Annual Report 2005

Experience mobility.

elringklinger

ElringKlinger has been on a worldwide growth course for many years, steadily increasing sales, earnings and dividends. With its innovative products for new and existing business areas ElringKlinger will continue to grow profitably in the future as a global development partner and series-production supplier for the automotive industry.

ElringKlinger Group in Figures

IFRS	2005	2004	HGB	2003	2002	2001
	€ million	€ million		€ million	€ million	€ million
Sales revenues	474.6	459.5	Sales revenues	416.8	392.5	367.3
Cost of sales	318.0	305.0	Material expenses	154.1	153.1	139.8
Gross margin	156.6	154.5	Personnel expenses	131.7	123.9	116.4
Selling expenses	36.5	33.9	Amortization and depreciation on intangible and tangible assets	42.6	41.0	36.8
General and administrative expenses	22.9	22.2	Other operating income/ expenses	37.9	38.5	39.8
Research and development expenses	24.3	22.9				
Operating result	75.0	72.3				
Financial result and earnings from affiliated companies	-4.1	-7.1				
Earnings before taxes	70.9	65.2	Earnings before taxes	50.5	36.0	34.5
Net income	46.6	40.4	Net income	27.2	20.2	18.9
Net income after minorities	42.4	36.0	Net income after minorities	23.7	17.0	15.7
Total dividend amount	19.2[1]	16.8	Total divident amount	14.4	12.0	6.0
Earnings per share (IAS 33) in € (split-adjusted)	2.21	1.88	Earnings per share (DVFA/SG) in € (split-adjusted)	1.40	0.87	0.83
Dividend per share in €	1.00[1]	1.75[2]	Dividend per share in €	3.00[3]	2.50	1.25
Market capitalization (31.12.)	586.8	576.0	Market capitalization (31.12.)	364.8	144.2	100.8
Investment in tangible and intangible assets	54.7	40.8	Investment in tangible and intangible assets[4]	58.0	32.3	39.2
EBIT[5]	77.2	71.9	EBIT[5]	54.0	40.6	41.4
EBIT margin	16.3%	15.7%	EBIT margin	13.0%	10.4%	11.3%
Cash flow from operating activities	70.1	75.4	Cash flow from operating activities	66.0	69.1	58.4
Balance sheet total	456.3	423.9	Balance sheet total	343.2	321.3	332.1
Equity	196.1	163.9	Equity	113.2	105.9	98.1
Equity ratio	43.0%	38.7%	Equity ratio	33.0%	33.0%	29.5%
Return on total assets after taxes	12.0%	11.3%	Return on total assets after taxes	9.9%	8.3%	8.7%
Return on equity after taxes	25.9%	26.4%	Return on equity after taxes	24.8%	19.9%	22.7%
ROCE	23.8%	23.8%	ROCE	22.1%	16.5%	16.3%

[1] Proposal to the 2006 Annual General Shareholder Meeting

[2] Prior to 2-for-1 stock split

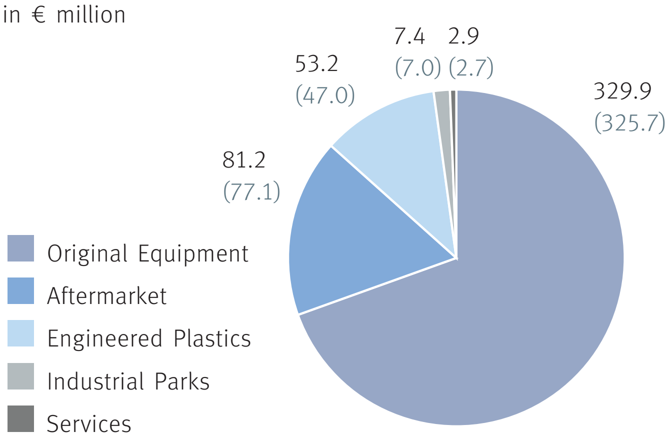
[5] Incl. foreign currency translation

[3] Prior to capital increase from corporate funds and issuance of new shares at a ratio of 2-for-1

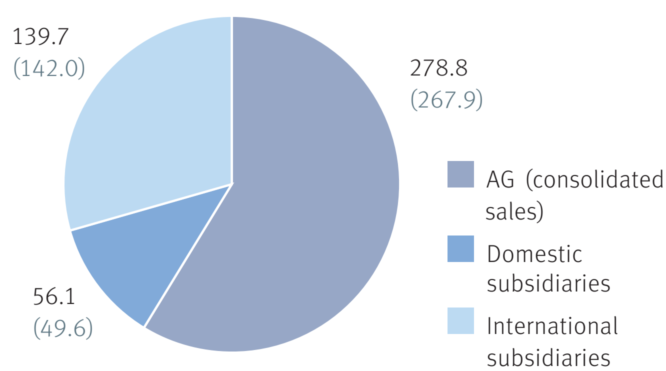
[4] Incl. investments in real estate held as financial investments

ElringKlinger Group Segments

Group Sales by Segment in 2005 (prior year)
in € million

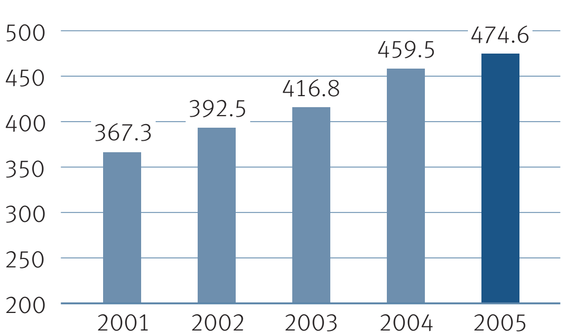


ElringKlinger Group Sales in 2005 (prior year)
in € million



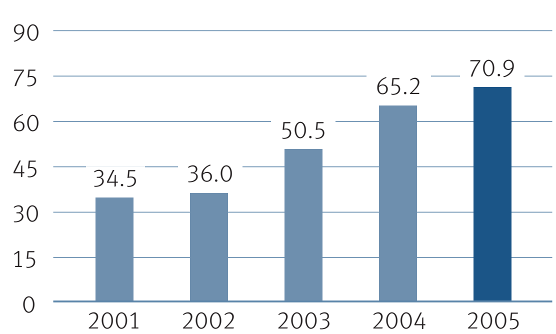
5-Year Review of Group Sales*

in € million



5-Year Review of Earnings Before Taxes*

in € million



* 2001 – 2003 in accordance with HGB, 2004 and 2005 in accordance with IFRS

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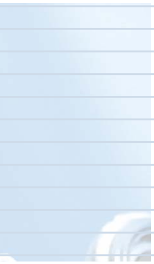


The desire for mobility has driven mankind for thousands of years. Experiencing mobility today is a more individual experience than ever before – with the highest level of technology and with motor vehicle concepts that fulfill the most varied needs and desires. It is up to individuals to decide by what means, when and where they want to go. This enables the individual to combine freedom and driving enjoyment with rationality. Desire and performance, and economy and ecology, become one. Tomorrow's mobility crucially depends on how we master the challenges of today. As a partner of the automotive industry, we are utilizing our dedication, resourcefulness and the highest degree of artistic ingenuity to make motor vehicles more intelligent, efficient, and environmentally-sound. We are driven by the desire to develop ground-breaking innovations that help mankind progress.

ElringKlinger is the only independent and globally active development partner and systems supplier of cylinder-head and specialty gaskets, elastomer components/modules, heat shields for engines, transmissions and exhaust tracts as well as high-performance plastics products for the automotive industry. The company's innovative strength is evident by its numerous patents and licenses. Some 3,100 employees at 20 locations worldwide have dedicated themselves to the pursuit of environmentally-sound mobility and sustainable, profitable growth.

Maintaining an overview – in every situation.

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

Letter to the Shareholders

Dear Shareholders, Colleagues, Partners and Friends of ElringKlinger,

In the 2005 financial year, the ElringKlinger Group was once again able to increase sales revenues and earnings.

The overall global economy only grew modestly in 2005, with China and North America once again representing the primary growth markets. In Western Europe, growth in the gross domestic product was below average in comparison to the global economy. In 2005, Germany's GDP growth at just 0.9% trailed behind the rest of Europe.

As an automotive supplier, ElringKlinger is dependent on the development of the motor vehicle markets. In 2005, global motor vehicle production amounted to 64.8 million units, which was 3.3% above the prior year. The Asian markets, lead by China, once again showed significant growth. The Brazilian market also increased, whereas growth in Europe was more restrained. North America, which stagnated at a high level, witnessed shifts in market share from the Big Three to the Japanese and Korean OEMs.

Consolidated sales revenues for the ElringKlinger Group rose to EUR 474.6 million in 2005, an increase of 3.3% over the prior year. The independent aftermarket made a significant contribution to growth. Sales revenues in Eastern Europe, the Near and Middle East and Germany also witnessed solid growth. In the original equipment business with the motor vehicle industry, declining production volumes on the part of certain large customers had a dampening effect in 2005. Nevertheless, the Original Equipment segment was able to increase its sales revenues, due to several ramp-ups of new products and the continuing trend toward-diesel engines in Europe.

ElringKlinger was also confronted with several challenges in the financial year under review. A continued rise in raw material prices, particularly for steel, resulted in higher costs. Only a portion of the material price increases could be transferred to customers. ElringKlinger was not able to avoid the further intensification of price reduction demands by OEM customers. In this regard, ElringKlinger is working with its customers to actively pursue solutions acceptable to both sides. As a manufacturing company, ElringKlinger was particularly impacted by the persistence of high energy prices.

ElringKlinger's share price traded in a range between EUR 25 and EUR 36 in 2005. As of the end of the year, the share price was slightly above the trading price at the start of the year on January 2, 2005. The company's share price experienced consolidation in the year under review, after tripling in 2003 and 2004. Communication with the capital markets was expanded further, and additional banks initiated coverage of ElringKlinger. Institutional investors were informed regularly about the Group through numerous investor meetings and participation at various capital market conferences. The company also gave presentations at banking events for private customers. Numerous European investment companies and an increasing number of private investors hold shares belonging to the free float, which currently amounts to nearly 45%.

We will propose a dividend of EUR 1.00 per share to you, our shareholders, at the 101st Annual General Meeting on June 1, 2006. This represents an increase of 14%, following last year's dividend payment of EUR 0.88 (adjusted for the share split in 2005). This year's total dividend payout would thus amount to EUR 19.2 million. With this payout, we are continuing our approach of allowing our shareholders to participate in the company's corporate achievement through increases in the dividend.

2006 has started off well. Signs of an economic recovery are emerging, but it remains to be seen whether these will lead to a sustainable recovery in the automotive industry. A continuation of price increases at the pump could have a significant dampening effect. However, ElringKlinger will continue to grow its sales revenues and earnings in 2006, even if there is only a slight improvement in the demand cycle for motor vehicles. Numerous ramp-ups of new product are in the pipeline, and we have expanded our market share. Several of our customers' engines, for which ElringKlinger is a supplier, are in high demand by vehicle buyers. As such, sales revenues and earnings should continue to grow in 2006.

Mr. Horst Klusmann resigned from the Management Board and entered retirement effective from year-end 2005. We would like to thank our former colleague for his open and goal-oriented cooperation. Together, we were able to move the Group forward profitably in 2005 as well. With the addition of Mr. Theo Becker starting January 1, 2006, a long-time managerial employee at ElringKlinger has assumed Mr. Klusmann's organizational responsibility on the Management Board.

The Management Board's goal is to continue the profitable development of the ElringKlinger Group in the future. Existing technologies must be continuously improved, so that the company will always have the most outstanding technical products on offer. The expansion into new fields of application for existing product groups will also provide additional opportunities for growth. New business divisions, which will complement the existing areas of activity to the greatest extent possible, are also expected to contribute to profitable growth. These divisions could involve promising technologies in areas such as engines, transmissions and exhaust tracts, as well as in areas outside of the motor vehicle domain, such as engineered plastics. The Asian markets, where ElringKlinger is currently not as well represented, also offer opportunities for profitable growth. The Japanese, Korean as well as Chinese OEMs continue to register steadily increasing sales figures, and our intention is to acquire an appropriate market share. We will tackle these goals with the support of our highly-motivated employees.

We hope you enjoy reading this year's annual report.

Sincerely,

Dr. Stefan Wolf

Dr. Helmut Lerchner, Chairman of the Supervisory Board

Report by the Supervisory Board

In the period under review, the Supervisory Board of ElringKlinger AG carried out its duty of monitoring the business development and risk situation of the company and advising the Management Board on the control of the company and the development of the corporate strategy as follows:

In four scheduled Supervisory Board meetings, the Supervisory and Management Boards held intensive discussions on the economic, market and business development, the strategic position and objectives of the company, the corporate policy and the measures planned by the Management Board.

The Supervisory Board constantly monitored and commented on the monthly and quarterly reporting. Furthermore, a continuous exchange of information and opinions took place between the Chairman of the Supervisory Board, the Speaker of the Management Board and the remaining Board members. The Chairman of the Supervisory Board informed each of the members of the Supervisory Board by telephone or email on important issues that came up, thus involving them in the forming of opinions and the consultation of the Management Board.

The Supervisory Board in 2005 consisted of Gert Bauer (employee representative), Walter Greiner (employee representative), Dr. Rainer Hahn, Karl Uwe van Husen, Dr. Thomas Klinger-Lohr, Walter Herwarth Lechler, Dr. Helmut Lerchner (Chairman), Rolf Rauscher (employee representative through June 8, 2005), Manfred Rupp (employee representative as of June 8, 2005), and Manfred Strauß. The members of the Supervisory Board were individually elected or re-elected at ElringKlinger AG's Annual General Meeting on June 8, 2005.

The Annual General Meeting on June 8, 2005 resolved to adjust the compensation of the Supervisory Board in order to accommodate the significantly increased time requirements and obligations placed on the Supervisory Board due to the provisions of the German Corporate Governance Code and numerous new laws aimed at strengthening the protection of shareholders.

The Supervisory Board of ElringKlinger AG has formed a Personnel Committee, which is involved in preparing appointments and recalls of members of the Management Board and making decisions relating to the compensation of members of the Management Board. The Personnel Committee held two meetings in the reporting period to pass resolutions. Moreover, the Committee compiled recommendations for the Supervisory Board in the form of telephone votes relating to changes in the Management Board. Members of the Personnel Committee in 2005 were Karl Uwe van Husen, Walter Herwarth Lechler, Dr. Thomas Klinger-Lohr, and Dr. Helmut Lerchner (Chairman).

The Supervisory Board of ElringKlinger AG has abstained from establishing additional sub-committees, particularly an audit committee, due to the fact that the size and qualification of the Supervisory Board as well as the quality of information and decision-related material submitted by the Management Board enables both the relevant issues and the resolutions required to be dealt with directly by the overall Board.

Preparatory meetings for the Supervisory Board meetings, separated by the representatives of shareholders and employees, were not held due to the same reasons.

The Supervisory Board has complied with the German Corporate Governance Code and its amendments from June 2, 2005 through the inclusion of a formal regulation of conflicts of interest of the Supervisory and Management Board in the respective rules of procedure of the respective executive bodies, among others. In anticipation of the amended legal situation, the individual of Supervisory and Management Board members' compensation for the 2005 fiscal year should first be released in 2006. The implementation of the Code's recommendations is set forth and explained in another part of this Annual Report.

The Supervisory Board resolved the following changes regarding the company's Management Board in 2005: Mr Sebastian Merz was recalled as a member and the Chairman of the Management Board on January 27, 2005. Mr Karl Schmauder was appointed as a member of the Management Board on January 27, 2005. He is in charge of OEM sales and the newly established New Business Fields area of responsibility. Dr. Stefan Wolf was appointed as a member of the Management Board on January 27, 2005. He is responsible for administration, the company's subsidiaries and affiliates, and aftermarket sales. Dr. Wolf was appointed as the Spokesman of the Management Board. Since the beginning of 2005, the duties of the Management Board have thus been divided into three areas of responsibility. Mr Horst Klusmann retired as a member of the Management Board upon expiration of his contract on December 31, 2005. Responsible for production, central technological functions, quality management and environment, he retired after nearly 14 years as managing director and member of the Management Board. Mr Theo Becker was appointed to the Management Board on January 1, 2006. He is responsible for the former duties of Mr Klusmann. Contracts of the newly appointed members of the Management Board each have a term of three years.

The 2005 annual financial statements of ElringKlinger AG, the consolidated financial statements of the Group, the management report for ElringKlinger AG, the management report for the Group and the annual financial statements of ElringKlinger subsidiaries and affiliates were audited by the auditors reappointed at the 2005 Annual General Meeting of shareholders, namely KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (Stuttgart office). All audits outside of Germany were conducted by affiliates of KPMG, in isolated cases of small international subsidiaries and affiliates by local auditors based on the auditing regulations of KPMG. All annual financial statements have been unreservedly approved.

The complete documentation of the annual financial statements and the summaries of key figures were presented to the Supervisory Board on schedule prior to the Supervisory Board's meeting held on March 28, 2006 in which the company's balance sheet was approved. The documentation was discussed in detail with the Management Board at this meeting. The responsible auditors of the annual financial statements were present at the meeting and have provided further explanations. There the Supervisory Board had the opportunity to question the auditors on matters relating to the results of their audit and the audit procedure without the Management Board present. No objections to the findings presented in the audit report were raised.

The company's risk situation was intensified in 2005 compared to the previous reporting period due to an unfavorable trend in the OEM business and significant material price increases together with high pricing pressure in sales markets. The Supervisory and Management Boards held intensive discussions on the issue. The Management Board is pursuing an effective policy for limiting risks within its means. No risks endangering the continued existence of the company are foreseeable.

The Supervisory Board therefore approved the annual financial statements of ElringKlinger AG as well as the Group's consolidated financial statements at its meeting on March 28, 2006. It also approved the proposal for the appropriation of retained earnings put forth by the Management Board.

We would like to take this opportunity to express our thanks to Mr Horst Klusmann for his long-standing, successful service as one of the company's managingdirectors and a member of its Management Board. We wish him all the best in his retirement.

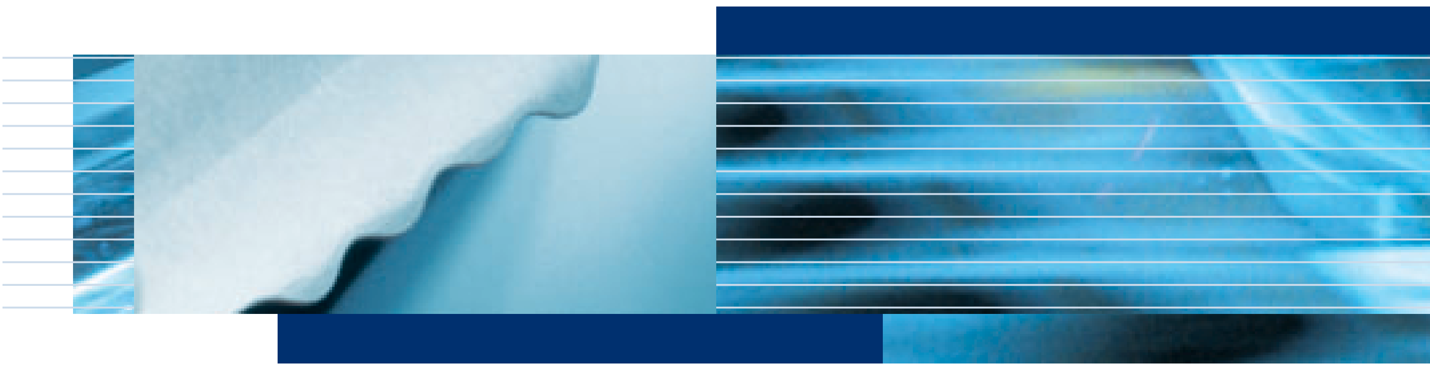
The company thanks Rolf Rauscher for more than 26 years of cooperative and dedicated service as a member of the Supervisory Board, in which he always took all of the interests of the company and its staff to heart.

The Supervisory Board would also like to thank the Management Board and all employees for the commitment and successful service in the 2005 fiscal year.

Aichtal, March 28, 2006

The Supervisory Board

Dr. Helmut Lerchner
Chairman of the Supervisory Board



Traveling along the ideal line – with bright prospects for the future.

ElringKlinger on the Capital Markets

Timely, comprehensive and transparent – these are the demands ElringKlinger places on its communication with the capital markets and the press. In this way, shareholders, the trade and financial press, and interested observers are always up-to-date on all the important developments within the company.

Share price consolidation

Following the positive share price trend in 2003 and 2004, when ElringKlinger's share price more than tripled, the share price fluctuated in 2005 in the range of EUR 25 to EUR 36. At the end of 2005, the share price was barely 2 percent above the closing price of the previous year. The German share index DAX increased by 26% in the same period, and the SDAX increased by over 35%. This partially made-up for the disproportionately high increase in ElringKlinger's shares over the last few years. Shareholders who acquired ElringKlinger shares in the middle of 2004 would have realized a gain of over 50%.

The start of 2006 was positive for the shares. Since the share price reached EUR 28 at the end of December 2005, it has risen nearly 30%, due to improved

Relative share price performance from January 1, 2004: ElringKlinger shares (XETRA); SDAX; DAX
XETRA closing price as of 12.31.2003: EUR 19.00; 12.31.2004: EUR 30.00; 12.31.2005: EUR 30.56

news flow from the industry, a continued positive evaluation of the company, as well as more road shows and a generally more amicable market environment. At the time this report was prepared, the shares reached a new alltime high at around EUR 39.

MDAX in view

ElringKlinger has set its admission to the MDAX as a medium-term goal. The index composition is based on the two criteria of market capitalization (calculated from the free float) and trading volume. Because ElringKlinger is among the most heavily traded shares in the SDAX, this is certainly a realistic, medium-term goal.

Dedicated communication

It is ElringKlinger's clear goal to inform shareholders and analysts and the interested public in a comprehensive and timely manner. In order to ensure that disclosures are communicated to institutional and privates investors alike in a timely and simultaneous fashion, the company places particular emphasis on the internet as a means of providing information (www.elringklinger.de). In addition to the regular

ElringKlinger shares on the stock exchange

ISIN	DE 0007856023
Security identification number (CUSIP)	785 602
Bloomberg/REUTERS	ZIL2/ZILGn.DE
Capital stock	EUR 57,600,000
Number of shares outstanding	19,200,000
Stock exchanges	for official trading: Frankfurt, Stuttgart, XETRA; Munich, Düsseldorf, Hamburg, Berlin-Bremen
Market segment	Prime Standard
Index	SDAX

publication of quarterly and interim reports, the company provides information on significant current events and internal developments through ad-hoc announcements and press releases in both English and German on the company website.

Maintaining a dialogue with the capital markets

ElringKlinger continued to be highly active in its dialogue with capital market participants in order to further increase the company's name recognition. Management conducted ten road shows in Scandinavia, Great Britain, Italy, Switzerland and Austria. In addition, regular meetings were held with investors in Frankfurt. The Management Board presented the company's business model at capital market conferences in Paris, London, Frankfurt and New York. Furthermore, the company conducted numerous one-on-one meetings providing information to institutional investors and potential shareholders.

Annual General Meeting shows solidarity

The close connection between the company and its shareholders was evident at the Annual General Meeting on June 8, 2005, held at the Liederhalle Cultural and Congress Centre in Stuttgart. Over 700 shareholders, bank representatives, shareholder groups and journalists were informed of developments in the 2004 financial year. In addition to a share split, the shareholders present approved the Management Board's dividend proposal of EUR 1.75 (EUR 0.88 adjusted for the split) by a large majority. Both during and after the meeting, the participants were able to obtain first-hand information about the company and its product portfolio through discussions with employees and management, and from a product exhibit.

The 101st ElringKlinger AG Annual General Meeting for the 2005 financial year will take place once again at the Liederhalle Cultural and Congress Centre in Stuttgart, on June 1, 2006. As a result of the improved earnings situation, the Management Board will propose a dividend increase of 14% to EUR 1.00 per share.

Share split increases trading activity

In order to improve the share's liquidity, ElringKlinger completed a 2-for-1 share split on August 12, 2005 (AGM resolution dated June 8, 2005). ElringKlinger's shareholders received one new share in addition to each old share, and the share price halved accordingly. The number of shares on issue now amounts to 19.2 million. The daily trading volume increased from around 18,500 in 2004 to over 20,000 in 2005. Since the start of the year 2006, the trend in trading volume has been significantly positive. Whereas the start of the year witnessed trading volumes of around 10,000 shares, this figure rose with the increase in the share price through mid-February 2006 to a record of some 50,000 shares traded.

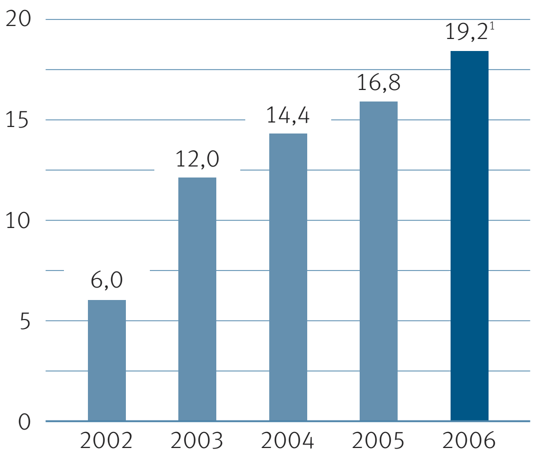
As of the end of the 2005 financial year, the market capitalization amounted to EUR 586.7 million. Due to the continued strong share price trend at the beginning of the year, ElringKlinger AG's market capitalization through mid-February 2006 increased to a peak of EUR 754.0 million. Based on the free float, the market capitalization rose to EUR 337.0 million.

Stable shareholder structure

In 2005 ElringKlinger AG's shareholder structure has remained stable. The families of Klaus Lechler and Walter Herwarth Lechler held 55.3% (55.7%) of the float. The free float and thus the liquidity of the shares increased slightly to 44.7% (44.3%). Institutional investors expanded their holdings to 47% and thus held nearly half of the free float. Major investors include international banks, investment trusts and insurance companies from Germany, Switzerland, Great Britain, France, Austria, Skandinavia and Benelux. Many private investors also hold shares in ElringKlinger due to the attractive dividend yield.

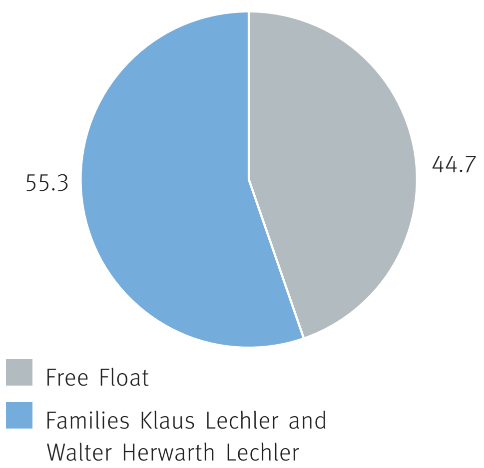
Total dividend payment

in EUR million



[1]proposal to the AGM

Shareholder structure* in %



*As of Feb. 28, 2006, based upon information available to the company as of this date

"Achiever of the Year"

In December, the trade magazine Automobilwoche chose ElringKlinger as the "Achiever of the Year 2005". In particular, the innovative strength and early recognition of growth niches and new applications, in areas such as diesel and automatic transmissions, were considered to be significant contributors to the company's outstanding development compared to its industry peers. ElringKlinger also received a positive ranking in terms of its earnings strength in the German business daily, the Handelsblatt, receiving the designation "exceptionally strong". Earnings strength is particularly decisive when it comes to making the necessary investments in new technologies and equipment and to securing jobs, all of which are required to ensure the company's long-term success. In the Handelsblatt ranking, ElringKlinger was ranked 12th out of 132 companies and is among the highest esteemed of all German companies.

Recipient of ARC award

In the international annual report competition in New York, ElringKlinger's 2004 annual report was singled out from among ten automotive supplier competitors to receive the "ARC Award" for quality, content and appearance.

Hat trick for the shareholder value award

ElringKlinger is continuing on its growth path – despite the ongoing difficult market situation. This is reflected in the share price development over the last few years. Following 2003 and 2004, ElringKlinger succeeded in winning the Automotive Shareholder Value Award for the third time in 2005. This award is presented every year by the magazine Automotive News Europe and by the accounting firm PriceWaterhouse Coopers. The criteria for this award include the share price development and the creation of shareholder value under consideration of the dividend policy.

On track for 2006

The company will focus on continuing and expanding its intensive dialogue with investors and the public in the new financial year. For example, the Group's internet presence is currently being completely revamped in order to offer an even more structured, comprehensive and timely channel for providing information. Since the beginning of the year 2006 two additional international banks and one German bank have initiated coverage of ElringKlinger AG. The goal of the investor relations program is to become more active in international financial centers where the company previously only had limited representation, such as in North America.

Key Figures ElringKlinger Share

	2005	2004[3]
Earnings per share according to IFRS (before minority interests, in EUR)	2.43	2.10
Earnings per share according to IFRS (after minority interests, in EUR)	2.21	1.88
Shareholders' equity per share (in EUR)	10.21	17.08
High (in EUR)	36.56	30.48
Low (in EUR)	25.26	19.30
Closing price at December 31. (in EUR)	30.56	30.00
P/E (price to earnings ratio)[1]	13.8	16.0
Dividend per share (in EUR)	1.00[2]	0.88
Daily average trading volume on the German exchanges (in units)	21,300	13,300
Market capitalization (in EUR million)[1]	586.8	576.0

[1] As of December 31

[2] 2005: Proposal to the AGM

[3] Share price, earnings figures and dividend adjusted for 2:1 stock split

Canada Leamington | **USA** Livonia · Branchburg | **Mexico** Toluca | **Brazil** Piracicaba | **Germany** Dettingen/Erms · Langenzenn · Runkel · Bietigheim-Bissingen · Heidenheim / Brenz ·

Cylinder-Head Gaskets

Specialty Gaskets

Shielding Systems

Elastomer Components/Modules

Idstein · Rottenburg / Neckar | **Great Britain** Redcar · Gateshead | **Spain** Reus | **Italy** Mazzo di Rho | **South Africa** Johannesburg | **PR China** Changchun | **Korea** Changwon | **Japan** Tokyo

Powertrain Applications

ElringKlinger Engine Technology

ElringKlinger Engineered Plastics

Original Elring Aftermarket Division

Experience mobility. The ElringKlinger Group.

We are creating constructive spaces for engines, transmissions, exhaust systems and accessories through new ideas and innovative, environmentally-conscious technologies and products. These developments enable high-powered vehicles to arrive at their destination, while at the same time preserving natural resources. ElringKlinger – development partner and series production supplier for the international automotive industry.

We accelerate our development processes through engineering services, comprehensive production competence and collaborative partnerships at 20 locations worldwide, and we assume systems responsibility from the drawing board to series production. This enables our customers to reach their goals faster.

Being dynamic requires good grounding.

Group Management Report

Macroeconomic Conditions and Business Environment

Global economy

The global economy registered subdued growth in 2005. Once again, China and North America were the drivers of economic progress. However, record prices for crude oil and other fuels and several interest rate hikes by the US Federal Reserve put a strain on the overall economic trend.

Europe's gross domestic product grew by 2.3%. Once again, growth here was weaker than the global trend.

The economic upswing in Asia remained intact, driven by China, which grew by some 10% in 2005 following similar growth in 2004. Growth in Japan amounted to 2.8%.

Stagnation of the German economy

Germany only experienced weak growth in its gross domestic product. Growth of only 0.9% was once again driven by exports, which increased by 6.2%. Private consumption remained stagnant as in past years. High unemployment, another increase in the personal savings rate, and a lack of consumer confidence in root-and-branch political reforms stood in the way of a domestic economic upturn.

Automotive Markets

Industry environment remains challenging for the supplier industry

The market environment for the automotive and supplier industry in 2005 was characterized by high raw material prices, continued increases in the price of crude oil, and declines in automotive production and new passenger car registrations in the European car markets of greatest significance to the ElringKlinger Group. Pricing pressure on the part of manufacturers once again increased considerably, while demands by the automotive industry for development by suppliers continued to grow.

Global motor vehicle production and registrations

Motor vehicle production worldwide increased in 2005 by 3.3% to 64.8 (62.8) million units. In the triad markets, comprised of Europe, the USA, and China/Japan, sales of passenger cars increased by 1.5% from 39.8 million to 40.4 million units, with growth mainly occurring in the Asian markets. The Chinese automotive market grew by 24.9% in 2005, from 2.5 to 3.1 million passenger cars.

The North American market remained highly competitive. Overcapacity, sales promotions and other incentives for selling cars also determined the course of market events in 2005. Sales of light motor vehicles (passenger cars and light-duty trucks) amounted to 17.0 million, just slightly above the prior year.

In South America, the Brazilian automotive market was able to latch on to the strong trend of the prior year. Overall, Brazil produced 1.9 million passenger cars and light-duty trucks compared to 1.7 million units in the prior year period. Motor vehicle production in Brazil is for both the foreign and the local market, and Brazil continues to increase its importance as an export location.

Automobile production in Europe remains below the prior year

European automobile production amounted to 18.0 million, which was around one percent below the prior year, and European new passenger car registrations declined by 0.2% to 14.5 million. The Korean and Japanese carmakers achieved strong sales growth.

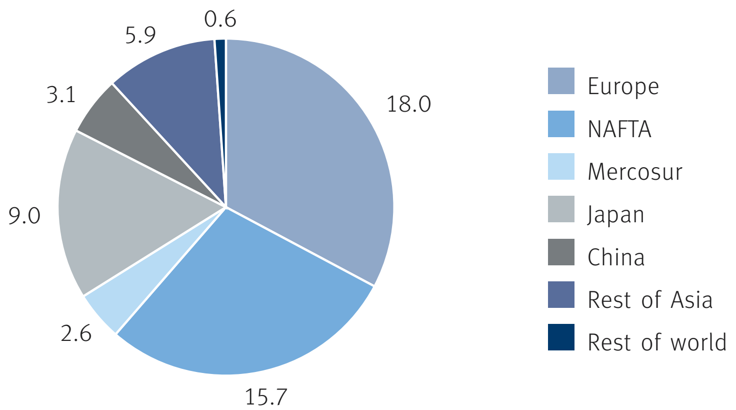
Upturn in demand for automobiles in Germany

On the German car market, which comprises nearly one-quarter of the overall European market, a slight recovery in demand was noticeable following years of weakness. New passenger car registrations in Germany increased by 2.3%.

Commercial vehicles sector shows dynamic growth

The commercial vehicles sector, where ElringKlinger generates more than 10% of its sales revenues, once again developed positively in global terms in 2005. The number of commercial vehicles manufactured increased by 6.4%. A continuation of the positive trend is also expected for 2006.

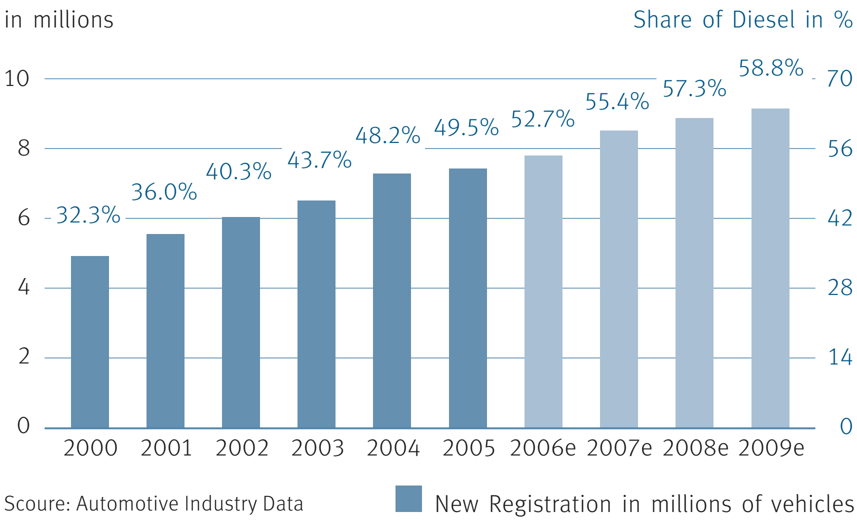
Global Automobile Production in 2005
in millions of vehicles



Diesel in Europe remains on track for growth

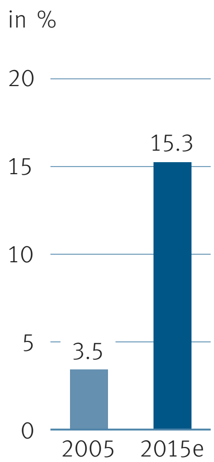
Diesel penetration rates for passenger cars in Europe continued to rise in 2005. High crude oil prices promoted the sale of fuel-efficient diesel motor vehicles. Whereas new registrations of gasoline passenger cars declined by 2.4%, the number of new diesel passenger cars increased by 2.4%. In Western Europe, nearly one in two car buyers opted for a diesel engine as the number of diesels passenger cars sold reached 7.2 million, or 49.5% of all new car registrations. Diesel cars were able to expand their market share in nearly all European countries. Germany, in contrast, witnessed a reduction in diesel penetration from 44.0% in 2004 to 42.7% in 2005, as the political discussions in the middle of the year concerning particulate matter and particulate filters unsettled potential buyers. Now that diesel particulate filters are available in nearly all new cars and several European countries have implemented preferential tax treatment for cars equipped with particulate filters, the diesel trend has become noticeably stronger since the end of the year. Scandinavia, Spain, Portugal and Great Britain showed the highest growth in diesel car registrations. In England, diesel penetration, which was at just under 20% a few years ago, has now reached 36.8%. Although diesel in Great Britain is more costly at the pump compared to most other European countries, the low consumption and powerful torque performance of the engine is winning over an increasing number of buyers.

New Diesel Passenger Car registrations
in Western Europe



Scoure: Automotive Industry Data

Projection
Growth of Diesel in the US:
Share of New Registrations



Growing optimism for diesel in North America

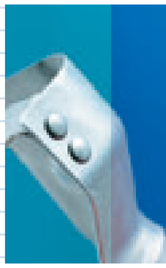
The sale of diesel passenger cars and SUVs in the US over the past five years has gone largely unnoticed, although it has grown by more than 40%, albeit from a low level. The strong torque of a diesel engine offers an ideal powertrain solution in the US, where light trucks have been the motor vehicles of choice up to now. In 2005, more than 560,000 diesel passenger cars and light trucks were sold in the US, representing an increase of 9%. As such, diesel has secured a market share of 3.5%, well-above that of hybrid cars, which amounts to 1.2%. In the light truck segment, which comprises nearly half of the US market, the share of diesel amounted to nearly 6% of sales.

Net Assets, Financial Position and Earnings Situation at the ElringKlinger Group

Earnings situation

Increases in a difficult market environment

The ElringKlinger Group was once again successful in increasing sales revenues and earnings in the 2005 financial year. Group sales revenues increased by 3.3% to EUR 474.6 (459.5) million, slightly exceeding the Group's increased guidance of EUR 470.0 million for the full year, which was issued in September 2005.



Sales revenues by region – strong rise in sales revenues in Asia and South America

ElringKlinger generated a 38.6% (38.8%) of Group sales revenues in Germany, where sales revenues increased by 2.6% to EUR 183.0 (178.3) million. The share of sales revenues generated abroad increased from 61.2% to 61.4% and amounted to EUR 291.6 (281.2) million.

In Europe excluding Germany, the Group increased its sales revenues by 0.7% to EUR 144.5 (143.5) million.

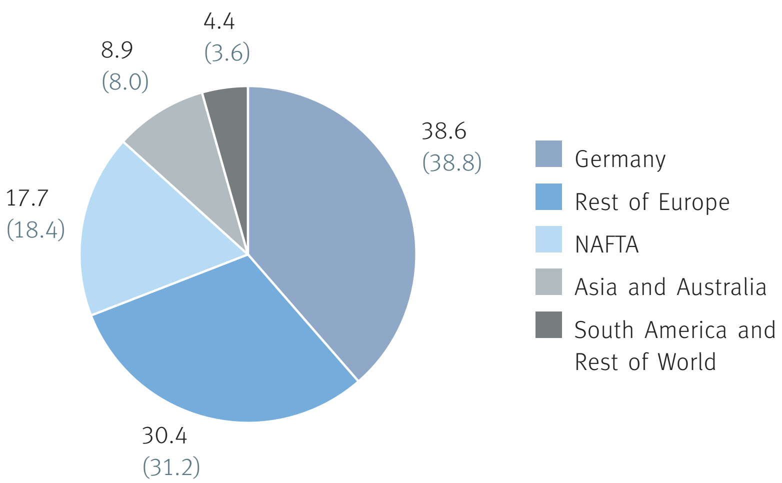
In the NAFTA region, sales revenues declined slightly to EUR 83.8 (84.4) million. This was primarily due to lower take-rates on the part of American original equipment customers compared to the prior year. NAFTA's share of Group sales revenues amounted to 17.7% (18.4%) in 2005.

ElringKlinger experienced growth in 2005 on the Asian markets, where sales revenues increased by 14.9% from EUR 36.9 million to EUR 42.4 million. The share of Group sales revenues increased to 8.9% (8.0%).

ElringKlinger also grew in South America and the rest of the world. Sales revenues in this region increased by 28.3% over the prior year to EUR 21.0 (16.4) million. The share of Group sales revenues increased to 4.4% (3.6%).

Sales revenues in the Aftermarket segment also increased, particularly in Germany, the markets of Eastern Europe and the Near and Middle East, which has now become the strongest market in terms of sales revenues. Group companies active in the aftermarket business including Elring Parts, Elring of North America and Elring Gaskets (Pty.) Ltd. were able to benefit from the growth in global demand for spare parts.

Consolidated Sales Revenues by Region in 2005 (prior year)
in %



Development of Sales Revenues and Earnings in the Segments

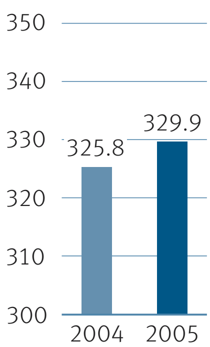
Original Equipment slightly above prior year

Growth in the Original Equipment segment was below the overall sales growth for the ElringKlinger Group. Sales revenues increased by 1.3% to EUR 329.9 (325.8) million. Earnings before taxes increased by 3.4% to EUR 41.9 million compared to EUR 40.5 million in the prior year.

Modest overall declines occurred in the Cylinder-Head Gasket division in 2005. Growth in cylinder-head gaskets for diesel engines as a result of the ongoing increases in diesel penetration and the good performance of the commercial vehicles markets was not able to fully compensate for the decline in cylinder-head gaskets for gasoline engines. This was primarily caused by lower sales revenues at the AG due to a decline in semi-finished product sales to ElringKlinger Sealing Systems Inc., Canada, which experienced a sharp reduction in take rates by its North American customers. ElringKlinger Mexico was also affected by weaker sales to major customers in the NAFTA region. Demand for cylinder-head gaskets for gasoline engines in Europe was also lower than in the previous year. A major new engine ramp-up at a European OEM was postponed to 2006, which negatively impacted

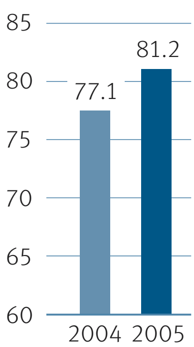
Sales Revenues for the Original Equipment Segment

in EUR million



Sales Revenues for the Aftermarket Segment

in EUR million



ElringKlinger as the supplier of its cylinder-head gaskets. Commissions for new product development in the Cylinder-Head Gasket division developed positively, as ElringKlinger was awarded more than 60 development projects in 2005. A Japanese OEM also granted ElringKlinger global supplier status for its cylinder-head gaskets.

The Specialty Gaskets division achieved modest growth in sales revenues as the ramp-up of new products had a positive impact. The ramp-up of an automatic transmission control plate order for a large US manufacturer made its first contribution to earnings. In the year under review, the Specialty Gaskets division forged new fields of application for transmissions and exhaust tracts, and the division presented new products to customers.

In an intensely competitive environment, the Elastomer Components/Modules division was also able to increase its sales revenues, due to new ramp-ups and higher volumes of metal-elastomer cylinder-head gaskets for commercial vehicle engines.

The Group's Shielding Technology division generated disproportionately high growth. In addition to new ramp-ups, the short-term award of contracts for the low-volume series production of specialty parts also contributed to this increase. Tooling income also contributed to the positive trend in sales revenues. The idea of combining heat shields with add-on parts, such as integrated exhaust seals or integrated air extraction for catalytic converters, was able to win-over new customers and lead to additional orders.

Aftermarket increases sales revenues by 5%

Sales revenues in the Aftermarket segment grew disproportionately to overall sales revenues with an increase of 5.4% to EUR 81.2 (77.1) million. The highest Aftermarket business growth rates were generated in the markets of Eastern Europe and the Near and Middle East. Earnings before taxes increased by 13.9% to EUR 14.6 (12.9) million.

The Group's Aftermarket segment also profited from the increasing age of the German vehicle population, where the average age of cars on the road now exceeds seven years. The share of diesels in the used car population also increased, not just in Germany, but across the whole of Europe. As a market leader in the area of cylinder-head gaskets for diesel engines, ElringKlinger's aftermarket business should increasingly benefit from the trend towards diesel, which was triggered with the introduction of modern direct-injection for diesel engines in the second-half of the 1990s. The Group is able to offer a high degree of service with its prefabricated complete gasket sets for a variety of engine types and fill rate of 95%, which is above-average for the industry.

Double-digit sales revenue growth for Engineered Plastics

ElringKlinger Group's Engineered Plastics segment, which primarily develops and sells products made from the high-performance plastic PTFE was able to grow its sales revenues by 13.1% from EUR 47.0 million to EUR 53.2 million. Growth was achieved with customers from the automotive, engineering and medical technology industries. The segment's earnings situation also improved. Earnings before taxes in the Engineered Plastics segment increased by 33.0% to EUR 10.8 (8.1) million.

Industrial Parks segment experiences stagnation

Sales revenues from the industrial park in Ludwigsburg were slightly above the prior year, whereas those in Idstein were slightly below last year's level. Follow-up rentals in the Idstein industrial park only generated lower rental income due to the lower prevailing rent levels which have developed in the city. At the TECHNIK-PARK HELIPORT Kft., in Kécskemét, Hungary, rent income was higher than in the previous year. A newly erected hall was rented and contributed to sales revenues starting in the second-half of the year. Overall rental income in the Industrial Parks segment amounted to EUR 7.4 (7.0) million. Earnings before taxes were nearly unchanged compared to the prior year and amounted to EUR 3.1 (3.3) million.

Services segment grows sales revenues

The Services segment, which is comprised of ElringKlinger Logistic Service GmbH and Elring Klinger Motortechnik GmbH, increased its contribution to ElringKlinger Group sales revenues in 2005 with growth of EUR 0.2 million to EUR 2.9 (2.7) million; earnings before taxes amounted to EUR 0.5 (0.4) million.

Development of Group expenses

The Group's cost of sales increased by 4.3% to EUR 318.0 (305.0) million. Additional increases in raw material and energy prices in 2005 had a negative impact. Only a portion of the material price increases could be transferred to customers. The continued internationalization of the purchasing base and an ongoing optimization of product design were able to partially offset higher procurement costs. Rationalization measures also made a contribution. Gross profit of EUR 156.6 (154.5) million was 1.3% higher than in the previous year, enabling the Group to achieve a gross margin of 33.0% (33.6%).

Other operating income of EUR 6.7 (6.9) million was around the prior year's level. Other operating expenses declined by EUR 5.6 million to EUR 4.5 (10.1) million. Selling expenses rose at a disproportionately high rate compared to sales revenues, increasing by 7.8% to EUR 36.5 (33.9) million. One reason for this was the expansion of ElringKlinger's sales activities in the strongly growing Engineered Plastics segment. The Sales department of the AG also increased costs through the formation of a department for Tier 1 suppliers. Several new projects were acquired with companies in the automotive supplier industry. General and administrative expenses increased by 3.4% to EUR 22.9 (22.2) million, in parallel with the rise in sales revenues; this figure includes the costs for a patent dispute with a US competitor in the amount of several hundred thousand euros. Excluding this one-off effect, general and administrative expenses were below the prior year despite the increase in sales revenues.

Research and development expenses increase by 6%

In 2005, ElringKlinger once again invested heavily in the development of new products and technologies, thereby improving its competitive position. Research and development expenses increased by 6.2% compared to the prior year to EUR 24.3 (22.9) million. The capitalization of research and development costs in accordance with IFRS did not have a material effect on earnings. In total, the capitalization of R&D costs in 2005 amounted to EUR 1.0 million. The scheduled depreciation of capitalized R&D costs, which amounted to EUR 0.8 million, was around the same level.

Increase in EBITDA

The ElringKlinger Group was able to increase EBITDA (earnings before taxes, interest, depreciation and amortization) by 3.7% to EUR 117.9 (113.8) million.

Depreciation and amortization decline

Depreciation and amortization of the Group's plant, property and equipment and intangible assets as well as investment real estate amounted to EUR 40.7 (41.8) million. The decline is mostly explained by the extraordinary write-down of a license amounting to EUR 4.0 million, which was taken in the prior year. Increased capital expenditure resulted in an increase in depreciation on plant, property and equipment from EUR 33.8 million to EUR 36.8 million. The depreciation expense of the Group as a percentage of sales revenues amounted to 8.6% (9.1%).

Growth in EBIT exceeds growth in sales revenues

The company's earnings strength remained high as the operating result for the ElringKlinger Group improved by 3.7% to EUR 75.0 (72.3) million. A further increase in pension provisions by EUR 3.5 million weighed on earnings. This increase was necessary due to changes in market interest rates and the related adjustment to the discount rate. The operating margin reached 15.8% (15.7%). EBIT (earnings before interest and taxes) including exchange rate effects outpaced the growth in sales revenues with an increase of 7.3% to EUR 77.2 million, following EUR 71.9 million in the prior year.

Improvement in the financial result

The financial result improved from EUR -7.1 million to EUR -4.1 million. A continuation of low interest rate levels and the ongoing reduction in liabilities to banks improved the interest result from EUR -6.7 million in the previous year to EUR -6.3 million in 2005. The exchange rate trend in the Canadian dollar and US dollar had a positive effect. The other financial result, which amounted to EUR -0.4 million last year, improved to EUR 2.2 million in 2005.

Earnings before taxes 9% above the prior year

Earnings before taxes for the ElringKlinger Group in 2005 increased by EUR 5.7 million from EUR 65.2 million to EUR 70.9 million, an increase of 8.8%.

Consolidated net income increases 15%

The Group's income tax rate was lower than in the previous year and amounted to 34.3% (38.0%). In the 2004 consolidated financial statements, deferred taxes were accounted for using a higher tax rate. Consolidated net income increased by 15.3% from EUR 40.4 million in the prior year to EUR 46.6 million in 2005, which is equivalent to a net income margin for the ElringKlinger Group of 9.8%.

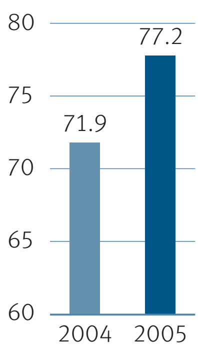
After subtracting minority interests, which declined from EUR 4.4 million to EUR 4.2 million, the ElringKlinger Group generated consolidated net income after minority interests of EUR 42.4 million, an increase of 17.6% above the prior year's net income after minorities of EUR 36.0 million.

Increased dividend proposal

For many years, ElringKlinger has pursued the goal of allowing investors to participate in the company's earnings growth through sustainable dividend increases. Therefore, predicated upon approval by the Supervisory Board, the Management Board will propose a dividend of EUR 1.00 per share for the 2005 financial year

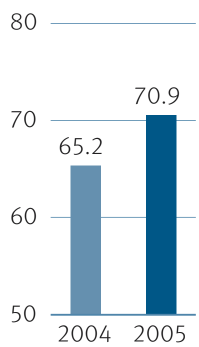
EBIT

in EUR million



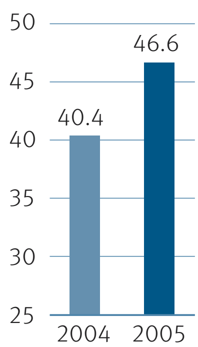
Earnings Before Taxes

in EUR million



Consolidated Net Income

in EUR million



at the Annual General Meeting, which would correspond to an increase of 14.3% over the prior year. The total dividend amount for distribution to be proposed at the AGM amounts to EUR 19.2 (16.8) million.

Earnings per share (IFRS) 18% above the previous year

Earnings per share in accordance with IFRS, which is based on consolidated net income (excluding minorities), increased by 17.6% to EUR 2.21 per share. Earnings per share in the prior year amounted to EUR 1.88. Based on the consolidated net income after minority interests (including minority interests), EPS reached EUR 2.43 (2.10). The prior year values have been adjusted for the stock-split, which occurred in 2005.

Group Net Assets

The balance sheet structure of the ElringKlinger Group can be characterized as very solid. The balance sheet total for the ElringKlinger Group amounted to EUR 456.3 (423.9) as of December 31, 2005, which represents an increase of 7.6% over the prior year.

Intangible assets were virtually unchanged compared to the prior year. The Group's plant, property and equipment increased by 9.9% to EUR 210.5 (191.5) million. Investments were primarily made in new manufacturing facilities to increase capacity and for rationalization measures. As a result, technical equipment and machines within non-current assets increased by 34.3% to EUR 34.7 (25.9) million. Non-current assets increased by 7.2% to EUR 289.0 (269.7) million.

Group inventories increased by 8.8% to EUR 82.3 (75.6) million, due in part to an accumulation of traded goods. The internationalization of procurement in the Aftermarket segment, particularly in the Far East, required higher minimum inventory levels. These higher levels are justified in light of the considerable price benefits. Higher minimum inventory levels were necessary due to the relocation of the heat shield production from ElringKlinger Sealing Systems USA, Inc. to Elring Klinger Mexico in order to secure the supply of OEM customers in the US during the move. Trade receivables increased by EUR 10.7 million to EUR 74.2 (63.5) million, largely due to tooling sales and an increase in product sales revenues in Q4 2005 compared to the same quarter in 2004. These receivables are not due until 2006. The payment pattern of certain customers also worsened in 2005. ElringKlinger is currently doing everything in its power to collect on all of its receivables in a timely manner. Overall, the Group's current assets increased by 8.5% to EUR 167.3 (154.2) million.

Revenue reserves increased by 35.2% to EUR 119.8 (88.6) million. A portion of net profit was allocated to revenue reserves. Shareholder's equity increased by

19.6% to EUR 196.1 (163.9) million. Despite an increase in the balance sheet total, the Group's equity ratio of 43.0% (38.7%) exceeded the 40%-mark and therefore also the Group's target of 40% for the first time.

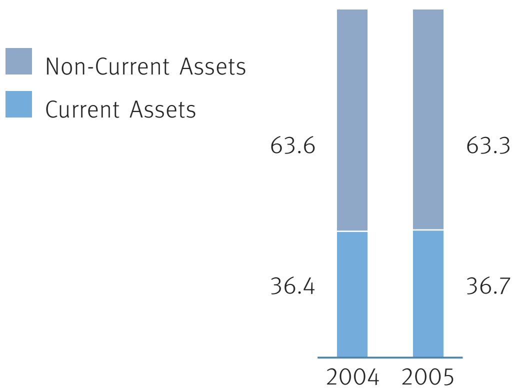
The contribution of EUR 3.5 million to pension provisions, due to the lower discount rate, caused this figure to increase by 7.3% to EUR 52.4 (48.9) million.

In accordance with the ElringKlinger Group's financial planning, non-current bank loans were paid-off in 2005. This resulted in a decrease in non-current financial liabilities by EUR 12.1 million to EUR 50.5 (62.6) million.

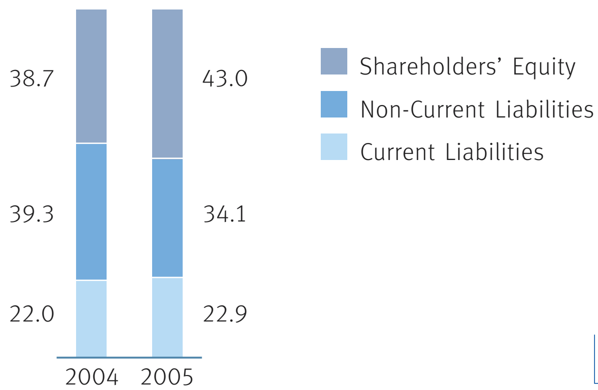
In total, the Group reduced its non-current liabilities by 6.5% to EUR 155.8 (166.6) million.

The Group's current liabilities at year-end 2005 amounted to EUR 104.3 (93.4) million. Trade payables increased to EUR 25.7 million. Current financial liabilities experienced a scheduled temporary increase of EUR 10.0 million to EUR 35.0 (25.0) million. In contrast, other current liabilities decreased by 6.9% or EUR 2.3 million to EUR 30.3 (32.6) million.

Total Balance Sheet Assets for the ElringKlinger Group
% of Balance Sheet Total



Total Balance Sheet Liabilities and Shareholders' Equity for the ElringKlinger Group
% of Balance Sheet Total



Financial Position

All investments in plant, property and equipment and intangible assets were once again financed by net cash from operating activities in 2005.

Net cash from operating activities for the ElringKlinger Group amounted to EUR 70.1 million after EUR 75.4 million in the prior year. The decline was due primarily to lower depreciation compared to the prior year and to the increase in inventories and trade receivables. Whereas consolidated net income increased by EUR 6.2 million compared to last year, depreciation minus write-ups on tangible and intangible assets declined by EUR 1.2 million. Inventory buildup and higher trade receivables had a reduction effect of EUR 8.3 million compared to the previous year.

The cash flow return on sales (operating cash flow as a percentage of sales revenues) of 14.8% shows the ElringKlinger Group's earnings strength. The Group's operating free cash flow (consolidated net income plus depreciation and the change in long-term provisions minus investment in plant, property and equipment and intangible assets before divestitures/acquisitions) amounted to EUR 38.5 million.

Net cash used in investing activities amounted to EUR -53.7 (-42.5) million. Capital expenditure increased by EUR 14.1 million to EUR 52.8 (38.7) million, due to higher investments in capacity expansion, the preparation for new product ramp-ups and rationalization measures. In this context, it is important to note that the Group had already paid EUR 11.3 million in deposits for machinery and construction in progress in 2005.

The Group's net cash used in financing activities amounted to EUR -23.8 (-31.7) million. Despite the higher dividend distribution, which amounted to a total of EUR 16.8 (14.4) million, the improvement in net cash used in financing activities by EUR 7.9 million was primarily the result of the higher repayment of liabilities to banks in the prior year. The Group's cash and cash equivalents amounted to EUR 4.4 (11.2) million.

Against the background of the company's strong net assets, financial position and earnings situation, the Management Board believes that the ElringKlinger Group is well positioned to take advantage of the company's growth opportunities in the coming years. The preconditions are present for further expanding the company's organic growth and for external growth in the form of targeted acquisitions when attractive opportunities arise.

Compensation Report

Compensation structure of the Management Board

Contracts for the Management Board members are prepared by the Personnel Committee of the Supervisory Board under the leadership of its chairman and are agreed upon with the Management Board candidates. The conclusion of the contract occurs following the approval of the Supervisory Board. Compensation is reviewed at the established intervals and adjusted as necessary.

The Management Board members appointed in 2005 have three-year contracts. The Management Board's compensation contains fixed and variable elements. The variable elements contain a component based on the financial year and a long-term bonus, which is linked to the growth in company value (value-enhancement bonus). The yearly management bonus is linked to the Group's earnings before taxes. The value-enhancement bonus is determined each year based on the development of the ElringKlinger Group's enterprise value, which is calculated by the company's tax consultant and reviewed by the auditor. Each Management Board member has the option of postponing the payment of this value-enhancement bonus once or several times, but it may not be postponed beyond the end of the respective member's contract term; for each postponement, the annual bonus is calculated retroactively according to the increase or decrease in value in the year of payment compared to the base year. The annual bonus shall not exceed two-times the yearly fixed salary.

The Management Board members have a right to a pension provided that either their contract has expired, or when they have reached 65 years of age and have started to receive a statutory pension, or in the event they are granted general disability. The claim amounts to 2% of the last monthly fixed salary prior to retirement for each completed year of service, not to exceed 45%.

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

Compensation structure of the Supervisory Board members

The compensation of the Supervisory Board members is comprised of a fixed and a variable component. The level of compensation is determined at the Annual General Meeting, and was last determined at the Annual General Meeting on June 8, 2005. The variable compensation element is linked to the Group's earnings from ordinary activities in the past financial year. The Supervisory Board chairman receives two-times the compensation of the regular Supervisory Board members, and the vice-chairman receives one-and-a-half times the amount in question.

Disclosures which, due to the new Management Board Compensation Disclosure Law (VorstOG), belong in the appendix in accordance with section 314 no. 6a of the German Commercial Code (HGB) are presented there.

Group Subsidiaries

Scope of consolidation expanded through transition to IFRS

In the 2005 financial year, the ElringKlinger Group consisted of ElringKlinger AG and 19 active, fully-consolidated subsidiaries, as well as two joint-ventures which are recognized on a pro-rata basis in the Group consolidated financial statements. Through the transition to IFRS accounting standards, the scope of consolidation has expanded from 20 to a total of 22 companies, including the parent company. The Joint venture JEIL Elring Co. Ltd., Changwon, Korea (renamed ElringKlinger Korea Co., Ltd. as of February 2006) and ElringKlinger Marusan Corporation, Tokyo, Japan have been included in the scope of consolidation on a pro-rata basis. The companies ElringKlinger Kunststofftechnik GmbH, Elring Klinger Motortechnik GmbH, ElringKlinger Logistic Service GmbH and Gedächtnisstiftung Karl Müller Belegschaftshilfe GmbH all have their headquarters in Germany. The remaining subsidiaries are located in Europe (seven), the NAFTA region (five), South America (one), Asia (three) and in South Africa (one).

Global presence

The ElringKlinger Group maintains a presence in the most important motor vehicle markets worldwide, allowing it to meet the needs of its customers. The competence of the international manufacturing network, which permits the production of consistently high quality products at all locations worldwide, provides the ElringKlinger Group with a decisive advantage over regionally-positioned competitors.

In 2005, ElringKlinger's subsidiaries and affiliates made a significant contribution to Group sales revenues and earnings, with consolidated sales revenues of EUR 195.8 (192.1) million and consolidated earnings before taxes of EUR 24.5 (24.6) million. Of the overall sales revenues, EUR 56.1 (49.6) million was generated in Germany and EUR 139.7 (142.5) million was generated abroad.

With the exception of ElringKlinger Sealing Systems USA, Inc., Livonia, and Elring Klinger Mexico S.A. de C.V., Toluca, Mexico, all subsidiaries and affiliates were profitable. As a result of the shift of the shielding technology production from Livonia, USA to Toluca, Mexico, both companies had to bear significant relocation costs. The Mexican subsidiary was additionally burdened by the sourcing of steel from Europe at steadily increasing prices and by exchange rate losses in US dollars.

ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany

ElringKlinger Kunststofftechnik GmbH manufactures technologically-demanding components from high-performance plastics, PTFE (polytetrafluoroethylene) in particular. The company supplies various sectors such as the automotive and supplier industry, the engineering and medical industries as well as customers in other industrial segments. Parts which are subject to high strength and temperature requirements are increasingly made of PTFE, commonly known by its brand name, Teflon. Due to a pick-up in demand in 2005, particularly strong growth was recorded in the engineering, medical technology and motor vehicle industries. ElringKlinger Kunststofftechnik GmbH generated sales revenues in 2005 of EUR 54.7 (48.9) million, which corresponds to an increase of 11.9%. In the current financial year, ElringlKinger Kunststofftechnik GmbH expects continued growth in sales revenues and earnings.

Elring Klinger Motortechnik GmbH, Idstein, Germany

ElringKlinger Motortechnik GmbH conducts motor test bench projects for the automotive and supplier industries. The company also offers comprehensive engineering services. Although the share of projects awarded internally declined, sales revenues with non-Group customers increased by 19%. In 2005, sales revenues amounted to EUR 4.6 (4.8) million. In comparison to the prior year, order intake reached a high level. Effective from January 1, 2006, the test benches at the operating unit in Dettingen/Erms were sold to the parent company, ElringKlinger

AG. The operating unit located in Idstein concentrates exclusively on projects for non-Group customers.

ElringKlinger Logistic Service GmbH, Rottenburg, Germany

ElringKlinger Logistic Service GmbH predominantly supplies the Group's own Aftermarket. The company manufactures tailor-made gasket sets for the independent aftermarket from parts produced within the ElringKlinger Group and from externally-purchased traded goods. At the end of 2005, the company received a significant external order involving complex logistics services. The company plans to steadily expand its services for non-Group customers, thereby enabling sustainable increases in sales revenues and earnings. Sales revenues at the subsidiary in 2005 increased to EUR 2.6 (2.5) million.

Elring Klinger (Great Britain) Ltd., Redcar, Great Britain

Elring Klinger (Great Britain) Ltd., Redcar, Great Britain produces specialty gaskets and shielding parts for the motor vehicle industry. As planned, the production of metal layer cylinder-head gaskets was transferred to the plant in Dettingen/Erms, Germany, in 2005. Ongoing reductions in vehicle production of certain customers in Great Britain lead to an extremely low capacity utilization for cylinder-head gasket production. This resulted in decisive adjustments to the cost structure. Earnings were impacted by the relocation costs. Sales revenues of the English subsidiary declined as a result of the shift in production and amounted to EUR 19.9 (25.4) million. In future, ElringKlinger (Great Britain) Ltd. will focus more intently on acquiring additional customers in the area of shielding technology.

Elring Klinger, S.A., Reus, Spain

ElringKlinger S.A., Reus, in Spain, produces gasket materials, elastomer gaskets and cylinder-head and specialty gaskets of older design, primarily to meet the needs of the independent aftermarket business. Sales revenues of EUR 32.3 (33.2) million were slightly below the previous year, due to the decline in the sale of materials. In future, ElringKlinger S.A. will concentrate increasingly on the production of metal-elastomer cylinder-head gaskets and will continue to develop optimized production processes.

ElringKlinger Sealing Systems S.L., Reus, Spain

ElringKlinger Sealing Systems S.L. is active as a manufacturing company for the production of plastic cam covers. The company supplies one large customer from the automotive industry. Due to higher customer demand, sales revenues in 2005 increased by over 13%. Starting in 2006, the customer is planning to shift volumes from Spain to Mexico. The production of cam covers in Spain will decline as a result, and production at Elring Klinger Mexico, S.A. de C.V. will increase.

Elring Klinger S.p.A., Mazzo di Rho, Italy

Elring Klinger S.p.A. produces cylinder-head gaskets and specialty gaskets. The main customers are from the Italian motor vehicle and motor scooter industry. Sales revenues in 2005 of some EUR 2.9 (3.1) million were nearly at the prior year's level. In 2005, the Italian company received several projects from manufacturers of motorcycles and motor scooters. These projects should lead to positive sales revenue increases in the future.

ElringKlinger Sealing Systems Inc., Leamington, Canada

ElringKlinger Sealing Systems Inc., Leamington, Ontario, Canada, supplies OEMs in Canada and the US with cylinder-head gaskets and plastic cam covers. In 2005, the company suffered from weak demand on the part of American OEMs. As a result, sales revenues decreased from EUR 47.1 million to EUR 43.4 million. Additional rationalization and cost optimization measures enabled the company to increase its earnings compared to last year, despite declining sales revenues caused by poor market conditions.

ElringKlinger Sealing Systems USA, Inc., Livonia, USA

ElringKlinger Sealing Systems USA, Inc. has now become the ElringKlinger Group's sales and development center for the North American market. In 2005, the company's heat shield production was transferred as planned to the lower-cost plant in Toluca, Mexico. Because the delivery of certain parts produced in Mexico was processed through the US company, sales revenues of EUR 12.3 (12.5) million were virtually unchanged compared to the prior year's level.

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

Elring Klinger Mexico, S.A. de C.V. produces cylinder-head gaskets, specialty gaskets and shielding parts. In 2006, plastic cam covers will be added to this list. Following the shift of heat shield production from the plant in Livonia, USA in mid-2005, sales revenues have increased by EUR 4.6 million to EUR 15.1 (10.5) million. Earnings were considerably below the prior year due to strong increases in the price of steel, costs for the relocation of production and exchange rate losses due to changes in the EUR/USD exchange rate. Steel requirements in the US have been fixed for 2006. Materials purchasing will not take place in Euros. Material costs and income will therefore both be denominated in the same currency. Solid growth in sales revenues and earnings is planned in the following years.

Elring Klinger do Brasil Ltda., Piracicaba, Brazil

Elring Klinger do Brasil Ltda. produces cylinder-head and specialty gaskets as well as shielding parts. In 2004/2005, the company erected a new plant and significantly expanded its capacity. Due to the positive business trend in the South American markets, the company was able to generate EUR 17.2 (11.9) million in sales revenues in 2005, an increase of 43.6%.

Changchun ElringKlinger Ltd., Changchun, China

Changchun ElringKlinger Ltd. has incorporated two additional product lines into its product portfolio with the addition of metal-elastomer products and heat shields. The company supplies factories belonging to international OEMs and the domestic automotive industry. In the financial year under review, sales revenues increased to EUR 6.2 (6.1) million. Lower take-rates by a major customer were the reason only a slight growth in sales revenues occurred in 2005. The ElringKlinger Group was able to acquire several projects for the Chinese subsidiary. These products, some of which are intended for export, have already begun to ramp-up in 2006, thus offering immense growth potential for sales revenues and earnings.

JEIL Elring Co. Ltd., Changwon

JEIL Elring Co. Ltd., Changwon, Korea, produces cylinder-head and specialty gaskets for Korean OEMs. Several large development projects were acquired in 2005. Sales revenues increased from EUR 4.7 million in the prior year to EUR 5.5 million. The strong growth of the Korean automotive industry offers good development potential for the company, which now operates under the name ElringKlinger Korea Co., Ltd.

ElringKlinger Marusan Corporation, Tokyo

ElringKlinger Marusan Corporation is the Group's sales and development center for the Japanese market. The business trend in 2005 was positive, due to the award of numerous new development orders. A continued expansion of on-site development capacity is planned, as this is the key to obtaining additional projects with Japanese customers.

ElringKlinger Aftermarket subsidiaries

The processing of the global aftermarket occurs through the Aftermarket segment of the AG and through the selling companies Elring Parts Ltd., Gateshead, Great Britain, Elring of North America, Inc., Branchburg, USA, and Elring Gaskets (Pty.) Ltd., Johannesburg, South Africa. Elring Parts Ltd. maintained sales revenues and earnings at the prior year's level in a difficult market environment. The company expanded its product range with the aim of offering a complete assortment of engine parts for the independent aftermarket in Great Britain. Elring of North America, Inc., in which ElringKlinger AG holds a 60% stake, slightly increased its sales revenues. The previously announced intention to acquire an additional stake in the US subsidiary from the previous partners, who are part of an entrepreneurial family active in the US aftermarket, could not be carried out due to disagreement on the purchase price.

Procurement: Globally Positioned, Centrally Managed

Burden from high raw materials and energy prices

Purchasing volumes at the ElringKlinger Group increased by 4.0% to EUR 260.0 (250.0) million in 2005. Raw materials, particularly steel of various qualities and grades, comprised approximately one-third of this amount and represented the main share of purchasing volumes. Purchased parts for original equipment products and for the independent aftermarket, tooling, machines and equipment as well as energy were also significant items.

The global steel and stainless steel markets were also characterized by ongoing price increases in 2005. Alloy surcharges for steel traded on the commodity futures exchange increased considerably. Due to ongoing high demand, the Chinese economy boosted prices on the world market. As a result of a forward contract concluded in October 2005, the ElringKlinger Group was able to hedge around 50% of its need for steel with high nickel content. The measure also had an influence in 2005 and helped ease the burden on material costs. Due to the fact that the base price for steel remained at a high level in 2005, the company only concluded framework contracts with durations of one year.

The impact of material price increases could be compensated for in part through the optimization of proceeds from the sale of scrap metal; this is achieved using a computer-based scrap metal processing concept managed by the AG, which involves the entire Group's international manufacturing network.

As a manufacturing company, the ElringKlinger Group has significant energy needs. As such, strong rises in energy prices contributed to the increase in purchasing costs.

The expansion of international procurement markets continued in the year under review. The composition of the company's supplier portfolio reflects the increasing globalization of ElringKlinger's procurement markets. Whereas in 2001, barely one-quarter of ElringKlinger's suppliers were based abroad, foreign suppliers now comprise around one-third of the company's supplier network.

The Group places high demands on its suppliers. Supplier performance is constantly monitored using standardized evaluation methods, which include quality, dependability, and competitiveness in pricing among their main performance criteria. The supplier evaluation system, which was further optimized in the year under review, recognizes which suppliers have fulfilled the necessary requirements, thereby enabling them to build a long-term supplier relationship with ElringKlinger. Only those suppliers with consistently positive evaluations can count on new orders.

Purchasing through internet auctions has made a considerable contribution to cost savings. ElringKlinger purchases items which meet its precise, predetermined specifications over the internet, such as tooling, fuels and standardized parts, but it does not use this medium to purchase raw materials. The company intends to further expand this procurement channel. The purchasing department is currently in the process of identifying additional items well-suited to auctions. Another method employed by ElringKlinger to lower costs and optimize processes is utilized in the procurement of "c-items" (low-cost and/or low-volume items), which is often associated with a disproportionate amount of time and effort. This process will become fully automated with the introduction of cataloging software in 2006.

Investment Expenditure

Investments in plant, property and equipment and intangible assets

In 2005, capital expenditure for plant, property and equipment including tooling at the ElringKlinger Group amounted to EUR 52.8 (38.7) million, due to preparations for expanding capacity and the ramp-up of production for numerous new products. Investment in intangible assets amounted to EUR 1.9 (2.1) million. In total, investment in plant, property and equipment and intangible assets including tooling was 34.1% above the prior year.

Total investment thus increased to EUR 57.2 (43.3) million, and the investment ratio, based on plant, property and equipment and intangible assets including tooling investment, amounted to 12.0% (9.4%) of sales revenues.

Capital expenditure focused on capacity expansion

Due to steadily increasing demand for products in the Shielding Technology division, the ElringKlinger Group is expanding the capacity of its plant in Langenzenn and has started operations at a new manufacturing facility for heat shields. Production at this highly-flexible facility is some 30% more efficient than before.

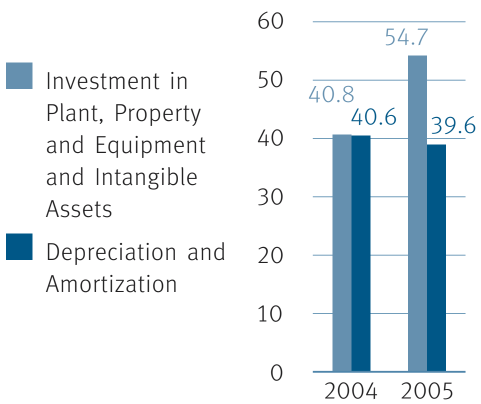
Some EUR 5 million has been invested at the plant in Runkel for a fully-automated facility to manufacture automatic transmission control plates. As a result, ElringKlinger is able to combine the most current precision pressing technology with complex coating methods. An injection module production facility has been purchased in the context of the purification of diesel engine exhaust emissions for commercial vehicles. AdBlue technology, which has been advanced by the automotive industry in order to significantly reduce the emissions from diesel engines, is expected to gain rapid market acceptance and should lead to additional orders in this area.

In the Cylinder-Head Gaskets division, ElringKlinger has been investing in the expansion of the existing plant in Dettingen/Erms. An optimized design for metal multi-layer gaskets (meander and honey comb stopper technology) has necessitated this change. The production of cylinder-head gaskets for commercial vehicle engines has been optimized through the acquisition of a new laser welding facility for metal elastomer gaskets.

A new factory was inaugurated in Brazil in the summer of 2005. In Mexico, a second production hall was added to the existing building. These measures have resulted in a significant increase in production capacity at both locations. Investments were made for machines and equipment and rationalization, particularly at ElringKlinger Kunststofftechnik GmbH, Elring Klinger Mexico, S.A. de C.V., Mexico, Changchun ElringKlinger Ltd., China, and ElringKlinger Sealing Systems, Inc., Canada.

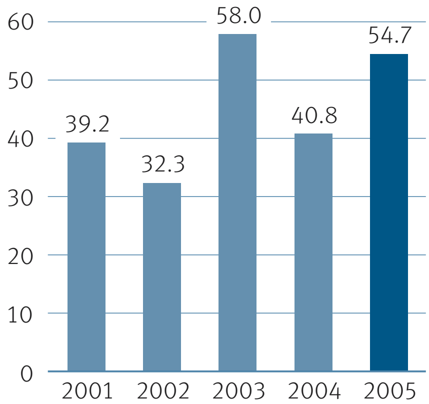
Investment in Plant, Property and Equipment and Intangible Assets/ Depreciation and Amortization

EUR million



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

EUR million



Research and Development

The focal point of the ElringKlinger Group's strategy is to achieve and maintain a leading role in product and process innovation in order to secure the sustainability of the company's future. This requires corresponding R&D expenditure. In the 2005 financial year, 214 staff members were employed directly in the area of research and development. This corresponds to a share of 6.9% of the total employees.

In 2005, the Group increased its research and development expenditure by 6.2% to EUR 24.3 (22.9) million. The ratio of R&D expenditure to Group sales revenues amounted to 5.1%.

Cylinder-Head Gaskets

In the year under review, the Cylinder-Head Gaskets division concentrated on new developments to enable engine designers to achieve additional reductions in consumption and reduced emissions. New stopper technologies were a main focal point. Higher temperatures, new, higher torque diesel engines and alternative fuels such as bioethanol have increased the demands on sealing technology. Of the more than 60 new engine development projects in 2005, nearly all involve the use of new coined honey comb and meander stopper technology.

Shielding Technology

The trend in engine development continues to move toward more space-efficient engines with higher output and temperatures. Many engines are encapsulated, which increases the need for and demands on heat shields. There is increasing demand for complex shielding parts with add-on functions.

Development has focused increasingly on product innovation and the linkage of mechanical parts with sensors to intelligent modules. In 2005, ElringKlinger developed such a shielding part with an integrated sensor function. One interesting area of application for this technology is the increasingly complex exhaust tract. Due to the generation of temperatures as high as 1000°C, the need for high-performance shielding parts is increasing. Now that ElringKlinger has established a solid market position in the area of shielding parts for diesel particulate filters, the company is working to expand its product range to include oxidation catalytic converters. Due to stricter regulations from emissions legislation worldwide, efforts in the area of exhaust aftertreatment are expected to increase steadily. The need for shielding parts is growing, which promises attractive growth potential.

Specialty Gaskets

The Specialty Gaskets division has developed a special automatic transmission control plate that controls the flow of oil in the manifold block of automatic transmissions. This combines technologically-demanding precision pressing technology with coating technology. Production began at the end of 2005. An American OEM is already being supplied for large-scale, series production. Additional transmission manufacturers have expressed interest, and ElringKlinger expects significant sales revenue growth in this area in 2006.

With its new single-fluid injection module for lowering emissions (AdBlue), ElringKlinger has developed an additional technologically-demanding component for diesel engines. This development came about as a result of the implementation of the considerably stricter Euro 4 emissions standards for commercial vehicles. NO_x (nitrogen oxide) emissions must be reduced considerably. With a view to the emission limits for passenger cars, the US 2007 Tier 2 BIN 5 regulations in the USA and Euro 5 legislation in Europe place high demands on automobile manufacturers by requiring an additional reduction in NO_x emissions by some 90%. Passenger cars can currently meet the emissions standards of Euro 4 with existing exhaust aftertreatment technology, but at the present time, meeting Euro 5 will require considerable costs. Therefore, efforts are focusing on finding an economically-feasible solution to the problem; one promising solution is the injection of urea into the exhaust tract. The high temperatures transform urea into ammonia, which then converts toxic nitrogen oxide in the ceramic NO_x catalytic converter into the harmless elements nitrogen and water.

Elastomer Components/Modules

In the financial year under review, the Elastomer Components/Modules division optimized the construction of cam covers based on thermoplastics for commercial vehicle engines. At the end of 2004, ElringKlinger started series production of a thermoplastic cam cover for commercial vehicle engines. Since then, several customers have expressed an interest in these covers. The high mileage of commercial vehicle engines and the considerably higher mechanical loads than for passenger cars place difficult technical demands on plastic cam covers for commercial vehicles. ElringKlinger has developed technologically-convincing solutions in this regard, which have been very positively received in the market, and additional contracts are pending.

The focus of development work in the Elastomer Components/Modules division in the last financial year was the proprietary development of oil separators for cam covers. For emissions reasons, providing for oil separation is a key task in the overall configuration of the cam cover. ElringKlinger therefore sees opportunities to add value through its proprietary, technologically-innovative concepts.

New Business Areas

SOFC fuel cells

ElringKlinger has been actively pursuing the further development of planar SOFC stacks (solid oxide fuel cells). One of the primary technical challenges involves creating an isolated seal for each of the individual cells in the stack unit. This is the only way to ensure the functionality of the fuel cell. Development is being carried out in close cooperation with a German automobile manufacturer and several research institutes. The fuel cell stack will be integrated into an electrical auxiliary power unit (APU), which will be combined with the engine. This medium-term development project made considerable progress in the 2005 financial year.

The concept uses the APU as a service unit for numerous electric loads in the vehicle. The continuously growing energy needs inside the vehicle detract from the engine output used for powering the vehicle and increase consumption. In the total system, vehicle fuel consumption can be reduced through the use of an APU, because the efficiency of the SOFC fuel cells is considerably higher than that of the engine, which previously supplied the electrical energy.

SOFC technology also has promising potential in the area of combined heat and power due to its high degree of electrical efficiency. The combined use of electrical energy and lost heat also opens up potential areas of application outside of the motor vehicle markets, such as the heating of buildings.

Engine and transmission components made from high-performance plastics

One of the key tasks in developing new motor vehicles is weight reduction, which provides additional savings in fuel consumption. The replacement of expensive, machinable aluminum diecast parts with high-performance plastics can make a significant contribution in this regard. The engine and transmission parts developed by ElringKlinger also allow for a higher degree of integration in terms of the add-on functions required, which provides further cost reduction synergies for engine designers.

Diesel particulate filters

In conjunction with a partner, ElringKlinger is working on developing a novel diesel particulate filter, which, should it be developed for series production, will offer the market new functionality and cost advantages. Price-optimized concepts that also offer strong technical performance should have a bright future. ElringKlinger expects the first concrete development results to emerge in the course of 2006.

Employees and the Environment

Dedicated and motivated employees are indispensable for the Group's success. A high willingness to perform and the employees' specific, technical know-how, typically developed after several years of working for ElringKlinger, are significant success factors.

As of December 31, 2005, the number of Group employees declined to 3,111 (3,137), 0.8% fewer than in the previous year. The average number ElringKlinger Group employees over the course of the year thus amounted to 3,079 (3,145). The fluctuation was predominantly based on the age-related retirement of employees. Ongoing rationalization programs meant that some of these jobs did not need to be replaced. The number of staff in England was reduced due to the relocation of cylinder-head gasket production from the English subsidiary to the Dettingen/Erms plant of ElringKlinger AG. No staff members were added in Dettingen, as the additional production volume was manageable with the staff on hand.

Training for the company's future

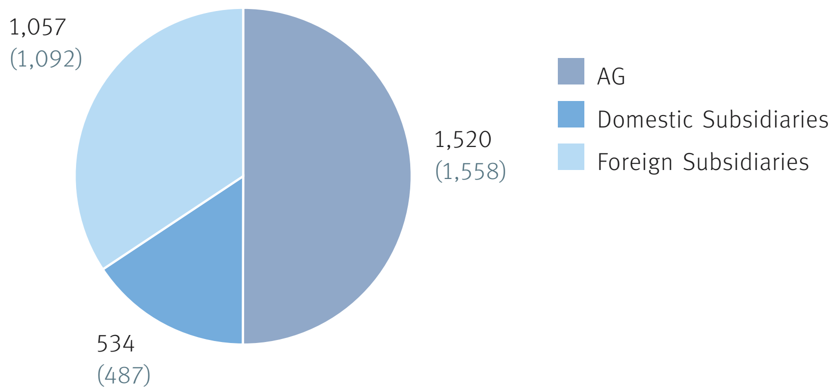
Training and continuing education at the company is a significant task in the area of personnel development. As of December 31, 2005, 84 (72) young individuals were involved in the various training programs, 12 more than in the prior year. In 2005, the ElringKlinger Group thus offered 16.7% more apprenticeships than just one year ago. This demonstrates the value placed by the company on training its up-and-coming employees. In this respect, the ElringKlinger Group is taking its sociopolitical responsibility to provide young individuals with well-established vocational training seriously.

For a technology-based company like the ElringKlinger Group, it is indispensable that new skilled workers and managers as well as talented younger employees are connected to the company as early as possible. The company accomplishes this through targeted marketing at colleges and universities, such as at the country-wide graduate congress in Cologne, Germany. In addition, the company establishes contacts with institutions of higher education by participating in regional university contact fairs at the University of Applied Sciences in Reutlingen, the University of Applied Sciences in Ulm and the University of Stuttgart. In 2005, numerous students and graduates from across the Group were active in project work as interns and degree candidates at ElringKlinger Group companies.

Employee qualification

In order to maintain the Group's high level of innovative ability, employees need to continually improve their skill sets through continuing education and qualification programs. In 2005, all employees had the opportunity to develop their skills through specific, professionally-oriented continuing education programs. Internal continuing education courses focused on IT education and language instruction.

ElringKlinger Group Employees Worldwide
December 31, 2005 (prior year)



Expressing thanks to our employees

Flexibility, dedication and a high degree of motivation were once again factors of success for the company in 2005. Numerous suggested improvements and ideas from our employees lead to cost savings, process improvements and new product ideas. All of the ElringKlinger Group employees deserve thanks for their dedication in the financial year under review.

Quality Control and Environmental Management

The ElringKlinger Group pursues an active environmental policy, is sparing in its use of raw materials and energies, and employs the most modern environmental technologies available. Recycling is highly valued at the company. In light of the strong rise in raw material and energy prices, this policy has made an important contribution to the Group's economic success. All manufacturing processes are regularly monitored and evaluated for environmental-friendliness and resource efficiency.

Comprehensive certification

As a matter of course, all of the ElringKlinger Group's plants are certified in accordance with ISO/TS 16949:2002 and DIN EN ISO 14001:2005 standards. Documentation on this certification is managed and reviewed by the quality control and environmental management department in Dettingen/Erms. The plants are audited every three years.

Quality is the primary goal

The company constantly strives to avoid mistakes in its operating processes with the goal of zero defects. Due to the importance of ElringKlinger's products for the functioning of the engine, a zero defects program is an absolute necessity. The ElringKlinger Group maintains an important competitive advantage through its competence in manufacturing large volumes of technologically-demanding components with a consistently high level of quality.

All of the Group's international manufacturing network locations have established quality control and environmental management departments with corresponding responsibility and authority. Designated representatives for emissions control, waste management, hazardous materials and water pollution control, as well as occupational health and safety and fire prevention support the implementation of the environmental management and quality control guidelines. The activities are centrally coordinated by the quality control and environmental management department of the AG in Dettingen/Erms, based on a comprehensive quality control and environmental management handbook. Furthermore, there are additional location-specific documents, guidelines and process descriptions.

High demands placed on suppliers

The procurement process is also closely linked to the quality control system. High-grade raw materials, semi-finished products and supplier parts are equally important for the production of premium quality products at ElringKlinger. The quality of the external product inputs determines the quality of the final product. In selecting its suppliers and service providers, ElringKlinger requires strict adherence to predetermined quality standards. Suppliers must employ the same principles and management methods as ElringKlinger itself at all plants; this not only satisfies the company's requirements, but those of the customers in the automotive industry as well.

The number of customer complaints was once again reduced in 2005 through the implementation of ongoing improvement measures. The ratio of defective parts per million supplied, at below 10 ppm (parts per million), was extremely low.

ElringKlinger engages in intensive benchmarking efforts in order to consistently improve and further develop the level of quality and environmental and occupational protection. The company was also successful in limiting emissions, conserving energy and reducing waste in 2005, and it achieved further progress in its responsible approach to dealing with hazardous materials and water pollution control. Absolute energy consumption at the Dettingen/Erms plant was still reduced by 5.4% to 47,600 (50,300) MWh, despite increased production volumes. Savings in water consumption, which was reduced from 27.8 tm^3 to 25.2 tm^3, amounted to 9.4%. These key environmental figures are collected from all ElringKlinger Group plants and are monitored regularly.

Implementation of legal regulations

ElringKlinger ensures compliance with legal regulations through regular trainings on the proper treatment of relevant materials and through the use of the newest technologies. The company is in compliance with the EU End of Life Vehicles Directive, which forbids the use of heavy metals. Customers are provided with detailed information about the content and recyclability of parts. The contents are registered with the International Material Data System (IMDS). The company's goal in 2006 is to eliminate the use of the few remaining hazardous materials classified under protection grade 3.

The recycling rate was increased once again in 2005, and more than 95% of waste was recycled.

Risks and Opportunities

Early recognition of risks and opportunities

Over the past several years, ElringKlinger has maintained a proven risk management system for the systematic recognition, assessment and monitoring of risk. The system takes account of changes in the economic and market situation, the client's situation, as well as the legal framework or potential hazards resulting from changing technology. The controlled and early management of risks enables the company to identify adverse developments in a timely manner. In 2005, the risk management system was once again enhanced and improved.

Systematic execution of risk management

All company divisions and service units of the AG as well as all domestic and foreign subsidiaries receive comprehensive risk evaluation questionnaires twice a year. The division managers and managing directors identify potential risks according to their relevance for the company, rank them in order of probability and propose measures for risk avoidance.

The implementation of risk management processes is a key element of quality management and is monitored continuously.

In addition to the internal risk management system, an external auditing company is typically commissioned to carry out at least four audits per year to evaluate compliance with legal regulations and internal rules of procedure at subsidiaries and affiliates as well as in the divisions of the AG. In addition to the anticipated effects on reporting, the projects implemented have also resulted in numerous suggestions for improving efficiency. The audits also frequently result in suggestions for process optimization, which make a considerable contribution to cost savings. In 2005, Changchun ElringKlinger Ltd., Changchun/China, ElringKlinger Sealing Systems Inc., Leamington/Canada and the Aftermarket segment of ElringKlinger AG were audited.

Market and industry risks

As an automotive supplier, the ElringKlinger Group is dependent on trends and the demand from its important customers in the automotive industry. In the event of a slump in sales on the part of the customers, risks may arise regarding capacity utilization at the Group's individual production sites. Should this occur, ElringKlinger would make the necessary cost and personnel adjustments. Such a slump in sales could be caused by another considerable rise in the price of oil, a severe political or military conflict or a terrorist attack of significant proportion.

The postponement of new product launches by customers bears the risk that sales and earnings could be deferred to a later period. This case would also generate an immediate reaction from ElringKlinger in the form of necessary cost adjustment measures.

Due to its strong position in the diesel segment, ElringKlinger is at least partially dependent on the diesel penetration trend, as far as production and new registrations are concerned. As the market leader for diesel engine cylinder-head gaskets, the political discussion in Germany about increasing the tax rate on diesel could be detrimental, at least as far as the German market is concerned. Tax credits for diesel particulate filters could have a positive impact on the demand for diesel vehicles. Unexpected sales opportunities could also arise given an accelerated trend toward diesel engines in the North American market.

The earnings weakness experienced by some customers provides an additional risk. In the event that these companies are not able to improve their level of earnings by themselves, this could have negative consequences for ElringKlinger. A reduced willingness to pay on the part of customers represents a risk. Unfortunately, in the 2005 financial year, payments were often made considerably past their due date.

Price risks

The entire automotive supplier industry has been subject to steadily increasing price pressure for quite some time. At the same time, there has been a steady increase in demand for development and for advanced expenditure on the part of suppliers. ElringKlinger cannot avoid this trend. Demands for price reductions are met through cost reductions whenever possible. In the event that certain prices do not permit reaching break-even or generating a profit, certain contracts may have to be declined.

At the time this report was prepared, ElringKlinger's two remaining global competitors had entered into Chapter 11, the American bankruptcy proceeding. This development provides both risks and opportunities for ElringKlinger. Given the fact that all former liabilities are no longer due during Chapter 11 proceedings, the operating cash flow at these companies increases by the amount of the liabilities which are no longer subject to interest accrual and repayment. This has lead to certain price quotations by these firms which would not provide a sufficient margin for a company operating under normal financing conditions. However, customers typically recognize that an economically and financially sound supplier is a better choice for long-term supply relationships. As such, there are opportunities to acquire additional market share.

Opportunities and risks in purchasing

The future trend of material expenses at ElringKlinger is strongly dependent on the trend in c-steel and stainless steel prices and the price of synthetic granules. Framework contracts with steel suppliers regulating the base price have been concluded as of December 31, 2006. As described previously, 50% of exchange-traded alloy surcharges are hedged using futures. In the event that additional charges are incurred, ElringKlinger will insist that its customers subsidize the raw material price increases.

The risk of a further increase in energy prices cannot be ruled out. As a manufacturing company, ElringKlinger has a considerable need for energy. In 2005, energy costs increased by some EUR 0.5 million, and these unavoidable additional costs burdened the company's earnings. At present, ElringKlinger expects energy prices to remain at these very high levels. This has been incorporated into the forecasts for 2006.

Legal risks

ElringKlinger has reported on numerous occasions about the law suit filed by its US competitor, Federal Mogul, which accused ElringKlinger of infringing on a patent and proprietary know-how that originated from a common Japanese licensor. At issue were certain metal layer cylinder-head gaskets. ElringKlinger defended itself by filing suit with the court of arbitration in Germany, based on an existing mediation agreement. The foundation for a settlement with Federal Mogul was established following oral proceedings, during which ElringKlinger was able to convincingly present the lack of credibility of the allegations, and a settlement was reached before the completion of the Management Report on March 10, 2006. With the settlement, these disputes have now been entirely resolved. The settlement stipulates that an alleged violation of the patents and know-how at issue, which belong to the Japanese licensor for metal layer cylinder-head gaskets, may not be pursued either in the US or in Europe. The risk of additional, extremely costly patent disputes over these industrial intellectual property rights belonging to the Japanese licensor has thus been eliminated.

We have already reported on the suit filed by ElringKlinger against a licensor for the repayment of a one-time licensing fee paid at the signing of the licensing contract. The licensed technology for the production of a single-layer, topographically coined cylinder-head gasket proved to be of limited value and was therefore met with restrained market acceptance. In December 2004, the regional court with jurisdiction in Mannheim largely agreed with ElringKlinger's argumentation in its first oral proceedings. A settlement proposed by the court was rejected by the defendant licensor. Since that time, the regional court in Mannheim has not come to another decision despite numerous notifications.

From the two product liability cases outlined in the 2004 annual report one has been settled in 2005. In cooperation with the affected customer and our product liability insurance, a resolution acceptable to all parties was reached. The share of the settlement paid by ElringKlinger is deemed to be reasonable. In the second product liability case, an amicable settlement could not be reached, despite the settlement proposal by ElringKlinger in 2004, and the company believes it will be confronted with a claim for damages. ElringKlinger believes that the damages for which it is being held liable are largely unjustified. A preliminary oral proceeding in December 2005 revealed that the regional court with jurisdiction did not believe that the claim put forth was entirely justified. ElringKlinger pursued the recommendation of the court, which stated that the involved parties should negotiate a settlement. A potential solution involving the product liability insurance is being sought.

There are no material legal risks for the subsidiaries.

Exchange rate risks and the use of derivative products

The Finance department at ElringKlinger AG has assumed central responsibility for managing the Group's exchange rate risk and, when directed, for implementing currency hedging transactions with the help of derivative instruments. The hedging activities focus on the Canadian dollar and the US dollar. Around half of the sales in Canadian dollars were hedged by ElringKlinger until the end of 2006 using forwards at fixed prices.

Evaluation of the overall risk situation

The overall risk situation can be characterized as non-critical, given the company's strong net assets, financial position and earnings situation as well as its long-term customer relationships. Risks which could have a sustainable, negative impact on the company's net assets, financial position and earnings situation or which could threaten the company's existence cannot be detected at the present time. With continuous, upcoming new product launches and a promising product portfolio, the ElringKlinger Group has a favorable starting position for achieving its planned operating and strategic goals.

Following the conclusion of the 2005 financial year, no significant events occurred which would lead to a re-evaluation of the overall risk situation.

2006 Outlook

Improved outlook for the global economic environment

A pick-up in international growth is anticipated for 2006. This expectation is valid for Germany, Europe and for the other important economic regions of the world. German economic growth is expected to amount to between 2.0% and 2.5% in 2006, and the positive order intake in the capital goods and construction industries at the beginning of the year is a clear sign of economic recovery. However, despite the first positive signs of recovery, it remains unclear how demand from private individuals will develop given high unemployment and ongoing increases in energy prices. The first signs that Germany's economic recovery could continue with the help of private consumption are also evident. ElringKlinger would also profit from this development.

Modest growth in international motor vehicle markets

The continuation of high crude oil prices will also burden the development of motor vehicle markets in 2006. Despite initially positive signs, the ElringKlinger Group only expects modest growth in global automotive demand. In North America and in Western Europe, only slight market growth is anticipated. Demand for commercial vehicles should remain at a high level once again in 2006. The Chinese motor vehicle market will experience strong growth once again, and ElringKlinger expects an increase in sales revenues there from currently around EUR 6 million to some EUR 10 million in 2006.

Special demand cycle for motor vehicles in Germany cannot be ruled out

The German Federal Government's announcement that it will increase the value-added tax by three percentage points starting in 2007 could lead to a pull-ahead effect in the demand for passenger cars. Many buyers that originally planned to purchase a new motor vehicle in 2007 could decide to make their purchase in the second-half of 2006. This is also true for consumer goods. Therefore, it is possible that the German economy will be weakened in 2007 by the increase in the value-added tax, thus putting the brakes on continued sustainable economic growth in Germany.

Growth of diesel continues unabated

The continued rise in diesel penetration rates for new registrations in Europe and the USA is a growth-driver for ElringKlinger. Sustained and solid growth is also expected for diesel motor vehicles in 2006. The share of diesel motor vehicles as a percentage of new registrations in Europe should considerably exceed 50% in 2006. ElringKlinger also expects growth in diesel motor vehicles in Korea, China and the USA. In Germany, where the diesel penetration rate is below the European average, diesel motor vehicle sales got off on the right foot in January 2006 as more than 47% of German car buyers opted for a diesel.

Order intake and backlog above the prior year

Up to now, order intake in 2006 has developed positively. The order backlog in the Original Equipment business as of December 31, 2005 amounted to EUR 177.7 (162.8) million, which is 9.2% above the prior year. Order intake at the Group, which amounted to EUR 495.4 (466.8) million or 6.1% above the prior year, has also e xperienced persistent growth.

Expectation for sales revenues in 2006

ElringKlinger expects a rise in Group organic sales revenues in 2006 of 5% to 7%, with contributions from both the AG and the subsidiaries. The Cylinder-Head Gaskets division should experience modest growth, whereas stronger growth is expected in the Specialty Gaskets division and with cam covers due to the start of series production for several large projects. In addition, new product ramp-ups are planned for the Shielding Technology division.

The Engineered Plastics division will also achieve sales revenue growth as the shift of production to China combined with considerable volume increases will make a significant contribution.

Sales revenues in the independent aftermarket are also expected to increase, lead by the markets of Western and Eastern Europe and the USA.

Disproportionately high growth in earnings

ElringKlinger aims to compensate for pricing pressure from the automotive industry through the implementation of additional rationalization and cost savings measures. Economies of scale due to increasing volumes and new product ramp-ups will make a positive contribution to earnings. ElringKlinger expects a slight increase in personnel expenses. ElringKlinger has no choice but to expect a prolongation of high levels of material costs and energy prices, and the company does not anticipate significant relief in 2006. Against this background, the company expects to increase earnings after taxes by around 10%.

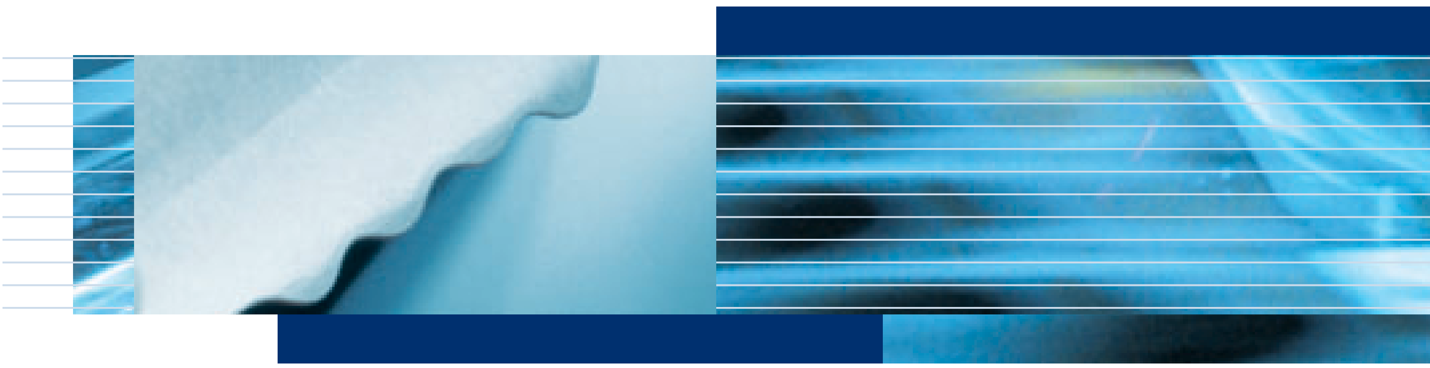
Outsourcing of pension provisions

The typical funding of pensions at German companies occurs through the accrual of pension provisions, which must be re-funded as they are utilized. The ElringKlinger Group is currently considering the implementation of a CTA (contractual trust agreement) model as a means of outsourcing its pension obligations. ElringKlinger could use its portfolio of non-essential real estate in Ludwigsburg as an asset to cover the pension claims.

The planned model is currently being evaluated. In the event that the economic and tax premises defined by ElringKlinger are met, implementation could occur in 2006.

Investment expenditure in 2006

Following investment expenditure of EUR 54.7 million in 2005, the ElringKlinger Group expects the investment volume for plant, property and equipment and intangible assets including tooling to amount to around EUR 45 million in 2006. Short-term volume increases by customers due to increased motor vehicle demand could also make additional investment expenditure necessary.



Corporate Policy and Targets at ElringKlinger

The ElringKlinger Group has pursued its operating and strategic targets to date in a difficult market environment. The company succeeded in expanding its position as a global market leader in the area of sealing technology, mostly for diesel engines but also for gasoline engines. Furthermore, it has successfully advanced its technological competitive edge. At the same time, ElringKlinger has consistently expanded its activities for the development of new products and prepared for the ramp-up of new orders in the 2006 financial year. In 2005, the company spent 5.1% of Group sales revenues on research and development. The share of newly developed products is growing continuously. The company's strategy, to solve problems in the technologically demanding areas of operation involving all aspects of the engine and transmission, is showing sustainable success.

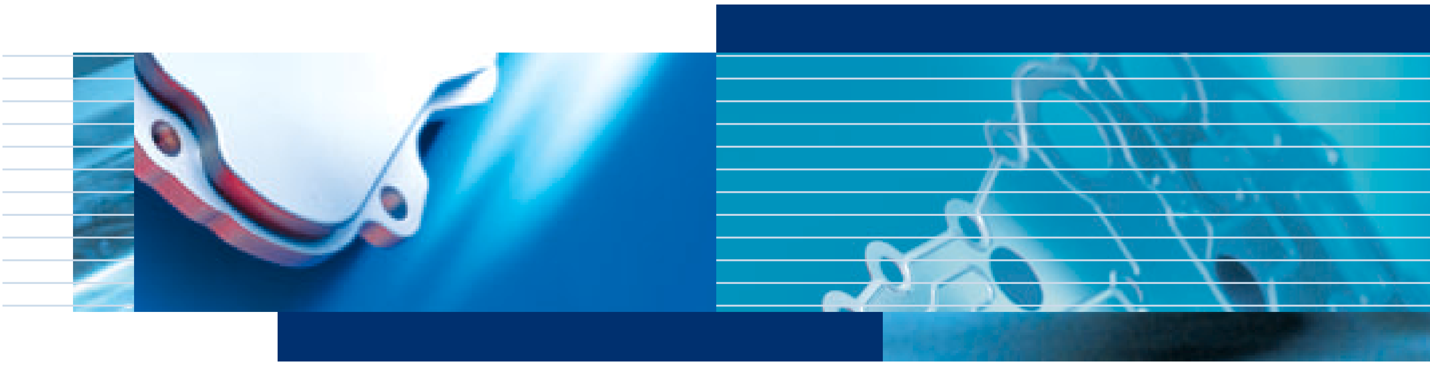
ElringKlinger aims to continue to grow profitably in the future, based on three essential pillars of growth. Firstly, existing technologies in the divisions will continue to be developed in order to offer technologically-outstanding solutions in the future as well. Altered and considerably lighter engine parts, ongoing increases in emission restrictions, demands for lower fuel economy through lower consumption and increasingly cramped conditions for installed-equipment in the engine compartment have presented a challenge for gasket and shielding parts' suppliers. With its technologically-convincing concepts, ElringKlinger can make a significant contribution in finding solutions to these challenges.

Secondly, new product areas and divisions which provide a sensible complement to ElringKlinger's existing areas of activity will be established alongside existing divisions. Cutting-edge technology will also be a primary focus here.

An additional goal is to expand into the Asian markets, where ElringKlinger has previously been underrepresented. Asian OEMs have witnessed considerable growth in terms of production and new registrations, which has enabled them to profit at the expense of other OEMs' market shares. In order to receive significant supply shares, the formation of new and the expansion of existing subsidiaries in Asia is a necessity.

Forecast for 2007

The company projects continued growth in sales revenues and earnings. The Group expects organic growth in sales revenues in the range of 2006, assuming that there are no significant, exogenous setbacks in economic activity. ElringKlinger expects earnings after taxes in 2007 to grow at a faster rate than sales revenues, enabling the ElringKlinger Group to continue growing profitably.



Follow-up Report

As of January 1, 2006, Mr. Theo Becker was elected to the Management Board of ElringKlinger AG in order to succeed Mr. Horst Klusmann, who retired effective from December 31, 2005. His responsibilities include the Cylinder-Head Gaskets, Specialty Gaskets, Shielding Technology and Elastomer Components/Modules manufacturing divisions, as well as the centralized units of Quality Control and Environmental Management, Central Logistics, Toolmaking and Purchasing.

Dettingen/Erms, March 28, 2006

The Management Board

Dr. Stefan Wolf   Theo Becker   Karl Schmauder

Trust forms through openness.

Corporate Governance Report

Corporate Governance Report

On December 6, 2005, the Executive Board and the Supervisory Board submitted a compliance statement for the German Corporate Governance Code version as amended on June 2, 2005, in accordance with Section 161 of German Stock Corporation Law.

In addition to legal requirements, the German Corporate Governance Code contains suggestions and recommendations for the responsible corporate governance of companies listed on the stock exchange. The Code clarifies the rights of shareholders, aims to improve the cooperation between the Executive Board and the Supervisory Board, highlights the responsibility of corporate agents and contains regulations on the transparency of corporate communication as well as reporting and audits. On the basis of the prevailing legal provisions and the Code, corporate governance should be organized in a transparent and comprehensible manner in order to encourage the trust of shareholders, business partners, employees and the general public.

ElringKlinger has committed itself to responsible corporate governance with the goal of sustainable shareholder value creation, and the company conducts its business in accordance with the prevailing legal provisions. In this vein, the Executive and Supervisory Boards work closely together. Dealing responsibly with insider information is a matter of course.

ElringKlinger strongly emphasizes the importance of transparent and comprehensive corporate communication. For this reason, the compensation of the Executive and Supervisory Board members was published on an individual basis for the first time in the 2005 financial year. The basis principles and the structure of the compensation system of the Executive Board and the Supervisory Board are outlined in the compensation report which is a part of the Management Report of ElringKlinger AG and of the Group Management Report. The compensation on an individual basis is published in the Notes to the Financial Statements. For this reason, the company has omitted a separate presentation in the corporate governance report.

The members of the Executive and Supervisory Boards collectively hold the following direct or indirect shares in the company (including allocations):

Executive Board:	Total:	1.400 shares
Supervisory Board:	Total:	11.669.288 shares

As in previous years, ElringKlinger is able to claim compliance with the main provisions of the Code.

The following compliance declaration was published on the ElringKlinger AG website on December 31, 2005:

"The Supervisory Board and Executive Board of ElringKlinger AG hereby declare compliance with the recommendations of the German Corporate Governance Code as amended on June 2, 2005, with the following exceptions:

Section 4.2.4. Details on the compensation of members of the Executive Board
In the interest of protecting the privacy of personal data, itemized details have not yet been provided. In anticipation of the amended legal position, the compensation paid to the members of the Executive Board will be published in itemized form as of 2006.

Section 5.3.2. Audit Committee
The Supervisory Board has abstained from the establishment of an Audit Committee. As the Supervisory Board consists of 9 members only, it can effectively assume the Audit Committee's tasks.

Section 5.4.1. Age limit for Supervisory Board members
No age limit will be determined for Supervisory Board members, as – in the opinion of the Supervisory Board – this can only be assessed in individual cases.

Section 5.4.3. Proposal of candidates for the chair of the Supervisory Board
Proposals of candidates for the chair of the Supervisory Board will not be made available to shareholders. The Supervisory Board deems the arising conditioning of the voting process undesirable.

Section 5.4.7. Details on the compensation of members of the Supervisory Board
In the interest of protecting the privacy of personal data, itemized details have not yet been provided. In anticipation of the amended legal position, the compensation paid to the members of the Supervisory Board will be published in itemized form as of 2006.

Section 6.6. Details on the purchase or sale of shares etc. through Board members or managers with insider information in the Corporate Governance Report.
There is no publication of such detail in the Corporate Governance Report, as details according to Section 6.6. paragraph 1 are available at any time on the Internet at www.elringklinger.de. Details pertaining to Section 6.6. paragraph 2 are published in the Annual Report.

Dettingen/Erms, December 6, 2005"

Using determination and new ideas to get ahead.

Consolidated Financial Statements for the ElringKlinger Group

Consolidated income statement
for the period from January 1 to December 31, 2005

	Notes	2005	2004
		EUR'000	EUR'000
Sales revenues	(1)	474,622	459,479
Cost of sales	(2)	-318,034	-304,961
Gross profit		**156,588**	**154,518**
Selling expenses	(3)	-36,520	-33,881
General and administrative expenses	(4)	-22,948	-22,187
Research and development expenses	(5)	-24,334	-22,907
Other operating income	(6)	6,697	6,869
Other operating expenses	(7)	-4,490	-10,105
Operating result		**74,993**	**72,307**
Earnings from affiliated companies		6	9
Net interest	(8)	-4,101	-7,137
Financial result		**-4,095**	**-7,128**
Earnings before taxes		**70,898**	**65,179**
Taxes on income	(9)	-24,320	-24,777
Consolidated net income		**46,578**	**40,402**
Minority interests		-4,216	-4,393
Consolidated net income after minority interests		**42,362**	**36,009**
Earnings per share in EUR	(10)	2.21	3.75

Consolidated balance sheet as at December 31, 2005

ASSETS	Notes	Dec. 31, 2005	Dec. 31, 2004
		EUR'000	EUR'000
Intangible assets	(11)	30,913	30,888
Property, plant and equipment	(12)	210,452	191,476
Investment properties	(13)	32,390	31,295
Financial assets	(14)	4,543	4,571
Deferred taxes		10,732	11,472
Non-current assets		**289,030**	**269,702**
Inventories	(15)	82,246	75,624
Trade receivables	(16)	74,154	63,494
Other current assets	(16)	6,433	3,842
Cash and cash equivalents	(17)	4,434	11,243
Current assets		**167,267**	**154,203**
		456,297	423,905

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2005	Dec. 31, 2004
		EUR'000	EUR'000
Share capital		57,600	57,600
Capital reserve		2,747	2,747
Revenue reserves		119,791	88,599
Shareholders' equity before minority interests	(18)	**180,138**	148,946
Minority interests	(19)	15,975	14,977
Shareholders' equity		**196,113**	**163,923**
Provisions for pensions	(20)	52,429	48,883
Non-current provisions	(21)	9,212	7,729
Non-current financial liabilities	(22)	50,504	62,634
Deferred taxes		32,517	36,796
Other non-current liabilities	(23)	11,173	10,539
Non-current liabilities		**155,835**	**166,581**
Current provisions	(21)	6,252	7,109
Trade payables	(23)	25,685	21,118
Liabilities to affiliated companies		17	0
Current financial liabilities	(22)	34,985	25,017
Tax payables		7,096	7,590
Other current liabilities	(23)	30,314	32,567
Current liabilities		**104,349**	**93,401**
		456,297	423,905

Statement of Changes in Equity

	Share capital	Capital reserve	Revenue reserves Revaluation reserve
	EUR'000	EUR'000	EUR'000
As of Jan. 1, 2004	**28,800**	**12,553**	**26,181**
Capital increase	28,800	-9,806	
Dividends paid			
Changes in consolidated companies			
Adjustments due to consolidation			
Other changes			
Consolidated net income			
As of Dec. 31, 2004	**57,600**	**2,747**	**26,181**
Capital increase			
Dividends paid			
Changes in consolidated companies			
Adjustments due to consolidation			
Other changes			
Consolidated net income			
As of Dec. 31, 2005	**57,600**	**2,747**	**26,181**

	Currency translation differences	Group equity generated	Minority interests	Group equity
	EUR'000	EUR'000	EUR'000	EUR'000
	-7,174	**67,718**	**13,733**	**141,811**
		-18,994		0
		-14,400	-3,068	-17,468
		37		37
	-624		-81	-705
		-154		-154
		36,009	4,393	40,402
	-7,798	**70,216**	**14,977**	**163,923**
				0
		-16,800	-3,571	-20,371
				0
	5,595		353	5,948
		35		35
		42,362	4,216	46,578
	-2,203	**95,813**	**15,975**	**196,113**

Consolidated cash flow statement

	2005	2004
	EUR'000	EUR'000
Earnings before taxes	70,898	65,179
Amortization and depreciation	40,610	41,808
Net interest	6,309	6,749
Increase in provisions	1,791	63
Loss from disposal of intangible assets and of property, plant and equipment	237	842
Changes in inventories, receivables and other assets not resulting from financing and investing activities	-19,045	-11,000
Changes in liabilities not resulting from financing and investing activities	3,347	5,833
Income taxes paid	-29,832	-30,090
Interest paid	-3,882	-4,156
Interest received	305	305
Foreign currency translation changes	-595	-130
Net cash from operating activities	**70,143**	**75,403**
Proceeds from disposals of intangible assets and of property, plant and equipment	3,457	771
Proceeds from disposals of financial assets	25	18
Payments for investments in intangible assets	-1,941	-2,141
Payments for investments in property, plant and equipment and investment property	-55,212	-41,083
Payments for investments in financial assets	0	-36
Net cash used in investing activities	**-53,671**	**-42,471**
Dividends paid	-20,371	-17,468
Changes in financial liabilities	-2,162	-14,510
Foreign currency translation changes	-1,307	289
Net cash used in financing activities	**-23,840**	**-31,689**
Net increase in cash and cash equivalents	-7,368	1,243
Foreign currency translation changes in cash and cash equivalents	524	-64
Other changes	35	-117
Cash and cash equivalents at beginning of period	11,243	10,181
Cash and cash equivalents at end of period	**4,434**	**11,243**

Notes to the consolidated financial statements for the year 2005

General disclosures

Presentation of the consolidated financial statements

ElringKlinger AG, the parent company of the group, is filed in the commercial register at the municipal court of Reutlingen under the number HRB 1242-U. The company is domiciled in Dettingen/Erms. The articles of incorporation are dated June 8, 2005. The official name of the company is ElringKlinger Aktiengesellschaft. The financial year is the calendar year.

The object of ElringKlinger AG and its subsidiaries (the “ElringKlinger group“) is the development, manufacture and distribution of technical and chemical products, in particular, gaskets, sealing materials, plastic products and modules for the automotive sector and for manufacturing industry in general. The company also offers services relating to the technology used in its products. The corporate object also encompasses the administration and commercial exploitation of landed property.

Accounting principles

The consolidated financial statements of ElringKlinger AG as at December 31, 2005 have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, and in compliance with the interpretations of the International Financial Reporting Interpretation Committee (IFRIC). The changeover of the accounting system was made in accordance with the regulations set out in IFRS 1 “First-time Adoption of International Financial Reporting Standards“.

The consolidated financial statements have been prepared in Euro. Unless otherwise stated, all amounts are in thousand Euro (EUR’000).

For the income statement the cost of sales method has been used. In order to enhance the clarity of presentation, various items in the balance sheet and in the income statement have been aggregated.

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

Transition to accounting in accordance with IFRS

The accounting, measurement and consolidation methods previously applied in the German commercial law consolidated financial statements of ElringKlinger AG have been changed in some cases in order to be in accordance with the first-time application of IFRS.

The influences arising from the changeover from HGB (German commercial code) to IFRS on the net assets, financial position and results of operations are shown in the following reconciliation statements.

Reconciliation of the group equity from HGB to IFRS

The following table shows the effects of the changeover from HGB to IFRS on group equity:

	Jan. 01, 2004	Dec. 31, 2004
	EUR'000	EUR'000
Equity acc. to HGB	**113,186**	**137,932**
Capitalisation of development costs	1,315	1,656
Measurement of non-current assets	55,815	55,049
Measurement of inventories	1,330	1,584
Measurement of trade receivables	1,052	1,040
Measurement of provisions for pensions	-7,807	-10,414
Recognition and measurement of provisions	1,151	1,975
Measurement of financial liabilities	2,140	1,661
Deferred taxes	-26,367	-26,388
Others	-4	-172
Equity acc. to IFRS	**141,811**	**163,923**

The development costs were recorded in the HGB financial statements as period expenses. In the opening IFRS balance sheet, the development costs were capitalised in the amount of EUR'000 1,315 since the capitalisation conditions set out in IAS 38 were met in aggregate.

Under HGB, amortisation on intangible assets, depreciation on property, plant & equipment, and writedowns on investment property were performed on the basis of the fiscal useful lives. Under IFRS, the amortisation and depreciation reflect the economic lives. Since, joint ventures are partially consolidated under IFRS, financial assets have been reduced by EUR'000 1,324 due to accounting for joint ventures using the equity method under HGB. The carrying values of intangible assets, property, plant & equipment, investment property and of financial assets have increased as at January 1, 2004, by a total of EUR'000 55,815.

The valuation of the inventories is EUR'000 1,330 higher in the IFRS opening balance sheet. There are two reasons for the increase in the valuation of the inventories. First, under IFRS, the production-related costs of general administration (EUR'000 382) are capitalised in addition to the individual costs and overheads. Second, under IFRS, there is no recognition of impairments (EUR'000 948) to account for lower procurement prices.

Under HGB and IFRS, trade receivables are recognised at acquisition costs less valuation allowances for unrecoverable amounts. However, under IFRS, general adjustments are made only on the basis of values derived from experience. This has led to the balance sheet value of trade receivables rising by EUR'000 1,052.

The valuation of the pension obligation in the HGB financial statements was computed on the basis of the entry-age method that is recognised for tax purposes. The IFRS value is computed by the projected unit credit method in accordance with IAS 19, under which the discount rate reflects the economic development, in contrast to the measurement under HGB; moreover, the index-linking effects of career, salary and pension trends are taken into consideration. The valuation of the provisions for pensions under IFRS as at January 1, 2004, was EUR'000 7,807 higher than under German commercial law.

The changes in recognition and valuation of provisions are mainly attributable to obligations which are not due to third parties and to the discount effect resulting from non-current provisions.

The lowering by EUR'000 2,140 in the valuation of long-term financial liabilities results from the inclusion of disagios in the measurement of the financial liabilities. Under HGB, the disagios are recorded immediately as expense at the time incurred.

In the HGB consolidated financial statements as at December 31, 2004, deferred tax assets have been recognized on those consolidation measures that have an effect on income. In the IFRS opening balance sheet as at January 1, 2004, in accordance with IAS 12, deferred taxes have been set up for temporary differences between the valuations in the fiscal and the IFRS balance sheets of the individual companies. This resulted, in total, in deferred tax assets of EUR'000 7,348 and deferred tax liabilities of EUR'000 33,715 in the IFRS opening group balance sheet. The changes in measurement have the effect of lowering equity as at January 1, 2004 by EUR'000 26,367.

Reconciliation of the consolidated net income for the year from HGB to IFRS

The following table shows the effects of the changeover from HGB to IFRS on the results of operations of the group:

	2004
	EUR'000
Consolidated net income for the year acc. to HGB	**42,644**
Amortisation & depreciation of non-current assets	-1,640
Writedowns on goodwill	2,313
Development costs	345
Provisions for pensions	-2,584
Proportionate consolidation	-90
Currency translation	139
Deferred taxes	-322
Others	-403
Consolidated net income for the year acc. to IFRS	**40,402**
Change	-2,241

The differences in determining the consolidated net income for the year according to IFRS are due to the accounting and measurement methods of IFRS described above.

Reconciliation of the consolidated cash flow statement from HGB to IFRS

The cash flow statement under IFRS, which was prepared in accordance with the regulation of IAS 7 (Cash flow Statements) presents the change in cash and cash equivalents of the ElringKlinger group in the areas of current operating activities, investing activities and financing activities.

The following table shows the effects of the changeover from HGB to IFRS on the consolidated cash flow statement for 2004:

	HGB	Adjustment to IFRS	IFRS
	EUR'000	EUR'000	EUR'000
Cash flow from operating activities	74,043	1,360	75,403
Cash flow from investing activities	-41,138	-1,333	-42,471
Cash flow from financing activities	-32,206	517	-31,689
Net increase in cash and cash equivalents	**699**	**544**	**1,243**
Cash and cash equivalents at beginning of period	**8,416**	**1,765**	**10,181**
Foreign currency translation and other changes in cash & cash equivalents	-73	-108	-181
Cash and cash equivalents at end of period	**9,042**	**2,201**	**11,243**

The deviations in the cash flow statement according to IFRS result from differences in the accounting and measurement methods of IFRS which affect the level, the classification and the capitalisation conditions of the balance sheet items as well as the change in the scope of consolidation.

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs.

The fundamental accounting and measurement methods applied in preparing the consolidated financial statements are described below:

Scope of consolidation

Apart from the single entity statements of ElringKlinger AG, the consolidated financial statements of ElringKlinger AG as at December 31, 2005, include the annual financial statements of four domestic and 15 foreign subsidiaries. Subsidiaries are companies in which the parent enterprise exercises more than half the voting rights or is able to control their financial and business policy for other reasons (control relationship). Inclusion commences at the time from which the control relationship exists; it ends when the possibility of control ceases.

Two joint venture enterprises, JEIL Elring Co. Ltd., Changwon, Korea, and ElringKlinger Marusan Corp., Tokyo, Japan, that were included in the HGB consolidated financial statements using the equity method, were included in the consolidated financial statements, pursuant to IAS 31, by proportionate consolidation. In the proportionate consolidation, all assets and equity & liability items, and all expenses and income of the joint venture are included in the consolidated financial statements at the level of the participatory proportion (50%).

The business activity of JEIL Elring Co. Ltd. is the production and distribution of cylinder head gaskets. ElringKlinger Marusan Corp. is a development and distribution company.

On the basis of the proportion held in joint companies, the following values are attributable to the group:

	2005	2004
	EUR'000	EUR'000
Non-current assets	909	749
Current assets	1,331	939
Non-current liabilities	161	110
Current liabilities	625	439
Income	3,084	2,533
Expenses	2,826	2,310

In comparison with the previous commercial law treatment, MARUSAN Packing Manufacturing Co. Ltd., Tokyo, Japan, is not valued according to the equity method, but as a participation at acquisition costs.

There is an overview of the 19 companies included and the two joint ventures in the explanations to “Financial assets” in the form of a “List of shareholdings and scope of consolidation”.

Consolidation methods

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

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

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

The minority interest held by shareholders outside the group must be shown as a separate line item under the equity caption.

The results of the subsidiaries acquired or sold in the course of the year are included correspondingly in the consolidated income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all companies included corresponds to the financial year of the parent company.

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

Currency translation

Foreign currency transactions are translated in the individual financial statements of ElringKlinger AG and its consolidated companies at the rates pertaining at the time of the transactions. As at the balance sheet date, assets and debts in foreign currency are measured at the rate on the balance sheet date. Differences arising on translation are recorded in the income statement.

The financial statements of the foreign companies are translated to Euro since this is the functional currency of the parent company. Since subsidiaries and joint ventures operate their business independently in financial, economic and organisational respects, the functional currency is identical with the relevant national currency of the company. In the consolidated financial statements, expenses and income from the financial statements of included companies that are prepared in foreign currency are translated at the average rate for the year, while assets and debts are translated at the rate on the balance sheet date. Goodwill is treated as an asset or debt and translated at the balance sheet rate. Currency differences are treated without effect on the income statement and are shown under equity. In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the sales profit or loss.

The rates used for currency translation are shown in the table below:

Currency	Abbr.	Rate on closing date Dec. 31, 2005	Rate on closing date Dec. 31, 2004	Average rate 2005	Average rate 2004
US Dollar (USA)	USD	1.1833	1.3640	1.23786	1.24649
Pound (United Kingdom)	GBP	0.6874	0.7063	0.68312	0.68005
Canadian dollar (Canada)	CAD	1.3750	1.6585	1.49865	1.61692
Real (Brazil)	BRL	2.7503	3.6201	2.99513	3.63681
Peso (Mexico)	MXN	12.6021	15.2311	13.47397	14.10772
RMB (China)	CNY	9.5471	11.2891	10.12873	10.31687
WON (South Korea)	KRW	1,186.8000	1,411.8800	1,264.23000	1,416.94417
Rand (South Africa)	ZAR	7.4900	7.6700	7.87479	7.93000
Yen (Japan)	JPY	139.1000	139.7200	136.90250	134.04083
Forint (Hungary)	HUF	253.0000	245.8000	248.78333	250.46667
Zloty (Poland)	PLN	3.8650	4.0800	4.02573	4.51541

Goodwill

Goodwill is capitalised and subjected to an impairment test, that must be performed annually. If the value is no longer recoverable, impairment is recorded. Otherwise the valuation of the prior year is retained.

Goodwill from company purchases prior to April 1, 2004 is mainly capitalised and otherwise offset against reserves. In compliance with IFRS 1.15 the capitalised goodwill is adopted at the carrying values recognised in the IFRS opening balance sheet as at January 1, 2004 and the offsets against reserves have been retained. On divestment of a consolidated company, any goodwill relating to it is included in the computation of the deconsolidation result. The goodwill that was offset against reserves, however, is not considered in determining the profit or loss made on the divestment.

Intangible assets

Purchased intangible assets, mainly patents, licences and software, are capitalised at acquisition cost. Internally generated intangible assets, with the exception of goodwill, are capitalised if it is sufficiently probable that a future economic benefit will flow from the use of the asset and the costs of the asset can be determined reliably. The manufacturing costs of internally generated intangible assets are determined on the basis of directly attributable individual costs as well as their proportion of overheads.

The intangible assets are amortised normally using the straight line method over their useful lives. Patents, licences and software have useful lives of 10 years. Capitalised development costs and simple standard software have useful lives of 5 years. If the actual useful life is materially longer or shorter than 10 or 5 years, the actual useful life is recognised.

Property, plant and equipment

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

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

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

Category of property, plant & equipment	Years
Buildings	15 to 40
Plant and machinery	12 to 15
Special toolings	3
Operating and office equipment	5 to 15

Investment property

Investment property is measured as property, plant & equipment, i.e. at acquisition or manufacturing costs less scheduled, use-related, straight-line depreciation, or else at a lower market value. It is shown separately under long-term assets.

The useful lives of the investment property is 40 years in the case of buildings and 20 years in the case of outside plant.

Impairment of property, plant & equipment and of intangible assets except for goodwill

As at each balance sheet date, property, plant & equipment and intangible assets are subjected to an impairment test pursuant to IAS 36 if there is evidence of impairment. If the carrying value of an asset exceeds its recoverable value, an impairment is made to the recoverable amount. The recoverable amount is the higher of net sales value and value in use. If the recoverable amount for an individual asset cannot be determined, an estimate is made of the recoverable amount at the level of next higher cash generating unit.

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

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

Financial instruments

Original financial instruments

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

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

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

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

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

Participations are recognised at adjusted acquisition costs.

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

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

Trade payables are shown at their repayment values.

Derivative financial instruments and accounting for hedge transactions

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

The derivative financial instruments deployed in the ElringKlinger group are currency forward, interest, and price hedging transactions. The purpose of the derivative financial instruments is to reduce the negative effects of currency, interest and price risks on the net assets, financial position and results of operations of the group.

Inventories

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

Cash and cash equivalents

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

Provisions for pensions

The provisions for pensions are computed using the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, consideration is given to expected future increases in pensions and salaries with cautious estimates of the relevant influences. The computation is based on actuarial reports that apply biometrical bases.

Actuarial gains and losses are offset with effect on the income statement when they are outside a corridor of 10% of the expected defined benefit obligations of the prior year. Deviations of up to 5% more are accrued immediately and in full. Deviations of more than 15% are distributed over ten years. If the average remaining service life of the employees with pension entitlements should be lower than ten years, the distribution is over this shorter remaining service life.

Non-current and current provisions

Other provisions are recorded when a past event gives rise to a present obligation to outside parties which is likely to be claimed and if the probable amount of the necessary provision can be estimated reliably. The measurement of these provisions is at full cost or at the presently best estimate that is necessary to fulfill the obligation. Refund claims are capitalised separately, if required.

Leases

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

Realisation of profits

Sales revenues are measured at the fair market value of the consideration received or to be received and represent the amounts that are to be obtained for goods and services in the normal course of business. The revenues are shown after subtracting sales deductions, discounts and value added taxes.

Sales revenues are recorded when the owing supplies and services have been rendered and the receipt of the payment can be expected reliably.

Interest income is accrued to the proper period according to the outstanding loan and the applicable interest rate. The applicable interest rate is specified in the loan agreement and discounts the estimated future inflows of funds over the term of the financial asset to the net carrying value.

Dividend income from financial investments is recorded on shareholders' resolution.

Income taxes and deferred taxes

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

The current tax expense is determined on the basis of the taxable income for the relevant year. The taxable income is different from the net income for the year shown in the income statement since it excludes expenses and income which will be tax deductible in later years or which will never become taxable or tax deductible. The liability of the group for current tax expense is computed on the basis of the valid tax rates or of tax rates which have been announced until the balance sheet date.

Deferred taxes are the expected tax charge or relief arising from differences in the carrying values of assets and debts in the financial statements and the tax values. Here the balance sheet oriented liability method is applied. In general, deferred tax liabilities are recorded for all taxable temporary differences, and deferred tax assets are recorded to the extent that it is probable that taxable profits will be available for which the deductible temporary differences can be used. Such assets and debts are not recognised if the temporary difference arises from goodwill or from the first-time recognition of other assets and debts resulting from occurrences that do not affect the taxable income or the net income for the year. Otherwise, deferred taxes are set up on tax loss carryforwards to the extent that it may be expected that it will be possible to use them in future.

The carrying value of the deferred tax assets is examined each year as at the balance sheet date and is reduced if it is no longer probable that enough taxable income will be available.

The measurement of the deferred taxes is at the future tax rates, i.e. those that will probably be valid at the time of realisation.

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

Segment reporting

The ElringKlinger group is organised around five business areas. Correspondingly, the segments analysed are Original Equipment, Spare Parts, Engineered Equipment, Services, and Industrial Parks.

The activities in the reporting segments Original Equipment and Spare Parts relate to the manufacture and distribution of parts and modules for engine, gear and exhaust applications in motorised vehicles (Powertrain). Additionally, services are rendered that are connected with this activity.

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

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

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

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

Segment reporting

	Original Equipment		Aftermarket		Engineered Plastics	
	2005	2004	2005	2004	2005	2004
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenues	**403,635**	**402,211**	**92,167**	**90,244**	**54,688**	**48,868**
Intersegment revenues	-15,931	-18,855	0	0	0	0
Consolidation	-57,775	-57,604	-10,966	-13,169	-1,536	-1,883
Sales revenues	**329,929**	**325,752**	**81,201**	**77,075**	**53,152**	**46,985**
Segment expenses	-282,843	-279,891	-65,912	-63,486	-42,452	-38,895
Segment profit/loss	**47,086**	**45,861**	**15,289**	**13,589**	**10,700**	**8,090**
Net interest	-5,190	-5,329	-640	-732	114	40
Earnings before taxes	**41,896**	**40,532**	**14,649**	**12,857**	**10,814**	**8,130**
Amortisation & depreciation*	36,191	37,816	553	553	1,722	1,649
Investments**	51,150	37,550	1,059	764	1,658	1,855
Segment assets	328,047	294,926	43,974	43,879	36,568	35,174
Segment debts	108,666	101,327	15,211	13,994	10,621	10,308

*Amortisation & depreciation on the basis of the average rates of the year

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

Reconciliation segment assets

	2005	2004
	EUR'000	EUR'000
Non-current assets acc. to consolidated balance sheet	289,030	269,702
- Deferred tax assets	-10,732	-11,472
Non-current assets of the regions	**278,298**	**258,230**
+ Current assets	167,267	154,203
- Receivables on income tax	-1,424	-597
+ Others	6,331	2,955
Segment assets	**450,472**	**414,791**

Reconciliation segment debts

	2005	2004
	EUR'000	EUR'000
Non-current liabilities	155,835	166,581
Current liabilities	104,349	93,401
- Financial liabilities	-85,489	-87,651
- Deferred tax liabilities	-32,517	-36,796
- Tax provisions	-3,642	-3,766
- Tax liabilities on income tax	-1,526	-2,754
Segment debts	**137,010**	**129,015**

Industrial Parks		Services		Group	
2005	2004	2005	2004	2005	2004
EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
7,529	**7,132**	**7,215**	**7,231**	**565,234**	**555,686**
0	0	0	0	-15,931	-18,855
-125	-125	-4,279	-4,571	-74,681	-77,352
7,404	**7,007**	**2,936**	**2,660**	**474,622**	**459,479**
-3,765	-3,024	-2,443	-2,255	-397,415	-387,551
3,639	**3,983**	**493**	**405**	**77,207**	**71,928**
-584	-707	-9	-21	-6,309	-6,749
3,055	**3,276**	**484**	**384**	**70,898**	**65,179**
1,097	1,062	964	990	40,527	42,070
2,474	2,423	812	632	57,153	43,224
35,532	34,351	6,351	6,461	450,472	414,791
1,163	2,281	1,349	1,105	137,010	129,015

Region

		Sales revenues	Non-current assets	Investments**
		EUR'000	EUR'000	EUR'000
Germany	2005	182,996	201,659	39,177
	2004	178,347	195,566	31,789
Rest of Europe	2005	144,460	30,580	5,067
	2004	143,462	27,998	6,407
NAFTA	2005	83,750	34,175	8,446
	2004	84,371	27,436	1,790
Asia and Australia	2005	42,408	5,163	1,308
	2004	36,919	4,119	1,497
South America and others	2005	21,008	6,721	3,155
	2004	16,380	3,111	1,741
Group	**2005**	**474,622**	**278,298**	**57,153**
	2004	459,479	258,230	43,224

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

Individual disclosures on the income statement

(1) Sales revenues

The sales revenues have increased over 2004 by EUR'000 15,143 to EUR'000 474,622.

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

	2005	2004
	EUR’000	EUR’000
Sale of goods and services	467,218	452,472
Income from rental and leasehold	7,404	7,007
Total	474,622	459,479

Breakdown by geographical market:

	2005	2004
	EUR’000	EUR’000
Domestic	188,067	178,347
Foreign	291,626	285,914
	479,693	**464,261**
Discounts, bonuses, rebates	-5,071	-4,782
Total sales	474,622	459,479

(2) Cost of sales

The cost of sales have increased over 2004 by EUR’000 13,073 to EUR’000 318,034. The cost of sales shows the costs incurred to obtain the sales revenues.

(3) Selling expenses

The selling expenses have increased over the prior year by EUR’000 2,639 to EUR’000 36,520. The selling expenses comprise mainly personnel expenses, material and marketing costs as well as amortisation & depreciation relating to the selling expenses.

(4) General and administrative expenses

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

(5) Research and development expenses

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

(6) Other operating income

	2005	2004
	EUR'000	EUR'000
Charged costs	1,366	2,036
Release of provisions/accrued liabilities	954	1,626
Public subsidies	408	322
Income from disposals of non-current assets	273	469
Others	3,696	2,416
Total	**6,697**	**6,869**

The other operating income includes out-of-period income of EUR'000 1,227 (2004: 2,839). This is comprised mainly of income from the release of provisions (EUR'000 954) and gains on disposals of non-current assets (EUR'000 273).

(7) Other operating expenses

	2005	2004
	EUR'000	EUR'000
Losses on disposal of assets	510	1,311
Other taxes	179	209
Provision for pensions for former employees and pensioners	74	586
Impairment of non-current assets	0	4,000
Others	3,727	3,999
Total	**4,490**	**10,105**

The other operating expenses include out-of-period expenses of EUR'000 566 (2004: 1,729). These comprise mainly losses from disposals of non-current assets (EUR'000 510) and defaults on receivables (EUR'000 56).

(8) Financial result

	2005	2004
	EUR'000	EUR'000
Interest income	694	308
– thereof from derivative financial instruments	(3)	(0)
Interest expenses	-7,003	-7,057
– thereof from derivative financial instruments	(305)	(0)
Income/loss from exchange rate fluctuations	2,215	-460
Others	-7	72
Total	**-4,101**	**-7,137**

The interest income comprises interest for making funds available. Of interest expenses, EUR'000 2,381 (2004: 2,422) are related to interest portions of the pension plans and the remainder to bank interest.

(9) Taxes on income

The income tax expense is composed as follows:

	2005	2004
	EUR’000	EUR’000
Current tax expense	27,776	24,882
Deferreted taxes (income)	3,456	105
Tax expense shown	24,320	24,777

The domestic income taxes are computed at 37% (2004: 37,1%) of the estimated taxable profit for the financial year. The foreign taxation is computed at the tax rates that apply in the countries concerned and lies between 16% und 41% (2004: between 13% and 40%). The average foreign tax rate is 33% (2004: 31%).

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

	2005	2004
	EUR’000	EUR’000
Earnings before taxes	70,898	65,179
Expected tax rate	**37.0%**	**37.1%**
Expected tax expense	**26,232**	**24,181**
Changes in the expected tax expense on account of:		
– changes in tax rates	-2,469	-693
– non-deductible expenses	229	707
– non-recognised losses	267	624
– out-of-period taxes	-104	-5
– other differences	165	-37
Actual tax expense	24,320	24,777
Effective tax rate	**34.3%**	**38.0%**

At the balance sheet date, the ElringKlinger group has tax loss carryforwards of EUR’000 7,771 (2004: 8,762) for offsetting against future profits.

Of the loss carryforwards, EUR’000 4,803 comes from ElringKlinger Sealing System Inc., Leamington, Canada; EUR’000 1,856 from ElringKlinger Sealing Systems USA Inc., Livonia, USA; and EUR’000 1,112 from Elring Klinger do Brasil Ltda., Piracicaba, Brazil.

The tax loss carryforwards can be carried forward as follows:

	EUR'000
until 2006	965
until 2007	147
until 2008	0
until 2009	1,370
until 2010	3,304
until 2011	0
until 2012	129
can be carried forward indefinitely	1,856
Total	**7,771**

It is expected that it will be possible to use the tax loss carryforwards in an amount of EUR'000 5,915 (2004: 7,789). A deferred tax asset of EUR'000 2,017 (2004: 2,764) has been recorded on these loss carryforwards. For the disregarded loss carryforwards of EUR'000 1,856 (2004: 973) there is no future income and hence no deferred tax claim.

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

Balance sheet items	**Deferred tax assets Dec. 31, 2005**	**Deferred tax assets Dec. 31, 2004**	**Deferred tax liabilities Dec. 31, 2005**	**Deferred tax liabilities Dec. 31, 2004**
	EUR'000	EUR'000	EUR'000	EUR'000
Intangible assets	202	216	1,578	1,272
Property, plant and equipment	84	132	27,754	30,838
Investment property	0	0	1,948	2,417
Financial assets	0	2	0	112
Inventories	1,023	1,254	548	1,130
Trade receivables	397	207	618	356
Other current assets	0	0	1	553
Cash and cash equivalents	0	0	0	82
Provisions for pensions	5,024	4,420	13	10
Non-current provisions	1,284	1,910	12	12
Other non-current liabilities	0	119	0	0
Current provisions	422	261	6	0
Trade payables	68	38	0	3
Current financial liabilities	0	17	39	1
Other current liabilities	211	132	0	10
Loss carryforwards	2,017	2,764	0	0
Shown in the balance sheet:	**10,732**	**11,472**	**32,517**	**36,796**

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

(10) Earnings per share

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

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

	2005	2004
Net income attributable to the parent in EUR'000	42,362	36,009
Dividend-bearing shares	19,200,000	9,600,000
Earnings per share in EUR	**2.21**	**3.75**

Individual disclosures on the balance sheet

(11) Intangible assets

	Development costs	Goodwill	Patents, licences, software	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Acquisition/manufacturing costs Balance at 1.1.05	3,613	34,846	19,554	58,013
Currency changes	0	859	189	1,048
Additions	999	0	942	1,941
Reclassifications	0	0	82	82
Disposals	0	0	44	44
Balance at 31.12.05	**4,612**	**35,705**	**20,723**	**61,040**
Amortisation & depreciation Balance at 1.1.05	**1,957**	**13,139**	**12,029**	**27,125**
Currency changes	0	61	171	232
Additions	798	0	2,015	2,813
Disposals	0	0	43	43
Balance at 31.12.05	**2,755**	**13,200**	**14,172**	**30,127**
Net carrying value at 31.12.05	**1,857**	**22,505**	**6,551**	**30,913**
Net carrying value at 31.12.04	**1,656**	**21,707**	**7,525**	**30,888**

(12) Property, plant and equipment

	Land & buildings	Plant and machinery	Other plant operating, & office equipment	Prepayments & assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Acquisition/manufacturing costs Balance at 1.1.05	**84,943**	**210,208**	**108,055**	**9,036**	**412,242**
Currency changes	1,686	7,878	558	513	10,635
Additions	2,166	34,722	3,199	12,680	52,767
Reclassifications	3,780	6,559	406	-10,827	-82
Disposals	228	9,266	1,516	110	11,120
Balance at 31.12.05	**92,347**	**250,101**	**110,702**	**11,292**	**464,442**
Amortisation & depreciation Balance at 1.1.05	**28,347**	**105,940**	**86,479**	**0**	**220,766**
Currency changes	271	3,349	282	0	3,902
Additions	1,989	24,026	10,734	0	36,749
Disposals	52	5,928	1,447	0	7,427
Balance at 31.12.05	**30,555**	**127,387**	**96,048**	**0**	**253,990**
Net carrying value at 31.12.05	**61,792**	**122,714**	**14,654**	**11,292**	**210,452**
Net carrying value at 31.12.04	**56,596**	**104,268**	**21,576**	**9,036**	**191,476**

(13) Investment property

	Investment property	Prepayments & finance property under construction	Total
	EUR'000	EUR'000	EUR'000
Acquisition costs Balance at 1.1.05	**50,764**	**42**	**50,806**
Currency changes	-363	-1	-364
Additions	247	2,198	2,445
Balance at 31.12.05	**50,648**	**2,239**	**52,887**
Amortisation & depreciation Balance at 1.1.05	**19,511**	**0**	**19,511**
Currency changes	-54	0	-54
Additions	1,168	0	1,168
Revaluations	128	0	128
Balance at 31.12.05	**20,497**	**0**	**20,497**
Net carrying value at 31.12.05	**30,151**	**2,239**	**32,390**
Net carrying value at 31.12.04	**31,253**	**42**	**31,295**

The landed property held as financial investment includes industrial parks in Ludwigsburg, Idstein and Hungary. The fair market value determined using the discounted cash flow method is EUR'000 72,551 (2004: 73,166).

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

All investment property is rented out under operating leases. The rental income derived from this was EUR'000 7,404 (2004: 7,007). The expense directly connected with this financial investment was EUR'000 4,349 (2004: 3,731).

(14) Financial assets

	Participations	Non-current securities	Other financial investments	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Acquisition costs				
Balance at 1.1.05	**3,086**	**1,411**	**78**	**4,575**
Currency changes	0	5	0	5
Disposals	0	1	24	25
Balance at 31.12.05	**3,086**	**1,415**	**54**	**4,555**
Amortisation & depreciation				
Balance at 1.1.05	**0**	**4**	**0**	**4**
Currency changes	0	0	0	0
Additions	0	8	0	8
Balance at 31.12.05	**0**	**12**	**0**	**12**
Net carrying value at 31.12.05	**3,086**	**1,403**	**54**	**4,543**
Net carrying value at 31.12.04	**3,086**	**1,407**	**78**	**4,571**
Market value 31.12.05		**1,424**	**54**	
Market value 31.12.04		1,424	78	

The securities shown will all be held to maturity.

Of the securities of non-current assets, an amount of EUR'000 1,365 (2004: 1,365) is pledged to secure pension claims.

Schedule of shareholdings as at December 31, 2005 and scope of consolidation

Name of company	Domicile	Abbreviation	Capital share in %
Parent company			
ElringKlinger AG	Dettingen/Erms		
Shares in affiliated companies (fully consolidated in the consolidated financial statements)			
Domestic			
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	KMBH	100.00
Elring Klinger Motortechnik GmbH	Idstein	EKM	92.86
ElringKlinger Logistic Service GmbH	Rottenburg a.N.	EKLS	76.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	EKT	67.00
Foreign			
Elring Klinger (Great Britain) Ltd.	Redcar, United Kingdom	EKGB	100.00
Elring Klinger S.p.A.	Mazzo di Rho-Milano, Italy	EKI	100.00
TECHNIK-PARK HELIPORT Kft.	Kécskemét-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, United Kingdom	EP	90.00
Elring Klinger, S.A.	Reus, Spain	EKSA	51.00
ElringKlinger Sealing Systems, Inc.	Leamington, Canada	EKSS	100.00
ElringKlinger Sealing Systems USA, Inc.	Livonia, Michigan, USA	EKSU	100.00
Elring Klinger Mexico, S.A. de C.V.	Toluca, Mexico	EKMX	100.00
EKASER S.A. de C.V.	Toluca, Mexico	EKAS	100.00
Elring Klinger do Brasil Ltda.	Piracicaba, Brazil	EKB	100.00
Elring of North America, Inc.	Branchburg, New Jersey, USA	ELNA	60.00
Elring Gaskets (Pty.) Ltd.	Johannesburg, South Africa	EGS	51.00
Changchun ElringKlinger Ltd.	Changchun, China	CEK	78.00
Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)			
Foreign			
JEIL Elring Co., Ltd.	Changwon, Korea	JEIL	50.00
ElringKlinger Marusan Corporation	Tokyo, Japan	EKMA	50.00
Participations (measured in consolidated financial statements at acquisition cost)			
Foreign			
Marusan Corporation	Tokyo, Japan	MARUSAN	10.00

HB I Shareholders' equity in '000	HB I Profit/Loss in '000	Local currency	Exchange rate[1] on closing date	HB I Shareholders' equity in EUR'000	HB I Profit/Loss in EUR'000	Most recent financial statements
82	-9	EUR	100.0000	82	-9	31.12.2005
2,346	295	EUR	100.0000	2,346	295	31.12.2005
505	199	EUR	100.0000	505	199	31.12.2005
19,565	7,248	EUR	100.0000	19,565	7,248	31.12.2005
5,320	438	GBP	145.4757	7,739	637	31.12.2005
1,352	354	EUR	100.0000	1,352	354	31.12.2005
1,238,772	-37,033	HUF	0.3953	4,897	-146	31.12.2005
0	-30	PLN	25.8732	0	-8	31.12.2005
2,626	649	EUR	100.0000	2,626	649	31.12.2005
1,140	384	GBP	145.4757	1,658	559	31.12.2005
7,559	2,402	EUR	100.0000	7,559	2,402	31.12.2005
11,198	1,206	CAD	72.7273	8,144	877	31.12.2005
136	-1,420	USD	84.5094	115	-1,200	31.12.2005
71,613	-11,751	MXN	7.9352	5,683	-932	31.12.2005
11,074	4,318	MXN	7.9352	879	343	31.12.2005
30,594	6,773	BRL	36.3597	11,124	2,463	31.12.2005
1,803	199	USD	84.5094	1,524	168	31.12.2005
8,084	2,349	ZAR	13.3511	1,079	314	31.12.2005
69,648	9,884	CNY	10.4744	7,295	1,035	31.12.2005
3,439,123	606,787	KRW	0.0843	2,899	512	31.12.2005
13,005	2,677	JPY	0.7189	93	19	31.12.2005
4,305,642	35,900	JPY	0.7189	30,953	258	31.7.2005

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

(15) Inventories

	Dec. 31, 2005	Dec. 31, 2004
	EUR'000	EUR'000
Raw materials, consumables and supplies	25,365	25,025
Work in progress	11,223	9,068
Finished goods and merchandise	45,354	41,309
Prepayments	304	222
Total	82,246	75,624

Under inventories, markdowns of EUR'000 8,604 (2004: 5,945) were made to account for marketability risks.

(16) Trade receivables and other current assets

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

Adjustments in the amount of EUR'000 2,528 (2004: 2,160) were set up for recognisable individual risks as well as the probable utilisation of discounts.

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

(17) Cash and cash equivalents

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

The carrying value of these assets corresponds to their fair market value.

(18) Shareholders' Equity

The changes in the individual items of equity in the group are shown separately in the "Statement of changes in equity".

The share capital shown is the nominal capital of the parent company ElringKlinger AG.

By resolution of the shareholders' meeting of ElringKlinger AG on June 8, 2005, the division of the nominal capital was changed with a share split of one to two with effect at August 12, 2005. Subsequently, the number of shares was increased from 9,600,000 to 19,200,000 individual shares. The 9,600,000 new shares are attributable to the shareholders in proportion to the interest they held in the previous nominal capital. Following the share split, the nominal capital is divided into 19,200,000 individual shares. The shares are registered.

Under the German stock corporation act, the distributable dividend is measured by the retained earnings, which are shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German commercial code (HGB). In the financial year 2005, ElringKlinger AG distributed to the shareholders a dividend of EUR'000 16,800 (EUR 1.75 per share) from the retained earnings 2004. In the financial year 2004, ElringKlinger AG distributed to the shareholders a dividend of EUR'000 14,400 (EUR 3.00 per share) from the retained earnings 2003.

The management board and the supervisory board of the parent company ElringKlinger AG will propose to the shareholders' meeting on June 1, 2006 distribution of a dividend of EUR 1.00 per share with dividend entitlement, representing a total distribution of EUR'000 19,200.

At the shareholders' meeting held on June 8, 2005, the approved capital was set at EUR'000 28,800. With the consent of the supervisory board, the management board can call this capital in until June 15, 2010.

(19) Minority interests

The minority interest shown within equity in the consolidated financial statement relate to outside shareholders of subsidiaries. They relate in the amount of EUR'000 8,361 (2004: 7.587) to shares in the capital, in the amount of EUR'000 2,473 (2004: 2,420) to in the revaluation reserve and in the amount of EUR'000 5,141 (2004: 4,970) to the profit of the year.

(20) Provisions for pensions

The pension obligations at the foreign companies mainly take the form of defined contribution plans while in the case of domestic companies it is on the basis of defined benefit plans.

Under the **Defined Contribution Plans** the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. On payment of the contributions, the company does not have any further obligations. The current contribution payments are shown as pension expense of the relevant year: in 2004 they came to a total of EUR'000 194 (2004: 280) in the group.

The **Defined Benefit Plans** are accounted for in the group by setting up provisions for pensions that are determined by the Projected Unit Credit Method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, consideration is given to expected future increases in pensions and salaries with cautious estimate of the relevant influences. In the case of the domestic companies, the computation is based on actuarial reports of BodeHewitt AG & Co. KG using biometric calculations (guideline tables 2005 G of Prof. Dr. Klaus Heubeck).

Under the defined benefit plans, on reaching the retirement age of 63 years employees have a claim to benefits that depend of their length of time with the company. Employees that come under the collective agreement receive a pension claim of 0.16% of the remuneration per year of employment, with the maximum being 30 years of employment and 4.87% of remuneration. The company pension for senior employees is a maximum of 32% of the monthly salary.

The most important assumptions are:

Measurement at	**Dec. 31, 2005**	**Dec. 12, 2004**
Discount rate	4.10 %	4.48 %
Expected percentage of salary increases	2.00 %	2.00 %
Future pension increases	1.50 %	1.50 %

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

	2005	**2004**
	EUR’000	EUR’000
Current service costs	1,106	917
Interest expense	2,381	2,422
Accrued actuarial gains and losses	2,536	2,569
Total expense	**6,023**	**5,908**

The above amounts are generally contained under the personnel expenses of the functional areas; the annual interest expense is shown in the interest result.

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

	2005	**2004**
	EUR’000	EUR’000
Present value of the pension claims as at 1.1.	**54,568**	**45,380**
Current service costs	1,106	917
Interest expense	2,381	2,422
Disbursements / Utilisation	-2,577	-2,180
Actuarial gains and losses in the reporting year	3,002	8,029
Other changes	35	0
Present value of the pension claims as at 31.12.	**58,515**	**54,568**

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

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

Of the fair market value of the plan assets, EUR'000 108 relates to asset values from reinsurance policies and EUR'000 52 to investments in state pension funds.

The actual income from plan assets was EUR'000 27 (2004: 17).

(21) Current and non-current provisions

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

	Dec. 31, 2005	Dec. 31, 2004
	EUR'000	EUR'000
Current provisions	6,252	7,109
Non-current provisions	9,212	7,729
Total	**15,464**	**14,838**

The provisions break down as follows:

	People related obli-gations	Warranty obli-gations	Litigation costs	Other risks	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance as at 1.1.05	9,467	2,034	860	2,477	14,838
Exchange rate difference	29	6	0	0	35
Utilisation	-2,745	-1,260	-532	-1,145	-5,682
Release	0	-540	-8	-153	-701
Addition	4,716	1,051	752	455	6,974
Balance as at 31.12.05	**11,467**	**1,291**	**1,072**	**1,634**	**15,464**

Provisions in the personnel area are set up for the pre-retirement part-time scheme, long-service anniversary benefits and similiar obligations.

The provision for warranties represents the best estimate of management and was set up on the basis of past experience and the industrial average for defective products with regard to the group liability for a warranty of twelve months.

The other risks refer to numerous detectable individual risks and uncertain obligations, which have been taken into consideration in line with the probability of their incidence.

(22) Current and non-current financial liabilities

	Domestic	Foreign	Total Dec. 31, 2005	Domestic	Foreign	Total Dec. 31, 2004
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Overdrafts	23,364	5,871	29,235	9,204	9,085	18,289
Bank loans						
– up to one year	5,750	0	5,750	6,728	0	6,728
– more than one year	50,423	81	50,504	62,391	243	62,634
	56,173	81	56,254	69,119	243	69,362
Total	**79,537**	**5,952**	**85,489**	**78,323**	**9,328**	**87,651**
The loans have the following residual terms:						
Payable on demand or less than one year	5,750	0	5,750	6,728	0	6,728
More than one and less than five years	12,960	81	13,041	18,799	243	19,042
More than five years	37,463	0	37,463	43,592	0	43,592
Total	**56,173**	**81**	**56,254**	**69,119**	**243**	**69,362**

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

Currency	Category	Residual term	Weighted interest rate	Amount in local currency in thousands	Amount in Euro
			%		EUR'000
as at 31.12.05					
EUR	Overdraft	‹ 1 year	3.42	24,564	24,564
CAD	Overdraft	‹ 1 year	4.25	2,608	1,897
GBP	Overdraft	‹ 1 year	5.75	1,265	1,840
BRL	Overdraft	‹ 1 year	1.50	1,452	528
USD	Overdraft	‹ 1 year	7.25	480	406
	Total				**29,235**
EUR	Bank loans	‹ 1 year	4.00	5,750	5,750
EUR	Bank loans	1–5 years	4.71	12,960	12,960
KRW	Bank loans	1–5 years	0.00	96,892	81
EUR	Bank loans	› 5 years	4.71	37,463	37,463
	Total				**56,254**
Total					**85,489**

Currency	Category	Residual term	Weighted interest rate	Amount in local currency in thousands	Amount in Euro
			%		EUR'000
as at 31.12.04					
EUR	Overdraft	< 1 year	2.63	10,404	10,404
MXN	Overdraft	< 1 year	9.20	59,251	3,890
GBP	Overdraft	< 1 year	5.75	1,415	2,003
CAD	Overdraft	< 1 year	4.25	2,695	1,625
USD	Overdraft	< 1 year	5.25	500	367
	Total				18,289
EUR	Bank loans	< 1 year	4.21	6,728	6,728
EUR	Bank loans	1–5 years	4.82	18,799	18,799
CAD	Bank loans	1–5 years	4.00	300	180
KRW	Bank loans	1–5 years	0.00	88,707	63
EUR	Bank loans	> 5 years	4.82	43,592	43,592
	Total				69,362
Total					87,651

The average interest rates were:

	Dec. 31, 2005	Dec. 31, 2004
	%	%
Overdrafts:		
Domestic	3.50	2.69
Foreign	4.21	6.47
Bank loans:		
Domestic up to one year	4.00	4.21
Domestic more than one and up to five years	4.71	4.82
Domestic more than five years	4.71	4.82
Foreign: more than one and up to five years	–	2.97

Fixed interest rates were agreed for bank loans of EUR'000 56,173 (2004: 69,119). The interest commitment for the individual loans lasts until October 31, 2009.

As collateral, land charges on works grounds have been issued in the amount of EUR'000 20,295.

As at December 31, 2005, the group had available loan facilities that had not been used.

(23) Trade payables and other non-current and current liabilities

Trade payables and other current liabilities comprise outstanding obligations from trade and running costs.

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

Supplementary disclosures

Financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange and interest rates and in prices of raw materials have effects on the net assets, financial position and results of operations of the company. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. In concluding hedges the management board of ElringKlinger has the objective of controlling the risk factors that may affect the net assets, financial situation and results of operations adversely and hence of minimising these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the management board. Hedging transactions are concluded only in order to secure existing underlying or planned transactions. Hedge accounting in the meaning of IAS 39 (revised 2000) is not applied.

Currency risk

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

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

Interest risk

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

Market price risk

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

Default risks

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

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

Derivative financial instruments

As at the balance sheet date, December 31, 2005, there were the following financial derivatives that serve exclusively to hedge risks arising from changes in interest rates and to smoothen fluctuations in the procurement prices for raw materials (nickel):

	Fair market value	Carrying value	Provision
	EUR'000	EUR'000	EUR'000
Interest-related derivatives			
Interest swap	-263	-263	263
Derivatives relating to raw materials			
Contingent forward transaction for nickel	11	11	-11
Accrual swap	-90	-90	90
Total	**-342**	**-342**	**342**

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

The positive market value of the nickel contingent forward transaction has been netted with the negative market value of the accrual swap, since the two transactions are closely connected commercially and hence constitute a unity for purposes of measurement.

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

Contingent liabilities

ElringKlinger AG has liabilities of EUR'000 320 (2004: 92) from the issue and transfer of bills. There are contingent liabilities of EUR'000 5,654 (2004: 84) in the ElringKlinger group from securities granted and contract performance guarantees.

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

The carrying value of the pledged properties was EUR'000 20,295 (2004: 29,791).

Operating leases

The expense includes payments from operating leases of EUR’000 2,734 (2004: 2,668).

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

	Dec. 31, 2005	Dec. 31, 2004
	EUR’000	EUR’000
Up to one year	1,485	1,533
More than one and up to five years	3,640	3,789
More than five years	597	633
Total	5,722	5,955

Number of employees

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

	2005	2004
Workers	2,021	2,112
Salaried staff	986	969
	3,007	3,081
Apprentices	72	64
Total	3,079	3,145

Personnel expenses

Personnel expenses in the reporting year were EUR’000 139,810 (2004: 138,085).

Events occurring after the balance sheet date

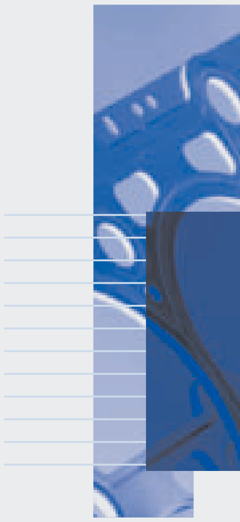
The management board of ElringKlinger AG released the consolidated financial statements for approval by the supervisory board on March 28, 2006.

Related party disclosures

Transactions between the parent company and its subsidiaries, that are related parties, were eliminated in the course of consolidation and are not described in these disclosures in the notes.

In addition, there are business relationships between companies in the Elring-Klinger Group and related persons or companies, that are controlled by related persons, as follows:

- Rental relationship between ElringKlinger AG and Klinger GmbH, Idstein (until December 31, 2005);
- Rental relationship between TECHNIK-PARK HELIPORT Kft., Kécskemét-Kádafalva (Hungary) and Lechler Kft, Kécskemét-Kádafalva (Hungary);
- Framework supply contract for EWP elastomers between Rich. Klinger Dichtungstechnik GmbH & Co. KG, Gumpoldskirchen (Austria) and ElringKlinger AG.



All the above business relationships are conducted at normal market terms and conditions (“at arm’s length”).

Corporate bodies

Supervisory board

Dr. Helmut Lerchner, Aichtal, Chairman	Corporate advisor Member of the supervisory board of Deutz AG, Cologne, and of the advisory board Südwest of Dresdner Bank AG, Stuttgart
Walter Herwarth Lechler, Stuttgart, Deputy Chairman	Managing shareholder Seats on the advisory/administrative boards of Lechler Inc., St. Charles/USA; Lechler Ltd., Sheffield/United Kingdom; Lechler India Pvt. Ltd., Thane, India; Lechler Kft, Kécskemét, Hungary; Lechler France S.A., Montreuil, France; Lechler AB, Hagfors, Sweden; Lechler SA, Wavre, Belgium; Lechler S.A., Madrid, Spain; and ETS-Elex (India) Pvt. Ltd., Thane, India
Gert Bauer, Reutlingen, Employee Representative	First commissioner of IG Metall Reutlingen, Tübingen Member of the supervisory board of Hugo Boss AG, Metzingen
Walter Greiner, Hohenstein, Employee Representative	Chairman of the works council of ElringKlinger AG
Dr. Rainer Hahn, Stuttgart	Former member of the management of Robert Bosch GmbH, Stuttgart Supervisory board seats at Robert Bosch GmbH, Stuttgart; Bosch Rexroth AG, Stuttgart; Rieter Holding AG, Winterthur, Switzerland; Shareholder committee seat with TÜV Süddeutschland Holding AG, Munich; and Member of the administrative board of TÜV Bayern Hessen Sachsen Südwest e.V.

Karl-Uwe van Husen, Waiblingen	Managing director
Dr. Thomas Klinger-Lohr, Egliswil/Switzerland	President of the board Dr. Klinger-Lohr is a member of the advisory or administrative board, as the case may be, of the following subsidiaries of Betal Netherland Holding B.V., Rotterdam, Netherlands, of which holding company he is also the managing director: Klinger Holding Plc., Sidcup, United Kingdom; Klinger Ltd., Bradford, United Kingdom; 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 Finnland OY, Masala, Finland; Thermoseal Inc., Sidney, USA, and Uni Klinger Ltd., Mumbai, India
Rolf Rauscher, Bad Urach, Employee Representative (until June 8, 2005)	Employee of ElringKlinger AG in the logistics department
Manfred Rupp, Pfullingen, Employee Representative (from June 8, 2005)	Member of the works council of ElringKlinger AG, who has been released from normal duties
Manfred Strauß, Stuttgart	Managing director Member of the advisory board in the Pro Stuttgart Verkehrsverein

Remuneration of the supervisory board

In the reporting year, the total remuneration of the supervisory board of Elring-Klinger AG was EUR'000 316 (2004: 206).

The remuneration of the supervisory board is allocated as follows:

	fix	variable*	Total
	EUR	EUR	EUR
Dr. Helmut Lerchner	36,000	28,200	64,200
Walter Herwarth Lechler	27,000	21,100	48,100
Gert Bauer	13,000	14,086	27,086
Walter Greiner	14,000	14,086	28,086
Karl-Uwe van Husen	18,000	14,086	32,086
Dr. Rainer Hahn	14,000	14,086	28,086
Dr. Thomas Klinger-Lohr	18,000	14,086	32,086
Rolf Rauscher	7,000	7,042	14,042
Manfred Rupp	7,000	7,042	14,042
Manfred Strauß	14,000	14,086	28,086
Total	**168,000**	**147,900**	**315,900**

*The variable remunerations represent the accrued expenses, based on preliminary EBT.

Management board

Dr. Stefan Wolf, Steinenbronn, Spokesman (since January 27, 2005)	responsible for the participations, the central divisions finance, controlling, law, human resources, investor relations, IT and public relations as well as the business divisions spare parts and industrial parks.
Horst Klusmann, Bad Boll (until December 31, 2005)	responsible for the business divisions cylinder head gaskets/central research & development, special gaskets, casings/modules/elastomer technology, shielding technology and the central divisions quality and environment, procurement and the Runkel factory
Theo Becker, Reutlingen-Rommelsbach (since January 1, 2006)	responsible for the business divisions cylinder head gaskets/central research & development, special gaskets, casings/modules/elastomer technology, shielding technology and the central divisions quality and environment, procurement and the Runkel factory

Karl Schmauder, Hülben (since January 27, 2005)	responsible for the distribution of original equipment and new business fields
Sebastian Merz, Reutlingen, Chairman (until January 27, 2005)	responsible for the participations, the central divisions finance, controlling, distribution of original equipment, law and human resources, investor relations, IT and public relations as well as the spare parts division

Remuneration of the management board

The remuneration of the management board in the financial year 2005 totalled EUR'000 2,585. It contains fixed (EUR'000 774) and variable (EUR'000 1,811) components. The variable components are made up of the remuneration of EUR'000 943 that is dependent on the results of the reporting year and long-term results-dependent bonuses EUR'000 868 relating to increases in company value.

The remuneration of the management board is allocated as follows:

	fixed components	components dependent on the results of the reporting year*	long-term results-dependent bonuses	total
	EUR	EUR	EUR	EUR
Dr. Stefan Wolf	260,503.85	327,204.00	329,162.00	916,869.85
Horst Klusmann	284,624.39	365,679.00	292,168.00	942,471.39
Karl Schmauder	197,197.02	196,323.00	246,872.00	640,392.02
Sebastian Merz	31,480.62	53,600.00	0.00	85,080.62
Total	**773,805.88**	**942,806.00**	**868,202.00**	**2,584,813.88**

*The variable remunerations represent the accrued expenses, based on preliminary EBT.

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

Provisions of EUR'000 7,058 have been set up for pension obligations to former members of the management board, the management of merged companies and their surviving dependants. The total remuneration of former members of the management board – including the remuneration of former members of corporate bodies of merged companies – came in the financial year 2005 to EUR'000 939.

The fees of the **auditor** were:

	2005 EUR'000	2004 EUR'000
Audit of the financial statements	230	312
Other confirmatory performances	3	2
Total	**233**	**314**

The amounts for 2004 also include fees for auditing the IFRS opening balance sheet as at January 1, 2004 and for the audit of the IFRS comparative values as at December 31, 2004.

Statement of compliance with the German Corporate Governance Code

The management board and the supervisory board issued on December 6, 2005 a declaration of compliance pursuant to § 161 AktG on the German Corporate Governance Code and published it on the internet site of ElringKlinger AG. This declaration of compliance will be accessible for the next 5 years and therewith has been made available to shareholders on a permanent basis. It will be published in the Annual Report as part of the Corporate Goverance Report.

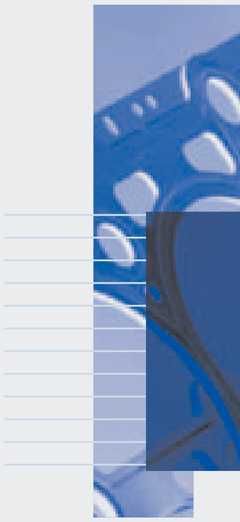
Dettingen/Erms, March 28, 2006

The Management Board

Dr. Stefan Wolf　　　Theo Becker　　　Karl Schmauder

Auditor's Report

We have audited the consolidated financial statements prepared by the ElringKlinger AG, Dettingen/Erms, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.



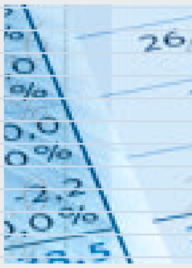
We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch: „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 28, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Burchards	Münz
Wirtschaftsprüfer	Wirtschaftsprüfer

On the road to success.

Glossary

Financials

Cash flow

A figure used to determine a company's financial strength and earnings power. It is calculated by taking the difference between cash inflows and outflows in the accounting period. Net cash from operating activities (also known as operating cash flow) is the cash surplus generated by operating activities over a certain period of time. Operating cash flow includes the net profit in the accounting period, the change in depreciation as well as the increase/decrease in long-term provisions.

Cash Flow Statement

The cash flow statement shows the calculation for the flow of funds generated or used by a company from ongoing operating, investment and financing activities in the financial year. In addition, cash on hand at the beginning of the financial year is reconciled with the amount at year-end. The cash flow statement helps determine the company's ability to generate cash and cash equivalents.

Corporate governance

Term for company management and monitoring procedures focused on adding value over the long-term.

Earnings per share

Earnings per share is used to evaluate a company's profitability. This figure is calculated by dividing earnings after taxes by the average number of shares outstanding.

EBIT

EBIT refers to a company's earnings before interest and taxes. This figure is commonly used to compare companies' earnings power. EBIT is the operating result before the financial result.

EBIT margin

The EBIT margin is a measure of a company's profitability over a specific time period. It is defined EBIT divided by sales revenues and is reported in percentage terms.

Free cash flow

Free cash flow represents the funds freely available to the company. This figure is calculated as follows: operating cash flow – surplus in cash and cash equivalents – investment expenditure – dividend payments.

Free float

Free float refers to a company's shares which are freely traded on the exchange and which are not firmly held by certain groups of investors. According to the definition of Deutsche Börse AG, share packages under 5% belong to the free float.

German Commercial Code (HGB)

Abbreviation for the German Commercial Code (HGB).

IFRS

IFRS is the abbreviation for International Financial Reporting Standards, formerly referred to as International Accounting Standards (IAS). These include accounting principles for capital market oriented companies and were made mandatory by the EU (European Union) starting in January 2005. In 2004, ElringKlinger AG transitioned its reporting from HGB to IFRS.

MDAX

The Mid Cap Dax (MDAX) is a German share index introduced in 1996. The index contains the 50 stocks that follow the market capitalization and trading volume of the 30 companies in the DAX (German Stock Index).

SDAX

The SDAX is comprised of the 50 companies that follow the 50 companies in the MDAX. The SDAX came into existence in 1999.

Technology

AdBlue

AdBlue is a fluid used to reduce nitrogen oxide (NO_x) exhaust emissions from vehicles. With the help of AdBlue, diesel commercial vehicles are able to convert poisonous nitrogen oxides in the exhaust to water vapor and elemental nitrogen (a natural component of air). From a chemical perspective, AdBlue is a highly-purified, clear, synthetically produced solution consisting of 32.5% urea. It is considered to be a key technology in achieving the stricter emissions standards of Euro 5 for commercial vehicles as well as the future US 07 Tier 2 and Euro 5 standards for passenger cars.

C-steel

C-steel (or carbon steel) refers to steel with a carbon content of more than 0.25 % and is used for such applications as the production of cylinder-head gaskets and heat shields.

Elastomer

Elastomers are fixed-form but elastically-malleable plastics. In the vehicle, these are used for applications such as engine or power train sealing. As such, elastomers must create a seal under various engine conditions – at temperatures of -25°C as well as at operating temperatures of 150°C, independent of the degree of sealing gap movements. ElringKlinger utilizes proprietary applications for its elastomer materials, which are then optimized to meet individual customer requirements. ElringKlinger’s specialization in high-performance materials underscores its system integration competence for sealing systems in the area of engines and gearboxes.

Finite-element method (FEM)

The finite-element method (FEM) is used in the calculation and graphical depiction of complex interactions in the engine, dependent on the respective sealing concept.

Fuel cell technology

Fuel cell technology has opened new doors for energy generation. Fuel cells enable chemical energy to be converted directly to highly-effective electricity with minimal harmful emissions.

Hybrid engine

In the automotive industry, the term hybrid engine refers to the combination of various engine types or energy sources; this includes, for instance, the combination of a diesel or gasoline internal combustion engine with one more electric motors. Depending on how they are used, hybrids can result in reduced emissions and lower fuel consumption.

Meander/Honey comb stoppers

New coining technologies provide engineers with various possibilities for influencing the distribution of pressure in the sealing gap. Aside from being cost-effective, metal layer cylinder-head gaskets with coined meander or honey comb stoppers provide other significant advantages. The meander stoppers in spring steel layers enable the optimal use of the geometric space provided by the engine. In the case of diesel engines, differing thickness upon installation is typically used to compensate for engine manufacturing tolerance, and the exact calibration occurs through variable supporting plate thickness. The coined stopper in the carrier layer has a honey comb, geometrical shape.

Metal-elastomer

Metal-elastomer gaskets are tailor-made, robust and long-lived sealing systems made from a metal core with vulcanized elastomer profiles.

Metaloflex®

Metaloflex® by ElringKlinger is an internationally recognized brand for innovative metal layer cylinder-head gaskets (CHG) made from beaded, elastomer-coated spring steel layers. Due to the modular construction element, this sealing system can be individually-tailored to specific engine demands.

Metaloseal®

Metaloseal® from ElringKlinger is a highly-effective sealing system based on elastomer-coated and uncoated metal carrier materials.

NO_x

Oxides of nitrogen or nitrogen oxide is a generic term for the gaseous oxides of nitrogen. These are also abbreviated as NO_x, as numerous nitrogen and oxygen connections exist due to the numerous levels of oxidation. In 1998, road traffic accounted for 45 percent of NO_x emissions in Germany. However, overall emissions in this segment have halved since 1980 and will continue to decline over the next ten years. There is a trade-off in engine technology between low fuel consumption and the reduction of NO_x emissions. Efficient engines have a high combustion temperature and thus produce more NO_x.

Shielding systems

Shielding systems are used in vehicle engines to protect temperature-sensitive engine parts. In light of increasing power density, higher temperatures inside the engine and increasingly scarce interior space in modern engines have placed high demands on shielding systems.

SOFC

SOFC stands for solid oxide fuel cell and refer to 'hot' fuel cells which function at operating temperatures of around 800°C. The hydrogen required for the cell can be extracted from gasoline or ethanol. SOFC maintains a high degree of overall efficiency.

Teflon (Polytetrafluorethylene)

Polytetrafluorethylene (PTFE), commonly known as teflon, is a thermoplastic fluoropolymer. Compared to other thermoplastic synthetics, PTFE maintains a unique position due to the special properties of its composition. In producing teflon, PTFE powder is pressed into blocks. In doing so, the incorporation of filler material (compounding) makes it possible to adapt the physical properties of PTFE to specific applications. The offsetting with filler material helps avoid the tendency to flow cold when under mechanical stress.

PTFE has the following advantages: PTFE shows no changes when it comes into contact with most chemicals, and it is non-reactive in conjunction with solvents and other aggressive chemicals. Its surface is so smooth and slippery that hardly any foreign substance can take hold of it. Moisture and UV radiation do not cause changes in volume, decomposition or brittleness. PTFE can withstand cold up to -200°C and is resistant to ongoing heat of up to +260°C.

Imprint

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Disclaimer Future-oriented Statements and Predictions

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

Calendar

Annual Press Conference (Stuttgart)	March 29, 2006
Analysts' Meeting (Frankfurt)	March 29, 2006
AMITEC Automotive Parts Trade Fair (Leipzig)	April 1–5, 2006
Interim Report on the 1st Quarter of 2006	May 11, 2006
SAE Automotive Supplier Symposium (Tokyo)	May 24–26, 2006
101st Annual General Shareholder Meeting Liederhalle Cultural and Congress Centre Stuttgart, Hegelsaal, 10:00 CET	June 1, 2006
Dividend distribution	June 2, 2006
European Mid Cap Conference (London)	June 6–7, 2006
Interim Report on the 2nd Quarter of 2006	August 10, 2006
Automechanika (Frankfurt)	September 12–17, 2006
International Supplier Fair (IZB) (Wolfsburg)	October 11–13, 2006
Interim report on the 3rd Quarter of 2006	November 9, 2006
SAE Automotive Supplier Symposium (São Paulo, Brazil)	November 21–23, 2006
German Equity Forum (Frankfurt)	November 27–29, 2006
102nd Annual General Shareholder Meeting Liederhalle Cultural and Congress Centre Stuttgart, Hegelsaal, 10:00 CET	May 25, 2007

We would be pleased to e-mail you our interim reports as a PDF file.
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