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Financial Statements of ElringKlinger AG 2007



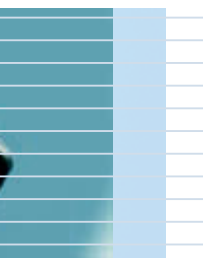
## Developing the Future.



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

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## ElringKlinger AG Balance Sheet as at December 31, 2007

ASSETS	Dec. 31, 2007	Dec. 31, 2006
	EUR '000	EUR '000
<b>Fixed assets</b>		
Intangible fixed assets	1,295	1,203
Tangible fixed assets	154,432	125,535
Financial assets	154,204	147,068
	<b>309,931</b>	<b>273,806</b>
<b>Current assets</b>		
Inventories	68,036	49,182
Receivables and other assets	85,230	69,659
Cash in hand and bank balances	172	266
	<b>153,438</b>	<b>119,107</b>
<b>Prepaid and deferred expenses</b>	<b>175</b>	<b>74</b>
	<b>463,544</b>	<b>392,987</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Dec. 31, 2007	Dec. 31, 2006
	EUR '000	EUR '000
<b>Shareholders' Equity</b>		
Share capital	57,600	57,600
Capital reserve	2,747	2,747
Revenue reserves	149,552	132,889
Retained earnings	26,880	24,000
	<b>236,779</b>	<b>217,236</b>
<b>Untaxed Special Reserve</b>	<b>5,930</b>	<b>0</b>
<b>Provisions</b>		
Provisions for pensions	37,423	36,723
Provisions for taxes	3,375	1,570
Other provisions	31,260	25,575
	<b>72,058</b>	<b>63,868</b>
<b>Liabilities</b>	<b>148,777</b>	<b>111,883</b>
	<b>463,544</b>	<b>392,987</b>

## ElringKlinger AG Income Statement for the period from January 1 to December 31, 2007

	2007	2006
	EUR '000	EUR '000
Sales	396,268	344,023
Change in inventories of finished goods and work in progress	6,089	2,205
Other own work capitalized	6,589	7,498
Other operating income	28,745	11,727
Cost of materials	-180,279	-138,710
Personnel expenses	-94,497	-86,427
Amortization and depreciation on intangible fixed and tangible fixed assets	-34,456	-31,698
Other operating expenses	-61,801	-48,737
Income from affiliated companies	4,127	3,235
Net interest result	-2,097	-3,101
<b>Income from ordinary activities</b>	<b>68,688</b>	<b>60,015</b>
Taxes on income	-24,673	-15,902
Other taxes	-472	-143
<b>Net income</b>	<b>43,543</b>	<b>43,970</b>
Transfer to other revenue reserves	-16,663	-19,970
<b>Retained earnings</b>	<b>26,880</b>	<b>24,000</b>

## Notes to the financial statements for the year 2007

### General statements

The financial statements of ElringKlinger AG, Dettingen/Erms, are prepared in accordance with the provisions of the German stock corporation act and the German commercial code that apply for large-sized 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 itemized these amounts in the notes. Moreover, all annotations required by law for items of the balance sheet and the income statement have been included in the notes and amended with supplementary comments.

### Accounting and valuation principles

#### Fixed assets

Additions to intangible fixed assets, tangible fixed assets and financial assets are recognized at acquisition or manufacturing costs. The manufacturing costs include direct material and production costs as well as the overhead cost and the amortization and depreciation as specified for obligatory capitalization by German tax law.

Assets with finite useful lives are depreciated using the highest rates allowed under German tax law and the expected life times are taken from the fiscal amortization tables.

Intangible assets are amortized and buildings and land improvements are depreciated using the pro rata straight-line method or declining rates permitted under German tax law.

Technical equipment and machines as well as other machines, furniture and fixtures are, where permissible, depreciated using the declining balance sheet method as long as this method results in higher depreciation charges compared to the straight-line method.

If necessary or permissible, impairments are made and depreciations allowed under German tax law are made.

The impairment tests for shares in affiliated companies and participations are based on annual valuations. These valuations reflect the capitalized earnings value calculated by using the mid-term budgets for each shareholding. In addition, the calculations assume that the result of the last mid-term planning period is perpetuity. If the carrying value of an asset exceeds its capitalized earnings value, impairment is recorded.

If the reasons for impairments are no longer applicable, the impairment charges are reversed but the write-up is to historical cost less scheduled depreciation at the maximum.

#### Current assets

Current assets are recognized at acquisition or manufacturing costs or, if lower, their fair value as of the balance sheet date. Raw materials, supplies & consumables as well as merchandise are measured at their average acquisition costs. Partially values used for a 3-years-period are used.

The valuation of the finished products and work in progress includes direct cost of the goods and adequate allocations of the necessary material and production overhead cost. The overhead costs are determined at the minimum amounts required by German tax law. If replacement costs are lower than purchase or manufacturing cost, these lower replacement cost are recognized. Impairment charges are recorded due to obsolescence for slow moving goods, the quality of goods and due to lower net realisable values.

Valuation adjustments are set up for individual risks to receivables and other assets. The general credit risk is taken into account through a flat rate valuation adjustment.

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

Liquid funds are valued at nominal amounts.

#### Untaxed special reserve

Untaxed special reserves are recorded if permissible.

#### Provisions and liabilities

Provisions for pensions are recognized in full at the entry age value determined on actuarial principles using an interest rate of 6% and applying the mortality tables 2005 Gestablished by Prof. Dr. Klaus Heubeck.

In accordance with the IDW Accounting Standard IDW RS HFA 3: Accounting of obligations arising from partial retirement schemes under IAS and German GAAP, the provision for obligations arising from partial retirement agreements includes both, (i) the indemnification credits for wages and salaries and (ii) the benefit increases and severances for the maturity period of the employees partial retirement. The provisions for benefit increases and severances are set up for partial retirement contracts agreed as at the balance sheet date and – based on an agreement with the workers council – for partial retirement contracts that have to be accepted prospectively during the term of the agreement with the workers council.

The provisions are established for all recognizable risks, for onerous contracts and contingent liabilities are measured in accordance with the judgement of a reasonable business person as a measure.

Liabilities are recognized at their repayment amounts.

#### Foreign currency items and currency translation

Receivables and payables in foreign currency are measured at the rate when incurred. Losses from unfavourable changes in exchange rates as at the balance sheet date are recognized.

## Explanations in relation to the balance sheet

#### Fixed assets

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

Financial assets include shares in affiliated companies, participations, loans and securities.

## Changes in fixed assets as at December 31, 2007

### Acquisition and Construction Cost

	Jan. 1, 2007	Additions	Reclassifi- cations	Disposals	Dec. 31, 2007
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
<b>I. Intangible fixed assets</b>					
Patents, licences	18,139	750	0	5	18,884
<b>II. Tangible fixed assets</b>					
1. Property and buildings	110,619	5,698	-55	1,982	114,280
2. Technical equipment and machines	172,940	29,569	8,470	8,582	202,397
3. Other machines, furnitures and fixtures	95,853	2,316	67	2,346	95,890
4. Advance payments and fixed assets under construction	8,572	25,383	-8,482	16	25,457
	<b>387,984</b>	<b>62,966</b>	<b>0</b>	<b>12,926</b>	<b>438,024</b>
<b>III. Financial assets</b>					
1. Shares in affiliated companies	128,972	10,952	0	0	139,924
2. Loans in affiliated companies	26,465	9,037	0	7,564	27,938
3. Participations	5,430	0	0	0	5,430
4. Non-current securities	625	213	0	216	622
5. Other financial investments	24	25	0	8	41
	<b>161,516</b>	<b>20,227</b>	<b>0</b>	<b>7,788</b>	<b>173,955</b>
	<b>567,639</b>	<b>83,943</b>	<b>0</b>	<b>20,719</b>	<b>630,863</b>



## Accumulated amortization and depreciation

## Net carrying value

Jan. 1, 2007	Charge in year	Disposals	Reclassifi- cations	Write-ups	Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2006
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
16,936	658	5	0	0	17,589	1,295	1,203
60,869	2,989	1,933	-24	0	61,901	52,379	49,750
111,275	28,888	8,538	24	0	131,649	70,748	61,665
90,305	1,905	2,168	0	0	90,042	5,848	5,548
0	16	16	0	0	0	25,457	8,572
<b>262,449</b>	<b>33,798</b>	<b>12,655</b>	<b>0</b>	<b>0</b>	<b>283,592</b>	<b>154,432</b>	<b>125,535</b>
12,563	6,700	0	0	2,200	17,063	122,861	116,409
1,881	1,674	310	0	559	2,686	25,252	24,584
0	0	0	0	0	0	5,430	5,430
4	2	1	0	3	2	620	621
0	0	0	0	0	0	41	24
<b>14,448</b>	<b>8,376</b>	<b>311</b>	<b>0</b>	<b>2,762</b>	<b>19,751</b>	<b>154,204</b>	<b>147,068</b>
<b>293,833</b>	<b>42,832</b>	<b>12,971</b>	<b>0</b>	<b>2,762</b>	<b>320,932</b>	<b>309,931</b>	<b>273,806</b>

## Schedule of shareholdings as at December 31, 2007

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

HB I Shareholders' equity in LC '000	HB I Profit/Loss in LC '000	Local currency (LC)	Exchange rate <sup>1)</sup> on closing date	HB I Shareholders' equity in EUR '000	HB I Profit/Loss in EUR '000	Most recent financial statements
64	-9	EUR	100.0000	64	-9	31.12.2007
2,322	365	EUR	100.0000	2,322	365	31.12.2007
760	441	EUR	100.0000	760	441	31.12.2007
21,954	8,162	EUR	100.0000	21,954	8,162	31.12.2007
5,735	384	GBP	136.1100	7,806	523	31.12.2007
1,640	442	EUR	100.0000	1,640	442	31.12.2007
1,765,708	240,602	HUF	0.3968	7,006	955	31.12.2007
2,566	393	EUR	100.0000	2,566	393	31.12.2007
1,601	371	GBP	136.1100	2,179	505	31.12.2007
7,236	2,039	EUR	100.0000	7,236	2,039	31.12.2007
27,026	8,902	CAD	69.2042	18,703	6,161	31.12.2007
2,445	2,022	USD	67.9440	1,661	1,374	31.12.2007
171,064	-5,838	MXN	6.2352	10,666	-364	31.12.2007
17,141	2,357	MXN	6.2352	1,069	147	31.12.2007
38,122	7,764	BRL	38.1563	14,546	2,962	31.12.2007
1,943	217	USD	67.9440	1,320	147	31.12.2007
7,582	1,819	ZAR	9.9701	756	181	31.12.2007
154,133	-5,312	INR	1.7283	2,664	-92	31.12.2007
113,523	24,681	CNY	9.3028	10,561	2,296	31.12.2007
533	0	CNY	9.3028	50	0	31.12.2007
6,624,483	126,533	KRW	0.0726	4,809	92	31.12.2007
22,116	3,734	JPY	0.6057	134	23	31.12.2007
4,416,860	79,675	JPY	0.6057	26,753	483	31.7.2007

<sup>1)</sup>100 units local currency as at balance sheet date

## Current assets

### Inventories

	Dec. 31, 2007	Dec. 31, 2006
	EUR '000	EUR '000
Raw materials, consumables and supplies	20,555	14,045
Work in progress	6,573	5,845
Finished goods and merchandise	37,789	29,104
Prepayments	3,119	188
	<b>68,036</b>	<b>49,182</b>

### Accounts receivable and other assets

	Dec. 31, 2007	Dec. 31, 2006
	EUR '000	EUR '000
Trade receivables	52,221	45,242
Receivables from affiliated companies	15,722	15,725
Receivables from participations	3,189	803
Other assets	14,098	7,889
	<b>85,230</b>	<b>69,659</b>

The trade receivables have remaining terms of less than one year (p.y. EUR '000 12 more than one year). Receivables from affiliated companies include EUR '000 5,050 (p.y. EUR '000 9,321) relating to financial transactions and the rest to trade. Unchanged to the previous year the receivables from participations relate to trade. Other assets include EUR '000 4,836 (p.y. EUR '000 5,336) with a residual term of more than one year.

Other assets comprise insurance compensations in the amount of EUR '000 3,728 (p.y. EUR '000 0).

## 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 authorized capital was approved to EUR '000 28,800. The Management Board is entitled, under precondition of approval by the Supervisory Board to call this capital in until June 15, 2010.

An amount of EUR '000 16,663 was transferred from the net profit for 2007 to other revenue reserves.

As at December 31, 2007, the revenue reserves comprise a reserve required by the provisions of the German stock companies Act amounting to EUR '000 3,013 (p.y. EUR '000 3,013) and other revenue reserves of EUR '000 146,539 (p.y. EUR '000 129,876).

The **retained earnings** developed as follows:

	EUR '000
Retained earnings as at December 31, 2006	24,000
Profit distribution for 2006 (EUR 1.00 per share)	-24,000
<b>Profit brought forward</b>	<b>0</b>
Net profit for 2007	43,543
Appropriation to other revenue reserves	-16,663
<b>Retained earnings at December 31, 2007</b>	<b>26,880</b>

#### Untaxed special reserve

The untaxed special reserve concerns planned investments to replace buildings and machines as a consequence of the fire at Runkel plant. This reserve has been recorded in accordance to R6.6 EStR.

#### Provisions

The other provisions relate to:

	Dec. 31, 2007	Dec. 31, 2006
	EUR '000	EUR '000
Relating to employees	13,995	14,126
Warranty obligations	6,191	5,828
Maintenance (§ 249 Sec. 2 HGB)	2,170	0
Losses in orders in hand	961	1,459
Litigation costs	278	420
Other risks	7,665	3,742
<b>Total</b>	<b>31,260</b>	<b>25,575</b>

The other risks mainly comprise outstanding purchase invoices and credit notes.

#### Liabilities

	Total amount as at Dec. 31, 2007	thereof with a remaining term			thereof secured	Total amount as at Dec. 31, 2006
		up to one year	from one up to five years	more than five years		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Bank debts	98,046	41,248	15,111	41,687	12,361	68,699
Prepayments received	190	190	0	0	0	309
Trade payables	21,065	21,065	0	0	0	14,615
Payables to affiliated companies	1,453	1,453	0	0	0	1,401
Other liabilities	28,023	15,688	12,335	0	0	26,859
	<b>148,777</b>	<b>79,644</b>	<b>27,446</b>	<b>41,687</b>	<b>12,361</b>	<b>111,883</b>

Bank debts include EUR '000 12,361 that are secured by mortgage on own property. The other liabilities are unsecured, except for the reservation of title until the purchase price payment with respect to trade payables.

Of the liabilities to affiliated companies, EUR '000 64 (p.y. 73) relate to financial transactions, and the rest to trade. EUR '000 55 (p.y. EUR '000 64) have a remaining term of more than one year.

Other liabilities include EUR '000 1,038 (p.y. EUR '000 1,366) relating to tax and EUR '000 195 (p.y. EUR '000 209) to social security charges.

## Explanations on the income statement

### Sales

Breakdown by geographical markets

	2007	2006
	EUR '000	EUR '000
Domestic	161,749	148,993
Foreign	239,731	199,356
<b>Gross sales</b>	<b>401,480</b>	<b>348,349</b>
Discounts, bonuses	-5,212	-4,326
<b>Total sales</b>	<b>396,268</b>	<b>344,023</b>

In terms of areas of activity, sales of EUR '000 308,366 (p.y. EUR '000 266,293) relate to OEM deliveries, EUR '000 83,194 (p.y. EUR '000 73,036) to spare parts and EUR '000 4,708 (p.y. EUR '000 4,694) to the lease of property.

### Other operating income

The other operating income relates to out-of-period income of EUR '000 2,455 (p.y. EUR '000 610). This is comprised mainly of income from the release of provisions (EUR '000 2,217, p.y. EUR '000 408) and gains on disposals of fixed assets (EUR '000 238, p.y. EUR '000 185).

Furthermore the other operating income contains income of insurance benefits for the fire at Runkel plant in the amount of EUR '000 14,339 (p.y. EUR '000 0).

### Cost of materials

	2007	2006
	EUR '000	EUR '000
Expenses for raw materials, supplies & consumables and for merchandise	164,025	126,988
Expenses for purchased services	16,254	11,722
	<b>180,279</b>	<b>138,710</b>

### Personnel expense

	2007	2006
	EUR '000	EUR '000
Wages and salaries	77,119	69,960
Social security charges and expenses for retirement pensions	17,378	16,467
– of which, for retirement pensions –	(3,494)	(3,534)
	<b>94,497</b>	<b>86,427</b>

### Amortization & depreciation

The amortization & depreciation of the financial year 2007 includes EUR '000 3,765 (p.y. EUR '000 1,969) in non-scheduled amortization & depreciation of intangible assets. It contains depreciation on buildings and machines in the amount of EUR '000 2,165 due to the fire at Runkel plant. Extraordinary depreciation in the amount of EUR '000 1,512 have been taken for the disposition of balance sheet reserves on assets of replaced assets.

### Other operating expenses

The other operating expenses include out-of-period items of EUR '000 280 (p.y. EUR '000 98) from the disposal of fixed assets (EUR '000 269) and from defaults on receivables (EUR '000 11). Furthermore they contain EUR '000 5,930 (p.y. EUR '000 0) of the induction to untaxed special reserves.

### Income from affiliated companies

	2007	2006
	EUR '000	EUR '000
Income from affiliated companies	8,627	8,890
Appreciations on financial assets	2,200	0
Writedowns on financial assets	-6,700	-5,655
	<b>4,127</b>	<b>3,235</b>

Of the income from affiliated companies, EUR '000 8,620 (p.y. EUR '000 8,881) is derived from affiliated companies.

### Net interest result

	2007	2006
	EUR '000	EUR '000
Income from other securities and loans of financial assets	2,010	1,374
Other interest and similar income	419	475
Appreciations on loans and securities	562	0
Depreciations on loans and securities	-1,676	-1,884
Interest and similar expenses	-3,412	-3,066
	<b>-2,097</b>	<b>-3,101</b>

The interest result includes income from loans of financial assets to affiliated companies of EUR '000 1,990 (p.y. EUR '000 1,355), interest income from affiliated companies in the amount of EUR '000 248 (p.y. EUR '000 379) and interest expense to affiliated companies of EUR '000 147 (p.y. EUR '000 149).

### Tax on income

The tax on income includes EUR '000 106 of expenses relating to other periods. The tax on income includes out-of-period income of EUR '000 5,342 therefrom EUR '000 5,336 relate to the capitalization of corporate tax credits.

### Other taxes

The other taxes include tax expenses relating to other periods amounting to EUR '000 309 (p.y. EUR '000 -19).

### Contingent liabilities

There are contingent liabilities from the issue and transfer of bills in the amount of EUR '000 135 (p.y. EUR '000 436), from sureties granted and guarantees of contract fulfilment in the amount of EUR '000 1,375 (p.y. EUR '000 1,684), of which on behalf of affiliated companies EUR '000 1,315 (p.y. EUR '000 1,625).

ElingKlinger 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.

ElingKlinger 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:

	2007	2006
Workers	1,065	997
Salaried staff	531	509
	1,596	<b>1,506</b>
Apprentices	61	61
	<b>1,657</b>	<b>1,567</b>

### Derivative financial instruments

As at the balance sheet date, December 31, 2007, there were the following financial derivatives that serve exclusively to hedge risks arising from changes in interest 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
<b>Interest-related derivatives</b>			
Interest swap	-57	-57	-57
<b>Derivatives relating to raw materials</b>			
Accrual swap	-66	-66	-66
<b>Derivatives relating to raw exchange rate</b>			
Foreign exchange contract	16	-1	-1
	<b>-107</b>	<b>-124</b>	<b>-124</b>

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

Dr. Thomas Klinger-Lohr,  
Egliswil/Switzerland

President of the board

Dr. Klinger-Lohr is a member of the advisory or administrative council, as the case may be, of the following subsidiaries of Betal Netherland Holding B.V., Rotterdam, Netherlands, of which holding company he is also the managing director:  
Klinger Holding Plc., Sidcup, United Kingdom;  
Klinger Holding Austria GmbH, Gumpoldskirchen, Austria;  
Klinger S.p.A., Mazzo di Rho, Italy;  
Saidi, Madrid, Spain;  
Klinger AG, Egliswil, Switzerland;  
Klinger Finland OY, Masala, Finland;  
Uni Klinger Ltd., Mumbai, India; and  
Armiag AG, Glarus, Switzerland

Manfred Rupp, Pfullingen,  
Employee Representative

Chairman of the works council of ElringKlinger AG

Markus Siegers, Altbach,  
Employee Representative

Deputy chairman of the works council of ElringKlinger AG

Manfred Strauß, Stuttgart

Managing director

Member of the advisory council in the Pro Stuttgart Verkehrsverein

#### Remuneration of the supervisory board

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

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	38,000 (36,000)	45,962 (36,000)	83,962 (72,000)
Walter Herwarth Lechler	28,500 (27,000)	34,471 (27,100)	62,971 (54,000)
Gert Bauer	15,000 (14,000)	22,981 (18,000)	37,981 (32,000)
Dr. Rainer Hahn	15,000 (14,000)	22,981 (18,000)	37,981 (32,000)
Karl-Uwe van Husen	19,000 (22,981)	22,981 (18,000)	41,981 (36,000)
Dr. Thomas Klinger-Lohr	18,000 (18,000)	22,981 (18,000)	40,981 (36,000)
Manfred Rupp	15,000 (14,000)	22,981 (18,000)	37,981 (32,000)
Markus Siegers	15,000 (10,500)	22,981 (13,500)	37,981 (24,000)
Manfred Strauß	15,000 (14,000)	22,981 (18,000)	37,981 (32,000)
Walter Greiner (until March 31, 2006)	0 (3,500)	0 (4,500)	0 (8,000)
<b>Total</b>	<b>178,500 (169,000)</b>	<b>241,300 (189,000)</b>	<b>419,800 (358,000)</b>

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

The difference between the provision for the variable remuneration for the financial year 2006 and the amounts actually paid was EUR '000 4,999.78. This amount is included in the other operating income.

#### Management board

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

#### Remuneration of the management board

The remuneration of the management board in the financial year 2007 totalled EUR '000 3,211 (p.y. EUR '000 2,908). This is composed of fixed (EUR '000 750; p.y. EUR '000 733) and variable (EUR '000 2,462; p.y. EUR '000 2,175) parts. The variable parts are composed of the results-related remuneration for the financial year 2007 in the amount of EUR '000 1,223 (p.y. EUR '000 991) and long-term results-dependent bonuses relating to the company value in the amount of EUR '000 1,239 (p.y. EUR '000 1,184).

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	301,854.27 (288,671.05)	555,711.94 (449,904.62)	496,790.98 (479,107.09)	1,354,357.19 (1,217,682.76)
Theo Becker	226,248.96 (226,171.93)	333,426.30 (270,012.00)	365,093.24 (345,095.76)	924,768.50 (841,279.69)
Karl Schmauder	221,494.15 (218,280.08)	333,426.30 (271,232.77)	377,093.24 (359,329.81)	932,013.69 (848,842.66)
<b>Total</b>	<b>749,597.38</b>	<b>1,222,564.54</b>	<b>1,238,977.46</b>	<b>3,211,139.38</b>
<b>Total</b>	<b>(733,123.06)</b>	<b>(991,149.39)</b>	<b>(1,183,532.66)</b>	<b>(2,907,805.11)</b>

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

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

Provisions of EUR '000 8,873 (p.y. EUR '000 8,825) have been set up for pension obligations to former members of the management board, the management of merged companies and their surviving dependants. The total remuneration of former members of the management board – including remuneration of former members of corporate bodies of merged companies – came to EUR '000 810 (p.y. EUR '000 862) in the financial year 2007.

The fees of the auditor were:

	2007	2006
	EUR '000	EUR '000
Audit of the financial statements	263	219
Other confirmatory performances	3	3
Other services	24	71
	<b>290</b>	<b>293</b>

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

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

### 1. Voting rights notification

Details of the party required to give notice:

Name: Lieselotte Lechler

Country: Germany

Published on April 30, 2007

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

#### 1. Klaus Lechler

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

#### 2. Lieselotte Lechler

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

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

- Elgarta GmbH
- EROCA AG
- Klaus Lechler Beteiligungs GmbH

### 2. Voting rights notification

Details of the party required to give notice:

Name: Threadneedle Asset Management Limited

Place: London

Country: United Kingdom

Published on April 30, 2007

Threadneedle Investments informed us as follows:

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

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

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

### 3. Voting rights notification

Details of the party required to give notice:

Name: Lechler GmbH, and others

Place: Metzingen

Country: Germany

Published on May 7, 2007

Parties required to give notice:

#### 1. Lechler GmbH (formerly Lechler GmbH & Co. KG), Metzingen, Germany

#### 2. Walter Herwarth Lechler, Germany

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

”On behalf of Lechler GmbH, Metzingen, Germany, and Mr Walter Herwarth Lechler, Germany, we inform you pursuant to § 41 para. 2 and § 21 para. 1 WpHG (in the respective current version) for the purpose of correction and supplement to notifications made in the past by the parties required to give notice as follows:

#### 1. Lechler Verwaltungs GmbH, Metzingen, Germany:

a) The voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG (formerly ZWL Grundbesitz- und Beteiligungs- AG) at July 31, 1998 exceeded the threshold of 5% and amounted to 6,94% (332.920 voting rights). These voting rights were in the percentage of 6,94% (332.920 voting rights) attributable to Lechler Verwaltungs GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding with § 22 para. 1 No. 2 WpHG valid on July 31, 1998).

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

- Lechler GmbH & Co. KG (today: Lechler GmbH).

b) The percentage of voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG at November 21, 2001, exceeded the threshold of 10% and amounted to 12,06% (578.720 voting rights). The voting rights were in the percentage of 6,94% (332.920 voting rights) attributable to Lechler Verwaltungs GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding with § 22 para. 1 No. 2 WpHG valid on November, 21, 2001).

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

- Lechler GmbH & Co. KG (today: Lechler GmbH).

d) The percentage of voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG at April 1, 2002 amounted to 12,06% (578.720 voting rights). These voting rights were in the percentage of 6,94% (332.920 voting rights) attributable to Lechler Verwaltungs GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

- e) The voting rights, which are attributable to Lechler Verwaltungs GmbH, are held by the following company that is controlled by it and hold 3% or more of the voting rights in ElringKlinger AG:
  - Lechler GmbH & Co. KG (today: Lechler GmbH).
- f) The percentage of voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG at April 4, 2002 fell below the threshold of 10% amounted to 5,12% (245.800 voting rights).
- g) The percentage of voting rights of Lechler Verwaltungs GmbH in ElringKlinger AG at April 4, 2002 fell below the threshold of 5% and amounted to 3,38% (162.005 voting rights).
- h) Lechler Verwaltungs GmbH was merged in Lechler GmbH without winding up pursuant to §§ 2 ff. UmwG at November 28, 2003 (entry date of filing in the trade register of Lechler GmbH).

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

- a) The percentage of voting rights of Lechler GmbH (formerly Lechler GmbH & Co. KG) in ElringKlinger AG at April 1, 2002, amounted to 6,94% (332.920 voting rights).
- b) The percentage of voting rights of Lechler GmbH in ElringKlinger AG at November 28, 2003 exceeded the threshold of 10% and amounted to 10,00% (480.000 voting rights).
- c) Today, at May 3, 2007, the percentage of voting rights of Lechler GmbH in ElringKlinger AG amounts as it was to 10% (1.920.000 voting rights).

## 3. Walter Herwarth Lechler, Germany:

- a) The percentage of voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG on April 1, 2002 amounted to 27,26% (1.308.620 voting rights). These voting rights were in the percentage of 12,06% (578.720 voting rights) attributable to Mr Walter Herwarth Lechler) pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

The voting rights, attributable to Mr Walter Herwarth Lechler, were held by the following companies that were controlled by him and hold 3% or more of the voting rights in ElringKlinger AG:

- Lechler GmbH & Co. KG (today: Lechler GmbH),
- Lechler Verwaltungs GmbH.

- b) The percentage of voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG at September 2, 2003, fell below the threshold of 25% and amounted to 24,89% (1.194.825 voting rights). These voting rights were in the percentage of 10,31% (494.925 voting rights) attributable to Mr Walter Herwarth Lechler) pursuant to § 22 para. 1 sent 1 No. 1 WpHG.

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

- Lechler GmbH & Co. KG (today: Lechler GmbH),
- Lechler Verwaltungs GmbH.

- c) The percentage of voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG exceeded the threshold of 25% on July 4, 2005 and amounted to 25,31% (2.429.650 voting rights). These voting rights were in the percentage of 10,10% (969.850 voting rights) attributable to Mr Walter Herwarth Lechler pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

The voting rights, which were attributable to Mr Walter Herwarth Lechler, were held by the following company that was controlled by him and hold 3% or more of the voting rights in ElringKlinger AG:

- Lechler GmbH.



d) The percentage of the voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG at December 6, 2006, fell below the threshold of 25% and amounted to 24,61% (4.724.600 voting rights). These voting rights were in the percentage 10,00% (1.920.000 voting rights) attributable to Mr Walter Herwarth Lechler pursuant to § 22 para. 1 sent. 1 No. 1 WpHG.

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

- Lechler GmbH.

e) Today, at May, 3 2007, the percentage of voting rights of Mr Walter Herwarth Lechler in ElringKlinger AG amounts just as it was to 24,61% (4.724.600 voting rights). These voting rights are in the percentage of 10,00% (1.920.000 voting rights) attributable to Mr Walter Herwarth Lechler pursuant to § 22 Abs. 1 Satz 1 Nr. 1 WpHG.

The voting rights, which are attributable to Mr Walter Herwarth Lechler, are hold by the following company that is controlled by him and holds at least 3% or more in ElringKlinger AG:

- Lechler GmbH.“

#### 4. Voting rights announcement

Details of the parties required to give notice:

Name: Elgarta GmbH, and others

Place: Basel

State: Switzerland

Published on May, 7, 2007

Parties required to make the notification:

1. **Elgarta GmbH, Basel, Switzerland**
2. **Eroca AG, Basel, Switzerland**
3. **Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany**
4. **Lechler Beteiligungs- GmbH, Ludwigsburg, Germany**
5. **Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany**
6. **INLOVO GmbH, Ludwigsburg, Germany**
7. **Frau Lieselotte Lechler, Germany**

ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen / Erms, Deutschland, received the following notification pursuant to § 41 para. 2 and § 21 para. 1 WpHG from Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

”On behalf of Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany, and on behalf of the following companies and Mrs Lieselotte Lechler, we inform you pursuant to § 41 Abs. 2 and § 21 Abs. 1 WpHG (in the respective current version) for the purpose of correction and supplementary to notifications made in the past by the parties required to give notice as follows:

##### 1. Elgarta GmbH, Basel, Switzerland:

- a) The percentage of voting rights of Elgarta GmbH in ElringKlinger AG at April 1, 2002, amounted to 13,25% (635.878 voting rights).
- b) Today, May 3, 2007, the percentage of voting rights of Elgarta GmbH in ElringKlinger AG amounts to 10,004% (1.920.712 voting rights).

##### 2. Eroca AG, Basel, Switzerland:

- a) The percentage of voting rights of Eroca AG in ElringKlinger AG at April 1, 2002, amounted to 13,25% (635.878 voting rights). These voting rights were in the percentage of 13,25% (635.878 voting rights) attributable to Eroca AG pursuant to § 22 para. 1 sent. 1 No.1 WpHG.



- b) The voting rights, which were attributable to Eroca AG, were held by the following company that was controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:
- Elgarta GmbH.
- c) Today, May 3, 2007, the percentage of voting rights of Eroca AG in ElringKlinger AG amounts to 10,004% (1.920.712 voting rights). These voting rights are entirely attributable to Eroca AG pursuant to § 22 para. 1 sent. 1 no. 1 WpHG.
- d) The voting rights, which are attributable to Eroca AG, are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:
- Elgarta GmbH.

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

- a) The percentage of voting rights of Klaus Lechler Beteiligungs- GmbH in ElringKlinger AG at May 8, 2002, exceeded the thresholds of 5% and 10% and amounted to 10,35% (496.678 voting rights). These voting rights were entirely attributable to Klaus Lechler Beteiligungs- GmbH pursuant to § 22 para. 1 sent. 1 no. 1 WpHG. The voting rights, which were attributable to Klaus Lechler Beteiligungs- GmbH, were held by the following companies that were controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:
- Elgarta GmbH,
  - Eroca AG.
- b) Today, May 3, 2007, the percentage of voting rights of Klaus Lechler Beteiligungs- GmbH in ElringKlinger AG amounts to 10,02% (1.922.912 voting rights). These voting rights are in the percentage of 10,004% (1.920.712 voting rights) attributable to Klaus Lechler Beteiligungs- GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG. The voting rights, which are attributable to Klaus Lechler Beteiligungs- GmbH, are held by the following companies that are controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:
- Elgarta GmbH,
  - Eroca AG.

**4. Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:**

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

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

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



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

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

- Lechler Beteiligungs- GmbH.

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

#### **6. INLOVO GmbH, Ludwigsburg, Germany:**

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

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

- Lechler Beteiligungs- GmbH.

- b) Today, May 3, 2007, the percentage of voting rights of INLOVO GmbH in ElringKlinger AG amounts to 10,0003 % (1.920.048 voting rights). These voting rights are entirely attributable to INLOVO GmbH pursuant to § 22 para. 1 sent. 1 No. 1 WpHG. The percentage of voting rights, which are attributable to INLOVO GmbH, are held by the following company that is controlled by it and holds at least 3 % or more of the voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

#### **7. Klaus Lechler, Germany:**

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

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

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

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

- Lechler Beteiligungs- GmbH.

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

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

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

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

- Lechler Beteiligungs- GmbH.“

## 5. Voting rights announcement

Details about the person obligated to give notice:

Name: Elrena GmbH, and others

Place: Basel

State: Switzerland

Published on May 7, 2007

Parties required to give notice:

### 1. Elrena GmbH, Basel, Switzerland

### 2. Karl Uwe van Husen, Germany

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

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

#### 1. Karl Uwe van Husen, Germany:

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

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

#### 2. Elrena GmbH, Basel, Switzerland:

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

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

## 6. Voting rights announcement

Details of the party required to give notice:

Name: Threadneedle Asset Management Limited, and others

Place: London

Country: United Kingdom

Published on May 14, 2007

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

”Notification pursuant to § 21 para. 1 WpHG

Ladies and Gentlemen,

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

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

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

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

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

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

## 7. Voting rights announcement

Details of the party required to give notice:

Name: Prudential plc.

Place: London

Country: United Kingdom

Published on June, 13, 2007

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

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

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

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

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

Notification of voting rights in our own name

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

**8. Voting rights announcement**

Details of the party required to give notice:

Name: Prudential plc

Place: London

Country: United Kingdom

Published on September, 12, 2007

ElringKlinger received the following notification:

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

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

Notification of voting rights in our own name

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

**9. Voting rights announcement**

Details of the party required to give notice:

Name: Threadneedle Investment Services Limited, and others

Place: London

Country: United Kingdom

Published on September, 12, 2007

ElringKlinger AG received the following notification:

"Notification pursuant to § 21 para. 1 WpHG

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

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

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

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

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

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

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



## 10. Voting rights announcement

Details about the person obligated to give notice:

Name: Threadneedle Asset Management Limited

Place: London

Country: United Kingdom

Published on September 24, 2007

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

ElringKlinger received the following notification:

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

Ladies and Gentlemen,

The following notification is made in the names of Threadneedle Asset Management Limited, Threadneedle Asset Management Holdings Limited, both with registered seat in London, United Kingdom.

Please be advised that on 10 May 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany went above the threshold of 3% the total voting stocks of the company.

The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at 10 May 2007 amounted to 3.045% (584,660 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 10 May 2007 amounted to 3.045% (584,660 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG."

## 11. Voting rights announcement

Details of the party required to give notice:

Name: Threadneedle Investment Services Limited

Place: London

Country: United Kingdom

Published on October 10, 2007

"Notification pursuant to § 21 para. 1 WpHG

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

Please be advised that on 02 October 2007 the share of voting stocks of the Threadneedle Investment Services Limited in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Investment Services Limited in ElringKlinger AG at 02 October 2007 amounted to 2,992% (574,392 shares). These voting rights are in their entirety attributable to Threadneedle Investment Services Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

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

Please be advised that on 02 October 2007 the share of voting stocks of the Threadneedle Investment Funds ICVC in ElringKlinger AG went below the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Investment Funds ICVC in ElringKlinger AG at 02 October 2007 amounted to 2,992 % (574,392 shares). These voting rights are held by subfunds of Threadneedle Investment Funds ICVC.“

## 12. Voting rights announcement

Details of the party required to give notice:

Name: Threadneedle Asset Management Limited and others

Place: London

Country: United Kingdom

Published on October 16, 2007

ElringKlinger has received the following notification:

”Notification pursuant to § 21 para. 1 WpHG

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

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

Please be advised that on 08 October 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at 08 October 2007 amounted to 2,603 % (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 08 October 2007 amounted to 2,603% (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG.

The percentage of voting rights of Ameriprise Financial, Inc. in ElringKlinger AG at 08 October 2007 amounted to 2,718 % (521,799 shares). These voting rights are in their entirety attributable to Ameriprise Financial, Inc. pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG.“

## 13. Voting rights announcement

Details of the party required to give notice:

Name: New Star Asset Management

Place: London SW1X 7NE

Country: Great Britain

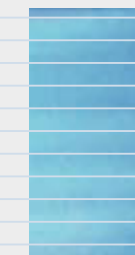
Published on February 22, 2008

We received the following notification from New Star Asset Management, Great Britain, on February 19, 2008:

”Notification pursuant to sec. 21 para. 1 WpHG

We hereby give notice, pursuant to sec. 21 para 1 of the WpHG, that on 18<sup>th</sup> February 2008 our voting interest in ElringKlinger AG fell below the threshold of 3% and amounts to 2.97 % (569,624 voting rights) on this day.

2.97% of the voting rights (569,624 voting rights) are attributable to us in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.“



### Statement of compliance with the German Corporate Governance Code

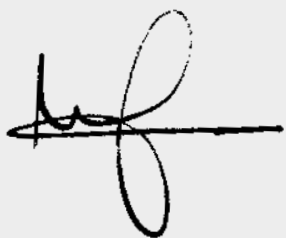
The management board and the supervisory board issued on December 6, 2007 a declaration of compliance pursuant to § 161 AktG on the German Corporate Governance Code and published it on the internet site of ElringKlinger AG on December 6, 2007. This declaration of compliance will be available on the Internet for the next five years and therewith made durably accessible to shareholders. It will be published in the Annual Report as part of the Corporate Governance Report.

### Proposal for the appropriation of profits

In agreement with the Supervisory Board, the Management Board proposes to the Shareholders' Meeting to appropriate the retained earnings as at December, 31 2007 amounting to EUR '000 26,880 to distribute a dividend of EUR 1.40 per share.

Dettingen/Erms, March 20, 2008

The Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder



## ElringKlinger AG Management Report for the 2007 Financial Year



### Macroeconomic Conditions and Business Environment

#### Global economy records stable growth

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

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

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

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

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

#### Conditions within automotive supply industry remain challenging

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

### **Global vehicle production and new registrations**

Global vehicle production figures rose by 5.1% to 69.7 (66.3) million units in 2007. The three established markets, i.e. Western Europe, the US and Japan, recorded a 1.7% decrease in car sales, from 36.0 million to 35.3 million units.

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

### **Weak demand for automobiles in Germany**

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

### **Year-on-year rise in European automobile production**

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

### **Significant market decline in North America**

Competition within the North American market was particularly pronounced during 2007, prompted mainly by the significant fall in demand for new vehicles. As a result, the market as a whole was dominated by overcapacity and a string of promotional campaigns involving price discounts. In total, 16.1 million cars and light commercial vehicles were sold in the US over the course of 2007, which corresponds to a year-on-year decline of 400,000 units or 2.8%. The weak demand for new vehicles also had a detrimental effect on production figures. Overall, US production of passenger cars and light commercial vehicles receded by 4.7%. Production for the NAFTA region as a whole stood at 15.5 million vehicles, a 3.0% decline compared with 2006.

### **Boom in South America**

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

### Commercial vehicle sector in Europe remains robust

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

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

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

### Diesel in the fast lane

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

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

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

### Diesel in North America

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

## Net Assets, Financial Position and Results of Operations

### Results of operations

#### Sales growth despite difficult market conditions

ElringKlinger AG succeeded in boosting sales by 15.2% to EUR 396.3 (344.0) million in the 2007 financial year. The double-digit increase was driven by robust demand for products within the existing portfolio. At the same time, the rigorous pursuit of the company's growth strategy made a tangible contribution. The international sales arena has



become increasingly important for ElringKlinger AG, with sales generated abroad accounting for 59.7% in 2007 (57.2%).

### **Strong growth in Original Equipment segment**

At parent company level, the Original Equipment segment recorded more pronounced growth in sales compared with the previous financial year. All business areas – Cylinder-Head Gaskets, Specialty Gaskets, Elastomer Technology/Modules and Shielding Technology – contributed to the year-on-year increase in sales. The significant forward momentum recorded in this segment was attributable mainly to new product rollouts, but also to more buoyant demand for products within the existing portfolio. As a result, the company was able to capture additional market share. In total, sales in the Original Equipment segment increased by 15.8% to EUR 308.4 (266.3) million in 2007.

The division responsible for the production of cylinder-head gaskets succeeded in extending its sales with the help of a new generation of gaskets featuring coined stopper systems. Cylinder-head gaskets for diesel cars and commercial vehicle engines generated significant growth. This more than offset the production cuts made by some US vehicle manufacturers as well as the downward trend associated with gasoline engines in Europe.

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

The Specialty Gaskets division also generated forward momentum, driven mainly by business in the area of transmission control systems and exhaust gaskets.

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

### **Significant gains in Aftermarket segment**

The Aftermarket segment expanded its sales by 13.9% to EUR 83.2 (73.0) million. The main contributory factors were improved product availability and an extended range of gasket sets.

Yet again, markets in the Middle East and South East Asia, as well as Africa and Eastern Europe proved to be the most prominent growth drivers. Sales growth within the Western European market for spare parts was more moderate.

### **Rental income from Industrial Parks remains stable**

The Industrial Parks segment, which encompasses sites in Ludwigsburg and Idstein, again generated rental income of EUR 4.7 million.

### **Surge in price of materials**

Earnings performance was influenced to a large extent by spiraling material costs and high energy prices. Prices for high-grade steel, but also for carbon steels, rose significantly. Price hikes were particularly strong with regard to alloy surcharges. The alloy surcharges for nickel surged to record highs in the second quarter of 2007. At approximately USD 54,000 USD/t, they were three times higher than at the beginning of 2006. The gradual reduction in nickel prices on the world's commodity futures exchanges,



witnessed from mid-2007 onward, has not yet filtered through fully to suppliers of high-grade steel. The weakening of the USD versus the Euro had a dampening effect on purchase prices. By contrast, sales generated by ElringKlinger with scrap metal have already been severely impacted by the aforementioned decline in prices, as the scrap metal price reacts directly to price reductions on the commodity exchanges.

The company was only able to pass on a part of the higher costs for raw and other materials to its customers. By directing more extensive investments toward automation and measures aimed at raising productivity levels, as well as by successfully hedging part of the nickel requirements with the help of derivative financial instruments, ElringKlinger AG managed to offset some of the effects associated with higher material prices. In 2007, without the use of such derivatives, the cost of materials would have been another EUR 7.2 million higher.

At the same time, however, the fire at ElringKlinger's plant in Runkel had a detrimental effect. The thus resulting interruption of operations meant that approx. EUR 1.4 million more had to be expended on services and external wage labor than in the previous financial year. Additionally, inventories destroyed by the fire had to be re-produced.

In total, the cost of materials grew faster than sales, surging by 30.0% to EUR 180.3 (138.7) million. The cost of materials as a percentage of sales stood at 45.5% (40.3%).

#### **Lower personnel expenses ratio**

In order to be able to counterbalance the rise in wage costs, ElringKlinger AG once again invested in several efficiency projects over the course of 2007. Personnel expenses rose by 9.3% to EUR 94.5 (86.4) million, i.e. slower than sales. As a result of further improvements to productivity, the personnel expenses ratio (personnel expenses in relation to sales) was cut from 25.1% a year ago to 23.8% in 2007.

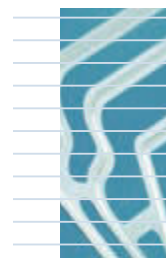
#### **Higher depreciation/amortization expense**

Amortization of intangible fixed assets and depreciation of tangible fixed assets, i.e. property, plant and equipment, rose by EUR 2.8 million to EUR 34.5 (31.7) million. The year-on-year increase was attributable on the one hand to more sizeable investments in buildings, machinery and plant and on the other by higher depreciation of tools purchased over the last two years in connection with several new production ramp-ups. Additionally, the fire at the company's Runkel plant necessitated special write-downs amounting to EUR 3.7 million.

The depreciation/amortization ratio (depreciation/amortization in relation to sales) stood at 8.7%, down on last year's figure of 9.2%. In 2006, depreciation/amortization expense had included a write-down of EUR 2.0 million in connection with a license for a single-layer cylinder-head gasket design concept purchased in 2003 and subsequently adjudged impaired.

#### **Impact of fire at Runkel plant**

A fire that broke out in one of the production buildings at ElringKlinger's Runkel plant in mid-April 2007 affected parts of the local cylinder-head gasket operations. Owing to the extent of the damage to the building, the entire complex had to be rebuilt. The interruption of operations resulted in a temporary reduction in productivity levels as well as additional expenses related to logistics. The company has sufficient insurance cover.



Expenses, write-downs and additional reserves recognized as a result of the fire amounted to EUR 15.7 million in total. This was due mainly to the higher cost of materials, the costs associated with repairs, impairment charges in connection with assets destroyed by the fire and systematic depreciation of newly purchased plant and machinery.

As the majority of the newly purchased plant and machinery will not be capitalized until 2008, a special replacement reserve in the amount of EUR 5.9 million was recognized. The creation of this replacement reserve resulted in a corresponding increase in other operating expenses. At the same time, other operating income increased by EUR 14.3 million as a result of compensation proceeds from the insurance company.

Other operating expenses rose by 26.8%, or EUR 13.1 million, to EUR 61.8 (48.7) million. The year-on-year increase was attributable to the aforementioned effects of the fire at Runkel as well as purchases of machinery for subsidiaries and affiliated companies amounting to EUR 4.1 (2.8) million; the corresponding proceeds from the sale of tangible fixed assets to subsidiaries and affiliated companies, amounting to EUR 4.5 (2.4) million, are accounted for in other operating income.

#### **Operating profit impacted by higher cost of materials**

Despite the disproportionately high increase in the cost of materials and the charges related to the fire in Runkel, operating profit (result from ordinary activities excluding net interest result and income from affiliated companies) rose by 11.3% to EUR 66.7 (59.9) million. The year-on-year improvement was driven by higher sales, productivity gains and the relatively minor increase in depreciation/amortization expense. The operating margin (operating profit as a percentage of sales) stood at 16.8%, compared with 17.4% a year ago.

#### **Higher income from affiliated companies**

After concluding the process of relocating production of metal-layer cylinder-head gaskets from Elring Klinger (Great Britain) Ltd., Redcar, to ElringKlinger AG and pursuing a consistent program of restructuring, a further EUR 6.7 million was written down in connection with this investment in 2007 on the back of write-downs totaling EUR 5.4 million in 2006. At December 31, 2007, the carrying amount of the investment in the UK subsidiary was EUR 11.3 million. The route taken by ElringKlinger was in direct response to changing market conditions in the British automobile industry. With the exception of a small group of Japanese manufacturers, the majority of the world's car makers no longer maintain production facilities in the United Kingdom.

Due to improved earnings prospects, the carrying amount related to the investment in ElringKlinger Sealing Systems (USA), Inc. was increased by EUR 1.5 million, while the carrying amount of the investment in Elring Klinger Motortechnik GmbH, Idstein, was adjusted upwards by EUR 0.7 million. Despite the aforementioned adjustments to carrying amounts, income from affiliated companies rose to EUR 4.1 (3.2) million.

#### **Improvement in net interest result**

After a negative net interest result of EUR 3.1 million in 2006, the net interest result posted by ElringKlinger AG improved to minus EUR 2.1 million in 2007. Currency-related write-downs of EUR 1.7 (1.9) million in connection with loans to subsidiary companies had an adverse effect on the net interest result.

### Higher income from ordinary activities

Due to the improved net interest result and income from affiliated companies, income from ordinary activities grew at a faster rate than operating profit. Growing at a rate similar to that recorded in the area of sales, it rose by 14.5% to EUR 68.7 (60.0) million.

### Significant year-on-year rise in tax rate

The tax rate (taxes on income plus other taxes as a percentage of sales of income from ordinary activities) increased significantly year on year, up 9.9 percentage points to 36.6% (26.7%). Taxes on income rose by EUR 8.8 million. The substantial rise was attributable chiefly to the absence of exceptional effects reported a year ago, when corporation tax credits had been capitalized in the amount of EUR 5.3 million. In 2006, ElringKlinger had capitalized the existing entitlement at a discounted present value of EUR 5.3 million, and had thus recorded one-time additional income in the same amount.

### Net income

As a result of the increase in income tax, net income posted by ElringKlinger AG for the 2007 financial year was slightly down on the previous year's figure. It stood at EUR 43.5 (44.0) million. Adjusted for the non-recurring effect of capitalized corporation tax credits, net income would in fact have exceeded last year's figure by 12.7%.

### Forecast exceeded

In its management report for the 2006 financial year, ElringKlinger had presented an outlook of 5% sales and 10% earnings growth for 2007, after adjustment for the exceptional effect of corporation tax credits on profit and loss. As outlined above, the company succeeded in exceeding this forecast.

### Higher dividend proposal

After allocation of EUR 16.7 (20.0) million to other revenue reserves, retained earnings (i.e. distributable profit) for ElringKlinger AG as at December 31, 2007, amounted to EUR 26.9 (24.0) million. The Management Board and Supervisory Board will propose to the Annual General Meeting a dividend of EUR 1.40 (1.25) per share for the 2007 financial year. Thus, the total dividend payment would be 12.0% higher than in the previous year.

### Net Assets

ElringKlinger AG's position in terms of assets and liabilities remained solid at the end of the reporting period, thus providing a good basis for continued growth.

The balance sheet total increased by 18.0% to EUR 463.5 (393.0) million compared with the previous year. The equity ratio was 51.1% (55.3%). The year-on-year decline in the equity ratio was attributable, among other factors, to borrowings for the purpose of financing investments in property, plant and equipment. Provisions increased by EUR 8.2 million.

Tangible fixed assets, i.e. property, plant and equipment, rose by 23.0% or EUR 28.9 million to EUR 154.4 (125.5) million, which was a reflection of the significant investments made by the company within the area of buildings, plant and machinery as well as tools.

At EUR 1.3 (1.2) million, intangible fixed assets remained largely unchanged year on year, accounting for 0.3% of total assets at December 31, 2007.



The carrying amount of financial assets increased by EUR 7.1 million to EUR 154.2 (147.1) million. Investments in the newly established subsidiary ElringKlinger Automotive Components (India) Pvt. Ltd. amounted to EUR 2.8 million, while the purchase of a 7.5% interest in ElringKlinger Kunststofftechnik GmbH from the entity's co-owner amounted to EUR 8.2 million and other loan allocations accounted for a EUR 0.6 million. On the other side, write-downs – offset with write-ups – in connection with investments in and loans to affiliated companies amounted to EUR 4.5 million.

Fixed assets thus increased to EUR 309.9 (273.8) million in total.

Current assets rose by 28.8% to EUR 153.4 (119.1) million. On this basis, current assets accounted for 33.1% (30.3%) of total assets.

The year-on-year increase was mainly attributable to a rise in inventories by EUR 18.9 million to EUR 68.0 (49.2) million. Receivables and other assets rose by EUR 15.6 million to EUR 85.2 (69.7) million.

The year-on-year increase in inventories was mainly the result of higher production levels. In addition, at the end of 2007, the company took advantage of favorable market conditions for high-grade steel alloys and expanded its stock of related materials. Inventories of merchandise rose as a result of double-digit growth recorded in the Aftermarket segment. As an integral element of Elring's spare-part sets, such items are being sourced increasingly from suppliers in the Far East. The more complex logistical activities required to ship these goods to Germany, together with larger quantities purchased, translated into higher inventory levels.

Trade receivables increased in line with sales by EUR 7.0 million to EUR 52.2 (45.2) million. Other assets rose by EUR 6.2 million to EUR 14.1 (7.9) million, mainly due to receivables of EUR 3.7 million associated with insurance compensation.

Buoyed by net income for 2007, shareholders' equity at ElringKlinger AG rose to EUR 236.8 (217.2) million. The return on equity (income from ordinary activities in relation to average equity of the AG) stood at 30.3% (29.3%).

In total, provisions rose by EUR 8.2 (4.3) million to EUR 72.1 (63.9) million.

Due to an increase in benefit rights for entitled staff, an amount of EUR 0.7 (1.1) million was allocated to pension provisions.

Other provisions increased by EUR 5.7 (4.4) million. The rise was attributable largely to staff-related provisions and sales-specific obligations.

ElringKlinger took out loans for the purpose of financing growth. Bank borrowings rose by EUR 29.3 million to EUR 98.1 (68.7) million. Owing to higher procurement volumes, trade payables increased by EUR 6.5 million. In total, liabilities expanded by EUR 36.9 million to EUR 148.8 (111.9) million. On this basis, borrowed capital accounted for 32.1% (28.5%) of total liabilities and equity.

#### **Off-balance-sheet financial instruments**

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



## Financial Position

### Cash flow from operating activities

Cash flow from operating activities receded by 11.2% to EUR 70.8 (79.7) million in the period under review, prompted mainly by a more sizeable proportion of funds tied up in working capital. In total, the increase in inventories and receivables exceeded last year's figure by EUR 24.2 million as a result of the factors outlined above. ElringKlinger AG's operating cash flow accounted for 17.9% (23.2%) of sales.

### Investments for continued growth

In 2007, capital expenditure at ElringKlinger AG grew by EUR 32.5 million year on year. Due to newly secured contracts, payments made in connection with the respective required investing activities were higher than originally planned.

Within this context, the main focus was on expanding production capacities and initiating production ramp-ups for new products in the portfolio. In total, ElringKlinger AG invested EUR 63.7 (31.2) million in the expansion and establishment of production plants as well as tools, land, buildings and intangible assets.

EUR 63.0 (30.7) million were channeled into tangible fixed assets, including tools. Investments in intangible assets accounted to EUR 0.8 (0.5) million, the main emphasis being on software licenses.

The investment ratio – related to capital expenditure on property, plant and equipment, including tools and intangible assets – was 16.1% (9.1%) higher than a year ago.

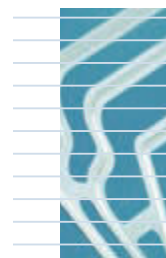
As regards the Cylinder-Head Gaskets division, the main focus was on building a new 5,000 m<sup>2</sup> facility after the fire at the Runkel plant. In response to higher demand, the company introduced an additional production line for the manufacture of cylinder-head gaskets.

The Specialty Gaskets division installed machines and plant for the production of high-performance exhaust system gaskets with advanced heat resistance. In addition, a dynamic hot-gas test stand was installed for the purpose of assessing individual assemblies and components.

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

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

The New Business Areas division, which underwent significant expansion in 2007, invested in new plant and laboratory equipment. A new fuel cell test stand was installed in order to optimize production processes relating to fuel cell stacks. In addition, ElringKlinger invested in a next-generation production unit for diesel particulate filters – based on new process-engineering specifications – at its facility in Dettingen/Erms; the



new system is to be used for the manufacture of material samples, prototypes and specimen components.

Investments in financial assets amounted to EUR 20.2 (16.9) million in 2007. The year-on-year increase was attributable mainly to the acquisition of additional ownership interests in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, and the establishment of a subsidiary in India.

Net cash used in investing activities rose from EUR 41.9 million a year ago to EUR 76.2 million.

Operating free cash flow (cash flow from operating activities less cash flow from investing activities) was slightly below par at minus EUR 5.4 million due to the EUR 32.3 million increase in capital expenditure on property, plant and equipment as well as funds tied up in working capital.

#### **Increase in borrowed capital**

The company received proceeds of EUR 29.3 million from bank loans. Thus, cash flows from financing activities amounted to EUR 5.3 million in 2007. In 2006, ElringKlinger AG had repaid EUR 18.5 million relating to bank borrowings, resulting in an overall increase of EUR 43.0 million in cash flow from financing activities.

At December 31, 2007, cash and cash equivalents amounted to EUR 0.2 (0.3) million.

Net assets, financial position and results of operation remained solid in 2007, providing ElringKlinger AG with a good basis from which to seize growth opportunities and increasing the value of the company in the coming financial years. The company is well positioned to generate additional organic growth by developing new fields of business and to complement this forward momentum with targeted, value-driven acquisitions when favorable opportunities arise.

## **Procurement**

#### **Rising cost of raw materials**

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

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

#### **Substantial energy costs**

As a manufacturer, ElringKlinger once again had a significant overall energy require-

ment in 2007. However, by deploying state-of-the-art technology and implementing targeted energy-saving concepts, the company managed to keep the increase in energy consumption well below the overall growth levels in production output.

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

#### **Further rise in purchasing volume**

Owing to the double-digit increase in sales, together with the rising cost of raw materials and more extensive investments in new buildings and plant, the purchasing volume of ElringKlinger AG grew by 47.5% to EUR 273.5 (185.4) million.

Approximately one-third of the overall procurement volume was made up of carbon steel, high-grade steel and alloys, as well as aluminum and other industrial metals. At around 4%, polymer granules and other intermediate plastic products accounted for a larger share of the overall purchasing volume. ElringKlinger requires such materials for the production of weight-reduced plastic modules such as cylinder-head covers, oil pans and gearbox covers as well as for the manufacture of elastomer mixtures used for gasket coatings.

#### **Global procurement extended**

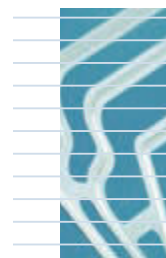
Over the course of 2007, ElringKlinger further expanded its procurement activities in Asia and Eastern Europe, the aim being not only to scale down costs but also to implement the Group's global growth program. As part of its efforts to extend capacity levels at its facilities in China and Korea, as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

#### **Qualification of new suppliers**

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

#### **Metal trading and recycling**

ElringKlinger has been operating its own scrap metal trading business for several years. The scrap produced as part of the production process, e.g. during stamping and cutting, is subsequently recycled or traded. In 2007, the company introduced a new, IT-based global scrap metal management system that encompasses monthly inventory reporting for all manufacturing facilities in the Group. The system calculates and compares the potential revenue to be achieved for the various types of scrap metal in the



respective markets. This optimizes the overall trading process and allows the purchasing department of ElringKlinger AG to coordinate activities on a centralized basis. Currently, preparations are being made to incorporate the facilities in Korea and India within this system.

#### **Long-term materials requirement planning and hedging**

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

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

## **Research and Development**

### **Innovations**

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

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

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

### **Research and development strengthened**

Expenditure on research and development in 2007 increased by 16.8% compared with last year, taking the figure to EUR 29.2 (25.0) million. Thus, R&D capacities were strengthened. ElringKlinger AG reinvested 7.4% (7.3%) of its sales in research and development. The R&D ratio for 2007 was again well in excess of the industry average.

Research and development work continued to be concentrated at ElringKlinger AG's domestic facilities. In addition to exploiting synergies between the development teams, the main focus is on protecting intellectual property and the company's technological expertise. The parent company provides extensive development services for its subsidiaries and affiliates in return for licensing payments.

### **Third generation of metal-layer cylinder-head gaskets**

Among the key issues to be addressed by development engineers within the area of cylinder-head gaskets were the trend towards higher ignition and injection pressures

as well as the emergence of alternative fuels. The use of meander, honeycomb and segment stopper technology has led to more even pressing distribution, as well as reducing distortion and stress exerted on individual engine components. Over the course of 2007 numerous development projects for such cylinder-head gaskets were executed within the area of diesel and gasoline engine technology. In addition, ElringKlinger presented a new material suitable for partial elastomer coating within the area of micro-sealing. Owing to its overall stability, this new coating material is particularly suited to the advanced performance specifications of modern vehicle engines.

#### **Specialty gasket concepts for exhaust tract and transmission**

Prompted by stricter emission guidelines, the exhaust systems installed in diesel-powered vehicles have become increasingly complex. Among the components now frequently deployed within this area are oxidation catalytic converters, particulate filters and SCR systems. ElringKlinger develops and produces specialty gaskets tailored precisely to the requirements of such applications, the emphasis being on solutions that are capable of withstanding operating temperatures of up to 1.000 degrees Celsius. This portfolio includes connector components and high-temperature gaskets for diesel particulate filters as well as specialty gaskets for DeNO<sub>x</sub> modules. R&D also focused on new sealing concepts and materials for exhaust manifolds as well as turbo in- and outlets.

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

#### **New applications in shielding technology**

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

#### **Elastomer Technology/Modules embraces low-weight solutions**

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

#### **Innovative diesel particulate filter under development**

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



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

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

### **Fuel cell components**

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

Significant progress was made as regards the production of SOFC (Solid Oxide Fuel Cell) high-temperature fuel cell stacks. ElringKlinger produces major components and complete stacks for this application. This type of fuel cell is able to convert energy sources such as petrol, diesel, natural gas or biogas into electricity at a very high degree of efficiency. The division is looking at the possibilities of mass production of such stacks, which are currently being produced under laboratory conditions. Among the potential fields of application are new hybrid concepts for low-emission passenger car drivetrains, for truck HVAC (heating, ventilation and air-conditioning systems) systems as well as stationary cogeneration units.

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

ElringKlinger has also developed and produced precision-stamped and coated sealing frames for direct methanol fuel cells. Almost 500,000 of these sealing frames are already in use as key components of direct methanol fuel cells that supply electricity in caravans and recreational vehicles.

## **Employees**

The continued success of ElringKlinger AG is a testament to the company's qualified, dedicated and motivated staff. The expertise displayed by ElringKlinger's staff – in many cases acquired over numerous years of service – together with their experience and commitment yet again contributed to the company's performance in 2007.

### **Higher staffing levels**

ElringKlinger believes it has an entrepreneurial duty to create employment opportunities and provide people with jobs. One of the essential prerequisites for this idea to be seen through to fruition is the financial success of the company. During the period under review, more than 100 new jobs were created at sites operated by the parent company (AG). At December 31, 2007, the headcount at AG level was 1,711 (1,600).

Thus, the total number of employees rose by 6.9% compared with the same period a year ago. The average headcount for the year at ElringKlinger AG was 1,657 (1,567).

#### **Staff turnover remains low**

Staff attrition, i.e. the natural turnover of staff, at ElringKlinger AG was 0.3% in 2007, which clearly underlines the degree of loyalty felt by employees towards the company. In 2007, average time off work due to illness was 11.0 days per employee, unchanged on last year's figure and lower than the industry average.

#### **Training for the future of the company**

ElringKlinger AG believes in actively fostering the next generation of employees and has therefore developed tailor-made vocational training programs. The aim is to provide young people with solid qualifications. For this purpose, the company offers a comprehensive range of commercial and technical training courses as well as degree programs based on the dual system of on-the-job training and vocational university (Berufsakademie) studies. At December 31, 2007, ElringKlinger AG employed 69 trainees taking part in 13 vocational programs, thus maintaining the high level of vocational training seen in the previous year. Vocational trainees accounted for 4.0% (4.3%) of the total workforce at parent-company level.

#### **Participating in the company's success**

ElringKlinger's business performance in 2007 was again inspired by the flexibility, dynamism and commitment of its staff. To share the company's success with its workforce, ElringKlinger AG paid all employees a special gratuity of EUR 1,100 in recognition of their successful contribution during 2006.

## **Compensation Report**

#### **Compensation structure for members of the Management Board**

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

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

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

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

February 1, 2008, or January 1, 2009.

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

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

#### **Compensation structure for members of the Supervisory Board**

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

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

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

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

#### **Details of share capital and disclosure of potential takeover obstacles (Section 289 (4) of the German Commercial Code (HGB))**

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

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

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

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

No shareholder is equipped with special rights constituting controlling powers.



ElringKlinger does not operate any employee profit-sharing schemes.

The number of Management Board members is determined by the Supervisory Board (Section 7 of the Articles of Association). The appointment and removal of Management Board members is performed in accordance with Sections 84 and 85 AktG. The Articles of Association do not contain any provisions that differ from the legal regulations relating to the appointment and removal of Management Board members.

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

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

ElringKlinger 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 higher raw material and energy prices, quality and environmental management contributed significantly to ElringKlinger AG's commercial success over the course of 2007. All processes within the company undergo continuous assessment as to their compatibility with environmental standards and efficiency within the area of resource allocation. Investing in state-of-the-art environmental technology, ElringKlinger is committed to avoiding and reducing waste, ensuring the efficient and careful use of resources, as well as protecting the soil, air and water.

All sites operated by ElringKlinger AG have their own quality and environmental management officers. Staff members responsible for emission control, waste separation, hazardous goods and water management as well as occupational safety and fire protection ensure that the environmental and quality guidelines are implemented accordingly. The activities are coordinated by the central quality and environmental management department in Dettingen/Erms.

### Quality management

ElringKlinger has established a target of zero-defect quality for all processes within the company. By applying its standardized quality management system, the company is able to ensure a high level of product quality. One of the key competitive advantages created by ElringKlinger AG is its ability to produce large volumes of high-tech components in a consistently high quality. Due to the program of continuous improvement implemented by the company, the customer complaints ratio for 2007 remained below last year's figure in all areas of business. The defect rate of under 10 ppm (parts per million) remained at an encouragingly low level, thus underscoring the overall quality of supply.

In order to meet the high quality standards required from a supplier in the automotive industry, ElringKlinger has to perform extensive quality assessments of its own suppliers. The company is supported in its efforts by a supplier qualification system that is upgraded on a continual basis.

#### **Active environmental protection**

ElringKlinger operates a global benchmarking system for the purpose of identifying possibilities for improvement and development within the areas of environmental protection and occupational safety. Data relating to key environmental indicators specified by the company is regularly collected and assessed at all ElringKlinger AG sites. They provide the basis for a transparent reporting system, allowing the public to gauge the overall performance of the company and evaluate progress made in this area. The key improvements achieved in 2007 were energy savings, reduced emission levels and more extensive protection of water resources.



## **Report on Opportunities and Risks**

#### **Risk management system and internal control system**

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

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

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

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

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

ElringKlinger AG, as the parent company, directs the entire Group and performs the key research and development activities. The general managers of the subsidiaries and affiliated companies report directly to the Management Board of the parent company. The Management Board monitors the respective areas of business as well as the subsidiaries by means of an indicator-based internal management system (sales, earnings

before taxes and return on investment). With the help of this ongoing monthly reporting system, risks can be identified at an early stage and countermeasures can be initiated where appropriate.

## Risks

### Market risks

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

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

### Customer risks

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

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

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

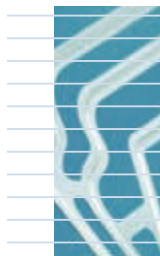
### Risk associated with material prices

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

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

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

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



### **Pricing risks**

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

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

### **Currency risks**

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

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

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

### **Legal risks**

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

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

### **Opportunities**

ElringKlinger sees good opportunities for profitable growth in new business areas, demanding technological advancements and with bringing new products to the market.

### **Climate change**

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

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

#### **Fuel cell technology**

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

#### **Acquisitions**

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

#### **Assessment of aggregated risk**

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

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

## **Outlook**

#### **Economic slowdown expected**

ElringKlinger AG anticipates a significant slowdown in the world economy over the course of 2008. Growth is likely to be lower than originally projected at the end of 2007. Among the key contributing factors are the US subprime mortgage crisis, with the financial market turbulence that it triggered, and ongoing fears of a recession in the United States. The persisting malaise within the housing market is expected to result in a liquidity shortfall in 2008 and a concomitant decline in consumer spending in the US.



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

By contrast, economic growth in the United States is expected to be just 1.5% in 2008.

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

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

### **Stagnating automobile markets**

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

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

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

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

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

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

### **Diesel segment and new transmission technology as growth drivers**

The trend toward more fuel-efficient diesel engines looks set to continue. In 2007 more



than one in two new vehicles sold in Western Europe was fitted with a diesel engine. In 2008 diesels are expected to account for 55.0% (53.3%) of new vehicle registrations. The recent debate concerning the introduction of a CO<sub>2</sub>-based vehicle tax throughout Europe, together with higher taxation in Germany for diesel vehicles not equipped with particulate filters and environmental no-drive zones for older vehicles with high emission levels, could fuel demand for new diesel-powered cars.

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

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

#### **Further investments in product ramp-ups and new areas of business**

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

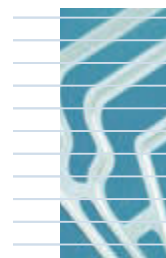
The company will purchase new plant and machines to allow it to boost capacity in the Cylinder-Head Gasket and Specialty Gaskets divisions.

Close to EUR 5 million will be channeled into the further expansion of the Elastomer Technology/Modules division. After completion of the new building at the site in Dettingen/Erms ElringKlinger plans to extend local production capacity for lightweight plastic housing modules used in engines and transmissions.

In addition, a new central logistics unit is to be built in Dettingen/Erms. An investment budget of around EUR 2 million has been earmarked for a new in-house cogeneration system that will produce tangible energy savings for the company.

The Shielding Technology division will be one of the focal points for investment spending by the parent company in 2008. Buoyed by a steady stream of incoming orders, the Shielding Technology division plans to invest approx. EUR 8 million in its Langenzenn facility, the main emphasis being on new plant and machinery as well as a new building to accommodate its production lines.

As outlined earlier, the New Business Areas division installed a small-batch production system for diesel particulate filters in 2007. Upon successful ramp-up to full series production the company plans to invest in additional plant and machinery in 2008. In addition, the New Business Areas division plans to invest in plant and test stands for operations in the field of fuel cell components. The manufacture of complete fuel cell stacks, previously performed almost entirely manually, is to be industrialized systematically.



### Order intake on the rise

ElringKlinger AG began the new financial year with solid order books. At EUR 169.7 million, order backlog was 16.5% higher than a year earlier. Order intake for the AG continued to develop well over the course of 2007 and increased in line with sales by 15.1% to EUR 410.5 (356.8) million.

### Sales, earnings and net assets for 2008 and 2009

Provided that the economic climate does not deteriorate any further, ElringKlinger AG anticipates organic growth in sales of approx. 5% in 2008. Net income for ElringKlinger AG is expected to increase at a more pronounced rate. ElringKlinger does not expect any major changes in net assets when compared to the 2007 business year. The equity-liabilities ratio will remain well-balanced.

Based on the order situation discernible at present, organic growth in sales and earnings, as well as a consistent development of net assets looks set to continue in 2009, provided that the international automobile markets remain stable.

## Events after the Balance Sheet Date

### ElringKlinger in takeover negotiations with SEVEX AG

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

### ElringKlinger takes over Spanish subsidiaries fully

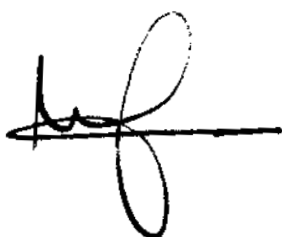
On March 7, 2008, the remaining minority interests in the subsidiaries ElringKlinger, S.A., Reus, Spain (49.0%), and in ElringKlinger Sealing Systems, S.L., Reus, Spain (10.0%), were acquired. The subsidiaries had already been included in the group's scope of consolidation. ElringKlinger now holds 100% of the shares in these two companies.

### Board member contract prolonged

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

Dettingen/Erms, March 20, 2008

The Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder





**Responsibility Statement according to §§ 264(2) sentence 3 and 289(1) sentence 5 HGB (German Commercial Code)**

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

Dettingen/Erms, March 20, 2008

A handwritten signature in black ink, appearing to be 'Stefan Wolf', with a long horizontal stroke extending to the right.


Dr. Stefan Wolf

A handwritten signature in black ink, appearing to be 'Becker', written in a cursive style.

Theo Becker

A handwritten signature in black ink, appearing to be 'Schmauder', written in a cursive style.

Karl Schmauder

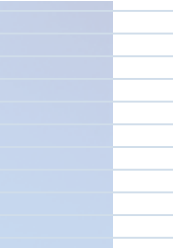


## Auditor's Report

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, 2007 to December 31, 2007. 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 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the 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 20, 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Burchards  
Wirtschaftsprüfer

Münz  
Wirtschaftsprüfer

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