Driven by performance

Press release on the business development of the MAHLE Group in 2013

Stuttgart, April 17, 2014
2013 business year dominated by the ongoing strategic development of the product portfolio

Sales

Total sales increased by 12.7 percent in comparison with the previous year to EUR 6,941.3 million. Aside from regionally varied business development and significant negative exchange rate effects, changes to the consolidation group had a positive impact on this figure.

As at September 30, 2013, the majority acquisition of the company's shares in the former Behr Group was concluded. The unit now trading as MAHLE Behr was thus fully consolidated for the first time in the fourth quarter of 2013. The automotive business of MAHLE Behr is incorporated within the new Thermal Management business unit. Behr Thermot-tronik (BTT) and the joint ventures Behr-Hella Thermocontrol (BHTC) and Hella Behr Plastic Omnium (HBPO) are managed as the Thermostats and Valves, Control Units, and Front-end Modules profit centers. The MAHLE Group now consists of five business units and seven profit centers.

The changes to the consolidation group had a positive impact on sales of EUR 956.7 million. Besides sales from MAHLE Behr from October, sales from the acquisition of the U.S. company RTI Technologies for workshop equipment are also included in this figure.

Taking into consideration the newly acquired units, just under 50 percent of sales in 2013 were generated in Europe, 21 percent in North America, and ten percent in South America; Asia accounted for 19 percent. With Durban and Port Elizabeth, MAHLE now also has production locations in Africa for the first time, thanks to the majority acquisition of the company's shares in the former Behr Group.

As a result of the distinct global positioning of the group and the partly dramatic exchange rate shifts—primarily in the Japanese yen, Brazilian real, and U.S. dollar—the MAHLE Group sales, at EUR 311.7 million, were considerably burdened by foreign currency effects.

The business units experienced mixed fortunes in terms of development:

- The **Engine Systems and Components** business unit fell short of the previous year's level. On the one hand, the exchange rate effects led to significant declines in sales; on the other hand, business development was adversely affected by the partly weak commercial vehicle and off-highway market as well as the market weakness of some European passenger car manufacturers.

- The **Filtration and Engine Peripherals** business unit benefited from the increasing complexity of engine peripherals in downsizing engines as well as the technological strength of the group and achieved a solid sales growth of 6.7 percent after adjustment for negative exchange rate effects.

- The new **Thermal Management** business unit generated sales of EUR 747 million between October and December, thereby contributing 10.8 percent to group sales.

- Sales from the **Aftermarket** business unit slightly exceeded the previous year's value.

- **Industrial** business fell short of expectations.

Adjusted for first consolidation and exchange rate effects, organic growth of two percent was achieved despite subdued market demand in many areas.

Profit

At EUR 1,410.6 million, gross profit exceeded the previous year's level. However, a decline to 20.3 percent in gross margin was recorded. This was largely due to special effects: the first consolidation of the MAHLE Behr Group as of October 2013 had a positive effect, but the depreciation and amortization of EUR 25.7 million on obligatorily disclosed hidden reserves in accordance with the German Commercial Code (HGB) as part of the purchase price allocation adversely affected profit. Furthermore, significant expenses for restructuring measures in western Europe placed a burden on gross profit. Since MAHLE continues to expect restrained market development in Europe for established products in particular, definite actions were taken to reduce potential overcapacities.

Despite the very extensive restructuring measures in western Europe, which resulted either in direct expenditure or accruals, result from ordinary activities of EUR 306.5 million was achieved; return on sales amounted to 4.4 percent. At EUR 235.6 million and with a return on sales of 3.4 percent, net income for the year was 58.4 percent above the previous year's level. The financial result improved to EUR –116.2 million (previous year: –136.8 million). In 2012, it was influenced by negative special effects of the former Behr Group; a positive result was achieved, however, in the first nine months of 2013.

Overall, the target corridor of our operating return on sales (EBIT ratio: six to seven percent) was secured. In view of the subdued business development in the first few months as well as the one-off expenses relating to restructuring, an overall positive result was achieved in 2013.

Capital expenditure

At EUR 397.4 million, capital expenditure on tangible fixed assets exceeded the previous year's figure by EUR 73.6 million. The ratio to depreciation and amortization was just under 140 percent in comparison with 120 percent in the previous year. The primary aim was to create the conditions for further growth. Investments were largely made to prepare for additional series orders and to implement new production technologies. Furthermore, the group invested in order to increase the level of automation and to rationalize production processes. Extensive investment

activities were also carried out in key growth markets. Important projects included the construction work at the Brazilian logistics and Aftermarket location in Limeira near São Paulo, a new logistics center in Obninsk/Russia, new production locations in China and Indonesia, as well as the expansion of research and development centers in Detroit/USA and Shanghai/China.

Human resources

As at the reference date of December 31, 2013, the headcount totaled 64,345 and was therefore around 35 percent above the previous year's value. The increase of 16,683 in the headcount is almost exclusively due to the integration of the MAHLE Behr employees.

MAHLE supports the development of professionals; worldwide, MAHLE employees attended 53,426 qualification activities. MAHLE received the outstanding automotive employer award in Europe.

The new, enlarged MAHLE family totals 64,345 employees on five continents, at over 140 production locations in 28 countries and ten major research and development centers.

Development of the MAHLE Group

BMTS starts subsidiary in China
Bosch Mahle Turbo Systems, the 50:50 joint venture with Robert Bosch GmbH, has founded a wholly owned subsidiary in China. The specialist in exhaust gas turbochargers is thus adapting to the continued strong market growth of turbocharged gasoline engines in currently the world's largest automotive market. Turbochargers for the gasoline engines of locally and globally operating customers will be produced in a new building on the premises of the MAHLE Technology Center in Shanghai/China, initially comprising 5,000 square meters. The capacity amounts to more than one million turbochargers per year, which has already been secured thanks to customer orders. Series production is to start in the fourth quarter of 2014.

Acquisition of majority shareholding in Behr—now MAHLE Behr
In 2013, the largest individual investment was the increased share in the former Behr Group to 50.71 percent. The following interdisciplinary and service functions will be united: sales, advanced engineering, purchasing of production materials, finance and accounting, IT, quality and environment, legal, corporate communications/PR, and HR. The integration should be completed swiftly in all world regions during 2014.

Holding in Kokusan Denki Co., Ltd.
The company, which is listed on the Tokyo stock exchange, specializes in mechatronic products. In 2013, MAHLE's initial holding was 30.82 percent; this share was increased to 38.87 percent at the start of 2014. Kokusan Denki Co., Ltd. has about 820 employees in Japan and generated consolidated sales of around EUR 160 million during the 2012/2013 business year.

Increased participation in MAHLE India Pistons Ltd.
At the end of 2013, MAHLE increased its participation in the Indian piston manufacturer MAHLE India Pistons Limited from around 60 percent to 100 percent, in order to independently conclude investment measures and technology transfers in the future. The plant, which is located in Chennai in southern India, generated sales of approximately 15 million euros in 2013.

Outlook for the 2014 business year

With its new structure, MAHLE plans to achieve sales of around ten billion euros in 2014—depending on the development of the automotive markets and exchange rates. The targeted expansion of the product portfolio is to be pursued. Thermal management, an important topic for the future, is now one of the central themes. MAHLE additionally plans to continue its expansion in the field of mechatronics. The aim is to establish a long-term presence of the group in key technology and growth fields in order to continue strengthening its competitive position in view of current technological challenges.

The group's globalization strategy continuously pursued in the past few years represents a major competitive advantage. In order to safeguard future competitiveness, MAHLE is driving forward the continuous expansion of its international orientation. In 2014, four new plants in China and Indonesia will commence production. Preparations for two new plants are also progressing in Mexico. Extensive expansion-related investments are planned in Romania in the next few years.

The solid equity base and strengthened liquidity thanks to the continued diversification of financing sources have paid off against the backdrop of volatile markets. This course of action is to be continued in 2014 in order to safeguard financial independence in the long term.