FINAL TRANSCRIPT

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ARM - ArvinMeritor, Inc. Analyst Meeting

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PRESENTATION

Terry Huch - *ArvinMeritor Inc. - Director - IR*

Good morning ladies and gentlemen. My name is Terry Huch. I am ArvinMeritor's Director of Investor Relations. I would like to welcome you to our annual Analyst Day for 2007. To remind everyone that in addition to the people in the room, we are joined by people on the webcast and on the phone lines. Before we start, I would like to mention that today's presentation will include many forward-looking statements, which are governed by the Safe Harbor language on slide number two.

You have seen the agenda and you can see the speakers. I won't introduce them all, but I would like to mention that also in the audience with us we have our CFO, Jim Donlon; Lin Cummins, our Head of Communications; and Scott Stevens, our Assistant Treasurer. And Jim will join us for the Q&A session later.

I would like to remind participants to turn their phone ringers to the off position and I invite you to step outside if you do need to use your phone, which from time to time you do. Our presentation today will be followed by a question and answer session. And after the question and answer session, we will move back to the room where we had breakfast for a lunch and I would just like to pre-announce at this point that lunch will not be buffet style. It will be sit-down style, and so we encourage you in fairly good order after the presentation to move to the tables next door and we will have the executives moving from table to table. So, we look forward to that, and without further ado, I would like to introduce our Chairman, CEO, and President, Chip McClure.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Okay, thank you and good morning everybody. I think we have already talked about the forward-looking statements, so let me start with kind of the key messages in today's Analyst Day so that you have a sense on that. And first is I talked to a number of you this morning, one of the things we are coming out on in today's analyst meeting is the fact that we are going to reaffirm our guidance at $1.40 to $1.60 for the year. In spite of the fact that there are some unknowns out in the second half of the year, I think you will see as we go through today's presentation, we are taking a lot of the action to help offset that. So, first step is to reaffirm our guidance for $1.40 to $1.60.

One of the things we talked about the last couple of quarters have been some of the challenges we have had in Europe and Carsten will get up and talk in a fair amount of detail today about the actions we have already taken and actions we will be taking to address our improvements in the European arena for commercial vehicles. Asia-Pacific continues to be a strong area for us, and Rakesh Sachdev, who was appointed earlier this year as our President of that business unit is going to kind of update you on what's taking place there, and clearly one of the big opportunities there is in increased axle manufacturing at a very successful joint venture we have in India.

From a growth perspective, as you can see, we have got on the light vehicle side a Chery joint venture we announced earlier this year. We continue to win new business with Hyundai in the light vehicle space. And one of the things that is really going across the wires as we speak is an announcement on a new acquisition in our commercial vehicle aftermarket-space, which is for Mascot. And if you remember, we have been talking for about the last year, year and a half about strategically looking to grow in the commercial vehicle aftermarket space and this small bolt-on acquisition, which Carsten will talk about in more detail, should be a reflection of our commitment to grow in that area.

Last year, we have seen also 100 basis points improvement in our LVS margins and Phil will kind of update you as we look at that kind of going forward, with a plan to continue looking at increase to our margin expansion in that area. From a cash flow perspective, Mary will get up and talk some about our cash flow, which for the year is looking to be positive, but obviously with an outflow of cash in our first fiscal quarter this year. And then, finally, Mary will also talk about an enhancement to our liquidity through some simplified credit line covenants that we just recently announced with the banks.

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Let me start with our customer base. And as you know, earlier this year, we did conclude the sale of our Emissions Technologies business and that has really changed kind of the structure of what our customer base is. As you can see from this slide, we are about two-thirds commercial vehicle, one-third light vehicle. A second message on this slide, you can see, we are very well diversified with a large number of customers in both spaces.

Third point on this slide is when you look at here in North America, which is where a lot of the challenges are in the light vehicle space, in GM and Ford in particular, we have less than 1% of our business with each of those customers, and then even if I add on Chrysler, which the majority of Chryslers here in North America, we only have about 8% of our total business with the light vehicle, Ford, GM, and Chrysler here in North America.

Fourth point on this slide is when you look at the Asia-Pacific OEMs, both light vehicle and commercial vehicle, a year ago, when you add the two together, it is about 8%. This year, it is 12%. So again, as you look at our strategy to grow globally, to grow the Asian OEMs, you can see that happening both on the light vehicle space and the commercial vehicle space.

Challenges, no secret, the North American economy is really a challenge for everybody in our space, we have talked about that. The original expectation was the Class 8 market was actually going to be coming back this quarter. And in spite of the fact that we have seen two good months in October and November as far as orders, when you look at it, we do still see that being kind of pushed out to probably the second half of '08 as far as the rebound there. If I look at the agenda that we as a management team have, there is no question there is a lot of items we have got on our plate from Performance Plus, and I will give you an update on that in a moment.

The operational improvements in Europe, which is primarily in the commercial vehicle space, but Phil will also talk about some of that in the light vehicle space. Capacity additions, which will be primarily in Europe, South America, Mexico, and Asia-Pacific, and then our continued effort within Performance Plus to continue to right-size the Company going forward. And then, obviously, when you look at it, we don't have unlimited resource either in cash or people, and we have got to make sure that we prioritize them for the right projects at the right place at the right time.

On the opportunity side, and Carsten will be going into a lot more detail there, we are seeing improvements in Europe in the commercial vehicle space, but we do expect to continue to capitalize on that growth with improved operational performance there. As I indicated, we are expecting an upturn in the North American Class 8 market, so we are preparing for that. In Asia-Pacific, we continue to see strong and in some places explosive growth in both the light vehicle and the commercial vehicle space and Rakesh will kind of walk you through that detail. And then finally, we do see some opportunity with the OPEB funding deal that has taken place in the automotive space and we are obviously looking at some of those opportunities going forward.

Just one quick slide on Performance Plus and then we will give you more detail later. And this is just a kind of layout where we have already indicated publicly is that we expect that in 2008 that from cost savings alone, we expect $75 million of savings, which is that green part of that chart. If I take your attention all the way over to the left side of that slide, you can see that coming out of our 2007 fiscal year, we had about $37 million of run rate savings already in place.

As I move forward into the red and blue sections, you can see that as we look at that, we have team targets, which are the internal targets that are north of $200 million, of which we have already got implementation plans for $197 million. And then, we have taken that and risk adjusted that down to just make sure that we have got at least $115 million of run rate savings coming out of 2008. And if we are able to do that, obviously we get to $75 million in savings.

So, as you look at that, we are showing you with a fair amount of granularity what we are doing within Performance Plus, and the bottom line as you look at this slide is, we feel very comfortable with the ideas that we have already identified, the actions that we have already implemented, and as importantly the process we have in place that will come out of the 2008 with a run rate of at least of $115 million, which translates into $75 million of savings for the 2008 period.

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A lot of talk when I was talking to people at breakfast today about what's happened to the U.S. economy, let me kind of take some of this outside the U.S. economy and talk about some of the other actions that we are doing that are independent of what happens here in the U.S. economy. And the first one is overhead initiatives. As we have talked before with Performance Plus, one of the six pillars is overhead, and as you can see, the overhead initiative is not volume dependent, is not region specific, and we will continue to drive those actions going forward.

The next five bullet points, when you look at that is really a lot of the actions we're taking in Europe, whether it is in the area of lean, whether it is in the area of direct material optimization, in the capacity side, with commercial relationships with the customers, we are driving these actions within Europe. Carsten will talk about a lot of that in the commercial vehicle space and then also Phil will talk in a fair amount on the light vehicle space and a lot of things we have been able to do to right-size that footprint there.

If I move down to the bottom four ones, three of those are in the Asia-Pacific area. Rakesh will talk about the India joint venture we are looking to expand in axles there that has been very successful for us. We have talked at length about the Chery joint venture. And another area we are seeing significant growth in China is in the off-highway market where we have had a strong presence for a number of years and are looking at growth opportunities there. So, there are just three examples in the Asia-Pacific region that we are showing significant growth on a go-forward basis.

And then the last point is in the specialty area. MRAP in particular is an area we have been talking about, but there are other military programs and government programs coming down the pipeline that we do see opportunities for that quite frankly are fairly independent of what we are looking at in this North American market.

Other actions we are taking on both a short and long-term basis to, if you will, offset the headwinds we do expect and are seeing in the North American market. One of the things is in our pension program. As you know, a couple of years ago, we went from defined benefit to defined contribution for new hires. Well, as of January of this year, our current employees with a small group that we got grandfathered for a couple of years will go from a defined benefit to defined contribution going forward.

The second bullet point is in the area of restructuring. We announced this past spring a lot of activity in the restructuring area. But, as we look at the restructuring and rather in some cases closing plants, if we can work with the people in those facilities help reduce wages, reduce benefits, reduce fringes, reduce the overall cost that those facilities become cost competitive, we don't have to close the plants. And we have actually been able to do that in several instances. So, what we have been able to do is keep the plant open at a much more cost competitive basis and by the way avoid the restructuring cost going forward.

Moving down to the customer sharing of premium costs, one of the other things that Performance Plus has really helped for us is to get a rigor in place and get a focus so we truly understand what our costs are from a product line profitability, from a customer profitability, from a premium costs perspective. And as we look to be able to support our customers, some of these premium costs, as that bullet point talks about, we have the ability with our customers, now that we have the data, now that we have the systems in place, but the result is we are seeing more of that sharing of that cost kind of going forward.

Moving down to the last two bullet points, which are very tactical in nature, very granular in nature, but as you look at going through these kind of cycle type businesses, the cyclical businesses, these kind of things need to be put in place. And we have actually put in place a hiring freeze, that is going to say we need to kind of take what we have got right now, right-size the business and before we add resources, let us put this in place and make sure we can weather the choppy wash we are looking at, and that is what we are doing at this point.

And the last one, which is very granular in nature is to essentially say that all employees, including yours truly, will fly coach anywhere in the world at this point. It is not a large savings, but it clearly sends the right message. So, as you look at it, we are looking at very global items to take the cost down, so we are getting down to very specific granular type items to make sure that as we go through the continued choppiness in the economy here, which has had an impact in the commercial vehicle space and the light vehicle space, I feel we have put the actions in place to kind of address that.

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And the last slide I have got to talk about is our joint ventures. And what we have captured here is both our consolidated joint ventures and our unconsolidated joint ventures. And as you know, we have talked for a long period of time that as we look at our strategy going forward, our joint ventures are part of that strategy. And what I did want to do is really call your attention to the unconsolidated joint ventures, and really as you look at that, you can see that those joint ventures are throughout the world, they are in Mexico, they are in Brazil, they are in U.S., and they are in Asia.

And as you look at that, they account for almost $1.2 billion, and if you can't read the small print down at the body -- at the bottom, what you can really see there is that the earnings from these equity joint ventures contributes to the bottom line $34 million, and that is up about 30% from two years ago.

So, as you look at that and look at the analysis of the Company, what we look at is both the total -- wholly owned subsidiaries, consolidated joint ventures, but as importantly, where it makes sense to look at those equity type joint ventures. And I just felt it was important to kind of pull this slide out to show to you what kind of contribution it has shown as I said, we have shown a significant increase over the last couple of years and do envision with a lot of these, they have been very successful joint ventures in the past and will continue to be very successful joint ventures going forward in the future, and we do expect that they will indeed contribute to the bottom line of ArvinMeritor.

So, at this point, what I would like to do is turn it over to Rakesh Sachdev, who is now heading our Asia-Pacific unit, to talk about Asia-Pacific. Rakesh?

Rakesh Sachdev - *ArvinMeritor Inc. - SVP, President - Asia Pacific*

Thanks, Chip. Thank you, good morning. I am going to give you a quick update on what is happening with our business in Asia-Pacific. As Chip mentioned, about six months ago, we formed a regional office based in Shanghai, for ArvinMeritor and I got to tell you that has truly been an exciting experience of what is happening, not just in China but elsewhere -- all over in Asia-Pacific, including Australia for us.

So, just -- this is just a macro slide, many of you know that there is explosive growth going on in China and India. In fact, if you look at the first graph here, that as compared to 2005, in about ten years, China's GDP will have tripled and India's GDP would have gone up about 2.5 times. And with that rate, in a few decades, China and India will account for half of the global GDP, so that is just phenomenal.

If you think we have seen all the growth in the last few years, I guess we have to wait for the next several years to see this growth even accelerate, so it is going to be very exciting for us. Quick overview of our business in Asia-Pacific, as I said, six months ago, we formed the region. We pulled all the businesses together, we have put in place a very strong management team, we are very focused in the region. As far as operations, we have some scale, we have eight wholly owned operations, we have seven joint ventures, and we have five sales offices and technical centers, and in all, we have about 700 salaried and about 800 hourly personnel, so we have a good bench to build from.

If you look at what we have done over the last three years in this region, our revenues have been growing very strongly, we have about doubled our revenues since 2003, and our profits have been up sharply. We have more than doubled our profits in this region. And what I would like to say is this region is probably one of our most profitable regions around the world for ArvinMeritor and we are approaching close to about 10% in operating margin.

If you look at the right side of the graph, we grew in 2007, 33% in revenues and in 2008, we are planning for at least another 25% growth. And really, it is coming from across the board, you can see our actual business in India was up 30%, our aftermarket business in Asia-Pacific was up 30%. Our off-highway axle business in China, which I will talk about here in a couple of minutes was up 40% and even our doors business in Asia-Pacific, not including Japan was up about 45%. So, we are seeing some phenomenal growth rates in that part of the world.

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Part of it is of course the markets are growing, but the other thing that is happening with us is because of the segments that we are in and those segments are growing faster than the overall market, we are benefiting even more. This is just a composition of where we produce our products and sell them. If you look at the overall business, about three-fourths of our business is CVS in that region and about a quarter of our business is LVS related products.

If you look at China, we have about 45% of our business in China, about again half CVS and half LVS. India is about 30% and probably growing at this point the fastest, and then, we have got fairly significant business in Australia. And our business in Japan and Korea is also growing and that is a region where -- the whole Asian region is where you are going to see some tremendous growth over the coming few years.

If you look at the key initiatives in 2008 for us in that region, again, it is very important for us to prioritize our growth initiatives. There is growth happening all around us and we are targeting those initiatives that have the best chance of being implemented very quickly, have the highest margin opportunities and we are very focused on this. The other piece that I haven't talked about as yet is all the efforts that we have underway to support Performance Plus and our direct material optimization efforts, developing suppliers in the region and there is a lot of activity there as well, so it is not just creating growth in the region but also creating supplier base for other markets so we can reduce our cost.

As far as some commitments that we have already made that we are -- we will be playing out in 2008, Chip talked about our expansion in India for commercial vehicle axles and we are going to be doing that. I will talk -- I have a couple of slides on that. Our off-highway axle and brake business in China that has grown very significantly this year continues to be very strong. It is because the construction markets in China, whether it is mobile cranes or loaders, excavators has been incredibly strong and that strength is now being seen in India as well, although we are a player today in China.

The bus business is strong in China, we will see some significant in China for us in 2008. I talked about our truck business growth in Japan and Korea. Today, we supply a lot of products out of our Australian operations, out of Melbourne and Brisbane to our customers such as Isuzu in Japan where they build the trucks and then export all their trucks to the Asian regions. These trucks go to South Africa, and most of them go with our products on the commercial vehicles. Same thing in Korea, Hyundai is a very large customer on trucks. We sell axles from Australia, we are shipping products to the Japanese truck manufacturers in that region from our different plants.

We have talked about the Chery joint venture that we signed not long ago with Chery. We are in the midst of setting up an operation in the town of Wuhu, which is where Chery is headquartered. We are setting up a shock and strut manufacturing facility first, and then from there I think we will have the opportunity to do other things with Chery as well. So, that is an exciting opportunity we are looking forward to that. We are setting up a new sunroof plant in Shanghai, we have won a global GM platform, we are again in the midst of putting up that plant.

There are other plants that we are planning right now in the region, we haven't announced those, so we will announce those as we get closer. And then, there is also a lot of activity in increasing our engineering footprint in both India as well as China, not just for the engineering work that we will have to do in Asia for fueling the growth in Asia, but also the engineering work that we will do for helping out in markets such as Europe and the U.S. as well.

Again, a couple of comments, very key that for us to be successful in Asia that we build the technical capabilities, we have a number of engineers, we have a tech center in Bangalore, we already have about a couple of hundred people there. We will be adding a lot more engineers and it is truly an exciting opportunity to create that base there.

We have mapped out a growth plan for ourselves in the region, as you can see in this graph. It is a staircase to adding about $1 billion in revenues over the next five years. We think the way we have been performing over the last few years gives us the confidence that we will get there. Of course, implementation is going to be key, we will have challenges along the way, but we have developed a fairly detailed plan as to how we can add $1 billion plus in that region and you can see it is coming from different markets, different CVS products and different LVS products. The truck business would give us probably 30% of that,

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and then we have the off-highway business as well as other LVS business including the chassis business and the body systems business. So, we will talk more in future sessions and we will give you more granularity on that.

I want to spotlight a couple of places where we are seeing, I think, more than normal growth. One is, what is happening in India in the truck market and the other one I would like to spotlight is the off-highway construction business in China, both that are creating opportunities for us. As many of you who have traveled to India know that India still has a fairly weak infrastructure, there is a lot of work going on in improving the road system, something that China did several years ago, and that is going to and already is changing the shift in the kinds of trucks that are plying on the Indian roads. Clearly, there is a shift towards heavier trucks and in fact, only 10 years ago, we launched the tandem axles for the heavy trucks in India, and that market has just taken off. And so, that is really helping us in fueling our growth for axle products in India.

This slide shows the growth for our axle business in India, Automotive Axles is a joint venture that we have in Mysore, which is outside Bangalore. Again, it is the largest axle -- independent axle manufacturer in India. We do business with a lot of marquee names, OEMs such as Tata, Ashok Leyland, Mahindra, and Eicher and a few others. In 2008, we will easily exceed about $200 million plus in sales and this business continues to grow. And we are already looking at expansion plans and adding a lot more capacity, not just for the Indian market, but we are finding that we can use our operations in India for supplying our products to other parts of Asia, including ASEAN and Australia and other places.

Some pictures of our facilities in Mysore for Automotive Axles, you can see it is a fairly modern facility. It is a large facility and we have got some latest machining and gear cutting equipment there, so if any of you ever have an opportunity to visit India, we would certainly like to welcome you and have you come and visit our site there.

If you look at the off-highway axle in China and we don't talk a lot about what we have been doing on the off-highway business, we are the largest axle and brake supplier -- independent axle and break supplier for construction equipment in China. We have a joint venture with Xuzhou Construction Machinery Group, which is the largest Chinese construction equipment manufacturer up in Xuzhou, and they have grown phenomenally and we have grown with them. But 50% of our business is outside of this OEM, we are now very diversified, we are selling products to a number of different applications.

As you can see from here, mobile cranes is a big part of our business, we are also selling into loaders and paving equipment specialty and it is a highly integrated manufacturing facility. In fact, I have a picture, you can see -- we also have a very large facility, we have more than 800 people in this site, again very modern, and it truly has been an exciting business over the last couple of years for us.

These are just some of the products and the application in the vehicles in which these products go into. You can see we have different types of fairly complex and heavily engineered products that go into equipments such as loaders, mining equipment, truck cranes, dump trucks, a whole host of different small volume niche applications, but again nice business with nice margins.

This is just again a reminder that when you look out, China and India are going to be amongst the largest construction markets in the world, and so, we are truly excited to have the capability of growing this business and we have been doing that in China.

This is my final slide, again as we look at our goals over the next five years, they are very simple. We want to add at least $1 billion in profitable revenues in the region, we are on our way. We want to increase the sourcing from the region to $1 billion plus and we are on our way, we are close to about half of that today. And then, we want to really be aggressive about enhancing our engineering footprint in the region, largely in India and China to help fuel our growth in Asia, but also help fuel our growth elsewhere in the world. So, with that, I am going to turn it over to Phil to come and talk about LVS.

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Phil Martens - *ArvinMeritor Inc. - SVP, President - Light Vehicle Systems*

Good morning. It is nice to be back here this year and what I would like to do is give you an overview of what we are doing within LVS, to actually transform this business to take of the advantage of the capabilities we have, but also to position us clearly as a premier tier one supplier.

If you look at LVS, what is LVS? Well, clearly, we are a globally integrated tier one systems supplier. And what I am going to take you through is we have a very robust business portfolio that helps us to limit geographical and customer risk. When you step back from it and you look at tier one automotive suppliers, they really have to have three factors in play to be truly successful in this market. Number one, they have to have a diverse product portfolio. Number two, they have to have a diverse customer portfolio. And number three, they have to have a diverse geographical presence. We have all three within LVS and now, as we move forward with our new technologies, we are actually improving the product line capabilities that we have.

If you take a look at LVS as a business, it is about $2.6 billion and we have a strong book of business on a go-forward basis, so a lot of effort from last year has been into that. But, more importantly, our geographical mix is beginning to shift. North America is about 38%, Europe is our largest market right now with about 46%, and most of our expansion in Europe is in Eastern Europe. We have South America and Asia-Pacific, which really are, the two of those combined are, our fastest growing sectors that we have within LVS.

We have a great customer mix. Worldwide, we have well over ten customers that are in the mix. Our biggest worldwide customer is VW, and we service VW in every continent around the world, South America, Asia-Pacific, Europe, and we're looking at working with them in North America. Chrysler in North America is our biggest customer, as Chip mentioned. Ford, PSA, GM, Renault, Hyundai, and others, but the important thing that we have had here is we have put a lot of effort into growing our business with the non-U.S. standard customers.

We have had great success with Toyota, we have won a series of quality awards there, Honda, won some awards there and new business with Nissan, new business with Hyundai, all in North America. So, even though North America as it is today may be a down market, we believe we can continue to significantly strengthen our position there by working with the different sets of growth oriented OEMs that we are.

Bottom line out of here, LVS has great geographical presence and it has a great customer profile. If you look at the next slide and this is the third element that you have to have, you have to have a good product portfolio to succeed. I am going to take you through how we have actually integrated LVS into three fundamental business sectors, chassis systems, body systems, and our wheels business. A year ago, and I will show you this, we had a disparate set of businesses. Through transformation, integration and applying the elements of Performance Plus, we have actually consolidated these into very powerful lean business units that effectively compete on a global basis.

In the chassis systems areas, we can do full ride control systems integration, we can do everything from suspension modules all the way down to valve design. In our body systems group, we have consolidated our roof and door systems into one organization, this is part of our lean initiative and overhead to help drive our cost and improve restructuring operating elements of both businesses, and we are rapidly moving now into electronics and we are rapidly moving worldwide. Wheels has been a focus on expansion out of our San Luis Potosi plant, a focus on expansion into new customers, and a focus on delivering to the market demand of South America. So, collectively now, LVS has three strong business elements that compete in concert with each other worldwide.

If you look at industry production by region, here is where you have to have good geographical and customer portfolio mix within your portfolio. North America is down, no, I am not going to go through this. We are looking at about 14.6 million production. This constitutes to about 15.7 million units of sales. The interesting thing here is the rest of the world is strong. We are continuing to see month-over-month sales improvements in Europe of 2.3% better than '07. South America is really running

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flat out for us in terms of our production down there, about 3.8 million units. And Asia-Pacific, as Rakesh has taken through, we -- it is an area where expanding demand is outstripping supply.

This is one of the first times I have seen that in my automotive career. The bottom line here is the LVS business in the global economy is a strong business still. United States may be down, but our presence worldwide gives us the ability to balance that off and take advantage of the growth opportunities elsewhere.

Let's look at each market. North America for us is about $760 million. Our portfolio is changing, we are strong with Chrysler, Ford and GM, but we are growing more rapidly with VW, Hyundai, Toyota, Nissan and now Honda. We have also looked at other opportunities that are coming forward as we go forward over time, but we have done a very good job of looking at our footprint, managing the restructuring versus labor renegotiations and we are now moving rapidly to put most of our ride control and vehicle dynamics activities into Mexico. And we have also looked many times of how we can actually manage UAW -- or excuse me CAW renegotiations and we have done that in Canada very successfully.

We have got a couple of major launches, we successfully launched our new wheels program out of San Luis Potosi and we have a global sunroof program that we will launch later this summer, which is one of two major sunroof programs we have been awarded on a global scale. Clearly, an opportunity here in North America is to act as a global company. First, from a global sourcing base, have expertise for manufacturing and help us move our production facilities into Mexico and frankly reintroduce to new customers the total LVS product line. The challenge here is lower economic growth, but we think over time, with the right customers, we can actually position ourselves in a better place.

South America, as I mentioned earlier, is growing rapidly. Our value added sales is about $210 million. We don't have any footprint changes in South America, but we do have a series of major launches. We are working with Fiat and Toyota on new steel wheel program. And with our Gabriel de Venezuela joint venture, we just launched a new GM suspension module and working on another module with another OEM. A real opportunity here is to leverage our Gabriel de Venezuela joint venture to continue growth in this sector of the world with our chassis systems business. The other opportunity for us, given it is a growth market, is to introduce the balance of the LVS product line into South America, where we think we can effectively compete.

In terms of Europe, Europe is a very strong market for us. Almost $950 million -- about $937 million, it is our largest market within LVS. We have had a significant amount of activity in Europe to help position our businesses better. We have announced the closure of our Frankfurt roof systems facility, we are in the process of transferring all of that business into our Lozorno facility which is in the Czech Republic. We have announced a new door systems plant in Romania, I will talk about that in a minute, and we have also announced an expansion into our Romania plant. And we are now working with a joint venture with TRW to distribute our aftermarket shocks. This is a very slick deal where they have a superb aftermarket distribution system. We manufacture the product, they distribute it and I think that is a way to leverage our capabilities and their capabilities in a high value manner.

Got a couple of major launches here, we will launch the first of what we call our smart system door module product and this is a highly integrated plastic door module. It is a full systems integration of the module and we think it is a state-of-the-art approach for this type of business. We will also launch later this year a new global sunroof program, which as you can see, ripples through itself throughout the world. Key opportunities here for us are to continue the cost structure improvements. I will cover that a little bit more in our body structure transformation, but it is really now to convert the development contracts that we have put in place with what we call our small systems technologies into actual working production contracts and we are in the process of doing that now.

If I look at Asia-Pacific, lot of activity there. Rakesh and his team are doing an outstanding job moving us forward in that region and we view this as our highest growth market. And as he mentioned, this is also a profitable market, which is very important in this business. About $127 million for us this year, growing rapidly over the next years as Rakesh'spresentation outlined, but we have got some major things running now.

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We are launching our Chery joint venture and actually beginning construction of that facility in this quarter. We are growing our SAIC joint venture to support the global sunroof customers. This sunroof product or roof products in China are one of the fastest growing options in product lines that we have. About 70% of the products produced in China in the light vehicle side have the roof product. We haven't seen that anywhere else in the world since 10, 12 years ago in Europe. And we are now studying wheels manufacturing options for that region of the world. We think there is an opportunity there, but we are going to do it at the right time and the right cadence when it makes the most sense for us.

Launches, we got a lot of launches. Two new facilities of Chery JV, a brand new facility for our new roof program, and we are also now introducing the first generation of specifically designed Asian products for the Asian markets, and this is our new Asian latch. What this means is that the technology is set for the market and not over-contented or over-engineered, it is properly engineered for the demand for the Chinese customer. It is sourced in China and it is built in China, and that gives us what we believe a competitive advantage. The challenge here is what I mentioned earlier, and it goes along with the opportunity.

The challenge here is really the last bullet point. This region, the demand outstrips our ability to supply, it is an unusually strong market, something we haven't seen. And frankly, now we are working that with the opportunity to expand product offerings with new customers. And clearly, you want to balance that with speed and discipline, but you want to make sure as you set your programs up, you are not importing the parts in high cost region, you are locally sourcing and building the product, so you have a cost advantage to ensure quality and you meet the demand. It is a very dynamic equation and something we are really excited about.

If I look at LVS as a business, I would like to take you through a little bit of the transformation that is underway in LVS and a lot of this is largely complete. We have had to put our focus on making LVS a complete business so that we can take advantage of the capabilities we have with new products and geographical mix and the customer mix. We have broken this down to three phases, first is operational effectiveness. Clearly, you have got to improve the earnings power of your existing revenue base by institutionalizing Performance Plus, and this is where Performance Plus becomes a huge asset for the way we have run our business and you will see that in a second.

Second is market growth. We have been able to expand our reach into new markets with a systems based approach. The OEMs in China, the particularly ones like Chery and [Geary] demand systems level capability from their tier one suppliers, and we can provide that. They don't have it in-house and they are looking for help from the top tier ones in the world. And fortunately, as I said, we are positioned well to do that and we have the capability invested to do that.

Three, new products, we are going to launch new products and create and expand new alliances. Our TRW joint venture is a new alliance, our Chery JV is a new alliance, working with our Gabriel de Venezuela JV is an expansion. Launching new products is critical and we are doing that as I mentioned. Let us take a look at each of these systems and what we have done. If you look at body systems integration, if we were to sit here in fiscal year '06, we would be talking about a roof scoop, independent, not getting the synergies out of what they could do together, carrying independent overhead structures, SG&A, different manufacturing facilities, and discontinuous processes between them.

Last year, we underwent a significant and radical transformation of these groups, so we put them into one group called body systems. We did this for very simple reason, we wanted to drive the cost structure to be competitive. We have taken out 20% of the salaried structure in Europe and now that is being relocated to India and China. We also wanted to capture the synergies and eliminate redundant functions and processes so that we could get the overhead savings as defined by Performance Plus.

We do have one global engineering and one global manufacturing team running these. We have now a fully integrated organization, it is a merger of two pieces into a fully integrated and functioning organization that actually is now working to further consolidate manufacturing into what we callleading cost competitive countries. Example of that is our closure of Frankfurt, our expansion of Puebla in Mexico, and our expansion in China, which we are doing with body systems areas.

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In '08, this is leading to enhanced profitability. You look at the number of elements that are going on in '08, the bottom line is we have been able to take the savings by reducing headcount in high cost areas and that helps us with the overhead savings, that does accrue to us. The real benefit here is when you position this business for fiscal year '09, we now are winning net new business, and that is very important because it is with the right customers, it is with VW, BMW, and Asian OEMs.

We are introducing what we consider to be game changing technologies, these are light weight composite activities that we are running, and electronic and controls capabilities within our product line. We are effectively launching what we call smart systems. I got some acronyms here, we have a Low Energy Release latch, we have the New Asian Motor, and a Highly Integrated Plastic motor. These are smart integrated systems designed specifically for the region, sourced in the region, so they are cost competitive and they provide us a product differentiator versus our customers.

And we are also supporting the LCCC 50% -- excuse me, LCCC sourcing, and this business is now -- we will have about 50% of the parts sourced in LCCC countries within the next 12 to 18 months. This is a tremendous transformation of these businesses and I really believe it is going to give us the competitive advantage here. We have done the same in our chassis systems group. Chassis systems is a bigger challenge, because if you look at fiscal year '06, we had a wider and a more disparate group of businesses, from our aftermarket to our joint venture partners, to our advanced projects, to our suspension modules. The same approach was taken here.

Again, the philosophy of Performance Plus, capture the synergies, drive yourself for one common operating process worldwide, restructure the labor agreement, work with the labor in the CAW, in the UAW, so that you can actually get competitive and modern operating agreements at lower cost to avoid the restructuring charges, consolidate your manufacturing and move them into Mexico, which we are in the process of doing that, and convert from mechanical to electronics. That work is behind us, we are in the process of the consolidation now, and that gives us in fiscal year '08 a transition to a fully integrated organization within chassis.

We are now working aggressively in Asia-Pacific and Chery will be the first major chassis facility we will have in China. And the unique thing about this joint venture is we can sell not only to Chery, but we can market the product under the ArvinMeritor brand into China and rest of the world. It gives us a unique cost perspective and a unique positioning for the Chinese market and also rest of the world that we choose to export. For fiscal year '09, it is very similar, it is introducing game changing technologies. The call for light weight alternative materials from the OEMs has increased with the fuel economy and we are responding to that with our new advanced product.

Second is we are launching our smart systems, we are very close to finalizing some agreements on our active air suspension and adaptive damping, which we have had very good reception from a number of partners both in North America and also in Europe. But, the key thing here is to continue to increase the level of chassis systems integration, and the best example we have there is new awards we have gotten of major suspension program, where it clearly is because of our total capability that we have, both in South America and in North America.

Let's look at our wheels expansion, wheels really is a strong business for us. The actions right here quite simply are to continue to outperform the competition, and we can do that with a relentless focus on cost and productivity. This business is absolutely world class in the way it runs. We are broadening the markets by capitalizing on opportunities now and investigating them in the BRIC countries, China and India primarily, and we are really moving into a different generation of steel wheels.

We are now offering highly styled wheel options and as the demand grows for the cost -- due to the cost competitiveness of the steel wheel, we are now able to continue very effectively with the unique engineered products that give a lot more selling flexibility. Fiscal year '08, we are working to expand now to grow with commercial vehicle applications in the North American market. We have the capacity, we have the ability now with our San Luis Potosi expansion and we do believe we will be very competitive and we are working on that.

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At the end of the day, for '09, we again are looking at game changing technologies, moving to lighter weight steel wheel applications, different types of materials that can give us the strength, the ventilation capability as well as the material specifications that they want at lighter weight, and we do have some inroads here to some advanced products that are looking very good. If you put it all together, everything

I just talked to you about is about re-energizing margin growth. We want to not only reap the benefits of the prior restructuring actions, but we wanted to continue to implement the initiatives that I have taken you through. These are major structural changes in how we run the business within LVS. Coupled with this, we are rapidly shifting more production to cost competitive countries and it is not just Eastern Europe. If you look at it, it is Romania, Slovakia, it is India, China and Mexico. These are right places to be if you want to be a globally competitive tier one supplier.

We are launching our new JVs, new business alliances and new products, and we are expanding the relationships we have with our existing JVs who offer tremendous opportunities for us in different parts of the world. And really, when you pull it all together, what does this look like? We are seeing the achievements of the accelerated cost reduction through the Performance Plus initiatives.

You can just do the math, 20% overhead reduction in Europe, about $5 million. We are seeing our direct material optimization because of the synergies and scale we are getting and we are expanding that now into our chassis area, and the footprint and lean activities have been outstanding. And this really is one of the strongest efforts that we have had and I am very pleased with it. But, we are seeing the results coming through.

If you look at one of the key elements that we have, just to give you an idea, here is our Romania plant and this is typical of how these things are going. We launched our Romania plant about nine to ten months ago when it approved it internally and it is there to capture the growing Eastern European share. Our big customer here is Renault and Dacia, and it is a Romanian car market. It helps us to accelerate market competitiveness by continuing to develop low costs sources, but it also now is one where we can put the production facility in place, establish our presence there, we are now looking at increasing the capacity of that. Within the next 12 months, we should be up to about 200 employees within this facility and that will continue to grow.

And 2009 is our fiscal year 2009, but this typical of what we find. You put a plant in the right place with the right product and the right customer, you end up expanding that plant in a short period of time because the demand for these types of facilities and capabilities is very strong. In terms of Performance Plus overhead savings, again this is an example of how that has worked, and this really has worked very well for us.

If you take just the program description, our plant in Liberec in the Czech Republic, let us go through that with the lean teams and identify key operational bottlenecks that generate waste. They exist in every plant. This was one of our best plants in the operating system within LVS. So, the LVS lean team came in with a fresh eyes approach and they have the authority to audit everything that goes on in the plant, and they did identify a series of bottlenecks within the plant. What are the results? Through their efforts, through that activity, we have results that improve $3 million in labor and burden in overheads, and this is one of our best plants in the operating system, so it tells you what kind of opportunity we have going forward.

Another one that we have looked at is not just from a process flow, but it is from a material usage. This is on the energy side and this addresses some of the higher costs of running a plant, which can be natural gas and electricity. If you kind of look at the same way, we have an energy team that is driven by Performance Plus. They came in and said, "Hey, look, in the prior state, everybody did whatever they wanted to. There really was no central coordination or central set of process standards towards managing energy utilization within the facility. So, with this team in place, they have audited every plant in North America, they have generated $6.4 million of energy savings projects, and this is made up of simple stuff.

And if you look at what we have got here, it is automatic night time HVAC controls, it saves $100,000 a year. Simple to implement, very low cost and the results are very real. We are combining the air compressor systems, $90,000 a year, extremely simple to implement, almost zero cost, instant savings. When you kind of look at all of this, through all the plants, all the capital expenditures

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have been kicked off and they have less than a 12 month payback, and it is a $2.4 million annual saving. This is the kind of granularity we are seeing out of our Performance Plus efforts and it all adds up.

What are the priorities for 2008? Well, they are pretty simple. You have to radically improve your cost base restructuring and supply chain to manufacturing networks, and I think you can see that we are doing that very aggressively. You have to focus on free cash flow and really our ArvinMeritor Production System or what we call APS, the program management standardization tools and the working capital improvement programs we have all are aimed specifically at doing that. We have to work in concert now as a team to capitalize on aggressive growth opportunities in all regions of the world, and these include Eastern Europe, these include South America, these include all of Asia-Pacific, not just China.

We have worked very hard for global alignment with the LVS business, the total business portfolio now with market-leading OEMs and we are focused in on the top five or six OEMs in the world and found that to be an effective way of managing our relationships. And we are consistently working on improving the long-term earnings portfolio by launching what we call our smart systems applications and those will flow now into production over the next 12 to 18 months. At this point, our key focus is constancy of purpose. The radical changes are over, we now have to deliver and be consistent over a long period of time.

That is a wrap-up of the LVS sector and I think right now we are going to take a, Terry, a 20 minute break? 15? A 15 minute break, and what we would like to do is you could all be back here in about 15 minutes, and then we will be back and I believe Carsten Reinhardt will come up and we will get an overview of the commercial vehicle sector. So, thank you on behalf of all for the first part and see you in 15 minutes.

(BREAK)

PRESENTATION

Terry Huch - *ArvinMeritor Inc. - Director - IR*

If we could ask everyone to take their seats, we are ready to start again, thanks. I would like to introduce the President of Commercial Vehicle Systems, Carsten Reinhardt.

Carsten Reinhardt - *ArvinMeritor Inc. - SVP, President - Commercial Vehicle Systems*

Good morning, will give you a couple of more seconds here to find your seats. I guess I will introduce myself real quick, Carsten Reinhardt. I was here for the first time last year about this time, and I am the truck guy so to speak. Today I want to give you a little bit of an update on what we have worked on since I was up here last. We made a lot of suggestions of what we were going to do going forward and I think today my objective is to update you on our progress.

I think it is pretty clear that this is not a program that will be over or oughtto be over in a year. We have a significant turnaround program that has started about this time last year in CVS and today is an update for you on where we are. I am going to begin with a short update about the business units, just for you to familiarize yourself, how we are organized, then get a little bit into the market and then give you some examples of initiatives that we have embarked on both in the cost side as well as the growth side.

So, let me start with the slide that all of us have shown you, just to break down a little bit our global business, and you can see on the left hand side, still over half of our business is in North America. We are growing the non-North American pieces nicely, we are growing quite well in Europe, and as Rakesh laid out earlier for you also significantly in Asia-Pacific, and not to forget, South America where we have seen significant growth and we are expecting to see more of that, and frankly quite profitable growth. On the customer mix, nothing has changed in terms of our top three. The only change there is that the Freightliner

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Group has renamed itself to Daimler Trucks. Other than that, still all the same, Volvo, Daimler, ITE or Navistar, as it is commonly known, number four, the Fiat and Iveco Group.

And then, you can quickly see here, we are getting into specialty customers, Asia-Pacific customers with BAE, that's the former Stewart and Stevenson that was renamed into Armor Holdings, or sold to Armor Holdings and now BAE. So, that's the big piece of our specialty business. And you can see positions with PACCAR, GM here in North America but also Volkswagen. We have quite a bit of business with them in the South American truck operations. And then you see our Indian and Chinese customers.

So, how is the business organized? We started last year with many more business units in what you see up here right now. We have consolidated and organized a little bit differently. This allows us to manage the group better but also I think improves our focus and helps us get the synergies that we would like to see between the different businesses. So, where we were before organized in the driveline, brake, axle business units, we have consolidated the major components to work for the truck OEMs globally in what we call a truck group. Trailers is a separate organization and focuses on our global trailer customers.

And we have a growing specialty group and you can see a little bit by the pictures what they do. I will get to it in a little more detail here in a second. And then, the aftermarket. So, those are the four business units. They are run by very experienced and very strong executives. Joe Plomin, we have announced him recently, has joined us to run our truck group, Amelia Quelas runs our trailer group, and then two veterans, Tim Bowes and Joe Mejaly run the other two units.

Let me give you just a little bit more color on each -- I will start with the truck group. Here you see most of the products that you would think of when you think CVS or Meritor as the product is branded out in the marketplace. You are familiar with most of what we make; axles, brakes, drivelines, suspensions, transmissions, transfer cases.

But also, some of you may not know quite a strong presence here in this marketplace, especially in North America and the vehicle control systems through our joint venture, you see in the lower right hand corner there of the chart, with WABCO where we make ABS systems, stability control systems and other vehicle control innovations, very strong position in the market and we are quite proud of that piece of our truck business.

If I switch over to trailers, this is a quite interesting segment that is changing quickly to some very global players, as you see some of the Asian companies entering our space and also the European trailer space. We are leveraging here our capabilities that we have on the truck side. So, this isn't a set of products that we reinvent specifically for the trailer business. However, certainly when it comes to suspensions and other applications, there is some dedicated product to the trailer industry.

The trailer group is a significant part of our Performance Plus initiatives of our Performance Plus result improvement program, both with respect to cost, when you think of DMO, direct material optimization of our manufacturing and lean improvements, but also quite frankly on the growth side. We have announced I think publicly few months ago that we are getting into trailer axle remanufacturing, a very lucrative and nice growth opportunity for us, and there is other opportunities that we see to grow our trailer business in Asia, in Europe, and in specialty applications that we are not in today.

If I change gears into specialty, specialty consists of four main areas, bus and coach, fire and emergency, construction or utility trucks, all of the all-wheel-drive segment of the Class 6, 7, and, 8 market, and then last but not least, military. We have customers and businesses mostly here in North America but also in China, as Rakesh pointed out to you earlier today. The truck that you see there in the middle is commonly known as the FMTV, the big part of the army's vehicle program. We have been the predominant supplier and this is one example of what we do in the military side. Has been the predominant supplier for the FMTV since the truck was launched in the early '90s and the production of this vehicle has grown steadily.

So, you talk about cyclicality in our business, it hasn't been very cyclical, it is only been growing up. It is a very nice piece of business for us and it is a very, very good customer relationship with now BAE, formerly Stewart and Stevenson where we make everything on that vehicle. You can see the system of the drive train or the chassis is ours, all the way from the brakes to the

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axle of the drivelines transfer cases. The whole product comes from us. Last year we sold 8500 of those and you can imagine that's a nice piece that we are growing as we speak.

The aftermarket is our fourth unit. We call it internally CVA, Commercial Vehicle Aftermarket, the business that was originally based more or less in our brake presence in this industry. You could imagine that brakes have a lot of aftermarket requirements, lot of need for new parts there. But we are now expanding our aftermarket, not just in -- from the brakes in North America, we are expanding it globally, we are expanding it into other product lines than brakes, and they are specifically into transmissions, axle carriers. If you think of the transmission that's inside the axle, drivelines and many, many more applications where we believe we have a reason to play and the capability.

As I announced last year, we have increased our focus significantly on remanufacturing as being a core element of our aftermarket business. And with all that, I think we have had some very, very good results in 2007. We have grown in Europe by 18%. Year-over-year, we have grown in South America by 25%, in Asia-Pacific by 12%, and with a lot of initiatives that we were able to do, we have been able to get through the North American market despite the downturn and the softness with the year-over-year good result, not a double-digit growth but a very good result also here in North America. The aftermarket you will hear a little bit more from here later on is also the subject of a big acquisition or a strategic acquisition we are announcing today. I will get to this in a minute.

The foundation of all of those businesses is a family of strong commercial vehicle brands. First and foremost, the Meritor brand, that is mostly used throughout the world on our products, OEM products. We use the Euclid brand in the aftermarket for the so-called WD channel. We use the Meritor WABCO brand for our vehicle control systems. Gabriel is an American nameplate of many years in the vehicle stability or ride control market, and most recently, as of yesterday, Mascot is another addition to our aftermarket offering, especially in this market.

Let me change gears on you here and talk a little bit about our markets. The subject of a lot of debate, maybe the most focus that we have seen as we are debating the success of ArvinMeritor in the last few months, we have had a very tough market. We have had, I think, in some ways a little bit of a surprise, many of the analysts, many of us thought that after some initial people being nervous about the new product, that at least half way through the year sales should be picking up that we should have quite a run ahead knowing that the next emissions are just around the corner. And frankly, what happened is not quite that. We -- if you see on the chart behind me, the blue line is our order intake on the Class 8 North American business month by month, and you can see very clearly, we have been hovering in the low teens. And really until two months ago, there wasn't any signs that this thing was going to end.

The good news and I think this is what has also motivated many analysts in the space, ACT, even came out I think yesterday with some little bit higher numbers. The order intake in October and November was very positive. We have seen 20,100 orders in October, 20,900 orders in November, that's -- the last time we had over 20,000 orders was in June of 2006, so a significant event, even more so significant that it is two months in a row. And when you take those two months and annualize that, that's about a 240,000 annualized rate. We believe that that definitely is a very, very positive sign. I think it means that the market isn't quite as far down as people have said it to be. While we see some weakness in freight, we also have some indications that at least in some areas shipments are up a little bit.

I think we know that most of the truck carriers out in the marketplace still are financially in a very healthy condition. Clearly, the fed seems to be prepared to help, keep the economy growing and maybe most importantly, after in many cases over one year of not buying trucks, and people having learned their lessons year ago that -- years ago that if you quit buying trucks that you are going to be very surprised by your operating cost. I think people are coming back and they are starting to buy basically not for capacity.

We do not believe that people are adding capacity at this point, in some cases the opposite, they are keeping the capacity in check, they are trying to get price. When you talk to them, nobody is out there eager to grow their fleets. But, I think what we

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are seeing now is the beginning of a replacement cycle that is going to kick in and we hope that -- and anticipate that we are going to see orders close to that and/or maybe even a little bit higher if we are lucky going forward.

So, I think very good news with the last two months. Too early to call it a market that was going back to the upper 200s that we had forecasted previously, but certainly I think a solid foundation to the number that you will see on the next slide, which is our estimate for 2008. We are right now forecasting to be around 220,000 for the year, and for -- this is our fiscal year and a little bit higher than that for the calendar year. So, overall I think definitely if you ask me, was this the bottom of the market that we have seen, I would say notwithstanding any major catastrophes to occur, I would say we have seen the bottom in the order intake and we are on our way up.

So, our guidance going forward, I think we are still anticipating 2009 to be a very strong year, again fueled and driven by replacement and by the recognition; the trucks aren't going to get any cheaper in 2010. The number that you see at the end of the slide, they are over on the right, 220, I believe personally we have a little bit of upside in that number. There has been a lot of talk with all the OEMs about what technology are we going to see in 2010. You have seen Cummins introduced a solution that will not rely on SCR. So, in other words, it will be less of a technology landslide that what was originally anticipated. And you have also seen other OEMs follow along this announcement saying we may not need SCR.

So, I think the end result is you are going to see maybe a little bit more difficulty implementing SCR if not everybody is on board. But, at the same time, you are going to see a little bit more of a [bolt-on] suspenders, I guess, approach because we will have engines out there in 2010 that will still be different than the 2007 engines. They will have onboard diagnostics, they will have other technology advancements that the EPA is demanding, but they may not have SCR and therefore will be more proven. And I think you will see maybe jumping to buy those a little more than what this 220 number would indicate. So, I think it's a little too early to tell, but we are cautiously optimistic that there may be some upside in 2010, which at the end would be good for us, and I think it would be good for the industry if it wasn't quite that cyclical here.

Let me switch gears and give you a brief update on Europe. Europe also is subject to much debate, a little bit in the opposite direction. Here we were asked to make a lot more parts than we were able to do. And frankly, in a perfect world, if our plants and our products would be a little bit more global in nature, and if our -- I would say, if our manufacturing technology was a little bit more up to today's standards, we could have actually turned this into a positive. We were, I think, most of all surprised by the increases in Europe. People had forecasted a downturn. So, that caused some of the run up on parts and suppliers on the supply chain that really drove premiums throughout the industry, not just at ArvinMeritor, but with many suppliers, with many OEMs.

But, at the same time, a little bit of this is also our own inability, I will say self-critically of our plants in Europe not being up to the standard that we would like to see it, and our North American plants not quite like, you can turn them on in a moment's notice to help out the supply in Europe. Clearly, there is going to be lessons learned. We are upgrading our technology. We are looking at -- on the product side, the product strategy side, what can we do to improve our ability going forward to leverage exactly those situations where one market is down and the other one is up, and we should be as a global Company to be -- we should be able to benefit from situations like that.

The numbers that you see behind me in the neighborhood of 9% to 11% of growth year-over-year, we have actually seen numbers north of 20%. These are the market numbers in our particular portfolio of customers and businesses. We have seen numbers north of 20% growth from this time last year until today. And when you go into the trailer segment, which we have quite a nice little business in Europe, that number has been north of 40%, if you can imagine, so a significant, significant interest and capacity in Europe. The expansion to the east, I think, was underestimated by just about every truck OEM and trailer OEM, and people were caught by surprise as I said. The good news, and I will give you some color here in a second, I think we are making tremendous progress in executing and in improving our performance in Europe.

Let me give you, maybe this being the third chapter of my presentation, a little bit of color around Performance Plus. Performance Plus, we launched in November-December of last year. We announced it here at the analyst meeting for the first time and it has

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been a massive program for us. We have had lots of people involved in the program. We have spent countless hours working on developing the ideas, but also more recently obviously in implementing these ideas, and believe me, that has been the focus throughout the Company.

I am going to give you a few examples, just to give you some color on what this looks like. The first one is from the team or the pillar that we have called overhead, you could also call it a burden initiative, and here we have actually looked at the way we buy supplies for our plants corporate-wide in North America and I will get to Europe here in a second. We call that particular team IMO, indirect material optimization, and we found in North America that we were buying around 65,000 part numbers. These are all different kinds of supplies for our facilities. And we are buying them, and this is the worst number, we are buying them from 1,500 different sources.

So, you can imagine very little economies of scale, very little leveraging of our buying power with having that many facilities, not much manufacturing in this continent. Today, less than 12 months after we started this initiative, we have targeted 50% reduction in these part numbers. We have reduced the vendor base for the standard parts to 14 vendors. Lots of negotiations you can imagine with the purchasing team, the IMO team. We have also reduced these non-standard parts, industrial gases and things we buy, to a number of around 30, I guess you can see it on the slide, and we are now implementing this change.

We are also moving the same process into Europe. There it is a little bit more difficult because you are dealing with different countries and different languages and so forth, but -- and there isn't maybe as many European suppliers at hand as you would find in North America, but nevertheless, we will focus on Europe also. And when you combine both and really look at what is -- you have seen on Chip's chart early on, what is the non-risk adjusted number and what is the risk adjusted number, the non-risk adjusted number of what we -- if we can get fully successful, what we can get with this one is close to $20 million globally. So, a huge initiative and it is going to take a little bit more time to implement all pieces of it, but a great example of what happens when you put focus on the purchasing side of indirect materials.

The second example is a direct material example and a good one. This is an axle that we sell predominantly in Europe. In Europe, you have a lot of, from a design perspective, a lot of hub-reduction axles. This is an axle that has a reduction in the main carrier, but also out in the hubs, therefore the name hub-reduction axle, gives you better ground clearance. And it's not as much product for North America, at least not yet. But we have very, very nice business with hub-reduction rear axles. Today, we have two different axles. We are in the process of consolidating those into one, which is going to be this MT610, Meritor Tandem 610.

And in the process, we are taking a significant amount of money out of this axle. We have looked at it, we have torn down every part that makes up this axle. I was just in Europe a couple of weeks ago, tables the size of these here with every single part torn down. We have identified savings for a tandem of north of EUR300 a tandem. Now, those are not all implemented yet, but the ideas that are on the table are phenomenal.

We will now go into the process of, in some cases, we have already began to make the changes, we are going to cluster those changes in bite size intelligent pieces, and we are going to proceed to implement hopefully most of the identified savings. And I think like it is customary, I brought a little part just to demonstrate. This is one of the pieces (inaudible - microphone inaccessible) for free. And so, we have decided to take this big saddle and we break it into two smaller pieces, we are saving four kilograms of steel in the process. And obviously, that times 70,000 parts, you can imagine adds up. That's one example of a list as long as my arm on this axle. So, the good news is we have found a lot of ideas.

Now, the hard work begins, how do you implement these intelligently in clusters without taking any quality risks and with maximum speed so we can yield or we can harvest these cost reductions? So, just to give you a little example of how this looks like, there is probably another 60, 80 parts that we are going to look at in the process of redesigning the 610 and preparing it to be not just, today there is two products. We are going to actually consolidate that into one platform that we can employ globally with a significant, significant improvement of our product line profitability. So, anyway, just one example, but maybe not this small example.

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Moving on -- another example from Europe, you see there is a lot of focus on our European cost reduction efforts. This is a brake product. The [PMG] or Elsa brake we call it is one of our cornerstones of our disk brake business, which is located in Europe, and here we have been putting air disk brakes on trailers. They were probably by all standards a little bit over-engineered. It's a very modular platform of brake.

And as we are digging through these cost reduction opportunities, we found that we could take a smaller brake, took our modular platform, and this is one that's going to go in very quickly, we hope by April, to have this in place to save, you can see it here, in the neighborhood of $1.5 million in material costs by putting the right brake and not too big a brake, which also save weight for the trailer OEMs. So, lots of examples.

Another one, I don't want to go into too much detail, they are all in your handout. This is a carrier, this is a North American example, a carrier casting that we have used our clean sheet process, a process we announced last year, where we literally calculate what a part should cost based on its weight, based on the amount of machining that we do, so very, very scientific approach to calculating what this part should cost. Then we went and talked to the supplier that makes it today. We couldn't agree that they needed to come closer to the clean sheet. We found an LCC source and we are preparing to launch that part for $2.7 million savings in 2008 and $4.5 million savings run rate once it is fully implemented beginning in our second quarter.

So, lots of examples. There is 600 DMO initiatives in total for CVS and there is more being created everyday. We are balancing and that's really the trick in this whole thing everyday between the focus on new ones and the focus on implementation, and that's really the magic of the program at this point I believe we have found a significant amount of opportunity and you shall see us implement that in the years to come.

Let me switch gears a little bit again into manufacturing, another key area of Performance Plus for CVS has been manufacturing. And I think if I remember last year, I was quoted later on that I apparently said that I didn't like the way we manufactured. I can tell you today I am starting to like it a hell of a lot better. We have made tremendous progress in manufacturing beginning with putting in place a team that I think is second to none now in our industry.

We have hired dozens of people in supply chain management and manufacturing engineering. We have hired lean experts from all over the world that are now on our payroll, in our plants working on our lean improvements. And I think the two examples behind me should give you proof and there is 20 other plans that could tell stories like this that while we are in now way complete with our lean journey, we have started and we are seeing some very, very good results as we have increased the focus on manufacturing relentlessly in our Company.

We have used some outside expertise but mostly focused on building that skill set internally. And as I said last year, we have declared manufacturing a core competence for our Company. The two examples are from Europe, in Saint-Priest, which is in Lyon, we have been struggling to get enough axles out the door and without additional people, but with more focus and with more discipline we have been able to increase our productivity by 30% and our output by 25% just in September.

The other example is from our trailer factory in Cwmbran, which is next to Cardiff in Wales. We have been able to increase our output of this factory by 60%. We build around 1,200, 1,300 axles per week and we couldn't figure out initially anyway on how to do more. Last week we built 2000 and I can tell you the next time I am up here that will be 2500. There is a demand for those axles and we are going to get, you can imagine the burden cost to come down, the amortization to come up. And so, I think clearly first signs that our manufacturing focus is working.

Specialty growth, as you had heard before, Performance Plus is not all about cost. It is, at least half of the program is about revenue, is about focus on our products, and here is an example of an area that we have grown tremendously. About the same time last year, we kicked off a program called MRAP. It has nothing to do with music, it is a mine resistant ambush protection program that the Army and the Marines are working on. I think some of you may have read in the paper today, they are still being debated just how big that program will be.

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The bottom line is to-date 8815 trucks were awarded. We are on two of the three suppliers that make MRAP vehicles and we have received exactly half of the orders that were awarded on the program, and we expect whatever additional orders are going to be awarded that we are going to have a chance to get half of those also. So, I think a huge success of our engineering team to put suspensions and axles into the marketplace with very, very little time to design them, to test them to the satisfaction of our customers, and certainly to the satisfaction of our armed services that are trying to protect the soldiers in the field in Iraq.

We are now working on what is called the next generation MRAP. The service has decided to actually upgrade this vehicle that you see here once again to add more armor to the truck, to protect our soldiers even better. For that the axles have to be heavier and we have in record time designed what would be called the next generation MRAP, and I can report to you that this next generation platform is at Aberdeen right now being tested and we are once again in the lead to grab some of those orders.

It's not just MRAP though, we have solidly grown our position as the premium all-wheel-drive manufacturer in Class 6, 7, and 8. We continue to defend successfully our number one and number two position in bus and coach and fire and emergency, and I think Rakesh gave you a great summary of what we are doing in China. All in all, we have grown this business by 40% in the last two years and we don't intend to stop here. This JLTV that you saw, this MRAP is only really one example.

The other area of growth that we have talked about is our growth in the aftermarket. Frankly, we have a significant aftermarket business today, but our Chairman challenged us to triple that in the next five years, and we have gladly accepted that challenge. Let me begin with a program that is actually in Europe in the aftermarket where we had only a year ago or a short time ago, we had a very limited aftermarket business. We had essentially only ArvinMeritor products. We had no all-makes, we had no price point, as we call it, no private label. And in many ways, we were constrained because the only sources we had were our own plants and I told you already how well they were able to supply the capacity that was required.

Today, we have launched in the last year seven new product ranges, we have put in place solutions for capacity, both internally by adding equipment and externally by selecting proper suppliers. We have expanded our offering of all-makes products, and by the end of 2007 fiscal year, 11% of our European sales for all-makes adding $3 million in profit to our bottom line. We have added 16 positions only in one year, sales professionals that are all over Europe to try to grow and to help us grow our aftermarket with a special focus on Eastern Europe. Matter of fact, I think we hired our first Russian employee here only in the last few weeks and we are opening an office now in Moscow.

We are leveraging our OE customers' expansion into Eastern Europe, all of them are pushing very hard to get into the East, but at the same time, we are leveraging our U.S. customers' expansion into Eastern Europe as they are selling a lot of used trucks and you know that they need parts also into Eastern Europe. And last but not least, expect more to hear from us on remanufacturing in Europe. That's an area that also is going to see more growth as we go forward.

Last slide is a slide that makes me a little bit proud since we talked so much about remanufacturing in the last year, and yesterday we closed the deal with Mascot, where we will be the new owner and we will proudly make Mascot part of our North American aftermarket business. It's a Canadian manufacturer of all-makes transmissions, steering gears, axle carriers and drivelines that's been in the business for a long time with six production/customization facilities, I am going to say, throughout North America and also a very nice nugget, 25 non-asset based distribution points that we will pick up with this acquisition. The product line fits perfectly in what we do today, and fits perfectly in our growth strategy.

We will pick up especially on the transmission side a tremendous potential to grow our offering of all-makes transmissions in this marketplace. It's an acquisition that is almost perfectly in the sweet spot of where we needed it to be and it is bringing us synergies both on the product side and the distribution side that grow both ways. In other words, they are products that we didn't have that we are not going to be able to take through our distribution channel and they also had a piece of a distribution channel that we didn't have where we are going to take our products and take advantage of the distribution channel, all in all, a fantastic opportunity and we are very proud to welcome the Mascot company into our group.

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So, with that, I come to my last slide. I know I am little bit over time, the light is blinking red back there, I think I would like to report to you that our turnaround is on track. We have put a very, very strong team of players in place to drive our turnaround. We have focused I think on areas that needed focus in the last year and I think you all know what those are, I have talked about them.

We have made significant operational improvements only in one year, and I can assure you there is going to be more to come. We have rolled out a production system, Phil talked about it already, that is setting standards in our plants that we didn't have before, and focus on execution relentlessly that we needed. We have done footprint work already, we announced the closure of two plants and we announced very recently the adding of a new plant in Mexico, all strategic initiatives to position us in a better place for the future. We had a major focus in the last year on capacity and this question that is always being asked how do you manage or how do you improve your ability to manage capacity. Are cycles a part of your business?

I can tell you we have put a lot of work into systems, into forecasting, and to proper managing of our capacity strategy we never had in place before. And I think today, we are able to minimize the surprises to structurally grow suppliers to where we need them. But at the same time, we have also decided to make major investments in our plants that are going to give us the flexibility and the capacity that we need to be ready for whatever comes.

The DMO program I talked about, I think you saw some examples. That's a lot of hard work. It's going to take at least two more years to complete. But, I think it is the engine that's going to fuel our margin improvement in line with some other commercial activities that we are working on that are also going to help. Strong growth in specialty, not just with MRAP I talked about, and I think we have shown the numbers last year that we can do that and we are going to continue that. And the aftermarket, not just with Mascot, but a lot of organic growth initiatives in the hopper that are going to position us for reaching the goal that we have of tripling our aftermarket. So, I think that wraps up my presentation, I believe CVS is on track and please expect to hear more from us as we go into 2008 and 2009. Thank you. And I think Jay Craig is next.

Jay Craig - *ArvinMeritor Inc. - SVP, Controller*

Good morning. I would like to walk you through some 2008 financials. This will be similar to what we walked through in our November earnings call, but there are a few updates to some of our assumptions. As Chip mentioned, we are reconfirming our guidance today that we had on that call in November of earnings of $1.40 to $1.60 a share, although some of the underlying assumptions have changed since our previous call.

We expect sales for 2008 to be in the range of $6.75 billion to $6.95 billion, an increase of $400 million over the previous fiscal year. EBITDA will range from $385 million to $405 million and interest expense will total $95 million to $105 million. We expect our tax rate to increase this fiscal year to the range of 20% to 24% and this all results in our, again, our reconfirmed EPS guidance of $1.40 to $1.60 a share. Even with the significant investment that Phil and Carsten mentioned during their presentation, we expect to have positive cash flow for this period.

This next chart walks through our reported earnings for 2007 to our expected earnings in 2008. On the negative side, we anticipate continued operational issues to persist as a result of the higher European truck volumes that Carsten mentioned, which is leading to both capacity constraints internally as well as in our supply base. We expect these issues to be largely resolved by our third fiscal quarter and our supply -- as we and our suppliers bring on new capacity.

As Carsten displayed in his presentation, we continue to see softness in the North American truck market through the first two fiscal quarters and then growing gradually through the latter two fiscal quarters of the year. In addition, we expect to see softer volumes in 2008 than we experienced in 2007 in our North American light vehicle business. On the positive side, volumes in our European light vehicle markets are expected to be higher than our previous guidance.

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We expect Performance Plus savings initiatives to generate $0.70 to $0.75 of earnings improvement in 2008. These areas of savings and its specific examples were discussed previously by Phil and Carsten. In addition, Performance Plus revenue generating initiatives are anticipated to provide $0.25 to $0.35 of additional earnings in 2008. These include our new joint venture with Chery Motors, our increasing MRAP sales, and improved customer terms, which is the direct output of the program that Chip referred to our product line profitability analysis. And lastly, we expect $0.10 to $0.15 of earnings improvement from reduced pension and retiree expenditures in 2008, as compared to 2007.

Our earnings guidance includes the following assumptions for North America and Europe. In North America, we are now anticipating 2.2% GDP growth. This is down from our previous expectation of 2.4% and certainly, if it drops further, it will have an impact on our earnings during the fiscal year. The light vehicle industry in North America, we are expecting sales of 15.7 million units, a change from our previous guidance of 16 million units; Class 8 production of 235,000 to 255,000 for the calendar year; and Class 5 through 7 production of 180,000 units. And trailer production, we are expecting 250,000 units, which is a decline from our previous expectation of 305,000 units.

Although at the time of our earnings call, we had already forecasted that into our earnings expectations for the year, we expect the commercial vehicle aftermarket in the U.S. to remain flat for this year. And as Carsten mentioned, so far we have been awarded -- that the awarded MRAP units have been 8,800 and then we expect to hear of additional awards either this month or early next month.

In Europe, we are forecasting GDP growth of 2.2%; a light vehicle market of 17.1 million units, which is a modest increase from our previous assumption of 17 million units, but, I think what's of note, as Phil mentioned, we have a much higher market share in Europe and in the U.S. So, we believe those two changes in our assumptions will offset each other as we go out through the fiscal year. We are expecting medium and heavy duty production of trucks in Europe of 540,000 to 550,000 units and trailer production of 165,000 units. In Asia, we expect heavy and medium duty truck production of 1,340,000 units in fiscal '08.

The last macro assumption that we see impacting us slightly through the year is the expectation of increasing steel prices as we see tightening inventories in the U.S. and increased manufacturing demand in Europe. However, our remaining business portfolio after our ET divestiture contains customer contracts, predominantly in most of our business units that allow us to pass those steel price increases on to the customer. The reason we have shaded that yellow here is if the prices rise beyond our expectations, which is in the range of 7% to 12%, we will have difficulty in terms of a time lag of passing those increases on to our customers. So, right now, we believe it will be neutral to us for the year, but we are cautious to watch for increasing steel prices.

This next chart walks through by quarter the impact of various issues on the quarter and what our expectations are on the effect of those issues on our earnings for the particular quarter. Again, we expect softness in the North American light vehicle markets to negatively impact the last three quarters of the year, again offsetting the decline in North America, we expect stronger European light vehicle volumes that we are experiencing in the first quarter already to continue throughout the fiscal year. As Carsten displayed in a previous chart, we expect North American heavy truck downturn to negatively impact the first two quarters of our fiscal year with a gradual improvement in the third and fourth fiscal quarters.

We expect to see increasing European heavy and medium duty truck production throughout the year. And as I mentioned previously, this higher European demand is leading to inefficiencies both in our production and our suppliers' ability to supply the needed parts. We do foresee as new capacity comes on line for both us and our suppliers and new suppliers who are currently qualifying that this should be neutral in the third quarter and then we should see a positive benefit as we bring on the additional capacity during the third and fourth quarters.

Performance Plus savings are expected to be positive in the first quarter in relation to the cost of the program and then the benefits will be increasing as displayed in the chart that Chip went through in his opening comments throughout the remainder of the year. And our lower pension and OPEB savings are expected to be evenly spread throughout the year.

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The last chart I would like to walk you through is just risks and opportunities that are not currently in our forecast. In North America Class 8 truck production, if it were only to amount to 198,000 units, which was the ACT guidance prior to yesterday before they raised 3,000 units, we calculate that this would have a negative impact on our earnings of $12 million if the volumes were to decline to that level.

We are not seeing that, so we have not reflected it in our forecast, but we have calculated what that risk is to our plants. We believe these volumes would occur in a recession scenario and therefore we calculated the impact on our other business units, particularly in the heavy truck market and that would be trailers and the aftermarket and that would be an additional $12 million negative impact on our earnings.

So, we have as Chip mentioned planned for the worst and hope for the best, so we have undertaken some aggressive cost cutting and pricing discussions with our customers to offset this impact if it were to occur. We have entered many pricing discussions with our CVS customers and some of our LVS customers and we expect the impact of that to be on our fiscal year a positive $10 million for the year. We have also implemented a hiring freeze and various other benefit reductions. And so, we see more clear signs of the North American truck market rebound at a sustainable and we estimate that the positive impact of these actions will again be combined $10 million for the year.

So, again, we are taking the actions. We haven't forecast these volume declines in our figures for the year but we are taking cost cutting actions just in case they do occur. At this point, I would like to turn it over to Mary Lehmann, who is going to walk you through our balance sheet review.

Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

Good morning everyone. First I would like to recap free cash flow guidance for the fiscal year and what we have done on this slide is laid side by side the items for 2007 against our estimates for 2008, and this walk goes from our EBITDA guidance down to free cash flow and talks about some of the elements. For 2008, we start with the EBITDA guidance that Jay walked through of $385 million to $405 million.

We are projecting our capital expenditures to be up this year and very consistent with the modernization of the network that both Carsten and Phil talked about, up in the range of $150 million to $170 million this year from $120 million last year. We are expecting to spend on restructuring programs about $100 million in cash.

Now, I will also say there is opportunity for us to overachieve there and not spend that much as we find more efficient ways to get the benefits that we are seeking much in the way that Phil described he has been able to do in a couple of his plants and his network. So, we see on the $100 million there is an opportunity to certainly overachieve in that area. Interest expense of $95 million to $105 million negative and then you got a number of other small items.

We expect to continue, we have had success in being able to put in place cost-efficient factoring programs, especially overseas. We expect to continue ramping those up and that would be worth about $30 million to $50 million in positive cash flow. So, all in all, we certainly expect a positive year from a free cash flow perspective this year.

This time every year, we take the opportunity to update you on where we stand with our pension programs and our OPEB programs, and I will tell you that we have done an awful lot of work on our pension programs and we are very proud of the position we have been able to get ourselves in related to the pension liability. Two years ago, our underfunded status or unfunded status, as is shown on the slide, was $659 million. We are now down to as we exited our fiscal year 2007 an underfunded status of $181 million, dramatic improvement. You can see that that translates for fiscal year '08 into much lower pension expense and much lower cash pension contributions.

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Our discount rate and asset return assumptions are shown there. What has driven this is many factors. Chip and others have mentioned the freeze in our U.S. defined benefit program and the conversion to defined contributions. That's a part of it. We have had very good asset returns. We have had some discount rate help, as discount rates have come up in the last couple of years, and we have also had some help from divestitures of some business units.

Importantly though, we feel though this is a very good and sustainable position for us as I am going to describe on the next slide because we have also taken steps in the U.S. defined benefits or pension plan program to put in place a program that would effectively hedge us against about 70% of any adverse interest rate movement that would occur in the market. As you know, as discount rates fall, your pension liability grows and the opposite is discount rates rise, your pension liability as it is measured falls.

We have taken steps within the asset management program of our U.S. pension plan to hedge ourselves to the tune of about 70% against the -- those interest rate fluctuations. The way we have done that, as you can see on the left, we have a fairly traditional asset management program for our plan assets where we still believe it is prudent to be investing about 55% to 60% in equities because long-term we believe that offers the best return potential for the -- for our plan.

However, we are also cognizant that the fixed income piece of 30% to 35% does not effectively protect us against what happens when interest rates rise on the liability side. So, we have overlaid that asset management program with a series of long-dated 20 to 30 year interest rate swap that effectively act as hedges against the interest rate exposure on the liability side. So, our sensitivity in the U.S. plan to interest rate volatility has been dramatically reduced.

On the retiree healthcare side, we exited fiscal year 2007 with about $25 million improvement in our OPEB liability. This -- as we have had a huge focus on our pension liability, we are now turning to the retiree healthcare liability. We have about -- the majority of our expense is potentially addressable through a VEBA arrangement consistent or very similar to that that was just patterned by the Detroit Three. We believe we have an opportunity here and that's something that we will be looking at as we go through time, to see if can't get something like that in place.

The next topic I would like to cover is an amendment that we just received yesterday from our senior lender group on our credit facility. We are very pleased with the strong support that was demonstrated by our bank group in achieving this amendment. Having sufficient liquidity under any economic scenario has and continues to be an imperative for this management team. As we stress-tested different scenarios, different economic assumptions, we recognized that our prior financial covenant structure may have impaired at quarter end our ability to access enough of our revolving credit facility or as much of our revolving credit facility as we would like to have access to.

We have moved to -- as a result, we have -- we have worked with our bank group to move to one financial covenant rather than two and that covenant is a senior secured debt-to-EBITDA covenant which is designed to give us, as you look at our EBITDA forecast for this year, access to the majority if not all of our revised credit line.

Quickly, I should add that we have also reduced the size of the total credit line from $900 million to $700 million but again, of that $700 million, this is designed so that we have access to the majority or -- if not all of that credit line under just about any economic scenario. So this gives us much better and more consistent availability under a variety of business conditions.

The other difference in this credit facility versus the old one is that we have in addition to the senior -- the availability under the senior secured credit line, we have also been given the opportunity when market conditions are right to issue some further unsecured debt that would be fully consistent with the new amended covenant structure, so we have the ability to enhance liquidity by issuing additional unsecured debt when we see the right market opportunity on the marketplace.

So in summary, the combination of the senior secured credit facility of $700 million, our cash on hand, our access to other borrowing programs that are carved out in the lowest access on a carved-out basis from the credit facility, as well as the ability to issue additional senior unsecured -- additional unsecured debt gives us we believe the liquidity position that is very comfortable.

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My last slide is just a recap of our long-term debt portfolio, which the most notable feature of is we have no meaningful maturities until the year 2012. Our secured revolver just mature in 2011. Prior to that, we have very manageable maturities totaling only $77 million and that comes due in the early part of calendar year 2009. So very, very well dispersed, well spread maturity structure with some due in 2012 and then again nothing due until 2015 and far beyond that. So, I will turn it back over to Chip to provide some wrap-up comments. Thank you.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Thanks, Mary. And before I open it up to questions, I do just have two slides I would like to go through and the first is to kind of give you a recap if you will of the medium-term investment thesis that you can see here. In addition to what both Phil and Rakesh talked about as far as the margin improvements we are seeing in LVS and we will continue to see that, and the explosive growth that we continue to see in Asia-Pacific.

I think that other important message that you see here is the strong commercial vehicle volumes we are going to see really in the second half of 2008 and into 2009. I think Carsten kind of laid out the rationale. Obviously, we have seen two strong -- stronger months than anticipated in October, November. But, our expectations are that it will still be choppy for the next couple of months. But, obviously, as you look into the second half of '08 and into '09, we do see a strong rebound in the North American market.

Perhaps as important and perhaps even more importantly is the strength that we are seeing in Europe. The strength has been there; unfortunately this past year, we haven't been able to capitalize on it as much. But I think with the things that Carsten kind of reviewed with you, both from a production point of view as far as lean manufacturing, from a DMO point of view on materials perspective and as we continue to invest in capacity going forward, we will clearly put us in better position to be able to capitalize on that going forward. And as both Carsten and Rakesh had talked about, the continued strong growth in Asia-Pacific, our priority focus being India and China, but also the rest of the Asia-Pacific region in both the commercial truck or heavy truck side and also the off-highway side as we continue to build the infrastructure.

Second item is Performance Plus. We have kind of laid out and hopefully you have seen enough of the granular detail to understand what we are looking at to make sure that we can get that $75 million in 2008 and as importantly, have the right run rate at the end of the year to be able to do the $150 million and hopefully we have shown you the risk-adjusted plans we have got in place. We feel good we can do that. But as importantly, as you look at the specific individual items, some as even as Phil has said, are down to $100,000 increments by the kind of focus we have there.

But as importantly, in addition to cost reduction which we have been focusing on, is you have the $30 million of additional contribution from growth initiatives, as Jay kind of laid out before. And then as Mary talked about the strong balance sheet, we have talked about that. For the last couple of years, that has been our focus. I think you have seen that as far as really having no mid-term debt due until 2012 and then perhaps as importantly with the strong liquidity as a result of the simplified covenants that we put in place yesterday with the banks.

And then the last slide and I talked some about this at the earnings call, but I want to go back to this again just very quickly and kind of talk about how we are looking on go forward basis for the long-term pieces. And first, starting with the strategic focus and as you know in the last couple of years, we spent a lot of time refocusing this Company. I have talked about the fact that we have had to divest things such as RollCoater, the light vehicle aftermarket and earlier this year, Emissions Technology business really to kind of continue to focus the business down on its core business.

At the same time, we want to make sure that we are growing with the right customers in the right regions with the right products and part of our global strategy hopefully seeing that kind of continued focus and we will continue to focus on that and continue to globalize and move toward what I will call the one-third, one-third, one-third -- a third of our business in North America, a third of our business in Europe, and a third of our business either in Asia-Pacific or with Asia-Pacific OEMs around the world.

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From a performance improvement perspective, the focus has been on Performance Plus. I think we have talked a lot about that and I am sure you have seen the result of what we are doing on that kind of going forward. And again, we will continue to stay focused on that as far as where the cost reduction opportunities are, but also the profitable growth opportunities. And as Carsten kind of indicated, both with our existing management team that has been around for a number of years supplemented with a lot of new management from an operating perspective both on the LVS and the CVS side, and also in Asia-Pacific, I feel very good about this management team going forward to make sure they can indeed implement a lot of things we put in place.

From a shareholder alignment perspective, just to let you know, I am asked this question oftentimes, "What is our incentive based on?" Our short-term incentive is based on two things, EBITDA and free cash flow. Our long-term three-year incentive plan is based on ROIC and total shareholder return. The other thing is we also have in place strict ownership guidelines for our officers and down into the management ranks of the Company. And then perhaps as importantly, when I look at the Board composition, with the exception of myself, the other nine Board members are all outside directors.

And then finally from a balance sheet perspective, again to kind of reiterate the fact, we have reduced our net debt by $700 million in the last couple of years. We have no major debt maturities due until 2012. We have significantly reduced our pension underfunding from over $650 million down to $180 million and as Mary kind of indicated, we also have the opportunity to kind of take on our retiree healthcare as kind of the next avenue that we have got to look at. We have kind of focused on pensions; we are now going to focus on the healthcare side.

And two final comments, a question was asked to me at the last earnings call as we kind of reported out on our quarter four results which clearly we were not pleased with, I was not pleased with, and the question was asked is, "Was that the trough?" And I would like to tell you at this point, barring a significant recession, I would have say the answer is yes. But, I think perhaps as importantly, in spite of the fact that our stock actually did appreciate about 15% in the last week, I also have to tell you that we feel very strong that our stock right now is very much undervalued. But we also realize it is up to us to prove that kind of going forward that we indeed do have the things in place, do have the actions identified and as importantly, we are able to implement the actions we have identified to demonstrate that credibility going forward.

So on behalf of the entire ArvinMeritor team, I would like to thank for your attention. I would like to reiterate the commitments you have seen today, down to the individual granular detail up to the large strategic initiatives we are doing. At this point, I would like to open up to questions. So at this point, I think there will be microphones around the room and if I could have Jim Donlon also come up to the table. I think we've got a question right down here.

QUESTIONS AND ANSWERS

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Could you also identify yourself and what Company you are with too?

Peter Nesvold - *Bear Stearns - Analyst*

Hi, it is Peter Nesvold from Bear Stearns. Can you talk a little bit about what the major milestones you expect in '08 and any other measures that we can look at from the outside to really gage the progress of Performance Plus as the year is trending through?

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Well, obviously, what we are trying to do and I will let some of the team members here, maybe Jay in a moment, kind of talk about some of the specific things. But as we look at that, what we are trying to is give that granular detail and as I said, the first

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milestone we put in place was to sit there and say that in '07 Performance Plus would be cost neutral, and I can report the fact that it was cost neutral.

As you can see, we have got that $37 million run rate going forward. What we tried to lay out with what Carsten and Phil in particular kind of laid out were some of the specific items that we will looking at each time and what I would view is at each point of the earnings release and every quarterly update, we would certainly give you a visibility on that. I don't know Jay, do you want to add anything to that?

Jay Craig - *ArvinMeritor Inc. - SVP, Controller*

The only thing I would add is we again, to reiterate, we expect every quarter to report our progress going forward how we are doing on the total program. But I hope you saw from Phil and Carsten's presentation in some specificity the actions we have taken that are a 100% within our control and we do not need customer approval of changes to product to accomplish.

So many of the actions we have focused on initially were items that were in control within our administrative or plant facilities that we could control 100% internally, particularly the IMO recommendations to run that. Phil used as an example on energy and then Carsten used on consolidation of indirect purchasing.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

I think we have a question over there.

Robert Barry - *Goldman Sachs - Analyst*

Yes, good morning guys. Robert Barry from Goldman Sachs. Two questions; one, Carsten, I am just wondering as you talk to your North America Class 8 customers, how many of them have trucks still in inventory unused from the '06 pre-buy and how that factors into your thinking about the demand for Class 8 over the next year? And then the second question was on LVS and I am just curious if we do over the next couple of quarters, see the SAAR down in the low 15 range, looking out to the tier-two, tier-three supply base, how many of them are potentially on the edge and in need of support if we get down into those levels? Thank you.

Carsten Reinhardt - *ArvinMeritor Inc. - SVP, President - Commercial Vehicle Systems*

Robert, let me start the -- the question of inventory is obviously a very good question and something we are monitoring closely. Overall the inventory is coming down, is it coming down fast enough is the other question. There is two types of inventory, the dealer inventory which I think we are a little more immune to just because of our sales mix.

We cater in North America very much to the larger fleets and if you look at our customer portfolio in North America, you will see that that also matches. So, I think we are maybe a little bit more at risk with the other inventory which is some of the long-haul fleets and some of the larger truck carriers that some more than others still have some trucks parked from their rather larger buy in 2006.

So, on the vocational side, I think you will see more the dealer inventory which are trucks that are out there which is coming down on the -- I think on the fleet side, as I mentioned, the fleets are watching their capacity depending on who you talk to, they are more or less aggressive on their pricing.

I think you have had all those discussions with them, but I think what we are seeing right now is that some of the larger buyers are coming back into the marketplace. They have been on the sidelines for quite a while, and so I think for us the question of

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inventory is really that of fleets, whether they still have trucks parked and I think we are seeing them now return to the buying cycle and it is about time for them to do so. Otherwise, they will be too far behind. I think that's what maybe is explaining two months -- two consecutive months of over 2,000 orders.

Now, those are not all, maybe just to add one more point, those are not all for immediate production, some of those I think as we learn more about these orders, maybe out in the second and maybe even third quarter. But, I think overall certainly from us a positive -- or for us a positive development.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Phil, do you want answer the LVS?

Phil Martens - *ArvinMeritor Inc. - SVP, President - Light Vehicle Systems*

Yes, I think that's a very good question. I think the reality is it is going to be a concern and it comes at the tier-two and tier-three, primarily it will stress on one of two ways. If the production schedules become very erratic such that they are up for a month or down for a month or up for a month or down for a month, some of the smaller tier-twos and tier-threes are going to be very stressed from a cash flow and frankly operational pattern perspective and I think we will see some probably increases in bankruptcies in that level. The second area I do believe that will affect them like it affects all of us is how they effectively can manage any type of material economic changes or any other factors that might be creeping into their business.

I think at the end of the day, the first element that I mentioned is going to be the most important, is how erratic the production patterns become and clearly you have to have some sustainability to manage that. We clearly watch from our point of view, from a bankruptcy and supplier distress, we have learned a lot about that over the period of time and I think that's just a watch out for us going forward. But, it is a little bit early to predict what will happen and when.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Okay, questions -- take one over here.

Chet Luy - *Barker's Capital - Analyst*

Hi, good morning. Chet Luy from Barclays Capital. Question for Chip and Phil. Can you talk a little bit about your roof business and how this fits in the overall portfolio and also maybe talk about businesses that you are looking to de-emphasize moving forward?

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Yes, let me kind of take the second question and then I will obviously defer to Phil on the first one which is roofs in particular. But, I think the gist of your other question is if you go back a couple of years ago when I first rolled out the three Rs, the rationale, refocus, regenerate for the Company which is really a kind of continue to focus the Company down, we kind of laid out some fairly clear criteria as to thresholds that have to be made as either being number one or two in the area, or have a clear path to get to that and have certain profitability, return on investment type hurdles on a go-forward basis.

And really as I look at it from a corporate point of view, that's what we continue to look at in all of our businesses going forward, if you look at some of the ones we divested, although they have been good businesses, either because we needed to continue to focus on a couple of areas quite frankly because they couldn't meet those hurdles, we couldn't see our way through that, those decisions were made that way. But, Phil, I may defer to you as far as specifically on the roof one.

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Phil Martens - *ArvinMeritor Inc. - SVP, President - Light Vehicle Systems*

The roof business is a very interesting business and for a number of years within ArvinMeritor it has not been one of our best performing business. You could almost say it has been one of our worst. When you really look at the roof business from a global perspective, there are three fundamental players. There is Webasto and Inalfa and ArvinMeritor. We might consider Magna in there now that they are holding up some of Inalfa assets.

It is a business that has high technology, high systems value add and it also has a growth in two areas, one is in the panoramic type of roof which is the fold roof system which is high value add, which very few people can do well and the second is in Asia-Pacific where in China it is running at 70% to 80% installed rate with the proper margins that we can see.

The issue we have had is we have left it alone as standalone business and we have put in a high-cost country called Germany and we have not managed the customer pricing portfolio well. We have now radically restructured roofs. It no longer exists so to speak as a business; it has been -- its SG&A has been cut by over 40%. We have taken about 80 people out of Germany; we have now integrated if you will the systems engineering approach with our doors group to body systems. That alone has given us a cost structure that allows us to be competitive anywhere in the world.

The second thing that we have done is we have aggressively closed our high-cost manufacturing facilities in Frankfurt primarily and we now have a footprint that is first class. We are the only ones in that business who can produce roofs in Eastern Europe, Mexico and Asia-Pacific and these are all sourced locally. They are no longer sourced within the high-cost regions of Germany for the key components, that's roofs. And we are now working on glass coming out of China. The balance of it, we are working through through fiscal year '09.

If you put that together, roofs in fact is a growth business and if you look at through year-over-year revenue profile from that, from the installed rate of the businesses, it has gone up considerably and we are seeing dramatic business growth at high margins in our roof business. So, leaving it as standalone, yes, it does not really deserve to be in the portfolio. Integrating it as a part of a system and taking advantage of the capability and the margin structure we are, it does deserve a place.

And Webasto is not, if you will, as well positioned as we are and Inalfa is not. So, worldwide we have an opportunity to become the leader versus a follower and that's the path we have chosen. And you look at it, it is working and it takes a completely different view than what we have talked about in the past. And so far, I am very pleased with where we are going.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Next question. Take one up here.

Monica Keany - *Morgan Stanley - Analyst*

Hi, Monica Keany, Morgan Stanley. Carsten, I was wondering if you could just give us a sense if there is a U.S. recession, where would you see Class 8 orders going? That was the first one. And then the second one is I was wondering maybe Mary you could sort of elaborate a little bit more on the VEBA and with the UAW and where that sort of stands and the potential there, also how would you guys think about potentially financing something like that?

Carsten Reinhardt - *ArvinMeritor Inc. - SVP, President - Commercial Vehicle Systems*

If there is a recession, I think the various analysts expect the replacement demand to be around 200,000, even if there is no economic growth. I would say, if there is a recession, you are going to see a number lower than 200,000. Whether that would drop to an all-time low, which would be if you go back ten years somewhere in the, what, 160,000 range? I don't know if that

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-- it would drop that low. It is really a speculation. I think it would certainly be under 200,000 would be my estimate. But, if you want to hear a number, 160,000 to 180,000 would be my estimate at this point. But, I think that's really just going back in time and what was really the worst year that we have had in, let's say, the last five to ten years, Class 8. Mary?

Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

Can you hear me? On the OPEB, first of all, that they are in the very early stages of the analysis. We do think the big -- the sort of the pattern that was cut by the big three is value creating and we do think it has got applications at ArvinMeritor. Our retiree healthcare liability is very skewed to being UAW, the majority of it is UAW and type of the workforce.

But, also I will say we are different in that we don't have any pattern bargaining arrangements across our UAW plants and the majority of our retiree healthcare is for inactive employees, those who have either been part of facilities that have been closed in the past or are part of ongoing facilities, but they are retired and inactive. So that's the majority of our liability. So we have a little bit of a different challenge in terms of how we approach the bargaining of that.

So, all in all early stages, but we do think there is value. We do think our liability might potentially fit that type of a transaction. I think in terms of the funding, the enhancements to liquidity that we just got helped us along the way a lot. I mentioned that we do have a carve-out ability to issue more unsecured debt, whether issue that in the market or issue that directly to the trust fund, there is a number of options that we could pursue.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Questions over here.

Jim Leda - *Merrill Lynch - Analyst*

Thank you. Good morning. It is Jim Leda with Merrill Lynch. Mary, another question or a couple of questions for you. With regard to this fourth amendment to the credit facility, were there any changes to the covenants with regard to acquisitions?

Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

And I believe the whole amendment is out in our Form 8-K this morning. Yes, we have agreed with the lenders that in exchange for the amended covenants and the financial flexibility that we got with this amendment that we do limit our acquisition over the life -- the remaining life of the transaction to $100 million in purchase price. So that is a limitation that we have agreed to.

Jim Leda - *Merrill Lynch - Analyst*

It is a limitation of $100 million --

Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

Between now and the maturity of the credit facility.

Jim Leda - *Merrill Lynch - Analyst*

That's total consideration?

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Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

Yes.

Jim Leda - *Merrill Lynch - Analyst*

Okay, great. Thank you.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Question over here. And then, Lisa, the next one will be right there. We just want to -- okay.

Unidentified Participant

This is for Mary, Jim, or Jay. Looking at your Performance Plus, could you guys give us a little bit more detail on that and number of employees in plants? And then looking at the employees, if there is any overhead left from ET that is left there, and maybe give us some granularity between salary and hourly numbers. And then finally, are there any major milestones, plant closures that we should look for in this rollout?

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Jim, do you want to start?

Jim Donlon - *ArvinMeritor Inc. - EVP, CFO*

Overall, I would just share with you that our employees about 19,500 overall. Here in the U.S., it is just 5,000. Of that, UAW at four plants that amount to a little over 1,000; CAW in Canada. So it is a mix of some that are non-union plants, some that are union plants spread out around North America. We have had good reaction of working with the union plants on some new proposals that would make them more competitive, so we are actually very encouraged by that and are looking at a couple of others that we might be able to work with. Out in Europe, in Western Europe in particular, there are almost all the union facilities in the Western Europe and a couple of new ones in Eastern Europe that are at this point not quite as union oriented in those facilities.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Jay or Mary?

Jay Craig - *ArvinMeritor Inc. - SVP, Controller*

As far as the number of employees working on Performance Plus, we peaked at about 80 employees, 80 to 100 in a separate program office in addition to approximately 25 McKinsey consultants. The involvement of McKinsey ended. That has been completed, so the cost of the program has dropped dramatically. Many of the employees have been re-embedded into the business and into the plants in both LVS and CVS, so the -- particularly in the DMO purchasing area, we have re-embedded those teams into the respective purchasing function and we have retained the overhead team as a consolidated team because that is focused more on consolidated buying and consolidated policies and procedure changes that were the retail overhead reduction.

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Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

One of things I should mention before I let Mary answer too is the other thing that we have continued to do is even though and as we said, this is a three-year journey, we are only one year into it. So we have got two more years. And as Jim said, we have got over 19,000 employees. As we move them back in there, we continue to have monthly steering committees which I chair.

So we continue to review this because [all I know] is I was asked the question a couple of times during the break is "What is different with this than others?" And probably and hopefully, you have seen it as Rakesh, Phil and Carsten kind of laid out the detail, one, we are getting down to granular detail, but the second thing is we are putting a rigor in place that is going to be part of our culture going forward.

So, as we continue to migrate back into the organization, so we have got 19,000 plus people working on as opposed to just 80 people. It will continue to track that and back to Peter's initial question as a part of our intention to continue to report out on that going forward in the future. So, I continue to chair those steering committees every month and part of it is to make sure we have got the 19,000 working on it. Mary, is there anything else you would like to add?

Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

I think you have covered it.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Okay. Right here, yes?

Rob Hinchliffe - *UBS - Analyst*

Hi, Rob Hinchliffe with UBS. Two questions. One, just can you remind us, the risk adjustment part of the Performance Plus, is that more in CVS or LVS? And then the second one on LVS, the transformation for LVS, you showed, Phil, a margin parameter at the bottom of your slides. We have heard this business in the past characterizes, it needs to be fixed brick by brick over time and you showed a red to yellow to green over the course of like '07, '08, '09. Margins improved, what, 90 basis points versus last year and it went from red to yellow. So, to go to green is another 90 basis points. Does that get you to green or what are you really getting out there?

Jay Craig - *ArvinMeritor Inc. - SVP, Controller*

What was the first question? Maybe I can answer.

Rob Hinchliffe - *UBS - Analyst*

It was the --

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

I will take care of the first question. Jay, maybe you could answer on that because the risk adjusted isn't really risk adjustment between CVS and LVS. We actually have a very rigid process which I will let Jay go through in a moment. One, it is just an idea

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that has been generated, to an idea that has being implemented, to an idea that has actually dropped to the bottom line. So Jay, you may want to kind of just give some clarity on that?

Jay Craig - *ArvinMeritor Inc. - SVP, Controller*

Yes, if you recall from our presentation last year, we have five levels of initiatives within Performance Plus and we discount from a different amount. So, when an idea is generated, it is discounted 40%. Once it has been analyzed and it is decided that we want to present it to the steering committee, it is discounted 30%. Once the steering committee has approved it, it is discounted 20%.

Once it has been implemented, it is still discounted 10% until an independent finance person goes through and confirms that the either cost savings or revenue generation has been sustained over a several-month period and can be expected to be sustained into the foreseeable future. Only then do we remove the last piece of discount on the program. So, it is not really broken down between CVS and LVS so much as it is broken down by the individual initiative grouping such as direct material savings or aftermarket growth or the strategy initiatives.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Okay. Thanks, Jay. Phil?

Phil Martens - *ArvinMeritor Inc. - SVP, President - Light Vehicle Systems*

If you could just look at one of the slides can you pull it up -- specifically look at it. If you look at the LVS business, if you just take the body systems and let me walk through this and the margin parameter clearly, '06 represents the roofs was a non-performing business. As we have gone through the actions in '07 and converted that into a full body systems organization, we have seen a stabilization in that business and we have now seen the improvement. In terms of enhancing the profitability, there is a number of factors that we are looking at.

On a specific basis point improvement year-over-year, I am not ready to give that out. But when I look at what you talked about in terms of ranges, clearly we are desirous of that type of improvement year-over-year. I think we have to continue to look at these businesses in LVS as what the top quartile in the tier-one industry achieves for EBITDA. And that's what our target is. What and when will we hit that is really a function of how we perform in fiscal year '08 which we have specific targets for and then in fiscal year '09.

But the actions we put in place in fiscal year '07 structurally have given us the best way to do that and we feel we are fully competitive now with what we consider to be the premier tier-ones in terms of their operating structure. We now have to bring the profits forward in terms of proper pricing with our customers and others, so it is more work to come and you are going to see that in a quarter-to-quarter and a year-over-year basis as we go forward.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Okay. A question over here.

Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

Chip, if I may --

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Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

I am sorry.

Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

I will add a clarifying point to Jim's question earlier on the acquisition basket. I neglected to mention that we can reload the acquisition basket if we sell foreign assets, foreign businesses, then that is allowed to be added back into the acquisition basket. So it is not a firm $100 million limitation if we do sell from foreign businesses we can add that.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Thanks, Mary. Here we go.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

Yes, a few questions. Jonathan Steinmetz with Morgan Stanley. First on Performance Plus, on slide four, it looks like it is a little bit second half loaded and there is especially large kick in the last month of the fiscal year on both a base case and risk adjusted basis. Could you just talk about, is there a specific chunky type of plant closure or any other type of item that is accounting for that jump in September?

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

No, actually when you look at it, if you look at the majority of the savings we are going to show in '08 is going to be more in the overhead and toward the end of the year in lean. So, it will be overhead and lean. The plant restructure, you will see a little bit of that but that will be more in '09 and '10. What you will start seeing toward the end of the year also is more the DMO savings too there. So, some of that is just timing, some of that quite frankly is volume related too if you look at the market coming back in the second half of the year. Jay, do you want to give more detail on that beyond that?

Jay Craig - *ArvinMeritor Inc. - SVP, Controller*

The only thing I would mention as you can see the green segment of the bar which is our high-confidence planning doesn't have that as steep a curve and that's why we have done some risk adjustment because we saw some of the back-end loading from the teams, so they took some risk adjustment to come up with some of our high-confidence plan.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

That's a good point too. That's part of the risk adjustment that was asked earlier.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

Okay. On CapEx, you have talked, Carsten, about the need to modernize some facilities in Europe to keep up with demand. Do you see the level you are talking which I think was $150 million to $170 million as sort of a good run rate going forward or is there a one-time bump here, and then you come down a little bit as you get this implemented?

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Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

First of all, I should mention the $150 million to $170 million is corporate-wide, so that's within that -- Carsten, if you want to kind of talk just about within CVS?

Carsten Reinhardt - *ArvinMeritor Inc. - SVP, President - Commercial Vehicle Systems*

Well, I think the honest answer is we are a little bit in catch-up mode on the CVS side and so, Jonathan, I think my answer would be we have significantly increased the CVS capital spending. Now, some of that is capacity that we are putting in place in Europe, right? So, I don't know if it is safe to assume that we are going to continue at that rate, but I think it is certainly we have to continue at a rate higher than what we spent in the past. And I think that would be my answer to your question.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

On the whole VEBA issue, I know it is early, but from a funding mechanism standpoint, are all the JVs that you identified on page five, would you consider all of them core or if we saw a VEBA-type solution, would there be some items on the table and I am especially thinking WABCO is a newly public company, would there be any desire for them or for you to try to restructure that JV?

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Well, let me do it in two parts and I will let Mary or Jim talk about the VEBA part of that because I don't know if that would -- would change in there. But I will tell you that Meritor WABCO joint venture has been a very successful joint venture for us, North American specific and obviously, as we look at that, we have got to make sure we have got capabilities in other parts of the world which is part of our ongoing discussion with how we do that either internally on externally on that. But, I don't know if Mary or Jim, if you want to kind of address the -- I guess the broader sense on VEBA as it relates to joint ventures?

Jim Donlon - *ArvinMeritor Inc. - EVP, CFO*

We feel like we have enough other alternatives that we can work on that would be satisfactory for the funding of the VEBA that it would not require us to address any of the joint ventures. They are I believe we would say pretty core for us. We built our work around them. They integrate well with us and they are all running in very good condition at this point. So, we are not looking to use those for the funding and we have other alternatives.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Okay. Question over here, Lisa.

Bill Fogel - *JL Advisors - Analyst*

Bill Fogel from JL Advisors. Just wondering you gave your sensitivity to truck orders of Class 7 and 8. I was wondering if you could give us a similar sensitivity on the LVS group just in terms of SAAR in both North America and Europe?

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Phil, I will defer to you on that one.

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Phil Martens - *ArvinMeritor Inc. - SVP, President - Light Vehicle Systems*

In terms of sensitivities, it is a little bit difficult to give you a broad measure of that because it really depends on what platform you are on and what customer is affected. I can tell you in the United States when we set up our forecast, we set it up on the assumption I talked about today which we feel are at the low end of the forecast out there for production.

In terms of Europe, Europe is a unique market, where if you're on the hot product that is newly launched, you do very well. We have several major launches that have happened over the past year, which we think will possibly help us there. Likewise, the same is true in Asia-Pacific where we are really seeing a continued growth in demand. We have probably 20 launches there. Now keep in mind Asia-Pacific, the launch is smaller in terms of volume and in terms of South America, basically demand right now is very strong. So, from a sensitivity perspective, plus or minus a couple of percentage, it is hard to give you an exact answer because of complexity of the business.

I would tell you the chart that we have, earlier there was another chart, is it the chart just before this Terry, where we actually have looked at what the effect would be on the North American and it is about $0.05 to $0.10. But, we think we can offset that by what we see in Europe. So if you think about it, 500,000, 600,000 unit swing in North America, that might be what you get there; a 2% or 3% improvement in Europe because it's a larger volume, that's about what you get there. Does that help you?

Bill Fogel - *JL Advisors - Analyst*

[Wonder is it] 500,000 in North America and similar in Europe?

Phil Martens - *ArvinMeritor Inc. - SVP, President - Light Vehicle Systems*

The volumes in Europe, it is 2%; it is a bigger market, about 21 million units. So, you are dealing with half--a-million units; it's about that sensitivity. But I wanted to just be careful to say it is difficult to say that's an exact analysis because of the complexity of the LVS market.

Bill Fogel - *JL Advisors - Analyst*

Thank you. That's very useful.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

One of the things I should mention before we go to the next question is I know there has been lot of questions on this as to what is happening in the market, I guess primarily North America whether it is CVS or whether it's on the LVS side, I should mention the fact that we actually have a very strong multi-functional, cross-functional team -- Jay kind of heads it up for any of our troubled suppliers.

So, one of the things we do is we track that very rigorously as part of our enterprise risk management quite frankly. We do that both on the customer side and also the supplier side. I know some of the questions recently have been kind of looking at it from the customer side, but from the supplier perspective, it is part of our enterprise risk management process going forward because we put in a very rigorous process that we track if you will to help in wellbeing of our suppliers, so if any of them become a risk, we are working with them to make sure that our exposure to them either short-term or long-term is minimized.

Questions, are there questions? One right back there, okay.

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Doug Karson

Great, thanks. This is Doug Karson from Banc of America. A question regarding the European medium and heavy truck business. It looks like you said that obviously your number is up in excess of 20% in certain areas. Looks like the market there is up 11%. So what's driving the outperformance of the market and when we look at the capacity, I know you are making changes in capacity that is going to turn green as we get down into the later I guess parts of '08. Is there any contribution to the $1.40 to $1.60 EPS guidance given the changes in capacity because it looks like there is still inefficiencies in the first half of '08?

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Carsten, I will kind of let you answer the first question part of it and then Jim, if you want to kind of answer the second part as far as the impact on the earnings guidance.

Carsten Reinhardt - *ArvinMeritor Inc. - SVP, President - Commercial Vehicle Systems*

Doug, I guess the answer certainly has to do with the mix of customers that we work with and we have two customers that have seen nice share growth in the market. They have been successful in the marketplace. But also both of them have a relatively strong export business that we are supplying through our European plants. So, when you see the European numbers, part of that is that the sales into South America are at record levels and some of that is coming out of our European facilities. But also some other regions of the world are getting whether in CBU or SKD format support out of Europe.

So, I think it is a combination of really a good mix of customers we have there and at the same time, some exports that are in those numbers as we report our plant output versus market orders. I don't know if that explains it.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Jim, the question on kind of the earnings guidance was just how much of that if you will market share shift is really in our guidance that we have provided.

Jim Donlon - *ArvinMeritor Inc. - EVP, CFO*

At this point, we have that included with our guidance. If there were any major new wins or loses, that would affect us. But, right now, we are pretty stable with the inputs from our customers and that is in the guidance that we provided that we would be operating at these levels.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Okay. I think we have got one right down here. No. Are there any on the sides? I don't think I have seen any on the sides and I can't see as well over there. If there is not, we will keep taking here. Okay.

Emmanuel Rosner - *Lehman Brothers - Analyst*

Hi, Emmanuel Rosner from Lehman Brothers. A question on your earnings walk from '07 through '08. You seem to be modeling a $0.05 to $0.10 hit from the North American CVS volumes. I wanted to know if you could go maybe a little deeper into the assumptions behind that because in light of the production declines that you are -- you guys are expecting, how does that translate only into sort of hit, maybe it contributes -- what is the contribution margin that you are expecting in the downtime?

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Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

Jay or Mary?

Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

Well, maybe if we go back to the -- Terry, if we can go back to the Bar Chart on the volumes? I think it is just a question of full year-over-year. If you look at our fiscal year 2007 of 246,000 vehicles and the mid-point of the guidance for 2008 is 220,000. I think you would see that's the difference there that we are seeing flowing through on a year-over-year guidance basis from -- to that element of that walk. I don't think we go any further in terms of a contribution margin, but that's roughly the math, is that difference in volumes and perhaps a little bit of that flowing into the medium-duty segment as well.

Emmanuel Rosner - *Lehman Brothers - Analyst*

So, basically the -- you are saying the gross hit from 25,000 unit decline at the mid-point represents $0.05 to $0.10 headwind?

Jim Donlon - *ArvinMeritor Inc. - EVP, CFO*

Normally, it would -- this is Jim Donlon. Normally, it would be a little more than that. In this case, the numbers that we have on the guidance chart would reflect the fact that included in through this is adjustments between whether or not those units were fleet units or units that didn't come to us, so there could be some mix adjustments included in there. There is whether or not the units that are coming down are reflected to us or to our competitors.

So, this $0.05 to $0.10 has taken all of that into account. The raw number by itself, if every other element held steady, would be larger than $0.05 to $0.10 and as we showed you on the next chart which is the risk and opportunity chart where you can see, here taking it down -- further down to the 198,000 for Class 8 would be $12 million and for the other elements of CVS would be another $12 million. So, the $0.05 to $0.10 has been affected by the fact that it did not flow in exactly an industry pattern.

Emmanuel Rosner - *Lehman Brothers - Analyst*

Okay. And then just maybe a follow-up on the same earnings. Where does your Europe CVS fit in, like what's the contribution that you -- you guys are expecting from I guess improving volumes there?

Jim Donlon - *ArvinMeritor Inc. - EVP, CFO*

I think that's on -- on that other walk chart if we could go back to that. The European, the net volume and mix there is favorable by $0.05 to $0.10 for the European side. And that's been impacted by the fact that it would normally be larger than that but it's been held down here by various mix issues and the customer effect.

Emmanuel Rosner - *Lehman Brothers - Analyst*

But the slide shows LVS -- that is actually CVS number?

Jim Donlon - *ArvinMeritor Inc. - EVP, CFO*

I am sorry.

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Mary Lehmann - *ArvinMeritor Inc. - SVP - Strategic Initiatives*

I think you should look at the --

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

No. I think as you look that within Europe and the CVS, obviously, last year was some -- when we are looking at year-over-year walk on that, a lot of that was because of the lack of performance, quite frankly in Europe because of the growth being much bigger than we expected and a lot of premium rate. So, if you look at the lot of premium, the performance, cost savings and as Carsten kind of showed a lot of that is Europe focused because the volume North America, we will expect in the next couple of quarters is going to be down. So, what we have done is actually shifted resources both on the lean and on the DMO side.

So, a lot of what's in the Performance Plus cost savings is an improvement in the European CVS basis and we are looking at it on a year-over-year basis. So, if you look at that, we are looking for that kind of improvement plus on the customer side too. So, if you look at those two line items, within that you have got CVS improvement in Europe which as I said was unfortunately crowded in '07 because of the lack of performance there. And Jay?

Jay Craig - *ArvinMeritor Inc. - SVP, Controller*

Yes. I would note, Chip, at some point Terry and I ran out of the room on this slide, we could have broken out gross, the impact of increasing European volumes offset by the negative impact of our operational inefficiencies that both Carsten and I spoke to, and that have cascaded into our supply base. We expect those to abate towards the latter half of the year, but as far as the full year impact, it's somewhat neutralized and we saw the increasing volumes also in the second half of our last fiscal year. So, again, this is a year-over-year walk. So, those two numbers would net it. So, they tend to offset each other.

Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

I am getting a signal, I have got time for one more question. We are going to take question over here then, at least right over there too. And I should mention obviously we have got time at lunch, but I am obviously sensitive to people's schedules. So, we will take one more question here in the main group and then, obviously, we will move toward the lunch, which I will walk you through in a moment.

James Irwin - *Moon Capital Management - Analyst*

Hey, Chip, it's James Irwin of Moon Capital. It's a fairly broad question for Europe and it's about that where you are on the value chain in the contracts with your OEM customers. Specifically, margins on the OEM truck guys right now are outstanding in Europe. From what you are saying, you are paying some premium cost to your supply network and working hard to change.

And I am just thinking about was it a function of the contracts that you inherited that you had no pricing renegotiation or these -- you've got volume, you have -- 30% from 2006 between '06, '09. So, is there just simply a transition issue here in terms of the contract rolling over, a lot of focus on cost here, but the actual value chain where you are I would assume that you will be sharing in the wealth a little bit more in terms of the European OEM truck margins today. So, maybe give me a little sense of the timing on the contracts.

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Chip McClure - *ArvinMeritor Inc. - Chairman, CEO, President*

No, I think that's fair enough. If you look at the contracts, part of it -- the answer to your question is, [Jonathan], the answer is yes. I mean as you look at that, we are going in and changing a lot of the terms and conditions of the contract. But, to do that, the first things you've got to do it from a position of having data you can use in that. And part of that and I keep reinforcing the rigor Performance Plus is to make sure you've got the product line profitability, the customer profitability and you know what your costs are, so when you go in to deal with the customer, whether it is an LVS or CVS customer, that you can do that that way.

I think the other thing that Jim and the finance team has brought in place too is from a working capital perspective, terms and conditions perspective, our sales people are much more knowledgeable today, not about just getting a piece of business at any price, we want to make sure it is profitable business and I think you have seen that. I think Rakesh talked about that in Asia-Pacific and the kind of margin improvements we have seen there, Phil touched at it in the LVS side and clearly Carsten has been focusing on that on the CVS side.

But, as importantly, from a terms and conditions perspective, to make sure that we know what the terms are going to be, what we are going to be paid, what our receivables are, et cetera. So, we spend a lot of time putting the systems in place and they are not perfect yet, but they are far better than they were in the past and as importantly, training our sales people as they go out to do that to make sure we are doing that. So, there is question that some inheriting our past contracts, we have got to kind of flush through the system, put some of the newer ones that we are getting out there that what the customers I think truly reflect what we can look at in the future.

Okay. At this point, Terry, I am kind of looking at you at this point. I believe lunch and if not, if you can Terry, lunch is next door. I would invite you to do that. And again, I thank you for your time and attention; look forward to seeing you at lunch. Thank you very much.

Operator

Thank you for your participation in today's conference. This concludes the presentation and you may now disconnect.

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