MAHLE

Driven by performance







ANNUAL REPORT 2007

Annual chronicle

January

Majority joint venture with Hubei Tri-Ring Company Limited, today: MAHLE Tri-Ring Valve Train (Hubei) Co., Ltd.
Headquarters: Macheng, China. Approximately 1,600 employees. Sales of around USD 21 million in 2006. Key products: engine valves for passenger cars and commercial vehicles with a capacity of 20 million per year. Main strategic aim: to strengthen the valve train activities in Asia.

Supplier Award from FAW Volkswagen Automotive Co., Ltd.
MAHLE Engine Components (Yingkou) Co., Ltd., China, received the “Excellent Quality Award 2006”.

February

Supplier Award from Toyota.
MAHLE GmbH, Germany, received the “Excellent Quality Performance Award 2006”.

Supplier Award from Isuzu Philippines Corporation.
The MAHLE Filter Systems Philippines Corporation received the “Outstanding Local Supplier” award.

Supplier Award from Ford.
MAHLE Ventiltrieb GmbH, Germany, was named “Year 2006—Zero Defects Supplier”.

March

Acquisition of the engine parts business of the Dana Corporation.
Headquarters: Toledo, USA. 25 production plants in ten countries and the Clevite® trading organization. Around 5,000 employees. Sales of approximately USD 659 million in 2006. Key products: piston rings, engine bearings, cylinder liners, camshafts. Main strategic aim: to strengthen the strategic market position for piston rings and engine bearings, as well as the free trade business for engine components.

Acquisition of Edival S.A., today: MAHLE Válvulas de Argentina S.A.
Headquarters: Rafaela, Argentina. Around 800 employees. Sales of more than USD 40 million in 2006. Key products: valves with an annual capacity of 15 million, valve guides, valve seat inserts for combustion engines. Main strategic aim: to strengthen the valve train activities in South America and export capabilities to North America and Europe.

April

Automec, São Paulo, Brazil.
Presence at the leading fair for the aftermarket in South America.

Auto Shanghai, China.
MAHLE at the most important automotive fair in China, now the second largest automobile market in the world.

Supplier Awards from Fiat.
MAHLE Metal Leve S.A. in Brazil received awards for “Best Performance in Quality in 2006” and “Best Performance in Ecology and the Environment in 2006”.

May

Motortec, Madrid, Spain.
Presentation of the product range. Areas of focus: valves and cabin air filters.

Supplier Award from Toyota.
MAHLE Metal Leve S.A., São Bernardo do Campo, Brazil, was awarded the “Quality Achievement Performance Certificate”.

Supplier Award from Ford/Volvo.
MAHLE Filtersysteme France SAS, Seboncourt, France, received the “Q1 Award”.

June

Acquisition of Promotora de Industrias Mecánicas, S.A. de C.V. (Promec) and its subsidiaries.
Four production plants in Mexico. Approximately 1,100 employees. Sales of around USD 67 million in 2006. Key products: cylinder liners and piston rings for passenger car and commercial vehicle applications. Main strategic aim: new low-cost locations for the Cylinder Components product line in the NAFTA region.

Acquisition of the intake modules and air filtration business division of Siemens VDO Automotive.
Locations in Canada, Mexico, England, and China. Approximately 1,000 employees. Sales of around EUR 300 million in 2005/2006. Key products: air intake modules and air filtration systems for passenger car gasoline and diesel engines. Main strategic aim: to expand the product portfolio and round off our customer spectrum.

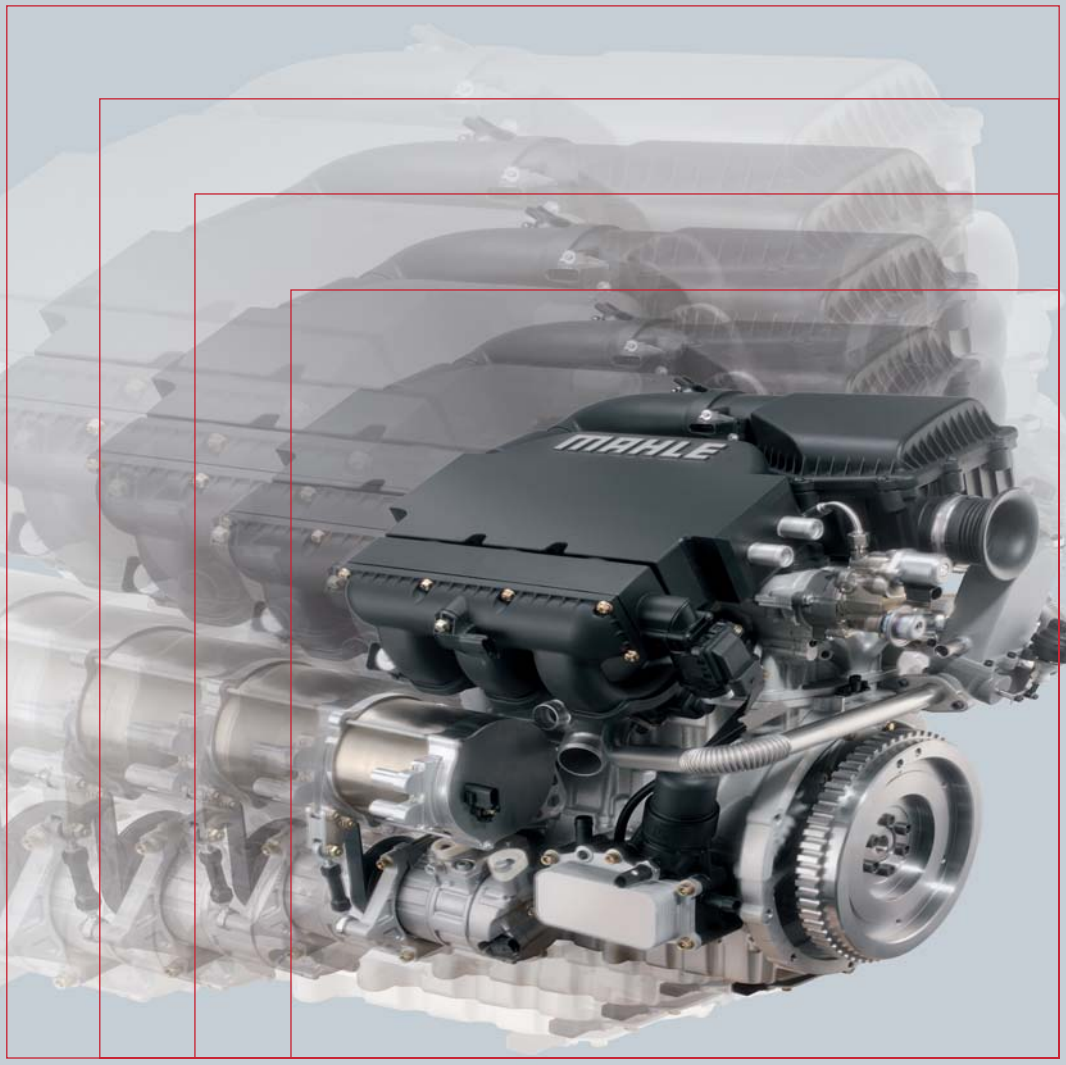
Memorandum of Understanding for global cooperation between MAHLE GmbH and Riken Corporation.
Headquarters of Riken Corporation: Tokyo, Japan. Leading Japanese manufacturer of piston rings, camshafts, and other engine components. Approximately 4,000 employees. Sales of around Yen 91,000 million in 2006. Strategic aims: exchange of know-how in the ongoing development of engine technologies, complementing the product portfolio with high-quality products and services, potential cross-over use of output capacities.

24 Hours of Le Mans.
Victory for the Audi R10 TDI, fitted with MAHLE pistons and NIKASIL®-coated cylinder bores.

What does the automotive future look like?

High performance, economy, environmental compatibility, safety, reliability, comfort, cost-effectiveness—the demands on a modern vehicle are becoming more and more complex. We consider it our central task to reconcile technical progress with human, ecological, and economic aspects. Harnessing all our know-how, creativity, and passion for precision and perfection, the approximately 48,000 employees of the MAHLE Group are committed to this challenge throughout the world—including about 2,500 engineers in seven international research and development centers, who are working on future-oriented products, systems, and processes.

Our list of customers already includes all the well-known automobile and engine manufacturers. Our long-term strategy is to further expand our technological and cost leadership—and thereby further cement our position among the world's major suppliers of piston systems, cylinder components, valve train systems, and air and liquid management systems. The guarantors of a successful future are sustainability, reliability, and permanently profitable growth—coupled with innovative product solutions, even greater proximity to customers, service, and mobility.



MAHLE GROUP

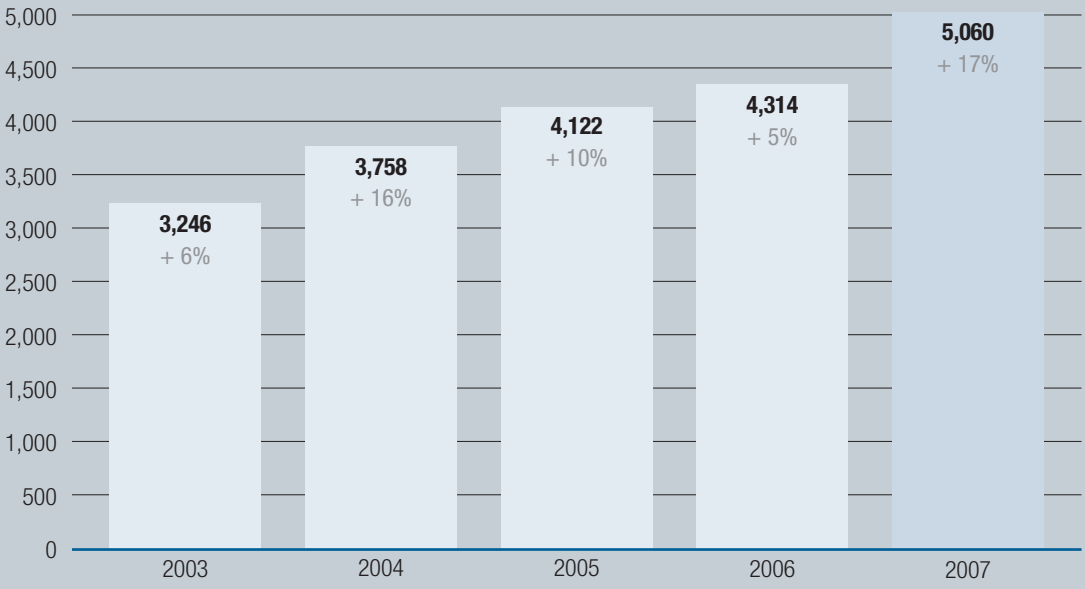
Figures

million EUR

Business year	2003	2004	2005	2006	2007
Sales	3,246	3,758	4,122	4,314	5,060
EBITDA	447	502	642	598	632
EBIT	202	255	341	319	349
Income from ordinary business activities	181	237	275	295	308
Net income	95	131	159	192	223
Tangible fixed assets	1,027	1,098	1,239	1,235	1,430
Capital expenditure for tangible fixed assets (without first consolidation)	231	255	288	264	309
Equity capital	900	992	1,271	1,363	1,538
Dividend paid by MAHLE GmbH	3.0	4.0	6.3	6.0	7.0
Headcount (as at Dec. 31)	30,646	35,744	37,419	38,603	47,877

Development of sales

million EUR



Highlights 2007

July

Supplier Awards from Nissan Motor.
The MAHLE Filter Systems Japan Corporation and the MAHLE Engine Components Japan Corporation received the “Supplier Quality Award” and the “Best Performance Award”.

Supplier Award from Caterpillar.
MAHLE, Inc., Morristown, USA, was awarded the “Supplier Quality Excellence Process Certification—Silver Level”.

August

Supplier Award from DaimlerChrysler.
MAHLE Válvulas de Argentina S.A., Rafaela, Argentina, received an award from the DaimlerChrysler Corporation, Mexico, for “Excellence Performance in 2006”.

September

IAA Frankfurt, Germany.
Presentation of future-oriented innovations. The focus was on a 1.2-liter/3-cylinder downsizing gasoline engine from MAHLE as a technology demonstrator. It has the potential to reduce fuel consumption and CO_2 emissions by around 30 percent. In addition, we presented product innovations such as: exhaust gas turbochargers for new generations of engines, innovative systems for exhaust gas recirculation, lightweight valves with internal cooling, weight-reduced EVOTEC® pistons, new concepts for even more stress-resistant passenger car diesel pistons, weight-optimized connecting rods, innovative engine bearings and bushings, CamInCam® camshafts for variable valve train control, oil separators with switched impactor, diesel fuel filters with automatic water disposal, and new fuel filters and engine components for flex fuel applications.

October

Tokyo Motor Show, Japan.
MAHLE presents innovative technologies and product novelties at the 40th Tokyo Motor Show, one of the most significant automotive fairs worldwide. In 2007, passenger cars and commercial vehicles were combined for the first time. The focus was on the MAHLE downsizing engine as a technology demonstrator and exhaust gas turbochargers for new engine generations.

Equip Auto, Paris, France.
Presence at the leading international fair for aftermarket and workshop equipment. Areas of focus: new applications for French vehicles. Highlight: the Audi R10 TDI with V12 diesel engine, which was victorious at the 24 Hours of Le Mans.

Final race of the Formula 1 season.
Victory for the Ferrari team in the Drivers’ and Constructors’ World Championships. The Ferrari was fitted with: MAHLE pistons and NIKASIL®-coated cylinder bores. Seven other Formula 1 teams also use MAHLE engine components.

Supplier Award from Ford.
Purolator India Ltd., Gurgaon, India, received the “Q1 Award”.

November

Joint venture MAHLE India Pistons Ltd.
Headquarters: Chennai, India. Approximately 300 employees. Expected sales of around EUR 25 million in 2008. Key products: pistons, with an annual capacity of 3.2 million. There are plans to double this capacity over the next three years. Main strategic aim: technological and competitive leadership in pistons on the Indian market.

Supplier Awards from Shenyang Aerospace Mitsubishi Motors and Shenyang Xinguang Brilliance Motors Engine Co., Ltd.
MAHLE Engine Components (Yingkou) Co., Ltd., China, named “Excellent Supplier of 2007”.

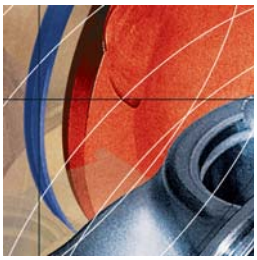
December

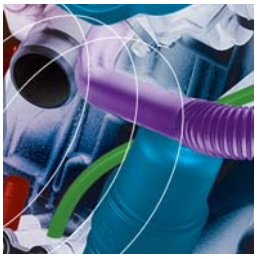
Supplier Award from Dongfeng Nissan.
MAHLE Guangzhou Filter Systems Co., Ltd., China, named “Excellent Supplier”.

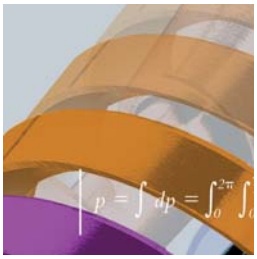
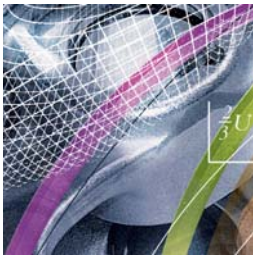
Supplier Award from Ford.
MAHLE Farplas Filtre Sistemleri A.S., Gebze, Turkey, received the “Q1 Award”.

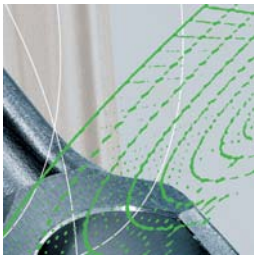
Supplier Award from Mitsubishi Motors.
MAHLE Engine Components (Thailand) Co., Ltd. received the “Award of Quality 2007 for Excellence in Zero Defect”.

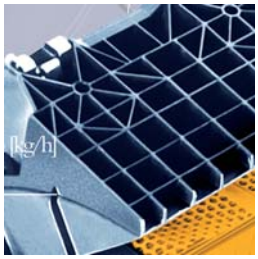


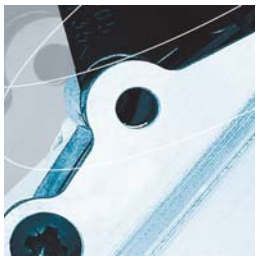


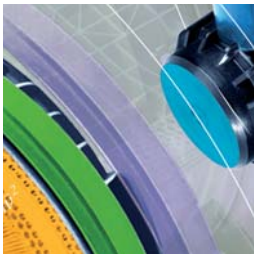










CONTENTS

Prof. Dr. Heinz K. Junker,
Chairman of the
Management Board

Dear readers,

Besides innovation, expansion was the central theme throughout our past business year. The MAHLE Group increased its sales to more than EUR 5 billion and thus achieved clearly disproportionate growth, within the industry environment, of 17 percent, or nearly 20 percent as a result of currency effects. Organic growth was responsible for approximately 7 percent of this positive development and was achieved through gains of market share in engine components and an overall rise in global automobile production. New acquisitions provided the other significant contribution in the past business year with around 13 percent. Because the dates of first consolidation fell within the year, these consolidations only had a limited impact on the growth of sales in 2007. We therefore expect a further growth spurt in 2008 as a consequence of the full year effect.

By acquiring the engine parts business of the U.S. Dana Corporation with 25 locations in ten countries—and in connection with this, also Promotora de Industrias Mecánicas, S.A. de C.V. (Promec) in Mexico—we were able to further increase our market shares, particularly in the areas of piston rings, bearings, cylinder liners, and camshafts, and further expand our position in the free trade business. The acquisition of the air intake modules and air filtration business segment of Siemens VDO, including all international units, strengthens our position in the field of air management systems. In addition, we were able to expand our valve train activities in South America and Asia with the acquisition of the Argentinean valve manufacturer Edival and the newly founded majority joint venture MAHLE Tri-Ring Valve Train (Hubei) Co., Ltd. in China. The Memorandum of Understanding for global cooperation between MAHLE and Riken Corporation, the leading Japanese manufacturer of piston rings, camshafts, and other engine components, created the necessary basis for exploiting synergies between the two companies in technical development and production. The joint venture MAHLE India Pistons Ltd., founded at the end of 2007, enables us to strengthen our activities in the rapidly growing Indian market, especially through the production of pistons for new generations of engines.

In January 2008, we were able to complete the acquisition of 60 percent of the share capital of the Turkish piston and engine parts manufacturer Mopisan. We are thus expecting a further improvement of our market position in the free trade business for engine components.

In February 2008, an agreement was signed with Robert Bosch GmbH to found a 50/50 joint venture for the development and production of exhaust gas turbochargers. Supercharging by means of exhaust gas turbochargers is a major technology of the future for further increasing the efficiency and reducing the fuel consumption of modern combustion engines. By founding the joint venture, MAHLE and Bosch are combining their considerable preliminary work in this area and are planning to start production in 2010/2011.

These acquisitions and cooperations were undertaken in order to safeguard our global competitiveness on a long-term, sustainable basis—by establishing a presence in all important markets of the automotive industry and developing an internationally balanced customer structure.

Acquisitions tie up considerable resources during the changeover and integration phase. Consequently, the restructuring expenses and integration costs of the acquisition projects

for the 2007 business year had an adverse effect on profit. We started promptly with the reorganization and optimization of the Group's production network to incorporate the additional capacities gained through the acquisitions. This has inevitably led to a considerable number of relocation projects as well as closures or partial closures of plants.

Negative exchange rate effects, large increases in material and energy prices, and the enormous price pressure in the automotive industry contributed to the fact that operating profit grew only marginally, despite the double-digit sales growth. Nevertheless, we were able to consistently improve our financial ratios and reach new targets in the EBIT, the result from ordinary activities, and the net income of the year. In the 2008 business year, organic growth is expected to level off—particularly in the U.S. market, in which a further economic decline is anticipated. However, we are confident that the acquisitions made in 2007, combined with further increases in efficiency and more streamlined cost structures, will lead to a significant improvement in the MAHLE Group's earnings in the medium and long term.

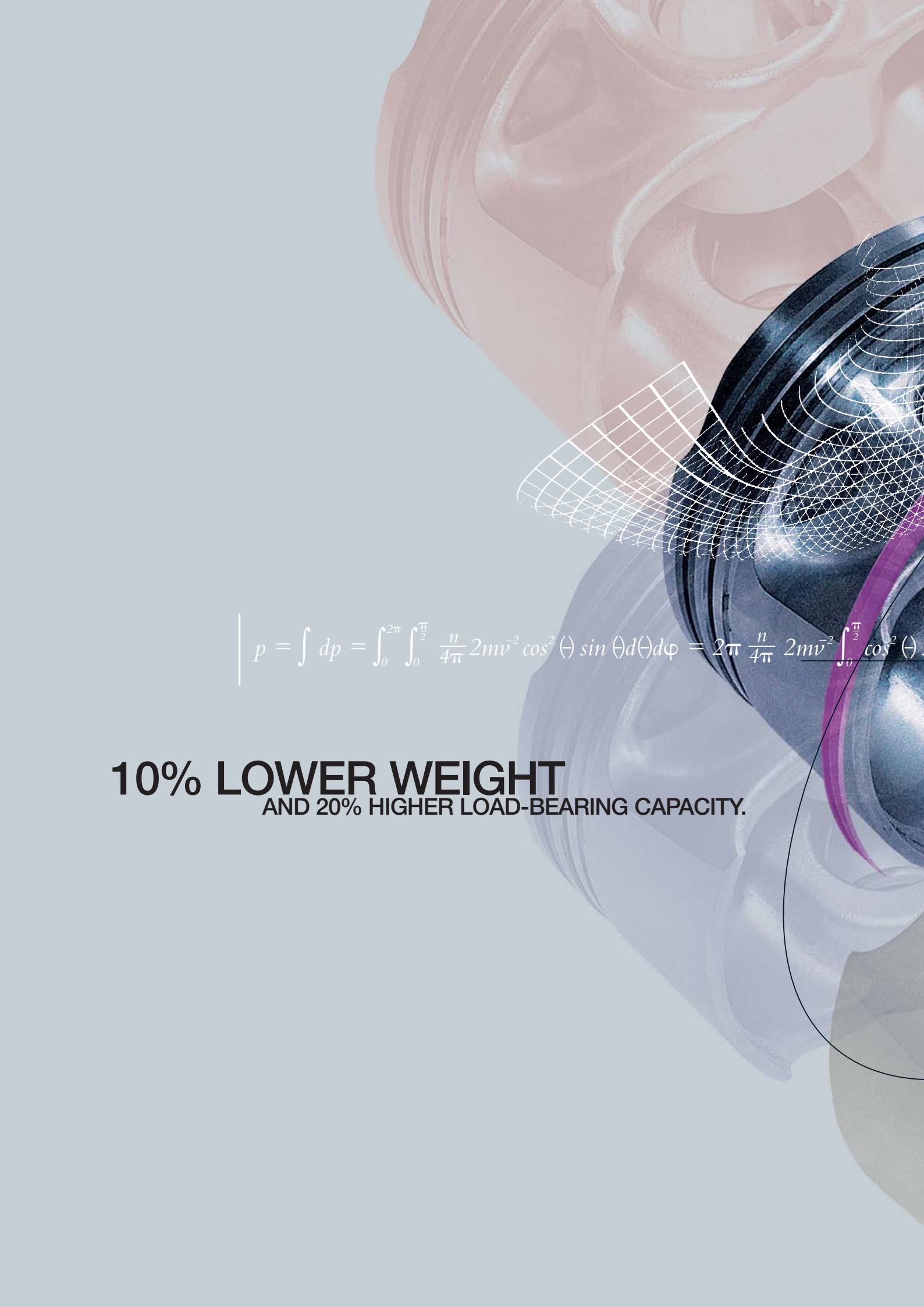
The debate held throughout the year on global warming and the necessity of reducing CO_2 emissions showed that land-based passenger car and commercial vehicle traffic only accounts for approximately 12 percent overall of the total man-made CO_2 production. Nevertheless, as a technology leader for engine components and systems and as a company with a strong sense of responsibility, we see it as our duty to make a significant contribution to improvement measures. Therefore, we have increased the number of engineers working in our research and development centers worldwide to around 2,500. It is the focus of their ambitious projects to reduce fuel consumption and emissions.

At the major automobile fairs, including the IAA and the Tokyo Motor Show, we presented a whole range of MAHLE innovations, some already in series production, which make mobility even more efficient and environmentally compatible. Examples include exhaust gas turbochargers, innovative exhaust gas recirculation systems, weight- and friction-optimized engine components, the CamInCam® camshaft for variable valve train control, and new filtration concepts. Considering the engine as a whole, the MAHLE technology demonstrator—a 3-cylinder downsizing gasoline engine—was able to demonstrate a potential consumption reduction of up to 30 percent in comparison with current 6-cylinder engines of a similar power output.

This not only demonstrates MAHLE's innovative strength for the entire engine, but also shows the potential of future generations of combustion engines. Despite all accomplishments in the search for alternative drive sources, the combustion engine is, and will remain, the most economic solution for driving passenger cars and commercial vehicles while becoming ever more energy-efficient.

On behalf of the Management Board, I would like to thank all our business partners for their good and trusting cooperation. And, of course, our thanks go in particular to the roughly 48,000 employees throughout the world; we were only able to achieve such a positive result in the past business year as a result of their motivation and commitment. Our team puts us in an optimum position for the future and ensures that we are ready for new challenges.

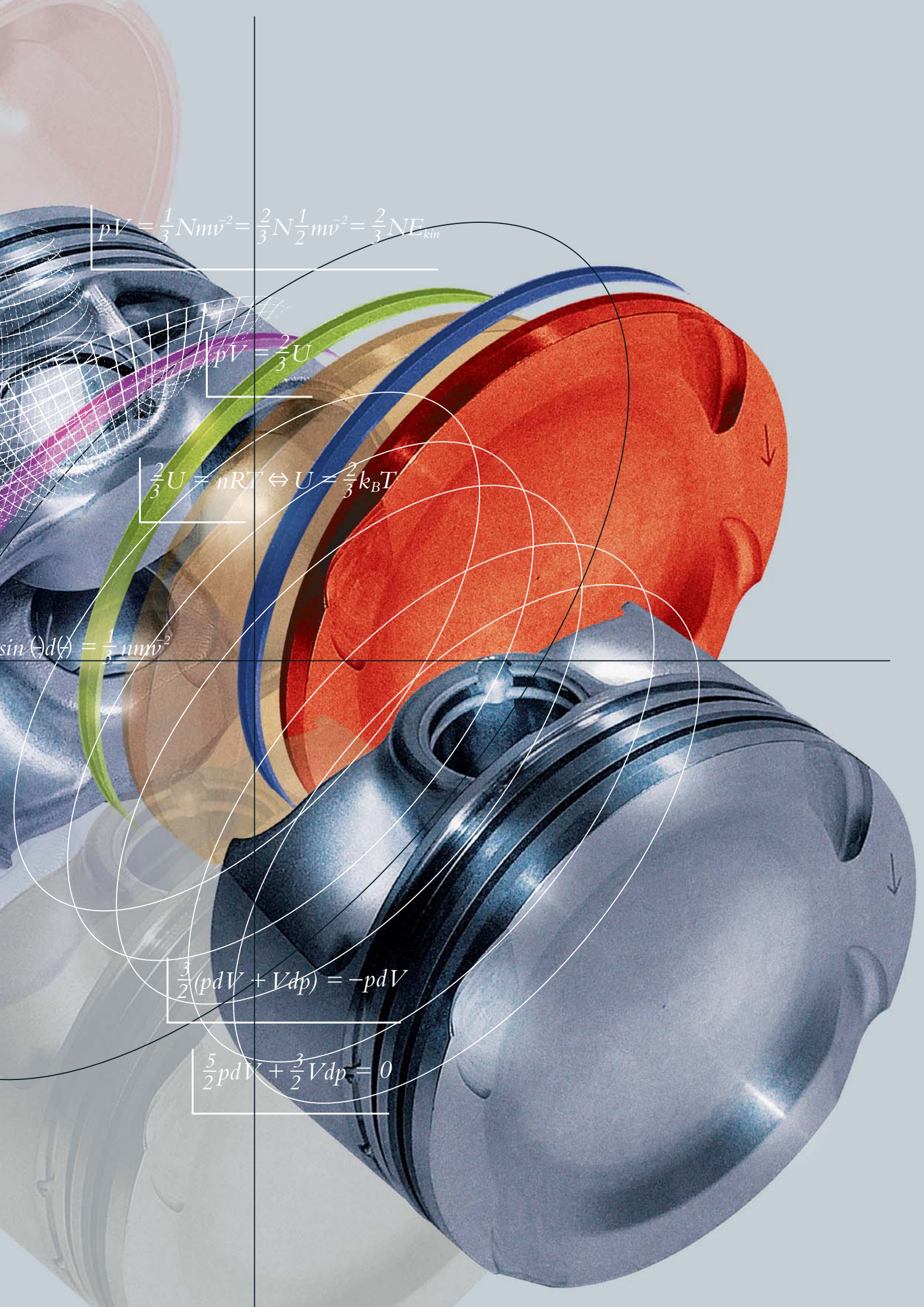
Heinz K. Junker



$$p = \int dp = \int_0^{2\pi} \int_0^{\frac{\pi}{2}} \frac{n}{4\pi} 2mv^{-2} \cos^2(\theta) \sin(\theta) d(\theta) d\varphi = 2\pi \frac{n}{4\pi} 2mv^{-2} \int_0^{\frac{\pi}{2}} \cos^2(\theta)$$

10% LOWER WEIGHT

AND 20% HIGHER LOAD-BEARING CAPACITY.


$pV = \frac{1}{3}Nm\bar{v}^2 = \frac{2}{3}N\frac{1}{2}m\bar{v}^2 = \frac{2}{3}NE_{kin}$
$pV = \frac{2}{3}U$
$\frac{2}{3}U = nRT \Leftrightarrow U = \frac{2}{3}k_BT$
$\sin(\quad)d(\quad) = \frac{1}{3}nm\bar{v}^2$
$\frac{3}{2}(pdV + Vdp) = -pdV$
$\frac{5}{2}pdV + \frac{3}{2}Vdp = 0$

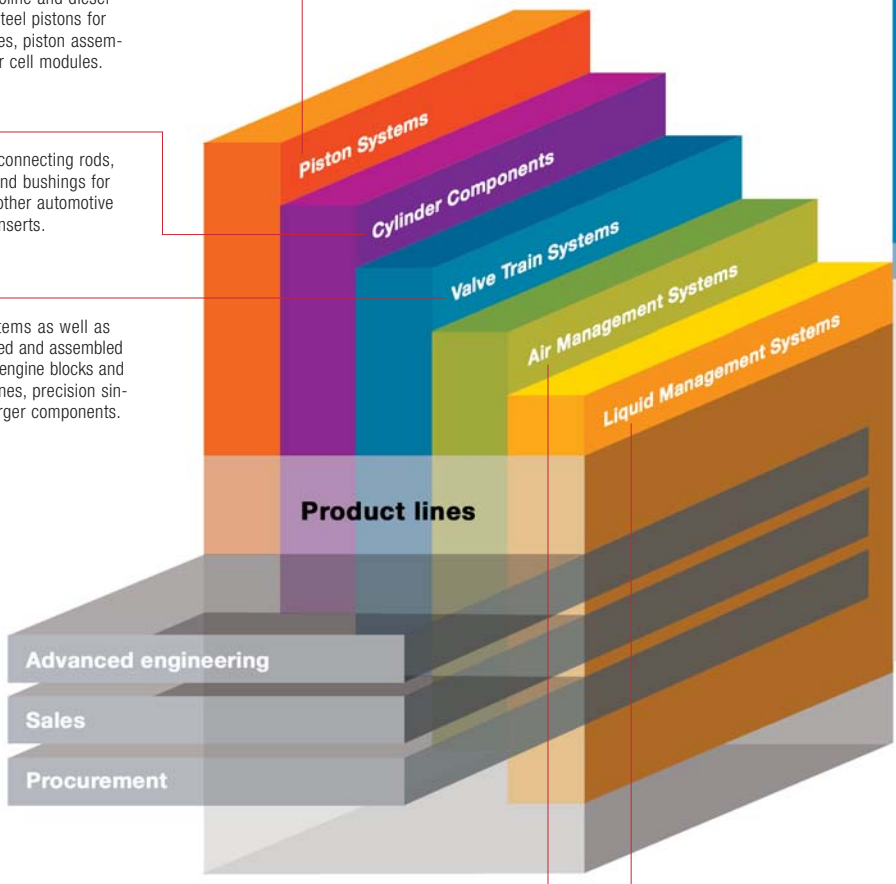
GROUP ORGANIZATION

The MAHLE Group structure is consistently customer-oriented and focused on efficiency and globality. The components and systems produced worldwide are divided into five product lines and tailored exactly to the original equipment requirements of all international automobile and engine manufacturers. With six profit centers as independent organizational structures, MAHLE serves the free trade business as well as the market for small and large engine components, motorsports, engineering services, and industrial filtration.

Aluminum pistons for gasoline and diesel engines, articulated and steel pistons for commercial vehicle engines, piston assemblies, and complete power cell modules.

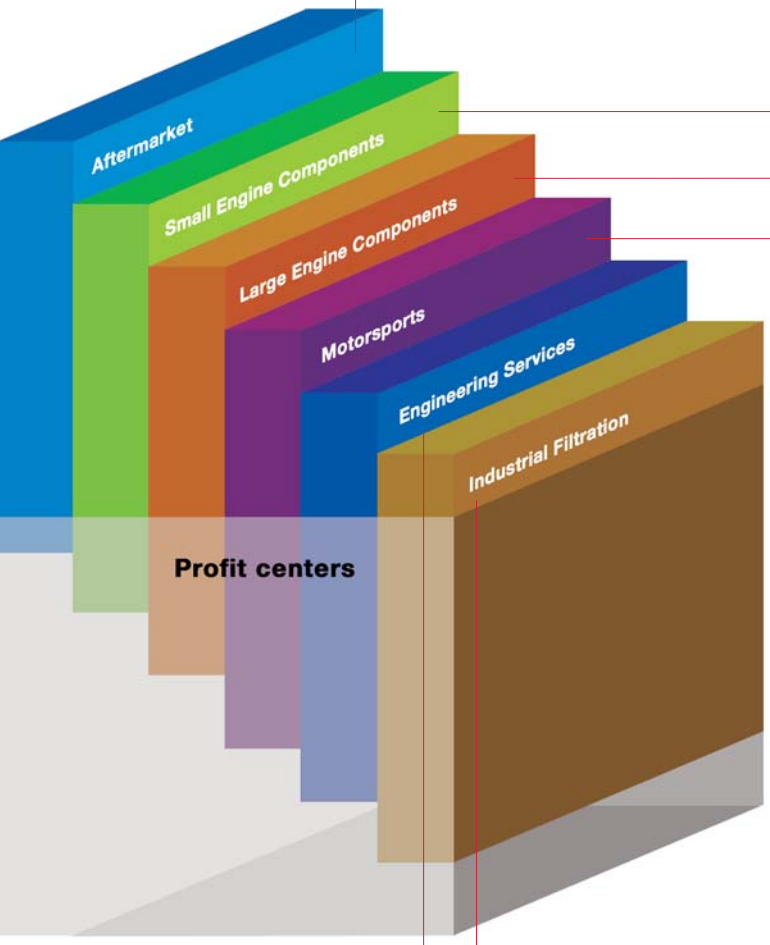
Piston rings, piston pins, connecting rods, cylinder liners, bearings and bushings for combustion engines and other automotive applications, cast piston inserts.

Complete valve train systems as well as their components. Machined and assembled cylinder heads. Machined engine blocks and assembled complete engines, precision sintered parts, and turbocharger components.



Air intake systems for gasoline and diesel engines. Cylinder head cover modules with integrated oil separators. Active and passive oil separators with pressure regulation valves for crankcase ventilation. Mechatronics components: actuators for intake manifolds, charge movement control flaps, turbochargers, charge air bypass flaps, and exhaust gas recirculation systems. Electrical actuators and heaters.

Oil filter modules, oil and fuel spin-on filters, fuel filter modules, fuel pressure regulators, inline fuel filters, automatic water disposal systems, transmission oil filter modules, oil pan modules, hydraulic oil filters, carbon canisters, heat exchangers for engines and transmissions, air driers.



Products for vehicle maintenance and engine repair from the complete MAHLE product range.

Cylinder assemblies, cylinder heads, pistons, and filters for small engines in hand-held power equipment, motorcycles, and leisure vehicles.

Pistons and additional engine components for gas, diesel, heavy-oil, and dual-fuel engines for marine, locomotive, building machinery, and industrial applications, as well as for energy production.

Development and production of high-quality engine components for motorsport.

Liquid filtration, liquid separation, aerosol separation, process filtration, and de-dusting in general industry, in marine technology, for large engines and industrial vehicles, and in process technology.

Concept and system developments for combustion engines. Concepts to optimize consumption and exhaust gas, including the use of alternative fuels. Applications engineering and electronic diagnostics.

Members of the Management Board and Management Committee

Prof. Dr. Heinz K. Junker
Chairman of the Management Board and CEO
Profit Center Motorsports
Market, Communications, Legal, and Internal Audit

Hans Gebert
Member of the Management Committee
Product Line Air Management Systems

Dr. Bernd Mahr
Member of the Management Committee
Sales, Research and Advanced Engineering

Dr. Bernhard Volkmann
Member of the Management Board
Chief Financial Officer
IT Services, Insurances

Dr. Thomas Buchholz
Member of the Management Committee
Product Line Liquid Management Systems

Dr. Hans Peter Coenen
Member of the Management Board
Product Line Piston Systems
Profit Centers Small Engine Components and Large Engine Components

Peter Grunow
Member of the Management Board
Profit Center Industrial Filtration
Corporate Purchasing

Michael Glowatzki
Member of the Management Board
Human Resources

Dr. Hans-Josef Enning
Member of the Management Board
Product Line Valve Train Systems
Corporate Quality Management

Dr. Rudolf Paulik
Member of the
Management Committee
Product Line Cylinder Components

Arnd Franz
Member of the
Management Committee
Profit Center Aftermarket

- Production locations
- R&D centers

Locations as at April 2008


Germany
Albershausen
Alzenau
Barsinghausen
Eislingen/Fils
Fellbach
Flintbek
Gaildorf
Hamburg
Leibertingen
Lorch
Markgröningen
Öhringen
Plettenberg
Roßwein
Rottweil
Schorndorf
Stuttgart
Wölfersheim
Wustermark
Zell im Wiesental
Poland
Krotoszyn
Austria
Rankweil
St. Michael ob Bleiburg
Vöcklabruck
Wolfsberg
Slovakia
Dolný Kubín
Romania
Timisoara
Turkey
Gebze
Konya
Izmir
China
Changchun
Chongqing
Guangzhou
Macheng
Nanjing
Shanghai
Tianjin
Yingkou
Korea
Hwasung
Ulsan
Japan
Fukushima
Ibaraki
Kawagoe
Okegawa
Tochigi
Tokyo
Tsuruoka
Yamagata
Philippines
Cavite
Thailand
Bangkok
Samutprakarn
India
Gurgaon
Parwanoo
Pithampur
Pune
Chennai
Australia
Laverton North/Melbourne

STRATEGY

MAHLE's core strategic aim is to increase its competitiveness through growth, innovation, and productivity. Our overall long-term strategy comprises a large number of individual factors that are closely aligned with one another.

Global presence

MAHLE is represented with 110 production plants and seven research and development centers worldwide. This local presence in all major markets of the world allows us to offer our customers more service and intensive cooperation on R&D projects—and opens up new potential for expanding our customer base. An internationally balanced customer structure makes us less dependent on cyclical fluctuations in individual submarkets.

Market leadership

The MAHLE Group ranks among the top three systems suppliers worldwide for piston systems, cylinder components, valve train systems, and air management and liquid management systems. All automobile and engine manufacturers worldwide are customers of MAHLE; our components and systems are used in every second automobile. We are continuously expanding this position further by means of organic growth and targeted acquisitions in our core businesses.

Innovative strength

For over 80 years, MAHLE has been a pacemaker for innovations in the core business of the combustion engine. In seven research and development centers, around 2,500 engineers use a network of know-how to work on new solutions that make the combustion engine of the future even more environmentally sustainable and economically efficient. This innovative strength has made us the leading development partner of the automobile and engine industry—and will secure our competitive edge for the future.

The successes in international motorsport also confirm our outstanding R&D competence. Vehicles with MAHLE engine components regularly achieve top rankings. Current examples: the Formula 1 Ferraris, fitted with MAHLE motorsport components, with which the team won both the Drivers' and Constructors' World Championships in 2007. Or the Audi R10 TDI, which, in 2007, took first place in the 24 Hours of Le Mans once again, with MAHLE pistons and NIKASIL®-coated cylinder bores.

Quality

MAHLE stands for quality. Our quality management system certified in accordance with ISO/TS 16949, which provides Group-wide standards, ensures a consistently high level of quality throughout the process chain. Supplying high-quality, precise, and reliable products is a basic prerequisite for operating successfully in a market that is characterized by enormous price pressure. Quality is also a decisive criterion in the choice of suppliers and in acquisition projects.

Systems competence

Outstanding systems competence allows MAHLE, as a global development partner, to offer automobile and engine manufacturers integrated solutions for the combustion engine and engine peripherals.

Manpower

"Driven by performance"—with creativity and enthusiasm for performance, precision, and perfection, around 48,000 employees worldwide are committed to our goals. Networked inter-departmental knowledge management makes all of MAHLE's product and process know-how available to the employees at all locations.

Cost efficiency

We want to achieve cost leadership on a global scale by means of productivity increases, prompt restructuring of uncompetitive locations, and streamlined cost structures across the Group. The company acquisitions we make also contribute positively to this aim by means of synergy effects, which are exploited after a successful integration phase.

CORPORATE CITIZENSHIP

Because we are convinced that only those who think and act beyond a company's boundaries are fulfilling their corporate obligation, MAHLE stands by its shared responsibility for society on a worldwide scale. This principle of being a "good neighbor" applies to all locations. Our economic goals are formulated in such a way throughout the world that they create ecological, social, and cultural added value via the MAHLE Foundation and our national companies. This, in turn, not only sets the Company apart but also has a positive effect on our employees by giving their work a higher degree of meaning.

Acting socially—operating sustainably: the MAHLE Foundation

In 1964, with the aim of assuming more social responsibility, the Company founders Hermann and Ernst Mahle set up the MAHLE Foundation and transferred their ownership of the Company to the Foundation. A dividend of EUR 7 million from the 2007 Group profit was allocated to the MAHLE Foundation, which holds almost all the Company's shares. The Foundation pursues its mandate with a high level of social commitment: It sponsors forward-looking projects in the areas of health care, youth development and welfare, schooling, general adult education and vocational education, and biodynamic farming.

Inauguration of the 4,000 square meter Filderklinik expansion—supported by the MAHLE Foundation

One of the central projects of the MAHLE Foundation is the Filderklinik in Filderstadt-Bonlanden near Stuttgart, Germany—a medical center focusing on holistic, anthroposophical medicine. The MAHLE Foundation has sponsored the running, extension, and modernization of the clinic for more than 30 years. The new center for admission, outpatient treatment, and diagnosis, as well as the redesigned foyer, were inaugurated in April 2007. Since 2004, the MAHLE Foundation has donated more than EUR 9 million to support this extension of the clinic measuring a total of 4,000 square meters.

"From the region for the region": Under this motto, the MAHLE Foundation is also committed to other projects in the Stuttgart region, e.g., the Forum Theater Stuttgart, which aims to support the social rehabilitation of juvenile delinquents. Another example of social commitment in Germany is the financial support for the Freie Interkulturelle Waldorfschule (Rudolf Steiner school) in a socially disadvantaged part of Mannheim. Its social integration concept, which promotes the integration of children of different backgrounds, nationalities, and religions, serves as a model and is the only one of its kind so far.

Brazil is a focal area of project work abroad. The MAHLE Foundation has, for example, set up a medical project that aims to bring anthroposophical medicine more firmly into the consciousness of Brazilian society and make it accessible to all sections of the population as a form of basic medical care. Another example is the support of the "Alliance for Childhood": an alliance that globally advocates the right to childhood and opposes child labor, sexual slavery, and abuse as child soldiers. In order to allow MAHLE to play an even more active part in the social development of Brazil and create a legal framework for further commitment, the non-profit organization Associação Beneficente MAHLE was founded in São Paulo in May 2007. MAHLE supported the positive development process in Brazil with more than EUR 350,000 during the year under report. Further development of this process will be a future challenge for the MAHLE Foundation. This also applies to the projects in Poland, in deprived areas at the MAHLE location Krotoszyn, or in Romania, where, for example, the Masloc Clinic receives support for further development through an international project in collaboration with Rudolf Steiner schools in Germany.

Committed to a shared goal

In addition to the scope of the MAHLE Foundation, the Company and its employees are also involved in numerous projects for social causes around the globe. In doing so, they are supported by the executives, who promote and support these initiatives as management representatives of our national companies, following the example of the Company founders.

In Brazil, the diverse activities were continued and intensified in 39 projects. More than 600 employees have made a voluntary commitment to education, support, and promotion of health care, as well as sport and culture. In addition, the MAHLE Formare School has now been established at all our Brazilian locations, offering socially disadvantaged youths vocational training opportunities in order to improve their chances of a positive future.

As in previous years, MAHLE supported the aid organization "United Way" in the USA for sick and underprivileged people by, for example, financing kitchens for homeless and less fortunate people or through donations in kind.

In Poland, rehabilitation courses for long-term unemployed people were held once again during the year under report. The range was expanded considerably, with great success: More than 85 percent of the 220 participants found work and are thus able to start looking after themselves and their families again. The other activities in Poland included a special range of courses for women, which aimed at helping them find new work in production, as well as financial support to improve medical care.

The MAHLE Foundation: committed to multifaceted international social projects

Besides the existing activities in Great Britain, which we described in the last Annual Report, the private initiative to assist families in Kosovo was continued. This truly tangible assistance is provided by a large number of employees and is also supported materially by the Company.

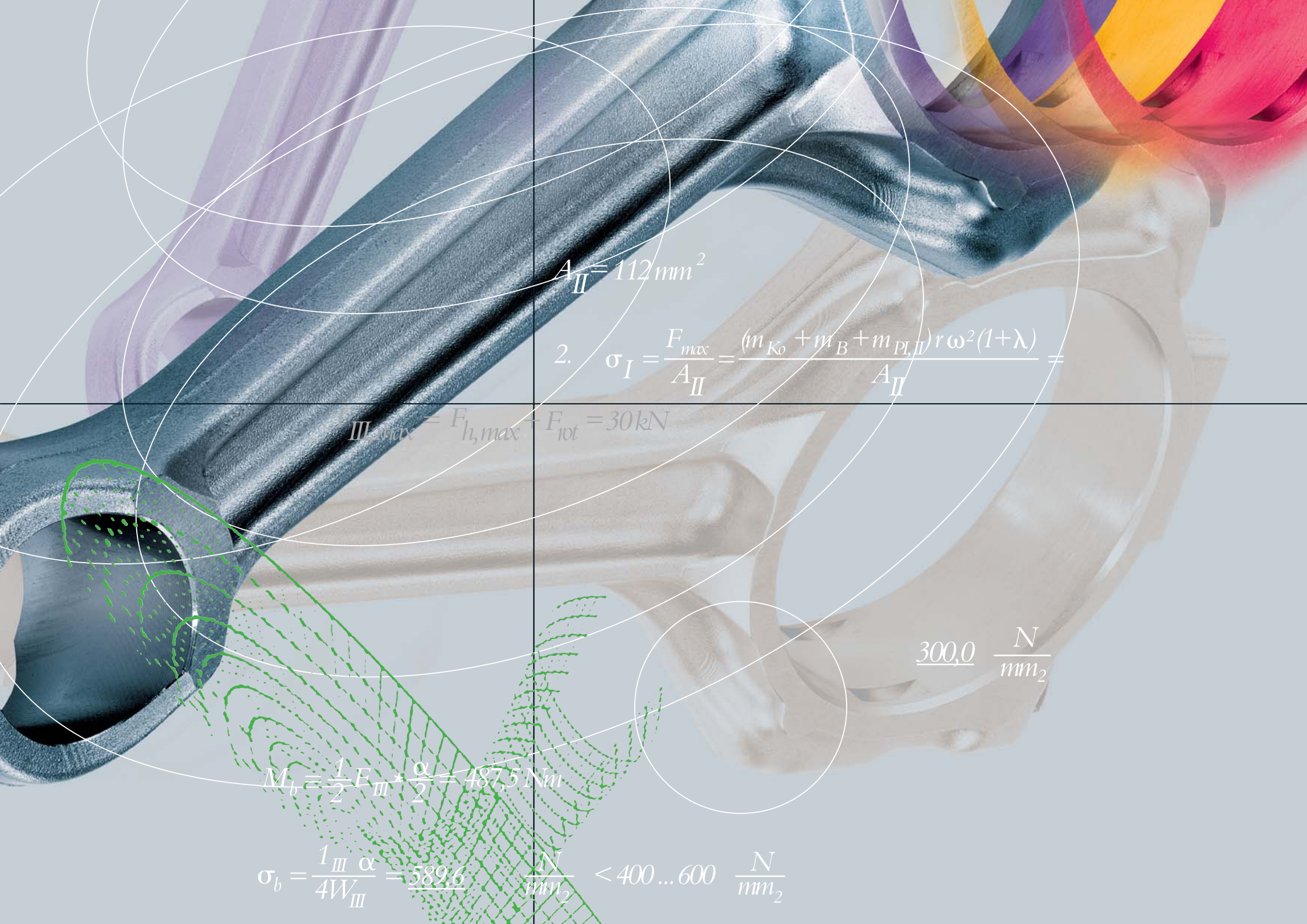
In Germany, we support open social work projects, e.g., to assist young people, many of whom are migrants, in vocational orientation and integration. At the Company's headquarters, our apprentices sold products they had designed and manufactured themselves, and donated all the proceeds to a regional street project.

In India, we support the SNS Foundation's "Spirit of Giving" project, a charitable subsidiary organization of our Indian joint venture company. The SNS Foundation has established several development centers throughout the country, near the Company locations, with the aim of promoting education, strengthening the position of women in society, improving medical care for the population, and thereby supporting the sustainable as well as environmentally and socially conscious development of the industrial locations.

For a number of years, our locations in Thailand have been committed to several charitable projects to promote education as well as to improve medical care, e.g., through financial support for a hospital and regular blood donations by MAHLE employees.

The cited examples, taken from a wide variety of projects, demonstrate that the employees, as well as the executives and managers of the national companies and of the Group as a whole, do not define their remit in terms of economic key figures alone, but in a more comprehensive sense. They accept responsibility in their community, in line with the aforementioned principle: being a "good neighbor".

30% HIGHER
MATERIAL STRENGTH
AND 10% LOWER WEIGHT.



$$A_{II} = 112\,mm^2$$

2. $$\sigma_I = \frac{F_{max}}{A_{II}} = \frac{(m_{Ko} + m_B + m_{Pl,II})\, r\, \omega^2 (1+\lambda)}{A_{II}} =$$

$$F_{III,max} = F_{h,max} + F_{rot} = 30\,kN$$

$$\underline{300{,}0}\ \frac{N}{mm_2}$$

$$M_b = \frac{1}{2} F_{III} * \frac{\alpha}{2} = 487{,}5\,Nm$$

$$\sigma_b = \frac{1_{III}\ \alpha}{4 W_{III}} = \underline{589{,}6}\ \frac{N}{mm_2} < 400 \ldots 600\ \frac{N}{mm_2}$$

HUMAN RESOURCES

The acquisition projects completed in the year under report led to a significant increase in headcount: As at December 31, 2007, 47,877 individuals were employed by the MAHLE Group at the now 110 locations, 9,274 more than in the previous year. Their know-how, commitment, and creativity enables us to offer our customers innovative, high-quality products and services. Our corporate actions are as much determined by environmental compatibility and social responsibility as they are by our striving for technological leadership and economic success. These values serve as a guideline for our activities in all locations, in every country. Their implementation requires a shared understanding of leadership and highly qualified employees.

Active employee integration for mutual growth

Compiling and evaluating factors relevant to personnel is becoming an increasingly important task in the context of acquisitions and joint venture activities. In view of this, the human resources function was heavily involved in the integration of the new business activities during the year under report.

To deal with the integration of new employees from the former engine parts business of the Dana Corporation and the air filtration activities of Siemens VDO, we have established a project organization spanning all functions, which is effectively implementing the integration process through the worldwide cooperation of the functional divisions. As a result, the 6,000 new employees were addressed personally by our executives within just a few days of the acquisitions, thanks to a systematic communication concept. Information events, which were conducted in all new plants by those responsible for operations within the Group, together with the local management, were an important aspect of this. A video message from the Chairman of the MAHLE Management Board, which informed the employees about the background to the acquisition, the products, and the Group's market position, as well as its historical roots, formed the prelude to successful integration. This procedure reflects our values and our ideas concerning leadership and cooperation in an impressive manner.

In-depth training…

At MAHLE, initial vocational training has been of outstanding international significance for many decades. In Germany, we have continually increased the number of apprentices in the last two years. We are making increased use of the on-site training schemes offered by the universities of cooperative education (Berufsakademien). In the St. Michael plant, Austria, we have increased the proportion of trainees over several years. This allows us to develop highly qualified and committed junior specialists from within our own ranks. Additional qualification milestones and ongoing training ensure that these specialists are able to become managers within a short period of time, particularly in the area of production. Through a collaboration between the training department in Stuttgart and the

plant in St. Michael, systematic vocational qualification activities were started immediately after the commencement of production in our Romanian plant. This makes an important contribution to building up the plant's staffing level.

However, numbers are not the only decisive factor—what is important is the quality of training, which traditionally has a high value at MAHLE. We safeguard this quality through regular trainer conventions, computer-assisted forms of learning, and increased project work during the training phase.

…and ongoing advanced qualification activities

By providing a wide range of qualification activities at all levels, we further the process of lifelong learning. The growth region of Asia formed an area of focus in the past business year: For example, a training program for middle management and junior managers was initiated in China to strengthen management competence.

Development measures in line with the MAHLE competence model were also intensified in the other regions. One example of this is Poland, where employees are receiving additional intensive training to help them learn foreign languages and increase their personal competencies, with the support of the European Union.

High significance: training at MAHLE

Safeguarding quality standards through ongoing development

Managing further training activities with a focus on requirements and goals, as well as ensuring good access opportunities, remains one of the central tasks facing our managers. In addition, knowledge management represents an important issue. The "Knowledge Channel", a knowledge database created under the direction of our specialists in the Brazilian research and development center, is becoming an "export hit": Numerous countries now use this tool and are thus supported in product development and general transfer of expertise—further evidence of the cooperative style of collaboration within the Group.

Executive development systematized, contacts intensified

For a long time, MAHLE has placed a high value on the internal development of executives. A program for executive development based on the MAHLE competence model was introduced during the year under report as a basis for all global management development activities. The 16 participants from ten countries and four continents comprising the first intake of the redesigned "International Development Program (IDP)" have successfully

MAHLE International Development Program (IDP) unites the regions

completed the program, which is set to be continued. In spring 2008, a series of seminars for top executives commenced, under the name "Executive Excellence Program (EEP)".

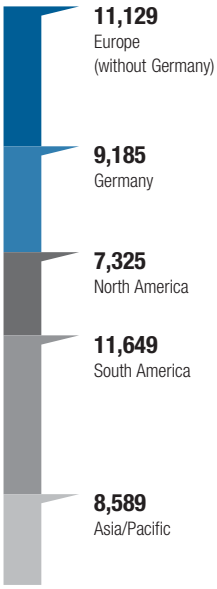
However, these key programs are not the only means by which we achieve optimum networking and communication between executives across the different countries and specialist areas. Through the "International Executive Meetings (IEM)", held very successfully for several years, we intensify the flow of information and foster opportunities for cooperation as well as the implementation of our corporate strategy. They have become an important cornerstone of our corporate culture and ensure that new members of this management level are quickly integrated.

Fair balancing of interests

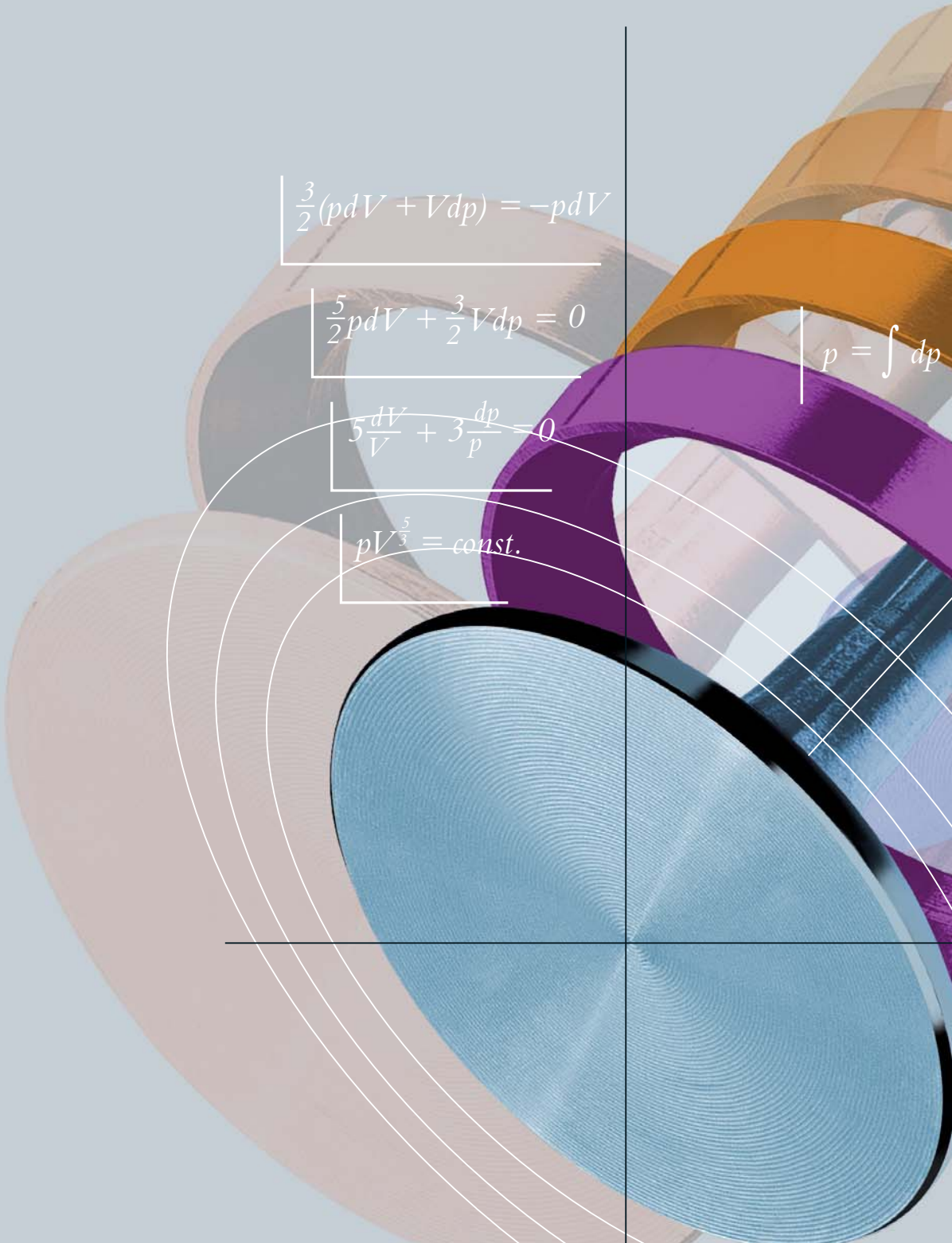
Balancing the interests of employees and companies is a fundamental requirement for lasting success—particularly in phases of restructuring. Our dealings with the employee representatives in all regions of the world are an important aspect in this regard and must therefore be based on trust. Openness and willingness to engage in dialog also characterize our cooperation with the unions—e.g., as regards the extension or renegotiation of collective agreements for the new companies in the USA or the negotiation of location concepts at the German locations.

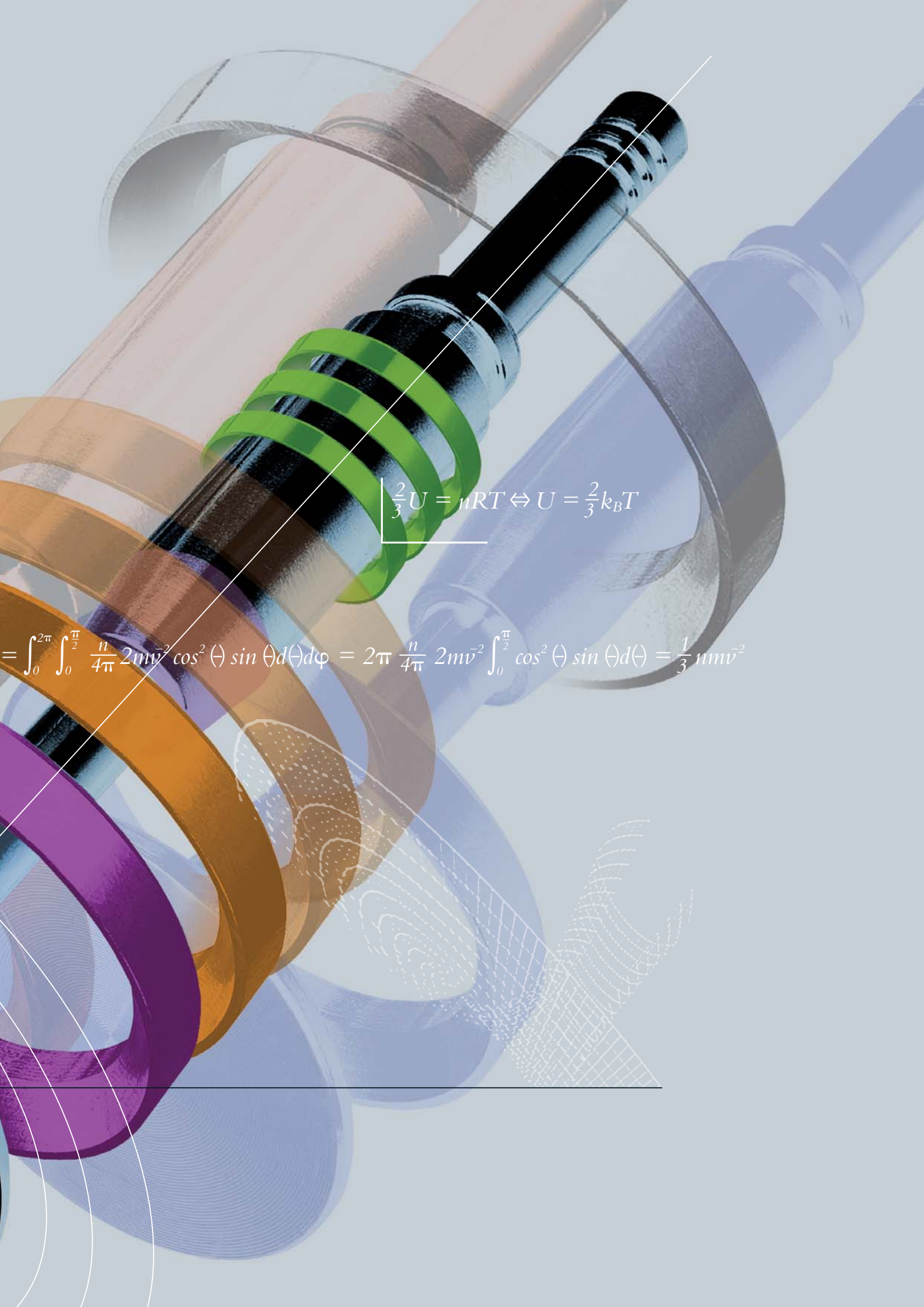
At this point, we would like to express our thanks to all our employees and the managers in particular. They have made a significant contribution to the successes we have achieved—through their high level of commitment, team-oriented cooperation across functional boundaries and national borders, and, above all, through their willingness to take on additional tasks and to do this with foresight and a great deal of spirit. This enables us to ensure the continuing trust of our customers and business partners worldwide and secure a successful future.

47,877 employees worldwide as at Dec. 31, 2007



15% HIGHER ROTATIONAL SPEED
AND 20% LESS WEAR.




$\frac{2}{3}U = nRT \Leftrightarrow U = \frac{2}{3}k_BT$
$= \int_0^{2\pi}\int_0^{\frac{\pi}{2}} \frac{n}{4\pi} 2mv^2 \cos^2(\vartheta)\sin(\vartheta)d(\vartheta)d\varphi = 2\pi\frac{n}{4\pi} 2mv^2 \int_0^{\frac{\pi}{2}} \cos^2(\vartheta)\sin(\vartheta)d(\vartheta) = \frac{1}{3}nmv^2$

QUALITY

Quality is a decisive competitive factor: High-precision, reliable, and durable products are the basic requirement for long-term success, particularly in the automobile and automotive supply industry, which is characterized more than ever by enormous competition.

Group-wide standards

The process-oriented MAHLE quality management (QM) system in accordance with ISO/TS 16949 ensures quality that is consistent throughout the process chain—from product and process development through procurement and production to distribution—with Group-wide standards. The methods and tools used for quality assurance throughout the Group have been translated into ten languages and have been implemented internationally, with appropriate employee training.

A globally networked quality manager team is working on the ongoing development of the high Group standards in the individual product lines, the profit centers, and the Human Resources, Purchasing, and Sales divisions. They are responsible for determining potential improvements, formulating Group-wide rules and processes as well as implementing them in the quality management system, planning the improvement projects in the context of the annual budget, and QM controlling.

The following quality processes have been defined as areas of focus and are obligatory for all locations of the MAHLE Group worldwide:

1. Prevention
The use of comprehensive preventive instruments and measures forms an important aspect of MAHLE's quality management. The aim is to minimize and avoid the risk of quality problems by means of systematic prevention as early as the product and process development phase.

2. Quality assurance in series production
In order to proactively achieve a consistently high quality and to increase process safety, extensive tests are carried out before, during, and after production. As a result of the ongoing development and automation of our test methods, defects can be identified as soon as they arise and appropriate corrective actions can be initiated immediately.

3. Root cause analysis and problem solving
If a product exhibits defects despite extensive preventive measures, a clearly defined process is immediately set in motion—from analysis of the causes of the defect to implementation of the consequential corrective measures. This ensures that a satisfactory solution can be offered to the customer as quickly as possible.

4. Continuous improvement
Improvement is a progressive process—the MAHLE quality management system is developed on an ongoing basis. Best practices, i.e., the methods that promise the most success, are developed by analyzing and evaluating the results from the instruments for continuous improvement. The methods and tools to be deployed are selected and then integrated into the plants' quality management systems on the basis of these practices.

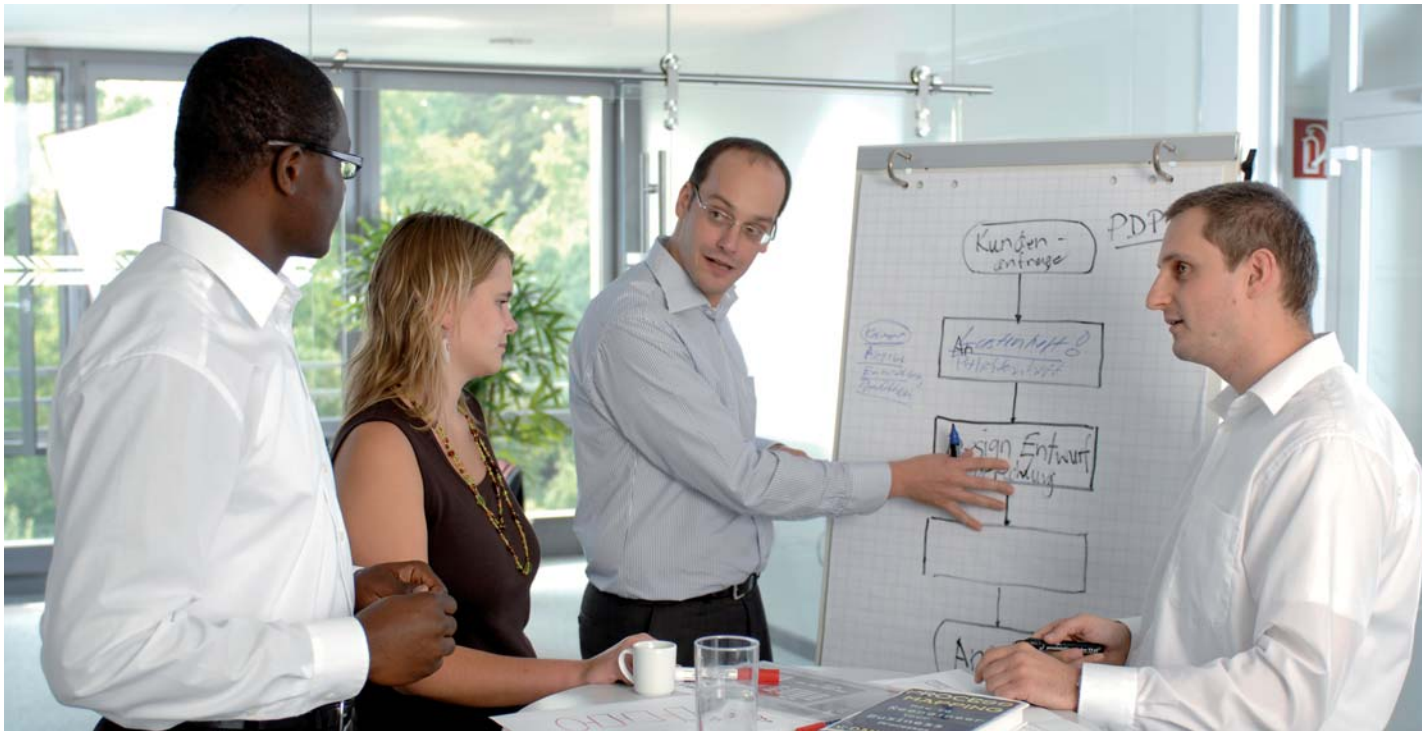
The definition of the QM plan was also standardized across the Group—it contains the strategic quality planning and internal, customer, and supplier quality planning, as well as the MAHLE QM report on the evaluation of customer and supplier quality, the internal quality processes, and the quality and defect follow-up costs.

QM meetings and employee training

The prerequisite for the formulation of effective rules and processes to guarantee and increase competitiveness is that the employees are trained in accordance with their tasks and the requirements of the worldwide market. MAHLE therefore places a very high value on further training within the framework of quality management.

An international QM meeting takes place twice annually. The focus of the event in spring 2007 was on evaluating the quality performance in 2006 as a basis for the upcoming quality and budget planning. The topics of the fall meeting were lessons learned (experiences from projects already undertaken) and best practices, as well as the formulation and definition of uniform QM rules and processes. The risk analysis Design FMEA, standardized across the Group, was also presented—it includes a product-specific appendix for each product line, a manual, an elaborate training presentation, and a trainer handbook.

These internationally defined standards will help us continue to ensure that our employees are prepared in the best possible way for the challenges of the future.



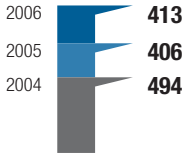
Trained in compliance with the tasks and requirements of the market: the MAHLE employees

ENVIRONMENT

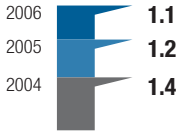
New MAHLE products make future generations of vehicles and engines significantly more friendly to the environment—and the entire manufacturing process is also optimized in terms of ecological aspects on an ongoing basis. In the year under report, additional locations were certified in accordance with DIN EN ISO 14001. This increased the certification rate in the Group by a further 5 percent to 95 percent worldwide.

Key environmental characteristics MAHLE Group

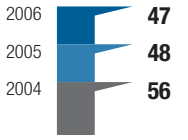
Energy consumption/sales ratio (kWh/EUR 1,000)



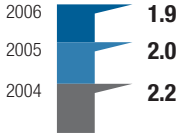
Water consumption/sales ratio (m³/EUR 1,000)



Waste/sales ratio (kg/EUR 1,000)



Chemicals used/sales ratio (number/EUR 1 million)



Evaluation of the Group's environmental performance

MAHLE does not consider environmental protection and economic efficiency in isolation, but with the awareness that sustainability often pays off after a short period of time, even from an economic point of view. In order to determine the exact savings potential, data from thousands of environmental protection projects have been collected since the introduction of the environmental management system at all locations. For the years 2004 to 2006, key figures were derived from these data for the first time in relation to annual sales.

This factor is of paramount importance as a result of the huge increase in energy costs. We were able to lower water consumption considerably through a variety of individual measures. The amount of waste was also reduced—and an average recycling rate of 90 percent was achieved. We were also able to reduce the number and volume of chemicals used. These consistently positive results are a testament to the efficiency of the MAHLE environmental management system.

Environmental audits in connection with acquisitions

For several years, we have carried out highly intensive environmental audits when considering acquisitions. The locations are evaluated by internal and external experts in accordance with a set formula; the results form part of MAHLE's standardized due diligence process. Investments needed in order to ensure MAHLE's high environmental standard worldwide are considered from the start.

Some examples of the environmental projects implemented throughout the world in the MAHLE Group are described below.

Further improvement in environmental performance at the Alzenau location

In the Alzenau plant, Germany, extensive measures were taken to further decrease the use of energy and resources. A new, highly efficient air compressor, infinitely variable load adjustment, and integrated waste heat utilization for heating the dispatch hall is reducing the electricity and gas consumption. A new installation was commissioned to produce demineralized water in the field of galvanization, which will save around 3,600 m³ fresh water per year. As a result of modifying the control system and improving compensation for lighting, the plant's electricity consumption was reduced by more than 290,000 kWh.

Comprehensive package of measures at the Salisbury location

MAHLE Filter Systems UK Ltd. in Salisbury, England, raised its already very exacting environmental and safety standards even further during the year under report. For the eighth time in succession, the company received the coveted "Health and Safety Audit Award"—an award given by the British Safety Council to businesses that fulfill its comprehensive health and safety criteria.

The use of pretreated filter paper made it possible to reduce solvent emissions in the filter element line from 92 to 12 mg/m³ in the exhaust air during the year under report. The oil-water mixture that accumulates during production is separated into its two individual components in order to reduce the amount of hazardous waste. The water recovered in this way can then be used again in the production process, while the small proportion of oil remaining is disposed of properly.

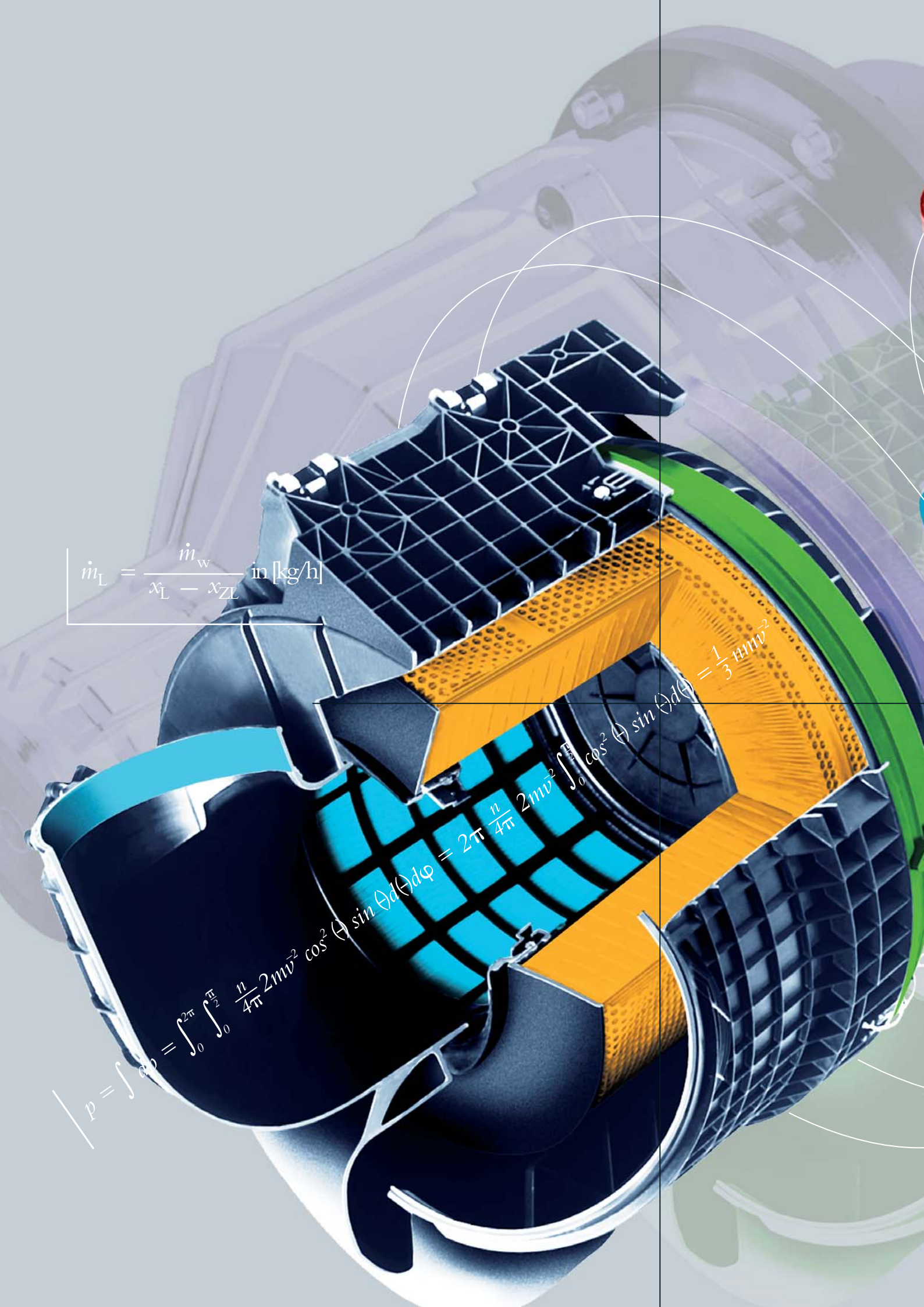
80 percent oil binder reduction at the Wellingborough location, England

The local environmental manager informed the employees about the volume of sales required to finance the amount of oil binder used and its disposal. Motivated by this, the workforce formulated a package of measures to reduce points of leakage and optimize the use of binder. The result: an 80 percent reduction in costs after one year.

Environmental education at Brazilian schools

In March 2007, MAHLE locations in Brazil organized a "Water Day" competition at two local schools—with extensive presentations and student project work, followed by a presentation of the results and the awarding of prizes. Through these activities, more than 5,000 participants were informed about the potential hazards to groundwater, including the necessary precautions, and the significance of waste separation, and at the same time were made more aware of these issues.

Environmental lab for monitoring the adherence to critical values


$\dot{m}_L = \frac{\dot{m}_w}{x_L - x_{ZL}}$ in [kg/h]
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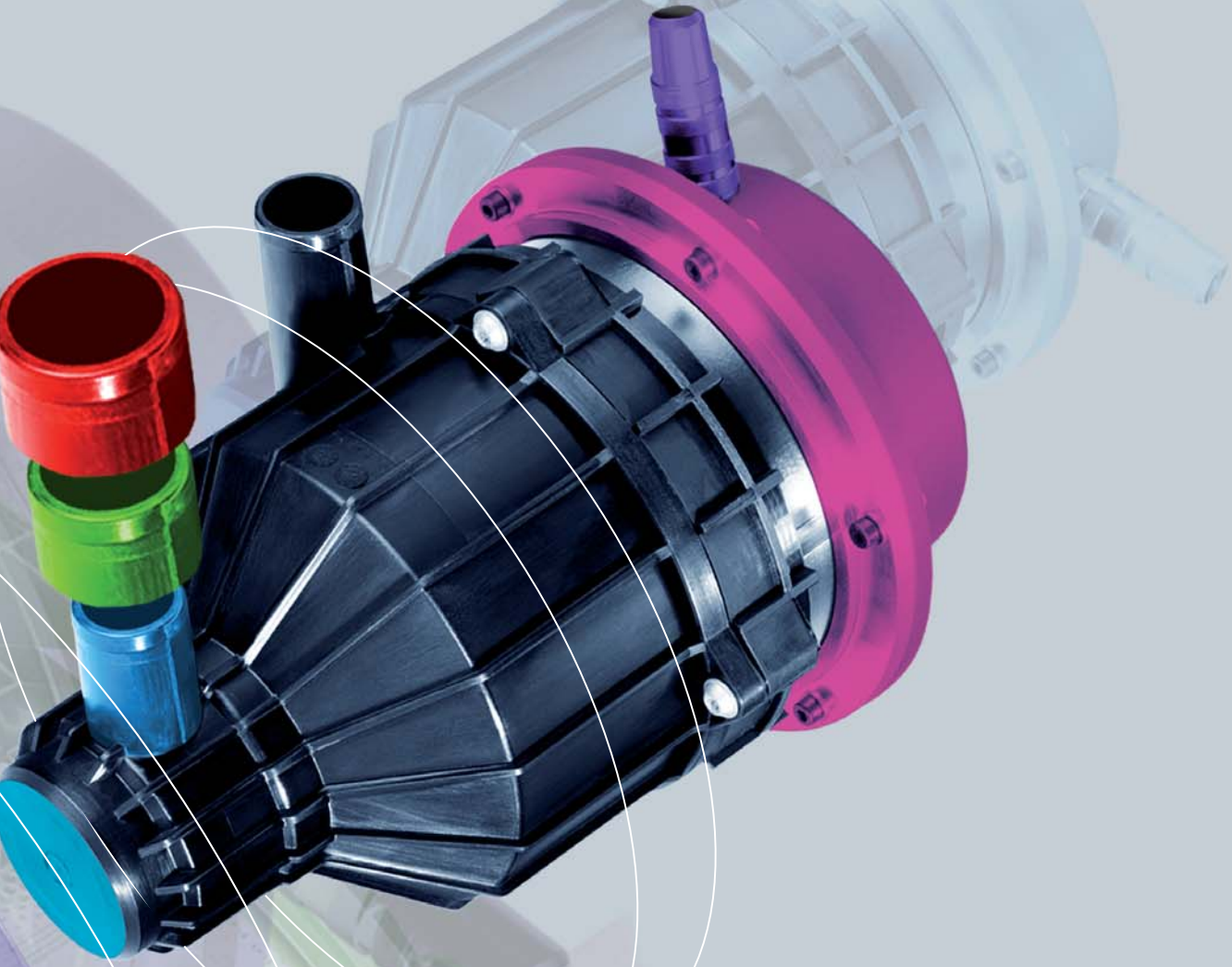


EFFICIENCY THROUGH DYNAMICS.

≈ 100% OIL SEPARATION

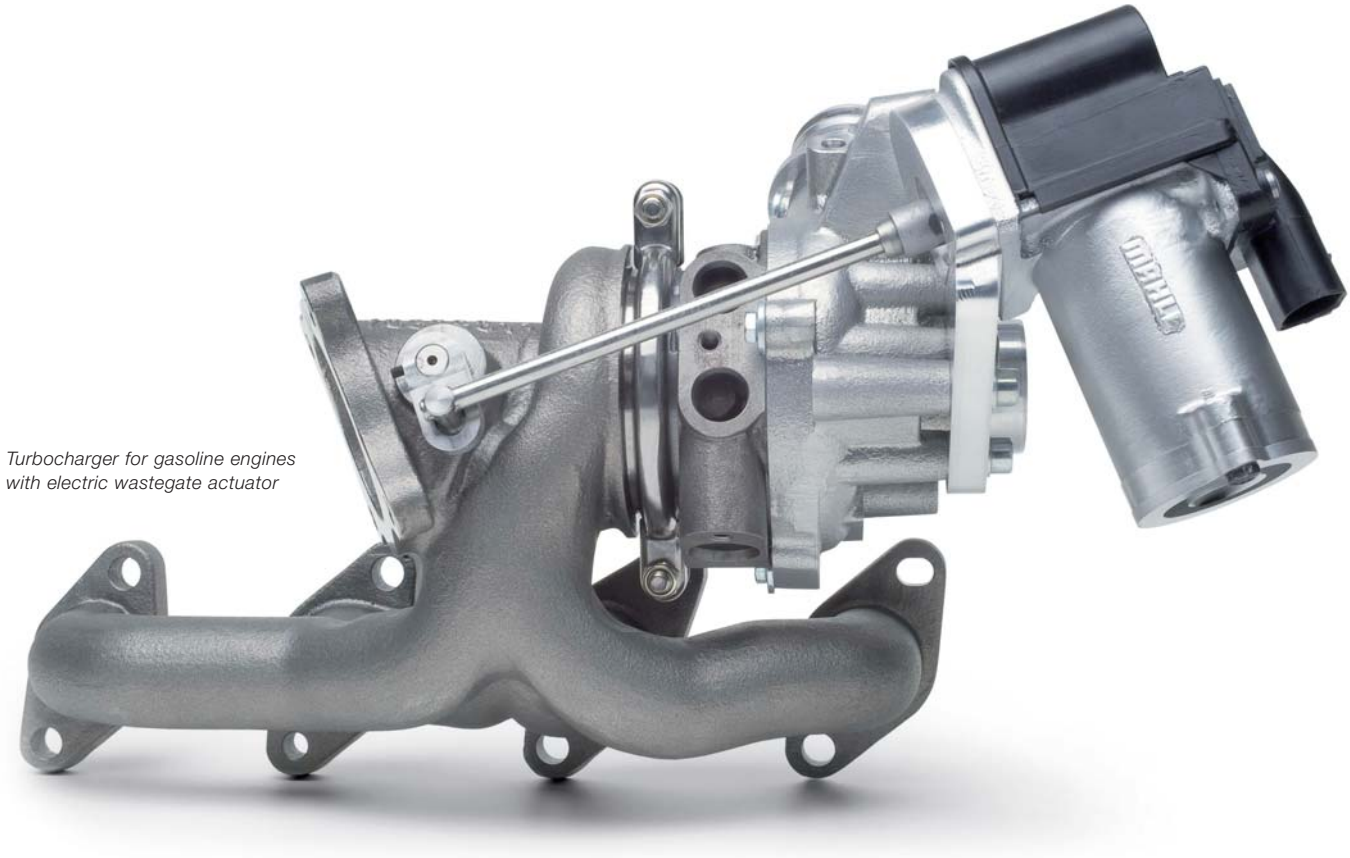
AND 100% MAINTENANCE-FREE.

RESEARCH AND DEVELOPMENT

Reducing fuel consumption—and, in connection with this, CO_2 emissions—is the key theme for the future in the automobile and engine industry. The expected statutory restrictions of CO_2 emissions require the use of innovative technologies. These include: downsizing, supercharging, exhaust gas recirculation, fully variable valve train, friction and weight optimization, thermal management, and mechatronics. A further reduction in overall CO_2 emissions can be achieved by lowering the vehicle weight as well as the aerodynamic and rolling resistance, by the ongoing development in transmission technology, and by using alternative fuels.

Alternative fuels

Extensive combustion tests using a single-cylinder engine with variable design are carried out on alternative fuels. This allows, for example, different fuel-alcohol mixtures to be tested for their cold-start characteristics, firing behavior, and emissions under different engine conditions. In close cooperation with our customers, the engineers of MAHLE Powertrain—our engineering services provider with many years of outstanding competence in the development and production of high-performance engines—work intensively on application projects for alternative fuel systems. The use of alternative fuels also affects fuel and oil filtration. It has thus become clear that it is not just fuel filter media that must be adapted to the new conditions. The accumulation of biodiesel in engine oil may cause the formation of extremely aggressive compounds at high temperatures, to which oil filter media are directly exposed. MAHLE Liquid Management Systems has recognized these new requirements at an early stage and is already working on innovative products that show resistance to these new operating conditions.



Turbocharger for gasoline engines with electric wastegate actuator

Exhaust gas turbocharging for downsizing

Exhaust gas turbocharging is an integral part of downsizing engine concepts. MAHLE Advanced Engineering is working on innovative exhaust gas turbochargers for high-performance, reduced-consumption units in performance classes up to approximately 230 kW (supercharger for gasoline engines) and approximately 180 kW (supercharger for diesel engines). Significantly wider compressor operating maps are required than those currently available, particularly for gasoline engines on account of the large range of speeds. Exhaust gas aftertreatment measures may produce increased axial forces in the exhaust gas turbocharger, which require a higher bearing load capacity with a simultaneous reduction in oil consumption. One promising approach is the development of exhaust gas turbochargers with one or two separate turbine inlets, which work as single or multiple superchargers in parallel or in sequence and achieve higher levels of efficiency thanks to significantly lower gap widths, for example.

Exhaust gas recirculation

The development of an exhaust gas recirculation system for gasoline engines that works efficiently even under full load is being worked on intensively. This will reduce the susceptibility to knocking, eliminate the usual mixture enrichment for the cooling of the exhaust gas temperature, and lower the consumption in this load range by more than 15 percent.

Further advances were made in the development of fast-switching valves that can be fitted in the intake or exhaust section, which allow an immediate reaction to load changes, even under dynamic engine conditions. The advantages are partly significant increases in exhaust gas recirculation rates, lower nitric oxide raw emissions, and potential savings in connection with further exhaust gas aftertreatment.

Fast-switching air impulse valve

Fully variable valve train

The fully variable valve train system is one of the most promising technologies for reducing fuel consumption and increasing performance and torque across the entire load range of gasoline engines. It represents a further development of the MAHLE CamInCam® technology, already used in series production, which allows effective engine control by means of variable timing.

In combination with a specially developed rocker arm package, the new valve train technology achieves full variability of stroke, opening time, and opening duration of the intake and exhaust valves, forming the basis for throttle-free load control. We are also using this technology in the development of the CAI (Controlled Auto Ignition) combustion process in partial load ranges. This would allow a potential fuel saving of around 15 percent.

Friction minimization

In systematic test runs, we determine the factors affecting friction in both the complete system and the individual components in a specially designed full engine test bench with extremely precise measuring capabilities. At the same time, tests are being conducted using the "tear-down" process, in which individual engine components are removed in a predefined order and the frictional loss of the remaining unit is measured. This allows, for example, the effect of individual piston and piston ring parameters to be examined and their effect on the friction losses in the engine to be selectively analyzed. Tests of this kind can also be used to assess weight reduction measures specifically in terms of frictional

loss. Innovative coatings, such as the DLC (Diamond-Like Carbon) coating for piston pins and rings or the PVD (Physical Vapor Deposition) coating for piston rings (top and oil rings), also help to reduce the frictional loss in the crank mechanism. In addition, the wear characteristics are being improved significantly.

Optimization approaches to reducing fuel consumption involving roller bearings for the camshaft, connecting rods, and crankshaft are being investigated. The MAHLE lightweight valve is also being developed further, because it not only reduces frictional loss in the valve train, but also has outstanding properties for use in lean operation of supercharged gasoline engines on account of its internal cooling.

Mechatronics

Increasingly precise control of the engine processes is necessary in order to comply with the emissions regulations. The actuators required for this purpose are increasingly electrically actuated—faster and, thanks to position feedback, more precise. Application examples of components of this kind are exhaust gas recirculation valves, exhaust gas turbocharger control elements, intake flaps, or variable-length intake pipes for gasoline engines.

Cylinder shut-off and dethrottling of gasoline engines

Cylinder deactivation in the low partial load range can lead to significant fuel savings, particularly in engines with a large displacement. The high-pressure process of the live cylinders takes place at a higher load, decreasing the throttling loss of the active cylinders and the frictional loss of the deactivated cylinders. For this reason, MAHLE Advanced Engineering is working on a cylinder shut-off system for modern gasoline engines with roller-type cam followers, giving an attractive cost-benefit ratio with low friction.

The highly dynamic switching air impulse valve developed by MAHLE is an innovative solution for extending the functionality of the gas exchange components, retaining the conventional valve train. In dethrottling, which offers enormous potential fuel savings particularly in high-displacement units, the air impulse valve is used as a control system for metering the required air mass flow.

Disengageable roller lever

Fully variable valve train

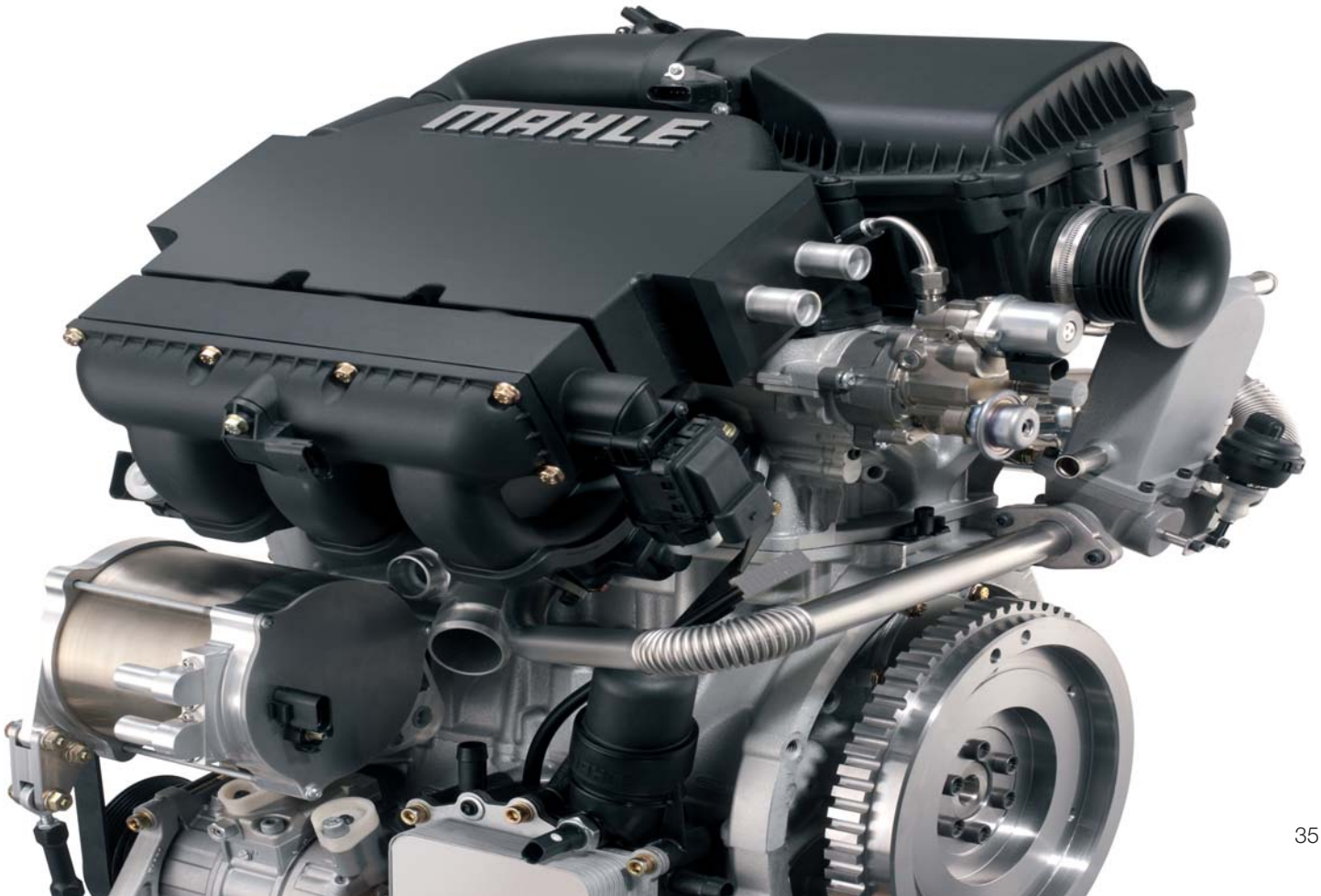
The MAHLE downsizing engine: systems competence through our development network

At the IAA 2007 in Frankfurt, Germany, MAHLE presented a 1.2-liter downsizing engine, developed and produced completely in house, as a technology demonstrator. The engine, developed in two power output levels of 110 and 145 kW, with single or double supercharging, offers a potential fuel saving of up to 30 percent in comparison with currently available 6-cylinder naturally aspirated engines of the same power output, which drive vehicles in a weight class of approximately 1,600 kg.

With this technology demonstrator, MAHLE was able to give proof of its systems competence in impressive style and set standards in downsizing concepts for reducing fuel consumption. The unit, developed by the Engineering Services division, includes innovative components and systems from all MAHLE product lines, which were optimally tuned to one another in extensive test runs: forged pistons, DLC-coated piston pins and PVD-coated piston rings, NIKASIL®-coated cylinder liners, overhead composite camshafts with double adjustment, cooled lightweight valves, air/water charge cooling, and exhaust gas recirculation under full load. The oil filter module also combines positive characteristics such as highly efficient oil filtration and extremely effective oil cooling with the light, compact design of an all-plastic oil filter module. Another technological highlight is the fully integrated intake module, which accommodates the oil separation, noise damping, charge cooling, and exhaust gas recirculation.

The MAHLE downsizing engine enables us to offer our customers individual systems solutions for a wide variety of applications. By applying various subsystems to this technology demonstrator, competing technical solutions can be precisely compared with one another in terms of their potential for saving fuel, reducing emissions, and increasing performance. The systems knowledge thus acquired also provides us with important information about the cost-benefit ratio of individual technologies and allows us to estimate product, system, and application costs. This is yet another way in which the integrated development of systems solutions benefits our customers.

MAHLE downsizing engine

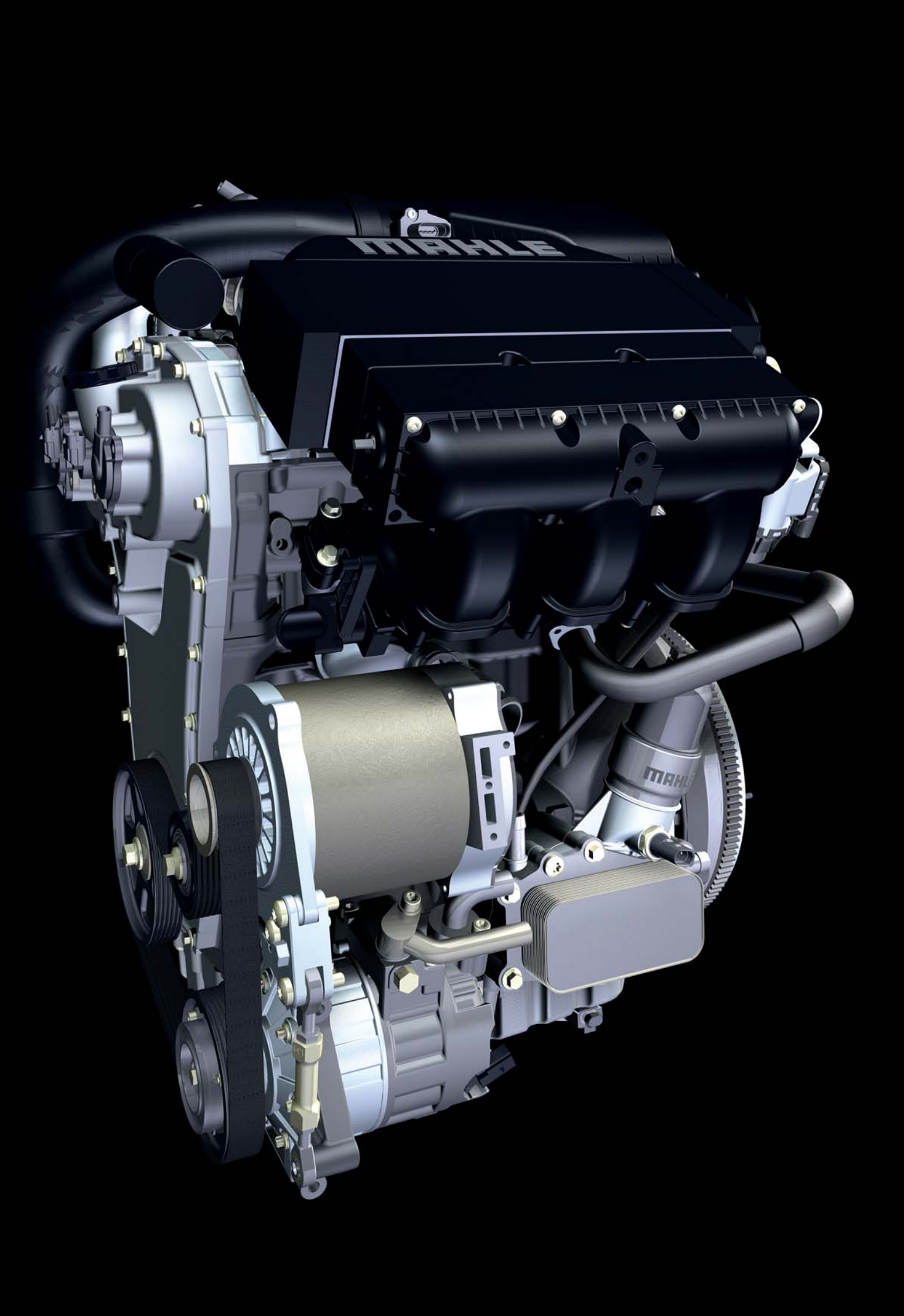


REFERENCES

All automobile and engine manufacturers worldwide are customers of MAHLE. Here is an extract of our original equipment references:

Alfa Romeo
Alpina
AMG
Ashok Leyland
Aston Martin
Audi
Bentley
BMW
Brilliance
Bugatti
Buick
Cadillac
Case
Caterpillar
Chaoyang
Chery
Chevrolet
Chrysler
Citroën
Cummins
Dacia
DAF
Daihatsu
Dalian Diesel
Detroit Diesel
Deutz
Dodge
Dongfeng
Ducati
Eicher Motors
Embraco
Escorts
FAW-VW
Ferrari
Fiat
Force Motors
Ford
Freightliner
Fuji/Subaru
Fuso
Geely
GM
Greatwall Auto
Hangzhou Diesel
Harley Davidson
Hindustan Motors
HINO
Holden
Honda
Hummer
Husqvarna
Hyundai
Infiniti
International
Isuzu
Iveco
Jaguar
JCB
Jeep
Jenbacher
JMC
John Deere
Kia
Komatsu
Lamborghini
Lancia
Land Rover
Lexus
Liebherr
Mack Trucks
Mahindra & Mahindra
MAK
MAN
MAN B&W
Maruti Suzuki
Maserati
Maybach
Mazda
McLaren
Mercedes-Benz
Mercury
Mini
Mitsubishi
Mitsubishi Heavy Industries
MTU
MWM
Nanjing Fiat
Neoplan
New Holland
Nissan
Nissan Diesel
Oldsmobile
Opel
Otosan
Paccar
Perkins
Peugeot
Piaggio
Polaris
Pontiac
Porsche
Proton
Qingling Motor
Renault
Rolls Royce
Rotax
RVI
Saab
SAME
Samsung
Saturn
Scania
Scion
Seat
SEMT
SGM
Sisu
Škoda
Smart
SsangYong
Star (PL)
Sterling
Steyr (Agriculture)
Stihl
Suzuki
SVW
Tata Motors
Tecumseh
Tognum
Toyota
Triumph
Vauxhall
VM Motori
Volvo
Volvo Powertrain
Volvo Trucks
VW
Waukesha Engine
Weichai Power
Wuxi Diesel
Yamaha
Yangzhou Diesel
Yanmar
Yulin Diesel
Yunnei

$$\eta = \frac{|W_t|}{Q}$$


MAHLE
MAHLE

Sequential two-stage turbocharging (optional: water-cooled exhaust manifold)

Central, spray-guided piezo direct injection

Intake system with minimized flow losses and low collector volume featuring an indirect charge air cooler and three individual throttle valves for excellent responsiveness.

Forward-thinking valve train with lightweight valves, composite camshafts, and independent intake and exhaust phasers

Controlled electric water pump with temperature sensor integrated in the cylinder head gasket

Exhaust gas recirculation system (EGR): fast-switching high-performance system to enable cooled outer exhaust gas recirculation even during transient engine operation and at high engine load

NIKASIL® coating of the cylinder liners for optimized friction parameters

Gear wheel-driven dynamic balancing with balancing weights at both crankshaft ends

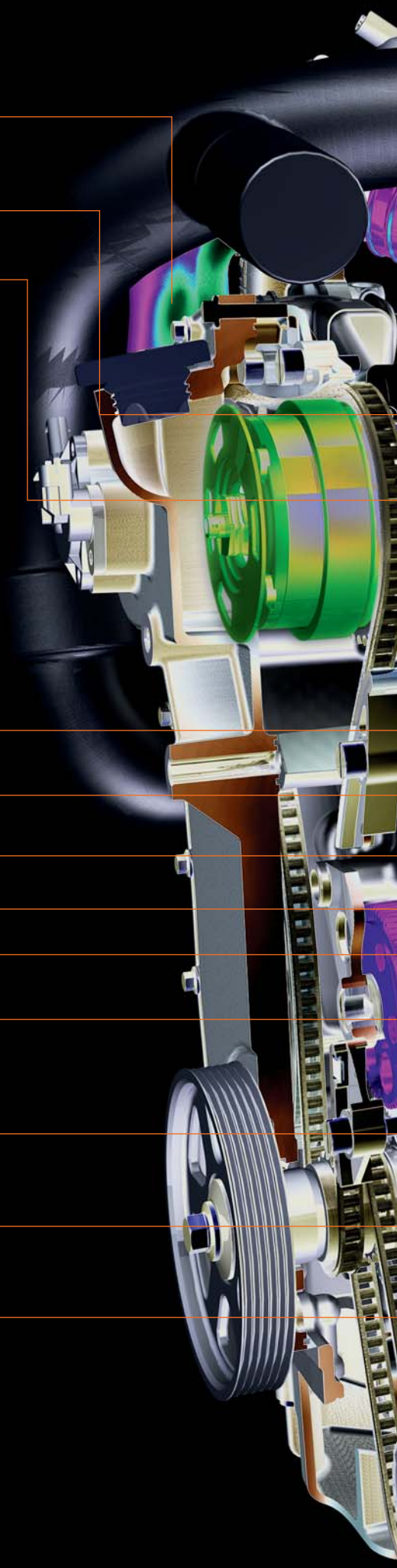
Precision sand castings (cylinder head, crankcase, bedplate) according to the COSCAST® method for weight optimization

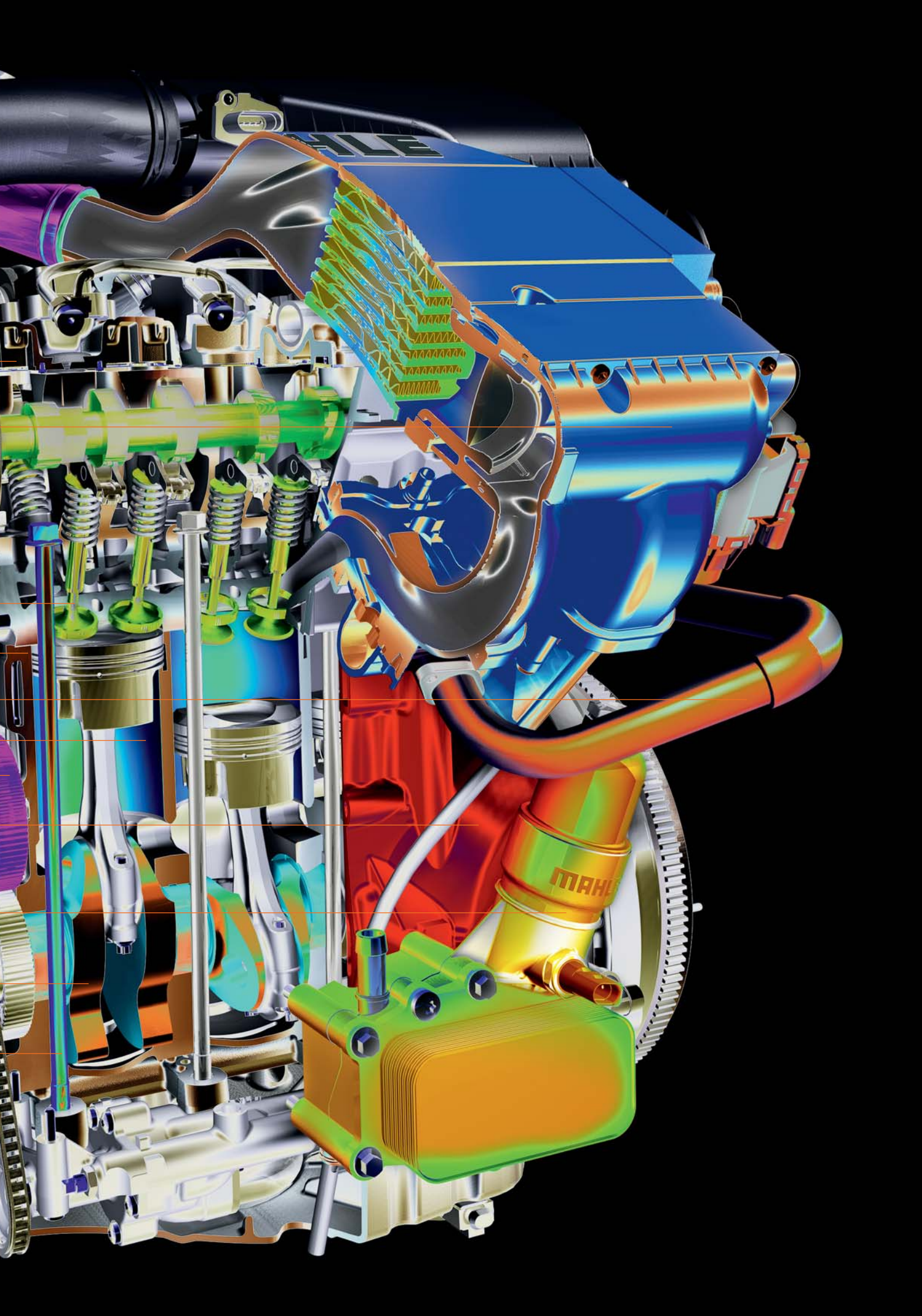
All-plastic oil filter module

Friction-optimized 3-cylinder short-stroke crank mechanism

Continuous tie-rod screw assembly of cylinder head, crankcase, and bedplate for minimal bore distortion

Piston cooling with novel oil splash channel (not shown in the image)





Downsizing.

Lower displacement. Lower fuel consumption. Lower emissions. Same performance.

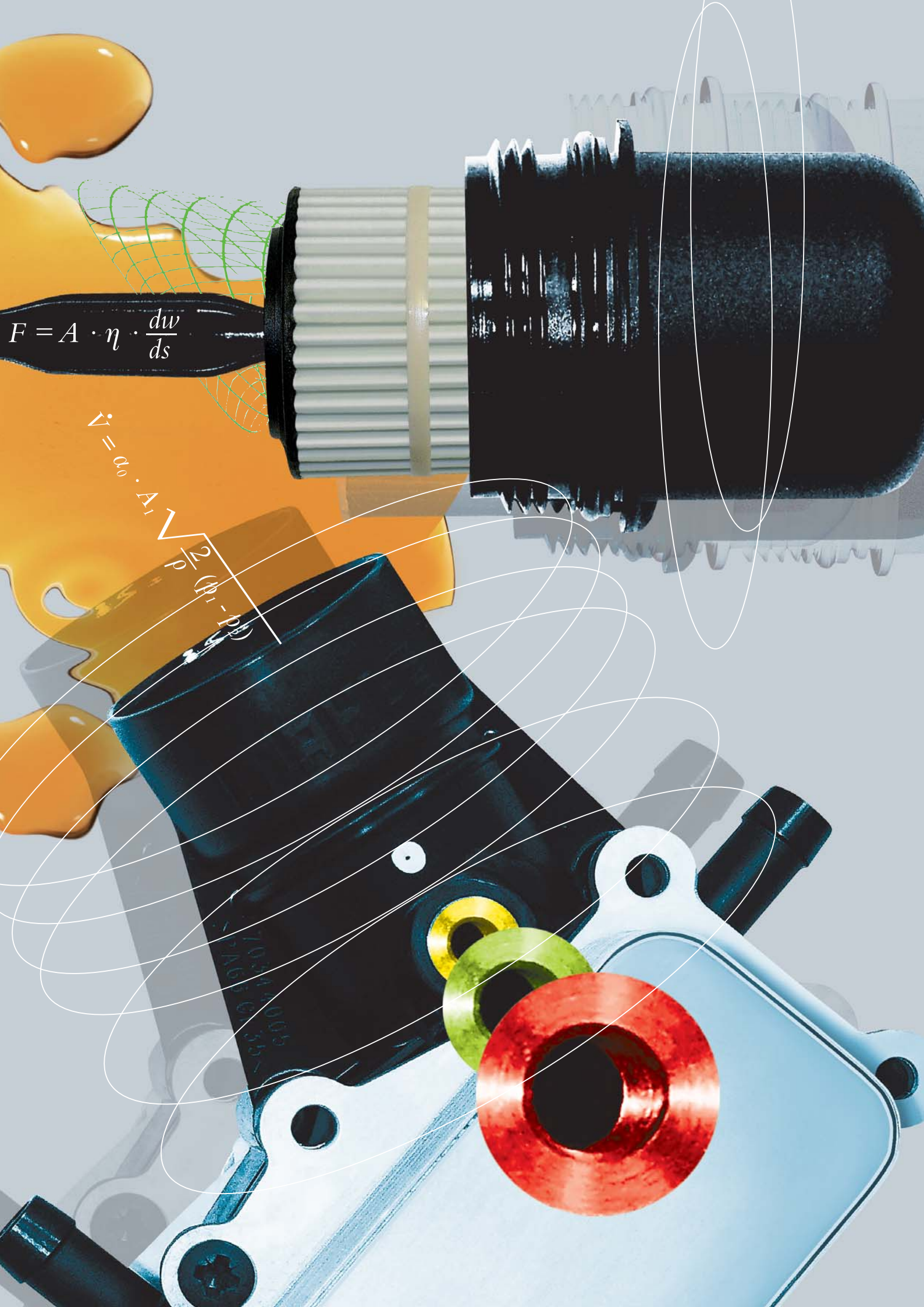
Decreasing the displacement, while at the same time adjusting all systems and components that are relevant for engine performance characteristics and the emissions behavior, is the most promising and efficient concept to considerably improve fuel economy and lower emissions in gasoline engines.

With the downsizing engine developed by MAHLE, potential savings of up to 30 percent can be achieved. The concept engine is equipped with state-of-the-art, precisely coordinated MAHLE technology components.

Technical data

- 3-cylinder engine with 1.2 l displacement
- 145 kW (197 hp) maximum output
- 150 Nm torque at low engine speed (1,000 rpm)
- Ample torque curve with high maximum torque: 285 Nm (between 2,500 and 3,000 rpm)
- Fuel consumption benefit of up to 30% in a vehicle with a weight of 1,600 kg
- Minimum fuel consumption (optimum performance point): 235 g/kWh
- Compliance with Euro V standard
- Suppliers for significant technology equipment:
  - Continental/Siemens VDO: injection components
  - iwis: chain drive
  - Dana—Victor Reinz®: cylinder head gasket with integrated temperature sensor

100% EXTENDED
MAINTENANCE INTERVALS
AND 300% HIGHER MEDIA STABILITY.


$F = A \cdot \eta \cdot \frac{dw}{ds}$
$\dot{V} = \alpha_0 \cdot A_1 \sqrt{\frac{2}{\rho}(p_1 - p_2)}$

STATUS REPORT OF THE MAHLE GROUP

Global economy: development at a high level

The 2007 business year was characterized by positive development in the global economy, as in the past three years. However, as a result of the real estate crisis in the USA, there was a regional slow-down of the overall economic development in 2007. Consequently, the growth rate of aggregate global production at 3.7%, and international trade at 6.6%, were slightly lower than in 2006. The weakening economic dynamics in the United States were primarily compensated by the increase in the gross domestic product in the euro zone, Brazil, and the emerging markets of Southeast Asia. As a result of the overall robust development in the global economy, the dampening effects of the heavy increase in the price of oil in the course of the year, which at times reached almost USD 100 per barrel, and the upward revaluation of the euro against the U.S. dollar, remained remarkably low.

In the euro zone, the growth rate of the gross domestic product was almost as high in 2007 as in the previous year, at 2.6%. While foreign trade and gross investments into fixed assets were the drivers of this development in the first half of the year, private consumer spending followed suit in the second half of the year. The good economic situation in Germany made a considerable contribution to the economic expansion in the euro zone. Development in the member countries of Central and Eastern Europe was even more dynamic. The overall increase of 6% in the gross domestic product achieved in this region was caused in particular by the positive development of investments in Poland, the rise in consumption in the Czech Republic, and the increase in exports in Slovakia.

In the United States, the weakening of the real estate market, the high energy prices, and the uncertainty over the continuing development of the economic dynamics had a dampening effect. Once again, the economy was supported primarily by private consumer spending, which underwent an increase of 2.9%, slightly below the previous year's value. However, the weak price of the U.S. dollar made it possible to increase exports and reduce the foreign trade gap to some extent.

In South America, the economy was driven by strong domestic demand, which was based on rising employment and purchasing power. Domestic demand has now taken over from exports as the primary growth driver.

With a growth rate of 11.7%, China's economic expansion was sustained at a very high level. Once again, gross investments in fixed assets were an important element of this development, with an increase of 13.1%. Private consumption and rising exports also made a significant contribution to this development. In order to avoid an overheating of the economy, the base rates were increased in several steps.

In India, the growth rate of the gross domestic product was 9%. The drivers of this positive development were the production increase in the investment goods industry and the growth of the information technology and processing industry.

In Japan, the growth in the gross domestic product decreased slightly to 2%. Although private consumption overcame the weak phase of 2006 with continuing stagnation of consumer prices, gross investments into fixed assets developed far less dynamically than in previous years. Supported by the healthy global economy and a weak yen, exports were able to grow.

Asia drives expansion of the global automotive industry

In 2007, the automotive industry benefited once again from the overall dynamic development of the global economy. As a result of the higher demand, not only in China and India, but also in South America and Eastern Europe, the worldwide production of passenger cars and light commercial vehicles increased by 5.4% to 69.9 million units.

In Europe the production of passenger cars and light commercial vehicles increased by 5.5% to 21.9 million units in 2007. This increase was caused by the rise of 0.8 million units in automobile production in Central and Eastern Europe to 5.8 million vehicles, which corresponds to growth of 15.5%. New plants in Slovakia made a particularly important contribution to this increase, with production doubling to more than 0.5 million units. The production volumes for passenger cars and light commercial vehicles in Hungary, the Czech Republic, Poland, and Russia also exceeded the previous year's values considerably. The number of passenger cars and light commercial vehicles produced in Western Europe rose by 0.4 million units to 16.1 million vehicles. The proportion of vehicles fitted with diesel engines in Europe increased sharply, with a rise of 3% to 50% in 2007.

Significant increases in crude oil prices, the crisis in the real estate market, and reduced consumer confidence were the causes of a decline of 1.6% in the production of passenger cars and light commercial vehicles in North America to 15 million units. The increase in fuel prices was also the main reason for the weakened sales of large sport utility vehicles and pickup trucks. On the other hand, the Asian and European manufacturers were able to benefit from the relatively stable demand for vehicles with lower consumption.

Worldwide automobile production

Number in 1,000s

Business year	2007	2007	2006	2006
	Passenger cars & light comls.	Commercial vehicles (incl. buses)	Passenger cars & light comls.	Commercial vehicles (incl. buses)
America	18,577	622	18,313	800
NAFTA	15,029	430	15,265	642
South America	3,548	193	3,048	158
Asia/Pacific	27,630	1,578	25,573	1,322
Japan	11,127	421	11,076	408
China	7,949	814	6,540	585
Europe	21,882	729	20,735	636
Germany	5,981	196	5,634	176
Other countries	1,778	–	1,684	–
Total	**69,866**	**2,929**	**66,305**	**2,758**

Source: AutoInsight, March 2008

Driven by the strong demand, the production of passenger cars and light commercial vehicles in South America increased by 16.4% to 3.5 million units.

The Asian market also experienced above-average positive development with a rise of 8% to 27.6 million units, in comparison with the previous year. As before, China made the biggest contribution to this increase, with production of passenger cars and light commercial vehicles rising by 1.4 million units to 7.9 million vehicles. India and Korea recorded considerably lower growth, with a rise of 0.3 million units in both countries. Production in Japan was increased by 0.1 million units.

With a rise of 6.2% to 2.9 million units, the worldwide production of medium-weight and heavy commercial vehicles was better than expected at the beginning of the year. The European manufacturers were able to benefit from the positive economic development, particularly the Central and Eastern European countries, with an increase of 14.6% in production to 729 thousand units. Russia was the only country in which commercial vehicle production increased by 39%; as a result, it almost closed the gap with Sweden, the second largest manufacturing country in Europe.

In North America, the production of medium-weight and heavy commercial vehicles fell by 33% to 430 thousand units as a result of purchases being brought forward by fleet operators and because of the weakened economic situation. This primarily affected heavy commercial vehicles, for which production decreased by 43% to 217 thousand units. In South America, the economic upturn led to a significant increase in production: at 193 thousand units, the production of commercial vehicles in 2007 was 21.5% higher than the previous year.

In Asia, the production of medium-weight and heavy commercial vehicles exceeded the previous year's value by 256 thousand units, i.e., 19.4%. This increase was driven primarily by the Chinese manufacturers, whose production volume grew by 39.1% to 814 thousand units. India and Korea were able to increase their production by 3 thousand and 11 thousand units respectively to 285 thousand and 52 thousand vehicles. In contrast, production in Japan increased by 12 thousand units to 421 thousand vehicles.

MAHLE: satisfactory development in 2007

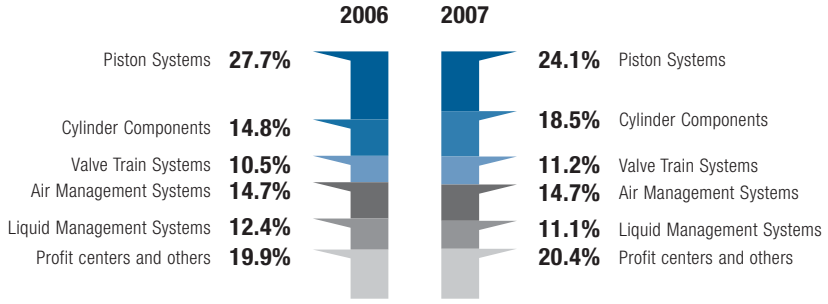
In the 2007 business year, the MAHLE Group achieved sales of EUR 5.06 billion; this corresponds to an increase of EUR 746.4 million or 17.3% in comparison with the previous year. Much of the growth in sales resulted from acquired companies and parts of companies included in the consolidated financial statements for the first time (EUR 541.9 million, 12.6%). The significant additions related to the acquisition of the engine parts business of the Dana Corporation and the air intake modules and air filtration business segment of Siemens VDO. Other acquisition activities included the forming of the majority joint venture MAHLE Tri-Ring Valve Train (Hubei) Co., Ltd., China, and the purchase of the shares in Edival S.A., Argentina, and Promotora de Industrias Mecánicas, S.A. de C.V. (Promec), Mexico.

Changes in exchange rates in comparison with the previous year had an unfavorable impact of EUR 105.3 million on sales denominated in euro in the year under report. These include effects on operational business as well as from converting sales produced and invoiced abroad into euro, the Group currency. Excluding exchange rate factors, the Group achieved growth of 20%, of which 7% was due to organic business expansion.

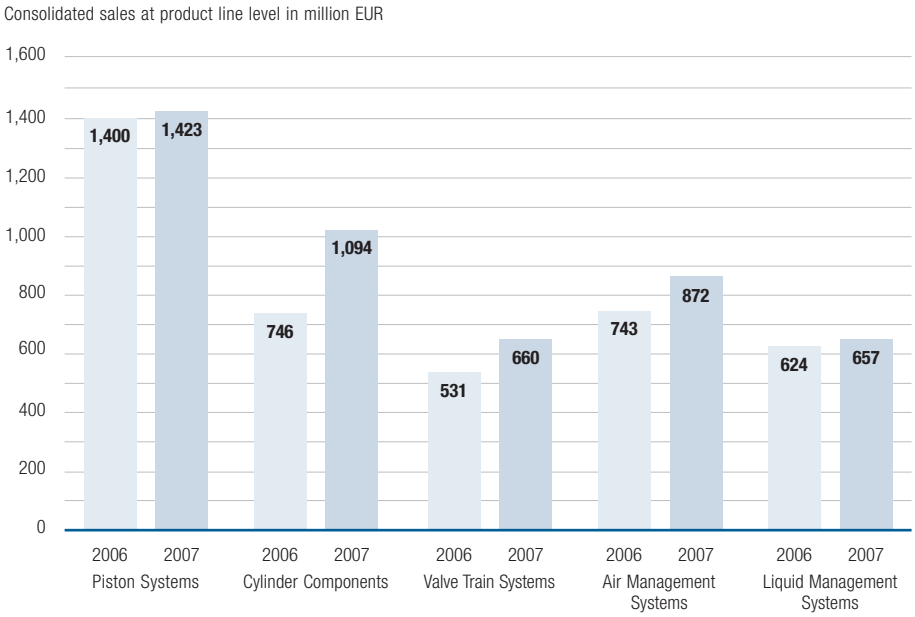
The MAHLE Group's development thus considerably exceeded the development of the market as a whole. This growth was supported primarily by sales increases in Europe and South America as a result of gains of market share and further increases in sales of systems supplies, which were in heavier demand because of the technological competence of the MAHLE Group.

Despite the considerable rise in sales and successful measures to increase productivity, the MAHLE Group's operating profit was approximately at the previous year's level. In particular, significant increases in the costs of raw materials, which could not be passed on to the customers to a sufficient degree, reductions in sale prices, and foreign currency changes had an adverse effect on profit. In addition, some of the newly acquired units put a significant strain on profit, as expected; far-reaching integration and restructuring measures were started as planned, which entailed considerable expenditure.

Share of Group sales achieved by the product lines and profit centers (including inter-company sales at product line level)



Development of the product lines (including inter-company sales at product line level)



Piston Systems product line

Sales

The Piston Systems product line ended the 2007 business year with sales of EUR 1,423 million, an improvement of EUR 23 million in comparison with the previous year. Exchange rates adversely affected sales by EUR 42 million in comparison with the previous year, particularly because of the weak U.S. dollar. Allowing for this exchange rate effect, the organic growth amounted to 4.6%. The positive development of sales was primarily supported by the sustained economic situation in the European automotive industry. Sales of piston-conrod assemblies stabilized at the satisfactory level of the previous year.

The plants in Europe increased their sales considerably in comparison with the previous year. Alongside the healthy development of business in the passenger car diesel piston activities, sales of passenger car gasoline pistons also rose. In the commercial vehicle segment, the commercial vehicle aluminum piston and MONOTHERM® piston activities improved considerably, while sales of FERROTHERM® pistons stabilized at the previous year's level.

In North America, it was not possible to achieve the high sales level of the previous year. The sustained purchasing restraint on the part of the consumers had a negative impact on the development of business in the passenger car piston segment. However, significant sales were achieved in light commercial vehicle pistons for the first time. New emission regulations in the USA put a heavier strain than anticipated on the commercial vehicle piston activities in comparison with the previous year.

As a result of the continuation of the favorable economic situation, sales in South America were stabilized at the previous year's level, although the development of the exchange rate of the Brazilian real to the U.S. dollar adversely affected exports invoiced in U.S. currency. There was higher demand for commercial vehicle pistons than in the previous year, while sales of pistons for passenger cars increased slightly in comparison with the previous year.

In the Asia/Pacific region, the previous year's sales were exceeded slightly, despite unfavorable exchange rate developments in Japan. The resulting decline in sales in Japan was more than compensated for by the markets in China and Thailand, which benefited from the region's positive economic development. Compared with the previous year, sales of passenger car gasoline pistons increased, while sales of commercial vehicle pistons fell. The reduced domestic demand prevented the Australian plant from achieving the previous year's sales level.

Development of product line

Business year	2007	2006
Consolidated sales*		
Product line	1,423	1,400
Share of Group sales	1,296	1,279
Capital expenditure on fixed assets*	78	75
Production plants	23	23
Headcount (as at Dec. 31)	12,541	12,546

* million EUR

EVOTEC® lightweight piston

Operating profit

As in the previous year, the Piston Systems product line achieved an overall satisfactory profit level in 2007. The units in Asia/Pacific stabilized their profits at a level slightly above the previous year, while North and South America failed to achieve the profit of the previous year. In contrast, the plants in Europe benefited from the healthy development of sales and the accompanying utilization of output capacities, which led to a high level of fixed cost coverage, particularly in the commercial vehicle sector. The heavy increase in the cost of materials had a considerable adverse effect on profit. In particular, the development in the price of the raw material nickel made a significant contribution to the increase in the cost of materials in comparison with the previous year. Consequently, the overall marked increase in productivity within the product line could not be converted into growth in profit.

Capital expenditure

With capital expenditure on fixed assets of EUR 78 million and an investment ratio of 5.5%, the Piston Systems product line once again marginally exceeded the already high capital expenditure level of the previous year. Because of the large number of new customer projects, a substantial portion of the investments was used to further expand capacities. Continued measures in rationalization and continuous process and quality improvement formed additional focuses of investment.

In Europe, increasing productivity in individual plants was the focus area. Other investments contributed toward innovative process technologies, e.g., for the production of diesel pistons capable of withstanding a high thermal load. The focus of capital expenditure in North America was the optimization of the production plant for commercial vehicle pistons in the USA. Capital expenditure in the Asia/Pacific region concentrated on the expansion of production at the subsidiary in Thailand and the Japanese plants in Tsuruoka and Yamagata.

Human resources

The number of employees in the Piston Systems product line remained at the previous year's level, with the headcount of 12,541. There was a slight increase in the staffing level in Europe, primarily because of the strong sales and the startup of a new production line in Poland. The strained economic situation in North America has not yet had a direct effect on the staffing level. The piston plant in South America was able to reduce its headcount slightly in comparison with the previous year by means of continued rationalization activities; the same also applies to the plants in the Asia/Pacific region. The decreased staffing levels in the Asia/Pacific region primarily concerned Japan and, as a result of restructuring, Australia.

MONOTHERM® steel piston for commercial vehicles

Piston with cooled ring carrier

Cylinder Components product line

Sales

Extensive acquisitions of former competitors' firms led to a considerable increase in sales in the Cylinder Components product line during the year under report. As a result of the acquisition of the engine parts business of the Dana Corporation, sales of piston rings and engine bearings increased, particularly in North America and Europe. The acquisition of all the shares in the Mexican company Promotora de Industrias Mecánicas, S.A. de C.V. (Promec) led to growth in sales in Mexico and the USA in the piston rings and cylinder liners segments. Through these acquisitions, the product line succeeded in positioning itself as the second largest manufacturer of piston rings and engine bearings worldwide.

The continuation of the healthy economic environment in the commercial vehicle sector, particularly in Europe, the ramp-up of new, technically demanding products for passenger car and commercial vehicle engines, and the lively domestic economy in Brazil led to organic growth of 9% in the 2007 business year, with particularly positive development in engine bearings, piston rings and pins, and cylinder liners. Sales of connecting rod blanks also increased in Europe on the basis of high market share. The rising demand for steel connecting rods in North America led to an increase in sales of fully machined connecting rods. The positive development of business was adversely affected by overall negative currency exchange rate factors, primarily due to the weak U.S. dollar.

In 2007, MAHLE GmbH and the Japanese Riken Corporation signed a Memorandum of Understanding for global cooperation, whereby worldwide cooperation projects will be researched and supported in addition to the existing joint venture for the manufacturing of piston rings, Allied Ring Corporation in the USA.

Development of product line

Business year	2007	2006
Consolidated sales*		
Product line	1,094	746
Share of Group sales	752	483
Capital expenditure on fixed assets*	69	47
Production plants	37	16
Headcount (as at Dec. 31)	14,412	9,480

* million EUR

Piston rings

Operating profit

The continued high level of demand in the raw material markets and the associated increase in material prices for steel and alloy components, which were partially passed on to the customers, put a considerable strain on the profit of the Cylinder Components product line. As a result of the extensive export activities, the upward revaluation of the Brazilian real against the U.S. dollar and the Polish zloty against the euro also led to considerable adverse effects on profit. In contrast, the strengthening of the euro in relation to the U.S. dollar did not have a major impact on profit, since the flow of goods between the euro and dollar zones is limited.

As expected, the newly acquired business units did not make an overall positive contribution to profit, but initially put a strain on profit as a result of the commencement of integration and restructuring measures as planned. However, the ongoing cost reduction measures in all plants were able to compensate for a large proportion of the negative effects on profit. Nevertheless, it was not possible to achieve the operating profit level of the previous year.

Aluminum rough-cast cylinder liner (ALBOND®)

Capital expenditure

Investments increased significantly in the past business year. This is due to the growth in existing activities as well as new acquisitions. Like last year, one of the focus areas was preparation for the startup of new customer projects. At the location in Mexico, capacities for the machining of connecting rods were expanded and the regional presence was strengthened by the construction of a raw part manufacturing facility. Capacities for piston rings and cylinder liners for passenger car and commercial vehicle diesel applications were expanded. This involved the implementation of new technologies that take into account the increased demands on the products. The piston ring production facilities commissioned in China in 2006 were extended. In addition, the product portfolio at the location was expanded. Construction began on a connecting rod manufacturing facility in China, which will supply customers locally from 2008. Process improvements in all product divisions formed another focus of investment.

Human resources

In the year under report, the number of employees in the Cylinder Components product line rose considerably. This growth is primarily due to the acquisitions of the engine parts business of the Dana Corporation and Promotora de Industrias Mecánicas, S.A. de C.V. (Promec) in Mexico; however, it is also attributed to increases in sales at the existing locations, particularly for cylinder liners in Poland, piston rings in Portugal, and connecting rod manufacturing in Mexico. As a result of improvements in productivity, the headcount in Germany and at the other European locations was maintained at the previous year's level despite sales increases.

Valve Train Systems product line

Sales

The Valve Train Systems product line was able to significantly increase its sales in comparison with the previous year. Besides remarkable organic growth, this was also due to several new acquisitions. The product portfolio in the NAFTA region was extended to include camshafts for commercial vehicles as a result of the acquisition of the location in Russellville, USA, from the Dana Corporation. The acquisition of Edival S.A., Argentina, and the founding of the majority joint venture MAHLE Tri-Ring Valve Train (Hubei) Co., Ltd., China, at the beginning of 2007 strongly improved the position in the global valves market.

Sales in the sintered parts product segment were significantly above the previous year's level. This is due to the sustained diesel boom, which generated strong demand for turbocharger parts. The camshafts product segment was also able to increase its sales in comparison with the previous year. Strong demand led to considerable growth in sales in the unmachined chilled cast iron camshafts segment. Likewise, demand for ready-to-assemble camshafts was significantly above the previous year's level. In the composite camshafts product segment, the further production ramp-up of existing series led to corresponding growth in sales.

Sales in the cylinder heads, engine blocks, and complete engine product segments were above the previous year's level as a result of new startups and heavy demand for existing series. The healthy unit sales position of a prominent customer formed the basis for this increase in sales. The valve locations were able to benefit from increased demand in the European market for ongoing series activities. The two new acquisitions also contributed to significant growth in sales. The Argentinean valve factory, recently integrated into the Group network, significantly improved the MAHLE Group's positioning, particularly in the commercial vehicle valve segment. An extremely positive starting position in the growth market of Asia was achieved with the new majority joint venture in China.

Operating profit

The product line's operating profit improved in comparison with the previous year. The further rise in raw material prices and higher personnel costs, along with persistently increasing price pressure from our customers, were compensated by means of considerable increases in productivity in most product groups.

In the sintered parts segment, the negative impact of the price increase for alloy materials was noticeable. The increased raw material prices were partially absorbed by currency exchange rate effects in purchasing. A unique special expenditure was incurred as a result of the merger of several production locations in Switzerland and the closure of a North American production plant. The positive effects on profit created by these measures will lead to considerable impact on profit in the next few years.

In the camshafts product group, it was not possible to maintain the previous year's profit level. As a result of overutilization of capacities and insufficient progress in productivity, the product line incurred quality costs as well as costs for placing orders with subcontractors, for employing temporary workers, and for additional freight. In addition, increased raw material prices adversely affected profit. In the second half of the year, the capacity of the foundry in Brazil was expanded. As a result, an improvement in profit was achieved in the second half of the year.

Development of product line

Business year	2007	2006
Consolidated sales*		
Product line	660	531
Share of Group sales	655	527
Capital expenditure on fixed assets*	44	27
Production plants	18	16
Headcount (as at Dec. 31)	7,163	4,566

* million EUR

The valves segment recorded considerable improvement in profit in comparison with the previous year. The high utilization of capacities and increased productivity at the German location produced this development despite the negative impact of material prices. The Chinese joint venture newly integrated into the MAHLE Group and the new Argentinean valves location generated significantly positive contributions to profit in their first business year in the MAHLE Group.

Capital expenditure

The majority of the Valve Train Systems product line's investments were used for expanding capacities and rationalization projects. In Switzerland, the production restructuring measures in connection with the construction of the new plant in Grenchen were completed by means of investments. At the Polish location, investments were made in building extension, blank manufacturing, and the expansion of mechanical machining of valves and valve guides. As a result of the increased demand for camshafts made from chilled cast iron, particularly for the North American market, the foundry in Brazil was expanded substantially. In India, investments were made to acquire land and construct a new building in connection with the necessary expansion. In order to meet the rising demand for valves from our plants in Argentina and China, the capacities of the newly acquired valve plants have been increased.

Human resources

Employees were added in the Gaildorf and Leibertingen locations, both in Germany, as well as in India and Brazil, following the reported increase in sales in the camshafts segment. As a result of the acquisition of the commercial vehicle camshaft production facility in Russellville, USA, the headcount in the camshafts segment underwent an additional increase. The significant sales increase in cylinder head machining also led to corresponding adjustment in the staffing level at MAHLE Powertrain Ltd., England. With the two new locations in Macheng, China, and Rafaela, Argentina, the number of employees in the valves product group rose considerably in comparison with the previous year.

MAHLE lightweight valve

MAHLE CamInCam® camshaft

Air Management Systems product line

Sales

The growth of business in the Air Management Systems product line was mainly due to the acquisition of the intake modules and air filtration business segment of Siemens VDO in June 2007. The new acquisition strengthened the worldwide presence of the product line and led to a sales increase in comparison with the previous year. The organic business development varied across the regions of the world. Changes in exchange rates put a strain on the development of sales expressed in euro of the plants in North America as well as on the sales in Japanese yen and Korean won in Asia. The activities in Asia were able to achieve organic growth, allowing for foreign currency exchange rate effects. The growth in sales in Europe and North America—also allowing for foreign currency exchange rates—was substantially higher than the intake modules and air filtration business segment acquired from Siemens VDO.

In Europe, the growth in sales was primarily due to the newly added location in England. Together with significant growth in sales in the existing plants in Austria and England, this more than offset the lower tool sales compared with the previous year and the activities in France that remained below expectations.

Activities in the NAFTA region were heavily influenced by the acquisition of the air management activities of Siemens VDO, with newly added locations in Canada and Mexico. Consequently, sales in the region almost doubled in comparison with the previous year. The acquired plants are also making a substantial contribution to the balance of the customer portfolio in the region.

In Japan, the decline in sales presented in euro, which was due to foreign currency exchange rate effects, was almost offset, primarily by higher unit sales in commercial vehicle activities. The strongest growth in Asia was recorded in China. The increase in sales in China compared with the previous year was due on the one hand to the acquisition of the intake modules and air filtration business segment of Siemens VDO and, on the other hand, to significant organic growth. The newly acquired activities were integrated into the existing location in Shanghai and housed in a new location in Changchun. In addition, the intake module activities from the production facility in Tianjin and air filters from the Guangzhou production plant produced significant organic growth.

Development of product line

Business year	2007	2006
Consolidated sales*		
Product line	872	743
Share of Group sales	820	690
Capital expenditure on fixed assets*	37	35
Production plants	25	18
Headcount (as at Dec. 31)	4,943	3,896

* million EUR

Exhaust gas recirculation valve

Cylinder head cover module with integrated oil separator

Operating profit

The operating profit of the Air Management Systems product line did not match that of the previous year and was below expectations, particularly in North America. In North America, the integration of the intake modules and air filtration business segment acquired from Siemens VDO took place in an environment characterized by a decline in production due to three large U.S. customers. Measures taken to reduce costs and optimize processes, as well as the relocation of some production activities to Mexico, were not able to compensate fully for these adverse effects. In Europe, profit could not be maintained at the previous year's level because of several program startups. In Asia, the strain on profit due to unfavorable changes in exchange rates in Japan and Korea was more than offset by the positive development of our activities in China. After the adverse effects produced by startups in the previous years, all locations in Asia are now contributing to positive profit levels.

Capital expenditure

The product line's capital expenditure on fixed assets in the 2007 business year amounted to EUR 37 million, representing an investment ratio of 4.2% of sales exceeding depreciation. Investments in Asia, particularly Chinese locations, remained in focus. Acquired activities were integrated into existing locations and output capacities were expanded further in Guangzhou and Shanghai for new products. In Europe, a large proportion of the investments were directed toward our plant in Austria. The funds were invested primarily for manufacturing new products in the startup phase, as well as for optimizing production. In North America, investments were higher than the previous year, with the enlarged base including the new activities from the intake modules and air filtration business segment acquired from Siemens VDO.

Human resources

The increase in the staffing level in comparison with the previous year results primarily from the acquisition of the activities of Siemens VDO with 922 employees and from the newly added activities in the product line in Thailand and Romania with 101 employees. Organic growth in China also led to the rise in the number of employees in the past business year. The product line now offers products and services from four locations in China. The proportion of employees in Europe out of the total headcount declined. With about 32% of employees based in Asia and well over 22% in North America, a balanced presence in proximity to the customer was strengthened further in all important regions of the world.

Air intake manifold

Liquid Management Systems product line

Sales

The Liquid Management Systems product line achieved sales growth of 5% in the past business year. In Europe, sales increased as a result of higher unit sales and the new startup of oil filter modules and oil pan modules. Intra-Group sales with the MAHLE Aftermarket segment also increased considerably. In North America, sales rose in comparison with the previous year as a result of the ramp-up of the activated carbon canister activities acquired in 2006 from Behr and the startup of fuel filter module activities. Sales stagnated in South America. Increases in fuel filters were offset by the end of production for a key customer.

In Japan, euro sales fell in comparison with the previous year because of the weaker domestic demand and foreign currency exchange rate effects, although sales increases were achieved in oil filter modules. As a result of the first-time inclusion of the Korean activities, which resulted from a new distribution of production between the Air Management and Liquid Management Systems product lines, the product line achieved additional sales growth in comparison with the previous year. A further increase in sales was generated as a result of the ramp-up of production at the new plant in Shanghai.

Operating profit

The profit of the Liquid Management Systems product line improved in comparison with the previous year by means of intensive cost reduction and rationalization measures. In Europe, a significant increase in profit was achieved by sales growth and the completion of the restructuring measures in France. In North America, heavier price reductions and higher startup costs meant no satisfactory profit levels could be achieved; appropriate optimization programs are set to be implemented in 2008. In South America, profit was improved significantly by means of cost reduction measures. In contrast, lower sales in Japan—a result of exchange rate effects—meant that contributions to profit were lower than in the previous year. On the other hand, profit increased considerably as a result of the sales growth in China.

Development of product line

Business year	2007	2006
Consolidated sales*		
Product line	657	624
Share of Group sales	535	510
Capital expenditure on fixed assets*	33	42
Production plants	15	15
Headcount (as at Dec. 31)	3,511	3,711

* million EUR

Activated carbon canister for U.S. applications

All-plastic oil filter module

Capital expenditure

The capital expenditure level of the Liquid Management Systems product line was significantly lower in the past business year, as considerable investments were made in 2006 for the expansion of the activated carbon canister production facility in North America. In relation to sales, the investment ratio for 2007 was 5%. In Europe, investments focused on the expansion of the oil filter module production facility, construction of the oil pan module production facility, and the production of oil filter modules from plastic. Other investments were made to expand the infrastructure of the new locations in Romania, China, and Korea.

Human resources

At the end of the year, the total headcount of the Liquid Management Systems product line was slightly below the previous year's level. In Europe and North America, the number of permanent employees was reduced despite growth in sales, while the staffing level in South America developed in line with the slight increase in sales. In Japan, jobs were cut in connection with optimization programs, while the staffing level in China increased as a result of the ramp-up of the new factory. Another increase in personnel resulted from the first-time inclusion of the Korean activities. Overall, the product line was able to achieve a significant improvement in personnel productivity.

Aluminum oil filter module

Aftermarket profit center

Sales and operating profit

In the 2007 business year, sales in the free trade business increased by 32% in comparison with the previous year. A significant proportion of the growth in sales resulted from the first-time inclusion of the Aftermarket organization in Europe, North America, and South America taken over from the Dana Corporation as part of the acquisition of the engine parts business. Allowing for first consolidations and exchange rate shifts, the organic growth amounted to approximately 12%. Both business segments—filters and engine components—contributed to this growth.

The development of sales in Europe was also positively influenced by a significant rise in unit sales in the North African market as well as in the markets of the Near and Middle East. In particular, disproportionately strong growth was recorded in sales of complete piston-cylinder assemblies. The positive development of sales, particularly the filter activities, in the Eastern Europe market continued in 2007. The construction of a regional distribution center in Poland, with responsibility for supplying customers in Poland, Ukraine, and the Baltic states, supported this development. While sales in the French market developed slightly above the previous year's level, significant increases were achieved in Great Britain and Spain.

Extensive coverage for trade and repair shops by MAHLE Aftermarket

The North American activities focused on the integration of the Aftermarket organization in the USA and Canada acquired from the Dana Corporation. The Morristown, USA, distribution location, which has belonged to MAHLE since the acquisition, has been incorporated into the logistics center in Olive Branch, USA, taken over from the Dana Corporation. The market development was characterized by strong competition at an already low price level. The development of business in South America was affected by an economic recovery and the lowering of the interest rate level in Brazil. In particular, sales increases were achieved in the commercial vehicle sector; likewise, sales in exports from Brazil to other countries of South America and overseas also developed above the previous year's level.

As a result of the positive development of export sales achieved in Japan and the activities in India, sales also increased in the Asia/Pacific region—albeit starting from a low level.

The sales growth in Europe and South America had a positive impact on operating profit; however, it was adversely affected by the restructuring of the North American organization newly integrated into the Group network. In order to achieve a sustainable improvement in profit in this region, far-reaching measures were taken in the past business year. These primarily involve reorganizing the sales structures and achieving significant progress in productivity at the logistics locations and throughout the administrative activities.

Capital expenditure and human resources

Investments focused on improving the infrastructure of the storage locations, particularly in North and South America, as well as on replacement purchases.

The staffing level increase of the Aftermarket profit center is primarily due to the inclusion of the sales organization of the Dana Corporation as well as the creation of jobs in assembly and mounting to match capacities. To some extent, these employees were acquired from the MAHLE Group's product lines.

Small Engine Components profit center

Sales and operating profit

The sales of the Small Engine Components profit center rose slightly in comparison with the previous year. The weaker economic situation in the hand-held power equipment segment in North America was compensated by increases in Europe. Sales and utilization of production capacities also developed positively in the leisure vehicles business segment.

The unsatisfactory operating profit did not follow the positive sales trend but was slightly above the previous year's value. Technical problems with the startup of a new cylinder casting line put a strain on profit in Germany. In the USA, profit improved in comparison with the previous year, despite the declining market and the increase in raw material and energy costs. The positive market development was offset by increases in the costs of materials at the Austrian location, which meant that profit remained below the previous year's value.

Capital expenditure and human resources

In the 2007 business year, the profit center's investment ratio was above the previous year's value. In order to keep pace with market growth, the procurement of an automated machining line at the Austrian location was brought forward from the year 2008. Likewise, investments in Germany focused on an automated machining line and technical support for the large number of new product startups.

The Small Engine Components profit center had a headcount of 1,009 employees worldwide. The staffing level thus reached approximately that of the previous year.

2-stroke cylinder of the latest generation

Large Engine Components profit center

Sales and operating profit

In the 2007 business year, the Large Engine Components profit center was once again able to participate in the positive market development for large engines and increase its overall sales in comparison with the previous year. A slight weakening of market growth was evident in the 2007 business year in applications for high-speed large engines. In the medium-speed engines segment, strong growth was achieved once again in applications for stationary and boat engines.

Considerable increases in material prices for steel, cast iron, and aluminum were not fully compensated, which meant that operating profit remained below the growth of sales in the 2007 business year.

Capital expenditure and human resources

In the 2007 business year, the investment ratio was above the previous year's value. Investments focused on expanding capacities for composite pistons. Several machining facilities for piston crowns and skirts were commissioned in the second half of the year.

The sustained growth in sales and quantities allowed additional jobs to be created in the Large Engine Components profit center. These were primarily filled by young skilled workers from the various MAHLE locations.

Composite pistons measuring 165–580 mm in diameter

Motorsports profit center

As in recent years, the major motorsport series and events, such as the Formula 1 World Championship, the 24 Hours of Le Mans, the German Touring Masters (DTM), and the American Le Mans Series (ALMS) and NASCAR series, were won with MAHLE pistons and engine components.

Sales and operating profit

In Formula 1, our core business, sales almost reached the previous year's level, because contrary to the original FIA announcement, the Formula 1 regulations were open for ongoing technical enhancements until the beginning of March 2007 rather than December 1, 2006. In the rest of the motorsport sector and in series activities, sales rose slightly.

At the Motorsports plant in Fellbach, Germany, increased sales in 2007 led to higher utilization of capacities than in the previous year. Besides improved productivity, a further improvement was made in profit compared with the previous year.

MAHLE at the top of motorsport—in Formula 1, here in the world champion vehicle from Ferrari,...

Capital expenditure and human resources

In 2007, investments focused on expanding the product range. In addition, the Motorsports profit center invested in modernizing processing equipment and making it more flexible in order to meet the market requirements in the innovative motorsport business.

The number of employees decreased slightly in comparison with the previous year. As it is essential for employees in the Motorsports profit center to be highly qualified and flexible, intensive training activities were carried out once again in the 2007 business year.

...or in the winning race car of the 24-hour Le Mans race, the Audi R10 TDI

Engineering Services profit center

2007 was a highly significant year for the development of MAHLE Powertrain. For the first time, a forward-looking engine concept (downsizing) developed in house, which has been very well-received by experts, was presented at the IAA Frankfurt, Germany. Other innovation projects, partly undertaken in close cooperation with the MAHLE research and development centers, formed an excellent basis for further raising the profile of MAHLE Powertrain in the market.

Sales and operating profit

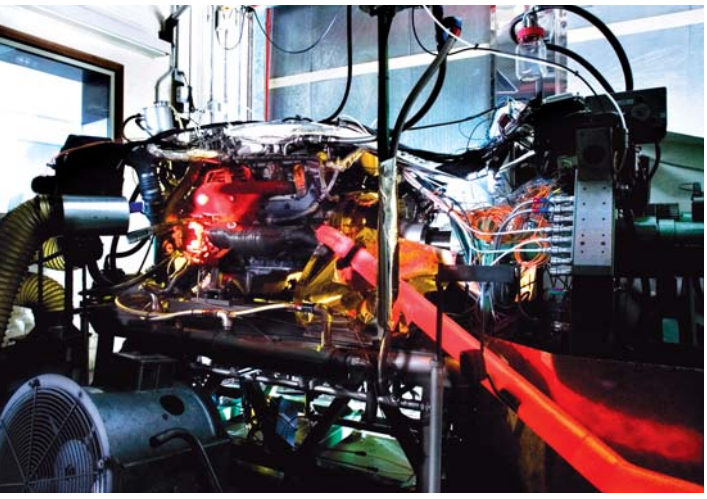
Sales increased by approximately 15% in comparison with the previous year. This was due to a market recovery and MAHLE Powertrain's considerably improved positioning. Increasing R&D expenditure by our customers played an important role in reaching goals relating to consumption and CO_2 reduction. Significant growth rates were achieved in the USA, England, Brazil, and Asia.

Thanks to the sales increases and measures to reduce costs, operating profit improved considerably in comparison with the previous year. We are therefore optimistic that the MAHLE Group goals relating to return on sales and investment will soon be achieved.

Capital expenditure and human resources

The long-term program for improving test bench equipment and quality continued in 2007, particularly in view of future emissions limits. A new product data processing system makes it possible for people to work simultaneously on the same project at different sites (e.g., in Europe and the USA).

Various rationalization measures allowed a reduction of around 10% in the number of employees, despite the increased sales. Specific measures to increase the number of engineering jobs have been initiated.



Engine testing at MAHLE Powertrain

A view of the assembly hall

Industrial Filtration profit center

Sales and operating profit

Once again, the Industrial Filtration profit center was able to significantly exceed the previous year's sales. While activities in the established segments benefited from the economic situation in plant construction and mechanical engineering, which remained very healthy, growth rates in separation technology were moderate overall, despite strong growth in the boat engines and large engines activities. Besides marine technology, mobile hydraulics, energy technology including wind power, and the automotive supply industry were the strongest growth drivers. With the expansion of newly founded joint ventures in Brazil and China, a sustainable sales increase is expected over the next few years.

The sustained strong growth in the established segments, the extension of the product range, and the consistent expansion of the international activities have contributed to the stable development of operating profit. The startup costs incurred in connection with the construction of the production plant in Romania were successfully offset.

Capital expenditure and human resources

Investments focused on the planned expansion of MAHLE NFV GmbH in Hamburg, Germany, acquired in 2006, into a development and production plant for separators and liquid preparation systems. Other investments were used to consistently expand the production facility in Romania and to modernize the manufacturing equipment at the Öhringen, Germany, location.

The number of employees at the main European production plants was specifically increased to cope with the strong demand and accompanying expansion of the product and production range. In particular, increases were made in the staffing level in the Sales and Development divisions.

Development of all profit centers

Business year	2007	2006
Consolidated sales*		
All profit centers	1,209	1,005
Share of Group sales	1,003	825
Capital expenditure on fixed assets*	48	38
Production plants	11	10
Headcount (as at Dec. 31)	5,307	4,404

* million EUR

Profit centers: Aftermarket, Small Engine Components, Large Engine Components, Motorsports, Industrial Filtration, Engineering Services, and others

PiP series: filters for industrial process technology

Price pressure and consolidation process on procurement markets characterize MAHLE Purchasing

The MAHLE Group's purchasing organization had to overcome three major challenges in the 2007 business year: Besides rising energy and raw material prices, the process of consolidation in the procurement markets continued. In addition, the purchasing organizations of the acquisition projects had to be successfully integrated into the worldwide MAHLE purchasing network.

2007 was characterized—particularly in the first six months—by further heavy increases in raw material prices, especially for nickel, steel, and copper. The resulting adverse effects on profit could only be passed on to our customers to a limited extent by means of appropriate contracts with price adjustment clauses. In the second half of the year, the growth of the raw material prices weakened slightly. This in turn was counteracted by a heavy increase in the price of crude oil, which put MAHLE under strong price pressure for materials affected by the price of crude oil, such as resins. The further rise in energy prices also affected the costs of materials during the reporting period and drove up costs at foundry and forge locations in particular. Corporate Purchasing counteracted the adverse effects on profit produced by these market developments with numerous purchasing and organizational measures. In addition to concluding long-term framework contracts and approving alternative suppliers, purchasing dates and quantities were optimized. Furthermore, the development of the supplier base in countries with low labor costs was continued with the establishment of purchasing offices, particularly in Mexico, China, India, and Eastern Europe. However, over the course of the year, the measures taken compensated partially for the negative effects of the material and energy price increases.

The gradual consolidation of suppliers in important procurement markets, which continued in the period under report, presented an additional challenge. In some subdivisions, this led to supply bottlenecks and supplier insolvencies. However, the MAHLE Group's supply was safeguarded at all times and in all locations by means of promptly initiated countermeasures and preventive risk management. Nevertheless, considerable adverse effects on costs were inevitable. An essential element of MAHLE's risk management involves maintaining independence from individual suppliers at all times. Our goal is to ensure that, for all materials, a sufficient number of highly qualified and competitive suppliers are available worldwide at the locations important for MAHLE.

In connection with the further growth of the Group, Corporate Purchasing's third core duty in the past business year was to integrate the procurement organizations acquired from the Dana Corporation and Siemens VDO into the existing MAHLE purchasing network. Alongside consolidation measures, the necessary reorganization involved the reorientation of the purchasing activities, taking the Group standards into account. In particular, the new locations had to be incorporated as quickly as possible into the MAHLE Group's existing global procurement structures, such as the lead buyer concept and their purchasing volumes used in the negotiations of global contracts in order to ensure more advantageous pricing. The further extension of IT applications for exchanging and managing data available worldwide played a significant role in these efforts. The acquisition of the new locations

was accompanied by expansion of the supplier base. For this reason, consistent consolidation of the supplier structures was another focus of the integration measures in the 2007 business year.

Innovative strength—a decisive competitive advantage

Innovative strength combined with high product quality has made MAHLE the leading systems supplier worldwide in the core businesses. Innovative strength will be crucial in ensuring that the company remains among the successful global companies in the automotive supply industry in the long term. In 2007, MAHLE's R&D activities focused on future-oriented solutions that contribute to reducing fuel consumption and emissions. One promising approach in this area is engine downsizing. The downsizing concept engine developed and built by MAHLE Powertrain demonstrates reduced fuel consumption in all engine operating ranges. The engine, equipped with leading-edge technological components from MAHLE, combines the systems know-how of all product lines and shows that this technology can also be implemented as a cost-effective systems solution.

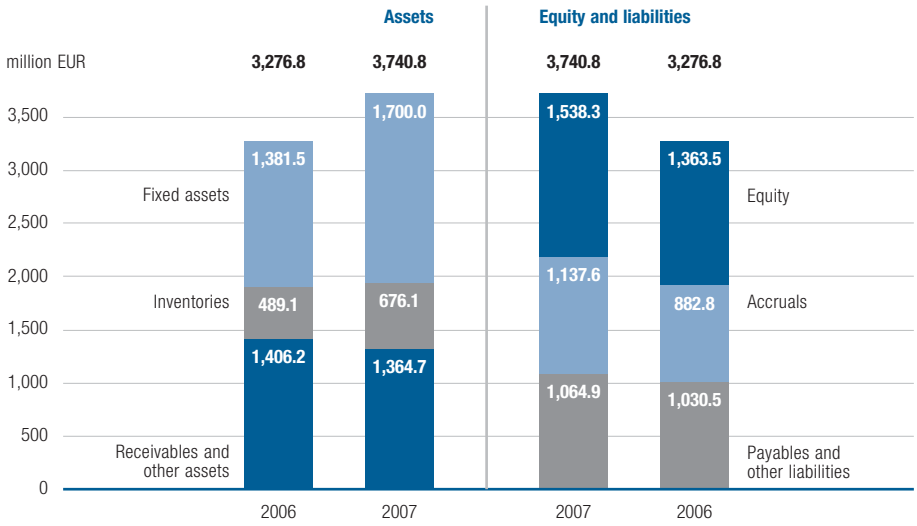
In research and development, the MAHLE Group was able to draw on the networked know-how of around 2,500 engineers, who worked on innovative products, materials, production technologies, and process methods in research and development centers operating worldwide. Research and development projects are coordinated centrally and reviewed with the Management Committee at regular intervals.

The international presence of the development activities, strengthened by joint ventures and acquisitions, reflects the customer orientation of the MAHLE Group. It allows intensive cooperation between the MAHLE engineers and the customers on site—ensuring that product and process development is optimally tuned to the particular requirements in each case.

Solid balance sheet structures even after breakthrough growth

The balance sheet total rose by EUR 464 million in comparison with the previous year (+14.2%) to EUR 3,740.8 million, primarily as a result of the significant expansion of the consolidation group. The structure of the major items on the assets and liabilities side of the balance sheet developed as follows in comparison with the previous year:

Balance sheet structure of the MAHLE Group



As a result of an expansion of the fixed assets and various measures to limit the increase in current assets, the proportion of current assets in the balance sheet total fell from 57.6% to 54%. Besides an investment level that considerably exceeded depreciation, the expansion of the fixed assets is characterized by newly included acquisitions (EUR +160.3 million). In addition, the intangible fixed assets recorded an increase of EUR 119.5 million, which is primarily due to the goodwill from the inclusion of newly acquired activities. The inventories rose by EUR 187 million (+38.2%) to EUR 676.1 million. In particular, the inventories incorporated into the Group balance sheet in connection with the first-time inclusion of newly acquired business units contributed to this increase. The development of the trade receivables (EUR +42.1 million) was also affected by an asset-backed security program. The increase in other current assets (EUR +60.6 million) resulted from a rise in tax refund claims, among other factors. Deferred tax assets (EUR +47.3 million), also rose, essentially because of the expansion of the consolidation group.

The liabilities side of the MAHLE Group balance sheet is characterized by the preservation of a good equity base despite the high level of growth. As at December 31, 2007, the equity rose to EUR 1,538.3 million (EUR +174.8 million) in comparison with the previous year, supported by the net income (EUR +223 million). Foreign currency exchange rate effects in connection with the capital consolidation reduced the equity by EUR 14.6 million. Despite the increase in total assets and liabilities and the payments of purchase prices for the acquired business segments, the equity ratio fell slightly by 0.5% in comparison with the previous year.

Besides the rise in equity, the main contribution to financing came from significant increases in accruals (EUR +254.8 million) and trade payables (EUR +112.3 million) resulting from acquisition. As well as growth in tax and pension accruals, the rise in accruals resulted primarily from the increased accruals for restructuring measures—particularly for improving the cost structure of the newly acquired activities and for realizing potential synergies—and the increase in other accruals in the Human Resources department. The liabilities to banks were reduced by EUR 113 million despite the numerous and large acquisition projects, as a result of the positive cash inflow from operational business activity. As at December 31, 2007, they made up just 11.8% of the balance sheet total, compared with 16.9% in the previous year.

Stable financial position

In 2007, despite the strong business expansion, the MAHLE Group was not only able to fully cover its operational financial requirements by means of cash inflows from operational business activity but also succeeded in generating additional cash. In particular, this was used to finance the acquisitions. Significant contributions to this development were made by the stable operating profits and—despite the considerable growth in capital expenditure on fixed assets compared with the previous year—the significantly smaller overall increase in the capital employed. The introduction of the aforementioned asset-backed security program also improved liquidity. Of the non-operating cash flows, cash outflows for interest and taxes recorded a higher value than in the previous year. The net financial situation as at December 31, 2007, deteriorated (EUR –90.9 million) in comparison with the previous year, mainly as a result of the acquisitions made. Bank loans and credit lines were utilized to a lesser degree than in the previous year, as the nature and scope of possible future business and company acquisitions as at the reporting date required a significantly smaller financing framework than was the case at the end of 2006.

Development in revenue above the previous year's level, despite increases in material prices and integration expenditure

In the 2007 business year, the MAHLE Group was able to improve on the previous year's profit situation. At EUR 308.1 million, the result from ordinary activities exceeded the previous year's value by EUR 13.5 million (+4.6%). The factors presented below had a substantial effect on the profit situation:

- Sales growth in all product lines and profit centers increased the sales level in the past business year as explained above. Thereby, reductions in sale prices, which had to be made under pressure from customers, had an adverse effect on both sales and gross earnings.

- Despite the positive results from the productivity increases achieved, the cost of sales increased in comparison with the previous year, slightly above the rate of business expansion. This development was essentially driven by a further rise in energy and raw material prices, in addition to as yet unoptimized structures and processes in most of the newly acquired business segments. The MAHLE Group was partially able to pass

on the higher material procurement costs to the customers by means of price adjustment clauses. In addition, wage increases, startup costs, new production locations, and increased restructuring expenditure for the integration of the newly acquired Company locations had a negative impact.

- The administrative and selling expenses and the research and development expenses rose, particularly in connection with the units consolidated for the first time this year, by 23.8% to EUR 518.6 million and by 14.9% to EUR 277.7 million respectively. In relation to sales, this meant a slight increase in the administrative and selling expenses (10.2%) in comparison with the previous year, while the ratio of the research and development expenses (5.5%) remained almost unchanged.

Taking into account a considerably lower tax ratio, the net income amounted to EUR 223 million, thus exceeding the previous year's value by EUR 31.2 million. The tax expense decreased as a result of expected startup losses and restructuring expenses, particularly in the NAFTA region. Tax revenue from increased deferred tax assets also made a significant contribution to this development.

Income Statement of the MAHLE Group

Figures in million EUR

Business year	2007		2006	
Sales	5,060.4		4,314.0	
Cost of sales	– 3,935.1	77.8%	– 3,324.8	77.1%
Gross profit on sales	**1,125.4**	**22.2%**	**989.3**	**22.9%**
Selling expenses and general administrative expenses	– 518.6	10.2%	– 419.0	9.7%
Research and development expenses	– 277.7	5.5%	– 241.6	5.6%
Other operating income and expenses	19.7	0.4%	– 9.6	0.2%
Income before financial results	**348.8**	**6.9%**	**319.1**	**7.4%**
Financial results	– 40.7	0.8%	– 24.5	0.6%
Income from ordinary business activities	**308.1**	**6.1%**	**294.6**	**6.8%**
Taxes	– 85.1	1.7%	– 102.8	2.4%
Net income for the year	**223.0**	**4.4%**	**191.8**	**4.4%**

Risk management

As a globally active company, the MAHLE Group is confronted with a variety of risks. Targeted risk management is therefore an essential task for ensuring the future success of the Company. Across the Group, the established risk management system takes into account the current legal, corporate, and customer requirements and is subject to ongoing development. On the basis of inspection plans that change every year, the viability of the risk management system is checked regularly by means of a global internal audit, which involves internal and, in particular, external employees. The MAHLE Group's risk management is characterized by the following main aspects:

- The identification of opportunities and risks at an early stage is ensured by systematic monitoring of market and technology trends. Firstly, information from these analyses is used in decision-making on future business segments and new production processes; secondly, it forms the basis for the selection and ongoing development of locations. The measures taken are described in the strategic or yearly Corporate Planning and their implementation is monitored in the monthly management reporting.

- Potential operative risks are counteracted by means of technical and safety standards, optimized production processes, and strict quality requirements. MAHLE is audited and certified in accordance with all relevant external quality standards and is thus subjected to substantial external checks that limit the risks. Possible damage and resulting plant failures, as well as other damage events and liability risks, are covered to an economically prudent degree by means of insurance policies.

- The MAHLE Group is exposed to market risks on both the sales and the procurement side. With continuous strengthening of the international orientation and a diversified customer portfolio, the MAHLE Group is aiming to achieve optimal dispersion of regional market and customer risks. Risks in the form of unexpected supply bottlenecks and/or price increases in purchasing are counteracted by means of regular supplier evaluations, use of alternative raw materials, preservation of supplier independence, and hedging transactions.

- Currency risks are counteracted by means of hedging activities in accordance with uniform Group principles. The use of derivative financial instruments is necessarily linked to the existence of an operational underlying transaction. The minimization of the liquidity risk is guaranteed by systematic Group-wide finance management. Counterparty risks in the conclusion of financial transactions are limited by ensuring that all counterparties have a first-class credit rating. According to value-at-risk analyses, the interest risk is low.

- In the IT division, security technologies protect against unauthorized access to data or misuse of data by internal and external parties. Server and storage systems, particularly for business-critical data and applications, allow data to be recovered at short notice in emergency and crisis situations. The defined security standards are not only geared toward the technical specifications of the hardware and software, but also include functional security structures and organizational provisions.

- The risk of losing employees in strategically important corporate positions is counteracted by means of performance-related remuneration systems, an employee- and goal-oriented leadership style, modern pension schemes, and numerous advanced training activities. Creating a positive and open working atmosphere and allowing wide scope for individual creativity strengthens the employees' loyalty to the Company.

For the 2007 business year, the auditors have analyzed the internal accounting-based control system as part of the audit of the consolidated financial statements and have raised no objections. The rules of the German Corporate Governance Code have also been implemented insofar as they apply to the MAHLE Group as a foundation-linked company.

Outlook—global economy loses momentum

According to the assessment of the International Monetary Fund (IMF), global economic development will weaken in 2008, particularly as a result of the development of the economic situation in the USA. The primary reason is the sustained recession in the U.S. real estate market, which is noticeably impairing the dynamics of consumption in the USA. High raw material and energy prices are creating a depressive effect worldwide. Nevertheless, an overall rise in the global gross domestic product is anticipated.

In automobile production, similar development to last year is expected. In the passenger cars and light commercial vehicles segment, further growth is imminent. Increases in vehicle volumes are no longer being seen in the traditional European and U.S. automobile markets but primarily in the BRIC countries. In the triad markets of USA, Japan, and Germany, a lateral movement is forecast for 2008. The U.S. vehicle producers in particular will be forced to make production cutbacks and capacity adjustments under pressure from Asian manufacturers. A moderate increase is also expected in the commercial vehicle segment. In North America, strong growth is expected to resume in the second half of the year at the latest, as a result of the emissions guideline cycles. To what extent the forecast figures can be achieved will depend on the development of the price of crude oil. This is expected to stabilize at a high level, which nevertheless remains subject to the historical volatility.

On the basis of the recognized innovative strength of the MAHLE Group and the further improved international presence resulting from last year's acquisitions, we expect business development in 2008 to participate fully in the worldwide growth of the automotive industry. Our aim is to sustain organic growth at the level of previous years. Besides continuing to cultivate the traditional markets intensively, we have made increased provisions to achieve disproportionately strong growth in the growth markets.

Worldwide automobile production

Number in 1,000s

Business year	2008	2008	2007	2007
	Passenger cars & light comls.	Commercial vehicles (incl. buses)	Passenger cars & light comls.	Commercial vehicles (incl. buses)
America	18,391	652	18,577	622
NAFTA	14,303	456	15,029	430
South America	4,088	196	3,548	193
Asia/Pacific	29,991	1,628	27,630	1,578
Japan	11,200	405	11,127	421
China	9,145	874	7,949	814
Europe	22,403	739	21,882	729
Germany	5,927	191	5,981	196
Other countries	1,760	0	1,778	0
Total	**72,545**	**3,019**	**69,866**	**2,929**

Source: AutoInsight, March 2008

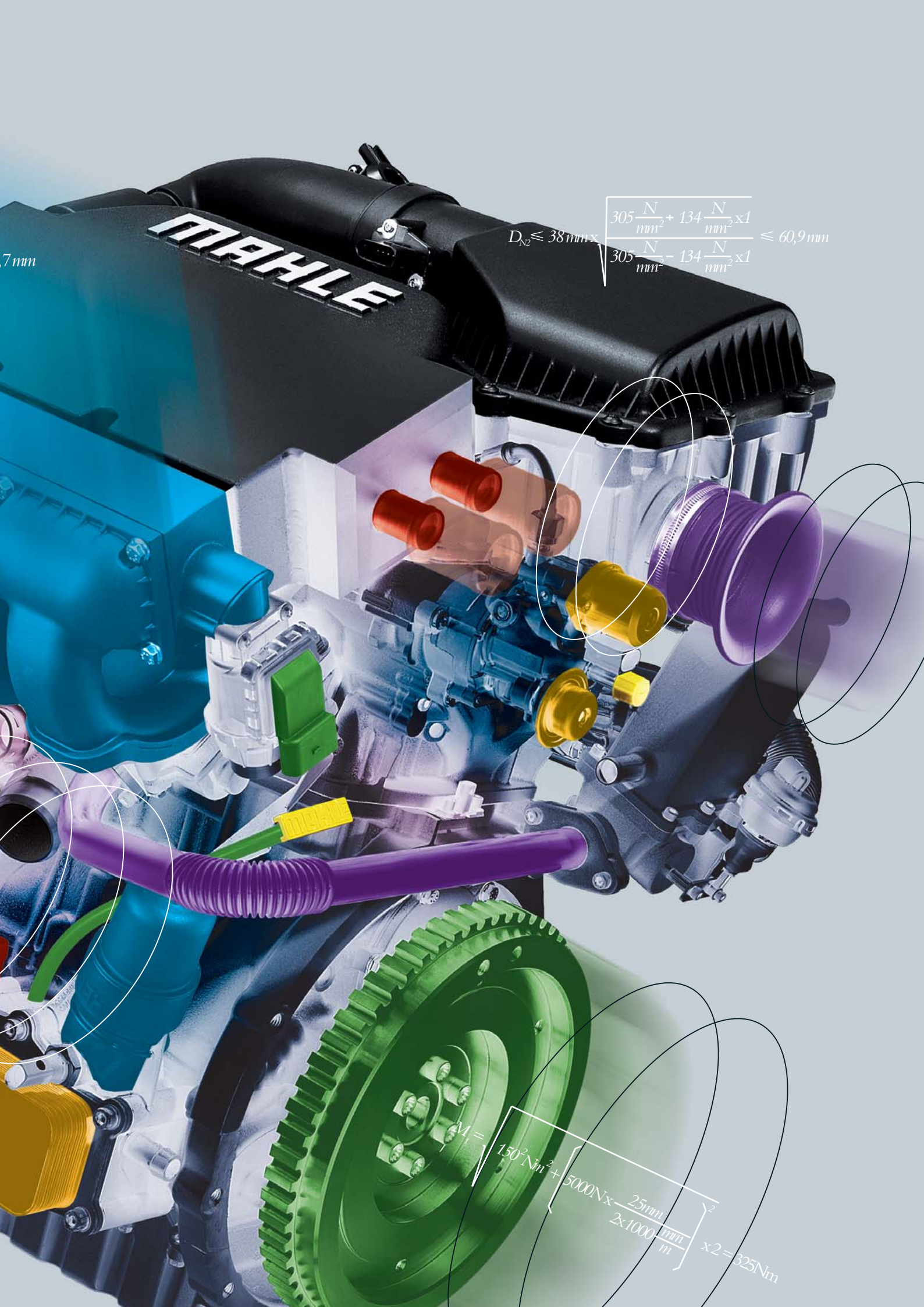
In 2008, the profit situation will be characterized primarily by the continuing integration of the units acquired in 2007, particularly the business segments taken over from the Dana Corporation and Siemens VDO. The cost-intensive integration and restructuring measures already started will be continued with the same high level of consistency, in order that the anticipated synergy effects can be realized as quickly as possible. Other factors adversely affecting profit are expected to come from the areas of materials and human resources, which we will counteract with measures to increase productivity and efficiency throughout the Group. The overall goal is to maintain the earnings level in 2008 and improve it significantly in subsequent years. However, this development is conditional upon the forecast for the worldwide automotive industry, which at present remains positive.

In the 2008 business year, we will systematically continue to take opportunities to achieve growth by making additional acquisitions. In January 2008, MAHLE acquired a majority share in the Turkish piston manufacturer Mopisan in order to strengthen its market position in the free trade market for engine components. In the 2007 business year, Mopisan achieved sales of EUR 24 million at its two production plants in Izmir and Konya with a total of 580 employees. The free trade business is a strategically important growth market for the MAHLE Group; the new company supplements MAHLE's production capacities geared toward small lots for pistons, piston pins, and cylinder liners. With its flexible production structures, the majority joint venture—to be known in the future as MAHLE Mopisan Izmir A.S. and MAHLE Mopisan Konya A.S.—will help to further improve MAHLE's delivery service.

In addition, the 50/50 joint venture MAHLE India Pistons Ltd., founded with the local partner India Pistons Ltd., is consolidated for the first time on February 1, 2008. The new company, in which MAHLE is taking the industrial and technological lead, will be based near Chennai, India, and will focus on the production of pistons for modern gasoline and diesel engines for the local market. The joint venture strengthens MAHLE's presence in the rapidly growing Indian market. Initially, an annual output capacity of approximately 3.2 million pistons is anticipated; this is expected to double within the next three years. In 2008, the company will employ about 300 people and expects sales of around EUR 25 million.

In February 2008, as part of efforts to exploit promising new business segments, MAHLE agreed to establish an equal joint venture with Robert Bosch GmbH for the development, manufacture, and marketing of exhaust gas turbochargers for combustion engines. The establishment of the joint venture, which will be called "Bosch Mahle Turbo Systems" and will be based in Stuttgart, is planned for April 2008 and is still subject to the approval of the anti-trust authorities. Exhaust gas turbochargers are a key technology for further increasing efficiency and reducing fuel consumption in modern combustion engines. As a result of efforts in the area of engine downsizing, we are expecting an increase in the use of exhaust gas turbochargers, including in gasoline engines. The joint venture is set to start production in 2010/2011.

COUNTLESS NEW DEVELOPMENTS
AND 209 PATENT APPLICATIONS.


MAHLE
,7 mm
$D_{N2} \leq 38\,mm \times \sqrt{\frac{305\frac{N}{mm^2} + 134\frac{N}{mm^2} \times 1}{305\frac{N}{mm^2} - 134\frac{N}{mm^2} \times 1}} \leq 60{,}9\,mm$
$M_1 = \sqrt{150^2 Nm^2 + \left[5000N \times \frac{25mm}{2 \times 1000\frac{mm}{m}}\right]^2} \times 2 = 325Nm$

BALANCE SHEET OF THE MAHLE GROUP as at December 31, 2007

Assets

in EUR '000			Dec. 31, 2007	Dec. 31, 2006
Fixed assets				
Intangible assets				
Industrial rights and similar rights	24,386			14,533
Goodwill	225,324			115,629
Advance payments	651			696
		250,361		**130,858**
Property, plant and equipment				
Land, leasehold rights and buildings including buildings on third-party land	464,051			411,097
Technical equipment and machinery	800,666			675,209
Other equipment, fixtures and furniture	64,013			66,273
Advance payments and assets under construction	101,067			82,592
		1,429,797		**1,235,171**
Financial assets				
Shares in affiliated enterprises	3,210			1,456
Shares in associated enterprises	1,515			918
Other equity investments	1,672			1,584
Long-term investments	12,487			10,397
Other loans	985			1,097
		19,869		**15,452**
			1,700,027	**1,381,481**
Current assets				
Inventories				
Raw materials and supplies	183,637			133,094
Work in process	162,163			131,610
Finished goods and merchandise	316,946			219,094
Advance payments	13,397			5,318
		676,143		**489,116**
Accounts receivable and other assets				
Trade receivables	767,260			725,162
Receivables from affiliated enterprises	191			432
Receivables from enterprises in which investments are held	2,236			1,476
Other assets	160,341			99,746
Deferred tax assets	133,801			86,537
		1,063,829		**913,353**
Marketable securities		**51,271**		**76,880**
Cash on hand and at banks		**228,228**		**406,478**
			2,019,471	**1,885,827**
Prepaid expenses			**21,268**	**9,445**
			3,740,766	**3,276,753**

Equity and liabilities

in EUR '000		Dec. 31, 2007	Dec. 31, 2006
Equity			
Subscribed capital	150,000		150,000
Capital reserves	166,430		166,430
Revenue reserves	1,134,057		958,585
Unappropriated retained earnings	7,081		6,011
Minority interests	80,723		82,457
		1,538,291	**1,363,483**
Accruals			
Accruals for pensions and similar obligations	372,407		354,496
Accruals for current taxes	67,654		31,632
Accruals for deferred taxes	67,565		47,484
Other accruals	629,995		449,166
		1,137,621	**882,778**
Liabilities			
Liabilities to banks	441,382		554,432
Advance payments received on account of orders	5,920		2,254
Trade payables	490,785		378,482
Liabilities on bills accepted and drawn	3,216		2,450
Payables to affiliated enterprises	445		881
Payables to enterprises in which investments are held	3,883		3,988
Other liabilities	117,187		84,735
Taxes: 29,020 (previous year 22,142)			
Relating to social security and similar obligations: 20,662 (previous year 15,328)			
		1,062,818	**1,027,222**
Deferred income		**2,036**	**3,270**
		3,740,766	**3,276,753**

Development of fixed assets of the MAHLE Group

in EUR '000	Accumulated acquisition or production cost as at Jan. 1, 2007	Changes in the Group	Additions in business year 2007	Write-ups in business year 2007	Disposals in business year 2007	Transfers in business year 2007	Accumulated depreciation and amortization	Net book value as at Dec. 31, 2007	Depreciation and amortization expense in business year 2007
Intangible assets									
Trademarks and similar rights	66,467	6,105	11,087	–	824	542	58,991	24,386	8,145
Goodwill	312,203	–	153,221	–	12,767	–	227,333	225,324	33,971
Advance payments	694	–	104	–	–	– 147	–	651	–
	379,364	**6,105**	**164,412**	**–**	**13,591**	**395**	**286,324**	**250,361**	**42,116**
Property, plant and equipment									
Land, leasehold rights and buildings including buildings on third-party land	782,164	59,277	22,225	–	11,008	13,843	402,450	464,051	24,931
Technical equipment and machinery	2,644,042	78,250	150,068	68	85,985	208,357	2,194,134	800,666	190,231
Other equipment, fixtures and furniture	364,306	4,434	24,073	–	13,975	– 118,384	196,441	64,013	25,269
Advance payments, assets under construction	79,678	18,358	112,358	–	3,585	– 104,211	1,531	101,067	61
	3,870,190	**160,319**	**308,724**	**68**	**114,553**	**– 395**	**2,794,556**	**1,429,797**	**240,492**
Financial assets									
Shares in affiliated enterprises	5,237	–	2,101	–	298	–	3,830	3,210	–
Shares in associated enterprises	6,025	15,279	–	598	15,279	–	5,108	1,515	–
Other equity investments	1,556	–	117	–	1	–	–	1,672	–
Loans to enterprises in which participations are held	–	3,648	–	–	3,648	–	–	–	–
Long-term investments	11,180	–	5,723	–	3,462	–	954	12,487	216
Other loans	2,757	–	156	–	239	–	1,689	985	1
	26,755	**18,927**	**8,097**	**598**	**22,927**	**–**	**11,581**	**19,869**	**217**
	4,276,309	**185,351**	**481,233**	**666**	**151,071**	**–**	**3,092,461**	**1,700,027**	**282,825**

INCOME STATEMENT OF THE MAHLE GROUP from January 1 to December 31, 2007

in EUR '000			2007	2006
Sales			**5,060,445**	**4,314,020**
Cost of sales		– 3,935,054		– 3,324,752
Gross profit on sales			**1,125,391**	**989,268**
Selling expenses		– 284,604		– 221,181
General administrative expenses		– 234,040		– 197,781
Research and development expenses		– 277,670		– 241,618
Other operating income		121,535		141,514
Other operating expenses		– 101,822		– 151,087
			– 776,601	– 670,153
Investment income			604	123
From associated enterprises:	600 (previous year 85)			
Income from other investments and long-term loans			131	195
Other interest and similar income			17,304	17,836
From affiliated enterprises:	2 (previous year 2)			
Amortization of financial assets and of marketable securities			– 217	– 35
Interest and similar expenses			– 58,481	– 42,609
To affiliated enterprises:	2 (previous year 6)			
Income from ordinary business activities			**308,131**	**294,625**
Taxes on income			– 66,886	– 91,053
Other taxes			– 18,196	– 11,760
Net income for the year			**223,049**	**191,812**
Profit applicable to minority shareholders:	21,403 (previous year 22,079)			
Loss applicable to minority shareholders:	45 (previous year 543)			

ANNOTATIONS TO BALANCE SHEET AND INCOME STATEMENT

Annotations to the Balance Sheet of the MAHLE Group

Accounts receivable and other assets in EUR '000	Carrying value Dec. 31, 2007	Thereof with a remaining period of more than 1 year
Accounts receivable		
Trade receivables	767,260	725
Receivables from affiliated enterprises	191	–
Receivables from enterprises in which investments are held	2,236	–
Other assets	160,341	24,040
Deferred tax assets	133,801	58,162
Total	**1,063,829**	**82,927**

In the previous year, trade receivables (EUR 963k), other assets (EUR 20,705k), and deferred tax assets (EUR 39,649k) had a remaining term of more than one year.

The *deferred tax assets* were formed as a result of deductible timing differences. A valuation allowance of EUR 26,544k was made for deferred tax assets in the business year for which the probability of recognition was considered insufficient.

Prepaid expenses comprise the differences between net loan proceeds and the amount repayable to banks (debt discounts) amounting to EUR 1,018k (previous year EUR 176k).

The *unappropriated retained earnings* equal that of the parent company and contain the amount carried forward from the previous year of EUR 11k.

Other accruals are comprised mainly of potential losses from pending transactions, obligations with regard to personnel matters, warranty-related risks, and expenditure arising in the years to come.

Liabilities in EUR '000	Carrying value Dec. 31, 2007	Thereof with a remaining period of up to 1 year	Thereof with a remaining period of more than 5 years
Liabilities to banks	441,382	271,444	16,654
Advance payments received on account of orders	5,920	5,814	10
Trade payables	490,785	490,608	69
Trade notes payable	3,216	3,216	–
Payables			
To affiliated enterprises	445	445	–
To enterprises in which investments are held	3,883	3,883	–
Other liabilities	117,187	112,289	803
Total	**1,062,818**	**887,699**	**17,537**

In the previous year, liabilities to banks (EUR 310,391k), advance payments received on account of orders (EUR 2,120k), trade payables (EUR 378,146k), liabilities on bills accepted and drawn (EUR 2,450k), payables to affiliated enterprises (EUR 881k), payables to enterprises in which investments are held (EUR 3,988k), and other liabilities (EUR 80,298k) had a remaining term of less than one year.

Of the liabilities to banks, EUR 10,729k is secured by property liens and EUR 9,280k by similar rights.

Contingent liabilities in EUR '000	
Contingents from notes	5,489
Bonds and guarantees	46
Collateral for third-party liabilities	–
Warranties	367

Other financial obligations in EUR '000	
Purchase commitments	64,266
Financial obligations resulting from rent and lease agreements	57,184
Others	15,696

Annotations to the Income Statement of the MAHLE Group

The income statement of the MAHLE Group is grouped in accordance with the cost of sales method. The sales are set against the expenditure incurred in their realization, which is allocated in principle to the functional divisions production, sales, general administration, and research and development.

The cost of sales includes the material and production costs incurred in the realization of the sales and the landed costs of the trade business. The costs of the allocation to accruals for warranties are also included in this item.

The marketing costs include, in particular, personnel and equipment costs, depreciation allocated to the sales division, logistics, market research, sales promotion, shipping and handling, and advertising costs.

The general administration costs include personnel and equipment costs as well as depreciation allocated to the administration division.

The personnel and equipment costs and depreciation allocated to the research and development division are of considerable importance to the MAHLE Group. In order to present the economic status of the Company more clearly, they have been included as separate items in the breakdown.

Sales by business unit in EUR '000	
Product line Piston Systems	1,296,248
Product line Cylinder Components	752,082
Product line Valve Train Systems	655,018
Product line Air Management Systems	819,908
Product line Liquid Management Systems	534,596
Profit center Aftermarket	611,618
Profit center Small Engine Components	125,749
Profit center Large Engine Components	100,460
Profit center Motorsports	47,020
Profit center Industrial Filtration	87,809
Profit center Engineering Services and others	29,937
Total	**5,060,445**

Sales by geographically defined market (country of manufacture) in EUR '000	
Europe	2,632,262
America	1,565,621
Asia, Africa, Australia	862,562
Total	**5,060,445**

Sales by geographically defined market (target area) in EUR '000	
Europe	2,752,134
America	1,587,173
Asia, Africa, Australia	721,138
Total	**5,060,445**

Personnel expenses in EUR '000	
Total	**1,426,730**

Depreciation on property, plant and equipment in EUR '000	
Total	**240,492**
Thereof extraordinary on account of limited use	–

Interest and similar expenses

The interest expense from the appropriation to accruals for pensions and similar obligations, amounting to EUR 18,368k, is shown here.

Taxes on income

The taxes on income include deferred tax expenses of EUR 27,238k.

Other annotations

Average headcount (without apprentices) over the year	
Direct employees	25,142
Indirect employees	19,208
Total	44,350

Derivatives as at December 31, 2007 Derivatives not yet settled at the balance sheet date in accordance with Secs. 285, 314 HGB can be broken down as follows: in EUR '000	Nominal amounts	Current value* to be attributed
Transactions relating to interest	17,268	596
Transactions relating to currency	538,261	6,192
Transactions relating to commodity	140,306	– 11,613
Transactions relating to credit default	11,956	– 116

* The current value attributed to the currency-related transactions corresponds to the market value of the derivatives at the balance sheet date which is identified in accordance with the mark-to-market method. All other transactions are based on recognized financial/mathematical models.

The derivative contracts as at December 31, 2007 are placed exclusively with banks. Accruals of EUR 15,233k were formed for transactions on which potential losses have arisen.

Remuneration paid to the members of the Supervisory Board and the Management Board of MAHLE GmbH (parent company) in EUR '000	
Supervisory Board	144
Management Board	4,012

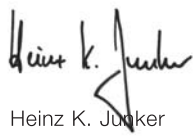
The total remuneration paid to the Management Board comprises fixed and variable components. The fixed portions for 2007 came to EUR 1,655k, and the variable compensation for 2007 to EUR 2,311k. The remuneration shown also includes a partial amount for the 2006 business year. The fixed portions include benefits in kind, which consist primarily of the non-cash benefits of having company cars.

Remunerations paid to former executive directors and their descendants amounted to EUR 1,518k.

An amount of EUR 10,978k is set aside for this group of persons in the pension accruals as at December 31, 2007.

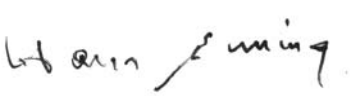
Stuttgart, March 18, 2008

The Executive Directors of MAHLE GmbH



Heinz K. Junker

Hans Peter Coenen



Hans-Josef Enning

Michael Glowatzki

Peter Grunow

Bernhard Volkmann

AUDIT OPINION

The auditors have issued the following opinion on the complete consolidated financial statements and the group management report.

We have audited the consolidated financial statements prepared by MAHLE GmbH, Stuttgart, comprising the balance sheet, the income statement, the notes to the consolidated financial statements, cash flow statement, and statement of changes in equity, together with the group management report for the fiscal year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ("Handelsgesetzbuch": German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany: IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities to be included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 20, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Elkart
German Public Auditor

Marbler
German Public Auditor

BALANCE SHEET OF MAHLE GMBH as at December 31, 2007

Assets

in EUR '000			Dec. 31, 2007	Dec. 31, 2006
Fixed assets				
Property, plant and equipment		82,761		74,273
Financial assets		878,918		786,657
			961,679	**860,930**
Current assets				
Inventories		60,684		51,491
Accounts receivable and other assets				
Trade receivables	10,765			57,729
Other accounts receivable and other assets	250,730			117,090
		261,495		174,819
Cash and cash equivalents		22,980		217,519
			345,159	**443,829**
Prepaid expenses			**240**	**35**
			1,307,078	**1,304,794**

Equity and liabilities

in EUR '000			Dec. 31, 2007	Dec. 31, 2006
Equity				
Subscribed capital		150,000		150,000
Capital reserves		166,430		166,430
Revenue reserves		561,300		512,400
Unappropriated retained earnings		7,081		6,011
			884,811	**834,841**
Accruals				
Accruals for pensions and similar obligations		136,413		133,509
Other accruals		91,740		87,277
			228,153	**220,786**
Liabilities				
Liabilities to banks		55,006		78,362
Trade payables		25,503		25,206
Other liabilities		113,605		145,599
			194,114	**249,167**
			1,307,078	**1,304,794**

INCOME STATEMENT OF MAHLE GMBH from January 1 to December 31, 2007

in EUR '000		2007	2006
Sales		**521,548**	**484,644**
Cost of sales	– 438,878		– 403,749
Gross profit on sales		**82,670**	**80,895**
Selling expenses	– 19,441		– 25,905
General administrative expenses	– 36,949		– 39,586
Research and development expenses	– 41,497		– 31,189
Other operating income	41,605		35,811
Other operating expenses	– 33,445		– 38,084
		– 7,057	– 18,058
Investment income		24,099	30,494
Income/expense from profit and loss transfers		83,943	134,251
Amortization of financial assets		– 36,516	– 21,886
Interest		2,158	– 1,906
Income from ordinary business activities		**66,627**	**122,895**
Taxes on income		– 10,147	– 8,513
Other taxes		– 510	– 510
Net income for the year		**55,970**	**113,872**

MEMBERS OF THE SUPERVISORY BOARD

Dr. rer. pol. Klaus P. Bleyer
Chairman
Former Chairman of the Management Board of ZF Friedrichshafen AG, Friedrichshafen, Germany

Bernd Hofmaier-Schäfer
Deputy Chairman
Chairman of the Central Works Council of MAHLE Group Germany

Rolf Allmendinger
Former Chairman of the Supervisory Board of WMF Aktiengesellschaft, Geislingen, Germany

Herbert Bossert
Executive Secretary of the Central Works Council of MAHLE Group Germany

Martin Bücher
Deputy Chairman of the Central Works Council of MAHLE Group Germany

Hubert Dünnemeier
Union Secretary of Industriegewerkschaft Metall Baden-Württemberg, District Administrative Office, Stuttgart, Germany

Prof. Dr. jur. Wolfgang Fritzemeyer
LL.M., Attorney-at-Law
Baker & McKenzie, Munich, Germany

Dipl.-Kfm. Horst H. Geidel
Chairman of the Supervisory Board of Behr GmbH & Co., Stuttgart, Germany

Dr. rer. pol. Rolf A. Hanssen
Former Chairman of the Management Board of MTU Friedrichshafen GmbH, Friedrichshafen, Germany

Hans D. Jehle
effective April 17, 2008
Former President of MAHLE, Inc., Morristown, USA

Thomas R. Letsch
Vice President Sales and Application Engineering Commercial Vehicles of MAHLE International GmbH

Gerhard Pietsch
effective April 17, 2008
Managing Director of the MABEG e. V. Association to promote and advise the MAHLE Group, Stuttgart, Germany

Prof. Dr.-Ing. Stefan Pischinger
Director and Professor, Institute of Combustion Engines, RWTH Aachen, Germany

Willi Ritter
Chairman of the Works Council of Stuttgart plant and the European Works Council of MAHLE Group

Hansjörg Schmierer
Managing Director of Industriegewerkschaft Metall Local Administrative Office, Stuttgart, Germany

Dipl.-Kfm. Dieter Schnabel
until April 17, 2008
Former Chairman of the Management Board of Robert Bosch Ltda., Campinas, Brazil

Manfred Steidle
Deputy Chairman of the Central Works Council of MAHLE Group Germany

Dipl.-Ing. Hans-Ulrich Wacker
until April 17, 2008
Former Executive Vice President of MAHLE Group

REPORT OF THE SUPERVISORY BOARD

In March 2008, the members of the Supervisory Board were re-elected in accordance with the regulations of the 1976 Codetermination Act. The constituent meeting of the new Supervisory Board took place on April 17, 2008. The Supervisory Board would like to express particular gratitude to its retired members, Dieter Schnabel and Hans-Ulrich Wacker, for their many years of constructive cooperation.

During the year under report, the Supervisory Board was informed regularly through oral and written reports from the Management Board and during meetings on the status and development of business of the Company and the MAHLE Group. The Supervisory Board held three ordinary meetings.

Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Germany, audited the Annual Financial Statements and the Status Reports of the MAHLE Group and of MAHLE GmbH for the 2007 business year, rendering an unqualified audit opinion. The Supervisory Board agrees with the results of the audit.

The Supervisory Board approves the Annual Financial Statements and the Status Reports of the MAHLE Group and of MAHLE GmbH, and does not raise any objections to the appropriation of income as proposed by the Management Board.

Stuttgart, April 17, 2008

For the Supervisory Board

Dr. Klaus P. Bleyer
Chairman

Dr. Klaus P. Bleyer

MANAGEMENT BOARD

Prof. Dr.-Ing. Heinz K. Junker
Chairman and CEO
Product Line Cylinder Components
Profit Centers Aftermarket and Motorsports
Market, Sales and Advanced Engineering
Communications, Legal, and Internal Audit

Dr.-Ing. Hans Peter Coenen
Corporate Executive Vice President and General Manager
Product Line Piston Systems
Profit Centers Small Engine Components and Large Engine Components

Dr.-Ing. Hans-Josef Enning
Corporate Executive Vice President and General Manager
Product Line Valve Train Systems
Corporate Quality Management

Michael Glowatzki
Corporate Executive Vice President
Human Resources

Dipl.-Kfm. Peter Grunow
Corporate Executive Vice President and General Manager
Product Lines Air Management Systems and Liquid Management Systems
Profit Center Industrial Filtration
Corporate Purchasing

Dr. rer. pol. Bernhard Volkmann
Corporate Executive Vice President and Chief Financial Officer
IT Services, Insurances

COMMERCIAL/GENERAL GLOSSARY

Accruals
Liability items in the balance sheet. The purpose of accruals is to take into account demands for payment that are already identifiable at the balance sheet date but for which the amount and/or due date are still uncertain.

Aftermarket
Sale of products to independent market: in spare part business parallel with or following series production.

Asset-backed security (ABS)
In an asset-backed security transaction, a company sells parts of its receivables portfolio to a company, which, in turn, refinances itself by issuing marketable securities (asset-backed securities).

Base rate
An interest rate set by the central bank to be used as a basis for refinancing in the interbank money market and credit business with non-banks.

Best practice
Method for success: Anglo-American business term. When a company acts according to best practice, it uses proven, cost-effective processes, technical systems, and business processes, which make it an industrial model for others, at least in the major fields of activity.

BRIC countries
Acronym for Brazil, Russia, India, and China. These countries are generally regarded as major emerging growth markets.

Collective agreement
Umbrella term for works and labor agreements.

Consolidation group
Comprises the parent company and all subsidiaries and participations that must be considered in accordance with the regulations of the HGB on the date on which the consolidated financial statements are drawn up.

Due diligence process
This refers to the due diligence with which equity holdings or real estate are audited prior to their acquisition. It includes, in particular, a systematic analysis of strengths and weaknesses and an in-depth valuation of the equity holding or real estate. In addition, the risks connected with the purchase are analyzed. The audits cover, for example, balance sheets, human and material resources, strategic positioning, legal and financial risks, and environmental liabilities.

Emerging markets
Group of countries that are traditionally still regarded as developing countries but, because of their economic performance, no longer exhibit the typical characteristics of developing countries, yet cannot be classed among the industrialized countries. Therefore a separate term is used.

**Executive Excellence Program (EEP)/
International Development Program (IDP)**
MAHLE internal personnel development programs for executives.

First consolidation
First consideration of Group member companies in the balance sheet of the absorbing subsidiary (usually if holding exceeds 50%).

German Corporate Governance Code
Basic statutory standards for the management and for monitoring of German companies listed on the Stock Exchange (corporate governance). It comprises internationally and nationally recognized standards of good and responsible corporate governance.

Gross domestic product (GDP)
Measure of the economic performance of a national economy during a specified period. It measures the value of the goods and services (added value) produced within the country, except those treated as intermediate consumption for the production of other goods and services.

Gross investments into fixed assets
They consist of the acquisition of new assets and the net of purchases and sales of used assets. The fixed assets include produced property, plant, and equipment (buildings, machines, vehicles, etc.) and produced intangible fixed assets (software, copyrights, etc.) that are used in the production process repeatedly or continuously for more than a year.

Investment ratio
Ratio of investments to consolidated sales.

Joint venture/majority joint venture
Business entity which is operated jointly by two or more companies on the basis of a cooperation agreement. In a majority joint venture, one company holds a higher percentage of the shares in the joint venture than the other partners.

Lead buyer concept
Concept in which one buyer is globally responsible for a certain material group.

Memorandum of Understanding
Document signed by the parties for a contract yet to be concluded, which establishes its key points. Normally, it is only a statement of intent without binding legal force.

NAFTA
Acronym for the free trade zone founded on January 1, 1994—North American Free Trade Agreement. Its members are the United States of America, Canada, and Mexico.

Organic growth
Part of the growth (of a company) resulting from internal forces and not from acquisitions.

Price adjustment clause
Contractual agreement in which the establishment of the final price to be paid is made dependent on the price development of certain cost elements (e.g., raw material prices, labor costs, etc.).

Profit center
Organizational subdivision for which the profit for the period is calculated separately. Profit centers usually operate as independent companies, with the aim of earning as high a profit as possible (profit responsibility).

Return on investment
Earning power calculated as the ratio of profit to fixed capital.

Synergy effects
Positive effect arising from the merger or collaboration of companies or the interaction of production factors.

Value-at-risk
Method for risk quantification. This is used to calculate the expected value of a loss that may occur, in the event of an unfavorable market development, with a specified probability within a defined period of time.

TECHNICAL GLOSSARY

Actuator
Actuating element in the control circuit: element that converts signals from a control unit into mechanical work, i.e., motions—in order to open or close a flap for example.

ALBOND®
MAHLE trademark for a cylinder liner compound which, when poured in, ensures a form-fitting bond with the aluminum alloy because of its rough exterior surface.

CamInCam® camshaft
Camshaft that achieves the functionality of two adjustable camshafts in the installation space of one camshaft. The exhaust cams are connected firmly to the shaft, and the intake cams are joined to the inner camshaft by a connecting element.

Charge movement flap
Adjustable flap fitted in the intake section just in front of the intake valve. It leads to increased flow intensities in the combustion chamber, optimized mixture formation, and improved transport of the mixture to the spark plug.

Chilled cast iron
Cast iron in which the carbon remains bound to the iron atoms as iron carbide when the die-cast part is solidified, while otherwise it precipitates out of the iron structure as graphite. A casting process is used to produce a die-cast part of this kind, with a hard, wear-resistant shell as well as a core with the good machinability properties of gray cast iron.

Composite camshaft
Camshaft that consists of individual parts (main shaft, drive element, cams, and other parts), assembled by thermal shrink fit.

Compressor map
Operating map showing the correlation between the turbine speed, the ratio of the air pressures at the compressor inlet and outlet, and the air mass flow rate fed to the compressor, in order to characterize the operational behavior of the compressor side of a turbocharger.

COSCAST® process
Patented manufacturing process for casting cylinder heads and cylinder blocks. It was originally developed for motorsport, but is now also used for standard applications.

Cylinder shut-off
Selectively shutting off one or more cylinders, normally in load ranges in which full performance is not required from the engine, in order to reduce fuel consumption and emissions.

DLC coating
"Diamond-Like Carbon": very hard carbon coating with extremely positive wear, friction, and corrosion-reducing properties.

Downsizing
The performance and torque characteristics of smaller engines are improved by increasing the mean effective pressure, allowing them to replace larger engines.

EVOTEC® piston
Lightweight piston for passenger car gasoline engines with a load-optimized rigid structure and low wall thicknesses.

Exhaust gas recirculation (EGR)
In this type of system, some of the exhaust gas is added to the intake air. This results in a reduction of nitrogen oxides (NO_x) during combustion, allowing compliance with emissions limits.

FERROTHERM® piston
2-piece piston developed by MAHLE, which withstands the high loads in high-performance commercial vehicle engines. The piston crown and skirt are connected by the piston pin, i.e., the guiding and sealing functions are separated, as are the heat dissipation and transmission of power.

Flex-fuel application
Application that can run on either pure gasoline or a variety of similar fuels, such as mixtures of ethanol, bioethanol, or methanol and gasoline.

FMEA
Failure mode and effects analysis: tool for identifying risks as early as possible and for systematically preventing defects.

Forged cracked connecting rod
Single-piece forged connecting rod in which the two connecting rod caps are separated from each other in the cracking process. The two halves can be fitted together perfectly after the cracking and are protected against relative motion by the irregular fracture pattern.

Lean operation
Mode of engine operation that relies on a shortage of fuel or excess air in the mixture to be combusted.

Lightweight valve
Lightweight steel valve made from high temperature-resistant steel configured as a hollow body, developed by MAHLE. It decreases the moving mass in the valve train by 30–50 percent in comparison with traditionally forged valves and reduces the frictional losses in the engine.

MONOTHERM® piston
Single-piece forged steel piston, developed by MAHLE, with the piston skirt firmly connected to the pin bore and the piston crown. It is used, for example, in high-performance commercial vehicles, building machines, marine applications, and generators.

NIKASIL®
MAHLE trademark for a protective surface coating for engine components, produced by galvanically coating aluminum with nickel and silicon carbide. It improves the tribological properties of the cylinder bore and the interaction between cylinder liner and piston.

PiP series
Series of cartridge filter and pocket replacement filter elements used in the filtration process to purify water and cleaning fluids as well as to filter low-viscosity oils and emulsions such as lacquers and paints.

Power cell module
Assembly consisting of piston, piston rings, piston pin, and pin retainer, as well as cylinder liner, connecting rod, and bearings.

PVD coating
"Physical Vapor Deposition": vacuum-based coating methods or thin-film technologies in which a coating is vapor-deposited directly onto a surface by means of condensation of the starting material.

Sintering
Solidification of crystalline, granular, or powdery substances and subsequent coalescence of the crystallites as a result of appropriate heat treatment.

Supercharging
To increase the volumetric efficiency, performance, and efficiency, more air and thus more oxygen is pumped into the combustion chamber of each cylinder.

Thermal Management
Energetic improvement of the thermal regulation through optimal control of the heat flows (of combustion engine, transmission, and passenger compartment) to reduce fuel consumption and emission output.

Variable valve train/fully variable valve train
In fully variable valve control, valve lift, opening time, and valve timing can be varied. The main objective of a fully variable valve train is to allow the engine to run without a throttle valve to reduce throttling loss. In variable valve control, only the valve timing can be modified.

Wastegate
Its purpose is to set the required charge-air pressure for charging using an exhaust gas turbocharger—by regulating the exhaust gas mass flow, which is guided around the turbine via a bypass when required.

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FINANCIAL CALENDAR 2008

April 25, 2008
Annual Press Conference

September 15, 2008
Half-year Press Conference

IMPRINT

Published by
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Concept and Design
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Diemershaldenstrasse 36
D-70184 Stuttgart
www.branschundpartner.de

Photography/Photo Acknowledgements
Audi AG
Ferrari S.p.A.
MAHLE Archiv
MarquardtHarald
Simianer & Blühdorn GmbH

You can also find this Annual Report and more information about the Company on the Internet at: **www.mahle.com**

00007524EN1.6.4/08

MAHLE ANNUAL REPORT 2007