

Press release on the business development in the 1st half of 2007 and outlook for the MAHLE Group

1. Business environment/economic situation in the automotive industry	2
2. Business development in 2007 and outlook	7
3. Group development	10
4. Preview of the IAA 2007.....	14

1. Business environment/economic situation in the automotive industry

The global economy achieved further growth at the beginning of 2007, although the rate of growth declined somewhat in certain regions. Despite the further recent increase in oil prices, the situation on the international oil market became more relaxed in recent months. In contrast, some important industrial raw materials have become considerably more expensive.

Healthy economic situation in the automotive industry as a whole

The positive development of the global economy is evident in the automotive industry. Despite an increase in oil and fuel prices, automobile sales worldwide developed at a high level. According to the current forecast, the worldwide production of passenger cars and light commercial vehicles will rise to approximately 69.3 million units in 2007. This corresponds to growth of +4.5 percent in the worldwide production figures in comparison with the previous year.

As a result of the positive economic development in most regions, we are also more optimistic — from today's perspective — about the production of medium-weight and heavy commercial vehicles. While the worldwide production of heavy commercial vehicles was initially expected to decline by 332 thousand (-12 percent) to 2,426 thousand units, forecasts now suggest a production volume of 2,740 thousand units, i.e., an almost constant level of production in comparison with last year's level (-0.6 percent).

Passenger cars and light commercial vehicles: varied development in the individual markets

Europe

At the beginning of 2007, the euro zone showed solid growth as a result of positive investment activity and a higher level of exports.

Although forecasts originally suggested stagnation at last year's level, an increase of 3 percent in passenger cars and light commercial vehicles to 21.3 million units is currently expected. This increase means that the latest forecast exceeds last year's expected figure for 2007 by more than 0.6 million units. The main factors driving the increasing production of passenger cars are new automobile plants in Eastern and Central Europe and the successful introduction of new vehicle models in Italy. In the other European countries, the production volume remained at approximately the previous year's level. The German passenger car manufacturers were able to offset the weak domestic demand with higher export volumes.

NAFTA region

In the USA, economic development slowed down.

The current development of fuel prices, the downturn in the U.S. real estate market, and the reduced consumer confidence had a particularly adverse effect. This resulted in reduced production figures in comparison with the original forecast of 15.1 million units in passenger cars and light commercial vehicles. The high fuel prices are also the main reason for the decline in sales of large sport utility vehicles and pickup trucks (light commercial vehicles). The production volume is now estimated at 8.6 million units, i.e., 0.9 million units lower than one year ago. In contrast, the number of passenger cars built in the NAFTA region is currently expected to be 6.4 million, i.e., 0.1 million units higher than last year's forecast.

MERCOSUR region

The rate of growth in the developing countries of Latin America remained high overall.

The production of passenger cars and light commercial vehicles in South America will therefore develop significantly better than forecast one year ago. The high level of demand for Latin American raw materials and agricultural produce, combined with low interest rates and a positive economic mood, are the primary factors that triggered this development. An increase of 0.3 million to 3.4 million units is now forecast.

Asia/Pacific

The Asian automotive market is continuing to develop at an above-average rate. In Japan, a rise in demand from abroad and a boom in investments led to a sustained economic recovery. Once again, China exceeded the growth forecast. The South Korean and Indian automotive industries are expanding at a surprisingly high rate.

Last year's forecast, which suggested that production figures for passenger cars and light commercial vehicles would increase by 2.4 percent this year to 26.2 million units, has now been raised to 27.8 million units (+8.6 percent). With a production increase of 1.3 million to 7.8 million units (+19.8 percent), China is making the largest contribution to this growth. It is currently expected that South Korea will once again contribute the second largest production increase of 0.3 million to 4.1 million units, followed by India and Japan, whose production volumes are set to rise by 0.2 million to 1.9 million and 11.3 million light commercial vehicles respectively.

The market for heavy commercial vehicles develops more positively than expected

Europe

The overall positive investment activity in the euro zone also had a positive effect on the production of heavy commercial vehicles.

The European truck manufacturers also benefited from the general positive development in the trucks segment. Instead of a decline of around 60 thousand units (-9.3 percent), growth of 21 thousand units (+3.3 percent) is currently expected. In Western Europe, manufacturers in France, Sweden, and Germany in particular are benefiting from the high demand. Only in Spain is production expected to decline significantly. In Central and Eastern Europe, growth is being triggered primarily by the Russian manufacturers.

NAFTA region

The exhaust gas legislation and economic situation are creating a double effect in the NAFTA region.

In the medium-weight and heavy commercial vehicles segment, a more significant decline in production figures is anticipated as a result of the introduction of the tightened exhaust gas legislation as of January 1, 2007 and the corresponding fact that fleet operators brought purchases forward in 2006. At present, vehicle production is expected to fall by 187 thousand units (-29.1 percent), whereas a decline of 25.7 percent was forecast last year. This primarily affects heavy commercial vehicles, which are set to drop by 140 thousand to 241 thousand units (-36.8 percent).

MERCORUR region

The production volume for heavy commercial vehicles increased considerably in the Latin American markets.

The strategy pursued by the truck manufacturers in South America of using Brazil as a base for exports to developing and emerging markets has led to a significant increase in the production volume. The current forecast suggests a rise of 12 thousand (+7.5 percent) to 170 thousand units instead of a decline of 8.2 percent.

Asia/Pacific

The production of heavy commercial vehicles on the Asian automobile market is continuing to develop positively, contrary to original expectations.

Contrary to last year's forecast for 2007, suggesting a decline of 94 thousand (-7.1 percent) to 1,227 thousand units in truck production in Asia, the latest forecast suggests a rise of 137 thousand (+10.4 percent) to 1,458 thousand units on the basis of the positive economic development. This development is still being driven by China, whose heavy commercial vehicle production this year is expected to rise by 20.1 percent to more than 700 thousand units. Likewise, in South Korea and India, the current situation appears significantly more positive than expected one year ago, with production growing by around 10 percent to 312 thousand and 45 thousand units respectively. According to current forecasts, only truck production in Japan will fail to reach the previous year's level by 16 thousand units (-3.9 percent).

2. Business development in 2007 and outlook

In the first six months of 2007, the MAHLE Group increased its sales by 13.9 percent to EUR 2,488 million (EUR +304 million in comparison with the previous year). The sales of the globally leading manufacturer of components and systems for the internal combustion engine and its peripherals thus rose by a much higher percentage than the market as a whole. The sales growth recorded by the MAHLE Group was essentially determined by three factors: the development of exchange rates, organic growth, and acquisition-related growth.

As a result of the globally strong euro and relatively weak exchange rate developments, particularly those of the U.S. dollar and Japanese yen, the MAHLE Group suffered negative effects of EUR -56.5 million on Group sales calculated in euro in comparison with the first half of the previous year. Since the global market development was better than expected, in terms of production figures of passenger cars and light commercial vehicles as well as heavy commercial vehicles, and because of market share gains in sophisticated diesel technology, organic growth increased to EUR 174.7 million, which corresponds to an increase of +8.0 percent. The sales increases achieved through organic growth were recorded primarily in Europe, but also to a lesser extent in Asia and South America. Although, overall, organic growth was considerably higher than the expectations for the first half of the year, the sales increases of EUR 185.8 million from strategic acquisitions in the first six months of the business year did not reach the originally planned level. However, this is essentially due to postponed dates of first consolidation, which led to a negative sales effect of approximately EUR -143.9 million in the first half of the year.

As a whole, sales expectations were almost fulfilled, despite the adverse exchange rate effects and the issue surrounding dates of first consolidation.

In contrast to the positive development of sales, the MAHLE Group's operating profit improved by only an insignificant percentage. Besides considerable increases in material and energy prices, planned restructuring measures and integration costs for the acquisition projects also had an adverse effect on profit. In terms of materials, particularly notable developments took place concerning the prices of non-ferrous metals such as aluminum, copper, and nickel. The additional costs for these materials cannot be sufficiently divided over the entire value chain.

The number of people employed worldwide by the MAHLE Group rose by 7,949 in comparison with the same period of the previous year to 46,461. The increase is almost exclusively due to the acquisition projects undertaken in the first half of the year. In the MAHLE Group's original consolidation group, the number of personnel changed by just +361 employees as a result of the high level of organic growth and corresponding capacity expansions at the locations primarily in Eastern Europe and South America.

The acquisition-related increase in the number of employees in the MAHLE Group is also leading to a significant change in the employee distribution structure across the various regions of the world.

Whereas the growth in the number of employees in Europe was essentially due to new locations in England, Italy, France, Spain, Slovakia, and Germany, the number of employees in the Asia/Pacific region changed due to organic growth and the new valve factory in Macheng/China. The regions North America and South America significantly increased their staffing levels with the new MAHLE locations in the USA; Canada, Mexico, Brazil, and Argentina. The number of people employed in Germany changed from 8,835 to 9,091.

For the second half of the 2007 business year, MAHLE expects that certain factors will affect growth and Group sales to varying extents. As a result of the sustained weak development of most foreign currencies in comparison with the euro exchange rate, further negative exchange rate effects will have a noticeable impact on Group sales in comparison with the previous year.

The positive rate of organic growth in the first half of the year will be maintained in the second half of the year, albeit in weakened form. The various regions of the world present a varied picture in this regard. While rather stable development is anticipated in Europe, a further weakening of the economy is expected in North America in particular because of the current development on the U.S. real estate market and the general consumer uncertainty that accompanies this trend. In contrast, the positive impact of the acquisition projects completed in the first six months of the year will be seen in its full extent in the development of the MAHLE Group's sales during the second half of the year.

For the full 2007 business year, MAHLE therefore anticipates Group sales of around EUR 5 billion (2006: EUR 4.3 billion), which would correspond to sales growth of approximately 15 percent.

3. Group development

The significant milestones of the MAHLE Group's development in the first half of 2007 were:

Acquisitions in connection with Dana Corporation

1. On March 9, 2007, MAHLE confirms the purchase of the engine parts business of the Dana Corporation

The acquisition of the engine parts business of Dana, which comprises all units worldwide including the Clevite® trading organization, was successfully completed on March 9, 2007. In addition, MAHLE acquires the exclusive right to distribute the products sold under the brand name Victor Reinz® in the independent aftermarket in the USA and Canada.

The engine parts business of the Dana Corporation comprises about 25 locations in 10 countries, employing around 5,000 people. The business segment achieved sales of approximately USD 659 million in 2006. The main products are piston rings, engine bearings, cylinder liners, and camshafts.

2. On June 22, 2007, MAHLE concludes a purchase agreement with Condumex

On June 22, 2007, the MAHLE Group announced that it had concluded an agreement for the purchase of the shares of Grupo Condumex, S.A. de C.V., Mexico.

MAHLE will acquire 51 percent of the shares of Promotora de Industrias Mecánicas, S.A. de C.V. (Promec) from Condumex.

In line with the transaction of March 9, 2007, MAHLE acquired the engine parts business of the Dana Corporation and thus, indirectly, 49 percent of the shares in Promec. After all conditions for the transfer of the shares between MAHLE and Condumex had been met, MAHLE took over the entire business of Promec and its subsidiaries in Mexico. Promec produces cylinder liners and piston rings for passenger car and heavy commercial vehicle applications, for both original equipment manufacturers and the aftermarket.

The acquisition comprises a total of around 1,100 employees in four production plants in Mexico at the locations Aguascalientes, Naucalpan, Ramos Arizpe, and Santa Catarina. In 2006, the business segment achieved sales of USD 67 million.

On June 1, 2007, MAHLE acquires the air intake systems and air filtration business division of Siemens VDO Automotive

The MAHLE Group announced on June 5, 2007 that the acquisition of the air intake systems and air filtration business division of the Siemens VDO (SVDO) division of Siemens AG had been successfully completed on June 1, 2007.

The acquisition comprises all units of the SVDO intake systems and air filtration business division worldwide, with locations in Canada, Mexico, England, and China. In 2006, the business segment generated sales of around EUR 300 million, with approximately 1,000 employees. The main products are air intake modules and air filter systems for passenger car gasoline and diesel engines.

On January 1, 2007, MAHLE expands its valve train activities in China and, on March 21, 2007, MAHLE announces the purchase of the Argentinean valve manufacturer Edival

The valve train activities in China are expanded with a joint venture between Hubei Tri-Ring Company Limited (now known as MAHLE Tri-Ring Valve Train (Hubei) Co., Ltd.) and MAHLE, in which MAHLE holds 60 percent of the shares. MAHLE is thus expanding its market position further in this rapidly growing market in the automotive sector.

In the engine valves product group, MAHLE has outstanding expertise in product development, manufacturing and product machining, surface treatment, automatic quality inspection, and other areas. The joint venture will be able to manufacture all design variants of engine valves for passenger cars and heavy commercial vehicles, and will market the products in China as well as in other countries with the support of MAHLE's worldwide distribution network. MAHLE Tri-Ring Valve Train produces approximately 20 million engine valves annually.

On March 21, 2007, the MAHLE Group announced that it had acquired the Argentinean company Edival, based in Rafaela in the Santa Fé province, via its Brazilian subsidiary, MAHLE Metal Leve S.A. The acquisition comprises all business divisions of Edival, including the production plant as well as administration, sales, and design engineering.

With around 800 employees, Edival mainly produces valves, valve guides, and valve seat inserts for internal combustion engines and supplies OEM customers, the aftermarket, motorsport customers, airplane manufacturers, and manufacturers of stationary engines. The company is quality and environmentally certified and has an output capacity of 15 million valves per year, with a range of more than 3,000 different products.

In 2006, the new valve locations in China and Argentina recorded annual sales of around USD 55 million. The engine valves product group has a total of five production plants worldwide: in Wölfersheim (Germany), Krotoszyn (Poland), Volvera (Italy), Macheng (China), and Rafaela (Argentina).

On June 20, 2007, MAHLE and Riken sign a memorandum of understanding for global cooperation

On June 22, 2007, the MAHLE Group also announced that a memorandum of understanding for global cooperation had been concluded between MAHLE GmbH and the Japanese Riken Corporation on June 20, 2007. Riken Corporation is the leading Japanese manufacturer of piston rings, camshafts, and other engine components. The aim of the cooperation is to offer customers high-quality products and services and strengthen mutual corporate values by exploiting available resources and generating synergies. The cooperation between MAHLE and Riken is based on the concept of exploiting the strengths of each company.

In addition to expanding the existing 50/50 joint venture Allied Ring Corporation, a manufacturer of piston rings based in North America, both companies will therefore explore and promote worldwide cooperation projects.

MAHLE and Riken will work together on the optimization of engine technologies in the fields of technical development and production of piston rings, engine components and systems, camshafts, and other products. In general, the companies will optimize their technological expertise by means of active exchange of technical know-how.

4. Preview of the IAA 2007

At this year's International Motor Show in Frankfurt, the Stuttgart automotive supplier MAHLE is presenting a whole range of product innovations that have all been developed with a view to specifically reducing fuel consumption and emissions:

- 1.2-liter 3-cylinder downsizing gasoline engine as a technology demonstrator for reducing fuel consumption and CO₂
- Exhaust gas turbocharger for new generations of consumption-optimized gasoline and diesel engines
- Innovative exhaust gas recirculation valves (EGR valves) for reducing nitrogen oxide emissions and fuel consumption
- Weight-optimized EVOTEC[®] pistons for gasoline engines
- New concepts for passenger car diesel pistons
- New aluminum rough cast cylinder liner compound (ALBOND[®])
- PVD-coated piston rings for passenger car diesel engines
- Weight-optimized connecting rods for high-performance gasoline and diesel engines
- Innovative bearings and bushings with lead-free materials
- Lightweight valves with internal cooling for high-performance, consumption-optimized gasoline engines
- CamInCam[®] camshaft for variable valve train control
- Composite steel camshaft for optimized charge exchange
- Oil mist separator with switched impactor
- Innovative actuators for engine compartment applications
- Diesel fuel filter with automatic water disposal
- New fuel filters and piston rings for flex fuel applications
- Highly integrated oil pan/oil filter/cooler module

MAHLE Downsizing Engine

One of the special highlights will be the new downsizing engine concept as a technology demonstrator. With the new 1.2-liter unit, MAHLE demonstrates its systems competence and sets standards in downsizing concepts.

In the future, a 3-cylinder engine of this type will be able to sufficiently power modern mid-range cars weighing approximately 1.6 tons. Compared with 2.5-liter displacement engines in common use today, this represents downsizing by 50 percent. The result: a fuel saving of over 20 percent. The trick with downsizing concepts is that small-displacement engines are operated at a high load. This means that the engine is continuously being driven in the range in which its efficiency is high. In its variant with double supercharging, the power unit achieves 120 kW, or 163 hp per liter.

“The high power output per liter was made possible by — among other things — the contribution of innovative components by all MAHLE product lines. As a result, this engine is state of the art in all respects,” explains Prof. Dr. Heinz K. Junker, Chairman of the MAHLE Management Board. MAHLE is therefore able to offer its customers individual solutions for every conceivable application. The unit presented at the IAA is shown in two different supercharging models (single and double supercharging) and is fitted with forged pistons, two overhead composite camshafts, four valves per cylinder, central direct injection, air-water charge cooling, exhaust gas recirculation cooling at full load (leads to a high reduction of fuel consumption), injector tip cooling, dual camshaft adjustment, and cooled lightweight valves. Another technological highlight is the fully integrated intake module, which accommodates the oil mist separator, air filter, noise damping, and exhaust gas recirculation.

To consistently minimize fuel consumption, frictional loss was also reduced. The engine concept, for example, uses DLC-coated (DiamondLikeCarbon)

piston pins, cylinder running surfaces coated with NIKASIL[®], and PVD-coated (Physical Vapor Deposition) piston rings.

MAHLE Exhaust Gas Turbocharger

As a further product initiative, MAHLE will showcase the development and production of exhaust gas turbochargers for gasoline and diesel engines at the IAA in Frankfurt. Series production will commence in 2010. As one of the globally leading suppliers and systems developers of internal combustion engines, MAHLE sees this as the next logical step toward expanding and supplementing its product portfolio. MAHLE will thus offer highly integrated solutions, from the intake system and charge exchange control to exhaust gas turbochargers.

Exhaust gas turbochargers are a fundamental milestone for the further development of internal combustion engines with drastically reduced fuel consumption. With turbochargers of this kind, the energy of the exhaust gas is used to supercharge the intake air and supply the engine with a larger volume of air. This technology is a condition for engine downsizing concepts because, in relation to their performance, turbocharged engines have a lower weight, lower friction, and, particularly in gasoline engines, lower charge exchange losses.

MAHLE already has many years of experience in the development and production of high-load turbocharger components and, with its subsidiary MAHLE Powertrain, has development expertise for the development, design, and application of turbocharged engines. MAHLE is presently developing wastegate exhaust gas turbochargers in the engine power class up to 200 kW for gasoline engines and variable flow turbine (VFT) turbochargers for diesel engines up to 150 kW. For each application, a variety of sizes is developed in order to offer the customer turbochargers with maximum efficiency for the relevant application.