

Experience mobility

ElringKlinger AG Annual Report

2003



elringklinger 

Corporate statistics

	2003	2002	2001	2000	1999
	€ millions	€ millions	€ millions	€ millions	€ millions
Net sales	416.8	392.5	367.3	311.9	266.6
Costs of materials	154.1	153.1	139.8	115.5	91.3
Personnel costs	131.7	123.9	116.4	104.1	90.0
Depreciation allowances	42.6	41.0	36.8	32.3	28.8
Other expenses/income	37.9	38.5	39.8	34.6	32.4
Pretax income from ordinary activities	50.5	36.0	34.5	25.4	24.1
Taxes on income	23.0	15.5	15.4	15.5	13.1
Net income	27.2	20.2	18.9	9.4	10.8
Fixed assets	202.9	191.6	210.9	199.1	177.8
Current assets	140.3	129.7	121.2	121.7	104.1
Shareholders' equity	113.2	105.9	98.1	78.9	74.5
Reserves	73.2	71.3	61.7	59.9	49.9
Liabilities	156.8	144.1	172.3	182.0	157.5
Total balance sheet assets	343.2	321.3	332.1	320.8	281.9
Net return on total invested capital in %	9.9	8.3	8.7	6.6	6.8
Net return on equity in %	24.8	19.9	22.7	12.7	16.1
Investments in fixed assets	45.1	31.8	38.9	48.9	30.5
DVFA cash flow	68.3	57.5	53.8	47.4	38.0
Dividend distributions for the fiscal year	14.4 ¹	12.0	6.0	4.9	3.0
Total number of shares outstanding in millions	4.8	4.8	4.8	4.8	4.8
Per-share dividend in €	3.00 ¹	2.50	1.25	1.02	0.61
DVFA pretax income	46.2	29.5	28.9	26.4	21.5
DVFA net income	26.8	16.7	16.0	14.8	9.3
Market capitalization at the close of the fiscal year	364.8	144.2	100.8	129.6	103.2
Total no. of employees at the close of the fiscal year	3,143	3,005	2,860	2,631	2,182

¹ Proposed dividend to be submitted for approval at the forthcoming annual general stockholders' meeting.



ElringKlinger sales: 10 years of growth



The press and banks on the ElringKlinger stock

Reuters, November 18, 2003

[ElringKlinger, new to the SDax, wants to increase dividends](#)

The automotive supplier ElringKlinger, recently listed in the German small caps index SDax, once again wants to increase its dividends for the current year and feels immune to takeover....

Frankfurter Allgemeine Zeitung, November 15, 2003

[Into the SDax with gaskets](#)

... The analysts of Independent Research recommend to buy the stock.... Thanks to investments in new technologies, ElringKlinger sees plenty of potential for the future....

Stuttgarter Zeitung, October 4, 2003

[A largely unknown stock market star from Dettingen](#)

... With an increase in value of more than 100 percent in just nine months, the stock of the Swabian automotive supplier ElringKlinger is one of the pearls on the stock market....

Wirtschaftswoche, February 13, 2003

[Dividends with gaskets](#)

... The company has profited in particular from the high growth rates in the Diesel engine sector, where ElringKlinger controls four fifths of the European market....

ABN AMRO, January 22, 2004

[ElringKlinger – buy](#)

... ElringKlinger remains undervalued against its high-margin European peers despite the shares' strong rise last year.... The company has a well-established and successful structure in its core gasket business. It has sensibly sought to expand from this foundation, moving into related areas, where cross-selling opportunities arise.... The company is able to maintain its position and profitability by being at once a technological, technical and cost leader in its markets....

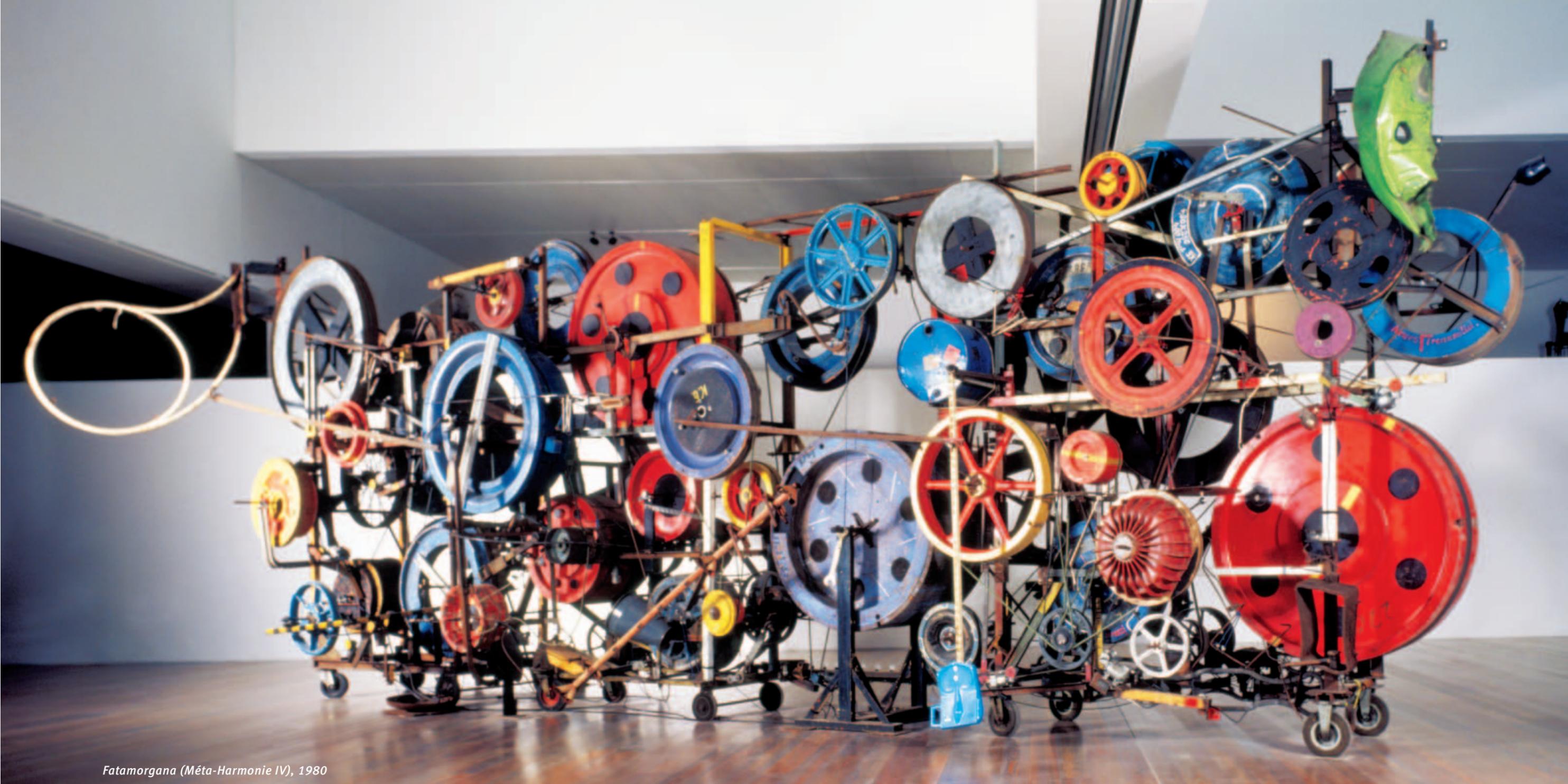
Berenberg Bank, June 11, 2003

[ElringKlinger AG: buy](#)

Solid engine of growth with innovative gaskets
Technology leader with tight focus: worldwide leader (35% European share; 18% worldwide; 60% diesels) in demanding field of gaskets with best-in-class, patent-protected technology. Tight focus driving innovation, high quality service and flexibility.... Growth: 50% plus earnings growth despite weak car markets. 90% share price potential & attractive dividend yield of 6.4%. Significant undervaluation indicated by all valuation methods....

“Everything moves, nothing stands still.”

Jean Tinguely



Fatamorgana (Méta-Harmonie IV), 1980

The Swiss artist Jean Tinguely – *1925, Freiburg (Switzerland), † 1991, Berne – was the main exponent of the art of kinetic sculpture in the 20th Century. The works that made him famous include the Fasnachtsbrunnen fountain in Basle, the Stravinsky fountain in Paris, designed in collaboration with his partner Niki de Saint Phalle, and the walk-around head sculpture on the outskirts of Paris.

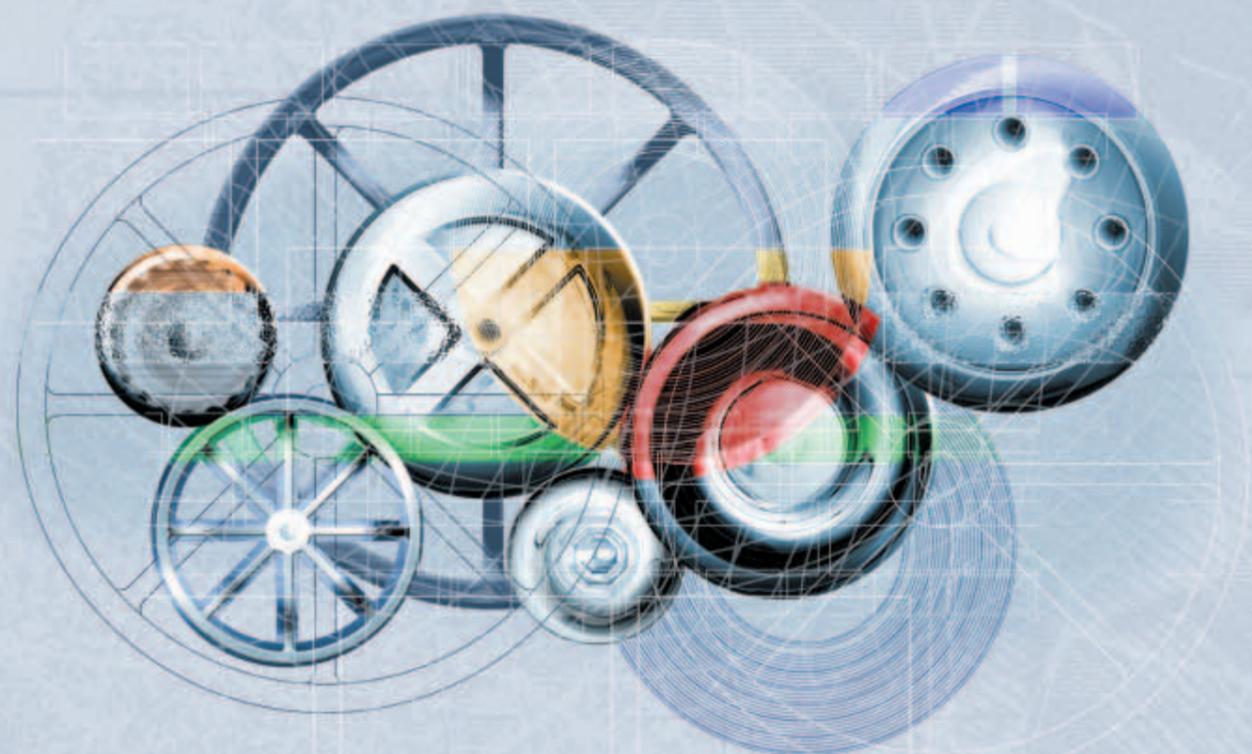
The principle of movement was key to the art of Jean Tinguely. From machines, used engines, scrap metal and random items from modern life, the inventor, designer and visionary created moving, noise-emitting machine sculptures that are both creative and playful, as well as conveying more profound messages. Tinguely's work aims to arouse curiosity and wonder, and to communicate insights into the underlying sense and senselessness of machines.

When confronted by Tinguely's art, viewers are surprised and encouraged to reassess their own relationship with technology.

Art that moves – and so does ElringKlinger, because we, in collaboration with our customers, drive forward technical innovations, in an untiring spirit of invention and with a sense of profound responsibility, in order to deliver even more intelligent, more efficient and more environmentally friendly individual mobility for the future.

*“The movement of states, the movement of social structures,
will irrefutably bring change ...”*

Jean Tinguely



ElringKlinger is the world's leading specialist, development partner and system supplier in the field of cylinder-head gaskets and special-purpose gaskets, housing modules and shielding parts for the powertrain and exhaust systems. We are the world's only independent gasket manufacturer, supplying virtually all the world's major automobile producers as well as international spare parts markets. Our core skills and technological innovation are carefully targeted: to achieve environmentally compatible mobility and sustainable, profitable growth.

Disclaimer

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ElringKlinger AG	<i>Page</i>
<i>Foreword by the Chairman of the Management Board</i>	8 – 11
<i>Report by the Supervisory Board</i>	14 – 17
<i>ElringKlinger on the Capital Market</i>	20 – 23
Management Report for ElringKlinger AG and the ElringKlinger Group for the Fiscal Year 2003	
<i>Economic Trend</i>	26 – 27
<i>Automotive Markets</i>	28 – 31
<i>Strategic Position of the Group</i>	32 – 37
<i>Subsidiaries and Affiliates</i>	40 – 41
<i>Research and Development</i>	44 – 47
<i>Capital Investments</i>	48 – 49
<i>Purchasing Operations</i>	50 – 51
<i>Employees</i>	52 – 55
<i>Development of Sales Revenue and Earnings, Balance Sheet</i>	58 – 63
<i>Risk Report</i>	64 – 66
<i>Outlook for 2004</i>	67
Corporate Governance Report	
<i>Corporate Governance Code</i>	70 – 71
<i>Corporate Officers</i>	72
<i>Company Stock Held by Corporate Officers</i>	73
Annual Financial Statements of ElringKlinger AG and Group Consolidated Financial Statements	
<i>Balance Sheet of ElringKlinger AG</i>	76
<i>Income Statement of ElringKlinger AG</i>	77
<i>Consolidated Balance Sheet</i>	78
<i>Consolidated Income Statement of the ElringKlinger Group</i>	79
<i>Notes to the Financial Statements of AG and to the Consolidated Financial Statements of ElringKlinger Group</i>	80 – 103
<i>Changes in the ElringKlinger Group's Equity Capitalization</i>	104 – 105
<i>Consolidated Statement of Changes in Financial Position</i>	106
<i>Report on Individual Market Segments</i>	107 – 109
Independent Auditor's Report	110 – 111

“Gradually I began to see movement as an autonomous means of expression. Movement made it possible to create things that had never existed in sculpture before.”

Jean Tinguely, 1988



La dernière Bascule, 1991

Foreword by the Chairman of the Management Board



Dr. Helmut Lerchner,
Chairman of the Management Board

Dear stockholders and friends of ElringKlinger,

We are once again able to report gratifying success for ElringKlinger in 2003, despite the difficulties the year has brought.

Economic conditions were not favorable. The Iraq war dashed hopes of an upturn. The SARS epidemic held back growth in Asia. The lack of structural change hindering the development of a dynamic, flexible European economy remained largely unaddressed. Efforts by individual governments to introduce reforms, in Germany in particular, did not go beyond a few half-hearted policy initiatives.

ElringKlinger nonetheless made good progress once again. Over 100 new products were put into production. Two thirds of the growth in sales revenue was generated by new product startups in 2003. The longstanding strong growth in the diesel powered automobile segment in Europe continued, with a further 6% rise. This is a key factor in ensuring growth for ElringKlinger, as we have above-average market penetration in the technically difficult diesel segment. In our business in the USA, too, we profited from our involvement in the manufacture of high-selling vehicles. Consequently, despite weak economic conditions, in the first half of 2003 ElringKlinger's production capacities were utilized to their limit. By increasing volumes we were able largely to compensate for the impact on earnings of price reductions which were again necessary in 2003.

The shortfall was made up by rationalization and by turnaround successes at two overseas subsidiaries, so that the earning power of ElringKlinger increased once again.

We were also pleased, as I am sure were you, to see the substantial increase in the market capitalization of ElringKlinger in 2003. The stock price rose by 162% in the course of the year, boosted by the previous year's healthy earnings and the subsequent doubling of the dividend to €2.50 per share announced in the Spring. In the further course of the year we held numerous corporate presentations to institutional investors in the UK, Germany, France, Italy, Belgium and the Netherlands, demonstrating the attractive investment potential offered by ElringKlinger. The resulting demand led to the gratifying increase in our

stock price. In line with this development, the percentage of free-floating stock has increased to just under 35%. That was one of the major reasons, too, for the improvement in stock liquidity – a key factor for investors – which increased many times over in the course of the year. Consequently, after a long wait, 2003 was the year in which the stock market finally “discovered” the much-cited “pearl” that is ElringKlinger. In November ElringKlinger was listed on the SDAX index.

At the beginning of 2004 there were renewed hopes of an economic upturn. We do not place our trust in such hopes, however, but in our ability to achieve profitable growth even in tough market conditions, based on innovation and development of market share. Results from the early months of 2004 are encouraging.

We would like to thank you, our stockholders and friends of the Company, for your trust and confidence in the work we have done in 2003. We would also like to take this opportunity once again to thank our employees for their outstanding efforts. We will, all together, be fully committed to ensuring the continued success of ElringKlinger in 2004.

This year's Annual Report has a new look. We have entered into something of a symbiotic relationship with the well-known artist Jean Tinguely, whose works and public statements provide an artistic embodiment of much of what ElringKlinger's ethos represents. His mechanical sculptures are primarily a feast for the senses, though on closer inspection they are seen to be symbolic of the ultimate aims

and limitations of technology, which constantly need to be taken into consideration when assessing our own actions. It would not have been possible to produce this Annual Report without the assistance of the Tinguely Museum in Basle, Switzerland, and our thanks go to them most especially.

I hope you will find much to interest and please you in this report.

Sincerely yours,

Dr. Helmut Lerchner

“Technology is certainly not senseless ‘in itself’.

But we have not yet learned enough to make sense of it

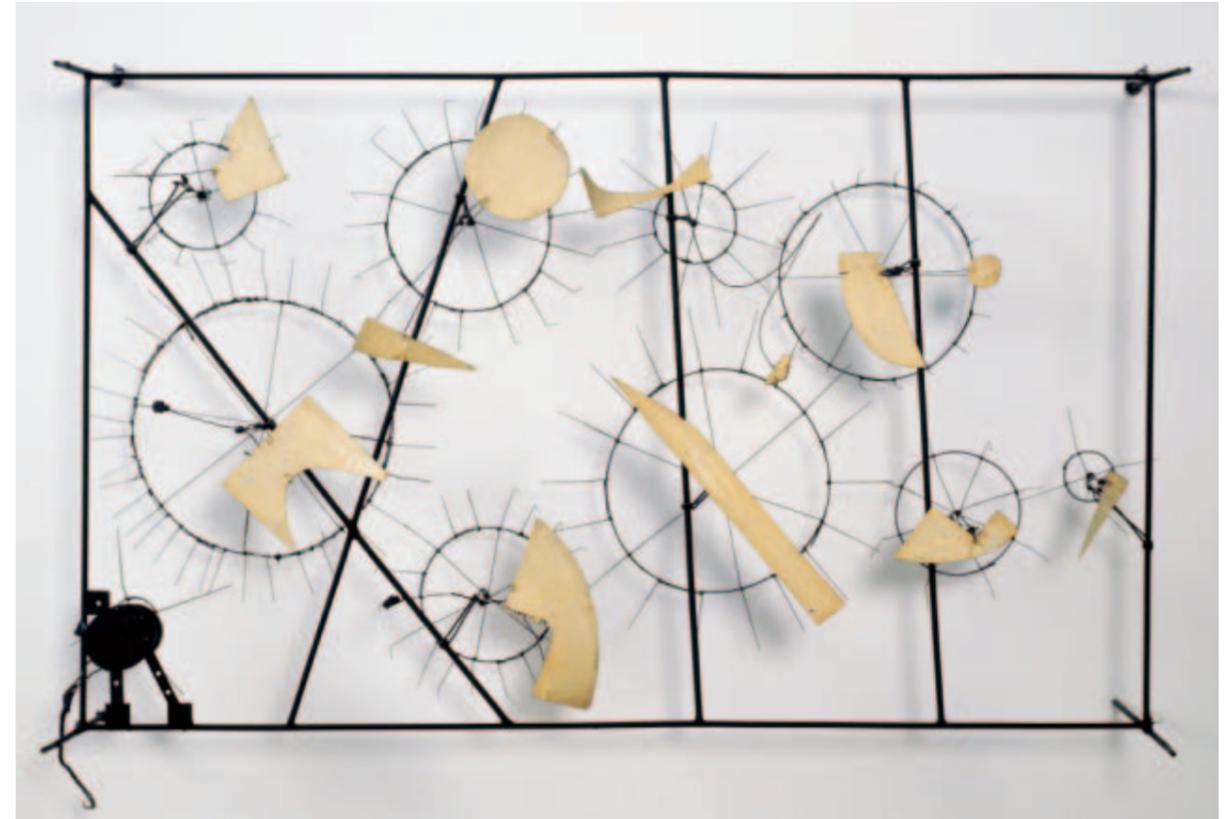
in how we use it. We are merely at its beginnings,

and even those beginnings have something gigantic,

something fantastical, about them, that confuses

many people.”

Jean Tinguely, 1967



Elément Détaché I, 1954

Report by the Supervisory Board



Karl Uwe van Husen,
Chairman of the Supervisory Board

Dear stockholders, ladies and gentlemen:

The Supervisory Board of ElringKlinger AG held four scheduled meetings during the fiscal year 2003. At those meetings, and in numerous one-to-one discussions with the Chairman and individual members of the Supervisory Board, the Management Board provided detailed and comprehensive verbal reports on all matters of fundamental significance to the Company. In preparation for the meetings of the Supervisory Board, thoroughly researched and soundly based written documentation was produced. The Management Board also submitted detailed monthly written reports to the Supervisory Board on the progress of business, including updated forecasts. This enabled the Supervisory Board to obtain and maintain an accurate picture of the Company's economic position throughout the course of the year under review.

The work of the Management Board was monitored in line with legal requirements.

In the year under review the members of the Supervisory Board were Gert Bauer (employee representative), Walter Greiner (employee representative), Dr. Rainer Hahn, Karl Uwe van Husen, Dr. Thomas Klinger-Lohr, Walter Herwarth Lechler, Rolf Rauscher (employee representative), Helmut Ritzer and Manfred Strauß. The Chairman of the Supervisory Board was Karl Uwe van Husen; the Deputy Chairman was Walter Herwarth Lechler.

As in previous years, in 2003 the Supervisory Board once again supervised matters relating to Management Board personnel by means of a Personnel Committee. In line with the requirements of the German Corporate Governance Code, the Chairman of the Personnel Committee was the Chairman of the Supervisory

Board, Karl Uwe van Husen. Other members of the Personnel Committee were Walter Herwarth Lechler and Dr. Thomas Klinger-Lohr. The committee met six times in the period under review, dealing with issues of remuneration as well as Management Board appointments.

In the year under review the Supervisory Board also devoted its attentions to ensuring the fullest possible compliance with the recommendations of the German Corporate Governance Commission. In December 2003 the Declaration of Conformity issued in the previous year was updated to incorporate the latest issue of the Code. The small number of recommendations not implemented by ElringKlinger AG relate merely to special circumstances connected with the size of the Company and relevant cost/benefit considerations. They do not impair the overall transparency of the Company.

Details concerning the exclusions are given in the Corporate Governance Report of ElringKlinger AG contained in this Annual Report.

The 2003 annual financial statements of ElringKlinger AG, the consolidated financial statements of the Group, the combined Group and Parent Company status report and the accounts of all major companies forming part of the Group were audited by the auditors elected at the 98th Annual General Meeting of ElringKlinger AG held on June 5, 2003, namely KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft (Stuttgart office), and by KPMG offices outside Germany, and were approved without reservation.

The full consolidated financial statements, the proposals regarding appropriation of retained earnings put forth by the Management Board and the auditors' reports were presented to the Supervisory Board. The financial

statements and the reports were discussed by the Supervisory Board in the presence of the auditors and the Management Board at the meeting of the Supervisory Board held on March 26, 2004. At that meeting the Supervisory Board also had the opportunity to question the auditors on matters relating to their audit report without the Management Board present. No objections were raised to the findings presented in the audit report.

At its meeting on March 26, 2004 the Supervisory Board subsequently approved the annual financial statements for 2003 of ElringKlinger AG and the 2003 consolidated financial statements of the Group. It also approved the proposal on appropriation of retained earnings put forth by the Management Board.

Even in a difficult fiscal year such as 2003, the ElringKlinger Group has again made pleasing progress.

The Supervisory Board would like to thank the Management Board and all the employees of the ElringKlinger Group for their successful efforts in 2003.

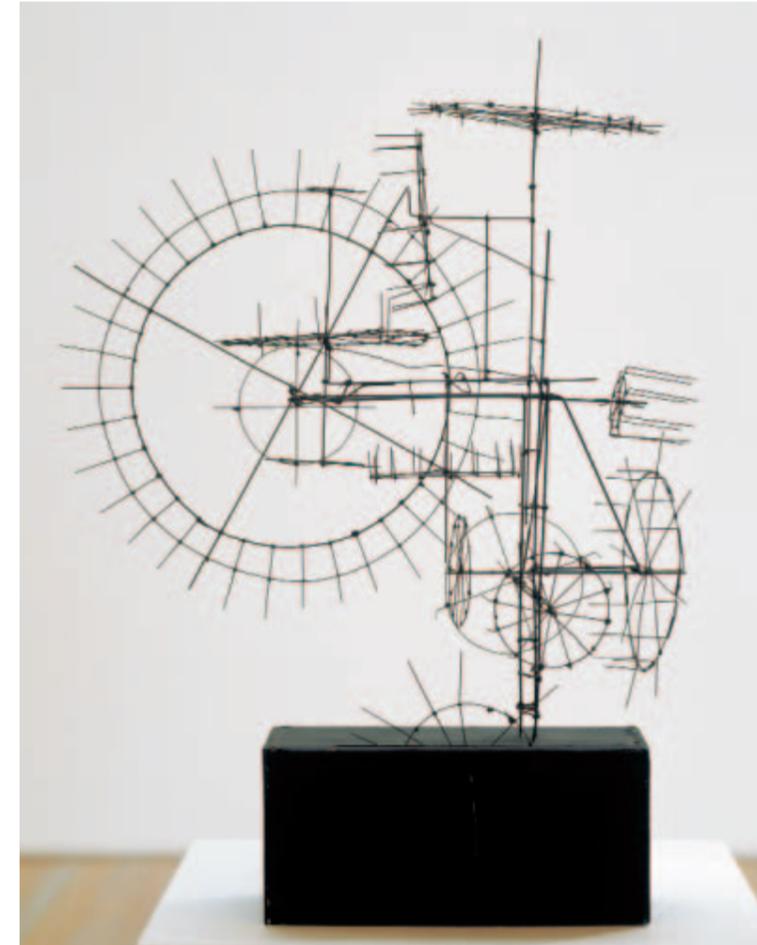
Dettingen/Erms, Germany, March 29, 2004

The Supervisory Board

Karl Uwe van Husen
Chairman of the Supervisory Board

“Movement is so natural and so powerful that it represents a fundamental dynamism. And we have a general sense that machines should be in motion ...”

Jean Tinguely, 1965



Moulin à prière IV, 1954

ElringKlinger on the Capital Market

In 2003 ElringKlinger was able to greatly strengthen its position on the capital market. The Company's market capitalization was significantly increased. The stock price rose by 162% over the course of the year. By year end the Company had a market value of €364.8 million. The share was listed on the SDAX index on November 13, 2003.

Positive reports as to the development of business on presentation of the 2002 annual financial statements, very high levels of

capacity utilization in the first half of the year and, especially, the announcement of a doubling of the dividend for FY 2002 from the previous year's €1.25 to €2.50 per share attracted sustained investor interest. Based on the stock price in April 2003, the announced dividend represented a pre-tax return of over 8% – an outstandingly attractive level of performance in a period of low interest rates. By the Annual General Meeting on June 5, 2003 the stock price had risen 65% against its year opening level, to €49.50.

As in previous years, the Company maintained close contacts with capital market investors and analysts at a number of major presentations as well as in numerous one-to-one discussions during 2003. On February 6, 2003 ElringKlinger held a presentation to some 200 wealthy private investors at an event organized by the Baden-Württemberg Small Caps (BWSC) regional stockholders' association in Stuttgart. On the occasion of the IAA international motor show in Frankfurt in September 2003 ElringKlinger held an information event for analysts, bankers and investment fund managers. Some 80 financial experts and investment managers attended the event, and were greatly interested by what they saw and

heard. At the end of September ElringKlinger held a successful Small and Mid Cap conference in Frankfurt, presenting the Company to a large audience from the German Financial Analysts' Association (DVFA). In November 2003 ElringKlinger made a corporate presentation to the Equity Forum held by Deutsche Börse AG in Frankfurt attended by over 2000 financial analysts, fund managers and investors from all over the world.

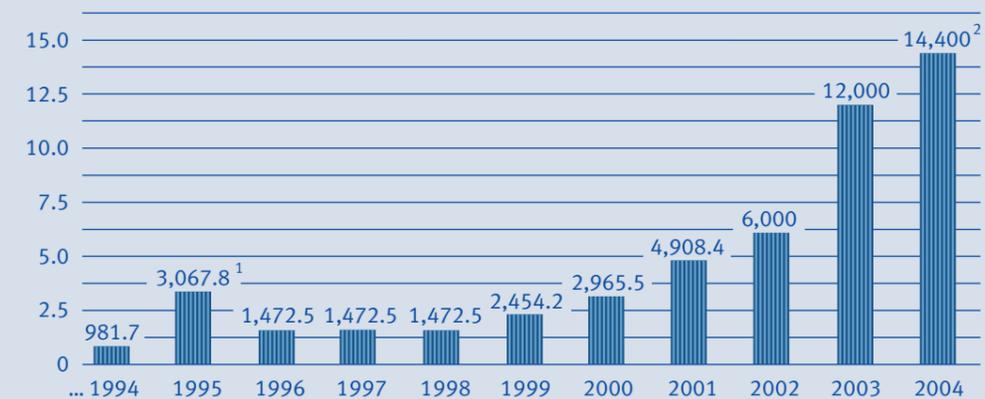
In collaboration with one of Germany's longstanding private banking institutions with a major brokerage arm, a first comprehensive capital market study of ElringKlinger was compiled and distributed to large numbers of potential institutional investors.

Development of Stock Price from January 1, 2003, Relative to Index
ElringKlinger Stock (Frankfurt Stock Exchange); DAX



Development of Dividend

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



¹ Including special bonus in connection with merger of Elring GmbH and Rich. Klinger GmbH

² Proposal to 2004 AGM

Taking the study as a base, ElringKlinger, together with its bankers, was able to present the Company to numerous Small and Mid Cap fund managers in intensive one-to-one discussions aimed at persuading them to invest in ElringKlinger stock. The response was highly positive. The fact that the Company's market capitalization had to date undervalued its true worth was immediately recognized by the professional investors. The resultant demand for ElringKlinger stock led to a further increase in the stock price to over €80.00 in the course of the year, finally closing the year at €76.00.

In view of this trend, the major stockholders in ElringKlinger were willing to dispose of some of their stock in order to enhance the liquidity required to attract institutional

investors. At the reporting date free-floating stock represented 36% of the total ElringKlinger capital stock. Stock turnover multiplied many times over in the course of 2003. Stock liquidity now fully meets the market requirements of institutional and private investors. This was a key prerequisite for ElringKlinger's listing on the SDAX index in November 2003.

Since then other banks, including globally operating institutions, have included the ElringKlinger stock in their capital market reports, making it even better known across a wider potential investor base. Numerous European funds currently hold ElringKlinger stock, and there has even been interest from US investors.

In June 2003, at a Paris event hosted jointly by the trade journal Automotive News Europe

and accountants PricewaterhouseCoopers, ElringKlinger was presented with the Shareholder Value Award 2003 for the best stock performance in the past year by any listed European automotive components supplier.

The positive trend in the performance of ElringKlinger stock was sustained in 2004 through to the reporting date.

ElringKlinger has now attained a level of recognition on the capital market in line with the standing of the Company. The stock, at €85.00, is still somewhat undervalued in view of the other key indicators. There remains further potential for upward movement in the stock price relative to the market valuations of comparable companies.

ElringKlinger will continue to keep the capital market informed in a timely and professional manner of trends in the Company's business by means of quarterly reports and its Annual Report, as well as on the basis of intensive public relations activities and personal contact with investors.

The Management Board and Supervisory Board will propose to the Annual General Meeting on June 2, 2004 that the dividend be increased from €2.50 to €3.00 per share, thereby providing an attractive pre-tax dividend return, even at the higher stock price level, of 3.5% (referred to a price of €85.00 per share). Consequently, the ElringKlinger stock remains an attractive investment both in terms of potential for further capital growth and in terms of dividend return.

Key Figures for ElringKlinger AG

	2003	2002
Market capitalization at December 31 in € millions	364.8	144.2
Price/earnings ratio at December 31	13.7	4.6
High/low market quotations for the year in €	80.00/28.10	31.50/20.00
ElringKlinger AG per-share net earnings in €	5.53	6.57
ElringKlinger Group per-share net earnings in €	5.66	4.22
DVFA per-share net earnings in €	5.58	3.49
Per-share annual dividend in € (2003: proposal to AGM)	3.00	2.50

Data on ElringKlinger's Stock

ISIN / WKN	DE 0007856023 / 785 602
Trading	Frankfurt and Stuttgart Stock Exchanges SDAX since November 13, 2003
Total number of shares outstanding	4,800,000 all registered shares
Equity capitalization at par value	€28,800,000
Stockholders:	
Klaus Lechler family, Stuttgart	30.87%
Walter Herwarth Lechler family, Stuttgart	25.30%
Betal Netherland Holding B.V., Rotterdam, The Netherlands	8.00%
Free float	35.83%

“My machines are not intended to work entirely without friction, but to reveal themselves in a strong, musical cacophony of sound. The noise is a part of the machine that I attempt to incorporate in the design in just the same way as its physical form.”

Jean Tinguely, 1965



Untitled (Bing Bing), Char, around 1966

Management Report for ElringKlinger AG and the ElringKlinger Group for the Fiscal Year 2003

Economic Trend

The economic trend varied throughout the world's major economic regions in 2003: in Europe, and in Germany in particular, it was very weak; in North America it was better, based on higher levels of government spending; in South America, Russia and China it was healthy. Japan managed to turn around its economic recession of previous years. Global economic growth in 2003 was 3.4%. Growth in the member states of the EU overall was a modest 0.3%. The weakest growth was recorded in Germany (-0.1%), where GDP declined for the first time since 1993. In the USA growth was 3%, and in Japan 2.7%.

The global economy was overshadowed in the first half of the year by the Iraq war and by the SARS epidemic in Asia and Canada. Both of those events impacted heavily on economic development. The uncertainty of the political and military situation, and the fear of a spread of the epidemic, resulted in a general reluctance to invest and buy among businesses and consumers worldwide. Increasing crude oil prices imposed higher energy costs on businesses and household budgets. In Europe, and in Germany in particular, consumer uncertainty was heightened by the expectation of additional financial burdens resulting from upcoming reforms to the social security system. The economy only began to show slight signs of

recovery toward the end of the year. In the USA business investment was very sluggish in the first half of 2003. Growth in consumer demand in the first half of the year was well down on the previous year's level. Government spending increased owing to the war. The relatively swift end to hostilities in Iraq gave the US economy a rapid boost in the second half of the year, and it entered a period of strong growth. In Asia, too, economic activity quickly recovered to its world-leading growth rates following the containment of the SARS epidemic.

A key factor dictating the varying economic trends in the USA, Asia and Europe in 2003 was the sustained rise in value of the Euro relative to the US Dollar. Except for a period of adjustment in September, the Euro rose steadily against the US Dollar to close around 17.5% up on the year, and 30% up on its level at the beginning of 2002. The impact on the compet-

itiveness of European companies relative to those operating in Dollars, and their resultant drop in earnings, dampened economic progress in Europe and boosted growth in the Dollar zone.

ElringKlinger's business was affected by the weak economic development in Europe, where most of its sales are generated. The rise in value of the Euro against the US Dollar impacted on earnings, despite the Company's cautious use of currency hedging. ElringKlinger was, however, able to profit from the favorable economic trend in Asia, particularly in China.

For 2004, based on a consolidation of the political and military situation and taking into account the global economic cycle, the forecast is for a recovery in economic trends, with growth rates of 4.1% worldwide, 1.8% in the EU and 3.8% in the USA.

Automotive Markets

Economic conditions meant that 2003 was mainly a weak year for the global automotive industry. The situation in Europe and North America was marked by falling sales and a collapse in prices. New car registrations in Europe declined by 1.3% against the previous year to 14.2 million units. In Germany they fell for the fourth year in a row, this time by 0.5% to 3.2 million units. In the NAFTA zone new car and SUV registrations fell by 1% against the previous year to 16.7 million units. The only region to see a positive trend was Asia. Vehicle sales in Japan increased by 0.6% against the previous year to 5.8 million units,

while in China they rose by a sensational 85% to 1.97 million units, marking China's breakthrough as one of the world's major automotive markets.

Car production – the key factor in terms of ElringKlinger's business – declined even more than sales levels in 2003, as the automotive industry looked to cut its stock levels. In Europe car production declined against the previous year by 1.4% to 14.7 million units. In the NAFTA zone car and SUV production of just under 16.3 million units was 3% down against the previous year. In China the trend in car production was in line with sales volumes.

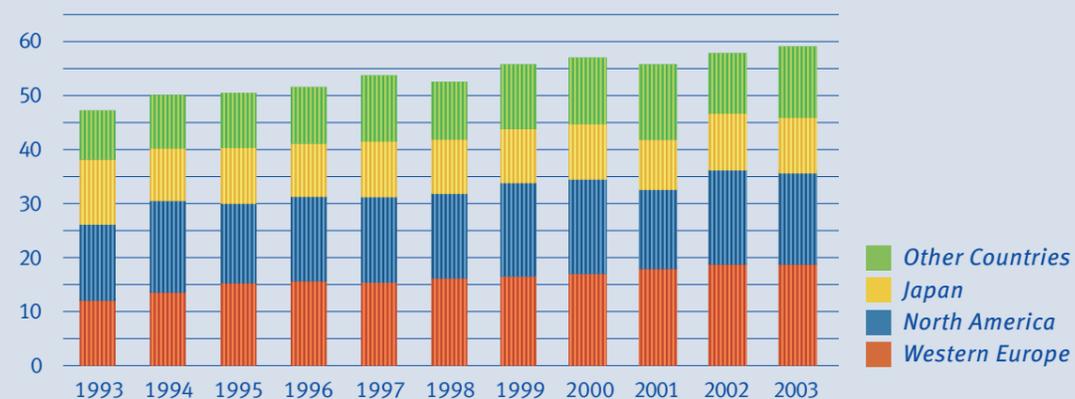
The more differentiated range of products on offer is likely to stabilize the trend in vehicle demand, making it less dependent, in the largely saturated markets of Europe and North America, on the previous cycles based on the ageing of existing vehicles. For the vehicle manufacturers, the coverage of all market segments and the creation of new vehicle types, in conjunction with frequent model updates, are becoming increasingly the key to success.

However, demand for ElringKlinger products is dictated not by the types of vehicle but by the powertrain systems fitted in them. The vehicle manufacturers generally fit their existing engines across a range of different models. This is beneficial to ElringKlinger, as demand for engine components is based on a broader range of models as a result, and is less dependent on the success or failure of individual models.

On the generally declining vehicle market in Europe and in the USA, ElringKlinger's main selling territories, 2003 saw interesting shifts in volumes of vehicle sales in the various price classes and segments. In Germany, for example, sales of conventional mid-range limousines were down 8% against the previous year. Compacts were down 1%. Moreover, the weak demand in those price classes was focused on vehicles in the lower price range. Conversely, sales of luxury-class limousines, sports cars, vans, minivans, SUVs and convertibles achieved growth rates of between 9% and 50%. This trend demonstrates the existing purchasing power – and selectiveness – of buyers in the upper price segment of the market. Demand needs to be stimulated by offering a multi-faceted range of lifestyle products. Vehicle manufacturers offering the right product choices were able to succeed in spite of market weaknesses – both in Germany and in the other European markets, as well as in North America.

World Automobile Production

millions of vehicles

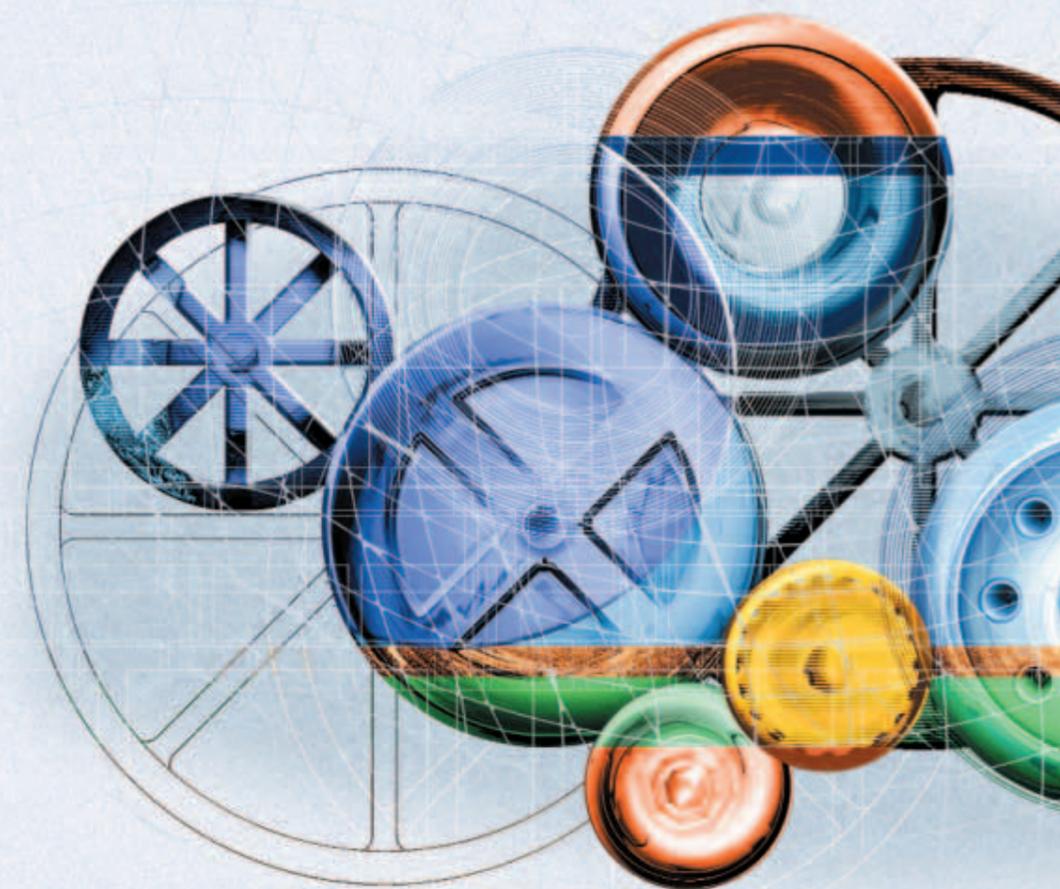


The Diesel segment was again important in 2003. In Europe, where the market declined 1.3%, registrations of Diesel vehicles were up 6% on the previous year. Two of ElringKlinger's main customers now fit more than 50% of their total car production with Diesel engines. The proportion of Diesel powered vehicles in total European sales surpassed 40% in 2003. The high and still rising Diesel fit rates, in conjunction with ElringKlinger's disproportionately high market share in that segment, were among the key factors driving growth and earnings in 2003.

Unit sales of commercial vehicles are even more closely tied to economic trends than sales of cars. In 2003 registrations of new light commercial vehicles in Europe declined

against the previous year by just under 3%. Sales of commercial vehicles between 6 and 16 tonnes GVWR fell by 10%, while sales of heavy commercial vehicles over 16 tonnes GVWR fell by 1%. In the NAFTA zone unit sales of commercial vehicles of all classes fell by 1%.

ElringKlinger's sales of commercial vehicle components worldwide are primarily to German and Swedish manufacturers. Owing to the success of those customers on international markets, production of mid-weight and heavy trucks in 2003 rose by 3% in Germany and by 11% in Sweden. Overall Western European commercial vehicle production in 2003 increased slightly against the previous year, by 1%, based on strong exports. This was a positive development for ElringKlinger.



Strategic Position of the Group

The products and services of the ElringKlinger Group – gaskets, in particular cylinder-head gaskets, shielding parts, plastic housing components, PTFE products and test bench services – are key elements in the design and manufacture of low-consumption, low-emission combustion engines. The functionality of ElringKlinger's core products – cylinder-head gaskets – is in many cases the decisive factor determining technical progress in terms of energy use and minimization of emissions in engine design. ElringKlinger special-purpose gaskets provide reliable sealing of all media used in combustion engines, such as gases, oils and coolants, and are essential to reliable operation and prevention of pollution. ElringKlinger shielding parts enable vehicle designers to fit engine components and accessories in the engine compartment in highly compact configurations, aimed at minimizing vehicles' functional areas and maximizing their useful

areas. ElringKlinger plastic housing modules help save weight and cut noise emission. ElringKlinger PTFE gaskets and moldings play a key role wherever high temperatures, resistance to media and dry sliding characteristics are required. ElringKlinger's expertise in test bench services, testing and instrumentation technology delivers time benefits and frees up additional engineering capacity for faster implementation of innovations. ElringKlinger products are key functional elements of vehicle powertrains. The Company's expertise aids the development of resource-conserving, environmentally friendly vehicles and drive components, which are the essential prerequisites in the efforts to achieve one of society's major aims: to provide sustainable, environmentally compatible, individual mobility. Consequently, ElringKlinger's business is firmly rooted in future-proof markets.

The ElringKlinger Group aims to achieve continuous, profitable – and preferably organic – growth by increasing sales revenue based on the development of new products and the opening up of new selling markets.

Founded on its core expertise in static flat gaskets, ElringKlinger is continuously expanding its range of products and services in line with a carefully mapped plan. The product strategy as far as possible follows the technical logic which dictates that any new component is functionally linked to existing components. On the one hand additional functions are being integrated, such as electronic measuring sensors fitted to cylinder-head gaskets and, in the field of secondary seals, oil-pan gaskets joined to baffle plates. On the other hand, components linked to gaskets, such as cam covers and oil pans, are being added to the range of products on offer. In all these efforts, ElringKlinger's aim is to extend the value-adding chain as far as possible, such as by combining two linked components into one pre-assembled unit by adding further elements. This saves money for the customers, providing them with pre-assembled modules delivered to their assembly lines.

ElringKlinger aims to continuously expand its market shares by systematically increasing the market territories it covers. In Europe ElringKlinger aims to achieve consistent market share with all vehicle manufacturers. The potential has not yet been fully exploited in this area. Overseas, the ElringKlinger Group has established itself in all major vehicle and engine producing countries over recent years, either by setting up its own manufacturing subsidiaries, acquiring manufacturing affiliates or entering into joint ventures: since the early 1990s in Japan, China and South Korea; in the latter half of the 1990s in the USA, Mexico and Brazil; and since the year 2000 in Canada. By doing so, ElringKlinger has followed its European customers to their main overseas production locations, and at the same time has opened up the opportunity of selling to the major vehicle manufacturers in the USA and Japan through local operations. Global operations are essential for any automotive components supplier wishing to maintain and grow market share over the long term. ElringKlinger has established those operations, providing an international structure in line with current requirements. In future it will need to establish a market presence in Central and Eastern Europe. ElringKlinger currently operates in

those areas by direct supplies from Germany and through local licensees. The ElringKlinger Group's business park in Hungary provides an infrastructure base for possible future capital investments. The conditions have been put in place for expansion into those markets.

The European and American gaskets industry underwent a major consolidation in the 1990s. The industry, formerly comprising small to medium-sized businesses operating mainly on a national level, has consolidated into a group of three gasket suppliers which meet the demands of the market in terms of their global operations and technology know-how: ElringKlinger and two North American competitors. With roughly comparable levels of gaskets business, ElringKlinger is the only one to focus solely on gaskets and associated areas, and is also the only one of the three not forming part of a larger group. For the two competitors, gaskets represent only a minor portion of their overall sales. ElringKlinger's focus, combined with its medium size, allows it to enjoy a specific competitive edge in terms

of close orientation to customers' needs, service, flexibility, speed of innovation and decision-making, as well as in its low-cost, flat-structured organization. This, together with its technology leadership, is the reason for the sustained market success of the ElringKlinger Group. The high level of market penetration means production volumes are high and so unit costs are kept low, which, in conjunction with the profitable fixed cost structure, enables ElringKlinger to achieve earnings in line with capital market expectations, despite tough price competition on its markets.

The competitive intensity on the oligopolitical gaskets market is extremely high. It has resulted in a low pricing level of the products in the sector.

In such conditions, adequate earnings can only be generated by optimum performance capability. ElringKlinger has successfully risen to this challenge. Alongside the capital intensity of gasket manufacture, the special complexity of gasket technology and the numerous

patents protecting it, the tough competitive environment means barriers to new market players are set high. It is probably no longer commercially viable in this day and age for companies who must answer to the capital markets with regard to their earnings performance to enter the gaskets business. And indeed, only a few private companies are attempting to enter the market. In Japan the gaskets industry is still diversified, as the consolidation which took place in Europe and the USA between 1990 and 1998 is still in progress there. The possibility cannot be excluded that this will lead to the emergence of new competitors who will also take on overseas markets. ElringKlinger is countering these potential developments by a range of measures, including strengthening its own position in Japan. At the beginning of 2004 ElringKlinger entered into an agreement with its longstanding affiliate Marusan to establish a joint development

and sales company to service the Japanese market, combining ElringKlinger's know-how with the established market position of its local partner.

One of the strategic strengths of ElringKlinger is the Company's key position on international spare parts markets. Elring gasket sets, specially assembled for repair workshops and engine servicing operations, generate additional sales and attractive margins with externally sourced items in addition to the Company's own products. With its Elring brand, ElringKlinger enjoys an outstandingly high reputation on global spare parts markets. The spare parts business delivers cost advantages over purely OE suppliers, enabling both customers and ElringKlinger alike to profit.

A major factor in the sustained growth of ElringKlinger is the Company's above-average involvement in Diesel engines business, which

has taken on major significance in European markets. Despite generally stagnating – and in some cases declining – automotive markets in Europe, ElringKlinger’s main selling market, in recent years, the Diesel segment has for some years been growing at single to double figure percentage rates, taking share away from the gasoline engine market. Diesel engines operate at much higher combustion pressures than gasoline engines, and as such demand more complex gasket designs delivering above-average added value. As a technology leader, ElringKlinger has been able to build up a dominant market position in the Diesel engine segment over the years because of the significantly higher degree of technical difficulty

involved in the sealing process. Some 60% of European Diesel engine production is fitted with ElringKlinger gaskets.

The Japanese and Korean vehicle manufacturers have recognized the key importance of Diesel within a product range oriented to market needs in Europe, and have been working intensively on the development of a number of Diesel engines which are either already on the market or are scheduled for launch shortly. ElringKlinger has been awarded highly attractive contracts, from a leading Japanese vehicle manufacturer and from a Korean manufacturer, to fit cylinder-head gaskets in their new Diesel engines. Follow-up

developments are already underway. The Diesel segment in Europe is forecast to maintain growth rates in the high single figure percentage range. ElringKlinger will also be profiting from that trend over the coming years.

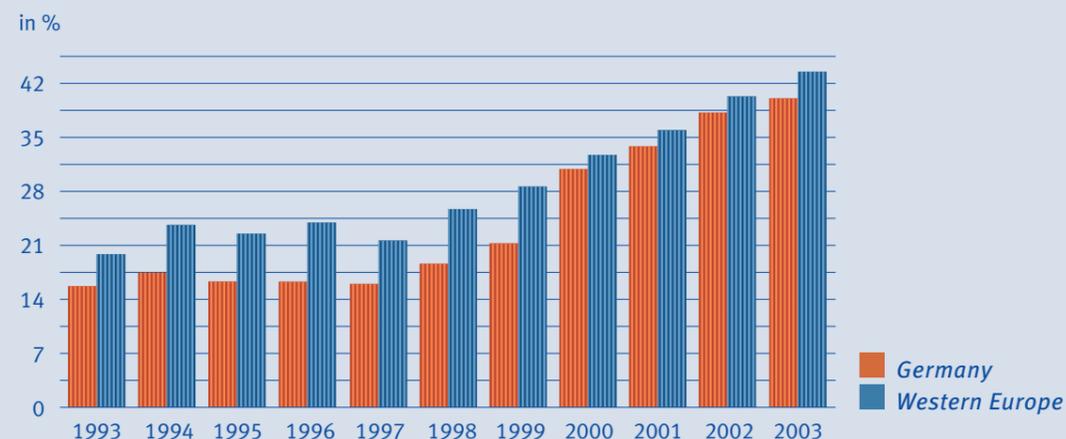
The introduction of Diesel engines onto the US market would open up a whole new dimension in terms of opportunities in Diesel business. European – and now also US – vehicle manufacturers and component suppliers are working intensively to exploit that potential. ElringKlinger’s global network of subsidiaries and affiliates will ensure that the Group will be in a position to utilize such opportunities.

The financing of future growth by ElringKlinger, whether based on investment in new products and markets or on the acquisition of

businesses providing a potentially beneficial expansion of the Company’s product range, is safeguarded by the above-average equity/ assets ratio of 43.9% in ElringKlinger AG and 33% in the Group. The now substantially improved market capitalization of ElringKlinger will enable it to tap the capital market in order to finance major investment projects as and when required.

ElringKlinger’s business concept, the market position of the Company, the market and competitive environment and ElringKlinger’s financial strength provide the ideal basis to sustain the many years of profitable growth so far enjoyed by the Group well into the future.

New Car Registrations with Diesel Engines



ElringKlinger Worldwide

America

- ElringKlinger Sealing Systems USA, Inc.
Livonia, Michigan, USA
- Elring of North America, Inc.
Middlesex, New Jersey, USA
- ElringKlinger Sealing Systems, Inc.
Leamington, Canada
- ElringKlinger México, S.A. de C.V.
Toluca, Mexico
- Ekaser, S.A. de C.V.
Toluca, Mexico
- ElringKlinger do Brasil Ltda.
Piracicaba, Brazil

Europe

- ElringKlinger AG
Dettingen/Erms, Runkel and Langenzenn,
Germany
- ElringKlinger Kunststofftechnik GmbH
Bietigheim and Heidenheim, Germany
- ElringKlinger Motortechnik GmbH
Idstein/Taunus and Dettingen/Erms,
Germany
- ElringKlinger Logistic Service GmbH
Rottenburg am Neckar, Germany

- ElringKlinger (Great Britain) Ltd.
Redcar, Great Britain
- Elring Parts Ltd.
Gateshead, Great Britain
- ElringKlinger S. A.
Reus, Spain
- ElringKlinger Sealing Systems S.L.
Reus, Spain
- ElringKlinger S.p.A.
Mazzo di Rho (Milan), Italy

Asia, Africa

- Changchun ElringKlinger Ltd.
Changchun, People's Republic of China
- Jeil Elring Co. Ltd.
Changwon, South Korea
- Marusan Corporation
Tokyo, Japan
- Elring Gaskets (Pty.) Ltd.
Johannesburg, South Africa



Subsidiaries and Affiliates

In 2003 the ElringKlinger Group was made up of the parent company and 17 active subsidiaries, three of which were in Germany and 14 abroad. The Group holds a 50% share and a minority interest respectively in two companies in Asia. The consolidated companies also include one dormant company in Germany and one abroad.

Three subsidiary and affiliated companies operate in Germany. ElringKlinger Kunststofftechnik GmbH operates in the German and international PTFE markets. ElringKlinger Motortechnik GmbH offers engine test bench services in conjunction with broader development services on a Europe-wide basis. ElringKlinger Logistic Service GmbH began its business operations in 2003. It assembles needs-oriented gasket sets as spare parts kits for engine servicing operations and repair workshops.

ElringKlinger's international subsidiaries and affiliates service the Group's current key global markets, offering sales and development services to original equipment customers

at the local level as well as supplying independent spare parts markets from national production resources and providing sales, advice and logistics support to them.

Of major strategic importance in the automotive original equipment market in the NAFTA region are ElringKlinger Sealing Systems USA, Inc., Livonia, Detroit, USA, ElringKlinger Sealing Systems, Inc., Leamington, Ontario, Canada and ElringKlinger México S.A. de C.V., Toluca, Mexico; in South America ElringKlinger do Brasil Ltda., Piracicaba, Brazil; and in Asia the recently renamed Chinese subsidiary Changchun ElringKlinger Ltd. and the joint venture Jeil Elring Co. Ltd. in Changwon, South Korea.

Thanks to its low labor cost base, ElringKlinger (Great Britain) Ltd., Redcar, Teesside has increasingly developed into the European manufacturing center for the labor-intensive products of the ElringKlinger Group. ElringKlinger S.A., Reus, Spain is currently ElringKlinger's main European location for the manufacture of elastomer products.

ElringKlinger's position in the independent spare parts markets in Great Britain, the USA and South Africa is being successfully progressed by the spare parts distribution companies Elring Parts Ltd., Gateshead, Great Britain, Elring of North America, Inc., Middlesex, New Jersey, USA and Elring Gaskets (Pty.) Ltd., Johannesburg, South Africa.

In 2003 the ElringKlinger subsidiaries and affiliates generated sales (pre-consolidation) of €197.0 million, 3.0% up on the previous year. Adjusted to take account of the increase in value of the Euro in relation to the currencies of key selling markets such as the USA, Great Britain, Mexico and Brazil, the increase in sales would have been 6%. Consequently, the ElringKlinger subsidiaries and affiliates generated just under half the total consolidated sales turnover of the Group in 2003.

Above-average sales growth was achieved in the automotive business by ElringKlinger Sealing Systems, Inc., Canada, ElringKlinger do Brasil Ltda., Changchun ElringKlinger Ltd. and ElringKlinger Sealing Systems S.L., Spain. In the spare parts business, sales of Elring

Gaskets (Pty.) Ltd., South Africa developed very strongly. Elring Parts Ltd., Great Britain increased its sales by more than 50% over the previous year by expanding its selling range to include the products of an engine components manufacturer.

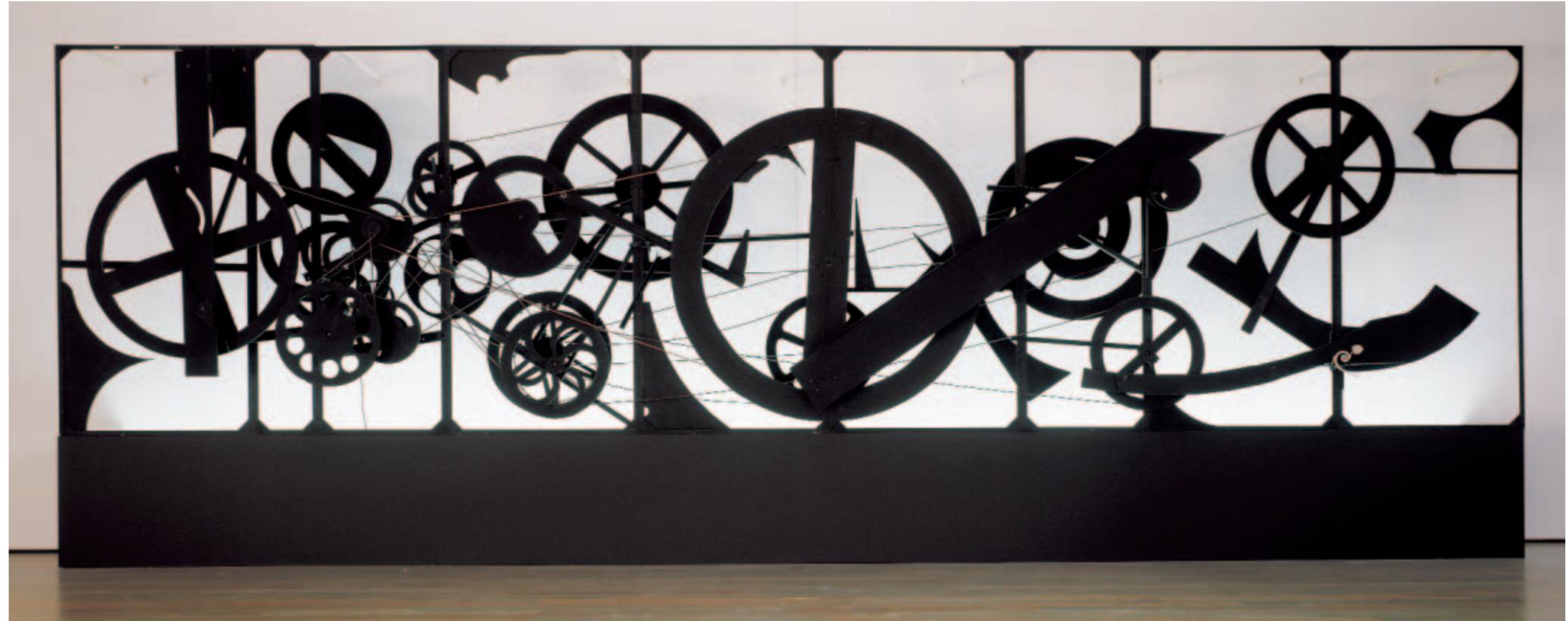
The earnings of the ElringKlinger subsidiaries and affiliates were also very strong in 2003, with a 45% increase in pre-tax profit. Key factors in this were the return to profit of ElringKlinger Sealing Systems, Inc., Canada, and the avoidance of losses in connection with movements in exchange rates at ElringKlinger do Brasil Ltda. by the refinancing of loans in foreign currency into equity.

ElringKlinger Motortechnik GmbH saw a fall in earnings resulting from a drop in activity; as did ElringKlinger S.A., Spain, for reasons of price pressure. Movements in exchange rates and price pressure were the main reasons for the decline in earnings at ElringKlinger (Great Britain) Ltd., Elring of North America, Inc. and ElringKlinger México, S.A. de C.V. All active ElringKlinger businesses made a profit in 2003.

*“I do not attempt to solve a problem,
that is not my task.*

*I make people think, I aim to seduce
people into dreaming.”*

Jean Tinguely, 1990



Requiem pour une feuille morte, 1967

Research and Development

The research and development activities of ElringKlinger were maintained at the high levels of the preceding years in 2003. The efficiency of development activity and development expenditure was further enhanced by the more extensive deployment of computational models and simulation-based testing. Development expenditure in 2003 totaled €19.7 million, an increase of 3.7% on the previous year. This represented 4.7% of the Group's total turnover in 2003. Some 200 people were employed in the Research and Development function in 2003. Developments in 2003 led to applications being submitted for 16 new patents, three of which were related to cylinder-head gaskets and four to fuel cell technology.

Major technical progress was achieved in the area of cylinder-head gaskets. The performance and durability of multi-layer metal cylinder-head gaskets is fundamentally influenced by so-called stoppers, which are of key importance in maintaining and extending

the durability of the sealing beads formed into the metal layers. Meander or checkerboard patterns embossed in the metal have been developed to carry out the stopper function, in contrast to previous stoppers that were laser welded onto the sealing layers or folded stoppers. Alongside obvious cost benefits (resulting from the elimination of separately welded-on reinforcements), this technique also offers technical advantages, as the embossing can be applied anywhere on the gasket, in virtually any position and at any required height. This makes it possible to specifically influence the introduction of bolt forces on the cylinder head mounting, with the aim of minimizing the component distortions that lead to poor exhaust emissions. The newly developed embossed stoppers have now been successfully deployed in 21 cylinder-head gasket development projects, 10 of which were for Diesel engines and 11 for gasoline engines.

The development of cylinder-head gaskets with direct-measuring piezo sensors, as reported on last year, made significant progress in 2003. For the first time it has been possible, by way of the "sensor seal", to measure combustion pressure characteristics in a signal quality. This could be realized previously only with measuring sensors integrated directly into the cylinder head. Extensive measurements produced highly accurate results from the sensor seal right across the engine operating range. The signal quality achieved is now in line with the requirements of electronic engine management systems. The cylinder-specific measurement of combustion pressure characteristics as enabled by the sensor seal is of key significance in particular in view of the much more stringent emission limits imposed by the upcoming Euro-5 emissions standard. The measured values are translated into a cylinder-specific regulation of the fuel injection. This enables possible negative effects on emission quality arising from manufacturing tolerances and wear to be eliminated. A system

with cylinder-specific regulation not only delivers compliance with stricter emission limits, but also means smoother engine running, lower fuel consumption and improved power output, maintained constant by means of continuous adjustment over the entire lifetime of the engine. Automobile manufacturers have demonstrated a great deal of interest in this ElringKlinger-developed technology. The sensor seal offers interesting prospects for the future.

In 2003 ElringKlinger acquired a license which is likely to be of major significance to the ongoing development of its cylinder-head gasket business. The subject of the exclusive worldwide license is a cylinder-head gasket of an entirely new design. It involves a single-layer, height-profiled, plastic-coated steel plate. The advantage of this sealing concept lies in its enhanced functional potential. The development of the licensed sealing technology and associated manufacturing methods through to production maturity is progressing rapidly.

With its leading technical expertise in cylinder-head gaskets for Diesel engines, ElringKlinger achieved success in the intensive development of state-of-the-art Diesel engines in its key Asian markets in 2003 based on numerous new projects. In Japan seven new development projects for cylinder-head gaskets were acquired; in Korea 11; and in China 22. They will play a major role in the Group's sales growth in the coming years.

In collaboration with customers and research bodies, such as the German Institute for Aerospace Technology (DLR) and the Jülich Research Center, ElringKlinger continued to drive forward the development of fuel cell components and high-temperature seals in SOFC fuel cells in 2003. Major progress was made. For example, numerous fuel cell stacks using bipolar plates and sealing systems from ElringKlinger were successfully tested.

The cassette system developed and already patented by ElringKlinger, involving embossed bipolar plates, was adapted to different planar fuel cell concepts and successfully tested. ElringKlinger is also participating in a new project sponsored by the German Federal Ministry of Economy and Labor for the development of SOFC fuel cells.

In 2003 some interesting technical solutions in the field of special-purpose gaskets were found, in which the sealing function was combined with a variety of other additional functions. Development activities for general industrial applications were also intensified. In this context, there are good prospects for sales of special-purpose gaskets for fitting in domestic appliances such as dishwashers and washing machines.

2003 saw a reversal of the longstanding trend toward substituting elastomer seals with paste-form sealing compounds in many

areas. Contamination problems led one transmission sealing manufacturer to replace its existing "liquid seal" with a newly developed metal-elastomer gasket from ElringKlinger.

Additional customers were won for ElringKlinger plastic cam covers in 2003. The advantages of the plastic covers over metal covers – light weight, low cost, low noise and greater freedom of design – are making them increasingly popular. ElringKlinger has completed the first development project for a major truck engine manufacturer. Start of production is scheduled for April 2004.

The shielding business unit launched the first production applications for fabric-based shielding parts with three major passenger car manufacturers in 2003. New applications for shielding parts in trucks were developed and introduced into production.

Outstanding development work and attractive pricing brought a multi-year contract for heat shields from a major French automobile manufacturer. While searching for lower-cost yet higher-performing shielding materials, an aluminum coating was developed which combines outstanding adhesion to the carrier steel sheet with a heat reflectance of 96% – a quantum leap in shielding technology.

ElringKlinger's development work involves basic developments, as the foundation for new products and for higher technical quality and better pricing of existing products, combined with a large number of application-specific product developments leading to concrete production orders. ElringKlinger developers were once again highly successful in both areas in 2003.

*"I have a highly developed sense of mechanics,
And at the same time I am totally*

Jean Tinguely, 1972

*I have a real feel for engines.
innocent in the face of such things."*

Capital Investments

ElringKlinger AG invested a total of €42.6 million in intangible and tangible fixed assets in 2003, an increase of 59% over the €26.8 million invested in the previous year. In the Group as a whole a total of €58.0 million was invested, up 80% on the previous year.

The high level of capacity utilization in the period under review made it necessary to invest in additional plant and machinery. Based on those investments, the numerous extra shifts required in the first half of the year were largely reduced back down to the standard 15 shifts per week over the course of the second half of 2003.

As a result of numerous new product start-ups, investments in tooling by the parent company increased by €3.3 million, or 20%, over 2002 levels.

Of the total investment in plant and machinery by the parent company, some 40% was in rationalization and 45% in plant for new product startups. The rest was invested in replacing existing plant. Group-wide, 50% of capital investment was devoted to plant for the manufacture of new products and 35% to rationalization projects.

An exclusive worldwide licensing agreement entered into in March 2003 to safeguard a highly promising coating and sealing technology necessitated a major investment. ElringKlinger will be making further investments in this area in 2004 in order to deploy this new technology as rapidly as possible.

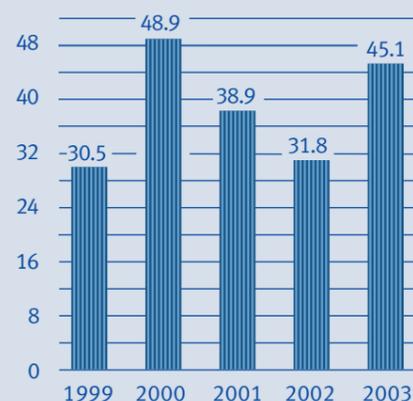
The main projects in terms of investment in tangible fixed assets were a new cylinder-head gasket production line at the Dettingen site in Germany, a number of large-scale presses at the Dettingen and Toluca (Mexico) sites, new production lines for shielding parts at the Langenzenn site in Germany, in Livonia (USA)

and Redcar (Great Britain), as well as construction projects in Dettingen and Langenzenn. The construction of an additional factory hall at Dettingen expanded capacity for the production of plastic cam cover modules, and at Langenzenn the construction of a shipping hall significantly enhanced the logistical systems.

No real estate was bought or sold in the period under review. For 2004 investments of some €35 million by the parent company are scheduled, and in the Group as a whole investments will total around €48 million.

Consolidated Group Investments in Fixed Assets

in € millions



Purchasing Operations

The market demands short delivery times, continually optimized pricing, a very high quality level and ongoing product innovations from ElringKlinger. Such demands can only be met with the assistance of highly qualified employees – the parent company’s purchasing department employed a staff of 20 in 2003 – and in close collaboration with highly efficient and reliable suppliers.

In 2003 ElringKlinger’s purchasing organization was aligned to these goals by way of a project designated “More than just purchasing”. All internal processes were re-engineered. A new level of quality in supplier partnership has been initiated by the introduction of a new assessment procedure based entirely on objective measurement criteria. The aim is to reward ElringKlinger’s suppliers for high performance, while at the same time implementing systematically mapped consequences for failure to conform to set quality targets.

These measures introduced in 2003 further improved the level of supplier quality and reduced the complexity of processes. The number of A-category suppliers was reduced by a further 13%, and B-category suppliers by a further 4%. This enhanced the importance of ElringKlinger as a customer for the individual suppliers, thereby strengthening ElringKlinger’s negotiating position. At the same time the number of transactions and contacts is being reduced, bringing additional cost benefits.

Purchasing by the ElringKlinger AG parent company in 2003 totaled €147.2 million, 3.9% up on the previous year. The predominant purchase items were steel and stainless steel band, the base material for most gaskets, as well as shielding parts. Some 25,000 tonnes of steel was purchased in 2003, representing around 20% of the total purchasing by ElringKlinger AG. The alloying surcharges quoted on commodity markets that largely determine pricing for steel rose throughout 2003 and

by the end of the year had almost reached the highs last seen in January 2000. The alloying surcharges have continued to rise rapidly since the beginning of 2004, and are impacting on the cost base increasingly.

Purchasing of polyamide plastics again increased strongly in 2003 as a result of the expansion of the cam cover business. Material optimization achieved in collaboration with customers and suppliers brought about a pleasing reduction in purchase prices, though the market prices of caprolactam and nylon salt – key raw materials for polyamide plastic – rose against 2002 levels.

In general the purchase market enabled ElringKlinger to attain purchase price reductions in 2003. The positive results were boosted in terms of material purchasing in particular by the consolidation of demand from all the subsidiaries and affiliates of the ElringKlinger Group into unified global contracts with sup-

pliers. The resultant purchase prices were below the price levels of the previous year.

In the globally weak capital goods market, ElringKlinger was able to make a number of significant capacity-expanding investments at highly favorable terms in 2003. In this too, the Group’s overall requirements were consolidated: three large-scale mechanical presses, with an option on a fourth, were procured as part of a joint purchase for ElringKlinger sites in Germany and Mexico; and three hydraulic presses, with complete production peripherals, were procured for the sites at Langenzenn in Germany, Livonia in the USA and Redcar in Great Britain.

In 2004 communication between the purchasing function and the Group’s business units will be further enhanced by the establishment of a purchasing homepage on the Intranet. The quality of purchasing operations will be monitored in 2004 by benchmarking against comparable organizations.

Employees

On December 31, 2003 the ElringKlinger Group employed a total of 3,143 people, an increase of 138 against the previous year's figure. The Group employed 2,078 people in Germany, of whom 1,629 worked for the parent company ElringKlinger AG, 41 more than in the previous year. ElringKlinger Kunststofftechnik GmbH employed 360 people on December 31, 2003, ElringKlinger Motortechnik GmbH 36, and ElringKlinger Logistic Service GmbH 53. The subsidiaries and affiliates of the ElringKlinger Group outside Germany employed a total of 1,065 people at the year-end, 64 more than in the previous year.

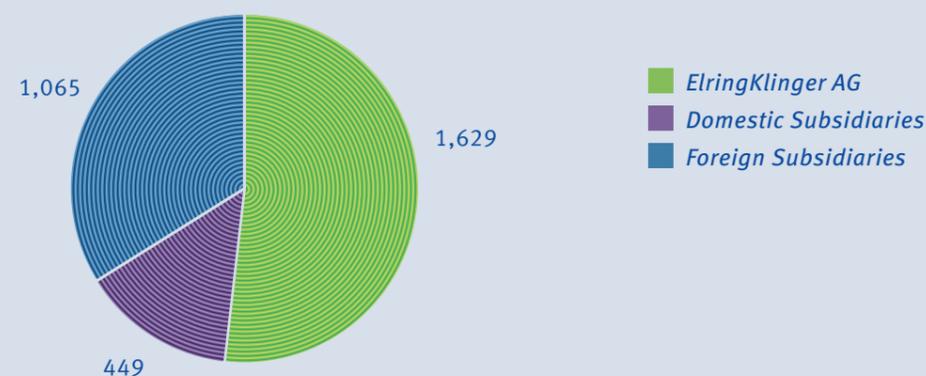
ElringKlinger places great value in the education and training of its staff. A key factor in the company's success is the level of qualification and commitment of its workforce. In 2003 a total of 69 young people underwent technical and commercial training at ElringKlinger. 20 new apprentices were taken on. ElringKlinger offers a broad range of in-house training to its employees. In 2003 ElringKlinger employees took part in more than 3,000 seminars and other training courses. The main focus of training was in IT, foreign languages, CAD (computer-aided design), sales, quality management and production engineering.

In 2003 ElringKlinger again participated in numerous recruitment fairs and information events at schools, colleges and universities in order to reach the pool of well qualified potential new young staff. Events attended included Europe's largest graduate recruitment fair at the University of Cologne in November. ElringKlinger was able to recruit a number of highly qualified young people as future employees.

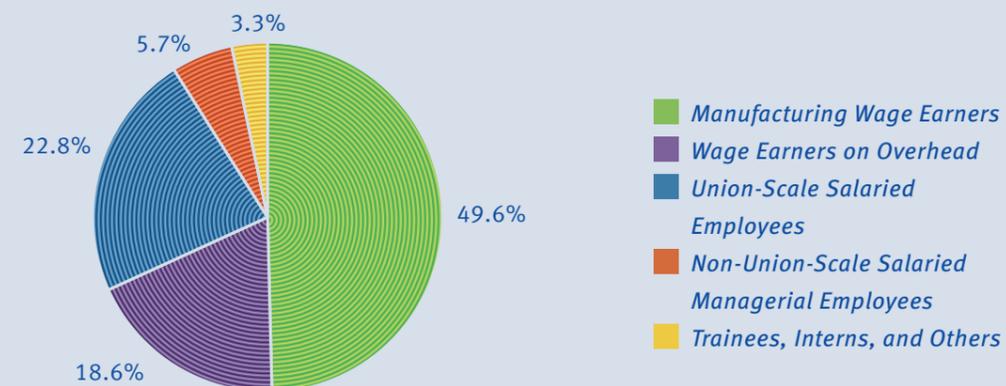
In 2003 ElringKlinger's personnel management for the first time commissioned an external organization to conduct an employee satisfaction poll among its workforce. A total of

250 employees, selected on the basis of statistical calculation, were asked to complete a questionnaire detailing 56 criteria covering issues of credibility, respect, fairness, pride and team spirit. 85% of those polled indicated above-average levels of satisfaction with the working conditions at ElringKlinger by affirming the statement "All in all I can say the company is a very good place to work". 84% of respondents believe ElringKlinger to be competently managed. Over 85% of employees felt that they were treated fairly, regardless of age, gender, origins, religion, etc. – a thoroughly pleasing result overall.

Employee Distribution at December 31, 2003
(Total Number of Employees: 3,143)



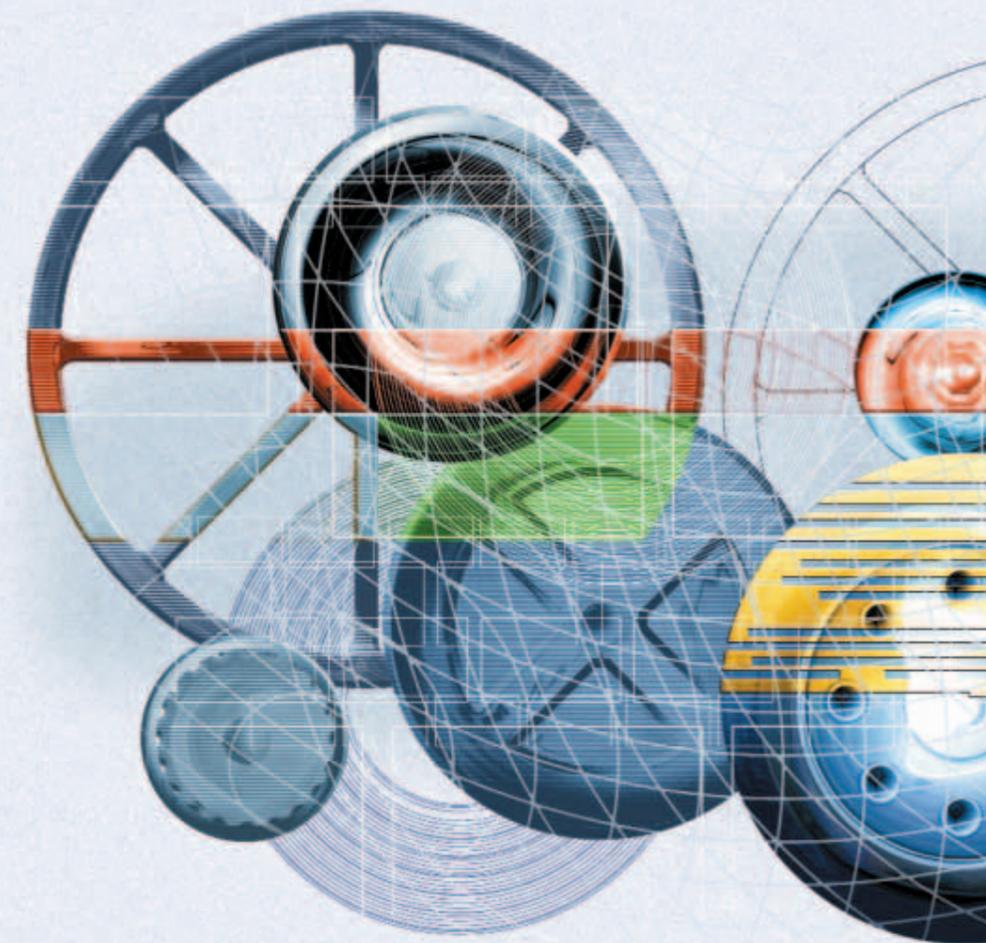
Total Hours Worked Accounted for by Employee Groups of the ElringKlinger AG in %



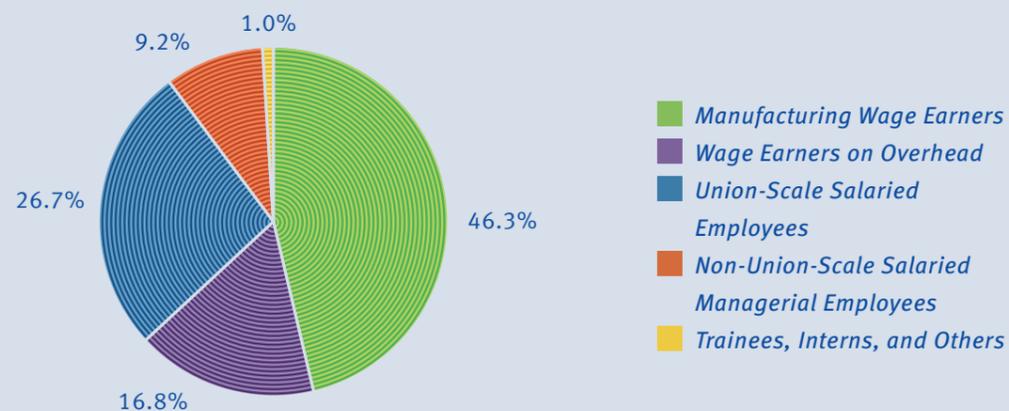
The Management Board and senior management personnel maintain a policy of open, broad-based communication with the workforce. The Management Board provides the employees with updates on the Company's position and future plans at regular company meetings. The economic committee of the workers' council is also provided with comprehensive updated information in verbal and written form on the commercial situation of the Company at four meetings a year.

By their high level of commitment and collaborative approach, the Company's employees

again made a major contribution to the success of the business in 2003. Large numbers of overtime hours were worked, especially in the first half of the year, and often at weekends. On numerous occasions employees had to be delegated at short notice to work at Group subsidiaries abroad. Despite personal inconvenience, they always showed great willingness and commitment in such situations. We would like to express our very sincere thanks to all employees for their efforts throughout 2003.



Total Personnel Costs Accounted for by Employee Groups of the ElringKlinger AG in %



“For me a machine is above all an instrument that enables me to be poetic. If one respects the machine, has a playful relationship with it, it is perhaps possible to make a machine that is joyful, and by “joyful” I mean “free”. That’s fantastic, isn’t it?”

Jean Tinguely, 1972



Incitation à la Création, 1981

Development of Sales Revenue and Earnings, Balance Sheet

The ElringKlinger Group generated sales revenue of €416.8 million in 2003, up 6.2% on the previous year. Excluding the increase in value of the Euro in relation to the US Dollar, British Pound Sterling, Mexican Peso and Brazilian Real in the course of 2003, sales revenue would have been €11.4 million, or 2.9%, higher.

The sales revenue of the parent company ElringKlinger AG in 2003 totaled €287.3 million, up 7.3% on the previous year. The sales revenue of the subsidiaries and affiliates (unconsolidated) totaled €197.0 million, up 3.0% on the previous year.

Most of the subsidiaries and affiliates increased sales revenue, some of them by double-digit percentage rates, such as the 44.4% increase achieved by ElringKlinger do Brasil Ltda. The sales revenues of some companies fell relative to the previous year. They included ElringKlinger Kunststofftechnik GmbH, which saw a slight decline of 1.9% in line with the economic cycle. The sales revenues of ElringKlinger (Great Britain) Ltd., Elring of North America, Inc. and ElringKlinger México, S.A. de C.V. fell by between 10% and 15% against the previous year, primarily because of the fall in value of their currencies

and price cuts resulting from competitive pressure.

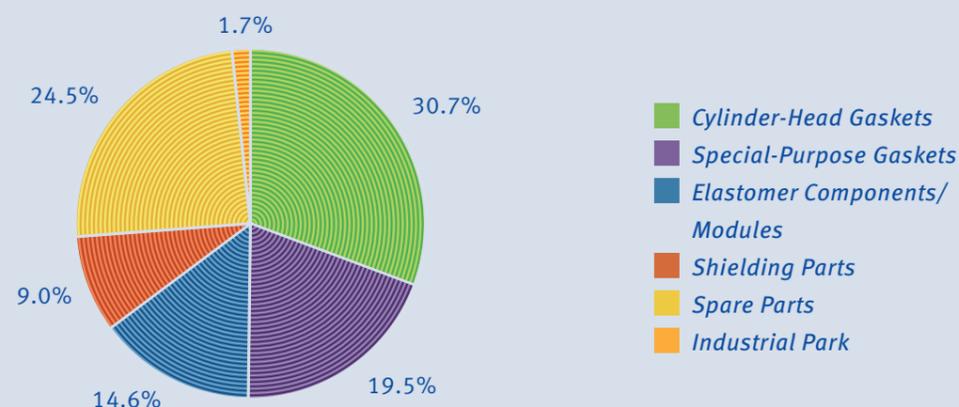
The costs of the ElringKlinger Group were kept low in 2003 thanks to cost-oriented management and ambitious rationalization targets. Expenditure on materials increased to only a minor degree relative to the previous year. Significant savings were made in Canada, in particular, by switching the main material supplier. Further concerted efforts by the ElringKlinger central purchasing function based on global sourcing resulted in a large number of purchase prices being optimized, delivering additional savings.

Consolidated pre-tax earnings for the Group rose by 34.9% against the previous year to €53.8 million.

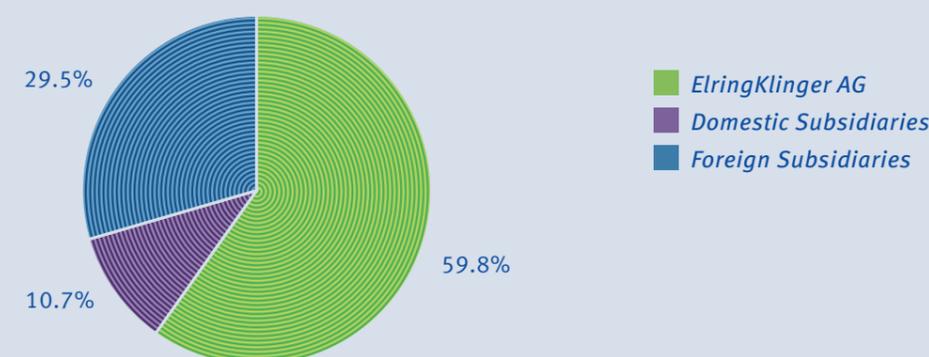
Earnings from ordinary Group business, including the benefits of favorable movements in interest rates and substantially increased income from loans of financial assets, increased by 40.2% against the previous year to €50.5 million in 2003.

The contributions to overall earnings made by the members of the Group varied widely in 2003. The parent company ElringKlinger AG increased its earnings from ordinary business by a below-average 1.9% against the previous year to €42.1 million. Adjusted to account for one-off transactions affecting income from affiliates in the previous year totaling €5 million (double dividend payment for two financial years by ElringKlinger (Great Britain) Ltd.

ElringKlinger AG's Net Sales Attributable to Business Segments in %



FY 2003 Net Sales Accounted for by Subsidiaries in % (unconsolidated)



and special dividend payment by ElringKlinger Kunststofftechnik GmbH in connection with the merger with Venus Kunststofftechnik GmbH), the increase would have been 14%. Turnarounds of the previously loss-making ElringKlinger do Brasil Ltda. and ElringKlinger Sealing Systems, Inc., Canada meant that those companies made above-average contributions to the improvement in earnings. ElringKlinger do Brasil Ltda. converted last year's €1 million loss into a €1.4 million profit, representing a €2.4 million improvement. Following its €2.1 million loss in 2002, ElringKlinger Sealing Systems, Inc., Canada made a profit of €1.1 million in 2003. ElringKlinger Kunststofftechnik GmbH improved its earnings from ordinary business by 20.3% against the previous year.

The earnings from ordinary business of some subsidiaries and affiliates were down on the previous year. Market-dictated price reductions and the effects of currency movements meant that the earnings of ElringKlinger (Great Britain) Ltd. were 15.2% down on the previous year. The earnings of ElringKlinger S.A., Spain, were down 7%. At ElringKlinger México, S.A. de C.V., too, price pressures and currency movements hit earnings, which fell by 23%.

Overall, the earnings from ordinary business of ElringKlinger's subsidiaries and affiliates in 2003 totaled €23.3 million, up 50% on the previous year. The earnings of all active companies were positive.

Pre-tax earnings of the subsidiaries and affiliates also totaled €23.3 million. The net earnings of the ElringKlinger subsidiaries and affiliates, before consolidation, amounted to €16.0 million, representing a rise of 76% against the previous year.

The 2003 net earnings of the ElringKlinger Group totaled €27.2 million, 34.3% up on the previous year. The main reason for the lower rise relative to the increase in earnings from ordinary business is the higher tax charge on ElringKlinger AG this year. This results primarily from the change in the law passed in April 2003 by which the refunding of corporation tax credits was postponed until after payment of the dividend in 2005. Consequently, the tax rate in Germany rose from around 24% in the previous year to 37%, depressing

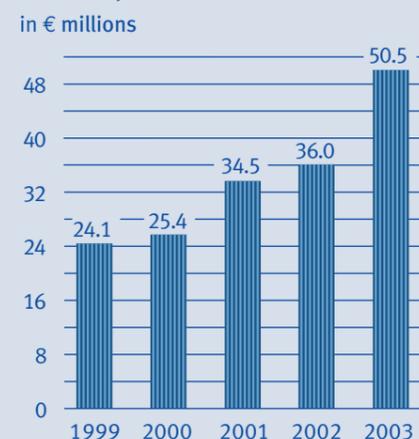
the after-tax profit of ElringKlinger AG by €5.0 million relative to the previous year, or 15.9%, to €26.5 million.

Broken down by segment, the sales revenue and earnings from ordinary business of the ElringKlinger Group developed as follows:

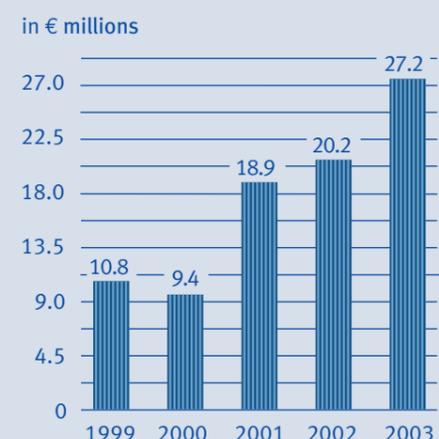
The Original Equipment segment increased its external sales revenue against the previous year by 8.7% to €291.9 million. Earnings totaled €32.2 million, up 72% on the previous year.

The Spare Parts segment increased its sales revenue by 2.5% against the previous year to €73.5 million. Earnings from ordinary business totaled €8.2 million, up 3% on the previous year.

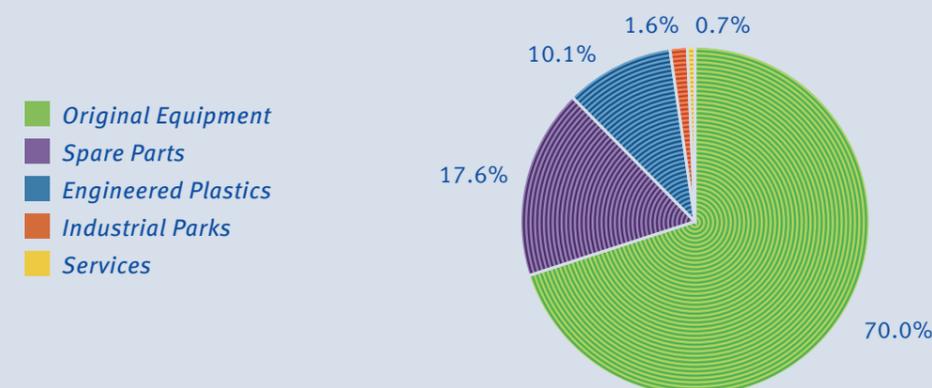
Group Consolidated Pretax Income from Normal Operations



Group Consolidated Net Income



2003 Sales Revenue by Segment (consolidated)



The sales revenue of the Engineered Plastics segment was 1.2% down against the previous year at €42.0 million. Earnings from ordinary business rose 20% against the previous year, however, to €8.1 million.

Sales revenue of the Services segment in 2003 totaled €2.7 million, 14% up on the previous year. Earnings from ordinary business of €339 thousand were up 57.6%.

The sales revenue of the Industrial Parks segment in 2003 was 8.7% down against the previous year at €6.6 million. The reason for this fall was that a site vacated by a tenant had not yet been re-let. Consequently, earnings from ordinary business fell 30% against the previous year €1.7 million.

The total balance sheet assets of the ElringKlinger Group in 2003 were €343.2 million, up 6.8% on the previous year. There were above-average increases in intangible assets, mainly as a result of the licensing agreement already reported on. The “Facilities under construction” item increased by 77% against the previous year. It includes major expansions of capacity not yet completed by the end of the year. Inventories increased by 12%, a disproportionately high rise relative to the increase in sales revenue. The reason for this was the relocation of production facilities from Germany to Canada and Brazil in 2003, in connection with which, in order to safeguard uninterrupted supply, finished products had to be pre-fabricated and raw materials and semi-finished goods had to be made available

in time for start of production at the new locations. Once the relocation is complete, inventories levels will return to normal.

The stockholders’ equity of the ElringKlinger Group in 2003 totaled €113.2 million, an increase of 7% over the previous year. The equity/assets ratio rose slightly against the previous year to 33%. Consequently, the Group did not move significantly closer to its targeted equity/assets ratio of 40% in 2003. However in terms of the future of the business, the opportunity offered by the potentially highly lucrative license acquisition and the necessity to acquire large amounts of additional capital in response to the strong rise in volume demand were considered to be of higher priority than the financial target of a 40% equity/

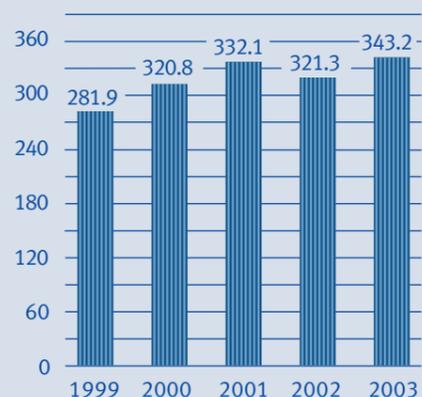
assets ratio. That target is all the more certain to be met in the coming years as a result.

The total assets of the parent company ElringKlinger AG in 2003 were €351.3 million, up 8% on the previous year. Of particular note is the increase in loans to affiliates, which rose almost ten times against the previous year's level to €3.7 million. The reason for this was the repayment of bank loans of the overseas subsidiaries by ElringKlinger AG, enabling exchange rate gains to be made on the strength of the Euro.

The stockholders’ equity of ElringKlinger AG in 2003 increased by 10.5% to €154.3 million. As a result the equity/assets ratio climbed to almost 44%, and is within the target range.

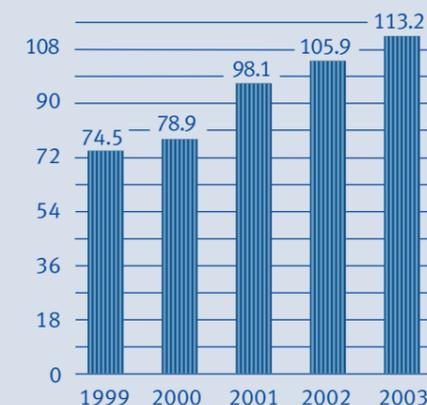
Total Balance Sheet Assets of the ElringKlinger Group

in € millions



Stockholders’ Equity in the Group

in € millions



Risk Report

ElringKlinger's longstanding structured risk management system conforms to the requirements of the German Corporation Act. The system appraises a detailed, graduated listing of conceivable risks, entailed by the nature of commercial activities in pursuance of opportunities arising, in all the divisions of the parent company and at all subsidiaries and affiliates on a twice-yearly basis in terms of relevance, probability of occurrence, significance and possible countermeasures. The appraisal is collated and evaluated centrally by the Group management. New countermeasures are initiated and existing measures updated as necessary. The object is to ensure proactive, controlled management of corporate risk, enabling rapid response where required. The ElringKlinger risk management system is an integral part of the Group's comprehensive quality management system.

Above and beyond the routine review of risk, risk awareness is continuously promoted at board, senior management and departmental level within the ElringKlinger Group in order

to ensure early detection of impending additional risk and to implement measures to reduce and offset such risk.

The internal risk management system is complemented by the deployment of external auditors. Four times a year, randomly selected divisions, subsidiaries and affiliates are audited to check their compliance with legal requirements, internal regulations and correct and proper accounting standards, and to ensure they are applying appropriate organizational systems and controls, informative reporting structures, etc. The random possibility of audit provided by this system, allied to additional audits conducted for specific reasons at specific times, reduces the risk of misconduct by management or employees and the risk of inappropriate organizational systems being established. The audits conducted in 2003 found no infringements. Numerous suggestions for the improvement of processes and elimination of latent risk emerged as positive benefits from the external auditing procedures.

Specific risks:

The strength of the Euro relative to the US Dollar, the British Pound Sterling, the Mexican Peso, the Chinese Rintinbi and the Brazilian Real in 2003 meant that a corresponding level of exchange rate risk was encountered. If exchange rates had been at their 2002 year-end levels the sales revenue of the ElringKlinger Group would have been €11.4 million higher, and its pre-tax earnings €1.0 million higher. For the purposes of risk avoidance, as from July 2003 half of the sales revenue in weak currencies was hedged. As a long-term measure to counter the effects of currency fluctuation, the production of an entire model of cylinder-head gasket was relocated from Germany to Brazil. Exportation of the components provides the Brazilian subsidiary with income in Euro, with which it is able to finance the necessary material purchases from the Euro zone without suffering the effects of exchange rate movements. In North America (the USA, Canada and Mexico) the range of manufacturing was expanded by transferring a number of production items from Germany,

so that foreign-currency expenditure is balanced by foreign-currency income to a greater extent. This limits the impact of exchange rate movements on earnings. The high valuation of the Euro in the period under review was also utilized to repay Dollar loans. In addition, in the countries affected by currency devaluation more materials and components were purchased by way of merchandise transactions, delivering benefits in terms of purchase prices.

The risk arising from the patent infringement suit against ElringKlinger instigated by the US company Federal Mogul Corp. in December 2002 remains present. Based on a mediation clause agreed between Federal Mogul and ElringKlinger governing any disputes arising from license agreements, ElringKlinger has since lodged a counter-claim before an international court of mediation in Stuttgart for establishment of compliance with contractual provisions and corresponding respect of the patent rights of the defendant, and requesting that the court action desired by Federal Mogul in the USA be disallowed.

Outlook for 2004

The chances of a positive ruling by the court of mediation in ElringKlinger's favor are considered high, as is the willingness of the US courts to dismiss the action and thereby allow the ruling of the court of mediation to stand.

The acquisition of an exclusive worldwide license for a new type of single-layer cylinder-head gasket entails the risk that this new type of gasket design may not come up to expectations. The sealing system is not yet ready to go into production. Development through to production maturity will require further time and expense. The project is considered promising, however, and if successful will be of major technical and commercial significance to ElringKlinger.

New risks arose in 2003 and early 2004 as a result of renewed pressure on the selling prices of ElringKlinger AG from key account customers in the automotive industry. The tight earnings situation of many vehicle manufacturers stemming from generally weak unit sales and – especially in Europe – from reduced export income owing to the strength of the Euro is leading them to demand higher levels

of contribution from component suppliers in terms of price in order to maintain margins. Furthermore, the US vehicle manufacturers have unilaterally amended their terms and conditions of business in their own favor. This entails a risk of premature termination of ongoing supply contracts, or even of retrospective price reductions, and the risk of failed returns on development and investment expenditure if underbid by competitors. A component supplier such as ElringKlinger is unable to avoid such conditions without, ultimately, ceasing doing business with the customer concerned. The extent of the practical effects the threatening new terms and conditions will have remains to be seen.

ElringKlinger safeguards against the risk of damages claims in respect of product liability by means of appropriate insurance coverage, as it does against the general risks of fire, interrupted production and natural disaster, based on an all-risk policy covering the entire ElringKlinger Group.

The economic trend in 2004 has so far not lived up to expectations. Consumer demand remains depressed. Consumer uncertainty has arisen from an unclear political situation which is seen as entailing more financial burdens than benefits. There are no strong indications of a convincing political way forward. The continued weakness of the Dollar and the strength of the Euro is impacting on exports outside the Euro zone. New vehicle registrations in Germany, the rest of Europe and the USA have to date been well down on last year. The initial optimism of businesses with regard to an economic upturn has been dampened. At the time of going to press, the stock markets are correcting their high levels seen in the preceding months.

ElringKlinger cautiously predicts that there will be only a slight upturn in the course of the year. ElringKlinger sales will continue to grow in 2004 despite the weakness of the economic cycle. However, any increase will be hard-won, in the face of price pressures at key account customers also affecting ElringKlinger and the

ongoing weakness of the Dollar. The same constraints apply to earnings, which will have to be generated against a background of exchange rate movements and price cuts.

The sales revenue and earnings of the ElringKlinger Group up to the reporting date have again developed positively. Sales revenue has increased by a single-digit percentage rate, and earnings by a double-digit rate. This reflects the positive effects of the measures to offset exchange rate movements and the concerted rationalization efforts undertaken in 2003. The Management Board of ElringKlinger AG is therefore confident that the Company will again achieve pleasing growth in fiscal 2004.

Dettingen/Erms, Germany, March 11, 2004

Dr. Helmut Lerchner

Horst Klusmann

“There are wheels everywhere – we live in a wheeled civilization. Even when they are hidden, they are turning everywhere, everything is in motion. In cars, the transmission is made up of cylinders mounted on shafts. There is the bearing, and there is the roller. It rotates, it must rotate, it does not stop rotating, it is mad.”

Jean Tinguely, 1988



Isidor III, 1966

Corporate Governance Report

Corporate Governance Code

The German Corporate Governance Code sets out fundamental legal requirements for the management and supervision of stock market quoted German corporations and nationally and internationally recognized standards of effective, responsible corporate governance. Section 161 of the German Corporation Act stipulates that management boards and supervisory boards must issue a public declaration of conformity to that effect. The said declaration was issued in line with the latest version of the German Corporate Governance Code dated May 21, 2003 on December 3, 2003, and was published on the website of ElringKlinger AG with the following wording:

“The Supervisory Board and the Executive Board of ElringKlinger AG, Dettingen/Erms, are pleased to issue the following declaration on the application of the regulations of the Corporate Governance Code as per section 161 of the German Stock Corporation Act [AktG]. This declaration is issued in accordance with the current version of the Corporate Governance Code, dated May 21, 2003. ElringKlinger complies with the recommendations of the code with the following exceptions:

- Until further notice ElringKlinger AG will abstain from transmitting the annual shareholders' meeting via the Internet. In the estimation of the company, the costs entailed in transmitting the meeting are not justified by the use shareholders, analysts and potential investors would derive therefrom (section 2.3.4 of the code).

- Separate preparatory meetings of the shareholder representatives and of the employee representatives prior to Supervisory Board meetings are not planned. The matters to be dealt with at meetings of the ElringKlinger AG Supervisory Board will be well prepared in the form of detailed written documentation sent to all Supervisory Board members in good time prior to the respective meeting. No other oral preparations are necessary (section 3.6).
- In the interest of protecting the privacy of personal data, no itemized account of the compensation paid the individual members of the Executive Board will be made public (section 4.2.4).
- No audit committee of the Supervisory Board will be set up. As only nine members sit on the Supervisory Board of ElringKlinger AG, the Board in its entirety will discharge the tasks assigned the audit committee under the terms of the Corporate Governance Code (section 5.3.2).
- In the interest of protecting the privacy of personal data, no itemized account of the compensation paid out to the individual members of the Supervisory Board will be made public (section 5.4.5).
- A printed English-language edition of the annual report and of the quarterly reports is not planned. An online edition of the annual report and of the quarterly reports as well as other information will, however, be made public at ElringKlinger's Web site. Investors and interested third parties – in particular in the English-speaking world – generally prefer information in electronic form. Until further notice, the meagre demand for English-language information in printed form does not warrant the expense English-language editions would entail (section 6.8).*
- Through to FY 2004 the annual financial statements, consolidated annual financial statements and interim reports will be drawn up in compliance with national regulations (German Commercial Code). Starting in FY 2005 the International Financial Reporting Standards will be applied (section 7.1.1).”

* Due to the fact that ElringKlinger meanwhile has numerous shareholders from countries other than Germany, it was decided in March 2004 to publish a printed version of the annual report in English.

Corporate Officers

Management Board

Dr. Helmut Lerchner (Chairman), 63
Responsible for the company's subsidiaries and affiliates, finance, controlling, OEM sales, the spare parts division, legal affairs and personnel, investor relations, IT and public relations

Horst Klusmann, 61
Responsible for the company's cylinder-head gaskets, central research and development, special-purpose gaskets, housing components/modules/elastomer components and shielding parts divisions, and for its quality assurance and environmental protection, tool-and-die making and purchasing/logistics departments

Supervisory Board

Karl Uwe van Husen (Chairman), 62
Assessor, member of the Supervisory Board since 2000

Walter Herwarth Lechler (Vice Chairman), 61
Managing Director, member of the Supervisory Board since 1976

Gert Bauer*, 54
First deputy of the IG Metall labor union, Reutlingen/Tübingen, member of the Supervisory Board since 2000

Walter Greiner*, 61
Chairman of the ElringKlinger AG workers' council, member of the Supervisory Board since 2000

Dr. Rainer Hahn, 63
Managing Director, member of the Supervisory Board since 2000

Dr. Thomas Klinger-Lohr, 55
President of the Board, member of the Supervisory Board since 1998

Rolf Rauscher*, 61
Employee of ElringKlinger AG, member of the Supervisory Board since 2000

Helmut Ritzer, 68
Business consultant, member of the Supervisory Board since 1990

Manfred Strauß, 52
Managing Director, member of the Supervisory Board since 1996

*Employee representative

Company Stock Held by Corporate Officers

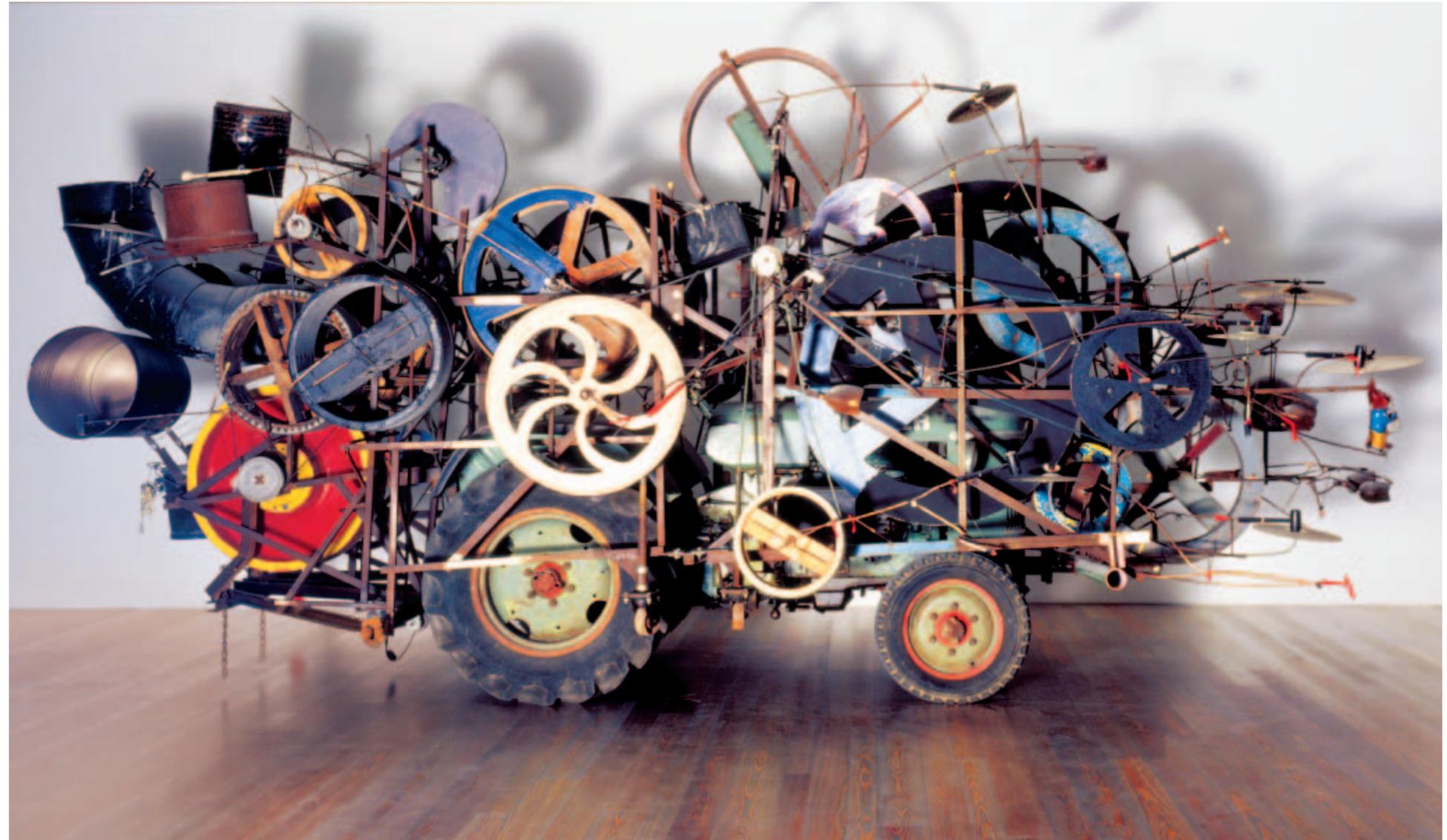
		December 31, 2003
Management Board	Dr. Helmut Lerchner	840 shares
Supervisory Board	Karl Uwe van Husen	1,000 shares
	Dr. Thomas Klinger-Lohr	480,000 shares ¹
	Walter Herwarth Lechler	1,214,825 shares ²

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

²Includes shares held by controlled capital-stock companies.

*“But because technology has become silent,
and masked by the design, the smooth
shell and the streamlined form, it makes
us forget that we are dominated by it,
that we live in a technological age and,
incidentally, in one that only really
began three generations ago. The aim
of my machine sculptures is to
reveal that forgotten fact once more.”*

Jean Tinguely, 1967



Klamauk, 1979

Balance sheet at December 31, 2003

ASSETS	At Dec. 31, 2003	At Dec. 31, 2002
	€ 000s	€ 000s
Fixed Assets		
Intangible assets	10,907	842
Tangible assets	112,802	107,090
Long-term investments	124,568	117,436
	248,277	225,368
Current assets		
Inventories	36,294	34,652
Accounts receivable and other assets	64,858	62,070
Cash on hand, bank deposits and checks	1,734	3,009
	102,886	99,731
Deferred charges	144	282
	351,307	325,381

LIABILITIES AND STOCKHOLDERS' EQUITY	At Dec. 31, 2003	At Dec. 31, 2002
	€ 000s	€ 000s
Stockholders' equity		
Capital stock at par value	28,800	28,800
Capital in excess of par value	12,553	12,553
Retained earnings	98,453	82,523
Balance-sheet profit	14,484	15,877
	154,290	139,753
Special items with an equity portion	0	451
Provisions		
Provisions for pensions and similar reserves	33,776	32,682
Provisions for taxes	2,740	2,943
Other provisions	24,146	25,282
	60,662	60,907
Liabilities	136,355	124,270
	351,307	325,381

Income Statement for the period
January 1 to December 31, 2003

	FY 2003		FY 2002	
	€ 000s	€ 000s	€ 000s	€ 000s
Net sales	287,298		267,857	
Change in inventories of finished goods and work in progress	1,880		-239	
Other capitalized items	5,571		5,490	
Other operating income	11,272	306,021	10,637	283,745
Cost of materials		-113,504		-107,362
Personnel costs		-86,149		-80,017
Depreciation allowances on intangible assets and tangible assets		-26,675		-26,223
Other operating expenses		-43,273		-38,316
Income from stockholdings in affiliated companies	8,459		13,403	
Net interest income	-2,779	5,680	-3,906	9,497
Income from ordinary activities		42,100		41,324
Taxes on income and earnings	15,413		9,587	
Other taxes	150	-15,563	198	-9,785
Net income		26,537		31,539
Earnings carried forward from the preceding fiscal year		77		98
Transfers to retained earnings		-12,130		-15,760
Balance sheet profit		14,484		15,877

Consolidated Balance Sheet at December 31, 2003

ASSETS	At Dec. 31, 2003	At Dec. 31, 2002
	€ 000s	€ 000s
Fixed Assets		
Intangible assets	33,151	25,452
Tangible assets	163,847	161,056
Long-term investments	5,895	5,115
	202,893	191,623
Current assets		
Inventories	65,065	58,227
Accounts receivable and other assets	63,238	61,162
Other securities	1,630	1,586
Cash on hand, bank deposits and checks	8,416	7,181
	138,349	128,156
Deferred charges	1,910	1,559
	343,152	321,338

LIABILITIES AND STOCKHOLDERS' EQUITY	At Dec. 31, 2003	At Dec. 31, 2002
	€ 000s	€ 000s
Stockholders' equity		
Capital stock at par value	28,800	28,800
Capital in excess of par value	12,553	12,553
Retained earnings	46,060	37,802
Shares held by outsiders	11,289	10,838
Balance-sheet profit	14,484	15,877
	113,186	105,870
Special items with an equity portion	0	180
Provisions		
Provisions for pensions and similar reserves	37,524	36,307
Provisions for taxes	5,290	4,635
Other provisions	30,359	30,317
	73,173	71,259
Liabilities	155,925	142,915
Accrued income	868	1,114
	343,152	321,338

Consolidated Income Statement
for the period January 1 to December 31, 2003

	FY 2003		FY 2002	
	€ 000s	€ 000s	€ 000s	€ 000s
Net sales	416,759		392,521	
Change in inventories of finished goods and work in progress				1,306
Other capitalized items	4,029		6,609	
Other operating income	6,657	433,774	9,763	410,199
Cost of materials		-154,103		-153,146
Personnel costs		-131,658		-123,864
Depreciation allowances on intangible assets and tangible assets		-42,563		-41,014
Other operating expenses		-51,693		-52,340
Income from stockholdings in affiliated companies	222		793	
Net interest income	-3,475	-3,253	-4,614	-3,821
Income from ordinary activities		50,504		36,014
Taxes on income and earnings	23,044		15,510	
Other taxes	272	-23,316	257	-15,767
Net income		27,188		20,247
Minority interests		-3,526		-3,153
Earnings of ElringKlinger AG carried forward from the preceding fiscal year		77		98
Transfer to retained earnings of ElringKlinger AG	-12,130		-15,760	
Withdrawals from group reserves	2,875	-9,255	14,445	-1,315
Balance sheet profit of the Group		14,484		15,877

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

General remarks

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

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

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

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

Companies consolidated/affiliated companies

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

Consolidation principles

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

Capitalized differences resulting from those consolidations are allocated to the associated items appearing on the Group's consolidated balance sheet to the maximum extents possible and depreciated over their respective expected useful lives, where the depreciation allowances involved are debited to income.

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

Stockholdings in affiliated companies are valued using the equity method and carried forward, i.e. adjusted to reflect changes in the prorated portions of the stockholders' equities of the respective affiliated companies involved, as stated on their balance sheets. The Group's shares of the annual net incomes of affiliated companies are included in the

consolidated income statements under "Minority interests". Any differences in the amounts resulting from employment of the equity method are calculated as of the dates on which the affiliated companies involved were first included in consolidations. In accordance with Section 312, subsection 5 of the German Commercial Code, no adjustments to unify differing valuation methods for affiliated companies are made. Elimination of earnings on sales to, and by, affiliated companies is not practiced.

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

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

Accounting and Valuation Policies of ElringKlinger AG and the ElringKlinger Group

Assets

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

Items with limited useful lives are depreciated over their expected useful lives using depreciation schedules based on the maximum depreciation rates allowed by tax laws. Rights to choose the depreciation methods employed are exercised and simplified methods employed wherever allowed.

Intangible assets, buildings, improvements to plots of land are linearly depreciated over depreciation periods, or using depreciation declining rates, complying with tax laws.

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

Extraordinary depreciation allowances and depreciation allowances allowed under tax laws are taken advantage of wherever necessary and legally permissible.

Rights to exempt items from appreciations are exercised. Obligations to appreciate items are followed and the associated special items with equity portions are created wherever allowed.

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

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

Current assets

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

Work in progress and finished goods are stated at their fabrication costs, plus the minimum reasonable and necessary material costs and prorated manufacturing overhead costs allowed by tax laws.

Items whose replacement costs have declined are stated at their depreciated replacement costs. The book values of obsolete, damaged or defective items are adjusted to accurately reflect their current values, and in order to preclude need for write-downs when they are used or sold.

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

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

Special items with an equity portion

These items are included in the annual financial statements of ElringKlinger AG to the extent permissible.

Provisions and liabilities

Provisions for pensions and similar obligations are fully accounted for by means of partial accruals determined using actuarial principles and the 1988 guideline table published by Dr. Klaus Heubeck, for a base interest rate of 6%.

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

tage of during the period of validity of that company-internal agreement.

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

Accounts payable are based on payments currently due.

Foreign exchange and currency conversions

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

All items appearing in the Group's consolidated balance sheets and consolidated income statements are converted from those currencies in which the financial statements of foreign members of the Group are stated using the average exchange rates in effect on the respective closing dates involved. The determination of stockholders' equity at January 1, 2003, using exchange rates that were in effect on December 31, 2003, yielded a reduction in stockholders' equity due to the conversions of €4,654 thousand. Debt consolidation yielded €142 thousand. This amount was debited to accrued gains on currency conversions, without affecting earnings.

Consolidation principles

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

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

Assets

Changes in assets itemized on their balance sheets are separately stated for ElringKlinger AG and the ElringKlinger Group in the separate sections entitled "Statement of changes in the assets of ElringKlinger AG" and "Consolidated statement of changes in the assets of the ElringKlinger Group".

The figures stated for intangible assets on the balance sheets for the ElringKlinger Group include goodwill totaling €18,406 thousand resulting from initial consolidations

and €3,374 thousand in the case of a business valuation of the Canadian subsidiary, in each case subject to scheduled depreciation over useful lives of 15 years. Purchased licenses, computer software and manufacturing and energy supply rights are also included therein.

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

The list of stockholdings required by Section 285, no. 11, of the German Commercial Code (HGB) appears in the "List of Corporate Stockholdings at December 31, 2003, and Companies Consolidated".

Current Assets

Inventories	ElringKlinger AG		The ElringKlinger Group	
	At Dec. 31, 2003	At Dec. 31, 2002	At Dec. 31, 2003	At Dec. 31, 2002
	€ 000s	€ 000s	€ 000s	€ 000s
Raw materials, tooling, fixtures, and operating supplies	7,869	7,234	21,250	17,672
Work and services in progress	4,424	3,632	10,390	8,138
Finished goods and merchandise	23,825	23,289	33,082	31,816
Prepayments	176	497	343	601
	36,294	34,652	65,065	58,227

Accounts Receivable and other Assets	ElringKlinger AG		The ElringKlinger Group	
	At Dec. 31, 2003	At Dec. 31, 2002	At Dec. 31, 2003	At Dec. 31, 2002
	€ 000s	€ 000s	€ 000s	€ 000s
Accounts receivable	34,202	30,270	59,523	55,277
Receivables from affiliated companies	28,579	28,786	0	0
Receivables from companies in which participations are held	714	205	714	205
Other assets	1,363	2,809	3,001	5,680
	64,858	62,070	63,238	61,162

As for the previous year, the figures for accounts receivable and other assets stated on the annual financial statements of ElringKlinger AG and the ElringKlinger Group apply to those having residual terms of one year or less.

Accounts receivable stated in the Group's consolidated financial statements totaling €2 thousand (in the previous year €61 thousand) have residual terms of more than one year. The remaining accounts receivable and other assets stated in the consolidated financial statements have residual terms of less than one year.

Receivables from affiliated companies stated in the financial statements of ElringKlinger AG refer to financial transactions totaling €15,373 thousand (in the previous year €13,777 thousand). The remainders are accounts receivable therefrom for goods and services. Accounts receivable from companies in which participations are held refer to accounts receivable for goods and services amounting to €709 thousand (in the previous year €205 thousand), the remainder relating to financial transactions.

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

Deferred charges

The figures for deferred charges appearing on the consolidated financial statements of the ElringKlinger Group include €1,232 thousand (in the previous year €1,182 thousand) deferred tax assets in accordance with Section

306 HGB, where the remainders are miscellaneous deferred charges.

Shareholders' equity

A total of 4,800,000 registered shares have been issued as subscribed share capital. The figure for capital stock at par value on the closing date for FY 2003 remained unchanged at €28,800,000.00.

At the annual general shareholders' meeting held on July 20, 2000, ElringKlinger AG's **authorized share capital** was fixed at €14,400,000.00, and may be called up by its Management Board on or before June 30, 2005, with the approval of its Supervisory Board.

In accordance with a shareholders' resolution passed at the annual general stockholders' meeting held on June 5, 2003, €3,800 thousand from ElringKlinger AG's balance sheet earnings for FY 2002 and, in accordance with a proposition by its Management Board, €12,130 thousand from its net income for FY 2003, were transferred to **retained earnings**. The retained earnings include the legal reserve, which remained unchanged at €133 thousand, and other retained earnings totaling €98,320 thousand (in the previous year €82,390 thousand).

Retained earnings of the ElringKlinger Group comprise items attributable to consolidations, totaling -€52,393 thousand (in the previous year -€44,721 thousand) which have been offset against those of ElringKlinger AG. The reduction is attributable to adjustments due to currency conversions (€4,797 thousand) and in order to adjust the ElringKlinger Group's balance sheet earnings to agree with those of ElringKlinger AG (€2,875 thousand).

ElringKlinger AG's **balance sheet profit** for FY 2003 arose as follows:

	€ 000s
Balance sheet profit at December 31, 2002	15,877
Dividend distribution for FY 2002 (€2.50 per share)	-12,000
Transfers to other retained-earnings accounts	-3,800
Earnings carried forward from the preceding fiscal year	77
Net income	26,537
Transfers to retained earnings	-12,130
Balance sheet profit at December 31, 2003	14,484

The ElringKlinger Group's balance sheet profit, €14,484 thousand, is identical to that of ElringKlinger AG.

The item **"Minority interests"** appearing on the ElringKlinger Group's balance sheet relates to stockholdings in subsidiaries held by minorities, and consisted of €7,505 thousand (in the previous year €7,581 thousand) in capital stock and €3,784 thousand (in the previous year €3,257 thousand) in earnings allocations.

Provisions

Itemized other provisions were as follows:

	ElringKlinger AG		The ElringKlinger Group	
	At Dec. 31, 2003	At Dec. 31, 2002	At Dec. 31, 2003	At Dec. 31, 2002
	€ 000s	€ 000s	€ 000s	€ 000s
Provisions to cover obligations arising from the personnel area	14,227	17,592	16,947	20,111
Provisions to cover legal expenses	1,730	1,615	1,749	1,630
Provisions to cover warranty obligations	1,429	1,327	1,796	1,602
Provisions to cover other risks	6,760	4,748	9,867	6,974
	24,146	25,282	30,359	30,317

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

Special items with an equity portion

In accordance with Section 280, subsection 1 HGB, together with Section 52, subsection 16, clause 3 of the German Income Tax Act (EStG), special items with an equity portion were formed in FY 1999 and added to annual financial statements in conjunction with amounts credited to the book values of stockholdings in affiliated companies and loans granted due to the requirement to update assets stipulated under Section 6, subsection 1, no. 1 EStG. In keeping with legal regulations, the last portion of those items was dissolved as scheduled in FY 2003.

The figures for these items appearing on the ElringKlinger Group's annual financial statements in the previous year also related to additions to loans granted due to that requirement to update assets.

Liabilities

ElringKlinger AG	Totals at Dec. 31, 2003	Portion thereof having a residual term of			Secured Portions	Totals at Dec. 31, 2002
		one year or less	one to five years	more than five years		
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Liabilities to banking institutions	94,020	22,003	24,234	47,783	35,104	89,791
Customer prepayments	98	98	0	0	0	28
Accounts payable	9,905	9,905	0	0	0	9,725
Payables to affiliated companies	1,188	1,101	87	0	0	1,360
Payables to companies in which participations are held	5	5	0	0	0	98
Other liabilities	31,139	22,745	8,394	0	0	23,268
	136,355	55,857	32,715	47,783	35,104	124,270

The ElringKlinger Group	Totals at Dec. 31, 2003	Portion thereof having a residual term of			Secured Portions	Totals at Dec. 31, 2002
		one year or less	one to five years	more than five years		
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Liabilities to banking institutions	104,277	31,202	25,170	47,905	40,656	96,438
Customer prepayments	471	471	0	0	0	2,283
Accounts payable	17,073	17,073	0	0	0	16,965
Payables to companies in which participations are held	5	5	0	0	0	98
Other liabilities	34,099	25,705	8,394	0	0	27,131
	155,925	74,456	33,564	47,905	40,656	142,915

Mortgages on corporate real estate totaling €35,104 thousand for ElringKlinger AG and €35,756 thousand for the ElringKlinger Group have been tendered as collateral. In addition, liens in amounts of 7,000 thousand Canadian Dollars (equivalent to €4,300 thousand) and €600 thousand, making a total of €4,900 thousand, on company assets have been granted by Group subsidiaries. Except for commercially commonplace retentions of rights of ownership in the case of accounts payable for goods and services, no collateral has been tendered to cover other liabilities.

Among ElringKlinger AG's accounts payable to affiliated companies, €99 thousand (in the previous year €110 thousand) relate to financial transactions and the remainders relate to inter-company traffic in goods and services.

Among ElringKlinger AG's other liabilities, €7,082 thousand (in the previous year €3,355 thousand) relate to taxes and €1,809 thousand (in the previous year €1,681 thousand) relate to social security contributions. In the case of the ElringKlinger Group, €8,289 thousand (in the previous year €5,305 thousand) relate to taxes and €2,597 thousand (in the previous year €2,419 thousand) to social security contributions.

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

Net sales

Contributions by geographic markets

	ElringKlinger AG		The ElringKlinger Group	
	FY 2003	FY 2002	FY 2003	FY 2002
	€ 000s	€ 000s	€ 000s	€ 000s
Germany	133,170	125,671	165,607	159,743
Rest of the world	157,468	145,252	255,169	236,535
	290,638	270,923	420,776	396,278
Discounts, bonuses, rebates	-3,340	-3,066	-4,017	-3,757
	287,298	267,857	416,759	392,521

Of the net sales of ElringKlinger AG, €282,523 thousand (in the previous year €262,454 thousand) came from sales of motor vehicle parts and €4,774 thousand (in the previous year €5,403 thousand) was income from the operation of industrial parks.

Approximately 88% of the net sales of the ElringKlinger Group came from manufacture and sale of motor vehicle parts and replacement parts (in the previous year 87%). The remainder came largely from sales of engineered plastic products, which accounted for around 10% (in the previous year 11%), and from income from the operation of industrial parks and service income.

Other operating income

The figures reported for the other operating income in the case of ElringKlinger AG include €451 thousand, as in the previous year, from

the dissolution of special items with an equity portion. It also includes income related to prior periods totaling €1,425 thousand (in the previous year €4,503 thousand) and largely attributable to retirements of manufacturing equipment, appreciation of long-term investments and dissolutions of provisions.

Other operating income reported for the ElringKlinger Group includes income related to prior periods totaling €1,815 thousand (in the previous year €4,085 thousand), largely attributable to dissolutions of provisions (€1,036 thousand), insurance refunds (€364 thousand) and write-downs of value adjustments (€199 thousand). Income totaling €102 thousand (in the previous year €102 thousand) from the dissolution of special items with an equity portion is also included under this item.

Cost of materials

	ElringKlinger AG		The ElringKlinger Group	
	FY 2003	FY 2002	FY 2003	FY 2002
	€ 000s	€ 000s	€ 000s	€ 000s
Cost of raw materials, tooling, fixtures, operating supplies and merchandise	102,982	98,856	142,422	141,670
Cost of purchased services	10,522	8,506	11,681	11,476
	113,504	107,362	154,103	153,146

Personnel costs

	ElringKlinger AG		The ElringKlinger Group	
	FY 2003	FY 2002	FY 2003	FY 2002
	€ 000s	€ 000s	€ 000s	€ 000s
Wages and salaries	69,652	65,349	108,970	103,214
Social-security contributions and contributions to retirement plans	16,497	14,668	22,688	20,650
Portions thereof for retirement plans	(3,113)	(2,833)	(3,672)	(3,466)
	86,149	80,017	131,658	123,864

Depreciation allowances

Depreciation of fixed assets, as demanded by tax regulations, in prior fiscal years increased the net income of ElringKlinger AG by €236 thousand (in the previous year €178 thousand) over what would have resulted if these options allowed by tax regulations had not been exercised.

Included in the depreciation allowances for FY 2003 for both ElringKlinger AG and the ElringKlinger Group are €1,065 thousand (in the previous year €2,622 thousand) in extraordinary depreciation allowances.

Other operating expenses

Included in the figures stated for the other operating expenses of ElringKlinger AG are items relating to prior fiscal years resulting from uncollectable accounts receivable,

retirements of fixed assets and damages settlements totaling €715 thousand (in the previous year €768 thousand).

Included in the figures stated for the other operating expenses of the ElringKlinger Group are items relating to prior fiscal years totaling €1,413 thousand (in the previous year €1,009 thousand).

Income from participations

In the case of ElringKlinger AG, net income from participations results from income totals €8,459 thousand (in the previous year €14,203 thousand), in the previous year also including depreciation allowances on long-term investments totaling €800 thousand. Income totaling €8,408 thousand (in the previous year €14,197 thousand) originates from affiliated companies.

Income from shares in affiliated companies

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

Interest income

	ElringKlinger AG		The ElringKlinger Group	
	FY 2003	FY 2002	FY 2003	FY 2002
	€ 000s	€ 000s	€ 000s	€ 000s
Income from other securities and loans of corporate financial assets	737	65	696	168
Other interest income and similar income	622	641	226	323
Interest expenses and similar expenses	-3,875	-4,612	-4,382	-5,105
Depreciation allowances on long-term investments	-263	0	-15	0
	-2,779	-3,906	-3,475	-4,614

The figures for net interest income stated on ElringKlinger AG's annual financial statements include income from loans of corporate financial assets to affiliated companies totaling €63 thousand (in the previous year €5 thousand), interest income realized from affiliated companies totaling €614 thousand (in the previous year €464 thousand) and interest paid to affiliated companies totaling €74 thousand (in the previous year €63 thousand), all of which have been eliminated on consolidation.

Taxes on income and earnings

The figures for taxes on income and earnings appearing on the annual financial statements of ElringKlinger AG include income relating to

prior fiscal years totaling €1,761 thousand (in the previous year €100 thousand). The corresponding figure for the Elring-Klinger Group is €1,763 thousand (in the previous year €113 thousand).

Commitments

ElringKlinger AG has incurred no commitments (in the previous year €147 thousand) from issuance and transfer of notes. Commitments of ElringKlinger AG totaling €7,143 thousand (in the previous year €2,944 thousand) were incurred due to issuance of guarantees and completion bonds, of which €6,904 thousand (in the previous year €2,847 thousand) were issued on behalf of affiliated companies.

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

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

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

The ElringKlinger Group's financial commitments consisted of guarantees and completion bonds issued to customers totaling €239 thousand (in the previous year €97 thousand) and €147 thousand in commitments under notes for FY 2002.

Other financial commitments

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

Additional notes

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

	ElringKlinger AG		The ElringKlinger Group	
	FY 2003	FY 2002	FY 2003	FY 2002
Wage earners	1,125	1,045	2,079	1,935
Salaried employees	441	425	913	833
	1,566	1,470	2,992	2,768
Trainees	55	56	63	63
	1,621	1,526	3,055	2,831

Corporate Officers

Supervisory Board

Karl Uwe van Husen, Assessor.
Waiblingen, Germany,
Chairman

Walter Herwarth Lechler, Managing stockholder of Lechler GmbH, Metzingen, Germany.
Stuttgart, Germany, Member of the advisory boards or administrative boards of Lechler, Inc., St. Charles, Missouri, USA; Lechler Ltd., Sheffield, Great Britain;
Vice Chairman Lechler India Pvt. Ltd., Thane, India; Lechler Kft, Kécskemét, Hungary; Lechler France S.A., Montreuil, France; Lechler AB, Hagfors, Sweden; Lechler S.A., Wavre, Belgium; and Lechler S.A., Madrid, Spain.

Gert Bauer, First deputy of the IG Metall labor union, Reutlingen/Tübingen.
Reutlingen, Germany,
Employee representative

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

Dr. Rainer Hahn, Former member of the Management Board of Robert Bosch GmbH,
Stuttgart, Germany Stuttgart, Germany.
Member of the supervisory boards of Robert Bosch GmbH, Stuttgart, Germany; Bosch Rexroth AG, Stuttgart, Germany; Rieter Holding AG, Winterthur, Switzerland; and Wüstenrot & Württembergische AG, Stuttgart, Germany; member of the stockholders' committee of TÜV Süddeutschland Holding AG, Munich, Germany.

Dr. Thomas Klingler-Lohr, President of the Management Board.
Egliswil, Switzerland Managing director of Betal Netherlands Holding B.V., Rotterdam, Netherlands, and a member of the advisory boards or administrative boards of the following of its subsidiaries: Klinger Holding PLC, Sidcup, Great Britain; Klinger SpA, Mazzo di Rho, Italy; Saidi, Madrid, Spain; Klinger AG, Egliswil, Switzerland; Klinger Ltd., Welshpool, Australia; Klinger (Pty.) Ltd., Wadeville, South Africa; Klinger Finland Oy, Masala, Finland; Klinger-Sogefiltres N.V., Brussels, Belgium; Klinger-Picoff B.V., Rotterdam, Netherlands; Thermosteal, Inc., Sidney,

Ohio, USA; Rich. Klinger S.A.A.C.I. y F., Buenos Aires, Argentina; Rich. Klinger Grundstücksverwaltung GmbH, Idstein, Germany; and Uni Klinger Ltd., Mumbai, India.

Rolf Rauscher, Employee of ElringKlinger AG logistics division.
Bad Urach, Germany,
Employee representative

Helmut Ritzer, Business consultant.
Stuttgart, Germany

Manfred Strauß, Managing director.
Stuttgart, Germany Member of the advisory board of the Pro Stuttgart tourism agency.

Compensation paid to members of ElringKlinger AG's Supervisory Board by ElringKlinger AG and the ElringKlinger Group during FY 2003 totaled €120 thousand (in the previous year €98 thousand).

Management Board

Dr. Helmut Lerchner, Responsible for the company's subsidiaries and affiliates, central
Aichtal, finance and controlling, original equipment sales, legal affairs and
Chairman personnel, investor relations, IT and public relations, and the spare parts division.

Horst Klusmann, Responsible for the company's cylinder-head gaskets, central
Bad Boll research and development, special-purpose gaskets, housing components/modules/elastomer components and shielding parts divisions, and for its quality assurance and environmental protection, tool-and-die making and purchasing departments.

Compensation paid to members of the Management Board

Members of ElringKlinger AG's Management Board received compensation totaling €3,142 thousand from ElringKlinger AG and the ElringKlinger Group during FY 2003.

Provisions for pensions and compensation paid to former Management Board members

A total of €4,698 thousand has been set aside by ElringKlinger AG and the ElringKlinger Group to cover the pensions of former Management Board members, directors of companies with which they have merged, and surviving members of their families. Altogether, the compensation paid by ElringKlinger AG and the ElringKlinger Group to former Management Board members and to former directors of merged companies during FY 2003 amounted to €355 thousand.

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

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

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

Proposed Distribution of Profits

Stockholder	Announcement date/publication	Announcement/total voting stock held
Betal Netherlands Holding B.V., Rotterdam, Netherlands	February 2, 2004, Frankfurter Allgemeine Zeitung of February 5, 2004 (in accordance with Section 41 subsection 3 WpHG in conjunction with Section 25 subsection 1, clauses 1 and 2, subsection 2 WpHG)	<p>“Rotterdam, dated January 29, 2004</p> <p>Sale of ElringKlinger stock</p> <p>Stockholding falls below 10% threshold.</p> <p>To whom it may concern,</p> <p>We hereby announce that on January 27, 2004 we sold 96,000 shares of ElringKlinger stock.</p> <p>Consequently, our voting stock is reduced from 10% (480,000 shares) to 8% (384,000 shares), thereby falling below the 10% threshold stipulated in Section 21, subsection 1 WpHG.</p> <p>A copy of our notification to the Federal Financial Services Supervisory Office (Bundesanstalt für Finanzdienstleistungsaufsicht), Postfach 50 01 54, 60391 Frankfurt am Main, Germany, is attached.</p> <p>Yours faithfully,</p> <p>Betal Netherlands Holding B.V.”</p>

These announcements relate to the announcement in principle made on April 1, 2002, stipulated in accordance with Section 41 subsection 3 of the German Securities Trading Act (WpHG) and to stockholdings that have exceeded, or fallen below, thresholds stipulated by WpHG. The stockholdings stated above may, therefore, differ from those in effect at December 31, 2003.

Declaration of compliance with the Corporate Governance Code

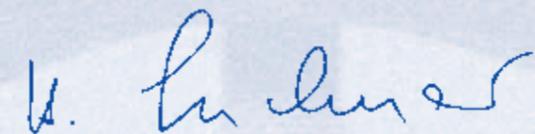
On December 3, 2003 the Management Board and Supervisory Board of ElringKlinger AG issued a declaration of compliance with the German Corporate Governance Code and published the said declaration on its website. The declaration will be available to view on the Internet until such time as an updated declaration is issued in 2004. It is published in the Annual Report as part of the Corporate Governance Report.

At the forthcoming annual general stockholders' meeting, the Management Board will propose that the balance sheet earnings of ElringKlinger AG at December 31, 2003 be distributed as follows:

	€
Disbursement of dividends amounting to €3.00/share	14,400,000.00
To be carried forward to subsequent accounting periods	83,958.57
Balance sheet profit	14,483,958.57

Dettingen/Erms, Germany, March 11, 2004

The Management Board



Dr. Helmut Lerchner



Horst Klusmann

List of Corporate Shareholdings at December 31, 2003, and Companies Consolidated

Company Name	Headquarters	Acronym	Share- holding (%)	Company Equity Capitalization	Company Net Income	Local Currency	Exchange Rate*)	Stockholders' Equity (€)	Consolidated Net Income (€)	Last Closing Date
Parent Company:										
ElringKlinger AG	Dettingen/Erms, Germany									
Shareholdings in affiliated companies consolidated on group closing statements										
Gedächtnisstiftung KARL MÜLLER										
BELEGSCHAFTSHILFE GmbH	Dettingen/Erms, Germany	KMBH	100.00	97,979.90	-11,459.69	EUR	-	97,979.90	-11,459.69	Dec. 31, 2003
ElringKlinger Motortechnik GmbH	Idstein, Germany	EKM	92.90	2,196,307.59	165,980.68	EUR	-	2,196,307.59	165,980.68	Dec. 31, 2003
ElringKlinger Logistic Service GmbH	Rottenburg a.N., Germany	EKLS	76.00	116,702.58	53,460.13	EUR	-	116,702.58	53,460.13	Dec. 31, 2003
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen, Germany	EKT	67.00	17,323,769.93	4,992,104.69	EUR	-	17,323,769.93	4,992,104.69	Dec. 31, 2003
Elring Klinger (Great Britain) Limited	Redcar, UK	EKGB	100.00	6,640,000.00	1,740,000.00	GBP	141.58290	9,401,104.56	2,463,542.46	Dec. 31, 2003
Elring Klinger S.p.A.	Mazzo di Rho-Milano, Italy	EKI	100.00	1,318,195.53	379,814.33	EUR	-	1,318,195.53	379,814.33	Dec. 31, 2003
TECHNIK-PARK HELIPORT Kft.	Kecskemét, Hungary	TPH	100.00	1,204,522,761.48	7,191,981.40	HUF	0.38197	4,600,915.59	27,471.21	Dec. 31, 2003
Elring Klinger Polska Sp. z o.o.	Walbrzych, Poland	EKP	100.00	9,795.74	-360.00	PLN	21.19992	2,076.69	-76.32	Dec. 31, 2003
ElringKlinger Sealing Systems SL	Reus, Spain	EKSL	90.00	1,821,009.00	80,265.00	EUR	-	1,821,009.00	80,265.00	Dec. 31, 2003
Elring Parts Ltd.	Gateshead, UK	EP	90.00	854,201.00	217,355.00	GBP	141.58290	1,209,402.55	307,737.51	Dec. 31, 2003
Elring Klinger S.A.	Reus, Spain	EKSA	51.00	6,426,071.00	2,655,904.00	EUR	-	6,426,071.00	2,655,904.00	Dec. 31, 2003
ElringKlinger Sealing Systems, Inc.	Leamington, Ontario, Canada	EKSS	100.00	8,496,544.00	2,445,190.00	CAD	61.42506	5,219,007.25	1,501,959.42	Dec. 31, 2003
ElringKlinger Sealing Systems USA, Inc.	Livonia, Michigan, USA	EKSU	100.00	3,099,547.00	5,817.00	USD	79.32101	2,458,591.99	4,614.10	Dec. 31, 2003
Elring Klinger México, S.A. de C.V.	Toluca, Mexico	EKMX	100.00	75,888,850.91	8,119,640.75	MXN	7.07464	5,368,863.00	574,435.35	Dec. 31, 2003
EKASER S.A. de C.V.	Toluca, Mexico	EKAS	100.00	4,318,176.97	3,852,271.54	MXN	7.07464	305,495.48	272,534.34	Dec. 31, 2003
Elring Klinger do Brasil Ltda.	Piracicaba, Brazil	EKB	100.00	10,183,995.03	3,920,959.08	BRL	27.38076	2,788,455.24	1,073,588.40	Dec. 31, 2003
Elring of North America, Inc.	Middlesex, New Jersey, USA	ELNA	60.00	1,582,954.00	218,998.00	USD	79.32101	1,255,615.10	173,711.43	Dec. 31, 2003
Elring Gaskets (Pty.) Ltd.	Johannesburg, South Africa	EGS	51.00	10,504,317.00	5,095,279.00	ZAR	12.00480	1,261,022.25	611,678.05	Dec. 31, 2003
Changchun ElringKlinger Ltd.	Changchun, P.R. China	CEK	78.00	48,481,796.00	9,063,096.00	RMB	9.58368	4,646,340.19	868,578.12	Dec. 31, 2003
Affiliated companies accounted for on group closing statements using the equity method										
Jeil Elring Co. Ltd.	Changwon, South Korea	Jeil Elring	50.00	2,957,794,978.00	548,181,416.00	KRW	0.06651	1,967,229.44	364,595.46	Dec. 31, 2003
Marusan Corporation	Tokyo, Japan	MARUSAN	10.00	4,115,009,915.00	16,144,836.00	YEN	0.74184	30,526,789.55	119,768.85	July 31, 2003

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

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

	Purchase or Manufacturing Costs					Depreciation Allowances					Book Values	
	At Jan. 1, 2003	Additions	Transfers	Disposals	At Dec. 31, 2003	At Jan. 1, 2003	For the Fiscal Year	Transfers	Disposals	At Dec. 31, 2003	At Dec. 31, 2003	At Dec. 31, 2002
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Intangible Assets												
Commercial rights and licenses	4,173	12,723	146	0	17,042	3,339	2,796	0	0	6,135	10,907	834
Prepayments	8	0	-8	0	0	0	0	0	0	0	0	8
	4,181	12,723	138	0	17,042	3,339	2,796	0	0	6,135	10,907	842
Tangible Assets												
Land and buildings	106,381	1,468	5	2	107,852	48,951	2,497	0	2	51,446	56,406	57,430
Manufacturing equipment and machinery	94,051	8,720	1,050	1,240	102,581	74,494	6,050	15	1,143	79,416	23,165	19,557
Other equipment, plant and office furnishings	79,234	14,042	3,803	921	96,158	54,144	15,332	-15	911	68,550	27,608	25,090
Prepayments and facilities under construction	5,013	5,623	-4,996	17	5,623	0	0	0	0	0	5,623	5,013
	284,679	29,853	-138	2,180	312,214	177,589	23,879	0	2,056	199,412	112,802	107,090
Long-Term Investments												
Shareholdings in affiliated companies	115,252	3,231	0	0	118,483	2,992	0	0	0	2,992	115,491	112,260
Participations	4,372	0	0	0	4,372	0	0	0	0	0	4,372	4,372
Loans to affiliated companies	366	4,231	0	612	3,985	0	250	0	0	250	3,735	366
Securities	0	625	0	0	625	0	13	0	0	13	612	0
Miscellaneous loans	438	68	0	148	358	0	0	0	0	0	358	438
	120,428	8,155	0	760	127,823	2,992	263	0	0	3,255	124,568	117,436
	409,288	50,731	0	2,940	457,079	183,920	26,938	0	2,056	208,802	248,277	225,368

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

	Purchase or Manufacturing Costs								Depreciation Allowances							Book Values		
	At Dec. 31, 2002	Changes Due to Exchange Rates	At Jan. 1, 2003	Additions	Transfers	Appre- ciations	Disposals	At Dec. 31, 2003	At Dec. 31, 2002	Changes Due to Exchange Rates	At Jan. 1, 2003	Additions	Transfers	Appre- ciations	Disposals	At Dec. 31, 2003	At Dec. 31, 2002	
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	
Intangible Assets																		
Commercial rights and licenses	5,797	-224	5,573	12,881	146	0	59	18,541	4,414	-155	4,259	2,970	0	0	59	7,170	11,371	1,383
Goodwill	34,892	32	34,924	0	0	0	0	34,924	10,831	3	10,834	2,310	0	0	0	13,144	21,780	24,061
Prepayments	8	0	8	0	-8	0	0	0	0	0	0	0	0	0	0	0	0	8
	40,697	-192	40,505	12,881	138	0	59	53,465	15,245	-152	15,093	5,280	0	0	59	20,314	33,151	25,452
Tangible Assets																		
Land, land rights and buildings	132,921	-1,999	130,922	1,710	4	45	1,884	130,797	59,373	-430	58,943	3,394	0	8	839	61,506	69,291	73,548
Manufacturing equipment and machinery	184,261	-4,283	179,978	18,212	1,430	202	15,749	184,073	132,770	-2,471	130,299	15,442	15	104	15,636	130,224	53,849	51,491
Other equipment, plant and office furnishings	102,144	-557	101,587	15,143	3,804	7	14,265	106,276	72,106	-324	71,782	18,447	-15	1	14,077	76,138	30,138	30,038
Prepayments and facilities under construction	5,979	-36	5,943	10,018	-5,376	0	16	10,569	0	0	0	0	0	0	0	0	10,569	5,979
	425,305	-6,875	418,430	45,083	-138	254	31,914	431,715	264,249	-3,225	261,024	37,283	0	113	30,552	267,868	163,847	161,056
Long-Term Investments																		
Shareholdings in affiliated companies	4,544	-430	4,114	33	0	0	0	4,147	254	0	254	0	0	-141	0	113	4,034	4,290
Securities	0	0	0	1,383	0	0	0	1,383	0	0	0	15	0	0	0	15	1,368	0
Miscellaneous loans	825	0	825	79	0	0	411	493	0	0	0	0	0	0	0	0	493	825
	5,369	-430	4,939	1,495	0	0	411	6,023	254	0	254	15	0	-141	0	128	5,895	5,115
	471,371	-7,497	463,874	59,459	0	254	32,384	491,203	279,748	-3,377	276,371	42,578	0	-28	30,611	288,310	202,893	191,623

Changes in the ElringKlinger Group's Equity Capitalization

	Parent Company							
	Subscribed Share Capital	Capital Surplus	Group Total Capitalization	Cumulative Group Net Income		Stockholders' Equity	Minority Equity*)	Total Stockholders' Equity
				Adjustments to Allow for Foreign- Currency Conversions	Other Transactions not related to the Income Statement			
				€ 000s	€ 000s			
Status at Dec. 31, 2001	28,800	12,553	41,111	2,927	2,364	87,755	10,299	98,054
Shares issued						0		0
Dividend distributions			-6,000			-6,000	-3,167	-9,167
Adjustments to allow for changes in consolidated companies					1,487	1,487	836	2,323
Adjustments to allow for consolidations				-5,304		-5,304	-283	-5,587
Adjustments to allow for other changes						0		0
Group net income/loss for the fiscal year			17,094			17,094	3,153	20,247
Other group net income						0		0
Status at Dec. 31, 2002	28,800	12,553	52,205	-2,377	3,851	95,032	10,838	105,870
Shares issued						0		0
Dividend distributions			-12,000			-12,000	-2,999	-14,999
Adjustments to allow for changes in consolidated companies						0		0
Adjustments to allow for consolidations				-4,797		-4,797	-76	-4,873
Adjustments to allow for other changes						0		0
Group net income/loss for the fiscal year			23,662			23,662	3,526	27,188
Other group net income						0		0
Status at Dec. 31, 2003	28,800	12,553	63,867	-7,174	3,851	101,897	11,289	113,186

*) Includes adjustments to allow for foreign-currency conversions that were of negligible importance.

Consolidated Statement of Changes in Financial Position

	FY 2003	FY 2002
	€ 000s	€ 000s
Group net income for the fiscal year, including minority interests, before extraordinary items	27,188	20,247
Depreciation allowances on assets, net of appreciations	42,296	39,608
Additions to provisions	1,914	9,583
Other expenses/income requiring no expenditures and yielding no disbursements (dissolutions of extraordinary items, changes in the allocation of deferred taxes)	-230	-502
Income from disposal of assets, adjusted to allow for losses thereon	333	-3,065
Changes in inventories, accounts receivable and other assets, other than those allocatable to long-term investments or financial transactions	-9,215	-6,643
Changes in accounts payable and other liabilities, other than those allocatable to long-term investments or financial transactions	4,926	9,577
Effects of changes in balance-sheet items attributable to extensions of the companies consolidated on items related to ordinary business operations	0	915
Foreign-exchange effects on items related to ordinary business operations	-1,165	-668
Cash flow from ordinary business operations	66,047	69,052
Income from sales of fixed and intangible assets	1,029	10,499
Income from sales of long-term investments	411	606
Expenditures for purchases of common stock	0	-724
Disbursements for investments in intangible assets	-12,881	-457
Disbursements for investments in fixed assets	-45,083	-31,811
Disbursements for investments in long-term investments	-1,495	-205
Income from sales of securities	-44	-174
Cash flow from investment transactions	-58,063	-22,266
Disbursements to company owners and minority stockholders	-14,999	-9,167
Changes in liabilities to banking institutions	7,838	-37,595
Changes in liabilities to banking institutions attributable to initial consolidations	0	-1,909
Payments on equity by minority stockholders	0	836
Effects of foreign-exchange rates on items related to financial transactions	574	2,762
Cash flow from financial transactions	-6,587	-45,073
Changes in cash requiring expenditures or yielding disbursements	1,397	1,713
Additions to cash attributable to initial consolidations	0	274
Effects of changes in foreign-exchange rates on liquid assets	-162	-686
Funds on hand at the start of the fiscal years	7,181	5,880
Funds on hand at the end of the fiscal years	8,416	7,181

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

Capital increases resulted in contributions from minority stockholders totaling €135 thousand (in the previous year zero).

Interest payments totaling €4,388 thousand and income tax payments totaling €17,016 thousand were disbursed during FY 2003.

Report on Individual Market Segments

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

Its operations in the “Original Equipment” and “Spare Parts” segments involve the manufacture and sale of parts and component assemblies for the powertrain and exhaust systems of motor vehicles. Services are also provided in conjunction with those operations.

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

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

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

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

Performance by Market Segment

	Fiscal Year	Net Sales € 000s	Intersegment Sales € 000s	Consolidation Adjustments € 000s	External Sales € 000s	Income from Ordinary Activities € 000s	Segment Fixed Assets € 000s	Portion Thereof Segment Stockholdings in Affiliated Companies € 000s	Investments in Intangible and Tangible Fixed Assets € 000s	Current Assets € 000s	Liabilities and Provisions € 000s	Depreciation Allowances € 000s	Net Interest Income € 000s
Original equipment	2003	354,432	17,819	44,708	291,905	32,204	155,600	4,026	55,092	91,367	178,897	38,229	-2,515
	2002	327,709	19,051	40,031	268,627	18,716	138,979	4,282	30,385	83,143	152,969	36,389	-2,968
Spare parts	2003	85,502	0	11,988	73,514	8,152	7,834	8	1,024	32,492	25,269	852	-420
	2002	84,709	0	12,960	71,749	7,913	9,508	8	664	31,250	29,414	714	-740
Engineered plastics	2003	44,222	0	2,208	42,014	8,098	11,546	0	704	13,228	6,731	1,380	226
	2002	45,080	0	2,552	42,528	6,729	13,251	0	821	12,497	8,948	1,714	273
Services	2003	7,147	0	4,417	2,730	339	2,743	0	1,112	797	1,340	877	-13
	2002	4,769	0	2,374	2,395	215	2,510	0	164	1,065	1,591	897	-38
Industrial parks	2003	6,722	0	126	6,596	1,711	25,170	0	32	465	16,861	1,225	-753
	2002	7,347	0	125	7,222	2,441	27,375	0	234	201	21,252	1,300	-1,142
Totals for the group	2003	498,025	17,819	63,447	416,759	50,504	202,893	4,034	57,964	138,349	229,098	42,563	-3,475
	2002	469,614	19,051	58,042	392,521	36,014	191,623	4,290	32,268	128,156	214,174	41,014	-4,615

The figures stated for other operating income include income requiring no expenditure and yielding no disburseable income totaling €180 thousand and income from stockholdings in affiliated companies totaling €222 thousand, both attributable to the “Original Equipment” segment.

Two customers from the “Original Equipment” segment account for more than 10% of the Group’s consolidated net sales each. These two customers collectively account for approximately 30% of the Group’s consolidated external net sales.

Performance by geographic territory:

	Fiscal Year	Net Sales € 000s	Fixed Assets € 000s	Investments in Intangible and Tangible Fixed Assets € 000s
Germany	2003	164,026	150,109	44,394
	2002	154,510	141,385	27,645
Rest of Europe	2003	129,598	19,387	2,708
	2002	126,125	21,193	2,253
NAFTA	2003	73,828	28,961	9,923
	2002	71,714	23,462	2,100
Asia and Australia	2003	33,521	2,546	541
	2002	26,428	3,830	0
South America and others	2003	15,786	1,890	398
	2002	13,744	1,753	270
Group totals	2003	416,759	202,893	57,964
	2002	392,521	191,623	32,268

Independent Auditor's Report

We have audited the annual financial statements, together with the bookkeeping system, of ElringKlinger AG, Dettingen/Erms, as well as the consolidated financial statements comprising the balance sheet, the income statement, cash flows, segment reporting, changes in shareholders' equity and the notes and its report on the position of the Company and the Group prepared by the Company for the business year from January 1 to December 31, 2003. The preparation of these documents in accordance with German commercial law and supplementary provisions in the articles of incorporation agreement is the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, as well as on the consolidated financial statements and the report on the position of the Company and the Group based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual and the consolidated financial statements and the cash flows in the consolidated financial statements in accordance with German principles of proper accounting and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and the Group and evaluations of possible misstatements are taken into

account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual and consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and the consolidated financial statements and the report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual and the consolidated financial statements give a true and fair view of the net assets, financial position and

results of operations of the ElringKlinger AG and the Group and the cash flows for the year of the Group, respectively, in accordance with German principles of proper accounting. On the whole the report on the position of the Company and the Group provides a suitable understanding of the Company's and the Group's position and suitably presents the risks of future development.

Stuttgart, Germany, March 11, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft


Burchards, Wirtschaftsprüfer

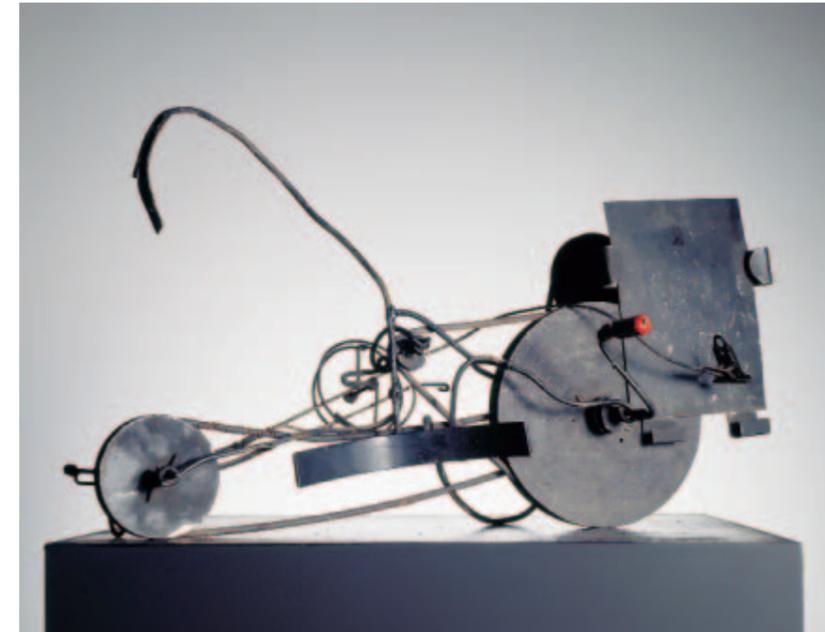

Hagg, Wirtschaftsprüfer

“The only thing that is stable is motion – everywhere

and always. The definitive is the provisional.

Nothing is certain apart from what is uncertain.”

Jean Tinguely, undated



Méta Matic No. 14, 1959

Financial Calendar

SAE World Congress 2004, Detroit	March 8, 2004
Investor Community Meeting, Edinburgh	March 16, 2004
Financial Press Conference, Stuttgart	March 30, 2004
Investor Community Meeting, London	April 1, 2004
Investor Community Meeting, Paris	April 6, 2004
Conference of Analysts and Investors Hosted by Deutsche Börse AG, Paris	April 27, 2004
Conference of Analysts and Investors Hosted by ABN AMRO Bank, London	May 6, 2004
Report on the Financial Results for the 1 st Quarter of 2004	May 2004
SAE World Congress 2004, Tokyo	May 19, 2004
99 th Annual General Meeting of the Stockholders at the Kultur- und Kongresszentrum, Stuttgart	10:00 a.m., June 2, 2004
Dividend Distribution	June 3, 2004
MIMS, Moscow International Motor Show	August 2004
Report on the Financial Results for the 2 nd Quarter and First Six Months of 2004	August 2004
Small and Mid Cap Analysts' Conference, Munich	September 8, 2004
Automechanika, Frankfurt am Main	September 2004
Equity Capital Forum Hosted by Deutsche Börse AG, Frankfurt	November 26 – 27, 2004
Report on the Financial Results for the 3 rd Quarter and First Nine Months of 2004	November 2004
Financial Press Conference, Stuttgart	March 2005
Report on the Financial Results for the 1 st Quarter of 2005	May 2005
100 th Annual General Meeting of the Stockholders at the Kultur- und Kongresszentrum, Stuttgart	10:00 a.m., June 8, 2005
Dividend Distribution	June 9, 2005
Report on the Financial Results for the 2 nd Quarter and First Six Months of 2005	August 2005
Report on the Financial Results for the 3 rd Quarter and First Nine Months of 2005	November 2005

We will be pleased to e-mail you our quarterly and semiannual reports in the form of PDF files. Simply drop us an e-mail at investor-relations@elringklinger.de or give us a call at +49-(0) 71 23/724-264 and let us have your e-mail address.

Further information is available at www.elringklinger.de



Publisher's Statement

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Fatamorgana, Méta-Harmonie IV, 1985
420 x 1250 x 220 cm, Museum Tinguely, Basle
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©Photo: Christian Baur



La dernière Bascule, 1991, 220 x 160 x 100 cm
Museum Tinguely, Basle, Donation Niki de Saint Phalle
©VG Bild-Kunst, Bonn 2004
©Photo: Christian Baur



Elément Détaché I, Relief méta-mécanique, 1954
81 x 131 x 35,5 cm, Museum Tinguely, Basle
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Moulin à prière IV, 1954, 71 x 50 x 30 cm
Rira collection, courtesy of Galerie Reckermann
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Untitled (Bing Bing), Char, around 1966, 60 x 110 x 40 cm
Museum Tinguely, Basle, Donation Niki de Saint Phalle
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Requiem pour une feuille morte, 1967
305 x 1105 x 80 cm, Collection Renault
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Incitation à la Création, 1981, 300 x 228 x 70 cm
Donation Micheline and Claude Renard, Museum Tinguely, Basle
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Isidor III, 1966, 135 x 100 x 70 cm
Hotz collection
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Klamauk, 1979, 315 x 660 x 315 cm
Museum Tinguely, Basle, Donation Niki de Saint Phalle
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Méta-Matic No. 14, 1959, 38 x 69 x 41 cm
Museum Tinguely, Basle
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"Quotations from Jean Tinguely are taken from:
Broeker, Holger: "L'Esprit de Tinguely", Kunstmuseum Wolfsburg, Hatje Cantz Verlag, Juli 2000, ISBN 3775709312;
Heidi E. Violand-Hobi: "Jean Tinguely", Prestel Verlag, 1995, ISBN 3791314734;
Reinhardt Stumm/Kurt Wyss: "Jean Tinguely", Friedrich Verlag, Basel, ISBN 3724505647.
All quotations have been translated from German into English."

