



**Press Information  
on the Provisional Course of Business in the Year 2001  
and Outlook for the Year of the MAHLE Group**

- September 5, 2001

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## **1. General Business Scenario**

The worldwide automotive production and suppliers industry developed along very different lines from region to region in the first half of 2001.

In Europe particularly the passenger car market saw a stable development, even though in Germany this positive scenario was based largely on exports. This success in the export markets is attributable, as before, to an attractive range of models coming out of Germany as well as the favorable value of the Euro versus the US dollar. By comparison, the European utility vehicle market shows weaknesses compared with the high level recorded in the previous year.

In the first half of the year both the passenger car and utility vehicle markets in North America recorded a drop in production in the two-digit percentage range, particularly the heavy utility vehicle segment suffering from a general weakness and almost halving in volume versus 1999. Judged from the current perspective, the turnaround originally anticipated in the second half of the year will not materialize.

While the South American market showed positive growth in the first few months of the year, the shortage of energy now experienced once again has slowed down this dynamic development. The outlook for the future therefore remains rather moderate.

The development of markets in Asia is dominated by the weak Japanese economy, although some countries in Asia show certain growth rates in local automobile production.

On account of lacking growth in the market and competition still becoming keener, the profit position of the global automotive industry would appear to be developing rather unfavorably. With a few exceptions, this applies both to car manufacturers and major system suppliers.

## **2. Provisional Course of Business in 2001**

As a world leading system supplier for major engine and filter modules, the MAHLE Group recorded organic growth in revenue of almost 8 percent in the first half of the year, despite the relatively unfavorable conditions in the market. All Business Sectors (Pistons and Engine Components, Filter Systems and Valve Train Systems) showed positive growth rates, particularly the Filter Systems Business Sector making an over-proportional contribution to the ongoing growth in revenue through the significant expansion of system supplies to major European customers.

The decrease in revenue in the other Business Sectors suffered in the NAFTA Region was also overcompensated by an increase in market shares and growing system supplies in the other world markets. The ongoing trend in Europe toward greater sales in the passenger diesel car market also made a positive contribution to the overall development of revenue, since MAHLE, by tradition, has the largest market shares in this segment thanks to our leadership in technology.

Despite declining market forecasts in all major regions of the world in the second half of the year, MAHLE expects a continuing increase in revenue by more than 15 percent throughout the whole of 2001. Together with the positive organic growth in the first half of the year, this is attributable first and foremost to the acquisition and consolidation of Tennex Corporation with production plants in Japan, the Philippines, the USA and Great Britain.

This means that MAHLE will succeed, for the fifth year in a row, to generate growth significantly greater than the general development of the market. With a compounded annual growth rate over the next five years of approximately 15 percent, MAHLE is far above the average growth rate in industry and has therefore succeeded in further improving its position among the global TOP 50 system suppliers.

Given the general stagnation of markets, we now see even keener competition than before accompanied at least in North America and Asia by over-capacities in the market. This has increased pressure on profits and margins enormously in the year 2001. With expenditures also increasing on labor and, in particular, on raw materials (plastic granulates, aluminum, steel, etc.), it will not be possible to achieve results at the same level as last year. The significant decrease in results in North America, as well as the profit contributions by the MAHLE Group's companies in Germany remaining unsatisfactory, will require far-reaching cost-cutting programs in the remaining months of the year and in the year 2002, with production being shifted to foreign locations operating at lower cost.

This will also affect the development of the Group's headcount in Germany. While the overall headcount within the Group, particularly as a result of the acquisition of Tennex, will increase to more than 28,000 employees by the end of the year, cost reduction and production outsourcing will reduce the number of employees at the Group's German plants and facilities by approximately 500. Only this can provide an appropriate balance of price reductions in the market, improvements in productivity and cost reductions in the forthcoming year of business. These measures will affect plants and facilities run by all Business Sectors of the Group. Particularly due to the lacking availability of qualified manpower, a wide range of tasks and responsibilities will have to be shifted to foreign locations also in the Development Sector in order to meet the growing demands of our customers in R+D.

### 3. Strategic Development of the Group

So far, the most significant modules in the strategic development of the MAHLE Group this year were as follows:

- 3.1. the acquisition of a minority share in Brockhaus Soehne, the world's leading manufacturer of cracked connecting rods,
- 3.2. the decision to build a new foundry in Poland,
- 3.3. the acquisition in several steps of Tennex Corporation, and
- 3.4. the construction of a new production facility for composite camshafts.

#### 3.1 Acquisition of a minority share in Brockhaus Soehne, the world's leading manufacturer of cracked connecting rods

The acquisition, in the first initial stage, of 25.1 percent in Brockhaus Soehne, the world's leading manufacturer of forged connecting rods with production plants in Germany, Spain and Canada, has been welcomed positively in the engine production market, since this once again upgrades and expands MAHLE's development and production know-how as a system supplier of complete power cells. With the machining and production of connecting rods as well as the assembly of power cells (assembly of pistons and connecting rods) already having started at MAHLE's production plants in North and South America, we received our first major order for fully machined cracked connecting rods to be supplied together with our pistons also in Europe just a few weeks ago. A large number of other customer projects are currently in progress.

Currently we are carefully considering various alternative locations for a new connecting rod machining plant. The final decision on this location will have to be taken in the next few months, since large-scale production will have to be ramped up in early 2003.

As a result of this positive development, MAHLE has already gained a strong position in all world regions as an all-round supplier of complete power cells.

#### 3.2. New foundry plant in Poland

The construction of a new foundry plant in Poland approved by the Supervisory Board in the middle of the year ensures the low-cost supply of cast pistons to several of MAHLE's piston production plants in Europe in future, at the same time increasing the Group's capacity to approximately 8 million pistons a year. This increase in capacity is required to meet growing

demand from our main customers in Europe above all for their new generations of passenger car diesel engines.

The new foundry will also provide the option to produce not only crude pistons, but also new aluminum engine blocks for midrange and luxury performance cars. MAHLE's market potential for this technology serving primarily to reduce weight and fuel consumption is in the region of 200,000 engine blocks a year.

Production at the new foundry is scheduled to start in spring 2003.

### 3.3. Acquisition of a share in Tennex Corporation

In the course of the year MAHLE acquired a majority share in Tennex Corporation, the Japanese manufacturer of automotive filters, in two steps: After acquiring a 33.3 percent share in the stock capital of the company on April 20, 2001 directly from Nissan Motor Co., Ltd., the second-largest car maker in Japan, MAHLE increased its share once again to almost 58 percent by way of a unilateral increase in equity on August 24, 2001. With a share in Tennex Corporation's overall stock of almost 15 percent, Nissan for the time being remains the second-largest single shareholder in this company listed on the Tokyo stock exchange and employing almost 2,000 associates at 7 production plants in Japan, on the Philippines, in the USA and in Europe, with annual sales of approximately Euro 450 million. Following the acquisition of Tennex, pro-forma sales in MAHLE's Filter Systems Business Sector are up to more than Euro 1.1 billion, thus reaching the strategic target to give this Business Sector, so far more of a regional operation within the MAHLE Group, a top position in the global marketplace.

In terms of the sales volume involved, the acquisition of Tennex is the largest individual takeover of a business operation in the history of the MAHLE Group.

Work is currently under way in various integration teams to link MAHLE's existing filter system production plants with the Tennex plants, creating synergy effects also in terms of joint product design in future.

While the new Tennex plant in Salisbury, southern England, is being integrated into the production network of MAHLE's European filter plants in Germany, Austria and France, Tennex Corporation's US plant in Tennessee will form the Group's NAFTA production network in future together with MAHLE's existing plants in Iowa and Puebla/Mexico. The North American Development Center in Detroit is being expanded significantly in order to meet the substantially growing development requirements of US customers.

Tennex Corporation's plants in Asia will focus in future on their respective main production markets.

#### 3.4. Construction of a new production plant for composite camshafts

The new premises acquired at the beginning of the year in the south German town of Leibertingen for large-volume production of composite camshafts with sintered cams is currently starting operation with the first production units, preparing in good time for the ramp-up of production in the second half of 2001 and in 2002.

Following its initial steep ramp-up, this product-oriented plant offers further options for ongoing expansion in order to provide additional production capacities for more than five million camshafts a year, thus catering for MAHLE's growing success in the market with weight-optimized, ready-to-assembly composite sintered camshafts.

#### **4. Success in Motorsport**

No other area of activity demonstrates MAHLE's leadership in technology in the same way as the outstanding success of our products in the highest realms of high-tech motorsport.

The highlights in the year 2001 included yet another triple victory in the 24 Hours of Le Mans with the Audi V8 biturbo racing engines powering the Audi and Bentley cars. Since 1970, the winning cars in Le Mans have crossed the finish line with MAHLE pistons and cylinders no less than 24 times. A further highlight in motor racing is the Formula 1 World Championship won by Ferrari once again with the help of MAHLE components. Apart from Ferrari, MAHLE supplies pistons, cylinders and other precision engine components to five other engine manufacturers in Formula 1. Out of the 14 GPs in the 2001 Formula 1 season so far, special MAHLE components and technologies were to be found in no less than 11 of the winning cars.

Our motorsport activities in the USA are also starting to develop very positively. Apart from numerous wins with MAHLE components in the CART Series, we only barely missed our first victory right from the start, that is in our very first entry, in the 500 Miles of Indianapolis. And no less than six of the 10 best cars in the race ran on MAHLE pistons.

## **5. 2001 Frankfurt Motor Show**

At the Frankfurt Motor Show starting next week, MAHLE will once again stand out as a leader in technology, presenting a wide range of new developments in all Business Sectors of the Group and thus offering further significant improvements in terms of fuel economy, exhaust emissions, weight and noise behavior in the new generation of engines.

As an example, MAHLE offers an entirely new type of piston for new direct injection diesel engines incorporating an innovative cooling system for even higher ignition pressure and temperature loads and thus improving both performance and fuel economy to an even higher standard.

Introducing an innovative casting method, MAHLE has furthermore succeeded in developing the weight-optimized Ecoform piston to production level for the spark-ignition engine. Compared with current series components, the Ecoform piston reduces weight by more than 10 percent, thus making a significant contribution to greater fuel economy, less friction, lower noise and enhanced refinement in new engines for the future.

Both of these new technologies will be entering series production before the end of this year in various new engines developed by our customers.

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