
Press Information on the 2000 Year of Business of the MAHLE Group

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1. General Scenario and Conditions

In the course of the last 12 months, the general scenario and conditions for the worldwide automobile suppliers industry have continually become tougher and more challenging. This is attributable to various factors ultimately leading to growing pressure in competition and on results. The most important of these factors are as follows:

- Continuing concentration in the OE market. The latest examples of this trend are General Motors' and Fiat's joint venture in powertrain and purchasing activities, the new purchasing joint venture established by Renault and Nissan, the powertrain joint venture by DaimlerChrysler and Caterpillar for utility vehicle and off-highway drive systems, the greater share acquired by DaimlerChrysler in Mitsubishi Motors in Japan, and ongoing concentration in the utility vehicles market by the Volvo-RVI-Mack Group.
- Substantial weakening of the market in North America accompanied by stagnation of major markets in Europe and Japan.
- A dramatic increase in the cost of raw materials, especially plastics derived from crude oil as well as nearly all types of ferrous and non-ferrous metals.
- Massive pressure on prices caused by the concentration of E-commerce and accompanied by growing weakness of the market.

As a result of these unfavourable conditions, working relationships between car makers and system suppliers have not developed positively. This, in turn, will lead in the medium- and long-term to a declining investment policy and a cut-back of research and development activities.

A large number of global system suppliers have reacted to these growing challenges and keener conditions by launching an ongoing process of mergers, acquisitions and globalisation, by concentrating to a greater extent on their core areas of business, by pursuing strategic objectives seeking to position themselves as global Top 3 suppliers, and by trying to establish a new balance of customers, markets and regions.

2. Course of Business in the Year 2000

a) Sales

In fiscal 2000 MAHLE boosted its external Group sales by a total of 15.0 percent to approximately euro 2.4 billion (1999: euro 2.1 billion). All Business Sectors made roughly the same contribution to this development.

The main factors behind this trend were the slight overall increase in automobile production, the growing volume of system supplies in all Business Sectors, and the ongoing growth of the high-performance diesel engine market, a segment in which MAHLE, by tradition, has always had substantial market shares. The positive effects of MAHLE's relatively large share of sales in the dollar region and the fact that Group sales are shown in euro were also of significance in this context.

| | Sales | Change versus previous year | Share |
|-------------------------------|---------|-----------------------------|--------|
| Pistons and engine components | 1,423.8 | + 13.5% | 59.5% |
| Filter systems | 546.4 | + 19.7% | 22.9% |
| Valvetrain systems | 418.9 | + 14.2% | 17.5% |
| Other | 1.5 | + 87.5% | 0.1% |
| External Group sales | 2,390.6 | + 15.0% | 100.0% |

Pistons and Engine Components

The Pistons and Engine Components Business Sector was able to boost sales in particular in North and South America. Thanks to MAHLE's leadership in technology, the Group was able to further increase the supply of pistons to the major US car makers and also supplied an increasing volume of technologically sophisticated pistons for high performance power units in utility vehicles. Apart from increasing the volume of OE business, MAHLE was also able to boost after-market sales in South America to an above-average extent thanks to successful marketing activities. Proceeding from the high level already achieved last year, sales by MAHLE's European companies increased faster than the general rise in regional

automobile production (+1.6 percent). The segment of in-house-manufactured piston rings still relatively new to MAHLE recorded a significant increase in market shares particularly in Europe. Towards the end of the year 2000 MAHLE opened another highly automated production plant in Poland for the production of high-quality passenger car diesel pistons in order to meet demand from passenger car engine plants in Central and Eastern Europe as well as from the after-market. This new production activity was started-up successfully, achieving a high level of quality from the outset.

Speaking in terms of product groups, the greatest increase in sales was with pistons for passenger car gasoline and diesel engines. Benefitting from outstanding new developments such as the MonoTherm® piston forged completely from steel and the Ferrocomp® piston for large engines, sales in the utility vehicle pistons market were also up by a noticeable margin. The bearing shells product segment likewise developed positively in the respective markets and the strategy of providing complete system supplies initiated in recent years continued to develop along favorable lines in the year 2000 thanks to special sales and distribution efforts. Entering the year 2001, MAHLE successfully catered for the trend towards more comprehensive system and module supplies by acquiring a share of initially 25.1 percent in Bockhaus Soehne, the leading manufacturer of forged pistons worldwide with production plants in Germany, Spain and Canada.

Filter Systems

The Filter Systems Business Sector showed above-average performance once again in the year 2000, continuing the story of success already recorded in previous years. Particularly the ongoing development of existing filters for fuel and oil filtration and substantial growth in the sale of air supply systems and intake modules served for the first time to significantly boost sales beyond the benchmark of euro 500 million. The increase in sales of complete air supply systems thus followed the substantial efforts made in this area in previous years in research and development.

MAHLE-Parr Filter Systems, Inc./USA acquired on July 1, 2000 enabled the Filter Systems Business Sector for the first time to make significant inroads into the US OE market. In future this area of business is to be substantially expanded with the help of MAHLE technology.

Growth of the spare parts business was also satisfactory, in this case thanks to MAHLE's greater presence in new markets. In the segment of industrial filters sales were up by a double-digit figure, all companies and production plants within the Filter Systems Business Sector contributing to this positive development.

Valvetrain Systems

In the Valvetrain Systems Business Sector the increase in sales resulted primarily from a growing volume of system supplies in the area of valve operation and control as well as the increase in after-market sales attributable to the first full annual consolidation of MAHLE Krotoszyn S.A., the Group's production plant in Poland.

Considered in terms of product groups, the Valvetrain Systems Business Sector succeeded in boosting sales thanks to the ongoing trend towards multi-valve technology and the general increase in engine power and performance, particularly in the diesel segment. The valves, camshafts, valve seat rings and valve guides product groups all benefitted from this development. The production of exhaust gas turbocharger modules also belonging to this Business Sector developed positively thanks to the significant increase in the production of turbocharged gasoline and diesel engines for passenger cars.

b) Financial and Profit Position

The development of the MAHLE Group's operative result varied in the year 2000 from one Business Sector and region to the other.

Particularly the Group's companies in North and South America made a significant contribution to MAHLE's overall result through their above-average figures and performance data, as in the previous year. Our European companies in Austria, Italy and Spain likewise generated satisfactory results, while our major companies in Germany and France had to work hard on improving their unsatisfactory results. Particularly MAHLE GmbH, MAHLE Ventiltrieb GmbH, and MAHLE Motorventile GmbH will have to energetically continue their efforts for a substantial increase in productivity in all areas by taking specific rationalisation measures, in order to become competitive in the long term and keep up with international standards.

The increase in the result of the Group's ordinary business operations from euro 157.2 million in 1999 to euro 187.2 million in the year 2000 (+19.1 percent) is attributable primarily to the improvement of the Group's operative result. On account of expansion abroad and the shift of production to locations operating at lower cost, the workforce expenditure ratio has dropped from 35.5 to 34.3 percent of the Group's overall output. The increase in the cost of materials, in turn, is attributable primarily to the significantly higher prices of aluminum and plastics as well as a larger share of supplies due to the greater volume of system supplies to customers.

The Group's balance sheet total increased in the year under review from euro 1,739.9 million to euro 1,886.7 million, reflecting the Group's substantial capital expenditure exceeding depreciations by far and the first-time consolidation of MAHLE-Parr Filter Systems, Inc./USA. Stocks and inventories increased in proportion to the development of sales. The share of equity in the balance sheet total is up from 36.9 percent in 1999 to 40.4 percent in fiscal 2000, meaning that the Group's equity covers 80.0 percent of its assets.

The annual surplus of the MAHLE Group is euro 96.8 million, the payment made to MAHLE Stiftung GmbH is euro 3.5 million. The remaining profit improves the Group's equity and is therefore a significant factor in achieving an equity ratio of more than 40 percent for the first time in almost two decades.

c) Capital Expenditure

Capital expenditure on fixed assets amounting to euro 228.3 million (without additions from first-time consolidation) in fiscal 2000 was once again higher than in the previous year. Exceeding depreciations by 30.5 percent (previous year: 28.9 percent), this capital expenditure clearly underlines the Group's potential for ongoing growth and innovation. Compared with the volume of business, capital expenditure in the year under review amounted to 9.5 percent of sales (previous year: 9.7 percent).

Capital expenditure in Germany was focused in particular on the need to rationalize existing processes and methods and build up new production processes. Four major projects were initiated in fiscal 2000 and are being continued in the years to come:

- The plant in Leibertingen (near Sigmaringen in south-west Germany) for the production of camshafts
- The new plant in Fellbach for the production of motorsport components
- The new Corporate Headquarters in Bad Cannstatt
- The refurbishment of the engine block foundry in Markgröningen

Capital expenditure in other European countries served above all to adjust production methods to the Group's product innovations and meet even stricter quality demands. In North America capital expenditure was focused mainly on the extension of our capacities, while our South American companies concentrated their investments in particular on new products such as fully machined connecting rods, assembly lines for piston/connecting rod assemblies, the merger of light-alloy casting capacities at one central location, as well as the development of processes for new piston ring technologies.

d) Workforce

The number of employees increased in fiscal 2000 from 24,712 in the previous year to 25,854 (+4.6 percent). This is attributable above all to economic development and growth fueled by new companies and production plants. The number of employees outside of Germany rose to 16,982, maintaining a share of 65 percent within the Group's overall workforce.

Leaving out companies consolidated for the first time, the increase in the number of employees was 2.8 percent relative to an increase in sales adjusted for consolidation and currency exchange effects by 8.0 percent. A direct comparison of business years therefore shows a significant increase in productivity throughout the Group as a whole.

3. Trends in Technology

Combustion engine versus fuel cell (FC)

Ongoing optimization of the diesel and gasoline combustion engine will virtually eliminate the theoretical advantages of the fuel cell in terms of consumption and exhaust emissions in the medium term.

The most important technologies in this process of optimization are as follows:

- High-pressure fuel injection on the diesel engine
- Direct injection on the spark ignition engine
- High-boost turbocharging
- Fully variable valve drive
- Variable compression
- New combustion processes
- Optimized treatment of exhaust gases
- Improved, "cleaner" fuels

MAHLE is conducting research and development activities in all of the above areas relevant to the combustion engine.

With the efficiency of the combustion engine being considerably improved, there are hardly any differences any more in the use of primary energy as compared with the fuel cell, particularly as long as the hydrogen infrastructure required for direct operation of the FC is not yet in place.

After introduction of the Euro 4 and Euro 5 emission standards in Europe and the ULEV and SULEV standards in the USA in the years to come, modern combustion engines will generate less than 1 percent of the exhaust emissions still "normal" just 30 years ago. In other words, the exhaust emissions coming out of the combustion engine in many densely populated areas will be "cleaner" than the air these engines inhale in the combustion process.

Apart from this question of ever-increasing efficiency – which means lower fuel consumption – and the solution of the exhaust emission issue, the FC still presents dramatic problems in terms of costs, its overall package, driving performance, and the infrastructure required.

Hydrogen drive likewise raises the question of how to store and generate the energy required in the first place. As long as mankind does not succeed in recovering a substantial amount of hydrogen from regenerating sources of energy, the only technology available to provide a positive overall balance of CO₂ emissions suspected to be co-generators of the greenhouse effect is nuclear energy.

Given this situation, an increasing number of experts believe that at least in the next 3 - 5 decades the FC will be used largely for stationary drive purposes and, possibly, as an ancillary on-board energy supply system for motor vehicles.

4. Acquisition of Tennex Corporation

Taking effect on April 20, 2001, MAHLE acquired 33.3 percent of the stock capital in the Japanese Tennex Corporation (see the separate press information enclosed) through its subsidiary MAHLE Filtersysteme GmbH purchasing this share in Tennex from Nissan Motor Co., Ltd.

Pursuing the MAHLE Group's strategic objective to be among the Top 3 manufacturers worldwide in all of the Group's core business areas, the Filter Systems Business Sector has thus taken a significant step into the future. After establishing joint ventures in Korea, India and Mexico, and taking over Parr Manufacturing Inc. in the USA in recent years, the acquisition of this share in Tennex Corporation with plants in Japan, the USA, England, the Philippines and Thailand serves to round off this Business Sector's production network worldwide. Once consolidated, MAHLE's existing Filter Systems Business Sector, together with Tennex Corporation, will have worldwide sales significantly exceeding euro 1 billion, this operation therefore becoming by far the largest supplier of filters to the automotive industry worldwide.

5. Outlook

As already stated, the forecasts for global economic development in the year 2001 in the major regions of the world have been adjusted downward in recent months. While in the first quarter 2001 particularly the North American automotive industry was faced with a substantial weakening of the market, the ongoing weakness of the Japanese economy as a whole as well as lack of demand in the German domestic market have in the meantime becoming reasons for concern.

Considering the more difficult overall sales scenario to be expected in this situation and the lack of momentum for the economy as a whole, the MAHLE Group expects only modest development of sales by the existing group of companies in the year 2001, not keeping up throughout the entire year with the positive development of the first quarter showing an increase in sales by 9 percent.

Given this situation and massive price pressure encountered at the same time, significant cost reductions will be required at all of the Group's locations in order to maintain the level of results achieved in fiscal 2000.

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