

Information for Our Stockholders

Report for the first nine
months of fiscal year FY 2000

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Dear stockholder:

Highlights

The upward trend of the first half of the current fiscal year continued into the third quarter. Consolidated net sales and earnings for the nine-month period rose substantially compared to the corresponding period of the preceding fiscal year. Our restructuring of our group, focusing of our efforts on our automotive OEM-business, and renaming to "**ElringKlinger AG**" have meanwhile all been concluded. Our stock is now listed and traded under our new name, rather than that of ZWL AG. Now that we have merged with our former parent firm, we are able to address capital markets on our own. In a subsequent event, effective 1 November, 2000, we acquired a Canadian manufacturer of gaskets and seals, which will provide us with a platform for expanding and strengthening our strategic foothold in North America.

Sales and earnings

All of our divisions reported substantially higher net sales and earning rates for the nine-month period just ended. Consolidated net sales rose to DM 454.6 million, an increase of 17.8 % compared to the figure reported for the corresponding period of the preceding fiscal year. Sales to automotive OEM's totaled DM 292.6 million. Replacement-parts sales totaled DM 105.3 million. Our domestic subsidiaries, **Elring Kunststoff-Technik GmbH** and **Elring-Klinger Motortechnik GmbH**, reported consolidated net sales of DM 45.5 million. Revenues from our real-estate operations totaled DM 11.2 million.

Our technological expertise, innovativeness, custom-tailored product solutions, and worldwide presence continue to form the basis for our solid market position. Throughout the current fiscal year, we have managed to steadily improve our market shares, in spite of continued stagnating demand within the automotive industry.

A major contributor to that improvement were orders for new products, particularly for plastic cam covers, which we supply as fully preassembled, ready-to-install units, complete with all necessary gaskets, seals, and fasteners.

Our replacement-parts business also improved markedly compared to the weak preceding fiscal year.

Domestic sales and sales by our foreign subsidiaries for the nine-month period were up by 18.8 % and 13.3 %, respectively, compared to the corresponding period of the preceding fiscal year.

Consolidated earnings before taxes for the nine-month period rose to DM 49 million, and increase of 23 % compared to the figure reported for the corresponding period of the preceding fiscal year.

Reorientation of our efforts in the North American growth market

In a subsequent event, we acquired Versatech Sealing Systems, Inc., Leamington, Ontario, Canada, a leading manufacturer of gaskets, seals, and engine-housing modules, most of which are fabricated from plastics or elastomers, to the North American automotive industry, effective 1 November, 2000. Versatech, which is based just 50 km from Detroit, and counts General Motors, the Ford Motor Company, and Saturn, among its major customers, will operate as a wholly owned subsidiary of our group and has been renamed **ElringKlinger Sealing Systems, Inc.**

Versatech is expected to report net sales in excess of DM 50 million for the current fiscal year. Its accounting figures for the months of November and December, 2000, will be allocated to the renamed entity, ElringKlinger Sealing Systems, Inc., and consolidated with those of the other members of our group. In view of several large orders that it has recently received, the company has forecast substantial sales growth over the next few years.

This acquisition represents a major expansion of our North American customer base and manufacturing operations. Versatech's past performance, current prospects, and recent receipt of large orders for cylinder-head gaskets form an excellent basis for promoting the continued steady growth of our North American business. The acquisition has apparently been favorably received by Versatech's customers, since it received numerous requests for quotations shortly after the acquisition was announced. The North American market has a high regard for our group's technological expertise, and can now bank on yet another well-established member to supply it.

We also foresee substantial growth potential in the North American replacement-parts market. Elring of North America, our subsidiary that specializes in the North American automotive aftermarket, has systematically expanded our lines of replacement parts sold to that market segment, and thus expects it to continue to yield high growth rates for the foreseeable future.

The outlook for the remainder of the current fiscal year

This steady growth of our business is expected to continue throughout the remainder of the current fiscal year. Our group's sales and earnings for the full fiscal year will exceed those reported for the preceding fiscal year by double-digit percentages.

ElringKlinger AG

The merger of Elring Klinger GmbH and ZWL Grundbesitz- und Beteiligungs AG and renaming of the merged operation to "ElringKlinger AG" was recorded in the Commercial Register on 30 October, 2000.

The merged operation's stock commenced trading on the Frankfurt and Stuttgart stock exchanges on 6 November, 2000. Our merger with our former parent firm retroactive to 1 January, 2000, and renaming of the merged operation emphasize our focus on our automotive-parts business and makes us more transparent to both investors and securities analysts. ElringKlinger, which has thus far accounted for the bulk of our group's business, is now able to address capital markets on its own and under its own name.

More frequent appearances in communications media and our expansion of our public-relations efforts will allow us to address broader cross sections of the general public. Our new logo and corporate design portray us as a modern, dynamic, and forward-looking company.

ElringKlinger AG

A handwritten signature in black ink, appearing to read "H. Lerchner". The signature is fluid and cursive, with a large initial "H" and a long, sweeping tail.

Dr. Helmut Lerchner