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Report on the Fourth Quarter of FY 2001,
Our Financial Statements for FY 2001,
and the First Quarter of FY 2002

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Dear stockholders, ladies and gentlemen:

We would like to herewith bring you up to date on developments at the ElringKlinger Group and ElringKlinger AG during the fourth quarter of FY 2001, FY 2001, and the first quarter of FY 2002.

Market Trends

During the fourth quarter of FY 2001, the **economic downturn** throughout Europe, North America, and Asia of the first three quarters lapsed into a mild recession.

Remarkably, however, **the economic situation in the automotive industry** in the countries of the triad (North America, Europe, and Japan) remained relatively stable and even improved compared to that for FY 2000, supported in the USA by massive financial sales incentives. Passenger-car production within Germany and throughout Western Europe remained at encouragingly high levels. Within the NAFTA-area, the decline following the events of last September was less pronounced than had been originally feared, due to the favorable sales climate.

However, **truck and bus production** was hard hit by the poor global economy and declined by single-digit and double-digit percentages, compared to figures reported for FY/calendar 2000.

All market data has been taken from sources available to the general public.
No liability for their veracity is assumed.

Replacement-parts markets were weak, in keeping with the generally depressed economic situation.

The general industrial markets of major importance to **ElringKlinger's plastics business** exhibited a significant decline in demand over the fourth quarter of FY 2001.

Nevertheless, **total passenger-car production within Germany and throughout the remainder of Western Europe for FY/calendar 2001** was, once again, up compared to figures reported for FY 2000, while passenger-car production figures for the NAFTA-area were more than 10 % below those reported for FY/calendar 2000.

The rate of economic decline throughout North America and Western Europe slowed over the first quarter of FY 2002. In January and February, the initial indicators sparked hopes for an economic recovery, except in Japan. However, as this report went to press, it appeared that a major economic recovery would not emerge for quite some time. German GDP is expected to grow by 0.9 % over FY/calendar 2002, which would represent a slight improvement on the 0.6 % reported for FY/calendar 2001. An increase of 1.4 % has been predicted for the Euro zone as a whole. The drastic rise in energy prices due to the Mid-East crisis has put a damper on economic growth. The ongoing wage disputes that have led to the current strikes in the German metalworking and electrical-equipment industries will certainly not help promote economic recovery. We may well have to wait until calendar 2003 for the next economic upturn.

Over the first quarter of FY 2002, **passenger-car registrations** within the major geographic markets of Western Europe and the USA declined significantly, by 3.3 % and 4.4 %, respectively, compared to figures reported for the first quarter of FY 2001.

German passenger-car production dropped by 14 % compared to figures reported for the first quarter of FY 2001, while that for Western Europe as a whole was down by 9.6 %. Manufacturing volumes in the USA for the first quarter of FY 2002 were only slightly below the level for FY/calendar 2001, following the sharp decline that occurred during FY 2001.

Truck and bus production figures remained depressed.

In the USA, passenger-car sales are still being promoted by offering large discounts, which has adversely affected vehicle-manufacturers' profitabilities. Manufacturers are attempting to pass the resultant cost-cutting pressures along to their suppliers.

The following tables illustrate market trends within major geographic markets over the reporting period.

Passenger-Car Registrations (expressed in thousands of units)

	Q4 FY 2001	Q1-Q4 FY 2001	Q1 FY 2002
Germany	786	3,342	799
Percentage change/FY 2000/2001	+ 2.5	- 1.1	- 4.3
Western Europe	3,233	14,834	3,981
Percentage change/FY 2000/2001	+ 4.8	+ 0.6	- 3.3
USA ¹	4,369	17,177	3,940
Percentage change/FY 2000/2001	+ 9.4	- 2.3	- 4.4

¹ Figures for the USA include light trucks and sport-utility vehicles.

Passenger-Car Production (expressed in thousands of units)

	Q4 FY 2001	Q1-Q4 FY 2001	Q1 FY 2002
Germany	1,278	5,301	1,200
Percentage change/FY 2000/2001	- 3.6	+ 3.3	- 14
Western Europe	3,604	14,935	3,753
Percentage change/FY 2000/2001	- 3.7	+ 0.9	- 9.6
USA ¹	3,878	15,815	4,000
Percentage change/FY 2000/2001	- 3.7	- 10.5	- 0.5

¹ Production figures for the USA include light trucks and sport-utility vehicles.

Sales

In spite of the difficult economic situation, the ElringKlinger Group's consolidated sales were substantially up.

Compared to figures reported for the corresponding periods of FY 2000, consolidated sales for the fourth quarter of FY 2001 were up by 14.4 %, while those for all four quarters of FY 2001 were up by 17.8 % and those for the first quarter of FY 2002 were up by 11.0 %. More than half of the increase in consolidated sales for all four quarters of FY 2001 was attributable to the initial consolidation of ElringKlinger Sealing Systems, Inc., Canada, and Venus Kunststoffbearbeitung GmbH. Slightly less than half was attributable to internal growth.

The major contributor to our sales growth was our OEM-business. Although replacement-parts sales were down slightly during FY 2001, they recovered and rose again during the first quarter of FY 2002. Sales of ElringKlinger Motortechnik's services operation declined sharply over the reporting periods involved, which led to surplus capacity problems.

Categorized by geographic territory, by far the sharpest rise in sales was reported for the NAFTA-area (the USA, Canada, and Mexico), where FY 2001 sales doubled due to the inclusion of sales by ElringKlinger Sealing Systems, Inc., the outgrowth of a Canadian company that we acquired at the end of FY 2000, and its new cylinder-head-gasket manufacturing plant. NAFTA-area sales for the first quarter of FY 2002 were up by 50 % compared to the figure reported for the first quarter of FY 2001.

The tables below list the trends in our sales by market segment and geographic territory for the reporting periods involved.

Sales by Market Segment (M €)

	Q4 FY 2001	Q1-Q4 FY 2001	Q1 FY 2002
OEM-sales	62.7	240.9	69.4
Percentage change/FY 2000/2001	+ 21.3	+ 20.8	+ 15.7
Replacement parts	16.4	70.2	17.6
Percentage change/FY 2000/2001	- 9.4	- 1.4	+ 12.8
Plastic products	9.4 ¹	44.8 ¹	11.1
Percentage change/FY 2000/2001	+ 38.2	+ 55.0	- 6.7
Industrial parks	2.1	8.2	1.8 ²
Percentage change/FY 2000/2001	+ 10.5	+ 3.8	- 10.0
Services	0.6	3.2	0.4
Percentage change/FY 2000/2001	- 50.0	- 28.9	- 55.6
Totals	91.2	367.3	100.3
Percentage change/FY 2000/2001	+ 14.4	+ 17.8	+ 11.0

¹ Includes sales by Venus Kunststoffbearbeitung GmbH, which were included for the first time.

² After adjustments to allow for the sale of the Tamm Industrial Park at the end of FY 2001.

Sales by Geographic Territory (M €)

	Q4 FY 2001	Q1-Q4 FY 2001	Q1 FY 2002
Germany	34.2	152.8	39.7
Percentage change/FY 2000/2001	+11.8	+ 10.9	- 3.6
Rest of Europe	27.3	112.2	32.4
Percentage change/FY 2000/2001	+ 11.0	+ 11.3	+ 14.1
NAFTA-area	17.9	57.4	18.5
Percentage change/FY 2000/2001	+ 65.7	+ 99.3	+ 50.4
Asia	6.6	26.5	5.5
Percentage change/FY 2000/2001	- 12.0	+ 3.1	+ 31.0
South America/Rest of the world	5.2	18.4	4.2
Percentage change/FY 2000/2001	- 16.1	- 2.1	- 2.3
Totals	91.2	367.3	100.3
Percentage change/FY 2000/2001	+ 14.4	+ 17.8	+ 11.0

Earnings

The **ElringKlinger Group** managed to boost its consolidated earnings for the fourth quarter of FY 2001 and all four quarters of FY 2001 compared to the figures reported for the fourth quarter of FY 2002 and all four quarters of FY 2000 and thus managed to decouple itself from the trend toward lower earnings during periods of economic decline.

However, that rise in consolidated earnings leveled off during the first quarter of FY 2002. In spite of an 11-% rise in sales, the group's consolidated earnings for the quarter stagnated at the level reported for FY 2001. The major reasons for that stagnation were declining earnings from our plastics business due to plastic-products-manufacturing plants that were operating at less than full capacity, high startup costs for our

Canadian manufacturing plant, and extraordinary charges related to startups of production runs at our German manufacturing plants. However, that situation should stabilize and lead to a normal proportionality between earnings and sales growth rates over the remainder of FY 2002.

Balance-sheet earnings of **ElringKlinger AG** remained at highly satisfactory levels over the reporting periods involved. However, direct comparisons of figures for the fourth quarter of FY 2001 to those for the fourth quarter of FY 2000 would be misleading in view of the effects of extraordinary items occasioned by the merger of ElringKlinger GmbH and the intermediary holding company, ZWB, that took place during FY 2000 on its former parent company, ZWL Grundbesitz- und Beteiligungs-AG. Although a comparison of its profit/loss statements for FY 2001 and FY 2000 indicates that its earnings declined from FY 2000 to FY 2001, the declines involved were entirely attributable to nonrecurring extraordinary disbursements of retained earnings to ElringKlinger AG in conjunction with the mentioned merger that were accounted for during FY 2000. After adjustments to allow for the effects of those extraordinary items, ElringKlinger AG's earnings before distributions of retained earnings to affiliated companies for both the fourth quarter of FY 2001 and FY 2001 as a whole were substantially up. After adjustments to allow for the mentioned effects, pretax earnings for FY 2001 rose to € 20.7 million, a 40.8-% increase over the figure reported for FY 2000.

That upward trend continued into the first quarter of FY 2002. After the mentioned adjustments, pretax earnings for the quarter rose to € 6.6 million, an increase of 15.8 % over the figure reported for the first quarter of FY 2001.

The tables on the opposite page list consolidated sales and earnings figures for the ElringKlinger Group and sales and unadjusted earnings figures for ElringKlinger AG for the reporting periods involved, as reported on their respective balance sheets and profit/loss statements.

Consolidated Sales/Earnings (M €)

The ElringKlinger Group	Q4 FY 2001	Q1-Q4 FY 2001	Q1 FY 2002
Net sales	91.2	367.3	100.3
Percentage change/FY 2000/2001	+ 14.4	+ 17.8	+ 11.0
EBITDA	20.0	78.2	21.9
Percentage change/FY 2000/2001	+ 33.3	+ 20.5	+ 4.3
EBIT	10.9	41.4	11.8
Percentage change/FY 2000/2001	+ 211.4	+ 27.0	0.0
Pretax earnings	9.4	34.5	10.5
Percentage change/FY 2000/2001	¹	+ 37.5	+ 6.1
After-tax earnings	5.5	18.9	5.8
Percentage change/FY 2000/2001	¹	+ 101.12	+ 1.8

¹ Comparison to the fourth quarter of FY 2000 would be misleading.

² The corresponding figure for FY 2000 has been adjusted to allow for the taxation effects of the merger of ElringKlinger GmbH and ZWB.

Consolidated Balance-Sheet Sales/Earnings (M €)

ElringKlinger AG	Q4 FY 2001	Q1-Q4 FY 2001	Q1 FY 2002
Net sales	60.4	250.0	66.9
Percentage change/FY 2000/2001	+ 0.5	+ 8.0	+ 6.0
EBITDA	14.0	64.6	13.8
Percentage change/FY 2000/2001	¹	- 9.1	+ 9.5
EBIT	8.0	42.4	7.7
Percentage change/FY 2000/2001	¹	- 16.5	+ 5.5
Pretax earnings	6.6	36.6	6.6
Percentage change/FY 2000/2001	¹	- 16.4	+ 15.8
After-tax earnings	4.2	26.8	4.6
Percentage change/FY 2000/2001	¹	- 5.6	+ 27.8

¹ Comparison to the fourth quarter of FY 2000 would be misleading.

Sales and earnings of ElringKlinger AG, exclusive of distributions of retained earnings received from affiliated companies, where earnings figures for FY 2000 have been adjusted to allow for extraordinary items due to its merger with ZWB.

	Q4 FY 2001	Q1-Q4 FY 2001	Q1 FY 2002
Net sales	60.4	250.0	66.9
Percentage change/FY 2000/2001	+ 0.5	+ 8.0	+ 6.0
EBITDA	13.8	48.7	13.8
Percentage change/FY 2000/2001	¹	+ 16.0	+ 9.5
EBIT	7.7	26.5	7.7
Percentage change/FY 2000/2001	¹	+ 21.6	+ 5.5
Pretax earnings	6.3	20.7	6.6
Percentage change/FY 2000/2001	¹	+ 40.8	+ 15.8
After-tax earnings	3.9	13.2	4.6
Percentage change/FY 2000/2001	¹	¹	+ 27.8

¹ Comparison to the fourth quarter of FY 2000 would be misleading.

Consolidated DVFA Cash Flow and Earnings

As mentioned in our report for the third quarter of FY 2001, influences and events other than those attributable to normal business operations, including nonrecurring extraordinary depreciation allowances on certain loan commissions that were accounted for during FY 2000, that adversely affect earnings are not eliminated in determining DVFA cash-flow and earnings. Nevertheless, DVFA cash flow and earnings figures generally exhibited upward trends.

Consolidated DVFA Cash Flow (M €), Earnings (M €), and Per-Share Earnings (€), Adjusted to Allow for Outsiders' Shareholdings

	Q4 FY 2001	Q1-Q4 FY 2001	Q1 FY 2002
DVFA cash flow	15.0	53.8	18.2
Percentage change/FY 2000/2001	- 3.2	+ 13.3	+ 7.8
DVFA pretax earnings	8.0	28.9	9.2
Percentage change/FY 2000/2001	+ 90.5	+ 9.5	+ 11.4
DVFA after-tax earnings	5.1	16.0	4.9
Percentage change/FY 2000/2001	+ 48.6	+ 8.1	+ 7.1
DVFA/SG per-share earnings	1.07	3.33	1.02
Percentage change/FY 2000/2001	+ 48.6	+ 8.1	+ 7.1



Balance Sheets

The ElringKlinger Group's and ElringKlinger AG's substantial sales growths, 17.8 % and 8.0 %, respectively, for FY 2001 were achieved while holding increases in their total assets at the close of FY 2001 to just 3.5 % and 0.5 %, respectively, the result of much better returns on invested capital. Thanks to the major capital investments that were made during FY 2000 and the substantial progress in improving the efficiencies of their operations, the higher sales volumes involved could be accommodated without any further investments in plant expansions or capital equipment.

Rising sales and lower investments in fixed assets led to high levels of uncommitted cash flow that increased the ratio of stockholders' equity to total assets by approximately 24 % at both the group level and the AG-level. The percentage of total liabilities represented by bank loans was correspondingly reduced during FY 2001.

During the first quarter of FY 2002, the ElringKlinger Group's total assets rose by 0.3 %, while ElringKlinger AG's rose by 2.7 %. Their fixed assets declined by 4.8 % and 3.6 %, respectively, largely due to the sale of the Tamm Industrial Park. The ElringKlinger Group's current assets grew at a rate in excess of its sales growth rate, which increased stockholders' equity. Debt was further reduced.

ElringKlinger AG's current assets were up by 19.8 % at the close of the first quarter of FY 2002, which was due to a partial refinancing of a bank loan to ElringKlinger Sealing Systems, Inc., a Canadian subsidiary. In order to minimize interest expenses, the loan involved was taken over by the parent firm and the out-

standing amount involved reallocated to the subsidiary in the form of a stockholder loan.

The tables below list the major items appearing on the ElringKlinger Group's and ElringKlinger AG's consolidated balance sheets for the reporting periods involved:

Summary of the ElringKlinger Group's Consolidated Balance Sheets (M €)

	31 Dec., 2001	31 Mar., 2002
Fixed assets	210.9	197.6
Percentage change/FY 2000/2001	+ 5.9	- 4.8
Current assets	121.2	139.4
Percentage change/FY 2000/2001	- 0.4	+ 8.5
Stockholders' equity	98.1	104.7
Percentage change/FY 2000/2001	+ 24.3	+ 17.6
Liabilities	234.0	232.3
Percentage change/FY 2000/2001	- 3.3	- 6.0
Total assets/liabilities & stockholders' equity	332.1	337.0
Percentage change/FY 2000/2001	+ 3.5	+ 0.3

Summary of ElringKlinger AG's Consolidated Balance Sheets (M €)

	31 Dec., 2001	31 Mar., 2002
Fixed assets	231.5	220.9
Percentage change/FY 2000/2001	+ 1.4	- 3.6
Current assets	77.5	102.2
Percentage change/FY 2000/2001	- 2.1	+ 19.8
Stockholders' equity	114.2	118.8
Percentage change/FY 2000/2001	+ 23.7	+ 23.9
Liabilities	194.8	204.3
Percentage change/FY 2000/2001	- 9.4	- 6.5
Total assets/liabilities & stockholders' equity	309.0	323.1
Percentage change/FY 2000/2001	+ 0.5	+ 2.7

Affiliated Companies

The sales of ElringKlinger's affiliated companies rose markedly over all three reporting periods involved. Their total sales for the fourth quarter of FY 2001 totaled € 46.9 million, an increase of 52 % over the figure reported for the fourth quarter of FY 2000. After adjustments to eliminate contributions by affiliated companies whose sales figures were being consolidated for the first time, that increase drops to 31.6 %. Their total sales for all four quarters of FY 2001 reached € 176.5 million, an increase of 41 % over the figure reported for FY 2000. After adjustments to eliminate contributions by affiliated companies whose sales figures were being consolidated for the first time, that increase drops to 11.8 %. Sales by affiliated companies for the first quarter of FY 2002 totaled € 49.6 million, an increase of 18 % over the figure reported for the first quarter of FY 2001.

However, affiliated companies' earnings growth rates lagged behind their sales growth rates. Over all four quarters of FY 2001, their unconsolidated earnings rose to € 90.2 million, an increase of just 4.2 % over the figure reported for FY 2000. Their earnings for the first quarter of FY 2002 totaled € 5.6 million, a decline of 6 % compared to the figure reported for the first quarter of FY 2001.

The major reason for that decline was the current unsatisfactory profitability of ElringKlinger Sealing Systems, Inc., Canada, which was already burdened by low sales due to declining markets and high startup expenses for both its new cylinder-head-gasket manufacturing plant and a new line for mass producing a plastic cam cover that it incurred during FY 2001. Those high startup

costs for its cam-cover production line continued into the first quarter of FY 2002. However, we expect that that situation will have returned to normal around the middle of the current fiscal year. Significant declines in ElringKlinger Kunststofftechnik's business also led to a decline in its contribution to consolidated earnings, which had been above-average for FY 2000.

Real-Estate Operations

The Tamm Industrial Park was sold to a Luxembourg real-estate fund at the close of FY 2001. The effective date of that sale was 1 February, 2002. The proceeds of that sale resulted in reasonable capital gains that, except for € 600,000 that was ineligible for crediting to reserves for taxation purposes and thus increased taxable earnings, have been credited to § 6b reserves.

The Outlook

In spite of the generally weak economic situation in the automotive industry compared to FY 2000, our successful acquisition of new products and strong positions in market and buyer segments with above-average growth rates lead us to expect high sales and earnings growth for both ElringKlinger AG and the ElringKlinger Group for FY 2002 as well.

Yours truly,



Dr. Helmut Lerchner