions rose by EUR 1.1 million to EUR 36.7 (35.6) million. ElringKlinger allocated EUR 4.4 million to other provisions. This allocation was made in response to warranty cases. However, in the company's own opinion and according to an assessment by external parties, ElringKlinger is liable only to a minor extent. In total, provisions rose by EUR 4.3 million to EUR 63.9 (59.5) million, which corresponds to a 7.3% increase year on year.

Bank borrowings were scaled back further and amounted to EUR 68.7 (87.2) million as at December 31, 2006.

Financial Position



Yet again, ElringKlinger AG was able to finance all capital expenditure on property, plant and equipment as well as intangible assets from operating cash flow.

Significant growth in cash flow from operating activities

Growth in cash flow from operating activities was significantly higher than that associated with net income. In total, cash flow from operating activities rose to EUR 79.7 (58.9) million. This was attributable chiefly to a EUR 5.2 million year-on-year reduction in funds tied up in trade receivables as well as an overall increase of EUR 8.0 million in depreciation/amortization.

Operating cash flow accounted for 23.2% (18.8%) of sales revenues. Free operating cash flow (cash flow from operating activities less cash flow from investing activities) amounted to EUR 37.8 (9.6) million.

Year-on-year fall in capital expenditure

Capital expenditure directed at the expansion of production facilities as well as investments in tooling, property and intangible assets amounted to EUR 31.2 (35.7) million, which was EUR 4.5 million less than in the previous financial year. Investments in financial assets – loans to affiliated companies – totaled EUR 16.8 (19.9) million, which corresponds to a year-on-year reduction of EUR 3.1 million. Thus, cash flow used in investing activities was scaled back from EUR 49.4 million to EUR 41.9 million.

Reduction in bank borrowings

Cash flow in financing activities amounted to EUR minus 37.7 (-10.8) million. This was attributable to a EUR 2.4 million increase in the total dividend payment as well as the repayment of bank borrowings amounting to EUR 18.5 million. In the previous year, bank borrowings had increased by EUR 6.0 million.

At December 31, 2006, cash and cash equivalents amounted to EUR 0.3 (0.1) million.

Given the solid net assets, financial position and results of operations the Management Board is confident that ElringKlinger AG will seize the opportunities presented to it in the coming years with regard to growth and value enhancement. The company is perfectly positioned to generate additional organic growth by developing new fields of business and to support this forward momentum with targeted, value-driven acquisitions when the opportunity arises.

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 – the company'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 due to a much higher price in the first half of 2006, some suppliers in the second half of 2006 were reluctant to provide the quantities they had promised. Fortunately, 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

ElringKlinger AG's purchasing volume rose by 5.1% to EUR 185.4 (176.3) 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 materials 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 important elements of ElringKlinger's purchasing costs are bought-in parts for products in the original equipment market, traded goods for the independent aftermarket, synthetic granules for the production of plastic parts such as cam covers and transmission shields, machines, plant, tools and energy.

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 the effects of a significant increase in market prices for electricity over the course of 2006.

Increasing globalization of procurement and approved supplier network

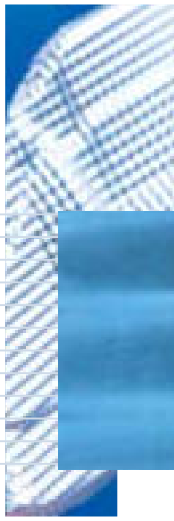
The company actively sought out new suppliers in response to downward pressure on prices from customers and higher raw materials and energy costs. Increasingly, materials are procured in Asia and Eastern Europe, a shift that is not only due to cost factors. ElringKlinger is growing in China, Korea, India and Japan. For this reason it has built up a 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 company'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

ElringKlinger AG was able to secure 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 0.95 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 company to guarantee supplies of the quantity it requires up to spring 2008. At the same time, it took advantage of price fluctuations in a number of areas, allowing it, for example, to build up its stock of certain steel varieties with special characteristics.



Investing for the Long Term

The financial year 2006 saw investment of EUR 30.7 (34.9) million in tangible assets in order to increase capacity and allow the ramp-up of several new products. EUR 0.5 (0.8) million were allocated to intangible assets. The corresponding investment ratio was 9.1% (11.4%) of sales revenues.

The company invested in all its manufacturing divisions. In the Cylinder-Head Gaskets division ElringKlinger purchased new equipment in the form of 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 manufacturing specialty gaskets. In Dettingen/Erms the company set up 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 motors.

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 financial year under review, 203 (182) employees were directly involved in research and development work at ElringKlinger AG. This corresponds to 12.7% (11.9%) of the entire workforce.

Expenditure on research and development in 2006 was up 9.6% on the previous year at EUR 25.0 (22.8) million. The R&D ratio based on sales revenues remained the same at 7.3%, compared to the sector average of around 5%.

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 AG performs a large number of development services on behalf of the Group's subsidiaries and affiliated companies worldwide in return for licensing payments.

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 geometry to improve the performance of coined cylinder-head gaskets. The new stopper technologies were used in almost 90% of over 100 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 the production of 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

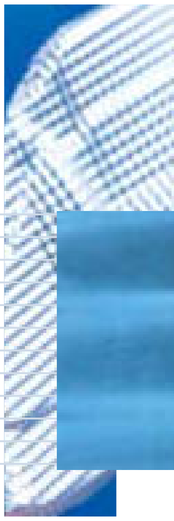
The Specialty Gaskets division developed new varieties of ElringKlinger's hydraulic control plate for vehicles with automatic transmission. It also worked on high-temperature gaskets for the increasingly complex exhaust tract in diesel vehicles and developed a connecting module for diesel particulate 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 company's development competence in this field was further enhanced by the purchase of cutting-edge inspection and testing equipment. A plastic bearing plate 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 precision pressing and sealing 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) systems. 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

During the year under review, 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 purchased 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 in the AG as at December 31, 2006, was up 5.3% on the previous year at 1,600 (1,520). 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 therefore created at the Group's German site. Around 50% of newly appointed employees are highly qualified development engineers. The average headcount for the year at ElringKlinger AG was 1,567 (1,526).

The rate of increase in the number of employees was below that recorded for sales revenues, which stood at 9.8%.

Training – an investment in the future

At ElringKlinger, the process of investing in its future workforce begins with training. The company 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 AG employed 69 (70) young apprentices. ElringKlinger believes that companies have a social responsibility to provide suitable vocational training for young people and aims to fulfill its duty in that respect.

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 AG took part in regional employment fairs organized by universities and colleges of Applied Sciences. During the last financial year, the company's individual business segments 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. Professional development plays an important role at ElringKlinger. Without this highly qualified workforce the company cannot meet the demands of its customers. For this reason, ElringKlinger offers all employees the opportunity to develop their personal and professional skills through targeted training cours-es 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 targeting and developing the next generation of executives. The program is due to be implemented in 2007.

Staff turnover lower than ever

Staff turnover at ElringKlinger AG was around 0.3 per cent in 2006. 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 the AG's German sites in Dettingen/Erms and Runkel.

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.

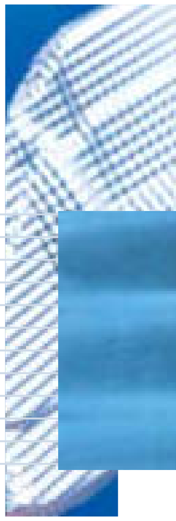
The annual management bonus is based on the Group's earnings before taxes.

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 taxes.

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 285 sentence 1 no. 9a of the German Commercial Code (HGB) are presented there.

Details of share capital and disclosure of potential takeover obstacles (Section 289 (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.

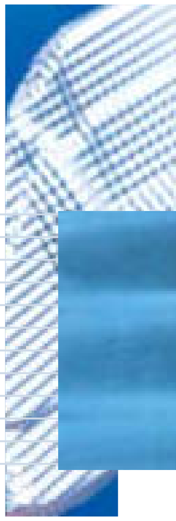
There are no compensation agreements with members of the Management Board or employees in the event of a takeover bid.

Quality and Environmental Management

Against the backdrop of surging raw material and energy prices, quality and environmental management contributed significantly to ElringKlinger AG'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 other energies.

Extended 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 units and plant facilities of the parent company 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 parent company have ISO/TS 16949:2002 and DIN EN ISO 14001:2005 certification. In 2006, the parent company 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 company 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 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 as a tribute to solid, team-based cooperation between the company and its suppliers.

Continued fall in complaints rate

The prime goal identified for all company processes is to avoid the occurrence of errors and 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. Having further enhanced the process of continuous improvement, the company recorded another fall in the customer complaints rate over the course of 2006 – in all business segments. As was the case in 2005, 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 as well as occupational safety 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 9.8% and the significant rise in production volumes, energy consumption within the AG grew by just 2.7% to 73,400 MWh (71,500 MWh).

Electricity consumption also rose at a slower pace, increasing by just 6.5% from 31,000 MWh to 33,000 MWh.

Avoiding waste through efficient management

The total volume of waste produced by the AG in 2006 was 15,600 metric tons (15,400 metric tons), i.e. a mere 1.3% more than in the previous financial year. As in the past, the company recorded a high level of recycling. 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 parent company was able to reduce solvents consumption by 17.6% in 2006, down from 871 metric tons to 718 metric tons.

Focus for 2007: energy savings and reduction in emissions

A number of additional projects to raise efficiency levels and reduce energy consumption are to be implemented over the course of 2007.

When replacing equipment or investing in new systems, the company will only procure units that are capable of contributing to efficiency improvements and energy savings as well as the reduction in CO_2 emissions. At the company's Dettingen/Erms site ElringKlinger will be investing in a new regenerative post-combustion system. Unlike conventional systems, this unit does not require additional gas supply. Besides, ElringKlinger is also assessing the feasibility of a cogeneration heating system in 2008.

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 both on any developments within their spheres of responsibility and the market situation. 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.

At least four audits are carried out by an independent firm of auditors on an annual basis. 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 Elring Klinger do Brasil Ltda., Piracicaba, 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 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. Any downturn in client sales volumes represents a risk. ElringKlinger shall counter any such downturns in demand through adjustments to costs and staffing levels. By broadening its client base across the automotive industry 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. Additionally, 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. In 2006 the company was also 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.

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.

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 a price which covers costs or generates a profit, the order in question will have to be rejected.

Two global competitors continue to be subject to Chapter 11 proceedings. This situation presents opportunities for ElringKlinger but also gives rise to certain risks. 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. However, there is evidence to suggest that clients are increasingly placing more value 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 exchange rates for that year through derivatives in the form of forward contracts. A total of 50% of risk was hedged through such currency derivatives.

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.

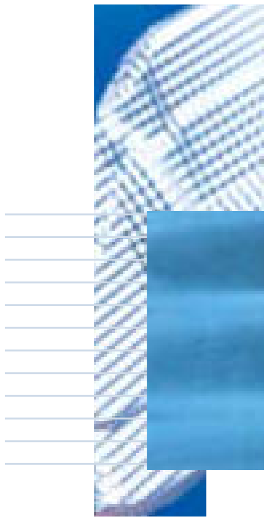
In those few product liability claims brought against ElringKlinger, when the case was submitted to a court, damages are being sought by customers claiming that ElringKlinger manufactured faulty products.

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. The Court instructed the parties to attempt to reach a settlement. ElringKlinger complied with these instructions; no agreement was however reached with the licensor.

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 transmission has played a subordinate role within the European automotive markets. New technologies are introducing 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 high-tech 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, diesel engines deployed in the light trucks popular throughout the US perform significantly better in terms of their consumption. 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 high storage density, 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 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 operational and strategic objectives.

Outlook

Slower economic growth expected in 2007

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 can 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 weak-ness 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 units (16.7 million). Japanese, Korean and also German manufacturers will gain further market share in the United States.

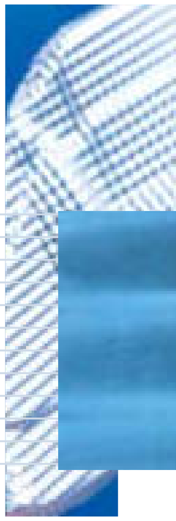
New car registrations in Western Europe during the first two months of 2007 were around half a percentage point up on the same period in the previous year. However, taking 2007 as a whole, ElringKlinger believes that the European automobile market will be more subdued. During the first half of 2007 it 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. Global passenger car production by German manufacturers is expected to remain 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. From a base of less than 1% in 2002, the diesel engine's share in new US registrations of passenger cars and light commercial vehicles is now predicted to reach over 5% in 2007. As a specialist provider of gaskets for diesel engines, ElringKlinger stands to benefit from this development.



There are also 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

Excluding tooling, ElringKlinger AG plans to invest EUR 32 million in 2007.

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 early in 2007 purchased a small-batch production line for diesel particulate filters. Other investments include plant and testing systems for the Fuel Cell Component division.

Year-on-year improvement in order intake and backlog

At the end of 2006 the AG reported an encouraging increase in order intake and order backlog. New orders rose by 12.4% to EUR 356.8 (317.3) million over the year, with fourth quarter figures of EUR 88.6 (83.4) million, 6.2% up on the comparable period in 2005. Order backlog totaled EUR 145.7 (128.2) million at the end of the 2006 financial year, putting the company in a good position for the first quarter of 2007.

Outlook for sales revenues and earnings in 2007 and 2008

As long as there is no significant downturn in the overall economic situation, Elring-Klinger AG expects to see organic growth in sales revenues for 2007 of around 5%. Net income for the year should be around 10% above the net income figure for 2006 after its adjustment for an extraordinary corporation tax item of around EUR 5.3 million.

For 2008, assuming a degree of stability in the car markets, sales revenues are expected to grow organically by around 5%. Looking forward at net income for 2008, Elring-Klinger anticipates a rise above the figure for growth in sales revenues.

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

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

Auditor’s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the ElringKlinger AG, Dettingen/Erms, for the business year from January 1, 2006 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the shareholder agreement are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual 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 [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

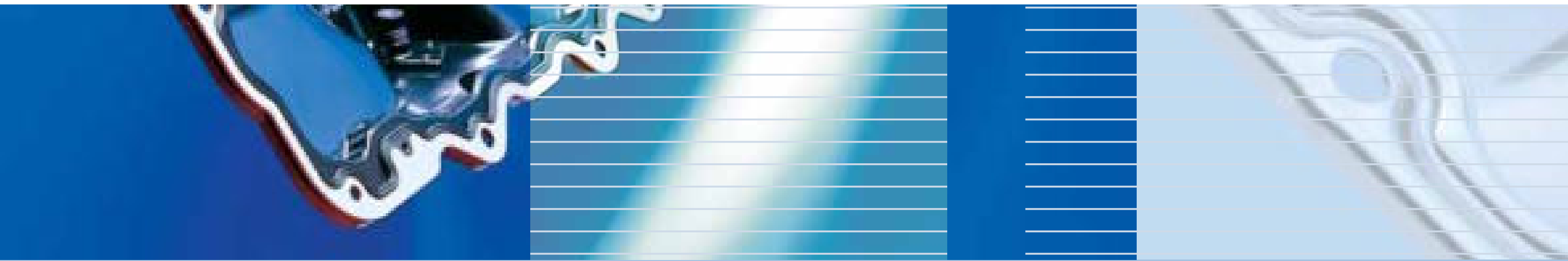
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements 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 Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company'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



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