

Financial Calendar

- February 2002: Release of our report on the fourth quarter of FY 2001
- April 2002: Press conference to be held in conjunction with the release of our annual report and closing statements for FY 2002
- May 2002: Release of our annual report and closing statements for FY 2001
Release of our report on the first quarter of FY 2002
- 11 June, 2002: Scheduled date for our annual general stockholders' meeting
- August 2002: Release of our report on the second quarter and first half of FY 2002
- November 2002: Release of our report on the third quarter and first nine months of FY 2002

Report on the Third Quarter and First Nine Months of FY 2001

Dear stockholder:

We would like to herewith bring you up to date regarding developments at the ElringKlinger Group and ElringKlinger AG during the third quarter and first nine months of fiscal year 2001.

Market Trends

Although the general economic decline throughout Western Europe, North America, and Japan continued into the third quarter and the economic growth rates expected for the countries involved have, once again, been significantly cut back, most of ElringKlinger's major customers have managed to do fairly well.

The events of 11 September have thus far triggered merely short-lived downturns in motor-vehicle unit sales and unit-production figures, and those downturns have been largely confined to the USA. The situation has meanwhile rapidly stabilized at normal levels. In October, passenger-car unit sales in the USA set another new record, although that required some rather expensive subsidies on the part of manufacturers that, however, apply for a limited time only. In Western Europe, September new passenger-car registrations rose by 3.1% compared to the figures reported for last year. However, German new passenger-car registrations rose by only 2%. German passenger-car manufacturers benefited from continued high foreign order receipts, which more than offset the decline in domestic demand.

All statements regarding foreign market trends have been taken from sources available to the general public. No liability for their veracity is assumed.

Comparative Passenger-Car* Unit-Production and Registration Figures

Unit Production Changes Relative to 2000

| Territory | 09/01 | 01 – 09/01 |
|-------------------------------------|----------|------------|
| Europe | – 4.5 % | + 2 % |
| Germany only | + 7 % | + 7 % |
| NAFTA-Zone (USA, Canada, Mexico) | – 17.6 % | – 12.5 % |

Registrations Changes Relative to 2000

| Territory | 09/01 | 01 – 09/01 |
|--------------|---------|------------|
| Europe | + 3.1 % | – 0.5 % |
| Germany only | – 2 % | – 2 % |
| USA | – 14 % | – 6.7 % |

* Including sport-utility vehicles and off-road vehicles.

The situation on the truck and bus market was even worse. Domestic truck and bus production, an important factor for ElringKlinger, rose by just 2% over the period January through September, 2001 (light-truck production was up 6%, but production of heavy trucks and buses dropped 5%). That downward trend worsened to – 4% in September, 2001, when light-truck production dropped 1% and production of trucks and buses dropped 9%. However, ElringKlinger benefited from the steadily rising share of Diesel-powered trucks and buses, a segment where it has above-average market shares due to its superior technical expertise. Other segments where ElringKlinger had high market shares were manufacturers of premium vehicles and high-volume manufacturers with

vehicle models that are currently much in demand, both of whom reported rising unit sales and unit-production figures for the periods in question.

Over the third quarter, worldwide replacement-parts markets remained generally stable, in spite of a weak domestic market and declining sales in the USA. However, demand by general industry, a market segment served by ElringKlinger Kunststofftechnik, reached high levels during the months of July and August, but has declined sharply since September.

Demand for ElringKlinger Motortechnik GmbH's technical services has also declined sharply. Order receipts remain below last year's levels due to the current cost-cutting programs of vehicle manufacturers and the automotive-supplier industry.

Sales

Nevertheless, the ElringKlinger Group's third-quarter consolidated sales were up by 12.1% compared to the figure reported for the third quarter of FY 2000 and consolidated sales for the first nine months of FY 2001 rose 14.7% compared to the figure reported for the corresponding period of FY 2000. After adjustments to allow for sales by ElringKlinger Sealing Systems, Inc., Canada, a recent acquisition whose sales are being consolidated for the first time, third-quarter consolidated sales and consolidated sales for the first nine months of FY 2001 were up by 3.6% and 8.4%, respectively,

over the figures reported for the corresponding periods of FY 2000. Third-quarter OEM-sales and OEM-sales for the first nine months of FY 2001 rose by 15.8 % and 20.6 %, respectively, compared to the figures reported for the corresponding periods of FY 2000. After adjustments to allow for OEM-sales by the recently acquired ElringKlinger Sealing Systems, Inc., Canada, third-quarter consolidated sales and consolidated sales for the first nine months of FY 2001 were up by 4.8 % and 10.9%, respectively, compared to the figures reported for the corresponding period of FY 2000. If those adjustments are taken into account, ElringKlinger Kunststofftechnik reported the largest increase in OEM-sales for the first nine months of the current fiscal year. Our replacement-parts business and real-estate business were both up slightly compared to the corresponding periods of FY 2000, while our less-important services business reported a decline in sales.

Consolidated Sales by Market Segment [M€]

| | Third Quarter | | Change [%] | Jan.–Sept. | | Change [%] |
|--------------------|---------------|------|---------------|------------|-------|---------------|
| | 2001 | 2000 | | 2001 | 2000 | |
| OEM's | 55.8 | 48.2 | 15.8 | 178.2 | 147.7 | 20.6 |
| Replacement Parts | 19.8 | 18.4 | 7.6 | 53.8 | 53.1 | 1.3 |
| Kunststoff-technik | 7.6 | 7.0 | 8.6 | 23.0 | 19.9 | 15.6 |
| Industrial Parks | 2.0 | 2.0 | 0.0 | 6.1 | 6.0 | 1.7 |
| Services | 0.9 | 1.2 | -25.0 | 2.6 | 3.3 | -21.2 |
| Totals | 86.1 | 76.8 | 12.1 | 263.7 | 230.0 | 14.7 |

Categorized by geographic territory, the group experienced the strongest sales growth in North America, where third-quarter consolidated sales and consolidated sales for the first nine months of FY 2001 were up by more than 123 % and more than 119%, respectively, compared to the figures reported for the corresponding periods of FY 2000. After adjustments to allow for sales by the recently acquired ElringKlinger Sealing Systems, Inc., Canada, third-quarter consolidated sales and consolidated sales for the first nine months of FY 2001 were up by 37 % and 40%, respectively, compared to the figures reported for the corresponding periods of FY 2000. Sales growth rates in Asia and South America were above average. Third-quarter European sales, including third-quarter domestic sales, dropped 0.7%, while European sales, including domestic sales, were up by 5.5 %, compared to the figures reported for the corresponding periods of FY 2000. The declines in domestic sales relative to sales throughout the rest of Europe reflected the growing trend toward transferring engine-manufacturing operations from Germany to other European countries. Lower third-quarter manufacturing quantities for an engine of major importance to ElringKlinger that is manufactured in Germany for the USA due to a decline in demand adversely affected third-quarter domestic sales.

Consolidated Sales by Geographic Territory [M€]

| | Third Quarter | | Change [%] | Jan.–Sept. | | Change [%] |
|-----------------------|---------------|------|---------------|------------|-------|---------------|
| | 2001 | 2000 | | 2001 | 2000 | |
| Germany | 38.5 | 39.8 | – 3.3 | 108.7 | 105.0 | 3.5 |
| Rest of Europe | 22.2 | 21.3 | 4.2 | 82.4 | 76.2 | 8.1 |
| NAFTA-Zone | 13.4 | 6.0 | 123.3 | 39.5 | 18.0 | 119.4 |
| Asia | 7.9 | 5.5 | 43.6 | 19.9 | 18.2 | 9.3 |
| South Am. & Elsewhere | 4.1 | 4.2 | – 2.4 | 13.2 | 12.6 | 4.8 |
| Totals | 86.1 | 76.8 | 12.1 | 263.7 | 230.0 | 14.7 |

Income

The ElringKlinger Group's consolidated third-quarter pre-tax income rose by 12.1% compared to the figure reported for FY 2000, while consolidated third-quarter after-tax income rose by 10.3%.

Thanks to the favorable third-quarter figures, around half of the decline in consolidated income reported for the first half of FY 2001 compared to the first half of FY 2000 could be offset over the first nine months of FY 2001. The effects of the still fairly low materials costs for the first half of FY 2000, which were followed by a sharp rise in materials costs over the second half of FY 2000, on the baseline figures also played a role here. Consolidated after-tax income for the first nine months of FY 2001 were up by 29.8% compared to those reported for the corresponding period of FY 2000 due to lower taxation rates than those that applied in FY 2000.

Comparative Consolidated Sales and Income Figures [M€]

| | Third Quarter | | Change [%] | Jan.–Sept. | | Change [%] |
|------------------|---------------|------|---------------|------------|-------|---------------|
| | 2001 | 2000 | | 2001 | 2000 | |
| Sales | 86.1 | 76.8 | 12.1 | 263.7 | 230.0 | 14.7 |
| EBITDA | 16.8 | 14.6 | 15.1 | 55.4 | 49.9 | 11.0 |
| EBIT | 8.0 | 7.3 | 9.6 | 28.8 | 29.1 | – 1.0 |
| Pre-Tax Income | 6.5 | 5.8 | 12.1 | 23.5 | 25.0 | – 6.0 |
| After-Tax Income | 3.2 | 2.9 | 10.3 | 12.2 | 9.4 | 29.8 |

ElringKlinger AG's income also was up, both in the third quarter and the first nine months of FY 2001, due to increased sales, accompanied by largely unchanged fixed expenses, and the declining effect of the lower materials costs that applied over the first half of the fiscal year on the baseline figures.

The out-of-proportion increases in after-tax income for the third quarter (+61%) and first nine months (+13.4%) of FY 2001 were largely attributable to lower taxation rates occasioned by German tax reforms and nonrecurring extraordinary items occasioned by the FY 2000 taxation situation of ZWL, ElringKlinger AG's former parent company.

Comparative Sales and Income Figures for ElringKlinger AG [M€]*

| | Third Quarter | | Change [%] | Jan.–Sept. | | Change [%] |
|------------------|---------------|--------|------------|------------|--------|------------|
| | 2001 | 2000** | | 2001 | 2000** | |
| Sales | 62.9 | 56.7 | 10.9 | 189.6 | 171.4 | 10.6 |
| EBITDA | 10.7 | 8.6 | 24.4 | 34.9 | 30.6 | 14.1 |
| EBIT | 5.5 | 4.2 | 31.0 | 18.8 | 18.5 | 1.6 |
| Pre-Tax Income | 4.4 | 3.2 | 37.5 | 14.4 | 14.8 | – 2.7 |
| After-Tax Income | 2.9 | 1.8 | 61.1 | 9.3 | 8.2 | 13.4 |

* All income figures exclude dividend distributions received from affiliates.

** All figures stated for FY 2000 have been adjusted to allow for nonrecurring extraordinary items occasioned by ElringKlinger AG's merger with its former parent company.

Consolidated DVFA-Income

Our DVFA-figures for the reporting periods involved indicate a decline in income due to adjustments to allow for nonrecurring extraordinary depreciation allowances on commissions that were accounted for in FY 2000, nonrecurring foreign-exchange losses incurred in Brazil that reduced FY 2000 income, but, since they have not recurred during FY 2001, have increased/will increase income figures reported/to be reported, for FY 2001, startup costs, declining Canadian sales attributable to adverse market conditions, and the significantly higher materials costs over the first half of FY 2001 compared to the first half of FY 2000.

Worthy of note is the marked improvement in cash flow.

Comparative DVFA-Income and Cash-Flow Figures [M€]

(Per-share income figures are stated in €.)

| | Jan.–Sept. | | Change [%] |
|--------------------------|------------|------|------------|
| | 2001 | 2000 | |
| DVFA Cash Flow | 39.3 | 32.0 | 22.8 |
| DVFA Pre-Tax Income | 23.7 | 25.3 | – 6.3 |
| DVFA After-Tax Income | 12.5 | 12.7 | – 1.6 |
| DVFA/SG Per-Share Income | 2.34 | 2.36 | – 0.8 |

Balance Sheets

ElringKlinger AG's total assets and liabilities at 30 September, 2001, exceeded those at 30 September, 2000, by 3.6%. Current assets could be slightly reduced, in spite of the higher sales. On the whole, our return on invested capital was improved.

An extraordinary disbursement of the retained earnings of ElringKlinger Kunststofftechnik GmbH paid to the parent company, ElringKlinger AG, led to the latter's stockholders' equity, expressed as a percentage of its total balance-sheet liabilities and stockholders' equity, increasing to slightly more than 35%.

Balance Sheets for ElringKlinger AG [M€]

Assets

| | At 30 Sept. | | Change [%] |
|----------------|-------------|-------|---------------|
| | 2001 | 2000 | |
| Fixed Assets | 226.7 | 213.5 | 6.2 |
| Current Assets | 85.7 | 88.1 | - 2.7 |
| Totals | 312.4 | 301.6 | 3.6 |

Liabilities and Stockholders' Equity

| | At 30 Sept. | | Change [%] |
|----------------------|-------------|-------|---------------|
| | 2001 | 2000 | |
| Stockholder's Equity | 110.0 | 95.4 | 15.3 |
| Liabilities | 202.4 | 206.4 | - 1.8 |
| Totals | 312.4 | 301.6 | 3.6 |

Consolidated Balance Sheets for the ElringKlinger Group* [M€]

Assets

| | At 30 Sept. 2001 |
|----------------|------------------|
| Fixed Assets | 197.8 |
| Current Assets | 125.2 |
| Total | 323.0 |

Liabilities and Stockholders' Equity

| | At 30 Sept. 2001 |
|----------------------|------------------|
| Stockholder's Equity | 77.9 |
| Liabilities | 245.1 |
| Total | 323.0 |

* No comparisons have been made, since no figures for the group are available for FY 2000.

Affiliates

Gratifying increases in sales and income were achieved by ElringKlinger Kunststofftechnik, ElringKlinger S.A., Spain, ElringKlinger Sealing Systems, USA, and ElringKlinger, Mexico. Our other affiliates reported declining sales and/or income due to worsening economic conditions. ElringKlinger Sealing Systems, Canada's, sales of cam covers were severely impacted by cutbacks in manufacturing schedules among its US-customers and also had to bear the startup costs for construction of its new cylinder-head gasket manufacturing operation. The company thus reported a loss slightly less than € 1 million for the first nine months of FY 2001.

ElringKlinger do Brasil suffered from the drastic devaluation of the Brazilian Real, whose exchange rate fell 25% over the period January through September, 2001, and thus sustained a loss of € 0.7 million over the first three quarters of FY 2001. The countermeasures undertaken (cost cutting and price increases) have meanwhile yielded results.

The strategic positioning of ElringKlinger Kunststofftechnik GmbH was significantly strengthened by its merger with Venus Kunststoffverarbeitung GmbH, Heidenheim, Germany, which was recorded in the commercial register on 8 November, 2001.

Venus Kunststoffverarbeitung GmbH specializes in the development and manufacture of fairly large to very large PTFE-products, and has an extensive inventory of high-performance manufacturing equipment, as well as the necessary specialized know-how. Its product lines represent significant additions to Elring-Klinger Kunststofftechnik GmbH's existing product lines. The merged operation now covers all major needs for PTFE-products, ranging from precision, millimeter-sized parts for medical equipment subject to 0.1-mm tolerances to 4-meter-diameter O-rings. The merger is expected to yield significant synergies in the marketing, purchasing, and development areas.

The merger will boost ElringKlinger Kunststofftechnik GmbH's FY 2001 sales volume to € 45 million, an increase of 60% over the figure it reported for FY 2000.

The stockholders of Venus Kunststoffverarbeitung GmbH, Heidenheim, Germany, have surrendered their shares in the company in exchange for stock in ElringKlinger Kunststofftechnik GmbH. ElringKlinger AG owns 67% of the merged operation, while former Venus Kunststoffverarbeitung GmbH stockholders own the remaining 33%.

The Outlook

The futures of our markets are fraught with uncertainties.

Since our sales and income figures for October were very good and our November business has also been proceeding rather well to date, we expect that both ElringKlinger AG and the ElringKlinger Group will continue to report sales and income figures exceeding those for FY 2000 for the remainder of FY 2001.

In spite of our very conservative assumptions regarding market growth rates, our business planning for FY 2002 permits us to forecast further sales and income growth for the group due to new-product introductions and increased market shares, particularly in North America.

Yours truly,



Dr. Helmut Lerchner