

Report on the First Quarter of 2004

*Experience mobility*

**elring**klinger

## Dear Stockholders, Ladies and Gentlemen,

The first quarter of 2004 was a pleasing one for the ElringKlinger Group. We have succeeded in increasing sales and income over the previous year.

### Market

The upturn in economic activity both at home and in the rest of Europe was slow to start in the first quarter of 2004 and failed to meet expectations. The US economy was in full swing, with growth of 4.9% in the period covered by the report; the Chinese economy sparkled, recording growth of 9%. The automotive markets, key to ElringKlinger, either stagnated or fell slightly. The global spare parts markets experienced a higher than average increase in business, benefiting from the growth in demand for repairs to the rising numbers of ageing vehicles.

New car registrations in Germany during the first quarter of 2004, at 777,000 units, were 2.7% below the level of the previous year. German car production, at 1.4 million units, remained at the same level as the previous year.

In Western Europe new car and SUV registrations in the first quarter of 2004, at 3.9 million units, were 0.9% higher than in the previous year. However, new vehicle production, at 3.8 million units, was 1.2% down on the figure for the previous year.

In the NAFTA region new car/SUV registrations in the first quarter of 2004, also at 3.9 million units, were 3.9% up on the previous year's figure. Although the number of new vehicles manufactured, at 4.4 million units, was 4.1% fewer than in the previous year, inventories increased by 0.5 million units.

The continuing trend towards diesel engines in Western Europe had a positive effect for ElringKlinger. Diesel vehicles' share of new registrations increased further in the first quarter of 2004.

Production and sales of commercial vehicles in the first quarter, both at home and in the rest of Western Europe, rose sharply compared with the previous year. Following the falls in 2002 and 2003 there was a further recovery in the commercial vehicle business, a pleasing development for ElringKlinger which supplies a high proportion of gaskets for truck engines.

Details of the new car registration and production figures:

New car registrations (thousand units)	1-3/04
Domestic	777.3
Change compared with prev. year in %	- 2.7
Western Europe	3,912
Change compared with prev. year in %	+ 0.9
USA*	3,911
Change compared with prev. year in %	+ 3.9

\* incl. Sport Utility Vehicles

Car production (thousand units)	1-3/04
Domestic	1,332
Change compared with prev. year in %	+ 0.0
Western Europe	3,812
Change compared with prev. year in %	- 1.2
USA/NAFTA*	4,358
Change compared with prev. year in %	- 4.1

\* incl. Sport Utility Vehicles

Figures for production and new vehicle registrations have been taken from sources available in the public domain. No guarantee can be given as to their accuracy.



## Sales

Sales of the ElringKlinger Group rose in the first quarter of 2004 by 8.7% compared with the previous year, to €117.4 million. New product start-ups in the cylinder-head gasket, cam cover and shielding parts segment made an important contribution towards this result, as did the trend towards diesel. With a market share of more than 70% in cylinder-head gaskets for diesel engines, the ElringKlinger Group benefited more than average from this trend.

The breakdown of ElringKlinger's sales by region in the first quarter of 2004 is as follows:

**Germany:** €43.7 million, 1.4% up on the previous year, a figure which is below the percentage increase in volumes as a consequence of lower prices. It is also a below-average result by international comparison.

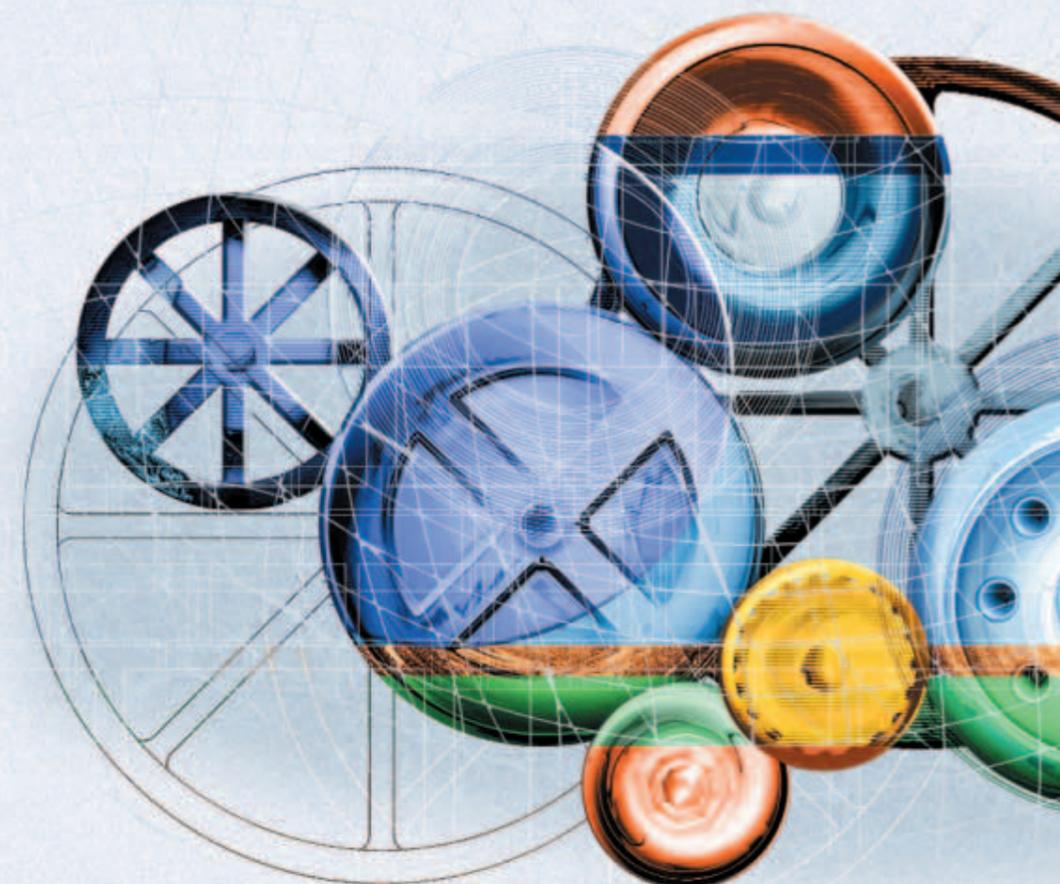
**Rest of Europe:** €39 million, 14.4% higher than the previous year. Growth in ElringKlinger's share of the Western European market was

pleasing. The production start-up in the first quarter of 2004 of a new diesel cylinder-head gasket for a newly-acquired French automobile manufacturer client was one of the contributors towards this result.

**NAFTA region:** €21.2 million, 6.0% up on the previous year.

**Asia:** €9.2 million, a 37.3% increase over the previous year. This region reported the strongest growth dynamics, ElringKlinger strongly expanded its involvement in this market. In the first quarter of 2004 significant sales volumes were achieved with a cylinder-head gasket for one of the diesel engines of a Japanese client. Production of this gasket commenced in the second half of 2003. There were additional new product start-ups in China where ElringKlinger achieved a 40% market share in the flat gasket market. Volumes of a cylinder-head gasket sold to a South Korean client also increased sharply.

**South America/Rest of the World:** €4.3 million, a rise of 4.9% over the previous year.



### Consolidated Sales by Region (in € millions)

	1-3/04
Germany	43.7
Change compared with prev. year in %	+ 1.4
Rest of Europe	39.0
Change compared with prev. year in %	+ 14.4
NAFTA	21.2
Change compared with prev. year in %	+ 6.0
Asia	9.2
Change compared with prev. year in %	+ 37.3
South America/Rest of the World	4.3
Change compared with prev. year in %	+ 4.9
<b>Total</b>	<b>117.4</b>
Change compared with prev. year in %	+ 8.7

## Earnings

The ElringKlinger Group reported pre-tax earnings of €18.0 million, an 18.4% increase compared with the previous year. With net income at €11.3 million, Group earnings in the first quarter of 2004 rose by 21.5% by comparison with the first quarter of 2003.

The cost of materials was up by 9.5%, a slightly higher rate in proportion to sales, caused by lower sales prices and higher material prices, particularly for steel. Thanks to the long-term, fixed price supply contracts

with steel suppliers as well as a global concept for the optimum utilization of the sharply higher scrap prices, the effects of the results enabled the Group to offset the higher steel prices.

Personnel costs increased by 8.3%, approximately the same level as sales. The savings achieved through rationalization were provisionally offset by the payroll increase under the collective wage agreement in April 2003.

All ElringKlinger Group companies operated at a profit in the first quarter of 2004.

## Consolidated Income Statement

	01.01.-31.03.04	01.01.-31.03.03
	€ 000s	€ 000s
<b>Net sales</b>	<b>117,400</b>	<b>108,000</b>
Changes in inventories	- 1,927	- 700
Other capitalized items	402	357
Other operating income	1,497	1,496
Costs for purchased services/ cost of materials	- 40,971	- 37,433
Personnel costs	- 34,795	- 32,122
Depreciation allowances on intangible assets and tangible assets	- 9,400	- 9,968
Other operating expenses	- 13,306	- 13,582
Income from stockholdings in affiliated companies	0	0
Net interest income/loss	- 900	- 848
<b>Income from ordinary activities</b>	<b>18,000</b>	<b>15,200</b>
Extraordinary profit/loss	0	0
<b>Earnings before taxes</b>	<b>18,000</b>	<b>15,200</b>
Taxes on income	- 6,656	- 5,857
Other taxes	- 44	- 43
<b>Net income</b>	<b>11,300</b>	<b>9,300</b>

## DVFA Earnings

DVFA pretax income of the ElringKlinger Group in the first quarter of 2004 amounted to €10.0 million, an increase of 21.4% over the previous year.

Earnings per share were €2.09 compared with €1.72 in the first quarter of 2003.

Cash flow after DVFA in the first quarter of 2004 totaled €19.6 million, 0.5% up on the previous year.

## Trend in DVFA Earnings

(in € millions, excluding shares of third parties respectively)

	1-3/04
DVFA cash flow	19.6
Change compared with prev. year in %	+ 0.5
DVFA pretax income	16.0
Change compared with prev. year in %	+ 17.6
DVFA net income	10.0
Change compared with prev. year in %	+ 20.5
DVFA/SG earnings per share in €	2.09
Change compared with prev. year in %	+ 21.5

## Segment Reports

The table below shows the net sales, earnings, assets and liabilities of the Original Equipment, Spare Parts, Engineered Plastics, Services and Industrial Parks segments:

### Performance by Market Segment

1<sup>st</sup> Quarter 2004/1<sup>st</sup> Quarter 2003 (in € millions)

	Sales		Intersegment Sales		Consolidation Adjustments		External Sales		Income from Ordinary Activities		Investments (Intangible/Tangible Assets)		Depreciation Allowances		Net Interest Income/Loss		Fixed Assets		Current Assets (Excl. Deferred Charges)		Accruals and Liabilities	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Original Equipment	100.7	95.1	-4.1	-5.8	-14.5	-13.0	82.1	76.3	11.0	9.5	8.5	15.6	-8.4	-8.9	-0.7	-0.5	157.3	142.4	102.6	88.5	-177.0	-159.7
Spare Parts	24.4	20.7	0.0	0.0	-3.2	-3.1	21.2	17.6	3.8	3.0	0.3	0.4	-0.2	-0.2	-0.1	-0.1	7.7	8.4	34.7	36.5	-24.2	-27.1
Engineered Plastics	12.5	12.4	0.0	0.0	-0.5	-0.7	12.0	11.7	2.6	2.3	0.4	0.0	-0.3	-0.4	0.1	0.0	11.5	12.6	11.6	11.8	-10.8	-9.6
Industrial Parks	1.5	1.8	0.0	0.0	0.0	0.0	1.5	1.8	0.4	0.3	0.1	0.0	-0.3	-0.3	-0.2	-0.2	25.3	26.6	0.2	0.7	-15.2	-21.8
Services	1.7	1.6	0.0	0.0	-1.1	-1.0	0.6	0.6	0.2	0.1	0.3	0.5	-0.2	-0.2	0.0	0.0	2.9	2.9	0.6	0.6	-1.0	-0.8
<b>Total</b>	<b>140.8</b>	<b>131.6</b>	<b>-4.1</b>	<b>-5.8</b>	<b>-19.3</b>	<b>-17.8</b>	<b>117.4</b>	<b>108.0</b>	<b>18.0</b>	<b>15.2</b>	<b>9.6</b>	<b>16.5</b>	<b>-9.4</b>	<b>-10.0</b>	<b>-0.9</b>	<b>-0.8</b>	<b>204.7</b>	<b>192.9</b>	<b>149.7</b>	<b>138.1</b>	<b>-228.2</b>	<b>-219.0</b>

The only significant internal business relationships in respect of goods and services were between the Original Equipment and Spare Parts segments.

Three of the customers in the Original Equipment segment each accounted for more than 10% of consolidated sales. In total, some 40% of consolidated sales was attributable to these three clients.

## Consolidated Balance Sheet (HGB)\*

The consolidated balance sheet total as at March 31, 2004 was €355.2 million.

Fixed assets increased by €1.8 million to €204.7 million as a result of investments in plant and machinery.

Current assets rose from €138.3 million as at December 31, 2003 to €149.7 million, which was attributable primarily to accounts receivable and other assets.

Stockholders' equity as at March 31, 2004 increased by around €13 million compared

with the end of 2003 to approximately €126.1 million. The Group's equity ratio as at March 31, 2004 was 35.5%.

The tables below show developments in the consolidated balance sheet and the consolidated stockholders' equity for the period under review:

### Assets

	31.03.2004	31.12.2003
	€ 000s	€ 000s
<b>Fixed assets</b>		
Intangible assets	32,129	33,151
Tangible assets	166,623	163,847
Long-term investments	5,927	5,895
	<b>204,679</b>	<b>202,893</b>
<b>Current assets</b>		
Inventories	62,367	65,065
Accounts receivable and other assets	81,624	63,238
Other securities	2,447	1,630
Cash on hand, bank deposits and checks	3,265	8,416
	<b>149,703</b>	<b>138,349</b>
<b>Deferred charges</b>	<b>828</b>	<b>1,910</b>
<b>Total assets</b>	<b>355,210</b>	<b>343,152</b>

### Liabilities and Stockholders' Equity

	31.03.2004	31.12.2003
	€ 000s	€ 000s
<b>Stockholders' equity</b>		
Capital stock at par value	28,800	28,800
Capital in excess of par value	12,553	12,553
Retained earnings	50,470	46,060
Shares held by outsiders	12,663	11,289
Balance-sheet profit	21,584	14,484
	<b>126,070</b>	<b>113,186</b>
<b>Special items with an equity portion</b>	<b>0</b>	<b>0</b>
<b>Provisions</b>		
Provisions for pensions and similar reserves	37,875	37,524
Provisions for taxes	8,561	5,290
Other provisions	33,090	30,359
	<b>79,526</b>	<b>73,173</b>
<b>Liabilities</b>	<b>148,776</b>	<b>155,925</b>
<b>Accrued income</b>	<b>838</b>	<b>868</b>
<b>Total liabilities</b>	<b>355,210</b>	<b>343,152</b>

\* The consolidated balance sheet was drawn up in accordance with the provisions of the HGB (German Commercial Code). With effect from 2005 the annual financial statements of ElringKlinger will be drawn up in accordance with IAS.

## Changes in the Group's Equity Capitalization

### Stockholders' Equity

1<sup>st</sup> Quarter

	Subscribed Share Capital	Capital Surplus	Group Total Capitalization	Adjustment to Allow for Foreign- Currency Conversions	Other Transactions not Related on the Income Statement	Stockholders' Equity	Minority Equity	Total Stockholders' Equity
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Status as at December 31, 2003	28,800	12,553	63,867	- 7,174	3,851	101,897	11,289	113,186
Dividend distributions								0
Adjustments to allow for consolidations				1,486		1,486	98	1,584
Consolidated net income			10,024			10,024	1,276	11,300
Status as at March 31, 2004	28,800	12,553	73,891	-5,688	3,851	113,407	12,663	126,070

## Consolidated Statement of Changes in Financial Position

The cash flow from the ordinary business operations in the first quarter of 2004 was €11.9 million compared with €20.6 million for the same period of 2003. Additional funds were required in particular for the increase in trade receivables.

In the first quarter of 2004, cash flow from investment transactions was approximately €7 million down on the figure for the same

period of 2003. The high level of capacity utilization in the first half of 2003 had triggered increased investment in the expansion of capacities. By comparison with this, investments in the first quarter of 2004 were at the lower average long-term level.

Total funds as at March 31, 2004 amounted to €3.2 million compared with €7.6 million at the end of the first quarter of 2003.

	1 <sup>st</sup> Quarter	
	2004	2003
	€ 000s	€ 000s
Consolidated net income	11,300	9,300
Depreciation allowances on assets and asset disposals, net of appreciations	9,247	10,022
Changes in inventories, accounts receivable and other assets	- 15,838	- 8,955
Changes in accounts payable and other liabilities incl. provisions and special items	7,146	9,430
Foreign-exchange effects on items related to ordinary business operations	75	849
<b>Cash flow from ordinary business operations</b>	<b>11,930</b>	<b>20,646</b>
Income from sales of assets	206	319
Disbursements for investments in assets	- 9,554	- 16,454
Disbursements arising from sales of securities	- 817	- 885
<b>Cash flow from investment transactions</b>	<b>- 10,165</b>	<b>- 17,020</b>
Disbursements to company owners and minority stockholders	0	0
Changes to liabilities to banking institutions	- 6,740	- 3,292
Effects of foreign-exchange rates on items related to financial transactions	- 304	174
<b>Cash flow from financial transactions</b>	<b>- 7,044</b>	<b>- 3,118</b>
Change in cash requiring expenditures or yielding disburseable income	- 5,279	- 508
Effects of changes in foreign-exchange rates on liquid assets	128	- 44
Funds on hand at the start of the period	8,416	7,181
<b>Funds on hand at the end of the period</b>	<b>3,265</b>	<b>7,645</b>

### Research and Development

Investment in research and development during the first quarter of 2004 once again totaled approximately 5% of sales.

In the first quarter of 2004 a large number of development contracts were received from Asian clients, 12 from China, 2 from South Korea (cylinder-head gaskets for diesel engines) plus several contracts from Japan for cylinder-head gaskets and housing modules.

The success of the shielding parts division was achieved primarily with French clients. Awarded development contracts will lead to significant increases in this division's sales from 2006/2007.

Following the successful launch of the plastic cam covers module for a truck engine, the elastomer components/modules division won another major development contract for a similar product. ElringKlinger is becoming a specialist in large-volume plastic engine housing components in conjunction with sophisticated gasket and fastening technology.

In the plastics processing business the Group won a development contract for a polyamide oil separator system, an example of

ElringKlinger's growth strategy of ongoing development of new products with an engineering link to existing product and manufacturing technologies.

### Investments

Investment in the first quarter of 2004 was focused primarily on rationalization projects. The cam cover production process was further automated, as was the production of cylinder-head gaskets. Two new systems were purchased for the production of special-purpose gaskets.

### Employees

On March 31, 2004 employees of the ElringKlinger Group numbered 3,159, of whom 1,585 worked at the parent company, 452 at domestic subsidiaries, and 1,122 at foreign subsidiaries and affiliates.

### Explanatory Notes

The same accounting and valuation principles as used in the annual financial statements of ElringKlinger AG and the ElringKlinger Group for fiscal 2003 as well as for the corresponding same period in the previous year – the first quarter of 2003 – were used in drawing up this interim report.

## ElringKlinger Stock

ElringKlinger stock posted another positive performance in the first quarter of 2004. As at the end of 2003 the price of our shares was €76.00. During the course of the first quarter of 2004 the price rose to €92.00, but leveled out to between €85.00 and €88.00 by the date of this report.

In the first quarter of 2004 ElringKlinger fostered intensive relations with the capital market. Numerous meetings were held with analysts and investors at Europe's key financial centers.

In 2004 two more leading banks included ElringKlinger in the ongoing monitoring and reports for their investment clients.

In the first quarter of 2004 the main stockholders further reduced their holdings, the aim being to increase the size of the free float, a crucial factor for the trading volumes in the stock. The free float is now 36.5%. The volume of trading achieved in the ElringKlinger stock, the so-called liquidity, now meets the requirements of institutional investors.



The proposal at the AGM on June 2, 2004 to increase the capital stock out of company resources and the associated doubling of the volume of stock is likely to produce a further rise in stock market turnover and to increase the potential for additional price gains.

In view of the further gain in net income for 2003, the Management Board and the Supervisory Board decided on March 26, 2004 to propose to the AGM payment of a dividend of €3.00 per share, a 20% increase over the previous year.

### ElringKlinger Stock

Market segment	S-DAX, Frankfurt
Number of shares	4,800,000 shares
ISIN	DE0007856023
Securities reference number	785 602
Price as at December 31, 2003	€76.00
Price as at March 31, 2004	€81.80

	Number of Shares
<b>Management Board</b>	
Dr. Helmut Lerchner	840
<b>Supervisory Board</b>	
Karl Uwe van Husen	1,000
Dr. Thomas Klinger-Lohr	358,080 *)
Walter Herwarth Lechler	1,214,825 **)

\*) held via Betal Netherlands BV, Rotterdam

\*\*\*) including stock held via controlled joint stock corporations

### Dividends

A proposal will be made at the AGM on June 2, 2004 to pay a dividend of €3.00 per share for the fiscal year, an increase of €0.50 or 20%. Payment of the dividend will be made on June 3, 2004 – subject to a corresponding resolution being passed at the AGM.

## Outlook

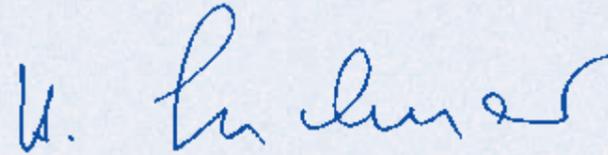
ElringKlinger does not expect any significant boost to economic demand for the remainder of the year. In Europe the vehicle markets are likely to show virtually no further growth due to the continuing reticence amongst buyers, a situation which is exacerbated by rising fuel prices. The same will apply in the USA as a result of market saturation as well as rising fuel prices. European vehicle output may at most show some slight growth, boosted by exports, whereas production in the NAFTA region is likely to shrink slightly. By contrast, vehicle output in Asia will grow sharply as a result of their booming domestic markets and increasing market shares in Europe and the USA. Higher fuel prices will continue to support the trend towards diesel-powered vehicles, benefiting ElringKlinger.

However, thanks to the expansion in market shares through new products and the high proportion of diesel engines, sales at ElringKlinger will continue to grow independently of the general economic development.

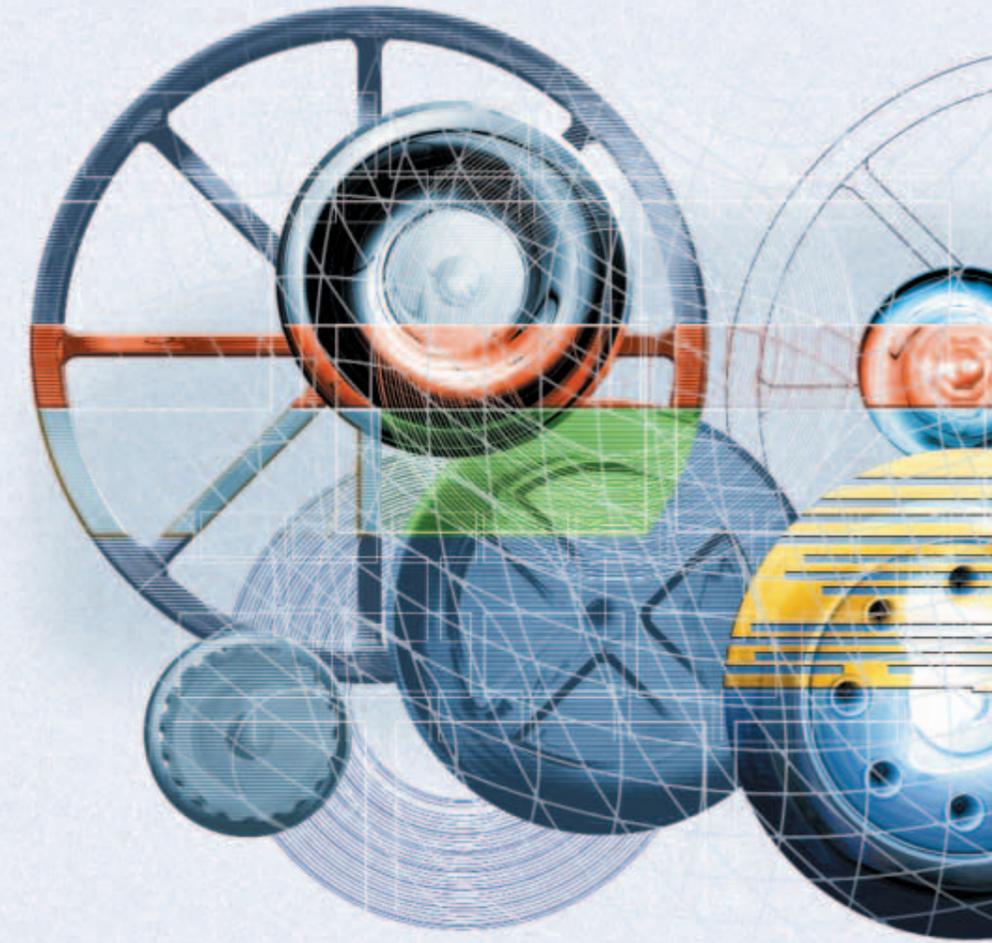
The cost situation will come under greater pressure as a result of the increase in wages under the collective wage agreement, the development in steel prices, the weakness of the Dollar and Pound Sterling against the Euro and the downward pressure on prices from the consumer markets. Growth in earnings over the remaining quarters of 2004 is therefore likely to be below the rates achieved in the first quarter.

Overall nevertheless, based on the status of information as at the date of this report, the ElringKlinger Group will achieve further pleasing growth in sales and earnings in 2004.

Sincerely yours,



Dr. Helmut Lerchner



# Financial Calendar

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99 <sup>th</sup> 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 <sup>nd</sup> 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 23-24, 2004
Report on the Financial Results for the 3 <sup>rd</sup> Quarter and First Nine Months of 2004	November 2004
Financial Press Conference, Stuttgart	March 2005
Report on the Financial Results for the 1 <sup>st</sup> Quarter of 2005	May 2005
100 <sup>th</sup> 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 <sup>nd</sup> Quarter and First Six Months of 2005	August 2005
Report on the Financial Results for the 3 <sup>rd</sup> Quarter and First Nine Months of 2005	November 2005

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We will be happy to send you our interim reports in the form of pdf files by e-mail. Please send us your e-mail address to [investor-relations@elringklinger.de](mailto:investor-relations@elringklinger.de) or phone us on +49 (0)71 23/724-264.

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