

# Press Release on the Business Development in the 1<sup>st</sup> Half of 2004 and Outlook for the MAHLE Group

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## **1. Business Environment/Economic Situation in the Automotive Industry**

### **Economic situation in the automotive industry: upturn with an element of uncertainty**

All in all, the international economic situation in the automotive industry developed positively parallel to the world economy in the 1<sup>st</sup> half of 2004. However, widely varying tendencies appeared when looked at according to the individual fields and markets.

Whereas production and sales of passenger cars are stagnating in North America and Europe or at best increasing only slightly, China retains its top rank with the most growth and a renewed increase in sales of over 30 percent. South America also showed a considerable increase in demand for passenger cars. Likewise, Japan's improved economy resulted in a noticeable stimulation of domestic sales.

Thanks to increasing demands for exports, the German automotive industry was able to expand domestic passenger car production to 2.7 units in the first six months of this year, although new registrations in Germany took a downward turn. However, the weak dollar rate places an additional burden on the profits of most German manufacturers.

Worldwide demands for medium and heavy duty trucks developed much more dynamically than the passenger car market in the 1<sup>st</sup> half of 2004. After years of stagnation, investment confidence rose virtually by leaps and bounds in North America, leading to an increase in production and sales of around 30 percent in this region. A similar dynamic, if on a much smaller scale, could also be registered in South American countries. Also Europe's sales levels increased - almost 10 percent more commercial vehicles were registered in the EU, including the new

Eastern European accession countries, as compared to the same period in the previous year. In contrast, Asia is showing the first signs of market saturation. Although sales of commercial vehicles in China increased again by approximately 20 percent, the markets in Korea and Japan dropped substantially in some cases.

German manufacturers are profiting from the fast growing global demand for commercial vehicles and increased production of vehicles over the 6 ton weight class by more than 10 percent in the first half of 2004.

In general, market analysts expect that the economic tendencies from the first half of the year will continue on into the second half in the respective markets or will improve even further. All the same, a drastic increase in crude oil prices and a shortage of materials, resulting in cost rises for raw materials such as steel and other metals, represent an element of uncertainty that is difficult to calculate.

## **2. Business Development and Outlook**

### **MAHLE growing more dynamically than the industry**

A 17 percent increase in sales in the first half of 2004 – strong stimulus for commercial vehicles – new company structure proven a success – raw material prices posing a risk factor

In the first half of 2004, the MAHLE Group increased sales by 16.8 percent to 1.879 billion euros. As a result, the world market leader for engine components and filter systems expanded more dynamically than the international automotive industry, which displayed only slight improvement. MAHLE received the strongest stimulus from its commercial vehicle business, which is showing an upswing after a long period of stagnation in North America, South America, and Europe.

"Thanks to our global presence with production sites in all of the major markets, we are able to benefit from the revived demand and use our capacities better," emphasized Heinz K. Junker, Chairman of the MAHLE Management Board at the presentation of the results of the 1<sup>st</sup> half of 2004. At 12.8 percent, the major portion of the increase in sales stems from internal growth. Four percent is based on the first-time consolidation of new companies.

The new company structure implemented at the beginning of 2004 also had a positive effect on business development, according to Junker. The five global product lines and a newly introduced key account structure for central sales contributed to an improvement in customer relations and released synergies that have increased sales.

The profit situation for the MAHLE Group in the first six months of the fiscal year developed parallel to the volume of business. Higher prices for raw materials, a low dollar rate as well as again intensified price pressure by our large OEM customers impaired however our result.

If the worldwide improvement in the automotive industries continues as predicted, MAHLE will be able to expect sales of approx. 3.6 billion euros for the entire 2004 financial year (2003: 3.25 billion euros). However, increasing prices for oil and other raw materials, in conjunction with the boom in demand in China, will further drive up costs for steel and plastics, which presents a risk factor especially for profits.

The number of MAHLE employees worldwide rose by 10 percent to 33,855 in the first half of the year. Of this number, 9,421 work in Germany (+ 7 percent) and 24,434 (+ 12 percent) abroad. This increase in headcount in Germany can be traced back exclusively to acquisitions and so a resulting increase in the number of companies to be consolidated.

Since the growth in sales and profits at MAHLE has almost been completely achieved by production sites overseas, the introduced restructuring program for our German sites will continue as planned.

### 3. Group Development

Important milestones in Group development in the 1<sup>st</sup> half of 2004 include:

#### January 2004

- On 01/01/2004, MAHLE increased its previous minority interest in MAHLE Brockhaus GmbH from 25.1 percent to 51 percent and plans on completely taking over the company in 2005. MAHLE Brockhaus GmbH is the leading European manufacturer of blank connecting rods and has, in addition to its main plant in Plettenberg, Germany, a majority interest in a subsidiary in Spain and a minority interest in one in Brazil.
- With an eye on further improvement of its strategic position in the high-growth market in China, MAHLE acquired all shares in Chongqing Changjiang Izumi Piston Industries Co., Ltd. on 11/01/2003. The company, which now trades under the name of MAHLE Engine Components (Chongqing) Co., Ltd., was consolidated on 01/01/2004. Along with existing piston production plants in Nanjing and Yingkou, MAHLE now has access to a total yearly manufacturing capacity of more than 12 million pistons. This has already made MAHLE the second largest supplier in China, with a wide product range of pistons for everything from small engines to heavy duty truck engines.

#### June 2004

- Opening of the MAHLE Ventiltrieb Brandenburg GmbH plant in Wustermark, Germany. MAHLE in Wustermark currently only supplies the Bavarian car manufacturer BMW, which started a joint venture with MAHLE at the beginning of 2003 to manufacture and supply camshafts, and contributed its former in-house production capacities from the BMW plant in Spandau. However, in the medium-term, MAHLE wants to expand its business and supply other automobile and engine manufacturers with camshafts made in Wustermark.

## July 2004

- MAHLE took over a 72.5 percent share in the joint venture company MAHLE Shanghai Filter Systems Co., Ltd., while its Chinese partner holds 27.5 percent. The company manufactures air, fuel, oil and activated carbon canisters for the local Chinese automotive industry, for both passenger cars and commercial vehicles. It also sells its products in the independent aftermarket.
- MAHLE took over the Schmiedewerk Rosswein GmbH. The traditional Saxon company develops and produces blank connecting rods for major European automotive manufacturers, such as Audi, Opel, Peugeot, Renault and VW. Soon to operate under the name MAHLE Rosswein GmbH, the company will be integrated into joint production with MAHLE Brockhaus GmbH.
- MAHLE increased its minority share in the Thai filter joint venture "Siam Tennex" from 49 percent to 75 percent. Trading under the name MAHLE Siam Filtersysteme Co., Ltd. in the future, the company will be consolidated on 07/01/2004.