

***Financial Statements***

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

***December 31, 2005 and 2004  
with Report of Independent Auditors***

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

**FINANCIAL STATEMENTS**

December 31, 2005 and 2004

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

We have audited the accompanying balance sheets of MAHLE Metal Leve S.A. and the consolidated balance sheets of MAHLE Metal Leve S.A. and subsidiaries at December 31, 2005 and 2004 and the related statements of income, 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, 2005 and 2004, the results of their operations, changes in their shareholders' equity and changes in their financial position for the years then ended, in accordance with accounting practices adopted in Brazil.

Campinas, February 06, 2006

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, 2005 and 2004  
(In thousands of reais)

ASSETS	Parent company		Consolidated	
	2005	2004	2005	2004
Current assets				
Cash and banks	<b>2,809</b>	1,633	<b>5,139</b>	5,484
Short-term investments	<b>84,031</b>	26,782	<b>95,622</b>	32,689
Trade accounts receivable	<b>132,655</b>	141,734	<b>154,023</b>	153,128
Accounts receivable from related parties	<b>144,208</b>	142,097	<b>135,665</b>	149,665
Exchange bills discounted	<b>(81,208)</b>	(48,147)	<b>(81,208)</b>	(48,147)
Allowance for doubtful accounts	<b>(8,290)</b>	(15,759)	<b>(8,476)</b>	(16,031)
Inventories	<b>118,539</b>	170,447	<b>125,137</b>	178,592
Recoverable taxes	<b>37,501</b>	27,856	<b>36,673</b>	28,602
Deferred income and social contribution taxes	<b>10,901</b>	17,850	<b>11,400</b>	18,346
Other accounts receivable	<b>3,197</b>	12,155	<b>3,351</b>	12,318
	<b>444,343</b>	476,648	<b>477,326</b>	514,646
Noncurrent assets				
Deferred income and social contribution taxes	<b>38,975</b>	42,402	<b>39,588</b>	42,883
Recoverable taxes	<b>14,595</b>	10,407	<b>15,188</b>	10,888
Judicial deposits	<b>14,264</b>	13,555	<b>14,356</b>	13,624
Other accounts receivable	<b>1,168</b>	2,350	<b>1,294</b>	2,475
	<b>69,002</b>	68,714	<b>70,426</b>	69,870
Permanent assets				
Investments in subsidiaries	<b>33,206</b>	27,089	<b>6,674</b>	2,236
Other investments	<b>371</b>	371	<b>371</b>	371
	<b>33,577</b>	27,460	<b>7,045</b>	2,607
Property, plant and equipment	<b>331,804</b>	303,611	<b>348,792</b>	318,623
Deferred charges	<b>57,285</b>	80,643	<b>57,655</b>	81,007
	<b>422,666</b>	411,714	<b>413,492</b>	402,237
Total assets	<b>936,011</b>	957,076	<b>961,244</b>	986,753

LIABILITIES AND SHAREHOLDERS' EQUITY	Parent company		Consolidated	
	2005	2004	2005	2004
Current liabilities				
Trade accounts payable	<b>63,289</b>	53,181	<b>65,630</b>	57,569
Financings	<b>5,264</b>	1,599	<b>5,293</b>	1,599
Salaries, vacation and social charges payable	<b>39,734</b>	40,808	<b>41,997</b>	43,015
Taxes and contributions payable	<b>3,126</b>	422	<b>4,309</b>	1,391
Accounts payable to related parties	<b>16,996</b>	34,949	<b>21,397</b>	36,061
Advances from customers	<b>3,066</b>	2,669	<b>3,182</b>	3,348
Interests on own capital payable	<b>39,028</b>	3,125	<b>39,733</b>	3,723
Dividends payable	<b>223,513</b>	116,328	<b>223,513</b>	116,328
Sundry provisions	<b>16,016</b>	34,133	<b>21,493</b>	42,301
Other liabilities	<b>12,707</b>	14,001	<b>14,230</b>	15,304
	<b>422,739</b>	301,215	<b>440,777</b>	320,639
Noncurrent liabilities				
Financings	<b>17,629</b>	1,582	<b>20,542</b>	1,582
Provision for contingencies	<b>87,668</b>	74,580	<b>88,542</b>	75,143
Provision for warranties	<b>6,546</b>	8,759	<b>6,826</b>	8,759
Provision for capital deficiency of subsidiary	<b>8,173</b>	-	<b>-</b>	-
Other accounts payable	<b>74</b>	65	<b>76</b>	65
	<b>120,090</b>	84,986	<b>115,986</b>	85,549
Minority interests	-	-	<b>11,299</b>	9,690
Shareholders' equity				
Capital	<b>352,755</b>	352,755	<b>352,755</b>	352,755
Income reserves	<b>40,427</b>	218,120	<b>40,427</b>	218,120
	<b>393,182</b>	570,875	<b>393,182</b>	570,875
Total liabilities and shareholders' equity	<b>936,011</b>	957,076	<b>961,244</b>	986,753

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### STATEMENTS OF INCOME

Years ended December 31, 2005 and 2004

(In thousands of reais)

	Parent company		Consolidated	
	2005	2004	2005	2004
Gross sales of goods and services	<b>1,650,506</b>	1,651,011	<b>1,774,820</b>	1,755,263
Taxes and sales deductions	<b>(265,469)</b>	(220,577)	<b>(299,513)</b>	(242,936)
Net sales and services	<b>1,385,037</b>	1,430,434	<b>1,475,307</b>	1,512,327
Cost of products sold and services rendered	<b>(1,062,598)</b>	(956,276)	<b>(1,121,235)</b>	(1,006,215)
Gross profit	<b>322,439</b>	474,158	<b>354,072</b>	506,112
Operating revenue (expenses)				
Selling expenses	<b>(68,454)</b>	(89,520)	<b>(77,644)</b>	(108,921)
Management fees	<b>(3,927)</b>	(3,304)	<b>(3,927)</b>	(3,304)
General and administrative expenses	<b>(78,647)</b>	(81,161)	<b>(81,810)</b>	(84,544)
Financial expenses, net	<b>(27,826)</b>	(15,931)	<b>(28,161)</b>	(15,351)
Interest on own capital	<b>(55,660)</b>	(55,131)	<b>(56,489)</b>	(55,835)
Equity pick-up	<b>7,225</b>	(2,730)	-	-
Provision for capital deficiency of subsidiary	<b>(8,173)</b>	-	-	-
Expenses with technology and research	<b>(28,910)</b>	(27,640)	<b>(32,159)</b>	(29,642)
Other operating income (expenses), net	<b>16,119</b>	(800)	<b>9,634</b>	(3,503)
	<b>(248,253)</b>	(276,217)	<b>(270,556)</b>	(301,100)
Operating income	<b>74,186</b>	197,941	<b>83,516</b>	205,012
Nonoperating result	<b>164</b>	686	<b>(837)</b>	631
Income before income and social contribution taxes and minority interest	<b>74,350</b>	198,627	<b>82,679</b>	205,643
Current income and social contribution taxes	<b>(18,154)</b>	(85,824)	<b>(23,531)</b>	(90,601)
Deferred income and social contribution taxes	<b>(10,376)</b>	12,549	<b>(10,241)</b>	12,832
Income before minority interest and reversal of interest on own capital	<b>45,820</b>	125,352	<b>48,907</b>	127,874
Minority interest	-	-	<b>(3,916)</b>	(3,226)
Reversal of interest on own capital	<b>55,660</b>	55,131	<b>56,489</b>	55,835
Net income for the year	<b>101,480</b>	180,483	<b>101,480</b>	180,483
Earnings per thousand outstanding shares at the end of the year in reais – R\$	<b>3,332.35</b>	19.75		

See accompanying notes.

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

**STATEMENTS OF SHAREHOLDERS' EQUITY**

Years ended December 31, 2005 and 2004

(In thousands of reais)

	<u>Income reserves</u>			<u>Retained earnings</u>	<u>Total</u>
	<u>Capital</u>	<u>Legal reserve</u>	<u>Reserve for expansion and modernization</u>		
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:					
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	<u>352,755</u>	<u>35,353</u>	<u>182,767</u>	<u>-</u>	<u>570,875</u>
Net income for the year	-	-	-	101,480	101,480
Appropriation of net income for the year:					
Legal reserve	-	5,074	-	(5,074)	-
Interest on own capital	-	-	-	(55,660)	(55,660)
Proposed dividends	-	-	-	(40,746)	(40,746)
Transfer to retained earnings	-	-	(182,767)	182,767	-
Proposed dividends	-	-	-	(182,767)	(182,767)
Balances at December 31, 2005	<u>352,755</u>	<u>40,427</u>	<u>-</u>	<u>-</u>	<u>393,182</u>

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2005 and 2004

(In thousands of reais)

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>SOURCES OF FUNDS</b>				
From operations				
Net income for the year	<b>101,480</b>	180,483	<b>101,480</b>	180,483
Expenses (income) not affecting net working capital:				
Depreciation and amortization	<b>87,094</b>	81,670	<b>90,884</b>	84,937
Equity pick-up	<b>(7,225)</b>	2,730	-	-
Provision for capital deficiency of subsidiary	<b>8,173</b>	-	-	-
Exchange variation on investments abroad	<b>267</b>	(25)	-	-
Interest and monetary variation on long-term items	<b>8,382</b>	12,237	<b>8,150</b>	12,354
Residual value of permanent assets disposed	<b>1,472</b>	276	<b>1,690</b>	1,354
Deferred income and social contribution taxes	<b>3,427</b>	(9,727)	<b>3,295</b>	(9,829)
Provision for contingencies	<b>3,875</b>	3,962	<b>4,110</b>	4,062
Minority interest	-	-	<b>3,916</b>	3,226
	<b>206,945</b>	271,606	<b>213,525</b>	276,587
From third parties				
Increase in noncurrent liabilities	<b>13,785</b>	-	<b>17,288</b>	-
Dividends received	<b>3,447</b>	-	-	-
Interest received on capital of subsidiary	<b>1,935</b>	1,641	-	-
Decrease in noncurrent assets	-	1,867	-	1,742
	<b>19,167</b>	3,508	<b>17,288</b>	1,742
Total sources	<b>226,112</b>	275,114	<b>230,813</b>	278,329
<b>APPLICATIONS OF FUNDS</b>				
Goodwill on investments acquired	-	-	<b>6,674</b>	2,236
Minority interest on dividends and interest on capital	-	-	<b>2,306</b>	704
Interest on own capital	<b>55,660</b>	55,131	<b>55,660</b>	55,131
Proposed dividends	<b>223,513</b>	116,328	<b>223,513</b>	116,328
Increase in noncurrent assets	<b>2,826</b>	-	<b>2,962</b>	-
Investments	<b>6,840</b>	12,446	-	-
Property, plant and equipment	<b>89,733</b>	86,478	<b>95,786</b>	89,610
Deferred charges	<b>1,369</b>	3,706	<b>1,370</b>	3,971
Decrease in noncurrent liabilities	-	18,189	-	21,146
Total applications	<b>379,941</b>	292,278	<b>388,271</b>	289,126
Decrease in net working capital	<b>(153,829)</b>	(17,164)	<b>(157,458)</b>	(10,797)

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION--Continued

Years ended December 31, 2005 and 2004

(In thousands of reais)

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Change in net working capital				
Current assets				
At the end of the year	<b>444,343</b>	476,648	<b>477,326</b>	514,646
At the beginning of the year	<b>476,648</b>	392,493	<b>514,646</b>	414,669
	<b>(32,305)</b>	84,155	<b>(37,320)</b>	99,977
Current liabilities				
At the end of the year	<b>422,739</b>	301,215	<b>440,777</b>	320,639
At the beginning of the year	<b>301,215</b>	199,896	<b>320,639</b>	209,865
	<b>121,524</b>	101,319	<b>120,138</b>	110,774
Decrease in net working capital	<b>(153,829)</b>	(17,164)	<b>(157,458)</b>	(10,797)

See accompanying notes.

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

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

(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.), aftermarket, 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.

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

Financial statements are the responsibility of the Company's management and were 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) Revenue recognition

Revenues and expenses are recognized on the accrual basis. Revenue from the sale of goods is recognized when all risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding its realization

##### b) Short-term investments

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

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

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

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.

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;
- Income and expense accounts through exchange rate at the end of each month;
- Translation gains and losses are recognized under Financial expenses, net.

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

f) Property, plant and equipment

Property, plant and equipment 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.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

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

g) Deferred charges

Deferred charges are represented by expenses related to software implementation, projects for expansion and modernization of plants, and pre-operating expenses, deducted by the amortization, which is calculated through the straight-line method, in five years.

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

h) Other current and noncurrent assets

Recognized at cost plus monetary variation and income earned, where applicable, less provision for realization, when necessary.

i) 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 temporary differences are presented as current and noncurrent assets, according to the expected realization, yearly reviewed.

j) 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.

l) Provision for warranties

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

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

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

m) Other current and noncurrent liabilities

Stated at known or estimated amounts, plus the related charges and monetary or exchange variations incurred up to the balance sheet date, where applicable.

n) Use of estimates

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires that Company's management use estimates as a basis for recording certain transactions that affect its assets and liabilities and income and expenses, as well as the disclosure of information in the financial statements. Actual results could differ from these estimates.

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 to the parent company's interest in shareholders' equity of subsidiaries, of the asset and liability accounts, unrealized income from inventories, and of income and expenses among subsidiaries. Minority interest is disclosed in the balance sheet and in the consolidated statement of income.

Consolidated companies are presented as follows:

	Interest on capital (%)			
	2005		2004	
	Direct	Indirect	Direct	Indirect
MAHLE Metal Leve Miba Sinterizados Ltda.	70	-	70	-
T.C.V. Indústria e Comércio de Peças Automotivas Ltda.	100	-	-	-
P.F.S. II Indústria e Comércio de Peças Automotivas Ltda.	-	-	100	-
Metal Leve International Limited (abroad)	-	-	100	-
MAHLE Metal Leve GmbH (abroad)	100	-	100	-
MAHLE Metal Leve International NV (abroad)	-	100	-	100

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 4. Short-term Investments

	Parent company		Consolidated	
	2005	2004	2005	2004
Interbank Deposit Certificate (CDI) restated in accordance with CDI – CETIP variation	<b>84,031</b>	26,782	<b>95,620</b>	32,566
Others	-	-	<b>2</b>	123
	<b>84,031</b>	26,782	<b>95,622</b>	32,689

#### 5. Trade Accounts Receivable

	Parent company		Consolidated	
	2005	2004	2005	2004
<u>Market</u>				
Internal	<b>107,506</b>	83,002	<b>119,128</b>	92,608
External	<b>25,149</b>	58,732	<b>34,895</b>	60,520
	<b>132,655</b>	141,734	<b>154,023</b>	153,128

#### 6. Inventories

	Parent company		Consolidated	
	2005	2004	2005	2004
Finished products	<b>44,303</b>	63,767	<b>45,098</b>	65,024
Work-in-process	<b>45,045</b>	60,004	<b>48,121</b>	63,102
Raw materials	<b>19,107</b>	33,768	<b>20,150</b>	34,912
Auxiliary materials	<b>16,877</b>	18,361	<b>18,683</b>	20,295
Imports in progress	<b>2,327</b>	4,670	<b>2,339</b>	5,487
Provision for inventory losses	<b>(9,120)</b>	(10,123)	<b>(9,254)</b>	(10,228)
	<b>118,539</b>	170,447	<b>125,137</b>	178,592

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

**7. Recoverable Taxes**

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Income and social contribution taxes	<b>19,712</b>	15,214	<b>18,301</b>	15,593
State VAT - ICMS on the acquisition of fixed assets	<b>15,448</b>	12,678	<b>16,038</b>	13,200
State and Federal VATs - ICMS and IPI	<b>4,621</b>	3,011	<b>4,788</b>	3,143
Social Integration Program tax - PIS	<b>1,735</b>	952	<b>1,796</b>	992
Social Contribution Tax on Corporate Revenue - COFINS	<b>7,971</b>	4,192	<b>8,250</b>	4,339
Other taxes	<b>2,609</b>	2,216	<b>2,688</b>	2,223
	<b>52,096</b>	38,263	<b>51,861</b>	39,490
Short-term portion	<b>(37,501)</b>	(27,856)	<b>(36,673)</b>	(28,602)
Long-term portion	<b>14,595</b>	10,407	<b>15,188</b>	10,888

Income and social contribution taxes include withholding tax on financial investments and services paid, in addition to prepaid income and social contribution taxes. They are restated at Selic rate, where 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, 2005 and 2004 (In thousands of reais)

#### 8. Related Parties

Companies	Parent Company (2005)										
	Balances		Transactions								
	Current		Sales/income				Purchase				
	assets	liabilities	Products	Services	Fixed assets	Commissions	Products	Services	Fixed assets	Commissions	Royalties
MAHLE Metal Leve Miba Sinterizados Ltda.	205	-	-	2,151	-	-	923	133	-	-	-
MAHLE Componentes de Motores do Brasil Ltda.	1,716	6,606	708	13,894	-	5,163	83,642	-	2,288	-	-
MAHLE Componentes de Motores S.A.	88	-	951	-	-	290	-	-	-	-	-
MAHLE Indústria e Comércio Ltda.	-	-	-	-	-	-	-	101	-	-	-
MAHLE S.A. Argentina	1,539	-	3,140	-	-	-	-	-	-	50	-
MAHLE S.A. Espanha	-	-	-	-	-	-	46	-	-	-	-
MAHLE Pistoni Itália SpA	-	-	-	-	-	-	4	-	-	-	-
MAHLE GmbH	200	4,301	1,640	-	-	-	18,755	-	9,880	-	14,943
MAHLE France SARL	49	-	91	-	-	-	-	-	-	-	-
MAHLE Valve Train Inc.	16,914	314	16,333	-	-	-	-	-	-	832	-
MAHLE Filter System	637	1,934	3,769	-	-	27	2,704	-	1,001	-	-
MAHLE Componentes de Motores de México, S. de R.L. de C.V.	929	-	145	-	-	11	-	-	-	-	-
MAHLE Engine Components Co. Ltd.	42	-	95	-	-	-	14	-	-	-	-
MAHLE Inc. Co.	32,283	159	31,930	-	-	-	141	-	-	416	-
MAHLE Inc., Cylinders Division	113	-	251	-	-	-	-	-	-	-	-
MAHLE Polska SP. ZO.O	95	-	89	-	-	-	-	-	-	-	-
MAHLE Motorkomponenten Schweiz AG	-	1,458	-	-	-	90	2,711	-	-	-	-
MAHLE Motorkomponenten GmbH	-	521	-	-	-	-	1,566	-	-	-	-
MAHLE Motorsports Inc.	155	-	103	-	-	-	-	-	-	-	-
MAHLE Metal Leve International NV	84,717	43	421,876	-	-	-	-	-	-	-	-
MAHLE ACL Piston Products	253	-	404	-	-	-	-	-	-	-	-
MAHLE Izumi Corporation	-	-	910	-	-	-	-	-	-	-	-
MAHLE Ventiltrieb GmbH	1	482	2	-	-	-	1,393	-	-	-	-
MAHLE Sistemas de Filtracion SL	-	1	-	-	-	-	-	-	-	5	-
MAHLE Aftermarket GmbH	1,356	1,174	5,257	-	-	-	1,955	-	-	426	-
MAHLE Bearings Yingkou	2,457	-	1,670	-	1,068	-	-	-	-	-	-
Izumi Piston Manufacturing Co.	-	-	469	-	-	-	-	-	-	-	-
MAHLE Tennex Corporation - Japan	-	-	764	-	-	-	-	-	-	-	-
MAHLE Tennex North América Inc.	-	-	148	-	-	-	-	-	-	-	-
MAHLE Donghyun Filter Systems Co. Ltd.	-	3	-	-	-	-	12	-	-	-	-
MAHLE Motorteile GmbH	11	-	15	-	-	-	-	-	-	-	-
MAHLE Vocklabruck GmbH	448	-	453	-	-	-	-	-	-	-	-
MAHLE Migma Ltd.	-	-	-	-	-	-	1	-	-	-	-
<b>Total</b>	<b>144,208</b>	<b>16,996</b>	<b>491,213</b>	<b>16,045</b>	<b>1,068</b>	<b>5,581</b>	<b>113,867</b>	<b>234</b>	<b>13,169</b>	<b>1,729</b>	<b>14,943</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2005 and 2004 (In thousands of reais)

#### 8. Related Parties --Continued

Companies	Parent Company (2004)										
	Balances		Transactions							Purchase	Royalties
	Current		Sales/income			Products		Services		Fixed assets	Commissions
	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	-	
<b>Total</b>	<b>142,097</b>	<b>34,949</b>	<b>544,743</b>	<b>14,874</b>	<b>5,549</b>	<b>126,252</b>	<b>1,521</b>	<b>10,805</b>	<b>6,925</b>	<b>15,020</b>	

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

### 8. Related Parties—Continued

Companies	Consolidated (2005)										
	Balances		Sales/income					Transactions			
	Current		Products	Services	Fixed assets	Commissions	Products	Services	Purchases		
asses	liabilities	Fixed assets							Commissions	Royalties	
MAHLE Componentes de Motores do Brasil Ltda.	1,716	6,606	708	13,894	-	5,163	83,642	-	2,288	-	-
MAHLE Componentes de Motores S.A.	3,038	-	9,800	-	-	290	-	-	-	-	-
MAHLE Indústria e Comércio Ltda.	-	-	-	-	-	-	-	101	-	-	-
MAHLE S.A. Argentina	1,539	-	3,140	-	-	-	-	-	-	50	-
MAHLE S.A. Espanha	164	5	2,768	-	-	-	46	-	-	-	-
MAHLE Pistoni Itália Spa	2,569	1	12,371	-	-	-	4	-	-	-	-
MAHLE GmbH	4,200	4,301	39,910	-	-	-	18,755	-	9,880	-	14,943
MAHLE France SARL	17,067	129	53,427	-	-	-	-	-	-	-	-
MAHLE Valve Train Inc.	16,978	314	62,737	-	-	-	-	-	-	832	-
MAHLE Filter System	2,388	1,954	9,192	-	-	27	2,704	-	1,001	-	-
MAHLE Componentes de Motores de México, S. de R.L. de C.V.	7,469	208	6,998	-	-	11	-	-	-	-	-
MAHLE de México, S. de R.L. de C.V.	-	-	13,007	-	-	-	-	-	-	-	-
MAHLE Engine Components Co. Ltd.	42	-	95	-	-	-	14	-	-	-	-
MAHLE Inc. Co.	61,040	1,722	181,132	-	-	-	141	-	-	490	-
MAHLE Inc., Cylinders Division	4,819	215	16,166	-	-	-	-	-	-	-	-
MAHLE Polska SP. ZO.O	95	-	89	-	-	-	-	-	-	-	-
MAHLE Motorkomponenten Schweiz AG	-	1,458	-	-	-	90	2,714	-	-	-	-
MAHLE Motorkomponenten GmbH	5,196	1,944	28,662	-	-	-	1,566	-	-	-	-
MAHLE Motorsports Inc.	156	-	103	-	-	-	-	-	-	-	-
MAHLE Technology Inc.	13	708	-	-	-	-	-	-	-	-	-
MAHLE Sudamerica NV	21	-	20	-	-	-	-	-	-	-	-
MAHLE ACL Piston Products	506	43	1,574	-	-	-	-	-	-	-	-
MAHLE Izumi Corporation	-	-	910	-	-	-	-	-	-	-	-
MAHLE Ventiltrieb GmbH	1	482	3	-	-	-	1,393	-	-	-	-
MAHLE Sistemas de Filtracion SL	-	1	-	-	-	-	-	-	-	5	-
MAHLE Aftermarket GmbH	2,915	1,259	26,747	-	-	-	1,955	-	-	426	-
MAHLE Bearings Yingkou	3,145	-	1,670	-	1,068	-	-	-	-	-	-
Izumi Piston Manufacturing Co.	-	-	1,740	-	-	-	-	-	-	-	-
MAHLE Tennex Corporation – Japan	-	-	764	-	-	-	-	-	-	-	-
MAHLE Tennex North América Inc.	-	-	148	-	-	-	-	-	-	-	-
MAHLE Donghyun Filter Systems Co. Ltd.	-	4	-	-	-	-	12	-	-	-	-
MAHLE Motorteile GmbH	11	-	15	-	-	-	-	-	-	-	-
MAHLE Vocklabruck GmbH	577	11	579	-	-	-	-	-	-	-	-
MAHLE Migma Ltd.	-	-	-	-	-	-	1	-	-	-	-
MAHLE International GmbH	-	32	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>135,665</b>	<b>21,397</b>	<b>474,475</b>	<b>13,894</b>	<b>1,068</b>	<b>5,581</b>	<b>112,947</b>	<b>101</b>	<b>13,169</b>	<b>1,803</b>	<b>14,943</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2005 and 2004 (In thousands of reais)

#### 8. Related Parties --Continued

Companies	Consolidated (2004)									
	Balances		Transactions							
	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	149,665	36,061	555,454	13,214	5,549	125,142	1,502	10,805	2,947	15,020

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 8. Related Parties--Continued

Commercial transactions among related parties refer mainly 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 current rates as follows:

##### a) Reconciliation of income and social contribution taxes expenses

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Income before income and social contribution taxes	<b>74,350</b>	198,627	<b>82,679</b>	205,643
Taxes at statutory rate (34%)	<b>(25,279)</b>	(67,533)	<b>(28,111)</b>	(69,919)
Adjustments for effective rate calculation:				
Effects on permanent differences				
"Transfer pricing"	<b>(1,003)</b>	-	<b>(1,003)</b>	-
Equity pick-up, provision for capital deficiency of subsidiary and exchange variation on investments	<b>(1,070)</b>	(1,478)	-	-
Others	<b>(921)</b>	(4,424)	<b>(4,671)</b>	(7,213)
Effects of temporary differences:				
Provisions	<b>10,119</b>	(12,389)	<b>10,254</b>	(13,469)
Current income and social contribution taxes	<b>(18,154)</b>	(85,824)	<b>(23,531)</b>	(90,601)
Deferred income and social contribution taxes	<b>(10,376)</b>	12,549	<b>(10,241)</b>	12,832
Total income and social contribution taxes	<b>(28,530)</b>	(73,275)	<b>(33,772)</b>	(77,769)
Effective rate	<b>38.4%</b>	36.9%	<b>40.8%</b>	37.8%

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(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>	
	2005	2004	2005	2004
Income tax	<b>13,360</b>	62,951	<b>17,293</b>	66,442
Social contribution tax	<b>4,794</b>	22,873	<b>6,238</b>	24,159
	<b>18,154</b>	85,824	<b>23,531</b>	90,601
Offset against prepaid taxes	<b>(37,197)</b>	(99,401)	<b>(41,072)</b>	(104,478)
Recoverable taxes	<b>(19,043)</b>	(13,577)	<b>(17,541)</b>	(13,877)

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>	
	2005	2004	2005	2004
Temporary differences				
Provision for contingencies, warranties and others	<b>31,450</b>	27,000	<b>31,747</b>	27,191
Provision for inventory losses	<b>4,536</b>	4,461	<b>4,711</b>	4,550
Portion temporarily nondeductible of allowance for doubtful accounts	<b>2,262</b>	4,801	<b>2,325</b>	4,894
Portion temporarily nondeductible of provision for losses on the realization of other assets	<b>3,723</b>	3,548	<b>3,850</b>	3,675
Commissions on sales and other provisions temporarily nondeductible	<b>7,905</b>	20,442	<b>8,355</b>	20,919
	<b>49,876</b>	60,252	<b>50,988</b>	61,229
Current	<b>(10,901)</b>	(17,850)	<b>(11,400)</b>	(18,346)
Noncurrent	<b>38,975</b>	42,402	<b>39,588</b>	42,883

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

**NOTES TO FINANCIAL STATEMENTS--Continued**

December 31, 2005 and 2004

(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:

<b>Year</b>	<b>Parent company</b>	<b>Consolidated</b>
2007	<b>5,640</b>	<b>5,684</b>
2008	<b>9,642</b>	<b>9,873</b>
2009	<b>2,451</b>	<b>2,478</b>
2010	<b>3,724</b>	<b>3,764</b>
2011 to 2013	<b>13,778</b>	<b>14,009</b>
2014 to 2016	<b>3,740</b>	<b>3,780</b>
	<b>38,975</b>	<b>39,588</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2005 and 2004 (In thousands of reais)

#### 10. Investments in Subsidiaries

Subsidiary information	2005						2004					
	Shareholders' equity (capital deficiency)			Participation			Shareholders' equity			Participation		
	Results for the year	%	In Shareholders' equity	In capital deficiency	Equity pick-up	Exchange variation on investment	Results for the year	%	In Shareholders' equity	Equity pick-up	Exchange variation on investment	
Investments:												
MAHLE Metal Leve Miba Sinterizados Ltda.	37,665	13,053	70.00	26,366	-	9,137	32,300	10,750	70.00	22,610	7,525	-
MAHLE Metal Leve GmbH	(8,173)	(10,085)	100.00	-	(8,173)	(1,912)	2,179	(8,068)	100.00	2,179	(8,068)	100
T.C.V. Ind. e Com. de Peças Automotivas Ltda.	166	-	100.00	166	-	-	-	-	-	-	-	-
Metal Leve International Limited	-	-	-	-	-	-	-	(2,187)	100.00	-	(2,187)	(75)
P.F.S. II Ind. e Com. de Peças Automotivas Ltda.	-	-	-	-	-	-	64	-	100.00	64	-	-
				<u>26,532</u>	<u>(8,173)</u>	<u>7,225</u>				<u>24,853</u>	<u>(2,730)</u>	<u>25</u>
Goodwill: P.F.S. II Ind. e Com. de Peças Automotivas Ltda.				-	-	-				2,236	-	-
Goodwill: T.C.V. Ind. e Com. de Peças Automotivas Ltda.				<u>6,674</u>	-	-				-	-	-
				<u>33,206</u>		<u>(267)</u>				<u>27,089</u>		

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. The participation in capital deficiency of MAHLE Metal Leve GmbH, in the amount of R\$8,173, is recorded in noncurrent liabilities under Provision for Capital Deficiency of Subsidiary.

On July 15, 2004, with the aim of increasing its market share for automotive filters, 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. In an Extraordinary General Meeting held on January 25, 2005, the shareholders approved the upstream merger of such company based on December 31, 2004 financial position. Goodwill was transferred to deferred charges and will be amortized in five years.

On December 6, 2005, the Company acquired T.C.V. Indústria e Comércio de Peças Automotivas Ltda. for R\$6,840, generating goodwill of R\$6,674, based on the business's expected profitability. Goodwill will be amortized in five years.

In the last 2004 quarter, the Company wound up the operations of Metal Leve International Limited.

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

**11. Property, Plant and Equipment**

	Annual depreciation rates (%)	Parent company		Consolidated	
		2005	2004	2005	2004
Land	-	<b>4,567</b>	4,567	<b>4,942</b>	4,942
Buildings and construction	4	<b>81,962</b>	81,042	<b>86,868</b>	85,788
Machinery, equipment and facilities	10-20	<b>707,298</b>	639,024	<b>768,513</b>	698,026
Furniture and fixtures	10-20	<b>14,781</b>	13,683	<b>15,445</b>	14,264
Transportation assets	20-25	<b>16,004</b>	14,223	<b>17,052</b>	15,213
Construction in progress	-	<b>61,496</b>	42,225	<b>63,920</b>	43,868
Advances to suppliers	-	<b>13,992</b>	25,201	<b>16,481</b>	25,314
Others	-	<b>129</b>	129	<b>138</b>	138
		<b>900,229</b>	820,094	<b>973,359</b>	887,553
Accumulated depreciation		<b>(568,425)</b>	(516,483)	<b>(624,567)</b>	(568,930)
		<b>331,804</b>	303,611	<b>348,792</b>	318,623

Construction in progress and advances to suppliers at December 31, 2005 and 2004 refers to assets which are in phase of acquisition and/or installation, and various civil construction works for expansion and modernization of the Company's industrial facilities, mainly in the piston and bushings segments. Projects in progress include the construction of a new Technology Center, which is expected to be completed in mid 2007.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 12. Deferred Charges

	Annual Amortization rates (%)	Parent company		Consolidated	
		2005	2004	2005	2004
		Expenses with acquisition and installation of software	20	<b>23,070</b>	19,743
Goodwill on the acquisition of MAHLE MMG Indústria e Comércio Ltda.	20	<b>108,382</b>	108,382	<b>108,382</b>	108,382
Goodwill on the acquisition of P.F.S. II Ind. e Com. de Peças Automotivas Ltda.	20	<b>2,236</b>	-	<b>2,236</b>	-
Pre-operating projects	20	<b>2,464</b>	2,464	<b>2,464</b>	2,464
Other projects	20	<b>5,489</b>	7,448	<b>5,525</b>	7,516
		<b>141,641</b>	138,037	<b>142,392</b>	138,687
Accumulated amortization		<b>(84,356)</b>	(57,394)	<b>(84,737)</b>	(57,680)
		<b>57,285</b>	80,643	<b>57,655</b>	81,007

#### 13. Trade Accounts Payable

	Parent company		Consolidated	
	2005	2004	2005	2004
Domestic	<b>34,344</b>	31,520	<b>36,160</b>	34,444
Abroad	<b>28,945</b>	21,661	<b>29,470</b>	23,125
	<b>63,289</b>	53,181	<b>65,630</b>	57,569

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

**14. Financings**

Financial charges	Parent Company		Consolidated	
	2005	2004	2005	2004
<b>Local currency</b>				
Finame – TJLP variation plus annual interest of 4.3% to 4.5%	5,615	1,617	5,615	1,617
BNDES-Exim – TJLP variation plus annual interest of 2.30%	4,857	-	7,799	-
Finame – annual interest of 11.5%	11,141	949	11,141	949
Overdraft facilities – monthly interest at 103% of CDI rate	539	5	539	5
<b>Foreign currency</b>				
Provision for interest on exchange bills discounted	741	610	741	610
	<b>22,893</b>	3,181	<b>25,835</b>	3,181
Current	<b>(5,264)</b>	(1,599)	<b>(5,293)</b>	(1,599)
Noncurrent	<b>17,629</b>	1,582	<b>20,542</b>	1,582

Financings were used for acquisition of imported machinery, equipment and raw materials and are guaranteed by Company management pledges and chattel mortgage on financed assets.

Noncurrent amounts by year of maturity are as follows:

	Parent Company		Consolidated	
	2005	2004	2005	2004
2006	-	1,075	-	1,075
2007	8,088	240	11,002	240
2008	3,890	267	3,891	267
2009	4,129	-	4,128	-
2010	1,522	-	1,521	-
	<b>17,629</b>	1,582	<b>20,542</b>	1,582

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

**15. Sundry Provisions**

	<u>Parent company</u>		<u>Consolidated</u>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Provision for restructuring	<b>3,180</b>	13,611	<b>3,180</b>	13,611
Provision for future losses	<b>4,221</b>	2,999	<b>4,221</b>	2,999
Provision for professional services	<b>6,985</b>	15,752	<b>10,797</b>	19,906
Provision for royalties and patents	-	-	<b>1,665</b>	4,012
Other	<b>1,630</b>	1,771	<b>1,630</b>	1,773
	<b>16,016</b>	34,133	<b>21,493</b>	42,301

Provision for restructuring

Set up for an amount considered to be sufficient to cover expenses related to the project of relocation of the production lines of pistons and bushings. During 2005, reallocation of the bushing segment was completed, and only the piston segment is still pending completion.

Provision for future 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.

**16. Provision for Contingencies**

	<u>Parent company</u>		<u>Consolidated</u>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Civil suits and labor claims	<b>45,967</b>	44,172	<b>46,668</b>	44,735
Tax suits	<b>41,701</b>	30,408	<b>41,874</b>	30,408
	<b>87,668</b>	74,580	<b>88,542</b>	75,143

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 16. Provision for Contingencies--Continued

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\$14,264 (R\$13,555 in 2004) at the parent company level and R\$14,356 (R\$13,624 in 2004) on a consolidated basis.

In addition to the amounts previously mentioned, the amount of R\$26,721 (R\$24,885 in 2004) 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.

#### 17. Provision for Warranties

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Provision for warranties	<b>5,919</b>	5,919	<b>5,919</b>	5,919
Expenditures already identified	<b>627</b>	2,840	<b>907</b>	2,840
	<b>6,546</b>	8,759	<b>6,826</b>	8,759

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 warranties

Calculated on product sales, based on historical warranty expenses.

b) Expenditures already identified

They refer to cases identified in which the Company estimates to spend funds for replacing and repairing products, including the recalls.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 18. 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.

In the Extraordinary General Meeting held on August 19, 2005, the Company shareholders approved the grouping of 9,136,071,370 shares, in the proportion of 300 shares per 1 share of each type, turning them into 30,453,570 book entry nominative shares with no par value, of which 12,260,373 consist of common shares and 18,193,197 are preferred shares. Company shareholders was granted a 30-day term beginning August 22, 2005 to adjust, at their criterion, their share status by type in multiple lots of 300 shares by trading them through brokers accredited by the São Paulo Stock Exchange (Bovespa). Effective September 22, 2005, capital shares have been traded grouped and quoted in Reais per share. On October 7, 2005, the sum of fractional shares resulting from grouping was sold in a Bovespa auction.

At December 31, 2005 subscribed and paid-up capital is represented by shares with no par value as follows:

	<b>Numbers of shares</b>	
	<b>2005</b>	<b>2004</b>
Common shares	<b>12,260,373</b>	3,678,112,135
Preferred shares	<b>18,193,197</b>	5,457,959,235
Total outstanding shares	<b>30,453,570</b>	9,136,071,370

Preferred shares of the Company are nonvoting shares but are assured of 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, 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, 2005 and 2004

(In thousands of reais)

**18. 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:

	<b>2005</b>	<b>2004</b>
Net income for the year	<b>101,480</b>	180,483
Legal reserve	<b>(5,074)</b>	(9,024)
Calculation basis	<b>96,406</b>	171,459
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\$55,660, net of withholding tax, paid on December 20, 2005	<b>48,271</b>	-
Dividends proposed in 2004 and paid on May 24, 2005	-	116,328
Proposed dividends	<b>223,513</b>	-
Total	<b>271,784</b>	164,175
Less proposed dividends, as mentioned in the item "c"	<b>182,767</b>	-
Dividends of the net income for the year	<b>89,017</b>	-
Percentage in relation to the calculation base	<b>92.34%</b>	95.75%
Interest on own capital /dividends per thousand shares in reais:		
Preferred shares	<b>R\$9,263.6199</b>	R\$18.6527
Common shares	<b>R\$8,421.4726</b>	R\$16.9570

The amount related to interest on own capital was computed when determining the compulsory dividends value for the years 2005 and 2004, according to item 7 of the Company's articles of incorporation.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 18. 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., which was already paid. Although total investments previously estimated have been made, in view of the high level of current capitalization, Company management understands such reserve should not be incorporated into capital, and submitted an *ad referendum* proposal, for approval of the shareholders at the General Meeting, for the distribution as dividends of the total balance of this reserve.

##### d) Appropriation of income for the year

Net income for the year was destined as follows:

	<u>2005</u>	<u>2004</u>
Net income for the year	101,480	180,483
Income reserve:		
Legal	5,074	9,024
Profit distribution:		
Interest on own capital	55,660	55,131
Dividends	40,746	116,328
	<u>-</u>	<u>-</u>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 19. Financial Expenses, Net

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
<b><u>Financial expenses</u></b>				
Interest	(4,302)	(1,512)	(4,401)	(1,671)
Monetary variation – liabilities	(172)	(76)	(206)	(101)
Exchange variation – liabilities	(66,610)	(41,612)	(72,553)	(45,409)
Others	(9,835)	(9,692)	(10,547)	(10,257)
<b><u>Financial revenues</u></b>				
Interest	9,709	10,288	11,517	11,362
Monetary variation – assets	708	804	708	808
Exchange variation – assets	42,517	25,709	47,150	29,746
Others	159	160	171	171
	<b>(27,826)</b>	<b>(15,931)</b>	<b>(28,161)</b>	<b>(15,351)</b>

#### 20. Other Operating Income (Expenses), Net

	<u>Parent Company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Recovered taxes	12,309	8,139	12,309	8,139
Provision for contingencies and others	3,810	(8,939)	(2,675)	(11,642)
	<b>16,119</b>	<b>(800)</b>	<b>9,634</b>	<b>(3,503)</b>

#### 21. 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.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 21. Financial Instruments --Continued

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 percent of the sales.

At December 31, 2005 "vendor" operations signed by the Company amounted to R\$2,026 (R\$7,042 in 2004), 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.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 21. Financial Instruments –Continued

##### b) Exchange rate risk

The Company and its subsidiaries have procedure to balance its exchange exposure, by evaluating its assets and expected future operations. In 2005 and 2004, assets denominated in foreign currency exceed liabilities in foreign currency. However, over the last two years, due to the appreciation of the Real in relation to foreign currencies, the Company posted net foreign exchange loss of R\$24,093 (R\$15,903 in 2004) and R\$25,403 (R\$15,663 in 2004) was booked on a consolidated basis.

The Company's net positive exposure to exchange risks at December 31, 2005 consists mainly of trade accounts receivable, exchange bills discounted and payable for suppliers of raw materials denominated in foreign currency (mainly Euros and U.S. dollars), in total amount of R\$42,762 (R\$91,329 in 2004) at the parent company level and R\$38,785 (R\$98,098 in 2004) on a consolidated basis, according to exchange rate at that date. Calculations made by the Company showed immaterial differences in book and market values of these instruments.

Throughout 2005, as a strategy to mitigate its exposure to foreign exchange rate risks, the Company carried out hedge operations through sales of U.S. dollar contracts in the future market, determining a gain amounting to R\$1,127 (R\$1,090 in 2004), recorded in Financial Expenses, Net. At December 31, 2005 and 2004, the Company did not have any derivate financial instruments.

#### 22. 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.

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

NOTES TO FINANCIAL STATEMENTS--Continued  
December 31, 2005 and 2004  
(In thousands of reais)

### **22. Employees' Benefits--Continued**

For the years ended December 31, 2005 and 2004, the Company and its subsidiaries granted employees profit sharing, based on a trade union agreement, totaling R\$12,676 (R\$10,354 in 2004) at the parent company level and R\$13,298 (R\$10,822 in 2004) on a consolidated basis. 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.

### **23. Insurance (unaudited)**

At December 31, 2005 and 2004, 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.