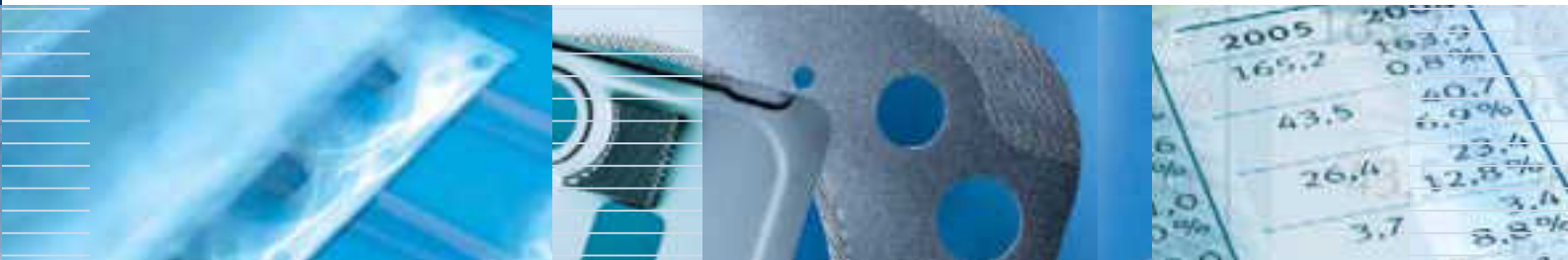


Financial Statements of ElringKlinger AG 2005



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Contents

ElringKlinger AG Balance Sheet	... 4
ElringKlinger AG Income Statement	... 5
Notes to the Financial Statements	... 6 – 24
ElringKlinger AG Management Report	... 25 – 51



ElringKlinger AG Balance Sheet as at December 31, 2005

ASSETS	Dec. 31, 2005	Dec. 31, 2004
	EUR' 000	EUR' 000
Fixed Assets		
Intangible Assets	4,633	5,914
Tangible Assets	122,975	113,159
Financial Assets	143,492	133,895
	271,100	252,968
Current Assets		
Inventories	42,557	42,106
Accounts receivable and other assets	67,736	58,500
Cash and cash equivalents	126	1,328
	110,419	101,934
Prepaid and deferred expenses	90	102
	381,609	355,004
LIABILITIES AND SHAREHOLDERS' EQUITY	Dec. 31, 2005	Dec. 31, 2004
	EUR' 000	EUR' 000
Shareholders' Equity		
Share Capital	57,600	57,600
Capital reserve	2,747	2,747
Revenue reserves	112,919	96,521
Retained earnings	19,200	16,800
	192,466	173,668
Provisions		
Provisions for pensions and similar obligations	35,623	34,862
Provisions for taxes	2,740	3,021
Other provisions	21,169	20,775
	59,532	58,658
Liabilities	129,611	122,678
	381.609	355,004

EringKlinger AG Income Statement
for the period from January 1 to December 31, 2005

	2005	2004
	EUR' 000	EUR' 000
Sales revenues	313,256	307,681
Change in inventories of finished goods and work in progress	-147	1,290
Other capitalized items	7,456	4,805
Other operating income	12,356	12,017
Material expenses	-128,413	-123,004
Personnel expenses	-82,755	-83,611
Amortization and depreciation on intangible and tangible assets	-27,148	-32,666
Other operating expenses	-42,172	-39,373
Income from affiliated companies	4,496	6,197
Net interest result	-2,080	-2,964
Income from ordinary activities	54,849	50,372
Taxes on income	-19,223	-16,405
Other taxes	-28	-189
Net income	35,598	33,778
Retained earnings carried forward from prior period	0	84
Transfer to legal reserve	-1,191	-1,689
Transfer to other revenue reserves	-15,207	-15,373
Retained earnings	19,200	16,800

Notes to the financial statements for 2005

General disclosures

The financial statements of ElringKlinger AG, Dettingen/Erms, have been prepared according to the provisions of the stock corporation act and the commercial code that apply for large corporations.

In order to improve the clarity of presentation, we have prepared the financial statements with figures given in thousand Euros (EUR'000), have aggregated items in the balance sheet and the income statement, and have broken these down in the notes. Moreover, all annotations in the notes have been complemented with supplementary commentary.

Accounting and valuation principles

Fixed assets

Purchased intangible assets as well as tangible assets and financial assets have been measured at acquisition or manufacturing costs. The manufacturing costs include individual material and production costs as well as the overheads and the amortisation & depreciation, all of which are mandated by fiscal law.

Objects with limited useful lives are depreciated using the highest rates that are fiscally permitted over their probable useful lives.

Intangible assets are amortised and buildings and other landed equipment are depreciated using the pro rata straight-line method or declining rates permitted under fiscal law.

Plant & machinery as well as other plant, operating & office equipment are, where permissible, depreciated using the declining balance method when this leads to higher depreciation than use of the straight-line method.

Where necessary or permissible, non-scheduled and fiscally possible depreciation is made.

Current assets

Items of current assets are recognised at acquisition or manufacturing costs or, if lower, their fair value. Raw materials, supplies & consumables as well as merchandise are measured at their average acquisition costs. In some cases fixed values have been recorded.

In addition to the individual costs, the valuation of the finished products and work in progress includes appropriate and necessary material and production overheads at the fiscally minimum level. When replacement costs have fallen, these are the values that are recognised. Markdowns are made for detectable impairment on account of lower marketability and quality as well as to account for a loss-free net realisable value.

Adjustments have been set up for detectable individual risks to receivables and other assets. The general default risk has been accommodated by general adjustments.

Short-term financial investments are measured at acquisition costs or, if lower, their fair values at the balance sheet date.

Liquid funds have been recognised at nominal value.

Provisions and liabilities

Provisions for pensions and similar commitments are recognised in full at the entry age value determined on actuarial principles using an interest rate of 6% and applying, for the first time, the guideline tables 2005 G of Prof. Dr. Klaus Heubeck.

In accordance with the IDW accounting commentary: Accounting of obligations arising from pre-retirement part-time work schemes under IAS and commercial law provisions (IDW RS HFA 3), the provision for obligations arising from pre-retirement agreements includes, besides the obligations from work done, obligations for topping-up. The provisions for the topping-up payments have been recorded for pre-retirement employment relationships entered into as at the balance sheet date and – on account of the corresponding commitment under a plant agreement – for pre-retirement employment relationships that will probably be taken up during the term of the works agreement.

The provisions cover the detectable risks for impending losses and uncertain obligations and are measured in accordance with reasonable business judgement.

Liabilities have been recognised at their repayment amounts.

Foreign currency items and currency translation

Receivables and payables in foreign currency are measured at the rate when incurred, with regard being made to any losses arising from unfavourable changes in exchange rates as at the balance sheet date.

Explanations on the balance sheet

Fixed assets

The development of the fixed assets of ElringKlinger AG and the schedule of shareholdings are shown on the following pages.

Changes in fixed assets as at December 31, 2005

	Historical acquisition cost				
	Jan. 1, 2005	Additions	Reclassifi- cations	Disposals	Dec. 31, 2005
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
I. Intangible assets					
Patents, licences	18,010	779	76	44	18,821
II. Property, plant and equipment					
1. Land and buildings	108,341	1,587	0	0	109,928
2. Plant and machinery	123,649	24,477	5,119	3,926	149,319
3. Other plant, operating and office equipment	97,010	1,540	364	1,206	97,708
4. Prepayments and assets under construction	5,579	7,325	-5,559	0	7,345
	334,579	34,929	-76	5,132	364,300
III. Financial assets					
1. Shares in affiliated companies	118,488	2,992	0	0	121,480
2. Participations	4,412	0	0	0	4,412
3. Financial investments in affiliated companies	13,646	16,895	0	6,690	23,851
4. Non-current securities	625	0	0	0	625
5. Other financial investments	141	20	0	128	33
	137,312	19,907	0	6,818	150,401
	489,901	55,615	0	11,994	533,522

Financial assets show loans, reinsurance policies and securities, as well as the shares held in affiliated companies.

Accumulated amortisation and depreciation

Net carrying value

Jan. 1, 2005	Deprecia- tion of the financial year	Disposals	Additions	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
12,096	2,136	44	0	14,188	4,633	5,914
56,309	2,359	0	0	58,668	51,260	52,032
83,549	13,220	3,907	0	92,862	56,457	40,100
81,562	9,433	1,200	0	89,795	7,913	15,448
0	0	0	0	0	7,345	5,579
221,420	25,012	5,107	0	241,325	122,975	113,159
2,808	4,100	0	0	6,908	114,572	115,680
0	0	0	0	0	4,412	4,412
609	0	45	564	0	23,851	13,037
0	1	0	0	1	624	625
0	0	0	0	0	33	141
3,417	4,101	45	564	6,909	143,492	133,895
236,933	31,249	5,196	564	262,422	271,100	252,968

Schedule of shareholdings as at December 31, 2005 and scope of consolidation

Name of company	Domicile	Abbreviation	Capital share in %
Shares in affiliated companies			
Domestic			
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	KMBH	100.00
Elring Klinger Motortechnik GmbH	Idstein	EKM	92.86
ElringKlinger Logistic Service GmbH	Rottenburg a.N.	EKLS	76.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	EKT	67.00
Forgein			
Elring Klinger (Great Britain) Ltd.	Redcar, United Kingdom	EKGB	100.00
Elring Klinger S.p.A.	Mazzo di Rho-Milano, Italy	EKI	100.00
TECHNIK-PARK HELIPORT Kft.	Kécskemét-Kádafalva, Hungary	TPH	100.00
Elring Klinger Polska Sp. z o.o.	Walbrzych, Poland	EKP	100.00
ElringKlinger Sealing Systems, S.L.	Reus, Spain	EKSL	90.00
Elring Parts Ltd.	Gateshead, United Kingdom	EP	90.00
Elring Klinger, S.A.	Reus, Spain	EKSA	51.00
ElringKlinger Sealing Systems, Inc.	Leamington, Canada	EKSS	100.00
ElringKlinger Sealing Systems USA, Inc.	Livonia, Michigan, USA	EKSU	100.00
Elring Klinger Mexico, S.A. de C.V.	Toluca, Mexico	EKMX	100.00
EKASER S.A. de C.V.	Toluca, Mexico	EKAS	100.00
Elring Klinger do Brasil Ltda.	Piracicaba, Brazil	EKB	100.00
Elring of North America, Inc.	Branchburg, New Jersey, USA	ELNA	60.00
Elring Gaskets (Pty.) Ltd.	Johannesburg, South Africa	EGS	51.00
Changchun ElringKlinger Ltd.	Changchun, China	CEK	78.00
Shares in joint ventures			
Forgein			
JEIL Elring Co., Ltd.	Changwon, Korea	JEIL	50.00
ElringKlinger Marusan Corporation	Tokyo, Japan	EKMA	50.00
Participations			
Forgein			
Marusan Corporation	Tokyo, Japan	MARUSAN	10.00

HB I Shareholders' equity in '000	HB I Profit/Loss in '000	Local currency	Exchange rate ¹⁾ on closing date	HB I Shareholders' equity in EUR'000	HB I Profit/Loss in EUR'000	Most recent financial statements
82	-9	EUR	100.0000	82	-9	31.12.2005
2,346	295	EUR	100.0000	2,346	295	31.12.2005
505	199	EUR	100.0000	505	199	31.12.2005
19,565	7,248	EUR	100.0000	19,565	7,248	31.12.2005
5,320	438	GBP	145.4757	7,739	637	31.12.2005
1,352	354	EUR	100.0000	1,352	354	31.12.2005
1,238,772	-37,033	HUF	0.3953	4,897	-146	31.12.2005
0	-30	PLN	25.8732	0	-8	31.12.2005
2,626	649	EUR	100.0000	2,626	649	31.12.2005
1,140	384	GBP	145.4757	1,658	559	31.12.2005
7,559	2,402	EUR	100.0000	7,559	2,402	31.12.2005
11,198	1,206	CAD	72.7273	8,144	877	31.12.2005
136	-1,420	USD	84.5094	115	-1,200	31.12.2005
71,613	-11,751	MXN	7.9352	5,683	-932	31.12.2005
11,074	4,318	MXN	7.9352	879	343	31.12.2005
30,594	6,773	BRL	36.3597	11,124	2,463	31.12.2005
1,803	199	USD	84.5094	1,524	168	31.12.2005
8,084	2,349	ZAR	13.3511	1,079	314	31.12.2005
69,648	9,884	CNY	10.4744	7,295	1,035	31.12.2005
3,439,123	606,787	KRW	0.0843	2,899	512	31.12.2005
13,005	2,677	JPY	0.7189	93	19	31.12.2005
4,305,642	35,900	JPY	0.7189	30,953	258	31.7.2005

¹⁾100 units local currency as at balance sheet date

Current assets

Inventories	Dec. 31, 2005	Dec. 31, 2004
	EUR'000	EUR'000
Raw materials, consumables and supplies	10,045	9,936
Work in progress	4,712	4,428
Finished goods and merchandise	27,665	27,742
Prepayments	135	0
	42,557	42,106

Accounts receivable and other assets

	Dec. 31, 2005	Dec. 31, 2004
	EUR'000	EUR'000
Trade receivables	41,641	32,888
Receivables from affiliated companies	22,548	24,336
Receivables from participations	870	416
Other assets	2,677	860
	67,736	58,500

Of the receivables from affiliated companies, EUR'000 15,242 (p.y. 13,211) relate to financial transactions, and the rest to trade. The receivables from participations relate fully, as in the prior year, to trade.

Shareholders' equity

By resolution of the shareholders' meeting on June 8, 2005, the division of the nominal capital was changed with a share split of one to two with effect at August 12, 2005. Subsequently, the number of shares was increased from 9,600,000 to 19,200,000 individual shares. The 9,600,000 new shares are attributable to the shareholders in proportion to the interest they held in the previous nominal capital.

Following the share split, the nominal capital is divided into 19,200,000 individual shares. The shares are registered.

At the shareholders' meeting held on June 8, 2005, the approved capital was set at EUR'000 28,800. With the consent of the supervisory board, the management board can call this capital in until June 15, 2010.

Pursuant to § 150 (2) AktG, EUR'000 1,191 was allocated to the statutory reserve from the net profit for 2005. Also, an allocation of EUR'000 15,207 was made to other revenue reserves from the net profit for 2005.

As at December 31, 2005, the revenue reserves contain the statutory reserve of EUR'000 3,013 (p.y. 1,822) and other revenue reserves of EUR'000 109,906 (p.y. 94,699).

The **retained earnings** developed as follows:

	EUR'000
Retained earnings as at December 31, 2004	16,800
Profit distribution for 2004 (EUR 1.75 per share)	-16,800
Profit brought forward	0
Net profit for 2005	35,598
Allocation to the statutory reserve	-1,191
Allocation to other revenue reserves	-15,207
Retained earnings as at December 31, 2005	19,200

Other Provisions

The other provisions relate to:

	Dec. 31, 2005	Dec. 31, 2004
	EUR'000	EUR'000
People-related obligations	13,645	12,436
Warranty Obligations	2,063	2,327
Litigation costs	1,069	860
Other risks	4,392	5,152
Total	21,169	20,775

Liabilities

	Total amount as at Dec. 31, 2005	of which with a remaining term			of which secured	Total amount as at Dec. 31, 2004
		up to one year	from one up to five years	more than five years		
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Bank debts	87,161	35,939	13,759	37,463	20,295	81,149
Prepayments received	120	120	0	0	0	188
Trade payables	13,748	13,748	0	0	0	10,665
Payables to affiliated companies	1,088	1,015	73	0	0	1,998
Payables to participations	19	19	0	0	0	0
Other liabilities	27,475	17,154	10,321	0	0	28,678
Total	129,611	67,995	24,153	37,463	20,295	122,678

The bank debts of EUR'000 20,295 are secured by land charges on works grounds. The other liabilities are not secured, except in respect of the usual reservation of title with respect to trade payables.

Of the liabilities to affiliated companies, EUR'000 83 (p.y. 92) relate to financial transactions, and the rest to trade.

Of the other liabilities, EUR'000 946 (p.y. 1,142) relate to tax, and EUR'000 1,713 (p.y. 1,764) to social security charges.

Explanations on the income statement

Sales revenues

Breakdown by geographical markets

	2005	2004
	EUR'000	EUR'000
Domestic	141,953	139,264
Foreign	175,511	172,414
Gross sales	317,464	311,678
Discounts, bonuses, rebates	-4,208	-3,997
Total sales	313,256	307,681

In terms of areas of activity, sales revenues of EUR'000 308,506 (p.y. 302,820) relate to automotive markets and EUR'000 4,750 (p.y. 4,861) to industrial parks.

Other operating income

The other operating income relates to out-of-period income of EUR'000 2,650 (p.y. 3,001). This includes mainly income from the release of provisions (EUR'000 939), income from insurance reimbursements for occurrences of damage (EUR'000 920) and gains from disposals of fixed assets (EUR'000 721).

Other operating income includes revaluations on loans and securities of fixed assets of EUR'000 564 (p.y. 3,053). The prior year amount contained EUR'000 73 in revaluations on loans and securities, and EUR'000 2,980 on revaluations on participations.

Material expenses

	2005	2004
	EUR'000	EUR'000
Expenses for raw materials, supplies & consumables and for merchandise	117,793	111,958
Expenses for purchased services	10,620	11,046
	128,413	123,004

Personnel expenses

	2005	2004
	EUR'000	EUR'000
Wages and salaries	66,745	67,168
Social security charges and expenses for retirement pensions	16,010	16,443
– of which, for retirement pensions –	(3,231)	(3,278)
	82,755	83,611

Amortisation & depreciation

The amortisation & depreciation of the financial year 2005 includes EUR'000 19 (p.y. 6,456) in non-scheduled amortisation & depreciation.

Other operating expenses

The other operating expenses include out-of-period items of EUR'000 970 (p.y. 528) from occurrences of damage (EUR'000 900), from the disposal of fixed assets (EUR'000 18) and from defaults on receivables (EUR'000 52). The expenses from occurrences of damage relate to insurance reimbursements (EUR'000 920) under other operating income.

Income from affiliated companies

	2005	2004
	EUR'000	EUR'000
Income from affiliated companies	8,596	8,993
Writedowns on financial assets	-4,100	-2,796
	4,496	6,197

Of the income from participations, EUR'000 8,428 (p.y. 8,878) are derived from affiliated companies.

Net interest result

	2005	2004
	EUR'000	EUR'000
Income from other securities and loans of financial assets	607	418
Other interest and similar income	884	535
Interest and similar expenses	-3,570	-3,496
Writedowns on loans and securities	-1	-421
	-2,080	-2,964

The interest result includes income from loans of financial assets to affiliated companies of EUR'000 567 (p.y. 391), interest income of affiliated companies in the amount of EUR'000 854 (p.y. 529) and interest expense to affiliated companies of EUR'000 125 (p.y. 124).

Taxes on income

The income taxes shown include EUR'000 4 (p.y. 3) relating to other periods.

Other taxes

The other taxes include out-of-period income of EUR'000 128 (p.y. 1) from refunds of value added tax.

Contingent liabilities

ElringKlinger AG has liabilities of EUR'000 320 (2004: 92) from the issue and transfer of bills. ElringKlinger AG is subject to contingent liabilities of EUR'000 4,207 (p.y. 8,220) for securities and contract performance guarantees, of which EUR'000 4,123 (p.y. 7,143) on behalf of affiliated companies.

ElringKlinger AG has joint and several liability pursuant to § 133 (1 and 3) UmwG (transformation law) for liabilities of the affiliated company Elring Klinger Motortechnik GmbH, that originated prior to the split-up taking effect.

ElringKlinger AG has undertaken to furnish an affiliated company with funds such that it will at all times be able to meet its payment obligations from a contract for work and services.

ElringKlinger AG has undertaken to suppliers of subsidiaries to stand in for future receivables of the suppliers of subsidiaries, in case the subsidiaries fail to meet their payments obligations within a certain period.

Other financial obligations

There are financial obligations under current business transactions to the extent that is usual in business.

Other disclosures

Number of employees

The workforce of ElringKlinger AG, as an annual average and excluding board members, was as follows:

	2005	2004
Workers	996	1.058
Salaried staff	468	462
	1,464	1,520
Apprentices	62	56
	1,526	1,576

Derivative financial instruments

As at the balance sheet date, December 31, 2005, there were the following financial derivatives, that serve exclusively to hedge interest rate risks and to smoothen fluctuations in the procurement prices for raw materials (nickel):

	Fair market value	Carrying value	Provision
	EUR'000	EUR'000	EUR'000
Interest-related derivatives:			
Interest swap	-263	-263	263
Derivatives relating to raw materials			
Contingent forward transaction for nickel	11	0	0
Accrual swap	-90	-90	90
	-342	-353	353

The negative fair market values are shown under the item other provisions as provisions for impending losses from pending transactions.

The computation of the bank-confirmed market values of the financial derivatives uses recognised mathematical methods and the market data available as at the balance sheet date (mark-to-market method).

Corporate bodies

Supervisory board

Dr. Helmut Lerchner, Aichtal,
Chairman

Corporate advisor

Member of the supervisory board of Deutz AG, Cologne, and of the advisory board Südwest of Dresdner Bank AG, Stuttgart

Walter Herwarth Lechler,
Stuttgart,
Deputy Chairman

Managing shareholder

Seats on the advisory/administrative boards of
Lechler Inc., St. Charles/USA;
Lechler Ltd., Sheffield/United Kingdom;
Lechler India Pvt. Ltd., Thane, India;
Lechler Kft, Kécskemét, Hungary;
Lechler France S.A., Montreuil, France;
Lechler AB, Hagfors, Sweden;
Lechler SA, Wavre, Belgium;
Lechler S.A., Madrid, Spain; and
ETS-Elex (India) Pvt. Ltd., Thane, India

Gert Bauer, Reutlingen, Employee Representative	First commissioner of IG Metall Reutlingen, Tübingen
	Member of the supervisory board of Hugo Boss AG, Metzingen
Walter Greiner, Hohenstein, Employee Representative	Chairman of the works council of ElringKlinger AG
Dr. Rainer Hahn, Stuttgart	Former member of the management of Robert Bosch GmbH, Stuttgart
	Supervisory board seats at Robert Bosch GmbH, Stuttgart; Bosch Rexroth AG, Stuttgart; Rieter Holding AG, Winterthur, Switzerland; Shareholder committee seat with TÜV Süddeutschland Holding AG, Munich; and Member of the administrative board of TÜV Bayern Hessen Sachsen Südwest e.V.
Karl-Uwe van Husen, Waiblingen	Managing director
Dr. Thomas Klinger-Lohr, Egliswil/Switzerland	President of the board
	Dr. Klinger-Lohr is a member of the advisory or administrative board, as the case may be, of the following subsidiaries of Betal Netherland Holding B.V., Rotterdam, Netherlands, of which holding company he is also the managing director: Klinger Holding Plc., Sidcup, United Kingdom; Klinger Ltd., Bradford, United Kingdom; Klinger S.p.A., Mazzo di Rho, Italy; Saidi, Madrid, Spain; Klinger AG, Egliswil, Switzerland; Klinger Ltd., Welshpool, Australia; Klinger (Pty.) Ltd., Wadeville, South Africa; Klinger Finnland OY, Masala, Finland; Thermoseal Inc., Sidney, USA, and Uni Klinger Ltd., Mumbai, India



Rolf Rauscher, Bad Urach, Employee Representative (until June 8, 2005)	Employee of ElringKlinger AG in the logistics department
Manfred Rupp, Pfullingen, Employee Representative (from June 8, 2005)	Member of the works council of ElringKlinger AG, who has been released from normal duties
Manfred Strauß, Stuttgart	Managing director Member of the advisory board in the Pro Stuttgart Verkehrsverein

Remuneration of the supervisory board

In the reporting year, the total remuneration of the supervisory board of ElringKlinger AG was EUR'000 316 (p.y. 206).

The remuneration of the supervisory board is allocated as follows:

	fix	variable*	total
	EUR	EUR	EUR
Dr. Helmut Lerchner	36,000	28,200	64,200
Walter Herwarth Lechler	27,000	21,100	48,100
Gert Bauer	13,000	14,086	27,086
Walter Greiner	14,000	14,086	28,086
Karl-Uwe van Husen	18,000	14,086	32,086
Dr. Rainer Hahn	14,000	14,086	28,086
Dr. Thomas Klinger-Lohr	18,000	14,086	32,086
Rolf Rauscher	7,000	7,042	14,042
Manfred Rupp	7,000	7,042	14,042
Manfred Strauß	14,000	14,086	28,086
Total	168,000	147,900	315,900

*The variable remunerations represent the accrued expenses, based on preliminary EBT of the Group (IFRS).

Management board

Dr. Stefan Wolf, Steinenbronn, Spokesman (since January 27, 2005)	responsible for the participations, the central divisions finance, controlling, law, human resources, investor relations, IT and public relations as well as the business divisions spare parts and industrial parks
Horst Klusmann, Bad Boll (until December 31, 2005)	responsible for the business divisions cylinder head gaskets/central research & development, special gaskets, casings/modules/elastomer tech-

ology, shielding technology and the central divisions quality and environment, procurement and the Runkel factory

Theo Becker, Reutlingen-Rommelsbach
(since January 1, 2006)

responsible for the business divisions cylinder head gaskets/central research & development, special gaskets, casings/modules/elastomer technology, shielding technology and the central divisions quality and environment, procurement and the Runkel factory

Karl Schmauder, Hülben
(since January 27, 2005)

responsible for the distribution of original equipment and new business fields

Sebastian Merz, Reutlingen,
Chairman
(until January 27, 2005)

responsible for the participations, the central divisions finance, controlling, distribution of original equipment, law and human resources, investor relations, IT and public relations as well as the spare parts division

Remuneration of the management board

The remuneration of the management board in the financial year 2005 totalled EUR'000 2,585. It contains fixed (EUR'000 774) and variable (EUR'000 1,811) components. The variable components are made up of the remuneration of EUR'000 943 that is dependent on the results of the reporting year and long-term results-dependent bonuses of EUR'000 868 relating to increases in company value.

The remuneration of the management board is allocated as follows:

	fixed components	components dependent on the results of the reporting year*	long-term results- dependent bonuses	total
	EUR	EUR	EUR	EUR
Dr. Stefan Wolf	260,503.85	327,204.00	329,162.00	916,869.85
Horst Klusmann	284,624.39	365,679.00	292,168.00	942,471.39
Karl Schmauder	197,197.02	196,323.00	246,872.00	640,392.02
Sebastian Merz	31,480.62	53,600.00	0.00	85,080.62
Total	773,805.88	942,806.00	868,202.00	2,584,813.88

*The variable remunerations represent the accrued expenses, based on preliminary EBT of the Group (IFRS).

Provisions for pensions and remuneration for former members of the management board

Provisions of EUR'000 7,058 have been set up for pension obligations to former members of the management board, the management of merged companies and their surviving dependants. The total remuneration of former members of the management board – including the remuneration of former members of corporate bodies of merged companies – came in the financial year 2005 to EUR'000 939.

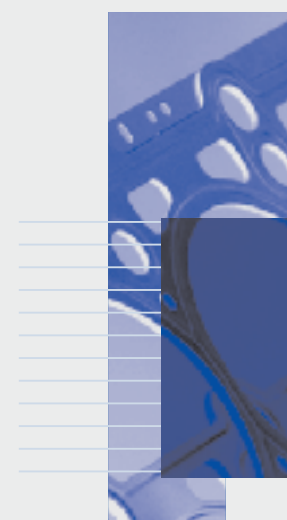
The **fees of the auditor** were:

	2005	2004
	EUR'000	EUR'000
Audit of the financial statements	170	259
Other confirmatory performances	3	2
	173	261

The amounts for 2004 also include fees for auditing the IFRS opening balance sheet as at January 1, 2004 and for the audit of the IFRS comparative values as at December 31, 2004.

Notifications pursuant to § 21 (1) securities trading law (WpHG)

Shareholder	Notification dated/ Publication	Notification/Share of voting rights
Klaus Lechler, Stuttgart (in the name of and with power of attorney of each named company)	May 2, 2002 FAZ of May 2, 2002 (pursuant to § 41 para. 3 WpHG in conjunction with § 25 para. 1 sentences 1 and 2, para. 2 WpHG)	Shareholding ratio as at April 1, 2002: 13.25% held by Elgarta GmbH, Basel (Switzerland) Attribution of the voting rights to Mr Klaus Lechler pursuant to § 22 para. 1 number 1 WpHG. 12.13% held by Lechler Beteiligungs- GmbH, Stuttgart. Attribution of the voting rights to Mr Klaus Lechler pursuant to § 22 para. 1 number 2 WpHG. 10.68% held by Elrena GmbH, Basel (Switzerland)
	August 21, 2003 FAZ of March 11, 2004 (§ 41 para. 3 WpHG in conjunction with § 25 para. 1, sentences 1 and 2, para. 2 WpHG)	“Stuttgart, August 19, 2003 Notification pursuant to § 21 para. 1 WpHG in conjunction with § 22 para. 1 numbers 1 and 2 WpHG registered shares of ElringKlinger AG (WKN 785602) Ladies and Gentlemen, I, Klaus Lechler, resident at Metzinger Straße 61, 70597 Stuttgart, give notifica- tion that the company Lechler Beteili-



Shareholder	Notification dated/ Publication	Notification/Share of voting rights
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gungs GmbH, Saarstrasse 28, 71636 Ludwigsburg, and the company Elgarta GmbH, Sankt Alban-Vorstadt 72, 4002 Basel (Switzerland), have sold a total of 175,000 shares in ElringKlinger AG under a transaction.

Of this number, Lechler Beteiligungs GmbH sold 100,000 and Elgarta 75,000. The transaction was concluded on 15 August 2003.

The threshold pursuant to § 21 para. 1 WpHG of 25% is therefore no longer upheld; the share in voting rights now stands at 21.72%.

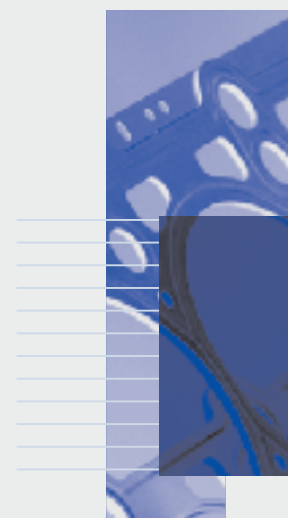
Of these, Elgarta GmbH now holds 11.68 % of the shares in ElringKlinger AG. These are attributed to me on the basis of § 22 para. 1 number 1 WpHG. Lechler Beteiligungs GmbH holds 10.04% of the interests in ElringKlinger AG, which are attributed to me on the basis of § 22 para. 1 number 2 WpHG.

Klaus Lechler“

Walter Herwarth Lechler, Stuttgart	May 2, 2002 FAZ of May 2, 2002 (pursuant to § 41 para. 3 WpHG in conjunction with § 25 para. 1 sentences 1 and 2, para. 2 WpHG)	Shareholding ratio as at April 1, 2002: 15.21%
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Walter Herwarth Lechler, (in the name of and with power of attorney of each named company)	May 2, 2002 FAZ of May 2, 2002 (pursuant to § 41 para. 3 WpHG in conjunction with § 25 para. 1 sentences 1 and 2, para. 2 WpHG)	Shareholding ratio as at April 1, 2002: 5.12% held by Lechler Verwaltungs- GmbH, Metzingen. Attribution of the voting rights to Mr Walter Herwarth Lech- ler pursuant to § 22 para. 1 number 2 WpHG. 6.94% held by Lechler GmbH, Metzing- gen. Attribution of the voting rights to Mr Walter Herwarth Lechler pursuant to § 22 para. 1 number 2 WpHG.
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Shareholder	Notification dated/ Publication	Notification/Share of voting rights
	<p>February 2, 2004 FAZ of February 6, 2004 (pursuant to § 41 para. 3 WpHG in conjunction with § 25 para. 1 sentences 1 and 2, para. 2 WpHG)</p>	<p>“February 2, 2004 Merger between Lechler Verwaltungs GmbH and Lechler GmbH. Achieving of the threshold value of 10%. Ladies and Gentlemen, We give you herewith notification that a merger was performed between Lechler Verwaltungs GmbH and Lechler GmbH on October 1, 2003. This was filed in the commercial register on November 28, 2003. The voting shares held by Lechler Verwaltungs GmbH are devolved to Lechler GmbH; hence Lechler GmbH achieves the threshold of 10% mentioned in § 21 para. 1 WpHG. A copy of our notification to Bundesanstalt für Finanzdienstleistungsaufsicht, Postfach 50 01 54, Frankfurt am Main, (supervisory body for financial services) is attached. Yours faithfully Lechler GmbH“</p>
<p>Betal Netherlands Holding B.V., Rotterdam (Netherlands)</p>	<p>Januar 25, 2005 FAZ of January 26, 2005 (§ 41 para. 3 WpHG in conjunction with § 25 para. 1, sentences 1 and 2, para. 2 WpHG)</p>	<p>„ElringKlinger AG, Dettingen/Erms, WKN 785602 Sales of shares Achieving of the threshold value of 5% We herewith inform you that in the period from 11.8.2004 to 14.1.2005 we sold a total of 224,410 shares in ElringKlinger and hence our holding fell below the threshold value of 5%. BETAL NETHERLAND HOLDING B.V. now holds 479.990 ElringKlinger shares. This notification is made pursuant to § 21 WpHG. Yours faithfully BETAL NETHERLAND HOLDING B.V. Dr. Thomas Klinger-Lohr Daniel Schibli“</p>



**Shareholder Notification dated/ Notification/Share of voting rights
Publication**

In a letter dated January 24, 2005 to the German Federal authority for supervision of financial services (Bundesanstalt für Finanzdienstleistungsaufsicht), BETAL NETHERLAND HOLDING B.V. gives notification that its holding fell below the threshold on January 14, 2005 and that it now holds a voting interest of 4.99% in ElringKlinger AG.

This publication was made pursuant to § 25 para. 1 WpHG.

These notifications refer to the formal notification to be made pursuant to § 41 para. 3 WpHG as from April 1, 2002 and the crossing of threshold values of the WpHG. The shareholdings shown here may therefore be different to the actual shareholdings as at December 31, 2005.

Statement of compliance with the German Corporate Governance Code

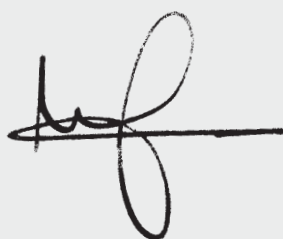
The management board and the supervisory board issued on December 6, 2005 a declaration of compliance pursuant to § 161 AktG on the German Corporate Governance Code and published it on the internet site of ElringKlinger AG. This declaration of compliance will be accessible for the next five years and therewith has been made available to shareholders on a permanent basis. It will be published in the Annual Report as part of the Corporate Governance Report.

Proposal on application of profits

The management board proposes, with the consent of the supervisory board, to the shareholders' meeting to use the retained earnings of EUR'000 19,200 shown as at December 31, 2005 to distribute a dividend of EUR 1 per share.

Dettingen/Erms, March 28, 2006

The Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder

ElringKlinger AG Management Report for the 2005 Financial Year



Macroeconomic Conditions and Business Environment

Global economy

The global economy registered subdued growth in 2005. Once again, China and North America were the drivers of economic progress. However, record prices for crude oil and other fuels and several interest rate hikes by the US Federal Reserve put a strain on the overall economic trend.

Europe's gross domestic product grew by 2.3%. Once again, growth here was weaker than the global trend.

The economic upswing in Asia remained intact and was once again driven by China, which grew by some 10% in 2005 following similar growth in 2004. Growth in Japan amounted to 2.8%.

Stagnation of the German economy

Germany only experienced weak growth in its gross domestic product. Growth of 0.9% was once again driven by exports, which increased by 6.2%. Private consumption remained stagnant as in past years. High unemployment, another increase in

the personal savings rate, and a lack of consumer confidence in root-and-branch political reforms stood in the way of a domestic economic upturn.

Automotive Markets

Industry environment remains difficult for the supplier industry

The market environment for the automotive and supplier industry in 2005 was characterized by high raw material prices, continued increases in the price of crude oil, and declines in automotive production and new passenger car registrations in the European car markets of greatest significance to ElringKlinger. Pricing pressure on the part of manufacturers once again increased considerably, while automotive industry demands for development by suppliers continued to grow.

Global motor vehicle production and registrations

Motor vehicle production worldwide increased in 2005 by 3.3% to 64.8 (62.8) million units. In the triad markets, comprised of Europe, the USA and China/Japan, sales of passenger cars increased by 1.5% from 39.8 million to 40.4 million units, with growth mainly occurring in the Asian markets. The Chinese automotive market grew by 24.9% in 2005, from 2.5 to 3.1 million passenger cars.

The North American market remained highly competitive. Overcapacity, sales promotions and other incentives for selling cars also determined the course of market events in 2005. Sales of light motor vehicles (passenger cars and light-duty trucks) amounted to 17.0 million, just slightly above the prior year.

In South America, the Brazilian automotive market was able to latch on to the strong trend of the prior year. Overall, Brazil produced 1.9 million passenger cars and light-duty trucks compared to 1.7 million units in the prior year period. Motor vehicle production in Brazil is for both the foreign and the local market, and Brazil continues to increase its importance as an export location.

Automobile production in Europe remains below the prior year

European automobile production amounted to 18.0 million units, which was around one percent below the prior year, and Western European new car registrations declined by 0.2% to 14.5 million. The Korean and Japanese carmakers achieved strong sales growth in 2005.

Upturn in demand for automobiles in Germany

On the German car market, which comprises nearly one-quarter of the overall European market, a slight recovery in demand was noticeable in 2005 following years of weakness. New passenger car registrations in Germany increased by 2.3%.

Commercial vehicles sector shows dynamic growth

The commercial vehicles sector, where ElringKlinger generated 11% of its sales revenues, once again developed positively in global terms in 2005. The number of commercial vehicles manufactured increased by 6.4%. A positive trend is also expected for 2006.

Diesel in Europe remains on track for growth

Diesel penetration rates for passenger cars in Europe continued to rise in 2005. High crude oil prices promoted the sale of fuel-efficient diesel motor vehicles. Whereas new registrations of gasoline passenger cars declined by 2.4%, the number of new diesel passenger cars increased by 2.4%. In Western Europe, nearly one in two car buyers opted for a diesel engine as the number of diesel passenger cars sold reached 7.2 million, or 49.5% of all new car registrations. Diesel cars were able to expand their market share in nearly all European countries. Germany, in contrast, witnessed a reduction in diesel penetration from 44.0% in 2004 to 42.7% in 2005, as the political discussions in the middle of the year concerning particulate matter and particulate filters unsettled potential buyers. Now that diesel particulate filters are available in nearly all new cars and several European countries have implemented preferential tax treatment for cars equipped with particulate filters, the diesel trend has become noticeably stronger since the end of the year. Scandinavia, Spain, Portugal and Great Britain showed the highest growth in diesel car registrations. In England, diesel penetration, which was at just under 20% a few years ago, has now reached 36.8%. Although diesel in Great Britain is more costly at the pump compared to most other European countries, the low consumption and powerful torque performance of the engine is winning over an increasing number of buyers.

Growing optimism for diesel in North America

The sale of diesel passenger cars and SUVs in the US over the past five years has gone largely unnoticed although it has grown by more than 40%, albeit from a low level. The strong torque of a diesel engine offers an ideal powertrain solution in the US, where light trucks have been the motor vehicles of choice up to now. In 2005, more than 560,000 diesel passenger cars and light trucks were sold in the US, representing an increase of 9%. As such, diesel has secured a market share of 3.5%, which is well-above that of hybrid cars with a market share of only 1.2%. In the light truck segment, which comprised nearly half of the US market, the share of diesel amounted to nearly 6% of sales.



Net Assets, Financial Position and Earnings Situation

Earnings situation

Increases in a difficult market environment

ElringKlinger AG was once again successful in increasing sales revenues and earnings in the 2005 financial year. Sales revenues increased by 1.8% to EUR 313.3 (307.7) million.

Market weakness weighs on Original Equipment

Growth in the Original Equipment segment was below the overall sales growth for ElringKlinger AG. OE sales revenues increased modestly, by 0.6% to EUR 238.2 (236.8) million, with particular growth coming from specialty gaskets, cylinder-head gaskets for passenger car and commercial vehicle diesel engines as well as shielding parts.

A modest overall decline in sales revenues occurred in the Cylinder-Head Gasket division in 2005. Growth in cylinder-head gaskets for diesel engines as a result of the ongoing increases in diesel penetration and the good performance of the commercial vehicle markets was not able to fully compensate for the decline in cylinder-head gaskets for gasoline engines. This was primarily caused by lower sales of semi-finished products to the Canadian subsidiary, which experienced a sharp reduction in take rates by its North American customers. Demand for cylinder-head gaskets for gasoline engines was also lower in Europe than in the previous year.

The Specialty Gaskets division achieved modest growth as the ramp-up of new products had a positive impact. The ramp-up of an automatic transmission control plate order for a large US manufacturer made its first contribution to earnings.

In an intensely competitive environment, the Elastomer Components/Modules division was also able to increase its sales revenues, due to new ramp-ups and higher volumes of metal-elastomer cylinder-head gaskets for commercial vehicle engines.

The Shielding Technology division generated disproportionately high growth. In addition to new ramp-ups, the short-term award of contracts for the low-volume series production of specialty parts also contributed to this increase. Tooling income also contributed to the positive trend in sales revenues.

Solid growth in the Aftermarket business

Sales revenues in the Aftermarket segment grew disproportionately to overall sales revenues with an increase of 6.5% to EUR 70.3 (66.0) million. The Aftermarket segment in Germany benefited from the increasing age of the German vehicle

population, where the average age of cars on the road now exceeds seven years. The Aftermarket business was characterized by particularly high growth rates in Eastern Europe and in the Middle East, which has now become the strongest region in terms of sales.

Industrial Parks segment experiences stagnation

The industrial parks in Ludwigsburg and Idstein, Germany, generated sales revenues at the level of the previous year, with rental income of EUR 4.8 (4.9) million. Follow-up rentals in the Idstein industrial park generated lower rental income due to the lower prevailing rent levels which have developed in the city.

High raw material prices lead to a rise in the material expense ratio

2005 was characterized by rising material prices. Higher purchasing costs could be partially compensated for through the bundling of purchasing volumes, the continued internationalization of the purchasing base and the ongoing optimization of product design. Only a portion of the material price increases could be transferred to customers. As a result, material expenses rose from EUR 123.0 million to EUR 128.4 million, an increase of 4.4% over the prior year. This increase was substantially higher than the rise in sales revenues, due primarily to stainless steel and to a lesser extent to price increases for c-steel. The material expense ratio increased to 41.0% (40.0%). As a result, the gross margin declined by one percentage point to 59.0%.

Lower personnel expenses ratio

Despite an increase in output, personnel expenses declined from EUR 83.6 million to EUR 82.8 million, a reduction of 1% compared to the prior year. The automation of production processes at all ElringKlinger AG plants was the main reason for the decline. The average number of employees declined from 1,576 to 1,526. Lower wage bonuses for the industrial workers at the Dettingen/Erms plant and a change in required working times for production resulted in cost savings. As a result of these employee concessions, the Management and Supervisory Boards agreed on an ongoing employment guarantee for the Dettingen/Erms plant through December 31, 2010. The personnel expense ratio declined from 27.2% to 26.4%.

Depreciation and amortization decline

Depreciation and amortization on tangible and intangible assets declined to EUR 27.1 (32.7) million. The decline can be mostly explained by the extraordinary writedown of EUR 6.5 million taken in the prior year. Adjusted for this one-off effect from the previous year, scheduled depreciation and amortization increased by EUR 0.9 million; this corresponds to a depreciation expense as a percentage of sales revenues of 8.7%. This figure reflects the company's strong investment activities over the last few years.



Growth of the operating result exceeds growth in sales revenues

The company's earnings remained strong as the operating result increased by 11.2% to EUR 52.4 (47.1) million. The disproportionately high increase compared to the growth in sales revenues is due to lower depreciation and amortization, as well as lower personnel expenses. Ongoing rationalization measures also contributed to this result. A changing product mix also made a positive contribution to earnings as sales of products with higher margins grew at a disproportionately high rate. As a consequence, the operating margin improved to 16.7% (15.3%). A further increase in pension provisions by EUR 0.7 million weighed on earnings.

Income from affiliated companies weaker

Write-downs on the book values of affiliated companies were the primary reason for the lower income from affiliated companies, which declined from EUR 6.2 million to EUR 4.5 million. The book values from affiliated companies were written-down by a total of EUR 4.1 million. Following the relocation of metal cylinder-head gasket production from ElringKlinger (Great Britain) Ltd. to the Dettingen/Erms plant of ElringKlinger AG, this participation was written-down by EUR 2.0 million. A write-down of EUR 1.0 million on ElringKlinger Sealing Systems USA, Inc. was taken due to the relocation of the heat shield production to the Mexican subsidiary. The North American ElringKlinger unit has been operated strictly as a sales and engineering subsidiary since mid-2005. A write-down was taken on the participation in Elring Klinger Motortechnik GmbH in Idstein, due to the sale of the engine test bench unit in Dettingen/Erms to ElringKlinger AG. EUR 0.4 million was written-down at Elring of North America, Inc.

Net Interest result improves

A continuation of the low interest rate environment and the ongoing reduction in non-current financial liabilities resulted in a lower interest burden. Following a negative net interest result of EUR 3.0 million in the prior year, the interest burden in 2005 declined to EUR 2.1 million.

Rise in income from ordinary activities

Income from ordinary activities experienced a disproportionate rise of 8.9% or EUR 4.4 million to reach EUR 54.8 (50.4) million, compared to the rise in sales revenues of 1.8%. The tax rate increased by 2.4 percentage points over the prior year to 35.0% (32.6%), due to the fact that write-downs on the book values of affiliated companies are not tax deductible.

Net income once again satisfactory

Net income of EUR 35.6 (33.8) million exceeded the figure from the previous year by EUR 1.8 million, despite burdens from high material prices and an increased tax rate. The rise in net income of 5.4% exceeded the growth in sales revenues.

Increased dividend proposal

Following the allocation of EUR 1.2 million to the statutory reserves and EUR 15.2 million to other earnings reserves, the balance sheet profit amounted to EUR 19.2 (16.8) million. At the Annual General Meeting, the Management Board will propose a dividend of EUR 1.00 per share for the 2005 financial year, which corresponds to an increase of 14.3% over the prior year.

Net Assets

The balance sheet structure of ElringKlinger AG was very solid in 2005. Despite an increase in the balance sheet total by 7.5% over the prior year to EUR 381.6 (355.0) million, the equity ratio increased to 50.4% (48.9%).

Plant, property and equipment increased to EUR 123.0 (113.2) million, due to a 28.0% increase in capital expenditure for production facilities, tooling and machinery. The AG invested EUR 0.8 (0.9) million in intangible assets as it acquired additional software licenses. Intangible assets declined to EUR 4.6 (5.9) million due to scheduled amortization. Loans to affiliated companies increased by EUR 10.8 million to EUR 23.9 million. Of this amount, EUR 16.4 million was related to Elring-Klinger Sealing Systems, Inc., Canada. Total financial assets increased by 7.2% to EUR 143.5 (133.9) million. Overall, fixed assets increased to EUR 271.1 (253.0) million.

Current assets increased by 8.3% compared to the prior year to reach EUR 110.4 (101.9) million, which represents a slight increase to 29.0% (28.7%) of the balance sheet total. Inventories increased by 1.1% to EUR 42.6 (42.1) million. Receivables increased by EUR 9.2 million to EUR 67.7 (58.5) million. Tooling sales and an increase in product sales revenues in Q4 2005 compared to the same quarter in 2004 were the main reasons for this increase. These receivables are not due until 2006. The payment pattern of certain customers also worsened in 2005. Elring-Klinger is currently doing everything in its power to collect on all of its receivables in a timely manner.

On the liabilities and shareholders' equity side of the balance sheet, equity increased to EUR 192.5 (173.7) million due to the net income in 2005; as such, the return on equity (earnings before taxes divided by the average equity of the AG) amounted to 30.0% (30.7%).

Provisions for pensions increased by EUR 0.7 million to EUR 35.6 (34.9) million. In total, provisions amounted to EUR 59.5 (58.7) million or an increase of 1.5%.



As of December 31, 2005, liabilities to banks amounted to EUR 87.2 (81.1) million.

Financial Position

All investments in tangible and intangible assets were once again financed by the company's cash flow in 2005.

Cash flow from operating activities amounted to EUR 59.0 (62.1) million. The decline was due primarily to lower depreciation compared to the prior year and to the increase in trade receivables. Cash flow from operating activities amounted to 18.8% of sales revenues, which is a clear sign of ElringKlinger's earnings strength.

Investment expenditure for the expansion of production facilities as well as for machinery, tooling, property and intangible assets amounted to EUR 35.7 million, EUR 7.5 million more than in the prior year. The negative net cash used in investing activities increased from EUR 35.3 million to EUR 49.4 million, due to the strong rise in capital expenditure on financial assets which amounted to EUR 19.9 (12.0) million.

Cash flow used in investing activities amounted to EUR -10.8 (-27.3) million. This was due to the increase in short-term liabilities on the current account in 2005, which amounted to EUR 12.1 million; this was used primarily to repay long-term loans of EUR 6.0 million and to finance the tie-up of working capital due to considerable growth in the receivables portfolio. In the offsetting position in the prior year, the reduction in liabilities due to banks amounted to EUR 12 million.

With its solid net assets, financial position and earnings situation, ElringKlinger AG is well-positioned to take advantage of the company's growth and value enhancement opportunities in the coming years. The preconditions are present for further expanding the company's organic growth and for external growth in the form of targeted acquisitions when attractive opportunities arise.

Compensation Report

Compensation structure of the Management Board members

Contracts for the Management Board members are prepared by the Personnel Committee of the Supervisory Board under the leadership of its chairman and are agreed upon with the Management Board candidates. The conclusion of the contract occurs following the approval of the Supervisory Board. Compensation is reviewed at the established intervals and adjusted as necessary.

The Management Board members appointed in 2005 have three-year contracts, and the Management Board compensation contains fixed and variable elements. The variable elements contain a component based on the financial year and a long-term bonus, which is linked to the growth in company value (value-enhancement bonus). The yearly management bonus is linked to the Group's earnings before taxes. The value-enhancement bonus is determined each year based on the development of the ElringKlinger Group's enterprise value, which is calculated by the company's tax consultant and reviewed by the auditor. Each Management Board member has the option of postponing the payment of this value-enhancement bonus once or several times, but it may not be postponed beyond the end of the respective member's contract term; for each postponement, the annual bonus is calculated retroactively according to the increase or decrease in value in the year of payment compared to the base year. The annual bonus shall not exceed two-times the yearly fixed salary.

The Management Board members have a right to a pension provided that either their contract has expired, or when they have reached 65 years of age and have started to receive a statutory pension, or in the event they are granted general disability. The claim amounts to 2% of the last monthly fixed salary prior to retirement for each completed year of service, not to exceed 45%.

Compensation structure of the Supervisory Board members

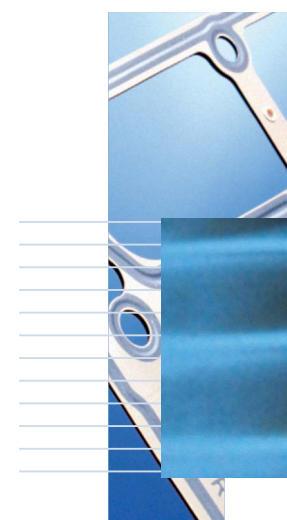
The compensation of the Supervisory Board members is comprised of a fixed and a variable component. The level of compensation is determined at the Annual General Meeting, and was last determined at the Annual General Meeting on June 8, 2005. The variable compensation element is linked to the Group's earnings from ordinary activities in the past financial year. The Supervisory Board chairman receives two-times the compensation of the regular Supervisory Board members, and the vice-chairman receives one-and-a-half times the amount in question.

Disclosures which, due to the new Management Board Compensation Disclosure Law (VorstOG), belong in the appendix in accordance with section 285 no. 9a of the German Commercial Code (HGB), are presented there.

Procurement: Globally Active, Centrally Managed

Burden from high raw materials' and energy prices

Purchasing volumes at ElringKlinger AG increased by 4.3% to EUR 176.3 (169.0) million. Raw materials, particularly steel of various qualities and grades, comprised approximately one-third of this amount and represented the main share of purchasing volumes. Purchased parts for original equipment products and for the independent aftermarket, tooling, machines and equipment as well as energy were also significant items.



The global steel and stainless steel markets were also characterized by ongoing price increases in 2005. Alloy surcharges for steel traded on the commodity futures exchange increased considerably. Due to ongoing high demand, the Chinese economy boosted prices on the world market. As the result of a forward contract concluded in October 2005, ElringKlinger was able to hedge around 50% of its need for steel with high nickel content. The measure also had an influence in 2005 and helped ease the burden on material costs. Due to the fact that the base price for steel remained at a high level in 2005, the company only concluded framework contracts with durations of one year.

The impact of material price increases was reduced through the optimization of proceeds from the sale of scrap metal; this is achieved using a computer-based scrap metal processing concept managed by the AG, which involves the entire Group's international manufacturing network.

As a manufacturing company, ElringKlinger has high energy needs. As such, strong rises in energy prices contributed to the increase in purchasing costs.

The expansion of international procurement markets continued in the year under review. The composition of the company's supplier portfolio reflects the increasing globalization of ElringKlinger's procurement markets. Although in 2001, barely one-quarter of ElringKlinger's suppliers were based abroad, foreign suppliers now comprise around one-third of the company's supplier network.

ElringKlinger places high demands on its suppliers. Supplier performance is constantly monitored using standardized evaluation methods, which include quality, dependability, and competitiveness in pricing among their main performance criteria. The supplier evaluation system, which was further optimized in the year under review, recognizes which suppliers have fulfilled the necessary requirements, thereby enabling them to build a long-term supplier relationship with ElringKlinger. Only those suppliers with consistently positive evaluations can count on new orders.

Purchasing through internet auctions has made a considerable contribution to cost savings. ElringKlinger purchases items which meet its precise, predetermined specifications over the internet, such as tooling, fuels and standardized parts, but it does not use this medium to purchase raw materials. The company intends to further expand this procurement channel. The purchasing department is currently in the process of identifying additional items well-suited to auctions. Another method employed by ElringKlinger to lower costs and optimize processes is utilized in the procurement of "c-items" (low-cost and/or low-volume items), which typically involves a disproportionate amount of time and effort. This process will become fully automated with the introduction of cataloging software in 2006.

Investment Expenditure

Investments in tangible and intangible assets

In 2005, capital expenditure for plant, property and equipment including tooling at ElringKlinger AG amounted to EUR 34.9 (27.3) million, due to preparations for expanding capacity and the ramp-up of production for several new products. Investment in intangible assets amounted to EUR 0.8 (0.9) million. In total, investment in plant, property and equipment and intangible assets including tooling was 26.7% above the prior year.

Investment in financial assets amounted to EUR 19.9 (12.0) million in the form of loans to affiliated companies; the main share of this amount was a loan of EUR 10.4 million to ElringKlinger Sealing Systems, Inc., Canada. Total investment thus increased to EUR 55.6 (40.2) million, and the investment ratio, based on investment in plant, property and equipment and intangible assets including tooling, amounted to 11.4% (9.2%) of sales revenues.

Capital expenditure focused on capacity expansion

Due to steadily increasing demand for products in the Shielding Technology division, ElringKlinger AG is expanding the capacity of the plant in Langenzenn and has started operations at a new manufacturing facility for heat shields. Production at this highly-flexible facility is some 30% more efficient than before.

Some EUR 5 million has been invested at the plant in Runkel for a fully-automated facility to manufacture automatic transmission control plates. As a result, ElringKlinger is able to combine the most current precision pressing technology with complex coating methods. An injection module production facility has been purchased in the context of the purification of diesel engine exhaust emissions for commercial vehicles. AdBlue technology, which has been advanced by the automotive industry in order to significantly reduce the emissions from diesel engines, is expected to gain rapid market acceptance and should lead to additional orders in this area.

In the Cylinder-Head Gaskets division, ElringKlinger is investing in the expansion of the existing plant in Dettingen/Erms. An optimized design for metal multi-layer gaskets (meander and honey comb stopper technology) has necessitated this change. The production of cylinder-head gaskets for commercial vehicle engines has been optimized through the acquisition of a new laser welding facility for metal-elastomer gaskets.



Research and Development

The focal point of ElringKlinger AG's strategy is to achieve and maintain a leading role in product and process innovation in order to secure the sustainability of the company's future. This requires corresponding expenditure for research and development. In the 2005 financial year, 182 staff members were employed directly in the area of research and development. This corresponds to a share of 11.9% of the total employees.

In 2005, the company increased its R&D expenditure by 2.7% compared to the prior year to reach EUR 22.8 million. The R&D ratio to sales revenues amounted to 7.3%, which is considerably higher than the industry average of around 5%. Because the AG provides numerous development services to the company's subsidiaries and affiliates, it receives licensing fees. Taking the income from licensing fees into account, the R&D ratio based on sales revenues at the AG amounted to 6.8%.

Cylinder-Head Gaskets

In the year under review, the AG's Cylinder-Head Gaskets division concentrated on new developments to enable engine designers to achieve additional reductions in consumption and reduced emissions. New stopper technologies were a main focal point. Higher temperatures, new, higher torque diesel engines and alternative fuels such as bioethanol have increased the demands on sealing technology. Of the more than 60 new engine development projects in 2005, nearly all involve the use of new coined honey comb and meander stopper technology.

Shielding Technology

The trend in engine development continues to move toward more space-efficient engines with higher output and temperatures. Many engines are encapsulated, which increases the need for and demands on heat shields. There is increasing demand for complex shielding parts with add-on functions.

Development has focused increasingly on product innovation and the linkage of mechanical parts with sensors to intelligent modules. In 2005, ElringKlinger developed such a thermal shielding part with an integrated sensor function. One interesting area of application for this technology is the increasingly complex exhaust tract. Due to the generation of temperatures as high as 1000°C, the need for high-performance shielding parts is increasing. Now that ElringKlinger has established a solid market position in the area of shielding parts for diesel particulate filters, the company is working to expand its product range to include oxidation catalytic converters. Due to stricter regulations from emissions legislation worldwide, efforts in the area of exhaust aftertreatment are expected to increase steadily. The need for shielding parts is growing, which promises attractive growth potential.

Specialty Gaskets

The Specialty Gaskets division has developed what is referred to as a special automatic transmission control plate that controls the flow of oil in the manifold block of automatic transmissions. This combines technically-demanding precision pressing technology with coating technology. Production began at the end of 2005. An American OEM is already being supplied for large-scale, series production. Additional transmission manufacturers have expressed interest, and ElringKlinger expects significant sales revenue growth in this area in 2006.

With its new fluid injection module for lowering emissions (AdBlue), ElringKlinger has developed an additional technically-demanding component for diesel engines. This development came about as a result of the implementation of the considerably stricter Euro 4 emissions standards for commercial vehicles. NO_x (nitrogen oxide) emissions must be reduced considerably. With a view to the emission limits for passenger cars, the US 2007 Tier 2 BIN 5 regulations in the USA and Euro 5 legislation in Europe place high demands on automobile manufacturers by requiring an additional reduction in NO_x emissions by some 90%. Passenger cars can currently meet the emissions standards of Euro 4 with existing exhaust aftertreatment technology, but at the present time, meeting Euro 5 will require considerable costs. Therefore, efforts are focusing on finding an economically-feasible solution to the problem; one promising solution is the injection of urea into the exhaust tract. The high temperatures transform urea into ammonia, which then converts toxic nitrogen oxide in the ceramic NO_x catalytic converter into the harmless elements nitrogen and water.

Elastomer Components/Modules

In the financial year under review, the Elastomer Components/Modules division optimized the construction of cam covers based on thermoplastics for commercial vehicle engines. At the end of 2004, ElringKlinger started series production of a thermoplastic cam cover for commercial vehicle engines. Since then, several customers have expressed an interest in these covers. The high mileage of commercial vehicle engines and the considerably higher mechanical loads than for passenger cars place difficult technical demands on plastic cam covers for commercial vehicles. ElringKlinger has developed technologically-convincing solutions in this regard, which have been very positively received in the market, and additional contracts are pending.

The focus of development work in the Elastomer Components/Modules division in the last financial year was the proprietary development of oil separators for cam covers. For emissions reasons, providing for oil separation is a key task in the overall configuration of the cam cover. ElringKlinger therefore sees opportunities to add value through its proprietary, technologically-innovative concepts.



New Business Areas

SOFC fuel cells

ElringKlinger AG has been actively pursuing the further development of planar SOFC stacks (solid oxide fuel cells). One of the primary technical challenges involves creating an isolated seal for each of the individual cells in the stack unit. This is the only way to ensure the functionality of the fuel cell. Development is being carried out in close cooperation with a German automobile manufacturer and several research institutes. The fuel cell stack will be integrated into an electrical auxiliary power unit (APU), which will be combined with the engine. This medium-term development project made considerable progress in the 2005 financial year.

The concept uses the APU as a service unit for numerous electric loads in the vehicle. The continuously growing energy needs inside the vehicle detract from the engine output used for powering the vehicle and increase consumption. In the total system, vehicle fuel consumption can be reduced through the use of an APU, because the efficiency of the SOFC fuel cells is considerably higher than that of the engine, which previously supplied the electrical energy.

SOFC technology also has promising potential in the area of combined heat and power due to its high degree of electrical efficiency. The combined use of electrical energy and lost heat also opens up potential areas of application outside of the motor vehicle markets, such as the heating of buildings.

Engine and transmission components made from high-performance plastics

One of the key tasks in developing new motor vehicles is weight reduction, which provides additional savings in fuel consumption. The replacement of expensive, machinable aluminum die cast parts with high-performance plastics can make a significant contribution in this regard. The engine and transmission parts developed by ElringKlinger also allow for a higher degree of integration in terms of the add-on functions required, which provides further cost reduction synergies for engine designers.

Diesel particulate filters

In conjunction with a partner, ElringKlinger is working on developing a novel diesel particulate filter, which, should it be developed for series production, will offer the market new functionality and cost advantages. Price-optimized concepts that also offer strong technical performance should have a bright future. ElringKlinger expects the first concrete development results to emerge in the course of 2006.

Employees

Dedicated and motivated employees are indispensable for the success of any company. A high willingness to perform and the employees' specific, technical know-how, typically developed after several years of working for ElringKlinger, are significant success factors.

As of December 31, 2005, the number of employees declined to 1,520 (1,558), 2.4% fewer than in the previous year. The average number ElringKlinger AG employees over the course of the year amounted to 1,526 (1,576). The fluctuation of 4% is predominantly based on the age-related retirement of employees. Ongoing rationalization programs meant that some of these jobs did not need to be replaced.

In 2005, 25 employees celebrated their 25th year of company service, and four employees had worked for ElringKlinger for 40 years.

Employment guarantee increases competitiveness

In April 2005, the Management Board and works council agreed on an ongoing employment guarantee for the Dettingen/Erms plant through December 31, 2010. Up to this agreement, the company had refrained from issuing notices of termination for operational reasons. This agreement was based on compromises by the employees regarding their compensation model and the change in required working times for production. As a result of this compromise, ElringKlinger employees made a significant contribution to securing the plant in Dettingen.

Training for the company's future

Training and continuing education at the company is a significant task in the area of personnel development. As of December 31, 2005, 70 (62) young individuals were involved in various training programs, 8 more than in the prior year. This shows the high significance the company places on training up-and-coming employees. In this respect, the company takes its sociopolitical responsibility to provide young individuals with well-established vocational training seriously.

For a technology-based company like ElringKlinger AG, it is indispensable that new skilled workers and managers as well as talented younger employees are connected to the company as early as possible. ElringKlinger accomplishes this through targeted marketing at colleges and universities, such as at the country-wide graduate congress in Cologne, Germany. In addition, the company establishes contacts with institutions of higher education by participating in regional university contact fairs at the University of Applied Sciences in Reutlingen, the University of Applied Sciences in Ulm and the University of Stuttgart. In 2005, 33 students and graduates were active in project work as interns and degree candidates.



Employee qualification

In order to maintain a high level of innovative ability, employees' skill sets must be continuously improved through continuing education and qualification measures. In 2005, all employees had the opportunity to develop their skills through specific, professionally-oriented continuing education programs. Internal continuing education courses focused on IT education and language instruction.

Expressing thanks to our employees

Flexibility, dedication and a high degree of motivation were once again factors of success for the company in 2005. Numerous suggested improvements and ideas from our employees lead to cost savings, process improvements and new product ideas. We would like to thank all of our employees for their hard work in the financial year under review.

Quality Control and Environmental Management

ElringKlinger pursues an active environmental policy, is sparing in its use of raw materials and energies, and employs the most modern environmental technologies available. Recycling is highly valued at the company. In light of the strong rise in raw material and energy prices, this policy has made an important contribution to the company's economic success. All manufacturing processes are regularly monitored and evaluated for environmental-friendliness and resource efficiency.

Comprehensive certification

It goes without saying that all of ElringKlinger AG's plants are certified in accordance with ISO/TS 16949:2002 and DIN EN ISO 14001:2005 standards. Documentation on this certification is managed and reviewed by the quality control and environmental management department in Dettingen/Erms. The plants are audited every three years.

Quality is the primary goal

The company constantly strives to avoid mistakes in its operating processes with the goal of zero defects. Due to the importance of ElringKlinger's products for the functioning of the engine, a zero defects program is an absolute necessity. ElringKlinger AG maintains an important competitive advantage through its competence in manufacturing large volumes of technologically-demanding components with a consistently high level of quality.

All of the AG's plants have established quality control and environmental management departments with corresponding responsibility and authority. Designated representatives for emissions control, waste management, hazardous

materials and water pollution control, as well as occupational health and safety and fire prevention support the implementation of the environmental management and quality control guidelines. The activities are centrally coordinated by the quality control and environmental management department of ElringKlinger AG in Dettingen, based on a comprehensive quality control and environmental management handbook. Furthermore, there are additional location-specific documents, guide-lines and process descriptions.

High demands placed on suppliers

The procurement process is also closely linked to the quality control system. High-grade raw materials, semi-finished products and supplier parts are equally important for the production of premium quality products at ElringKlinger. The quality of the external product inputs determines the quality of the final product. In selecting its suppliers and service providers, ElringKlinger requires strict adherence to predetermined quality standards. Suppliers must employ the same principles and management methods as ElringKlinger itself at all plants; this not only satisfies the company's requirements, but those of the customers in the automotive industry as well.

The number of customer complaints was once again reduced in 2005 through the implementation of ongoing improvement measures. The ratio of defective parts per million supplied, at clearly below 10 ppm (parts per million), was extremely low.

ElringKlinger engages in intensive benchmarking efforts in order to consistently improve and further develop the level of quality and environmental and occupational protection. The company was also successful in limiting emissions, conserving energy and reducing waste in 2005, and it achieved further progress in its responsible approach to dealing with hazardous materials and water pollution control. Absolute energy consumption at the Dettingen/Erms plant was still reduced by 5.4% to 47,600 (50,300) MWh, despite increased production volumes. Savings in water consumption, which was reduced from 27.8 tm^3 to 25.2 tm^3 , amounted to 9.4%. These environmental key figures are collected from all of the AG's plants and are regularly monitored.

Implementation of legal regulations

ElringKlinger AG ensures compliance with legal regulations through regular trainings on the proper treatment of relevant materials and through the use of the newest technologies. The company is in compliance with the EU End of Life Vehicles Directive, which forbids the use of heavy metals. ElringKlinger AG provides its customers with detailed information about the content and recyclability of its parts. The contents are registered with the International Material Data System (IMDS). The company's goal in 2006 is to eliminate the use of the few remaining hazardous materials classified under protection grade 3.



The recycling rate was increased once again in 2005, and more than 95% of waste was recycled.

Risks and Opportunities

Early recognition of risks and opportunities

Over the past several years, ElringKlinger AG has maintained a proven risk management system for the systematic recognition, assessment and monitoring of risk. The system takes account of changes in the economic and market situation, the client's situation, as well as the legal framework or potential hazards resulting from changing technology. The controlled and early management of risk enables the company to identify adverse developments in a timely manner. In 2005, the risk management system was once again enhanced and improved.

Systematic execution of risk management

All company divisions and service units receive comprehensive risk evaluation questionnaires twice a year. The division managers and managing directors identify potential risks according to their relevance for the company, rank them in order of probability and propose measures for risk avoidance.

The implementation of risk management processes is a key element of quality management and is monitored continuously.

In addition to the internal risk management system, an independent external auditor is commissioned to carry out at least four audits per year to evaluate compliance with legal regulations and internal rules of procedure at subsidiaries and affiliates as well as in the divisions of the AG. In addition to the anticipated controlling effects from reporting, the projects implemented have also resulted in numerous suggestions for improving efficiency and optimizing processes, which have made a significant contribution to cost savings.

Market and industry risks

As an automotive supplier, ElringKlinger AG is dependent on trends and the demand from its important customers in the automotive industry. In the event of a slump in sales on the part of our customers, risks may arise regarding capacity utilization at the Group's individual production sites. Should this occur, ElringKlinger would make the necessary cost and personnel adjustments. Such a slump in sales could be caused by another considerable rise in the price of oil, a severe political or military conflict or a terrorist attack of significant proportion.

The postponement of new product launches by customers bears the risk that sales and earnings could be deferred to a later period. This case would also generate an immediate reaction from ElringKlinger in the form of necessary cost adjustment measures.

Due to its strong position in the diesel segment, ElringKlinger is at least partially dependent on the diesel penetration trend, as far as production and new registrations are concerned. As the market leader for diesel engine cylinder-head gaskets, the political discussion in Germany about increasing the tax rate on diesel could be detrimental, at least as far as the German market is concerned. Tax credits for diesel particulate filters could have a positive impact on the demand for diesel vehicles. Unexpected sales opportunities could also arise given an accelerated trend toward diesel engines in the North American market.

The earnings weakness experienced by some customers provides an additional risk. In the event that these companies are not able to improve their level of earnings by themselves, this could have negative consequences for ElringKlinger. A reduced willingness to pay on the part of customers represents a risk. Unfortunately, in the 2005 financial year, payments were often made considerably past their due date.

Price risks

The entire automotive supplier industry has been subject to steadily increasing price pressure for quite some time. At the same time, there has been a steady increase in demand for development and for advanced expenditure on the part of suppliers. ElringKlinger cannot avoid this trend. Demands for price reductions are met through cost reductions whenever possible. In the event that certain prices do not permit reaching break-even or generating a profit, certain contracts may have to be declined.

At the time this report was prepared, ElringKlinger's two remaining global competitors had entered into Chapter 11, the American bankruptcy proceeding. This development provides both risks and opportunities for ElringKlinger. Given the fact that all former liabilities are no longer due during Chapter 11 proceedings, the operating cash flow at these companies suddenly increases by the amount of the liabilities which are no longer subject to interest accrual and repayment. This has led to certain price quotations by these firms which would not provide a sufficient margin for a company operating under normal financing conditions. However, customers typically recognize that an economically and financially sound supplier is a better choice for long-term supply relationships. As such, the Chapter 11 proceedings create opportunities for ElringKlinger to acquire additional market share.



Opportunities and risks in purchasing

The future trend of material expenses at ElringKlinger is strongly dependent on the trend in c-steel and stainless steel prices and the price of synthetic granules. Framework contracts with steel suppliers regulating the base price have been concluded as of December 31, 2006. As described previously, 50% of exchange-traded alloy surcharges are hedged using futures. In the event that additional charges are incurred, ElringKlinger will insist that its customers subsidize the raw material price increases.

The risk of a further increase in energy prices cannot be ruled out. As a manufacturing company, ElringKlinger has a considerable need for energy. In 2005, energy costs increased by some EUR 0.5 million, and these unavoidable additional costs burdened the company's earnings. At present, ElringKlinger expects energy prices to remain at these very high levels. This has been incorporated into the forecasts for 2006.

Legal risks

ElringKlinger has reported on numerous occasions about the law suit filed by its US competitor, Federal Mogul, which accused ElringKlinger of infringing on a patent and proprietary know-how that originated from a common Japanese licensor. At issue were certain multi-layer metal cylinder-head gaskets. ElringKlinger defended itself by filing suit with the court of arbitration in Germany, based on an existing mediation agreement. The foundation for a settlement with Federal Mogul was established following oral proceedings, during which ElringKlinger AG was able to convincingly present the lack of credibility of the allegations, and a settlement was reached before the completion of the Management Report on March 10, 2006. With the settlement, these disputes have now been resolved. The settlement stipulates that Federal Mogul and ElringKlinger may no longer file suit against each other in the US or in Europe for an alleged violation of the patents and know-how of the Japanese licensor for metal layer cylinder-head gaskets at issue. The risk of additional, extremely costly patent disputes over these industrial intellectual property rights belonging to the Japanese licensor has thus been eliminated.

We have already reported on the suit filed by ElringKlinger AG against a licensor for the repayment of a one-time licensing fee paid at the signing of the licensing contract. The licensed technology for the production of a single-layer, topographically coined cylinder-head gasket proved to be of limited value and was therefore met with restrained market acceptance. In December 2004, the regional court with jurisdiction in Mannheim largely agreed with ElringKlinger's argumentation in its first oral proceedings. A settlement proposed by the court was rejected by the defendant licensor. Since that time, the regional court in Mannheim has not come to another decision despite numerous notifications.

From the two product liability cases outlined in the 2004 annual report one has been settled in 2005. In cooperation with the affected customer and our product liability insurance, a resolution acceptable to all parties was reached. The share of the settlement paid by ElringKlinger AG is deemed to be reasonable. In the second product liability case, an amicable settlement could not be reached, despite the settlement proposal by ElringKlinger in 2004, and the company believes it will be confronted with a claim for damages. ElringKlinger believes that the damages for which it is being held liable are largely unjustified. A preliminary oral proceeding in December 2005 revealed that the regional court with jurisdiction did not believe that the claim put forth was entirely justified. ElringKlinger pursued the recommendation of the court, which stated that the involved parties should negotiate a settlement. A potential solution involving the product liability insurance is being sought.

Exchange rate risks and the use of derivative products

The Finance department at ElringKlinger has assumed central responsibility for managing the Group's exchange rate risk and, when directed, for implementing currency hedging transactions with the help of derivative instruments. The hedging activities focus on the Canadian dollar and the US dollar. In the financial year under review, 3.3% of the AG's sales revenues were invoiced in Canadian dollars and 1.5% of sales revenues were invoiced in US dollars. Around half of the sales in Canadian dollars were hedged by ElringKlinger AG until the end of 2006 using forward sales at fixed prices.

Evaluation of the overall risk situation

The overall risk situation can be characterized as non-critical, given the company's strong net assets, financial position and earnings situation as well as its long-term customer relationships. Risks which could have a sustainable, negative impact on the company's net assets, financial position and earnings situation or which could threaten the company's existence cannot be detected at the present time. With continuous, upcoming new product launches and a promising product portfolio, ElringKlinger AG has a favorable starting position for achieving its planned operating and strategic goals.

Following the conclusion of the 2005 financial year, no significant events occurred which would lead to a re-evaluation of the overall risk situation.



2006 Outlook

Improved outlook for the global economic environment

A pick-up in international growth is anticipated for 2006. This expectation is valid for Germany, Europe and for the other important economic regions of the world. Economic growth in Germany is expected to be in the range of 2.0% to 2.5%. The solid order intake in the capital goods and construction industries in Germany at the start of the year are important signs of an economic recovery. However, despite the first positive signs of recovery, it remains unclear how demand from private individuals will develop given high unemployment and ongoing increases in energy prices. The first signs that Germany's economic recovery could continue with the help of private consumption are also evident. ElringKlinger would also profit from this development.

Modest growth in international motor vehicle markets

The continuation of high crude oil prices will also burden the development of motor vehicle markets in 2006. Despite initially positive signs, ElringKlinger only expects modest growth in global automotive demand. In North America and in Western Europe, only slight market growth is anticipated. Demand for commercial vehicles should remain at a high level once again in 2006. The Chinese motor vehicle market will experience strong growth once again, and ElringKlinger expects an increase in sales revenues there from currently around EUR 6 million to some EUR 10 million.

Special demand cycle for motor vehicles in Germany cannot be ruled out

The German Federal Government's announcement that it will increase the value-added tax by three percentage points starting in 2007 could lead to a pull-ahead effect in the demand for passenger cars. Many buyers that originally planned to purchase a new motor vehicle in 2007 could decide to make their purchase in the second-half of 2006. This is also true for consumer goods. Therefore, it is possible that the German economy will be weakened in 2007 by the increase in the value-added tax, thus putting the brakes on continued sustainable economic growth in Germany.

Growth of diesel continues unabated

The continued rise in diesel penetration rates for new registrations in Europe and the USA is a growth-driver for ElringKlinger. Sustained and solid growth is also expected for diesel motor vehicles in 2006. The share of diesel motor vehicles as a percentage of new registrations in Europe should considerably exceed 50% in 2006. ElringKlinger also expects growth in diesel motor vehicles in Korea, China and the USA. In Germany, where the diesel penetration rate is below the European average, diesel motor vehicle sales got off on the right foot in January 2006 as more than 47% of German car buyers opted for a diesel.

Order intake and backlog above the prior year

Up to now, order intake in 2006 has developed positively. The order backlog in the Original Equipment business as of December 31, 2005 amounted to EUR 111.3 (98.9) million which is 12.5% above the prior year. Order intake at the AG, which amounted to EUR 218.5 (207.4) million or 5.4% above the prior year, has also experienced persistent growth.

Expectation for sales revenues in 2006

ElringKlinger AG plans to increase organic sales revenues in 2006 by some 4%. All divisions are expected to contribute to this growth. The Cylinder-Head Gaskets division should experience modest growth, whereas stronger growth is expected in the Specialty Gaskets division and cam cover business due to the start of series production for several large projects. In addition, new product ramp-ups are planned for the Shielding Technology division.

Sales revenues in the independent aftermarket are also expected to increase, lead by the markets of Western and Eastern Europe and the USA.

Disproportionately high growth in earnings

ElringKlinger aims to compensate for pricing pressure from the automotive industry through the implementation of additional rationalization and cost savings measures. Economies of scale due to increasing volumes from new product ramp-ups will make a positive contribution to earnings. ElringKlinger expects a slight increase in personnel expenses, and the company expects a prolongation of high levels of material costs and energy prices.

Investment expenditure in 2006

Following investment expenditure of EUR 35.7 million in 2005, ElringKlinger AG expects the investment volume for plant, property and equipment and intangible assets including tooling to amount to around EUR 35 million in 2006. Short-term volume increases by customers due to increased motor vehicle demand could also make additional investment expenditure necessary.

Corporate Policy and Targets at ElringKlinger

The ElringKlinger Group has pursued its operating and strategic targets to date in a difficult market environment. The company succeeded in expanding its position as a global market leader in the area of sealing technology, mostly for diesel engines but also for gasoline engines. Furthermore, it has successfully advanced its technological competitive edge. At the same time, ElringKlinger has consistently expanded its activities for the development of new products and prepared for the ramp-up



of new orders in the 2006 financial year. In 2005, 7.3% of sales revenues (6.8% including licensing income) was spent for research and development. The share of newly developed products is growing continuously. The company's strategy, to solve problems in the technologically demanding areas of operation involving all aspects of the engine and transmission, is showing sustainable success.

ElringKlinger aims to continue to grow profitably in the future, based on three essential pillars of growth. Firstly, existing technologies in the divisions will continue to be developed in order to offer technically-outstanding solutions in the future as well. Altered and considerably lighter engine parts, ongoing increases in emission restrictions, demands for lower fuel economy through lower consumption and increasingly cramped conditions for installed-equipment in the engine compartment have presented a challenge for gasket and shielding parts' suppliers. With its technologically-convincing concepts, ElringKlinger can make a significant contribution in finding solutions to these challenges.

Secondly, new product areas and divisions which provide a sensible complement to ElringKlinger's existing areas of activity will be established alongside existing divisions. Cutting-edge technology will also be a primary focus here.

An additional goal is to expand into the Asian markets, where ElringKlinger has previously been underrepresented. Asian OEMs have witnessed considerable growth in terms of production and new registrations, which has enabled them to profit at the expense of other OEMs' market shares. In order to receive significant supply shares, the formation of new and the expansion of existing subsidiaries in Asia is a necessity.

Forecast for 2007

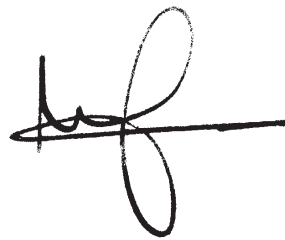
In 2007, the company projects continued growth in sales revenues and earnings. Organic sales revenue growth will be around the level expected for 2006. This of course presupposes that there are no significant, exogenous setbacks in economic activity. Earnings growth is expected to exceed the growth in sales revenues; as such, ElringKlinger AG will continue to grow profitably.

Follow-up Report

As of January 1, 2006, Mr. Theo Becker was elected to the Management Board of ElringKlinger AG in order to succeed Mr. Horst Klusmann, who retired effective from December 31, 2005. His responsibilities include the Cylinder-Head Gaskets, Specialty Gaskets, Shielding Technology and Elastomer Components/Modules manufacturing divisions, as well as the centralized units of Quality Control and Environmental Management, Central Logistics, Toolmaking and Purchasing.

Dettingen/Erms, March 28, 2006

The Management Board



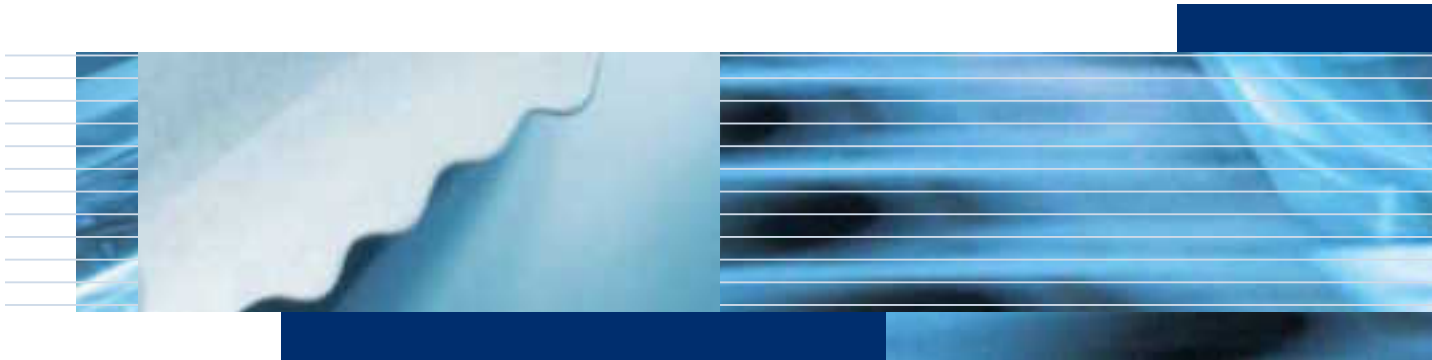
Dr. Stefan Wolf

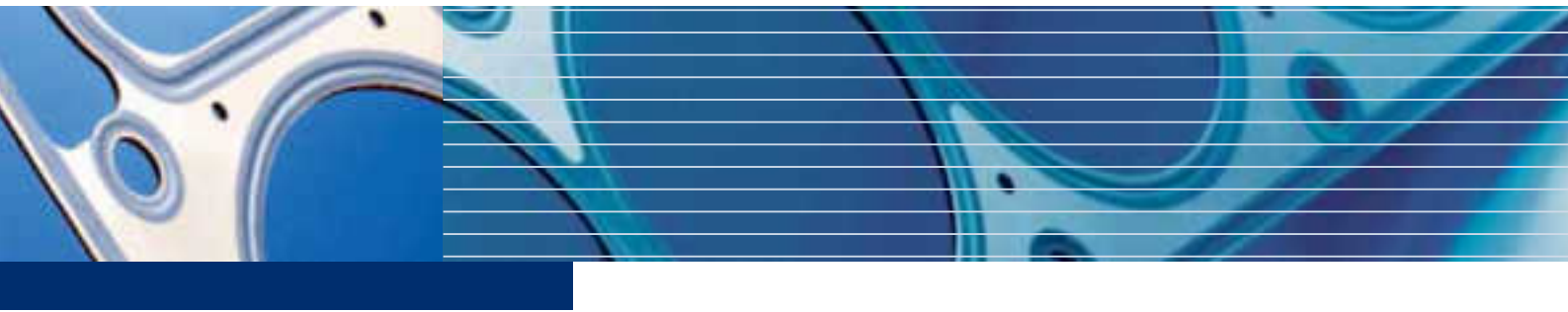


Theo Becker



Karl Schmauder






Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the ElringKlinger AG, Dettlingen/Erms, for the business year from January 1, 2005 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

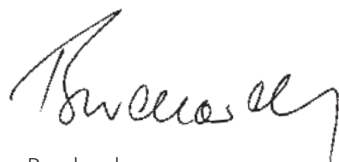
Our audit has not led to any reservations.



In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 28, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Burchards
Wirtschaftsprüfer



Münz
Wirtschaftsprüfer





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