

# 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**

### **Growth in global economy and automotive industry**

2004 was marked by a dynamic economic development in the international automotive industry, supported by the strong growth of the global economy. At the same time, the automotive industry contributed as a powerful engine to the growth of the global economy. 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 13 percent to a total of 1.9 million vehicles.

The individual markets exhibited quite a mixed pattern. In relative terms, South America unexpectedly overtook China, the previous world growth leader, in 2004, with a production increase of almost 25 percent in passenger cars and 27 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 30 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 number of passenger cars.

Also in Europe and Germany, there was much more dynamic development in the production of commercial vehicles over 6 tons, with respective growth rates of 12 and 15 percent, than in the passenger car sector.

With around 3.7 million passenger cars purchased abroad, the German automotive industry achieved a new export record, but domestically, for the first time since 1999, only sold around as many vehicles as in the previous year. In the heavy trucks category, German manufacturers achieved significant growth in both domestic registrations and exports.

## Worldwide Automotive Production (Number in 1000s)

	2003	2003	2004	2004
	Pass. cars & light commercial vehicles	Commercial vehicles	Pass. cars & light commercial vehicles	Commercial vehicles
<b>America</b>	<b>17,764</b>	<b>432</b>	<b>18,255</b>	<b>554</b>
NAFTA	15,866	358	15,907	460
South America	1,898	74	2,348	94
<b>Asia/Pacific</b>	<b>19,981</b>	<b>790</b>	<b>21,154</b>	<b>829</b>
Japan	9,983	242	10,068	220
China	3,949	395	4,451	425
<b>Europe</b>	<b>19,649</b>	<b>467</b>	<b>20,515</b>	<b>524</b>
Germany	5,365	131	5,510	151
<b>Rest of World</b>	<b>1,150</b>	<b>0</b>	<b>1,332</b>	<b>0</b>
<b>Total</b>	<b>58,544</b>	<b>1,689</b>	<b>61,256</b>	<b>1,907</b>

Source: Global Insight Automotive World Car Industry Report (passenger cars and light commercial vehicles (< 6t)).

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

### **MAHLE: Increase in sales, profit and employment**

In the fiscal year 2004, the MAHLE Group developed dynamically and increased its sales by over 15 percent to more than EUR 3.75 billion. This allowed the globally leading manufacturer of engine components and filter systems to achieve significantly disproportionate growth, with a positive economic situation in the automotive industry as a whole. 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.

“By concentrating on core business areas relating to combustion engines and through our global presence, we have won additional market shares in a lot of segments”, said Heinz K. Junker, Chairman of the MAHLE Management Board, at the advance presentation of the Group development, to explain the rates of increase in sales, which are significantly higher than industry trends. More than two-thirds of the sales increase of around EUR 500 million in 2004 resulted from organic growth. The remainder was due to the first-time consolidation of a number of strategic acquisitions (see the chapter “Strategic Development of the Group”).

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 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 major markets such as North and South America, but also Japan and China. Nevertheless, as a result of conversion, the unfavorable currency exchange rates had a significant impact on the balance sheet figures, denominated in Euro. Allowing for the effects of currency exchange rates, the growth in Group sales in 2004 would have been almost 20 percent instead of over 15 percent or, in absolute terms, would have been in the region of over EUR 600 million.

The earning power of the MAHLE Group in the fiscal year 2004 was under particular strain, not only due to the currency problems, but also due to higher raw materials prices and the increasingly tough price pressure from customers of the automotive industry. Nevertheless, operating profit in particular improved as a result of the good capacity utilization in most plants, in line with the increased business volume. All regions contributed to the growth of sales and profit.

The MAHLE Group's investments in fixed assets, i.e. in new production equipment and devices, were kept at a very high level, which continued to exceed the average volume in this industry. Versus the previous year, investments were increased by around 5 percent to EUR 258 million. This corresponds to an investment quota of around 7 percent of sales and thus continues to exceed depreciations. Initially, the budgeted capital expenditures had been lower. They were increased during the year by around EUR 12 million in order to cover the great demand for commercial vehicles.

The number of people employed by the MAHLE Group increased in the course of the fiscal year 2004 to 35,306 worldwide (as of December 31, 2004). 9,353 were employed in Germany and 25,953 abroad. 2,844 employees became members of the worldwide MAHLE family as a result of the acquisition of new companies.

### 3. Strategic Development of the Group

The significant milestones of continued Group development in 2004 were as follows:

#### January

- As of January 1, 2004, MAHLE increased its previous minority share of 25.1 percent in MAHLE Brockhaus GmbH to 51 percent. Since January 1, 2005 this company has been fully taken over. MAHLE Brockhaus GmbH is the leading European manufacturer of connecting rod blanks and has, in addition to its main location in Plettenberg, a majority share in a subsidiary in Spain and a minority investment in Brazil.
  
- With a view to further improving our strategic position in China, a growth market, all shares of Chongqing Changjiang Izumi Piston Industries Co., Ltd. were purchased on November 1, 2003. The company is now called MAHLE Engine Components (Chongqing) Co., Ltd. and has been included in MAHLE's basis of consolidation since January 1, 2004. Together with the two existing piston plants in Nanjing and Yingkou, MAHLE currently has an annual production capacity of more than 12 million pistons in China. This makes MAHLE the second-largest supplier in China, where MAHLE offers a comprehensive product line ranging from pistons for small engines to truck engines.

## June

- On June 18, 2004, MAHLE Ventiltrieb Brandenburg GmbH opened its plant in Wustermark/Brandenburg. MAHLE Wustermark is currently the exclusive supplier of the Bavarian automobile manufacturer BMW, which entered into a joint venture with MAHLE at the beginning of 2003 for the production and supply of camshafts and transferred its previous in-house production from the BMW plant to Spandau. In the medium term, however, MAHLE aims to supply other automotive and engine manufacturers with camshafts from Wustermark.

## July

- MAHLE obtains a share of 72.5 percent in the joint venture company MAHLE Shanghai Filter Systems Co., Ltd. The Chinese partner holds 27.5 percent. The company produces air, fuel and oil filters and activated carbon canisters for the local Chinese automotive industry - for both passenger cars and trucks - and also sells its products in the independent aftermarket.
- MAHLE takes over Schmiedewerk Rosswein GmbH. The traditional Saxony company develops and produces connecting rod blanks for European automotive manufacturers, including Audi, Opel, Peugeot, Renault and VW. The company now operates as MAHLE Rosswein GmbH and has been integrated into the production network along with MAHLE Brockhaus GmbH.
- MAHLE increases its minority share in the Thai filter joint venture "Siam Tennex" from 49 to 74.9 percent. The company is now called MAHLE Siam Filtersysteme Co., Ltd. and has been included in the basis of consolidation since July 1, 2004.
- MAHLE commences work on constructing a new production plant in Wölfersheim, Hesse, to manufacture engine valves. The move from the current Bad Homburg plant to the new location is scheduled for 2005. About 500 people will be employed in Wölfersheim.

## October

- As of October 1, 2004, MAHLE has expanded its piston and ring production in Australia through the acquisition of a further 49 percent in the joint venture MAHLE-ACL Piston Products Pty Ltd. and now holds 100 percent of the shares in the company, now called MAHLE Engine Components Australia Pty Ltd.

## November

- MAHLE has a share of 70 percent and a further option for the remaining 30 percent as of 2009 in a joint venture with a Chinese company, which will produce bearings for the Product Line Cylinder Components. The company will be called MAHLE Bearings (Yingkou) Co., Ltd. and will be built in Yingkou in North-Eastern China at the same location as one of our piston plants. Initially, a production line for bearings will be purchased from MAHLE Componentes de Motores in Mexico, as it is no longer needed there following the relocation of production to Brazil. The Chinese partner will provide land, a new building and machines as an investment in kind.

## December

- MAHLE acquires a newly developed lot of around 140,000 m<sup>2</sup> in an industrial park near Shanghai and commences work on constructing a new Research and Development Center to support local automotive and engine manufacturers. The first building phase is scheduled for completion in 2005 and gradual expansion is to take place in subsequent years.
- As part of a public bid (TOB), MAHLE purchases a further 25 percent of the subsidiary MAHLE Tennex Corp., listed on the Tokyo Stock Exchange. This increases MAHLE's share from 72 to 97 percent.

- On January 1, 2005 MAHLE acquires Cosworth Technology Ltd. based in Northampton (UK), formerly owned by AUDI AG. The take-over still requires the approval of the cartel authorities. The acquisition of the Cosworth Technology Group represents yet another building block in the long term development of the company towards becoming a system supplier for engine technology and systems. In particular, the two development centers Cosworth Technology Ltd. in Northampton (UK) and Cosworth Technology, Inc. in Novi (MI/USA) form the perfect complement to MAHLE's existing development and production know-how, along with the production facilities for cylinder head and engine block machining and engine assembly for small lots. The Cosworth Technology Group employs around 970 people at three locations in England and one location in the USA. Both companies are involved in the development, production and assembly of engines. In 2003, Cosworth Technology Ltd. achieved sales GBP 112 million (around EUR 162 million); over the same time period, Cosworth Technology, Inc.'s sales amounted to US\$ 31 million (around EUR 23 million).

#### **4. Outlook for 2005**

For the current year, MAHLE expects further growth - albeit weaker than in 2004 – in the international automotive industry, which is characterized by the continuing healthy 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 volume markets of Western Europe, North America and Japan. In the medium term, China remains the most dynamic national economy worldwide, also in the passenger car 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 expired in 2004 and have to be re-concluded under the current conditions, we are faced with a massive upsurge in prices once again.

It is therefore essential for MAHLE to continue the restructuring program introduced for its German manufacturing locations, with the aim of reducing costs there by around 15 percent in the coming years and making its domestic plants internationally competitive again.