

Press release on the business development of the MAHLE Group in the year 2006

1. Business environment/economic situation in the automotive industry	2
2. Business development in the year 2006	5
3. Strategic acquisitions.....	12
4. The CO₂ discussion and global warming.....	16
5. Outlook for 2007	20

1. Business environment/economic situation in the automotive industry

Global automotive industry on course for further expansion

In 2006, the automotive industry was also able to benefit from the dynamic development of the global economy. The worldwide production of passenger cars and light commercial vehicles rose by 4.1 percent to 66.3 million units, primarily as a result of the higher demand in the BRIC countries (Brazil, Russia, India, and China). The manufacturers of passenger cars were able to achieve a volume increase of 6.6 percent to 42.9 million units, while light commercial vehicles remained at the previous year's level with 23.5 million units.

The production of medium-weight and heavy commercial vehicles also developed more positively than expected at the beginning of the year, increasing by 10.5 percent to around 2.7 million units worldwide in 2006.

Europe

In Europe, the production of passenger cars and light commercial vehicles rose by 2.6 percent to 20.7 million units. Passenger car production increased by 2.1 percent, corresponding to 350 thousand units, to 16.9 million vehicles. At the same time, the manufacturing of light commercial vehicles was expanded by around 200 thousand units to 3.9 million vehicles.

The growth of European production was caused by the rise of 16 percent in the capacities of the Central and Eastern European plants. The new Toyota/PSA plant in the Czech Republic, as well as the increasing production in Slovakia, Russia, Romania, and Ukraine, contributed in particular to this rise. The market share of vehicles with diesel engines in Europe increased further. The proportion of diesel vehicles rose from 46 percent in the previous year to more than 47 percent in 2006.

In Western Europe, the production figures for commercial vehicles rose by 3.5 percent overall to 375 thousand units. The production volume in Germany – Europe's largest commercial vehicle manufacturing country – grew by 3.7 percent to 175 thousand units. In the Central and Eastern European countries, the 5.6 percent increase in the production of medium-weight and

heavy commercial vehicles to 150 thousand units was primarily caused by the rise in production in Russia and Belarus.

NAFTA region (USA, Canada, Mexico)

In North America, relatively high fuel prices, smaller price reductions, and the failure of Ford, General Motors, and Chrysler to align their product ranges with the market had a substantial impact during the second half of the past year. As a result of production cuts to reduce the extensive stocks, in 2006, the production of passenger cars and light commercial vehicles remained 0.5 million units below the previous year's level at 15.3 million units. Pickup trucks and sport utility vehicles are suffering the full impact of this decline. The proportion of these vehicles decreased from 58 percent in 2005 to 54 percent in 2006. The Asian manufacturers made a disproportionately strong contribution to the increase in passenger car production and the rising demand for smaller vehicles with lower fuel consumption.

In contrast, the commercial vehicle production volume in the NAFTA region rose by 9.3 percent to 648 thousand units. The cause of this production increase of 40 thousand units in the past year was the fact that some purchases were brought forward because of the tightening of the EPA 07 exhaust gas legislation in 2007, which will lead to a noticeable cost push.

South America

In South America, falling interest rates and a solid domestic economy more than compensated for the effects of the upward revaluation of the Brazilian real. In view of the continuing rise in demand, the production of passenger cars and light commercial vehicles grew by 11 percent to 3 million units.

Commercial vehicle production by manufacturers in South America slightly exceeded the previous year's value, with 165 thousand units.

Asia/Pacific

In Asia, the production of passenger cars and light commercial vehicles increased by 9 percent to 25.6 million units. This development was primarily driven by the continuing boom in the Chinese automotive market, in which the production of passenger cars and light commercial vehicles rose by a further 28.1 percent to 6.6 million units. The Chinese automotive industry

thereby displaced Germany from its position as the third largest automobile manufacturing country worldwide.

The production of medium-weight and heavy commercial vehicles grew by 15.5 percent to 1,307 thousand units. This development was triggered by high demand, which was induced by the booming economy in most of the developing and emerging markets of Asia. The highest increase in comparison with the previous year was achieved in China, with an increase of 75 thousand to 575 thousand units, followed by India with an increase of 50 thousand to 280 thousand units.

2. Business development in the year 2006

Sales

Overall, the sales of the MAHLE Group in the 2006 business year, which amounted to EUR 4,314 million, developed in line with the growth level of the global automotive industry, with growth of just under EUR 200 million (+4.7 percent) in comparison with the previous year (EUR 4,122 million).

Changes in the international currency exchange rate structures and acquisition-related changes had only a minor impact on this figure. The positive effects on sales resulting from the upward revaluation of the Polish zloty, the Korean won, and, in particular, the Brazilian real in relation to the euro were largely eroded by the devaluation of the US dollar and Japanese yen. On the acquisitions side, only an industrial filtration division, two small German companies, were added to the Group's consolidation group. The sales growth of just under EUR 200 million was therefore achieved primarily through organic growth. This bears witness to the strong technological positioning of MAHLE in the global market, further increases in deliveries of large system volumes, and, in particular, MAHLE's healthy presence in the growth markets of the automotive industry, especially in Asia. Considerable price reductions on some of our products were compensated by gains of market share in new strategic areas we are aiming to occupy.

While sales in Germany, which reached EUR 1,233 million, declined slightly in comparison with the previous year, sales rose in the rest of Europe, particularly in the Eastern European locations.

While the sales generated and invoiced in Asia remained on the level of the previous year due to the significant devaluation of the Japanese yen, American sales could be increased by 13.6 percent to EUR 1,213 million.

Profit

While the Group recorded growth of 4.7 percent in sales, the profit before tax rose by 7.3 percent from EUR 274.7 to 294.6 million.

This improvement in profit could only be achieved by means of considerable increases in productivity in all organizational areas of the Group, as it was necessary to compensate for some considerable adverse effects on profit. Besides more or less significant price reductions in all of the Group's product divisions, the drastic rises in material prices in particular had to be counteracted by means of cost reductions and productivity increases. During the course of the year, despite considerable efforts on the part of the Group's global purchasing organization, the Group had to absorb increases amounting to EUR 30 million in the prices of raw materials such as aluminum, copper, nickel, and resins; these rises could not be shared with our customers. The Group also had to compensate for adverse effects on profit on a similar scale connected with exchange rates, as the entire export sales volume from South America was subjected to a heavy decline in margins, primarily as a result of the heavy upward revaluation of the Brazilian real in relation to the US dollar and euro. In addition to these two issues, which were almost impossible to counteract, considerably higher research and development costs in comparison with the previous year (from EUR 218.5 to 241.6 million) were recognized in the income statement with a negative effect on profit.

In contrast, the significant improvement in the financial result had a positive effect. On the one hand, the interest charge fell as a result of the Group's improved net liquidity and, on the other hand, the interest portion already adjusted in the previous year for the Group's provisions for pensions no longer adversely affected profit.

The increase of 7.3 percent in the profit before tax was successfully converted into a rise of over 20 percent in the net income for the year (profit after tax). All of the Group's regions throughout the world and all product lines made positive profit contributions to the net income for the year of EUR 191.8 million, although the profit contributions from North America and Asia were lower than the previous year, primarily as a result of the devaluations of the local currencies.

Balance sheet structure

The expansion of business activities is also reflected in the increased balance sheet total. In comparison with the previous year, the structure of the main elements of the assets and liabilities developed as shown on the slide.

The increase of EUR +250.1 million in the balance sheet total is characterized on the asset side by slight growth in inventories (EUR +11.7 million), primarily by trade receivables (EUR +68.2 million) and a significant rise in available cash (EUR +224.3 million). In contrast, declines were recorded in fixed assets (EUR -22.9 million) and other assets (EUR -18 million).

The reduction of fixed assets (EUR -22.9 million) results primarily from a decline in intangible assets (EUR -18 million), which was caused by depreciation. Despite investments remaining significantly above depreciation, tangible fixed assets fell slightly, as the conversion of currencies – particularly in Group companies reporting in US dollars or Japanese yen – led to a decrease in book value. A slight decrease in financial assets (EUR -1.1 million) also contributed to the reduction of fixed assets. The slight increase of 2.5 percent in inventories is evidence, particularly in view of the business expansion of 4.7 percent, of the results of the MAHLE Group's activities to optimize warehousing and supplier management.

In contrast, the rise in trade receivables exceeds the amount of business expansion, as some of our customers are making payments later than in the previous year for reasons relating to their own economic situation. The increase in available cash, which is accompanied by the rise in liabilities to banks (EUR +143.1 million), is connected with acquisitions planned for the first few months of 2007. As a result of the disproportionately strong growth of current assets, the proportion of fixed assets in the balance sheet total decreased from 46.4 percent to 42.2 percent.

On the liabilities side, in addition to liabilities to banks, the Group's equity also grew significantly (EUR +92.1 million), while the equity ratio decreased from 42 percent to 41.6 percent as a result of the disproportionately strong increase in total assets and liabilities. As the year-end prices of the Japanese yen and US dollar in particular were subject to a more or less significant devaluation in comparison with the previous year, the conversion of foreign cur-

rency items in the Group balance sheet produced an equity reduction of EUR 58.4 million with no effect on profit. Excluding this negative foreign currency exchange rate effect and the acquisition-oriented structure of the available cash, the equity ratio would have reached approximately 48 percent.

The liability items provisions for pensions (EUR +10.7 million), other accruals (EUR +7.6 million), and other liabilities (EUR -39.5 million) contributed either insignificantly or negatively to Group financing. In contrast, the disproportionately strong increase in trade payables (EUR +66 million), which arose as a result of local extraordinary items, substantially supported the financing of the rise in total assets and liabilities. As fixed assets have grown by a smaller amount than equity in recent years, fixed assets are now almost completely covered by the Group's equity.

Investments

With its investments in new machinery, equipment, and buildings totaling EUR 264 million, the MAHLE Group once again invested significantly above the depreciation level of EUR 223 million in 2006. This reflects the ongoing efforts to modernize the production plant, to expand the research and development equipment, and to prepare for further organic growth. Although, in purely mathematical terms, this represents a decline of EUR 24 million in comparison with the total capital expenditure of EUR 288 million in 2005, this is exclusively due to a change in the accounting methods and the formation of a carry-over budget at the end of 2006. This means that, in contrast to previous years, investment projects that did not necessarily have to be completed at the end of the year for capacity reasons are, to some extent, carried over until spring 2007. The investment carry-over budget for 2006 amounts to approximately EUR 20 million, which means that the originally planned budget of EUR 284 million has been exhausted. With an investment ratio of 6.6 percent of sales, MAHLE has once again significantly exceeded the average investment level of the automotive industry and automotive supply industry. This long-term, strategically oriented investment approach pursued by the MAHLE Group clearly demonstrates the Group's long-term growth strategy, on the basis of the latest production technologies and a sustained high level of investment in the Group's seven globally oriented research and development centers.

Of the total investment volume in 2006, approximately EUR 100 million went toward Europe, thereof EUR 60 million toward the German locations, which thus retained almost a constant investment level in comparison with the previous year. Major new projects included the installation of another new machining line for heavy-duty steel pistons for diesel engines in the Rottweil plant and a considerable expansion of capacities for the production of assembled camshafts in the Leibertingen and Wustermark plants. While the investment level at the Group's other Western European locations declined overall, disproportionately high investment ratios were recorded at the two Eastern European locations in Poland and Romania. MAHLE is thus following the trend of relocating output capacities in the European automotive industry from Western to Eastern Europe.

The investment level for the Group's South American locations was slightly below the previous year's value at EUR 36 million. In contrast, investments in North America – connected with the planned expansion of capacities in the plants in the USA and Mexico – increased by almost EUR 20 million to more than EUR 50 million. These investments focused in particular on the installation of new machining and assembly lines for diesel pistons in both the USA and Mexico, a significant expansion of output capacities for connecting rod manufacturing in Mexico, and the creation of additional capacities for the production of activated carbon elements in the MAHLE plant in Murfreesboro (Tennessee) to fulfill the strict US exhaust gas specifications.

The investment volume for the Asia/Pacific region grew once again in comparison with the previous year to just under EUR 70 million. These investments also focused on the expansion of production capacities for modern pistons for passenger cars in China as well as the foundation or completion of completely new production plants for bearing production in Yingkou (China), air filtration modules in Guangzhou (China), and the consolidation of all our air and liquid filtration activities for Korean customers at a second new location in Ulsan (Korea). Besides that, a new research and development center of the Group could be opened in Shanghai in April 2006.

Headcount development

As a result of the business expansion and the rise in sales, MAHLE had 1,184 more employees at the end of 2006 than it did at the end of 2005. As of December 31, 2006, the total headcount for the MAHLE Group was about 38,600. The increase in the number of employees is spread across all regions of the world.

In Europe, MAHLE recorded a total rise of 291 in the headcount, bringing the figure to 17,727. The number of employees in Germany fell slightly from 8,973 to 8,850 (-123), which already takes into account the acquisition-related increase of 97 employees in the industrial filtration sector. Staff cuts were made in connection with the conditions set out in the 2005 agreement to secure locations and safeguard employment, with the number of employees adjusted according to the economic situation and order situation, particularly in the problematic locations in Markgröningen, Alzenau, Wölfersheim, and Lorch. In contrast, staffing levels in Europe rose as a result of expansions in cylinder head production at MAHLE Powertrain in England, the further expansion of air and liquid filtration activities at our large Austrian location in St. Michael, and the further expansion of the Eastern European locations in Poland (Krotoszyn) and Romania (Timisoara).

In the NAFTA region, the headcount grew slightly by 140 to a total of 3,650 following the expansion of the plants in Mexico, while in South America, particularly at the Brazilian locations, the staffing level was increased by 311 to a total of 9,870 as a result of the high utilization of capacities and the further rise in sales.

In the Asia/Pacific region, where development is particularly dynamic, 442 people more were employed than in the previous year. While a slight decline was recorded in Japan, the headcount in China experienced particularly disproportionate growth as a result of the startup of the two new filter production plants in Guangzhou and Shanghai and the commissioning of the research and development center opened in Shanghai in April 2006.

Headcount by region	2005	2006
Europe	17 436	17 727
<i>of which Germany</i>	8 973	8 850
North America	3 510	3 650
South America	9 559	9 870
Asia/Pacific	6 914	7 356
Total	37 419	38 603

3. Strategic acquisitions

For some considerable time, our strategic objective has been to focus our company's activities within the automotive supply industry, in terms of product portfolio, on the engine as well as the powertrain. In connection with this strategic objective, we were able to expand our product portfolio significantly in the past years. From the companies Mahle and Knecht of 10 years ago, which were predominantly known for pistons and filters respectively, a globally oriented company has emerged, with approximately 80 locations in more than 20 countries. Today, we offer a product range that meets all the current needs of the development and production plants of our global customers, including many individual engine components, complex systems and modules, complete engine assembly, and engineering services.

Here is just one example: Ten years ago, considerably more than half of our sales were still achieved through our piston activities, but they account for only around a quarter of Group sales this year. This does not mean that our piston activities are declining or that we have lost market share. Quite the opposite: In the past ten years, our sales from piston activities have approximately doubled, but many other divisions have been added whose importance has increased, such as cylinder components, the valve train, and the heavily expanded air and liquid management product range.

Another important target of our Group strategy is to be one of the three largest suppliers worldwide for each product group in our entire product portfolio, because the only way to fulfill the requirements of our customers is to achieve a certain size and a global presence. We have already succeeded in doing exactly this in many of our product groups. In a few product groups, we are number one, i.e., the market leader worldwide, in some cases by a long way. In others, however, we are only 4th, 5th, or 6th in the global market, with market shares below 10 percent, e.g., in piston rings, engine bearings, and intake and exhaust valves.

The acquisitions we have made in the first quarter of 2007 and those for which negotiations are currently ongoing, all contribute to this aim: to achieve a global competitive position among the top three suppliers in the relevant

product group and to improve the balance of our regional presence and customer portfolio.

Here are some examples:

- At the beginning of March, we were able to complete the acquisition of Dana's engine parts division. As the American Dana Corp. has been in Chapter 11 status (comparable to the German insolvency status) since March 2006 because of financial difficulties, this process lasted longer than a year as a pure formality.

Some key data concerning this:

Products:	piston rings, engine bearings, camshafts aftermarket business
2006 sales:	approx EUR 500 million → approx. USD 670 million
Production plants:	approx. 25 in 10 countries
Headcount:	approx. 5,000

By acquiring this business segment, we have succeeded in becoming the second largest supplier worldwide in piston rings and engine bearings, gaining a foothold in the important American commercial vehicle sector in camshafts, and also significantly strengthening our position in the spare engine component business, particularly in North America but also in Europe.

In addition, the geographical locations of the MAHLE and Dana locations complement each other, which means that our regional presence has been improved significantly, with only minor overlaps.

Of particular importance in connection with this acquisition is the continuation of a 50/50 joint venture for piston rings with the Japanese technological leader Riken Corp., which supplies the Japanese transplants in the USA.

- We are currently in the final stage of negotiations to acquire the air intake modules and air filtration business segment of the automotive division of Siemens AG.

Some key data concerning this:

Products:	complete air intake modules, air filtration equipment, and air guide systems for passenger car combustion engines
2006 sales:	approx. EUR 300 million
Production plants:	5 in 4 countries
Headcount:	approx. 1,000

If this business segment is successfully acquired and integrated into MAHLE's existing air management systems product line, MAHLE will become the largest supplier worldwide in this sector, with total sales of approx. EUR 1 billion. In particular, MAHLE's previously rather weak position on the North American market would be considerably strengthened by the three locations in Canada and Mexico. Furthermore, the different product technologies of MAHLE and Siemens VDO would complement each other, allowing us to close the gaps that still exist in this area of the customer portfolio on a long-term basis.

- By founding the MAHLE majority joint venture MAHLE Tri-Ring in Macheng (China) in January 2007 and fully acquiring the Argentinean company Edival in March 2007, we were able to move the engine valves product group – previously geared exclusively toward the European market – into an increasingly global role.

Some key data concerning this:

Products:	engine intake/exhaust valves,
2006 sales:	approx. EUR 45 million → approx. USD 60 million
Production plants:	2
Headcount:	2,100

In addition to MAHLE's existing valve locations in Wölfersheim (Germany), Volvera (Italy), and Krotoszyn (Poland), we now have two additional locations with low labor cost structures, which will not only cover local demand but also allow exports to the main purchaser countries and regions, such as the USA, Western Europe, and Japan. At the same time, we have succeeded in becoming established as the third largest valve manufacturer worldwide behind the two leading suppliers, TRW and Eaton.

With all acquisition projects, it is now important to ensure rapid integration into the existing MAHLE production network with a large number of internal teams, in order to exploit the considerable synergy potential in the medium and long term.

4. The CO₂ discussion and global warming

MAHLE is a developer and manufacturer of many individual components and systems for combustion engines. The combustion engine and the passenger car industry were heavily criticized in recent months in Germany as one of the main causes of global warming.

In international comparison, Germany produces 10.3 million tons of CO₂ per inhabitant per year. This is approx. half of the value in the USA.

In comparison with the rest of Europe, France produces considerably less, because more than 80 percent of the country's electricity needs are generated by nuclear power plants, and the southern countries of Europe are in a better position because the much milder average temperatures mean that private households require significantly less energy.

Let us look at Germany in more detail: 12 percent of the entire CO₂ output is produced by passenger car traffic and 8 percent by the remaining volume of road, rail, air, and water traffic. The reporting concentrated on the car traffic of the last months relativizes considerably with that! In 2006, the newly registered passenger cars have an average CO₂ output of 172.5 g/km, a reduction of 25 percent in fuel consumption and CO₂ compared with ten years ago. The commitment made by the European automotive industry in the 1990s was to achieve an average value of 140 g/km by 2008. This aim will be very difficult to achieve as, in the meantime, additional safety restrictions have been imposed by law, leading to an increase in vehicle weights. The requirement currently being discussed by the EU, i.e., to reduce the average value for all new vehicles in the EU to 130 g/km by 2012, means a decrease of just under 30 percent in comparison with 2006. In terms of the entire CO₂ output of the FRG, this represents a decrease of approximately 2 percent! The frequently proposed general speed limit on German autobahns, currently the subject of intense discussion once again, would bring about a CO₂ reduction of approximately 0.1 percent!

The other, to some extent significantly larger emitters of CO₂, such as power plants, industry, and private households, must therefore be involved and engaged in a discussion on CO₂, particularly as a considerably greater impact can be achieved in these areas with considerably less expensive measures. In the FRG, the coal power stations under construction or in the planning stages alone produce more CO₂ than all the passenger car traffic put together.

About the situation of German passenger car manufacturers in the context of this wider issue

As a result of their particular product mix, especially that of premium manufacturers, some German manufacturers are in the top third of all European registrations in terms of fuel consumption or CO₂ emissions. Nevertheless, it is also true that, for example, some foreign manufacturers with a particularly strong environmental image perform worse than e.g. the German high-volume manufacturers. So it cannot be said that the German manufacturers are technologically backward or have a less favorable average fuel consumption or CO₂ output than the foreign manufacturers.

In technical terms, how can the average reduction of 30 percent in fuel consumption and CO₂ emissions be achieved by 2012?

1. By means of measures relating to the engine
 - Increased use of fuel consumption-optimized "clean" EU5/6 direct injection diesel engines that reduce fuel consumption by 30 percent and CO₂ emissions by 15 percent in comparison with conventional gasoline engines.
 - Fuel consumption-optimized gasoline engines with direct injection, supercharging, and variable valve train. This will allow a fuel consumption and CO₂ reduction of 20 to 30 percent in comparison with today's conventional gasoline engines.
 - Electrification of engine auxiliary drives such as the start/stop function or demand-controlled electric pump drives with a fuel consumption and CO₂ reduction of 5 to 10 percent.

2. By means of measures relating to the vehicle

- Measures relating to the vehicle essentially include weight reduction and intelligent transmission concepts.

The additional positive effect of new engine generations consists in the fact that they hardly show disadvantages in terms of exhaust gas emissions e.g. compared with a hydrogen-based fuel cell, while entailing significantly lower costs. This means that the overall CO₂ balance of fuel cells is rather less favorable than that of combustion engines, as the hydrogen they require has to be generated in power plants that produce CO₂!

What is MAHLE's contribution to the development of the new "fuel consumption/CO₂ optimized diesel and gasoline engine generations"?

MAHLE has increased its overall level of development activities by more than 10 percent – as we have already seen – and more than doubled the advanced development budget, and is again investing significantly more in fuel consumption/CO₂ concepts.

Here are some examples:

- MAHLE now offers forged steel pistons for high-speed diesel engines with peak cylinder pressures exceeding 200 bar.
- MAHLE has developed a special cooling system for aluminum pistons in high-speed diesel engines with peak cylinder pressures between 170 and 200 bar (used, for example, in the Audi R10 TDI racing car – winner of the 24 Hours of Le Mans 2006).
- MAHLE has developed highly friction and weight-optimized systems consisting of piston, piston rings, pin, and connecting rod for all engine variants (so called PCUs = Power Cell Units).
- MAHLE has developed a CamInCam[®] camshaft for a fully variable valve train, which offers considerable advantages in terms of exhaust gas emissions, idle speed, and torque characteristics.

- MAHLE has developed a new lightweight valve technology especially for the use in highly charged and fuel consumption-optimized gasoline engines of the future.
- MAHLE has developed weight-optimized all-plastic oil filtration and air intake modules.
- MAHLE is developing a new generation of gasoline and diesel exhaust gas turbochargers for new fuel consumption-optimized generations of engines.
- MAHLE is developing a supercharged version of its own Formula Student SAE engine with a displacement of 600 cm³ and a power output of 100 hp as a technology showpiece for vehicles in the compact class.
- At the IAA 2007, MAHLE will present a new 3-cylinder downsizing technology showpiece with a displacement of 1,200 cm³ and power output levels of 150 to 200 hp for mid-range vehicles with a reduction of approx. 25 percent in fuel consumption in comparison with today's 2.0 to 2.5-liter 4/6-cylinder engines.

5. Outlook for 2007

Anticipated growth rates similar to those of the previous year

In 2007, MAHLE expects a similar rate of increase in worldwide passenger car production figures of approx. 3 percent. The main areas of focus for growth will also be similar to those of the previous years, i.e., stagnating markets in North America, Western Europe, and Japan. In contrast, strong growth rates are anticipated in Eastern Europe, South America, and, most of all, in the emerging markets of Asia such as China, India, Thailand etc. In some of these countries, as in previous years, production figure growth rates will significantly exceed 10 percent. As of 2006, China has already taken over from Germany as the third strongest country in terms of automobile production. In 2008 or 2009, China will catch up with Japan in terms of production volume and, according to the latest forecast scenarios, will take over from the USA as the largest automobile manufacturer in the world between 2012 and 2015.

We expect heavy-duty vehicles production to remain at the same level as in 2006, but with significant variations in regional trends. While Europe will be able to sustain the relatively high production level of recent years, the North American market will be characterized by a significant decline in production of approx. 25 to 30 percent. This decline will come as a result of the new exhaust gas specifications for commercial vehicles (US07), which came into force on January 1, 2007. The technologies required in order to meet these specifications, such as high exhaust gas recirculation ratios, particulate filters etc. entail additional costs of approximately USD 5,000 per truck, which created clearly artificial purchasing effects in 2006 and, as a result, will cause significant purchasing restraint in 2007. Nevertheless, we assume that, on a global basis, the decline in North America will be compensated by sustainable growth in Asia and South America.

MAHLE's strategic orientation

In the context of the market situation already described, MAHLE's business development in 2007 in terms of sales, profit, investments, and headcount will be characterized by the following key events:

1. A further increase in the cost of raw materials relevant to MAHLE, such as aluminum, copper, nickel, and resins. Once again, we do not expect to be able to share these costs with our customers to a sufficient degree.
2. A further intensification of the price pressure is making it necessary to gradually relocate production to low cost countries and to take measures to further reduce costs at the existing locations.
3. Fast and successful integration of the acquisition projects from the first half of 2007.
4. Moderate wage and salary adjustments, particularly at locations where labor costs are high.
5. Sales, profit, and balance sheet affected by exchange rate fluctuations of the US dollar, Japanese yen, and Brazilian real in relation to the euro.

Thanks to the strategic orientation of our acquisition strategy, we are now among the three largest suppliers on the global market in all major product groups. In the medium term, we are aiming for a sales volume that significantly exceeds EUR 5 billion or USD 6.7 billion. Our product portfolio remains focused on the combustion engine. In this area, we offer by far the broadest spectrum of products and services: many individual components, systems, complete engine assemblies, and engineering services. Our customer portfolio and regional presence are diversified and well-balanced. In the medium term, Asia will account for more than 20 percent of Group sales.

In 2007, we will once again significantly increase our expenditure in the field of research and development in order to bring the product innovations already mentioned onto the market within the next years – synchronized with the projects of our customers.

Furthermore, we will maintain the policy of a high added value ratio and the associated high level of investment and capital expenditure, to give ourselves scope – through our own productivity increases – to be able to offer the prices required by the market.

Taking certain planning premises as a basis, particularly in relation to the market development of our customers and their engine ranges, the development of the internationally relevant exchange rates, and the dates of first consolidation of our acquisition projects, we expect to achieve the following key figures:

- Sales: approx. EUR 5 billion → USD 6.7 billion
- Investments: approx. EUR 350 million → USD 475 million
- Headcount (07/12/31): approx. 49,000

As regards the planning of the operating profit, we anticipate a slight decline in the level over the whole of 2007 because, besides external market factors such as further increases in material prices, price reductions, and somewhat above-average remuneration increases, restructuring and integration costs are planned in connection with the large acquisitions made in the first half of the year in order to safeguard the medium- and long-term synergy and profit potential.