



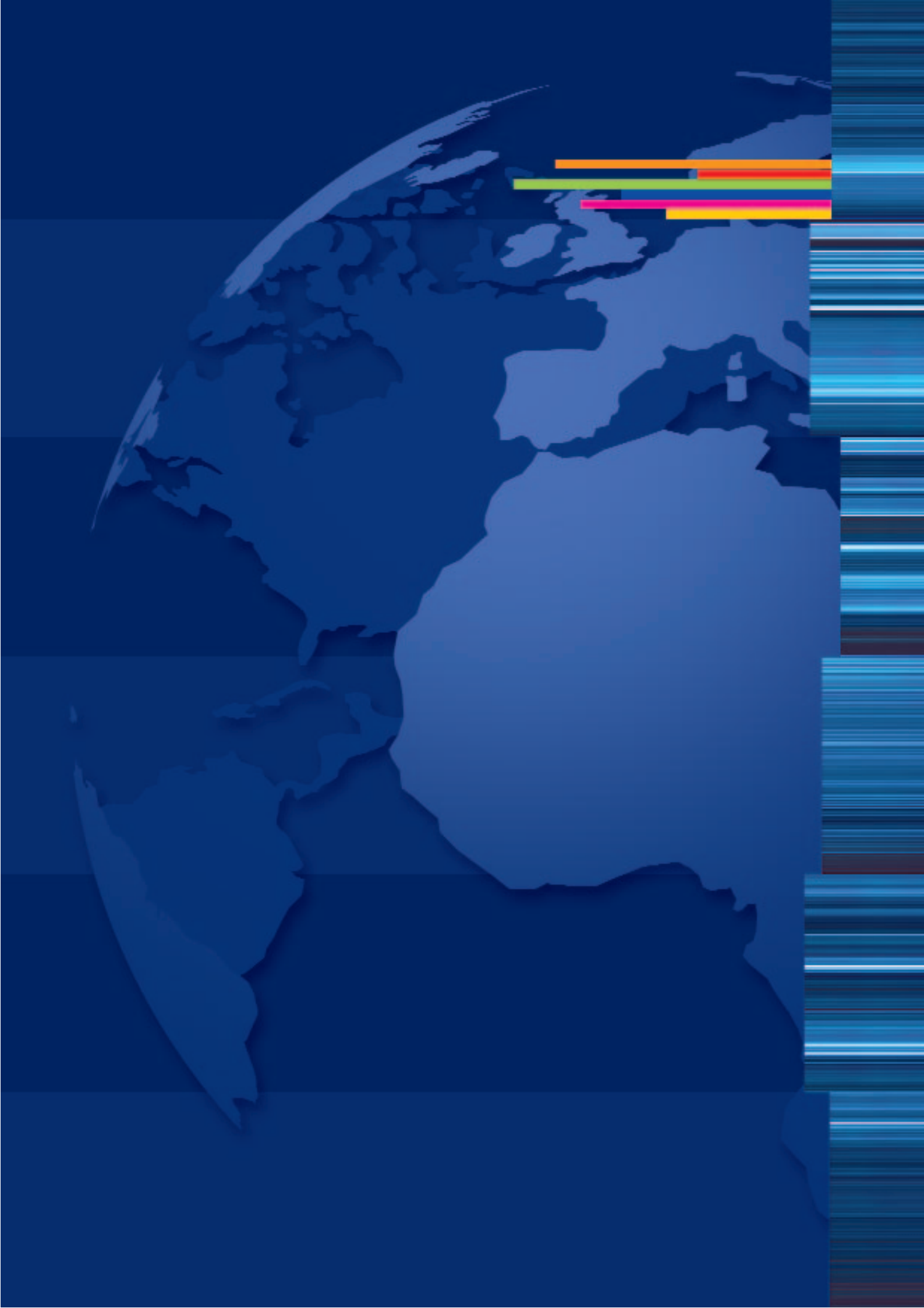
Mobility worldwide. With innovations for all.
Our driving force for a successful future.







The world is in motion. And we, in turn, move on it: shortening distances – between cities, countries and continents. Mobility is a fundamental principle underlying our culture. The automobile is one of the major fruits of human inventiveness, and is key to wide-ranging individual mobility. The automotive future offers many opportunities and poses many challenges. It arouses our spirit of discovery, releases creative energies, and leads onward from innovation to innovation. For a world that can be experienced every day anew.



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Germany



Germany – one of the leaders in automotive development. Innovations originating from here move millions of people worldwide. And at the leading edge: ElringKlinger. With innovative technology for state-of-the-art engines, we are constantly setting new standards. For the advances of tomorrow.

Management Board of ElringKlinger AG



*Dr. Stefan Wolf
(Spokesman)*



Horst Klusmann



Karl Schmauder

Foreword by the Management Board Spokesman

Dear stockholders and friends of ElringKlinger,

The ElringKlinger Group made further gratifying progress in 2004.

Underlying economic conditions were more favorable than in the previous year. A sustained upturn was seen in both North and South America, and particularly in Asia. The slowest growth internationally was seen in Western Europe.

The trend in ElringKlinger's key sector, the automotive industry, was still positive in 2004. A total of 62.8 million vehicles were produced worldwide, up 4.9 percent on the previous year.

ElringKlinger achieved sales growth primarily from increased market shares in Europe, Asia and North and South America, as well as from new product launches. A total of 150 new products went into production in 2004. The sustained trend toward diesel brought sales

growth in Europe, where the rate of diesel engine fitting in cars rose by 4.8 percentage points.

As ElringKlinger enjoys a high market share in the diesel segment, this trend had a positive effect on its business.

The main detrimental factors in 2004 were high commodity prices – particularly of steel, ElringKlinger's key component material – and price cuts forced through pressure from the markets. ElringKlinger was able to compensate for these negative effects, generating gratifying sales growth based on further rationalization and strict cost control, thus demonstrating its sustainable long-term earning power.

The development of the ElringKlinger share price on the German stock exchanges over the course of 2004 was equally gratifying. The share price rose by 54.8 percent, outperforming every German stock index. From an opening price of €38.75 (adjusted to take account of the capital increase approved by the annual general meeting of stockholders on June 2, 2004), its

year-end closing had reached €60. ElringKlinger introduced an even broader spectrum of investors to its stock in the course of the year by participating at numerous analysts' events and visiting potential investors throughout Europe. They found the company's strategic concept highly attractive. A large number of funds invested in ElringKlinger in the course of 2004. The resulting demand drove the impressive rise in the share price. The free float increased further, and is now 44 percent. It was this increase in liquidity, above all, which motivated institutional investors to include ElringKlinger stock in their portfolios.

We are pleased to be able to propose to you another increase in dividend this year. Following the €1.50 per share (adjusted for the capital increase) paid out last year, we will be proposing to the 100th annual general meeting of stockholders of ElringKlinger AG on June 8, 2005, a payment of a €1.75 dividend per share. This will involve a total distribution of €16.8 million, an increase of 16.7 percent against the

previous year. ElringKlinger is thus maintaining its course of delivering consistent dividend increases and so ensuring appropriate participation by stockholders in the success of the company.

The upturn in the economy expected in 2005 has so far failed to materialize. The underlying conditions supporting further growth in sales and earnings remain weak. ElringKlinger's key sector, the automotive industry, has had a particularly sluggish start to the year, though we do forecast a recovery in the sector over the rest of 2005. We will be relying first and foremost on our own abilities, and, despite the difficult economic conditions, we intend to increase our sales and earnings still further in 2005, on the basis of new products and increasing market shares in growth segments.

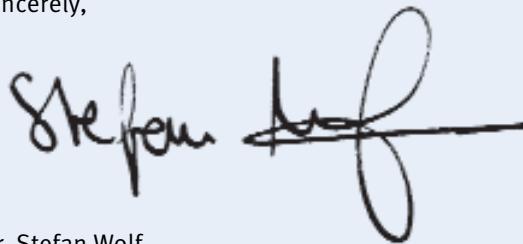
This annual report is presented by the new Management Board of ElringKlinger AG appointed at the end of January 2005: Mr. Horst Klusmann has worked for the company for

many years, initially on the board of ElringKlinger GmbH, and since 2000 as a member of the Management Board of ElringKlinger AG; and with Mr. Karl Schmauder and myself, the undersigned, the Supervisory Board also appointed two highly experienced senior executives to the Management Board. This step signals the intention to maintain the successful strategy employed by the ElringKlinger Group to date. The aim of the new Management Board is to continue delivering profitable growth for ElringKlinger. The decisive factors in achieving this are to focus on the core competencies of the company, to develop innovative technologies delivering a competitive edge on the market, and to maintain and build on our position as the cost leader in the sector based on stringent cost control.

The ElringKlinger Group has grown into a global corporation. This report also aims to demonstrate that achievement. ElringKlinger's goal is to have a local presence in all our customers' key markets. On browsing through this annual report, you will see that we have attained that goal.

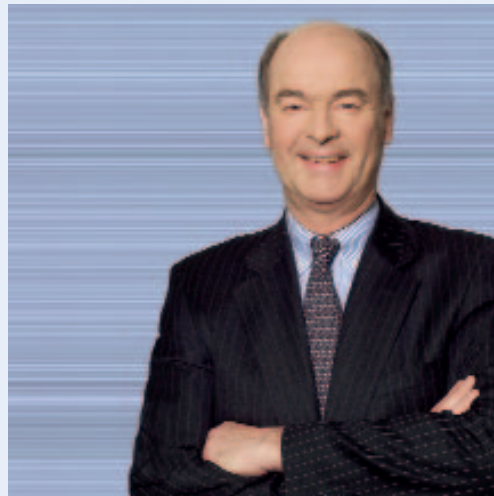
We hope you will enjoy reading about our company's outstanding performance.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stefan Wolf', with a large, stylized flourish extending to the right.

Dr. Stefan Wolf

Report by the Supervisory Board



Dr. Helmut Lerchner, Chairman of the Supervisory Board

Dear stockholders,

The Supervisory Board of ElringKlinger AG held four scheduled meetings during the year under review. In preparation for the meetings of the Supervisory Board, detailed written documentation was produced by the Management Board. The meetings critically reviewed and discussed ongoing business trends, corporate strategy and the risk situation. The Supervisory Board advised the Management Board intensively in its consultations, appraisals and planning.

The Management Board also submitted detailed monthly written reports to the Supervisory Board on the progress of business, including updated forecasts as to the further development of the Group.

Furthermore, the Chairman of the Supervisory Board maintained regular telephone and personal contact with the Chairman of the Management Board in order to receive updated reports and to provide advice and assistance as necessary.

This enabled the Supervisory Board to carry out its duty to advise and monitor the Management Board based on detailed information and discussions, in line with legal requirements and the recommendations of the German Corporate Governance Code.

In 2004 the members of the Supervisory Board of ElringKlinger AG were Gert Bauer (employee representative), Walter Greiner (employee representative), Dr. Rainer Hahn, Karl Uwe van Husen (Chairman until September 16, 2004), Dr. Thomas Klinger-Lohr, Walter Herwarth Lechler, Dr. Helmut Lerchner (from August 1, 2004; Chairman from September 16, 2004), Rolf Rauscher (employee representative), Helmut Ritzer (until July 31, 2004) and Manfred Strauß.

The ElringKlinger Supervisory Board has constituted just one subcommittee, namely its Personnel Committee. The members of the Personnel Committee were Karl Uwe van Husen

(Chairman until September 16, 2004), Dr. Thomas Klinger-Lohr, Walter Herwarth Lechler and Dr. Helmut Lerchner (from August 1, 2004; Chairman from September 16, 2004). The Committee met six times in 2004, preparing and passing decisions relating to the remuneration of members of the Management Board and to current and future succession arrangements in respect of Management Board members.

It was decided not to establish further sub-committees of the Supervisory Board, as is common practise by larger supervisory bodies and as recommended by the German Corporate Governance Code, since all relevant matters, including the Group's accounts and the management of risk, can be dealt with competently and practically by the full Board.

The Supervisory Board of ElringKlinger AG shares the views and objectives set out in the German Corporate Governance Code, and aims to ensure the fullest possible compliance with its recommendations. It does, however, consider non-compliance to be appropriate in certain aspects, in view of the specific circumstances of the company and its stockholder structure, for reasons of practicability, in terms of cost/benefit considerations, or for fundamental reasons of principle. This latter reasoning applies to the issue of individualized publica-

tion of remuneration paid to members of the Management Board. The Supervisory Board considers this recommendation to entail serious impairment of the personal rights and interests, including the security interests, of the Management Board members. The Supervisory Board fails to see any overriding interest of stockholders or the public at large in gaining access to this information. ElringKlinger devotes adequate attention to the interests of the stockholders in ensuring appropriate, performance-related remuneration of the Management Board by publishing the overall amount of remuneration paid to its members and by dividing the said remuneration into fixed and variable components. The small number of recommendations of the German Corporate Governance Code not implemented by ElringKlinger AG are set out, with the respective reasons for non-compliance, in the Corporate Governance Report section of this annual report.

The 2004 annual financial statements of ElringKlinger AG, the consolidated financial statements of the Group, the combined Group and parent company management report and the 2004 annual financial statements of all ElringKlinger subsidiaries and affiliates were audited by the auditors reappointed at the last annual general meeting of stockholders of ElringKlinger AG, namely KPMG Deutsche Treu-

hand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (Stuttgart office), and by KPMG offices outside Germany, and were approved without reservation. In isolated cases, the annual financial statements of smaller international subsidiaries and affiliates were audited by local auditors based on the audit rules of KPMG, and were likewise approved without reservation.

The full documentation relating to the financial statements was presented to the Supervisory Board, with summaries of the key figures. It was discussed by the Supervisory Board in the presence of the responsible auditors, KPMG, and the Management Board at the meeting of the Supervisory Board held on March 23, 2005. At that meeting the Supervisory Board also had the opportunity to question the auditors on matters relating to their audit report without the Management Board present. No objections were raised to the findings presented in the audit report.

A review of the risk situation revealed no risk endangering the continued existence of the company. Any existing risk is within the normal industrial bounds. In the view of the Supervisory Board, the measures to minimize risk undertaken by the Management Board are appropriate.

At its meeting on March 23, 2005 the Supervisory Board subsequently approved the annual financial statements for 2004 of ElringKlinger AG and the 2004 consolidated financial statements of the Group. It also approved the proposal on appropriation of retained earnings put forth by the Management Board.

We would like to take this opportunity to express our thanks to Mr. Helmut Ritzer for his 14 years of critical, far-sighted and successful service on the Supervisory Board of ElringKlinger AG.

The Supervisory Board would also like to thank the Management Board and all the employees of the ElringKlinger Group for their efforts and commitment, and for their repeated success in 2004!

Aichtal, March 24, 2005

The Supervisory Board



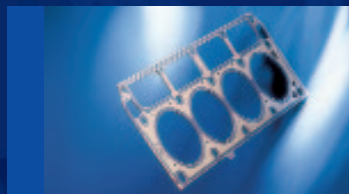
Dr. Helmut Lerchner
Chairman of the Supervisory Board

Experience mobility. With ElringKlinger.

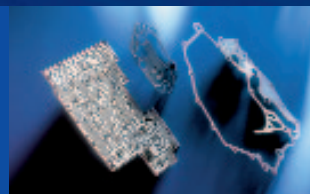
ElringKlinger has established itself as a technology and world market leader in cylinder-head and special-purpose gaskets, cover modules and shielding components for the powertrain and exhaust systems. The company is a development partner and systems supplier to the automotive industry. Its customer portfolio includes virtually every major automobile manufacturer worldwide.

The ElringKlinger Group fits its products in car and truck engines, as well as supplying the independent aftermarket with the well-known Elring brand of gasket sets and service parts, on all five continents.

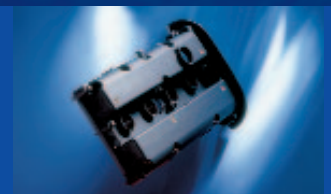
ElringKlinger speeds up development processes by offering a global engineering service, comprehensive manufacturing know-how and partnership with customers all over the world. The company deploys the technological innovative strength in a targeted manner: to deliver environmentally friendly the mobility and sustainable, high-earning growth.



Cylinder-head gaskets
The key components when it comes to sealing engines. The right technology for any engine design – passenger or commercial vehicles. Environmentally friendly and reliable.



Special-purpose gaskets
A wide variety of material and design combinations. Flexible sealing systems for the most diverse of applications in the powertrain and exhaust system.



Cover modules
Complete, pre-assembled units, for instance cam cover and oil pan modules, unifying the qualities of the single components.

Vehicles fitted with ElringKlinger technology are to be found on all the world's roads. Three factors are key to the competitive edge enjoyed by the company:

- The ElringKlinger Group is a global player, represented on the long-established automobile markets of Europe, North America and Japan and on the strong emerging markets of South America and China, enabling it to supply customers quickly and efficiently from a local base.
- As the only global player in the gasket business, ElringKlinger has preserved its independence. This ensures that the company is able to concentrate on its core competencies. Any extension of the product portfolio is founded on existing know-how.
- Decisive factors on the components market are flexibility and speed. ElringKlinger's medium-sized structure and flat hierarchies enable it to meet those demands. It is able to take decisions and act faster than its competitors.



Shielding parts
Thermal protection for sensitive electronic components. Optimum acoustic shielding in the engine compartment.



Elring-Service
The Elring spare parts brand stands for excellent safety, service and reliability. A wide range of automotive gaskets, gasket sets and accessories is available in more than 140 countries for cars and commercial vehicles.



ElringKlinger plastics technology
Customized gaskets and design elements made of high-performance plastics for the most varied of industrial branches.



ElringKlinger engine technology
Simulating extreme cases. With state-of-the-art test benches for putting complete engines and individual components to the test – for instance in durability trials or thermal shock tests down to -35°C.

ElringKlinger-Worldwide





Mobility and globalism. There are more than 800 million cars on the road worldwide, with over 62 million being produced in 2004. This represents a huge potential for ElringKlinger, posing an immense challenge to develop resource-conserving technologies for modern engine design concepts. We drive forward new ideas. And are present locally in all key markets.

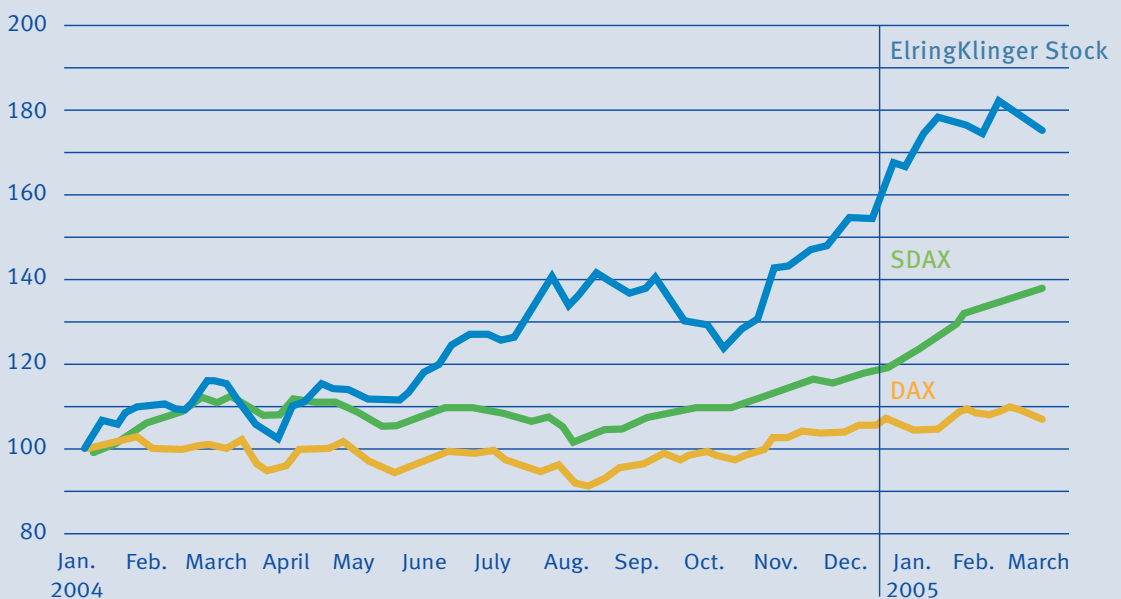
ElringKlinger on the Capital Market

In 2004 stock market investors were generally holding back on committing funds, and the market trend was sideways. A range of factors lay behind the investor reluctance. The high price of oil, the weakness of the Dollar, uncertainty as to global economic growth, the prospect of rising interest rates, the US presidential elections and the constant fear of terrorist attacks such as on March 11 in Madrid all impacted on stock markets. Demand was sluggish, and trading volumes remained modest.

The German share indices started 2004 optimistically. Following the terrorist attacks in Madrid on March 11, however, they were dragged in to the global downturn. As a consequence, the indices entered into a sideways trend. Only in November did an upturn take hold, lasting through to the end of the year.

The DAX had risen by 5.9 percent at December 30, reaching 4256.08 points, while the MDAX had risen by 18.7 percent. The best performance of all the indices was recorded by the SDAX, on which ElringKlinger is quoted. It rose in the course of the year by 19.2 percent, from 2636.48 points on January 2 to 3143.69 points on December 30. The closing price at

Development of Stock Price from January 1, 2004
ElringKlinger Stock (XETRA); SDAX; DAX



the year-end was at the same time the high for the year. This demonstrates that investor focus in 2004 was on second-line stocks, and ElringKlinger was among the stocks to profit from that trend.

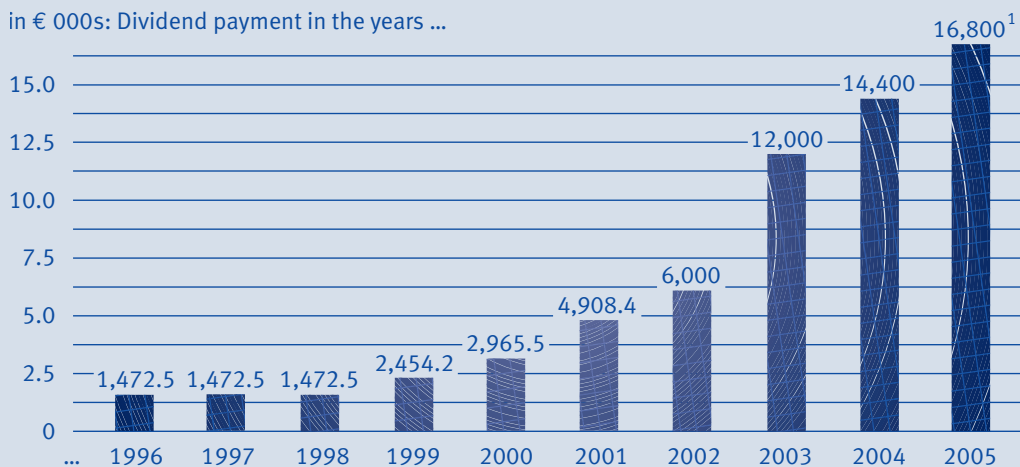
2004 was a very gratifying year for the **ElringKlinger share**. The stock began the year at €38.75 (price adjusted to take account of the capital increase from corporate funds on July 26). Apart from a few minor fluctuations in March and October, it rose steadily. The high for the year – in fact, a new all-time high – of €60.82 was reached on December 14. At the

year-end the ElringKlinger share price was exactly €60.00. This meant it had risen by 54.8 percent in 2004, outperforming all the German indices. Taking account of the 2004 dividend payment of €3.00 (adjusted for the capital increase: €1.50), this produced an annual return of 58.7 percent.

The annual general meeting of stockholders of ElringKlinger AG on June 2, 2004 approved an **increase in share capital** of €28.8 million to €57.6 million. The increase was effected from corporate funds. 4,800,000 new shares were issued, attributable to the stockholders proportionate to their respective shares of the previous capital stock. The capital increase was

Development of Dividend

in € 000s: Dividend payment in the years ...



¹ Proposal to 2005 AGM

implemented on July 26, 2004. It doubled the number of shares in issue, and so halved the share price. This measure made the stock even more attractive to investors.

Liquidity has been substantially increased. Whereas daily trading on the Xetra exchange and on the floor of the Frankfurt and Stuttgart exchanges between January and July had averaged 5,240 shares, that figure rose by 85 percent to 9,697 shares for the August to December period. Over the full year, average daily sales were 7,125 shares. The best-selling month was November, with a daily trading average of 12,300 shares.

The increase in share capital and the positive trend in the share price also led to a substantial increase in **market capitalization**. It tripled relative to the previous year, closing on December 31, 2004 at €576 million (previous year: €364.8 million). For weighting purposes in the indices of the German Stock Exchange, market capitalization is calculated in relation to the free float. With a free float of 36.37 percent, ElringKlinger AG's market capitalization by that measure at December 31 was €209.3 million, ranking it 11th among the 50 stocks quoted on the SDAX.

A major stockholder disposed of further shares in early January 2005. This had increased

Key Figures for ElringKlinger AG

	2004	2003
Market capitalization at December 31 in € millions	576.0	364.8
Price-earnings ratio at December 31	17.0	13.7
High/low market quotations for the year in €	60.82/38.75*	40.00*/14.25*
ElringKlinger AG per-share net earnings in €	3.52	2.77*
ElringKlinger Group per-share net earnings in € (excl. minority interests)	3.99	2.46*
DVFA per-share net earnings in €	4.29	2.79*
Per-share annual dividend in € (2004: proposal to AGM)	1.75	1.50*

* Adjusted to take account of the effect of the capital increase

the **free float** to 44.3 percent by the reporting date. ElringKlinger AG's free float-weighted market capitalization had increased to €298.0 million as at the end of February 2005, ranking ElringKlinger 3rd on the SDAX.

In 2004 more banks began sending out reports on ElringKlinger to their institutional investors. The total of 10 studies now in existence, each being regularly updated, provide investors with a detailed profile of ElringKlinger. All reports recommend ElringKlinger stock as a buy.

In the year under review ElringKlinger continued to pursue its policy initiated in the

previous year of disseminating detailed information to institutional and private investors and to interested capital market players by way of analyst and investor events and in one-to-one discussions. Attendance at a total of six capital market conferences and one-to-one meetings with interested investors in all the major European financial centers has once again enhanced ElringKlinger's recognition levels.

In June 2004, at a congress held in Montreux, Switzerland by the "Automotive News Europe" trade journal in association with Price Waterhouse Coopers accountants, ElringKlinger received the Automotive Stockholder Value

Data on ElringKlinger's Stock

ISIN / WKN	DE 0007856023 / 785 602
Official trading	Frankfurt and Stuttgart stock exchanges and XETRA
Indices	SDAX, Gate-M
Total number of shares outstanding	9,600,000 all registered shares
Equity capitalization at par value	€57,600,000
Stockholders: (as of March 2005)	
Klaus Lechler family, Stuttgart	30.4%
Walter Herwarth Lechler family, Stuttgart	25.3%
Free float	44.3%

Award 2004. This award recognized ElringKlinger as the best performing European automotive component supplier stock over the past three years. ElringKlinger had already won the previous year's award as the top in-year performer.

The stock market magazine "Das Wertpapier" nominated the ElringKlinger share in its recommendations list as the SDAX stock showing the best development in 2004.

The positive development of the ElringKlinger share has also been maintained between December 31, 2004 and the reporting date. The stock reached a new high of €72.23 on February 2.

Starting with first quarter 2005, ElringKlinger's reporting will be based on International Financial Reporting Standards (IFRS). Prompt

and accurate reporting will maintain and enhance the company's policy of openness toward the capital markets. A large number of analyst and investor events are once again scheduled for 2005. In personal talks, ElringKlinger will be reporting to existing and potential investors on the ongoing development of the company.

The Management Board and Supervisory Board of ElringKlinger AG will propose to the forthcoming annual general stockholders' meeting on June 8, 2005 that a dividend of €1.75 per share be paid. The decrease relative to the previous year (€3.00) stems from the doubling of the number of shares. The total fiscal 2004 dividend distribution in absolute terms of €16.8 million is 16.7 percent up on the previous year. By this, ElringKlinger is reaffirming its strategy of enabling its stockholders to share appropriately in the success of company.

Company Stock Held by Corporate Officers

		December 31, 2004
Supervisory Board	Karl Uwe van Husen	1,500 shares
	Dr. Thomas Klinger-Lohr	480,000 shares ¹
	Walter Herwarth Lechler	2,429,650 shares ²
	Rolf Rauscher	70 shares

¹Beneficially held by Betal Netherlands Holding B.V., Rotterdam, The Netherlands.

²Includes shares held by controlled capital-stock companies.



Freedom and independence. Self-determination. Seeking and finding new ways forward. North America. From the endless ice of Alaska to the sun of Mexico, legendary highways bridge the enormous distances. Amid the great expanses of North America, mobility is the guiding principle of life.

Canada

United States

Mexico



Corporate Governance Report

Corporate Governance Statement

On November 30, 2004 the Management Board and Supervisory Board issued a declaration of conformity to the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act. In the year under review, the Code remained unchanged relative to the May 21, 2003 version. The German Corporate Governance Code sets out legal requirements and recommendations for stock market quoted corporations. It is the model for responsible corporate management. ElringKlinger complies with the Code in all essential points. The declaration of conformity was published on the website of ElringKlinger AG on November 30, 2004, with the following wording:

“The Supervisory Board and the Management Board of ElringKlinger AG, based in Dettin- gen/Erms, Germany, are pleased to issue the following declaration on the application of the regulations of the Corporate Governance Code as per Section 161 of the German Stock Corporation Act [AktG]. Since the German Corporate Governance Code did not change in the year 2004, the basis for this declaration is the version of the Code dated May 21, 2003. Elring- Klinger complies with the recommendations of the Code with the following exceptions:

- Until further notice ElringKlinger AG will abstain from transmitting the annual general stockholders’ meeting via the Internet. In the estimation of the company, the costs en- tailed in transmitting the meeting are not

justified by the use shareholders, analysts and potential investors would derive therefrom (section 2.3.4 of the code).

- Separate preparatory meetings of the shareholder representatives and of the employee representatives prior to Supervisory Board meetings are not held. The matters to be dealt with at meetings of the ElringKlinger AG Supervisory Board are well prepared in the form of detailed written documentation sent to all Supervisory Board members in good time prior to the respective meeting (section 3.6).
- In the interest of protecting the privacy of personal data, no itemized account of the compensation paid to the individual members of the Management Board will be made public (section 4.2.4).
- No audit committee of the Supervisory Board will be set up. As only nine members sit on the Supervisory Board of ElringKlinger AG, the

Board in its entirety will discharge the tasks assigned to the audit committee under the terms of the Corporate Governance Code (section 5.3.2).

- In the interest of protecting the privacy of personal data, no itemized account of the compensation paid to the individual members of the Supervisory Board will be made public (section 5.4.5)
- The quarterly reports for 2004 were drawn up in compliance with national regulations (German Commercial Code). This also applies to the annual financial statements and consolidated annual financial statements for fiscal 2004. Starting with the report for the first quarter of 2005 the International Financial Reporting Standards will be applied (section 7.1.1).

Dettingen/Erms, November 30, 2004

Supervisory Board and Management Board of
ElringKlinger AG”

Corporate Officers

Management Board

Dr. Helmut Lerchner (Chairman), 64

Responsible for the company's subsidiaries and affiliates, finance, controlling, OEM sales, the aftermarket division, legal affairs and personnel, investor relations, IT and public relations (to July 31, 2004)

Horst Klusmann, 62

Responsible for the divisions cylinder-head gaskets/central research and development, special-purpose gaskets, housing components/modules/elastomer components and shielding parts, and for the quality assurance and environmental protection, tool-and-die making and purchasing/logistics departments

Sebastian Merz (Chairman), 47

Responsible for the company's subsidiaries and affiliates, finance, controlling, OEM sales, the aftermarket division, legal affairs and personnel, investor relations, IT and public relations (from August 1, 2004 to January 27, 2005)

Dr. Stefan Wolf (Spokesman), 43

Responsible for the company's subsidiaries and affiliates, finance, controlling, the aftermarket division, legal affairs, personnel, investor relations, IT and public relations (since January 27, 2005)

Karl Schmauder, 45

Responsible for OEM sales and for the New Business Fields division (since January 27, 2005)

Supervisory Board

Karl Uwe van Husen

(Chairman until September 16, 2004), 63

Managing director, member of the Supervisory Board since 2000

Dr. Thomas Klinger-Lohr, 56

President of the Board, member of the Supervisory Board since 1998

Walter Herwarth Lechler, (Vice Chairman), 62

Managing stockholder, member of the Supervisory Board since 1976

Rolf Rauscher*, 62

Employee of ElringKlinger AG, member of the Supervisory Board since 2000

Gert Bauer*, 55

Chief authorized representative of the Reutlingen/Tübingen chapter of the IG Metall labor union, member of the Supervisory Board since 2000

Helmut Ritzer, 69

Management consultant, member of the Supervisory Board until July 31, 2004

Manfred Strauß, 53

Managing director, member of the Supervisory Board since 1996

Walter Greiner*, 62

Chairman of the ElringKlinger AG workers' council, member of the Supervisory Board since 2000

Dr. Helmut Lerchner

(Chairman since September 16, 2004), 64

Adviser to stock corporations, member of the Supervisory Board since August 1, 2004

Dr. Rainer Hahn, 64

Former member of the Management Board of Robert Bosch GmbH, member of the Supervisory Board since 2000

*Employee representative



Brazil, Argentina, Paraguay and Uruguay: the countries constituting the Mercosur free trade bloc are full of contradictions. From upwardly mobile economic zones to the rain forest of the Amazon basin or the wide expanses of the Pampas. Environmentally friendly mobility is one of the key factors in safeguarding positive economic development and growth in standards of living in these regions.



Brazil

Management Report for ElringKlinger AG and the ElringKlinger Group for the Fiscal Year 2004

Macroeconomic Trend and Business Environment

The **global economy** underwent a recovery in 2004. All economic regions except Western Europe saw strong growth in GDP. The main drivers of economic progress were the USA and China. Even the highs in oil prices, the fear of further terrorist attacks and the uncertainty with regard to the interest rate policy of the US central bank were unable to stem that trend. In the second half of the year the upward trend was consolidated somewhat, though still at a very high level. China established itself alongside the USA as the world's second major motor of economic growth. In Europe, too, the economy profited from the upward trend seen elsewhere, with a slight recovery. The main drivers of growth in the Euro zone were exports. The trend remained well behind global growth rates however.

After three years of stagnation, the **German economy** again recorded some small growth. GDP rose by 1.6 percent in 2004. Even allowing for the calendar effect – there were fewer official holidays in 2004 than in the previous year – an adjusted growth rate of 1.1 percent was attained. The main reason behind this progress was the strong rise in exports, which grew by 10 percent in 2004. The foreign trade surplus contributed 1.2 percentage points to the growth rate. Consumer demand was once again sluggish, declining further in 2004 and showing no signs of reversing the trend. Capital investment also fell for the fourth year in a row. In view of these factors, positive impulses from the development of the global economy played no decisive role in Germany.

Euro zone GDP returned to stronger growth in 2004, rising by 1.8 percent following two weak years. Nevertheless, the relative rise is disappointing in view of the global economic boom and the growth brought by it. A key negative factor hampering growth in the Euro zone, apart from the weak Dollar and high oil prices, was the weakness of domestic demand. The uncertainty among European consumers continued in 2004.

The **US economy** grew by 4.4 percent against the previous year in 2004. Exports fell, with a new record trade deficit of 5.8 percent of GDP being attained. The economy was nevertheless supported by the continuing growth in domestic demand. Consumer spending in the

USA increased by 3.8 percent in 2004, and corporate investment rose by 10.3 percent.

Economic growth in **China** continued unabated. GDP increased by 9.5 percent in 2004, despite measures introduced by the Chinese government aimed at preventing the economy from overheating. Other countries in Asia also maintained their upward trend in 2004.

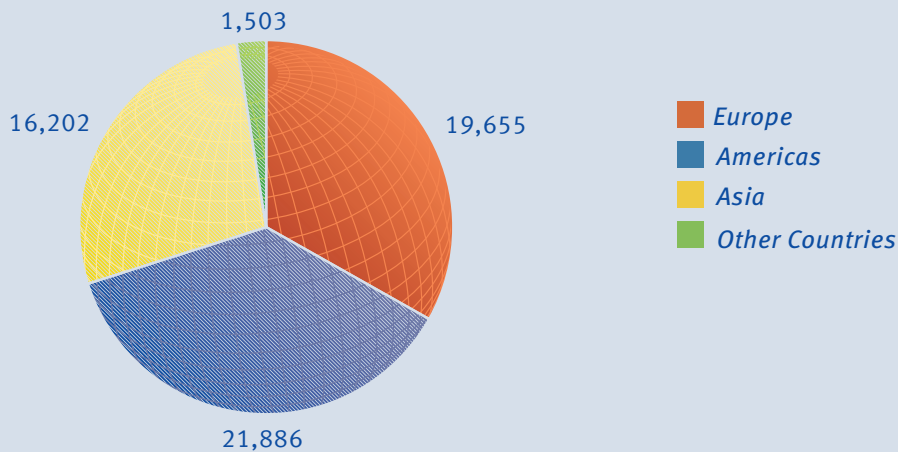
In **Japan** the economy grew by 2.5 percent. The growth rate was well down on expectations however. The main reason was the slowdown toward the end of the year.

Automotive Markets

Worldwide automotive demand grew overall in 2004. In Europe 19.6 million vehicles were registered, up 3.9 percent against the previous year. In the Americas, the figure was 21.9 million vehicles, a rise of 3.3 percent over 2003. The USA underperformed the rest of the Americas, with growth of 1.9 percent. The sales incentives being offered by American manufacturers since late 2001 have rejuvenated vehicle ownership, making new car sales increasingly difficult. In the Asian markets the dynamic progress of the previous year has been sustained. A total of 16.2 million new vehicle registrations represented a 9.5 percent increase. Worldwide automobile sales thus increased in 2004 by 5.3 percent to 59.2 million units.

Worldwide **production** totaled 62.8 million vehicles in 2004. This figure represents a 4.9 percent increase over the 2003 figure of 59.9 million units. 52.7 million cars (including light trucks/SUVs) were produced – 4 percent up on the previous year – and 10.1 million commercial vehicles, representing a 10 percent rise. In Europe production rose by 2 percent, and in the Americas by 2.6 percent. At 16.2 million units, automobile production in the NAFTA region was around the previous year's level. Growth in the Americas was achieved solely in the Mercosur region. With production of 23.5 million units, automobile manufacturers in Asia achieved the highest growth, of 9.5 percent. China produced 5.1 million vehicles,

New Vehicle Registrations 2004
in thousands



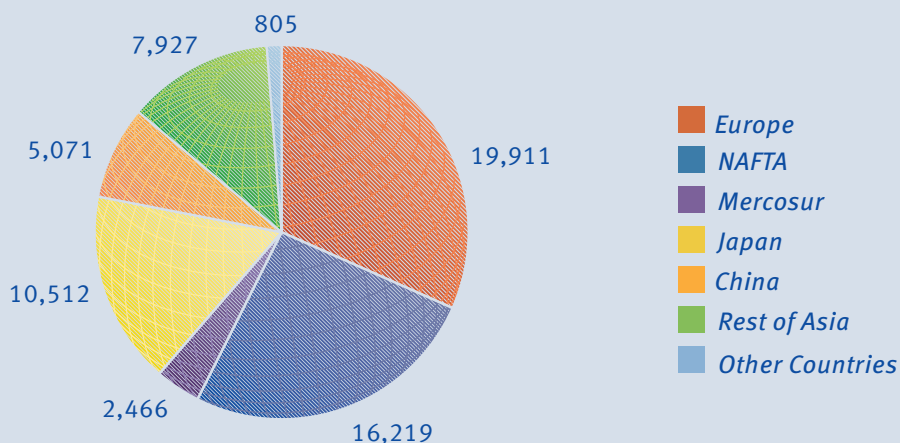
14.1 percent more than in the previous year. China has now moved up to fourth in the worldwide automobile manufacturing rankings.

In **Germany** 5.2 million vehicles were produced in 2004, a year-on-year increase of 1.4 percent. While car sales remained sluggish in the first three quarters of 2004, they picked up in the fourth quarter. German manufacturers profited primarily from further growth in exports.

ElringKlinger products are for the most part engine and transmission components, so demand for them is dependent on the engine but not on the vehicle model. For ElringKlinger, as the market leader in **diesel technology**, the continued trend toward diesel engines seen once

again in Europe in 2004 is gratifying. 48.5 percent of newly registered cars in Western Europe were fitted with a diesel engine in 2004, an increase of 4.8 percentage points against the previous year. In Italy, Spain and France diesel engines represented about 60 percent of the total; in Belgium, Austria and Luxembourg they even accounted for over 70 percent. At 44 percent, Germany's diesel share is in the mid-range in Europe. German manufacturers profited from this trend to a greater than average extent. Production of diesel engines rose by 10.5 percent, while gasoline engines declined by 5.3 percent, and this trend is continuing. In fourth quarter 2004, diesel engines were fitted in nearly 48 percent of all newly registered vehicles in Germany, a rate exceeding the average for the year.

World Automobile Production 2004 in thousands of vehicles



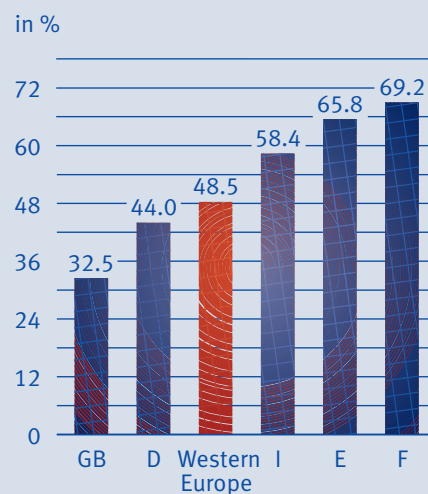
Thanks to ElringKlinger's high market share in this segment, it was once again able to profit heavily from the trend towards diesel engines.

Some 11 percent of ElringKlinger's original equipment sales are generated by products for **commercial vehicles**. The recovery in commercial vehicles markets, especially in Western Europe, therefore had a positive effect in 2004. Registrations of 2.3 million vehicles were 9 percent up on the previous year. Sales of commercial vehicles, which are dependent on the general economic climate, profited from the slight recovery in Western Europe. Increasing transport business in Eastern Europe also boosted the commercial vehicles market.

Sales of light trucks up to 6 tonnes increased by 9 percent, and the segments for medium trucks between 6 tonnes and 16 tonnes and trucks above 16 tonnes each recorded growth of 7 percent in sales.

ElringKlinger supplies its commercial vehicle products mainly to German and Scandinavian truck manufacturers. The strong growth in commercial vehicle sales of German manufacturers therefore also had a particularly positive effect for ElringKlinger. Unit sales of German trucks up to 6 tonnes rose by 13 percent, and over 6 tonnes by 10 percent. German manufacturers represent 30 percent of the Western European market in light trucks up to 6 tonnes, and 41 percent in the segment above 6 tonnes.

Diesel Share of Newly Registered Cars in Western Europe in 2004



Development of Sales Revenue and Earnings, Balance Sheet

Development of Sales Revenue and Earnings

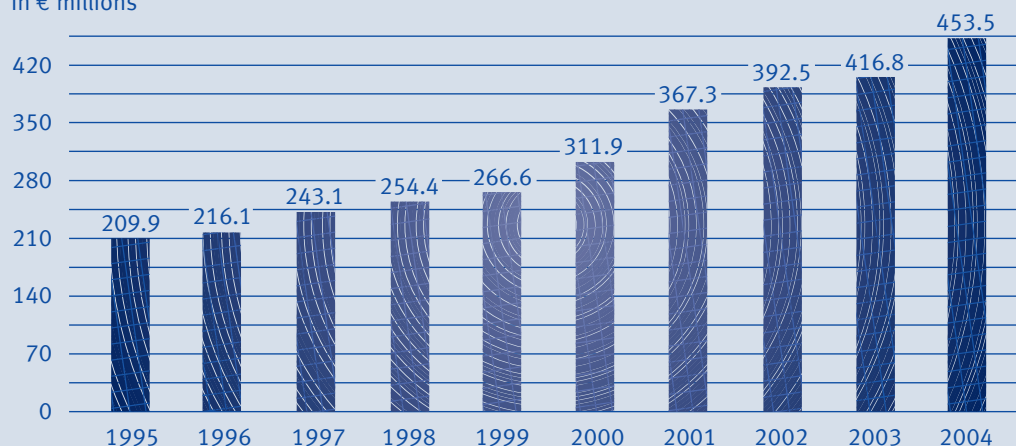
The ElringKlinger Group generated **sales revenue** totaling €453.5 million in 2004, a rise of 8.8 percent against the figure of €416.8 million in the previous year. The Euro gained in value relative to the US Dollar, the Canadian Dollar and the Mexican Peso in 2004. Based on the Euro rate against the US Dollar, the Canadian Dollar and the Mexican Peso at December 31, 2003, Group sales in 2004 would have been €2.7 million higher.

ElringKlinger AG sales totaled €307.7 million (€39.8 million of which was made with subsidiaries and affiliates), up 7.1 percent against the previous year's sales of €287.3 million.

The consolidated sales revenue of the **subsidiaries and affiliates** totaled €185.6 million, up 10.0 percent against the previous year. Gratifying growth was achieved by ElringKlinger S. A., Reus, Spain, with an increase in sales revenue of 84.3 percent. A plastic cam cover module which went into production in 2003 was manufactured in high volumes in Spain in

Ten Years of Sales Growth

in € millions



the year under review. ElringKlinger do Brasil Ltda., Piracicaba, Brazil, likewise increased its sales volumes substantially. A 23.3 percent increase against the previous year resulted primarily from new product startups. ElringKlinger Sealing Systems, Inc., Leamington, Ontario, Canada (+17.8 percent) and ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany (+11.8 percent) upped their sales revenues thanks to higher volumes. The sales revenue of ElringKlinger México, S.A. de C.V., Toluca, Mexico, fell by 9.7 percent, mainly due to the depreciation of the Mexican Peso. ElringKlinger Sealing Systems USA, Inc., Livonia, Michigan, USA, saw a 22.0 percent decline in sales revenue against the previous year. Gaskets supplied by this company to American customers were in 2004 in part shipped directly from the parent company and in part from ElringKlinger's Canadian subsidiary. Reduced call-offs by customers also contributed to the fall in sales revenue. The sales revenue of ElringKlinger (Great Britain) Ltd., Redcar, UK, fell by 6.1 percent, primarily due to price cuts resulting from market pressure.

The **cost of materials** in the Group increased against the previous year by 10.4 percent and in the parent company by 8.4 percent, at an exceptionally high rate compared to the sales revenue. The primary factor in this was the steep rises in steel prices in 2004. Despite the impact of rising commodity prices, overall cost increases were kept modest in 2004. They were compensated primarily by adjustments to personnel costs. Despite a 2.2 percent increase in the contractual collective pay rate in the industry in Germany, the parent company's personnel costs decreased by 2.9 percent, based on a reduction in the number of temporary employment contracts. Group personnel expenditure increased by 2.5 percent.

The **depreciation allowances** on intangible and tangible fixed assets in the parent company were up against the previous year by €6.0 million, or 22.5 percent. Of that figure, €4.0 million was attributable to extraordinary depreciation on the license for a single-layer cylinder-head gasket design concept acquired in 2003.

The concept proved not fully viable, necessitating adjustment of its book value. Explanatory notes on this are contained in the Risk Report (page 70). Another extraordinary depreciation allowance in the amount of €2.4 million was recorded on the real estate in Idstein. ElringKlinger has been attempting for some years to dispose of this site as it is no longer required. It has become apparent that the market value of the property is around €5.0 million. The carrying value of €7.4 million was adjusted downward accordingly in the financial statements of the parent company. This adjustment had no effect in the consolidated financial statements of the Group.

Analyses of earning power also led to depreciation allowances on the book values of ElringKlinger Sealing Systems USA, Inc., Livonia, Michigan, USA, (€2,566 thousand) and Elring of North America, Inc., Branchburg, New Jersey, USA (€230 thousand). Appreciation based on reinstatement of original acquisition cost was recorded for Changchun ElringKlinger Ltd., Changchun, China (€2,180 thousand), and ElringKlinger do Brasil Ltda., Piracicaba, Brazil (€800 thousand).

The **other operating income** in the Group increased by some €1.1 million. The major portion, amounting to around €800 thousand, is attributable to the retransfer of a provision for legal costs. The suit filed by an American competitor against ElringKlinger for infringement of patent was rejected by the US courts in December 2004. Consequently, no further legal costs can be incurred in that case. More details are given in the Risk Report (page 70).

The **operating profit** of the Group totaled €70.7 million, up 31.4 percent against the previous year. The parent company increased operating profit by 29.4 percent to €47.1 million.

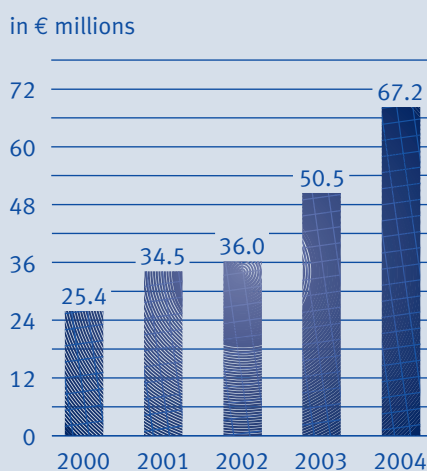
Factors in this gratifying result were the system of cost-oriented management and the implementation of a wide range of rationalization measures, in addition to the growth in sales revenue.

Pretax income from ordinary activities in the Group totaled €67.2 million, 33.1 percent up on the previous year. The interest expenditure decreased by some €300 thousand, because loans were repaid from free cash flow. The pretax income from ordinary activities of the parent company totaling €50.4 million was 19.6 percent up on the previous year.

The trend in earnings among the Group's subsidiaries and affiliates was, with a few exceptions, positive. Above-average increases in earnings were achieved by Changchun ElringKlinger Co. Ltd., Changchun, China; ElringKlinger do Brasil Ltda., Piracicaba, Brazil;

Elring Parts Ltd., Gateshead, UK; ElringKlinger S. A., Reus, Spain; and ElringKlinger Motor-technik GmbH, Idstein, Germany. ElringKlinger (Great Britain) Ltd., Redcar, UK, and ElringKlinger Sealing Systems, Inc., Leamington, Ontario, Canada, recorded a fall in earnings. After returning a pretax profit in the previous year of €1.1 million, the Canadian unit achieved only around €398 thousand in 2004. Exchange rates and increases in commodity prices, for which the company was not fully able to compensate, were the reasons for the decline. ElringKlinger Sealing Systems USA, Inc., Livonia, Michigan, USA, returned a loss in 2004. Tooling costs could not be billed to customers, as had originally been assumed. A provision

Consolidated Pretax Income from Ordinary Activities



for the scheduled relocation of heat shield production to Mexico in 2005 likewise impacted on earnings.

The 2004 **net income** of the ElringKlinger Group totaled €42.6 million, against €27.2 million in the previous year, representing an increase of 56.8 percent. Taxes on income and earnings increased at a relatively low rate compared to the previous year. While pretax profit rose by 33.1 percent to €67.2 million, taxes on income and earnings increased by only 6.1 percent. The lower tax burden than the previous year stems primarily from a law change passed in Germany in 2003, whereby the refunds of corporation tax credits were post-

poned until after payment of the dividend in 2005. This reduced the tax ratio of ElringKlinger AG from 36.6 percent in 2003 to 32.6 percent in 2004. The reduction in the rate of corporation tax in Germany from 26.5 percent to 25.0 percent also had a positive effect on the tax ratio.

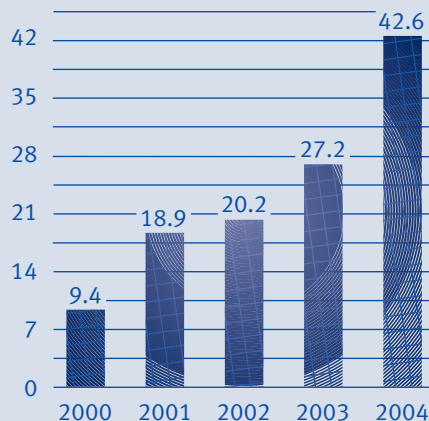
The Group further benefited from higher income at subsidiaries and affiliates in countries with lower tax ratios.

The overall tax ratio of the Group was 36.4 percent.

Broken down by segment, the sales revenue and earnings of the ElringKlinger Group are as follows:

Consolidated Net Income

in € millions



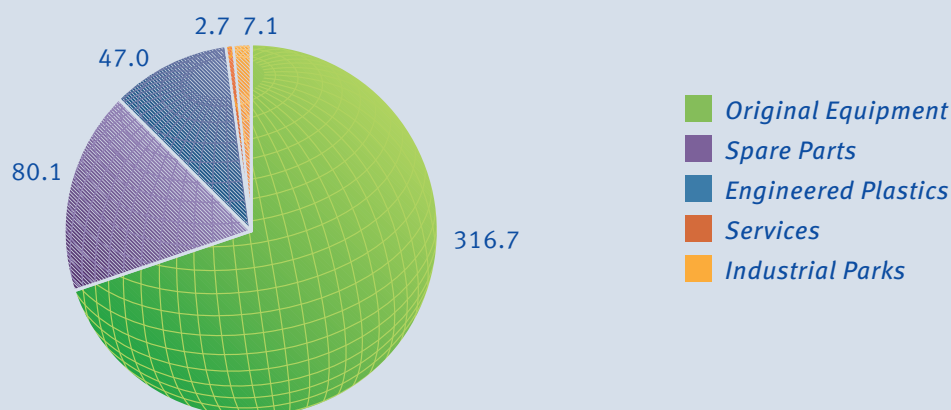
The **Original Equipment** segment, selling primarily to the automotive industry, generated external sales revenue of €316.7 million, up 8.5 percent on the €291.9 million figure in 2003. Pretax income from ordinary activities totaled €41.8 million, against €32.2 million in the previous year, an increase of 29.8 percent.

The **Aftermarket** segment, which sells mainly to the independent aftermarket worldwide, generated external sales revenue of €80.1 million, up 9.0 percent on the previous year's €73.5 million. Pretax income from ordinary activities totaled €13.0 million, against €8.2 million in 2003, an increase of 58.5 percent.

The **Engineered Plastics** segment increased its external sales revenue to €47.0 million. Against €42.0 million in 2003, this represents a rise of 11.9 percent. Pretax income from ordinary activities totaled €8.6 million, against €8.1 million in the previous year, an increase of 6.2 percent.

The **Services** segment, comprising Elring-Klinger Motortechnik GmbH and ElringKlinger Logistic Service GmbH, generated external sales revenue of €2.7 million in 2004, maintaining its previous year level. Pretax income from ordinary activities rose by 116.2 percent from €339 thousand in 2003 to €733 thousand.

Sales Revenue by Segment 2004
in € millions



Balance Sheet

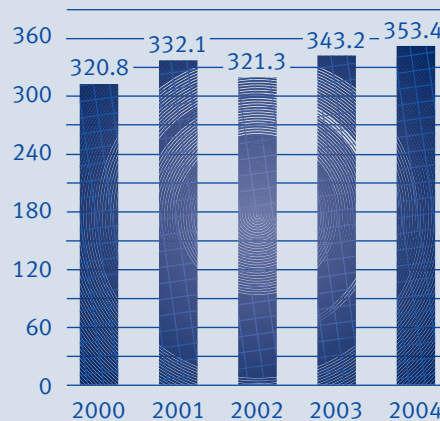
The consolidated balance sheet of the Elring-Klinger Group for 2004 shows **total balance sheet assets** of €353.4 million. This represents an increase of €10.2 million, or 3.0 percent over the previous year. Significant changes occurred for the following items:

The **Industrial Parks** segment, comprising the leased-out sites in Ludwigsburg and Idstein, Germany, and Kecskemét, Hungary, increased its external sales revenue by 6.9 percent against the previous year to €7.1 million. After the situation in 2003, all sites are again fully let, with a new hall in Hungary being added in 2004. Pretax income from ordinary activities rose from €1.7 million in 2003 to €3.1 million. The exceptionally high increase in earnings in relation to the sales revenue stems from the fact that the previous year's earnings were depressed by modification and renovation costs for the Ludwigsburg site.

The **intangible assets** of the Group decreased by 22.0 percent, mainly because of the extraordinary depreciation allowance in respect to the license for a single-layer cylinder head gasket as already outlined. Among the tangible assets, the "Manufacturing equipment and machinery" item increased by 9.6 percent as a result of rationalization measures and investments to expand capacities.

Total Balance Sheet Assets of the ElringKlinger Group

in € millions



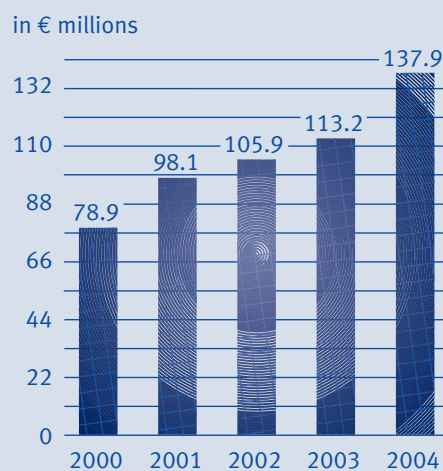
The **inventories** of the Group increased by 13.1 percent. The major reason for this was the build-up of merchandise stocks in the parts business. Expansion of the parts range generated additional sales revenue, but also necessitated an increase in inventories, in order to ensure delivery capability at all times. ElringKlinger is working intensively on optimizing its supply chain management, with a view to safeguarding delivery capability at lower in-stock levels.

The share capital has doubled from €28.8 million to €57.6 million as a result of the increase in capital from corporate funds passed by the AGM on June 2, 2004. The capital re-

serve and the legal reserve decreased accordingly. The Group's equity ratio at December 31, 2004 was 39.0 percent. This means ElringKlinger's target of 40.0 percent has virtually been reached.

The **balance sheet assets** of ElringKlinger AG totaled €355.0 million in 2004, against €351.3 million in the previous year, an increase of 1.1 percent. The capital increase is reflected on the balance sheet of ElringKlinger AG as well as on the consolidated balance sheet. The stockholders' equity increased by 12.6 percent from €154.3 million to €173.7 million. The equity ratio of the parent company was 48.9 percent – well above the 40.0 percent target.

Stockholders' Equity in the Group



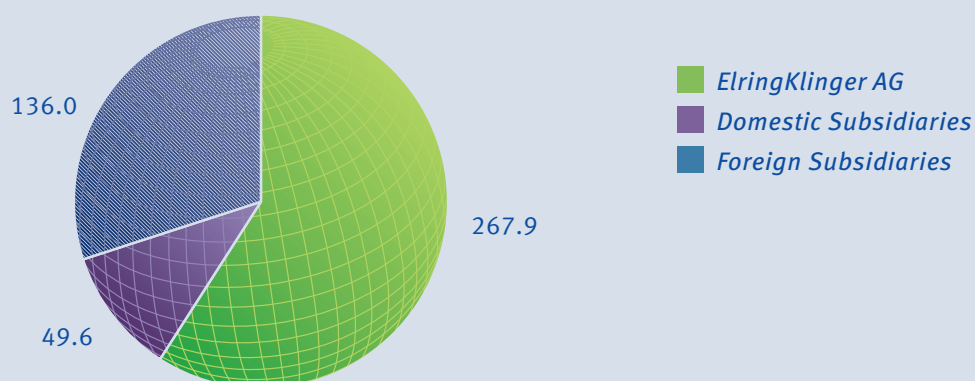
Subsidiaries and Affiliates

In 2004 the ElringKlinger Group was made up of ElringKlinger AG and 17 active and fully consolidated subsidiaries. ElringKlinger Kunststofftechnik GmbH, ElringKlinger Motortechnik GmbH and ElringKlinger Logistic Service GmbH are based in Germany. Of the remaining subsidiaries, six are located in Europe, five in the NAFTA region, one in South America, one in Asia and one in South Africa. ElringKlinger holds the majority share in those companies. There are also two 50:50 joint ventures and one minority holding, all in Asia. The three companies are valued in the consolidated financial statements at equity.

The ElringKlinger Group is thus represented worldwide in all major vehicle-producing countries, meeting the needs and wishes of its global customer base.

ElringKlinger Kunststofftechnik GmbH manufactures custom high-performance engineered plastic (PTFE) parts. It sells to automotive manufacturers and suppliers (representing around 28 percent of total sales revenue); to engineering companies (around 42 percent of sales revenue); to the medical technology industry; and to other industrial customers (around 30 percent of sales revenue). In the year under review, ElringKlinger Kunststofftechnik won more

Net Sales Accounted for by Subsidiaries 2004
in € millions



than 300 new customers. Some 440 new products were developed, produced and delivered to customers in 2004.

ElringKlinger Motortechnik GmbH carries out engine test bench projects for the automotive industry and its component suppliers, supplemented by an extensive range of engineering services. The ElringKlinger Motortechnik customer base was increased by seven in 2004. In projects for ElringKlinger AG and for external customers, engines with outputs of between 50 kW and 550 kW are tested, with the test results undergoing detailed analysis.

ElringKlinger Logistic Service GmbH serves primarily the parent company's Spare Parts division. It assembles gasket sets, tailored to the needs of service centers, consisting of parts manufactured by ElringKlinger Group and parts purchased from suppliers. In 2004 additional orders were acquired from third-party firms. The aim of ElringKlinger Logistic Service GmbH is to expand its customer base still further.

The ElringKlinger Group provides development and delivery services in line with customer requirements in the automotive industry. Three of the international subsidiaries and affiliates specialize in selling to the independent aftermarkets.

In Europe, ElringKlinger (Great Britain) Ltd., based in Redcar, UK, manufactures cylinder-head gaskets, special-purpose gaskets and shielding components for the automotive industry. The labor cost advantages offered by the UK favor the unit's more labor-cost-intensive production. Special-purpose gaskets and heat shields are being manufactured to an ever greater extent in the UK. The capital-intensive production of metal-layer cylinder-head gaskets will be relocated from the UK to Germany in 2005, in order to utilize ElringKlinger Group capacities to the optimum. In Spain, ElringKlinger S.A., Reus, manufactures sealing materials, rubber seals and cylinder-head gaskets and special-purpose gaskets for older models to meet the needs of the independent aftermarket business. ElringKlinger Sealing Systems S.L., Reus, is a production company manufacturing plastic cam cover modules.

In the Americas the production centers are ElringKlinger Sealing Systems, Inc., Leamington, Ontario, Canada; ElringKlinger México, S.A. de C.V., Toluca, Mexico; and ElringKlinger do Brasil Ltda., Piracicaba, Brazil. These facilities supply the automotive industry with the complete range of products offered by the ElringKlinger Group. ElringKlinger Sealing Systems USA, Inc., Livonia, Michigan, USA, also manufactured heat shields in the year under review. This production will be relocated to Mexico in 2005. The US ElringKlinger unit will then operate primarily as a sales and development center, serving original equipment customers in the greater Detroit area.

In Asia, ElringKlinger manufactures cylinder-head gaskets and special-purpose gaskets for the automotive industry. Changchun ElringKlinger Ltd., Changchun, China, and the joint venture Jeil Elring Co. Ltd., Changwon, South Korea, are the centers of production. In Japan, in March 2004, ElringKlinger established a new sales and development company jointly with the Marusan Corp., Tokyo, in which it has held a minority share for many years. ElringKlinger Marusan Corp., based in Tokyo, was awarded development contracts by Japanese customers within the first nine months of launching its

operations. Many projects with Japanese customers previously handled by the parent company are now being managed locally, offering even faster response times and a further enhancement of customer service.

ElringKlinger's position on the independent aftermarket is also maintained by local sales companies in the UK, the USA and South Africa. Elring Parts Ltd., Gateshead, UK, achieved pleasing sales growth in the year under review based on a substantial expansion of its product range in response to further growth in the independent aftermarket business of an engine component manufacturer. The aim is to include further products in the range, with the medium term goal of offering a complete selection of engine components.

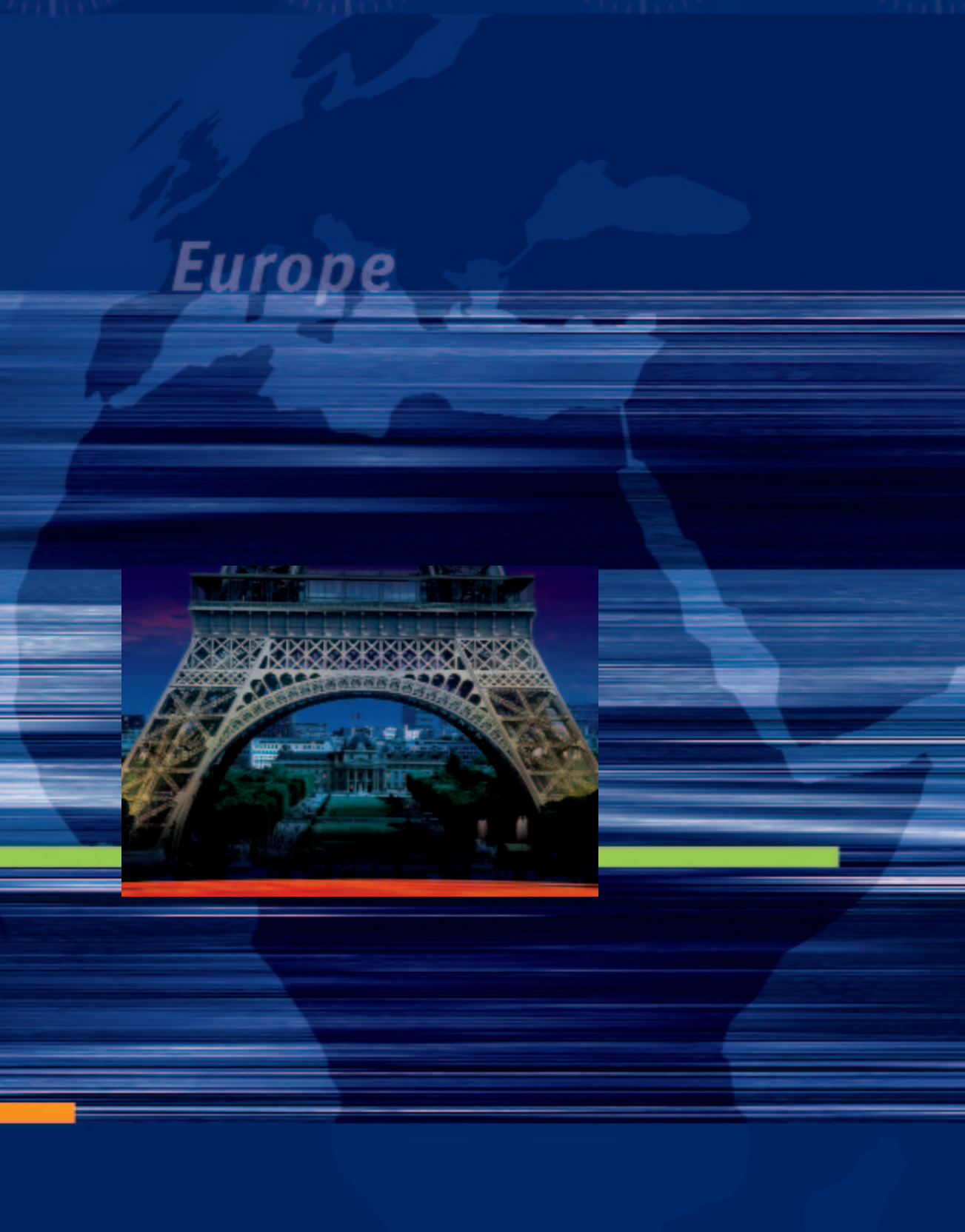
The ElringKlinger subsidiaries and affiliates generated consolidated sales revenue of €185.6 million in 2004, up 10.0 percent on 2003. They thus once again made a major contribution to the Group's total consolidated sales revenue of €453.5 million in the year under review. Healthy market potential in North and South America, and especially in Asia, means further growth can be expected from the subsidiaries and affiliates.

Overall in the year under review, the earnings of the subsidiaries and affiliates were gratifying despite some declines in individual cases resulting from various factors. The non-consolidated pretax profit totaled €25.5 million, 8.8 percent up on the previous year.

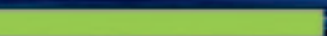
With the exception of ElringKlinger Sealing Systems USA, Inc., Livonia, Michigan, USA, all ElringKlinger Group companies again made a profit in 2004.

Making connections. Interlinking systems. Europe's countries are coming together, developing its automotive profile of the future. Differentiated vehicle design concepts are meeting ever more individualized needs to a consistently high standard. Quality, economy and ecology have long since ceased to be at odds. Innovation is setting new benchmarks in a wide variety of markets.





Europe



Capital Investments

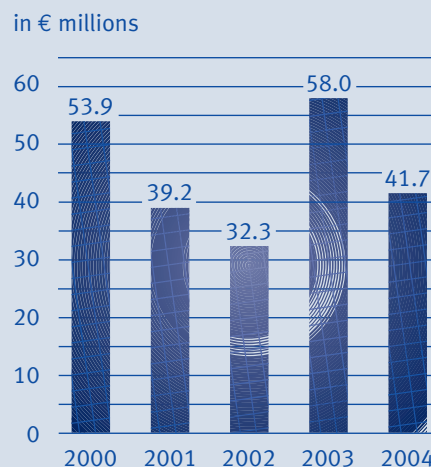
The ElringKlinger Group invested a total of €42 million in intangible and tangible fixed assets in 2004. Against the 2003 figure of €58 million, capital investments thus decreased by €16 million. In response to the high level of capacity utilization in the previous year, further substantial investments were made in 2003. The one-off payment for an exclusive worldwide license for a new single-layer cylinder-head gasket technology also boosted investment volumes in 2003. Capital investments were also reduced

to a lower level in the year under review due to the additional capacities created in the previous year.

Some 55 percent of Group funds invested were allocated to the procurement of new machinery for new product startups and around 35 percent to rationalization projects.

The focus of capital investments by the parent company was on plastic cam cover modules, with the construction of a new hall begun in the previous year reaching completion.

Group Investments in Intangible and Tangible Fixed Assets



necessitated by scheduled expansions of production at both sites.

Production capacity in this fast-growing area of the business was expanded once again. The procurement of a number of fully automated assembly lines brought further rationalization in this division. The Cylinder-Head Gaskets and Special-Purpose Gaskets divisions invested in additional presses and new automation systems for assembly lines. A major investment was the installation of a regenerative post-combustion plant for the thermal utilization and combustion of solvent emissions from coating plants at the Dettingen facility. Substantial funds were also invested in production control software.

At the Piracicaba, Brazil and Toluca, Mexico sites, construction was started on new halls,

The Brazilian subsidiary ElringKlinger do Brasil Ltda., based in Piracicaba, acquired a 20,000 square meter site for construction of the new hall in 2004.

The Industrial Parks division, which does not belong to the core business, has constructed a new 5,000 square meter hall at the Kecskemét site in Hungary. The hall is let out on a long-term lease to the Hungarian production unit of a German corporation.

For 2005 the ElringKlinger Group plans total investments of €42 million.

Research and Development

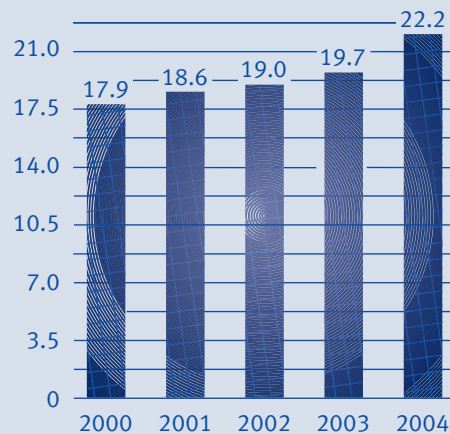
As in previous years, ElringKlinger maintained its research and development activities at a high level in 2004. **Research and development expenditure** in the year under review totaled around €22 million, 12.7 percent more than in the previous year. This meant ElringKlinger invested some 5 percent of its total Group sales revenue of €453.5 million in this area. The parent company's Research and Development department employed some 150 people in 2004, for the most part engaged in providing R&D services to the Group. In the year under review 10 patents were issued and 22 published. The main area of patenting was in the field of cylinder-head gaskets, fuel cells and shielding

components. This is a demonstration of ElringKlinger's innovative strength, and underscores the company's technology leadership in its core business.

In the **cylinder-head gasket** field, ElringKlinger made significant progress in its gasket/sensor innovation in 2004. In order to comply with new, stringent emissions standards such as the Euro 5 standard, engine developers are confronted with the challenge that measurements must be taken in the engine's combustion chamber. The technology developed by ElringKlinger, involving the combination of cylinder-head gaskets with piezo sensors, is proving increasingly well suited to meeting those demands. Engine testing in the year under review showed that these sensor seals are able to measure combustion pressures to a

R&D Expenditure

in € millions



high degree of accuracy, thus indicating that this technology is superior to other methods. The readings obtained with the ElringKlinger sensor seal permit cylinder-specific fuel injection, enabling more stringent emissions limits to be met. The fuel consumption is reduced by the sensor technology. With this development, ElringKlinger is making a further contribution to the delivery of environmentally friendly, individualized mobility. Cylinder-head gaskets with sensor technology were presented to a number of ElringKlinger customers in 2004. There is a great deal of interest, so ElringKlinger is driving forward the development of this technology.

We reported last year on the development of fuel components and high-temperature seals in **SOFC fuel cells**. In 2004, substantial progress was made with this project, being conducted in conjunction with a customer and various research bodies. An entirely new sealing concept was developed, permitting rapid heat-up of the fuel cells to their operating temperature of 800°C and rapid cooling. The fuel cells, used onboard vehicles for power supply, must reach

their operating temperature rapidly once the vehicle starts up – a problem that had previously remained unresolved. The new ElringKlinger sealing concept is thus a major step toward meeting this key requirement in terms of production readiness.

The **Special-Purpose Gaskets** division made a major breakthrough in the development of high-precision transmission plates for control of automatic transmissions in 2004. A large number of openings are precision stamped into these approximately 2 mm thick steel or aluminum plates in a technically sophisticated and complex process. The openings in some cases have diameters of just a few tenths of a millimeter. After the stamping process they are subjected to mechanical surface treatment, cleaning, bonding agent application, and screen printing. The rubber coating applied in the screen printing process meets the highest technological demands. ElringKlinger has developed chemical bonding agents for this which ensure a permanent bond of the rubber coating on the metal. The manufacturing method ensures

robust functionality of the parts over the entire life of the transmission. ElringKlinger has achieved virtual exclusivity on the market with this product. It will be going into production on a fully automated line in 2005, offering ElringKlinger significant potential for growth. Transmission manufacturers expect the proportion of automatic transmissions fitted in new vehicles in Europe to rise from the current 20 percent to over 50 percent by 2012. In North America and Asia automatic transmissions already account for 90 percent of the total.

In the field of **shielding technology** ElringKlinger developed technically complex shielding components for diesel particulate filters in 2004. These increasingly widespread filters reach temperatures of up to 1000°C in the combustion of soot particles. They therefore need to be shielded so as to prevent damage to other heat-sensitive components. Whereas ElringKlinger has to date deployed its shielding technology almost exclusively for engines, exhaust manifolds and catalytic converters, in the year under review it for the first time also developed

and presented to customers a range of shielding components for the rest of the exhaust tract. This expands the area of application of shielding components from the exhaust manifold, to the pre-catalyst and the catalytic converter, as far as the exhaust muffler.

ElringKlinger's **Elastomer Components/Modules** division for the first time developed plastic covers with gaskets for transmissions in 2004. The plastic covers replace metal ones. ElringKlinger has already deployed this principle of substituting heavy and expensive metals in its cam cover modules. The company has developed extensive plastics know-how, and combines it with years of experience in rubber seals. This know-how has now been applied to the field of transmissions. Start of production of these new components is scheduled for 2005.

ElringKlinger was awarded over 500 development contracts in 2004. This high number demonstrates the importance of ElringKlinger as an expert and reliable development partner. The focus is on project-related developments.

ElringKlinger's team of outstandingly qualified development engineers strive to continually optimize products in terms of functionality, durability and price. This approach enhances close and constant customer/supplier relations. Alongside product-related development, ElringKlinger also undertakes basic development work in order to offer customers new products extending beyond the scope of the existing range. One example of this is the cylinder-head gasket with integral sensor technology already mentioned; the transmission plate; and the development of a combustion engine and fuel cell combination.

Purchasing Operations

Purchasing by the ElringKlinger AG parent company in 2004 totaled €169 million. In the ElringKlinger Group as a whole it amounted to €280 million.

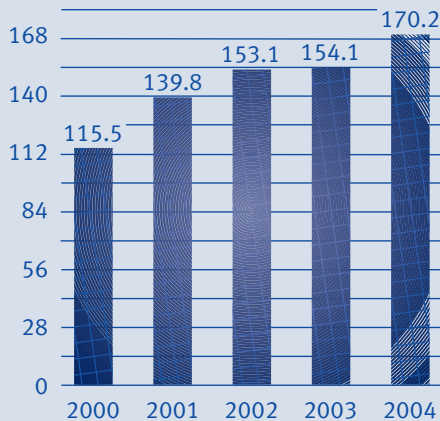
Steel and stainless steel make up some €45 million, or 27 percent, of the parent company's total purchasing. The international steel and stainless steel markets were marked by rapid price increases. Increases in C-steels were especially notable, rising much more dramatically than the stainless steels. The price of a tonne of C-steel virtually doubled between January and December 2004. ElringKlinger was only able to resist the rising price pressure in stainless steel precision strips in various qualities, its key raw material, to a limited extent.

The base price of these commodities was secured through December 31, 2004 by means of multi-year framework contracts with the suppliers. Nevertheless, the substantially increased alloy surcharges on these commodities did burden the parent company with an additional charge of €800 thousand. Costs were offset by an intelligent scrap recycling scheme.

The purchasing organization of the ElringKlinger Group was further optimized in 2004 following its restructuring in 2003. The supplier assessment system, which lays down objective and measurable criteria for the assessment of ElringKlinger's suppliers, was refined further. It permits precise and measurable appraisal of suppliers in terms of quality, delivery, reliability

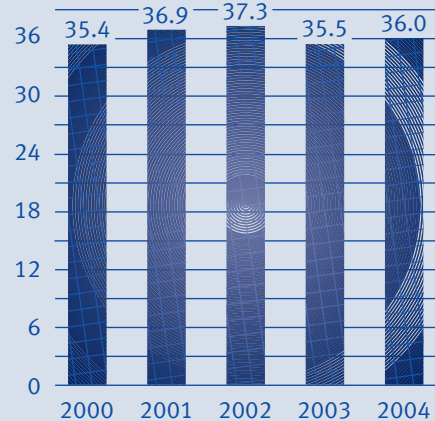
Group Material Cost

in € millions



Group Material Cost Ratio

in %



and price transparency. Highly-rated suppliers can build on long-term supply relationships with ElringKlinger, while those achieving below-average ratings are not contracted for new developments. Purchasing operations were also optimized by the further consolidation of requirements from all ElringKlinger Group companies worldwide. The resultant economies of scale enabled ElringKlinger to achieve price reductions on a number of commodities and components.

ElringKlinger further globalized its **supplier base** in 2004. Almost all demand is now sourced globally from a broad supplier base, delivering substantial cost savings. Despite this global approach to sourcing, the number of ElringKlinger suppliers did not increase in 2004. ElringKlinger was able to further strengthen its position with its key A-suppliers, in particular, by bundling its demand. This benefits service, customer support, delivery, quality and price, and offers ElringKlinger additional potential to cut costs.

A key task of the ElringKlinger Central Purchasing department, alongside sourcing commodities for the Group's needs, is the purchasing of **machinery and plant**. In this, too, the success resulting from globalization and

optimized collaboration with the international subsidiaries is in some cases obvious. This included the coordination by Central Purchasing of machinery procurement for the plants in the UK, Canada, the USA, Mexico and China. This international collaboration also enabled a new press to be purchased for a German plant at low cost in Brazil.

In 2004 ElringKlinger for the first time awarded contracts to suppliers by way of **Internet auctions**. Based on predefined parameters, a specific requirement is put out to tender via the Internet. The experience gathered to date indicates that these auctions can be executed at low cost and with highly gratifying results in terms of the purchase prices achieved. Cost saving potential of this kind will continue to be utilized in future.

ElringKlinger is continuing to drive forward the **globalization** of its purchasing operations, and will be opening up more international procurement markets. At the same time, purchasing processes are being optimized, particularly with regard to C-articles. Increasing the number of framework contracts and the introduction of an online catalog program is simplifying processes, making them leaner, and cutting costs.

Employees

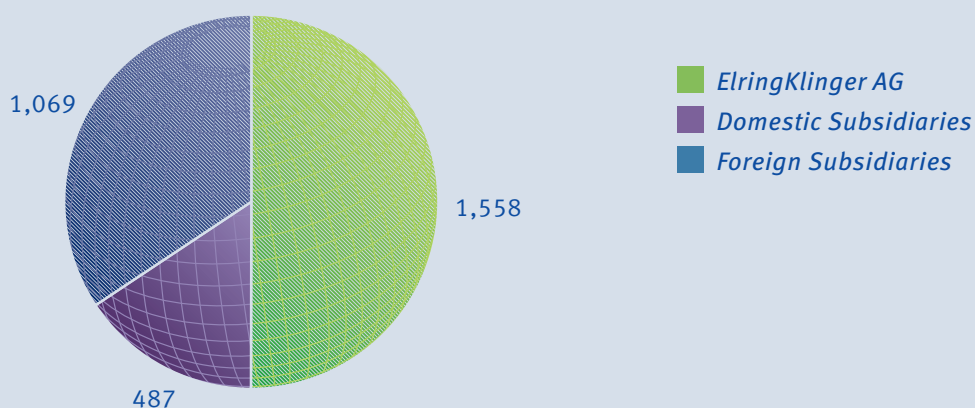
At December 31, 2004, the ElringKlinger Group employed a total of 3,114 people, 29 fewer than in 2003. An average of 3,122 persons were employed by ElringKlinger Group-wide over the year under review. The average number of employees in the previous year was 3,055.

The Group employed 2,045 people in **Germany** at the year-end, 33 fewer than in 2003. At the locations outside Germany the workforce increased by 4, from 1,065 to 1,069. The slight decrease in Germany resulted from the expiration of temporary contracts.

Expenditure on wages and salaries, including social security contributions, fell by a slight 2.5 percent in 2004 from €131.7 million to €135.0 million. Compared with operating performance, the personnel expenditure ratio decreased from 30.4 percent in the previous year to 28.6 percent, demonstrating the increased levels of productivity of the ElringKlinger Group.

72 **apprentices** were undergoing training at ElringKlinger in a total of 13 different trades at December 31, 2004. This represents a further increase against the previous year (69), demonstrating the high priority ElringKlinger

Employee Distribution at December 31, 2004



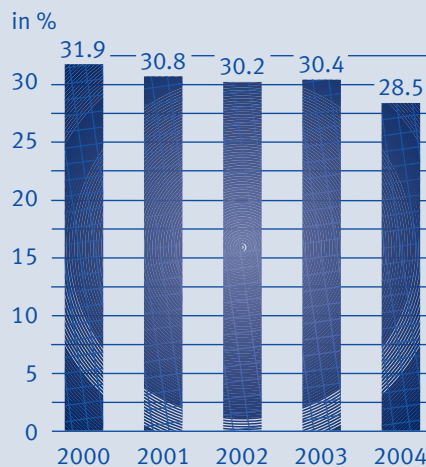
assigns to the education and training of young people. As in previous years, all apprentices were taken on in permanent employment on successful conclusion of their apprenticeships in 2004.

Employee training plays a key role at ElringKlinger. In the year under review, 602 employees at the German locations underwent a total of 8,120 hours of training to acquire further qualifications. The focus was on quality assurance, training of sales staff, and language courses.

ElringKlinger's commitment in this regard pays off not only in terms of the continuously rising level of qualification of its employees. The company's broad training program also promotes employee satisfaction and loyalty. This is demonstrated most notably by the **low fluctuation rate**, which at the German locations is below one percent. 27 employees of the ElringKlinger Group marked their 25-year anniversary with the company in 2004; two employees celebrated 40 years' service.

Another sign of the close relationship between the company and its employees was the **125th anniversary**, which ElringKlinger

Group Personnel Expenditure Ratio



marked by a major celebration in Dettingen, attended by some 3,000 current and former employees along with their families.

As a high-tech corporation, ElringKlinger relies not only on the ongoing advancement and further qualification of its employees. The **recruitment** of new specialist and management staff is also a key aspect of the company's employment policy. It pursues a strategy of bonding new young employees with specialist and management potential to the company at the earliest possible stage. In the year under review an average of 20 students were engaged

in practical training or degree thesis work at ElringKlinger at any one time. This practice has in the past resulted in many of the young people involved being subsequently recruited to work at ElringKlinger. By way of cooperation agreements with a number of universities and technical colleges, the company maintains continuous contacts with students, ensuring close access to up-and-coming specialists as potential employees. Attendance at university and college recruitment fairs is part of the company's recruitment strategy. In 2004 ElringKlinger once again attended Germany's largest graduate recruitment fair in Cologne, among others.

Educational Programs at ElringKlinger

Industrial clerk	Business economist (UCE)
Industrial mechanic	specializing in industrial economics
Tool mechanic	Commercial IT engineer (UCE)
Process engineer in rubber and plastics technology	Commercial engineer (UCE)
Chemical engineer	Engineer (UCE)
Technical drafter	specializing in mechanical engineering
Machine and equipment operator	Engineer (UAS)
	specializing in mechanical engineering
	Bachelor of mechanical engineering

*UCE = University of Cooperative Education
UAS = University of Applied Sciences*

A key element in the ElringKlinger corporate policy is the awareness of social and community responsibility. That sense of responsibility is embodied in ElringKlinger's cooperation with workshops for the disabled. Simple sorting and assembly jobs are regularly outsourced to such institutions.

The entire workforce of the ElringKlinger Group again made a major contribution to the success of the company in 2004. Their flexibility and outstanding commitment enabled the business to continue on its route to success. We would like to express our very sincere thanks to all employees for their efforts throughout 2004.



The markets of Asia are growing rapidly. At the same time, infrastructural and mobility needs are increasing. To fulfill that growth potential with innovative products is the challenge of the future. And at the heart of it: ElringKlinger.



Risk Report

The risk management system in use at ElringKlinger for years was further enhanced in the year under review. The system, conforming to German law governing corporate controls and transparency and to stock market regulations, was fully integrated into the company's global quality assurance process. All subsidiaries and affiliates worldwide, as well as all the business units of the parent company, automatically receive structured risk questionnaires twice a year. The unit managers assess potential risks according to their relevance, probability of occurrence and significance, and propose measures to avoid risk and to counteract it should it occur. Within the framework of the quality assurance process the implementation of the risk-avoidance measures and the countermeasures in the event of risk occurring is continuously monitored. This helps to minimize risk, detect it promptly, and initiate appropriate countermeasures as required.

ElringKlinger's risk management system has proved reliable and successful to date. It has also served as a model for other companies in implementing their own systems.

Routine monthly reporting is also an integral element of the ElringKlinger risk management system. The Management Board, directors of the subsidiaries and affiliates and business unit managers of the parent company report on a monthly basis on the trend in business and results, submitting updated forecast figures. This sharpens awareness of potential risk, and allows countermeasures to be taken promptly.

In addition to the internal risk detection measures, an independent external auditor is commissioned to carry out audits at subsidiaries and affiliates as well as within the divisions and service units of the parent company. At least four audit projects a year are conducted,

with supplementary auditing as and when required. The audits monitor compliance with legal requirements and with internal rules and regulations, as well as assessing appropriate organizational structures, orderly bookkeeping, adherence to quality standards, and so on. The projects undertaken to date have always delivered valuable indications of how ElringKlinger can improve organization, make processes leaner, and improve transparency. The Management Board of ElringKlinger regularly orders beneficial proposals arising from the audits to be applied, and monitors their implementation.

Specific risks:

Exchange rate risk

As a global corporation, ElringKlinger is exposed to foreign exchange rate risk. The company counters that risk by way of a needs-oriented

strategy. By locating production facilities in the respective countries, the exchange rate risk is minimized right from the source. ElringKlinger operates production facilities in a number of different countries. They supply their customers locally, and bill in local currency. Material purchasing by the international units can result in exchange rate risk. ElringKlinger counters this in part by having the international subsidiaries bill in Euros for services they render for the parent company. This provides all the member companies of the ElringKlinger Group with a certain currency portfolio, enabling them to pay for purchases in the local currency of the supplier. The residual exchange rate risk is partially hedged by way of forward currency contracts. In the year under review the parent company had hedged 50 percent of this risk in such a way. Of the total amount hedged, 15 million was in Canadian Dollars, 2 million in US Dollars and 1.5 million in British Pounds Sterling.

Legal risk

In the year under review ElringKlinger faced product liability suits from two customers. In neither case is ElringKlinger responsible for the loss suffered. In the event of such responsibility being proven, there is comprehensive product liability insurance coverage, which also covers the cost of any recall of vehicles by an automobile manufacturer.

The risks of fire, interrupted production and natural disaster are covered by an all-risk policy covering the entire ElringKlinger Group worldwide.

Last year we reported on the lawsuit filed against ElringKlinger by our US competitor Federal Mogul for infringement of patent. The Federal Mogul suit in the USA was countered by a claim to the court of mediation in Germany, based on an existing mediation agreement in place between the parties. Application was made to the US court for the suit to be rejected, or alternatively suspended until settlement of the mediation proceedings. The US court

agreed with ElringKlinger's argumentation, and in December 2004 the suit was rejected as being outside the court's jurisdiction. Jurisdiction was determined to lie with the German mediation court. In view of the case submitted to the mediation proceedings to date, a positive outcome for ElringKlinger seems likely.

The technology acquired by ElringKlinger in 2003 for the manufacture of a single-layer, topographically embossed cylinder-head gasket did not prove fully viable. Some elements of the concept can be utilized for ongoing in-house developments. As already mentioned, the parent company recognized an extraordinary depreciation allowance in the amount of €4 million in this respect. As the value of the transferred know-how does not match the one-off payment made for this technology, ElringKlinger filed suit for partial repayment against the licensors in 2004. The initial hearing in December 2004 indicated that the court is in essence in agreement with the case put forward by ElringKlinger.

Purchasing risk

The increase in steel prices in the year under review has continued into 2005. ElringKlinger has entered into contracts with steel suppliers through to December 31, 2005 which entail price increases of 9.1 percent relative to the previous contracts which expired on December 31, 2004. Such framework contracts do not as a rule specify the surcharges for alloys. They are subject to general pricing trends. ElringKlinger does, however, anticipate that the alloy surcharges will stagnate at their existing high level, or even fall.

Market risk

The automotive markets have begun 2005 sluggishly. A number of ElringKlinger customers

have not yet reached their planned production and sales figures, though they are confident that their planning targets for the full year 2005 will be met. Nevertheless, ElringKlinger is increasingly being confronted with demands for price cuts.

Concluding assessment

All commercial activity entails opportunity and risk. To utilize opportunities and minimize risk is the object of responsible corporate management. The overall appraisal of risk and opportunity by ElringKlinger reveals no trend or developments which may negatively affect the earnings, assets or financial position of the Group in the long term, and therefore have any impact on the economic situation in the Group.

Environmental Report

A responsible approach to the environment and conservation of raw materials and energy are key goals of ElringKlinger's corporate policy. All the plants of ElringKlinger AG and nearly all the production facilities of the subsidiaries are certified to the globally recognized DIN ISO14001 standard. It stipulates the establishment and operation of a successful environmental management system, ensuring the necessary measures to protect the environment are implemented in a product- and process-oriented manner. All processes and procedures are recorded and monitored in an integrated quality and environmental management system.

The key aspects of ElringKlinger environmental policy are the limitation of emissions, conservation of energy, responsible handling of hazardous substances, water pollution prevention and reduction of waste. ElringKlinger ensures compliance with all legal requirements based on correct and proper handling of the relevant materials and use of state-of-the-art technologies.

Environmental protection activities are comprehensively coordinated by the central Quality department of ElringKlinger AG. Designated representatives for emissions control, waste management, hazardous substances and water conservation, as well as for health and safety at work and fire prevention, have been appointed. Regular training courses ensure a continuous interchange of information. In 2004 an internal training seminar on environmental protection and health and safety at work was once again held for all management staff.

A major investment in the year under review was the installation of a new regenerative post-combustion plant at the Dettingen facility. The system burns off the solvent emissions arising from the coating of gaskets autothermally, meaning that no additional energy is required for the process. This investment therefore not only ensures environmentally friendly combustion of the rising solvent emissions, it

also helps to make substantial savings on the energy required by the previous post-combustion plant.

All divisions of the company operate detailed energy saving programs. The reorganization of machinery power-up and shutdown processes since 2004 onward ensures that machinery is only in operation when it is actually needed. This has further reduced energy consumption.

ElringKlinger reduced its specific consumption of hazardous substances in all areas, even though the rise in volumes increased consumption of raw materials in absolute terms. In Dettingen a new centralized hazardous substances warehouse was put into operation.

The Dettingen facility is located inside a water conservation area. Consequently, all its plant and machinery is designed to safely prevent the risk of harm to water courses from the escape of hazardous substances. In 2004 a new evaporator was put into operation to treat the waste water from the washer plant.

Over 95 percent of all waste generated by ElringKlinger is recycled. A change in technology running a coating plant enabled detergent waste to be reduced from 90 tonnes in 2003 to 38 tonnes in the year under review.

Since 2004 all ElringKlinger product coatings have been based on lead-free systems. In doing this, the company has complied with the requirement contained in the EU End of Life Vehicles Directive stipulating that chromium IV and lead should no longer be used. The overwhelming majority of products were switched to chromium IV-free corrosion-proofing coatings. All ElringKlinger customers are provided with detailed information as to all constituent materials and the recyclability of parts. Information about constituent materials is provided via the International Material Data System (IMDS).

ElringKlinger's environmental policy also incorporates its suppliers. They are required to implement an environmental management system in accordance with DIN ISO 14001. More than half of suppliers are already certified. The aim of ElringKlinger is to have all its suppliers certified by no later than 2008.

Follow-up Report

The following events of special note occurred after the end of the fiscal year:

On January 27, 2005 Mr. Sebastian Merz resigned his post as Chairman of the Management Board of ElringKlinger AG. His resignation was submitted in writing to the Chairman of the Supervisory Board. The Supervisory Board voted unanimously to accept his resignation. The Supervisory Board and Mr. Merz agreed to

maintain confidentiality as to the reasons for his resignation.

The Supervisory Board has appointed Dr. Stefan Wolf and Mr. Karl Schmauder to the Management Board of ElringKlinger AG effective January 27, 2005. Dr. Wolf has been appointed its Spokesman.

No other events of special note occurred between December 31, 2004 and the date of this Report going to press.

Outlook for 2005

The modest economic growth expected in 2005 has not yet occurred. In Europe economic growth is sluggish, and in Germany the economy is even declining. The high levels of unemployment in Germany resulted in a further drop in consumer spending relative to 2004. The inability on the part of the political establishment to reform the public finances and social security systems is having negative effects on economic development. Vehicle production and new vehicle registrations in Europe are to date below previous year levels. In America, too, vehicle production has been sluggish so far in 2005. Demand levels are low. The only growth trends to be seen are in Asia, though demand and production in China have cooled. The overall prospects for 2005 are therefore modest.

Automobile manufacturers are suffering the impact of increased material costs as well as declining demand. The resultant cost saving programs incorporate additional demands for price cuts from component suppliers, who themselves are being affected by rising commodity prices, especially of steel. These demands for price reductions are persisting in 2005.

Overall, ElringKlinger forecasts no significant improvement in the economic climate during 2005. Nevertheless the company will be able to increase its sales revenue and earnings by its own efforts in 2005, thanks primarily to new product startups and by segmental growth in engines in which ElringKlinger has an above-average share. Any recovery in the economic cycle in the course of the year would be an added bonus.

The trend in the sales revenue and earnings of the ElringKlinger Group up to the reporting date has been slightly up on 2004, boosted by further rationalization measures, an ongoing review of costs and a drive to bring new products to market. The Management Board of ElringKlinger AG forecasts that the Group will again achieve profitable growth in 2005.

Dettingen/Erms, March 2005

The Management Board

Dr. Stefan Wolf

Horst Klusmann

Karl Schmauder



Things are moving in the land of the rising sun. Established relationships are being enhanced by a new international dynamism, while the high quality and reliability of Japanese vehicles is the motor of further success. And for ElringKlinger products, the opportunity to build market share.



Balance Sheet at December 31, 2004

ASSETS	At Dec. 31, 2004	At Dec. 31, 2003
	€ 000s	€ 000s
Fixed Assets		
Intangible assets	5,914	10,907
Tangible assets	113,159	112,802
Long-term investments	133,895	124,568
	252,968	248,277
Current assets		
Inventories	42,106	36,294
Accounts receivable and other assets	58,500	64,858
Cash on hand, bank deposits and checks	1,328	1,734
	101,934	102,886
Deferred charges	102	144
	355,004	351,307

LIABILITIES AND STOCKHOLDERS' EQUITY	At Dec. 31, 2004	At Dec. 31, 2003
	€ 000s	€ 000s
Stockholders' equity		
Share capital	57,600	28,800
Capital in excess of par value	2,747	12,553
Retained earnings	96,521	98,453
Balance-sheet profit	16,800	14,484
	173,668	154,290
Provisions		
Provisions for pensions and similar reserves	34,862	33,776
Provisions for taxes	3,021	2,740
Other provisions	20,775	24,146
	58,658	60,662
Liabilities	122,678	136,355
	355,004	351,307

Income Statement

for the period January 1 to December 31, 2004

	FY 2004		FY 2003	
	€ 000s	€ 000s	€ 000s	€ 000s
Net sales	307,681		287,298	
Increase in inventories of finished goods and work in progress	1,290		1,880	
Other capitalized items	4,805		5,571	
Other operating income	12,017	325,793	11,272	306,021
Cost of materials		-123,004		-113,504
Personnel costs		-83,611		-86,149
Depreciation allowances on intangible assets and tangible assets		-32,666		-26,675
Other operating expenses		-39,373		-43,273
Income from stockholdings in affiliated companies	6,197		8,459	
Net interest income	-2,964	3,233	-2,779	5,680
Income from ordinary activities		50,372		42,100
Taxes on income and earnings	-16,405		-15,413	
Other taxes	-189	-16,594	-150	-15,563
Net income		33,778		26,537
Earnings carried forward from the preceding fiscal year		84		77
Transfers to the legal reserve		-1,689		0
Transfers to other retained earnings		-15,373		-12,130
Balance sheet profit		16,800		14,484

Consolidated Balance Sheet at December 31, 2004

ASSETS	At Dec. 31, 2004	At Dec. 31, 2003
	€ 000s	€ 000s
Fixed Assets		
Intangible assets	25,691	33,151
Tangible assets	170,683	163,847
Long-term investments	5,906	5,895
	202,280	202,893
Current assets		
Inventories	73,578	65,065
Accounts receivable and other assets	64,905	63,238
Other securities	1,800	1,630
Cash on hand, bank deposits and checks	9,042	8,416
	149,325	138,349
Deferred charges	1,796	1,910
	353,401	343,152

LIABILITIES AND STOCKHOLDERS' EQUITY	At Dec. 31, 2004	At Dec. 31, 2003
	€ 000s	€ 000s
Stockholders' equity		
Share capital	57,600	28,800
Capital in excess of par value	2,747	12,553
Retained earnings	48,237	46,060
Minority interests	12,548	11,289
Balance-sheet profit	16,800	14,484
	137,932	113,186
Provisions		
Provisions for pensions and similar reserves	38,773	37,524
Provisions for taxes	6,414	5,290
Other provisions	29,556	30,359
	74,743	73,173
Liabilities	139,632	155,925
Accrued income	1,094	868
	353,401	343,152

Consolidated Income Statement

for the period January 1 to December 31, 2004

	FY 2004		FY 2003	
	€ 000s	€ 000s	€ 000s	€ 000s
Net sales	453,520		416,759	
Increase in inventories of finished goods and work in progress	5,423		4,029	
Other capitalized items	6,061		6,329	
Other operating income	7,765	472,769	6,657	433,774
Cost of materials		-170,180		-154,103
Personnel costs		-134,952		-131,658
Depreciation allowances on intangible assets and tangible assets		-41,442		-42,563
Other operating expenses		-55,530		-51,693
Income from stockholdings in affiliated companies	343		222	
Net interest income	-3,776	-3,433	-3,475	-3,253
Income from ordinary activities		67,232		50,504
Taxes on income and earnings	-24,454		-23,044	
Other taxes	-134	-24,588	-272	-23,316
Net income		42,644		27,188
Minority interests		-4,374		-3,526
Earnings of ElringKlinger AG carried forward from the preceding fiscal year		84		77
Transfers to the legal reserve of ElringKlinger AG	-1,689		0	
Transfers to other retained earnings of ElringKlinger AG	-15,373		-12,130	
Transfers to (2003: withdrawals from) Group reserves	-4,492	-21,554	2,875	-9,255
Balance sheet profit of the Group		16,800		14,484

Notes to the Financial Statements of ElringKlinger AG and to the Consolidated Financial Statements of the ElringKlinger Group

General remarks

The financial statements of ElringKlinger AG, Dettingen/Erms, Germany, and the consolidated financial statements of the ElringKlinger Group are presented jointly in the following.

The annual financial statements of ElringKlinger AG, Dettingen/Erms, Germany, and for the ElringKlinger Group have been prepared in accordance with the provisions of the Federal Republic of Germany's Corporation Act (AktG) and its Commercial Code (HGB) applicable to large capital-stock companies.

The notes to the financial statements of ElringKlinger AG and for the ElringKlinger Group have been consolidated in order to simplify reporting and avoid repetitions. In order to make the annual financial statements easier to read and comprehend, all figures appearing therein have been stated in thousands of Euros and items appearing on the balance sheets and income statements have been consolidated, but will be itemized in these notes. In addition, all remarks appearing in these notes have been supplemented by detailed explanations.

In addition to the balance sheets and income statements for ElringKlinger AG and the ElringKlinger Group, the annual financial statements include a consolidated statement of changes in financial position, a report on individual market segments and a statement of

changes in the Group's equity capitalization.

In cases where recommendations of the German Accounting Standards Committee ("German Accounting Standards") announced by the German Federal Ministry of Justice regarding legal right of choice, make recommendations, these recommendations have been disregarded or selectively applied. In particular, those standards which have been disregarded or selectively applied are DRS 4 ("Accounting for corporate acquisitions in consolidated financial statements"), DRS 8 ("Accounting for stockholdings in affiliated companies on consolidated balance sheets"), DRS 10 ("Deferred taxes in consolidated financial statements"), DRS 11 ("Reporting on relationships with related parties"), DRS 12 ("Intangible fixed assets") and DRS 14 ("Currency conversion").

Companies consolidated/affiliated companies

The consolidated financial statements of the ElringKlinger Group incorporate the annual financial statements of ElringKlinger AG and 19 subsidiaries. A listing of the 19 consolidated and three affiliated companies appears in the accompanying "List of Stockholdings and Companies Consolidated".

The newly established ElringKlinger Marusan Corp., Tokyo, Japan, is included in the consoli-

dated financial statements for the year ending December 31, 2004 for the first time, at equity.

The fiscal years of all consolidated subsidiaries correspond to the fiscal year of the parent company.

Consolidation principles

Subsidiaries' net worths are consolidated based on the book-value method by balancing off the valuations of the consolidated portions of their net worth against those portions of their stockholders' equities subject to mandatory consolidation as of their respective dates of acquisition or the respective dates on which they were first included in consolidations.

Capitalized differences relative to the book values of their net worths resulting from those consolidations are allocated to the associated items appearing on the Group's consolidated balance sheet to the maximum extents possible and depreciated over their respective expected useful lives, where the depreciation allowances involved are debited to income. Residual goodwill is depreciated over its respective expected useful life.

Stockholdings in subsidiaries held by minority stockholders are separately itemized under stockholders' equity.

Stockholdings in affiliated companies are valued using the equity method and carried forward, i.e. adjusted to reflect changes in the prorated portions of the stockholders' equities

of the respective affiliated companies involved, as stated on their balance sheets. The Group's shares of the annual net incomes of affiliated companies are listed on its consolidated income statements under "Minority interests". Any differences in the amounts involved resulting from employment of the equity method are due to the dates on which the affiliated companies involved were first included in consolidations. In accordance with Section 312, subsection 5 of the German Commercial Code, no adjustments to allow for employment of differing valuation methods for affiliated companies are made. Elimination of accrued provisional earnings on sales to, and by, affiliated companies is not practiced.

All intercompany accounts receivable, accounts payable, sales, other income, expenses, and provisional earnings among companies included in consolidations are eliminated. Accrued provisional earnings on intercompany sales are deducted from inventories.

The annual financial statements of subsidiaries domiciled in countries with high inflation rates are adjusted to allow for inflation in accordance with legal regulations applying in the respective countries involved and incorporated into the Group's consolidated financial statements using the closing-date method. The resultant adjustments to Group assets are listed in the tables of additions to, and eliminations from, assets under "Appreciations".

Accounting and Valuation Policies of ElringKlinger AG and the ElringKlinger Group

Assets

Purchased intangible assets, fixed assets and long-term investments are stated at their purchase prices or manufacturing cost. Manufacturing costs include the costs of materials, itemized fabrication and assembly costs, and prorated shares of overhead costs and depreciation allowances as required by tax regulations.

Items with limited useful lives are depreciated over their expected useful lives using depreciation schedules based on the maximum depreciation rates allowed by tax laws.

Intangible assets, buildings, improvements to plots of land are depreciated by the straight-line method over depreciation periods, or using depreciation declining rates, complying with tax laws.

In the case of domestic companies, depreciation allowances on manufacturing systems, other equipment, and office equipment and furnishings appearing in the annual financial statements and the Group's consolidated financial statements are amortized using the declining-balance method wherever allowed and wherever it yields greater depreciation allowances than the straight-line method. Depreciation allowances on the assets of foreign companies appearing therein are mainly computed using the straight-line method.

Extraordinary depreciation allowances and depreciation allowances allowed under tax

laws are taken advantage of wherever necessary and legally permissible.

On the Group's financial statements, goodwill resulting from consolidations of the capitalizations and financial statements of individual subsidiaries and affiliated companies is depreciated over the usual 15 years.

Stockholdings in affiliated companies are stated in the Group's financial statements at their prorated net assets, based on the equity method, except in cases where special circumstances dictate need for lower valuations.

Current assets

Current assets are stated at cost, manufacturing cost or the lesser of standard cost or market. Raw materials, tooling, fixtures, operating supplies and purchased saleable goods are stated at their depreciated, average, purchase prices. Fixed valuations are stated in some cases.

Work in progress and finished goods are stated at their fabrication costs, plus the minimum reasonable and necessary material costs and prorated manufacturing overhead costs allowed by tax laws. Items whose replacement costs have declined are stated at their depreciated replacement costs. The book values of obsolete, damaged or defective items are adjusted to accurately reflect their current values, and in order to preclude the need for write-downs when they are used or sold.

Accounts receivable and other assets are adjusted to allow for identifiable risks in individual cases. General credit risks are accounted for using commuted allowances.

Securities classified as current assets are stated at the lesser of cost or market on the respective closing dates involved.

Liquid funds are stated at nominal value.

Provisions and liabilities

Provisions for employee pensions and similar obligations are fully accounted for by means of partial accruals determined using actuarial principles at a base interest rate of 6 percent and based on the 1998 guideline table published by Dr. Klaus Heubeck.

In accordance with the IDW position paper on accounting principles entitled “Accounting for obligations arising from part-time employment agreements with elderly employees according to IAS and the provisions of commercial law (IDW RS HFA 3)”, provisions for obligations arising from part-time employment agreements with elderly employees include both credits that have been accrued as of the dates of employees’ entry into part-time employment and obligations regarding supplementary payments. Provisions covering supplementary payments due under part-time employment agreements that have been concluded as of the respective closing dates are formed and, due to an obligation under a company-internal agreement, for those part-time employment agreements that are likely to be taken advantage of during the period of validity of that company-internal agreement.

Provisions include allowances for both identifiable risks of incurring losses and uncertain liabilities computed on reasonable bases.

Accounts payable are based on payments currently due.

Foreign exchange and currency conversions

Accounts receivable and payable in foreign currencies are valued at the exchange rates applicable on the dates on which they arose, duly allowing for losses due to any changes in exchange rates unfavorable to the company that may have occurred as of the respective closing dates involved.

All items appearing in the Group’s consolidated balance sheets and consolidated income statements are converted from those currencies in which the financial statements of foreign members of the Group are stated using the average exchange rates in effect on the respective closing dates involved. The determination of stockholders’ equity at January 1, 2004, using exchange rates that were in effect on December 31, 2004, yielded a reduction in stockholders’ equity due to the conversions of €383 thousand. This amount was debited to accrued gains on currency conversions, without affecting earnings.

Consolidation principles

Companies included in consolidations are subject to a unified set of accounting, itemization and valuation guidelines. Those assets and liabilities that are consistent throughout the Group are valued using the same methods as the parent company.

Notes on the Balance Sheets for ElringKlinger AG and the ElringKlinger Group

Assets

Changes in assets itemized on the balance sheets are separately stated for ElringKlinger AG and the ElringKlinger Group in the separate sections entitled “Statement of Changes in the Assets of ElringKlinger AG” and “Consolidated Statement of Changes in the Assets of the ElringKlinger Group”.

The figures stated for intangible assets on the balance sheet for the ElringKlinger Group include goodwill totaling €16,361 thousand resulting from initial consolidations and

goodwill totaling €3,034 thousand of its Canadian subsidiary, in each case subject to scheduled depreciation over useful lives of 15 years. Purchased licenses, computer software as well as manufacturing and energy supply rights are also included therein.

Included under “Long-term investments” on the annual financial statements of both ElringKlinger AG and the ElringKlinger Group are investments in unconsolidated affiliated companies, loans, backup insurance policies and securities.

The list of stockholdings required by Section 285, no. 11 and by Section 313, subsection 2 of the German Commercial Code (HGB) appears in the “List of Stockholdings at December 31, 2004, and Companies Consolidated”.

Current assets

Inventories	ElringKlinger AG		The ElringKlinger Group	
	At Dec. 31, 2004	At Dec. 31, 2003	At Dec. 31, 2004	At Dec. 31, 2003
	€ 000s	€ 000s	€ 000s	€ 000s
Raw materials, tooling, fixtures, and operating supplies	9,936	7,869	22,833	21,250
Work and services in progress	4,428	4,424	8,820	10,390
Finished goods and merchandise	27,742	23,825	41,703	33,082
Prepayments	0	176	222	343
	42,106	36,294	73,578	65,065

Accounts Receivable and Other Assets	ElringKlinger AG		The ElringKlinger Group	
	At Dec. 31, 2004	At Dec. 31, 2003	At Dec. 31, 2004	At Dec. 31, 2003
	€ 000s	€ 000s	€ 000s	€ 000s
Accounts receivable	32,888	34,202	61,953	59,523
Accounts receivable from affiliated companies	24,336	28,579	0	0
Accounts receivable from associated companies	416	714	416	714
Other assets	860	1,363	2,536	3,001
	58,500	64,858	64,905	63,238

Accounts receivable for goods and services stated in the Group's consolidated financial statements totaling €1 thousand (2003: €2 thousand) have residual terms of more than one year. As for the previous year, the remaining accounts receivable and other assets stated on the annual financial statements of ElringKlinger AG and the ElringKlinger Group have residual terms of one year or less.

Accounts receivable from affiliated companies stated in the financial statements of ElringKlinger AG refer to financial transactions totaling €13,211 thousand (2003: €15,373 thousand). The remainders are accounts receivable. Accounts receivable from companies in which participations are held refer entirely to accounts receivable for goods and services (2003: €709 thousand, the remainder relating to financial transactions).

The **other securities** referred to on the consolidated financial statements are bonds with short periods remaining to maturity.

Deferred charges

The figures for deferred charges appearing on the consolidated financial statements include €1,117 thousand (2003: €1,232 thousand) in capitalized tax credits in accordance with Section 306 HGB, where the remainders are other deferred charges.

Stockholders' equity

By resolution of the annual general stockholders' meeting held on June 2, 2004, the share capital of ElringKlinger AG was increased by €28,800 thousand to €57,600 thousand by conversion of part of the capital reserve in an amount of €9,806 thousand and by conversion of part of the other retained earnings in an amount of €18,994 thousand (capital increase from corporate funds in accordance with Sections 207 ff. of the German Corporation Act).

The capital increase was effected by the issue of 4,800,000 new shares, attributable to the stockholders proportionate to their respective shares of the existing share capital.

Following the increase from corporate funds, the share capital is denominated in 9,600,000 registered shares.

At the annual general stockholders' meeting held on July 20, 2000, ElringKlinger AG's **approved share capital** was fixed at €14,400 thousand, and may be called up by its Management Board on or before June 30, 2005, with the approval of its Supervisory Board.

In accordance with a stockholders' resolution passed at the annual general stockholders' meeting held on June 2, 2004, €18,994 thousand was withdrawn from the **retained earnings** to finance the capital increase.

An amount of €1,689 thousand was transferred from the balance sheet earnings for FY 2004 to the legal reserve in accordance with Section 150, subsection 2 of the German Corporation Act. A further €15,373 thousand was transferred from the balance sheet earnings for FY 2004 to the other retained earnings.

The retained earnings at December 31, 2004 include the legal reserve in the amount of €1,822 thousand (2003: €133 thousand) and other retained earnings totaling €94,699 thousand (2003: €98,320 thousand).

Retained earnings of the ElringKlinger AG are offset within the ElringKlinger Group against items attributable to consolidations, totaling -€48,284 thousand (2003: -€52,393 thousand). The increase is attributable to adjustments due to currency conversions (€383 thousand) and to transfers to Group reserves in order to adjust the ElringKlinger Group's balance sheet earnings to agree with those of ElringKlinger AG (€4,492 thousand).

ElringKlinger AG's **balance sheet profit** for FY 2004 arose as follows:

	€ 000s
Balance sheet profit at December 31, 2003	14,484
Dividend distribution for FY 2003 (€3.00 per share)	-14,400
Earnings carried forward from the preceding fiscal year	84
Net income 2004	33,778
Transfers to the legal reserve	-1,689
Transfers to other retained earnings	-15,373
Balance sheet profit at December 31, 2004	16,800

The consolidated balance sheet profit, €16,800 thousand, is identical to that of ElringKlinger AG.

The "Minority interests" item appearing on the consolidated balance sheet relates to stockholdings in subsidiaries held by minorities, and consisted of €7,586 thousand (2003: €7,505 thousand) in capital stock and €4,962 thousand (2003: €3,784 thousand) in earnings allocations.

Changes in the ElringKlinger Group's stockholders' equity are itemized under the separate section entitled "Changes in the ElringKlinger Group's Equity Capitalization".

Provisions

Itemized other provisions were as follows:

	ElringKlinger AG		The ElringKlinger Group	
	At Dec. 31, 2004	At Dec. 31, 2003	At Dec. 31, 2004	At Dec. 31, 2003
	€ 000s	€ 000s	€ 000s	€ 000s
Provisions to cover obligations arising from the personnel area	12,436	14,227	16,121	16,947
Provisions to cover warranty obligations	2,327	1,429	2,815	1,796
Provisions to cover legal expenses	860	1,730	860	1,749
Provisions to cover other risks	5,152	6,760	9,760	9,867
	20,775	24,146	29,556	30,359

Liabilities

ElringKlinger AG	Totals at Dec. 31, 2004	Portion thereof having a residual term of			Secured portions	Totals at Dec. 31, 2003
		one year or less	one to five years	more than five years		
		€ 000s	€ 000s	€ 000s		
Liabilities to banking institutions	81,149	17,563	19,994	43,592	29,791	94,020
Customer prepayments	188	188	0	0	0	98
Accounts payable	10,665	10,665	0	0	0	9,905
Payables to affiliated companies	1,998	1,912	86	0	0	1,188
Payables to companies in which participations are held	0	0	0	0	0	5
Other liabilities	28,678	19,213	9,465	0	0	31,139
	122,678	49,541	29,545	43,592	29,791	136,355

The ElringKlinger Group	Totals at Dec. 31, 2004	Portion thereof having a residual term of			Secured portions	Totals at Dec. 31, 2003
		one year or less	one to five years	more than five years		
		€ 000s	€ 000s	€ 000s		
Liabilities to banking institutions	89,250	24,791	20,710	43,749	36,365	104,277
Customer prepayments	417	417	0	0	0	471
Accounts payable	18,939	18,935	4	0	0	17,073
Payables to companies in which participations are held	0	0	0	0	0	5
Other liabilities	31,026	21,520	9,506	0	0	34,099
	139,632	65,663	30,220	43,749	36,365	155,925

Mortgages on corporate real estate totaling €29,791 thousand for ElringKlinger AG and €30,302 thousand for the ElringKlinger Group have been tendered as collateral. In addition, liens in amounts of 7,000 thousand Canadian Dollars (of which €1.806 taken up), 6,250 thousand US Dollars (of which €3.890 thousand taken up) and €500 thousand (of which €367 thousand taken up), making a total of €6,063 thousand, on company assets have been claimed by Group subsidiaries. Except for commercially commonplace retentions of rights of ownership in the case of accounts payable for goods and services, no collateral has been tendered to cover other liabilities.

Among ElringKlinger AG's accounts payable to affiliated companies, €92 thousand (2003: €99 thousand) relate to financial transactions and the remainders relate to intercompany traffic in goods and services.

Among ElringKlinger AG's other liabilities, €1,142 thousand (2003: €7,082 thousand) relate to taxes and €1,764 thousand (2003: €1,809 thousand) relate to social security contributions. In the case of the ElringKlinger Group, €1,752 thousand (2003: €8,289 thousand) relate to taxes and €2,621 thousand (2003: €2,597 thousand) to social security contributions.

Notes on the Income Statements for ElringKlinger AG and the ElringKlinger Group

Net sales

Contributions by geographic market

	ElringKlinger AG		The ElringKlinger Group	
	FY 2004	FY 2003	FY 2004	FY 2003
	€ 000s	€ 000s	€ 000s	€ 000s
Germany	139,264	133,170	180,851	165,607
Rest of the world	172,414	157,468	277,451	255,169
	311,678	290,638	458,302	420,776
Discounts, bonuses, rebates	- 3,997	- 3,340	- 4,782	- 4,017
	307,681	287,298	453,520	416,759

Of the total sales revenue of ElringKlinger AG, €302,819 thousand (2003: €282,523 thousand) came from sales of motor vehicle parts and €4,861 thousand (2003: €4,774 thousand) was income from the operation of industrial parks.

Approximately 88% (2003: 88%) of the total FY 2004 sales revenues of the ElringKlinger Group came from manufacture and sale of motor vehicle parts and spare parts. The remainder came largely from sales of engineered plastic products, which accounted for around 10% (2003: 10%), and from income from the operation of industrial parks and service income.

Other operating income

The figures reported for the other operating income in the case of ElringKlinger AG comprise reinstatement of stockholdings depreciated in preceding years to their historical cost. The appreciation relates to CEK (€2,180 thousand) and EKB (€800 thousand). It also includes appreciation of loans issued and securities classified as current assets totaling €73 thousand.

Appreciation of stockholdings has been eliminated within the Group.

The other operating income of ElringKlinger AG also includes income carried forward from prior periods totaling €3,001 thousand (2003: €1,425 thousand) and largely attributable to dissolutions of provisions (€2,058 thousand), insurance refunds (€415 thousand) and retirements of manufacturing equipment (€200 thousand).

Other operating income reported for the ElringKlinger Group includes income carried forward from prior periods totaling €3,593 thousand (2003: €1.815 thousand), largely attributable to dissolutions of provisions (€2,150 thousand), retirements of manufacturing equipment (€655 thousand), insurance refunds (€415 thousand) and write-downs of value adjustments (€346 thousand). In addition, income totaling €102 thousand from the dissolution of special items with an equity portion was also included under this item in the previous year.

Cost of materials

	ElringKlinger AG		The ElringKlinger Group	
	FY 2004	FY 2003	FY 2004	FY 2003
	€ 000s	€ 000s	€ 000s	€ 000s
Cost of raw materials, tooling, fixtures, operating supplies and merchandise	111,958	102,982	157,852	142,422
Cost of purchased services	11,046	10,522	12,328	11,681
	123,004	113,504	170,180	154,103

Personnel costs

	ElringKlinger AG		The ElringKlinger Group	
	FY 2004	FY 2003	FY 2004	FY 2003
	€ 000s	€ 000s	€ 000s	€ 000s
Wages and salaries	67,168	69,652	111,329	108,970
Social-security contributions and contributions to retirement plans	16,443	16,497	23,623	22,688
Portions thereof for retirement plans	(3,278)	(3,113)	(3,946)	(3,672)
	83,611	86,149	134,952	131,658

Depreciation allowances

Included in the depreciation allowances for FY 2004 for ElringKlinger AG are €6,456 thousand (2003: €1,065 thousand) in extraordinary depreciation allowances.

Included in the depreciation allowances for FY 2004 for the ElringKlinger Group are €4,000 thousand (2003:€1,065 thousand) in extraordinary depreciation allowances.

ments of fixed assets and insurance refunds totaling €528 thousand (2003: €715 thousand).

Included in the figures stated for the other operating expenses of the ElringKlinger Group are items carried forward from prior fiscal years totaling €607 thousand (2003: €1,413 thousand).

Other operating expenses

Included in the figures stated for the other operating expenses of ElringKlinger AG are items carried forward from prior fiscal years resulting from uncollectible accounts receivable, retire-

Income from participations

In the case of ElringKlinger AG, net income from participations result from income from participations totaling €8,993 thousand (2003: €8,459 thousand) and from depreciation allowances on long-term investments totaling €2,796 thousand. Income totaling €8,878 thousand (2003: €8,408 thousand) originates from affiliated companies.

Income from participations in affiliated companies

The ElringKlinger Group's income from participations in affiliated companies corresponds to the proportionate earnings for the year.

Interest income

	ElringKlinger AG		The ElringKlinger Group	
	FY 2004	FY 2003	FY 2004	FY 2003
	€ 000s	€ 000s	€ 000s	€ 000s
Income from other securities and loans of corporate financial assets	418	737	67	696
Other interest income and similar income	535	622	249	226
Interest expenses and similar expenses	-3,496	-3,875	-4,089	-4,382
Depreciation allowances on loans and securities	-421	-263	-3	-15
	-2,964	-2,779	-3,776	-3,475

The figures for net interest income stated on ElringKlinger AG's annual financial statements include income from loans of corporate financial assets to affiliated companies totaling €391 thousand (2003: €63 thousand), interest income realized by affiliated companies totaling €529 thousand (2003: €614 thousand) and interest paid to affiliated companies totaling €124 thousand (2003: €74 thousand), all of which have been eliminated on consolidation.

Taxes on income and earnings

The figures for taxes on income and earnings appearing on the annual financial statements of ElringKlinger AG include income carried forward from prior fiscal years totaling €3 thousand (2003: -€1,761 thousand). The corresponding figure for the ElringKlinger Group is €8 thousand (2003: -€1,763 thousand).

Commitments

ElringKlinger AG has incurred commitments totaling €92 thousand (none in 2003) from issuance and transferal of notes. Commitments of ElringKlinger AG totaling €8,220 thousand (2003: €7,143 thousand) were incurred due to issuance of guarantees and completion bonds, of which €8,136 thousand (2003: €6,904 thousand) were issued on behalf of affiliated companies.

In accordance with Section 133, subsections 1 and 3 of the German Company Transformation Act (UmwG), ElringKlinger AG and its affiliate, ElringKlinger Motortechnik GmbH, are jointly and severally liable to honor debts of the latter that were incurred prior to the effective date on which it was split off from the former and separately incorporated.

ElringKlinger AG has undertaken a commitment to financially support an affiliated company to the extent that it will be able to meet its payment commitments accruing under a work contract at all times.

ElringKlinger AG has also agreed to honor the future debts of one of its affiliated companies to one of the latter's suppliers in the event that the affiliated company should fail to honor them within a specified period.

The ElringKlinger Group's financial commitments consist of guarantees and completion bonds issued to customers (€84 thousand; €239 thousand in 2003) and commitments under notes (€92 thousand; none in 2003).

Other financial commitments

Financial commitments arising under current business operations remained within normal bounds.

Derivative financial instruments

No forward or option transactions, or any other derivative financial instruments, were in existence at the closing date.

Additional notes

Averaged over the respective fiscal years, ElringKlinger AG and the ElringKlinger Group had the following numbers of **employees** (excluding members of the Management Board):

	ElringKlinger AG		The ElringKlinger Group	
	FY 2004	FY 2003	FY 2004	FY 2003
Wage earners	1,058	1,125	2,101	2,079
Salaried employees	462	441	957	913
	1,520	1,566	3,058	2,992
Apprentices	56	55	64	63
	1,576	1,621	3,122	3,055

Corporate Officers

Supervisory Board

Karl Uwe van Husen, Managing director
Waiblingen, Germany
Chairman
(to September 16, 2004)

Dr. Helmut Lerchner, Adviser to stock corporations
Aichtal, Germany
Supervisory Board member
(since August 1, 2004),
Chairman
(since September 16, 2004)
Member of the Supervisory Board of Deutz AG, Cologne, Germany, and of the South West Advisory Board of Dresdner Bank AG, Stuttgart, Germany

Walter Herwarth Lechler, Managing stockholder
Stuttgart, Germany
Vice Chairman
Member of the advisory boards or administrative boards of Lechler, Inc., St. Charles, Missouri, USA; Lechler Ltd., Sheffield, UK; Lechler India Pvt. Ltd., Thane, India; Lechler Kft, Kecskemét, Hungary; Lechler France S.A., Montreuil, France; Lechler AB, Hagfors, Sweden; Lechler S.A., Wavre, Belgium; Lechler S.A., Madrid, Spain; and ETS-Elex (India) Pvt. Ltd., Thane, India.

Gert Bauer, Reutlingen, Chief authorized representative of the Reutlingen/Tübingen chapter of the IG Metall labor union
Germany
Employee representative

Walter Greiner, Chairman of the ElringKlinger AG workers' council
Hohenstein, Germany
Employee representative

Dr. Rainer Hahn, Former member of the Management Board of Robert Bosch GmbH,
Stuttgart, Germany Stuttgart, Germany

Member of the supervisory boards of Robert Bosch GmbH, Stuttgart, Germany; Bosch Rexroth AG, Stuttgart, Germany; Rieter Holding AG, Winterthur, Switzerland; member of the stockholders' committee of TÜV Süddeutschland Holding AG, Munich, Germany

Dr. Thomas Klinger-Lohr, President of the Management Board
Egliswil, Switzerland

Managing director of Betal Netherlands Holding B.V., Rotterdam, Netherlands, and a member of the advisory boards or administrative boards of the following: Klinger Holding plc., Sidcup, UK; Klinger S.p.A., Mazzo di Rho, Italy; Saidi, Madrid, Spain; Klinger AG, Egliswil, Switzerland; Klinger Ltd., Welshpool, Australia; Klinger (Pty) Ltd., Wadeville, South Africa; Klinger Finland OY, Masala, Finland; Thermo-seal Inc., Sidney, Ohio, USA; Grundstücksverwaltung Rich. Klinger GmbH, Idstein, Germany; Aseko OY, Masala, Finland; Meckelborg OY, Masala, Finland; Klinger-Ramikro OY, Masala, Finland; Klinger Ltd., Bradford, UK; and Uni Klinger Ltd., Mumbai, India

Rolf Rauscher, Employee of ElringKlinger AG, logistics department
Bad Urach, Germany

Employee representative

Helmut Ritzer, Management consultant
Stuttgart, Germany
(to July 31, 2004)

Manfred Strauß, Managing director
Stuttgart, Germany

Member of the advisory board of the Pro Stuttgart tourism board

Compensation paid to members of ElringKlinger AG's Supervisory Board by ElringKlinger AG and the ElringKlinger Group during FY 2004 totaled €206 thousand (2003: €120 thousand).

Management Board

Dr. Helmut Lerchner,
Aichtal, Germany
Chairman
(to July 31, 2004)

Responsible for the company's subsidiaries and affiliates, central finance and controlling, OEM sales, legal affairs and personnel, investor relations, IT and public relations, and the aftermarket division

Sebastian Merz,
Reutlingen, Germany
Chairman
(August 1, 2004 to
January 27, 2005)

Responsible for the company's subsidiaries and affiliates, central finance and controlling, OEM sales, legal affairs and personnel, investor relations, IT and public relations, and the aftermarket division

Horst Klusmann,
Bad Boll, Germany

Responsible for the divisions cylinder-head gaskets/central research and development, special-purpose seals, housing components/modules/elastomer components and shielding components, and for the quality assurance and environmental protection, tool-and-die making and purchasing departments

Dr. Stefan Wolf,
Steinenbronn, Germany
Spokesman
(since January 27, 2005)

Responsible for the company's subsidiaries and affiliates, central finance and controlling, legal affairs, personnel, investor relations, IT and public relations, and the aftermarket division

Karl Schmauder,
Hülben, Germany
(since January 27, 2005)

Responsible for OEM sales and for the New Business Fields division

Compensation paid to members of the Management Board

Members of ElringKlinger AG's Management Board received compensation totaling €2,088 thousand from ElringKlinger AG and the ElringKlinger Group during FY 2004 made up of fixed components (€678 thousand) and variable components (€1,410 thousand). The variable components comprised profit-related bonuses of €863 thousand specific to the fiscal year and profit-related bonuses tied to the long-term success of the company totaling €547 thousand.

Provisions for pensions and compensation paid to former Management Board members

A total of €7,165 thousand has been set aside by ElringKlinger AG and the ElringKlinger Group to cover the pensions of former Management Board members, directors of companies with which the company has merged, and surviving members of their families. Altogether, the compensation paid by ElringKlinger AG and the ElringKlinger Group to former Management Board members and to former directors of merged companies during FY 2004 amounted to €504 thousand.

Announcements in Compliance with Section 21, Subsection 1 of the German Securities Trading Act (WpHG)

Stockholder	Announcement date/publication	Announcement/total voting stock held
Klaus Lechler, Stuttgart, Germany (on behalf of, and authorized by, the respective companies stated)	May 2, 2002 Frankfurter Allgemeine Zeitung of May 2, 2002 (in accordance with Section 41 subsection 3 WpHG in conjunction with Section 25 subsection 1, clauses 1 and 2, subsection 2 WpHG)	Stockholding, at April 1, 2002: 13.25% held by Elgarta GmbH, Basel, Switzerland. Voting rights accruing thereto have been assigned to Mr. Klaus Lechler in compliance with Section 22, subsection 1, no. 1 WpHG. 12.13%, held by Lechler Beteiligungs-GmbH, Stuttgart, Germany. Voting rights accruing thereto have been assigned to Mr. Klaus Lechler in compliance with Section 22, subsection 1, no. 2 WpHG. 10.68%, held by Elrena GmbH, Basle, Switzerland
	August 21, 2003, Frankfurter Allgemeine Zeitung of March 11, 2004 (in accordance with Section 41 subsection 3 WpHG in conjunction with Section 25 subsection 1, clauses 1 and 2, subsection 2 WpHG)	“Stuttgart, August 19, 2003: Announcement in compliance with Section 21, subsection 1 WpHG in conjunction with Section 22, subsection 1, nos. 1 and 2 WpHG Registered shares of ElringKlinger AG (security ID code 785602) To whom it may concern, I, Klaus Lechler, residing at Metzinger Strasse 61, 70597 Stuttgart, Germany, hereby announce that the company Lechler Beteiligungs GmbH, Saarstrasse 28, 71636 Ludwigsburg, Germany, and the company Elgarta GmbH, Sankt-Alban-Vorstadt 72, 4002 Basle, Switzerland, have sold a total of 175,000 shares in ElringKlinger AG by way of a transaction. Of that total, Lechler Beteiligungs GmbH has sold 100,000 shares and Elgarta 75,000 shares. The transaction was completed on August 15, 2003. The voting stock held has thereby fallen below the 25% threshold in accordance with Section 21, subsection 1 WpHG: the percentage voting stock is now 21.72%. Elgarta GmbH now holds 11.68% of the shares in ElringKlinger AG. The said shares accrue to me under the terms of Section 22, subsection 1, no. 1 WpHG. Lechler Beteiligungs GmbH holds 10.04% of the shares in ElringKlinger AG. The said shares accrue to me under the terms of Section 22, subsection 1, no. 2 WpHG. Klaus Lechler”

Stockholder	Announcement date/publication	Announcement/total voting stock held
Walter Herwarth Lechler, Stuttgart, Germany	May 2, 2002 Frankfurter Allgemeine Zeitung of May 2, 2002 (in accordance with Section 41 sub- section 3 WpHG in conjunction with Section 25 sub- section 1, clauses 1 and 2, subsec- tion 2 WpHG)	Stockholding, at April 1, 2002: 15.21%
Walter Herwarth Lechler, (on behalf of, and authorized by, the respective companies stated)	May 2, 2002 Frankfurter Allgemeine Zeitung of May 2, 2002 (in accordance with Section 41 sub- section 3 WpHG in conjunction with Section 25 sub- section 1, clauses 1 and 2, subsec- tion 2 WpHG)	Stockholding, at April 1, 2002: 5.12%, held by Lechler Verwaltungs-GmbH, Metz- ingen, Germany. Voting rights accruing thereto have been assigned to Mr. Walter Herwarth Lechler in compliance with Section 22, subsection 1, no. 2 WpHG. 6.94%, held by Lechler GmbH, Metzingen, Germany. Voting rights accruing thereto have been assigned to Mr. Walter Herwarth Lechler in compliance with Section 22, subsection 1, no. 2 WpHG.
	February 2, 2004 Frankfurter Allgemeine Zeitung of February 6, 2004 (in accordance with Section 41 subsection 3 WpHG in conjunc- tion with Section 25 subsection 1, clauses 1 and 2, subsection 2 WpHG)	“February 2, 2004 Merger of Lechler Verwaltungs-GmbH and Lechler GmbH. Attainment of the 10% threshold. To whom it may concern, We hereby announce that on October 1, 2003 a merger of Lechler Verwaltungs-GmbH and Lechler GmbH took place. The entry in the Register of Compa- nies was made on November 28, 2003. The voting stock of Lechler Verwaltungs-GmbH accrues to Lechler GmbH; Lechler GmbH thereby attains the 10% threshold stipulated in Section 21, subsection 1 WpHG. A copy of our notification to the Federal Financial Services Supervisory Office (Bundesanstalt für Finanz- dienstleistungsaufsicht), Postfach 50 01 54, Frankfurt am Main, Germany, is attached. Yours faithfully, Lechler GmbH”

Stockholder	Announcement date/publication	Announcement/total voting stock held
Betal Netherlands Holding B.V., Rotterdam, Netherlands	January 25, 2005 Frankfurter Allgemeine Zeitung of Netherlands January 26, 2005 (in accordance with Section 41 subsection 3 WpHG in conjunction with Section 25 subsection 1, clauses 1 and 2, subsection 2 WpHG)	“ElringKlinger AG, Dettingen/Erms, security ID code 785602 Sale of stock Attainment of the 5% threshold We hereby announce that in the period from August 11, 2004 to January 14, 2005 we sold a total of 224,410 shares of ElringKlinger stock, thereby falling below the 5% threshold. BETAL NETHERLANDS HOLDING B.V. now holds 479,990 ElringKlinger shares. This announcement is made pursuant to Section 21 WpHG. Yours faithfully, BETAL NETHERLANDS HOLDING B.V. Dr. Thomas Klinger-Lohr Daniel Schibli” By letter dated January 24, 2005 to the Federal Financial Services Supervisory Office (Bundesanstalt für Finanzdienstleistungsaufsicht), BETAL NETHERLANDS HOLDING B.V. announces that its stockholding fell below the threshold on January 14, 2005 and it now holds 4.99% of the voting stock in ElringKlinger AG. This publication was made pursuant to Section 25 subsection 1 WpHG.

These announcements relate to the announcement in principle made on April 1, 2002, stipulated in accordance with Section 41 subsection 3 of the German Securities Trading Act (WpHG), and to stockholdings that have exceeded, or fallen below, thresholds stipulated by WpHG. The stockholdings stated above may, therefore, differ from those in effect at December 31, 2004.

Declaration of compliance with the Corporate Governance Code

On November 30, 2004 the Management Board and Supervisory Board of ElringKlinger AG issued a declaration of compliance with the German Corporate Governance Code and published the said declaration on its website. The declaration will be available to view on the Internet until such time as an updated declaration is issued in 2005. It is published in the Annual Report as part of the Corporate Governance Report.

Proposed Distribution of Profits

At the forthcoming annual general stockholders' meeting, the Management Board will, with the consent of the Supervisory Board, propose that the balance sheet earnings of ElringKlinger AG at December 31, 2004 totaling €16,800 thousand be appropriated for the distribution of a dividend of €1.75 per share.

Dettingen/Erms, Germany, March 2005

The Management Board



Dr. Stefan Wolf

Horst Klusmann

Karl Schmauder

List of Stockholdings at December 31, 2004, and Companies Consolidated

Company Name	Headquarters	Acronym	Stock- holding (%)
Parent Company:			
ElringKlinger AG	Dettingen/Erms, Germany		
Stockholdings in affiliated companies consolidated on group closing statements			
Gedächtnisstiftung KARL MÜLLER			
BELEGSCHAFTSHILFE GmbH	Dettingen/Erms, Germany	KMBH	100.00
ElringKlinger Motortechnik GmbH	Idstein, Germany	EKM	92.90
ElringKlinger Logistic Service GmbH	Rottenburg a.N., Germany	EKLS	76.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen, Germany	EKT	67.00
Elring Klinger (Great Britain) Ltd.	Redcar, UK	EKGB	100.00
Elring Klinger S.p.A.	Mazzo di Rho-Milano, Italy	EKI	100.00
TECHNIK-PARK HELIPOINT Kft.	Kecskemét-Kádafalva, Hungary	TPH	100.00
Elring Klinger Polska Sp. z o.o.	Walbrzych, Poland	EKP	100.00
ElringKlinger Sealing Systems S.L.	Reus , Spain	EKSL	90.00
Elring Parts Ltd.	Gateshead, UK	EP	90.00
Elring Klinger S.A.	Reus , Spain	EKSA	51.00
ElringKlinger Sealing Systems, Inc.	Leamington, Ontario, Canada	EKSS	100.00
ElringKlinger Sealing Systems USA, Inc.	Livonia, Michigan, USA	EKSU	100.00
Elring Klinger México, S.A. de C.V.	Toluca, Mexico	EKMX	100.00
EKASER S.A. de C.V.	Toluca, Mexico	EKAS	100.00
Elring Klinger do Brasil Ltda.	Piracicaba, Brazil	EKB	100.00
Elring of North America, Inc.	Branchburg, New Jersey, USA	ELNA	60.00
Elring Gaskets (Pty.) Ltd.	Johannesburg, South Africa	EGS	51.00
Changchun ElringKlinger Ltd.	Changchun, P.R. China	CEK	78.00
Affiliated companies accounted for on group closing statements using the equity method			
Jeil Elring Co. Ltd.	Changwon, South Korea	Jeil Elring	50.00
ElringKlinger Marusan Corporation	Tokyo, Japan	EKMA	50.00
Marusan Corporation	Tokyo, Japan	MARUSAN	10.00

1) Per 100 units local currency as of the closing date.

2) HGB (German Commercial Code) reporting package at December 31, 2004

HB I Company Equity Capitalization (in local currency)	HB I Company Net Income (in local currency)	Local Currency	Exchange Rate ¹⁾	Stockholders' Equity (€)	Consolidated Net Income (€)	Last Closing Date
91,627.31	-6,352.59	EUR	100	91,627.31	-6,352.59	Dec. 31, 2004
2,301,240.13	254,932.54	EUR	100	2,301,240.13	254,932.54	Dec. 31, 2004
305,815.07	189,112.49	EUR	100	305,815.07	189,112.49	Dec. 31, 2004
17,516,591.82	5,192,821.89	EUR	100	17,516,591.82	5,192,821.89	Dec. 31, 2004
6,102,826.00	1,162,000.00	GBP	141.5829	8,640,558.03	1,645,193.30	Dec. 31, 2004
1,401,160.00	434,331.00	EUR	100	1,401,160.00	434,331.00	Dec. 31, 2004
1,275,804,851.48	71,282,090.00	HUF	0.40683	5,190,356.88	289,996.93	Dec. 31, 2004
29,185.74	-610.00	PLN	24.5098	7,153.37	-149.51	Dec. 31, 2004
2,476,695.00	655,686.00	EUR	100	2,476,695.00	655,686.00	Dec. 31, 2004
1,067,771.00	327,666.00	GBP	141.5829	1,511,781.15	463,919.03	Dec. 31, 2004
8,157,067.00	4,030,996.00	EUR	100	8,157,067.00	4,030,996.00	Dec. 31, 2004
9,088,267.00	591,723.00	CAD	60.29545	5,479,811.48	356,782.05	Dec. 31, 2004
966,380.00	-2,133,167.00 ²⁾	USD	73.31378	708,489.71	-1,563,905.36	Dec. 31, 2004
80,675,258.00	8,622,571.75	MXN	6.56551	5,296,742.13	566,115.81	Dec. 31, 2004
6,538,175.00	5,728,055.00	MXN	6.56551	429,264.53	376,076.02	Dec. 31, 2004
15,222,695.70	5,009,055.83	BRL	27.62355	4,205,048.96	1,383,679.04	Dec. 31, 2004
1,729,311.00	246,357.00	USD	73.31378	1,267,823.26	180,613.63	Dec. 31, 2004
9,466,263.00	3,961,946.00	ZAR	13.03781	1,234,193.38	516,550.99	Dec. 31, 2004
60,056,297.00	11,574,501.00	RMB	8.8581	5,319,846.84	1,025,280.87	Dec. 31, 2004
3,232,336.615.00	574,541,637.00	KRW	0.07083	2,289,464.02	406,947.84	Dec. 31, 2004
10,328,302.00	328,302.00	YEN	0.71572	73,921.72	2,349.72	Dec. 31, 2004
4,301,710,416.00	103,242,417.00	YEN	0.71572	30,788,201.79	738,926.63	July 31, 2004

Statement of Changes in the Assets of ElringKlinger AG (Gross Figures)

	Purchase or Manufacturing Costs				At Dec. 31, 2004
	At Jan. 1, 2004	Additions	Transfers	Disposals	
	€ 000s	€ 000s	€ 000s	€ 000s	
Intangible Assets					
Commercial rights and licenses	17,042	898	99	29	18,010
Tangible Assets					
Land and buildings	107,852	561	0	72	108,341
Manufacturing equipment and machinery	102,581	19,074	5,460	3,466	123,649
Other equipment, plant and office furnishing	96,158	2,079	56	1,283	97,010
Prepayments and facilities under construction	5,623	5,571	-5,615	0	5,579
	312,214	27,285	-99	4,821	334,579
Long-Term Investments					
Shareholdings in affiliated companies	118,483	5	0	0	118,488
Participations	4,372	40	0	0	4,412
Loans to affiliated companies	3,985	11,925	0	2,264	13,646
Securities	625	0	0	0	625
Miscellaneous loans	358	44	0	261	141
	127,823	12,014	0	2,525	137,312
	457,079	40,197	0	7,375	489,901

Depreciation Allowances						Book Values	
At Jan. 1, 2004	For the Fiscal Year	Transfers	Disposals	Appre- ciations	At Dec. 31, 2004	At Dec. 31, 2004	At Dec. 31, 2003
€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
6,135	5,980	0	19	0	12,096	5,914	10,907
51,446	4,935	0	72	0	56,309	52,032	56,406
79,416	7,491	-10	3,348	0	83,549	40,100	23,165
68,550	14,260	10	1,258	0	81,562	15,448	27,608
0	0	0	0	0	0	5,579	5,623
199,412	26,686	0	4,678	0	221,420	113,159	112,802
2,992	2,796	0	0	2,980	2,808	115,680	115,491
0	0	0	0	0	0	4,412	4,372
250	420	0	0	61	609	13,037	3,735
13	0	0	0	13	0	625	612
0	0	0	0	0	0	141	358
3,255	3,216	0	0	3,054	3,417	133,895	124,568
208,802	35,882	0	4,697	3,054	236,933	252,968	248,277

Consolidated Statement of Changes in the Assets of the ElringKlinger Group (Gross Figures)

	Purchase or Manufacturing Costs							
	At Dec. 31, 2003	Changes Due to Exchange Rates	At Jan. 1, 2004	Additions	Transfers	Appre- ciations	Disposals	At Dec. 31, 2004
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Intangible Assets								
Commercial rights and licenses	18,541	-80	18,461	986	133	0	36	19,544
Goodwill	34,924	-78	34,846	0	0	0	56	34,790
	53,465	-158	53,307	986	133	0	92	54,334
Tangible Assets								
Land, land rights and buildings	130,797	380	131,177	3,430	0	57	115	134,549
Manufacturing equipment and machinery	184,073	-1,440	182,633	25,951	9,090	301	7,439	210,536
Other equipment, plant and office furnishings	106,276	-155	106,121	3,332	48	2	1,832	107,671
Prepayments and facilities under construction	10,569	-216	10,353	7,996	-9,271	0	0	9,078
	431,715	-1,431	430,284	40,709	-133	360	9,386	461,834
Long-Term Investments								
Shareholdings in affiliated companies	4,147	-43	4,104	264	0	0	0	4,368
Securities	1,383	0	1,383	0	0	0	0	1,383
Miscellaneous loans	493	0	493	52	0	0	273	272
	6,023	-43	5,980	316	0	0	273	6,023
	491,203	-1,632	489,571	42,011	0	360	9,751	522,191

Depreciation Allowances							Book Values		
At Dec. 31, 2003	Changes Due to Exchange Rates	At Jan. 1, 2004	Additions	Transfers	Appre- ciations	Disposals	At Dec. 31, 2004	At Dec. 31, 2004	At Dec. 31, 2003
€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
7,170	-70	7,100	6,153	21	0	26	13,248	6,296	11,371
13,144	-5	13,139	2,312	0	0	56	15,395	19,395	21,780
20,314	-75	20,239	8,465	21	0	82	28,643	25,691	33,151
61,506	118	61,624	3,298	0	21	115	64,828	69,721	69,291
130,224	-850	129,374	14,366	-16	272	7,245	136,751	73,785	53,849
76,138	-94	76,044	15,313	-5	-4	1,776	89,572	18,099	30,138
0	0	0	0	0	0	0	0	9,078	10,569
267,868	-826	267,042	32,977	-21	289	9,136	291,151	170,683	163,847
113	0	113	0	0	0	0	113	4,255	4,034
15	0	15	3	0	12	0	30	1,353	1,368
0	0	0	0	0	0	0	0	272	493
128	0	128	3	0	12	0	143	5,880	5,895
288,310	-901	287,409	41,445	0	301	9,218	319,937	202,254	202,893

Consolidated Statement of Changes in Financial Position

	FY 2004	FY 2003
	€ 000s	€ 000s
Group net income for the fiscal year, including minority interests	42,644	27,188
Depreciation allowances on assets, net of appreciations	41,373	42,296
Additions to provisions	1,570	1,914
Other expenses/income requiring no expenditures and yielding no disburseable income (dissolutions of extraordinary items, changes in the allocation of deferred taxes)	115	-230
Gain/loss from disposal of assets	-510	333
Increase in inventories, accounts receivable and other assets, other than those allocatable to long-term investments or finance transactions	-10,181	-9,215
Increase/decrease in accounts payable and other liabilities, other than those allocatable to long-term investments or finance transactions	-1,041	4,926
Foreign-exchange effects on items related to ordinary activities	86	-1,165
Cash flow from ordinary activities	74,056	66,047
Income from sales of fixed and intangible assets	770	1,029
Income from sales of long-term investments	260	411
Expenditures for purchases of common stock	-37	0
Disbursements for investments in intangible assets	-986	-12,881
Disbursements for investments in fixed assets	-40,709	-45,083
Disbursements for investments in long-term investments	-279	-1,495
Income from sales of securities	-170	-44
Cash flow from investment transactions	-41,151	-58,063
Disbursements to company owners and minority stockholders	-17,468	-14,999
Changes in liabilities to banking institutions	-15,027	7,838
Effects of foreign-exchange rates on items related to financial transactions	289	574
Cash flow from financial transactions	-32,206	-6,587
Changes in cash requiring expenditures or yielding disburseable income	699	1,397
Effects of changes in foreign-exchange rates on liquid assets	-73	-162
Funds on hand at the start of the fiscal years	8,416	7,181
Funds on hand at the end of the fiscal years	9,042	8,416

Funds on hand consist of those liquid assets stated in the consolidated balance sheet.

Additional information:	At Dec. 31, 2004	At Dec. 31, 2003
	€ 000s	€ 000s
Income tax payments	29,250	17,016
Interest payments	4,081	4,388

Report on Individual Market Segments

The organizational structure of the ElringKlinger Group is characterized by its orientation around five fields of business. Its markets are thus segregated into the market segments Original Equipment, Spare Parts, Engineered Plastics, Services and Industrial Parks.

Its operations in the Original Equipment and Spare Parts segments involve the manufacture and sale of parts and component assemblies for motor vehicle engines, transmissions and exhaust systems (powertrain). Services are also provided in conjunction with those operations.

Its operations in the Engineered Plastics segment involve the manufacture and sale of technical products made of high-strength PTFE for the automotive industry and general industry.

Its operations in the Services segment largely involve contract operation of engine test benches and providing engine engineering services.

Its operations in the Industrial Parks segment involve the administration and rental of land and buildings.

The separate table “Performance by Market Segment” lists the net sales and net incomes from the various market segments, along with their respective asset and liability allocations. With the exception of items supplied to the Spare Parts segment by the Original Equipment segment, inter-segment sales of goods and services are insignificant. Intersegment sales of goods and services are listed on a consolidated basis. They are concluded and booked at the same pricing that applies to outside customers.

Performance by Market Segment

		Net Sales	Intersegment Sales	Consolidation Adjustments	External Sales	Income from Ordinary Activities
		€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Original Equipment	2004	392,349	18,855	56,769	316,725	41,776
	2003	354,432	17,819	44,708	291,905	32,204
Spare Parts	2004	93,260	0	13,160	80,100	13,041
	2003	85,502	0	11,988	73,514	8,152
Engineered Plastics	2004	48,868	0	1,883	46,985	8,587
	2003	44,222	0	2,208	42,014	8,098
Services	2004	7,231	0	4,571	2,660	733
	2003	7,147	0	4,417	2,730	339
Industrial Parks	2004	7,175	0	125	7,050	3,095
	2003	6,722	0	126	6,596	1,711
Totals for the Group	2004	548,883	18,855	76,508	453,520	67,232
	2003	498,025	17,819	63,447	416,759	50,504

The figures stated for other operating income include income from participations in affiliated companies totaling €343 thousand, attributable to the original equipment segment.

Three customers from the original equipment segment account for more than 10 percent of the Group's consolidated net sales each. These customers collectively account for approximately 39 percent of the Group's consolidated external net sales.

Segment Fixed Assets	Portion Thereof Stockholdings in Affiliated Companies	Investments in Intangible and Tangible Fixed Assets	Current Assets	Liabilities and Provisions	Depreciation Allowances	Net Interest Income
€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
154,911	4,247	36,021	96,664	172,078	37,405	-3,023
155,600	4,026	55,092	91,367	178,897	38,229	-2,515
6,974	8	764	36,089	21,768	760	-335
7,834	8	1,024	32,492	25,269	852	-420
11,625	0	1,855	14,800	8,683	1,213	262
11,546	0	704	13,228	6,731	1,380	226
2,595	0	632	1,089	1,345	770	-1
2,743	0	1,112	797	1,340	877	-13
26,175	0	2,423	683	11,595	1,294	-679
25,170	0	32	465	16,861	1,225	-753
202,280	4,255	41,695	149,325	215,469	41,442	-3,776
202,893	4,034	57,964	138,349	229,098	42,563	-3,475

Performance by geographic territory:

		Net Sales	Fixed Assets	Investments in Intangible and Tangible Fixed Assets
		€ 000s	€ 000s	€ 000s
Germany	2004	173,349	146,388	30,670
	2003	164,026	150,109	44,394
Rest of Europe	2004	146,017	23,050	6,345
	2003	129,598	19,387	2,708
NAFTA	2004	81,797	27,078	1,823
	2003	73,828	28,961	9,923
Asia and Australia	2004	35,645	2,448	1,115
	2003	33,521	2,546	541
South America and others	2004	16,712	3,316	1,742
	2003	15,786	1,890	398
Group totals	2004	453,520	202,280	41,695
	2003	416,759	202,893	57,964

Changes in the ElringKlinger Group's Equity Capitalization (Stockholders' Equity)

	Subscribed Share Capital	Capital Surplus	Group Total Capitalization
	€ 000s	€ 000s	€ 000s
Status at Dec. 31, 2002	28,800	12,553	52,205
Shares issued			
Dividend distributions			-12,000
Adjustments to allow for changes in consolidated companies			
Adjustments to allow for consolidations			
Adjustments to allow for other changes			
Group net income for the fiscal year			23,662
Other group net income			
Status at Dec. 31, 2003	28,800	12,553	63,867
Shares issued	28,800	-9,806	-18,994
Dividend distributions			-14,400
Adjustments to allow for changes in consolidated companies			
Adjustments to allow for consolidations			
Adjustments to allow for other changes			
Group net income for the fiscal year			38,270
Other group net income			
Status at Dec. 31, 2004	57,600	2,747	68,743

Parent Company				
Cumulative Group Net Income		Stockholders' Equity	Minority Equity	Consolidated Stockholders' Equity
Adjustments to Allow for Foreign-Currency Conversions	Other Transactions not related to the Income Statement			
€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
-2,377	3,851	95,032	10,838	105,870
		0		0
		-12,000	-2,999	-14,999
		0		0
-4,797		-4,797	-76	-4,873
		0		0
		23,662	3,526	27,188
		0		0
-7,174	3,851	101,897	11,289	113,186
		0		0
		-14,400	-3,068	-17,468
		0		0
-383		-383	-47	-430
		0		0
		38,270	4,374	42,644
		0		0
-7,557	3,851	125,384	12,548	137,932

Auditor's Report

We have audited the annual financial statements, together with the bookkeeping system, of the Company ElringKlinger AG, Dettingen/Erms as well as the consolidated financial statements comprising the balance sheet, the income statement, cash flows, segment reporting, changes in shareholders' equity and the notes and its report on the position of the Company and the Group prepared by the Company for the business year from January 1 to December 31, 2004. The preparation of these documents in accordance with German commercial law and supplementary provisions in the articles of incorporation agreement is the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, as well as on the consolidated financial statements and the report on the position of the Company and the Group based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB ("Handelsgesetzbuch: German Commercial Code") and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (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 and the consolidated financial statements and the cash flows in the consolidated financial statements in accordance with German principles of proper accounting and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and the Group and evaluations of 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 and consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and the consolidated financial statements and the report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual and the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Company and the Group and the cash flows for the year of the Group, respectively, in accordance with German principles of proper accounting. On the whole the report on the position of the Company and the Group provides a suitable understanding of the Company's and the Group's position and suitably presents the risks of future development.

Stuttgart, Germany, March 14, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Burchards, Wirtschaftsprüfer



Münz, Wirtschaftsprüfer



Dates

AMITEC Automotive Fair, Leipzig, Germany	April 2 – 6, 2005
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Report on the Financial Results for the 1 st Quarter of 2005	May 2005
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Meetings with Investors Helsinki, Oslo, Copenhagen	May 10 – 11, 2005
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100 th Annual General Meeting of the Stockholders in the Hegelsaal at the Kultur- und Kongresszentrum Liederhalle, Stuttgart, Germany	10.00 a. m., June 8, 2005
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Dividend Distribution	June 9, 2005
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Capital Market Conference BW-Bank, Frankfurt, Germany	June 27, 2005
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Report on the Financial Results for the 2 nd Quarter and First Six Months of 2005	August 2005
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Moscow International Motor Show, Moscow, Russia	August 24 – 28, 2005
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IAA International Motor Show, Frankfurt, Germany	September 15 – 25, 2005
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CARAT Auto Parts Fair, Kassel, Germany	October 8 – 9, 2005
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Report on the Financial Results for the 3 rd Quarter and First Nine Months of 2005	November 2005
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We will be pleased to e-mail you our quarterly and semiannual reports in the form of PDF files. Simply drop us an e-mail at investor-relations@elringklinger.de or give us a call at +49-(0) 71 23/724-137 and let us have your e-mail address.

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