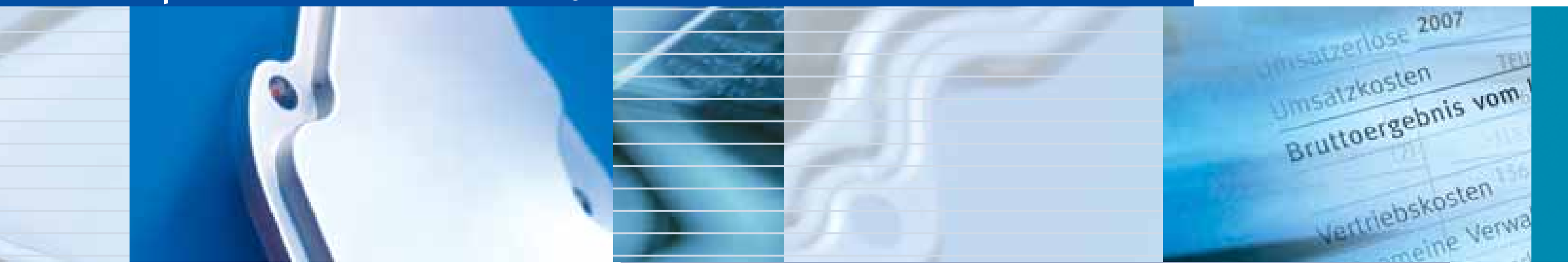
elringklinger

Report on the Second Quarter and First Half of 2007



Experience mobility – Drive the future.

Drive the future

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

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Economic environment remains favorable

The global economy continued to expand in the first half of 2007. Overall, despite a number of obstacles such as significant rises in the price of raw materials and energy and higher interest rates, international growth was stronger than anticipated.

German gross domestic product (GDP) finished the second quarter a further 0.4 percentage points up after first-quarter growth rate of 3.6%. There was also solid economic growth in the eurozone.

The US economy recovered some of its impetus in the second quarter. After slower GDP growth of just 1.3% between January and March, the second quarter saw an increase of 3.4%. For the entire year, however, estimates of growth have been scaled back 0.2 percentage points to 2.0%.

Once again, Asia was marked by further dynamic growth. Mainly China, where GDP was up 11.5%, but also India recorded strong increases in GDP in the first half of 2007.

Automobile markets fail to match growth in wider economy

Overall, the performance of the automobile industry in the first half of 2007 was relatively modest. While global vehicle sales showed a 1.1% annual rise over the period, aggregate sales in the traditional markets of Europe, North America and Japan fell by 1.0%.

Sales volumes in the German market fell significantly in the first six months, with the number of new passenger car registrations down 9.2% to 1.6 million units compared to the same period in 2006, as a result of the VAT increase on January 1, 2007, higher fuel prices and continuing debate about the introduction of a CO_2-based vehicle tax. German manufacturers were at least able to benefit from higher international demand. Exports over the first half-year were up 12.0% on the same period in 2006, helping domestic vehicle production to rise 7.0%.

European passenger car sales also ended the first half-year down on January to June 2006 at 8.5 million units. However, while sales volumes in Western Europe fell 1.1% to 7.9 million units, 15.0% more vehicles were sold in Eastern Europe. In contrast with sales volumes, vehicle production in Europe as a whole ended 4.1% up on the previous year.

Growth in the North American market was weak. Manufacturers in the NAFTA zone produced 8.1 million cars and light commercial vehicles in the first six months of 2007, i.e. 5.6% fewer than in the equivalent period in 2006. US production ended down 7.1% on the first half-year of 2006 at 5.7 million units. From January to June 2007, new registrations in the United States were down 1.5% on the previous year at 8.3 (8.4) million units.

In Japan, sales of passenger cars and light commercial vehicles fell 7.8% from January to June 2007 compared to the same period in 2006. To counter this, sales volumes in China and the other newly industrialized countries of Asia continued their upward trend. Compared to the same period in 2006, the number of vehicles sold in the Chinese market in the first six months of 2007 rose 18.8% to 2.9 million units.

Commercial vehicle market in Europe remains buoyant

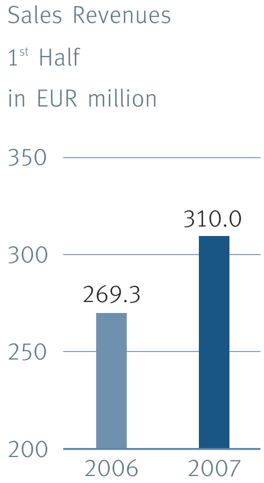
Commercial vehicle sales were marked by substantial regional variations. Building on the positive results achieved in the first half-year of 2006, new registrations in Europe rose a further 0.3% to 213,605 vehicles in the first half-year of 2007. As expected, the US commercial vehicle market was much weaker, with a significant decrease in new registrations. This was primarily due to commercial vehicle buyers bringing forward their purchases to 2006 in advance of the tougher rules on emissions introduced at the beginning of 2007.

Diesel increases share of European market

There were further positive developments in the Western European diesel segment during the first six months of 2007. The number of diesel cars sold climbed 2.3% to 4.1 million units. This represents a market share in Western Europe of 52.2% (50.5%). As a result of much weaker demand in the German passenger car market overall, the number of diesel cars sold in the domestic market fell 2.4% to 738,800 (757,000) million units. Yet, demand for diesels was still much stronger than that for gasoline vehicles. The proportion of new registrations of diesel vehicles in Germany over the same period stood at 46.8% (43.6%), a rise of 3.2 percentage points. Compared with the European average, however, there is still a lot of catching up to be done.

Net Assets, Financial Position and Results of Operations

Revenue growth stronger than expected

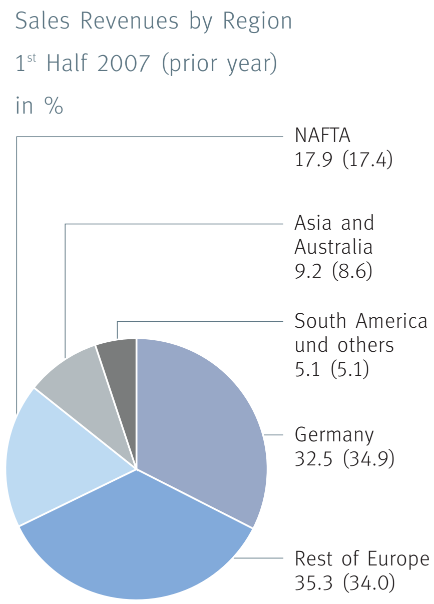


The second quarter of 2007 saw further positive developments in ElringKlinger's activities. The Group was able to make up for weakness in the European and especially the US vehicle markets by improving its market share and launching a range of new products.

Sales revenues in the first six months of 2007 were up 15.1% year on year from EUR 269.3 million in the first half of 2006 to EUR 310.0 million. In the second quarter, Group sales revenues rose 17.8% from EUR 133.3 million to EUR 157.0 million.

Sales revenues up in all regional markets

Group sales revenues were up in all regional markets across the world. Asia, Eastern Europe and South America recorded particularly high rates of growth, and the Group even achieved a further increase in sales revenues in the weak US market.



The process of internationalization of the Group's operations continued in the first six months of 2007. Domestic sales accounted for 32.5% (34.9%) of Group revenues, compared with 67.5% (65.1%) from its international operations.

In Germany, sales revenues over the same period climbed 7.4% to EUR 100.8 (93.9) million, with a similar rise in the second quarter of 7.0% to EUR 51.0 (47.7) million.

In the rest of Europe, the first half-year saw an increase of 19.4% to EUR 109.3 (91.6) million. The high rate of growth in this region is primarily a result of new production launches by French customers and to the trend for domestic vehicle manufacturers to increasingly produce their engines at Eastern European locations. During the second quarter, ElringKlinger achieved sales revenues growth in the rest of Europe of 24.3% to EUR 54.7 (44.0) million.

In the NAFTA region, Group sales revenues for the first half-year were EUR 55.6 (47.0) million, an increase of 18.3% on the same period in 2006. In the second quarter, despite a significant drop in production figures in North America, sales revenues were up 21.0% at EUR 28.1 (23.2) million. The major factor behind this growth was a series of new product start-ups. In addition to cylinder-head gaskets and cam covers, ElringKlinger increasingly supplies US customers with specialty gaskets for exhaust systems and heat shields.

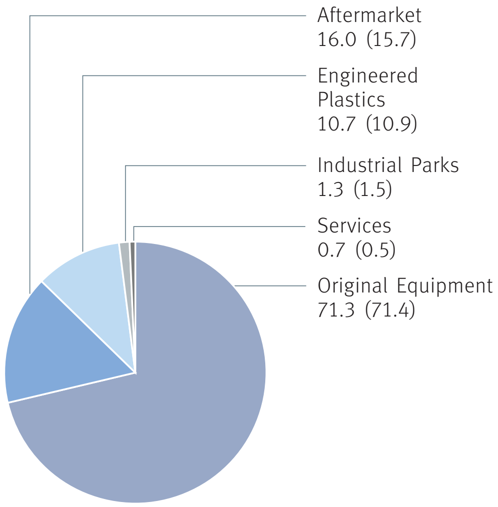
Once again, the Asian markets were marked by dynamic growth. Revenue in the first six months rose 22.1% to EUR 28.4 (23.2) million, driven primarily by the Chinese and Korean automobile markets, where sales of cylinder-head and specialty gaskets and of plastic cam covers with integrated sealing and oil trap system were particularly buoyant. Sales revenues in the second quarter reached EUR 15.1 (11.8) million, an increase of 27.8% on the same period in 2006. ElringKlinger's entry into the growing Indian market is now complete. A plant is being constructed in Ranjangaon near Pune, and production for original equipment customers in India is scheduled to commence at the end of the year.

There was also strong demand for ElringKlinger products in South America, where a 16.9% increase in sales revenues to EUR 15.9 (13.6) million in the first six months of 2007 was chiefly a result of positive developments at the Group's Brazilian subsidiary ElringKlinger do Brasil Ltda. Second-quarter sales revenues were up 23.3% at EUR 8.2 (6.6) million.

Revenue and earnings growth driven by all segments

The ElringKlinger Group succeeded in propelling sales revenues forward in all segments. Within the Original Equipment segment the introduction of several new products contributed to double-digit revenue growth. In the first six months of 2007 sales revenues rose by 14.9% or EUR 28.8 million to EUR 221.1 (192.3) million. Overall, the proportion of Group revenue attributable to Original Equipment remained virtually unchanged year on year at 71.3% (71.4%). Growth gained momentum slightly over the course of the second quarter. During this period, ElringKlinger was able to lift sales revenues by 18.3% to EUR 114.2 (96.5) million within the Original Equipment segment. Within this area shielding technology and specialty gaskets produced particularly strong growth. Demand for these product groups was buoyed mainly by the growing trend towards increasingly compact, charged engines that are capable of delivering more power. Business within the area of light-weight plastic cam covers also showed signs of dynamic growth. The unit responsible for cylinder-head gaskets phased in additional next-generation products featuring a higher-performance stopper design.

Sales Revenues by Segment
1st Half 2007 (prior year)
in %



The Aftermarket segment developed well. Demand within many markets grew significantly on the back of a solid economic trend. In addition, the expansion of ElringKlinger's product range within the area of gasket sets proved advantageous, as did the improved level of product availability. In the first half-year sales revenues within the Aftermarket segment climbed by 17.4% to EUR 49.6 (42.3) million. Within this context, the encouraging trend witnessed at the beginning of the year continued into the second quarter. Sales revenues expanded by 18.0% in the second quarter, up from EUR 20.1 million to EUR 23.7 million. Markets in the Middle East and Eastern Europe generated above-average demand.

The subsidiary ElringKlinger Kunststofftechnik, which specializes in the development and manufacture of products made of polytetrafluoroethylene (PTFE), reaped the rewards of the favorable economic climate, producing revenue growth of 13.0% in the first half of the financial year. Sales revenues thus climbed to EUR 33.2 (29.4) million in this period. An increasingly large proportion of sales revenues is now attributable to exports destined for Asia. ElringKlinger Kunststofftechnik is currently making preparations for the establishment of a sales company in China. At the same time, industrial operations for the manufacture of products made of Moldflon®, a new injection-moldable PTFE material, were phased in. The unit has generated initial revenues from series production. In the second quarter revenue grew by 13.2%. Sales revenues amounted to EUR 16.0 (14.1) million.

Effects of fire at Runkel plant

The fire that broke out in one of the production buildings at ElringKlinger's Runkel plant in mid-April 2007 affected parts of the local cylinder-head gasket operations. The fire had no impact on the other areas of production at the Runkel plant. Due to the extent of the damage to the building, this section of the plant has to be rebuilt.

Thanks to the immediate introduction of a provisional production facility, the Runkel plant has now almost returned to its original capacity levels for cylinder-head gaskets. Supply shortages were avoided by temporarily allocating the required production volumes to other sites within the Group.

ElringKlinger has a comprehensive insurance policy that covers damage caused by both the fire and the interruption of operations. The interruption of operations resulted in a temporary fall in productivity levels at the Runkel plant as well as in additional expenses related to logistics.

The write-off of the residual values associated with machinery and the production building as well as inventories destroyed by the fire produced other operating expenses of EUR 6.8 million. In parallel, the insurance proceeds led to a EUR 11.5 million increase in other operating income. The net result was non-recurring extraordinary income of EUR 4.7 million in the second quarter, due to the fact that the insurance benefits were in excess of the residual amounts to be written off in connection with plant and machinery.

Operating result grows faster than sales revenues

Despite continuing efficiency measures and higher productivity throughout the Group, ElringKlinger was unable to offset fully the effects of a record level of raw material prices – particularly for nickel – and substantial energy costs over the course of the second quarter. The gross margin for the first six months of 2007 stood at 34.2% (35.2%). In the second quarter it reached 34.6% (35.4%).

Supported by stringent cost management and further improvements to workflow, selling as well as general and administrative expenses climbed at a less pronounced rate than revenue during the first six months and the second quarter. General and administrative expenses rose by 7.6% to EUR 12.7 (11.8) million in the first six months. In the second quarter they amounted to EUR 6.1 (5.7) million, which corresponds to a year-on-year increase of 7.0%. Selling expenses rose by 7.2%, totaling EUR 20.9 (19.5) million in the first six months. In the second quarter of 2007 selling expenses amounted to EUR 10.9 (9.7) million, i.e. a 12.4% increase compared with the same period a year ago.

Research and development expenses within the ElringKlinger Group rose by EUR 1.1 million year on year in the first half of 2007, which took the figure to EUR 15.2 (14.1) million. The R&D ratio at Group level was 4.9% (5.2%). The main emphasis was on new lines of business. In addition, ElringKlinger focused on further enhancing existing technology within the area of cylinder-head gaskets, exhaust gasketing and heat shielding. In the first half of 2007, EUR 0.8 (0.5) million of the total development costs of EUR 15.2 (14.1) million was capitalized. As was the case in the same period a year ago, depreciation expense associated with capitalized R&D activities amounted to EUR 0.6 million.

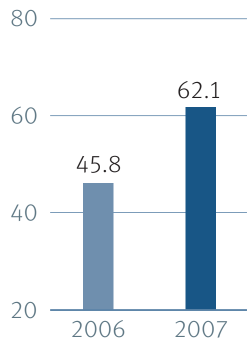
The insurance benefits payable for damage caused by the fire and the interruption of operations at the Runkel plant led to an increase in other operating income by EUR 11.5 million in the second quarter of 2007, taking the total to EUR 12.5 (0.4) million. The full write-off of residual amounts associated with inoperable machinery, inventories and the production building destroyed by the fire produced other operating expenses of EUR 6.8 million in the second quarter. In total, other operating expenses amounted to EUR 7.2 (1.6) million in the second quarter of 2007. As already outlined above, there was a one-off extraordinary income of EUR 4.7 million in total.

Earnings performance benefited from higher capacity utilization, a more favorable product mix and the growing share of new products. In the first six months ElringKlinger managed to lift its operating result from EUR 48.0 million to EUR 62.6 million. Thus, year-on-year growth within this area stood at 30.4%. Adjusted for extraordinary income of EUR 4.7 million from the insurance proceeds, the operating result grew by 20.7%, i.e. faster than sales revenues. In the second quarter of 2007 ElringKlinger recorded a 48.7% increase in its operating result to EUR 35.1 (23.6) million. Having deducted extraordinary income, the year-on-year growth rate was 29.0%. The adjusted operating margin in the second quarter stood at 19.4%, compared with 17.7% a year ago.

Factoring in negative currency effects equivalent to EUR 0.5 million, earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 24.8% to EUR 83.8 (67.1) million in the first half-year of 2007. Adjusted for extraordinary income from the insurance claim, EBITDA growth stood at 17.9%. In the second quarter, the relative increase in depreciation/amortization expense was again less pronounced than the level of growth recorded within the area of sales revenues. As a result, EBITDA grew at a slower rate than the operating result – by 37.4% to EUR 46.3 (33.7) million. On balance, foreign currency effects remained neutral in the second quarter and thus had no impact on EBITDA. Adjusted for extraordinary income, EBITDA rose by 23.6% to EUR 41.7 million.

In the first six months, earnings before interest and taxes (EBIT) rose by 35.6% to EUR 62.1 (45.8) million. Having deducted extraordinary income from the insurance claim, EBIT growth amounted to 25.4%. In the second quarter, ElringKlinger increased EBIT by 51.9% to EUR 35.1 (23.1) million. Adjusted for extraordinary income, the growth rate was 31.8%. The adjusted EBIT margin stood at 19.4% (17.3%).

EBIT
1st Half
in EUR million

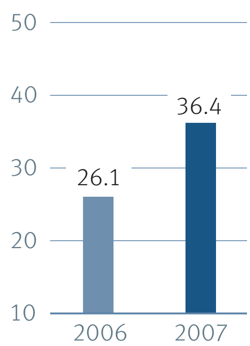


Earnings before taxes rose from EUR 43.5 million in the first six months of 2006 to EUR 59.7 million in the first half of 2007, a year-on-year rise of 37.2%. Net of extraordinary income the growth rate for the first six months of 2007 was 26.5%. In the second quarter earnings before taxes rose by 55.5% to EUR 33.9 (21.8) million. After deducting extraordinary income, year-on-year growth amounted to 34.1%.

Due to the slight reduction in the tax rate by 0.7 percentage points to 34.7% (35.4%), consolidated net income for the first half of 2007 rose by 38.8% – i.e. at a more pronounced rate than pre-tax profit – to EUR 39.0 (28.1) million. Adjusted for extraordinary income attributable to the insurance proceeds, amounting to EUR 2.9 million after taxes, the year-on-year increase in consolidated net income stood at 28.3%. Based on a tax rate of 34.2% (34.9%), consolidated net income for the second quarter rose by 57.0% to EUR 22.3 (14.2) million. Adjusted for extraordinary income from the insurance proceeds, net income increased by 36.4% to EUR 19.4 million.

After deducting minority interests, consolidated net income for the first half amounted to EUR 36.4 (26.1) million. This corresponds to an increase of 39.4% compared with the same period a year ago. Adjusted for extraordinary income, consolidated net income after minority interests rose by 28.1%. In the second quarter, consolidated net income after minority interests increased by 57.3% to EUR 21.0 (13.4) million. Having deducted extraordinary income associated with the insurance claim, consolidated net income after minority interests was 35.3% higher than in the same period a year ago amounting to EUR 18.1 million.

Consolidated net income
after minorities
1st Half
in EUR million



Earnings per share accounted for on the basis of IFRS rose from EUR 1.36 to EUR 1.90 in the first six months. Adjusted for exceptional items, earnings per share stood at EUR 1.74, which corresponds to a 28.1% increase compared with the same period a year ago. In the second quarter, ElringKlinger increased its earnings per share from EUR 0.70 to EUR 1.10. Adjusted for extraordinary income from the insurance claim, earnings per share amounted to EUR 0.94. The number of shares issued by ElringKlinger AG remained unchanged in the first half of 2007 at 19,200,000.

Growth in sales revenues outpaces expansion of workforce

At June 30, 2007, the headcount within the Group stood at 3,399 (3,160). Thus, the number of personnel rose by 7.6% year on year, which was less pronounced than growth achieved in sales revenues. Higher capacity utilization, more extensive research and development and the expansion of ElringKlinger's activities in the New Business Areas division as well as sales prompted a year-on-year increase in domestic staffing levels to 2,197 (2,075). At June 30, 2007, the foreign subsidiaries and affiliated companies employed 1,202 (1,085) members of staff in total. Recruitment at the Group's international locations was driven mainly by expansion of production levels.

Balance sheet total rises by 12%, equity ratio at 46%

In terms of assets and liabilities, the financial position of the ElringKlinger Group remains encouraging. The balance sheet total increased in parallel with revenue and earnings growth.

At June 30, 2007, it stood at EUR 531.9 (476.6) million, which corresponds to a 11.6% rise compared with December 31, 2006.

With Group capital expenditure totaling EUR 35.1 million in the first six months, the amount carried as property, plant and equipment was up on the figure recorded at December 31, 2006. It rose to EUR 224.4 (211.9) million. Non-current assets accounted for 57.0% of total assets, down from 61.1%. Within this context, the reduction was due to the disproportionately high increase in inventories and trade receivables.

Compared to December 31, 2006, ElringKlinger expanded its inventories by EUR 9.2 million, or 10.3%, to EUR 99.2 (90.0) million. Alongside higher production levels, this was due mainly to a targeted stockpiling of high-grade steel – particularly in the first quarter – in anticipation of spiraling high-grade steel prices. As a result, the Group was able to avoid purchasing high-grade steel at considerably higher prices in the second quarter. In addition, the significant expansion of business within the Aftermarket segment prompted an increase in inventories of merchandise that is an integral component of the Elring spare-part kits.

At EUR 104.7 million, the amount recognized as trade receivables was EUR 23.7 million higher than that recorded at December 31, 2006. This was attributable principally to more significant revenue generated with spare parts and higher tooling sales. In addition, ElringKlinger saw a disproportionately high increase in sales revenues with customers with longer payment terms. In some cases, customer payments were sluggish. This issue was addressed by a more stringent approach to receivables management on the part of ElringKlinger.

At the end of the second quarter of 2007 revenue reserves amounted to EUR 169.2 million. Overall, shareholders' equity rose by an additional EUR 14.6 million compared with December 31, 2006, which took the total to EUR 245.8 (231.2) million. As at June 30, 2007, the equity ratio at Group level was 46.2%.

Compared to December 31, 2006, non-current financial liabilities were scaled back by a further EUR 1.2 million to EUR 49.1 (50.4) million. This corresponds to a share of 9.2% of the balance sheet total.

Current financial liabilities were extended from EUR 16.3 million at December 31, 2006, to EUR 37.7 million in order to finance part of the Group's dividend payments. Other current liabilities rose by EUR 11.7 million to EUR 40.6 million in the first six months of 2007.

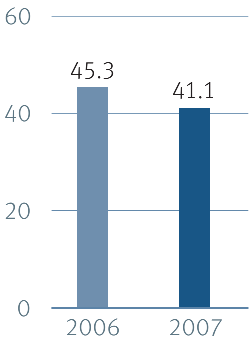
Conversely, ElringKlinger scaled back its trade payables by EUR 2.1 million to EUR 26.1 (28.2) million in the same period. Compared with December 31, 2006, current provisions rose by EUR 1.1 million to EUR 10.1 (9.0) million.

As a result, liabilities accounted for 53.8% of the balance sheet total. Compared with June 30, 2006, liabilities in relation to the balance sheet total fell by 3.5 percentage points.

Net cash: Free cash flow despite record investments

Yet again, the ElringKlinger Group was able to generate a significant cash return (net cash from operating activities in relation to sales revenues) of 13.3% in the first six months 2007, despite substantial investments and the expansion of working capital. On the back of EUR 4.1 million in operational free cash flow (net cash from operating activities less net cash from investing activities) in the first three months of the financial year, ElringKlinger generated operational free cash flow of EUR 2.1 million in the second quarter.

Net cash from
operating activities
1st Half
in EUR million



Net cash from operating activities amounted to EUR 41.1 (45.3) million in the first six months of 2007.

The inflow of cash was driven by the EUR 16.2 million increase in earnings before taxes as well as the expansion of depreciation/amortization by EUR 0.4 million. Also the increase in trade payables by EUR 13.3 (3.1) million resulted in an increase in cash over the first half-year of 2007. By contrast, at EUR 42.8 (13.9) million, the increase in inventories and trade receivables as well as other assets was EUR 29.0 million above the figure recorded in the same period a year ago.

Net cash used in investing activities amounted to EUR 35.0 (21.3) million in the first six months of 2007. This was attributable mainly to a year-on-year increase of EUR 14.0 million in capital expenditure on property, plant and equipment as well as on investment property, taking this total to EUR 35.1 (21.1) million. New machines and equipment were purchased for the phase-in of new products as well as the expansion of capacity levels and projects aimed at enhancing operational efficiency. In addition to extending its plants in Korea and China, ElringKlinger is currently setting up a production facility in Ranjangaon, India. Furthermore, ElringKlinger AG is building a new production building at its site in Dettingen/Erms, Germany, for the production of plastic cam covers and plastic transmission covers. Beyond this, ElringKlinger is at present investing around one million euros in a series-compliant pilot production line for the manufacture of diesel particulate filters at its plant in Dettingen/Erms, the focus being on the production of prototypes and specimen components. At 11.6% (8.2%), the investment ratio in the first half of 2007 was considerably higher than in the same period a year ago.

Net cash used in financing activities totaled EUR 6.0 (21.5) million in the first six months of 2007. The dividend payment of EUR 24.0 (19.2) million in the second quarter of 2007 was EUR 4.8 million higher than in the same period a year ago. This specific outflow of cash was more than offset by higher loans taken out during the period. In the second quarter ElringKlinger increased its financial liabilities by EUR 22.3 (8.6) million.

At June 30, 2007, cash and cash equivalents amounted to EUR 5.5 (7.1) million.

Report on opportunities and risks

The introduction of the Transparenzrichtlinie-Umsetzungsgesetz (Transparency Directive Implementing Act – TUG) effective from January 10, 2007, marks a further extension of the financial reporting requirements of exchange-listed stock corporations. A half-yearly financial report has to include a brief report on opportunities and risks.

The risk management system deployed by ElringKlinger was further enhanced over the course of the first six months of 2007. In particular, the early warning system designed to identify risks in a timely manner underwent further improvement. Effective from January 1, 2007, the general managers of the subsidiaries and the divisional managers of the AG are responsible for submitting four – formerly two – risk reports to the Management Board. The annual number of internal audits at subsidiaries and within the business and service areas was increased from four to eight. The Management Board submits reports on risks assessment to the Supervisory Board on the occasion of every Supervisory Board meeting.

Market risk

To a certain extent, the prevailing weakness of the vehicle manufacturing industry in the traditional markets of North America, Europe and Japan may constitute a risk to sales volumes. ElringKlinger addresses this issue by systematically expanding its product portfolio and penetrating new, burgeoning markets such as South America, China, India and Korea.

Risk associated with material prices

Following another significant rise in the price of high-grade steels, the situation settled slightly toward the end of the second quarter. In particular, the exchange-traded alloy adjustment factor for nickel has declined since the beginning of June 2007. Whether this trend is sustainable has yet to be seen. However, ElringKlinger is operating on the assumption that prices for high-grade steel remain relatively stable at the current level until the end of the year.

Other risks

Risks such as those relating to foreign currencies and legal action remained unchanged compared with those outlined in the report on opportunities and risks as at December 31, 2006.

An additional risk for ElringKlinger may arise from the increasingly severe shortage of qualified staff. Growth sales revenues and earnings as well as the broad range of new development projects will necessitate the recruitment of additional staff. In particular, employers are having to contend with a growing shortage of qualified engineers within the job market. ElringKlinger has been counterbalancing these risks by offering an extended range of very appealing vocational training programs, the objective being to build company loyalty among young people as early as possible.

Opportunities

ElringKlinger has identified growth in new product areas and entry into new markets as key opportunities. In particular, ElringKlinger is in a position to make a committed contribution to the reduction of fuel consumption and emission levels as well as the introduction of alternative energies, drawing on its existing product range as well as its portfolio to be extended in the future.

Established in February 2007, the Indian subsidiary ElringKlinger Automotive Components (India) Pvt. Ltd., will commence production for the local market as early as this year, thus serving one of the fastest-growing markets in Asia.

In addition, the further expansion of existing growth markets, particularly in Asia, will provide solid opportunities for ElringKlinger.

New customers have been added to the client base in the North American commercial vehicle sector. This segment of the market shows additional potential.

Assessment of aggregated risk

Based on the ElringKlinger Group's solid financial performance, financial position and cash flows, its long-standing customer relations and its favorable position in terms of technological expertise as well as the innovative technologies developed within the New Business Areas division, the aggregated risk situation is deemed to be insignificant.

Outlook

The German domestic economy remains robust. Indeed, growth forecasts for Germany stand at 2.6% for the current year. Also for 2008 the economy is expected to grow. Yet, the forecasts concerning future economic performance have weakened slightly over recent weeks.

Despite the visible upturn in the economy and the higher purchasing power of consumers, automobile sales in Germany over the course of the first six months of 2007 were significantly lower than in the same period a year ago. Against this backdrop, there is little likelihood of a palpable upturn in 2007.

Europe, Japan and the United States are likely to be faced with stagnant or contracting car production figures over the course of the second half. By contrast, automobile sales in the emerging markets of South America, Asia – particularly South Korea, China and India – as well as Eastern Europe are expected to maintain their forward momentum. In view of the elevated fuel prices, demand for vehicles with diesel engines, hybrid propulsion systems and alternative fuels is likely to rise.

Both order intake and order backlog at ElringKlinger developed well in the first half of the financial year, particularly in the second quarter. Order intake increased by 15.5% to EUR 325.8 (282.1) million in the first six months. The second quarter accounted for EUR 171.7 (137.6) million in incoming orders. Thus, order intake for the second quarter of 2007 was 24.8% higher than in the same quarter a year ago. At the end of the quarter, order backlog was 17.6% up when compared to June 30, 2006, rising to EUR 224.0 (190.5) million.

The pressure on prices exerted by customers within the automotive industry remains high. Despite this, ElringKlinger has laid the foundations needed to achieve further growth in sales revenues and earnings, benefiting from the successful introduction of new high-tech products in all segments, together with sustained measures aimed at raising efficiency levels and particularly stringent cost control.

Buoyed by the solid result achieved in the first six months, ElringKlinger is well on the way to exceeding the targets it had originally set itself for 2007. ElringKlinger has defined a new target of approximately 10% growth in sales revenues for the 2007 financial year as a whole. Adjusted for non-recurring items, such as extraordinary income from insurance proceeds, consolidated net income after minority interests in 2007 is forecast to be approximately 15% higher than previous year's consolidated net income after minority interests adjusted for an extraordinary corporation tax credit item of EUR 5.3 million.

Provided the economy as a whole continues to develop favorably and the Group's specific market environment remains stable, ElringKlinger anticipates that it will be in a position to increase sales revenues and earnings further in 2008.

Events after the balance sheet date

On July 31, 2007, ElringKlinger AG acquired from the entity's co-partners an additional interest of 7.5% in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, and currently holds 74.5% in the subsidiary. The EBIT multiple paid by ElringKlinger AG was within the upper single-digit range. As a result of the additional stake acquired, minority interests in consolidated net income have declined. Therefore, estimated consolidated net income, after minority interests, for 2007 will increase proportionately by approx. EUR 0.2 million effective from August 1, 2007.

Share performance

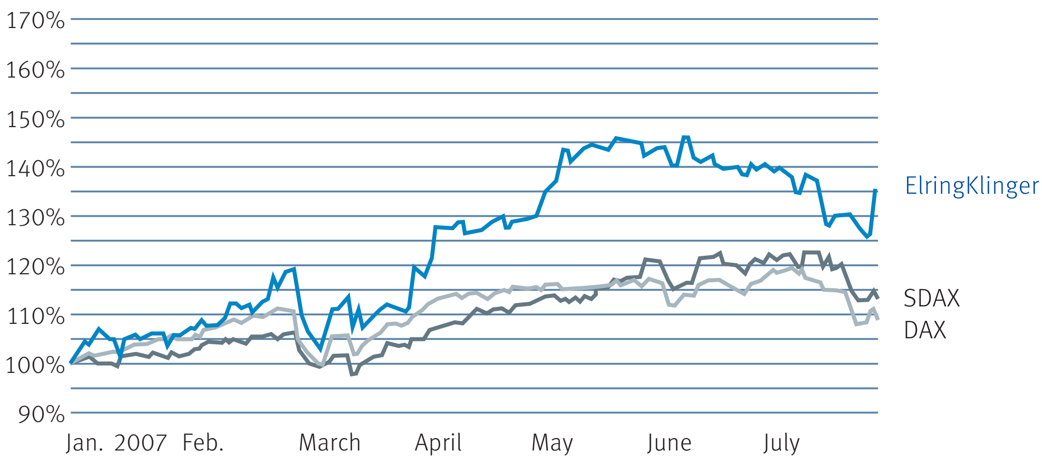
In the first half-year of 2007, ElringKlinger shares have benefited from continued attractive growth in the company and a positive stock market environment.

Following the share's rise to around EUR 57 in the course of the month of February, weakness in the capital markets at the end of the month provoked a correction to EUR 50. Since then it has resumed its encouraging upward progress, achieving a new all-time high of over EUR 70 in the lead-up to the AGM at the end of May. At the end of the first half-year, ElringKlinger shares were trading at EUR 67.48, almost 40% above their 2006 closing price.

In July 2007, against a general background of losses on international equity markets triggered by the US mortgage crisis, ElringKlinger shares fell back towards the EUR 60 mark.

Nevertheless, since the beginning of 2007, ElringKlinger's stock has consistently outperformed the benchmark DAX and SDAX indices.

ElringKlinger's share price performance (XETRA) since January 1, 2007, relative to SDAX and DAX



Renewed growth in trading volume

The volume of trading in ElringKlinger shares over the first six months of 2007 showed a welcome increase. Compared to the same period for 2006, the average daily volume traded on German stock exchanges rose by more than 30% from around EUR 900,000 to EUR 1,200,000.

Capital markets

ElringKlinger took part in three international capital market conferences in the first half of 2007. During a series of discussions and presentations, the company has been informing institutional investors in Frankfurt, Western Europe and the US about the most recent business activities, new product developments and prospects of ElringKlinger Group. Several visits to the Dettingen/Erms site were arranged to allow international investors and analysts to build up a picture of the business, production processes and new developments at first hand.

Dividend for financial year 2006

Shareholders at ElringKlinger's 102nd Annual General Meeting on May 25, 2007, decided to use the net retained earnings of EUR 24.0 million reported as at December 31, 2006 for the financial year 2006 to pay a dividend of EUR 1.25 (1.00) per share. Dividends were paid out on May 29, 2007.

This is a clear sign of ElringKlinger AG's commitment to a dividend policy that ensures that investors share in its success. The distribution ratio 2007 as a percentage of consolidated net income after minority interests was 41.5%.

ElringKlinger Stock (WKN 785 602)

	1st Half 2007	1st Half 2006
Number of shares as of June 30	19,200,000	19,200,000
Share price (XETRA daily closing prices in EUR)		
High	71.52	45.23
Low	49.50	31.21
Closing price on June 30	67.48	39.05
Average daily trading volume (German stock exchanges; no. of shares)	19,900	23,300
Average daily trading volume (German stock exchanges; in EUR)	1,200,000	900,000

Consolidated Income Statement

January 1 to June 30, 2007

	2nd Quarter 2007	2nd Quarter 2006	1st Half 2007	1st Half 2006
	EUR'000	EUR'000	EUR'000	EUR'000
Sales revenues	157,000	133,300	310,000	269,300
Cost of sales	-102,600	-86,100	-203,900	-174,600
Gross profit	**54,400**	**47,200**	**106,100**	**94,700**
Selling expenses	-10,900	-9,700	-20,900	-19,500
General and administrative expenses	-6,100	-5,700	-12,700	-11,800
Research and development expenses	-7,600	-7,000	-15,200	-14,100
Other operating income	12,500	400	13,500	1,600
Other operating expenses	-7,200	-1,600	-8,200	-2,900
Operating result	**35,100**	**23,600**	**62,600**	**48,000**
Earnings from affiliated companies	0	0	0	0
Net interest	-1,200	-1,800	-2,900	-4,500
Financial result	**-1,200**	**-1,800**	**-2,900**	**-4,500**
Earnings before taxes	**33,900**	**21,800**	**59,700**	**43,500**
Taxes on income	-11,600	-7,600	-20,700	-15,400
Consolidated net income	**22,300**	**14,200**	**39,000**	**28,100**
Minority interests	1,269	828	2,602	1,985
Consolidated net income after minority interests	21,031	13,372	36,398	26,115
Earnings per share in EUR	1.10	0.70	1.90	1.36

Consolidated Balance Sheet

ASSETS	June 30, 2007	Dec. 31, 2006	June 30, 2006
	EUR'000	EUR'000	EUR'000
Intangible assets	28,440	28,187	30,198
Tangible assets	224,363	211,909	208,960
Investment property	31,336	31,641	30,828
Financial assets	4,534	4,528	4,558
Other non-current assets	5,396	5,414	0
Deferred taxes	9,249	9,313	9,537
Fixed assets	**303,318**	**290,992**	**284,081**
Inventories	99,212	89,956	77,649
Trade receivables	104,735	80,993	92,659
Other current assets	19,092	9,227	6,411
Cash and cash equivalents	5,543	5,453	7,114
Current assets	**228,582**	**185,629**	**183,833**
	531,900	476,621	467,914

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2007	Dec. 31, 2006	June 30, 2006
	EUR'000	EUR'000	EUR'000
Share capital	57,600	57,600	57,600
Capital reserve	2,747	2,747	2,747
Revenue reserves	169,167	154,894	124,314
Minority interests	16,286	15,957	15,100
Shareholders' equity	**245,800**	**231,198**	**199,761**
Provisions for pensions	54,173	53,451	52,929
Non-current provisions	8,808	8,784	9,201
Non-current financial liabilities	49,137	50,380	53,311
Deferred taxes	33,175	31,152	33,725
Other non-current liabilities	14,653	12,684	14,847
Non-current liabilities	**159,946**	**156,451**	**164,013**
Current provisions	10,128	9,009	9,123
Trade payables	26,099	28,210	19,419
Liabilities to affiliated companies	0	0	5
Current financial liabilities	37,693	16,251	32,552
Tax payables	11,674	6,628	11,357
Other current liabilities	40,560	28,874	31,684
Current liabilities	**126,154**	**88,972**	**104,140**
	531,900	476,621	467,914

Consolidated cash flow statement

	2nd Quarter 2007	2nd Quarter 2006	1st Half 2007	1st Half 2006
	EUR'000	EUR'000	EUR'000	EUR'000
Earnings before taxes	33,900	21,800	59,700	43,500
Amortization and depreciation	11,236	10,666	21,661	21,298
Net interest	1,200	1,300	2,400	2,300
Changes in provisions	-654	-138	669	2,171
Loss from disposal of intangible assets and of property, plant and equipment	3,660	0	2,850	0
Changes in inventories, receivables and other assets not resulting from financing and investing activities	-19,572	-4,364	-42,845	-13,886
Changes in liabilities not resulting from financing and investing activities	3,663	7,848	13,290	3,075
Income taxes paid	-9,049	-7,300	-15,563	-13,155
Interest paid	-527	-750	-1,154	-1,251
Interest received	50	100	200	250
Foreign currency translation changes from operating activities	-90	-13	-63	1,017
Net cash from operating activities	**23,817**	**29,149**	**41,145**	**45,319**
Proceeds from disposals of intangible assets and of property, plant and equipment	71	387	959	726
Proceeds from disposals of financial assets	5	399	7	409
Payments for investments in intangible assets	-847	-665	-868	-968
Payments for investments in tangible assets and investment properties	-20,961	-14,390	-35,081	-21,091
Payments for investments in financial assets	-10	-416	-15	-424
Net cash used in investing activities	**-21,742**	**-14,685**	**-34,998**	**-21,348**
Dividends paid	-26,250	-21,808	-26,250	-21,808
Changes in financial liabilities	22,256	8,583	20,199	374
Foreign currency translation changes	31	-36	32	-94
Net cash used in financing activities	**-3,963**	**-13,261**	**-6,019**	**-21,528**
Net increase in cash and cash equivalents	-1,888	1,203	**128**	**2,443**
Foreign currency translation changes in cash and cash equivalents	-94	182	-38	237
Cash and cash equivalents at beginning of period	7,525	5,729	5,453	4,434
Cash and cash equivalents at end of period	5,543	7,114	5,543	7,114

Statement of Changes in Equity

2nd Quarter 2007

	Share capital	Capital reserve	Revenue reserves: Revaluation reserve	Revenue reserves: Currency translation differences	Revenue reserves: Group equity generated	Minority interests	Group equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As of Dec. 31, 2005	**57,600**	**2,747**	**26,181**	**-2,203**	**95,813**	**15,975**	**196,113**
Dividend distributions					-19,200	-2,608	-21,808
Adjustments due to consolidation				-2,392		-252	-2,644
Consolidated net income					26,115	1,985	28,100
As of June 30, 2006	**57,600**	**2,747**	**26,181**	**-4,595**	**102,728**	**15,100**	**199,761**
As of Dec. 31, 2006	**57,600**	**2,747**	**26,181**	**-5,706**	**134,419**	**15,957**	**231,198**
Dividend distributions					-24,000	-2,250	-26,250
Adjustments due to consolidation				1,875		-23	1,852
Consolidated net income					36,398	2,602	39,000
As of June 30, 2007	**57,600**	**2,747**	**26,181**	**-3,831**	**146,817**	**16,286**	**245,800**

Group Sales Revenues by Region

	2nd Quarter 2007	2nd Quarter 2006	1st Half 2007	1st Half 2006
	EUR'000	EUR'000	EUR'000	EUR'000
Germany	51,000	47,678	100,792	93,870
Change compared to prior year in %	7.0		7.4	
Rest of Europe	54,699	44,017	109,334	91,595
Change compared to prior year in %	24.3		19.4	
NAFTA	28,051	23,181	55,595	47,002
Change compared to prior year in %	21.0		18.3	
Asia and Australia	15,085	11,800	28,373	23,231
Change compared to prior year in %	27.8		22.1	
South America and others	8,165	6,624	15,906	13,602
Change compared to prior year in %	23.3		16.9	
Group	**157,000**	**133,300**	**310,000**	**269,300**
Change compared to prior year in %	17.8		15.1	

Segment Reporting

2nd Quarter 2007/2nd Quarter 2006

	Original Equipment		Aftermarket		Engineered Plastics	
	2007	2006	2007	2006	2007	2006
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenues	**135,091**	**111,289**	**25,647**	**21,789**	**16,022**	**14,123**
Intersegment revenues	-5,089	-3,514	0	0	0	0
Consolidation	-15,769	-11,238	-1,970	-1,724	-54	-19
Sales revenues	**114,233**	**96,537**	**23,677**	**20,065**	**15,968**	**14,104**
EBIT	**26,453**	**16,151**	**4,513**	**4,078**	**2,885**	**1,941**
Amortisation & depreciation	-10,133	-9,691	-114	-120	-457	-426
Investments	20,535	13,414	287	121	847	1,054

	Industrial Parks		Services		Group	
	2007	2006	2007	2006	2007	2006
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenues	**2,115**	**2,020**	**1,866**	**1,274**	**180,741**	**150,495**
Intersegment revenues	0	0	0	0	-5,089	-3,514
Consolidation	0	0	-859	-700	-18,652	-13,681
Sales revenues	**2,115**	**2,020**	**1,007**	**574**	**157,000**	**133,300**
EBIT	**987**	**928**	**262**	**2**	**35,100**	**23,100**
Amortisation & depreciation	-286	-267	-163	-205	-11,153	-10,709
Investments	18	252	121	214	21,808	15,055

Segment Reporting

1st Half 2007/1st Half 2006

	Original Equipment		Aftermarket		Engineered Plastics	
	2007	2006	2007	2006	2007	2006
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenues	**264,801**	**225,529**	**53,679**	**45,663**	**33,255**	**29,407**
Intersegment revenues	-10,950	-7,474	0	0	0	0
Consolidation	-32,788	-25,742	-4,061	-3,409	-92	-51
Sales revenues	**221,063**	**192,313**	**49,618**	**42,254**	**33,163**	**29,356**
EBIT	**42,523**	**30,519**	**9,649**	**8,126**	**6,606**	**5,275**
Amortisation & depreciation	-19,522	-19,313	-254	-279	-913	-855
Investments	33,087	19,228	489	219	1,975	1,998

	Industrial Parks		Services		Group	
	2007	2006	2007	2006	2007	2006
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenues	**4,149**	**4,074**	**3,702**	**2,668**	**359,586**	**307,341**
Intersegment revenues	0	0	0	0	-10,950	-7,474
Consolidation	0	0	-1,695	-1,365	-38,636	-30,567
Sales revenues	**4,149**	**4,074**	**2,007**	**1,303**	**310,000**	**269,300**
EBIT	**2,719**	**1,819**	**603**	**61**	**62,100**	**45,800**
Amortisation & depreciation	-568	-537	-325	-409	-21,582	-21,393
Investments	27	325	371	289	35,949	22,059

Notes to the First Half of 2007

The ElringKlinger Group's interim report as of June 30, 2007, has been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU, as well as in compliance with the additional provisions set out in Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB).

Required Disclosures

The interim report was not subject to an audit. The accounting policies applied to the 2006 consolidated financial statements remained unchanged in the first half-year of 2007.

The cost-of-sales (also referred to as function-of-expense) method has been applied when preparing the income statement. The Group currency is the euro.

In addition to the financial statements of ElringKlinger AG, the interim report as of June 30, 2007, includes 4 domestic and 16 foreign subsidiaries. Subsidiaries are entities in which the parent company holds more than half of the voting rights or over which, for other reasons, it has the power to govern the financial and operating policies.

The two joint-venture companies ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, were included in the interim report on the basis of proportionate consolidation in accordance with IAS 31.

The investment in Marusan Corporation, Tokyo, Japan, was recognized at cost.

The financial year for all consolidated entities corresponds to the financial year of the parent company.

Exchange rates developed as follows:

		Closing rate = EUR 1		Average rate = EUR 1	
		June 30, 2007	Dec. 31, 2006	2007	2006
US dollar (USA)	USD	1.3495	1.3184	1.33290	1.26287
Pound Sterling (UK)	GBP	0.6731	0.6716	0.67527	0.68184
Canadian dollar (Canada)	CAD	1.4240	1.5287	1.49625	1.42531
Real (Brazil)	BRL	2.5967	2.8135	2.70797	2.73972
Peso (Mexico)	MXN	14.5733	14.3040	14.59869	13.77909
RMB (China)	CNY	10.2710	10.2921	10.26277	10.04633
WON (South Korea)	KRW	1,246.5719	1,225.4500	1,245.01992	1,199.86583
Rand (South Africa)	ZAR	9.5450	9.2300	9.55367	8.63148
Yen (Japan)	JPY	166.6195	156.7000	160.60129	146.73167
Forint (Hungary)	HUF	245.5012	251.9000	250.50100	264.30417
Indian rupee (India)	INR	54.9701	58.32	56.43659	57.17324

In the first six months of 2007 derivative financial instruments were utilized for the purpose of hedging interest rate risk, smoothing the volatility of purchasing prices for raw materials (nickel) and hedging receivables denominated in Canadian and US dollars. Part of the significant rise in material expenses, induced by the ongoing increase in the price of raw materials, was offset with the help of raw-material-related derivatives. The increase in material expenses was thus reduced by EUR 900 thousand in the second quarter of 2007.

The contingencies disclosed in the 2006 consolidated financial statements were not subject to material changes in the first half of 2007.

In the second quarter of 2007 a production building at ElringKlinger AG's Runkel plant was completely destroyed by fire. The damage caused by the fire is covered by insurance, both in terms of property-related damage and damage due to the interruption of business operations.

Property-related damage relates to non-current assets and inventories. The non-current assets are insured at the reinstatement value, i. e. the value when new. The inventories are insured on the basis of the cost of manufacture (work in progress) or the sale price less costs not incurred (finished goods).

An impairment charge for the full amount (EUR 3,640 thousand) was recognized in connection with the residual book values, i. e. the carrying amounts, of the non-current assets damaged. It was accounted for in other operating expenses. An amount of EUR 3,200 thousand was recognized in other operating expenses to account for the impairment of the affected inventories as well as the expenses related to necessary repairs, additional staff costs and other expenses.

The estimated reimbursements for damage caused to property and the interruption of business operations amount to approx. EUR 11,500 thousand in the period under review, having accounted for the policy-related deductibles. The aforementioned amount has been allocated to other operating income. Pre-payments received by the insurer in the second quarter amounted to EUR 4,500 thousand.

The damage caused has yet to be remedied fully and settlement of the insurance claim has not yet been completed. At present, it would appear likely that this process will take several months, and therefore the overall damage caused, particularly as a result of interruptions to business operations, will not be fully calculable until that period in time.

Related Party Disclosures

Business transactions between the parent company and its subsidiaries, considered to be related parties, were eliminated as part of the consolidation process and have not been further outlined in these notes.

In addition, there are business relations between companies within the ElringKlinger Group and related persons or entities controlled by related persons. These are as follows:

- General supply agreement for soft materials between Richard Klinger Dichtungstechnik GmbH & Co. KG, Gumpoldskirchen (Austria) and the ElringKlinger Group
- Supply of sealing material by Klinger AG, Egliswil (Switzerland), to the ElringKlinger Group
- Rental agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva (Hungary), and Lechler Kft., Kecskemét-Kádafalva (Hungary)
- Agreement between ElringKlinger Logistic Service GmbH, Rottenburg/Neckar, and Lechler GmbH, Metzingen, regarding assembly operations and storage of components

All aforementioned business transactions are conducted on the basis of the at-arms-length principle.

Responsibility statement in accordance with Section 37y WpHG in conjunction with Section 37w (2) No. 3 WpHG

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Dettingen/Erms August 9, 2007

The Management Board

Dr. Stefan Wolf	Theo Becker	Karl Schmauder

Disclaimer – Forward-looking Statements and Predictions

This report contains statements about the future. These statements are based on current expectations, market evaluations and predictions by the Management Board, and on information that is currently available to them. The statements about the future should not be interpreted as guarantees of the future developments and results that they refer to. Whilst the Management Board are convinced that the statements that have been made, and the convictions and expectations on which they are based, are realistic, they rely on suppositions that may conceivably prove to be incorrect; future results and developments are dependant on a multitude of factors, they involve various risks and imponderabilities that can affect whether the ongoing development deviates from the expectations that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

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

Calendar

IAA International Motor Show (Frankfurt)	September 13–23, 2007
Engine Trade Show “Motoren-Kolloqium Aachen”	October 8–10, 2007
Equip Auto (Paris)	October 15–20, 2007
Interim Report on the 3rd Quarter of 2007	November 8, 2007
German Equity Forum (Frankfurt)	November 12–14, 2007
International Automotive Transmission Symposium Berlin	December 3–6, 2007
Auto Expo (New Delhi, India)	January 10–17, 2008
Financial Press Conference	March 31, 2008
Analysts’ Conference	March 31, 2008
103rd Annual General Shareholder Meeting Cultural and Congress Centre Liederhalle, Stuttgart, Hegelsaal, 10.00 CET	May 30, 2008

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+49 (0)71 23/724-631

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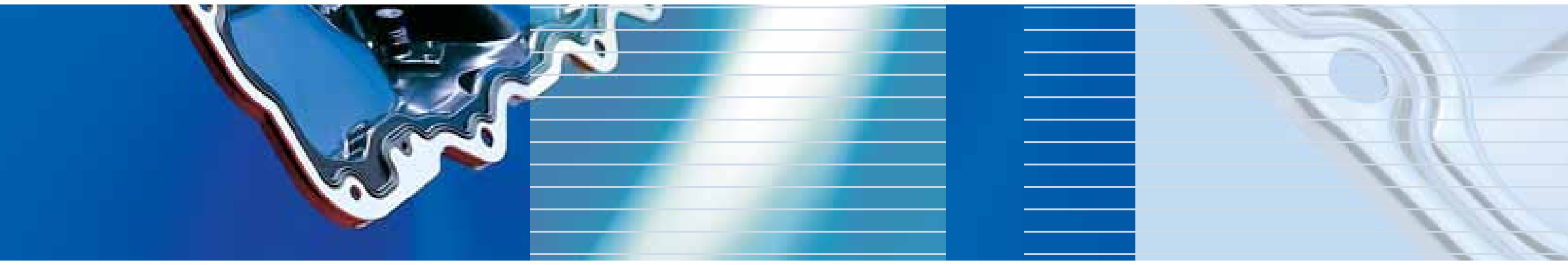

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