
Advance Press Information

on the Development of Business 2002 of the MAHLE Group

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1. General Business Environment

In fiscal 2002 the entire automotive manufacturers and suppliers industry suffered from unfavorable conditions and general difficulties in the market as a whole. With the exception of just a few countries, production figures were down the world over. There are many reasons for the increasing reluctance of consumers in making purchases: Stagnation of growth in major sectors of the European Union and in Japan, political insecurity and structural problems in North and South America, unfavorable development of the stock exchange on a global basis, and questionable political decisions particularly in our home market. In some regions only a policy of far-reaching support and promotion such as price concessions, zero financing options, etc were able to keep the level of production unchanged. Over-capacities building up in this generally declining market had the additional effect of exerting heavy pressure on prices, with our major OE customers striving to force each other out of the market.

2. Development of Business in the Year 2002

Despite the generally unfavorable business environment, the MAHLE Group was able to significantly increase its revenue in the 2002 year of business.

a) Increase in MAHLE Group Revenue

MAHLE Group revenue amounted to almost 3.1 billion Euro in 2002, growing by approximately 9 percent over the previous year. This growth in revenue resulted in particular from new Group companies joining MAHLE in 2002, inter alia in Canada, Mexico, Korea, India and Australia.

Stable growth even without the effect of consolidation

Without the new Group companies and with exchange rates remaining unchanged versus the previous year, revenue in the year under report would have been up by approximately 3.5 percent. The main reason for this positive development of MAHLE's revenue compared with the general trend was the increase in system supplies in all Business Sectors of the Group.

MAHLE Pistons and Engine Components slightly over the previous year's level

In the 2002 year of business under report MAHLE's Pistons and Engine Components Business Sector slightly increased its revenue over fiscal 2001.

This growth was primarily attributable to the MAHLE companies in North America increasing their market shares in some cases quite significantly inter alia by supplementing their existing product ranges and expanding their capacities.

In Europe MAHLE's largest Business Sector was able to keep revenue at the same level as in the previous year despite the significant decrease in production by car manufacturers in this region.

The MAHLE companies operating in South America were impaired in their development by the tense economic situation in Brazil and ongoing aggravation of the Argentinian crisis. In the Asian-Pacific region newly acquired MAHLE companies contributed to the increase in revenue.

MAHLE Filter Systems showing significantly over-proportional growth

The MAHLE Filter Systems Business Sector significantly increased its revenue once again in the 2002 year of business. This was primarily attributable to full consolidation of the Japanese Tennex Group already integrated into the MAHLE Group in the previous year as well as the acquisition of majority shares in former joint venture companies in Korea, Mexico and India. In addition, MAHLE Filter Systems succeeded in growing smoothly and organically throughout all product groups in the market.

MAHLE Valve Train Systems largely stabilized

Compared with the previous year MAHLE's Valve Train Systems Business Sector showed a largely consistent development of revenue. Growth in North America almost set off the slight decrease in revenue in Europe.

b) Financial Situation and Profits: Increase in Operative Result

In fiscal 2002 MAHLE succeeded in increasing the Group's operative result over-proportionally to the increase in revenue. The fact nevertheless remains that the development of results in the various parts of the world varied significantly from one region to another.

The European market

Results of MAHLE's European companies stagnated in the year under report due to very significant price and cost pressure as well as the significant decrease in the number of new passenger cars and utility vehicles registered. Developments at many German and French Group locations were particularly problematic.

It was impossible in the year under report to harmonize the higher cost of labor, on the one hand, and progress made in productivity, on the other .

The American market

MAHLE's North and South American companies succeeded in improving their results in fiscal 2002, benefitting from the opportunity to respond quickly in the markets involved to the change of conditions and maintaining a rigid system of cost management

The Asian-Pacific market

Results also improved significantly in the Asian-Pacific market, primarily due to structural measures taken in Japan and significant growth of the Chinese market.

Capital expenditure remaining at a very high level

MAHLE's capital expenditure in the 2002 year of business was only slightly lower than in the previous year, thus remaining at a very high level: The MAHLE Group invested both in new production facilities and products and in measures to improve quality and productivity.

Capital expenditure by the Pistons and Engine Components Business Sector in the year under report was mainly on the new piston casting plant in Poland, on the expansion of connecting rod production in Mexico, and on new piston production facilities in Australia. The Filter Systems Business Sector, in turn, invested primarily in the introduction of new products and the rearrangement of the Group's production network. Capital expenditure in the Valve Train Systems Business Sector, finally, was incurred primarily on the establishment and expansion of MAHLE Motorteile GmbH in Leibertingen, the Group's European center for the production of composite camshafts. The above-average level of investments in this Business Sector in recent years was however scaled down according to plan in the course of the year under report.

In fall 2002 MAHLE moved into the new Group Headquarters in Stuttgart, the former Office and Administration Building now no longer required being used from now on for the wide range of research and development activities pursued in Stuttgart.

a) Research and Development Harmonized Worldwide

Despite stagnation within the overall market, MAHLE maintained the high level of capital expenditure in the year under report on research and development as well as new products. In the meantime more than 1,500 engineers and technicians work at MAHLE's four major Development Centers in Stuttgart, São Paulo, Detroit and Tokyo, conducting basic research and focusing on the ongoing development of the combustion engine. One highlight in the Research and Development Sector in the year under report was the integration of new Group companies by coordinating and harmonizing the work methods used.

Applying standardized calculation and test processes the MAHLE Group is now in a position to conduct development activities for all customers on a high level, with consistent quality and according to the same processes on four continents.

MAHLE's corporate strategy now going back several years – the active assumption of greater responsibility in the development and production of automobiles, thus taking on a significant role in the value chain – once again provided positive results in the year under report.

d) Development of Workforce

The number of employees within the MAHLE Group increased once again in fiscal 2002. In the meantime MAHLE's worldwide workforce has grown to more than 29,000 employees, an increase attributable primarily to the consolidation of new companies within the Group. Without these consolidations the number of employees would have decreased versus the previous year.

In the last five years the overall headcount of the MAHLE Group has increased by approximately 50 percent. In the same period, however, the share of European employees has dropped by more than 60 percent to a new level of just under 50 percent of the overall workforce. In particular the relative share of employees in Germany has decreased from 43 percent five years ago to approximately 28 percent today, whilst at the same time the share of MAHLE employees in America has risen to just under 40 percent, the Asian-Pacific region accounting for 10 percent of all employees in the meantime (and thus showing the same growth in this respect as in the case of revenue). This is attributable primarily to MAHLE's new plants in Japan, Korea, on the Philippines and in Australia.

3. Strategic Development of the Group

Conducting a number of important projects, MAHLE has promoted its ongoing growth strategy in recent months. Apart from the assumption of a majority share in joint venture companies in Canada, Korea, India and Australia, further steps were taken in the last quarter 2002 and in January 2003 to ensure continuing growth and the establishment of a strong strategic position also in future.

a) MAHLE Valve Train Now a Wholly-Owned MAHLE Subsidiary

In November 2002 MAHLE acquired the total share of DaimlerChrysler AG in the MAHLE Valve Train Systems Business Sector. The former 25.8 percent share held by DaimlerChrysler AG in MAHLE Ventiltrieb GmbH dates back to the mid-90s, when the Bad Homburg Plant belonging at the time to Daimler-Benz was merged with the Group in return for a share in MAHLE Valve Train Systems. At the time Daimler-Benz built all engine intake and outlet valves for their cars at the Bad Homburg Plant. Following operative takeover of the plant by MAHLE, Bad Homburg also started in the mid-90s to build engine valves for other car makers. Now, since the beginning of 2003, MAHLE has been the sole owner of MAHLE Ventiltrieb GmbH together with its subsidiaries in Germany and abroad. Reflecting the ongoing strategic orientation of the MAHLE Group, this step also involves the planned shift in production in the medium term from Bad Homburg to another location.

b) MAHLE Launches Joint Venture with BMW

Negotiations with BMW AG on the establishment of a joint venture for the production of camshafts led by MAHLE with a majority share were concluded successfully at the end of the year. Initially, the joint venture involves the central camshaft production facility on the premises of BMW AG's plant in Berlin. In future, under the operative leadership of MAHLE, the majority of all BMW camshafts are to be manufactured here in this joint venture. The second stage currently being considered is the construction of an additional facility nearby, where camshafts will be manufactured for third customers by a company then wholly-owned by MAHLE. Together with the existing camshaft production facilities, this will make MAHLE the largest independent manufacturer of ready-for-installation camshafts in Europe.

c) MAHLE Izumi Integrated in the Group .

In December 2002 Izumi Industries Ltd. in Japan, in which MAHLE previously held a minority share, successfully concluded its Civil Rehabilitation Plan focusing primarily on the substantial reduction of debts, a consistent process of restructuring operations, and a new policy concentrating on just a few plants and locations. Following a unilateral increase in equity, MAHLE took over 100 percent of the shares in the company in January 2003, the new company now called MAHLE Izumi Corp. operating four production facilities in Japan and holding business interests in China, Thailand and Indonesia. This makes the company the largest Asian manufacturer of diesel pistons for the heavy-duty commercial vehicle industry.

Following the acquisition of Tennex in 2001 already giving MAHLE a strong position in the Filter Systems Business Sector, this step makes also the Pistons and Engine Components Business Sector one of the most important suppliers in Asia.

Employing a workforce of almost 1,000 people, the new MAHLE company recorded sales in 2002 of approximately 170 million Euro. This new acquisition will now serve to increase the Asian share in the overall revenue of the MAHLE Group to more than 15 percent in 2003, an exceptionally high figure for a German or European company demonstrating MAHLE's commitment to the great strategic significance of the Asian market in future.

4. Outlook 2003

MAHLE's judgment of economic prospects in fiscal 2003 is rather reserved. Poor growth and the weak economy in the European Union do not indicate any growth of the market. Substantial funds have furthermore been reserved for restructuring the Group's German plants and facilities in order to regain a competitive edge within industry. Business results will be burdened additionally by the questionable fiscal and labor market policy currently being pursued in Germany. The most likely source of growth will be the Asian-Pacific region, the main driving forces being China and some other Asian countries, and not so much Japan. Following the formation of a new government in Brazil, we expect a year of consolidation in South America. North America, in turn, in all the largest and most significant market in the automobile industry, must be seen with a big question mark. The strategically important economic promotion scheme launched by the US Government might be set off and rendered worthless by hostile events in the Middle East, which would also have a lasting effect on the global development of the economy. Assuming stable exchange rates of the US dollar, the Euro, yen and real, MAHLE expects an increase in revenue in 2003 between 5 and 10 percent on account of the Group's strategic acquisitions in recent months.