

***Financial Statements***

***MAHLE Metal Leve S.A. and  
Subsidiaries***

***December 31, 2003 and 2002  
With Report of Independent Auditors***

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

**FINANCIAL STATEMENTS**

December 31, 2003 e 2002

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**A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil**

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**REPORT OF INDEPENDENT AUDITORS**

The Management and Shareholders  
**MAHLE Metal Leve S.A.**

1. We have audited the accompanying balance sheets both individual (of Parent Company) and consolidated of MAHLE Metal Leve S.A. and subsidiaries at December 31, 2003 and related statements of operations, of shareholders' equity and changes in financial position for the year then ended. These financial statements are 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 applicable in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company; (b) the examination, on a test basis, of documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and (c) an assessment of the accounting practices used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MAHLE Metal Leve S.A. and subsidiaries at December 31, 2003, the results of their operations, changes in its shareholders' equity and changes in financial position for the year then ended in accordance with accounting practices adopted in Brazil.

4. Financial statements for the year ended December 31, 2002, presented for comparison purposes, were examined by other independent auditors, who expressed an unqualified opinion thereon, dated February 26, 2003.

Campinas, February 06, 2004

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC2SP015199/O-6

B. Alfredo Baddini Blanc  
Accountant CRC1SP126402/O-8

**A free translation from Portuguese into English of financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil**

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

**BALANCE SHEETS**  
December 31, 2003 and 2002  
(In thousands of reais)

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>				
Current assets				
Cash and banks	<b>2,058</b>	2,206	<b>2,317</b>	2,790
Short-term investments	<b>24,426</b>	12,249	<b>31,900</b>	35,312
Trade accounts receivable	<b>108,465</b>	112,568	<b>118,567</b>	130,987
Accounts receivable from related parties	<b>142,072</b>	100,668	<b>142,116</b>	116,411
Exchange bills discounted	<b>(19,119)</b>	(12,530)	<b>(19,119)</b>	(12,897)
Allowance for doubtful accounts	<b>(9,952)</b>	(11,202)	<b>(12,794)</b>	(14,982)
Inventories	<b>101,440</b>	71,910	<b>107,751</b>	84,863
Recoverable taxes	<b>23,354</b>	8,249	<b>24,689</b>	8,914
Deferred income and social contribution taxes	<b>15,081</b>	12,872	<b>15,396</b>	15,108
Other accounts receivable	<b>4,668</b>	4,867	<b>3,846</b>	5,926
	<b>392,493</b>	301,857	<b>414,669</b>	372,432
Noncurrent assets				
Deferred income and social contribution taxes	<b>32,675</b>	21,708	<b>33,054</b>	22,668
Recoverable taxes	<b>7,149</b>	4,180	<b>7,486</b>	4,951
Judicial deposits	<b>17,915</b>	15,650	<b>18,003</b>	16,653
Other accounts receivable	<b>1,887</b>	3,004	<b>2,012</b>	3,129
	<b>59,626</b>	44,542	<b>60,555</b>	47,401
Permanent assets				
Investments in subsidiaries	<b>18,989</b>	58,222	-	-
Other investments	<b>371</b>	371	<b>371</b>	371
	<b>19,360</b>	58,593	<b>371</b>	371
Fixed assets	<b>273,003</b>	198,328	<b>289,164</b>	236,594
Deferred charges	<b>103,013</b>	11,213	<b>103,176</b>	11,438
	<b>395,376</b>	268,134	<b>392,711</b>	248,403
Total assets	<b>847,495</b>	614,533	<b>867,935</b>	668,236

LIABILITIES	Parent company		Consolidated	
	2003	2002	2003	2002
Current liabilities				
Trade accounts payable	25,151	22,388	27,607	26,784
Loans	3,463	7,088	5,165	10,199
Salaries, vacation and social charges payable	29,962	19,676	31,789	21,570
Taxes and contributions payable	7,197	4,114	7,669	4,540
Accounts payable to related parties	106,869	18,072	103,626	34,244
Advances to clients	2,871	816	3,088	816
Dividends payable	-	9,285	-	9,285
Interests on own capital payable	-	15,799	524	15,799
Sundry allowances	12,473	5,539	17,259	11,307
Other liabilities	11,910	6,139	13,138	11,184
	<b>199,896</b>	108,916	<b>209,865</b>	145,728
Noncurrent liabilities				
Loans	2,065	4,704	4,953	13,061
Provision for contingencies	63,562	49,784	63,976	52,331
Provision for guarantees	18,311	8,544	18,311	12,019
Provision for capital deficiency of subsidiary	-	3,094	-	-
Other accounts payable	1,810	3,383	1,811	3,619
	<b>85,748</b>	69,509	<b>89,051</b>	81,030
Minority interest	-	-	7,168	5,370
Shareholders' equity				
Capital	223,901	223,901	223,901	223,901
Profits reserves	337,950	168,107	337,950	168,107
Retained earnings	-	44,100	-	44,100
	<b>561,851</b>	436,108	<b>561,851</b>	436,108
Total liabilities and shareholders' equity	<b>847,495</b>	614,533	<b>867,935</b>	668,236

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### STATEMENTS OF OPERATIONS Years ended December 31, 2003 and 2002 (In thousands of reais)

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Gross sales and services	<b>1,241,599</b>	836,473	<b>1,338,194</b>	986,846
Taxes and deductions from gross revenue	<b>(134,087)</b>	(98,641)	<b>(148,333)</b>	(119,233)
Net sales and services	<b>1,107,512</b>	737,832	<b>1,189,861</b>	867,613
Cost of products sold and services rendered	<b>(718,435)</b>	(458,427)	<b>(767,061)</b>	(527,560)
Gross profit	<b>389,077</b>	279,405	<b>422,800</b>	340,053
Operating revenue (expenses)				
Selling expenses	<b>(75,550)</b>	(52,345)	<b>(74,981)</b>	(68,412)
Management fees	<b>(1,905)</b>	(1,650)	<b>(1,905)</b>	(1,650)
General and administrative expenses	<b>(70,307)</b>	(44,073)	<b>(74,706)</b>	(50,678)
Financial results, net	<b>(15,944)</b>	24,614	<b>(16,665)</b>	22,435
Interest on own capital	<b>(50,147)</b>	(30,362)	<b>(50,764)</b>	(30,362)
Equity pick-up result	<b>19,697</b>	18,265	-	-
Expenses with technology and research	<b>(19,524)</b>	(16,405)	<b>(21,475)</b>	(17,140)
Other operating revenue (expenses), net	<b>4,458</b>	(6,415)	<b>6,109</b>	(14,444)
	<b>(209,222)</b>	(108,371)	<b>(234,387)</b>	(160,251)
Operating income	<b>179,855</b>	171,034	<b>188,413</b>	179,802
Nonoperating income	<b>(463)</b>	555	<b>(131)</b>	761
Income before social contribution and income taxes and minority interest	<b>179,392</b>	171,589	<b>188,282</b>	180,563
Current income and social contribution taxes	<b>(57,058)</b>	(47,235)	<b>(65,058)</b>	(58,419)
Deferred income and social contribution taxes	<b>3,409</b>	(4,617)	<b>3,700</b>	(1,421)
Income before minority interest and reversal of interest on own capital	<b>125,743</b>	119,737	<b>126,924</b>	120,723
Minority interest	-	-	<b>(1,798)</b>	(986)
Reversal of interest on own capital	<b>50,147</b>	30,362	<b>50,764</b>	30,362
Net income for the year	<b>175,890</b>	150,099	<b>175,890</b>	150,099
Net income per thousand outstanding shares at the end of the year in reais – R\$	<b>19.25</b>	16.43		

See accompanying notes.

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

**STATEMENTS OF SHAREHOLDERS' EQUITY**

Years ended December 31, 2003 and 2002

(In thousands of reais)

	Capital	Profits reserves		Retained earnings	Total
		Legal reserve	Reserve for expansion and modernization		
Balances at December 31, 2001	160,544	10,029	47,626	89,274	307,473
Increase in capital with retained earnings	45,174	-	-	(45,174)	-
Increase in capital from merger of subsidiary	18,183	-	-	-	18,183
Net income for the year	-	-	-	150,099	150,099
Appropriation of income:					
Setting up of legal reserve	-	7,505	-	(7,505)	-
Setting up of reserve for expansion and modernization	-	-	102,947	(102,947)	-
Dividends proposed	-	-	-	(9,285)	(9,285)
Interest on own capital	-	-	-	(30,362)	(30,362)
Balances at December 31, 2002	<b>223,901</b>	<b>17,534</b>	<b>150,573</b>	<b>44,100</b>	<b>436,108</b>
Net income for the year	-	-	-	175,890	175,890
Appropriation of income:					
Setting up of legal reserve	-	8,795	-	(8,795)	-
Setting up of reserve for expansion and modernization	-	-	116,948	(116,948)	-
Interest on own capital	-	-	-	(50,147)	(50,147)
Setting up of reserve for expansion and modernization	-	-	44,100	(44,100)	-
Balances at December 31, 2003	<b>223,901</b>	<b>26,329</b>	<b>311,621</b>	<b>-</b>	<b>561,851</b>

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2003 and 2002

(In thousands of reais)

	Parent company		Consolidated	
	2003	2002	2003	2002
<b>SOURCES OF FUNDS</b>				
From operations				
Net income for the year	<b>175,890</b>	150,099	<b>175,890</b>	150,099
Expenses (income) not affecting net working capital:				
Depreciations and amortizations	<b>74,871</b>	35,862	<b>79,530</b>	44,321
Equity pick-up	<b>(19,697)</b>	(18,265)	-	-
Monetary variance on investments abroad	<b>1,424</b>	(1,938)	-	-
Long-term monetary variance and interest	<b>(963)</b>	1,087	<b>(2,214)</b>	3,425
Residual value of fixed assets disposed	<b>1,426</b>	342	<b>1,550</b>	452
Deferred income and social contribution taxes	<b>(2,968)</b>	2,908	<b>(3,346)</b>	853
Provision for contingences	<b>12,313</b>	9,403	<b>12,313</b>	10,833
Profit sharing of minority shareholders	-	-	<b>1,798</b>	988
	<b>242,296</b>	179,498	<b>265,521</b>	210,971
From shareholders				
MAHLE MMG Indústria e Comércio Ltda. net working capital merged	<b>56,984</b>	-	-	-
Increase in capital from merger of subsidiary	-	18,183	-	18,183
	<b>56,984</b>	18,183	-	18,183
From third parties				
Increase in noncurrent liabilities	<b>4,290</b>	-	-	-
Interest on capital received	<b>1,442</b>	1,555	-	-
Reduction in noncurrent assets	<b>3,648</b>	-	-	-
Dividends received	-	1,147	-	-
	<b>66,364</b>	20,885	-	18,183
Total sources	<b>308,660</b>	200,383	<b>265,521</b>	229,154
<b>APPLICATIONS OF FUNDS</b>				
Dividends proposed	-	9,285	-	9,285
Minority interest on capital	-	-	<b>617</b>	-
Interest on own capital	<b>50,147</b>	30,362	<b>50,147</b>	30,362
Increase in noncurrent assets	-	3,038	<b>7,595</b>	3,910
Investments	<b>191,693</b>	-	-	-
Fixed assets	<b>60,626</b>	65,905	<b>109,416</b>	75,996
Deferred charges	<b>6,538</b>	8,462	<b>115,354</b>	8,568
Decrease in noncurrent liabilities	-	3,330	<b>4,292</b>	7,197
Total applications	<b>309,004</b>	120,382	<b>287,421</b>	135,318
Increase (decrease) of net working capital	<b>(344)</b>	80,001	<b>(21,900)</b>	93,836

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### STATEMENTS OF CHANGES IN FINANCIAL POSITION--Continued

Years ended December 31, 2003 and 2002

(In thousands of reais)

	Parent company		Consolidated	
	2003	2002	2003	2002
Variation of net working capital				
Current assets				
At the end of the year	<b>392,493</b>	301,857	<b>414,669</b>	372,432
At the beginning of the year	<b>301,857</b>	206,753	<b>372,432</b>	245,778
	<b>90,636</b>	95,104	<b>42,237</b>	126,654
Current liabilities				
At the end of the year	<b>199,896</b>	108,916	<b>209,865</b>	145,728
At the beginning of the year	<b>108,916</b>	93,813	<b>145,728</b>	112,910
	<b>90,980</b>	15,103	<b>64,137</b>	32,818
Increase (decrease) of net working capital	<b>(344)</b>	80,001	<b>(21,900)</b>	93,836

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

(In thousands of reais)

#### 1. Operations

The Company's main purpose is the manufacture and sale, both locally and abroad, of components and accessories for internal-combustion engines, whose sale is made to several industries and segments, such as the assembly plants (automobiles, trucks, tractors, etc.), spare parts' market, aviation engine industry, stationary engines and others. The Company is also engaged in the production of filters for all industry purposes.

The products manufactured by the Company are: pistons, piston pins, camshafts, bushings, sleeves, valve filters, valve rockers, connecting rods, ring-holders, valve guides, valve seats, cylinder filters and liners.

Other activities are developed through subsidiary companies, including the production of sintered metal components, as well as the sale and technical assistance services in the international market.

On April 24, 2002 in the Ordinary Shareholders' General Meeting, the Company's shareholders approved the merger of MAHLE Sistemas de Filtração Ltda. The merger took place based on an appraisal report of economic value, which defined the relation of substitution of the merged company's quotas, by the merging company's shares. For accounting purposes the merger was carried out by the net assets book value of the merged company, amounting to R\$18,183 according to appraisal report of the net assets book value, issued by independent auditors for March 31, 2002, generating an increase in capital of identical value, by issuing 491,182 thousand nominative and inscribed shares with no par value, divided into 197,746 thousand common and 293,436 thousand preferred shares, allocated to MAHLE Sistemas de Filtração Ltda.'s quotaholders instead of all the quotas that represented the total capital of the former company. In relation to said merger and increase in capital, the merged company's capital experienced a growth from R\$205,718 to R\$223,901 and the number of shares went up from 8,644,889 thousand to 9,136,071 thousand, from which 3,678,112 thousand are common and 5,457,959 thousand are preferred shares, with no par value. At the base-date of March 31, 2002, the merger balance sheet of MAHLE Sistemas de Filtração Ltda. was as follows:

ASSETS		LIABILITIES	
Cash and banks	8	Trade accounts payable	231
Accounts receivable	1,830	Loans	324
Inventories	2,734	Related parts	1,477
Other current assets	1,084	Other current liabilities	719
Noncurrent assets	16	Noncurrent liabilities	3,279
Permanent assets	18,541	Shareholders equity	18,183
	<u>24,213</u>		<u>24,213</u>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 1. Operations--Continued

That operation of reorganization had the objective to reduce administrative, tax and financial expenses.

On January 15, 2003 the Company acquired from the related party MAHLE Ventiltrieb GmbH the interest of 68.92% in MAHLE MMG Indústria e Comércio Ltda.. That acquisition for US\$58,200,000 (equivalent to R\$191,693 at the date of transaction), was based on the economic value of MAHLE MMG Indústria e Comércio Ltda., determined through appraisal report at market value prepared by a specialized company, considering October 31, 2002 as the base-date. As a result of that acquisition, the Company became the holder of all capital quotas of MAHLE MMG Indústria e Comércio Ltda.. Said acquisition generated a goodwill of R\$108,382, whose economic base is the future profitability. It was recorded under deferred charges and will be amortized in five years.

According to the deliberation of the Extraordinary Shareholders' General Meeting of February 26, 2003, shareholders approved the merger of subsidiary MAHLE MMG Indústria e Comércio Ltda., on January 31, 2003. The merger was grounded on studies that indicated reduction in the number of administrative and operating activities with the related financial and tax impact.

On January 31, 2003, the merger balance of MAHLE MMG Indústria e Comércio Ltda., was as follows:

ASSETS		LIABILITIES	
Cash and banks	13,524	Trade accounts payable	7,015
Trade accounts receivable	23,054	Loans	3,577
Discounted exchange bills	(3,062)	Salaries and social charges	4,101
Related parties	56,378	Provision for income and social contribution taxes	4,948
Inventories	22,612	Related parties	18,285
Other current assets	4,528	Other current liabilities	22,124
Noncurrent assets	14,575	Noncurrent liabilities	751
Permanent assets	67,226	Shareholders' equity	138,034
	<u>198,835</u>		<u>198,835</u>

With relation to this merger, the comparability of the Parent Company's financial statements was affected.

## **MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

### **NOTES TO FINANCIAL STATEMENTS--Continued**

December 31, 2003 and 2002

(In thousands of reais)

#### **2. Basis of Preparation and Presentation of Financial Statements**

Financial statements are on Management's responsibility and they have been prepared in compliance with the provisions of the Brazilian Corporate Law and standards of the Securities Commission - CVM.

Some items of the previous year's financial statements were reclassified in order to make such financial statements more adequate to those of the current year.

#### **3. Summary of the Main Accounting Practices**

a) Income and expenses

Income and expenses are recognized on an accrual basis.

b) Short-term investments

Recorded at cost plus income up to the balance sheet date, not exceeding the market value.

c) Allowance for doubtful accounts

Allowance for doubtful accounts is calculated, based on the estimated losses, at an amount considered sufficient to compensate for possible losses in the realization of accounts receivable.

d) Inventories

Inventories are valued at the average cost of acquisition or production, which is lower than replacement or realization value.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 3. Summary of the Main Accounting Practices --Continued

##### e) Investments

Investments in subsidiary companies in Brazil and abroad are valued through the equity method of accounting, based on the respective shareholders' equities calculated at the same date, as explained in Note 10.

Financial statements of the subsidiaries based abroad are translated into reais through the following criteria:

- Asset and liability accounts through exchange rate at the end of the period;
- Results account through exchange rate at the end of each month;
- Translation gains and losses are recognized under Financial Expenses.

Such financial statements are adapted, when applicable, to the accounting practices adopted in Brazil.

The other investments are recorded at the cost of acquisition, less allowance for losses considered permanent.

##### f) Fixed assets

Fixed assets are recognized at the cost of acquisition or construction, less depreciation. Depreciation is determined through the straight-line method, using rates that consider economic useful life of assets, as described in Note 11.

##### g) Deferred charges

Deferred charges are represented by expenses related to software implementation projects for the management, expansion and modernization of factories, and pre-operating expenses, to be amortized in a five-year term from the start of operations.

Goodwill from the merged subsidiary, grounded on the expectation of future profitability, is amortized through the straight-line method, in a five-year term.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 3. Summary of the Main Accounting Practices --Continued

h) Income and social contribution taxes

Income and social contribution taxes are recorded on an accrual basis, according to the current legislation. Deferred taxes related to timely differences are presented as current and noncurrent assets, according to the expected realization, yearly reviewed.

i) Provision for contingencies

Provision for contingencies refers to labor, tax, and civil issues. It is recorded according to the risk evaluation carried out by Management, with the support of legal consultants, even in terms of its long-term classification.

j) Provision for guarantees

Calculated at an amount considered sufficient to cover possible expenses with replacements, repairs, and indemnities related to the sale of products.

l) Other current and noncurrent assets

They are recognized at cost value plus monetary variation and income earned, when applicable, less the provision to present the value of realization, when necessary.

m) Other current and noncurrent liabilities

Stated at values known or calculable, plus the related charges and monetary or exchange variations incurred, when applicable.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

### 3. Summary of the Main Accounting Practices --Continued

#### n) Use of Estimates

The preparation of financial statements according to the accounting practices adopted in Brazil require the Company Management's estimates as a basis for recording certain transactions, which affect assets and liabilities, income and expenses, as well as the disclosure of information on financial statement data. The final results of said transactions and information, in subsequent periods, may differ from estimates. The main estimates related to financial statements refer to the allowance for doubtful accounts, provision for inventory losses, provision for guarantees, provision for sundry expenses and provision for contingencies.

#### o) Consolidation

Consolidated financial statements have been prepared according to the basic principles of consolidation established by the Brazilian Corporate Law and standards of the Securities Commission - CVM and they contemplate the elimination of investments proportionally with the Parent Company's interest in the net equity of subsidiaries, of the asset and liability accounts, unrealized income from inventories, and of income and expenses among subsidiary companies. Minority interest is disclosed in the balance sheet and in the consolidated statement of income.

Consolidated companies are presented as follows:

	<u>Percentage of ownership (%)</u>	
	<u>2003</u>	<u>2002</u>
Metal Leve International Limited (abroad)	<b>100</b>	100
Metal Leve GmbH (abroad)	-	100
MAHLE Metal Leve Miba Sinterizados Ltda.	<b>70</b>	70
MAHLE MMG Indústria e Comércio Ltda.	-	31

At December 31, 2002 the former jointly-owned subsidiary MAHLE MMG Indústria e Comércio Ltda. was consolidated according to the proportion of the Parent Company's interest in the capital of that Company, as established by CVM Instruction nº 247/96.

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

**4. Short-term Investments**

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Interbank Deposit Certificate (CDI) restated based on the variation of CDI – CETIP(*)	<b>24,426</b>	4,558	<b>28,211</b>	8,272
Financial investment fund restated based on the variation of CDI – CETIP	-	7,691	-	8,362
Account remunerated based on the variation of the US dollar plus annual interest of 2%	-	-	<b>525</b>	9,672
Others	-	-	<b>3,164</b>	9,006
	<b>24,426</b>	12,249	<b>31,900</b>	35,312

\* Clearing House for the Custody and Financial Settlement of securities – CETIP

**5. Trade Accounts Receivable**

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Clients in the internal market	<b>57,322</b>	60,382	<b>59,002</b>	66,580
Clients in the external market	<b>51,143</b>	52,186	<b>59,565</b>	64,407
	<b>108,465</b>	112,568	<b>118,567</b>	130,987

**6. Inventories**

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Finished products	<b>41,934</b>	27,338	<b>43,206</b>	30,673
Work-in-process	<b>39,160</b>	26,883	<b>41,425</b>	31,034
Raw materials	<b>14,187</b>	13,426	<b>15,066</b>	18,401
Auxiliary materials	<b>12,213</b>	8,041	<b>14,146</b>	10,297
Imports in progress	<b>3,370</b>	4,523	<b>3,462</b>	4,840
Allowance for losses	<b>(9,424)</b>	(8,301)	<b>(9,554)</b>	(10,382)
	<b>101,440</b>	71,910	<b>107,751</b>	84,863

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

**7. Recoverable Taxes**

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Income and social contribution taxes	<b>15,641</b>	3,275	<b>16,299</b>	3,275
State VAT - ICMS on the acquisition of fixed assets	<b>10,589</b>	5,171	<b>11,020</b>	6,540
State and Federal VATs - ICMS and IPI	<b>1,169</b>	1,312	<b>1,669</b>	1,364
Employees' Profit Participation Program - PIS	<b>438</b>	-	<b>446</b>	7
Other taxes	<b>2,666</b>	2,671	<b>2,741</b>	2,679
	<b>30,503</b>	12,429	<b>32,175</b>	13,865
Short-term portion	<b>(23,354)</b>	(8,249)	<b>(24,689)</b>	(8,914)
Long-term portion	<b>7,149</b>	4,180	<b>7,486</b>	4,951

Income and social contribution taxes include withholding tax on financial investments and services paid, in addition to prepaid income and social contribution income taxes, which will be recovered with federal contributions and taxes. They are restated through Selic rate, when applicable.

ICMS on acquisitions of fixed assets will be recovered at 1/48<sup>th</sup> per month.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2003 and 2002 (In thousands of reais)

#### 8. Related Parties

Companies	Parent Company (2003)												
	Balances				Transactions								
	Assets		Liabilities		Sales/income				Purchase				
	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities	Products	Services	Fixed assets	Commissions	Products	Services	Fixed assets/ equity holding	Commissions	Royalties
MAHLE Metal Leve Miba Sinterizados Ltda.	20	-	75	-	2	1,028	28	-	1,150	-	3	-	-
MAHLE MMG Ind. e Comércio Ltda. (merged)	-	-	-	-	1,981	-	-	-	5,301	-	-	-	-
MAHLE Componentes de Motores do Brasil Ltda.	584	-	5,816	-	2,187	11,974	-	-	58,710	197	666	4,848	-
MAHLE Componentes de Motores, S.A.	1,272	-	-	-	4,661	-	-	-	-	-	-	-	-
MAHLE Indústria e Comércio Ltda.	217	-	-	-	-	-	-	478	-	5,932	-	59	-
MAHLE Ventiltrieb GmbH	5,634	-	2,376	-	28,563	-	-	-	55	-	-	-	-
MAHLE S.A. Argentina	2,223	-	36	-	2,534	-	-	-	-	-	-	-	-
MAHLE S.A. - Spain	66	-	-	-	243	-	-	-	-	-	-	-	-
MAHLE Pistoni Itália SpA	3,230	-	25	-	10,125	-	-	-	25	-	-	-	-
MAHLE GmbH	12,248	-	4,496	-	55,808	-	-	-	4,960	-	9,504	-	12,793
MAHLE Valve Train France	18,204	-	-	-	39,297	-	-	-	-	-	-	-	-
MAHLE Valve Train Inc	27,743	-	967	-	88,232	-	-	1,219	-	-	-	-	-
MAHLE Filter System	1,445	-	3,026	-	5,671	-	-	-	5,191	-	-	-	-
MAHLE Componentes de Motores de México, S.de R.L. de C.V.	4,091	-	-	-	22,117	-	-	-	-	739	-	-	-
MAHLE Nanjing Piston Co Ltd.	-	-	-	-	286	-	-	-	-	-	-	-	-
MAHLE Inc. Co.	56,788	-	883	-	149,926	-	-	617	4,555	-	-	-	-
MAHLE Inc., Cylinders Division	5,855	-	77	-	22,049	-	-	-	7	-	-	-	-
MAHLE Süko GmbH	-	-	756	-	88	-	-	-	799	-	-	-	-
MAHLE Krotoszyn S.A.	25	-	-	-	100	-	-	-	2	-	-	-	-
MAHLE Tennex Industries Inc	2,246	-	-	-	8,430	-	-	-	-	-	-	-	-
MAHLE Pistons France SARL	-	-	-	-	179	-	-	-	4,523	-	-	-	-
MAHLE Tennex North América	-	-	-	-	72	-	-	-	-	-	-	-	-
MAHLE Motorkomponenten Schweiz AG	-	-	1,412	-	-	-	-	-	-	-	-	-	-
MAHLE Technology Inc.	16	-	-	-	16	-	-	-	-	-	-	-	-
MAHLE Motorsports Inc.	26	-	-	-	27	-	-	-	-	-	-	-	-
Metal Leve International Ltd.	139	-	8,009	-	-	-	-	6,253	-	-	-	-	-
MAHLE ACL Piston Products	-	-	-	-	79	-	-	-	-	-	-	-	-
MAHLE Izumi Liaoming	-	-	-	-	97	-	-	-	6	-	-	-	-
MAHLE Ventiltrieb GmbH	-	-	78,915	-	-	-	-	-	-	191,693	-	-	-
Total in 2003	<b>142,072</b>	<b>-</b>	<b>106,869</b>	<b>-</b>	<b>442,770</b>	<b>13,002</b>	<b>28</b>	<b>8,567</b>	<b>85,284</b>	<b>6,129</b>	<b>202,605</b>	<b>4,907</b>	<b>12,793</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2003 and 2002 (In thousands of reais)

#### 8. Related Parties --Continued

Companies	Parent Company (2002)											
	Balances			Transactions								
	Assets	Liabilities		Sales/income				Purchase				
	Current assets	Current liabilities	Noncurrent liabilities	Products	Services	Fixed assets	Commissions	Products	Services	Fixed assets	Commissions	Royalties
MAHLE Metal Leve Miba Sinterizados Ltda.	1	108	-	46	463	-	-	653	-	-	-	-
MAHLE MMG Ind. e Comércio Ltda. (merged)	9	3	-	616	2,688	-	-	43,921	46	-	-	-
MAHLE Componentes de Motores do Brasil Ltda.	1,173	5,606	-	184	13,737	-	-	45,776	21	-	3,897	-
MAHLE Sistemas de Filtração Ltda. (merged)	-	-	-	127	113	-	122	125	-	-	-	-
MAHLE Componentes de Motores, S.A.	1,924	-	-	5,670	-	-	-	-	-	-	-	-
MAHLE Indústria e Comércio Ltda.	634	10	-	-	-	3,617	-	-	7,596	-	-	-
MAHLE Ventiltrieb GmbH	-	-	-	-	-	-	-	238	-	-	-	-
MAHLE S.A. Argentina	2,537	43	-	1,317	-	-	-	-	-	-	-	-
MAHLE S.A. - Spain	-	-	-	81	-	-	-	-	-	-	-	-
MAHLE Pistoni Itália SpA	1	-	-	1	-	-	-	27	-	-	-	-
MAHLE GmbH	9,964	3,776	-	35,817	-	6,356	-	3,541	-	-	-	9,089
MAHLE Valve Train France	19,226	-	-	29,069	-	-	-	-	-	-	-	-
MAHLE Filter System	4,819	5,076	-	9,861	-	312	-	5,712	-	-	-	-
MAHLE Componentes de Motores de México, S.de R.L. de C.V.	4,679	-	-	15,835	-	-	-	16	-	-	-	-
MAHLE Nanjing Piston Co Ltd.	52	-	-	50	-	-	-	-	-	-	-	-
MAHLE Inc. Co.	50,790	1,984	-	150,912	-	-	1,704	2,612	-	-	-	-
MAHLE Inc., Cylinders Division	4,689	-	-	13,230	-	-	-	75	-	-	-	-
MAHLE Süko GmbH	-	-	-	-	-	-	-	63	-	-	-	-
MAHLE Technology Inc.	-	6	-	-	-	-	-	6	-	-	-	-
Metal Leve International Ltd.	170	1,460	-	-	-	-	8,302	-	-	-	-	-
Total in 2002	100,668	18,072	-	262,816	17,001	10,285	10,128	102,765	7,663	-	3,897	9,089

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

### 8. Related Parties--Continued

Companies	Consolidated (2003)												
	Balances				Transactions								
	Assets		Liabilities		Sales/income			Purchase					
	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities	Products	Services	Fixed assets	Commissions	Products	Services	Fixed assets/ equity holding	Commissions	Royalties
MAHLE Componentes de Motores do Brasil Ltda.	584	-	5,816	-	2,187	11,974	-	-	58,710	197	666	4,848	-
MAHLE Componentes de Motores, S.A.	1,272	-	-	-	4,661	-	-	-	-	-	-	-	-
MAHLE Indústria e Comércio Ltda.	217	-	-	-	-	-	478	-	6,140	-	59	-	-
MAHLE Ventiltrieb GmbH	5,634	-	2,376	-	28,563	-	-	55	-	9,504	-	-	-
MAHLE S.A. Argentina	2,223	-	36	-	2,534	-	-	-	-	-	-	-	-
MAHLE S.A. - Spain	66	-	-	-	243	-	-	-	-	-	-	-	-
MAHLE Pistoni Itália SpA	3,230	-	25	-	10,125	-	-	25	-	-	-	-	-
MAHLE GmbH	12,248	-	8,383	-	55,808	-	-	4,960	-	-	-	-	12,793
MAHLE Valve Train France	18,204	-	-	-	39,297	-	-	-	-	-	-	-	-
MAHLE Valve Train Inc	27,743	-	967	-	88,232	-	1,219	-	-	-	-	-	-
MAHLE Filter System	1,445	-	3,026	-	5,671	-	-	5,191	-	-	-	-	-
MAHLE Componentes de Motores de México, S.de R.L. de C.V.	4,091	-	-	-	22,117	-	-	-	-	739	-	-	-
MAHLE Nanjing Piston Co Ltd.	-	-	-	-	286	-	-	-	-	-	-	-	-
MAHLE Inc. Co.	56,788	-	953	-	149,926	-	617	4,555	-	-	1,182	-	-
MAHLE Inc., Cylinders Division	5,855	-	77	-	22,049	-	-	7	-	-	-	-	-
MAHLE Süko GmbH	-	-	756	-	88	-	-	799	-	-	-	-	-
MAHLE Krotoszyn S.A.	25	-	-	-	100	-	-	2	-	-	-	-	-
MAHLE Tennex Industries Inc	2,246	-	-	-	8,430	-	-	-	-	-	-	-	-
MAHLE Pistons France SARL	-	-	-	-	179	-	-	4,523	-	-	-	-	-
MAHLE Tennex North America	-	-	-	-	72	-	-	-	-	-	14	-	-
MAHLE MotorKomponenten Schweiz AG	-	-	1,412	-	-	-	-	-	-	-	8	-	-
MAHLE Technology Inc.	128	-	870	-	16	-	-	-	-	-	431	-	-
MAHLE Motorsports Inc.	26	-	-	-	27	-	-	-	-	-	-	-	-
MAHLE ACL Pistons Products	-	-	-	-	79	-	-	-	-	-	-	-	-
MAHLE Izumi Liaoming	-	-	-	-	97	-	-	6	-	-	-	-	-
MAHLE Ventiltrieb GmbH	-	-	78,915	-	-	-	-	-	-	191,693	-	-	-
Cofap S.A.	89	-	-	-	-	-	-	-	-	-	936	-	-
Others	2	-	14	-	-	-	-	-	-	-	-	-	-
Total in 2003	<b>142,116</b>	<b>-</b>	<b>103,626</b>	<b>-</b>	<b>440,787</b>	11,974	<b>-</b>	<b>2,314</b>	<b>78,833</b>	<b>6,337</b>	<b>202,602</b>	<b>7,478</b>	<b>12,793</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2003 and 2002 (In thousands of reais)

#### 8. Related Parties --Continued

Companies	Consolidated (2002)										
	Balances		Transactions								
	Assets	Liabilities	Sales/income				Purchase				
	Current assets	Current liabilities	Products	Services	Fixed assets	Commissions	Products	Services	Fixed assets	Commissions	Royalties
MAHLE MMG Ind. e Comércio Ltda.	165	-	1,030	46	-	-	43,921	2,688	-	93	-
MAHLE Componentes de Motores do Brasil Ltda.	1,173	5,606	184	13,737	-	-	45,776	21	-	3,901	-
MAHLE Sistemas de Filtração Ltda. (merged)	-	-	127	113	-	122	125	-	-	-	-
MAHLE Componentes de Motores, S.A.	1,924	-	5,670	-	-	-	-	-	-	-	-
MAHLE Indústria e Comércio Ltda.	634	20	-	-	3,617	-	-	7,827	-	-	-
MAHLE Ventiltrieb GmbH	3,220	919	3,087	-	-	-	260	-	-	-	-
MAHLE S.A. Argentina	2,538	43	1,318	-	-	-	-	-	-	-	-
MAHLE S.A. - Spain	16	-	99	-	-	-	-	-	-	-	-
MAHLE Pistoni Itàlia SpA	944	339	574	-	-	-	27	-	-	-	-
MAHLE GmbH	9,964	12,483	35,817	-	6,356	-	3,541	-	-	205	9,089
MAHLE Valve Train France	19,673	-	29,529	-	-	-	-	-	-	-	-
MAHLE Filter System	4,819	5,076	9,861	-	312	-	5,712	-	-	-	-
MAHLE Componentes de Motores de México, S.de R.L. de C.V.	5,001	200	15,881	-	-	-	16	-	-	-	-
MAHLE Nanjing Piston Co Ltd.	52	-	50	-	-	-	-	-	-	-	-
MAHLE Inc. Co.	51,337	3,089	151,081	-	-	1,704	2,612	-	-	-	-
MAHLE Inc., Cylinders Division	4,689	-	13,230	-	-	-	75	-	-	-	-
MAHLE Süko GmbH	-	-	-	-	-	-	63	-	-	-	-
MAHLE Technology Inc.	84	1,208	-	-	-	-	6	-	-	-	-
MAHLE Valve Train Inc.	9,592	12	9,726	-	-	-	-	-	-	-	-
MAHLE Krotoszyn S.A.	14	-	16	-	-	-	-	-	-	-	-
MAHLE Motorkomponenten S.AG	500	4,393	-	-	-	-	1,038	281	3,337	-	-
MAHLE TENNEX Industries Inc	20	-	-	-	-	-	-	-	-	-	-
Cofap S.A.	52	-	-	-	-	-	-	-	-	-	-
MAHLE Motorteile GmbH	-	168	-	-	-	-	168	-	-	-	-
Others	-	688	-	-	-	-	-	-	-	-	-
Total in 2002	116,411	34,244	277,280	13,896	10,285	1,826	103,340	10,536	281	7,536	9,089

## **MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

### **NOTES TO FINANCIAL STATEMENTS--Continued**

December 31, 2003 and 2002

(In thousands of reais)

#### **8. Related Parties--Continued**

Commercial transactions among related parties refer to acquisition/sale of products and services directly related to operating activities and the conditions in which they are carried out are similar to those of transactions practiced with third parties.

The amount payable of R\$78,915 to MAHLE Ventiltrieb GmbH, refers to the acquisition of shareholding on January 15, 2003 as expressed in Note 1.

The Company, authorized by its Board of Directors, obtained from the National Institute of Industrial Property - INPI the approval for the piston technology transfer contract signed with its Head Office in Germany, which facilitates the Company's access to said technology and its entry in the industrial market. Expenses with royalties are accounted for under Expenses with Technology and Development.

The commissions refer to services of commercial representation provided for or by related parties. Prices are determined considering profit margins usually practiced in the market in similar transactions.

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

**9. Income and Social Contribution Taxes**

Income and social contribution taxes have been calculated at the current rates as follows:

a) Reconciliation of income and social contribution tax expenses

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Income before social contribution and income taxes	<b>179,392</b>	171,589	<b>188,282</b>	180,563
IRPJ and CSSL at nominal rate (34%)	<b>(60,993)</b>	(58,340)	<b>(64,016)</b>	(61,391)
Adjustments for effective rate calculation:				
Effects on permanent differences				
Nondeductible expenses	<b>(1,150)</b>	(1,029)	<b>(1,211)</b>	(1,068)
Equity pick-up results	<b>5,421</b>	5,682	-	-
Exchange variation on investments	<b>484</b>	658	-	-
Tax incentives	<b>(632)</b>	(475)	<b>(678)</b>	(624)
Effects on timely differences:				
Provisions	<b>(188)</b>	6,269	<b>847</b>	4,664
Income and social contribution taxes at effective rate	<b>(57,058)</b>	(47,235)	<b>(65,058)</b>	(58,419)
Effective rate	<b>31.8%</b>	27.5%	<b>34.6%</b>	32.4%

b) Income and social contribution taxes payable

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Income tax on income	<b>41,892</b>	31,571	<b>47,738</b>	39,821
Social contribution tax on income	<b>15,166</b>	15,664	<b>17,320</b>	18,598
	<b>57,058</b>	47,235	<b>65,058</b>	58,419
Offset against prepaid IRPJ and CSSL	<b>(70,790)</b>	(49,177)	<b>(79,365)</b>	(60,361)
Recoverable taxes balance	<b>(13,732)</b>	(1,942)	<b>(14,307)</b>	(1,942)

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS--Continued**

December 31, 2003 and 2002

(In thousands of reais)

**9. Income and Social Contribution Taxes --Continued**

c) Composition of deferred income and social contribution taxes balance

Deferred income and social contribution taxes have been calculated considering provisions timely nondeductible as follows:

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Timely differences				
Provision for contingencies, guarantees and others	<b>25,028</b>	20,982	<b>25,168</b>	23,029
Provision for inventory losses	<b>3,204</b>	2,822	<b>3,248</b>	3,530
Portion timely nondeductible of allowance for doubtful accounts	<b>2,826</b>	3,252	<b>2,907</b>	3,371
Portion timely nondeductible of provision for losses on the realization of other assets	<b>3,284</b>	2,392	<b>3,383</b>	2,392
Commissions on sales and other provisions timely nondeductible	<b>13,414</b>	5,132	<b>13,744</b>	5,454
	<b>47,756</b>	34,580	<b>48,450</b>	37,776
Short-term portion	<b>(15,081)</b>	(12,872)	<b>(15,396)</b>	(15,108)
Long-term portion	<b>32,675</b>	21,708	<b>33,054</b>	22,668

As planned by Company's Management, deferred income and social contribution taxes, at December 31, 2003 will observe the following terms:

<b>Maturity year</b>	<b>Parent company</b>	<b>Consolidated</b>
2004	<b>15,081</b>	<b>15,396</b>
2005	<b>6,375</b>	<b>6,411</b>
2006	<b>7,292</b>	<b>7,399</b>
2007	<b>3,000</b>	<b>3,020</b>
2008	<b>1,792</b>	<b>12,600</b>
2009 a 2011	<b>12,410</b>	<b>1,819</b>
2012 a 2014	<b>1,806</b>	<b>1,805</b>
	<b>47,756</b>	<b>48,450</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2003 and 2002 (In thousands of reais)

#### 10. Investments in Subsidiaries

	2003						2002						
	Subsidiaries' data		Our Participation				Subsidiaries' data			Our Participation			
	Shareholders' equity	Results for the year	%	Shareholder's equity	Exchange variation on investment	In the result for the year	Shareholders' equity	Unsecured liabilities	Result for the year	%	Shareholder's equity	Exchange variation on investment	In the result for the year
<b>Investments:</b>													
Metal Leve International Limited	2,262	(3,143)	100,00	2,262	(1,467)	(3,143)	6,873	-	(3,360)	100,00	6,873	3,310	(3,360)
MAHLE Metal Leve Miba Sinterizados Ltda.	23,895	8,054	70,00	16,727	-	5,638	17,899	-	3,286	70,00	12,530	-	2,301
Metal Leve GmbH	-	-	-	-	43	1,299	-	(3,094)	5	100,00	-	(1,372)	5
MAHLE MMG Indústria e Comércio Ltda.	-	-	-	-	-	15,903	124,944	-	15,821	31,00	38,819	-	6,472
MAHLE MMG Ltda.	-	-	-	-	-	-	-	-	-	-	-	-	12,654
MAHLE CMP S.A.	-	-	-	-	-	-	-	-	-	-	-	-	193
Total				18,989	(1,424)	19,697				58,222	1,938	18,265	

Subsidiary MAHLE MMG Indústria e Comércio Ltda. As a whole was merged on February 26, 2003 as mentioned in Note 1.

On October 1, 2003 the liquidation of Metal Leve GmbH was concluded. As a result of this operation, the Company assumed the liabilities of this subsidiary. The provision for unsecured liabilities of such subsidiary at December 31, 2002 amounting to R\$3,054 is recorded under noncurrent liabilities.

On September 25, 2002 the shareholders of the jointly-owned subsidiary approved the merger operation of MAHLE CMP Ltda. subsidiary (formerly known as MAHLE CMP S.A.). The merger took place based on an appraisal report of the net assets book value, issued by an independent evaluator, using the base date of August 31, 2002 and the net assets of MAHLE CMP Ltda. merged by MAHLE MMG Ltda. amounted to R\$5,864. Before said merger, MAHLE CMP Ltda. paid to its quotaholders interest on own capital, calculated on net equity at December 31, 2001 and the amount paid to MAHLE Metal Leve S.A. totaling R\$1,147 was recorded as a matching entry against its investment in that jointly-owned subsidiary.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 10. Investments in Subsidiaries --Continued

On October 14, 2002 MAHLE MMG Ltda jointly-owned subsidiary was merged by MAHLE Valve Train Brasil Ltda., changing the corporate name of the merging company by MAHLE MMG Indústria e Comércio Ltda. The merger took place based on an appraisal report of the net asset book value, issued by an independent evaluator, using the base date of September 30, 2002 and the net assets of MAHLE MMG Ltda., merged by MAHLE Valve Train Brasil Ltda. totaled R\$109,349.

#### 11. Fixed Assets

	Annual depreciation rates (%)	Parent company		Consolidated	
		2003	2002	2003	2002
Land	-	<b>4,567</b>	3,073	<b>4,942</b>	3,912
Buildings and construction	4	<b>74,389</b>	57,417	<b>78,804</b>	66,615
Machinery, equipment and facilities	10-20	<b>629,365</b>	459,339	<b>686,154</b>	552,562
Furniture and fixtures	10-20	<b>14,844</b>	12,367	<b>15,366</b>	13,475
Transportation assets	20-25	<b>12,706</b>	9,124	<b>13,631</b>	10,024
Construction work in progress	-	<b>34,223</b>	26,188	<b>36,520</b>	29,497
Advances to suppliers	-	<b>11,350</b>	13,908	<b>11,423</b>	16,115
Others	-	<b>129</b>	37	<b>138</b>	75
		<b>781,573</b>	581,453	<b>846,978</b>	692,275
Accumulated depreciation		<b>(508,570)</b>	(383,125)	<b>(557,814)</b>	(455,681)
		<b>273,003</b>	198,328	<b>289,164</b>	236,594

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

**12. Deferred Charges**

	Annual amortization rates (%)	Parent company		Consolidated	
		2003	2002	2003	2002
Expenses with acquisition and installation of software	20	<b>16,037</b>	9,859	<b>16,339</b>	10,818
Premium on the acquisition of MAHLE MMG Indústria e Comércio Ltda subsidiary	20	<b>108,382</b>	-	<b>108,382</b>	-
Pre-operating projects	20	<b>2,463</b>	2,463	<b>2,463</b>	2,463
Other projects	20	<b>9,679</b>	4,716	<b>9,762</b>	5,446
		<b>136,561</b>	17,038	<b>136,946</b>	18,727
Accumulated amortization		<b>(33,548)</b>	(5,825)	<b>(33,770)</b>	(7,289)
		<b>103,013</b>	11,213	<b>103,176</b>	11,438

**13. Trade Accounts Payable**

	Parent company		Consolidated	
	2003	2002	2003	2002
<u>Market</u>				
Internal	<b>17,696</b>	14,531	<b>19,367</b>	18,514
External	<b>7,455</b>	7,857	<b>8,240</b>	8,270
	<b>25,151</b>	22,388	<b>27,607</b>	26,784

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

**14. Loans**

<b>Financial charges</b>	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<u>National currency</u>				
BNDES – variation of long-term interest rate variation - TJLP plus annual interest of 4,3% to 5%.	<b>2,407</b>	5,754	<b>3,770</b>	8,344
Others – monetary restatement based on Interbank Deposit Certificate - CDI monthly rate plus monthly interest of 3%.	<b>92</b>	96	<b>92</b>	96
<u>Foreign currency</u>				
Import financing – exchange variation based on US dollar plus annual interest of 4%.	<b>3,029</b>	5,942	<b>6,256</b>	14,820
	<b>5,528</b>	11,792	<b>10,118</b>	23,260
Current liabilities	<b>(3,463)</b>	(7,088)	<b>(5,165)</b>	(10,199)
Noncurrent liabilities	<b>2,065</b>	4,704	<b>4,953</b>	13,061

Loans were obtained for acquiring imported raw materials, machinery and equipment and are secured by guarantees of the board of directors and collateral of the assets financed.

Long-term amounts per year of maturity are as follows:

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
2004	-	2,954	-	7,778
2005	<b>1,362</b>	1,194	<b>4,250</b>	4,727
2006	<b>703</b>	556	<b>703</b>	556
	<b>2,065</b>	4,704	<b>4,953</b>	13,061

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 15. Provision for Contingencies

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Civil and labor claims	<b>39,937</b>	32,280	<b>40,351</b>	33,939
Tax claims	<b>23,625</b>	17,504	<b>23,625</b>	18,392
	<b>63,562</b>	49,784	<b>63,976</b>	52,331

The Company and its subsidiaries have several labor, civil and tax claims in progress, resulting from the normal course of business. The related provisions for contingencies were made considering legal advisors' estimates for lawsuits whose possibility of loss was evaluated as probable. Management believes that the resolution of these issues will not have an effect significantly different from the amount accrued. For a portion of suits there are judicial deposits totaling R\$17,915 (R\$15,650 in 2002) in the Parent Company and R\$18,003 (R\$16,653 in 2002) in the consolidated.

In addition to the values previously mentioned, the amount of R\$24,070 (R\$19,270 in 2002), whose evaluation by the Company legal advisors was not recorded, has a low probability of loss. This is the reason why Management did not record this amount in the financial statements.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 16. Provision for Guarantees

	Parent company		Consolidated	
	2003	2002	2003	2002
Provision for guarantees	11,135	6,848	11,135	10,323
Expenses with guarantees already identified	7,176	1,696	7,176	1,696
	<b>18,311</b>	8,544	<b>18,311</b>	12,019

The Company and its subsidiaries assure quality products to their clients, assuming responsibility for possible replacements and repairs resulting from defective goods. Based on the estimates contemplating historical data on sales and expenses of that kind, among other factors, the Company recognizes the following provisions:

a) Provision for guarantees

Calculated on sales of products, based on historical percentages of expenses.

b) Expenses already identified

They are referred to cases identified in which the Company estimates to spend funds for replacing and repairing products, including the so-called "recalls".

#### 17. Shareholders' Equity

a) Capital

The following numbers of shares represent subscribed and paid-up capital with no par value at December 31, 2003 and 2002:

	Number of shares
Common shares	3,678,112,135
Preferred shares	5,457,959,235
Total outstanding shares	<b>9,136,071,370</b>

## **MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

### **NOTES TO FINANCIAL STATEMENTS--Continued**

December 31, 2003 and 2002

(In thousands of reais)

#### **17. Shareholders' Equity --Continued**

Preferred shares of the Company do not bear the voting right, and they are ensured priority in relation to redemption of capital and payment of non-cumulative minimum dividends. Such shares will acquire the voting right if the Company does not pay during three consecutive years the minimum dividends they are entitled to under the Articles of Incorporation. In addition to that, preferred shares have ensured the right of dividends with a value of 10% over the value attributed to common shares.

In the Ordinary Shareholders' General Meeting on April 24, 2002 a capital increase was approved, by capitalizing a portion of the Profits Reserve, amounting to R\$45,174, without issuing new shares, increasing the capital up to R\$205,718.

As a result of MAHLE Sistemas de Filtração Ltda. merger, as explained in Note 1, the Company's capital reached R\$223,901, corresponding to 9,136,071 thousand shares, split into 3,678,112 thousand common shares and 5,457,959 thousand preferred shares, with no par value.

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

**17. Shareholders' Equity --Continued**

b) Shareholders' remuneration

Shareholders are ensured the right to receive the annual minimum dividend of 25% of the net income for the year, as established by the Articles of Incorporation. Remuneration to shareholders was determined as follows:

	<b>2003</b>	<b>2002</b>
Net income for the year	<b>175,890</b>	150,099
Legal reserve	<b>(8,795)</b>	(7,505)
Calculation basis	<b>167,095</b>	142,594
Distribution to the shareholders:		
Dividends proposed at December 31, 2002 and paid on May 23, 2003.	-	9,285
Interest on own capital R\$12,185, net of withholding tax totaling R\$1,605, paid on September 30, 2002.	-	10,580
Interest on own capital R\$18,177, net of withholding tax totaling R\$2,394, accrued on December 31, 2002 and paid on January 31, 2003.	-	15,783
Interest on own capital of R\$50,147, net of withholding tax amounting to R\$6,567, paid on December 17, 2003.	<b>43,580</b>	-
Total	<b>43,580</b>	35,648
Percentage in relation to the calculation base	<b>26.08%</b>	25.00%
Interest on own capital /dividends per thousand shares in reais:		
Preferred shares	<b>R\$4.4025</b>	R\$4.050
Common shares	<b>R\$4.8428</b>	R\$3.682

Total interest on own capital was recorded in the result as an operating expense and reverted simultaneously, in the individual and consolidated income statements, matched against retained earnings, in shareholders' equity.

The amount related to interest on own capital was computed when determining the compulsory dividends value for the years 2003 and 2002, according to item 7 of the Articles of Incorporation.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 17. Shareholders' Equity --Continued

##### c) Profits reserve

###### Legal reserve

It was set up according to the corporate legislation terms, based on 5% of the net income, considering the limit of 20% of the realized capital or 30% of the capital plus capital reserve. Beyond said limits appropriations with relation to that reserve are not obligatory. Legal reserve may be used only for capital increase or for the absorption of losses.

###### Profits reserve for expansion and modernization

Management, according to article 196 of Law n° 6.404/76, will propose at the Ordinary Shareholders' General Meeting a retained profits' portion amounting to R\$161,048 at December 31, 2003 comprised by the net income balance for the year, after legal reserve appropriation and profit distribution, totaling R\$116,948, and accumulated profit balance of previous years amounting to R\$44,100 to be allocated to future investments in expansion and reorganization projects, according to the capital budget to be submitted to the Ordinary Shareholders' General Meeting.

###### Excessive profits reserve

As per article 199 of Law n° 6.404/76, Management will propose at the Ordinary Shareholders' General Meeting the capitalization of R\$128,853 related to the portion of previous years' retained profits in the reserve account for expansion and modernization, whose investments were realized.

**MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

**17. Shareholders' Equity --Continued**

d) Appropriation of income for the year

Net income for the year was allocated as follows:

	2003	2002
Net income for the year	175,890	150,099
Profits reserve:		
Legal	8,795	7,505
Profit distribution:		
Dividends	-	9,285
Interest on own capital	50,147	30,362
Balance proposed to be transferred to the expansion and modernization reserve	116,948	102,947

**18. Financial Results**

	Parent company		Consolidated	
	2003	2002	2003	2002
<b><u>Financial expenses</u></b>				
Interest	(3,708)	(2,021)	(6,612)	(5,142)
Monetary variation – liabilities	(216)	(246)	(320)	(366)
Exchange variation – liabilities	(80,578)	(64,769)	(81,537)	(77,687)
Others	(7,701)	(6,646)	(8,264)	(7,680)
<b><u>Financial revenues</u></b>				
Interest	8,440	5,373	11,034	8,716
Monetary variation – assets	703	396	717	418
Exchange variation – assets	66,909	92,361	68,035	103,877
Others	207	166	282	299
	(15,944)	24,614	(16,665)	22,435

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 19. Financial Instruments

The Company and its subsidiaries maintain operating strategies and policies, aiming at liquidity, profitability and security, as well as procedures for balance monitoring. In addition, they operate with banks that meet the requirements of financial solidity and reliability, according to Management criteria. The policy of control consists of permanent monitoring of the contract rates, comparing them with the market current rates.

The main risk factors affecting the Company and its subsidiaries' businesses are the following:

a) Credit risk

The Company and its subsidiaries operate in two different markets, namely, original equipment (OEM) and replacement (aftermarket). The Company and its subsidiaries' possibilities of loss resulting from OEM clients' financial problems are remote, due to the clients' profile (assembly plants and other companies operating worldwide).

Regarding aftermarket sales and/or markets in which the companies' management considers that the risk related to breach of contract is significant, letters of credit, payments in advance or other forms of guarantee are requested, before sales are carried out. In that market each client's participation in sales is highly diluted, which means that no client represents individually more than five per cent of the sales.

At December 31, 2003 "vendor" operations signed by the Company amounted to R\$2,719 (R\$6,329 in 2002), with a maturity term up to 45 days. Contract risks of such operations are credit-related and they are managed through accurate analyses of credit limits for the clients involved in operations of that nature.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2003 and 2002

(In thousands of reais)

#### 19. Financial Instruments--Continued

##### b) Exchange rate risk

The Company and its subsidiaries execute a procedure consisting of balancing exchange exposure, by evaluating assets and expectations of future operations. Such policy has shown a positive exchange exposure over the years. This means that assets exposed to exchange rate variations are greater than liabilities, and consequently disbursements pegged to foreign currency are covered by capital inflow associated to said exchange rates.

The Company's net exposure to exchange risks and interest rate fluctuations at December 31, 2003 is represented by trade accounts receivable, liabilities related to raw material suppliers and bank loans payable, in foreign currency (basically Euros and US dollars), totaling R\$60,924 (R\$111,466 in 2002) in the Parent Company and R\$56,633 (R\$147,589 in 2002) in the consolidated, according to the exchange rate at that date. The Company's financial area calculations showed insignificant differences regarding book values and market values of such instruments.

During 2003 and 2002, the Company and its subsidiaries did not use derivative financial instruments to guarantee liabilities related to loans and financings in foreign currency.

#### 20. Insurance (unaudited)

At December 31, 2003 and 2002, the Company had insurance coverage against fire and sundry risks in relation to fixed assets and inventories, at values considered by Management to be sufficient for covering possible losses.

## **MAHLE METAL LEVE S.A. AND SUBSIDIARIES**

### **NOTES TO FINANCIAL STATEMENTS--Continued**

December 31, 2003 and 2002

(In thousands of reais)

#### **21. Employees' Benefits**

Benefits given to employees by the Company are basically referred to current benefits on a monthly basis and thus they are accounted for. There are not post employment benefits, pension funds or other benefits requiring a specific accounting treatment.

For the years ended December 31, 2003 and 2002, the Company and its subsidiaries gave their employees participation in the profit sharing, based on a trade union agreement, totaling R\$7,910 (R\$5,290 in 2002) in the parent company and R\$8,557 (R\$6,137 in 2002) in the consolidated. Criteria for profit sharing payment will follow the rules of the collective labor agreement, which establishes certain objectives to be reached, described as follows: (i) meeting production goals, for a pre-defined number of employees; (ii) maintaining absenteeism level up to the average annual rate of hours/absence previously defined in relation to the worked hours standard; and (iii) maintaining the scrap level up to the average annual rate previously defined in relation to the number of produced pieces.