

(Convenience Translation into English from the
Original Previously Issued in Portuguese)

Mahle Metal Leve S.A.

*Financial Statements for the
Years Ended December 31, 2002 and 2001
and Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

Mahle Metal Leve S.A.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Management and Shareholders of
Mahle Metal Leve S.A.
Mogi Guaçu - SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Mahle Metal Leve S.A. and subsidiaries as of December 31, 2002, and the related statements of income, changes in shareholders' equity, and changes in financial position for the year then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audit was conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Mahle Metal Leve S.A. and subsidiaries as of December 31, 2002, and the results of their operations, the changes in shareholders' equity, and the changes in their financial positions for the year then ended in conformity with Brazilian accounting practices.
4. The individual (Company) and consolidated balance sheets as of December 31, 2001, and the related statements of income, changes in shareholders' equity, and changes in financial position for the year then ended, presented for comparative purposes, were audited by other independent auditors, whose report thereon, dated January 26, 2002, was unqualified.
5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Campinas, February 26, 2003

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MAHLE METAL LEVE S.A.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(Amounts in thousands of Brazilian reais - R\$)

1. OPERATIONS

The Company is engaged in the production of pistons, piston rods, bearings and thrust washers for internal combustion engines sold to several industries and sectors, such as car makers (automobiles, trucks, tractors, etc.), spare parts market, aircraft engine and stationary motor sectors and others, both in the domestic and foreign markets. The Company also manufactures filters for all industrial uses. Other operating activities developed by its direct and indirect subsidiaries and affiliates include the production of sintered metal parts and automotive pins, trading and provision of technical assistance in the international market, and the production of ferrous and non-ferrous metals.

The Extraordinary Shareholders' Meeting held on April 24, 2002 approved the merger of Mahle Sistemas de Filtração Ltda. into the Company. This merger has been made based on an economic appraisal report that defined the exchange of the merged company's shares for the merging company's shares. For accounting purposes, the merger was made at the book value of the merged company's net assets, in the amount of R\$18,183, according to the independent appraisal report for the base date March 31, 2002, generating a capital increase in the same amount through the issuance of 491,182 thousand registered shares without par value, 197,746 of which are common and 293,436 thousand are preferred shares, assigned to Filtração Ltda. in exchange for all of its stock. Due to said merger and capital increase, the Company's capital increased from R\$205,718 to R\$223,901, and the number of shares increased from 8,644,889 thousand to 9,136,071 thousand, divided into 3,678,112 thousand common shares and 5,457,959 thousand preferred shares without par value. As of March 31, 2002, the net assets of Mahle Sistemas de Filtração Ltda. were comprised of the following:

ASSETS		LIABILITIES	
Cash	8	Suppliers	231
Accounts receivable	1,830	Loans and financing	324
Inventories	2,734	Related parties	1,477
Other current assets	1,084	Other current liabilities	719
Noncurrent assets	16	Long-term liabilities	3,279
Permanent assets	18,541	Shareholders' equity	18,183
	-----		-----
	24,213		24,213
	=====		=====

The purpose of this corporate restructuring was to reduce administrative, tax and financial expenses.

2. PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The financial statements were prepared in accordance with the Brazilian Corporate Law and Brazilian Securities Commission (CVM) rules and instructions. The principal accounting practices applied in the preparation of these financial statements are as follows:

(a) Temporary Cash Investments--Stated at cost plus interest earned to the balance sheet date.

(b) Allowance for Doubtful Accounts--Determined based on an analysis of risks on the realization of receivables, in an amount considered sufficient to cover possible losses.

(c) Inventories--Stated at average acquisition or production cost, and adjusted, when applicable, to their probable net realizable values.

(d) Investments--In subsidiaries and jointly-controlled subsidiaries are carried under the equity method. Other investments are recorded at the lower of cost or market value.

(e) Property, Plant and Equipment--Stated at acquisition, formation or construction cost, less accumulated depreciation. Depreciation is calculated under the straight-line method at rates based on the economic useful lives of the assets.

(f) Deferred Charges—Stated at incurred cost, less accumulated amortization calculated under the straight-line method as from the date the benefits of the projects to which they are related start being generated.

(g) Rights and Obligations--Subject to monetary or exchange variation, are stated at restated amounts at the balance sheet date. These monetary restatements are recognized in net income when incurred.

(h) Income and Social Contribution Taxes--Accrued in compliance with the tax legislation in force. The tax credit arising from temporary differences is recorded in accordance with the pronouncement issued by IBRACON (Brazilian Institute of Independent Auditors) on the recognition of income and social contribution taxes, and CVM Resolutions No. 273/98 and No. 371/02.

(i) Use of Estimates--The preparation of financial statements requires Management to make estimates and adopt assumptions, at its best judgment, which affect the reported amounts of assets and liabilities, and the reported amounts of revenues, costs and expenses. Actual amounts may differ from those estimates.

Certain reclassifications have been made in the individual and consolidated balance sheets as of December 31, 2001, presented for comparative purposes, to conform with the fiscal 2002 financial statements.

3. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and the following subsidiaries and jointly-controlled subsidiaries:

	<u>Ownership interest</u>	
	<u>%</u>	
	<u>2002</u>	<u>2001</u>
<u>Subsidiaries:</u>		
Metal Leve International Limited (BVI)	100	100
Metal Leve GmbH	100	100
Mahle Metal Leve Miba Sinterizados Ltda.	70	70
<u>Jointly-controlled subsidiaries:</u>		
Mahle MMG Indústria e Comércio Ltda.	31	-
Mahle MMG Ltda.	-	30
Mahle CMP S.A.	-	30

As established by CVM Instruction No. 247/96, the consolidated financial statements include the jointly-controlled subsidiary Mahle MMG Indústria e Comércio Ltda. (Mahle MMG Ltda. and Mahle CMP S.A. in 2001), according to the Company's interest in this investee.

The financial statements of foreign subsidiaries Metal Leve International Limited (BVI) and Metal Leve GmbH were translated into Brazilian reais based on the exchange rates prevailing at the balance sheet date. Such financial statements were adjusted, when applicable, to Brazilian accounting practices.

Description of the principal consolidation procedures:

- Elimination of asset and liability balances between consolidated companies.
- Elimination of income and expenses arising from intercompany transactions.
- Separate captions for minority interest in the consolidated financial statements.
- Elimination of intercompany unrealized profit.

The accounts of the jointly-controlled subsidiaries were included in the consolidated financial statements in proportion of the Company's ownership interest in the investees' capital.

4. INVENTORIES

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Finished products	27,338	23,022	30,673	26,553

Mahle Metal Leve S.A.

Work in process	26,883	18,191	31,034	21,754
Raw materials	13,426	10,136	18,401	13,780
Supplies	8,041	8,151	10,297	10,346
Imports in transit	4,523	1,994	4,840	2,020
Allowance for losses	<u>(8,301)</u>	<u>(6,385)</u>	<u>(10,382)</u>	<u>(7,311)</u>
	<u>71,910</u>	<u>55,109</u>	<u>84,863</u>	<u>67,142</u>

5. INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED SUBSIDIARIES

a. Investments composition

	<u>Company</u>	
	<u>2002</u>	<u>2001</u>
<u>Subsidiaries:</u>		
Metal Leve International Limited (BVI)	6,873	6,923
Mahle Metal Leve Miba Sinterizados Ltda.	12,530	10,229
<u>Jointly-controlled subsidiaries:</u>		
Mahle MMG Indústria e Comércio Ltda.	38,819	-
Mahle MMG Ltda.	-	18,467
Mahle CMP S.A.	-	3,735
	<u>58,222</u>	<u>39,354</u>

b. Additional information

	<u>2002</u>						<u>2001</u>
	<u>Capital</u>	<u>Adjusted income (loss)</u>	<u>Adjusted shareholders' equity</u>	<u>Ownership interest in investee's capital</u>	<u>Equity in subsidiaries</u>	<u>Exchange variation on investment</u>	<u>Equity in subsidiaries</u>
Metal Leve International Limited (BVI)	7,676	(3,360)	6,873	100	(3,360)	3,310	(6,352)
Mahle Metal Leve Miba Sinterizados Ltda.	100	3,286	17,899	70	2,301	-	1,207
Mahle MMG Indústria e Comércio Ltda.	112,083	15,821	124,944	31	4,917	-	-
Mahle MMG Ltda.	-	-	-	-	12,654	-	4,076
Mahle CMP S.A.	-	-	-	-	193	-	408
Metal Leve GmbH	438	5	(3,094)	100	5	(1,372)	365
					<u>16,710</u>	<u>1,938</u>	<u>(296)</u>

The financial statements of the foreign subsidiaries Metal Leve GmbH and Metal Leve International Limited (BVI) were translated into Brazilian reais at the current rates of the respective foreign currencies. Equity in subsidiaries considered their monthly results, translated into Brazilian reais at average monthly exchange rates. Translation gains or losses were recorded directly as financial expenses (income). The subsidiary Metal Leve GmbH is not stated in the "investments" caption since it presents net shareholders' deficit. The reserve for this deficit, in the amount of R\$3,904 (R\$1,727 in 2001), is

recognized in long-term liabilities. Losses on this subsidiary in 2002 arise mainly from exchange exposure on its net shareholders' deficit during the year.

On September 25, 2002, the jointly-controlled subsidiary's shareholders approved the merger of the subsidiary Mahle CMP Ltda. (formerly Mahle CMP S.A.). This merger has been made based on an asset appraisal report issued by independent appraisers for the base date August 31, 2002 and Mahle CMP Ltda.'s net assets merged into Mahle MMG Ltda. were R\$5,864. Prior to said merger, Mahle CMP Ltda. paid its shareholders interest on capital calculated on shareholders' equity as of December 31, 2001 and the amount of R\$1,147 paid to Mahle Metal Leve S.A. was charged against Mahle Metal Leve's investment in this jointly-controlled subsidiary.

On October 14, 2002, the jointly-controlled subsidiary Mahle MMG Ltda. was merged into Mahle Valve Train Brasil Ltda., and Mahle Valve Train Brasil Ltda. changed its name to Mahle MMG Indústria e Comércio Ltda. The merger has been based on an asset appraisal report issued by independent appraisers for the base date September 30, 2002 and Mahle MMG Ltda.'s net assets merged into Mahle Valve Train Brasil Ltda. were R\$109,349.

6. RELATED PARTIES

The transactions between the Company and related parties can be summarized as follows:

	2002			
	<u>Current assets</u>	<u>Current liabilities</u>	<u>Sales</u>	<u>Purchases</u>
Mahle Metal Leve Miba Sinterizados Ltda.	1	108	509 (a)	653 (a)
Metal Leve International Ltd.	170	1,460	-	-
Mahle MMG Ltda.	-	-	2,109 (a)	33,482 (a)
Mahle MMG Indústria e Comércio Ltda.	9	3	598 (a)	10,439 (a)
Mahle Sistemas de Filtração Ltda.	-	-	240 (a)	125 (a)
Mahle Cofap Anéis S.A.	1,173	5,606	13,921 (a)	45,797 (a)
Mahle Componentes de Motores, S.A.	1,924	-	5,670	-
Mahle Indústria e Comércio Ltda.	634	10	-	7,596 (a)
Mahle Ventiltrieb GmbH	-	-	-	238
Mahle S.A. Argentina	2,537	43	1,317	-
Mahle Inc. Trumbull	4,689	-	13,230	75
Mahle S.A. – Spain	-	-	81	-
Mahle Mondial S.p.A.	1	-	1	27
Mahle GmbH	9,964	3,776	35,817	12,630
Mahle Valve Train France	19,226	-	29,666	-
Mahle Filter System Ltd.	4,819	5,076	9,861	5,712
Mahle Pistones – Mexico	4,679	-	15,835	16
Mahle Sueko	-	-	-	63
Mahle Nanjing Piston Co Ltd.	52	-	50	-
Mahle Technology Inc.	-	6	-	6
Mahle Inc. Co.	<u>50,790</u>	<u>1,984</u>	<u>150,912</u>	<u>2,612</u>

2002			
<u>Current assets</u>	<u>Current liabilities</u>	<u>Sales</u>	<u>Purchases</u>
<u>100,668</u>	<u>18,072</u>	<u>279,817</u>	<u>119,471</u>

(a) Amounts net of Federal VAT (IPI) and State VAT (ICMS).

2001				
<u>Current assets</u>	<u>Current liabilities</u>	<u>Sales</u>	<u>Purchases</u>	
Mahle Metal Leve Miba Sinterizados Ltda.	36	7	480 (a)	545 (a)
Metal Leve International Ltd.	112	4,038	-	-
Mahle MMG Ltda.	-	-	48 (a)	39,133 (a)
Mahle Sistemas de Filtração Ltda.	179	-	369 (a)	-
Mahle Cofap Anéis S.A.	-	2,438	9,963 (a)	42,134 (a)
Mahle Componentes de Motores S.A.	977	-	2,342	-
Mahle Indústria e Comércio Ltda.	-	-	-	7,709 (a)
Mahle Ventiltrieb GmbH	-	32	-	72
Mahle S.A. – Argentina	2,093	23	1,778	60
Mahle Inc., Cylinders Division	1,195	35	11,834	47
Mahle S.A. - Spain	86	-	119	-
Mahle Mondial S.p.A.	14	-	-	-
Mahle GmbH	6,092	145	34,520	15,401
Mahle Valve Train France	9,020	-	22,320	-
Mahle Filter System	2,684	-	6,924	-
Mahle Pistones – Mexico	1,894	-	5,400	-
Mahle Inc. Co.	<u>35,108</u>	<u>422</u>	<u>126,179</u>	<u>996</u>
	<u>59,490</u>	<u>7,140</u>	<u>222,276</u>	<u>106,097</u>

(a) Amounts net of Federal VAT (IPI) and State VAT (ICMS).

Assets and liabilities substantially arise from intercompany trading transactions.

The receivable from related party, stated in noncurrent assets, refers to loan with subsidiary Mahle Metal Leve Miba Sinterizados Ltda., which is subject to interest based on the Company's average indebtedness cost, with no defined maturity date.

With the authorization of its Board of Directors, the Company obtained approval of the National Institute of Industrial Property (INPI) for the agreement for transfer of technology for manufacture of pistons signed with its head office in Germany, thus facilitating its entry into the industrial market. Patent royalties expenses in 2002 amounted to R\$9,089 (R\$278 in 2001), recorded as selling expenses in the income statement.

7. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rate %	Company		Consolidated	
		2002	2001	2002	2001
Buildings and constructions	4	57,417	51,546	66,615	59,735
Machinery, equipment and installations	10-20	459,339	421,144	552,562	504,823
Furniture and fixtures	10-20	12,367	11,652	13,475	13,380
Vehicles	10-25	9,124	7,697	10,024	8,586
Land		3,073	3,062	3,912	3,885
Construction in progress		26,188	20,649	29,497	26,598
Advances to suppliers		13,908	4,644	16,115	4,644
Rights of use of telephone lines and other		<u>253</u>	<u>37</u>	<u>291</u>	<u>332</u>
		581,669	520,431	692,491	621,983
Accumulated depreciation		<u>(383,341)</u>	<u>(354,439)</u>	<u>(455,897)</u>	<u>(419,332)</u>
		<u>198,328</u>	<u>165,992</u>	<u>236,594</u>	<u>202,651</u>

8. FINANCING

	Average annual interest rate	Company		Consolidated	
		2002	2001	2002	2001
<u>Local currency:</u>					
FINAME (Government Agency for Machinery and Equipment Financing)	TJLP*+ 4.0 to 5.0	-	3,293	-	3,293
BNDES (National Economic and Social Development Bank)	TJLP* + 4.0	5,754	3,125	8,344	8,309
<u>Foreign currency:</u>					
Import financing and working capital	Exchange variation + 3.91%	<u>5,942</u>	<u>5,228</u>	<u>14,820</u>	<u>12,721</u>
Total		11,696	11,646	23,164	24,323
Current		<u>(6,992)</u>	<u>(5,478)</u>	<u>(10,103)</u>	<u>(8,706)</u>
Long-term		<u>4,704</u>	<u>6,168</u>	<u>13,061</u>	<u>15,617</u>

* Brazilian long-term interest rate

The financing is used principally for the acquisition of machinery and equipment and is guaranteed by financed goods and directors, individually.

As of December 31, 2002, the long-term portion matures as follows:

<u>Maturity</u>	<u>Company</u>	<u>Consolidated</u>
2004	2,954	7,778
2005	1,194	4,727

2006	<u>556</u>	<u>556</u>
	<u>4,704</u>	<u>13,061</u>

9. CAPITAL AND ALLOCATION OF NET INCOME

The Annual Shareholders' Meeting held on April 24, 2002 approved the increase of the Company's capital to R\$205,718 through the capitalization of part of the profit reserve in the amount of R\$45,174, without issuance of new shares.

As a result of the merger of Mahle Sistemas de Filtração Ltda. as described in Note 1, the Company's capital increased to R\$223,901, represented by 9,136,071 thousand shares, 3,678,112 thousand of which are common shares and 5,457,959 thousand are preferred shares, without par value.

At a meeting held on September 17, 2002, the Board of Directors decided to pay, subject to the approval of the Shareholders' Meeting, to shareholders as of September 17, 2002 interest on capital in the gross amount of R\$12,185, equivalent to R\$1.2585 per thousand common shares and R\$1.3844 per thousand preferred shares. The payment has been made beginning September 30, 2002 in the net amount of R\$10,580, equivalent to R\$1.06976 per thousand common shares and R\$1.1767 per thousand preferred shares.

At a meeting held on December 5, 2002, the Board of Directors resolved to credit in 2002 for subsequent payment, subject to the approval of the Shareholders' Meeting, to its shareholders as of December 5, 2002 interest on capital in the gross amount of R\$18,177, equivalent to R\$1.8774 per thousand common shares and R\$2.0652 per thousand preferred shares. The payment has been made beginning January 31, 2003, in the net amount of R\$15,783, equivalent to R\$1.5958 per thousand common shares and R\$1.7554 per thousand preferred shares.

Under the prevailing legislation, interest on capital was or will be paid net of withholding income tax calculated at the rate of 15% to all shareholders, except corporate shareholders that submit, within the time stipulated by law, supporting documentation that evidence their tax-exempt or nontaxed status or option for the special taxation regime.

As permitted by CVM Resolution No. 207/96, the total amount of interest on capital, R\$30,362, was charged to the financial expense account and simultaneously reversed, in the individual and consolidated statements of income, to retained earnings in shareholders' equity.

Preferred shares are nonvoting but have priority in the distribution of dividends and redemption of capital and, in accordance with Law No. 9,457/97, are entitled to receive dividends 10% higher than those paid on common shares.

Holders of all shares are entitled to receive annual dividends of not less than 25% of net income for the year, calculated as defined by Corporate Law.

The calculation of proposed dividends as of December 31, 2002 is as follows:

Net income	150,099
Legal reserve	<u>(7,505)</u>
Adjusted net income	<u>142,594</u>
Minimum mandatory dividend (25%)	<u>35,648</u>
Interest on capital, net of income tax	<u>(26,363)</u>
Minimum mandatory dividend payable	<u>9,285</u>

Management will propose to the Shareholders' Meeting the distribution of dividends in the amount of R\$9,285, as mentioned above. Proposed dividends for fiscal 2002 total R\$35,648, equivalent to R\$4.050 per thousand preferred shares and R\$3.682 per thousand common shares, representing 25% of adjusted net income.

The interest on capital was included in the calculation of minimum mandatory dividends for fiscal 2002, in accordance with article 7 of bylaws, article 202 of Law No. 6,404/76 and Law No. 9,249/95.

Management will also propose to the Shareholders' Meeting, through budget presentation, that a portion of retained earnings, in the amount of R\$102,947 as of December 31, 2002, be segregated to be used for enhancing modernization and competitiveness, and for the payment of future obligations arising from expansion and restructuring plans.

In compliance with the legal requirement, Company management is proposing to allocate net income as follows:

Net income -	150,099
.Legal reserve	(7,505)
.Interest on capital	(30,362)
.Distribution of dividends	(9,285)

Proposed balance to be transferred to specific account of Reserve for Expansion and Modernization, aiming to fund estimated investments for the next year:	102,947 =====

10. INCOME AND SOCIAL CONTRIBUTION TAXES

The Company and its subsidiaries recorded tax credits arising from temporary differences based on the expectation of future profit generation. As of December 31, 2002, such credits amount to R\$34,580 (R\$39,197 in 2001) for the Company and R\$37,776 (R\$39,197 in 2001) for the Consolidated.

These credits were recognized in net income, under the "income and social contribution taxes" caption. In this caption, income and social contribution taxes due on taxable income for the year were also recognized. The following table presents the composition of these tax credits for the Company and Consolidated, as of December 31, 2002 and 2001:

	Company			
	<u>2002</u>			<u>2001</u>
	Income tax (25%)	Social contribution tax (9%)	Total	Total
Tax loss carryforwards	-	-	-	11,282
Effects on temporary differences:				
Provisions for contingencies, warranty and other	15,428	5,554	20,982	17,572
Allowance for losses on inventories	2,075	747	2,822	3,048
Portion temporarily nondeductible from allowance for doubtful accounts	2,391	861	3,252	2,365
Portion temporarily nondeductible from allowance for losses on other assets	1,759	633	2,392	2,231
Sales commissions and other temporarily nondeductible reserves	<u>3,774</u>	<u>1,358</u>	<u>5,132</u>	<u>2,699</u>
Total tax credit on temporary differences and tax loss carryforwards	<u>25,427</u>	<u>9,153</u>	<u>34,580</u>	<u>39,197</u>
	Consolidated			
	<u>2002</u>			<u>2001</u>
	Income tax (25%)	Social contribution tax (9%)	Total	Total
Tax loss carryforwards	-	-	-	11,282
Effects on temporary differences:				
Provisions for contingencies, warranty and other	16,933	6,096	23,029	17,572
Allowance for losses on inventories	2,596	934	3,530	3,048
Portion temporarily nondeductible from allowance for doubtful accounts	2,479	892	3,371	2,365
Portion temporarily nondeductible from allowance for losses on other assets	1,759	633	2,392	2,231
Sales commissions and other temporarily nondeductible reserves	<u>4,010</u>	<u>1,444</u>	<u>5,454</u>	<u>2,699</u>
Total tax credit on temporary differences and tax loss carryforwards	<u>27,777</u>	<u>9,999</u>	<u>37,776</u>	<u>39,197</u>

On June 27, 2002 the Brazilian Securities Commission (CVM) issued Instruction No. 371 establishing new criteria for recording of tax credits arising from tax loss carryforwards and temporarily nondeductible expenses. This Instruction resulted in no need for adjustments to the Company's financial statements.

Considering management's expectations for the realization of the aforementioned temporary differences, the tax credit as of December 31, 2002 is expected to be realized as follows:

<u>Realization</u>	<u>Company</u>	<u>Consolidated</u>
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Mahle Metal Leve S.A.

2003	12,872	15,108
2004	1,700	1,700
2005	1,700	1,700
2006	2,040	2,040
2007	1,234	1,234
2008 to 2010	10,073	10,397
2011 to 2013	<u>4,961</u>	<u>5,597</u>
	<u>34,580</u>	<u>37,776</u>

The following table is a reconciliation of the effective income and social contribution tax rates and the local statutory rates as of December 31, 2002 and 2001:

	Company			
	2002		2001	
	Income	Social	Total	Total
	tax	contribution		
		tax		
Income before taxes on income and minority interest	171,589	171,589	171,589	121,410
Statutory rate	<u>25%</u>	<u>9%</u>	<u>34%</u>	<u>34%</u>
Nominal provision	42,897	15,443	58,340	41,280
Effects on permanent differences:				
Equity in subsidiaries	(4,178)	(1,504)	(5,682)	101
Exchange variation on investments	(484)	(174)	(658)	(880)
Reversal of allowance for losses on tax credits due to expectations of future realization	-	(742)	(742)	(11,890)
Other temporary differences	<u>339</u>	<u>255</u>	<u>594</u>	<u>2,666</u>
Actual expense, net	<u>38,574</u>	<u>13,278</u>	<u>51,852</u>	<u>31,277</u>
Effective rate	<u>22.5%</u>	<u>7.7%</u>	<u>30.2%</u>	<u>25.8%</u>

	Consolidated			
	2002			2001
	Income	Social	Total	Total
	<u>tax</u>	contribution		
		<u>tax</u>	<u>Total</u>	<u>Total</u>
Income before taxes on income and minority interest	180,563	180,563	180,563	133,141
Statutory rate	<u>25%</u>	<u>9%</u>	<u>34%</u>	<u>34%</u>
Nominal provision	45,141	16,250	61,391	45,268
Effects on permanent differences:	-	-	-	3,585
Reversal of allowance for losses on tax credits due to expectations of future realization	-	(742)	(742)	(11,890)
Other effects	<u>(1,179)</u>	<u>370</u>	<u>(809)</u>	<u>-</u>
Actual expense, net	<u>43,962</u>	<u>15,878</u>	<u>59,840</u>	<u>36,963</u>
Effective rate	<u>24.3%</u>	<u>8.8%</u>	<u>33.1%</u>	<u>27.8%</u>

11. FINANCIAL INSTRUMENTS

The Company and its subsidiaries have operating strategies and policies aiming at liquidity, profitability and security, adopt procedures of monitoring balances and have operated with banks which meet the requirements of financial soundness and reliability, according to criteria established by Management. The control policy consists of permanent monitoring of agreed rates as compared to the rates prevailing in the market.

The main market risk factors that affect the Company's and its subsidiaries' business are as follows:

- Credit risk: the Company and its subsidiaries operate in two different markets: OEM (original equipment) and aftermarket. The Company's and its subsidiaries' chance of incurring losses arising from financial difficulties of their OEM customers is low due to these customers' profile (car makers and other companies operating worldwide).

As regards aftermarket and/or market sales in which the Companies' management understands that the risk of default is higher, credit letters, payments in advance or other collaterals are required prior to the effective sale. In this market, each customer's participation in sales is quite diluted, and no customer individually represents more than 5% of sales.

As of December 31, 2002, the Company's vendor operations amounted to R\$6,329 (R\$8,039 in 2001), with maturity of up to 45 days. The risks involved in these operations are basically connected with credit, which are managed through a strict analysis of credit limits to customers with whom the Companies have operations of this nature.

- Exchange rate risk: the Company and its subsidiaries have the procedure of balancing their exchange exposure by evaluating their assets and expected future operations. Throughout the years, this policy has presented a positive exchange exposure, in

which assets exposed to exchange fluctuations exceed liabilities, so that disbursements linked to foreign currencies are covered by cash inflows linked to the same exchange rates.

As of December 31, 2002, the Company's net exposure to exchange and interest rate risks is represented by liabilities in foreign currency (mostly Euros and U.S. dollars) related to bank loans and suppliers of raw materials in the total amount of R\$25,774 (R\$12,865 in 2001), based on the exchange rate prevailing at that date. Calculations made by the Company's finance department indicate immaterial differences between the book and fair values of these financial instruments.

In 2002 and 2001, the Company and its subsidiaries did not use derivatives as a hedge for loans and financing payable in foreign currency.

12. PROVISIONS FOR CONTINGENCIES, WARRANTY AND OTHER

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Provision for contingencies				
- civil and labor	32,280	24,624	33,939	28,364
- tax and other	<u>17,504</u>	<u>15,898</u>	<u>18,392</u>	<u>15,956</u>
	49,784	40,522	52,331	44,320
Provision for warranty	8,544	8,403	12,019	8,994
Other	<u>3,383</u>	<u>3,383</u>	<u>3,383</u>	<u>3,586</u>
	<u>61,711</u>	<u>52,308</u>	<u>67,733</u>	<u>56,900</u>

The Company and its subsidiaries are parties to certain administrative claims, and several tax, labor and civil lawsuits, arising from the normal course of their operations.

Based on assessment of the cases made by the legal counsel, provisions in the amount of R\$49,784 (R\$40,522 in 2001) for the Company and R\$52,331 (R\$44,320 in 2001) for the Consolidated were recognized. Management believes that the outcome of these claims will not result in an effect higher than the accrued amount. For part of the lawsuits, there are escrow deposits in the amount of R\$15,650 (R\$12,494 in 2001) for the Company and R\$16,653 (R\$13,501 in 2001) for the Consolidated.

In addition to the aforementioned lawsuits, the Company is a party to other claims in the estimated amount of R\$19,270 (R\$12,773 in 2001). In the legal counsel's opinion, there is a small chance that the Company will lose these claims and, accordingly, management did not recognize any provision in its financial statements.

In addition, the Company and its subsidiaries guarantee to their customers the quality of their products, being responsible for possible losses arising from problems of this nature. Based on estimates, which consider historical data, current and projected sales, among other factors, the Companies recognized a provision for warranty in the amount of R\$8,544 (R\$8,403 in 2001) for the Company and R\$12,019 (R\$8,994 in 2001) for the Consolidated.

13. EMPLOYEE BENEFITS

Employee benefits granted by the Company refer basically to current benefits granted on a monthly basis and thus recognized in the accounting records. There are no post-retirement benefits, pension funds or other benefits that require specific accounting treatment, as required by CVM Resolution No. 371 of December 13, 2000.

For the years ended December 31, 2002 and 2001, the Company and its subsidiaries paid to their employees profit sharing based on a labor union agreement in the amount of R\$5,290 (R\$4,638 in 2001) for the Company and R\$6,137 (R\$5,327 in 2001) for the Consolidated. The criteria established for paying profit sharing followed the rules defined in the collective labor agreement, which set forth certain objectives to be met, summarized as follows: (i) meeting the production goals for a predefined number of employees; (ii) maintaining the level of absenteeism up to the previously defined annual average of hours/absenteeism in relation to the standard worked hours; and (iii) maintaining the level of scrap up to the previously defined annual average in relation to the number of manufactured parts.

14. SUBSEQUENT EVENT

On January 15, 2003, the Company acquired from the related party Mahle Ventiltrieb GmbH 68.92% of the capital stock of Mahle MMG Indústria e Comércio Ltda. The acquisition price was R\$221,743 (US\$ 58,200,000), based on the economic value of all shares of the capital stock of Mahle MMG Indústria e Comércio Ltda., in the amount of R\$321,739, according to an independent appraisal report for the base date October 31, 2002. As a result of this acquisition, the Company now holds all of the stock of Mahle MMG Indústria e Comércio Ltda.

On February 26, 2003, Mahle MMG Indústria e Comércio Ltda. was merged into the Company, based on an asset appraisal report issued by independent appraisers for the base date January 31, 2003 and the merged net assets of Mahle MMG Indústria e Comércio Ltda. were R\$ 134,585.

The above-mentioned operations have been submitted to the approval of the Board of Directors at a meeting held on February 11, 2003 and subsequently voted on and approved by the Company shareholders at the Extraordinary Shareholders' Meeting on February 26, 2003.