

MAHLE

Driven by performance



ANNUAL REPORT 2005



THE ART OF PERFECTION

Passion for performance and perfection. “Driven by performance” – in this spirit we develop innovations for new engines and powertrains. Fascinating products. Works of perfection and precision. Every day, they challenge our creativity anew and have even inspired artists to tackle this subject matter. The result? Independent works of art that move and fascinate people in a special way.

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

Dear readers,

Once again, under difficult conditions, we succeeded in achieving significantly stronger growth than the market and the automotive industry in general. In 2005, MAHLE achieved sales of more than EUR 4 billion for the first time in the company's history, corresponding to an increase of almost 10 percent in comparison with the previous year. The driving forces for this development were, in particular, the markets outside Europe. North and South America and, most of all, Asia made a vital contribution to this growth. Today, we generate the majority of our profit in the regions of the world outside Europe. This is where, in recent years, we have been able

to set the course for the future with new plants and plant expansions, and are now benefiting from the expanding demand with extended local development and production capacities.

The high demand worldwide for commercial vehicles and the proportional increase of diesel drives to almost 50 percent in the passenger car sector in Europe also had a positive effect on the growth of sales. MAHLE traditionally plays a strong role in both market segments on account of its technological leadership. With our various engine systems for high-performance diesel engines, we are the world leader and have a global presence with large market shares.

The sales increases we achieved resulted primarily from internal organic growth and, to a lesser extent, from strategic acquisitions. These include the acquisition of the Cosworth Technology Group – now MAHLE Powertrain – on January 1, 2005. This acquisition strengthens our engineering and systems competence. It also opens up new business prospects for the long term – from engineering services to integrated powertrain and engine equipment. MAHLE Powertrain's R&D centers in Northampton/England and Novi near Detroit/USA, are now integrated into MAHLE's research and development activities with jointly coordinated projects. Another milestone is our new R&D center in Shanghai/China, which will open at the start of 2006 and eventually form another pillar of our global engineering competence in one of the automotive industry's largest markets of the future. In addition, we have strengthened our activities in India and Thailand.

As a result of the expanded business volume, we were able to continue the development in revenue recorded in recent years. Improvements were achieved in both earnings before interest and taxes (EBIT) and the Group net income for the year. The partly very high increases in material prices, which we were unable to pass on to our customers to a sufficient degree, also had a

burdensome effect. Unfavorable exchange rate relationships, particularly for export volumes from Brazil and Poland, also put a strain on profit. On top of this, the price pressure from our customers is continuing unabated. The general weakness of the market in Europe and North America and the resulting economic difficulties for some of our major customers played a significant role in this development. Overall, we also succeeded in further improving our solid balance sheet structure. By doing so, we have created a strong basis for further growth at above-average levels.

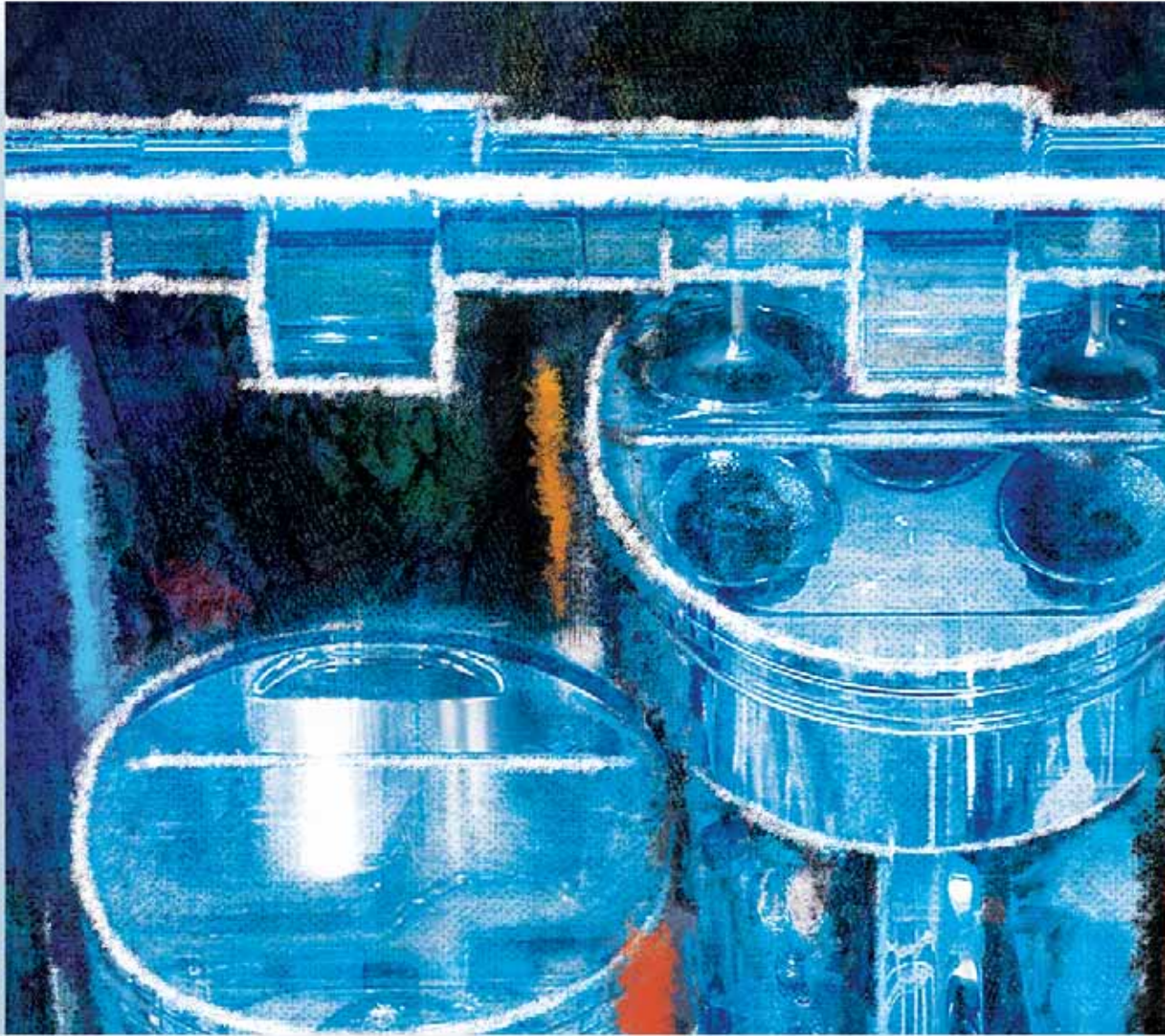
In view of the continuing unsatisfactory profit development in Germany, we agreed on measures to secure locations and safeguard employment with the employee councils and union committees in spring 2005, which include, in return, a reduced level for wage and salary increases, further flexibility in working hours and a separate service agreement with modified conditions. This complete package, which is linked to specific factors for economic success, should bring about competitive conditions for the future at our German locations.

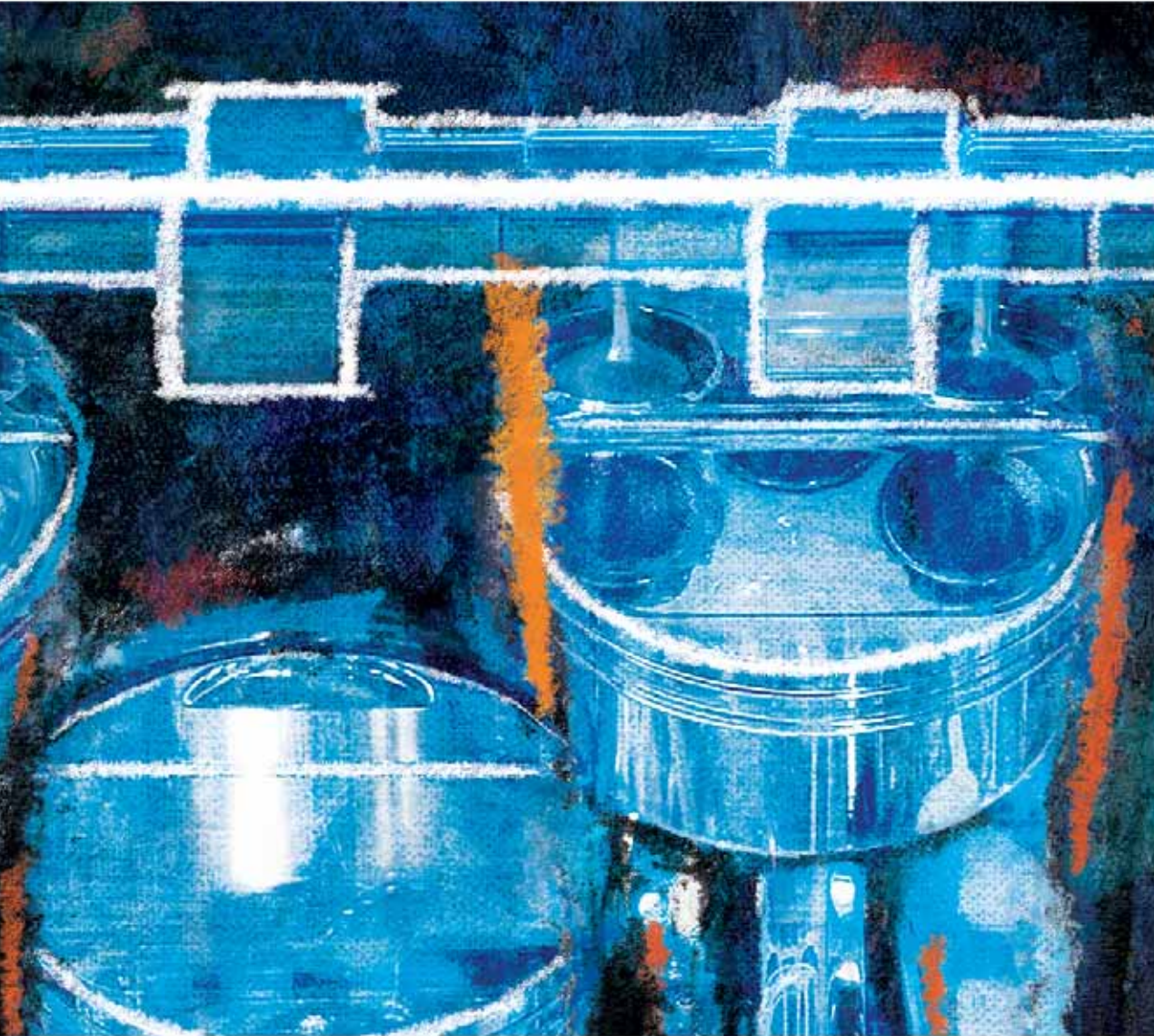
In a difficult international environment, we are faced with the task of improving our global competitiveness and further strengthening MAHLE's dedication to performance through the optimum use of all resources and the personal commitment of each individual. Our new slogan "Driven by performance" points the way. At our international executive meeting, the above-average dedication to performance was identified as an integral part of the MAHLE corporate identity and as an important brand value. Performance is, and remains, the driving force of our success – worldwide. In this annual report, we let the performance and appeal of our products speak for themselves.

On behalf of the Management Board, I would like to thank all employees for their dedication and commitment in the past business year and our business partners for their good cooperation.



Heinz K. Junker





EXPLOITING POTENTIAL, SPEEDING INTO THE FUTURE



Impetus for tomorrow – “They’re here. Ideas for the future. Interlocking. One spark is all you need. And energy becomes movement. Each one is an engine of progress.”



PERFORMANCE – THE DRIVING FORCE FOR SUCCESS

Driven by performance: more power, more torque, higher peak cylinder pressure, higher temperatures. Less weight, lower emissions, less consumption. With higher cost pressure and shorter development cycles. As we look toward the future, the increasing requirements of the automotive industry call for partners who, with greater performance, are a true driving force.

MAHLE – with outstanding passion for performance, precision, perfection and unique systems competence in all aspects of the combustion engine, we promote innovations for progress dynamically and powerfully, and have been doing so for over 80 years. Our aim is clear: to decisively shape the development of automobile and engine technology and set new standards time and again. With growing success. Because our components, systems, services and global presence with networked development resources give our customers the decisive edge on the market – both now and in the future. Performance that pays off.

The members of the Management Committee



Prof. Dr. Heinz K. Junker



Dr. Hans Peter Coenen



Dr. Hans-Josef Enning



Michael Glowatzki



Peter Grunow



Dr. Bernhard Volkmann

MAHLE – GLOBAL LEADER IN TECHNOLOGY

MAHLE components and systems developments are used in every second automobile produced worldwide. MAHLE has an on-site presence in all important automotive markets worldwide. Approximately 37,500 employees work at 80 production plants and seven R&D centers. Through our global positioning, and by concentrating on our core business, the combustion engine and engine peripherals, we advanced our position as technological leaders and were also able to win new market shares in many segments last year. Today, we develop and produce a wider range of engine components and systems than any other renowned engine manufacturer. Our customers include all the well-known manufacturers of combustion engines worldwide.

MAHLE Group organization

Product lines			Profit centers		
Piston Systems			Aftermarket		
Cylinder Components			Small Engine Components		
Valve Train Systems			Large Engine Components		
Air Management Systems			Motorsports		
Liquid Management Systems			Industrial Filtration		
Advanced development	Sales	Procurement			



Dr. Thomas Buchholz



Hans Gebert



Claus Hoppen



Dr. Bernd Mahr



Dr. Rudolf Paulik

GROUP ORGANIZATION – GLOBAL AND CUSTOMER-ORIENTED

We have arranged our Group organization to be consistently customer-oriented. Key account management simplifies communication with the customer by representing all products and services. Five globally arranged OEM product lines and MAHLE Powertrain, as an engineering services provider, cover original equipment for the automotive industry.

Organizational structures functioning in parallel serve the automotive aftermarket, as well as the market for small engine and large engine components, motorsports and industrial filtration.

PRODUCT LINES

Piston Systems

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

Cylinder Components

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

Valve Train Systems

Complete valve train systems and their components: cast and composite camshafts, rocker arms, cam followers and lever modules, rocker arm shafts and rocker modules, valves, valve tappets (sliding and rolling actuation), valve seat inserts and guides, machined cylinder heads and engine blocks as well as cylinder head and engine assemblies, precision sintered parts, turbocharger parts.

Air Management Systems

Complete air intake systems, air filters, crankcase ventilation vents (with oil mist separation and pressure regulation), cylinder head and engine covers, cabin air filters, actuators, blow-by heating.

Liquid Management Systems

Oil filter modules, oil and fuel spin-on filters, fuel filter modules, fuel pressure regulators, inline fuel filters, carbon canister modules, heat exchangers for engines and transmissions, hydraulic oil filters, air driers.

PROFIT CENTERS

Aftermarket

The MAHLE product line for engine maintenance and repairs.

Small Engine Components

Pistons, cylinder assemblies and filters for small engines, handheld professional lawn and garden equipment, motorcycles and leisure vehicles.

Large Engine Components

Pistons with diameters from 150 to 580 or 650 mm for gas, diesel, heavy oil and multi-fuel engines.

Motorsports

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

Industrial Filtration

Industrial filters and filter systems, devices and accessories for fluid technology, de-dusting devices and systems as well as automatic filter systems.

DEVELOPMENT PARTNER WITH GROWING SYSTEMS COMPETENCE

To be the first to achieve new goals, you need adequate power reserves. For this reason, we have expanded our technological base in a targeted way so that we can respond flexibly to growing challenges. This means that we can now think beyond the existing system boundaries.

We are systematically expanding our competence in our core business, the combustion engine and engine peripherals. This means that our customers look to us as a global development partner for new, integrated solutions. Networked, inter-departmental knowledge management ensures that our product and process know-how is transferred to every region and every location where MAHLE is represented.

MAHLE now has R&D centers in Stuttgart, Northampton, Detroit (Farmington Hills and Novi), São Paulo, Tokyo and, very soon, in Shanghai. Approximately 2,000 development engineers and technicians worldwide are involved in fundamental research and ongoing development of the combustion engine. They work specifically on forward-looking new concepts, products and systems, which eventually go into mass production at customer sites as ecologically and economically sound solutions.

MAKING GOOD THINGS BETTER, SETTING STANDARDS

If you rest on your laurels, it is impossible to make progress. At MAHLE, we make optimizations down to the last detail, ensure consistent quality worldwide and promote innovations at a fast rate. With the right know-how in our heads. With fuel in our blood. With passion for engines in our hearts. And with modern tools in our hands, so that every day we can achieve technological excellence for our customers.

Impressive proof of our technological leadership can be seen, for example, in the successes achieved in international motorsport: vehicles with MAHLE engine components hit the top spots time and again – in Formula 1, in the 24 Hours of Le Mans, in the Rally World Championships, in touring cars, motorbikes and truck racing. And it is often the leading-edge technology used in today's motorsport products that ends up in tomorrow's series-produced automobiles.

With our comprehensive systems competence, we contribute to making engines even more efficient: optimized for more performance, longer service life, and reduced fuel consumption and emissions. Each time the emissions limits are tightened, we will offer new solutions and further expand our position as technological leaders. This is the driving force for international growth.

MAHLE Powertrain – Integrated powertrain technology

- Engineering services
- Development, production and assembly of roadworthy, high-performance engines
- From individual components and sub-systems to complete powertrain assemblies for both prototypes and series production
- Electronic control units, electronic diagnostics



GERMANY

Albershausen
 MAHLE Motorkomponenten GmbH
 Alzenau
 MAHLE GmbH
 Eislingen/Fils
 MAHLE Motorkomponenten GmbH
 Fellbach
 MAHLE GmbH
 Gaildorf
 MAHLE Ventiltrieb GmbH
 Leibertingen
 MAHLE Motorteile GmbH
 Lorch
 MAHLE Filtersysteme GmbH
 Markgröningen
 MAHLE GmbH
 Öhringen
 MAHLE Filtersysteme GmbH
 Plettenberg
 MAHLE Brockhaus GmbH

Roßwein
 MAHLE Brockhaus GmbH
 Rottweil
 MAHLE GmbH
 Schorndorf
 MAHLE Aftermarket GmbH
 Stuttgart
 MAHLE Aftermarket GmbH
 MAHLE Filtersysteme GmbH
 MAHLE GmbH
 MAHLE International GmbH
 MAHLE Motorkomponenten GmbH
 MAHLE Motorteile GmbH
 MAHLE Ventiltrieb GmbH
 Wölfersheim
 MAHLE Ventiltrieb GmbH
 Wustermark
 MAHLE Ventiltrieb Brandenburg GmbH
 Zell im Wiesental
 MAHLE Ventiltrieb GmbH

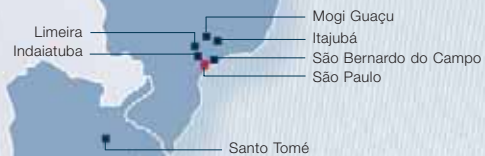


NORTH AMERICA

Puebla, MX
 MAHLE Sistemas de Filtración de México S.A. de C.V.
 Ramos Arizpe Coahuila, MX
 MAHLE Componentes de Motor de México, S. de R.L. de C.V.
 MAHLE de México S. de R.L. de C.V.
 Farmington Hills (MI), US
 MAHLE, Inc.
 MAHLE Technology, Inc.
 Fletcher (NC), US
 MAHLE Motorsports, Inc.
 Holland (MI), US
 MAHLE, Inc.
 Morristown (TN), US
 MAHLE, Inc.
 MAHLE Industries, Incorporated
 Murfreesboro (TN), US
 MAHLE Filter Systems North America, Inc.
 Novi (MI), US
 MAHLE Powertrain, LLC
 Trumbull (CT), US
 MAHLE, Inc.
 Winterset (IA), US
 MAHLE Filter Systems North America, Inc.

SOUTH AMERICA

Santo Tomé, AR
 MAHLE S.A. de Argentina
 Indaiatuba, BR
 MAHLE Metal Leve Miba Sinterizados Ltda.
 Itajubá, BR
 MAHLE Componentes de Motores do Brasil Ltda.
 MAHLE Metal Leve S.A.
 Limeira, BR
 MAHLE Metal Leve S.A.
 Mogi Guaçu, BR
 MAHLE Metal Leve S.A.
 São Bernardo do Campo, BR
 MAHLE Metal Leve S.A.
 São Paulo, BR
 MAHLE Componentes de Motores do Brasil Ltda.
 MAHLE Metal Leve S.A.



EUROPE

Rankweil, AT
 MAHLE König Kommanditgesellschaft GmbH & Co
 St. Michael ob Bleiburg, AT
 MAHLE Filtersysteme Austria GmbH
 Vöcklabruck, AT
 MAHLE Vöcklabruck GmbH
 Wolfsberg, AT
 MAHLE Filtersysteme Austria GmbH
 Grenchen, CH
 MAHLE Motorkomponenten Schweiz AG
 Selzach, CH
 MAHLE Motorkomponenten Schweiz AG
 Alcalá de Henares, ES
 MAHLE Sistemas de Filtración S.L.
 Elgoibar, ES
 Alcorta-Brockhaus S.A.
 Munguia, ES
 MAHLE S.A.
 Vilanova i la Geltrú, ES
 MAHLE S.A.
 Dardilly, FR
 MAHLE France SARL
 Décines, FR
 MAHLE Aftermarket France SAS
 Ingersheim, FR
 MAHLE Pistons France SARL
 Persan, FR
 MAHLE Filtersysteme France SAS
 Seboncourt, FR
 MAHLE Filtersysteme France SAS

Northampton, GB
 MAHLE Powertrain Ltd.
 Salisbury, GB
 MAHLE Filter Systems UK Ltd.
 Wednesbury, GB
 MAHLE Filter Systems UK Ltd.
 Wellingborough, GB
 MAHLE Powertrain Ltd.
 Worcester, GB
 MAHLE Powertrain Ltd.
 La Loggia, IT
 MAHLE Pistoni Italia S.p.A.
 MAHLE Valve Train Italia S.r.l.
 Potenza, IT
 MAHLE Pistoni Italia S.p.A.
 Saluzzo, IT
 MAHLE Pistoni Italia S.p.A.
 Volvera, IT
 MAHLE Valve Train Italia S.r.l.
 Krotoszyn, PL
 MAHLE Polska Spolka z o.o.
 Murtede, PT
 MAHLE Componentes de Motores S.A.
 Timisoara, RO
 MAHLE Componente de Motor SRL
 Gebze, TR
 MAHLE Farplas Filtre Sistemleri A.S.



ASIA/PACIFIC

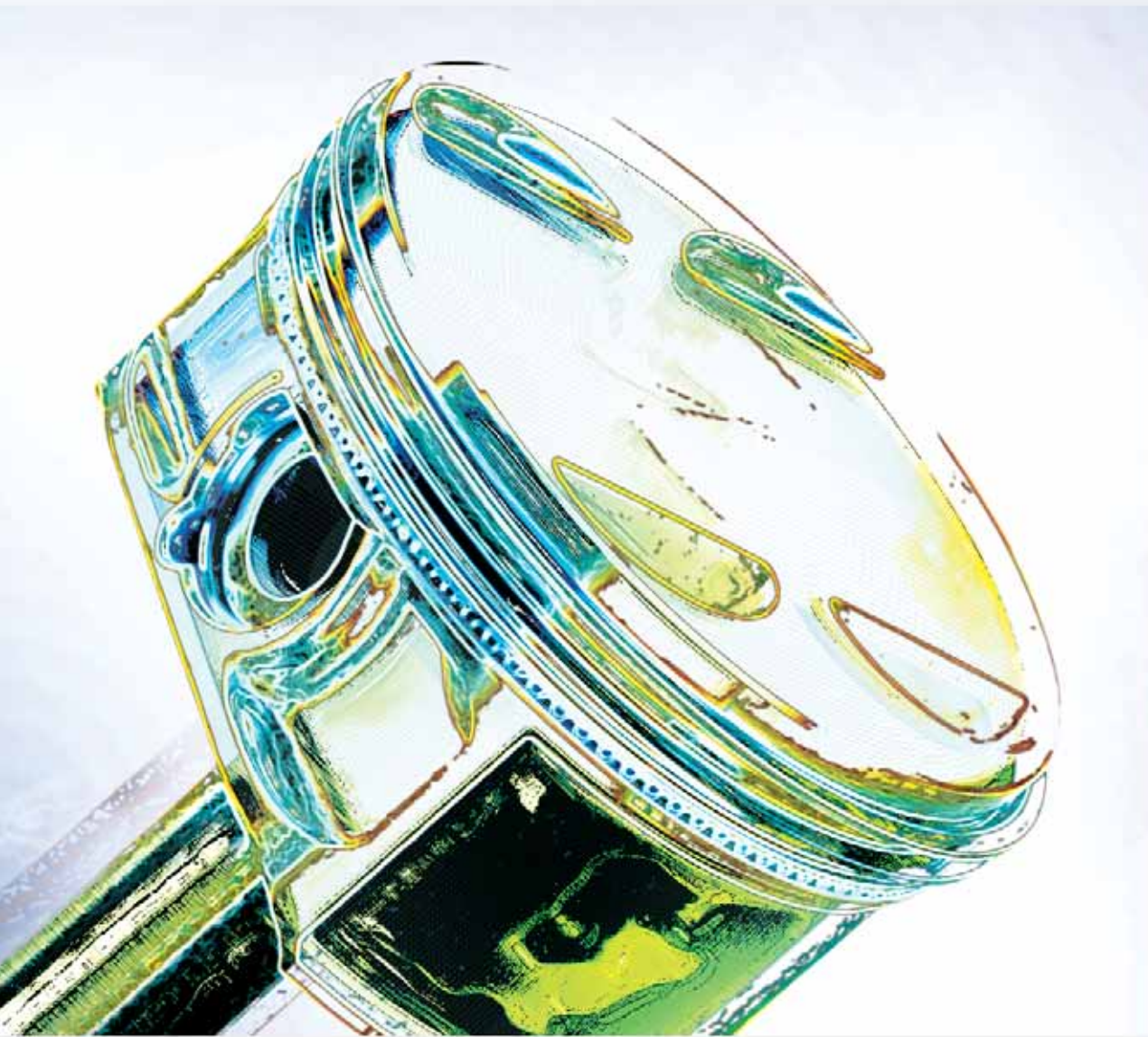
Melbourne, AU
 MAHLE Engine Components Australia Pty Ltd.
 Chongqing, CN
 MAHLE Engine Components (Chongqing) Co., Ltd.
 Guangzhou, CN
 MAHLE Guangzhou Filter Systems Co., Ltd.
 Nanjing, CN
 MAHLE Engine Components (Nanjing) Co., Ltd.
 Shanghai, CN
 MAHLE Shanghai Filter Systems Co., Ltd.
 MAHLE Technologies Holding (China) Co., Ltd.
 MAHLE Trading (Shanghai) Co., Ltd.
 Tianjin, CN
 MAHLE Donghyun Filter Systems (Tianjin) Co., Ltd.
 Yingkou, CN
 MAHLE Bearings (Yingkou) Co., Ltd.
 MAHLE Engine Components (Yingkou) Co., Ltd.
 Gurgaon, IN
 MAHLE Filter Systems India Ltd.
 Parwanoo, IN
 MAHLE Filter Systems India Ltd.
 Pithampur, IN
 MAHLE Migma Ltd.
 Pune, IN
 MAHLE Air Management Systems (India) Pvt. Ltd.

Ishikawa, JP
 MAHLE Engine Components Japan Corporation
 Kawagoe, JP
 MAHLE Filter Systems Japan Corporation
 Makabe, JP
 MAHLE Filter Systems Japan Corporation
 Mooka, JP
 MAHLE Filter Systems Japan Corporation
 Nishimurayama, JP
 MAHLE Engine Components Japan Corporation
 Okegawa, JP
 Izumi Trading Company, Ltd.
 MAHLE Engine Components Japan Corporation
 Tokyo, JP
 MAHLE Engine Components Japan Corporation
 MAHLE Filter Systems Japan Corporation
 Tsuruoka, JP
 MAHLE Engine Components Japan Corporation
 Busan, KR
 Tennex Korea Ltd.
 Hwasung, KR
 MAHLE Donghyun Filter Systems Co., Ltd.
 Nam-Gu, KR
 MAHLE Donghyun Filter Systems Co., Ltd.
 Cavite, PH
 MAHLE Filter Systems Philippines Corporation
 Bangkok, TH
 MAHLE Engine Components (Thailand) Co., Ltd.
 Samutprakarn, TH
 MAHLE Siam Filter Systems Co., Ltd.

■ Locations
 ■ R&D centers



ASSUMING



RESPONSIBILITY

FOR THE WHOLE



Making a bigger impact – “Understanding relationships.
And taking every opportunity to improve on the details, through commitment,
for the benefit of the whole.”

OPERATING SUSTAINABLY – ACCEPTING OUR RESPONSIBILITY TO THE COMMUNITY

As a global player, MAHLE is active throughout the world. We are responsible not only for our products and direct employees, but also to the environment in which our company operates. We take this role seriously. Only through responsible cooperation, the balance between economy and ecology, and being a “good neighbor” in the regions can we create long-term values, which bring more than just economic benefits. Responsibility to the community is rooted in our tradition and is one of the fundamental values of our Group.

THE MAHLE FOUNDATION

As early as 1964, the company founders Hermann and Ernst Mahle transferred their ownership of the company to the MAHLE Foundation for public benefit, with the consent of their heirs. Since then, the MAHLE Foundation has held almost all the company’s shares. The Foundation’s property is held in trust. In establishing the MAHLE Foundation, the company founders put public welfare before personal gain.

THE OBJECTIVES AND ACTIVITIES OF THE MAHLE FOUNDATION

The dividend of MAHLE GmbH to be paid from the annual Group profit has been available exclusively to the MAHLE Foundation since that time. The Foundation’s task has always been to pursue charitable goals – by promoting health care, youth development and welfare, schooling, general adult education and vocational education, as well as science and research. One of the key projects sponsored by the MAHLE Foundation is the anthroposophically oriented Filderklinik in Filderstadt-

*As part of its activities,
the MAHLE Foundation
promotes health care*



Bonlanden near Stuttgart. The Filderlinik uses acute and holistic methods in its practice of anthroposophically extended medicine, all under one roof. The construction, modernization and annual costs of running the clinic have been supported substantially by the MAHLE Foundation since its opening in 1975. The Foundation has donated EUR 6.5 million to date to support the clinic extension that has become necessary since 2004, with the construction of an outpatient, diagnosis and reception center.

RESPONSIBILITY THAT GOES THE EXTRA MILE

Besides the financial strength of the MAHLE Foundation, we also strive – throughout the company – for a responsible, hands-on role in the community. We see our locations as part of the basic social order and values. Only in this way can we reconcile economic interests with social and ecological aspects throughout the world. We are, therefore, committed to improving the quality of life and the environment in the geographical and social surroundings in which we operate.

One example is the collaboration in the Stuttgart area in the renaturation of the Neckar River landscape – an initiative by our group of international trainees as part of a larger regional action alliance.

Naturally, we run the gamut from continual improvement of safety at work and environmental protection standards in our plants, and comprehensive integration of disabled people, to topics that stretch far beyond the boundaries of our company. We are committed to numerous social and cultural projects worldwide.

At our location in Poland, we started initiatives for the town and region – to provide assistance to families with a large number of children, to sponsor cultural and sporting events or to organize days out for children.

In Brazil, we were able to continue sponsoring socially underprivileged and educationally disadvantaged young people in 2005. The independent commitment of our employees at all Brazilian locations contributed substantially to this project. Our employees have supported 150 young people with medical care and after-school classes. This project also aimed to secure young people a place in society for the future. In 2005, we also sponsored over 350 children from socially disadvantaged families with dancing and foreign language classes, with the objective of stimulating talent and providing them with a meaningful activity. In many cities in Brazil, MAHLE employees visited hospitals as story-tellers to help raise the spirits of younger patients.

Both now and in the future, our company's links with the individual regional locations and the acceptance of responsibility for public welfare represent an important, active part of our corporate culture. We will make an even greater commitment than before to those countries and regions that are underprivileged on a global scale and rely on the support of global Group structures.







INNOVATION

UNLEASHES POWER



Accepting challenges – “Contemplating visions.
And realizing them with enthusiasm.”



RESEARCH AND DEVELOPMENT – SYSTEMS COMPETENCE AND INNOVATIVE STRENGTH ENHANCED

For decades, MAHLE has been a pioneer for technological innovations in the ongoing development of the combustion engine, and its systems know-how, extending to the complete engine, is constantly growing. Using innovative strength, we expand our position as technological leaders through systematic, internationally networked research and development activities. Our engineers throughout the world work together on new objectives in order to offer our customers efficient, innovative approaches to meet the increasingly complex requirements for the combustion engine of the future.

PREPARED FOR THE DEMANDS OF THE FUTURE

The current demands on modern engines are: to reduce emissions, improve fuel economy, downsize, and increase power density, reliability and durability even further. The main, prerequisite for developing innovative concepts is an in-depth fundamental understanding of the relationships and interdependencies between the individual components throughout the entire engine. Only by means of comprehensive engineering competence can cost-saving potential be fully exploited – whether through detailed optimization of all components or through intelligent integration of functions within a complete system. The trend toward completely pre-built assemblies, made available as modules or sub-systems, also requires the systems suppliers involved in the first supply stage to have an infrastructure that reliably ensures high quality from assembly to logistics.



Simulation tools shorten development times

MAIN FOCUS AREAS OF RESEARCH ESTABLISHED

These demands raise issues for research and development at MAHLE, which are addressed with a high level of commitment. In order to optimize our products, we regularly evaluate current and future technologies relevant to these products and systems.



Engine test bench

Another area of focus is the consistent consideration of all components in their respective environments. We use the knowledge gained from this approach to further improve our simulation tools. This helps us to better analyze component behavior in terms of strength, service life, wear, noise and numerous other aspects. The simulation tools are realistically formulated in detail using physically-based models and thus constantly refined.

In order to achieve a reliable projection, it is vital that the simulation tools are compared with the reality. For example, we use efficient telemetry technology to measure piston temperatures in the complete engine via thermocouples – as a function of the operating point and other parameters.



Fundamental research for new materials

MAHLE has an innovative frictional loss test bench for performing tests on the complete engine. In laboratory tests, we check the fatigue resistance of bearings under realistic conditions, with a dynamic load comparable to that of an engine.

MAHLE intensively promotes the development of materials and, in particular, the definition of the properties of materials. Our objective is to extend the boundaries of the materials' applications to allow weight-optimized designs and provide accurate material data – strength, thermal characteristics, etc. – for design and component simulation. An important role is played by the creation of material models, which allow for an improved evaluation of the service life, especially taking into account thermal fatigue.

With the ongoing development and testing of innovative coatings and the modification of machining processes, we put forth considerable efforts to improve product characteristics in a targeted manner. Optimizing the functionality of surfaces, particularly with respect to wear, friction and susceptibility to seizure, offers considerable development potential for improving fuel efficiency even further.

In a joint project with the Massachusetts Institute of Technology in Boston, we are developing a comprehensive simulation tool. This tool will be used to analyze the effects of various parameters in the total power cell – taking a decisive step forward in the wider issue of reducing oil consumption.

R&D CENTERS FOR PROGRESS

Today, approximately 2,000 development engineers and technicians are involved in fundamental research and the ongoing development of the combustion engine at the seven R&D centers in Stuttgart, Northampton, Detroit (Farmington Hills and Novi), São Paulo, Tokyo and Shanghai. This allows MAHLE to take on specific development tasks, carry out component optimization and tuning, and perform complex vehicle and engine tests on-site in close cooperation with all our customers worldwide.

Our R&D centers are networked globally and continuously exchange knowledge with each other constantly. This ensures that information is passed on quickly, response times to the customer are reduced and all available resources can be used to optimum effect.



MAHLE POWERTRAIN: ENHANCED ENGINEERING COMPETENCE

On January 1, 2005, MAHLE acquired the Cosworth Technology Group, with the competence it has built up since 1958 in developing and producing high-performance engines. Its integration into the MAHLE Group and the change of name to MAHLE Powertrain on July 1, 2005 opens up unique prospects for the long term. These prospects include engineering services, integrated prototype hardware and software for the whole powertrain, and the development and manufacturing of complete engines.

The targeted expansion of our engine know-how represents an important step in decisively shaping and promoting the developments of the future. MAHLE is thus playing an active role in a trend that will see systems suppliers assuming more responsibility in future engine and powertrain projects.

As an integral part of the MAHLE Group, MAHLE Powertrain has complete expertise in all aspects of engine development – from the initial concept to the new design of a complete engine. The company's skills and experience go far beyond its roots in the development of high-performance engines. Today, it covers all engineering tasks related to exhaust gas optimization, drivability, improved fuel economy and electronics applications.



Computer-aided development and analysis processes generate fast, cost-effective design layouts, which can later be verified on the basis of components or the entire engine using various test equipment. For this purpose, MAHLE Powertrain has 18 live engine test benches and four chassis dynamometers. In addition to the power output and torque characteristics, the entire emissions spectrum can also be recorded and certified. This is particularly relevant in relation to future exhaust gas specifications, which will be even stricter.

MAHLE Powertrain is also able to manufacture both components and complete engines at its own facilities. This includes the casting and machining of engine blocks and cylinder heads in series of 120,000 units per year. Our extensive experience ensures that each solution we develop is also designed for optimum production. In addition, we offer our customers a complete engine assembly that is tested and delivered ready-to-install.

As a result of this broad range and the combination of engineering and production know-how, MAHLE Powertrain has been involved in more than 30 major new engine programs in recent years. These include automotive, marine, aeronautical, racing and industrial applications.



*Engine assembly at
MAHLE Powertrain*



Consistent product and process development

PROJECT WORK: RELIABLE PROCESSES

In order to solve the complex problems raised by our customers' diverse development projects, while ensuring the highest quality, we use modern project management methods. These methods lead to systematic and efficient processing from the initial concept study to the successful startup of series production.

A standardized product development process, which can be applied flexibly to a simple component development as well as to highly complex system environments, forms the basic structure of the development work. It describes the business process of product and process development from the customer enquiry to delivery of the series product and is subdivided into five project phases. The individual phases are completed by means of "quality gates," in which the status of the project progress is checked and approval is granted for the following phase. All tasks, interfaces and responsibilities are described in detail in the product development process.

The standardized documentation and the project plan – coordinated with the product development process – are available for all process partners, regardless of their location, in MAHLE's internal worldwide information system. This ensures that, in the future, all development is carried out worldwide in accordance with a uniform, clearly structured procedure. Consequently, development and production risks are detected at an early stage and any necessary remedial measures can be implemented at the appropriate time.

The standardized documentation and the project plan – coordinated with the product development process – are available for all process partners, regardless of their location, in MAHLE's internal worldwide information system. This ensures that, in the future, all development is carried out worldwide in accordance with a uniform, clearly structured procedure. Consequently, development and production risks are detected at an early stage and any necessary remedial measures can be implemented at the appropriate time.



Camshaft as basic component for fully variable valve lift and duration

ADVANCED DEVELOPMENT PROJECTS: POTENTIAL FOR TOMORROW

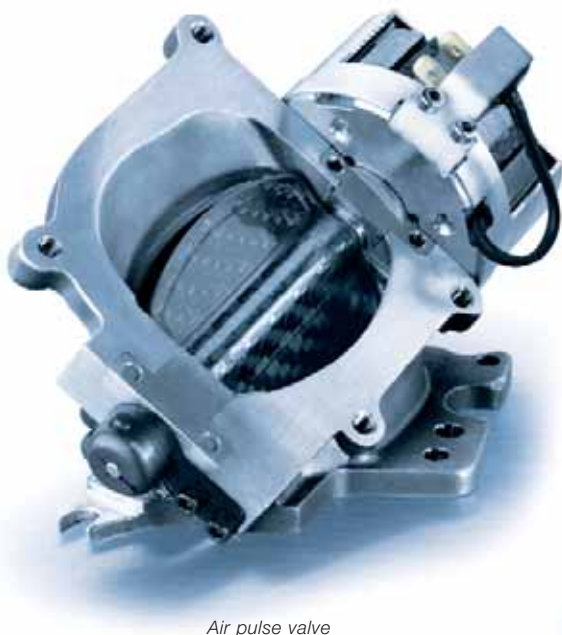
We are continuing to strengthen our predevelopment activities in order to develop innovative products for series production. The focal points of development work are defined within agreed product and technology fields. The extensive advanced development projects deal primarily with the following topics: variable valve lift and timing, dethrottling, reduction of emissions, downsizing and reduction of frictional loss.

Variable valve timing can be achieved to optimum effect with the new SCP (Single Cam Phaser) camshaft with integrated phase adjustment. On the basis of this system, a fully variable valve train can also be developed to control the valve lift and valve opening. This allows throttle-free load control, which can deliver potential fuel savings of approximately ten percent – depending on the size of the vehicle and engine. As a result of optimized combustion, the raw emissions are also reduced.

Another technology that enables dethrottling results from using a fast-switching valve in the intake system of gasoline engines. This produces potential fuel savings of approximately seven percent. Advantages can also be created in terms of cold start characteristics, internal exhaust gas recirculation and charging.

The emission reductions that will be required for diesel vehicles in the future can be achieved by means of selective catalyst technology and exhaust gas recirculation. MAHLE is working on EGR with the aim of avoiding additional fuel consumption that might result from adverse pressure characteristics.

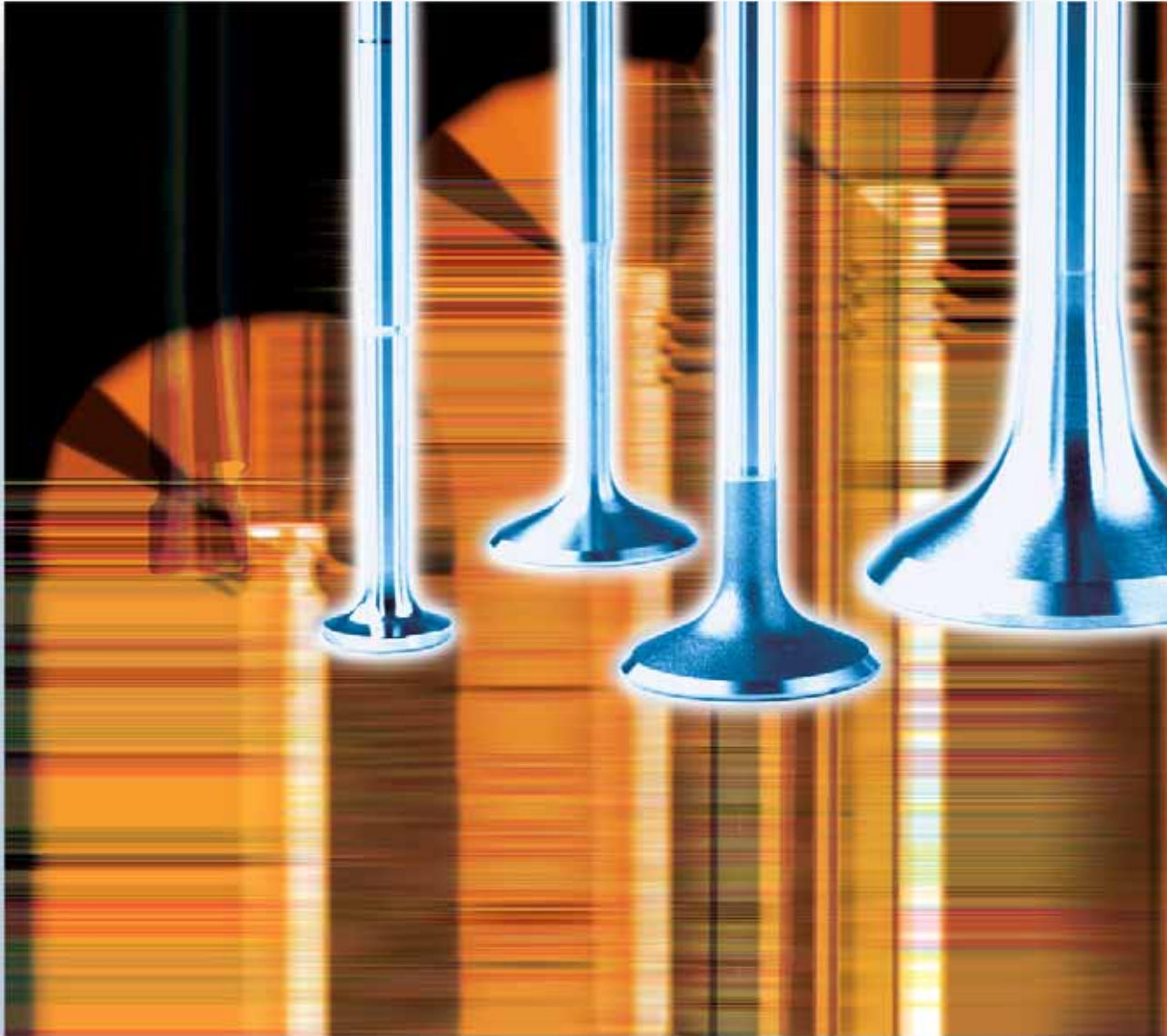
Just as turbochargers are already used in almost all passenger car diesel engines to increase power output, a similar trend can also be observed in the development of the new generation of gasoline engines. Downsizing involves using the additional power output achieved by charging to reduce engine displacement, thereby reducing fuel consumption. Various charging systems can be used in the process. The future potential of the various charging technologies is currently being investigated in a systematic analysis.



Air pulse valve



Venturi nozzle with ring-shaped EGR inlet and poppet valve



PROMOTING SUCCESS TOGETHER



Team player – “The fascination of interplay. Everything in action. Everyone plays an important role. The detail affects the whole, and the whole each detail.”

COOPERATION – GLOBAL, HUMAN, COMMUNICATIVE

MAHLE owes its success to the commitment of its employees throughout the world. Every day, global cooperation and internationalization – practiced internally and toward customers and suppliers – represent a fresh and exciting challenge for everyone, and the executives make an important contribution to the implementation of the corporate strategy and the accomplishment of the necessary development and adjustment measures. Committed specialists from all functional divisions contribute to further strengthening our outstanding market position and technological leadership, both now and for the future.



Committed cooperation for shared success

In order to accomplish the tasks that will arise in the future, our Group organization is networked through cross-disciplinary processes and equipped with modern means of control.

In recent years, the technical foundation has been laid for a Group organization with distinct global activities. We have made great efforts in this area and also in employee orientation, in order to boost the motivation of our employees and the dynamics of the entire organization. This is not least expressed in the new corporate slogan – MAHLE “Driven by performance”. This is accompanied by an employee- and goal-oriented leadership style, incentive-based remuneration and flexible working hours systems, teamwork and a high level of decision-making autonomy. These increase our employees’ motivation to give their best:

positive thinking, personal initiative and the extra commitment that customers expect from us.

After all, it is always the people that allow MAHLE’s international spirit to grow. Our biggest potential lies in highly trained employees. Their above-average motivation, their technical ability and their communication skills for committed cooperation in projects and partnerships that span countries are the driving forces for our worldwide successes.

This is why we offer our employees opportunities to become qualified for cooperation at all levels. This can be achieved, for example, by means of intensified training measures that convey intercultural understanding. Our language courses use new, innovative learning methods such as “blended learning”, which combines different styles of learning such as virtual or online learning with face-to-face training in a particularly effective and varied way. This means that every employee can expand his knowledge according to his own level and time constraints. We ensure that advanced training in technical and management topics is organized in a targeted way by holding annual employee dialogs and systematically raising the qualification requirements.



Securing jobs

SECURING OUR GERMAN LOCATIONS

We are committed to supporting our German location on a sustainable economic basis. In order to secure international competitiveness and the future of the MAHLE locations in Germany, we concluded an agreement in spring 2005 after intensive negotiations with the employee representation, trade unions and employers' associations. The agreement will lead to a cost reduction in the medium term

through the solidarity contributions of all employee groups. This will also help to preserve jobs in Germany in the longer term. However, our global presence and our strengthened commitment in the growth markets outside Europe remain a prerequisite for further balanced and profitable growth. This will inevitably be combined with an increase in headcount abroad.

COMMUNICATION AND COOPERATION WORLDWIDE

Our global structure requires global information networks, from sales control and worldwide cooperation in the product development process to an active communications policy through our employee magazine "MAHLE global". It allows people who work for MAHLE, scattered throughout the globe, to come closer together. The editorial teams of the regional editions for North and South America and the national editions in France, Spain, Poland, Japan and China contribute voluntarily and enthusiastically. Today, through the worldwide exchange of information, our employees are better informed about Group events than ever before.

Knowledge and knowledge management are increasingly becoming the key factor for success. All our employees are linked by an Intranet, which is accessible worldwide and is used as a tool for international project work. This is where our information and work platform "Expert" is set up, allowing employees to access expert knowledge within the Group and to network with each other.

Contact that spans countries and intensive cooperation between our employees are taking on increasing significance for our international competitiveness. This is why, in 2005, we passed a Group-wide guideline for organizing international assignments, in close cooperation with the regional human resources managers. The successful expansion of our activities in Asia has shown how important presence, personal relationships and the exchange of experience within the special economic and cultural conditions of these countries are. For example, we specifically selected the Chinese engineers for our R&D center in Shanghai – currently under construction – according to certain criteria and, as part of an international collaboration lasting several months, trained them intensively and prepared them for their future tasks, primarily in Germany but also in Japan.



*Worldwide networking
of experts and know-how*

We consciously promote employee exchanges and cooperation across national borders in Europe as well as the Far East (e.g., in the integration of our new Group subsidiary, MAHLE Powertrain Ltd. in Great Britain, formerly Cosworth Technology). This is another example of the cooperation that takes place within the Group, fully in line with our management model.



Expanding knowledge, challenging and encouraging employees

VOCATIONAL TRAINING, QUALIFICATION AND PROMOTION OF TALENT

In Germany, we are able to fill the majority of the junior specialist positions through our own training scheme. As a forward-looking company, we are particularly interested in vocational training and ongoing qualification for young people. Therefore, the initial vocational training remains the basis for talent promotion in specialist areas; this applies to both industrial and commercial apprenticeships and company-related courses of study at the University of Cooperative Education (Berufsakademie).

In addition to this, we provide attractive opportunities for internships both in Germany and abroad. The number of apprentices that we train often exceeds far beyond our company needs; this represents an important part of our responsibility to society and the community. Initial vocational training is now also becoming increasingly important at many foreign locations.

MANAGEMENT DEVELOPMENT WORLDWIDE

Our management trainees are systematically selected from our employee base in all regions of the world. On the basis of cooperative leadership, which is laid down in the MAHLE leadership model, we regularly ascertain the skills and potential of our employees. Successors for managerial positions are identified and their potential is systematically developed in all corporate divisions. This enables us to fill more and more managerial positions from within our own ranks and increase our appeal as an employer.

In order to fill the top management positions, we are also intensively promoting the organization of a Group-wide program for ongoing development of our existing middle management. The Group's executives have discussed this topic, and many others, at the international executive meetings, in addition to dealing with the ongoing development of our corporate values and identity. The worldwide coalescence of our Group organization is showing clear signs of success, although we are determined not to rest on our laurels.

CONSTRUCTIVE COOPERATION WITH THE EMPLOYEE REPRESENTATION

The cooperation with the employee representatives at all locations and in all countries has shown that, even when it comes to difficult topics, it is possible to successfully find common solutions meeting the needs of all parties involved. Adverse economic conditions necessitated cost savings in many cases, which placed high demands on the good and efficient cooperation we have with our internal partners. A sense of responsibility for this issue secures the Group's long-term future and preserves jobs, even in countries with high labor costs and salaries.

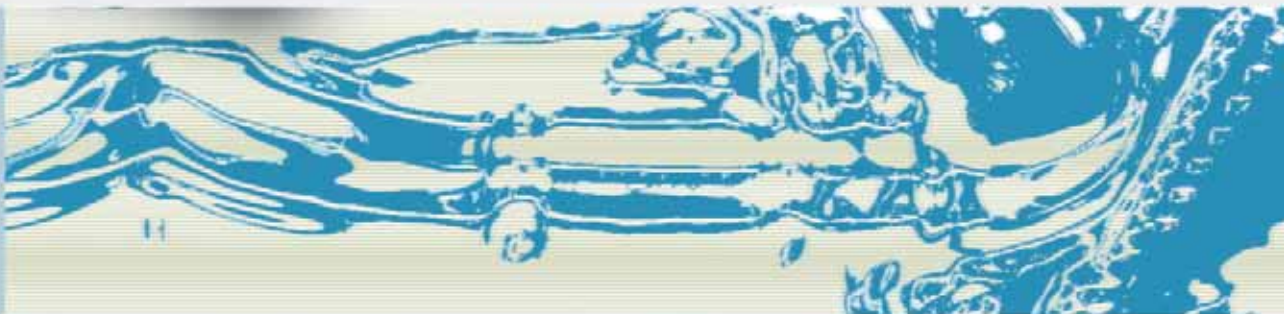
The Management Board would like to express its thanks to all employees for their commitment, proven team spirit and the successes they have achieved – driven by the willingness to perform that carries us and our customers worldwide forward.

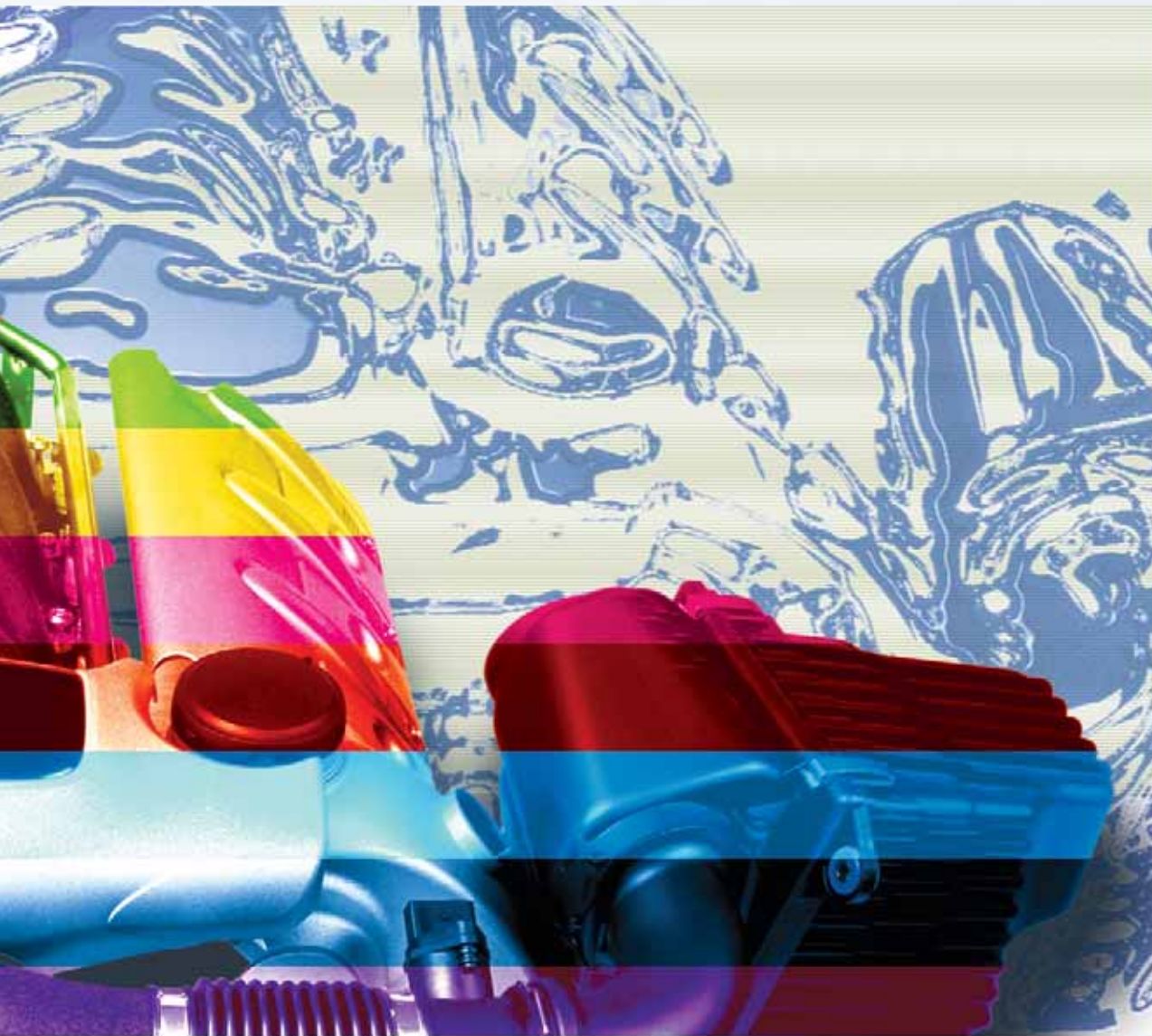


*Technically advanced
production processes –
controlled by flexible,
qualified employees*



NEVER EASING OFF,
BECOMING BETTER AND





BETTER

No pause for breath – “Charging. Driving. Breathing.
Is it better, faster, cleaner? We’re sure to find a way.”

QUALITY MANAGEMENT – FROM INSPECTION TO PREVENTION

After the successful restructuring of the Group organization, one of our priorities in 2005 was to extend the Group-wide standards in quality management. In order to further improve the overall quality we provide to our customers over the whole process chain and be able to respond efficiently to problems at an early stage, new areas of focus were established – from prevention in product and process development to systematic analysis of causes.

QUALITY MANAGEMENT SYSTEM IMPROVED

In 2005, we were able to refine the model of the MAHLE business processes even further and gradually optimize the Group-wide standards it defines. Four TOP quality processes have been defined to control the quality management system:

- Defect prevention to avoid potential risks
- Inspection and testing to avoid defects and eliminate defective parts
- Problem solving in case of defective parts
- Continuous improvements to increase the quality of all products and services



Leading-edge testing technologies ensure high-quality standards

EARLY PLANNING AND PREVENTION IN PRODUCT AND PROCESS DEVELOPMENT

In our development projects, we clarify at an early stage – by means of an extensive feasibility study – whether process risks may arise in the production cycle and initiate effective corrective measures in order to eliminate the risks immediately. In addition, experience from completed projects is incorporated into production planning. We analyze and evaluate the product concept and the planned production process using standardized methods of analysis. This allows us to objectively determine possible risks and eliminate them effectively. The structured procedure reduces both development and process times in production. At the same time, potential defects in the product are avoided, costs are reduced and warranty costs minimized – in this way, we can deliver sophisticated, reliable products to our customers right from the start.

By creating uniform risk analysis tools, we are able to achieve additional improvements. Standardized software, coordinated evaluation guidelines, reduced administrative processes and multilingual databases help to structure development processes more effectively and actively support our global production strategies.

ONGOING DEVELOPMENT OF QUALITY MANAGEMENT IN PRODUCTION

We have developed classic quality management – 100 percent inspection before creation of value, process control with statistical methods and 100 percent inspection after creation of value – even further, with new areas of focus. We systematically examine production processes and incorporate failure prevention measures at critical points. In complex handling and assembly processes, highly effective safeguarding effects can usually be produced with small but crucial improvements. Automatic inspections, performed as part of the process step control, indicate defects as soon as they occur, enable immediate correction and increase the overall reliability of the process considerably. As a result of ongoing development of the test method for pistons, the inspections that take place during production are now integrated into an automatic measuring machine, instead of the several items of test equipment required previously. This means that the necessary process control can be performed to the desired degree of accuracy considerably more quickly on one piece of equipment. This reduces response times to a quarter of their previous level. Other advantages, besides better production control, include simplified data collection and the possibility of trend analysis.

ANALYZING CAUSES OF QUALITY PROBLEMS WITH AND PROBLEM SOLVING

Should defects occur in the product despite the extensive safeguarding measures in our production processes, we respond with a quick analysis of the causes of the defect and corrective measures derived from this. As a result of ongoing development of our quality management, we have an efficient problem analysis tool at our disposal – root cause analysis: a method of analysis that uncovers the root of the problem. The employees perform the analysis themselves at their workstation and obtain the best possible results. Finally, the effectiveness of the improvement is checked in order to ensure the improvement process. The experience gained from solving problems is automatically incorporated into the development of new products and processes.

QUALITY IMPROVEMENT TEAMS

Quality needs people who are able to think and act responsibly. The strategic objective we have set ourselves is to improve constantly in order to optimize quality and processes. The growing number of our quality improvement teams worldwide shows that our highly trained employees are strongly committed to producing the highest level of quality. Their experience is incorporated into the process documentation and further standardization of our processes.



Continuous improvement of processes within the team

INTEGRATED PROTECTION FOR THE ENVIRONMENT AND EMPLOYEES

Environmental awareness is anchored permanently in the principles at MAHLE, just like safety at work and health care. By incorporating safety at work into our environmental management, we have consistently created an integrated structure. As a result, our environmental protection and safety at work strategy is oriented globally at all locations. It comprises the involvement of all employees, the saving of resources and consistent optimization of the products and production processes in order to protect the environment and our employees.

UNIFORM STANDARDS IN ENVIRONMENTAL PROTECTION AND SAFETY AT WORK

In 2005, the newly created central division for environmental protection and safety at work established a Group-wide process structure for auditable environmental management and introduced it in phases. At the same time, the effectiveness of the new structure was verified – it brought significant success for the individual locations. The standards created in this way ensure that procedures from planning to development can be implemented uniformly and promptly within a modern framework for environmental protection and safety at work.



High standards in safety at work and environmental protection

SAFETY AT WORK: ALWAYS A STEP AHEAD

As a result of constantly checking the effectiveness of our safety at work measures by means of internal and external audits, MAHLE has now achieved a maximum degree of safety. The consistent involvement of employees is a decisive factor in attaining this high standard. After all, the only way to reduce accidents and health hazards even further is to practice and apply safe behavior. Therefore, in a pilot project, we tested an interactive instruction module, which conveys important knowledge about safety at work to employees individually through self-training. The results of this project were extremely satisfactory for all participants; as a result, we will take the initial step of introducing this instruction module at all German-speaking MAHLE locations.

CHLORINE GAS REDUCED BY A FURTHER 20 PERCENT WORLDWIDE

Because of the high oxidation potential and hydrogen solubility of aluminum melts, a melt cleansing process needs to be performed before casting. In order to achieve the required material quality in piston alloys, various “disruptive” elements such as calcium and sodium must also be removed. The use of chlorine is vital for this. In the conventional process used previously, chlorine gas was blown into the melt. Not only did this result in a high level of consumption, but the process was also dangerous for people and the environment. The search for alternative processes was imperative and led to some convincing solutions.

Today, all MAHLE foundry locations have melts that are cleansed using state-of-the-art technology in Foundry Degassing Units (FDU). In this process, the chlorine is steadily introduced into the melting bath via a rotor, the gases are extracted during the treatment and the solid foreign substances



Environmental awareness on the basis of a worldwide environmental management system

are transported to the surface of the bath. There they can finally be removed safely by the employees. In addition, the process avoids damage to buildings and equipment as a result of corrosion.

At one of our locations in the USA alone, this resulted in savings of 19 tons less chlorine per year in comparison with the average consumption using conventional technology – clearly easing the burden on the environment.

ENVIRONMENTAL CERTIFICATION FOR CHINESE AND JAPANESE LOCATIONS

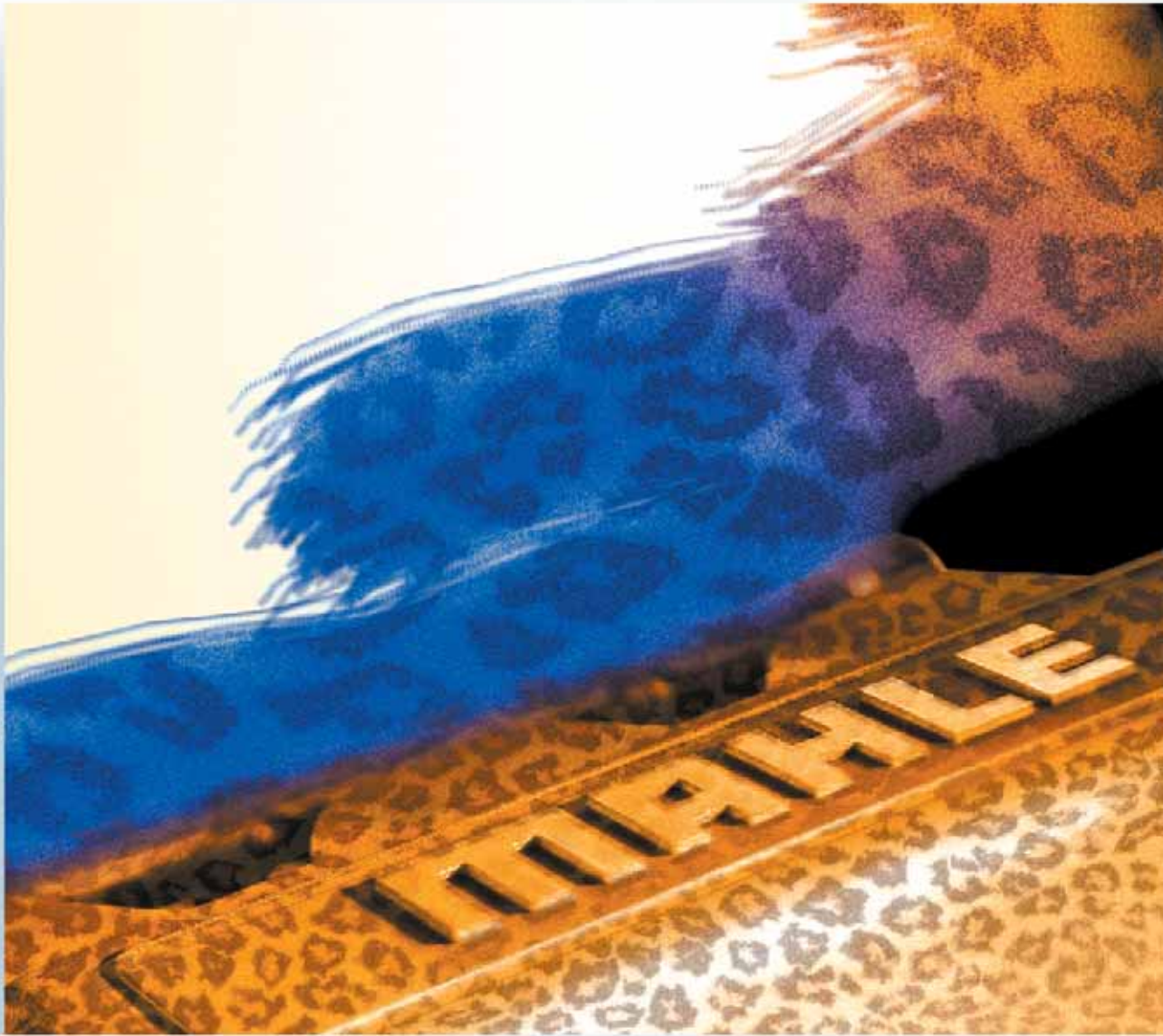
In 2005, the MAHLE locations MAHLE Engine Components Japan Corporation, Nishimurayama and Tsuruoka; MAHLE Engine Components (Yingkou) Co., Ltd.; MAHLE Engine Components (Nanjing) Co., Ltd. and MAHLE Shanghai Filter Systems Co., Ltd. were checked for certifiability in an internal audit. The auditing procedures were prepared using established MAHLE standards. The result was positive in all cases and there were no reservations with regard to certification in compliance with ISO 14001, which is planned for 2006.

HEAT RECOVERY CONSERVES RESOURCES

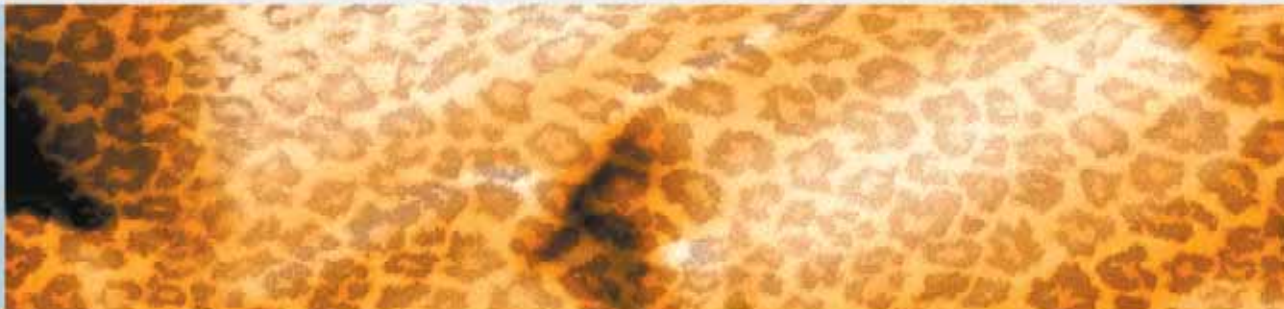
Our newly constructed plant in Grenchen/Switzerland, and the new German locations in Wölfersheim and Wustermark use energy resources particularly efficiently by means of heat recovery from production facilities. The environmentally friendly technology was a requirement even in the planning stage. The waste heat from cooling plants, sintering furnaces and compressor plants is mainly used directly for heating and producing hot water. In view of the dramatic rise in crude oil prices, these investments will be quickly amortized. The decrease in investments for the smaller-scale heating installation leads to further savings and shortens the amortization period.

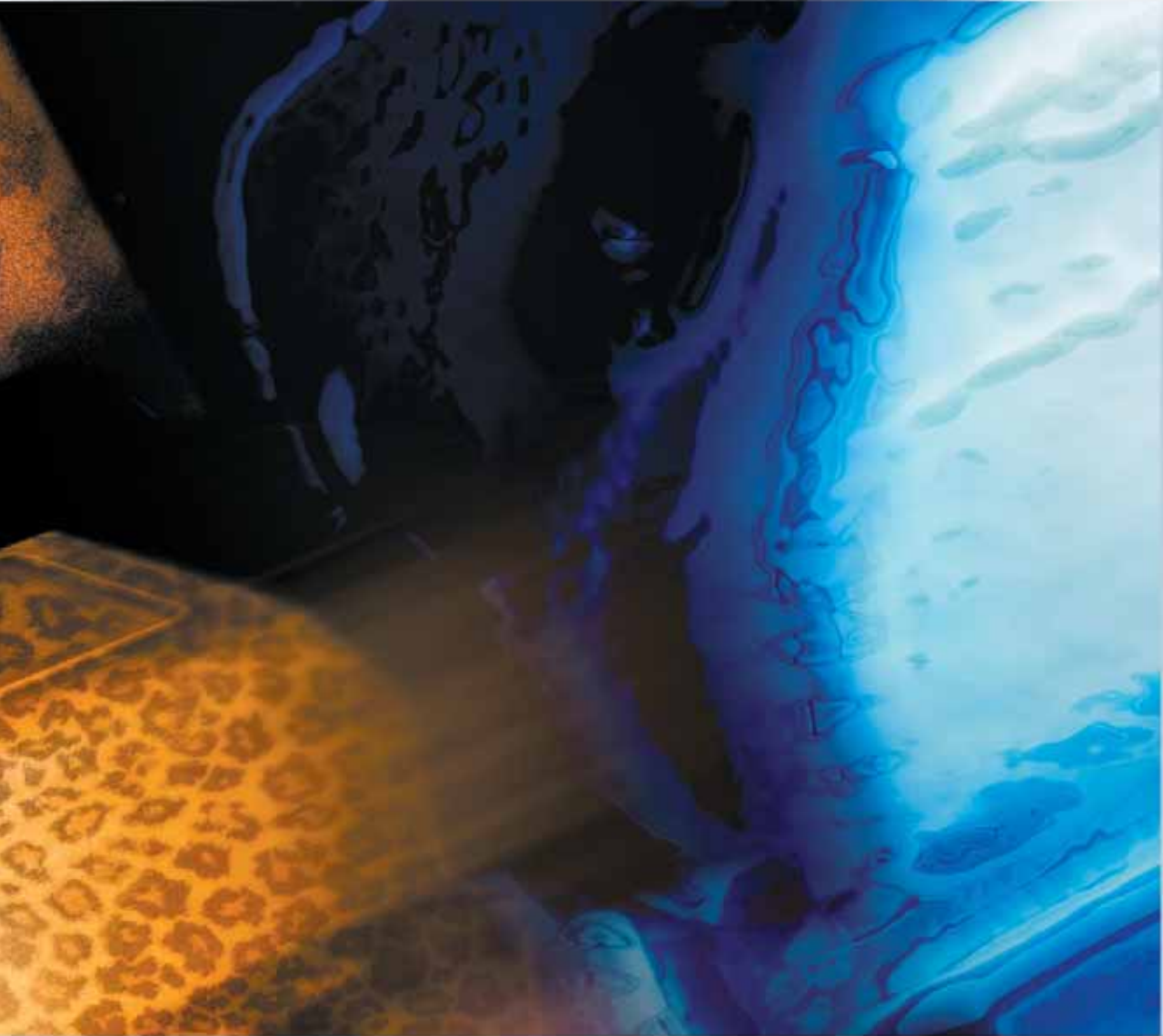
AWARD FOR WATER CONSERVATION

Water is a valuable commodity. For this reason, MAHLE Pistoni Italia S.p.A. in La Loggia initiated a project that aimed to exploit all the possibilities of saving water. All production processes were consistently examined and optimized with regard to their water consumption. The pleasing result was water savings of 40 percent. This success was rewarded by the company Acque Porino. The knowledge gained in Italy can be transferred to other locations – environmental protection that pays off.



ENTHUSIASTICALLY
MAKING OUR MARK





Powerful dynamics – “Making an impact. Emphasizing values. Throughout the world.”



MAHLE – A BRAND ON THE MOVE

The MAHLE brand is well-known around the globe. From a classic piston manufacturer, MAHLE has developed into the leading systems partner of the automotive and engine industry and is known for its outstanding innovations. With our products and services, we have set an example in terms of progress for several decades. In 2005, this forward-looking corporate dynamic was made clear in our updated brand presence. It contributes to further strengthening the appeal and value of the MAHLE brand on the market.

THE MAHLE BRAND VALUES

Throughout the world, MAHLE stands for performance, precision and passion, for competence, solidity and dynamic innovative strength – accompanied by commitment and enthusiasm. In just a few years, these core values have given rise to a unique, globally expanding family spirit. This is noticed by everyone who comes into contact with the people at MAHLE or makes use of our products, systems and services and successfully implements new development projects with us. The personal commitment of each employee on the basis of these values helps the MAHLE brand to enhance its identity, profile and value.

“DRIVEN BY PERFORMANCE” – THE NEW INTERNATIONAL BRAND PRESENCE

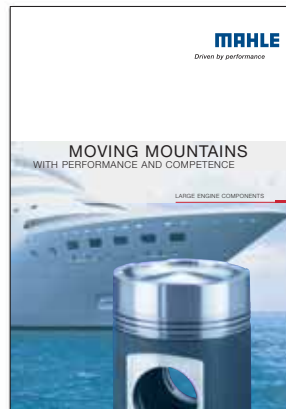
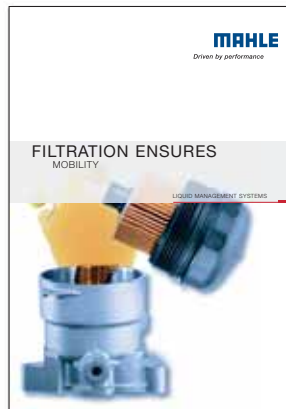
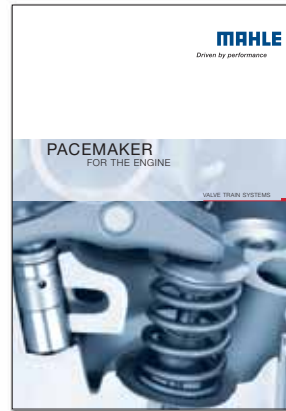
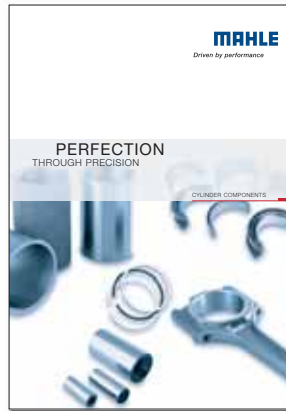
In order to strengthen the competence and appeal of the brand worldwide and position MAHLE even more clearly as a technological leader and key service provider, we have developed a new international brand presence with a new slogan and corporate design. By doing so, we have laid the foundation for successful communication in global competition.

“Driven by performance” – this slogan sends out a striking message, which can be understood throughout our various markets. “Driven by performance” makes it clear that performance is our driving force, enabling us to achieve more for our customers worldwide and offer them added value. At the same time, the word “driven” brings to mind the concepts of “driving” and “power-train”. These are keywords for the areas in which MAHLE is a leader and can provide more performance in all aspects of the engine. The slogan therefore defines our core fields of expertise and forms the spearhead of communication that allows us to operate successfully on the market. Together with the MAHLE logotype, which has shaped the appearance of the company in almost an unchanged form since the founding of MAHLE KG in 1938, the new slogan forms a powerful, dynamic word mark. To ensure a strong, uniform appearance and a high brand recognition value for MAHLE in global communication, clear presentation rules were established in the new corporate design.

With the new design presence, MAHLE is setting a course for market success. In 2005, product line brochures, image and specialist advertising, our website and promotion, e.g. for the IAA and the Tokyo Motor Show, all used the new design. We will actively encourage the implementation of the new corporate design within the Group and, with a high level of personal commitment – “Driven by performance” – further expand the value of the MAHLE brand.



Our presence at the IAA 2005

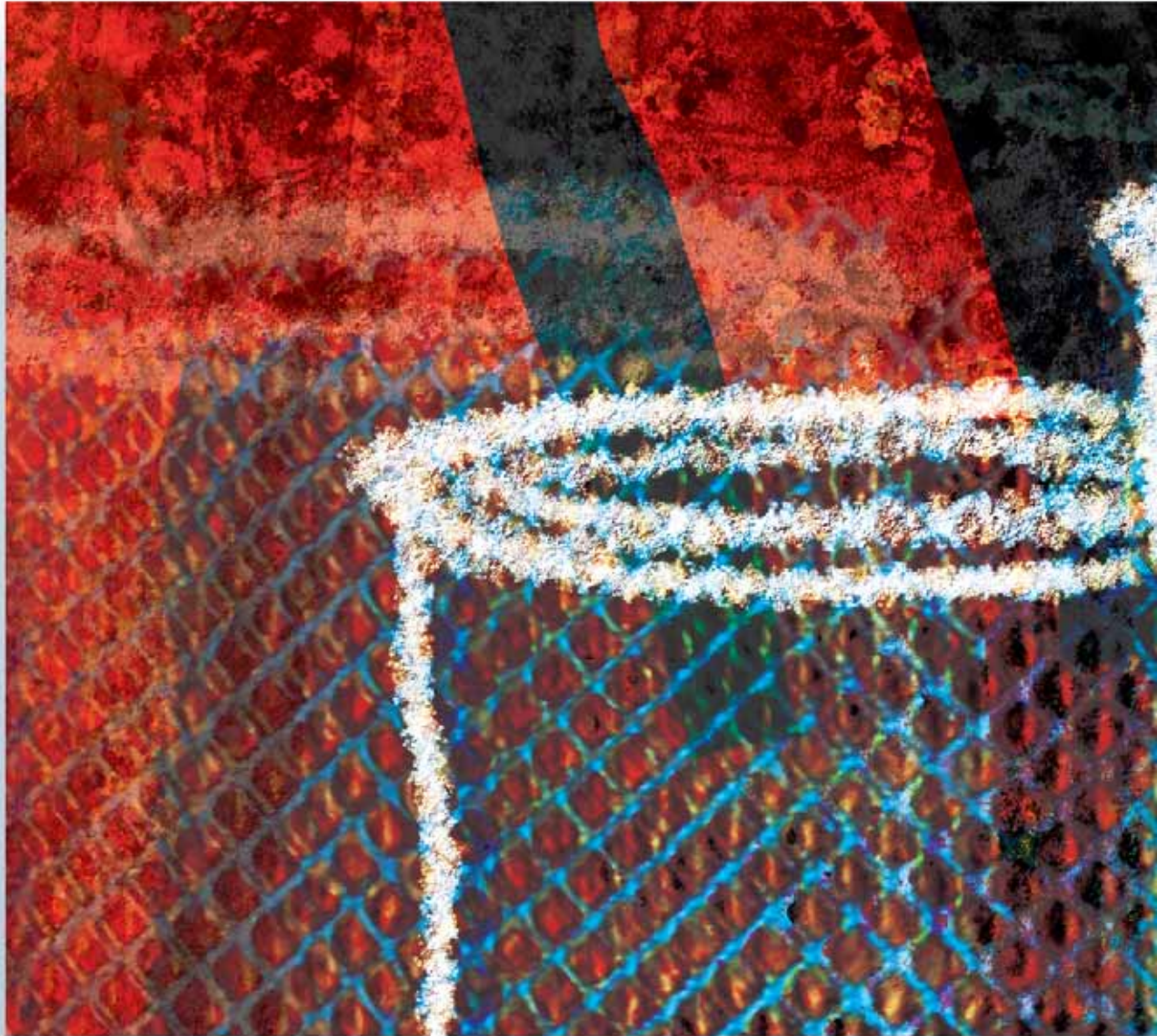


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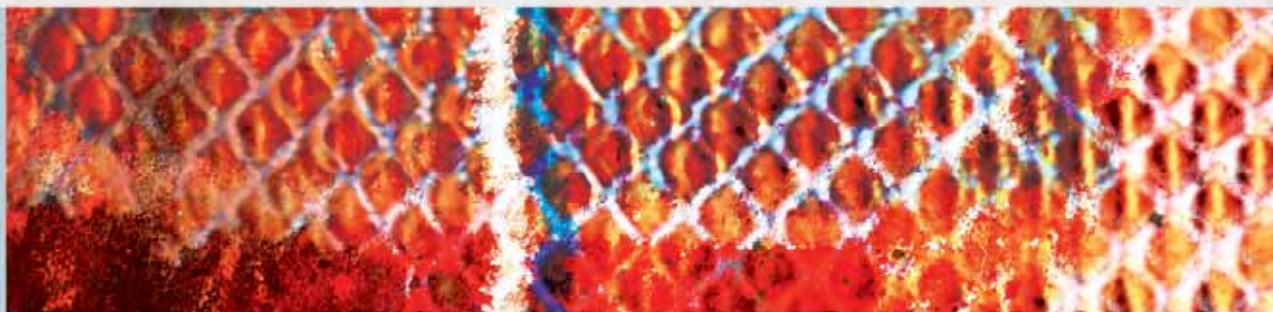
MAHLE

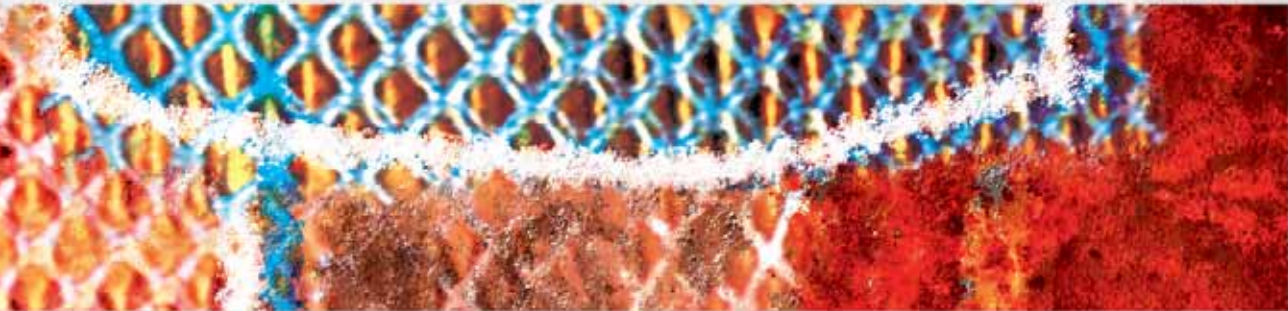
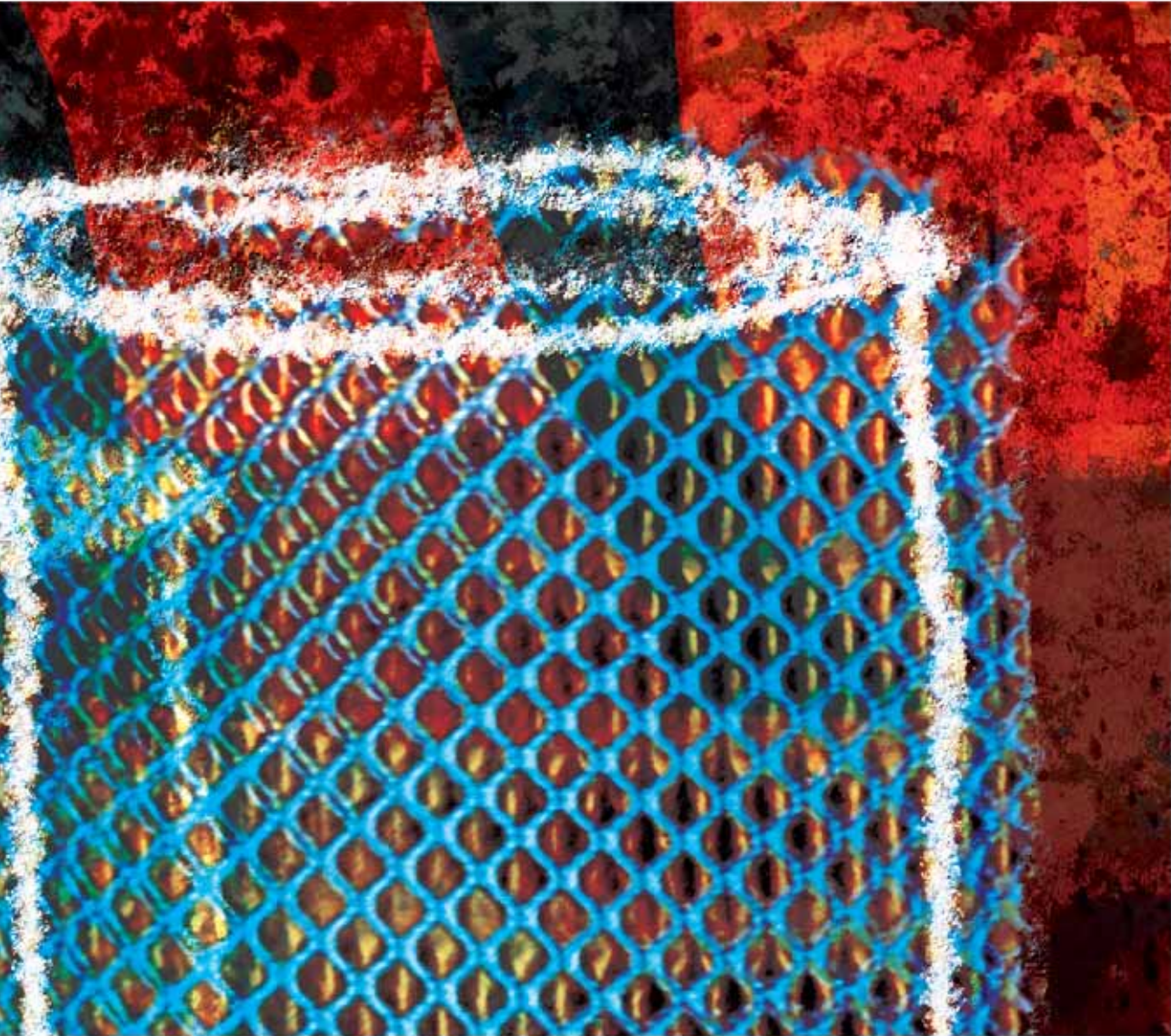
Driven by performance





A CLEAR VIEW
OF THE ESSENTIAL





Transparency – “Displaying impressive clarity. Establishing values. As a basis for solid growth.”

STATUS REPORT

RAW MATERIAL PRICES LIMIT GROWTH OF GLOBAL ECONOMY

Despite the heavy increase in energy and raw material prices, the global economy expanded further in the past year. In particular, low capital market interest rates, an expansively oriented monetary policy and the favorable profit situation of many companies compensated for the dampening effect of the heavy price increases. The slight weakening of growth in the global economy in the third quarter of 2005 was overcome toward the end of the year. From 5.1% in the previous year, the gross domestic product (GDP) rose by 4.3% worldwide in 2005. A significant factor in this development was the structure of the wage and monetary policy, which did not lead to any wage-price spirals. The global economic imbalances intensified, however. While the trade balance deficit in the USA rose to over 6% in relation to the gross domestic product, China's surplus, and that of the oil-exporting countries, increased considerably.

In the euro zone, the economic dynamics remained subdued. While private demand was weak as a result of the increase in oil prices and low consumer confidence, the situation in industry improved slightly. In the EU countries, the gross domestic product rose by 1.3% in 2005. Of the large EU countries, Spain recorded the highest increase with 3.2% and Italy the lowest with 0.4%.

After the natural disasters in the United States and a slight normalization of fuel prices, which had risen dramatically in the course of the year, the mood in the American economy improved again at the end of the year. Toward the end of the year, the US economy appeared to be in solid shape. The US dollar even gained some ground against the euro. In Brazil, the economic upturn that began in 2004 continued. In 2005, the significant rise in exports also revitalized domestic demand and led to an increase in employment.

With an increase of 9.2% in the gross domestic product, China was Asia's growth driver once again. The heavy price increases worldwide were triggered by the high raw material and energy requirements. Exports and the foreign trade surplus rose to a new record level. China posted an export surplus of EUR 91.6 billion in trade with the USA alone, leading to intensified demands for further steps to be taken in the currency and exchange rate policy and for restrictions on imports.

In Japan, the economic expansion continued despite the high oil prices; further progress was made in the economic recovery following the long period of problematic development. As a result of the continuing price decline, the Japanese central bank maintained its expansive monetary policy.

ANOTHER RECORD YEAR FOR THE GLOBAL AUTOMOTIVE INDUSTRY

In the past year, the continued growth of the global economy also benefited the automotive industry. The worldwide production of passenger cars and light commercial vehicles was increased by 3% to 63 million units. While the production of passenger cars rose by a slightly above-average percentage to just under 40 million units, the production of light commercial vehicles was increased by 0.4 million to 23.1 million units.

In Europe, the number of passenger cars and light commercial vehicles rolling off the production lines increased by 0.1% overall to 20.3 million units. Light commercial vehicles compensated for the slight decline in passenger cars with an increase of 0.1 million units. Of the large Western European countries, only Germany exceeded the previous year's production, by approximately 4%. In contrast, Italy reduced its vehicle production by 12%, Spain by 8%, Great Britain by 3% and France by 1%. In the Czech Republic, passenger car production rose by 30% to 0.6 million units, primarily as a result of the new plant operated jointly by Toyota and PSA. In Romania, vehicle production was increased by two-thirds to 0.2 million units, as a result of the ramp-up of the Dacia Logan.

Worldwide automobile production

Number in 1 000s

	2004	2004	2005	2005
	Passenger cars & light comls.	Commercial vehicles (incl. buses)	Passenger cars & light comls.	Commercial vehicles (incl. buses)
America	18 190	632	18 507	748
NAFTA	15 750	489	15 746	587
South America	2 440	143	2 761	161
Asia/Pacific	21 491	1 182	22 976	1 082
Japan	10 194	317	10 300	328
China	4 276	610	4 944	492
Europe	20 236	556	20 253	596
Germany	5 400	160	5 595	174
Other countries	1 315	0	1 312	0

Source: Global Insight, March 2006

The proportion of diesel passenger cars among the newly produced vehicles in Western Europe increased further, reaching 46% for the first time.

In North America, the production of passenger cars and light commercial vehicles remained at the previous year's level, with a total of 15.7 million units. While the production of light commercial vehicles was reduced by approximately 0.2 million to 9.3 million units for the first time in several years as a result of the unexpected heavy increase in fuel prices, passenger car production was increased by 3% to 6.5 million units. This benefited the Asian manufacturers.

In South America, the production of passenger cars and light commercial vehicles was increased by 13% to 2.8 million units as a result of the positive economic development and the considerable backlogs in some countries. In Brazil alone, production was expanded by 0.2 million to 2.2 million units.



The 7% increase in the production of passenger cars and light commercial vehicles in Asia was primarily induced by China, with 16%, and South Korea and India, both with 8%. In Japan, on the other hand, production could only be increased by 1%.

Overall, the production of medium-weight and heavy commercial vehicles developed favorably, rising by 2.4% to over 2.4 million units worldwide in the past year. In Western Europe, the production of these vehicles increased by 7% to 462 thousand units. In Germany – Europe's largest manufacturer of commercial vehicles – alone, production was expanded by 9% to 174 thousand units. The manufacturers in Great Britain and Spain recorded even higher rates of increase, with 13% and 11% respectively, though at a significantly lower level. In contrast, production in Sweden – the second largest manufacturer of commercial vehicles in Europe – was increased by just 2% to 108 thousand units. The growth of 9% in truck production in Central and Eastern Europe to 134 thousand units was primarily induced by the expansion of production in Russia and Turkey, with an increase of approximately 5 thousand units in both countries.

In the NAFTA region, the production of commercial vehicles was increased by 20% to 587 thousand units in the past year as a result of the existing backlogs. The production of heavy trucks rose by 28%, far above the average level of growth.

In South America, the rise of 13% in commercial vehicle production to 161 thousand units was primarily caused by the increase of production in Brazil by 16 thousand to 146 thousand units. The growth drivers in this region were also heavy trucks, with output increasing by 15% to 107 thousand units.

With a decrease of 8% to 1,082 thousand units, the production of commercial vehicles in Asia declined significantly in 2005, the year under report. This was caused by the decline of 19% in truck production in China to 492 thousand units and the decline of 12% in South Korea to 37 thousand units. On the other hand, with an increase of 5% to 221 thousand units and an increase of 3% to 328 thousand units respectively, commercial vehicle production rose significantly in India and Japan.



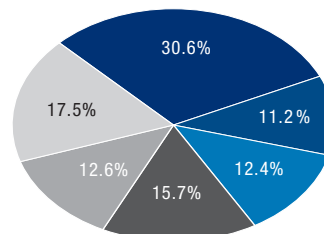
SATISFACTORY BUSINESS DEVELOPMENT IN 2005

With a sales increase of EUR 364 million, the 2005 business year was once again characterized by growth for the MAHLE Group. This includes sales of EUR 159.4 million (4.2%) achieved by companies included in the consolidated financial statements for the first time. Significant additions were MAHLE Powertrain Ltd. (formerly Cosworth Technology), which allows the MAHLE Group to provide engineering services extending right up to the assembly of complete engines for the first time, MAHLE Engine Components (Thailand) Co., Ltd., which primarily supplies diesel pistons to the Japanese engine manufacturers operating in Thailand, MAHLE Filter Systems India Ltd. and MAHLE Donghyun Filter Systems (Tianjin) Co., Ltd. in China.

Changes in exchange rates between the euro and the US dollar, Japanese yen, Brazilian real and Polish zloty had a positive effect on reported sales in 2005. Reported sales were EUR 36.7 million (1%) higher as a result of conversion. Allowing for these effects, organic growth amounted to EUR 167.9 million (4.5%). This increase in sales was supported by both the general market development and the expansion of our business activities, which led to a considerable strengthening of our market position, particularly in the growth markets outside Europe.

Once again, we were able to broaden our already good customer base both regionally and by opening up new areas of activity, e.g. engineering services. The expansion and improvement of our relationships with our customers formed a sustained focus of our activities. Our orientation toward quality and customers resulted in an organic sales growth rate above the development of the market, which has led to an improvement in our market shares.

Our operating profit did not develop sufficiently in line with sales. As a result of increased material prices in particular, which we were unable to share with our customers to a sufficient degree, and a heavy upward revaluation of the Brazilian real and the Polish zloty, considerable strain was placed on our operating profit from exports from Brazil and Poland. Through countermeasures to increase productivity, we were able to slightly increase the operating profit overall.

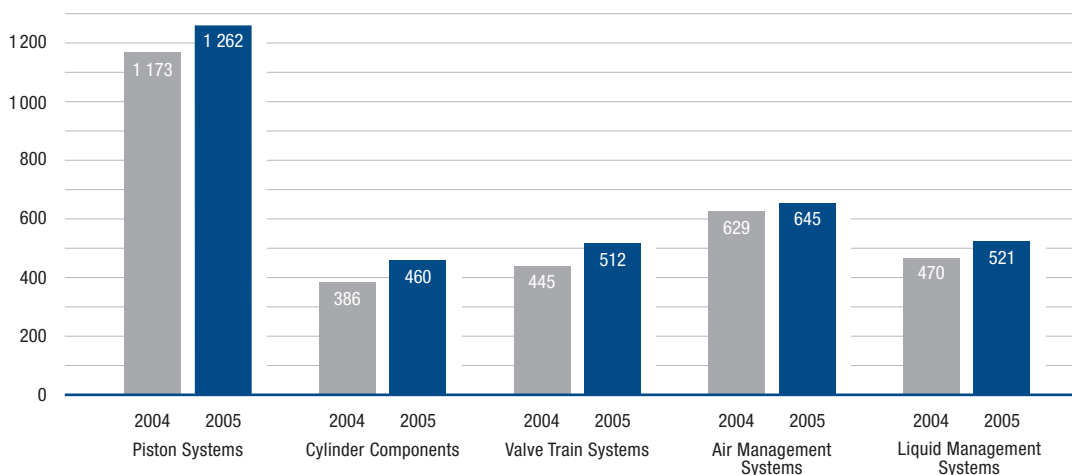


Shares of Group sales

- Piston Systems
- Cylinder Components
- Valve Train Systems
- Air Management Systems
- Liquid Management Systems
- Profit centers and services

DEVELOPMENT OF THE PRODUCT LINES

Consolidated sales (share of Group sales) in million EUR





PISTON SYSTEMS PRODUCT LINE

In the 2005 business year, the Piston Systems product line benefited from the overall economic development and the satisfactory economic situation in the automotive industry as a whole. Despite restructuring at our locations in Germany and Brazil, and cautious business development in China, we were able to exceed the previous year's figures for unit sales, sales and operating profit. In order to further expand our presence on the rapidly growing Asian market, we acquired a majority share in MAHLE Engine Components (Thailand) Co., Ltd. in Thailand at the beginning of the year.

Sales

In the 2005 business year, the Piston Systems product line achieved sales of EUR 1,357.1 million. Supported by the satisfactory economic situation in the worldwide automotive industry, a continuing increase in demand for passenger car diesel engines and high demand from our customers in the commercial vehicle sector, all regions achieved sales that matched or exceeded the previous year's level. In addition, the development of exchange rates produced a positive effect of EUR 22.7 million, corresponding to 1.8 percentage points. Allowing for the first consolidation of MAHLE Engine Components (Thailand) Co., Ltd and the exchange rate effects, the organic growth amounted to 0.6%.

Development of product line

Business year	2004	2005
Consolidated sales*		
Product line	1 280	1 357
Share of Group sales	1 173	1 262
Capital expenditure on fixed assets*	87	87
Production plants	22	23
Headcount (as of Dec. 31)	12 417	12 674

* million EUR

In Europe, only a small increase in sales was achieved in the 2005 business year compared with the previous year. In particular, strong development was recorded in sales of passenger car diesel pistons. Numerous new startups made a positive contribution to overall development.

The development of sales in the NAFTA region – similarly very positive – was characterized by price reductions in the US passenger car market and a continuing model offensive among our customers. While our sales of pistons for passenger cars attained a high level, characterized in part by a high market share

among Japanese customers, appreciable sales increases were achieved through the expansion of piston/connecting rod assembly activities. Considerable sales increases were achieved in pistons for truck engines with MONOTHERM® steel pistons.

In South America, the region's positive economic development and the heavy increase in local automobile production in comparison with the previous year stimulated sales of our products on a sustained basis. The increases in sales of aluminum pistons for truck engines clearly surpassed the rise in demand for pistons for passenger cars.



Piston for passenger car diesel engine with cooled ring carrier and fiber-reinforced combustion bowl rim

In Asia, sales in the 2005 business year also significantly exceeded the previous year's value. Part of the increase in sales is due to the first consolidation of MAHLE Engine Components (Thailand) Co., Ltd. While our company in Japan was able to record considerable growth in domestic sales, the sales development of our Chinese companies was rather restrained in both the passenger car and truck sectors. MAHLE Engine Components Australia Pty Ltd. experienced very positive development compared with the previous year. With the delayed ramp-up of a project for a major customer for complete systems supplies of piston/connecting rod assemblies taking place in the 2005 business year, sales exceeded the previous year's value – calculated in local currency – by 33.8%.

Operating profit

As in the previous year, the operating profit was affected positively by the rise in sales volumes, accompanied by improved fixed cost coverage. In particular, the increase in sales of pistons for passenger cars – primarily through sales of diesel pistons – and higher sales of piston/connecting rod assemblies boosted the development of operating profit. However, the continuing price pressure on the part of our customers, increasing personnel, equipment and energy costs and, most of all, higher costs of materials as a result of increased raw material prices worldwide, particularly for steel and aluminum, produced a counter effect. While operating profit in the NAFTA region and South America has stabilized as a result of increased sales and successfully implemented rationalization measures, development in Asia is clearly positive overall, although the production locations in China are making insufficient contributions to profit. The earnings situation in Europe remains unsatisfactory, although even in this region a more positive profit was achieved in comparison with the previous year. Positive effects from the successfully completed expansion of our location in Poland were counteracted by the noticeable effects of higher startup costs for new products, heavy price reductions and the high restructuring costs at other European locations.

Capital expenditure

With capital expenditure on fixed assets of EUR 87.3 million, the investments made by the Piston Systems product line worldwide amounted to 6.4% of its sales. In the passenger car sector, capital expenditure activities were mainly geared toward the change in customer demand toward diesel pistons, as well as rationalization and quality improvement measures. In the truck sector, investments primarily focused on expanding capacities for MONOTHERM® steel pistons.



MONOTHERM® piston

In Europe, the main focus of capital expenditure was the expansion of machining and casting capacities for the passenger car and truck market. In the NAFTA region, we pushed through the expansion of production for MONOTHERM® and FERROTHERM® steel pistons for trucks and successfully implemented further rationalization measures. Investments in South America primarily concerned the modernization of the machining equipment, measures to increase productivity, quality assurance activities and the relocation of one production location. In Japan, we expanded capacities for steel/iron cast pistons in the face of increased engine requirements in terms of specific output and the reduction of emissions. In China, we expanded capacities for gasoline engine pistons and were able to complete the reworking of existing equipment for the production of diesel pistons. In addition, innovative surface treatment processes were introduced.

Human resources

The number of employees increased further in comparison with the previous year. In Europe, the number of employees at the individual locations was adjusted to match the varied requirements. In plants where volume increases were recorded, the headcount rose, in some cases significantly, while structural cutbacks were necessary at other locations. At the majority of our European locations, however, the staffing level showed a stable trend. The increase in headcount of 209 in the Asia/Pacific region resulted from the inclusion of MAHLE Engine Components (Thailand) Co., Ltd. in the reporting for the first time in 2005; allowing for this effect, the staffing level in this region remained stable.



CYLINDER COMPONENTS PRODUCT LINE

Sales

The Cylinder Components product line increased its sales by 19.7% in the year under report. The major causes were the healthy economic environment in the commercial vehicle sector worldwide, which supported sales of cylinder liners and piston pins in particular, as well as volume increases in piston rings and piston pins for passenger car diesel and gasoline engines. We were also able to expand sales in our trade business. Our bearing and connecting rod blank activities experienced stable development. In contrast, we were able to expand the machined connecting rod activities

within the product line. In addition to the volume growth, sales increased by 6.5% as a result of currency exchange rate effects, in particular due to the heavy rise of the Brazilian real. The increase in sales also resulted from a reallocation within the Group. Since the beginning of the year under report, all our connecting rod activities – both blanks and fully machined connecting rods – have been brought together in the Cylinder Components product line. At the beginning of the year, a MAHLE majority joint venture in China for the production of bearings (MAHLE Bearings (Yingkou) Co., Ltd.) was consolidated for the first time.

Development of product line

Business year	2004	2005
Consolidated sales*		
Product line	580	691
Share of Group sales	386	460
Capital expenditure on fixed assets*	35	54
Production plants	14	17
Headcount (as of Dec. 31)	8 793	9 224

* million EUR

Operating profit

The development in revenue in 2005 was adversely affected to a considerable extent by increased raw material costs for steel, iron and certain alloy components, as well as by unfavorable exchange rate relationships. Connecting rod blanks, cylinder liners, bearings and piston pins were especially negatively affected by the development of the costs of materials, as they make up a significant proportion of the total costs of these products. The decreases in the automotive industry, which continued as a result of considerable price pressure, meant that this increase in the costs of materials could not be passed on to a sufficient degree. The heavy upward revaluation of the currencies in Brazil and Poland put a considerable strain on export activities from the locations in those countries to the US dollar and euro zones.

Programs to reduce costs and the high utilization of capacities only partly compensated for the negative effects of the increase in the costs of materials and currency changes. We were unable to match the previous year's profit in the year under report.



Crack technology steel connecting rod



*Commercial vehicle
cylinder liner*

Capital expenditure

New customer projects and overall positive growth expectations led to an increase in investments in comparison with the previous year. The startup of new generations of engines by European commercial vehicle manufacturers necessitated the expansion of capacities for the production of cylinder liners and piston rings at our European production plants. In Brazil, additional capacity was created for the supply of cylinder liners and other products to several North American and European passenger car customers. The bearing production plant in Brazil made preparations to expand capacities for pre-products with considerable growth potential. Investments in piston pin and connecting rod blank activities were predominantly used for rationalization and replacement measures. Part of the investments contributed to the construction of new production plants in China, where, in the future, the production line will be represented by its own production facilities for piston rings as well as bearings.

Human resources

The staffing level increase in the Cylinder Components product line is primarily due to the new activities in China and the merging of connecting rod blanks and connecting rod manufacturing activities within the Group.

In Germany and the other European locations, the number of employees remained at the previous year's level. Specific rationalization projects at all locations worldwide meant that the increase in headcount remained below the development of volumes.



VALVE TRAIN SYSTEMS PRODUCT LINE

Sales

In 2005, the Valve Train Systems product line also recorded further growth in sales in comparison with the previous year. The first consolidation of MAHLE Powertrain Ltd., Great Britain, representing a new product segment for MAHLE, for the machining of cylinder heads and engine blocks, as well as engine assembly for small lots, affected this figure substantially.

In the camshafts product division, we were unable to match the previous year's sales of chilled cast iron camshafts. However, significant rates of increase were achieved in comparison with the previous year for composite camshafts. With the end of production of various engines, the ready-to-install camshafts segment suffered a decline in sales.

Development of product line

Business year	2004	2005
Consolidated sales*		
Product line	456	516
Share of Group sales	445	512
Capital expenditure on fixed assets*	42	41
Production plants	13	17
Headcount (as of Dec. 31)	4 133	4 303

* million EUR

Sales in the segment of valve seat guides, valve seat inserts and other components made from powder metal materials reached a high level. As a result of the continuing high demand in Europe for passenger car diesel engines, the demand for turbocharger components also remained high. A slight decline in comparison with the previous year was recorded for the valves product group as a result of delayed product startups and delayed measures to increase productivity.

Operating profit

The product line's operating profit did not reach the previous year's value. In 2005, as in the previous year, massive price increases for raw materials adversely affected profits. At the same time, intensified price pressure on the part of our customers was observed in certain product segments. Negative effects arose from the conversion of foreign currencies, particularly the Brazilian real and the Polish zloty, as a result of our companies' low domestic market sales. In addition, the production branch of MAHLE Powertrain Ltd., consolidated for the first time, made a negative profit contribution as a result of under-utilization of capacities and restructuring costs in connection with the first consolidation.

Profit at the German locations was slightly improved overall by means of various production optimization and rationalization measures, and the relocation of products with low margins to countries where labor costs are low. However, the relocation of valve production from Bad Homburg to Wölfersheim and the camshaft machining center from Spandau to Wustermark had an adverse effect on operating profit.



Roller tappets

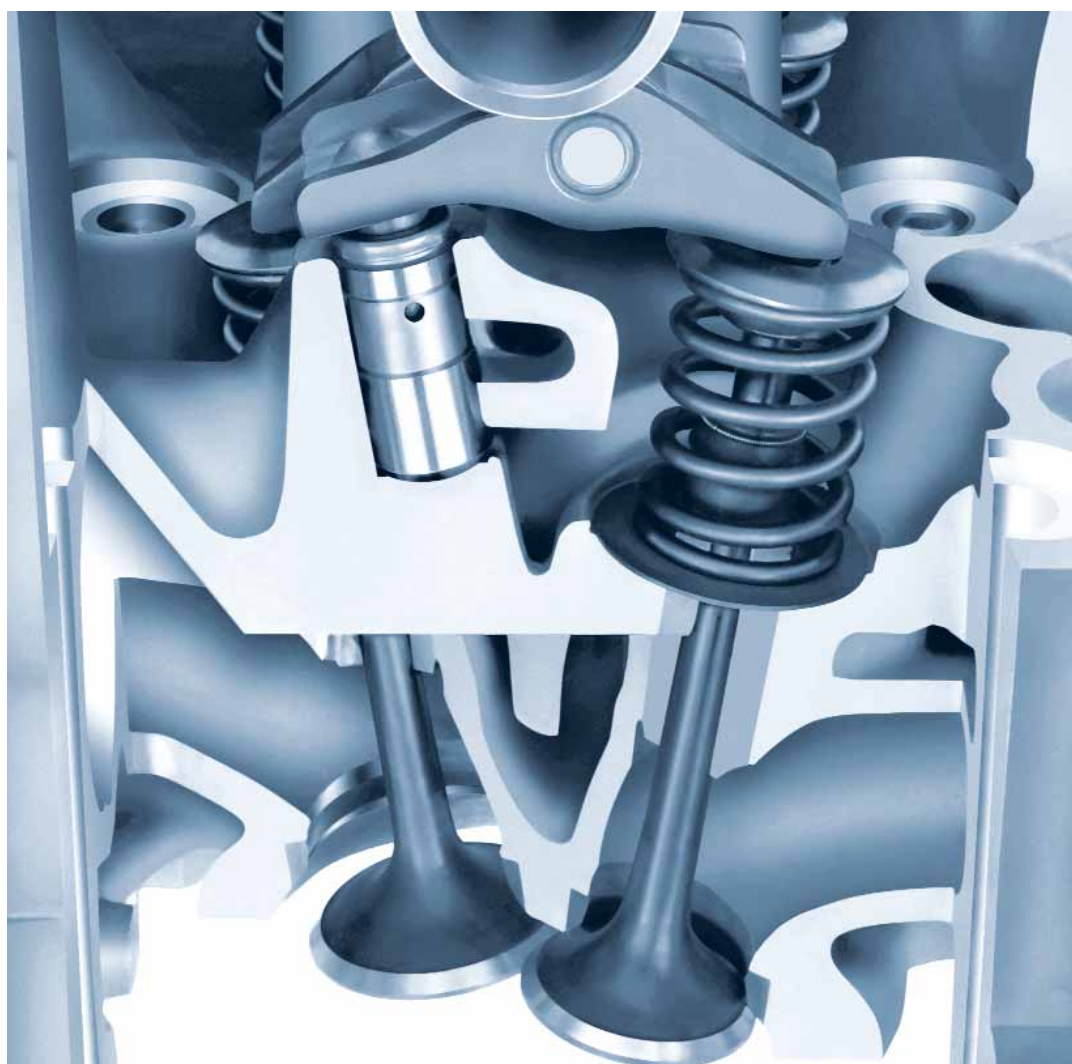
Capital expenditure

The majority of the investments were made in Germany. Capacities for the production of composite camshafts were expanded considerably. The investments also focused on equipping the new production plants in Hessen and Brandenburg for valves and camshafts respectively. At our Polish location, investments were made for the production of valve castings and valve seat guides. Investments were made available in England for increasing capacities for the machining of cylinder heads and engine blocks. An area of land was acquired in Switzerland, on which the previously separate locations were consolidated in 2006. Besides the capital expenditure for increasing capacities at new sintering presses, rationalization and automation investments formed the focus at the product line's Brazilian locations.

Human resources

The workforce in the Valve Train Systems product line increased slightly compared with the previous year. This was primarily caused by the addition of the production branch of MAHLE Powertrain Ltd. to the MAHLE consolidation group.

Additional employees were taken on at the Brazilian locations, partly as a result of the healthy order levels. As a result of relocations and a decline in capacity utilization, measures to adjust staffing levels were necessary at some locations in Germany.



Cylinder head with complete valve train





AIR MANAGEMENT SYSTEMS PRODUCT LINE

Sales

Business development in the Air Management Systems product line was extremely varied in the regions throughout the world. While sales in Europe remained below expectations, sales in North America and Asia increased. Exchange rate effects still provided a boost to sales in US dollars and the Korean won.

Development of product line

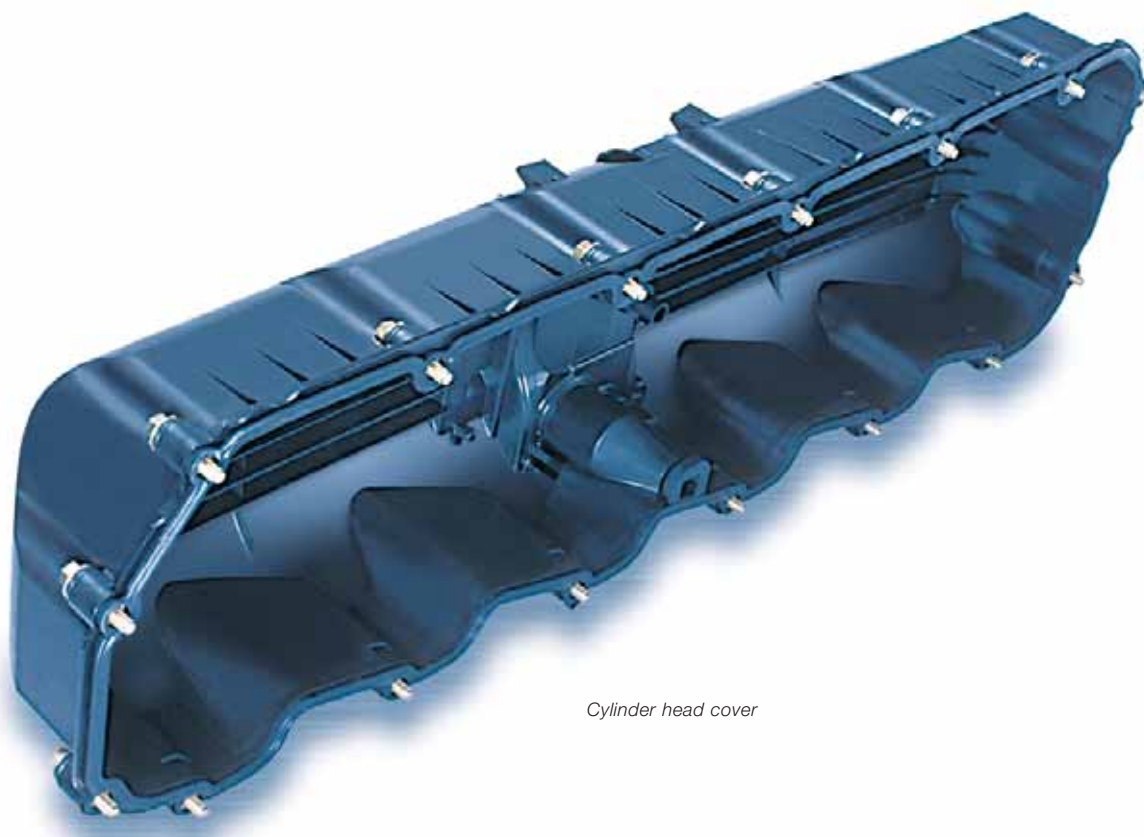
Business year	2004	2005
Consolidated sales*		
Product line	666	691
Share of Group sales	629	645
Capital expenditure on fixed assets*	35	35
Production plants	12	17
Headcount (as of Dec. 31)	3 271	3 446

* million EUR

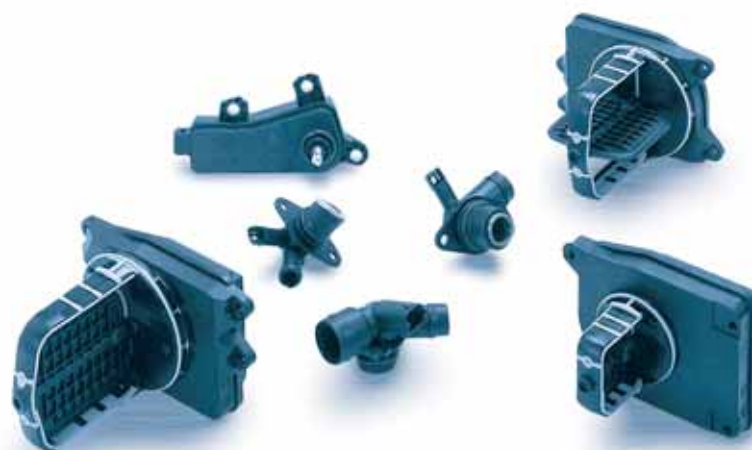
In Europe, declining volumes in the production of gasoline engines by important customers had a significant effect on the sales of intake modules at the Öhringen/Germany and St. Michael/Austria locations. In air filters, slight growth was observed in Europe, although this was not able to offset the decline in intake modules. In Europe, an overall decline was recorded in sales. The mechanics components activities were expanded by the opening of a production plant in Wolfsberg/Austria. In Turkey, a MAHLE majority joint venture was founded to supply the Turkish market with air filters and other products.

The development of sales in North America was boosted by the market share gained by our Japanese customers. We were able to further expand our market position, especially in the cylinder head covers product segment.

The Asian market showed further sales increases in Japan and South Korea. In addition, production was expanded in the new growth markets such as India and China. In Southern China, the



Cylinder head cover



*Electric actuators
and heating components*

construction of another production plant was started and a new majority joint venture in Tianjin was included in MAHLE's consolidation group for the first time. In South Korea, the significant sales increase also resulted from the upward revaluation of the South Korean currency.

Operating profit

The product line's operating profit was below expectations, particularly as a result of the weaker profit development in Europe in comparison with the previous year. Increases in the prices of raw materials such as steel, resin and filter media, and massive price reduction programs on the part of our customers had a decisive influence on profit. The North American units also generated below-average profit in the face of heavy price pressure. In Asia, the previous year's profit was improved. Further cost reduction measures were introduced in purchasing, production and distribution.

Capital expenditure

New production plants in China, Turkey and Austria and the expansion and conversion of our existing plants in Austria, South Korea and the USA were the main focuses of capital expenditure for the Air Management Systems product line. In regions with low levels of growth, e.g. in Western Europe, investments reached a high level but, in the overall context, were proportionately low. In the year under report, capital expenditure on fixed assets focused on Asia.

Human resources

In the past business year, the number of employees rose as a result of the growth in Asia and North America and the startup of the mechatronics activities in Austria. The proportion of employees in Europe out of the global headcount declined overall, as a result of the development of sales.



LIQUID MANAGEMENT SYSTEMS PRODUCT LINE

Sales

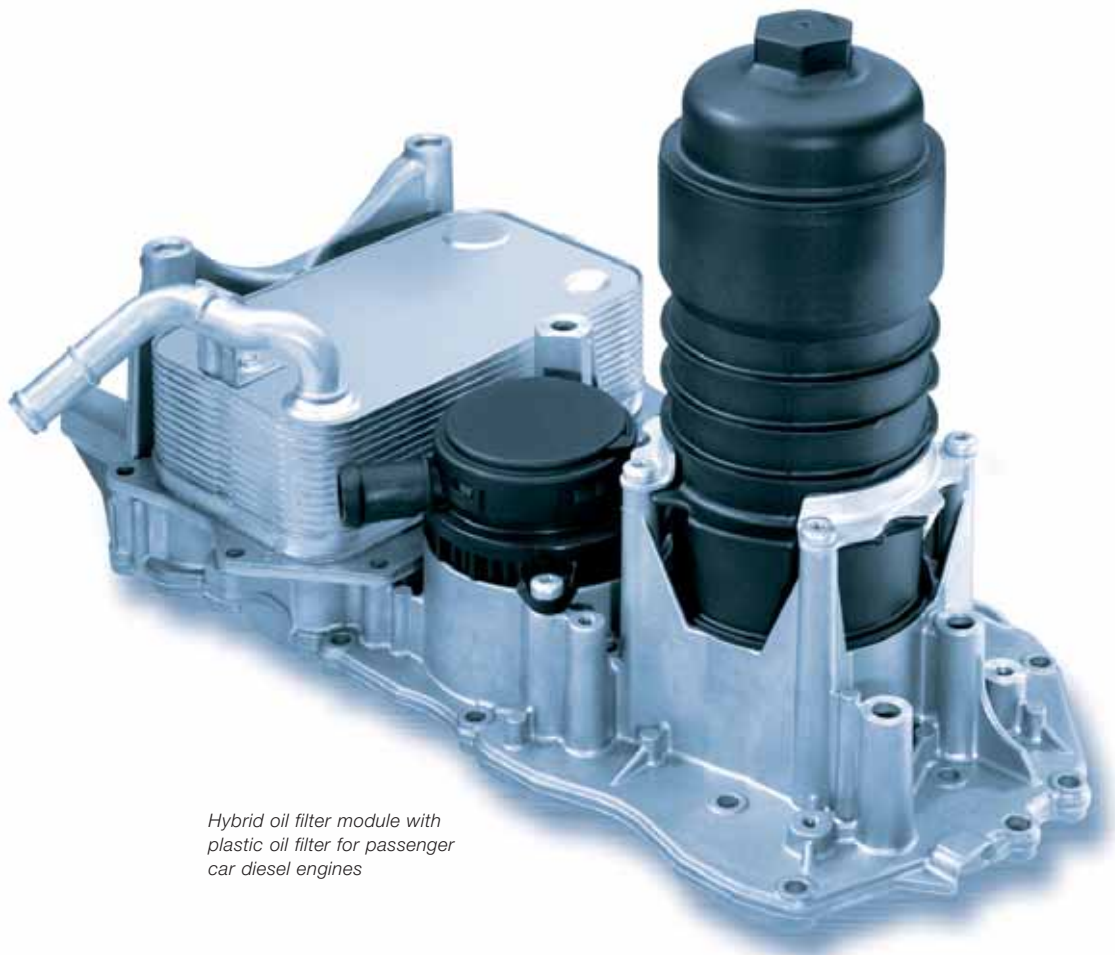
The Liquid Management Systems product line was able to extend its global activities in the past business year. New locations were added to the existing production network in important growth regions. In Timisoara, Romania, construction began on a new plant to supply the Eastern European market. In Argentina, a production plant for oil filters was acquired. In India, MAHLE obtained a majority share in Purolator India Ltd. (now MAHLE Filter Systems India Ltd.), the leading manufacturer of vehicle filters on the Indian market, with two production plants. In addition, the construction of a new production location for liquid filters was started in Shanghai, close to the new MAHLE Research & Development center.

Turnover and sales developed positively in all regions. Above-average growth rates were achieved primarily in Europe, South America and Asia. In these regions, the favorable development of sales in trade business played an important role. In Asia, besides the impact of the full consolidation of the Indian company, the product line also recorded organic growth as a result of the increasing production volumes, particularly by the Japanese manufacturers. In China, however, sales stagnated as a result of the streamlining of the product range, with intensified price competition in certain segments.

Development of product line

Business year	2004	2005
Consolidated sales*		
Product line	534	607
Share of Group sales	470	521
Capital expenditure on fixed assets*	27	34
Production plants	10	16
Headcount (as of Dec. 31)	3 471	3 679

* million EUR



Hybrid oil filter module with plastic oil filter for passenger car diesel engines



*Fuel filter module with
2-step water separation*

Operating profit

The situation in terms of profit in the Liquid Management Systems product line followed on from the positive development of the previous year. Progress was made both in comparison with the previous year and compared with expectations, with the activities in Asia and Austria making the most important contribution.

The negative effects of the increased raw material prices compared with the previous year were offset to some extent by intensive internal cost reduction and restructuring measures, and the cooperation with customers and suppliers. The new activities made a similarly positive contribution to improving profits.

Capital expenditure

The investments focused on the infrastructure for the new locations in Romania and China, as well as the consistent expansion and optimization of the plants in Austria, Brazil, China and the USA. The majority of the investments went toward equipment for manufacturing new products in the startup phase.

Human resources

At the end of 2005, the number of employees was higher than the previous year's figure. This was essentially due to the new consolidation of the Indian company. In contrast, the number of employees in Western Europe declined. This was partly due to the regrouping of employees into other product lines. In Brazil, the number of employees had to be increased considerably in order to meet the growing volume demand.

AFTERMARKET PROFIT CENTER

Sales

With sales of EUR 399.6 million in free trade business, the Aftermarket profit center significantly exceeded the previous year's sales value, by approximately 10%. The main influence on the development of sales was the growth in foreign trade at the locations in South America. This compensated for stagnating or declining unit sales on the Brazilian market. In particular, the high interest rate level in Brazil led to adjustments of stocks in wholesale activities supplied by MAHLE. In Europe, a positive effect was achieved by the concentration of the aftermarket activities on the business development of MAHLE Aftermarket GmbH. A disproportionately high sales increase was achieved in the engine components segment. The stabilization of the markets in the Near and Middle East region and growth in Eastern Europe also led to positive business development. The growing importance of the markets in Eastern Europe also resulted in a business expansion in the filter products segment. In North America, sales developed cautiously yet positively – starting from a low level – as a result of the adjustment of the sales structures.



Aftermarket product packaging using the new design

The reorganization of our sales activities in Asia, particularly in China, which began in the past business year, will be completed in 2006. The most important functions are being brought together in MAHLE Trading (Shanghai) Co., Ltd., currently in the course of formation. Besides supporting the Chinese market, its sales responsibility also extends to the neighboring countries. In addition, the aftermarket activities in Japan, India and Australia will be integrated into the profit center and expanded from 2006.

In order to ensure a uniform market presence for all MAHLE brands, the layout of the product packaging was standardized throughout the world in 2005 as part of a brand concept. Another important step in improving our market presence was achieved by the successful certification of the management system in compliance with DIN ISO 9001 for the Stuttgart/Germany, Schorndorf/Germany and Limeira/Brazil locations.

Operating profit

Exchange rate shifts had a strong impact on operating profit. In particular, profits were negatively affected by the considerable strength of the Brazilian currency in relation to the US dollar compared with the previous year. As a result of the stagnation of sales in Brazil and increasing exports in US dollars, no positive conversion effect was achieved. In Europe, the growth in sales in the engine components product segment made an overall positive contribution to profit.

Capital expenditure

The increase in capital expenditure on fixed assets resulted from the construction of a central distribution center in Great Britain. The project was carried out in cooperation with the Air Management Systems product line. In order to improve the delivery service in the increasingly important markets in Eastern Europe, investments on a similar scale in the logistics infrastructure at the Krotoszyn location in Poland are planned for the coming business year.

Human resources

As a result of the healthy business development, particularly in export activities from Brazil, the number of employees increased by 2.1%.

SMALL ENGINE COMPONENTS PROFIT CENTER

Sales

In the 2005 business year, the sales of the Small Engine Components profit center reached the previous year's level. Varied business development was observed in the areas of engine blocks and small engine components. While sales decreased considerably compared with the previous year in our engine block activities, we significantly increased sales in our core business of pistons and cylinder assemblies for lawn and garden equipment and leisure vehicles. In addition, we succeeded in acquiring some important cylinder projects for newly developed low-emission two-stroke engines.



Cylinder assembly for a high-performance motorcycle

Operating profit

The overall negative contribution to profits made by the Small Engine Components profit center was reduced in comparison with the previous year. With the early shutdown of the non-profitable engine block production at the Markgröningen location at the end of the business year, operating profit in Germany remained below expectations as a result of the restructuring costs incurred and the partially inappropriately timed social plan and structuring measures.

Capital expenditure

In the 2005 business year, investments focused on the modernization of our cylinder manufacturing facilities in Germany and the USA. The deployment of new manufacturing centers ensures that we will be better equipped in the future to meet the growing requirements for our products in terms of precision and complexity.

Human resources

The Small Engine Components profit center had a headcount of 1,079 employees worldwide. This corresponds to a decline of 10.9% compared with 2004. The decline in the staffing level is a direct consequence of the continued restructuring measures in Germany and the end of production at the engine block foundry.

LARGE ENGINE COMPONENTS PROFIT CENTER

Sales

In the 2005 business year, the Large Engine Components profit center benefited once again from the continuing positive market development. The increase of approximately 40% in sales compared with the previous year was primarily achieved with pistons in the diameter range 160-270 mm. In the market, the increase in sales was achieved as a result of both the sustained high demand in shipbuilding for container and freight ships, ferries and yachts, and the changeover from gas turbines to gas engines due to fuel prices.

Operating profit

In parallel with the pleasing development of sales, the operating profit also improved in comparison with the previous year as a result of



Electronically controlled tightening of piston screws in the final assembly



the high utilization of production capacities and the consequent increase in fixed cost coverage. In addition, profits were improved by the positive effects of the material flow optimizations made in the 2004 business year and currently being continued, as well as the newly implemented multiple machine controls in production.

Capital expenditure

As in the previous year, the investments made in the 2005 business year were used for further rationalization measures in production to handle the additional volume expected. In relation to the increase in sales, however, the investments were still only moderate as the existing machinery was, for the most part, capable of handling the larger volume.

Human resources

From the middle of the 2005 business year, additional employees were taken on in the Large Engine Components profit center in view of its increasing production and sales, with MAHLE employees being transferred from the Small Engine Components profit center as part of the location securing program throughout Germany. As a result of the implemented rationalization measures, however, the staffing additions were proportionately lower than the increase in sales. Overall, the productivity of the Large Engine Components profit center was improved in comparison with the previous year.

MOTORSPORTS PROFIT CENTER

Sales

In the core business, Formula 1, sales increased in comparison with the previous year; in contrast, sales in the rest of the motorsport sector declined slightly. Part of the series activities for high-performance road vehicles was transferred to the Piston Systems product line at the beginning of 2005; the series sales for the part remaining in the profit center decreased accordingly. As a result of this spin-off, the sales of the Motorsports profit center fell by approximately 12% in comparison with the previous year. As a result of the further expansion of our technological leadership and high quality standards, the major motorsport series and events, such as the

Formula 1 World Championship, the 24 Hours of Le Mans, the Rally World Championships, the German Touring Masters (DTM) and, in America, the NASCAR championships were once again won with MAHLE pistons and engine components in 2005.

Operating profit

As a result of the shift in sales and the consequent decrease in fixed cost coverage in the Motorsports profit center, and continuing price pressure on the part of our customers, the operating profit fell slightly in comparison with the previous year. However, the return on sales stabilized at the previous year's level.

Capital expenditure

The investment ratio in the 2005 business year was significantly higher than the previous year's value. In order to meet the market requirements in the heavily innovation-driven motorsport business, constant ongoing technical developments are required in both product development and flexibility of production.



MAHLE – the driving force for Formula 1

Human resources

The staffing level at the Fellbach/Germany location remained constant in comparison with the previous year. Far-reaching qualification measures were introduced at the manufacturing facility, as the startup of a production line for pistons and engine components for high-performance road vehicles is planned for 2006.

INDUSTRIAL FILTRATION PROFIT CENTER

Sales

In 2005, the Industrial Filtration profit center was once again able to increase its sales in all product divisions. Besides the stable domestic business, the division benefited from strong demand on the international markets.

The highest growth rates were achieved by the automatic filters product group, with applications in mechanical engineering and process technology. Similarly, the fluid technology product group increased sales in its focus markets of mechanical engineering and wind power. The de-dusting devices and systems product group achieved growth in the metal-working and surface engineering markets, as well as in the chemical and food industries, by means of innovative customer solutions in particular.



De-dusting devices and elements

Operating profit

The development of sales and the cultivation of new market segments had a positive effect on the operating profit. We were able to counteract the intensified price pressure with optimizations in the production process and with product innovations.

Capital expenditure

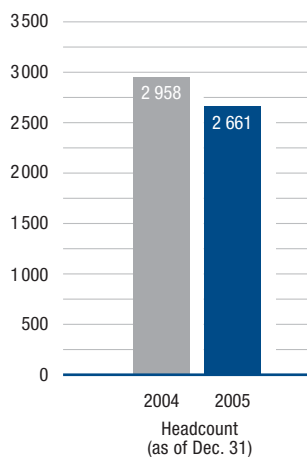
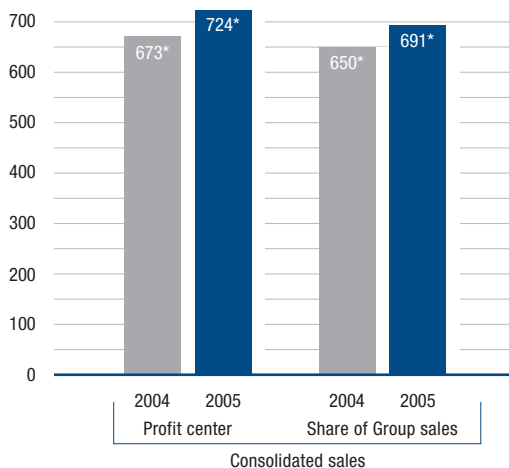
Investment focused on the broadening of our product range and the expansion of our application engineering.

Human resources

The staffing level increased slightly due to the high level of demand. Besides securing customer needs in production, the international sales organization and development activities were expanded considerably to allow more intensive market cultivation.

DEVELOPMENT OF ALL PROFIT CENTERS

* million EUR



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





PURCHASING AND PROCUREMENT

In 2005, the price increases on the raw material markets – clearly noticeable since 2003 – continued in the main material groups relevant to MAHLE. The rising crude oil prices also had an inflationary effect on the price of the resins we use and of other crude oil derivatives. In addition, substantial increases were recorded in the costs of materials for aluminum (14.5%), copper (29%) and molybdenum (79.7%). On the steel market, the basic price for steel products remained at a high level, despite a somewhat more relaxed supply situation in comparison with previous years. However, the additional costs on top of this basic price, made up of the prices of the alloy components, increased considerably once again. Overall, the development of material prices again represented a substantial burden on the Group result and a big challenge for Corporate Purchasing in 2005.

Corporate Purchasing responded to this challenge with several organizational measures. On one hand, the MAHLE Group engaged in close cooperation with the strategic suppliers on value analysis and value engineering projects. The aim of these projects is firstly to optimize design, processes and functions and to adapt specifications. Secondly, alternative supply sources should be developed in order to counteract the increases in raw material prices. Efforts were made to improve flexibility in changing materials and supply sources, particularly in relation to obtaining approval from our customers.

The second substantial measure involved expanding the international network and responsible buyer concept and extending it to the area of non-production material. The purchasing activities of the companies newly absorbed into the Group were integrated promptly into the network structures of Group-wide purchasing. As regards the network and responsible buyer concept, particular attention was focused on the activities of the MAHLE Group in China and India. In this way, we continued to develop the supplier base for requirements in these regions and placed a stronger emphasis on conducting global negotiations and concluding global contracts with suppliers from competitive countries. Besides China and India, activities also focused on Eastern Europe. Purchasing was actively integrated into the project team responsible for setting up new activities in Eastern Europe. Again, the objective is to support the establishment of a potential supplier structure in competitive countries.

A third package of key measures concerned the improvement of the supplier management system on the basis of optimized IT solutions. An SRM (Supplier Relationship Management) system was developed as an Internet tool. As the first subfunction of SRM, catalog management was successfully introduced at all the main German locations after appropriate training had been given. The aim is to extend it seamlessly to all European locations; eventually, we plan to use this system worldwide. In parallel with catalog management, we set up the SRM modules for managing enquiries and bid appraisals. Modules for auctions and the automated data transfer function are also available for use and will be deployed when appropriate.

In order to meet our customers' demand for sustained high MAHLE quality, a quality management approach was integrated into the Purchasing Department. As part of the introduction of this quality management, we expanded programs to optimize business processes and assure the quality of the results of methods for checking improvements. In addition, the qualification program for purchasing employees was intensified and extended to include programs for improving language and communication skills.

MARKET- AND CUSTOMER-ORIENTED RESEARCH AND DEVELOPMENT ACTIVITIES

The product and market segments in which the MAHLE Group operates require constant and sustainable innovative strength, aligned with the needs of our customers. Our priority is not only to develop new products and broaden our product range, but also to expand our range of services.

In order to be able to meet the varying customer demands across the regions, MAHLE is represented by R&D centers in all the major economic regions of the automotive industry worldwide. In addition, the research and development activities of the MAHLE Group are networked with regional college and university structures. This ensures a high-quality transfer of know-how from science to practical business experience. To supplement the well-established centers in Germany, the USA, Brazil and Japan, a new technology location was established in Shanghai, China, in the 2005 business year and will commence business in 2006. MAHLE will then be permanently represented and established with technological expertise in one of the world's major growth regions. In addition, following the acquisition of the Cosworth Technology Group, two Research & Development centers in Great Britain and the USA were integrated into the MAHLE Group, allowing a considerable expansion of the engineering services we provide to our customers and, at the same time, supporting the existing MAHLE R&D resources. In total, around 2,000 development engineers and technicians in the MAHLE Group are involved in the ongoing development of our product range.



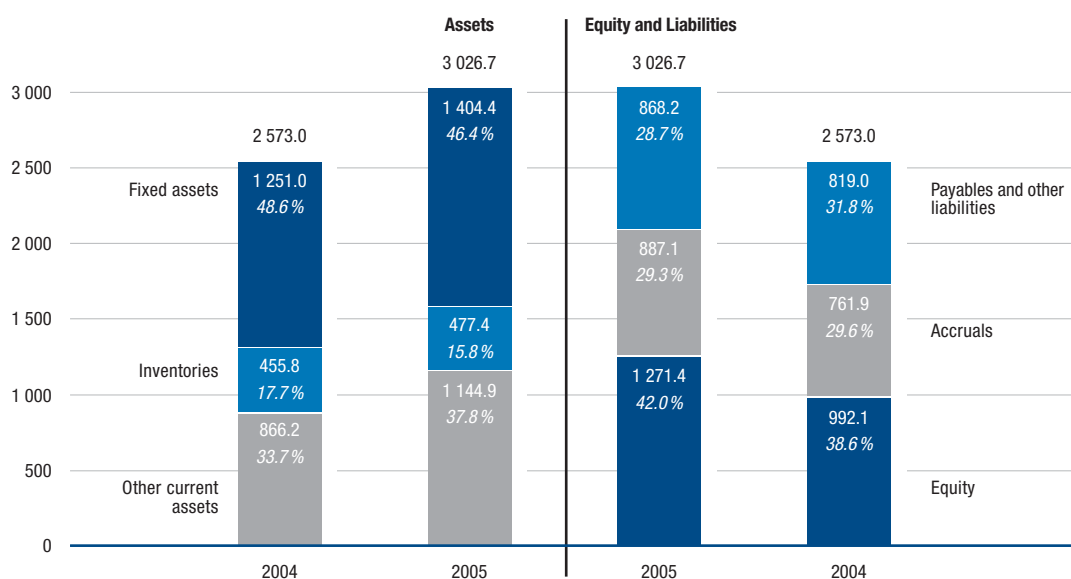
The new MAHLE R&D center in Shanghai

IMPROVED BALANCE SHEET STRUCTURE

The balance sheet total rose by EUR 453.7 million (17.6%) in comparison with the previous year to EUR 3,026.7 million. The main elements of the MAHLE Group's balance sheet structure developed as follows:

Balance sheet structure of the MAHLE Group

in million EUR



The ratio of fixed assets to current assets (including prepaid expenses) fell from 0.96 to 0.87 in the 2005 business year. Similarly, the proportion of fixed assets in the balance sheet total decreased from 48.6% to 46.4%. Besides various operating influences, both trends result from the fact that deferred tax assets are shown for the first time. In this treatment they are attributed to current assets.

The increase in intangible assets is almost exclusively due to acquisition-related goodwill, which more than compensated for the regular depreciation and goodwill impairment charges recorded for prudential reasons. The absolute increase in fixed assets is essentially due to three factors. Besides capital expenditure exceeding the depreciable basis, changes in currency exchange rate structures contributed to an increased figure as a result of conversion. In addition, fixed assets of EUR 65.1 million were shown in the Group balance sheet for the first time as a result of first consolidations. The Group's financial assets decreased slightly by EUR 1.2 million.

As a result of improved inventory management, the increase in inventories was maintained within narrow limits compared with the previous year, despite a considerable expansion of business activity. Trade receivables rose by EUR 77.2 million, primarily driven by the development of business and sales. As a result of the cash inflow, the Group's cash increased by a total of EUR 79.7 million. A significant proportion of the increase in the balance sheet total was due to deferred tax assets being shown for the first time.

The growth of liabilities in comparison with the previous year is most strongly characterized by the increase more than 28% in equity. Besides the constant reinvestment policy maintained by the Group, changes in currency exchange rate structures led to positive conversion effects in capital consolidation. Overall, the equity ratio rose by 3.4 percentage points from 38.6% to 42%. The increase in the items for provisions for pensions, other accruals, liabilities to banks and trade payables was lower than that of the balance sheet total, but in line with the overall expanded business development.

IMPROVED FINANCIAL POSITION

Despite the heavy expansion of business activity, corresponding to a sales increase of almost 10% in comparison with the previous year, the overall financial requirements of the MAHLE Group in 2005 were covered completely by its own operating cash inflows and, in addition, there was even an improvement in net liquidity. This is particularly remarkable as it was achieved without any recourse to financial instruments such as asset-backed security transactions or sale and leaseback transactions. It is particularly significant for the Group's financing, primarily in terms of maturity, that the pension obligations rose by a total of EUR 43.8 million. In the 2005 business year, the method used to evaluate provisions for pensions for the German legal entities was changed from the entry age normal method required under fiscal law to the method described in IAS 19, also permissible under the HGB ("Handelsgesetzbuch": German Commercial Code). A discount interest rate of 4.5% was applied instead of the 6.0% applied previously. At the same time, the new Heubeck tables were introduced. The increase in provisions for pensions results primarily from the modified discount rate.

SALES GROWTH, INCREASED MATERIAL PRICES AND EXCHANGE RATE DEVELOPMENTS CHARACTERIZE EARNINGS SITUATION

The earnings of the MAHLE Group increased further in the 2005 business year. This is made particularly clear by the growth of the net income for the year to EUR 159 million (21.3%), which exceeded the rise in sales (9.7%). The following factors had a material impact on the net income for the year:

- Also as a result of increased material prices and the limited extent to which price adjustments were possible, the material cost ratio increased from 43.3% in the previous year to 45.5%.
- The personnel expense ratio decreased from 29.3% in the previous year to 28.2%; a considerable part of this is due to regrouping of the interest expense for the appropriation to provisions for pensions into the financial result. The effect of increases in personnel costs was lessened by means of adjustments and measures to increase efficiency. The increase in absolute personnel expenses compared with the previous year was therefore mainly due to the general business expansion.
- Startup costs for new production locations and integration costs for new consolidations affected profits negatively overall.
- Changes in currency exchange rate structures had a clearly negative overall effect on the profit of the MAHLE Group. Effects from the conversion of profits earned in local currencies made a positive contribution to the Group's net income for the year. In contrast, the net income for the year of the individual companies was under heavy strain in comparison with the previous year, particularly in Brazil and Poland as a result of the high upward revaluations of the local currencies in conjunction with large export volumes due to the currency change. This negative effect clearly outweighed the positive currency translation effects.
- The financial result of EUR –66 million shows an absolute decline of EUR 49.6 million in comparison with the previous year, which was primarily caused by a regrouping of the interest expenses for the appropriation to provisions for pensions. The fact that the regrouping was accompanied by an adjustment of the discount interest rate placed the financial result under particular pressure. Other factors had little effect, as the net liquidity of the Group was slightly ameliorated and the interest rates in the individual regions did not undergo any fundamental changes.

RISK MANAGEMENT

In order to safeguard its future economic success, the MAHLE Group has introduced a detailed risk management system, which is checked extensively using internal and external resources. This analysis focuses on the following areas:

- Risks are identified and evaluated within the framework of the strategic and operational corporate planning. Target values are derived from the knowledge gained and are monitored in the ongoing management reporting.



- By actively monitoring the business environment, market, competitive and customer developments can be transferred to the MAHLE Group's area of activity and incorporated into the prioritization of locations, the company organization and the business and production processes. In particular, by collecting leading indicators, the system aims to safeguard the existing competitive advantages for the future.
- Excluding speculative transactions, exchange rate, interest and liquidity risks are counteracted responsibly and purposefully on the basis of a uniform Group definition across the various regions of the world. In addition, a central finance management system supports the regions in all major issues. Group-wide currency- and interest-related derivatives are used to hedge existing or planned transactions. The financial requirements of all companies are safeguarded by a comprehensive management system. In this context, cash is made available within the Group and excess liquidity is invested in a way that optimizes earnings.
- Potential losses of accounts receivable and problems in supply are actively prevented. This is based on strict selection criteria, especially on the purchasing side, and systematic monitoring of creditworthiness. Other risks from the procurement markets are counteracted by means of intensive supplier management and hedging transactions.
- The MAHLE Group actively counteracts the possible loss of strategically important employees by means of development programs aimed at specific target groups and a well-balanced wage and salary structure, and by consciously helping employees to identify positively with the company in the sense of our worldwide corporate identity. The result of these endeavors is a significantly low labor turnover rate within the MAHLE Group.
- Operative risks such as e.g. plant failure or product liability are counteracted by anticipative process planning, high quality standards and detailed control mechanisms. In addition, fundamental risks are covered by insurance.
- Various emergency and disaster plans, formulated in detail and tested, safeguard essential IT functions, even in critical situations.

For the 2005 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. We plan to implement more of these regulations gradually in the coming years.

OUTLOOK

We assume that, in the future, the MAHLE Group will be able to maintain the market position it has achieved, through its innovative strength and its established position as a technology- and customer-oriented company. Based on this market position, we expect business activity to develop in line with the generally expected growth for the worldwide automotive industry in the next few years. If, as in the past, MAHLE is also in a position to gain further market share, we will realistically aim to develop beyond these expectations. To support this trend, we will consistently expand our activities even further in the areas of product development and process development. Most of all, we aim to expand the current volume of business in Asia by intensifying support for our OEM customers and by increasing trade business.

Worldwide automobile production

Number in 1 000s

	2005	2005	2006	2006
	Passenger cars & light coms.	Commercial vehicles (incl. buses)	Passenger cars & light coms.	Commercial vehicles (incl. buses)
America	18 507	748	18 422	763
NAFTA	15 746	587	15 760	613
South America	2 761	161	2 662	150
Asia/Pacific	22 976	1 082	24 465	1 108
Japan	10 300	328	10 350	297
China	4 944	492	5 646	539
Europe	20 253	596	20 458	605
Germany	5 595	174	5 630	170
Other countries	1 312	0	1 330	0

Source: Global Insight, March 2006

Our assumptions regarding the development of the automotive market are based on the expectation that the global economy will experience moderate growth despite possible further increases in oil prices and other relevant costs of materials. In particular, demand in growth countries such as India and China will increase further. The structure of the finance policy in North America is likely to have a dampening effect on the global economy. In the euro zone, we expect relatively stable interest rates and, in view of to the increases in oil prices, restrained domestic demand. However, the decisive factor in further global development is the relative change in the major worldwide currencies. Overall, we assume that in 2006 the MAHLE Group will experience growth in line with the trend of the last few years.

Based on our sales expectations for 2006, we anticipate that we will be able to compensate for increases in the costs of materials and personnel by means of measures to increase productivity and efficiency. We therefore expect a stable development in revenue overall.





MEASURING AND EVALUATING PERFORMANCE



A glance at the figures – “Letting results speak for themselves.
Understanding the overall picture.”

BALANCE SHEET OF THE MAHLE GROUP AS OF DECEMBER 31, 2005

Assets			Dec. 31, 2005	Dec. 31, 2004
in EUR '000				
Fixed assets				
Intangible assets				
Industrial rights and similar rights	13 820			13 439
Goodwill	134 351			121 637
Advance payments	685			648
		148 856		135 724
Property, plant and equipment				
Land, leasehold rights and buildings including buildings on third party land	414 847			359 391
Technical equipment and machinery	663 997			570 685
Other equipment, fixtures and furniture	65 554			62 601
Advance payments and assets under construction	94 575			104 922
		1 238 973		1 097 599
Financial assets				
Shares in affiliated enterprises	4 105			3 134
Shares in associated enterprises	835			3 604
Other equity investments	2 268			3 358
Long-term investments	8 074			6 283
Other loans	1 264			1 307
		16 546		17 686
			1 404 375	1 251 009
Current assets				
Inventories				
Raw materials and supplies	128 008			127 829
Work in process	128 564			132 605
Finished goods and merchandise	215 392			189 089
Advance payments	5 481			6 279
		477 445		455 802
Accounts receivable and other assets				
Trade receivables	656 995			579 832
Receivables from affiliated enterprises	2 358			3 046
Receivables from enterprises in which investments are held	832			611
Deferred tax assets	100 385			8 097
Other assets	117 754			89 569
		878 324		681 155
Marketable securities		61 936		82 461
Cash on hand and at banks		197 151		96 881
			1 614 856	1 316 299
Prepaid expenses			7 434	5 700
			3 026 665	2 573 008

Equity and liabilities

in EUR '000		Dec. 31, 2005	Dec. 31, 2004
Equity			
Subscribed capital	150 000		150 000
Capital reserves	166 430		166 430
Revenue reserves	849 429		582 970
Unappropriated retained earnings	6 339		4 097
Minority interests	99 210		88 591
		1 271 408	992 088
Accruals			
Accruals for pensions and similar obligations	343 753		299 956
Accruals for current taxes	47 015		28 634
Accruals for deferred taxes	54 752		7 276
Other accruals	441 569		426 109
		887 089	761 975
Liabilities			
Liabilities to banks	411 312		393 512
Advance payments received on account of orders	4 308		2 742
Trade payables	312 469		297 416
Liabilities on bills accepted and drawn	3 280		3 742
Payables to affiliated enterprises	790		674
Payables to enterprises in which investments are held	6 988		6 804
Other liabilities	124 230		111 421
Taxes:	30 071 (previous year 27 500)		
Relating to social security and similar obligations:	25 983 (previous year 29 139)		
		863 377	816 311
Deferred income			
		4 791	2 634
		3 026 665	2 573 008

DEVELOPMENT OF FIXED ASSETS OF THE MAHLE GROUP

in EUR '000	Accumulated acquisition or production cost as of Jan. 1, 2005	Changes in the Group in 2005	Additions in 2005	Write-ups in 2005	Disposals in 2005	Transfers in 2005	Accumulated depreciation and amortization	Net book value as of Dec. 31, 2005	Depreciation and amortization expense for the year
Intangible assets									
Trademarks and similar rights	57 559	513	7 165	–	1 748	– 80	49 589	13 820	7 868
Goodwill	255 328	–	63 067	–	7 465	–	176 579	134 351	58 527
Advance payments	3 196	–	37	–	–	–	2 548	685	–
	316 083	513	70 269	–	9 213	– 80	228 716	148 856	66 395
Property, plant and equipment									
Land, leasehold rights and buildings including buildings on third party land	736 152	21 628	31 801	–	27 868	20 276	367 142	414 847	22 510
Technical equipment and machinery	2 421 052	17 158	141 449	–	142 881	113 382	1 886 163	663 997	182 973
Other equipment, fixtures and furniture	398 619	4 192	23 176	–	26 036	– 24 039	310 358	65 554	28 095
Advance payments, assets under construction	113 959	2 744	91 155	–	2 152	– 109 539	1 592	94 575	32
	3 669 782	45 722	287 581	–	198 937	80	2 565 255	1 238 973	233 610
Financial assets									
Shares in affiliated enterprises	11 886	–	2 552	–	6 747	–	3 586	4 105	–
Shares in associated enterprises	20 258	–	235	347	2 558	–	17 447	835	235
Other equity investments	7 174	–	–	–	4 906	–	–	2 268	–
Long-term investments	7 385	67	3 539	3	2 065	–	855	8 074	2
Other loans	2 534	–	688	–	241	–	1 717	1 264	503
	49 237	67	7 014	350	16 517	0	23 605	16 546	740
	4 035 102	46 302	364 864	350	224 667	0	2 817 576	1 404 375	300 745

INCOME STATEMENT OF THE MAHLE GROUP
FROM JANUARY 1 TO DECEMBER 31, 2005

in EUR '000	2005	2004
Sales	4 121 782	3 757 791
Increase in finished goods and work in process	69 773	32 688
Own work capitalized	42 869	51 880
Other operating income	231 174	172 219
Cost of materials		
Cost of raw materials, consumables and supplies, and of purchased merchandise	- 1 763 831	- 1 531 327
Cost of purchased services	- 161 990	- 131 108
	- 1 925 821	- 1 662 435
Personnel expenses		
Wages and salaries	- 937 641	- 876 453
Social security and other pension costs	- 256 459	- 248 886
Relating to retirement pensions: 33 809 (previous year 38 951)		
	- 1 194 100	- 1 125 339
Depreciation and amortization	- 300 005	- 246 720
Other operating expenses	- 704 953	- 726 822
Investment income	530	1 928
From affiliated enterprises: 139 (previous year 211)		
From associated enterprises: 347 (previous year 1 688)		
Income from investments and long-term loans	782	246
Other interest and similar income	10 901	7 219
From affiliated enterprises: 2 (previous year 4)		
Amortization of financial assets and of marketable securities	- 1 162	- 930
Relating to shares in associated enterprises: 235 (previous year 891)		
Interest and similar expenses	- 77 025	- 24 860
To affiliated enterprises: 5 (previous year 3)		
Income from ordinary business activities	274 745	236 865
Taxes on income	- 98 841	- 89 189
Other taxes	- 16 896	- 16 590
Net income for the year	159 008	131 086
Profit applicable to minority shareholders: 22 135 (previous year 27 490)		
Loss applicable to minority shareholders: 1 656 (previous year 2 319)		



NOTES TO THE FINANCIAL STATEMENTS OF THE MAHLE GROUP

GROUP OF CONSOLIDATED COMPANIES

MAHLE GmbH, Stuttgart (parent company) as well as 14 German and 66 foreign subsidiaries are included in the consolidated financial statements. In addition, four companies were valued at equity. The consolidated companies are shown in the statement of shareholdings filed with the Commercial Register at Stuttgart district court ("Amtsgericht Stuttgart"). The following companies were consolidated for the first time in 2005:

- MAHLE Donghyun Filter Systems (Tianjin) Co., Ltd., Tianjin/China as of January 1
- MAHLE de México S. de R.L. de C.V., Ramos Arizpe Coahuila/Mexico as of January 1
- MAHLE Bearings (Yingkou) Co., Ltd., Yingkou/China as of January 1
- MAHLE Engine Components (Thailand) Co., Ltd., Bangkok/Thailand as of January 1
- MAHLE Powertrain Ltd., Northampton/Great Britain as of January 1
- MAHLE Powertrain, LLC, Novi/USA as of January 1
- MAHLE Componente de Motor SRL, Timisoara/Romania as of February 1
- MAHLE Technologies Holding (China) Co., Ltd., Shanghai/China as of March 1
- MAHLE Guangzhou Filter Systems Co., Ltd., Guangzhou/China as of March 1
- MAHLE Filter Systems India Ltd., Gurgaon/India as of April 1
- MAHLE Farpas Filtre Sistemleri A.S., Gebze/Turkey as of September 1

The companies consolidated for the first time accounted for EUR 139.6 million of the balance sheet total, and EUR 159.4 million of total sales.

In 2005 two companies were merged into other Group companies and three Group companies were withdrawn from the Group of consolidated companies.

In the year under report, nine companies were not consolidated due to their immateriality for the preparation of the consolidated financial statements (previous year: 12).

METHOD OF CONSOLIDATION

Consolidation was performed using the book value method. Under this method, the value of the investments on the books of the parent company as of the date of the first consolidation upon acquisition of the holding is offset against the underlying equity of the subsidiaries. Any differences resulting from this process are shown net in the balance sheet. Credit differences are amortized over ten years. Specific valuation allowances of EUR 31 339.9k were also recorded. As of December 31, 2005, this resulted in an asset balance of EUR 133 611.4k, comprising:

Goodwill	EUR	150 649.3k
Negative goodwill from capital consolidation	EUR	17 037.9k

Credit differences of EUR 7 million arising from capital consolidation in previous years have been released to the income statement.

Intercompany transactions and receivables and payables were offset against each other. Intercompany profits were eliminated.

Deferred taxes resulting from consolidation measures affecting net income were formed at the Group-wide tax rate of 24%.

ACCOUNTING AND VALUATION PRINCIPLES

In principle, the accounting and valuation methods applied in the past were maintained. The material differences are explained below.

Intangible assets and *property, plant and equipment* were valued at cost of acquisition or production, less scheduled amortization and depreciation. Scheduled depreciation was recorded using the straight-line method of depreciation, based on the estimated useful life. Wherever it was possible or appropriate to show assets at a lower value, impairment losses were recorded.

Financial assets were also shown at the lower of cost or market value, whenever a sustained impairment in value was identified. Associated companies were valued at equity according to the book value method. Values were determined at the time of their initial inclusion in the consolidated financial statements. This did not result in any material effects in the year under report.

Inventories were capitalized at cost of acquisition or production; work in process and finished goods were carried at cost including an appropriate portion of material and production overhead. Adequate depreciation was recorded wherever market prices or the values determined were lower than the book values or where the salability of products and assets was impaired.

Accounts receivable and *all other current assets* were shown at their nominal value. Appropriate allowance was made for any specific bad debts identified. A general bad debt allowance was recorded to cover general credit risk.

Uncertain debts and potential losses from pending transactions were shown to an appropriate extent as accruals on the liabilities side.

In the 2005 business year, *accruals for pensions and similar obligations* were calculated according to the actuarial principles of IAS 19 and discounted to their present value for the first time throughout the Group. As a result of the amendment of IAS 19, the accruals for pensions rose by a total of EUR 28.8 million. Previously, the entry age normal method required under fiscal law was used to determine the accruals for pensions and similar obligations of German companies in the consolidation group.

Accruals for current taxes and for deferred taxes and other accruals provide appropriate cover of uncertain debts and potential losses from pending transactions. The item also comprises expense accruals, as well as deferred tax accruals taken from the individual financial statements. Liabilities are shown at the amount repayable.

Liabilities are shown at the amount repayable.

Accounts receivable and accounts payable in foreign currencies were shown at cost of acquisition or at the lower/higher currency exchange rate applicable on the balance sheet date. Bank balances denominated in foreign currency were converted at the bank selling rate on the balance sheet date.

It is extremely difficult to gauge the risk presented to our operational business by movements in exchange rates and interest rates. In order to minimize this risk, appropriate hedging activities were adopted, e.g. derivatives. Transactions are only concluded with banks whose creditworthiness is impeccable, and then in accordance with uniform guidelines and strict internal auditing processes. The involvement of these banks is restricted to securing the business transaction and the financial investment and financing processes involved.

Previously, the option detailed in Sec. 274, para. 2 HGB was used in the individual financial statements of the companies included in the consolidation group, with the effect that no deferred tax assets were shown. As of the 2005 business year, deferred taxes were recognized for the first time in accordance with GAS 10 "Deferred taxes in consolidated financial statements" and deferred tax assets and liabilities were determined for all timing differences between the taxation and balance sheet values. The deferred taxes were determined on the basis of the tax rates expected at the time of recognition. These are based on the regulations adopted at the balance sheet date. No deferred tax assets on tax loss carry forwards or tax credits were formed. In addition, deferred taxes were formed for the first time in accordance with GAS 10 on unrealized reserves disclosed in connection with the first consolidation.

The change in the accounting of deferred taxes had an effect of EUR 60.8 million on the Group's opening balance sheet on January 1, 2005.

The adjustment led to an increase in equity with no effect on profit. The recognition of deferred tax liabilities for the first time on unrealized gains disclosed in connection with the first consolidation also led to an increase of EUR 10.3 million in goodwill.

No adjustment was made to the comparable figures of the previous year. If the corresponding accounting methods had been applied in the 2004 business year, there would have only been a slight change in the tax expense in 2004.

CONVERSION OF CURRENCIES

The financial statements of the foreign subsidiaries which do not report in euro were converted as follows:

- Equity: Exchange rate at the time of acquisition or, alternatively, at the time of first consolidation
- Other items in the balance sheet, net income/loss for the year and depreciation: Exchange rate as of the balance sheet date
- Expenditure and income: Average exchange rate over the year

Exchange differences arising from the application of the current rate method have been netted in the development of fixed assets with the opening balances.

As in the past, any differences resulting from the conversion of items shown in the balance sheet into euro were offset against revenue reserves.



NOTES ON THE BALANCE SHEET OF THE MAHLE GROUP

Accounts receivable and other assets

in EUR '000	Carrying value Dec. 31, 2005	Thereof with a remaining period of more than 1 year
Accounts receivable trade	656 995	422
From affiliated enterprises	2 358	–
From enterprises in which investments are held	832	–
Deferred tax assets	100 385	42 625
Other assets	117 754	25 752
Total	878 324	68 799

In the previous year, trade receivables (EUR 153k) from affiliated enterprises (EUR 209k) and other assets (EUR 12 402k) 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 35 920k was made for deferred tax assets for which the probability of recognition was considered insufficient. The previous year's value of EUR 8 097k was included in prepaid expenses in the 2004 business year.

Prepaid expenses comprise the difference between net loan proceeds and the amount repayable to banks (debt discounts) amounting EUR 246k (previous year EUR 464k). In the previous year, deferred taxes of EUR 8 097k were included, which are now shown under Accounts receivable and other assets in view of the change in the accounting of deferred taxes.

The *unappropriated retained earnings* equal that of the parent company and contain the amount carried forward from the previous year of EUR 97k.

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, 2005	Thereof with a remaining period of up to 1 year	Thereof with a remaining period of more than 5 years
Liabilities to banks	411 312	184 722	40 358
Advance payments received on account of orders	4 308	4 210	–
Trade payables	312 469	312 469	–
Liabilities on bills accepted and drawn	3 280	3 280	–
Payables			
To affiliated enterprises	790	790	–
To enterprises in which investments are held	6 988	6 978	10
Other liabilities	124 230	106 385	644
Total	863 377	618 834	41 012

In the previous year, liabilities to banks (EUR 123 231k), advance payments received on account of orders (EUR 2 742k), trade payables (EUR 297 356k), liabilities on bills accepted and drawn (EUR 3 742k), payables to affiliated enterprises (EUR 674k), payables to enterprises in which investments are held (EUR 6 794k) and other liabilities (EUR 92 222k) had a remaining term of less than one year.

Of the liabilities to banks, EUR 15 195k is secured by property liens and EUR 7 084k by similar rights.

Contingent liabilities

in EUR '000	
Contingents from notes	10 907
Bonds and guarantees	3 599
Collateral for third party liabilities	–
Warranties	–

Other financial obligations

in EUR '000	
Purchase commitments	51 715
Financial obligations resulting from rent and lease agreements	55 377
Others	180

NOTES ON THE INCOME STATEMENT OF THE MAHLE GROUP

Sales by business unit

in EUR '000	
Piston Systems product line	1 261 681
Cylinder Components product line	459 658
Valve Train Systems product line	511 786
Air Management Systems product line	645 015
Liquid Management Systems product line	520 543
Aftermarket profit center	382 713
Small Engine Components profit center	124 695
Large Engine Components profit center	71 659
Motorsports profit center	49 621
Industrial Filtration profit center	62 802
Services	31 609
Total	4 121 782

Sales by geographically defined market

in EUR '000	
Europe	2 274 536
America	1 068 457
Asia, Africa, Australia	778 789
Total	4 121 782

Depreciation on property, plant and equipment

in EUR '000	
Total	233 610
Thereof extraordinary on account of limited use	7 130

Interest and similar expenses

In the 2005 business year, the interest expense from the appropriation to accruals for pensions and similar obligations, amounting to EUR 47.7 million, was shown in the interest expense for the first time.

Taxes on income

The taxes on income include deferred tax expenses of EUR 2,069k.

OTHER NOTES

Average headcount (without apprentices) over the year

Blue collar workers	27 433
White collar workers	9 404
Total	36 837

Derivates as of December 31, 2005

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	49 684	404
Transactions relating to currency	257 970	1 642
Transactions relating to commodity	828	332
Transactions relating to credit default	14 919	2 360

* 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 of December 31, 2006 are placed exclusively with banks.

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	3 693

The total remuneration paid to the Management Board comprises fixed and variable components. The fixed portions for 2005 came to EUR 1 867k, and the variable compensation to EUR 1 826k. The fixed portions include benefits in kind, which consist primarily of the non-cash benefits of having company cars.

Besides the amounts mentioned, the members of the Supervisory Board did not receive any additional remuneration or advantages for personally performed services in the year under report, in particular advisory and negotiation services.

Remunerations paid to former executive directors and their descendants amounted to EUR 1 264k.


An amount of EUR 10 775k is set aside for this group of persons in the pension accruals as of December 31, 2005.

Stuttgart, March 21, 2006

The Executive Directors of MAHLE GmbH


Heinz K. Junker


Hans Peter Coenen


Hans-Josef Enning


Michael Glowatzki


Peter Grunow


Bernhard Volkmann

AUDIT OPINION

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, 2005. 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 24, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Elkart
German Public Auditor

Marbler
German Public Auditor

BALANCE SHEET OF MAHLE GMBH AS OF DECEMBER 31, 2005

Assets

in EUR '000		Dec. 31, 2005	Dec. 31, 2004
Fixed assets			
Property, plant and equipment	68 081		78 210
Financial assets	787 348		670 967
		855 429	749 177
Current assets			
Inventories	53 758		59 225
Accounts receivable and other assets			
Trade receivables	50 927		56 641
Other accounts receivable and other assets	154 629		195 432
	205 556		252 073
Cash and cash equivalents	40 208		698
		299 522	311 996
Prepaid expenses			
		270	694
		1 155 221	1 061 867

Equity and liabilities

in EUR '000		Dec. 31, 2005	Dec. 31, 2004
Equity			
Subscribed capital	150 000		150 000
Capital reserves	166 430		166 430
Revenue reserves	404 500		312 100
Unappropriated retained earnings	6 339		4 097
		727 269	632 627
Accruals			
Accruals for pensions and similar obligations	135 783		132 873
Other accruals	95 467		118 853
		231 250	251 726
Liabilities			
Liabilities to banks	99 208		99 674
Trade payables	19 315		23 765
Other liabilities	78 179		54 075
		196 702	177 514
		1 155 221	1 061 867

INCOME STATEMENT OF MAHLE GMBH
FROM JANUARY 1 TO DECEMBER 31, 2005

in EUR '000	2005	2004
Sales	499 353	574 480
Increase or decrease in finished goods and own work capitalized	- 3 288	- 1 692
Total operating performance	496 065	572 788
Other operating income	60 269	73 799
Cost of materials	- 198 192	- 248 122
Personnel expenses	- 209 734	- 224 624
Depreciation on fixed assets	- 29 123	- 22 946
Other operating expenses	- 125 955	- 175 958
Investment income	35 365	9 575
Income/expense from profit and loss transfers	106 952	60 154
Amortization of financial assets	- 26 675	- 1 597
Interest	- 5 542	- 4 453
Income from ordinary business activities	103 430	38 616
Taxes	- 4 788	- 6 510
Net income for the year	98 642	32 106

The auditor of the MAHLE Group, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Stuttgart, rendered an unqualified audit opinion on the Annual Financial Statements of MAHLE GmbH.

To receive a copy of the complete Annual Financial Statements of MAHLE GmbH, please contact:

MAHLE International GmbH
Corporate Communications/Public Relations
Pragstrasse 26-46
D-70376 Stuttgart



MEMBERS OF THE SUPERVISORY BOARD

Dr. rer. pol. Klaus P. Bleyer

Chairman

Former Chairman of the Management Board of ZF Friedrichshafen AG, Friedrichshafen/Germany

Bruno Nickel

Deputy Chairman

until December 31, 2005

Former Managing Director of Industriegewerkschaft Metall, Local Administrative Office, Stuttgart/Germany

Jörg Hofmann

Deputy Chairman

effective January 1, 2006

District Administrator of Industriegewerkschaft Metall Baden-Württemberg, Stuttgart/Germany

Rolf Allmendinger

Chairman of the Supervisory Board of WMF Aktiengesellschaft, Geislingen/Germany

Herbert Bossert

Executive Secretary of the Central Works Council of MAHLE GmbH

Martin Bücher

Deputy Chairman of the Central Works Council of MAHLE GmbH

Anton Czink

Deputy Chairman of the Central Works Council of MAHLE GmbH

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

Bernd Hofmaier-Schäfer

Chairman of the Central Works Council of MAHLE GmbH

Thomas R. Letsch

Vice President Sales and Application Engineering Commercial Vehicles of MAHLE GmbH

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 GmbH

Hansjörg Schmierer

effective January 1, 2006

Managing Director of Industriegewerkschaft Metall, Local Administrative Office, Stuttgart/Germany

Dipl.-Kfm. Dieter Schnabel

Former Chairman of the Management Board of Robert Bosch Ltda., Campinas/Brazil

Dipl.-Ing. Hans-Ulrich Wacker

Former Executive Vice President of MAHLE GmbH

REPORT OF THE SUPERVISORY BOARD



Dr. Klaus P. Bleyer

The Supervisory Board would like to express its gratitude to member and Deputy Chairman of the Supervisory Board, Bruno Nickel, who retired as of December 31, 2005, for his many years of constructive cooperation. Hansjörg Schmierer was appointed member of the Supervisory Board by the Stuttgart district court ("Amtsgericht Stuttgart") for the remaining term of office. Jörg Hofmann was elected Deputy Chairman of the Supervisory Board as of January 1, 2006.

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. A further resolution was adopted by written consent.

Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the Annual Financial Statements and the Status Reports of the MAHLE Group and of MAHLE GmbH for the 2005 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.

Georg Weisweiler, who had been a member of the Management Board since 1997 and responsible for Human Resources since 2001, retired on June 30, 2005; the Supervisory Board would like to thank Mr. Weisweiler for his many years of successful work. Michael Glowatzki took over his role as Corporate Executive Vice President Human Resources as of May 16, 2005.

Stuttgart, April 10, 2006

For the Supervisory Board

Dr. Klaus P. Bleyer
Chairman





MANAGEMENT BOARD

Prof. Dr.-Ing. Heinz K. Junker

Chairman and CEO
Sales and Advanced Development
Communications, Legal and Internal Audit
Product Line Cylinder Components
Profit Centers Aftermarket and Motorsports

Dr.-Ing. Hans Peter Coenen

Corporate Executive Vice President and
General Manager
Product Line Piston Systems
Profit Centers Large Engine Components and
Small 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
effective May 16, 2005

Dipl.-Kfm. Peter Grunow

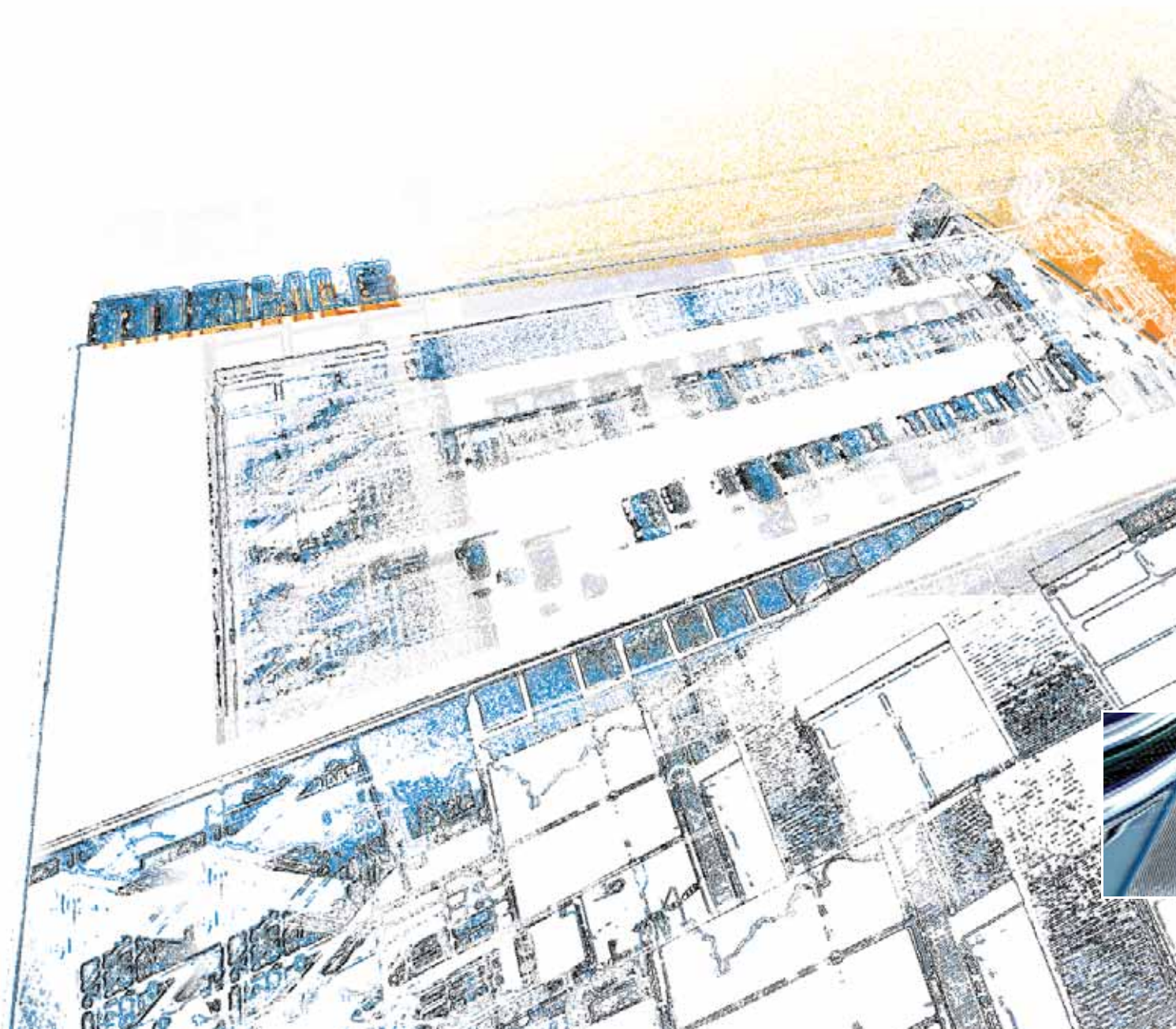
Corporate Executive Vice President and
General Manager
Product Lines Air Management Systems
and Liquid Management Systems
Profit Center Industrial Filtration
Corporate Procurement

Dr. rer. pol. Bernhard Volkmann

Corporate Executive Vice President and
Chief Financial Officer
IT Services, Insurance

Georg Weisweiler

Corporate Executive Vice President
Human Resources
until June 30, 2005



GLOSSARY

TECHNICAL GLOSSARY

Actuators

In control engineering, they are the transducer counterparts to sensors, i.e. the actuating elements in a control circuit. It converts signals from a control unit into (primarily) mechanical work, i.e. motions, in order to open or close a flap for example.

Blow-by heating

Heats the blow-by gases that pass into the intake section in order to prevent freezing.

Downsizing

Effective concept for engines that allows fuel consumption and exhaust emissions reduction. This means that high power outputs and torques are produced with small displacements.

Throttle-free load control

Using fully variable valve control with no throttle blade.

Dethrottling

Reducing the throttling loss, for example by means of exhaust gas recirculation, low-displacement supercharged engines, tuning of the intake pipe and exhaust system, cylinder shut-off or even by completely removing the throttle blade.

FERROTHERM® piston

MAHLE trademark for a two-piece piston for commercial vehicles with forged steel crown and aluminum skirt.

Susceptibility to seizure

Risk of piston seizing, i.e. surface stress, caused by excessively high temperatures, lateral forces or lack of lubrication.

Piston assembly

Assembly consisting of piston, piston rings and piston pin.

Piston alloy

Alloys are used in order to influence the material properties. For pistons, high temperature-resistant aluminum alloys with silicon, nickel, magnesium, copper and other trace elements or steel alloys are used.

Mechatronics

The inter-disciplinary combination of mechanical, electronic and IT systems.

Molybdenum

An alloy element that is used to increase strength and resistance to corrosion and heat.

MONOTHERM® piston

MAHLE trademark for a single-piece forged steel piston for commercial vehicles.

Engine peripherals

Components and systems not directly built into the engine. At MAHLE, this primarily includes filter systems and their components.

Camshaft, composite

The composite camshaft is made up of individual parts (main shaft, drive wheel, cams and end piece) assembled using various joining processes. The cams can be made from wear-resistant material such as ball bearing steel, cast steel or powder metal materials.

Articulated piston

A two-piece piston in which the heat dissipation and transmission of power are decoupled via an articulated joint.

Rotor

A rotating unit that operates according to the impeller principle.

Intake module

Assembly of air guide components, including intake manifold, adjusting valves and mixing chamber for exhaust gas recirculation.

Chilled cast iron camshaft

When manufacturing a camshaft using chilled cast iron, casting techniques ensure that the cast iron solidifies more quickly, increasing the hardness. The carbon in the outer region solidifies as iron carbide (Fe_3C , cementite) and remains bound to the iron atoms, while otherwise it precipitates out of the iron structure as graphite.

SCP (Single Cam Phaser) camshaft

Variable camshaft consisting of two cam lobes, one inside the other, in which the exhaust cams are connected firmly to the camshaft tube, and the intake cams are joined to the inside cam lobe by a connecting element. This achieves the functionality of two adjustable camshafts using just one camshaft.

Selective catalyst technology

Process for reducing exhaust emissions in diesel vehicles by means of a urea solution.

Powder metal materials

Sintering is a method for making objects from powder, by increasing the adhesion between particles as they are heated and pressure is applied. It is used with ceramic powders and in powder metallurgy.

Systems supplier

Supplier who designs, assembles and supplies complete systems or system components. In contrast to the component supplier the systems supplier performs a large amount of development work.

Telemetry

Telemetering – denotes the transmission of readings from a sensor located at the measuring point to a remote location.

Valve train

Mechanism for producing valve lift.

Fully variable valve train

Continuous adjustment of valve lift and valve timing, which allows throttle-free load control.

Cylinder assembly

Cylinder with inserted pistons including piston rings and, if necessary, piston pin and pin retainer.

COMMERCIAL/GENERAL GLOSSARY**Aftermarket**

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

Asset-backed security transactions

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

Blended learning

Electronic learning (e-learning), augmented by tutor support and face-to-face teaching.

Corporate design

Part of the corporate identity, comprises the complete visual image of a company.

Corporate identity

The corporate identity is the strategically planned and operationally implemented self-portrayal and behavior of a company, both internally and externally, based on an established corporate philosophy, a long-term corporate mission statement and a defined (ideal) image – with the aim of achieving uniform internal and external representation in everything that the company does.

German Corporate Governance Code

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

EBIT

Earnings before interest and taxes.

EBITDA

Earnings before interest, taxes, depreciation and amortization.

First consolidation

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

Heubeck tables

Uncertain debts from a pension commitment are evaluated for entry into the balance sheet in accordance with the generally recognized actuarial rules, based on the “life expectancy tables” created by Prof. Dr. Klaus Heubeck. These tables show biometric actuarial bases such as invalidity and mortality probabilities.

Key account management

Type of sales organization geared towards purchasers or purchaser groups. The key account manager is available to a key customer or group as a permanent contact for all products.

Consolidated sales

External sales made by a company, i.e. excluding all intercompany sales.

Consolidation group

Comprises the parent company, 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.

Deferred tax assets

As a result of different accounting regulations for tax and commercial balance sheets, the net income according to tax law and according to commercial law may differ. In this case, the tax expense in the commercial income statement which is derived from the tax balance sheet considers the net income according to commercial law only to a limited extent, to compensate for difference deferred tax assets are recognized in the balance sheet.

Trade balance deficit

If the trade balance from the import and export of goods and services of a national economy shows a deficit. This is the case if a country imports more than it exports.

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.

Net liquidity

Net amount of liabilities to banks and monetary current assets.

OE/OEM

Original Equipment/Original Equipment Manufacturer.

Profit center

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

Responsible buyer concept

Negotiations with the supplier are arranged by a globally responsible purchaser (comparable to a key account manager in sales).

Sale and leaseback transaction

Special form of leasing in which the lessor (leasing company) purchases the leased object from the lessee (company) and leases it back to the lessee.

SRM system (Supplier Relationship Management system)

Comprises the strategic planning and central management of a company's relationships with its suppliers. The aim is to closely bind all suppliers to the company and to support purchasing throughout the procurement processes.

Reinvestment policy

Defines what portion of a company's profit the shareholders receive and what portion remains within the company for financing purposes.

Knowledge management

Consciously managing knowledge as a resource and using it in a targeted manner within the company. This makes it possible to control all data, information and skills within the company. Making this knowledge base accessible to as many people as possible ensures that solutions can be found to complex, varied problems.

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