

Financial Statements

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

***December 31, 2006 and 2005
with Report of Independent Auditors***

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

REPORT OF INDEPENDENT AUDITORS

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

1. 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, 2006 and 2005 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.
2. 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 the Company's and subsidiaries' management, as well as an evaluation of the overall financial statements presentation.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MAHLE Metal Leve S.A. and the consolidated financial position of MAHLE Metal Leve S.A. and subsidiaries at December 31, 2006 and 2005, 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.

4. We conducted our audits with the main objective of expressing an opinion on the financial statements referred to in paragraph 1. The statements of cash flows for the years ended December 31, 2006 and 2005 are presented to provide supplementary financial information about the Company and its subsidiaries, though they are not a required component of the statutory financial statements, according to the accounting practices adopted in Brazil. The statements of cash flows were submitted to the same audit procedures described in paragraph 2 and, in our opinion, are fairly presented, in all material respects, in relation to the overall financial statements presentation.

Campinas, February 2, 2007 (except for Note 27, for which the date is March 20, 2007)

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

B. Alfredo Baddini Blanc
Accountant CRC1SP126402/O-8

MAHLE Metal Leve S.A.

Management Report

Dear Shareholders

The Company's management hereby submits for appreciation of the shareholders the Management Report and the Financial Statements, together with the Independent Auditors' Report, concerning the business year ended on December 31, 2006.

1 – Brazilian Macroeconomic Scenario

The performance of the Brazilian economy in 2006 was lower than the goal of 4.5% established by the government. The Gross Domestic Product (GDP) increased by 2.9%, which is slightly above the 2.3% figure computed in 2005, due, especially, to the unfavorable performance of the currency exchange rates, which resulted in loss of competitiveness and discouragement to export investments, resulting in a mild increase of the exported quantities and a significant reduction of the profitability of the exports. The economic activity did also not present the expected performance due to the maintenance of the interest rates at high levels.

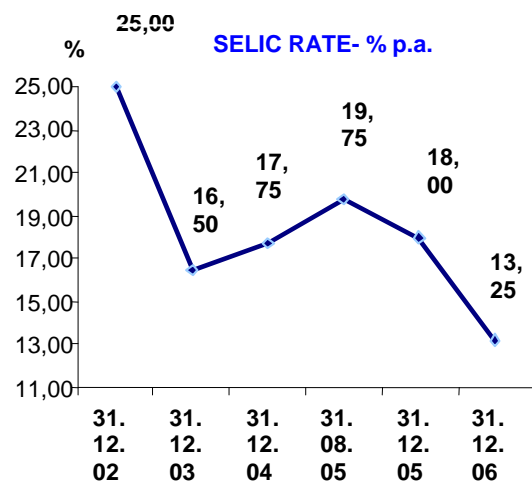
Given the currency appreciation, imports underwent significant increases in 2006, which compromised the competitiveness of some segments of the Country's economy, including durable goods (such as cars and household appliances), which also contributed to the

stagnation of the GDP growth and to the entrance of new investments in the Country.

The domestic market remained heated up throughout the year of 2006 as a result of the favorable domestic economic conditions, which kept the main economic indicators stable, including: inflation, interest, financing and income. The global economy showed a moderate growth pace, caused mainly by a worldwide strictest monetary policy, especially, the economy of the United States.

Interest rate – Brazil

The basic interest rate (Selic), in spite of dropping by 4.75% in the year and by 6.50% since August 2005 (when it reached the highest level in 2005), continues at high levels, closing the year at 13.25% (18.00% in December 2005).

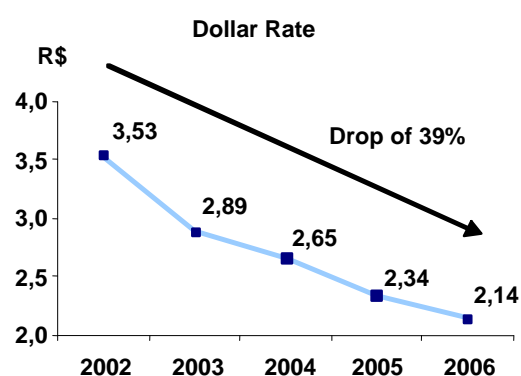


Inflation

The Country's main inflation indexes were lower than the goal of 4.5% established by the Brazilian Central Bank. In 2006, the inflation measured by the Amplified Consumer Price Index (IPCA) closed with an increase of 3.14% p.a.; the General Market Price Index (IGPM) with an increase of 3.83% p.a. and the National Consumer Price Index (INPC) with an increase of 2.81% p.a.

Dollar exchange rate

The dollar closed the year quoted at R\$ 2.138, showing a drop of 8.7% in the year and, in the computed daily average when compared between the past two years, showed a drop of 10.7%. The national currency showed a significant variation in the past four years, accumulating an appreciation of 65%, in relation to the dollar, from R\$ 3.53/dollar on 12.31.2002, to R\$ 2.138/dollar at the end of 2006.



Trade Balance

The Brazilian trade balance registered a trade surplus of US\$ 46.1 billion in 2006, a growth of 3% in relation to 2005. In the year, due to the dollar behavior and the more heated up domestic demand, imports recorded a more significant growth in relation to exports, showing an increase of 24% and 16%, respectively.

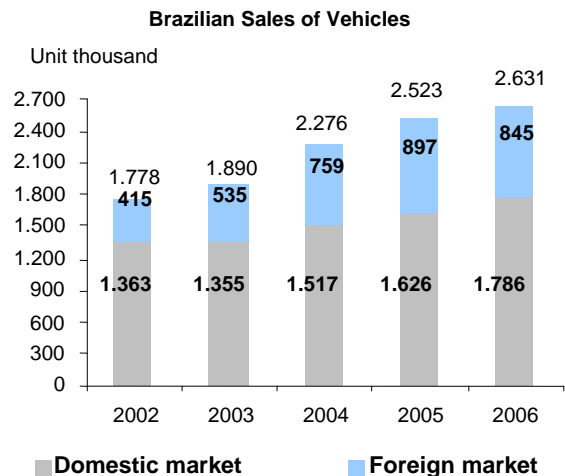
2 – Performance of the Brazilian Automotive Sector

Composition of the sales and production of assembled and completely knocked down (CKD).

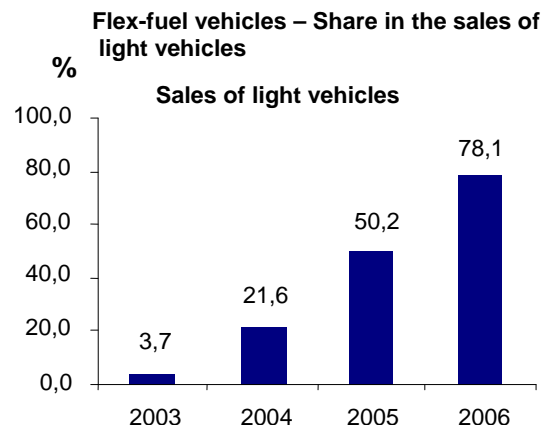
Unit in thousand			
Segments	2006	2005	Var. %
National Sales	1,786.0	1,626.5	9.8%
Export			
- assembled vehicles	637.3	724.2	-12.0%
- completely knocked down (CKD)	207.4	172.9	20.0%
Total export	844.7	897.1	-5.8%
Total of Sales	2,630.7	2,523.6	4.2%
Production			
- assembled vehicles	2,399.8	2,351.8	2.0%
- completely knocked down (CKD)	206.5	176.5	17.0%
Total of Production	2,606.3	2,528.3	3.1%

Sales of vehicles to the Domestic Market - Units

The sales of national vehicles to the domestic market recorded an increase of 9.8% in relation to the previous year and totaled 1,786.0 thousand units, exceeding the estimates of car assembly companies made in the beginning of the year.



This increase is caused by the highest supply of new products, especially flex-fuel vehicles, which represented 78.1% in the sales of



light vehicles, and by a more favorable macro-economy stability scenario.

Sales of vehicles to the Foreign Market – Units

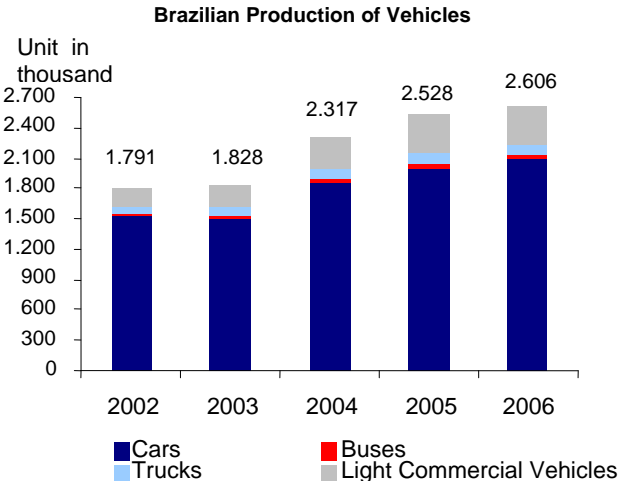
In the foreign market, the sales of vehicles per units (which include assembled and completely knocked down) showed a drop of 5.8% in 2006 in relation to 2005 and totaled 845 thousand units, as shown above, with a drop of 12% in assembled vehicles and an increase of 20% in completely knocked down. The drop in the exported volume results from the reduction of international orders, mainly as a result of the strong appreciation of the domestic currency in relation to the dollar.

In order to attenuate the problem, the automotive sector increased the exports of completely knocked down (CKD), aiming at more competitive prices with the reduction of labor cost on the product.

The exports share in the segment of completely knocked down light vehicles (CKD) on total exports of light vehicles represented 25.2% in 2006 (19.3% in 2005).

Production of vehicles

The increase noticed in the production of vehicles (light vehicles, trucks and buses) is due mainly to the good performance

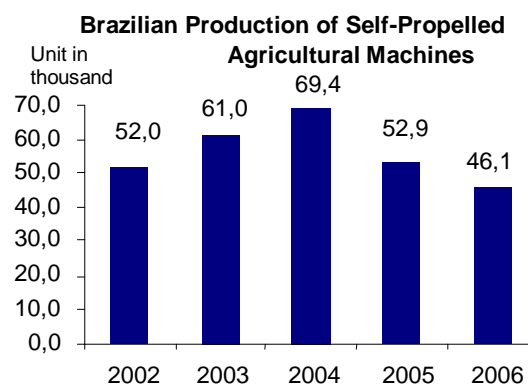


achieved by the sector in the domestic market, allowing, in the year of 2006, the production of vehicles to have a historic record, closing the year with 2,606 thousand units, a growth of 3.1% in relation to 2005, being 2% of assembled vehicles and 17% in completely knocked down.

The increase focused basically the segment of cars and light commercial vehicles (an increase of 3.9%) due to the heating up of the domestic market and the increase of the exports of completed knocked down light vehicles (CKD). The segment of trucks recorded a drop of 10.4%, mainly as a result of the low productivity and the reduction of agricultural income, caused by the appreciated currency and climatic factors in some regions of the Country, and the segment of buses, although it has shown an improvement throughout the year, caused by the election year, which historically shows a growth, closed the year with a drop of 3.9%.

Production of Agricultural Machinery

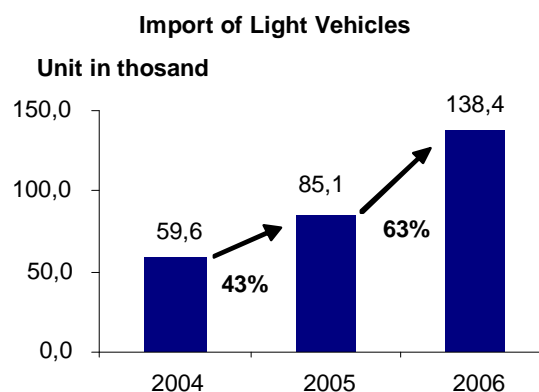
The production in the segment of agricultural machinery in 2006 showed a drop of 12.9%. This result was caused by the poor performance of sales to the foreign market, with a drop of 26.9%, as a result of the strong appreciation of the domestic currency in relation to the US dollar. In the domestic



market there was a heating up of unit sales, closing the year with an increase of 10.6% in relation to the previous year.

Import of light vehicles

The imports of light vehicles showed an ascending curve throughout the past three years, caused mainly by the strong currency exchange devaluation, closing the year with an increase of 63%, representing 8% of the total of light vehicles sold in the domestic market.



3 – Economic and Financial Performance of the Company

The Company's performance in 2006 was satisfactory, boosted mainly by the growth of sales to the domestic market, caused by the continuance in the moderate heating up of the Country's economy, which kept the original equipment automotive sector and the aftermarket on a positive pace. The foreign market, although still affected by the currency exchange effects on the exports, also contributed from the second semester on to leverage the total sales of the Company, as demonstrated below, in the sales market breakdown.

Net Sales Revenue

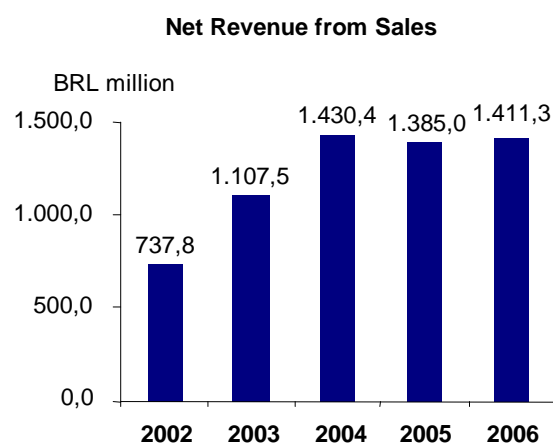
The net sales revenue was R\$ 1,411.3 million, showing an increase of 1.9% in relation to the year of 2005. From such amount, 53.2% derived

from sales in the domestic market and 46.8% in the foreign market, showing a proportion inversion in relation to the previous years, as a result mainly of the currency exchange effects on the exports.

In million of Reais			
Year	1 st semester	2 nd semester	Total
2006	694.2	717.1	1,411.3
2005	702.2	682.8	1,385.0
Var.%	-1.1%	5.0%	1.9%

Evolution of the Net Sales Revenue – Period from 2002 to 2006

During the past five years, the Company's sales showed significant variations, as shown in the graphs, both in the domestic and in the foreign market, resulting mainly from the corporate reorganization process occurred between the period of 2002 and 2003, with the acquisition and incorporation of companies, as well as due to continuous investments, alterations in the sales mix and the macroeconomic behavior at national and international level.



In 2005, there was a more significant drop in the foreign market share due mainly to the resumption to the national growth and the continuance of the devaluation of the dollar in relation to Real, as shown in the graph of sales market breakdown.

Sales - Domestic Market

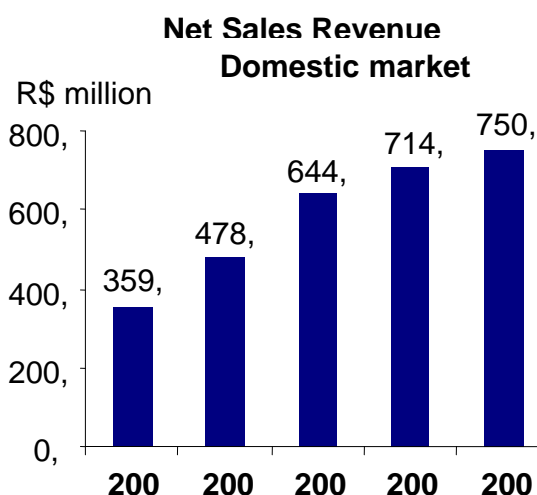
The sales to the domestic market totaled R\$ 750.7 million, with a growth of 5.1% in relation to the year of 2005.

Behavior of domestic market sales by semester 2006 x 2005.

In million of Reais

Year	1 st semester	2 nd semester	Total
2006	370.5	380.2	750.7
2005	352.7	361.5	714.2
Var.%	5.0%	5.2%	5.1%

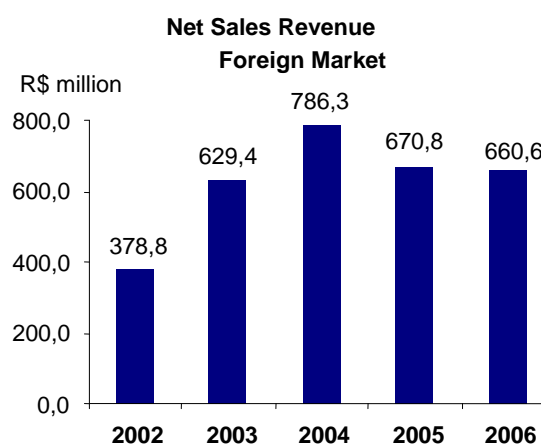
The positive behavior in the sales to the domestic market, both in the original equipment market and the aftermarket throughout 2006, resulted from the good performance occurred in the automotive sector, as well as in the favorable economic



conditions, which kept economic indicators such as inflation, interest and income stable.

Sales – Foreign Market

The sales to the foreign market, when analyzed in dollar, showed a growth of 10.5% in the year in relation to the previous year. Such growth was neutralized by the appreciation of the domestic currency in relation to the dollar, which resulted, in Reais, in a drop of 1.5%, as shown below.



Behavior of foreign market sales by semester 2006 x 2005.

In million of Reais

Year	1 st semester	2 nd semester	Total
2006	323.7	336.9	660.6
2005	349.6	321.2	670.8
Var.%	-7.4%	4.9%	-1.5

In US\$ million

Year	1 st semester	2 nd semester	Total
2006	148.3	156.1	304.4
2005	135.7	139.7	275.4
Var.%	9.3%	11.7%	10.5%

Financial Management

In 2006, the Company showed a negative net financial income of R\$ 10.6 million, a reduction of R\$ 17.2 million in relation to R\$ 27.8 million of the year 2005. Such reduction is directly related to the behavior of the Company's net currency exchange and monetary exposition, associated to the currency exchange devaluation in the period.

In million of Reais			
Net, financial	2006	2005	Variation
Currency exchange and monetary variations	1.2	(23.6)	24.8
Other net revenues (expenses)	(11.8)	(4.2)	(7.6)
Net financial income	(10.6)	(27.8)	17.2

Indebtedness

The Company's net indebtedness in 2006 was R\$ 208.6 million, an increase of R\$ 191.3 million comparing to 2005. Such increase resulted from the loan obtained in the second quarter of 2006, with BNDES, in the Exim modality, intended to the exports financing, which were bound as collateral.

In million of Reais			
Liabilities	12.31.2006	12.31.2005	Variation
Borrowings	229.0	22.9	206.1
Export drafts discounted	70.9	81.2	(10.3)
Assets			
Cash/ banks/ financial investments	94.0	86.8	7.2
Net indebtedness	205.9	17.3	188.6

Summary of Income Statement

In million of Reais

	2006	2005	Variation %
Sales Net Revenue			
-Domestic Market	750.7	714.2	5.1%
-Foreign Market	660.6	670.8	-1.5%
Total	1,411.3	1,385.0	1.9%
-Foreign Market in US\$ million	304.4	275.4	10.5%
Gross Income	333.5	322.4	3.4%
-gross margin	23.6%	23.3%	0.3%
Operating Income (before JSCP)	131.2	129.8	1.1%
-operating margin	9.3%	9.4%	-0.1%
Net Income	100.7	101.5	-0.8%
-net margin	7.1%	7.3%	-0.2%
EBITDA (1)	237.0	244.8	-3.2%
-Ebitda margin	16.8%	17.7%	0.9%

Shares	2006	2005	Variation %
Quantity of shares / thousand	30,453	30,453	-
Net equity per Share - (R\$)	14.55	12.91	12.7
Net Income per Share - R\$	3.307	3.332	-0.8
Dividends and JSCP - (R\$ million)	46.8	271.8	-

Operating Performance – EBITDA

The operating performance allowed an Ebitda of R\$ 237.0 million, in the year of 2006, lower by 3.2%, when compared to the R\$ 244.8 million in 2005. The Ebitda margin (divided by net revenue) was 16.8% (17.7% in 2005). In spite of the Company's efforts for the reduction of costs and increases of efficiency and productivity, the Ebitda margin showed a slight drop, due mainly to the appreciated currency exchange in relation to dollar and a price increase for the main raw materials and labor cost.

EBITDA Statement

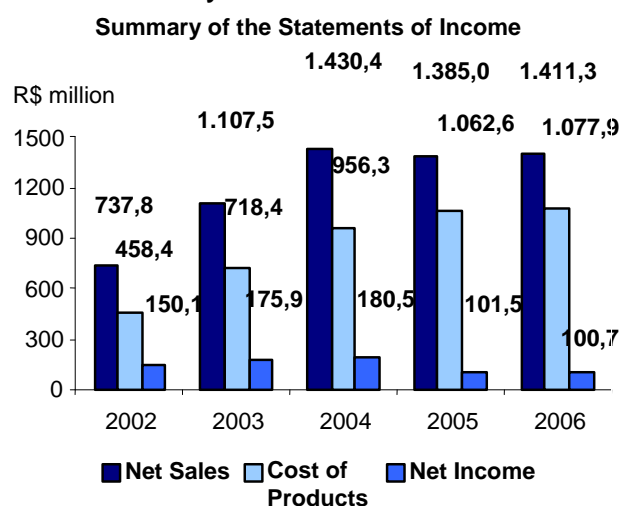
In million of Reais

	2006	2005	Variation %
Operating Income	100.3	74.2	35.2
Net, financial	10.6	27.8	-61.9
Interest on own capital	30.9	55.7	-44.5
Depreciation and amortizations	95.2	87.1	9.3
Ebitda	237.0	244.8	-3.2

Ebitda = Profit before taxes, revenues and financial expenses, IOC; depreciation and amortizations

Net Income

The net income in the year of 2006 was R\$ 100.7 million, a reduction of 0.8% in relation to the income of 101.5 million in 2005. Although still not affected by the appreciation of the Real in relation to the dollar, which has significantly compromised the profitability of exports, the constitution of such income was contributed by the sales increase in the domestic market for original equipment and aftermarket, in the reduction of the net financial results and the increase in the equity pick up on the investments made in controlled companies.



The net margin, relation between

Net Income and Sales Net Revenues, remained around the 7% in the past two years (7.1% in 2006 and 7.3% in 2005).

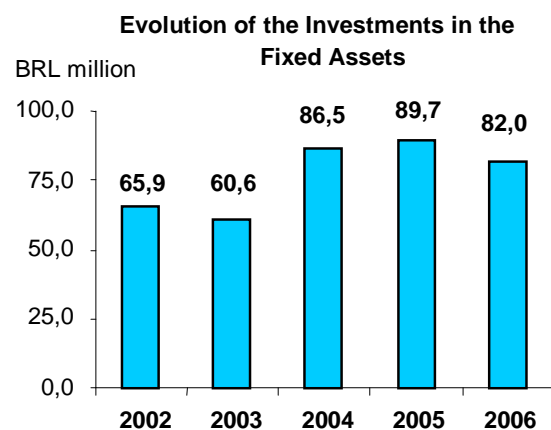
However, for the purposes of comparison, it should be emphasized that in 2005 there was an extraordinary revenue from the recovery of

presumed excise tax (IPI) credit on exports, in the amount of R\$ 6.6 million.

4 - Investments in Property, Plant and Equipment

In 2006, the Board of Directors approved the Investment Budget in the amount of R\$ 107.4 million, equivalent to US\$ 41.8 million, intended to the projects mentioned below.

In 2006, the company invested the amount of R\$ 82.0 million in property, plant and equipment, aiming at continuance in modernization of the operations, improvement in production quality, structural and productive extension, as well as the project in the new Technology Center of the Company for new facilities in the municipality of Jundiaí (SP).



5 - Research & Development

The Technology Center of Mahle Metal Leve continued the process of extending its operations in order to comprise all products manufactured by Mahle Group, and even more, to be recognized in the market as a systemist, capable of participating, on a deeply manner, of the development of new engines. Through MPT Brasil, the company became a representative and consultant of companies for the use of the GT Power software – one of the tools recognized in the virtual

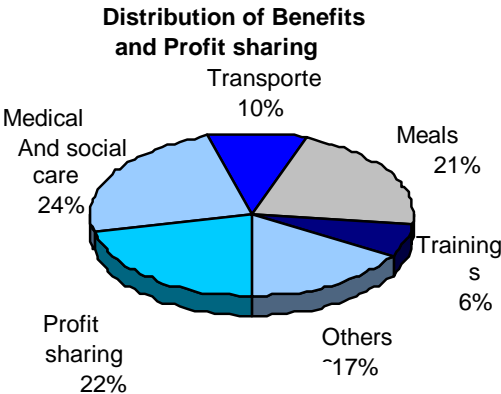
development of engines, we started jobs with car assembly companies for the use of this and other advanced simulation processes. Besides, MPT Brasil has already carried out, in 2006, works regarding gauging and test of engines to several clients. In the segment of bearings and bushings, the launching of a new high performance material for copper-free bushings was an important mark to Mahle, since it consolidates its position as one of the first companies having a full portfolio to comply with the new laws that will require copper-free products in their composition.

The participation of MAHLE in technical events continues reinforcing the company's technological image, and at SAE 2006, the work presented received an honor distinction. The project of the new CT in Jundiaí, expected to the end of 2007, with modern characteristics and a big technological appeal, will be essential to our strategy.

6 – Human Resources

With respect to manpower, on December 31, 2006, the Company had 7,107 employees (6,849 on 12.31.2005). Such increase was intended to adjust the number of employees to the current production levels.

Benefits and profit sharing intended to employees totaled R\$ 65.2 million, an addition of 11.8% in relation to R\$ 58.3 million in 2005.



Supplementary Pension Plan

Following the constant commitment with its employees, implementing professional and social development programs, benefits consistent with its business segment and, whenever possible, being ahead of market trends, in 2006 the Company created a Supplementary Pension Plan managed by an open supplementary pension entity, providing all its employees with the option to participate, with the purpose of deriving as additional benefit to Social Security, which will provide more tranquility and safety for the future.

Sustainability

a) Social Responsibility

The Company kept its commitment in 2006 to the development of its human resources, through investments in technical and human development of its employees, with focus on Programs such as: Management by Competences, Managerial Development, Leadership Development. Besides these initiatives, MAHLE Professional School and the elementary and high school education program in partnership with Bradesco Foundation ensured the qualification and specialization of the productive and technical areas, continuing with the quality certifications and recognition of MAHLE clients. The company provides incentives for employees' continuous learning such as subsidies for language courses, college formation, and post-graduation, and it extends educational support by delivering school material to the children of its employees who are attending elementary school; the

distribution of educative books and the organization of recreational events.

The Social Responsibility Program gained even more strength in 2006 by means of significant actions intended to education and diffusion of volunteering. The recognition thereof came through the Awards “Top Gestão de Pessoas” granted by AAPSA (Paulista Association of Personnel Managers), “Socially Responsible Company” for the Limeira unit and “Best Practice of the Year 2006” for the program Escola MAHLE Formare.

Own Projects - Escola MAHLE FORMARE – It is a professionalizing school intended to youth coming from low-income families - The project has already prepared 314 young people, and nowadays it has 05 active schools and 106 students; Diffusion of Volunteering Work – Dissemination of volunteering culture with approximately 800 volunteers who act in work groups in solidarity actions with the community. **Encouraged Projects** – Incentive to Reading – Publication of child books in partnership with the Ministry of Education (MEC) intended to the children of its employees and the community as an encouragement to reading and education; **Dance and Citizenship Project** – It is intended to 450 children coming from low-income families in the Cities of Campinas and Mogi Guaçu, having as its main purpose taking them away from the streets, developing appreciation for the fine arts and musicality, in addition to dealing with citizenship values; Ivoti Cultural Institute – **Formation and improvement of musical education teachers**, provided to the community of Ivoti, in

Rio Grande do Sul, child, child-youth and youth choir classes; **Piracicaba's School of Music** – Encouragement to the formation of future musicians, who, in addition to their individual classes, develop knowledge on musical theory, participate of choirs and play recorder at orchestras; **Associação Viva e Deixe Viver** ["Live and Let Live Association"] and **Doutores da Alegria** ["Doctors of Joy"] – financial support and formation of volunteers (story tellers) for the job of hospital humanization; **Projetos Valores Sem Preço** ["Priceless Values Projects"] – Publication and distribution of 50,000 issues of a collection addressing human values in its content, intended to the community and public schools that had the opportunity of developing educational projects and competing for the prize of best project presented. **Project “O Sol Nasceu para todos”**["The Sun Shines for All"]- contributes to the formation of our youth, providing them with the opportunity of participating of a cultural event, developing interest for fine arts, through the history of the artist Tarsila do Amaral, in addition to focusing on the importance of self-esteem and human values.

b)- Environment

MAHLE Metal Leve and MAHLE Group throughout the world keeps one single Environment Policy, which, in 2006 had its principles and intentions represented by responsible actions concerning training and environmental education for its employees, important investments for the continuous and sustainable development of the organization, and the effective commitment with the environment and of its influence. Therefore, some results could also contribute, during the year to the improvement of the environmental performance of processes, products and services such as: the commitment to legal compliance at all units

of the company, this being a pre-requirement of its Environment Policy; environmental accident prevention plans are comprehensive, trained and tested, both internally and externally; there is an effective management of the chemical products used, considering operating and health aspects; the suppliers of the company received new and updated information on environmental requirements of MAHLE for supply; annual objectives and goals are kept in such a way to promote concrete gains, associated to the recycling of materials, rationalization of the use of natural resources and social responsibility actions; environmental information on the composition, use and destination of materials at the end of their useful life are also oriented to clients and final users; useless wastes are treated and disposed of on a responsible manner, the discharge of effluents and atmospheric emissions, monitoring and auditing several times a year to ensure the full compliance with the important environmental law of Brazil.

7 – Investor Relations

In the year of 2006, the continuous progress in terms of transparency in the Company's investor relations resulted in the restructuring of the IR area, with the purpose of providing shareholders, investors and the community with regular access to information on income, events and material facts. Mahle Metal Leve reaffirms its commitment with the capital market and the creation of value to its shareholders by means of timely communication and increase of the information rendered. In this regard, in order to disclose the annual income for 2006 it was launched the new Investor Relations Website and the e-mail alert service, making available to stakeholders a direct and democratic communication channel with interactive tools for the analysis of the

Company's shares and financial statements, background data and information on Mahle Metal Leve, please access <http://ir.mahle.com.br>

8 – Service to Shareholders

To exercise your rights and obtain information on the position of shares, the shareholders are served at the branches of Banco Itaú S.A. Communication may be made in person at any branch of Banco Itaú S.A., in the whole Country or by mail to its Advisory Board for Shares and Debentures - Rua Boa Vista, 185 – 7th floor – SP – CEP – 01014-900.

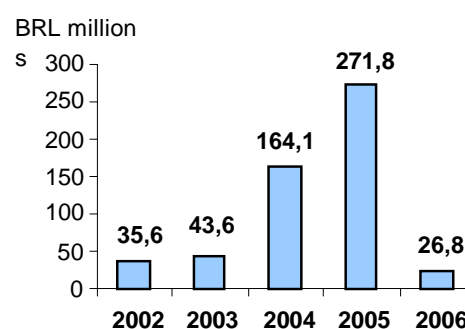
9 – Corporate Governance

Aiming at a continuous improvement in the corporate governance, in 2006 the Company held a public meeting at APIMEC, where its results, behavior and market perspectives were presented for an audience with the massive participation of analysts and investors. At that time, the Company was awarded the APIMEC Frequent Attendance Seal. From the year ended in December 2006 on, the Company discloses, on a quarter basis, the Statement of Cash Flow in order to improve the quality of the information rendered, thus, confirming its commitment with transparency. In 2006, it established the Communication Committee, which is a management body, formed by the Company's executive board and chaired by the IRO, whose function is that of establishing guidelines regarding the information rendered to the market, as well as enforcing compliance with Instruction CVM 358 and evaluating and proposing enhancements to the regular communication of Mahle Metal Leve S.A.

10 - Dividends and Allocation of Income

At the Ordinary and Extraordinary Shareholders' Meeting of April 18, 2006, the Company's shareholders approved the distribution of supplementary dividends regarding the year 2005, in the amount of R\$ 40.7 million, paid from May 17, 2006, corresponding to the entirety of the profit earned in the year of 2005, after the withholding of 5% of the Legal Reserve and the gross distribution of Interest on own capital, approved at a board meeting on December 06, 2005 in the amount of R\$ 48.3 million, net of income tax, paid on December 20, 2005.

Dividends and Interest on Own Capital
Net amount of taxes



It was also approved at the Ordinary and Extraordinary Shareholders' Meeting of April 18, 2006, the distribution, as dividends, of the balance of the profit Reserve for Expansion and Modernization, in the amount of R\$ 182.8 million, paid from May 17, 2006.

It was approved, at a Meeting of the Board of Directors, dated of December 5, 2006, the distribution of dividends as Interest on own capital, in the gross amount of R\$ 31.0 million, which upon withholding of 15% regarding income tax withheld at source (except for legal entity shareholders that proved their immunity or exemption), totaled R\$ 26.8 million, paid from December 20, 2006.

Additionally, the management will propose to the shareholders, on the Shareholders' Meeting, the payment of R\$ 20 million as dividends, as mentioned in the notes to the financial statements (20 – b – Shareholders' remuneration).

In million of Reais

Shareholders' Remuneration	2006	2005	2004	2003	2002
Interest on own capital:					
- gross amount	31.0	55.7	55.1	50.1	30.4
- Net income of income tax	26.8	48.3	47.8	43.6	26.3
Dividends:					
- supplementary	20.0	40.7	116.3	-	9.3
- Balance of the Profit Reserve for Expansion	-	182.8	-	-	-
Total of Dividends and IOC, net of income tax	46.8	271.8	164.1	43.6	35.6

The Company's management will submit for approval at the next Shareholders' Meeting, through the presentation of budgets, the withholding of accrued profit portion, in the amount of R\$ 44.8 million,

on December 31, 2006, aiming at continuing with the investments in expansion and modernization.

11 - Capital Market

In this year, the Company's shares, listed with the São Paulo Stock Exchange (BOVESPA) were transacted in 4,116 businesses and reached the equivalent to R\$ 103.6 million, a volume in Reais of 16.9% higher than that of 2005. At the end of the year, the unit price of the preferred stock was quoted in R\$ 37.45 (R\$ 36.30 per share at the end of 2005).

12 – Services rendered by External Auditors

In compliance with Instruction CVM no. 381/03, we list below the information concerning the rendering of other services by our independent auditors – Ernst & Young Auditores Independentes S/S and their related parties, during the year of 2006, MAHLE Metal Leve S.A., controlled companies and companies belonging to the same group to which the Company belongs:

Nature, contracting date and duration of services:

Nature	Contracting date	Duration
Quarterly revisions of tax burden of 2006, as well as of DIPJ (concerning the year of 2005).	April 28, 2006	January to December, 2006
External audit service for companies belonging to the same group to which the Company belongs.	April 28, 2006	January to December, 2006
Revision of the procedures and criteria adopted in determining PIS (Employees' Profit Participation Program)/Cofins (Tax for Social Security Financing)	April 02, 2006	April 2006

The contracted fees totaled R\$ 305 thousand and represented 74% of the fees corresponding to the external audit services rendered and to be rendered to MAHLE Metal Leve S.A. and its controlled companies in 2006.

The Company's and its controlled companies' policies prohibited the hiring of its independent auditors for the rendering of services that may cause conflict of interests, loss of objectivity of the same or of independence.

The Management of MAHLE Metal Leve S.A. and its controlled companies, in discussion with its independent auditors, concluded that these works are not considered as threats to the independence of audit entity, since they do not characterize an actual or supposed loss of its objectivity and integrity.

13 – Other events in the year

(a) Studies of synergy of companies belonging to MAHLE Brasil group

On August 14, 2006, the controlling shareholder of MAHLE Metal Leve S.A. started the cooperation of studies aiming at the increase of the Company's competitiveness, in addition to the measures implemented up to the moment. Therefore, the use of synergies between the Company and MAHLE Componentes de Motores do Brasil Ltda., a subsidiary of MAHLE Participações Ltda. is being analyzed, another

company of the MAHLE Group in Brazil, keeping the existing brands and the distribution channels.

14 - Subsequent Event

On March 9, 2007, the company has completed the acquisition of the net operational assets of the bearings division of Dana Industria Ltda., placed in the city of Gravataí, Rio Grande do Sul state, offered in a public auction under the American authority, by the total amount of US\$ 1.465.000,00.

On March 20, 2007, the Company and its fully controlled company Mahle Metal Leve GmbH have acquired 1,400,000 common shares held by the companies Graceland Limited Holding LLC, located in Delaware, USA and Dinansen Inversora S.A, located in Argentina, of Establecimientos Metalúrgicos Edival S.A, placed at Av. Santa Fé 2350, in the city of Rafaela, Argentina, aiming the inclusion of products developed by Edival (valves for internal combustion engines) to the range of products offered by the Company to the domestic and international markets, by the amount of US\$ 41,2 million.

15 - Perspectives

The Brazilian economy started the year of 2007 at a favorable position in some aspects, such as inflation under control; a decreasing interest rate; a good trade income; a drop in the basic interest rates and income improvement. The government shall keep the economic stability, aiming at an increase of the GDP around 4.0% in 2007, in accordance with three fundamental points: tax liability; inflation on goal and social program and distribution of income.

The dollar rate shall continue with low volatility, with a relative appreciation throughout the year of 2007, and it shall be around R\$

2.15 per dollar. The inflation goal estimated by the market, measured by the IPCA (Amplified Consumer Price Index) is 4.0%, which is slightly below the center of the 4.5% goal and the basic interest rate - Selic will continue to drop, and it shall drop around 11%, by the end of the year.

With respect to the trade balance, the forecast is for a surplus around US\$ 43 billion, a drop around 7% in relation to US\$ 46.1 billion in 2006. In the aggregate, imports will continue to grow on faster than the exports, due to the dollar behavior, the domestic market heating up, and the stability in the main world economies.

On the other hand, with the purpose of freeing the economy and ensuring the goal of a 5% growth from 2008, in the beginning of the year the government announced the Growth Speedy Program - PAC, with highlight mainly to investments in infrastructure.

Automotive Industry

The segment of motor vehicles, boosted by the proceeds of sales to the domestic market throughout 2006 and in the macroeconomic projections for 2007, projects an increase around 4% in the production and 8% in sales in units in the domestic market.

In the foreign market, the automotive sector as a result of the strategy of mitigating the low profitability margins, caused mainly by the strong appreciation of the Real on the dollar, estimates to keep the same sales level per unit achieved in 2006.

The Company

The Company's management relying on the growth forecast for a more significant domestic economy and on the control of the main economic indicators, estimates a continuous growth in the volume of sales in the domestic market at levels close to those estimated to the automotive sector. In the international market, the perspective is that of keeping the sales volumes achieved in 2006, due especially to the moderate heating up of the world economy, especially, in Latin America, as well as the forecasts for reduction of sales abroad by the automotive sector, as a result of loss of profitability caused by continuity of appreciation of Real.

Acknowledgments

The Company's management thanks the support and trust it has received from its shareholders, clients, suppliers and employees throughout the year.

The Management

Mogi Guaçu, March 22nd, 2007.

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

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

BALANCE SHEETS
December 31, 2006 and 2005
(In thousands of reais)

	Parent Company		Consolidated	
	2006	2005	2006	2005
ASSETS				
Current assets				
Cash and cash equivalents (Note 4)	93,962	86,840	113,058	100,761
Trade accounts receivable (Note 5)	145,492	132,655	197,777	154,023
Accounts receivable from related parties (Note 8)	157,976	144,208	106,840	135,665
Discounted exchange bills	(70,953)	(81,208)	(70,953)	(81,208)
Allowance for doubtful accounts	(6,289)	(8,290)	(6,675)	(8,476)
Inventories (Note 6)	128,516	118,539	156,588	125,137
Recoverable taxes (Note 7)	34,356	37,501	34,376	36,673
Deferred income and social contribution taxes (Note 9)	5,750	10,901	6,042	11,400
Other accounts receivable	6,347	3,197	6,644	3,351
Total current assets	495,157	444,343	543,697	477,326
Noncurrent assets				
Long-term receivables				
Deferred income and social contribution taxes (Note 9)	43,739	38,975	44,670	39,588
Recoverable taxes (Note 7)	14,938	14,595	15,623	15,188
Other accounts receivable	1,182	1,168	1,307	1,294
Permanent assets				
Investments in subsidiaries (Note 10)	26,979	26,532	-	-
Other investments	371	371	371	371
Property, plant and equipment (Note 11)	345,422	331,670	364,324	348,649
Intangible assets (Note 12)	7,790	9,301	8,147	9,680
Deferred charges (Note 13)	30,370	54,792	30,370	54,792
Total noncurrent assets	470,791	477,404	464,812	469,562
Total assets	965,948	921,747	1,008,509	946,888

LIABILITIES AND SHAREHOLDERS' EQUITY	Parent Company		Consolidated	
	2006	2005	2006	2005
Current liabilities				
Trade accounts payable (Note 14)	52,203	63,289	55,334	65,630
Financings (Note 15)	210,769	5,264	211,672	5,293
Salaries, vacation pay and payroll charges payable (Note 16)	42,903	39,734	45,893	42,146
Taxes and contributions payable	4,415	3,126	5,388	4,309
Accounts payable to related parties (Note 8)	21,289	16,996	31,148	21,397
Advances from customers	2,256	3,066	2,292	3,182
Interest on shareholders' equity payable	21,804	39,028	23,812	39,733
Dividends payable (Note 20)	20,000	223,513	20,000	223,513
Sundry provisions (Note 17)	20,993	16,016	27,152	21,493
Other accounts payable	20,166	12,707	21,752	14,081
Total current liabilities	416,798	422,739	444,443	440,777
Noncurrent liabilities				
Financings (Note 15)	19,240	17,629	23,407	20,542
Provision for capital deficiency in subsidiary (Note 10)	2,139	8,173	-	-
Provision for warranties (Note 18)	4,152	6,546	4,152	6,826
Provision for contingencies and legal obligations (Note 19)	80,023	73,404	81,276	74,186
Other accounts payable	532	74	605	76
Total noncurrent assets	106,086	105,826	109,440	101,630
Minority interests	-	-	11,562	11,299
Shareholders' equity (Note 20)				
Capital	352,755	352,755	352,755	352,755
Income reserves	90,309	40,427	90,309	40,427
Total shareholders' equity	443,064	393,182	443,064	393,182
Total liabilities and shareholders' equity	965,948	921,747	1,008,509	946,888

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME Years ended December 31, 2006 and 2005 (In thousands of reais, except earnings per share)

	Parent Company		Consolidated	
	2006	2005	2006	2005
Gross sales of goods and services	1,685,455	1,650,506	1,809,879	1,774,820
Taxes and sales deductions	(274,119)	(265,469)	(306,918)	(299,513)
Net sales and services	1,411,336	1,385,037	1,502,961	1,475,307
Cost of products sold and services rendered	(1,077,855)	(1,062,598)	(1,124,202)	(1,121,235)
Gross profit	333,481	322,439	378,759	354,072
Operating revenue (expenses)				
Selling expenses	(82,959)	(69,789)	(98,315)	(77,644)
Management fees	(4,187)	(3,927)	(4,187)	(3,927)
General and administrative expenses	(62,849)	(55,189)	(66,983)	(59,687)
Goodwill amortization	(23,458)	(22,123)	(23,458)	(22,123)
Financial expenses, net (Note 21)	(10,640)	(27,826)	(10,178)	(28,161)
Interest on shareholders' equity (Note 20)	(30,951)	(55,660)	(31,660)	(56,489)
Equity pick-up (Note 10)	9,468	7,225	-	-
Reversal (provision) for loss of capital in investments (Note 10)	5,769	(8,173)	-	-
Expenses with technology and research	(32,872)	(28,910)	(37,606)	(32,159)
Other operating income (expenses), net (Note 22)	(506)	16,119	2,979	9,634
	(233,185)	(248,253)	(269,408)	(270,556)
Operating income	100,296	74,186	109,351	83,516
Nonoperating result	1,475	164	1,593	(837)
Income before income and social contribution taxes and minority interest	101,771	74,350	110,944	82,679
Current income and social contribution taxes (Note 9)	(31,634)	(18,154)	(37,569)	(23,531)
Deferred income and social contribution taxes (Note 9)	(387)	(10,376)	(276)	(10,241)
Income before minority interest and reversal of interest on shareholders' equity	69,750	45,820	73,099	48,907
Minority interest	-	-	(4,058)	(3,916)
Reversal of interest on shareholders' equity (Note 20)	30,951	55,660	31,660	56,489
Net income for the year	100,701	101,480	100,701	101,480
Earnings outstanding share at the end of the year in reais – R\$	3.31	3.33		
Number of outstanding shares at the end of the year (in thousands)	30,454	30,454		

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2006 and 2005

(In thousands of reais)

	<u>Capital</u>	<u>Income reserves</u>		<u>Retained earnings</u>	<u>Total</u>
		<u>Legal reserve</u>	<u>Reserve for expansion and modernization</u>		
Balances at December 31, 2004	352,755	35,353	182,767	-	570,875
Net income for the year	-	-	-	101,480	101,480
Appropriation of net income for the year:					
Legal reserve	-	5,074	-	(5,074)	-
Interest on shareholders' equity	-	-	-	(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>
Net income for the year	-	-	-	100,701	100,701
Appropriation of net income for the year:					
Legal reserve (Note 20)	-	5,034	-	(5,034)	-
Interest on shareholders' equity (Note 20)	-	-	-	(30,951)	(30,951)
Proposed dividends (Note 20)	-	-	-	(20,000)	(20,000)
Set up of reserve for expansion and modernization (Note 20)	-	-	44,848	(44,848)	-
Expired dividends and interest on shareholders' equity (Note 20)	-	-	-	132	132
Balances at December 31, 2006	<u>352,755</u>	<u>45,461</u>	<u>44,848</u>	<u>-</u>	<u>443,064</u>

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2006 and 2005

(In thousands of reais)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
SOURCES OF FUNDS				
From operations				
Net income for the year	100,701	101,480	100,701	101,480
Expenses (income) not affecting net working capital:				
Depreciation and amortization	95,323	87,094	98,545	90,884
Equity pick-up	(9,468)	(7,225)	-	-
Loss of capital in investments	(5,769)	8,173	-	-
Exchange variation on investments abroad	(265)	267	-	-
Interest and monetary variation on long-term items	2,192	8,382	2,336	8,150
Residual value of permanent assets disposed	1,086	1,472	1,644	1,690
Deferred income and social contribution taxes	(4,764)	3,427	(5,082)	3,295
Provision for contingencies and legal obligations	(2,412)	3,167	(2,056)	3,378
Minority interest	-	-	4,058	3,916
	176,624	206,237	200,146	212,793
From third parties				
Increase in noncurrent liabilities	6,398	13,785	7,414	17,288
Dividends received	7,202	3,447	-	-
Expired dividends	132	-	132	-
Interest received on capital of subsidiaries	1,653	1,935	-	-
	15,385	19,167	7,546	17,288
Total sources	192,009	225,404	207,692	230,081
APPLICATIONS OF FUNDS				
Minority interest on dividends and shareholders' equity	-	-	3,794	2,306
Interest on shareholders' equity	30,951	55,660	30,951	55,660
Proposed dividends	20,000	223,513	20,000	223,513
Increase in noncurrent assets	241	2,117	333	2,229
Investments	-	166	-	-
Property, plant and equipment	81,985	89,733	87,741	95,786
Deferred charges	2,077	8,044	2,168	8,045
Total applications	135,254	379,233	144,987	387,539
Increase (decrease) in net working capital	56,755	(153,829)	62,705	(157,458)

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN FINANCIAL POSITION--Continued

Years ended December 31, 2006 and 2005

(In thousands of reais)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Change in net working capital				
Current assets				
At the end of the year	495,157	444,343	543,697	477,326
At the beginning of the year	444,343	476,648	477,326	514,646
	50,814	(32,305)	66,371	(37,320)
Current liabilities				
At the end of the year	416,798	422,739	444,443	440,777
At the beginning of the year	422,739	301,215	440,777	320,639
	(5,941)	121,524	3,666	120,138
Increase (decrease) in net working capital	56,755	(153,829)	62,705	(157,458)

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

December 31, 2006 and 2005

(In thousands of reais)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities				
Net income for the year	100,701	101,480	100,701	101,480
Adjustments for reconciliation of net profit and cash generated by operating activities				
Depreciation and amortization	95,323	87,094	98,545	90,884
Equity pick-up	(9,468)	(7,225)	-	-
Minority interest	-	-	4,058	3,916
Interest and foreign and monetary exchange variations, net	2,469	9,565	3,120	9,488
Income from disposal of permanent assets	1,486	200	1,580	241
Deferred income and social contribution taxes	387	10,376	276	10,241
Reversal of allowance for doubtful accounts	(2,001)	(7,469)	(1,801)	(7,555)
Set up (reversal) of provision for contingencies and legal obligations	(2,412)	3,167	(2,056)	3,378
Set up (reversal) of provision for warranties	(2,394)	(2,129)	(2,674)	(1,849)
Reversal of sundry provisions	4,977	(18,117)	5,659	(20,808)
Set up (reversal) of provision for loss of capital in investments	(5,769)	8,173	-	-
Decrease (increase) in assets				
Trade accounts receivable	(12,837)	9,079	(43,754)	(895)
Accounts receivable from related parties	(13,768)	(2,111)	28,825	14,000
Inventories	(9,977)	51,908	(31,451)	53,455
Recoverable taxes	2,802	(13,833)	1,862	(12,371)
Dividends and interest on shareholders' equity received from subsidiaries	8,855	5,382	-	-
Other accounts receivable	(3,048)	11,029	(3,190)	11,038
Increase (decrease) in liabilities				
Trade accounts payable	(11,086)	10,108	(10,296)	8,061
Salaries, vacation pay and payroll charges payable	3,169	(1,074)	3,747	(869)
Taxes and contributions payable	1,289	2,704	1,079	2,918
Accounts payable to related parties	4,293	(17,953)	9,751	(14,664)
Other accounts payable	7,917	(1,285)	8,200	(1,212)
Net cash provided by operating activities	160,908	239,069	171,181	248,877
Cash flows from investment activities				
Additions to investments	-	(166)	-	-
Additions to fixed assets	(84,062)	(97,777)	(89,909)	(103,831)
Sale of permanent assets	(400)	1,272	64	1,449
Net cash used in investing activities	(84,462)	(96,671)	(89,845)	(102,382)

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS--Continued

December 31, 2006 and 2005

(In thousands of reais)

	Parent Company		Consolidated	
	2006	2005	2006	2005
Cash flows from financing activities				
Financing	229,494	20,532	234,499	23,411
Amortization of financing principal amounts	(10,110)	(1,750)	(13,065)	(1,750)
Amortization of financing interest	(6,087)	(128)	(6,281)	(179)
Discounted exchange bills	(10,255)	33,061	(10,255)	33,061
Advances from customers	(810)	397	(890)	(166)
Minority interest on dividends and shareholders' equity	-	-	(3,794)	(2,306)
Dividends and interest on shareholders' equity paid	(271,688)	(136,085)	(270,385)	(135,978)
Expired dividends	132	-	132	-
Net cash used in financing activities	(69,324)	(83,973)	(70,039)	(83,907)
Net additions to cash and cash equivalents	7,122	58,425	12,297	62,588
Cash and cash equivalents at beginning of year	86,840	28,415	100,761	38,173
Cash and cash equivalents at end of year	93,962	86,840	113,058	100,761
Additional information:				
Payment of income and social contribution taxes	37,962	34,974	43,235	38,520

See accompanying notes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

(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.

On August 14, 2006, the controlling shareholder of MAHLE Metal Leve S.A. began studies for purposes of takeover, in order to take advantage of the synergies between the Parent Company and MAHLE Componentes de Motores do Brasil Ltda., subsidiary of MAHLE Participações Ltda., another company of the MAHLE Group in Brazil, and yet maintain the existing brands and distribution channels.

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 Brazil's Corporation Law and standards of the Brazilian Securities Commission - CVM.

The preparation of the financial statements involves the use of accounting estimates. These accounting estimates were based on the Company management's judgment for determining the adequate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include selection of useful lives and recoverability of property, plant and equipment, credit risk analysis in determining the allowance for doubtful accounts, as well as analysis of other risks in determining other provisions, including provisions for contingencies and warranties, measurement of financial instruments and other assets and liabilities at balance sheet date.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

2. Basis of Preparation and Presentation of Financial Statements--Continued

Actual results of such transactions could differ significantly from those estimates recorded in the financial statements, given the lack of precision inherent in the estimation process. The Company reviews its estimates and assumptions at least quarterly.

Assets and liabilities are classified under current whenever their realization or settlement is likely to occur within the following twelve months. Otherwise, they are stated as noncurrent. Monetary assets and liabilities denominated in foreign currency were converted into Brazilian reais at the foreign exchange rate in force at the balance sheet closing date. Currency translation adjustments were recognized in the statements of income.

In order to improve the information provided to the market, the Company is also presenting the statements of cash flows as additional information, prepared in accordance with Accounting Standard and Procedure NPC No. 20, of IBRACON (Brazilian Institute of Independent Auditors), considering the major operations that affected the Company's and subsidiaries' cash and cash equivalents. Such statements are divided into operating, investing and financing activities.

As a result of the Brazilian Securities and Exchange Commission CVM Decisions No. 488/05 and 489/05, certain reclassifications were performed in the financial statements as of December 31, 2005, and the most significant are: i) offsetting of judicial deposits totaling R\$14,264, Parent Company, and R\$14,356, consolidated, against the respective liabilities under "Provision for contingencies and legal obligations" ii) short-term investments totaling R\$84,031, Parent Company, and R\$95,622, consolidated, to "Cash and cash equivalents".

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

3. Summary of the Main Accounting Practices

a) Determination of profit and loss

Profit and loss are determined on the accrual basis. Revenue from sale of products is recognized when all risks and benefits inherent to the product have been transferred to the purchaser. Revenues are not recognized whenever its realization is significant uncertainty.

b) Cash and cash equivalents

Includes the balances in cash accounts and short-term investments redeemable within a term of up to 90 days as from the investment date, stated at cost, increased by earnings through to balance sheet, not exceeding market value.

c) Allowance for doubtful accounts

Allowance for doubtful accounts is calculated, based on the estimated losses, in an amount considered sufficient by management 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 on the same date, as explained in Note 10.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

3. Summary of the Main Accounting Practices--Continued

e) Investments--Continued

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;
- Profit and loss 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.

g) Intangible assets

Intangible assets are represented mainly by software acquisition and implementation expenses, less amortization, calculated by the straight-line method.

h) Deferred charges

These result basically from goodwill from acquisition of shareholding, grounded on the expectation of future profitability of the investments.

i) Other current and noncurrent assets

These are stated at cost plus income earned and monetary variation through the balance sheet date, where applicable, less a provision for fair value adjustment, when necessary.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

3. Summary of the Main Accounting Practices--Continued

j) Liabilities

They are recognized in the balance sheet whenever the Company has a legal obligation or as a result of past events, and an outflow of economic resources are likely to be required for their settlement. Certain liabilities involve uncertainties concerning the term and amounts and are estimated as they are incurred, and recorded through a provision. Provisions are recorded based on the best estimates of the risk involved.

l) Taxation

Revenues from sales and services are subject to the following taxes and contributions, at the following basic tax rates:

	<u>State of São Paulo</u>	<u>Other states</u>
State VAT (ICMS)	18%	7% or 12%
Federal VAT (IPI)	4% to 16%	4% to 16%
Social Contribution Tax on Gross Revenue for Social Integration Program (PIS)	1.65%	2.3%
Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	7.6%	7.6%
Service Tax (ISS)	2% to 5%	2% to 5%

Those charges are presented as deductions from sales in the statement of income. Credits resulting from non-cumulative taxation of PIS/COFINS are presented as a reduction of cost of sales in the statement of income.

Taxation on net profit includes income and social contribution taxes. Income tax is computed on taxable profit at 15% tax rate, plus 10% surtax on profits exceeding R\$240 within a period of twelve months, whereas social contribution is computed at 9% tax rate on taxable profit, recognized on an accrual basis. Temporary differences generate deferred tax credits.

Monthly tax payments or amounts to be offset are presented under current or noncurrent assets, according to their expected realization.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

3. Summary of the Main Accounting Practices--Continued

m) Consolidation

Consolidated financial statements have been prepared according to the basic principles of consolidation established by Brazil's Corporation 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 total capital (%)			
	2006		2005	
	Direct	Indirect	Direct	Indirect
MAHLE Metal Leve Miba Sinterizados Ltda.	70	-	70	-
T.C.V. Indústria e Comércio de Peças Automotivas Ltda.	-	-	100	-
MAHLE Metal Leve GmbH (abroad)	100	-	100	-
MAHLE Metal Leve International NV (abroad)	-	100	-	100

4. Cash and Cash Equivalents

	Parent Company		Consolidated	
	2006	2005	2006	2005
Cash and banks	9,508	2,809	16,767	5,139
Short-term investments	84,454	84,031	96,291	95,622
	93,962	86,840	113,058	100,761

Short-term investments substantially refer to Bank Deposit Certificates, bearing interest at rates that varying from 100% to 100,6% of the Interbank Deposit Certificates -CDI.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

5. Trade Accounts Receivable

	Parent Company		Consolidated	
	2006	2005	2006	2005
<u>Market</u>				
Domestic	104,904	107,506	115,859	119,128
Foreign	40,588	25,149	81,918	34,895
	145,492	132,655	197,777	154,023

6. Inventories

	Parent Company		Consolidated	
	2006	2005	2006	2005
Finished products	48,397	44,303	60,069	45,098
Work-in-process	60,420	45,045	63,214	48,121
Raw materials	17,661	19,107	18,763	20,150
Auxiliary materials	9,458	16,877	10,724	18,683
Imports in transit	2,506	2,327	14,099	2,339
Provision for inventory losses	(9,926)	(9,120)	(10,281)	(9,254)
	128,516	118,539	156,588	125,137

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

7. Recoverable Taxes

	Parent Company		Consolidated	
	2006	2005	2006	2005
Income and social contribution taxes (Note 9)	8,517	16,819	6,924	14,985
Income tax on short-term investments	3,474	1,646	3,793	1,974
Income and social contribution taxes on services provided	596	578	597	582
ICMS on acquisition of fixed assets	16,368	15,448	17,171	16,038
ICMS and IPI	6,408	4,621	6,821	4,788
PIS	2,068	1,735	2,190	1,796
COFINS	9,514	7,971	10,077	8,250
Other taxes	2,349	3,278	2,426	3,448
	49,294	52,096	49,999	51,861
Current	(34,356)	(37,501)	(34,376)	(36,673)
Noncurrent	14,938	14,595	15,623	15,188

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, 2006 and 2005 (In thousands of reais)

8. Related Parties

Companies	Parent Company (2006)									
	Balances		Transactions							
	Current assets	Current liabilities	Sales/income			Purchases				
			Products	Services	Commissions	Products	Services	Fixed assets	Commissions	Royalties
MAHLE Metal Leve Miba Sinterizados Ltda.	95	20	-	2,489	-	2,714	-	-	-	-
MAHLE Componentes de Motores do Brasil Ltda.	2,444	11,061	399	14,967	4,927	88,977	906	-	-	-
MAHLE Componentes de Motores S.A.	814	-	904	-	-	7	-	-	-	-
MAHLE S.A. Argentina	5,197	-	18,103	-	-	1,146	-	-	-	-
MAHLE S.A. Espanha	8	-	50	-	-	-	-	2,447	-	-
MAHLE Pistoni Itália SpA	70	-	119	-	-	35	-	-	-	-
MAHLE GmbH	226	5,164	636	-	-	14,331	-	11,009	-	14,391
MAHLE France SARL	191	-	261	-	-	-	-	-	-	-
MAHLE Filtersysteme	713	1,649	1,498	-	-	2,448	-	-	5	-
MAHLE Tennex North America, Inc.	-	-	53	-	-	-	-	-	-	-
MAHLE Componentes de Motores de México, S. de R.L. de C.V.	645	-	2,039	-	-	-	-	-	-	-
MAHLE Engine Components (Thailand) Co. Ltd.	41	-	56	-	-	-	-	-	-	-
MAHLE, Inc.	27,471	432	141,258	-	-	251	-	113	1,142	-
MAHLE Polska Spolka. z o.o	77	-	169	-	-	2	-	-	-	-
MAHLE Motorkomponenten Schweiz AG	-	-	-	-	-	1,175	-	-	-	-
MAHLE Motorkomponenten GmbH	2,836	136	2,859	-	-	1,241	-	-	-	-
MAHLE Motorsports, Inc.	39	-	45	-	-	-	-	-	-	-
MAHLE Technology, Inc.	1	-	2	-	-	-	-	2	-	-
MAHLE Metal Leve International NV	112,150	-	323,244	-	-	-	-	-	-	-
MAHLE Engine Components Australia Pty Ltd.	70	9	292	-	-	8	-	-	6	-
MAHLE Engine Components Japan Corporation	-	-	43	-	-	-	-	43	-	-
MAHLE Sistemas de Filtracion S.L.	-	2	-	-	-	-	-	-	7	-
MAHLE Ventiltrieb GmbH	267	731	42	-	-	4,355	-	-	-	-
MAHLE Aftermarket GmbH	2,037	1,344	9,273	-	-	1,937	-	-	319	-
MAHLE Bearings (Yingkou) Co., Ltd.	1,279	-	109	-	-	-	-	-	-	-
MAHLE Engine Components (Nanjing) Co., Ltd.	745	-	911	-	-	69	-	-	-	-
MAHLE Donghyun Filter Systems Co., Ltd.	-	54	-	-	-	694	-	-	-	-
MAHLE Motorteile GmbH	16	-	16	-	-	-	-	-	-	-
MAHLE Vöcklabruck GmbH	350	-	2,894	-	-	-	-	-	-	-
MAHLE Migma Ltd.	-	440	-	-	-	1,953	-	-	-	-
MAHLE Trading Shanghai Co.	-	247	-	-	-	350	-	-	17	-
MAHLE Trading Japan Ltd.	-	-	4	-	-	-	-	-	-	-
MAHLE Engine Components (Chongqing) Co., Ltd.	151	-	230	-	-	14	-	-	-	-
MAHLE Technologies Holding Co., Ltd.	43	-	43	-	-	-	-	-	-	-
Total	157,976	21,289	505,552	17,456	4,927	121,707	906	13,569	1,496	14,391

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2006 and 2005 (In thousands of reais)

8. Related Parties--Continued

Companies	Parent Company (2005)											
	Balances		Sales/income					Transactions				
	Current assets	Current 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) Co.,Ltd.	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	-	-	-	-	
Total	144,208	16,996	491,213	16,045	1,068	5,581	113,867	234	13,169	1,729	14,943	

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2006 and 2005 (In thousands of reais)

8. Related Parties--Continued

Companies	Consolidated (2006)									
	Balances		Transactions							
	Current assets	Current liabilities	Sales/income			Purchases				
		Products	Services	Commissions	Products	Services	Fixed assets	Commissions	Royalties	
MAHLE Componentes de Motores do Brasil Ltda.	2,444	11,061	399	14,967	4,927	88,977	906	-	-	-
MAHLE Componentes de Motores S.A.	3,715	-	9,975	-	-	7	-	-	-	-
MAHLE S.A. Argentina	5,197	-	18,103	-	-	1,146	-	-	-	-
MAHLE S.A. Espanha	79	-	119	-	-	-	-	2,447	-	-
MAHLE Pistoni Itália SpA	1,939	-	12,308	-	-	35	-	-	-	-
MAHLE GmbH	5,497	5,164	36,100	-	-	14,331	-	11,009	-	14,391
MAHLE France SARL	20,020	-	59,806	-	-	-	-	-	-	-
MAHLE Filtersysteme	766	1,714	2,513	-	-	2,448	-	-	5	-
MAHLE Tennex North America, Inc.	-	-	53	-	-	-	-	-	-	-
MAHLE Componentes de Motor de México, S. de R.L. de C.V.	4,669	133	6,428	-	-	102	-	-	-	-
MAHLE de México, S. de R.L. de C.V.	-	-	11,586	-	-	-	-	-	-	-
MAHLE Engine Components (Thailand) Co. Ltd.	41	-	470	-	-	-	-	-	-	-
MAHLE, Inc.	43,123	3,262	244,532	-	-	862	-	113	1,367	-
MAHLE Polska Spolka. z o.o.	77	-	169	-	-	2	-	-	-	-
MAHLE Motorkomponenten Schweiz AG	-	-	-	-	-	1,175	-	-	-	-
MAHLE Motorkomponenten GmbH	9,109	1,533	28,407	-	-	1,241	-	-	-	-
MAHLE Motorsports, Inc.	39	-	45	-	-	-	-	-	-	-
MAHLE Technology, Inc.	1	2,636	2	-	-	-	-	-	-	-
MAHLE Sud América NV	-	8	-	7	-	-	-	-	-	-
MAHLE Engine Components Australia Pty Ltd.	132	53	1,205	-	-	8	-	-	6	-
MAHLE Engine Components Japan Corporation	-	-	43	-	-	-	-	-	-	-
MAHLE Powertrain Ltd.	2,676	-	4,751	-	-	-	-	-	-	-
MAHLE Ventiltrieb GmbH	284	1,184	42	-	-	4,355	-	-	-	-
MAHLE Sistemas de Filtracion SL	-	2	-	-	-	-	-	-	7	-
MAHLE Aftermarket GmbH	4,448	2,723	29,139	-	-	1,937	-	-	319	-
MAHLE Bearings (Yingkou) Co.,Ltd.	1,279	64	109	-	-	-	-	-	-	-
MAHLE Engine Components (Nanjing) Co., Ltd.	745	-	911	-	-	69	-	-	-	-
MAHLE Donghyun Filter Systems Co., Ltd.	-	54	-	-	-	694	-	-	-	-
MAHLE Motorteile GmbH	16	-	16	-	-	-	-	-	-	-
MAHLE Vöcklabruck GmbH	350	-	2,894	-	-	-	-	-	-	-
MAHLE Migma Ltd.	-	440	-	-	-	1,953	-	-	-	-
MAHLE Trading Shangai Co.	-	1,078	-	-	-	350	-	-	17	-
MAHLE Trading Japan Ltd.	-	-	4	-	-	-	-	-	-	-
MAHLE International GmbH	-	39	-	-	-	-	-	-	-	-
MAHLE Engine Components (Chongqing) Co., Ltd.	151	-	230	-	-	14	-	-	-	-
MAHLE Technologies Holding Co., Ltd.	43	-	43	-	-	-	-	-	-	-
Total	106,840	31,148	470,402	14,974	4,927	119,706	906	13,569	1,721	14,391

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2006 and 2005 (In thousands of reais)

8. Related Parties--Continued

Companies	Consolidated (2005)											
	Balances		Sales/income					Transactions				
	Current assets	Current liabilities	Products	Services	Fixed assets	Commissions	Products	Services	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. Z0.0	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) Co.,Ltd.	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	-	-	-	-	-	-	-	-	-	
Total	135,665	21,397	474,475	13,894	1,068	5,581	112,947	101	13,169	1,803	14,943	

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(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 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 the account Expenses with technology and research, in the amount of R\$14,601 for the year ended December 31, 2006 (R\$14,294 in 2005).

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 were calculated at ruling rates.

a) Reconciliation of income and social contribution tax expenses

The reconciliation of the expense calculated at nominal compound tax rates and the income and social contribution tax expense recorded in the statement of income is as follows:

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

9. Income and Social Contribution Taxes---Continued

a) Reconciliation of income and social contribution tax expenses--Continued

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Income before income and social contribution taxes	101,771	74,350	110,944	82,679
Exclusion of the equity pick-up result and valuation allowance	(15,237)	948	-	-
Exclusion of results from subsidiaries abroad	-	-	(6,208)	11,020
Adjusted profit before income and social contribution taxes	86,534	75,298	104,736	93,699
IRPJ and CSSL at nominal rates (34%)	(29,422)	(25,601)	(35,610)	(31,858)
Adjustments for effective rate calculation:				
Effects on permanent differences				
Transfer pricing	(1,665)	(1,003)	(1,665)	(1,003)
Other, net	(1,045)	(1,669)	(681)	(924)
Effects on temporary differences:				
Provisions	498	10,119	387	10,254
Current income and social contribution taxes	(31,634)	(18,154)	(37,569)	(23,531)
Deferred income and social contribution taxes	(387)	(10,376)	(276)	(10,241)
Total income and social contribution taxes	(32,021)	(28,530)	(37,845)	(33,772)
Effective rate	37.0%	37.9%	36.1%	36.0%

b) Recoverable income and social contribution taxes

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Income tax	23,190	13,360	27,540	17,293
Social contribution tax	8,444	4,794	10,029	6,238
	31,634	18,154	37,569	23,531
Offset against prepaid taxes and tax incentives	(38,590)	(35,401)	(42,865)	(38,947)
Social contribution tax credit on depreciation of items purchased for fixed assets	(1,522)	428	(1,574)	431
Prior-year adjustments	(39)	-	(54)	-
Recoverable tax	(8,517)	(16,819)	(6,924)	(14,985)

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

9. Income and Social Contribution Taxes--Continued

c) Breakdown of deferred income and social contribution taxes

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

	Parent Company		Consolidated	
	2006	2005	2006	2005
Temporary differences				
Provision for contingencies, warranties and others	32,660	31,450	33,119	31,747
Provision for inventory losses	5,304	4,536	5,586	4,711
Allowance for doubtful accounts	1,582	2,262	1,678	2,325
Provision for losses on the realization of other assets	3,752	3,723	3,879	3,850
Commissions on sales and other temporarily nondeductible provisions	6,191	7,905	6,450	8,355
	49,489	49,876	50,712	50,988
Current	(5,750)	(10,901)	(6,042)	(11,400)
Noncurrent	43,739	38,975	44,670	39,588

In accordance with Company's management projections, deferred income and social contribution taxes classified under noncurrent assets, at December 31, 2006 will be as follows:

Year	Parent Company	Consolidated
2008	9,482	9,585
2009	8,739	9,072
2010	3,499	3,551
2011	4,957	5,030
2012 to 2014	12,088	12,385
2015 to 2017	4,974	5,047
	43,739	44,670

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2006 and 2005 (In thousands of reais)

10. Investments in Subsidiaries

	2006								2005								
	Subsidiary information		Participation						Exchange variation on investment	Subsidiary information		Participation				Exchange variation on investment	
	Shareholders' equity (capital deficiency)	Results for the year	%	In shareholders' equity	In capital deficiency	In results for the year	Reversal of provision	%		Shareholders' equity	Results for the year	%	In shareholders' equity	In capital deficiency	In results for the year		
Investments:																	
MAHLE Metal Leve Miba Sinterizados Ltda.	38,541	13,527	70,00	26,979	-	9,468	-	-	37,665	13,053	70,00	26,366	-	9,137	-	-	-
MAHLE Metal Leve GmbH	(2,139)	5,769	100,00	-	(2,139)	-	5,769	266	(8,173)	(10,085)	100,00	-	(8,173)	(1,912)	(267)	-	-
T.C.V. Ind. e Com. de Peças Automotivas Ltda.	-	-	-	-	-	-	-	-	166	-	100,00	166	-	-	-	-	-
				<u>26,979</u>	<u>(2,139)</u>	<u>9,468</u>	<u>5,769</u>	<u>266</u>				<u>26,532</u>	<u>(8,173)</u>	<u>7,225</u>	<u>(267)</u>		

Participation in the capital deficiency of MAHLE Metal Leve GmbH, in the amount of R\$2,139 (R\$8,173 in 2005), is recorded in noncurrent liabilities, under “Provision for capital deficiency in subsidiary”.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

11. Property, Plant and Equipment

	Annual depreciation rates (%)	Parent Company		Consolidated	
		2006	2005	2006	2005
		Land	-	7,644	4,567
Buildings and construction	4	88,636	81,962	93,989	86,868
Machinery, equipment and facilities	10-20	786,670	707,293	854,160	768,508
Furniture and fixtures	10-20	16,466	14,781	17,204	15,445
Transportation assets	20-25	16,074	16,004	17,121	17,052
Construction in progress	-	55,403	61,496	56,853	63,920
Advances to suppliers	-	5,916	13,992	7,613	16,481
		976,809	900,095	1,054,959	973,216
Accumulated depreciation		(631,387)	(568,425)	(690,635)	(624,567)
		345,422	331,670	364,324	348,649

Construction in progress and advances to suppliers at December 31, 2006 and 2005 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 by the end of 2007.

12. Intangible Assets

	Annual amortization rates (%)	Parent Company		Consolidated	
		2006	2005	2006	2005
		Software acquisition and installation expenses	20	23,671	23,070
Other	20	2,119	789	2,185	833
		25,790	23,859	26,632	24,618
Accumulated amortization		(18,000)	(14,558)	(18,485)	(14,938)
		7,790	9,301	8,147	9,680

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

13. Deferred Charges

	Annual amortization rates (%)	Parent Company		Consolidated	
		2006	2005	2006	2005
Goodwill on the acquisition of the subsidiary MAHLE MMG Indústria e Comércio Ltda.	20	108,382	108,382	108,382	108,382
Goodwill on the acquisition of the subsidiary P.F.S. II Ind. e Com. de Peças Automotivas Ltda.	20	2,236	2,236	2,236	2,236
Goodwill on the acquisition of the subsidiary T.C.V. Ind. e Com. de Peças Automotivas Ltda.	20	6,674	6,674	6,674	6,674
Pre-operating projects	20	1,887	2,464	1,887	2,464
Other projects	20	4,801	4,835	4,801	4,835
		123,980	124,591	123,980	124,591
Accumulated amortization		(93,610)	(69,799)	(93,610)	(69,799)
		30,370	54,792	30,370	54,792

14. Trade Accounts Payable

	Parent Company		Consolidated	
	2006	2005	2006	2005
Domestic	48,335	34,344	50,415	36,160
Abroad	3,868	28,945	4,919	29,470
	52,203	63,289	55,334	65,630

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

15. Financing

Financial charges	Parent Company		Consolidated	
	2006	2005	2006	2005
<u>Local currency</u>				
Finame – TJLP variation plus annual interest of 4.3% to 4.5%	7,005	5,615	7,005	5,615
Working capital – TJLP variation plus annual interest of 2.5%	5,121	-	10,184	-
BNDES-Exim – TJLP variation plus annual interest of 2.30%.	-	4,857	-	7,799
BNDES-Exim (US\$ 100 million):				
- 80% of the debit balance indexed to the TJLP variation plus annual interest of 2.75%	172,992	-	172,992	-
- 20% of the debit balance indexed to the exchange variation plus annual interest of 10.06 %.	43,297	-	43,297	-
- Swap indexed to the exchange variation plus annual interest of 4.30%.	(13,739)	-	(13,739)	-
Finame – annual interest of 11.5%.	14,323	11,141	14,323	11,141
Other	1	539	8	539
<u>Foreign currency</u>				
Provision for interest on discounted withdrawals	1,009	741	1,009	741
	230,009	22,893	235,079	25,835
Current	(210,769)	(5,264)	(211,672)	(5,293)
Noncurrent	19,240	17,629	23,407	20,542

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

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

15. Financing--Continued

In the second quarter of 2006, the Company contracted from the financial market an interest rate swap transaction for the BNDES-Exim operation of US\$100 million, intended to finance its export operations, used to guarantee the operation. The original operation was indexed to the TJLP variation plus annual interest of 2.75% for 80% of the amount, and exchange variation plus annual interest of 10.06% for the remaining 20%, with final maturity on November 15, 2007. With the swap transaction, the loan is now indexed to the exchange variation plus annual interest of 4.30%.

The amounts referring to noncurrent liabilities are broken down by year of maturity:

	Parent Company		Consolidated	
	2006	2005	2006	2005
2007	-	8,088	-	11,002
2008	9,189	3,890	13,356	3,891
2009	6,197	4,129	6,197	4,128
2010	3,335	1,522	3,335	1,521
2011	519	-	519	-
	19,240	17,629	23,407	20,542

16. Salaries, Vacation Pay and Payroll Charges Payable

	Parent Company		Consolidated	
	2006	2005	2006	2005
Vacation pay	20,896	19,103	22,707	20,896
Payroll charges	9,041	8,982	9,616	9,601
Employee profit sharing	12,966	11,631	13,570	11,631
Salaries	-	18	-	18
	42,903	39,734	45,893	42,146

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

17. Sundry Provisions

	Parent Company		Consolidated	
	2006	2005	2006	2005
Provision for restructuring	3,779	3,180	3,779	3,180
Provision for future losses	5,675	4,221	6,141	4,221
Provision for professional services	6,886	6,985	11,453	10,797
Provision for royalties and patents	-	-	1,117	1,665
Provision for losses on fixed assets	3,714	1,412	3,723	1,412
Other	939	218	939	218
	20,993	16,016	27,152	21,493

Provision for restructuring

Set up for an amount considered to be sufficient to cover expenses related to the project of relocation of the piston production line.

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 and equipment.

18. Provision for Warranties

	Parent Company		Consolidated	
	2006	2005	2006	2005
Provision for warranties	3,375	5,919	3,375	5,919
Expenditures already identified	777	627	777	907
	4,152	6,546	4,152	6,826

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:

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

18. Provision for Warranties--Continued

a) Provision for warranties

This provision is 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 replacement and repair of products, including the recalls.

19. Provision for Contingencies and Legal Obligations

The Company and its subsidiaries are parties to civil, labor and tax suits, both at administrative and judicial levels and, when applicable, are supported by judicial deposits. 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.

At December 31, 2006 and 2005, the contingent risks, based on the legal advisors' opinion, are as follows:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Civil and labor	51,104	45,967	52,245	46,668
Tax	42,667	41,701	42,872	41,874
Less:				
Judicial deposits	(13,748)	(14,264)	(13,841)	(14,356)
	80,023	73,404	81,276	74,186

Civil and labor contingencies refer namely to claims from employees related to employment relationship and severance payments.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

19. Provision for Contingencies and Legal Obligations--Continued

Tax contingencies are basically represented by state and tax notices pending judgment, questioning the adequate interpretation of tax legislation.

In addition to the previously-mentioned totals, the amount of R\$35,557 (R\$26,721 in 2005) was not considered, resulting from labor, civil and tax cases for which the chances of an unfavorable outcome are possible, according to the Company legal advisors. As such, Management did not record this amount in the financial statements.

20. Shareholders' Equity

a) Capital

In the Extraordinary General Meeting held on August 19, 2005, the Company shareholders approved the reverse split 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 were granted a 30-day term beginning August 22, 2005 to adjust, at their discretion, 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 reverse splits was sold in a BOVESPA auction.

At December 31, 2006 and 2005 subscribed and paid-up capital is represented by shares with no par value as follows:

	<u>Number of shares</u>
Common shares	<u>12,260,373</u>
Preferred shares	<u>18,193,197</u>
Total outstanding shares	<u><u>30,453,570</u></u>

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

20. Shareholders' Equity--Continued

a) Capital--Continued

Preferred Company shares 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.

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:

	2006	2005
Net income for the year	100,701	101,480
Legal reserve	(5,034)	(5,074)
Calculation basis	95,667	96,406
Distribution to the shareholders:		
Interest on shareholders' equity of R\$55,660, net of income tax, paid on December 20, 2005	-	48,271
Dividends proposed in 2005 and paid on March 17, 2006	-	223,513
Interest on shareholders' equity of R\$30,951, net of income tax, partially paid on December 20, 2006	26,794	-
Dividends proposed in 2006	20,000	-
Total	46,794	271,784
Less proposed dividends, as mentioned in the item "c"	-	182,767
Dividends of the net income for the year	46,794	89,017
Percentage in relation to the calculation base	48.91%	92.34%
Interest on shareholders' equity /dividends per thousand shares in reais:		
Preferred shares	R\$ 1.594949	R\$ 9.263620
Common shares	R\$ 1.449953	R\$ 8.421473

The amount related to interest on shareholders' equity was computed when determining the compulsory dividends for the years 2006 and 2005, 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, 2006 and 2005

(In thousands of reais)

20. Shareholders' Equity--Continued

c) Income reserves

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

2005

In the Ordinary and Extraordinary Shareholders' Meeting of April 30, 2004, the Company shareholders 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. Although total investments previously estimated have been realized, in view of the high level of capitalization on such occasion, Company management understood that such reserve should not be incorporated into capital, and proposed that the General Meeting in the following year approve the distribution as dividends of the total balance of this reserve, which, in fact, was approved by the shareholders.

2006

The Company management will present the capital budget and propose in the next General Meeting that the retained earnings portion, in the amount of R\$44,848 as of December 31, 2006, be retained, in order to continue investments for expansion and modernization purposes.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

20. Shareholders' Equity--Continued

d) Appropriation of income for the year

Net income for the year was destined as follows:

	2006	2005
Net income for the year	100,701	101,480
Income reserve:		
Legal	5,034	5,074
Profit distribution:		
Interest on own capital	30,951	55,660
Dividends	20,000	40,746
	44,716	-
Expired dividends and interest on shareholders' equity	132	-
Total	44,848	-
Proposed balance to be transferred to the specific "Reserve for expansion and modernization" account	(44,848)	-

21. Financial Expenses, Net

	Parent Company		Consolidated	
	2006	2005	2006	2005
<u>Financial expenses</u>				
Interest	(13,210)	(4,302)	(13,397)	(4,401)
Monetary variation – losses	(8,749)	(8,694)	(8,965)	(8,805)
Exchange variation – losses	(37,160)	(58,088)	(40,853)	(63,954)
Other	(10,097)	(9,835)	(10,897)	(10,547)
<u>Financial income</u>				
Interest	11,289	9,709	12,668	11,517
Monetary variation – gains	191	708	194	708
Exchange variation – gains	46,879	42,517	50,839	47,150
Other	217	159	233	171
	(10,640)	(27,826)	(10,178)	(28,161)

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

22. Other Operating Income (Expenses), Net

	Parent Company		Consolidated	
	2006	2005	2006	2005
Recovered taxes	6,589	12,309	7,353	12,309
Provision for contingencies and others	(7,095)	3,810	(4,374)	(2,675)
	<u>(506)</u>	<u>16,119</u>	<u>2,979</u>	<u>9,634</u>

23. Financial Instruments

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

The main risk factors affecting the Company and subsidiary 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 possibility of the Company and its subsidiaries incurring losses resulting from financial issues of their OEM clients is remote, due to such clients' profile (assembly plants and other companies operating worldwide).

Regarding aftermarket sales and/or markets in which the companies' management considers that the risk of default is higher, letters of credit, payments in advance or other forms of guarantee are requested before sales are carried out. In this market, the participation of each client in sales is highly diluted, which means that no individual client represents more than five percent of the sales.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

23. Financial Instruments--Continued

a) Credit risk--Continued)

At December 31, 2006, "vendor" operations signed by the Company amounted to R\$890 (R\$2,026 in 2005), with a maturity term of up to 45 days. Contract risks of such operations are basically credit-related and are managed through careful analysis of credit limits for the clients involved in operations of such nature.

b) Exchange rate risk

In 2006, liabilities denominated in foreign currency exceeded assets, and a net exchange gain of R\$9,719, Company, and R\$9,986, consolidated, was determined for the year, as a result of the appreciation of the Real in relation to foreign currencies. In 2005, assets exceeded liabilities, resulting in exchange losses of R\$15,571, Company, and R\$16,804, consolidated.

As of December 31, 2006 and 2005, the Company and its subsidiaries presented the following net exposure to foreign currency variations, particularly the US dollar:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets				
Trade accounts receivable	40,588	25,149	81,918	34,895
Short-term investments	-	-	2	2
Discounted exchange bills	(70,953)	(81,208)	(70,953)	(81,208)
Accounts receivable from related parties	155,437	142,287	104,396	133,949
Allowance for doubtful accounts	(1,751)	(2,092)	(2,112)	(2,252)
	123,321	84,136	113,251	85,386
Liabilities				
Financing	(203,559)	(741)	(203,559)	(741)
Trade accounts payable	(3,868)	(28,945)	(4,919)	(29,470)
Provision for warranty	(777)	(627)	(777)	(907)
Accounts payable to related parties	(10,208)	(10,390)	(20,087)	(14,791)
Other	(812)	(671)	(826)	(692)
	(219,224)	(41,374)	(230,168)	(46,601)
	(95,903)	42,762	(116,917)	38,785

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

23. Financial Instruments--Continued

b) Exchange rate risk--Continued

During 2006, as a strategy to reduce risks regarding exchange rate fluctuations, the Company carried out hedge operations through sale of U.S. dollar contracts in the future market, recording losses in the amount of R\$1,882 (R\$1,127 in 2005), accounted for under Financial expenses, net.

In the second half of the year, in order to reduce exchange rate fluctuation risks for export operations, the Company conducted sale operations of US dollar contracts in the forward market, determining gain of R\$5,738, of which R\$4,164 with effect on cash, recorded as Financial expenses, net, and R\$1,574 recorded under Other accounts receivable, in current assets, against the Financial expenses, net account.

In addition, for purposes of hedging against exchange fluctuation of the swap contract referring to the debt with BNDES, commented above, the Company contracted, between August and September 2006, US dollar forward operations, with maturity on January 2, 2007, in the amount of US\$95 million. Such operations resulted in losses amounting to R\$3,844, recorded under Other obligations, in current liabilities, against the Financial expenses, net account.

As of December 31, 2006 and 2005, the Company and its subsidiaries do not have other financial instruments in the form of derivatives other than the swap operation mentioned in Note 15 and those described above.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

23. Financial Instruments--Continued

c) Market values

At December 31, 2006 and 2005, the market values of cash and cash equivalents and accounts receivable and payable approximate the amounts recorded in the financial statements, in view of their short-term nature. With regard to loans and financing, the related market values substantially approximate the financial statement amounts, as such financial instruments are subject to variable interest rates.

24. Employee Benefits

Benefits granted to employees by the Company basically refer to monthly benefits and are accounted for as such. There are no post-employment benefits, pension funds or other benefits requiring a specific accounting treatment.

For the years ended December 31, 2006 and 2005, the Company and its subsidiaries distributed profit sharing to their employees, based on a trade union agreement, totaling R\$14,099 (R\$12,676 in 2005), Company, and R\$14,758 (R\$13,298 in 2005), consolidated. The criteria for profit sharing payment followed the rules set forth in 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 standard worked hours; and (iii) maintaining the scrap level up to the average annual rate previously defined in relation to the number of parts produced.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

25. Private Pension Plan – Defined Contribution

In September 2006, the Company joined the Bradesco income tax deductible private pension plan – PGBL, administered by Bradesco Vida e Previdência, offering its employees the choice of participating in such plan.

The contributions are defined based on classification into salary bands above R\$5 thousand, with contribution percentages varying from 2% to 4% by the employee and the Company. For employees falling into salary bands below R\$5 thousand, the Company will contribute with a nominal salary for every 10 years worked for the Company, on occasion of the employee's retirement. The employer and employee contributions began in October 2006, with a contribution of R\$594 by the Company.

26. Insurance (Unaudited)

At December 31, 2006 and 2005, the Company had insurance coverage against fire and sundry risks in relation to fixed assets and inventories, at amounts considered by Management to be sufficient to cover possible losses.

27. Subsequent Events

- a) On March 9, 2007, the Company acquired the net operating assets of the Bronzinas unit of Dana Indústria Ltda., located in the city of Gravataí, Rio Grande do Sul state, offered in public auction by the North-American authority, for the amount of US\$1,465,000.

MAHLE METAL LEVE S.A. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2006 and 2005

(In thousands of reais)

27. Subsequent Events--Continued

- b) On March 20, 2007, the Company and its wholly-owned subsidiary Mahle Metal Leve GmbH acquired the 1,400,000 common shares that the companies Graceland Limited Holding LLC, established under the laws of Delaware, USA, and Dinansen Inversora S.A., established under the laws of the Republic of Argentina, held in Establecimientos Metalúrgicos Edival S.A., headquartered at Av. Santa Fé 2350, city of Rafaela, Republic of Argentina, with a view to including the products developed by Edival (combustion engine valves) to the range of products offered by the Company to the domestic and foreign markets, for US\$41,200 thousand.