

Press Release on the Business Development in the 1st Half of 2005 and Outlook for the MAHLE Group

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1. Business Environment/Economic Situation in the Automotive Industry

Automotive industry on course for flatter growth

Despite a slow start in the first few months of the year, the international automotive industry followed a stable course overall in the first half of 2005. Once again, the individual operating lines and markets showed extremely varied development over the first six months. As a result of the heavy increase in crude oil prices, however, flat growth is expected over the whole year.

In North America and Europe, production and sales of passenger cars remained at around the previous year's level, with small fluctuations. In the USA, the market weakness of the two large domestic suppliers was offset in particular by the rising sales figures of Asian suppliers. In contrast, production in the Japanese market increased by 4 percent, sales by 3 percent. The German automotive industry increased both its production and sales by around 2 percent as a result of the continuing strong demand for exports.

As in 2004, the automotive industry in South America continued to display the greatest dynamism and increased its production of both passenger cars and commercial vehicles by around 20 percent, also as a result of the heavy rise in exports. In contrast, signs of a politically motivated slowdown in the overheated economy were seen in China, which was reflected in decreased growth rates for automobile production.

Once again, worldwide production and sales of medium-weight commercial vehicles and heavy trucks experienced much more dynamic development than the passenger car markets in the first half of 2005. While the USA – like South America – recorded growth rates of 20 percent in this segment, sales rose by 8 percent in China and 7 percent in Western Europe. Only Japan and South Korea suffered slight losses.

The German manufacturers increased their production of commercial vehicles over 6 tons by 19 percent, and recorded a rise of 7 percent in domestic sales and 29 percent in export sales.

As the commercial vehicle industry as a whole is traditionally subject to heavy cyclical fluctuations, however, the impetus for growth is only expected to last until the middle of 2006 at the latest, at which time production will likely start to decline once more.

2. Business Development and Outlook

MAHLE benefits from boom in demand for commercial vehicles and diesel passenger cars

In the first half of 2005, the MAHLE Group increased its sales by 9.3 percent to EUR 2.05 billion. Once more, this allowed the globally leading manufacturer of engine components and filter systems to achieve above-average development compared with the automotive industry as a whole. The continuing boom in worldwide demand for commercial vehicles and the increase of the proportion of diesel engines in the passenger car sector in Western Europe to almost 50 percent had particularly positive effects on the growth of sales.

In both market segments, MAHLE plays a strong role on account of its leading technological status and is present worldwide with large market shares. "The diesel engine remains the key to effectively facing up to the global challenge of reducing fuel consumption. With its various engine systems for high-performance diesel engines, MAHLE is the world leader", explained Prof. Junker, Chairman of the MAHLE Management Board.

Of the sales increase of EUR 175 million achieved in the first half of 2005, approximately 65 percent resulted from internal organic growth. Around EUR 60 million is due to the first-time consolidation of various acquisitions. This primarily involved the acquisition of the Cosworth Technology Group, now integrated into the Group as MAHLE Powertrain, and new Group activities in India, Thailand and China.

Despite the expanded business volume, the MAHLE Group's net operating income could not be increased. On one hand, profits were under considerable strain due to increased raw materials prices; on the other hand, unfavorable exchange rate developments in the Brazilian and

Polish domestic currencies caused significant reductions in export earnings. Overall, the progress made in productivity was not sufficient to offset the further increased price pressure from automobile manufacturers.

The number of people employed worldwide by the MAHLE Group increased by around 3,700 in comparison with the same period in the previous year, to around 37,500. Around 2,500 of these employees work in the Group's newly acquired companies. Other staffing increases in the Group focused essentially on the MAHLE plants in South America and Poland. The number of employees in Germany fell by 273 to 9,148 (2004: 9,421).

For the second half of the 2005 fiscal year, MAHLE expects rather weakened growth in the international automotive industry compared with 2004. At present, the automotive industry is still benefiting from the stable global demand for commercial vehicles. In contrast, in the passenger car sector, no increases in sales are predicted in the saturated volume markets of Western Europe, North America and Japan.

MAHLE expects to achieve Group sales of around EUR 4 billion (2004: EUR 3.7 billion) for the whole of the 2005 fiscal year. "We are concerned about the profit and market development of some of our major European and American customers. These circumstances, as well as the dramatic development in fuel prices over recent weeks and months, do not generate any positive expectations for the second half of 2005 in general. Therefore, we hope that the upcoming International Motor Show (IAA Cars) in Frankfurt will nevertheless create purchase incentives for the rest of the year, at least for the German domestic market", remarked Prof. Junker.

3. Group Development

The significant milestones of continued Group development in the 1st half of 2005 were as follows:

January

■ Acquisition of the Cosworth Technology Group – now MAHLE Powertrain

As of January 1, 2005, MAHLE acquired the Cosworth Technology Group - now MAHLE Powertrain - formerly owned by AUDI AG, with its headquarters in Northampton (UK) and with three other locations in Wellingborough (UK), Worcester (UK) and Novi (MI/USA).

MAHLE Powertrain's two R&D centers in Northampton and in Novi near Detroit have already been partially integrated into MAHLE's research and development activities and operate in a network with the Group's other five R&D centers. Joint research and advanced development projects have already started, and will take full effect in the coming year. MAHLE will also be involved in new engine-specific areas of development, which will lead in particular to reductions in fuel consumption and exhaust emissions. The two production plants in Wellingborough and Worcester for cylinder head and engine block machining and engine assembly for small lots also perfectly complement MAHLE's existing development and production know-how.

Prof. Junker explains: "With MAHLE Powertrain, we are gaining important new production techniques in the area of powertrain technology and engines. In the long term, this opens up unique new business prospects for us – from development services to integrated powertrain and engine equipment."

■ **Piston activities in Thailand strengthened**

By increasing its share in Izumi Piston Manufacturing Co., (Thailand) Ltd. from 34 to 52 percent, effective retroactively from January 2005, MAHLE has strengthened its presence in the expansive Thai automotive market. The company is now called MAHLE Engine Components (Thailand) Co., Ltd. and supplies the Thai automotive industry with 1.8 million pistons per year, primarily for diesel engines for light commercial vehicles, which Japanese automobile manufacturers produce predominantly in Thailand.

■ **Bearing production in China**

Since the beginning of 2005, MAHLE has also held a share of 70 percent – and a further option for the remaining 30 percent from 2009 – in a joint venture with a Chinese company for the production of bearings for passenger car and commercial vehicle engines. It is now called MAHLE Bearings (Yingkou) Co., Ltd. and is based in Yingkou in North-Eastern China, at the same location as one of our piston plants.

March

■ **Filter activities in Romania strengthened**

By founding MAHLE Componente de Motor SRL in Timisoara/Romania, MAHLE is strengthening its filter activities in the dynamically growing automotive market in Central and Eastern Europe.

The main focus is on new business from our customers at the Eastern European locations. Production is scheduled to commence in April 2006. Activated carbon canisters, air filters and industrial filters will be produced at the new location.

April

■ Filter activities in India strengthened

By acquiring the shares previously held by the American Arvin Meritor Corporation in Anand Automotive Systems Group Purolator India Ltd., MAHLE is strengthening its filter activities in the dynamically growing automotive market in India.

Together with MAHLE Air Management (India) Pvt. Ltd in Pune, which has been in operation for some years, and the two new locations in Delhi and Parwanoo, MAHLE is the market leader in India for liquid and air filtration products. The introduction of the latest European and Japanese product technology will allow the Indian automobile manufacturers to fulfill the tightened exhaust emissions regulations, which will apply in India in future.

■ Regional Headquarters/R&D center in Shanghai and new filter plants in China

In the past year, MAHLE has already acquired a lot of around 140,000 m² in one of the most modern industrial parks in Shanghai. In April, the groundbreaking ceremony took place for the new Regional Headquarters with an adjoining R&D center, currently under construction. The Regional Headquarters is called MAHLE Technologies Holding (China) Co., Ltd. It will primarily serve as a base for the central corporate functions of MAHLE's seven Chinese production locations. In particular, this will allow specific application development for the

local automobile and engine manufacturers to take place locally within reasonable timeframes.

On the same building site, good progress has been made in the measures to complete a new production plant for liquid filter products for Chinese automobile manufacturers. Production is set to commence in the final quarter of this year.

In addition, via its Korean majority joint venture MAHLE Donghyun Filter Systems, MAHLE has taken over the management of another production location in Tianjin in Northern China, which primarily supplies automobile manufacturers in Northern China with air filtration products.