

# Press Release on the Business Development of the MAHLE Group Fiscal Year 2004

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

### **Dynamic growth in automotive industry in 2004**

2004 was marked by dynamic economic development in the international automotive industry. The production of passenger cars and light commercial vehicles increased worldwide by almost 5 percent to the new record value of over 61 million units. As a result of the boom in global demand for medium-weight commercial vehicles and heavy trucks, the production figures in this operating line increased by around 15 percent to a total of 1.9 million vehicles.

The individual markets exhibited quite different trends. In relative terms, South America unexpectedly overtook China, the previous world growth leader, in 2004, with a production increase of 25 percent in passenger cars and 36 percent in commercial vehicles. China increased its sales, achieving considerably higher quantities in the operating lines mentioned, by around 13 and 8 percent respectively. At almost 34 percent, the commercial vehicle sector in the NAFTA region (USA, Canada, Mexico) recorded the highest relative increase. In contrast, the total production of passenger cars and light commercial vehicles stagnated, with a continuing decline in the proportion of passenger cars.

Even in Europe and Germany, there was much more dynamic development in the production of commercial vehicles over 6 tons, with respective growth rates of 14 and 20 percent, than in the passenger car sector.

With around 3.7 million passenger cars sold abroad, the German automotive industry achieved a new export record but, for the first time since 1999, approximately maintained the previous year's domestic level. In the heavy trucks category, German manufacturers achieved significant growth in both domestic registrations and exports.

## **2. Business Development in 2004**

### **MAHLE: Increased sales and improved profits**

With its development and output capacities available in all key regions worldwide, MAHLE benefited from the renewed recovery in the international automotive industry and was able to win new market shares in many segments. On this basis, the leading manufacturer of engine components and filter systems worldwide achieved significantly above-average growth in comparison with the rest of the industry in the 2004 fiscal year, with Group sales rising by 15.8 percent from EUR 3.2 billion to over EUR 3.7 billion. The commercial vehicle sector, in which MAHLE traditionally has a strong position on account of its leading technological status, boomed in almost all regions and thus provided a major impetus.

Of the total increase of EUR 511.7 million in sales volume in 2004, EUR 352.4 million (69 percent) resulted from organic growth. Strategic acquisitions included in the consolidated financial statements for the first time contributed an additional EUR 159.3 million to the sales increase.

The MAHLE Group coped with the drastic weakening of the US Dollar and the currencies based on its value in Asia and South America significantly better than many of its competitors, as it was able to offer its products at competitive prices, even in the relevant local currency, through its own production capacities in the key markets of North and South America, Japan and China. Nevertheless, as a result of conversion, the unfavorable currency exchange rates had an impact on the balance sheet figures, denominated in Euro. Allowing for negative currency exchange rate effects, Group sales would have increased by almost 20 percent in 2004 instead of just under 16 percent and, in absolute terms, the increase would have been in the region of EUR 610 million.

All five globally organized Product Lines and all Profit Centers were involved in the business growth of the MAHLE Group. The Product Line Cylinder Components showed the most dynamic development, increasing its sales by 52.5 percent to EUR 386.4 million, around half of which was due to internal growth and half to acquisitions. The Product Line Piston Systems increased its revenues by 16.4 percent to EUR 1,173.1 million. The Product Lines Valve Train Systems (+9.4 percent to EUR 445 million), Air Management Systems (+10.7 percent to EUR 629 million) and Liquid Management Systems (+4.8 percent to EUR 470 million) were also able to improve their sales volumes significantly.

The earning power of the MAHLE Group in the 2004 fiscal year was under considerable strain, not only due to the currency issues, but also due to higher raw materials prices and the increasingly tough price pressure from customers in the automotive industry. Nevertheless, the earnings ratios showed consistent positive development as a result of the good capacity utilization in most plants. For example, earnings before interest and taxes (EBIT) increased in comparison with the previous year from EUR 202 million to EUR 255 million. The Group profit for the financial year increased from EUR 95 million to EUR 131 million.

Although the exchange rate issues tended to have a negative effect on the equity capital composition of the MAHLE Group, the equity ratio increased slightly from 38.3 to 38.6 percent as a result of the healthy profit situation. Excluding the currency exchange rate effects, it would have amounted to around 40 percent.

The MAHLE Group's capital expenditure in new production plants and facilities rose by 10 percent in 2004 versus the previous year to EUR 255 million, substantially exceeding depreciation, which amounted to EUR 216 million. Compared with sales, this corresponds to an investment ratio of around 7 percent, which is significantly higher than the industry standard.

The number of people employed by the MAHLE Group increased by 5,098 in the course of the 2004 fiscal year to 35,744 worldwide. 9,301 were employed in Germany and 26,443 abroad. 2,844 employees became members of the worldwide MAHLE family as a result of the acquisition of new companies.

### **3. MAHLE Invests in Technology**

In recent decades, the MAHLE Group has traditionally devoted a high level of capital expenditure to developing engine technology, which has not least led to our current position as technological leaders in wide-ranging areas of the Group's product portfolio. We are convinced that our technological leadership represents not only a cost-effective basis for production, but also a fundamental requirement for further growth and sustainable economic success for the Group, both now and in the future.

As a result of the increasing trend towards globalization and our major customers' demand for local development support, we have decided to devote a considerable amount of capital expenditure in the short and medium term to expanding and constructing additional Research & Development centers.

While the acquisition of the Cosworth Technology Group with its two Research & Development centers in Northampton (England) and Novi (USA) at the end of 2004 represents a significant step in the expansion of MAHLE's systems capabilities, further activities will follow in the short term to meet our customers' demands for much greater involvement in the development of future engine and drive concepts.

In April 2005, the ground breaking ceremony will take place for a new Research & Development center in Shanghai – primarily for the purpose of gaining local support in the rapidly growing Chinese automotive market. This will allow us to carry out specific application development for Western, Japanese and Chinese automobile and engine manufacturers locally within reasonable timeframes. By the end of 2005/beginning of 2006, around 100 employees in Shanghai will already be working on development assignments including construction, simulations and engine testing.

In May 2005, construction phase 2 of the Research & Development center in Farmington Hills (Detroit) will be opened, doubling the current development and testing capacities. Together with the neighboring developments of Cosworth Technology, Inc., MAHLE will have a development team of around 350 employees in Detroit.

Lastly, the plans for the construction of a new Research & Development center in the São Paulo area are entering their final phase. Besides application development for the South American market, São Paulo is a competence center for specific engine components produced by the MAHLE Group and will also be supported from the initial development side due to its proximity to the local production plants. The new South American Research & Development center is scheduled to open at the end of 2006.

Today, with its additional locations in Stuttgart and Tokyo, MAHLE employs a total of around 2,000 engineers, technicians and engine designers, securing MAHLE's technological edge, and therefore its competitiveness, both now and in the future.

## 4. Outlook for 2005

### **Positive development despite slowdown in global economic growth**

For the current fiscal year, MAHLE expects further growth - albeit weaker than in 2004 - in the international automotive industry, supported by the continuing demand for commercial vehicles in Europe, North and South America and Asia. In contrast, in the passenger car sector, only very slight increases in sales are predicted in the high-volume markets of Western Europe, North America and Japan. In the medium term, China remains the most dynamic national economy worldwide, even in the automobile sector.

Thanks to its position as a "triad company", with its development and production capacities active in all key regions of the global economy, MAHLE is cautiously optimistic about its business development in 2005. Besides further currency developments, which are hard to calculate, there are future risks associated with raw materials prices in particular. As long-term supply contracts for steel, aluminum and plastics expire this year and have to be re-concluded under the current conditions, we are faced with a massive upsurge in prices once again.

The extensive program to reduce costs by at least EUR 40 million annually, agreed in March 2005 between the Management Board, the Central Works Council and IG Metall, is therefore of fundamental importance for the MAHLE Group. It improves the international competitiveness of the 16 German locations, thereby helping to safeguard employment.