

Financial Statements

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

***December 31, 2004 and 2003
with Report of Independent Auditors***

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2004 and 2003

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Balance Sheets	2
Statements of Income.....	4
Statements of Shareholders' Equity.....	5
Statements of Changes in Financial Position.....	6
Notes to Financial Statements.....	8

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
MAHLE Metal Leve S.A.

We have audited the accompanying balance sheets of MAHLE Metal Leve S.A. and consolidated balance sheets of MAHLE Metal Leve S.A. and subsidiaries at December 31, 2004 and 2003 and related statements of income, of shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits 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 statements presentation.

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 the consolidated financial position of MAHLE Metal Leve S.A. and subsidiaries at December 31, 2004 and 2003, the results of their operations, changes in its shareholders' equity and changes in financial position for the years then ended in accordance with accounting practices adopted in Brazil.

Campinas, February 7, 2005

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, 2004 and 2003
(In thousands of reais)

ASSETS	Parent company		Consolidated	
	2004	2003	2004	2003
Current assets				
Cash and banks	1,633	2,058	5,484	2,317
Short-term investments	26,782	24,426	32,689	31,900
Trade accounts receivable	141,734	108,465	153,128	118,567
Accounts receivable from related parties	142,097	142,072	149,665	142,116
Exchange bills discounted	(48,147)	(19,119)	(48,147)	(19,119)
Allowance for doubtful accounts	(15,759)	(9,952)	(16,031)	(12,794)
Inventories	170,447	101,440	178,592	107,751
Recoverable taxes	27,856	23,354	28,602	24,689
Deferred income and social contribution taxes	17,850	15,081	18,346	15,396
Other accounts receivable	12,155	4,668	12,318	3,846
	476,648	392,493	514,646	414,669
Noncurrent assets				
Deferred income and social contribution taxes	42,402	32,675	42,883	33,054
Recoverable taxes	10,407	7,149	10,888	7,486
Judicial deposits	13,555	17,915	13,624	18,003
Other accounts receivable	2,350	1,887	2,475	2,012
	68,714	59,626	69,870	60,555
Permanent assets				
Investments in subsidiaries	24,853	18,989	-	-
Other investments	2,607	371	2,607	371
	27,460	19,360	2,607	371
Fixed assets	303,611	273,003	318,623	289,164
Deferred charges	80,643	103,013	81,007	103,176
	411,714	395,376	402,237	392,711
Total assets	957,076	847,495	986,753	867,935

LIABILITIES AND SHAREHOLDERS' EQUITY	Parent company		Consolidated	
	2004	2003	2004	2003
Current liabilities				
Trade accounts payable	53,181	25,151	57,569	27,607
Loans	1,599	3,463	1,599	5,165
Salaries, vacation and social charges payable	40,808	29,962	43,015	31,789
Taxes and contributions payable	422	7,197	1,391	7,669
Accounts payable to related parties	34,949	106,869	36,061	103,626
Advances from customers	2,669	2,871	3,348	3,088
Interests on own capital payable	3,125	-	3,723	524
Dividends payable	116,328	-	116,328	-
Sundry provisions	34,133	12,473	42,301	17,259
Other liabilities	14,001	11,910	15,304	13,138
	301,215	199,896	320,639	209,865
Noncurrent liabilities				
Loans	1,582	2,065	1,582	4,953
Provision for contingencies	74,580	63,562	75,143	63,976
Provision for guarantees	8,759	18,311	8,759	18,311
Other accounts payable	65	1,810	65	1,811
	84,986	85,748	85,549	89,051
Minority interests	-	-	9,690	7,168
Shareholders' equity				
Capital	352,755	223,901	352,755	223,901
Revenue reserves	218,120	337,950	218,120	337,950
	570,875	561,851	570,875	561,851
Total liabilities and shareholders' equity	957,076	847,495	986,753	867,935

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME Years ended December 31, 2004 and 2003 (In thousands of reais)

	Parent company		Consolidated	
	2004	2003	2004	2003
Gross sales of goods and services	1,651,011	1,241,599	1,755,263	1,338,194
Taxes and sales deductions	(220,577)	(134,087)	(242,936)	(148,333)
Net sales and services	1,430,434	1,107,512	1,512,327	1,189,861
Cost of products sold and services rendered	(956,276)	(718,435)	(1,006,215)	(767,061)
Gross profit	474,158	389,077	506,112	422,800
Operating revenue (expenses)				
Selling expenses	(89,520)	(75,550)	(108,921)	(74,981)
Management fees	(3,304)	(1,905)	(3,304)	(1,905)
General and administrative expenses	(81,161)	(70,307)	(84,544)	(74,706)
Financial expenses, net	(15,931)	(15,944)	(15,351)	(16,665)
Interest on own capital	(55,131)	(50,147)	(55,835)	(50,764)
Equity pick-up	(2,730)	19,697	-	-
Expenses with technology and research	(27,640)	(19,524)	(29,642)	(21,475)
Other operating profit (expenses), net	(800)	4,458	(3,503)	6,109
	(276,217)	(209,222)	(301,100)	(234,387)
Operating profit	197,941	179,855	205,012	188,413
Nonoperating result	686	(463)	631	(131)
Income before income and social contribution taxes and minority interest	198,627	179,392	205,643	188,282
Current income and social contribution taxes	(85,824)	(57,058)	(90,601)	(65,058)
Deferred income and social contribution taxes	12,549	3,409	12,832	3,700
Income before minority interest and reversal of interest on own capital	125,352	125,743	127,874	126,924
Minority interest	-	-	(3,226)	(1,798)
Reversal of interest on own capital	55,131	50,147	55,835	50,764
Net income for the year	180,483	175,890	180,483	175,890
Earnings per thousand outstanding shares at the end of the year in reais – R\$	19.75	19.25		

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2004 and 2003

(In thousands of reais)

	<u>Income reserves</u>				Total
	Capital	Legal reserve	Reserve for expansion and modernization	Retained earnings	
Balances at December 31, 2002	223,901	17,534	150,573	44,100	436,108
Net income for the year	-	-	-	175,890	175,890
Appropriation of net income for the year:					
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	223,901	26,329	311,621	-	561,851
Increased capital – Annual General Meeting of April 30, 2004	128,854	-	(128,854)	-	-
Net income for the year	-	-	-	180,483	180,483
Appropriation of net income for the year:					
Setting up of legal reserve	-	9,024	-	(9,024)	-
Interest on own capital	-	-	-	(55,131)	(55,131)
Proposed dividends	-	-	-	(116,328)	(116,328)
Balances at December 31, 2004	352,755	35,353	182,767	-	570,875

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2004 and 2003

(In thousands of reais)

	Parent company		Consolidated	
	2004	2003	2004	2003
SOURCES OF FUNDS				
From operations				
Net income for the year	180,483	175,890	180,483	175,890
Expenses (income) not affecting net working capital:				
Depreciation and amortization	81,670	74,871	84,937	79,530
Equity pick-up	2,730	(19,697)	-	-
Monetary variance on investments abroad	(25)	1,424	-	-
Long-term monetary variance and interest	5,181	(963)	5,249	(2,214)
Residual value of permanent assets disposed	276	1,426	1,354	1,550
Deferred income and social contribution taxes	(9,727)	(2,968)	(9,829)	(3,346)
Provision for contingencies	11,018	12,313	11,167	12,313
Profit sharing of minority shareholders	-	-	3,226	1,798
	271,606	242,296	276,587	265,521
From shareholders				
MAHLE MMG Indústria e Comércio Ltda. net working capital merged	-	56,984	-	-
	-	56,984	-	-
From third parties				
Increase in noncurrent liabilities	-	4,290	-	-
Interest on shareholders' equity received	1,641	1,442	-	-
Decrease in noncurrent assets	1,867	3,648	1,742	-
	3,508	66,364	1,742	-
Total sources	275,114	308,660	278,329	265,521
APPLICATIONS OF FUNDS				
Proposed dividends	-	-	2,236	-
Minority interest on shareholders' equity	-	-	704	617
Proposed dividends	116,328	-	116,328	-
Interest on shareholders' equity	55,131	50,147	55,131	50,147
Increase in noncurrent assets	-	-	-	7,595
Investments	12,446	191,693	-	-
Fixed assets	86,478	60,626	89,610	109,416
Deferred charges	3,706	6,538	3,971	115,354
Decrease in noncurrent liabilities	18,189	-	21,146	4,292
Total applications	292,278	309,004	289,126	287,421
Decrease in net working capital	(17,164)	(344)	(10,797)	(21,900)

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN FINANCIAL POSITION--Continued

Years ended December 31, 2004 and 2003

(In thousands of reais)

	Parent company		Consolidated	
	2004	2003	2004	2003
Change in net working capital				
Current assets				
At the end of the year	476,648	392,493	514,646	414,669
At the beginning of the year	392,493	301,857	414,669	372,432
	84,155	90,636	99,977	42,237
Current liabilities				
At the end of the year	301,215	199,896	320,639	209,865
At the beginning of the year	199,896	108,916	209,865	145,728
	101,319	90,980	110,774	64,137
Decrease in net working capital	(17,164)	(344)	(10,797)	(21,900)

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

(In thousands of reais)

1. Operations

The Company's main purpose is the research, development, manufacturing and sale, both locally and abroad, of components and accessories for internal-combustion engines, which are sold to several industries and segments, such as assembly plants (automobiles, trucks, tractors, etc.), spare parts' market, aviation engine industry, stationary engines, and others.

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 liners and filters.

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 January 15, 2003, the Company acquired from the related party MAHLE Ventiltrieb GmbH a 68.92% interest in MAHLE MMG Indústria e Comércio Ltda. That acquisition for US\$58,200,000 (equivalent to R\$191,693 on 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 units of MAHLE MMG Indústria e Comércio Ltda.. Said acquisition generated a premium of R\$108,382, whose economic base is future profitability, being recorded under deferred charges and amortized in a five years.

In the Extraordinary Shareholders 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.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

(In thousands of reais)

1. Operations--Continued

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	Quotaholders' equity	138,034
	<u>198,835</u>		<u>198,835</u>

2. Basis of Preparation and Presentation of Financial Statements

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

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 offset possible losses on realization of accounts receivable.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

3. Summary of the Main Accounting Practices --Continued

d) Inventories

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

e) Investments

Investments in subsidiary companies in Brazil and abroad are valued through the equity method of accounting, based on the respective quotaholders' 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 account.

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

f) Fixed assets

Fixed assets are recognized at the cost of acquisition or construction, less depreciation. Depreciation is calculated 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 years' time from the start of operations.

Premium from the merged subsidiary, grounded on the expectation of future profitability, is amortized through the straight-line method, in a five years' time.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(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 claims. It is recorded according to the risk evaluation carried out by Management, with the support of legal advisors, even in terms of long-term classification.

j) Provision for guarantees

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

l) Other current and noncurrent assets

Recognized at cost value plus monetary variation and income earned, where applicable, less the provision to present at realization values, when necessary.

m) Other current and noncurrent liabilities

Stated at known or estimated amounts, plus the related charges and monetary or exchange variations incurred, where applicable.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(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 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 restructuring, provision for professional services 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 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:

	Interest on capital (%)			
	2004		2003	
	Direct	Indirect	Direct	Indirect
MAHLE Metal Leve Miba Sinterizados Ltda.	70	-	70	-
P.F.S. II Indústria e Comércio de Peças Automotivas Ltda.	100	-	-	-
Metal Leve International Limited (abroad)	100	-	100	-
MAHLE Metal Leve GmbH (abroad)	100	-	-	-
Metal Leve GmbH (abroad)	-	-	100	-
MAHLE Metal Leve International NV (abroad)	-	100	-	-

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

4. Short-term Investments

	Parent company		Consolidated	
	2004	2003	2004	2003
Interbank Deposit Certificate (CDI) restated on the change in CDI – CETIP	26,782	24,426	32,566	28,211
Account remunerated based on the variation of the US dollar plus annual interest of 1.1% (2% in 2003)	-	-	123	525
Others	-	-	-	3,164
	26,782	24,426	32,689	31,900

5. Trade Accounts Receivable

	Parent company		Consolidated	
	2004	2003	2004	2003
<u>Market</u>				
Internal	83,002	57,322	92,608	59,002
External	58,732	51,143	60,520	59,565
	141,734	108,465	153,128	118,567

6. Inventories

	Parent company		Consolidated	
	2004	2003	2004	2003
Finished products	63,767	41,934	65,024	43,206
Work-in-process	60,004	39,160	63,102	41,425
Raw materials	33,768	14,187	34,912	15,066
Auxiliary materials	18,361	12,213	20,295	14,146
Imports in progress	4,670	3,370	5,487	3,462
Valuation allowance	(10,123)	(9,424)	(10,228)	(9,554)
	170,447	101,440	178,592	107,751

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

7. Recoverable Taxes

	Parent company		Consolidated	
	2004	2003	2004	2003
Income and social contribution taxes	15,214	15,641	15,593	16,299
State VAT - ICMS on the acquisition of fixed assets	12,678	10,589	13,200	11,020
State and Federal VATs - ICMS and IPI	3,011	1,169	3,143	1,669
Social Integration Program tax - PIS	952	438	992	446
Social Contribution Tax on Corporate Revenue - COFINS	4,192	-	4,339	-
Other taxes	2,216	2,666	2,223	2,741
	38,263	30,503	39,490	32,175
Short-term portion	(27,856)	(23,354)	(28,602)	(24,689)
Long-term portion	10,407	7,149	10,888	7,486

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 at Selic rate, where applicable.

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

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2004 and 2003 (In thousands of reais)

8. Related Parties

Companies	Parent Company (2004)										
	Balances		Transactions							Purchase	Royalties
	Current	Current	Sales/income			Products		Services	Fixed assets	Commissions	Royalties
	assets	liabilities	Products	Services	Commissions	Products	Services		Commissions	Royalties	
MAHLE Metal Leve Miba Sinterizados Ltda.	43	28	-	1,660	-	1,110	27	-	-	-	
MAHLE Componentes de Motores do Brasil Ltda.	1,278	5,532	1,194	13,214	5,549	86,464	829	-	-	-	
MAHLE Componentes de Motores S.A.	73	-	6,464	-	-	-	-	-	-	-	
MAHLE Indústria e Comércio Ltda.	-	-	-	-	-	-	665	-	-	-	
MAHLE S.A. Argentina	1,853	58	3,744	-	-	-	-	-	262	-	
MAHLE S.A. Espanha	-	-	167	-	-	387	-	-	-	-	
MAHLE Pistoni Itália SpA	1,302	-	14,354	-	-	-	-	-	-	-	
MAHLE GmbH	154	5,482	44,952	-	-	21,970	-	7,780	406	14,889	
MAHLE France SARL	1,962	-	27,598	-	-	-	-	-	-	-	
MAHLE Valve Train Inc	511	11,216	59,467	-	-	-	-	138	1,484	-	
MAHLE Filter System	3,083	4,618	13,648	-	-	5,994	-	1,054	-	-	
MAHLE Componentes de Motores de México, S.de R.L. de C.V.	5,536	-	22,757	-	-	-	-	-	-	131	
MAHLE Engine Components (Nanjing) Co Ltd.	-	-	466	-	-	-	-	-	-	-	
MAHLE Inc. Co.	781	290	109,251	-	-	3,578	-	-	705	-	
MAHLE Inc., Cylinders Division	506	33	15,518	-	-	-	-	-	-	-	
MAHLE Polska SP. ZO.O	-	-	386	-	-	-	-	-	-	-	
MAHLE Motorkomponenten Schweiz AG	-	2,188	-	-	-	4,994	-	-	-	-	
MAHLE Motorkomponenten GmbH	1,030	356	16,162	-	-	1,661	-	-	-	-	
MAHLE Technology Inc.	-	-	8	-	-	-	-	-	-	-	
Metal Leve International Ltd.	-	-	-	-	-	-	-	-	3,978	-	
MAHLE Metal Leve International NV	123,974	-	199,000	-	-	-	-	-	-	-	
Cofap S.A.	-	5,018	-	-	-	-	-	-	-	-	
MAHLE ACL Piston Products	11	51	401	-	-	51	-	-	-	-	
MAHLE Izumi Corporation	-	-	61	-	-	-	-	-	-	-	
MAHLE Ventiltrieb GmbH	-	8	9,145	-	-	37	-	1,833	-	-	
MAHLE Sistemas de Filtracion SL	-	-	-	-	-	-	-	-	4	-	
MAHLE Aftermarket GmbH	-	71	-	-	-	6	-	-	86	-	
Total in 2004	142,097	34,949	544,743	14,874	5,549	126,252	1,521	10,805	6,925	15,020	

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2004 and 2003 (In thousands of reais)

8. Related Parties --Continued

Companies	Parent Company (2003)										
	Balances		Transactions								
	Assets	Liabilities	Sales/income				Purchase				
	Current assets	Current 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	25	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. Espanha	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 Polska	25	-	100	-	-	-	2	-	-	-	-
MAHLE Tennex Filter Systems Ltd	2,246	-	8,430	-	-	-	-	-	-	-	-
MAHLE Pistons France SARL	-	-	179	-	-	-	-	-	-	-	-
MAHLE Tennex North America	-	-	72	-	-	-	-	-	-	-	-
MAHLE Motorkomponenten Schweiz AG	-	1,412	-	-	-	-	4,523	-	-	-	-
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	142,072	106,869	442,770	13,002	28	8,567	85,284	6,154	202,605	4,907	12,793

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

8. Related Parties--Continued

Companies	Consolidated (2004)									
	Balances		Transactions							
	Current	Current	Sales/Income			Purchase				
	assets	liabilities	Products	Services	Commissions	Products	Services	Fixed assets	Commissions	Royalties
MAHLE Componentes de Motores do Brasil Ltda.	1,277	5,532	1,194	13,214	5,549	86,464	829	-	-	-
MAHLE Componentes de Motores S.A.	1,967	-	8,360	-	-	-	-	-	-	-
MAHLE Indústria e Comércio Ltda.	-	-	-	-	-	-	673	-	-	-
MAHLE S.A. Argentina	1,854	58	3,744	-	-	-	-	-	262	-
MAHLE S.A. Espanha	28	-	195	-	-	387	-	-	-	-
MAHLE Pistoni Itália SpA	3,109	-	16,174	-	-	-	-	-	-	-
MAHLE GmbH	8,712	5,482	74,894	-	-	21,970	-	7,780	406	14,889
MAHLE France SARL	19,641	-	47,931	-	-	-	-	-	-	-
MAHLE Valve Train Inc	23,506	11,216	97,539	-	-	-	-	138	1,484	-
MAHLE Filter System	3,724	4,618	14,318	-	-	5,994	-	1,054	-	-
MAHLE Componentes de Motores de México, S.de R.L. de C.V.	7,962	-	25,285	-	-	-	-	-	-	131
MAHLE Engine Compon. Nanjing Co Ltd.	-	-	466	-	-	-	-	-	-	-
MAHLE Inc. Co.	58,091	973	200,582	-	-	3,578	-	-	705	-
MAHLE Inc., Cylinders Division	4,667	79	19,871	-	-	-	-	-	-	-
MAHLE Polska SP. Z.O.O	-	-	386	-	-	-	-	-	-	-
MAHLE MotorKomponenten Schweiz AG	-	2,188	-	-	-	4,994	-	-	-	-
MAHLE MotorKomponenten GmbH	7,888	358	25,806	-	-	1,661	-	-	-	-
MAHLE Technology Inc.	8	373	8	-	-	-	-	-	-	-
MAHLE ACL Piston Products	443	51	858	-	-	51	-	-	-	-
MAHLE Izumi Liaoming	-	-	61	-	-	-	-	-	-	-
MAHLE Ventiltrieb GmbH	173	7	9,145	-	-	37	-	1,833	-	-
MAHLE International GmbH	-	36	-	-	-	-	-	-	-	-
Cofap S.A.	-	5,018	-	-	-	-	-	-	-	-
MAHLE Sistemas de Filtracion SL	-	-	-	-	-	-	-	-	4	-
MAHLE Aftermarket GmbH	6,615	72	8,637	-	-	6	-	-	86	-
Total in 2004	<u>149,665</u>	<u>36,061</u>	<u>555,454</u>	<u>13,214</u>	<u>5,549</u>	<u>125,142</u>	<u>1,502</u>	<u>10,805</u>	<u>2,947</u>	<u>15,020</u>

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2004 and 2003 (In thousands of reais)

8. Related Parties --Continued

Companies	Consolidated (2003)									
	Balances		Transactions							
	Assets	Liabilities	Sales/income			Purchase				
	Current assets	Current liabilities	Products	Services	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. Espanha	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 Polska	25	-	100	-	-	2	-	-	-	-
MAHLE Tennex Filter Systems Ltd	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	142,116	103,626	440,787	11,974	2,314	78,833	6,337	202,602	7,478	12,793

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(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 Company is party to an agreement for transfer of piston technology with its parent company in Germany, which allows Company access to pistons manufacture technology, facilitating its penetration in the industrial market. Royalty expenses are recorded in expenses with technology and research account.

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.

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>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Income before social contribution and income taxes	198,627	179,392	205,643	188,282
IRPJ and CSSL at statutory rate (34%)	(67,533)	(60,993)	(69,919)	(64,016)
Adjustments for effective rate calculation:				
Effects on permanent differences				
Nondeductible expenses	(5,205)	(1,150)	(5,296)	(1,211)
Equity pick-up results	(1,478)	5,421	-	-
Exchange variation on investments	-	484	-	-
Tax incentives	781	(632)	826	(678)
Effects on timely differences:				
Provisions	(12,389)	(188)	(16,212)	847
Current income and social contribution taxes	(85,824)	(57,058)	(90,601)	(65,058)
Deferred income and social contribution taxes	12,549	3,409	12,832	3,700
Total income and social contribution taxes	(73,275)	(53,649)	(77,769)	(61,358)
Effective rate	36.9%	29.9%	37.8%	32.6%

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

9. Income and Social Contribution Taxes --Continued

b) Income and social contribution taxes payable

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Income tax	62,951	41,892	66,442	47,738
Social contribution tax	22,873	15,166	24,159	17,320
	85,824	57,058	90,601	65,058
Offset against prepaid IRPJ and CSSL	(99,401)	(70,790)	(104,478)	(79,365)
Recoverable taxes balance	(13,577)	(13,732)	(13,877)	(14,307)

c) Breakdown of deferred income and social contribution taxes

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

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Temporary differences				
Provision for contingencies, guarantees and others	27,000	25,028	27,191	25,168
Provision for inventory losses	4,461	3,204	4,550	3,248
Portion temporarily nondeductible of allowance for doubtful accounts	4,801	2,826	4,894	2,907
Portion temporarily nondeductible of provision for losses on the realization of other assets	3,548	3,284	3,675	3,383
Commissions on sales and other provisions temporarily nondeductible	20,442	13,414	20,919	13,744
	60,252	47,756	61,229	48,450
Short-term portion	(17,850)	(15,081)	(18,346)	(15,396)
Long-term portion	42,402	32,675	42,883	33,054

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

9. Income and Social Contribution Taxes --Continued

c) Breakdown of deferred income and social contribution taxes --Continued

In accordance with Company's Management projections, deferred income and social contribution taxes, at December 31, 2004 will be realized as follows:

<u>Maturity year</u>	<u>Parent company</u>	<u>Consolidated</u>
2005	17,850	18,346
2006	8,802	8,832
2007	8,088	8,206
2008	3,545	3,573
2009	3,545	3,573
2010 to 2012	14,825	15,073
2013 to 2015	3,597	3,626
	<u>60,252</u>	<u>61,229</u>

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2004 and 2003 (In thousands of reais)

10. Investments in Subsidiaries

	2004						2003					
	Subsidiaries' information		Participation				Subsidiaries' information		Participation			
	Shareholders' equity	Results for the year	%	In quotaholder's equity	Exchange variation on investment	In result for the year	In quotaholders' equity	Result for the year	%	In quotaholders' equity	Exchange variation on investment	In result for the year
Investments:												
Metal Leve International Limited	-	(2,187)	100,00	-	(75)	(2,187)	2,262	(3,143)	100,00	2,262	(1,467)	(3,143)
MAHLE Metal Leve Miba Sinterizados Ltda.	32,300	10,750	70,00	22,610	-	7,525	23,895	8,054	70,00	16,727	-	5,638
MAHLE Metal Leve GmbH	2,179	(8,068)	100,00	2,179	100	(8,068)	-	-	-	-	-	-
P.F.S. II Industrial e Com. de Peças Automotivas Ltda.	69	-	100,00	64	-	-	-	-	-	-	-	-
Metal Leve GmbH	-	-	-	-	-	-	-	-	-	43	-	1,299
MAHLE MMG Indústria e Comércio Ltda.	-	-	-	-	-	-	-	-	-	-	-	15,903
Total				24,853	25	(2,730)				18,989	(1,424)	19,697

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.

On March 1, 2004, the company MAHLE Metal Leve GmbH was set up, headquartered in Austria, of which the business purpose is to promote Company exports and to improve quality of services to customers.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

10. Investments in Subsidiaries --Continued

On July 15, 2004, with the aim of increasing participation in the market of filters for vehicles, the Company acquired P.F.S. II Indústria e Comércio de Peças Automotivas Ltda. for R\$2,300, generating goodwill of R\$2,236, based on future profitability, which is classified in other investments line and amortized over a period of five years.

In the last 2004 quarter, the Company wound up the operations of Metal Leve International Limited. The liabilities of this subsidiary were assumed by the Company.

11. Fixed Assets

	Annual depreciation rates (%)	Parent company		Consolidated	
		2004	2003	2004	2003
Land	-	4,567	4,567	4,942	4,942
Buildings and construction	4	81,042	74,389	85,788	78,804
Machinery, equipment and facilities	10-20	639,024	629,365	698,026	686,154
Furniture and fixtures	10-20	13,683	14,844	14,264	15,366
Transportation assets	20-25	14,223	12,706	15,213	13,631
Construction in progress	-	42,225	34,223	43,868	36,520
Advances to suppliers	-	25,201	11,350	25,314	11,423
Others	-	129	129	138	138
		820,094	781,573	887,553	846,978
Accumulated depreciation		(516,483)	(508,570)	(568,930)	(557,814)
		303,611	273,003	318,623	289,164

Construction in progress and advances to suppliers at December 31, 2004 refer to assets which are in phase of acquisition and/or installation, as well as to sundry civil construction for the expansion and modernization of the Company's industrial facilities, mainly the Mogi-Guaçu and Itajubá units.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

12. Deferred Charges

	Annual amortization rates (%)	Parent company		Consolidated	
		2004	2003	2004	2003
Expenses with acquisition and installation of software	20	19,743	16,037	20,325	16,339
Premium on the acquisition of MAHLE MMG Indústria e Comércio Ltda. subsidiary	20	108,382	108,382	108,382	108,382
Pre-operating projects	20	2,464	2,463	2,464	2,463
Other projects	20	7,448	9,679	7,516	9,762
		138,037	136,561	138,687	136,946
Accumulated amortization		(57,394)	(33,548)	(57,680)	(33,770)
		80,643	103,013	81,007	103,176

13. Trade Accounts Payable

	Parent company		Consolidated	
	2004	2003	2004	2003
<u>Market</u>				
Internal	31,520	17,696	34,444	19,367
External	21,661	7,455	23,125	8,240
	53,181	25,151	57,569	27,607

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

14. Sundry Provisions

	Parent company		Consolidated	
	2004	2003	2004	2003
Provision for restructuring	13,611	-	13,611	-
Provision for future inventory losses	2,999	3,085	2,999	3,085
Provision for professional services	15,752	8,027	19,906	10,058
Provision for royalties and patents	-	-	4,012	2,755
Other	1,771	1,361	1,773	1,361
	34,133	12,473	42,301	17,259

Provision for restructuring

Set up for an amount considered to be sufficient to cover expenses related to the project of relocation and expansion of the production lines of the Mogi-Guaçu and Itajubá units. Company management expects to complete this project in the first 2005 half.

Provision for future inventory losses

Set up for an amount considered to be sufficient to cover losses on sales contracts already executed in which the Company expects to have a negative profit margin.

Provision for professional services

Set up for an amount considered to be sufficient to cover expenses with outsourced services related to maintenance of machinery, equipment and buildings.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

15. Provision for Contingencies

	Parent company		Consolidated	
	2004	2003	2004	2003
Civil suits and labor claims	44,172	39,937	44,735	40,351
Tax suits	30,408	23,625	30,408	23,625
	74,580	63,562	75,143	63,976

There are several labor claims, civil and tax suits against the Company and its subsidiaries pending judgment, arising from the normal course of business. The related provisions for contingencies were set up considering legal advisors' estimates for lawsuits whose chances of loss was assessed 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\$13,555 (R\$17,915 in 2003) in the Parent Company and R\$13,624 (R\$18,003 in 2003) in the consolidated.

In addition to the amounts previously mentioned, the amount of R\$24,885 (R\$24,070 in 2003) was not considered, whose classification by Company legal advisors involves remote chances of loss, and in view of this, Management did not record this amount in the financial statements.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

16. Provision for Warranty

	Parent company		Consolidated	
	2004	2003	2004	2003
Provision for warranty	5,919	11,135	5,919	11,135
Expenses already identified	2,840	7,176	2,840	7,176
	8,759	18,311	8,759	18,311

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 that consider historical data on sales and expenses of similar nature, among other factors, the Company recognizes the provisions as follows:

a) Provision for warranty

Calculated on product sales, based on historical warranty expenses. In view of the decrease in warranty expenses, in the period considered for calculation, there was a decrease in the amount provisioned from 2003 to 2004. Management expects that warranty expenses will remain at this level in the future.

b) Expenses already identified

They refer 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

In the Ordinary and Extraordinary Shareholders' Meeting of April 30, 2004, the shareholders' of the Company approved capital increase through capitalization of a portion of the reserve for expansion and modernization, in the amount of R\$128,854, without issue of new shares, as such, capital was increased from R\$223,901 to R\$352,755.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

17. Shareholders' Equity --Continued

a) Capital--Continued

Subscribed and fully paid-in capital, without par value at December 31, 2004 and 2003 is divided into the following shares:

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

Preferred shares of the Company are nonvoting shares but are assured of priority in relation to redemption of capital and payment of non-cummulative 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, preferred shares are assured of the right of dividends 10% higher than that attributed to common shares.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

17. Shareholders' Equity -- Continued

b) Shareholders' remuneration

Shareholders are entitled to receive 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:

	2004	2003
Net income for the year	180,483	175,890
Legal reserve	(9,024)	(8,795)
Calculation basis	171,459	167,095
Distribution to the shareholders:		
Interest on own capital of R\$55,131, net of withholding tax, paid on December 17, 2004	47,847	-
Interest on own capital of R\$50,147, net of withholding tax, paid on December 17, 2003	-	43,580
Proposed dividends	116,328	-
Total	164,175	43,580
Percentage in relation to the calculation base	95.75%	26.08%
Interest on own capital /dividends per thousand shares in reais:		
Preferred shares	R\$18.6527	R\$4.8428
Common shares	R\$16.9570	R\$4.4025

Total interest on own capital was recorded in the statements of operations as an operating expense and reversed 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 2004 and 2003, according to item 7 of the Articles of Incorporation.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

17. Shareholders' Equity --Continued

c) Income reserve

Legal reserve

The legal reserve was set up in accordance with Brazil's corporation law, based on 5% of net income for the year, up to 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 mandatory. Legal reserve may be used only for capital increase or for the absorption of losses.

Income reserve for expansion and modernization

In the Ordinary and Extraordinary Shareholders' Meeting of April 30, 2004, the shareholders' of the Company approved retention of profits recorded in the reserve for expansion and modernization, in the amount of R\$182,767 for future investments and to pay the remaining installments related to the acquisition of the controlling interest in MAHLE MMG Indústria e Comércio Ltda..

d) Appropriation of income for the year

Net income for the year was destined as follows:

	<u>2004</u>	<u>2003</u>
Net income for the year	180,483	175,890
Income reserve:		
Legal	9,024	8,795
Profit distribution:		
Interest on own capital	55,131	50,147
Dividends	116,328	-
Balance proposed to be transferred to the reserve for expansion and modernization	-	116,948

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

18. Financial Results

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
<u>Financial expenses</u>				
Interest	(1,512)	(3,708)	(1,671)	(6,612)
Monetary variation – liabilities	(76)	(216)	(101)	(320)
Exchange variation – liabilities	(41,612)	(80,578)	(45,409)	(81,537)
Others	(9,692)	(7,701)	(10,257)	(8,264)
<u>Financial revenues</u>				
Interest	10,288	8,440	11,362	11,034
Monetary variation – assets	804	703	808	717
Exchange variation – assets	25,709	66,909	29,746	68,035
Others	160	207	171	282
	(15,931)	(15,944)	(15,351)	(16,665)

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).

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

19. Financial Instruments --Continued

a) Credit risk--Continued

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 percent of the sales.

At December 31, 2004 "vendor" operations signed by the Company amounted to R\$7,042 (R\$2,719 in 2003), with a maturity term up to 45 days. Contract risks of such operations are credit-related and they are managed through accurate analysis of credit limits for the clients involved in operations of that nature.

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 positive net exposure to exchange risks and interest rate fluctuations at December 31, 2004 and 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\$91,329 (R\$60,924 in 2003) in the Parent Company and R\$98,098 (R\$56,633 in 2003) 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.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2004 and 2003

(In thousands of reais)

19. Financial Instruments --Continued

b) Exchange rate risk--Continued

The Company carried out hedge operations in 2004 as part of its strategy to reduce losses from exchange rate fluctuations, involving sale of contracts in US dollars in the futures market, arriving at gain of R\$1,090. At December 31, 2004 and 2003, the Company and its subsidiaries did not have derivative financial instruments.

20. Insurance (unaudited)

At December 31, 2004 and 2003, 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.

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, 2004 and 2003, the Company and its subsidiaries granted employees profit sharing, based on a trade union agreement, totaling R\$10,354 (R\$7,910 in 2003) in the parent company and R\$10,822 (R\$8,557 in 2003) 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.