

Report on the Third Quarter and
First Three Quarters of 2004

Experience mobility

elringklinger 

Dear Stockholders, Ladies and Gentlemen,

This report details the development of business of the ElringKlinger Group in the third quarter of 2004 and over the period January to September 2004. Sales and earnings progressed pleasingly.

Economic Trend

In third quarter 2004 there was growing uncertainty in the global economy. The high oil price, in particular, put a brake on the slow upward trend seen up to the second quarter of the year. Expectations in many sectors were pessimistic.

The German economy recovered slightly in third quarter 2004, driven by exports. Domestic consumer demand, a key factor in terms of economic momentum, remained sluggish, mainly in the face of high energy prices, the still depressed labor market and consumer uncertainty with regard to the Government's economic reform policies.

Third quarter economic trends in the Euro zone varied. Here, too, the slight upward movement was based on exports. Internally, the countries in the zone suffered under the still weak levels of domestic consumer demand.

The US economy did see growth over the course of the third quarter, though there, too, consumer demand was below expectations. The upcoming presidential election was a restrictive factor.

The overall trend in the Asian economy was healthy. Exports and domestic demand were at a high level. The Chinese economy cooled significantly in the third quarter, though over the first three quarters it still delivered a double-digit growth rate.

Automotive Markets

The downward trend in new car registrations in Germany recorded over the preceding quarters accelerated in the third quarter. The total of 762,000 units sold in the third quarter was 4.9% down on the previous year comparative period. Over the first nine months of the year in total 2.4 million vehicles were registered, 2.4% fewer than in the previous year.

The upward trend in new car registrations seen on the Western European market in the first six months of the year was not maintained in the third quarter. New car registrations totaled 3.5 million units, 3.1% fewer than for third quarter 2003. In the first nine months of the year in total 11.8 million vehicles were registered, a rise of 1.4% year-on-year.

In the NAFTA region the downward trend in new car registrations seen in the second quarter persisted, though the decline was less severe. A total of 5.0 million vehicles were registered between July and September, 0.9% fewer than in the comparative 2003 period. Over the first nine months of the year in total, registrations of 13.2 million units were a slight 0.3% down on the previous year comparative level.

In Japan new car registrations in the third quarter totaled 1.2 million units, 8% up on the previous year comparative period. Registrations of 3.7 million vehicles in the period from January to September represented a 6.6% year-on-year increase.

German car production in third quarter 2004 totaled 1.2 million units, up 0.8% on the previous year. The figure for the period January to September was 3.9 million units, an increase of 4% year-on-year. The increase in production resulted from higher demand from abroad.

Production in Western Europe from July to September 2004 totaled 3.3 million units, up 0.5%, while over the first nine months of the year in total production rose year-on-year by 1.3% to 11.2 million units.

Following the downturn in the first half of the year, vehicle production in the NAFTA region in third quarter 2004 totaled 3.5 million units, up 11% on the previous year comparative period. Over the first nine months of the year in total, vehicle production of 12.0 million units was down 0.2% against the first nine months of 2003.

Japan produced 2.1 million vehicles in third quarter 2004, 3.4% more than in the previous year comparative period. Over the first nine

months of the year in total, vehicle production of 6.5 million units was 3.4% up year-on-year.

Details of the new car registration and production figures:

Car Registrations (in thousands of units)

	Q1 2004	Q2 2004	Q3 2004	Q1 - Q3 2004
Domestic	777	879	763	2,418
Change against previous year in %	- 2.7	- 0.2	- 4.9	- 2.4
Western Europe	4,120	4,165	3,531	11,816
Change against previous year in %	+ 3.2	+ 3.7	- 3.1	+ 1.4
USA /NAFTA*	3,911	4,318	5,049	13,278
Change against previous year in %	+ 3.9	- 3.2	- 0.9	- 0.3
Japan	1,469	1,007	1,179	3,655
Change against previous year in %	+ 8.6	+ 2.2	+ 8.0	+ 6.6

* Including SUVs

Car Production (in thousands of units)

	Q1 2004	Q2 2004	Q3 2004	Q1 - Q3 2004
Domestic	1,335	1,371	1,196	3,902
Change against previous year in %	+ 0.8	+ 8.9	+ 0.8	+ 4.0
Western Europe	3,812	4,071	3,316	11,199
Change against previous year in %	- 1.2	+ 4.6	+ 0.5	+ 1.3
USA/NAFTA *	4,358	4,110	3,488	11,956
Change against previous year in %	- 4.1	- 4.2	+ 11.0	- 0.2
Japan	2,313	2,095	2,136	6,543
Change against previous year in %	+ 2.5	+ 4.4	+ 3.4	+ 3.4

* Including SUVs

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

Sales

In the third quarter of 2004 the ElringKlinger Group generated sales of €113.0 million (previous year: €101.6 million), representing a rise of 11.2%. Over the first nine months of the year overall, sales totaled €345.0 million (previous year: €315.4 million), a year-on-year increase of 9.4%.

The greater part of this growth in sales in the year to date was generated by the parent company ElringKlinger AG, based on new production startups and increased volumes, particularly in business with European and South East Asian customers. ElringKlinger Kunststofftechnik GmbH increased its sales by a substantial 7.5%, based on new applications and an upturn in the economic climate in its business segment. Pleasing contributions to sales were also made by the Spanish subsidiary, with substantial volume growth in a plastic cam cover, and by the Canadian subsidiary, based on production of new cylinderhead gaskets and the launch of a new cam cover module.

The breakdown of ElringKlinger's third quarter and first nine months sales by region is as follows:

In Germany third quarter sales totaled €39.4 million, 1.8% up on the previous year, with first nine months sales up 0.5% year-on-year at €128.5 million.

In the Rest of Europe third quarter sales were up 22.3% at €40.0 million. Sales in this region for the period January to September totaled €116.3 million, a year-on-year increase of 15.7%.

In the NAFTA region third quarter sales totaled €19.6 million, up 17.4% on the previous year. Sales in the first nine months of the year overall were 8.1% up, at €59.9 million.

In Asia the ElringKlinger Group achieved sales of €8.5 million in the third quarter, down 4.5% against the previous year comparative period. The main reason for this was the fall in demand from China. In the first nine

months of 2004 sales in the Asia region totaled €26.4 million, up 31.3% year-on-year, representing the strongest regional growth.

Products launched onto the Asian market in late 2003 and early 2004 were sold in significantly higher volumes throughout the first nine months of 2004.

In the South America/Rest of the World region third quarter 2004 sales totaled €5.5 million, a rise of 19.6% over the previous year. Sales in the first nine months of 2004 totaled €13.9 million, up 19.8% year-on-year. The continued growth of the Brazilian subsidiary made a pleasing contribution to this upward trend.

Consolidated Sales by Region (in € millions)

	Q1 2004	Q2 2004	H1 2004	Q3 2004	Q1 - Q3 2004
Germany	43.7	45.4	89.1	39.4	128.5
Change against previous year in %	+ 1.4	- 1.3	0.0	+ 1.8	+ 0.5
Rest of Europe	39.0	37.3	76.3	40.0	116.3
Change against previous year in %	+ 14.4	+ 10.7	+ 12.5	+ 22.3	+ 15.7
NAFTA	21.2	19.1	40.3	19.6	59.9
Change against previous year in %	+ 6.0	+ 2.1	+ 4.1	+ 17.4	+ 8.1
Asia	9.2	8.7	17.9	8.5	26.4
Change against previous year in %	+ 37.3	+ 93.3	+ 59.8	-4.5	+ 31.3
South America/ Rest of the World	4.3	4.1	8.4	5.5	13.9
Change against previous year in %	+ 4.9	+ 41.4	+ 20.0	+ 19.6	+ 19.8
Total	117.4	114.6	232.0	113.0	345.0
Change against previous year in %	+ 8.7	+ 8.3	+ 8.5	+ 11.2	+ 9.4

Earnings

The ElringKlinger Group reported pre-tax earnings of €17.4 million in third quarter 2004 (previous year: €11.0 million), a 58.2% increase compared with third quarter 2003. Pre-tax earnings for the period January to September 2004 of €53.0 million (previous year: €39.0 million) were up 35.9% year-on-year.

Third quarter 2004 net income totaled €10.5 million, 75% up on the previous year figure of €6.0 million, with total net income for the first nine months at €32.5 million (previous year: €22.0 million), a rise of 47.7%.

The cost of materials rose 11% in third quarter 2004, in line with the increase in sales. In the period January to September 2004 the cost of materials increased by 11.4 % year-on-year, outstripping the 9.4% increase in

Consolidated Income Statement

	July 1 - Sept. 30 2003	July 1 - Sept. 30 2004	Jan. 1 - Sept. 30 2003	Jan. 1 - Sept. 30 2004
	€ 000s	€ 000s	€ 000s	€ 000s
Net sales	101,600	113,000	315,400	345,000
Changes in inventories	1,267	2,456	989	867
Other capitalized items	925	1,111	4,936	4,111
Costs for purchased services/ cost of materials	- 34,685	- 38,501	- 108,280	- 120,673
Personnel costs	- 34,853	- 32,928	- 99,483	- 102,966
Other operating income	2,030	910	4,769	4,303
Other operating expenses	- 13,422	- 15,550	- 44,175	- 43,671
Depreciation allowances on intangible assets and tangible assets	- 11,003	- 11,989	- 32,059	- 31,062
Operating profit	11,859	18,509	42,097	55,909
Net interest income/loss	- 859	- 1,179	- 3,097	- 2,979
Income from stockholdings in affiliated companies	0	70	0	70
Earnings before taxes	11,000	17,400	39,000	53,000
Taxes on income	- 5,000	- 6,900	- 17,000	- 20,500
Net income	6,000	10,500	22,000	32,500

DVFA Earnings

DVFA pre-tax income of the ElringKlinger Group in the third quarter of 2004 amounted to €15.6 million, an increase of 59.2% over the previous year figure of €9.8 million. Over the first nine months of the year in total, pre-tax income of €47.5 million (previous year: €35.0 million) was reported, an increase of 35.7% year-on-year.

sales. The reasons for this were increased raw material commodity prices and changes in the product mix.

Personnel costs decreased by 5.5% year-on-year in third quarter 2004. Limited-term employment contracts in the production sector were not renewed. Despite the reduction in personnel costs, sales increased by 11.2%. In the first nine months of the year personnel costs rose 3.5% year-on-year. This was less than the recorded rate of increase in sales, and reflected the success of measures initiated by ElringKlinger to improve productivity.

All ElringKlinger Group companies were profitable in the first nine months of 2004.

Earnings per share were €0.96 in the third quarter compared with €0.55 in the previous year comparative period. Earnings per share over the first nine months were €3.01 compared with €2.02 in the previous year.

Cash flow to DVFA standard in the third quarter of 2004 totaled €22.7 million, 37.6% up on the €16.5 million for the year-ago quarter. Cash flow to DVFA standard in the period January to September 2004 totaled €62.0 million, an increase of 18.3% year-on-year (previous year: €52.4 million).

Trend in DVFA Earnings

(in € millions, in each case excluding shares of third parties)

	Q1 2004	Q2 2004	Q3 2004	Q1 - Q3 2004
DVFA cash flow	19.6	19.7	22.7	62.0
Change against previous year in %	+ 0.5	+ 20.1	+ 37.6	+ 18.3
DVFA pre-tax income	16.0	15.9	15.6	47.5
Change against previous year in %	+ 17.6	+ 37.1	+ 59.2	+ 35.7
DVFA net income	10.0	9.6	9.3	28.9
Change against previous year in %	+ 20.5	+ 62.7	+ 78.8	+ 49.0
DVFA/SG earnings per share in €	1.05 ¹⁾	1.00 ¹⁾	0.96 ¹⁾	3.01 ¹⁾
Change against previous year in %	+ 21.5	+ 61.2	+ 74.5	+ 49.0

¹⁾ Based on 9.6 million shares

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

Q3 2004/Q3 2003 (in € millions)

	Sales		Intersegment Sales		Consolidation Adjustments		External Sales		Income from Ordinary Activities	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Original Equipment	99.5	84.0	-5.2	-3.6	-16.6	-12.0	77.7	68.4	10.0	6.4
Spare Parts	24.3	22.7	0.0	0.0	-3.7	-2.4	20.6	20.3	3.7	2.0
Engineered Plastics	12.5	11.3	0.0	0.0	-0.6	-0.7	11.9	10.6	2.6	2.0
Industrial Parks	1.8	1.7	0.0	0.0	0.0	0.0	1.8	1.7	0.7	0.5
Services	2.1	1.8	0.0	0.0	-1.1	-1.2	1.0	0.6	0.4	0.1
Total	140.2	121.5	-5.2	-3.6	-22.0	-16.3	113.0	101.6	17.4	11.0

Q1 - Q3 2004/Q1 - Q3 2003 (in € millions)

	Sales		Intersegment Sales		Consolidation Adjustments		External Sales		Income from Ordinary Activities	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Original Equipment	300.3	269.8	-13.9	-15.4	-45.4	-36.4	241.0	218.0	32.5	24.2
Spare Parts	71.6	66.2	0.0	0.0	-10.3	-8.2	61.3	58.0	10.7	6.9
Engineered Plastics	37.0	34.6	0.0	0.0	-1.6	-2.1	35.4	32.5	7.3	6.2
Industrial Parks	5.2	5.0	0.0	0.0	0.0	0.0	5.2	5.0	1.8	1.4
Services	5.5	5.3	0.0	0.0	-3.4	-3.4	2.1	1.9	0.7	0.3
Total	419.6	380.9	-13.9	-15.4	-60.7	-50.1	345.0	315.4	53.0	39.0

Significant internal business relationships in respect of goods and services were undertaken between the Original Equipment and Spare Parts segments and between the Original Equipment and Services 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 customers.

Investments (Intangible/ Tangible Assets)		Depreciation Allowances		Net Interest Income/Loss	
2004	2003	2004	2003	2004	2003
9.8	7.4	-11.0	-10.0	-0.9	-0.5
0.2	0.0	-0.2	-0.1	-0.1	-0.1
0.5	0.3	-0.3	-0.4	0.0	0.0
1.0	0.0	-0.3	-0.3	-0.2	-0.2
0.1	0.1	-0.2	-0.2	0.0	0.0
11.6	7.8	-12.0	-11.0	-1.2	-0.8

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
27.0	35.7	-28.3	-28.9	-2.4	-2.4	156.3	146.6	98.6	94.8	-174.3	-169.3
0.6	0.4	-0.5	-0.4	-0.3	-0.3	7.5	8.2	36.2	36.0	-23.6	-27.9
1.4	0.5	-0.8	-1.2	0.2	0.2	11.6	11.0	11.9	11.9	-11.7	-9.5
2.3	0.0	-1.0	-0.9	-0.5	-0.6	26.9	25.7	0.9	0.4	-12.8	-18.4
0.5	0.9	-0.5	-0.7	0.0	0.0	2.7	2.7	0.7	0.6	-1.2	-0.9
31.8	37.5	-31.1	-32.1	-3.0	-3.1	205.0	194.2	148.3	143.7	-223.6	-226.0

Consolidated Balance Sheet (HGB) *

The consolidated balance sheet total as at September 30, 2004 was €353.9 million, slightly above the level at June 30, 2004. Fixed assets increased by €3.1 million to €170.9 million as a result of investments in plant and machinery. Intangible assets decreased to €28.1 million as a result of depreciation totaling €2.9 million. There were no major changes

to long-term investments. Total fixed assets were slightly up on the level at June 30, 2004.

Current assets increased by some €1.0 million against June 30, 2004, rising to €148.3 million. Accounts receivable decreased by €1.7 million. Inventories rose by €3.4 million, based on increases in merchandise stocks in the Spare Parts segment in order

Assets

	Dec. 31 2003	March 31 2004	June 30 2004	Sept. 30 2004
	€ 000s	€ 000s	€ 000s	€ 000s
Fixed assets				
Intangible assets	33,151	32,129	31,026	28,130
Tangible assets	163,847	166,623	167,747	170,933
Long-term investments	5,895	5,927	5,924	5,961
	202,893	204,679	204,697	205,024
Current assets				
Inventories	65,065	62,367	60,292	63,078
Accounts receivable and other assets	63,238	81,624	80,321	79,202
Other securities	1,630	2,447	2,435	1,930
Cash on hand, bank deposits and checks	8,416	3,265	4,216	4,130
	138,349	149,703	147,264	148,340
Deferred charges	1,910	828	671	539
Total assets	343,152	355,210	352,632	353,903

to provide improved, more flexible supply to customers, and also resulting from delays to call-offs from Original Equipment customers.

Stockholders' equity increased by just under €10 million relative to June 30, 2004. A small amount of exchange rate gains were recorded in addition to the net income generated.

The Group's equity ratio as at September 30, 2004 was around 37%.

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

Liabilities and Stockholders' Equity

	Dec. 31 2003	March 31 2004	June 30 2004	Sept. 30 2004
	€ 000s	€ 000s	€ 000s	€ 000s
Stockholders' equity				
Capital stock at par value	28,800	28,800	57,600	57,600
Capital in excess of par value	12,553	12,553	2,747	2,747
Retained earnings	46,060	50,470	30,117	30,066
Shares held by outsiders	11,289	12,663	11,744	11,864
Balance-sheet profit	14,484	21,584	17,584	27,083
	113,186	126,070	119,792	129,360
Special items with an equity portion	0	0	0	0
Provisions				
Provisions for pensions and similar reserves	37,524	37,875	38,508	40,141
Provisions for taxes	5,290	8,561	6,513	8,517
Other provisions	30,359	33,090	31,955	33,653
	73,173	79,526	76,976	82,311
Liabilities	155,925	148,776	154,948	141,262
Accrued income	868	838	916	970
Total equity and liabilities	343,152	355,210	352,632	353,903

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

Changes in the Group's Equity Capitalization

The tables below show the changes in the Group's equity capitalization in the third quarter and over the first nine months of 2004.

Stockholders' Equity

Q3 2004

	Subscribed Share Capital	Capital Surplus	Group Total Capitalization
	€ 000s	€ 000s	€ 000s
Status as at June 30, 2003	28,800	12,553	54,436
Dividend distributions			0
Adjustments to allow for consolidations			
Consolidated net income			5,243
Status as at September 30, 2003	28,800	12,553	59,679
Status as at June 30, 2004	57,600	2,747	50,100
Dividend distributions			
Adjustments to allow for consolidations			
Consolidated net income			9,287
Status as at September 30, 2004	57,600	2,747	59,387

Q1 - Q3 2004

	Subscribed Share Capital	Capital Surplus	Group Total Capitalization
	€ 000s	€ 000s	€ 000s
Status as at December 31, 2002	28,800	12,553	52,205
Dividend distributions			-12,000
Adjustments to allow for consolidations			
Consolidated net income			19,474
Status as at September 30, 2003	28,800	12,553	59,679
Status as at December 31, 2003	28,800	12,553	63,867
Dividend distributions			-14,400
Adjustments to allow for consolidations			
Consolidated net income			28,914
Capital increase	28,800	-9,806	-18,994
Status as at September 30, 2004	57,600	2,747	59,387

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
-3,505	3,851	96,135	10,949	107,084
		0	-1,372	-1,372
-27		-27	-8	-35
		5,243	757	6,000
-3,532	3,851	101,351	10,326	111,677
-6,250	3,851	108,048	11,744	119,792
			-1,138	-1,138
161		161	45	206
		9,287	1,213	10,500
-6,089	3,851	117,496	11,864	129,360

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
-2,377	3,851	95,032	10,838	105,870
		-12,000	-2,952	-14,952
-1,155		-1,155	-86	-1,241
		19,474	2,526	22,000
-3,532	3,851	101,351	10,326	111,677
-7,174	3,851	101,897	11,289	113,186
		-14,400	-3,075	-17,475
1,085		1,085	64	1,149
		28,914	3,586	32,500
		0		0
-6,089	3,851	117,496	11,864	129,360

Consolidated Statement of Changes in Financial Position

The cash flow from ordinary business operations in the third quarter of 2004 totaled €16.8 million, against €12.1 million in the previous year. Cash flow from ordinary business operations over the first nine months of the year in total was €54.2 million, against €41.3 million in the previous year.

In the third quarter of 2004, cash flow from investment transactions totaled €11.1 million, against €6.2 million in the previous year. Cash flow from investment transactions over the first nine months of the year in total was €31.9 million, against €38.0 million in the previous year. In the third quarter capital investments were necessary to expand manufacturing capacity and for the production of tooling for new cylinder-head gasket designs. The decrease in cash flow from investment transactions over the first nine months of 2004

reflected a special item involving expenditure on a license in the previous year which did not recur in 2004. In the period January to September 2004 investments by ElringKlinger were at their long-term average level.

Cash flow from financial transactions in third quarter 2004 totaled minus €5.7 million, against minus €6.3 million in the previous year. For the period January to September 2004 it totaled minus €26.7 million, against minus €7.2 million in the previous year. The payment of a higher dividend for 2003 than for 2004 led to an increase in the “Disbursements to company owners and minority stockholders” line item. The “Changes to liabilities to banking institutions” line item also underwent a major change in the first nine months of 2004. Liabilities to banks were reduced by €8.9 million.

Total funds as at September 30, 2004 amounted to €4.1 million, compared with €3.1 million at September 30, 2003.

	Q3		Q1 - Q3	
	2003	2004	2003	2004
	€ 000s	€ 000s	€ 000s	€ 000s
Consolidated net income	6,000	10,500	22,000	32,500
Depreciation allowances on assets and asset disposals, net of appreciations	11,271	12,092	32,469	31,136
Changes in inventories, accounts receivable and other assets	-1,883	-1,535	-19,407	-13,838
Changes in accounts payable and other liabilities incl. provisions and special items	-4,181	-3,885	5,795	4,732
Foreign-exchange effects on items related to ordinary business operations	933	-403	481	-298
Cash flow from exceptional items	0	0	0	0
Cash flow from ordinary business operations	12,140	16,769	41,338	54,232
Income from sales of assets	840	17	1,211	273
Disbursements for investments in assets	-8,416	-11,624	-38,207	-31,880
Disbursements arising from sales of securities	1,368	505	-1,044	-300
Cash flow from investment transactions	-6,208	-11,102	-38,040	-31,907
Disbursements to company owners and minority stockholders	-1,372	-1,138	-14,952	-17,475
Changes to liabilities to banking institutions	-5,050	-4,412	7,369	-8,923
Effects of foreign-exchange rates on items related to financial transactions	137	-150	334	-295
Cash flow from financial transactions	-6,285	-5,700	-7,249	-26,693
Change in cash requiring expenditures or yielding disburseable income	-353	-33	-3,951	-4,368
Effects of changes in foreign-exchange rates on liquid assets	-475	-53	-82	82
Funds on hand at the start of the period	3,976	4,216	7,181	8,416
Funds on hand at the end of the period	3,148	4,130	3,148	4,130

Research and Development

In the third quarter of 2004 development contracts were again received from Asian customers. As a result the joint venture ElringKlinger Marusan Corporation, Tokyo, Japan, established in the spring of 2004, was able to maintain its early success seen in the second quarter.

The Elastomer Components/Modules division was awarded a development contract for a plastic cam cover by a Japanese customer in third quarter 2004. Production is scheduled to start in 2007, at pleasing volume levels. Three development contracts for plastic transmission covers were awarded, reflecting ElringKlinger's success in applying innovative concepts to persuade customers previously committed to metal components to switch to the plastic alternative. A new acoustic design concept for cam cover modules was also successfully presented to a number of customers. The technical benefits of this concept are likely to deliver new development contracts before the end of this year.

The product and manufacturing technology of the Special-Purpose Gaskets division enabled it to win a high-volume development and production contract for a transmission plate. This will be the first time that ElringKlinger will make a complete plate of this kind, having previously only carried out coating of customers' pre-pressed plates, and means the added value delivered by these components will be increased.

In the Cylinder-Head Gaskets division, a development and production contract was awarded by a leading Western European customer for a new diesel engine, enabling ElringKlinger to build further on its established position with that customer.

In the Shielding Parts division, the first contracts for underbody protection have been awarded. The installation of new software for wind tunnel simulation and flow analysis led to the company being designated an approved underbody manufacturer by a major European customer.

Investments

In third quarter 2004 innovative cylinder-head gasket designs meant substantial investments were necessary in state-of-the-art machining centers for tooling production. A major increase in cam cover module volumes necessitated investment in machinery and plant in order to expand capacity.

Investment in the first nine months of 2004 was therefore focused on rationalization projects and on the expansion of capacities – especially in cylinder-head gaskets and cam cover modules – as well as on tooling machining centers and measuring and testing systems.

Employees

At September 30, 2004 employees of the ElringKlinger Group numbered 3,193, an increase of 21 compared with June 30, 2004. At the period end the parent company employed 1,579 people, the domestic subsidiaries 477, and the foreign subsidiaries and affiliates 1,137.

for fiscal year 2003 and in the first quarter, second quarter and first half 2004 reports, as well as in the reports covering the corresponding previous year comparative periods, were used in drawing up this interim report.

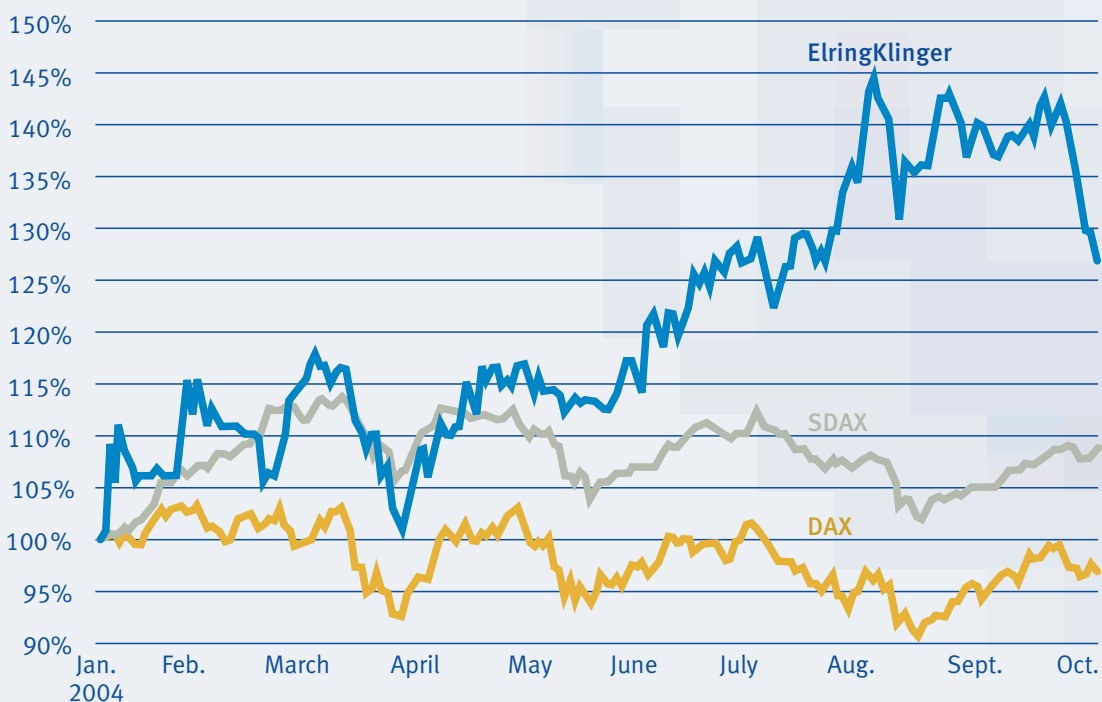
Explanatory Notes

The same accounting and valuation principles as used in the annual financial statements of ElringKlinger AG and the ElringKlinger Group

ElringKlinger Stock

On July 26, 2004 the 4.8 million new shares resulting from an increase in capital stock from corporate funds in accordance with the resolution passed by the AGM were traded for the first time on the stock market. Their initial price level was around €50.

Stock Market Trend from January 1, 2004 Comparing Index Performance ElringKlinger Stock (Frankfurt Stock Exchange); DAX; SDAX



The price of the ElringKlinger share on June 30, 2004 was €99.60 (taking account of the newly issued shares €49.80), and reached an all-time high of €55.60 on August 2, 2004 (excluding the newly issued shares €111.20). At the end of the third quarter the share price had stabilized again at a level around €50.00 (prior to the new stock issue €100.00). The reason for this was profit-taking by institutional investors, as well as private stockholders, who made substantial gains.

In the period January 1 to September 30, 2004 the stock price increased by 26.9%.

ElringKlinger continued to provide the capital markets with regular information and updates throughout the third quarter. Meetings with investors were held in London and Frankfurt, and for the first time to any major extent also in Amsterdam, Rotterdam and The Hague. ElringKlinger's investor base is becoming ever wider as a result of the close contacts maintained with European small and mid cap funds.

Increasing awareness of ElringKlinger resulted in a number of items featuring the company appearing in the financial press. This has provided investors with a regular source of ongoing information on the company's progress.

ElringKlinger was also presented at investors' conferences. In September the company was introduced to large numbers of

private investors at the Munich Small and Mid Cap Analysts' Conference. In mid September a presentation on ElringKlinger was made to a selected group of institutional investors at an investors' conference hosted by a leading private bank in Frankfurt.

ElringKlinger Stock

Market segment	Prime Standard, Frankfurt
Number of shares	9,600,000 shares
ISIN	DE0007856023
Securities reference number	785 602
Price as at December 31, 2003	€76.00
Price as at March 31, 2004	€81.80
Price as at June 30, 2004	€99.60
Price as at September 30, 2004 (following the issue of new shares on July 26, 2004)	€49.00

Number of Shares at Sept. 30, 2004

Supervisory Board

Karl Uwe van Husen	1.500
Dr. Thomas Klinger-Loehr	695,600 *)
Walter Herwarth Lechler	2,459,800 **)
Rolf Rauscher	70

*) Held via Betal Netherlands BV, Rotterdam

***) Including stock held via controlled joint stock corporations

Dividend

On June 2, 2004 the AGM approved the payment of a dividend of €3.00 per share for the fiscal year 2003, an increase of €0.50. The dividend was paid on June 3, 2004.

Outlook

Conditions in the automotive industry remain challenging, though they do offer opportunities for flexible and innovative suppliers.

The saturation of North American vehicle markets will persist. Rising fuel prices will further boost the market shares of more economical vehicles. In the Euro zone the failure to implement effective reforms will see an economic growth rate in the low single-digit range. The existing overcapacities in the automotive industry will mean the process of consolidation and reduction in market player numbers will continue. High commodity prices are placing additional burdens on manufacturers and component suppliers. In both regions manufacturers will exert further pressure on purchase prices while at the same time launching new developments as unique selling points.

The future trend in China, following the marked slowdown in the third quarter and faced by the prospect of overcapacities, remains uncertain. All in all, it can be assumed that the fast-developing markets in South East Asia, South America and Eastern Europe will grow at a rate well above that of the mature markets in North America and Western Europe.

In view of the pleasing earnings performance of ElringKlinger in third quarter, the 2004 full-year earnings target is likely to be surpassed. For 2005, too, the outlook is cautiously optimistic:

ElringKlinger will meet the challenges of a tough external climate based on technology, customer service and active cost management. New products for new applications and customers will be launched. Growth through globalization will be maintained.

It is three months since I took over as chairman of the ElringKlinger Group. It is not merely the figures that demonstrate how well the company has progressed to date, and how sound its footing remains today in the face of difficult conditions. We will continue to advance the company based on the successful strategy pursued to date.

Sincerely yours,



Sebastian Merz

Financial Calendar

Capital Market Conference of BW-Bank, Frankfurt	October 4, 2004
Investors' Conference, Berenberg Bank, Brocket Hall, London	November 11/12, 2004
Equity Capital Forum hosted by Deutsche Börse AG, Frankfurt	November 22, 2004
Q3 and Q1 - Q3 2004 Report	November 2004
Roadshow, Berenberg Bank, Paris	December 2/3, 2004
Investors' Conference, Deutsche Börse AG, Zurich	December 9, 2004
Chevroux Investors' Conference, Kronberg/Taunus	January 17-19, 2005
Financial Press Conference, Stuttgart	March 2005
Q1 2005 Report	May 2005
100th Annual General Meeting of Stockholders at the Kultur- und Kongresszentrum Stuttgart	10:00 a.m., June 8, 2005
Dividend Distribution	June 9, 2005
Q2 and H1 2005 Report	August 2005
Q3 and Q1 - Q3 2005 Report	November 2005

We will be happy to send you our annual report and quarterly and half year reports by e-mail. Please send us your e-mail address to investor-relations@elringklinger.de or phone us on +49 (0)71 23/724-264.

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