

***Financial Statements***

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

***December 31, 2007 and 2006  
with Report of Independent Auditors***

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

**FINANCIAL STATEMENTS**

December 31, 2007 and 2006

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

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**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 as of December 31, 2007 and 2006, and the related statements of income, changes in 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. The financial statements of subsidiary MAHLE Válvulas de Argentina S.A. were audited by other independent auditors. The Company has investment in the aforementioned subsidiary as of December 31, 2007 amounting to R\$16,691 thousand, with net gain computed by the equity method of accounting on that date amounting to R\$887 thousand, and whose total assets included in the consolidated financial statements amount to R\$65,574 thousand as of December 31, 2007, with net sales and services included in the consolidated financial statements in the amount of R\$59,512 thousand for the year then ended. The report supplied to us by those auditors has no qualifications that could significantly impact the financial position and results of operations of the Company, or the financial and consolidated position of the Company and subsidiaries, and our opinion regarding this investment is strictly based on the report of those independent auditors.
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 and subsidiaries; 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 management of the Company and its subsidiaries, as well as an evaluation of the overall financial statement presentation.

3. In our opinion, based on our audits and the report of other independent auditors, the financial statements referred to in paragraph 1 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, 2007 and 2006, 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, taken as a whole. The statements of cash flows for the years ended December 31, 2007 and 2006 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 financial statements taken as a whole.

Campinas, February 1, 2008  
(except for Note 2.2, which is dated March 11, 2008)

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC 2SP015199/O-6

B. Alfredo Baddini Blanc  
Accountant CRC 1SP126402/O-8

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

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

BALANCE SHEETS  
December 31, 2007 and 2006  
(In thousands of reais)

	Company		Consolidated	
	2007	2006	2007	2006
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents (Note 4)	<b>30,579</b>	93,962	<b>77,910</b>	113,058
Trade accounts receivable (Note 5)	<b>164,367</b>	145,492	<b>222,211</b>	197,777
Accounts receivable from related parties (Note 8)	<b>148,665</b>	157,976	<b>76,749</b>	106,840
Discounted accounts receivable	<b>(34,447)</b>	(70,953)	<b>(35,375)</b>	(70,953)
Allowance for doubtful accounts	<b>(5,191)</b>	(6,289)	<b>(6,423)</b>	(6,675)
Inventories (Note 6)	<b>144,731</b>	128,516	<b>199,929</b>	156,588
Recoverable taxes (Note 7)	<b>43,766</b>	34,356	<b>48,457</b>	34,376
Deferred income and social contribution taxes (Note 9.c)	<b>9,399</b>	5,750	<b>10,129</b>	6,042
Dividends and interest on subsidiary's equity receivable	<b>9,889</b>	1,405	-	-
Other assets	<b>6,289</b>	3,368	<b>7,238</b>	5,070
Total current assets	<b>518,047</b>	493,583	<b>600,825</b>	542,123
Noncurrent assets				
Long-term receivables				
Deferred income and social contribution taxes (Note 9.c)	<b>41,320</b>	43,739	<b>44,289</b>	44,670
Recoverable taxes (Note 7)	<b>13,882</b>	14,938	<b>15,057</b>	15,623
Other assets	<b>1,213</b>	1,182	<b>1,348</b>	1,307
Permanent assets				
Investments in subsidiaries (Note 10)	<b>49,906</b>	26,979	-	-
Other investments	<b>371</b>	371	<b>371</b>	371
Property, plant and equipment (Note 11)	<b>395,696</b>	349,498	<b>441,208</b>	368,748
Intangible assets (Note 12)	<b>75,800</b>	30,164	<b>85,145</b>	30,164
Deferred charges	<b>1,059</b>	206	<b>1,059</b>	206
Total noncurrent assets	<b>579,247</b>	467,077	<b>588,477</b>	461,089
Total assets	<b>1,097,294</b>	960,660	<b>1,189,302</b>	1,003,212

LIABILITIES AND SHAREHOLDERS' EQUITY	Company		Consolidated	
	2007	2006	2007	2006
Current liabilities				
Trade accounts payable (Note 13)	53,962	52,203	65,582	55,334
Financings (Note 14)	210,586	210,769	243,888	211,672
Salaries, accrual for vacation and social charges payable (Note 15)	45,194	42,903	52,242	45,893
Taxes and contributions payable	14,652	4,415	18,383	5,388
Accounts payable to related parties (Note 8)	20,866	21,289	26,293	31,148
Unrealized losses on derivatives (Note 22)	18,574	2,270	18,544	2,270
Advances from customers	3,670	2,256	4,505	2,292
Interest on shareholders' equity payable	19,627	21,804	20,180	23,812
Dividends proposed (Note 19.b)	10,000	20,000	13,684	20,000
Other provisions (Note 16)	12,832	10,393	17,925	14,730
Other liabilities	26,988	19,556	32,183	22,955
Total current liabilities	436,951	407,858	513,409	435,494
Noncurrent liabilities				
Financings (Note 14)	68,919	19,240	72,385	23,407
Provision for capital deficiency in subsidiary (Note 10)	-	2,139	-	-
Provision for warranties (Note 17)	6,640	7,804	6,722	7,804
Provision for contingencies and legal obligations related to judicial proceedings (Note 18)	71,282	80,023	74,398	81,276
Other liabilities	2,056	532	2,634	605
Total noncurrent liabilities	148,897	109,738	156,139	113,092
Minority interest	-	-	8,308	11,562
Shareholders' equity (Note 19)				
Capital	352,755	352,755	352,755	352,755
Income reserves	158,691	90,309	158,691	90,309
Total shareholders' equity	511,446	443,064	511,446	443,064
Total liabilities and shareholders' equity	1,097,294	960,660	1,189,302	1,003,212

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### STATEMENTS OF INCOME Years ended December 31, 2007 and 2006 (In thousands of reais, except earnings per share)

	Company		Consolidated	
	2007	2006	2007	2006
Gross sales of goods and services	1,773,981	1,685,455	1,987,465	1,809,879
Taxes and sales deductions	(303,367)	(274,119)	(348,108)	(306,918)
Net sales and services	1,470,614	1,411,336	1,639,357	1,502,961
Cost of goods sold and services rendered	(1,118,047)	(1,077,855)	(1,207,241)	(1,124,202)
Gross income	352,567	333,481	432,116	378,759
Operating income (expenses)				
Selling expenses	(83,698)	(82,959)	(108,945)	(98,315)
Management fees	(3,542)	(4,187)	(3,542)	(4,187)
General and administrative expenses	(71,305)	(62,849)	(80,328)	(66,983)
Goodwill amortization	(24,345)	(23,458)	(24,377)	(23,458)
Financial result, net (Note 20)	(43,146)	(10,640)	(45,053)	(10,178)
Interest on subsidiary's equity	1,519	1,653	1,519	1,653
Interest on shareholders' equity (Note 19.b)	(27,866)	(30,951)	(28,517)	(31,660)
Equity pickup (Note 10)	20,812	9,468	-	-
Reversal of provision for capital deficiency in subsidiary (Note 10)	2,139	5,769	-	-
Expenses with technology and product development	(34,144)	(32,872)	(41,581)	(37,606)
Other operating income (expenses), net (Note 21)	8,559	(506)	9,614	2,979
	(255,017)	(231,532)	(321,210)	(267,755)
Operating income	97,550	101,949	110,906	111,004
Nonoperating result	1,634	1,475	(340)	1,593
Income before income and social contribution taxes and minority interest	99,184	103,424	110,566	112,597
Current income and social contribution taxes (Note 9.a)	(20,069)	(31,634)	(26,944)	(37,569)
Deferred income and social contribution taxes (Note 9.a)	712	(387)	(112)	(276)
Income before minority interest and reversal of interest on shareholders' equity	79,827	71,403	83,510	74,752
Minority interest	-	-	(4,334)	(4,058)
Reversal of interest on subsidiary's equity	(1,519)	(1,653)	(1,519)	(1,653)
Reversal of interest on shareholders' equity (Note 19.b)	27,866	30,951	28,517	31,660
<b>Net income for the year</b>	<b>106,174</b>	<b>100,701</b>	<b>106,174</b>	<b>100,701</b>
Earnings per share issued at end of year in reais	3.49	3.31		
Number of shares issued at end of year (in thousands)	30,454	30,454		

See accompanying notes.

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

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Years ended December 31, 2007 and 2006

(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, 2005	352,755	40,427	-	-	393,182
Net income for the year	-	-	-	100,701	100,701
Appropriation of net income:					
Legal reserve (Note 19.b)	-	5,034	-	(5,034)	-
Interest on shareholders' equity (Note 19.b)	-	-	-	(30,951)	(30,951)
Dividends proposed (Note 19.b)	-	-	-	(20,000)	(20,000)
Reserve for expansion and modernization (Note 19.c)	-	-	44,848	(44,848)	-
Expired dividends and interest on shareholders' equity (Note 19.d)	-	-	-	132	132
Balances at December 31, 2006	<b>352,755</b>	<b>45,461</b>	<b>44,848</b>	<b>-</b>	<b>443,064</b>
Net income for the year	-	-	-	<b>106,174</b>	<b>106,174</b>
Appropriation of net income:					
Legal reserve (Note 19.b)	-	<b>5,309</b>	-	<b>(5,309)</b>	-
Interest on shareholders' equity (Note 19.b)	-	-	-	<b>(27,866)</b>	<b>(27,866)</b>
Dividends proposed (Note 19.b)	-	-	-	<b>(10,000)</b>	<b>(10,000)</b>
Reserve for expansion and modernization (Note 19.c)	-	-	<b>63,073</b>	<b>(63,073)</b>	-
Expired dividends and interest on shareholders' equity (Note 19.d)	-	-	-	<b>74</b>	<b>74</b>
Balances at December 31, 2007	<b>352,755</b>	<b>50,770</b>	<b>107,921</b>	<b>-</b>	<b>511,446</b>

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2007 and 2006

(In thousands of reais)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>SOURCES OF FUNDS</b>				
From operations				
Net income for the year	<b>106,174</b>	100,701	<b>106,174</b>	100,701
Expenses (income) not affecting net working capital:				
Depreciation and amortization	<b>97,753</b>	95,323	<b>104,893</b>	98,545
Equity pickup	<b>(20,812)</b>	(9,468)	-	-
Reversal of provision for capital deficiency in subsidiary	<b>(2,139)</b>	(5,769)	-	-
Exchange variation on foreign investments	<b>4,291</b>	(266)	-	-
Interest and monetary and exchange variation, net of noncurrent items	<b>16,071</b>	2,192	<b>15,276</b>	2,336
Net book value of permanent asset disposals	<b>4,007</b>	1,086	<b>4,256</b>	1,644
Deferred income and social contribution taxes	<b>(6,462)</b>	(4,764)	<b>(5,930)</b>	(5,082)
Reversal of provision for contingencies and legal obligations	<b>(16,217)</b>	(2,412)	<b>(17,803)</b>	(2,056)
Recording (reversal) of provision for warranties	<b>(1,164)</b>	1,258	<b>(1,116)</b>	979
Provision for losses on property, plant and equipment and intangible assets	<b>1,133</b>	2,302	<b>1,133</b>	2,302
Minority interest	-	-	<b>4,334</b>	4,058
	<b>182,635</b>	180,183	<b>211,217</b>	203,427
From third parties				
Increase in noncurrent liabilities, net	<b>44,336</b>	8,793	<b>44,323</b>	10,096
Dividends received	<b>16,413</b>	7,202	-	-
Expired dividends	<b>74</b>	132	<b>74</b>	132
Interest on subsidiary's equity	<b>1,519</b>	1,653	-	-
Transfer of provision for losses on property, plant and equipments from current liabilities to permanent assets	-	1,412	-	1,412
Decrease in noncurrent assets, net	<b>10,022</b>	-	<b>10,063</b>	-
	<b>72,364</b>	19,192	<b>54,460</b>	11,640
Total sources	<b>254,999</b>	199,375	<b>265,677</b>	215,067
<b>UTILIZATION OF FUNDS</b>				
Minority interest on dividends and on interest on shareholders' equity of subsidiary	-	-	<b>7,588</b>	3,794
Net effect of noncurrent items of subsidiary Edival	-	-	<b>23,949</b>	-
Interest on shareholders' equity	<b>27,866</b>	30,951	<b>27,866</b>	30,951
Dividends proposed	<b>10,000</b>	20,000	<b>10,000</b>	20,000
Increase in noncurrent assets	-	241	-	333
Increase in judicial deposits, net	<b>1,844</b>	-	<b>1,817</b>	-
Investments	<b>24,338</b>	-	-	-
Property, plant and equipment	<b>122,934</b>	81,985	<b>131,772</b>	87,741
Intangible assets	<b>71,587</b>	-	<b>80,839</b>	-
Deferred charges	<b>1,059</b>	2,077	<b>1,059</b>	2,168
Total utilization	<b>259,628</b>	135,254	<b>284,890</b>	144,987
Increase (decrease) in net working capital	<b>(4,629)</b>	64,121	<b>(19,213)</b>	70,080

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

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

Years ended December 31, 2007 and 2006

(In thousands of reais)

	<b>Company</b>		<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Changes in net working capital				
Current assets				
At end of year	<b>518,047</b>	493,583	<b>600,825</b>	542,123
At beginning of year	<b>493,583</b>	444,343	<b>542,123</b>	477,326
	<b>24,464</b>	49,240	<b>58,702</b>	64,797
Current liabilities				
At end of year	<b>436,951</b>	407,858	<b>513,409</b>	435,494
At beginning of year	<b>407,858</b>	422,739	<b>435,494</b>	440,777
	<b>29,093</b>	(14,881)	<b>77,915</b>	(5,283)
Increase (decrease) in net working capital	<b>(4,629)</b>	64,121	<b>(19,213)</b>	70,080

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### STATEMENTS OF CASH FLOWS Years ended December 31, 2007 and 2006 (In thousands of reais)

	Company		Consolidated	
	2007	2006	2007	2006
<b>Cash flows from operating activities</b>				
Net income for the year	106,174	100,701	106,174	100,701
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation and amortization	97,753	95,323	104,893	98,545
Equity pickup	(20,812)	(9,468)	-	-
Minority interest	-	-	4,334	4,058
Interest and exchange and monetary variation, net	(20,281)	2,469	(23,798)	3,120
Result on permanent assets sold	(1,827)	1,486	(2,322)	1,580
Deferred income and social contribution taxes	(712)	387	112	276
Reversal of allowance for doubtful accounts	(1,098)	(2,001)	(439)	(1,801)
Reversal of provision for contingencies and legal obligations	(16,217)	(2,412)	(17,803)	(2,056)
Reversal of provision for warranties	(1,164)	1,258	(1,116)	979
Reversal of other provisions	2,439	(5,622)	3,195	(6,763)
Provision for losses on property, plant and equipments and intangible assets	1,133	2,302	1,133	2,302
Reversal of the provision for capital deficiency in subsidiary	(2,139)	(5,769)	-	-
Decrease (increase) in assets				
Trade accounts receivable	(18,875)	(12,837)	(13,973)	(43,754)
Accounts receivable from related parties	9,311	(13,768)	30,091	28,825
Inventories	(16,215)	(9,977)	(29,405)	(31,451)
Recoverable taxes	(8,354)	2,802	(8,942)	1,862
Other assets	(3,354)	(3,048)	(2,132)	(1,616)
Increase (decrease) in liabilities				
Trade accounts payable	1,759	(11,086)	3,369	(10,296)
Salaries, accrual for vacation and social charges payable	2,291	3,169	4,264	3,747
Taxes and contributions payable	10,237	1,289	9,693	1,079
Accounts payable to related parties	(423)	4,293	(4,855)	9,751
Unrealized losses on derivatives	16,304	3,844	16,274	2,270
Other liabilities and judicial deposits	7,112	8,718	9,440	10,823
Net cash provided by operating activities	<u>143,042</u>	<u>152,053</u>	<u>188,185</u>	<u>172,181</u>
<b>Cash flow from investing activities</b>				
Increase in subsidiary's capital	(4,706)	-	-	-
Cash spent on the acquisition of subsidiary, net of cash received	(86,547)	-	(87,385)	-
Dividends and interest on subsidiary's equity	9,448	8,855	-	-
Additions to property, plant and equipment	(122,934)	(81,985)	(131,772)	(87,741)
Additions to intangible assets	(4,672)	-	(10,258)	-
Additions to deferred charges	(1,059)	(2,077)	(1,059)	(2,168)
Proceeds from permanent assets sold	5,834	(400)	6,578	64
Net cash used in investing activities	<u>(204,636)</u>	<u>(75,607)</u>	<u>(223,896)</u>	<u>(89,845)</u>

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

STATEMENTS OF CASH FLOWS--Continued

December 31, 2007 and 2006

(In thousands of reais)

	<b>Company</b>		<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Cash flows from financing activities</b>				
Inflow of financings	<b>404,623</b>	229,494	<b>436,859</b>	234,499
Amortization of financings-principal amounts	<b>(310,504)</b>	(10,110)	<b>(333,896)</b>	(13,065)
Amortization of financings-interest	<b>(10,847)</b>	(6,087)	<b>(11,701)</b>	(6,281)
Discounted accounts receivable	<b>(36,506)</b>	(10,255)	<b>(35,578)</b>	(10,255)
Advances from customers	<b>1,414</b>	(810)	<b>2,201</b>	(890)
Dividends and interest on shareholders' equity paid	<b>(50,043)</b>	(271,688)	<b>(57,396)</b>	(274,179)
Expired dividends	<b>74</b>	132	<b>74</b>	132
Net cash generated by (used in) financing activities	<b>(1,789)</b>	(69,324)	<b>563</b>	(70,039)
<b>Increase (decrease) in cash and cash equivalents, net</b>	<b>(63,383)</b>	7,122	<b>(35,148)</b>	12,297
<b>Cash and cash equivalents at beginning of year</b>	<b>93,962</b>	86,840	<b>113,058</b>	100,761
<b>Cash and cash equivalents at end of year</b>	<b>30,579</b>	93,962	<b>77,910</b>	113,058
<b>Additional information:</b>				
Payment of income and social contribution taxes	<b>27,534</b>	37,962	<b>32,566</b>	43,235

See accompanying notes.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

#### 1. Operations

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

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

Other activities are developed through subsidiaries, including the production of sintered metal components and combustion engine valves, as well as the sale of products and technical assistance services in the international market.

On March 9, 2007, the Company acquired operating net assets of the bushing unit of Dana Indústria Ltda., located in the City of Gravataí, State of Rio Grande do Sul, for R\$3,135.

On March 20, 2007, the Company and its wholly-owned subsidiary Mahle Metal Leve GmbH acquired all of the shares (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. ("Edival"), headquartered in the City of Rafaela, Republic of Argentina, with a view to including the products developed by Edival (combustion engine valves) in the range of products offered by the Company to the domestic and foreign markets, for US\$41.2 million. Of this amount, US\$39.1 million (equivalent to R\$81,286) relates to the amount paid by the Company, and a relevant goodwill of R\$64,916 was originally computed, based on expected future profitability of the business; after recalculation resulting from accounting adjustment of deferred income tax not recognized by Edival at the acquisition date, the final goodwill amount was R\$61,805 (Company) and R\$65,471 (Consolidated), which has been amortized proportionately to profits generated by the subsidiary.

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

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

December 31, 2007 and 2006

(In thousands of reais)

#### **1. Operations--Continued**

On June 12, 2007, the Company acquired the share control of Filtroil Empreendimentos e Participações S.A. for R\$5,261, with a relevant goodwill of R\$5,110, based on expected future profitability, which has been amortized proportionately to profits generated by the subsidiary. On November 22, 2007, this company was merged by subsidiary MAHLE Filtroil Indústria e Comércio de Filtros Ltda., established in 2006, which is mainly engaged in the manufacture of filters, fluid separators and similar products, for all industrial purposes.

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

2.1. Financial statements are the responsibility of the Company's management and were prepared in compliance with provisions of the Brazilian Corporation Law and standards of the Brazilian Securities Commission - CVM. The financial statements are disclosed as provided for in IBRACON NPC 27 Pronouncement – Financial Statements – Presentation and Disclosure.

The preparation of the financial statements involves the use of accounting estimates. Such estimates were based on objective and subjective aspects considering management's judgment to determine the adequate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include the selection of useful lives of fixed assets and the analysis of their recoverability in operations, credit risk analysis in determining the allowance for doubtful accounts, as well as analysis of other risks in determining other provisions, including the provision for contingencies and warranties, and measurement of financial instruments and other assets and liabilities at the balance sheet date.

Actual results of such transitions 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.

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

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

December 31, 2007 and 2006

(In thousands of reais)

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

Assets and liabilities are classified as 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 currencies were converted into Brazilian Reais at the exchange rate in force at balance sheet date. Foreign currency translation adjustments were recognized in the statements of income.

In order to improve the information provided to the market, the Company is 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.

Other assets, other liabilities, other provisions and deferred charges appearing on the 2006 financial statements were reclassified to allow better comparison with the current presentation.

2.2. Authorization to complete the preparation of the financial statements was granted at the Board of Directors' meeting held on March 11, 2008.

#### **3. Summary of Significant Accounting Practices**

##### **a) Determination of profit and loss**

Profit and loss are recorded on the accrual basis. Revenue from sales of goods is recognized when all risks and benefits inherent to the product are transferred to the purchaser. Revenues are not recognized whenever their realization is significantly uncertain.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 3. Summary of Significant Accounting Practices--Continued

##### 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 balance sheet date, stated at cost, increased by earnings through the balance sheet date, not exceeding market value.

##### c) Allowance for doubtful accounts

The allowance for doubtful accounts is calculated based on the estimated losses, in an amount considered sufficient by management to cover any losses on realization of accounts receivable.

##### d) Inventories

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

##### e) Investments

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

Financial statements of the foreign subsidiaries are translated into reais using the following criteria:

- Asset and liability accounts by the exchange rate of the balance sheet date;
- Statement of income accounts by the exchange rate of the end of each month;
- Translation gains and losses are recognized under Financial Result, Net.

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

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 3. Summary of Significant Accounting Practices--Continued

f) Property, plant and equipment

Property, plant and equipment are stated at the cost of acquisition or construction, less depreciation. Depreciation is calculated by the straight-line method, using rates that consider the economic useful life of assets, as described in Note 11.

g) Intangible assets

These refer substantially to goodwill determined on the acquisition of equity interest based on expected future profitability of the investments.

h) Other current and noncurrent assets

These are stated at cost plus income and monetary variations earned, when applicable, less a provision to write down the asset to its realizable value, when necessary.

i) Liabilities

These are recognized in the balance sheet when the Company has a legal obligation, or as a result of past events, being probable that funds will be required to settle them. 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.

j) Expenses with technology and product development

These expenses are recorded as operating expenses when they refer to expenses incurred with the improvement and development of the Company's current products and as deferred charges when they refer to expenses incurred with new products, to be amortized over expected generation of corresponding revenues.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

### 3. Summary of Significant Accounting Practices—Continued

#### l) Taxation

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

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

These charges are presented as taxes and sales deductions in the statement of income. Credits resulting from non-cumulative taxation of PIS/COFINS are presented as a deduction of costs of goods sold in the statement of income.

Taxation on income includes income and social contribution taxes. Income tax is computed on taxable income at 15% tax rate, plus 10% surtax on income exceeding R\$240 within a period of 12 months, whereas social contribution tax is computed at 9% on taxable income, recognized on an accrual basis. Temporary differences generate deferred tax credits.

Advances or amounts to be offset are presented under current or noncurrent assets, according to their estimated realization.

#### m) Derivatives

For purposes of partially hedging against fluctuations in exchange rates and prices of raw materials (nickel, copper and aluminum), the Company engages in derivative financial instruments, which consist substantially of Swaps and Non Deliverable Forward (NDF).

The notional amount of these operations is not recorded in the balance sheet, and the unrealized net results from these operations are recorded on the accrual basis.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

### 3. Summary of Significant Accounting Practices--Continued

#### n) Consolidation

Consolidated financial statements have been prepared according to the basic principles of consolidation established by the Brazilian Corporation Law and standards of the Brazilian Securities Commission (CVM), which provide for the elimination of investments proportionally to the parent company's interest in shareholders' equity of subsidiaries, of the asset and liability accounts, unrealized income in the inventories and revenues and expenses between consolidated companies. Minority interest is disclosed separately in balance sheet and in the consolidated statement of income.

Consolidated companies are presented as follows:

	Interest on total capital (%)			
	2007		2006	
	Direct	Indirect	Direct	Indirect
MAHLE Metal Leve Miba Sinterizados Ltda.	70	-	70	-
MAHLE Válvulas de Argentina S.A.	95	5	-	-
MAHLE Filtroil Ind. e Com. de Filtros Ltda.	60	-	-	-
MAHLE Metal Leve GmbH (abroad)	100	-	100	-
MAHLE Metal Leve International NV (abroad)	-	100	-	100

### 4. Cash and Cash Equivalents

	Company		Consolidated	
	2007	2006	2007	2006
Cash and bank accounts	13,044	5,979	19,060	13,225
Short-term investments	-	84,454	40,831	96,291
Amounts awaiting exchange closing	17,535	3,529	18,019	3,542
	30,579	93,962	77,910	113,058

Amounts awaiting exchange closing refer to receipts in foreign currency from foreign customers (connected to export financing transactions - BNDES-Exim), for which the exchange closing had not been made until the fiscal year closing.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 4. Cash and Cash Equivalents--Continued

Short-term investments substantially refer to bank deposit certificates bearing interest at 100% of Interbank Deposit Certificate (CDI), and foreign funds investments backed by U.S. and U.K. government bonds bearing interest at rates between 1.83% and 2.80% per year.

#### 5. Trade Accounts Receivable

	Company		Consolidated	
	2007	2006	2007	2006
<u>Market</u>				
Domestic	115,306	104,904	130,695	115,859
Foreign	49,061	40,588	91,516	81,918
	<b>164,367</b>	145,492	<b>222,211</b>	197,777

#### 6. Inventories

	Company		Consolidated	
	2007	2006	2007	2006
Finished goods	61,397	48,397	89,877	60,069
Work in process	64,530	60,420	71,064	63,214
Raw materials	18,341	17,661	26,182	18,763
Other materials	6,885	9,458	8,316	10,724
Imports in transit	3,835	2,506	19,056	14,099
Provision for losses on inventories	(10,257)	(9,926)	(14,566)	(10,281)
	<b>144,731</b>	128,516	<b>199,929</b>	156,588

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

**7. Recoverable Taxes**

	<b>Company</b>		<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Income and social contribution taxes (Note 9.b)	<b>10,611</b>	8,517	<b>11,026</b>	6,924
Income tax on short-term investments	<b>9,238</b>	3,474	<b>9,556</b>	3,793
Income and social contribution taxes on services provided	<b>810</b>	596	<b>811</b>	597
ICMS on the acquisition of fixed assets	<b>15,679</b>	16,368	<b>16,928</b>	17,171
ICMS and IPI	<b>8,133</b>	6,408	<b>10,105</b>	6,821
PIS	<b>1,934</b>	2,068	<b>2,137</b>	2,190
COFINS	<b>8,896</b>	9,514	<b>9,830</b>	10,077
Other taxes	<b>2,347</b>	2,349	<b>3,121</b>	2,426
	<b>57,648</b>	49,294	<b>63,514</b>	49,999
Current	<b>(43,766)</b>	(34,356)	<b>(48,457)</b>	(34,376)
Noncurrent	<b>13,882</b>	14,938	<b>15,057</b>	15,623

ICMS on the acquisition of fixed assets is recoverable on a monthly basis at a 1/48 proportion.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2007 and 2006 (In thousands of reais)

#### 8. Related Parties

Companies	Company (2007)									
	Balances		Transactions							
	Current assets	Current liabilities	Sales/Revenues			Purchases				
			Products	Services	Commissions	Products	Services	Fixed assets	Commissions	Royalties
MAHLE Metal Leve Miba Sinterizados Ltda.	279	482	-	2,864	-	4,277	-	-	-	-
MAHLE Componentes de Motores do Brasil Ltda.	2,615	9,974	285	19,238	5,470	92,442	1,470	22	-	-
MAHLE Indústria e Comércio Ltda.	166	5	-	444	-	-	-	-	-	-
MAHLE Filtróil Ind. e Com. Ltda.	185	-	832	14	-	1	-	-	-	-
MAHLE Componentes de Motores S.A.	46	1,339	1,197	-	-	-	3	1,338	-	-
MAHLE S.A. de Argentina	9,084	-	24,101	-	-	274	-	-	-	-
MAHLE Industries, Inc	-	58	-	-	-	-	-	-	-	-
MAHLE S.A.	-	1,388	7	-	-	581	-	791	-	-
MAHLE Pistoni Itália SpA	-	-	-	-	-	64	-	-	-	-
MAHLE GmbH	321	4,565	2,440	-	-	11,946	3,838	4,222	-	15,499
MAHLE France SARL	677	-	1,438	26	-	-	-	-	-	-
MAHLE Filtersysteme	1,819	1,586	3,722	-	-	3,407	18	-	30	-
MAHLE Válvulas de Argentina S.A.	-	-	-	15	-	-	-	-	-	-
MAHLE Componentes de Motores de México, S. de R.L. de C.V.	12	-	40	-	-	12	5	-	-	-
MAHLE Engine Components (Thailand) Co. Ltd.	-	-	72	-	-	-	-	-	-	-
MAHLE, Inc.	264	258	34,997	5	-	15	223	-	859	-
MAHLE Polska Spolka. z o.o	86	-	268	-	-	-	-	-	-	-
MAHLE Motorkomponenten Schweiz AG	-	20	-	-	-	376	-	-	-	-
MAHLE Motorkomponenten GmbH	34	256	9,495	-	-	776	-	-	-	-
MAHLE König GmbH	-	-	-	17	-	-	-	-	-	-
MAHLE Technology, Inc.	-	-	7	-	-	-	-	-	-	-
MAHLE Metal Leve International N.V.	128,698	-	352,654	369	-	-	-	-	-	-
MAHLE Engine Components Australia Pty Ltd.	39	19	283	-	-	31	-	-	12	-
MAHLE Engine Components Japan Corporation	-	26	124	-	-	29	-	-	-	-
MAHLE Sistemas de Filtración S.L.	-	2	-	-	-	-	-	-	6	-
MAHLE Ventiltrieb GmbH	70	1	106	-	-	4,104	-	-	-	-
MAHLE Aftermarket GmbH	1,322	240	6,584	-	-	837	-	-	208	-
MAHLE Bearings (Yingkou) Co.,Ltd.	372	-	268	-	-	-	-	-	-	-
MAHLE Engine Components (Nanjing) Co., Ltd.	280	-	1,444	-	-	-	-	-	-	-
MAHLE Donghyun Filter Systems Co., Ltd.	-	136	-	-	-	741	-	-	-	-
MAHLE Vöcklabruck GmbH	864	-	5,041	-	-	-	-	-	-	-
MAHLE Migma Private Ltd.	-	-	-	-	-	2,358	-	-	-	-
MAHLE Trading Shanghai Co.	-	10	-	-	-	280	-	-	38	-
MAHLE Trading Japan Ltd.	-	-	5	-	-	115	-	-	-	-
MAHLE Japan Ltd.	2	-	-	-	-	-	-	-	-	-
MAHLE Composants Moteur France SAS	28	-	-	-	-	1	-	-	-	-
MAHLE Powertrain Ltd.	27	-	30	-	-	-	-	-	-	-
MAHLE Ventiltrieb Brandenburg GmbH	-	-	36	-	-	-	-	-	-	-
MAHLE Engine Components USA, Inc.	20	18	29	-	-	337	-	-	-	-
MAHLE Technologies Holding Co., Ltd.	-	-	30	-	-	-	-	-	-	-
MAHLE Engine Systems UK Ltd.	-	483	-	-	-	804	-	-	-	-
MAHLE International GmbH	16	-	-	-	-	-	-	-	-	-
Glacier Vendervell Italy s.r.l.	1,339	-	277	-	-	-	-	-	-	-
Total	<u>148,665</u>	<u>20,866</u>	<u>445,812</u>	<u>22,992</u>	<u>5,470</u>	<u>123,808</u>	<u>5,557</u>	<u>6,373</u>	<u>1,153</u>	<u>15,499</u>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2007 and 2006 (In thousands of reais)

#### 8. Related Parties--Continued

Companies	Company (2006)									
	Balances		Transactions							
	Current assets	Current liabilities	Sales/Revenues			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. de 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	-	14,601
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	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-
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 Private 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	-	-	-	-	-	-	-
<b>Total</b>	<b>157,976</b>	<b>21,289</b>	<b>505,552</b>	<b>17,456</b>	<b>4,927</b>	<b>121,707</b>	<b>906</b>	<b>13,569</b>	<b>1,496</b>	<b>14,601</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2007 and 2006 (In thousands of reais)

#### 8. Related Parties--Continued

Companies	Consolidated (2007)									
	Balances		Transactions							
	Current assets	Current liabilities	Sales/Revenues			Purchases		Commissions	Royalties	
		Products	Services	Commissions	Products	Services	Fixed assets			
MAHLE Componentes de Motores do Brasil Ltda.	2,615	9,974	285	19,238	5,470	92,442	1,470	22	-	-
MAHLE Indústria e Comércio Ltda.	166	5	-	444	-	-	-	-	-	-
MAHLE de México S de R.L. de C.V.	-	-	1,980	-	-	-	-	-	-	-
MAHLE Componentes de Motores S.A.	4,145	1,339	11,669	-	-	-	3	1,338	-	-
MAHLE S.A. de Argentina	9,089	-	24,205	-	-	274	-	-	-	-
MAHLE Industries, Inc	-	58	-	-	-	-	-	-	-	-
MAHLE S.A.	-	1,388	86	-	-	581	-	791	-	-
MAHLE Pistoni Itália SpA	3,136	-	11,317	-	-	64	-	-	-	-
MAHLE GmbH	7,695	4,565	37,780	-	-	11,946	3,838	4,222	-	15,499
MAHLE France SARL	14,386	32	58,997	-	-	-	-	-	-	-
MAHLE Filtersysteme	1,865	1,778	3,722	-	-	3,585	18	-	30	-
MAHLE Pistons France SARL	-	-	108	26	-	-	-	-	-	-
MAHLE Componentes de Motores de México, S. de R.L. de C.V.	3,757	2	11,689	-	-	36	5	-	53	-
MAHLE Engine Components (Thailand) Co. Ltd.	-	-	2,709	-	-	-	-	-	-	-
MAHLE, Inc.	7,021	500	60,941	5	-	8,313	223	-	859	-
MAHLE Polska Spolka. z o.o	86	-	268	-	-	-	-	-	-	-
MAHLE Motorkomponenten Schweiz AG	-	20	-	-	-	376	-	-	-	-
MAHLE Motorkomponenten GmbH	6,929	1,925	34,597	-	-	776	-	-	-	-
MAHLE König GmbH	-	-	-	17	-	-	-	-	-	-
MAHLE Technology, Inc.	-	3,331	7	-	-	-	-	-	-	-
MAHLE Sud America N.V.	33	12	-	38	-	-	-	-	-	-
MAHLE Engine Components Australia Pty Ltd.	71	51	283	-	-	31	-	-	12	-
MAHLE Engine Components Japan Corporation	-	26	124	-	-	29	-	-	-	-
MAHLE Sistemas de Filtracion S.L.	-	39	-	-	-	-	-	-	6	-
MAHLE Ventiltrieb GmbH	70	1	116	-	-	4,105	-	-	-	-
MAHLE Aftermarket GmbH	5,876	489	31,284	-	-	837	-	-	31	-
MAHLE Bearings (Yingkou) Co.,Ltd.	1,170	-	269	-	-	-	-	-	-	-
MAHLE Engine Components (Nanjing) Co., Ltd.	280	-	1,444	-	-	-	-	-	-	-
MAHLE Donghyun Filter Systems Co., Ltd.	-	136	-	-	-	741	-	-	-	-
MAHLE Vöcklabruck GmbH	864	-	5,041	-	-	-	-	-	-	-
MAHLE Migma Private Ltd.	5	-	-	-	-	2,358	-	-	-	-
MAHLE Trading Shanghai Co.	-	10	-	-	-	280	-	-	38	-
MAHLE Trading Japan Ltd.	-	-	5	-	-	115	-	-	-	-
MAHLE Japan Ltd.	2	12	-	-	-	-	-	-	-	-
MAHLE Composants Moteur France SAS	28	-	-	-	-	1	-	-	-	-
MAHLE Powertrain Ltd.	2,917	-	8,066	-	-	-	-	-	-	-
MAHLE Ventiltrieb Brandenburg GmbH	-	-	36	-	-	-	-	-	-	-
MAHLE Engine Components USA, Inc.	20	18	29	-	-	338	-	-	-	-
MAHLE Technologies Holding Co., Ltd.	-	-	30	-	-	-	-	-	-	-
MAHLE Engine Systems UK Ltd.	-	483	-	-	-	804	-	-	-	-
MAHLE International GmbH	16	71	-	-	-	-	-	-	-	-
Glacier Vendervell Italy s.r.l.	1,339	-	277	-	-	-	-	-	-	-
MAHLE Clevite, Inc	3,168	28	4,954	-	-	-	-	-	-	-
<b>Total</b>	<b>76,749</b>	<b>26,293</b>	<b>312,318</b>	<b>19,768</b>	<b>5,470</b>	<b>128,032</b>	<b>5,557</b>	<b>6,373</b>	<b>1,029</b>	<b>15,499</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2007 and 2006 (In thousands of reais)

#### 8. Related Parties--Continued

Companies	Consolidated (2006)									
	Balances		Transactions							
	Current assets	Current liabilities	Sales/Revenues			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. de 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	-	14,601
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 Shanghai 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	-	-	-	-	-	-	-
<b>Total</b>	<b>106,840</b>	<b>31,148</b>	<b>470,402</b>	<b>14,974</b>	<b>4,927</b>	<b>119,706</b>	<b>906</b>	<b>13,569</b>	<b>1,721</b>	<b>14,601</b>

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

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

December 31, 2007 and 2006

(In thousands of reais)

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

Commercial transactions among related parties relate substantially to the purchase and sale of products and services directly related to the Company's operating activities, at conditions similar to those adopted with third parties.

The Company entered into 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 under expenses with technology and product development, and amount to R\$15,499 for the year ended December 31, 2007 (R\$14,601 in 2006).

The commissions refer to representation services provided for or by related parties. Prices are determined considering profit margins usually applied in the market for 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 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, 2007 and 2006

(In thousands of reais)

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

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

	<u>Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Income before income and social contribution taxes	<b>99,184</b>	103,424	<b>110,566</b>	112,597
Exclusion of equity pickup result and valuation allowance	<b>(18,660)</b>	(15,503)	-	-
Exclusion of foreign subsidiary results	-	-	<b>(11,255)</b>	(6,208)
Adjusted income before income and social contribution taxes	<b>80,524</b>	87,921	<b>99,311</b>	106,389
IRPJ and CSSL at nominal rate (34%)	<b>(27,378)</b>	(29,893)	<b>(33,767)</b>	(36,172)
Adjustments for effective rate calculation:				
Effects on permanent differences				
Transfer pricing	<b>(1,902)</b>	(1,665)	<b>(1,902)</b>	(1,665)
Exclusion resulting from previously recorded monetary adjustment related to the Brazilian Economic "Summer Plan" Program (*)	<b>11,322</b>	-	<b>11,322</b>	-
Other, net	<b>(1,018)</b>	(574)	<b>(2,328)</b>	(119)
Effects on temporary differences:				
Provisions	<b>(1,093)</b>	498	<b>(269)</b>	387
Current income and social contribution taxes	<b>(20,069)</b>	(31,634)	<b>(26,944)</b>	(37,569)
Deferred income and social contribution taxes	<b>712</b>	(387)	<b>(112)</b>	(276)
Total income and social contribution taxes	<b>(19,357)</b>	(32,021)	<b>(27,056)</b>	(37,845)
Effective rate	<b>23.6%</b>	36.3%	<b>27.2%</b>	35.6%

(\*) Exclusion related to a relevant final and unappealable judicial decision favorable to the Company issued in fiscal year 2007.

##### b) Recoverable income and social contribution taxes

	<u>Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Income tax	<b>11,795</b>	23,190	<b>16,861</b>	27,540
Social contribution tax	<b>8,274</b>	8,444	<b>10,083</b>	10,029
	<b>20,069</b>	31,634	<b>26,944</b>	37,569
Offset against prepaid taxes and tax incentives	<b>(28,362)</b>	(38,590)	<b>(35,627)</b>	(42,865)
Social contribution tax credit on depreciation of fixed asset items	<b>(2,411)</b>	(1,522)	<b>(2,411)</b>	(1,574)
Other	<b>93</b>	(39)	<b>68</b>	(54)
Recoverable tax balance (Note 7)	<b>(10,611)</b>	(8,517)	<b>(11,026)</b>	(6,924)

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(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:

	Company		Consolidated	
	2007	2006	2007	2006
Temporary differences				
Provision for contingencies and warranties	29,661	32,660	30,473	33,119
Provision for losses on inventories	7,141	5,304	9,141	5,586
Allowance for doubtful accounts	1,208	1,582	1,257	1,678
Provision for losses on the realization of other assets	3,782	3,752	3,782	3,879
Commissions on sales and other temporarily nondeductible provisions	8,927	6,191	9,765	6,450
	<b>50,719</b>	49,489	<b>54,418</b>	50,712
Current	(9,399)	(5,750)	(10,129)	(6,042)
Noncurrent	<b>41,320</b>	43,739	<b>44,289</b>	44,670

In accordance with Company's management projections, deferred income and social contribution taxes classified under noncurrent assets, at December 31, 2007 will be realized as follows:

Year	Company	Consolidated
2009	6,786	8,156
2010	11,081	11,477
2011	3,247	3,560
2012	4,555	4,603
2013 to 2015	10,778	11,424
2016 to 2018	4,873	5,069
	<b>41,320</b>	<b>44,289</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued December 31, 2007 and 2006 (In thousands of reais)

#### 10. Investments in Subsidiaries

	2007							2006								
	Subsidiary information			Interest				Exchange variation on investment	Subsidiary information			Interest				Exchange variation on investment
	Shareholders' equity	Results for the year	%	In shareholders' equity	In results for the year	Reversal of provision	Shareholders' equity (capital deficiency)		Income for the year	%	In shareholders' equity	In capital deficiency	In income for the year	Reversal of provision		
<b>Investments:</b>																
MAHLE Metal Leve Miba Sinterizados Ltda.	27,376	14,452	70,00	19,163	10,117	-	-	38,541	13,527	70,00	26,979	-	9,468	-		
MAHLE Válvulas de Argentina S.A.	17,569	934	95,00	16,691	887	-	(3,677)	-	-	-	-	-	-	-		
MAHLE Metal Leve GmbH	13,910	11,956	100,00	13,910	9,817	2,139	(614)	(2,139)	5,769	100,00	-	(2,139)	-	5,769		
MAHLE Filtróil Ind. e Com. de Filtros Ltda.	236	(15)	60,00	142	(9)	-	-	-	-	-	-	-	-	-		
				<b>49,906</b>	<b>20,812</b>	2,139	<b>(4,291)</b>				<b>26,979</b>	<b>(2,139)</b>	<b>9,468</b>	<b>5,769</b>		

Interest in capital deficiency of MAHLE Metal Leve GmbH, in the amount of R\$2,139 in 2006, is recorded in noncurrent liabilities under “provision for capital deficiency in subsidiary”. This provision was reversed in the year ended December 31, 2007.

At the Annual and Extraordinary General Meeting of Establecimientos Metalúrgicos Edival S.A. held on September 11, 2007, its corporate name was changed to MAHLE Válvulas de Argentina S.A..

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

**11. Property, Plant and Equipment**

	Annual depreciation rates (%)	Company		Consolidated	
		2007	2006	2007	2006
Land	-	<b>6,266</b>	7,644	<b>7,075</b>	8,019
Buildings and construction	4	<b>93,548</b>	88,436	<b>102,368</b>	93,789
Machinery, equipment and facilities	10-20	<b>835,096</b>	786,973	<b>934,635</b>	854,463
Furniture and fixtures	10	<b>16,287</b>	16,371	<b>19,311</b>	17,109
Transportation assets	20-40	<b>16,688</b>	16,066	<b>18,127</b>	17,113
Software acquisition and installation expenses	20	<b>28,220</b>	25,667	<b>29,049</b>	26,500
Other	20	<b>339</b>	339	<b>348</b>	349
Construction in progress	-	<b>63,417</b>	55,403	<b>75,056</b>	56,853
Advances to suppliers	-	<b>30,447</b>	5,916	<b>30,869</b>	7,613
(-) Provision for losses on property, plant and equipment		<b>(3,457)</b>	(3,930)	<b>(3,457)</b>	(3,939)
		<b>1,086,851</b>	998,885	<b>1,213,381</b>	1,077,869
Accumulated depreciation		<b>(691,155)</b>	(649,387)	<b>(772,173)</b>	(709,121)
		<b>395,696</b>	349,498	<b>441,208</b>	368,748

Construction in progress and advances to suppliers at December 31, 2007 and 2006 refers to assets which are in the process of acquisition and/or installation, and various construction works for expansion and modernization of the Company's industrial facilities. Projects in progress include the construction of the new Technology Center, which is expected to be completed in 2008.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

### 12. Intangible Assets

	Annual amortization rates (%)	Company		Consolidated	
		2007	2006	2007	2006
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 MAHLE Válvulas de Argentina S.A.	-	61,805	-	65,471	-
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
Goodwill on the acquisition of the subsidiary Filtroil Empreendimentos e Participações S.A.	20	5,110	-	5,110	-
Other	20	4,672	-	10,383	-
Provision for losses on intangible assets		(1,606)	-	(1,606)	-
		187,273	117,292	196,650	117,292
Accumulated amortization		(111,473)	(87,128)	(111,505)	(87,128)
		75,800	30,164	85,145	30,164

### 13. Trade Accounts Payable

	Company		Consolidated	
	2007	2006	2007	2006
Domestic	48,399	48,335	55,032	50,415
Abroad	5,563	3,868	10,550	4,919
	53,962	52,203	65,582	55,334

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 14. Financings

Financial charges (12.31.07)	Company		Consolidated	
	2007	2006	2007	2006
<b>Local currency</b>				
Finame – TJLP(*) variation plus annual interest ranging from 1.0% to 4.5%.	6,243	7,005	6,243	7,005
Finame – annual interest ranging from 10.5% to 11.5%.	10,888	14,323	10,888	14,323
Working capital – TJLP variation plus annual interest of 2.5%	3,635	5,121	8,127	10,184
Working capital – annual interest of 102.00% of CDI	31,665	-	31,665	-
Overdraft facilities – annual interest ranging from 102.00% to 103.00% of CDI	-	-	1,227	-
Other	92	1	92	8
<b>Foreign currency</b>				
Provision for interest on discounted accounts receivable	392	1,009	399	1,009
Working capital – Foreign exchange variation plus annual interest ranging from 4.25% to 5.9%.	-	-	28,327	-
BNDES-Exim (US\$40 million):				
- 100% of the balance indexed to TJLP variation plus annual interest of 2.07%.	72,949	-	72,949	-
BNDES-Exim (US\$100 million):				
- 80% of the balance indexed to TJLP variation plus annual interest of 2.75%.	-	172,992	-	172,992
- 20% of the balance indexed to exchange variation plus annual interest of 10.06%.	-	43,297	-	43,297
- Swap indexed to exchange variation plus annual interest of 4.30%.	-	(13,739)	-	(13,739)
BNDES-Exim (US\$30 million):				
- 80% of the balance indexed to TJLP variation plus annual interest of 2.60%.	52,644	-	52,644	-
- 20% of the balance indexed to exchange variation plus annual interest of 9.37%.	10,841	-	10,841	-
- Swap indexed to exchange variation plus annual interest of 4.52%.	(9,429)	-	(9,429)	-
BNDES-Exim (US\$55 million):				
- 80% of the balance indexed to TJLP variation plus annual interest of 2.95%.	93,755	-	93,755	-
- 20% of the balance indexed to exchange variation plus annual interest of 10.14%.	19,907	-	19,907	-
- Swap indexed to exchange variation plus annual interest of 5.50%.	(14,077)	-	(14,077)	-
Other	-	-	2,715	-
	<b>279,505</b>	230,009	<b>316,273</b>	235,079
Current	<b>(210,586)</b>	(210,769)	<b>(243,888)</b>	(211,672)
Noncurrent	<b>68,919</b>	19,240	<b>72,385</b>	23,407

(\*) Long-term interest rate (TJLP)

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 14. Financings--Continued

Finame loans were raised to acquire machinery and equipment and are secured by management sureties and chattel mortgage on financed assets. There is no guarantee for working capital financing and BNDES-Exim related transactions.

At December 31, 2007, the Company had engaged in foreign exchange and interest swap contracts in connection with the BNDES-Exim program to finance exports, as detailed below:

- US\$30 million: original transaction indexed to TJLP variation plus annual interest of 2.60% (for 80% of the amount) and exchange variation plus annual interest of 9.37% (for remaining 20%), to be paid in five equal and successive monthly installments between February 15 and June 16, 2008. After the swap transaction, the financing became indexed to exchange variation plus annual interest of 4.52%; and
- US\$55 million: original transaction indexed to TJLP variation plus annual interest of 2.95% (for 80% of the amount) and exchange variation plus annual interest of 10.14% (for remaining 20%), to be paid in five equal and successive monthly installments between May 15 and September 15, 2008. After the swap transaction, the financing became indexed to exchange variation plus annual interest of 5.50%.

Company management is in constant contact with financial institutions for competitive sources to fund its operations.

At December 31, 2006, the Company entered into a foreign exchange and interest swap contract in connection with the BNDES-Exim program, in the amount of US\$100 million. The original financing was indexed to TJLP variation plus annual interest of 2.75% (for 80% of the amount) and exchange variation plus annual interest of 10.0% (for the remaining 20%), with final maturity scheduled for November 15, 2007. After the swap transaction, the financing became indexed to exchange variation plus annual interest of 4.30%.

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

**14. Financings--Continued**

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

	Company		Consolidated	
	2007	2006	2007	2006
2008	-	9,189	-	13,356
2009	<b>64,448</b>	6,197	<b>67,914</b>	6,197
2010	<b>3,574</b>	3,335	<b>3,574</b>	3,335
2011	<b>783</b>	519	<b>783</b>	519
2012	<b>114</b>	-	<b>114</b>	-
	<b>68,919</b>	19,240	<b>72,385</b>	23,407

**15. Salaries, Accrual for Vacation and Social Charges Payable**

	Company		Consolidated	
	2007	2006	2007	2006
Vacation pay	<b>21,713</b>	20,896	<b>24,320</b>	22,707
Social charges	<b>9,849</b>	9,041	<b>13,115</b>	9,616
Employees' profit sharing	<b>13,632</b>	12,966	<b>14,807</b>	13,570
	<b>45,194</b>	42,903	<b>52,242</b>	45,893

**16. Other Provisions**

	Company		Consolidated	
	2007	2006	2007	2006
Provision for restructuring	<b>2,600</b>	3,779	<b>2,600</b>	3,779
Provision for future losses	<b>9,139</b>	5,675	<b>9,786</b>	6,141
Provision for royalties and patents	-	-	<b>747</b>	1,117
Other	<b>1,093</b>	939	<b>4,792</b>	3,693
	<b>12,832</b>	10,393	<b>17,925</b>	14,730

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 16. Other Provisions--Continued

##### Provision for restructuring

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

##### Provision for future losses

Set up at an amount considered to be sufficient to cover losses on sales agreements already executed, in which Company management expects to incur negative margins.

#### 17. Provision for Warranties

	<u>Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Provision for warranties	<b>2,324</b>	3,375	<b>2,406</b>	3,375
Warranty expenses already identified	<b>4,316</b>	4,429	<b>4,316</b>	4,429
	<b>6,640</b>	7,804	<b>6,722</b>	7,804

The Company and its subsidiaries ensure that quality products are provided to their customers, undertaking responsibility for possible replacements and repairs resulting from defective goods provided. Based on estimates that consider historical data of similar expenses and sales, among other factors, the Company recognizes the following provisions:

##### a) Provision for warranties

This provision is calculated based on sales of products, considering historical warranty expenses.

##### b) Warranty expenses already identified

These refer to cases already identified, for which the Company estimates spend funds for replacement and repair of products, including the recalls.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 18. Provision for Contingencies and Legal Obligations Related to Judicial Proceedings

The Company and its subsidiaries are parties to civil, labor claims and tax proceedings, both at administrative and judicial levels that, when applicable, are supported by judicial deposits. The related provisions for contingencies were set up considering legal advisors' assessment of proceedings whose chances of loss were considered as probable. Management believes that the resolution of these issues will not have an effect significantly different from the amount accrued.

At December 31, 2007 and 2006 the contingent risks, based on the legal advisors' opinion, are as follows:

	Company		Consolidated	
	2007	2006	2007	2006
Civil and labor	55,323	51,104	56,238	52,245
Tax	31,551	42,667	33,818	42,872
Less:				
Judicial deposits	(15,592)	(13,748)	(15,658)	(13,841)
	<u>71,282</u>	<u>80,023</u>	<u>74,398</u>	<u>81,276</u>

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

Tax contingencies are basically represented by state and tax assessment notices pending judgment, which relate to discussions as to the proper interpretation of tax legislation.

In addition to the previously mentioned figures, the amount of R\$43,620 (R\$35,557 in 2006), in connection with labor claims, civil and tax proceedings for which the chances of an unfavorable outcome are possible, according to Company's legal advisors, was not recorded by management in the financial statements.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 19. Shareholders' Equity

##### a) Capital

At December 31, 2007 and 2006, subscribed and paid-up capital comprises the following shares without par value:

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

Preferred Company shares are nonvoting shares, and are assured of priority in reimbursement of capital and payment of non-cumulative minimum dividends. Such shares 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 to receive dividends 10% higher than those allocated to common shares.

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

**19. Shareholders' Equity--Continued**

b) Remuneration to shareholders

Shareholders are entitled to receive annual minimum dividends of 25% of the net income for the year, as established by the Articles of Incorporation. Shareholders' remuneration was determined as follows:

	<b>2007</b>	<b>2006</b>
Net income for the year	<b>106,174</b>	100,701
Legal reserve	<b>(5,309)</b>	(5,034)
Calculation basis	<b>100,865</b>	95,667
Distribution to the shareholders:		
Interest on shareholders' equity of R\$30,951, net of income tax, partially paid on December 20, 2006	-	26,794
Dividends proposed in 2006 and paid on May 22, 2007	-	20,000
Interest on shareholders' equity of R\$27,866, net of income tax, partially paid on December 20, 2007	<b>24,093</b>	-
Dividends proposed in 2007	<b>10,000</b>	-
Total	<b>34,093</b>	46,794
Dividends in connection with net income for the year	<b>34,093</b>	46,794
Percentage in relation to the calculation basis	<b>33.80%</b>	48.91%
Interest on shareholders' equity/dividends per share in reais:		
Preferred	<b>R\$ 1.162042</b>	R\$ 1.594949
Common	<b>R\$ 1.056402</b>	R\$ 1.449953

The amount related to interest on shareholders' equity was computed when determining the compulsory dividends for fiscal 2007 and 2006, 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, 2007 and 2006

(In thousands of reais)

**19. Shareholders' Equity--Continued**

c) Income reserves

Legal reserve

The legal reserve was set up in accordance with the Brazilian Corporation law, based on 5% of net income for the year, up to the limit of 20% of the paid capital or 30% of capital plus capital reserve. Beyond such limits appropriations to this 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

To be applied to capital budget investments under article 196 of Brazilian Corporation Law. Proposed appropriation of net income for the year ended December 31, 2007, includes retention of income, to be approved at the Annual General Meeting to be held in April 2008, in the amount of R\$63,073 (R\$44,848 in 2006), for future investments.

d) Appropriation of net income for the year

Appropriation of net income for the year was as follows:

	<u>2007</u>	<u>2006</u>
Net income for the year	106,174	100,701
Income reserve:		
Legal	5,309	5,034
Income distribution:		
Interest on shareholders' equity	27,866	30,951
Dividends	10,000	20,000
	<u>62,999</u>	<u>44,716</u>
Expired dividends and interest on shareholders' equity	74	132
Total	<u>63,073</u>	<u>44,848</u>
Proposed balance to be transferred to the specific account "reserve for expansion and modernization"	<u>(63,073)</u>	<u>(44,848)</u>

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

**NOTES TO FINANCIAL STATEMENTS--Continued**

December 31, 2007 and 2006

(In thousands of reais)

**20. Financial Result, Net**

	<b>Company</b>		<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b><u>Financial expenses</u></b>				
Interest	(21,478)	(13,210)	(23,020)	(13,397)
Monetary variations – losses	(8,866)	(8,749)	(9,295)	(8,965)
Losses on derivatives – commodities	(2,952)	-	(2,952)	-
Other	(10,599)	(10,097)	(12,606)	(10,897)
	<b>(43,895)</b>	<b>(32,056)</b>	<b>(47,873)</b>	<b>(33,259)</b>
<b><u>Financial income</u></b>				
Interest	4,849	11,289	6,205	12,668
Monetary variations – gains	271	191	276	194
Gains on derivatives – commodities	605	-	605	-
Other	142	217	149	233
	<b>5,867</b>	<b>11,697</b>	<b>7,235</b>	<b>13,095</b>
Subtotal	<b>(38,028)</b>	<b>(20,359)</b>	<b>(40,638)</b>	<b>(20,164)</b>
Exchange variations – losses	(66,460)	(33,052)	(71,584)	(36,745)
Exchange variations – gains	80,953	42,659	86,426	46,619
	<b>14,493</b>	<b>9,607</b>	<b>14,842</b>	<b>9,874</b>
Gains (losses) on derivatives - foreign currency positions	(19,611)	112	(19,257)	112
	<b>(5,118)</b>	<b>9,719</b>	<b>(4,415)</b>	<b>9,986</b>
Financial result, net	<b>(43,146)</b>	<b>(10,640)</b>	<b>(45,053)</b>	<b>(10,178)</b>

The losses of R\$19,611 (Company) and R\$19,257 (Consolidated) on derivative transactions are derived from the financial management policy adopted for 2007, to hedge against fluctuations in exchange rates of assets and liabilities denominated in foreign currency, as described in Note 22.b.

**21. Other Operating Income (Expenses), Net**

	<b>Company</b>		<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Recovered taxes	2,207	6,589	2,461	7,353
Provision for contingencies and other	6,352	(7,095)	7,153	(4,374)
	<b>8,559</b>	<b>(506)</b>	<b>9,614</b>	<b>2,979</b>

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 22. Financial Instruments

The Company is exposed to market risks in connection with relevant transactions. Such risks mainly involve: credit risk; exchange rate risk, considering that the Company has significant obligations and receivables denominated mainly in U.S. dollars; risk in connection with fluctuations in the prices of aluminum, copper and nickel; and interest rate risk. The Company engages in derivative financial instruments to minimize such risks. Derivatives are not used for speculative purposes.

Risk management activities follow a formal risk management policy monitored by management. The Company maintains 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.

##### a) Credit risk

The Company and its subsidiaries operate in two different markets, namely, original equipment (OEM) and replacement (aftermarket). The possibility that the Company and its subsidiaries incur losses resulting from liquidity constraints 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 Company 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, 2007 and 2006

(In thousands of reais)

#### 22. Financial Instruments--Continued

##### b) Exchange rate risk

At December 31, 2007 and 2006, exposure to foreign currency variations by the Company and its subsidiaries is as follows:

	<b>Company</b>		<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>				
Trade accounts receivable	<b>49,061</b>	40,588	<b>91,516</b>	81,918
Short-term investments	-	-	<b>36,351</b>	2
Discounted accounts receivable	<b>(34,447)</b>	(70,953)	<b>(35,375)</b>	(70,953)
Accounts receivable from related parties	<b>145,420</b>	155,437	<b>73,968</b>	104,396
Allowance for doubtful accounts	<b>(1,389)</b>	(1,751)	<b>(2,474)</b>	(2,112)
	<b>158,645</b>	123,321	<b>163,986</b>	113,251
<b>Liabilities</b>				
Financings	<b>(226,982)</b>	(203,559)	<b>(258,031)</b>	(203,559)
Trade accounts payable	<b>(5,563)</b>	(3,868)	<b>(10,550)</b>	(4,919)
Provision for warranties	<b>(664)</b>	(777)	<b>(664)</b>	(777)
Accounts payable to related parties	<b>(10,405)</b>	(10,208)	<b>(16,314)</b>	(20,087)
Other	<b>(740)</b>	(812)	<b>(740)</b>	(826)
	<b>(244,354)</b>	(219,224)	<b>(286,299)</b>	(230,168)
Net exposure	<b>(85,709)</b>	(95,903)	<b>(122,313)</b>	(116,917)

Risks are related to fluctuations in exchange rates that generate significant effects on assets and liabilities in foreign currency. Aiming at partially hedging income and cash flows against such fluctuations, the Company engages in the following derivative transactions:

- Non-deliverable forward sale contracts-NDF (U.S. dollar and euro), which generated net gains in fiscal 2007 of R\$42,791 (R\$3,956 in 2006), recorded under Financial Result, Net at the Company's financial statements. At the consolidated financial statements, net gains amounted to R\$43,145.
- Non-deliverable forward purchase contracts (U.S. dollar) to hedge currency swap transactions related to BNDES financing arrangements, which resulted in 2007 in a net loss of R\$62,402 (R\$3,844 in 2006), recorded under Financial Result, Net at the Company's financial statements. At the consolidated financial statements, net losses amounted to R\$62,402.

## MAHLE METAL LEVE S.A. AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

#### 22. Financial Instruments--Continued

##### c) Raw material risk

Starting August 2007, the Company engaged in derivative transactions to reduce risks related to fluctuation in the price of commodities (nickel, aluminum and copper) applied to the manufacturing of its products. Such derivatives relate to the swap of financial results between such metal prices and exchange variation. In fiscal year 2007, these transactions resulted in net losses of R\$2,347, accounted for under Financial Result, Net.

##### d) Interest rate risk

The Company monitors fluctuations of interest rates to which their monetary assets and liabilities are pegged. In case of increased volatility of such rates, the Company may engage in derivative transactions aiming at minimizing such risks. At December 31, 2007, the Company did not have any interest rate derivative instruments open, with the exception of those described in Note 14.

##### Market values

At December 31, 2007 and 2006, market values of cash and cash equivalents and accounts receivable and payable approximate amounts recorded in the financial statements, given their short-term nature. With regard to loans and financing, the related market values approximate financial statement amounts, since such financial instruments are subject to variable interest rates.

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

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2007 and 2006

(In thousands of reais)

**22. Financial Instruments--Continued**

Market values--Continued

The table below shows the market price (mark-to-market method) of derivative transactions at December 31, 2007 and 2006, compared to the book value recorded in Unrealized losses on derivatives under current liabilities:

2007

Subject	Transaction type	Position	Original currency	NDF Currency	NDF volume at 12/31/07	Gain/(loss)	
						Recorded by the accrual method (on a pro rata temporis basis)	Marked to market
Financings	NDF	Purchase	USD	BRL	\$85,000,000.00	(21,594)	(21,421)
Exports	NDF	Sale	USD	BRL	\$69,000,000.00	5,265	4,272
Exports	NDF	Sale	EUR	BRL	€22,015,000.00	677	299
						<u>(15,652)</u>	<u>(16,850)</u>

Subject	Transaction type	Position	Original currency	NDF currency	NDF volume at 12/31/07	Gain/(loss)	
						Recorded by the accrual method (on a pro rata temporis basis)	Marked to market
Nickel	Swap/zero cost collar	Purchase	USD	BRL	840 tons	(1,352)	(1,302)
Copper	Swap	Purchase	USD	BRL	2,275 tons	(1,345)	52
Aluminum	Swap	Purchase	USD	BRL	1,300 tons	(225)	(246)
						<u>(18,574)</u>	<u>(18,346)</u>

2006

Subject	Transaction type	Position	Original currency	NDF currency	NDF volume at 12/31/06	Gain/(loss)	
						Recorded by the accrual method (on a pro rata temporis basis)	Marked to market
Financings	NDF	Purchase	USD	BRL	\$95,000,000.00	(3,844)	(3,887)
Exports	NDF	Sale	USD	BRL	\$32,520,000.00	1,533	1,657
Exports	NDF	Sale	EUR	BRL	€ 1,365,000.00	41	52
						<u>(2,270)</u>	<u>(2,178)</u>

*Derivative market value information was obtained from financial institutions.*

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

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

December 31, 2007 and 2006

(In thousands of reais)

#### **23. Employees' 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, 2007 and 2006, the Company and its subsidiaries distributed profit to their employees, based on a trade union agreement, totaling R\$21,490 (R\$14,099 in 2006) in the Company and R\$22,943 (R\$14,758 in 2006) in consolidated. The criteria for profit sharing payment followed the rules set forth in the collective labor agreement, which establishes certain objectives to be reached, summarized 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 hours worked; and (iii) maintaining the scrap level up to the average annual rate previously defined in relation to the number of parts produced.

#### **24. Private Pension Plan – Defined Contribution**

In September 2006, the Company contracted with Bradesco Vida e Previdência an income tax deductible private pension plan – PGBL, offering all its employees the choice of participating in such plan.

Contributions are defined based on classification into salary ranges above R\$5, with contribution percentages varying from 2% to 4% by the employee and the Company. For employees falling into salary ranges below R\$5, the Company will contribute with a nominal salary for every 10 years of employment with the Company (without considering periods before September 2006), at the employee's retirement. The administrator performs an annual actuarial evaluation of the plan for determining any adjustments in contribution levels required. Employer and employees started contributing in October 2006, and the Company's total contributions amounted to R\$2,683 in 2007 (R\$594 in 2006).

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

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

December 31, 2007 and 2006

(In thousands of reais)

#### **25. Insurance (Unaudited)**

At December 31, 2007 and 2006, the Company had insurance coverage against fire and several risks for property, plant and equipments and inventories, at amounts considered by Management to be sufficient to cover possible losses.

#### **26. Subsequent Event**

At the Extraordinary General Meeting held on January 28, 2008, the acquisition for US\$8.5 million of the activities related to the distribution of pistons, cylinders and aftermarket by subsidiary MAHLE Válvulas de Argentina S.A. was approved. Such activities are currently performed by the argentine subsidiary of the Company's parent company (MAHLE S.A. de Argentina).

#### **27. Law No. 11638/07 – Changes in the Brazilian Corporation Law**

On December 28, 2007, Law No. 11638 was enacted by the Brazilian president. Law No. 11638 amends and revokes provisions of Law No. 6404 of December 15, 1976 and Law No. 6385 of December 7, 1976.

The requirements of this Law shall apply to financial statements related to the fiscal years ended on and after January 1, 2008, with the following changes applicable to the Company: a) replacement of the statement of changes in financial position by the statement of cash flows; b) compulsory preparation of statement of value added; c) the entries of accounting adjustments made exclusively to meet the new accounting standards, are not taxable or deductible; d) the adjustments to market value of assets and liabilities must be recorded in a new account denominated adjustments to asset valuation, in shareholders' equity; e) held for trading and available-for-sale financial assets must be valued at their market value; f) some assets and liabilities must be adjusted to their present value, especially the long-term ones; and g) in business combinations entered by and between unrelated parties, the assets and liabilities acquired will be accounted for by the market value.

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

**NOTES TO FINANCIAL STATEMENTS--Continued**

December 31, 2007 and 2006

(In thousands of reais)

**27. Law No. 11638/7 – Changes in the Brazilian Corporation Law--Continued**

Company management understands that it is still not possible to estimate the effects of Law No. 11638 on the Company's results of operations and financial position for the year ending December 31, 2008 and, retrospectively, on the financial statements for the year ended December 31, 2007, when presented comparatively with the financial statements as of December 31, 2008.