

Information for
Our Stockholders
First Quarter, FY 2001



Dear stockholder:

The German [automotive industry](#) started off calendar 2001 with an upturn in first-quarter manufacturing volume of 7.8 % compared to the first quarter of calendar 2000. That success was largely due to high exports. However, the situation for the other European countries, some of which experienced an upturn, while others experienced a downturn, was mixed. First-quarter manufacturing volume in the USA was down by 19 % compared to the first quarter of calendar 2000 due to a 6.5-% drop in first-quarter sales and the necessary reductions in excess inventories of new vehicles. The supplier industry thus also had to face a general decline in demand for its products.

Demand on the [retail replacement-parts market](#) remained stable over the first quarter of calendar 2001, again with the exception of the USA.

[Manufacturing volumes in other industries](#) served by ElringKlinger remained at high levels.

Although all statements regarding market developments have been based on generally available, published, data, we assume no liability for their accuracy.

The market for [commercial real estate](#) suitable for logistics operations in the Central-Neckar economic area, where ElringKlinger operates its Ludwigsburg and Tamm industrial parks, declined somewhat over the first quarter of FY 2001.

Europe's national economies, Germany's included, are clearly undergoing a period of general stagnation.

Considering the problems that others have been experiencing, the [first quarter of FY 2001](#) proceeded [highly satisfactorily](#) for the [ElringKlinger Group](#). Growing demand from those market segments that the group has been emphasizing, particularly Diesel-engine manufacturers, along with sales contributed by new products that went into production last year, have led to [first-quarter consolidated sales that were up by 15 % compared to the first quarter of FY 2000](#).

Although [consolidated net earnings](#) for the quarter were less than those reported for the first quarter of FY 2000, they were [slightly above plan](#). The major reasons for that decline were startup costs incurred in conjunction with setting up our North-American cylinder-head-gasket manufacturing operation and our significantly lower expenditures for raw materials during the first quarter of FY 2000, when stainless steel was much less expensive.

Sales and net earnings of [ElringKlinger Kunststofftechnik GmbH](#) grew at above-average rates. Its first-quarter sales were up by 16 % compared to the first quarter of FY 2000. Its net earnings were also correspondingly up.

First-quarter sales and net earnings of [ElringKlinger S.A., Spain](#), which particularly benefited from its supplying components for our rapidly growing module business, were also up.

[ElringKlinger México, S.A. de C.V.](#) also reported improved sales and net earnings for the quarter. First-quarter sales of that subsidiary, which primarily serves the North-American automotive industry, were up by 70 % compared to the figure reported for the first quarter of FY 2000, largely due to new products that went into production during the first quarter of FY 2001.

First-quarter net earnings of [ElringKlinger \(Great Britain\) Ltd.](#), our English subsidiary, declined, in spite of sales that were up slightly up compared to the first quarter of FY 2000, due to price cuts instituted in order to ward off attacks on its market shares by competing suppliers quoting pricing denominated in Euros.

ElringKlinger Sealing Systems, Inc., Canada, an acquisition that we concluded in November, 2000, was unavoidably affected by the manufacturing cutbacks by the North-American automotive industry that transpired during the first quarter of FY 2001. However, rapidly instituted reductions in its operating expenses allowed it to contain the effects of those cutbacks on its net earnings within narrow limits. Efforts to improve its market share continue unabated, and the outlook remains good. Work on its new facility for manufacturing cylinder-head gaskets has been substantially accelerated. That project is on schedule, and the startup of manufacturing operations has been scheduled for June, 2001.

Our Industrial Parks Division plans to sell Technik Park Heliport Kft., its Hungarian subsidiary. Negotiations of the latter's sale are already at an advanced stage.

The division is also endeavoring to optimize leasing terms, particularly the lengths of leases, at its industrial parks at Ludwigsburg, Tamm, and Idstein, Germany.

The Outlook

ElringKlinger is optimistic about the remainder of FY 2001. If general economic trends and trends in the worldwide automotive industry suffer no further setbacks and the North-American automotive industry returns to manufacturing volumes corresponding to new-vehicle unit sales once it has disposed of its excess inventories of new vehicles, ElringKlinger will once again be reporting double-digit increases in both sales and operating income.

ElringKlinger AG

Yours truly,



Dr. Helmut Lerchner



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