

Press release on the business development of the MAHLE Group in 2012

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1. Business environment/economic situation in the automotive industry

Global economy dynamics diminished

In general, the advanced economies experienced restrained economic growth during 2012. Although the growth rates for the majority of emerging markets remained at a comparatively high level, these were still lower than the 2011 figures.

In **Europe**, the sovereign debt crisis intensified during the first half of the 2012 business year despite the policies put in place. Additional interventions were necessary to prevent a rapid deterioration of the financial situation in the European peripheral countries. Recession in most of these countries and its impact on economic activities across the entire region amplified. Even the German economy, which initially appeared to be very resistant, increasingly felt the ramifications of the debt crisis and weak global economy during the course of the year.

In the **USA**, the economy grew by 2.3 percent during the period under report. While the real estate market stabilized, the labor market remained subdued. The U.S. Federal Reserve continued to pursue an expansive monetary policy in order to revive the economy. However, the political dispute surrounding the fiscal cliff led to uncertainty on the markets toward the end of 2012.

In **South America**, economic development slowed down noticeably. The Brazilian government responded with both a sustained expansive monetary policy and economic stimulus packages to boost investment activity and the domestic economy.

In **Japan**, the economic recovery continued, supported by the reconstruction measures following the earthquake. However, the economic dynamics lost significant momentum in the second half of 2012. Both a strong yen and the dispute with China about a group of islands in the East China Sea dragged down exports. In **China**, growth cooled off. In order to counteract the weakened global economy and dampened domestic economy, the tight monetary and lending policy pursued in previous years

was relaxed once again. Furthermore, the government sanctioned an economic stimulus package. **India** was another country where growth also slowed.

Economic situation in the automotive industry: passenger cars and light commercial vehicles

The market for passenger cars and light commercial vehicles developed very unevenly across the regions during the 2012 business year. Strong growth in North America and Asia/Pacific contrasted the declining production figures from Europe and South America. In comparison with 2011, global production rose by a total of 6.1 percent to 81.5 million units.

In **Europe**, production was affected by the continuing debt crisis and weak economic growth. The market for passenger cars and light commercial vehicles recorded a significant downward trend. In western Europe, production sank considerably by –7.8 percent to 12.6 million units, predominantly due to the collapse in demand experienced in France, Italy, and Spain. As a result, production was approximately 21 percent lower than the precrisis figure from 2007. German production—heavily dependent on exports—was no longer able to escape this negative trend during the course of the year. In central and eastern Europe, production increased by 2.9 percent to 6.7 million units in the year-on-year comparison.

The market in **North America** was a major growth driver for global production in the 2012 business year. Here, the production of passenger cars and light commercial vehicles recorded an increase of 17.6 percent to 15.4 million units and continued its ongoing recovery process that began at the end of 2009. For the first time, production outperformed the precrisis level recorded in 2007 again.

In **South America**, production of passenger cars and light commercial vehicles was not quite able to reach the previous year's value. In Brazil, production was hampered by the economic slowdown and tighter restrictions from banks for granting credits. The Argentinian market was also unable to match the production level achieved in the 2011 business year.

The **Asian market** recorded a marked upturn in the production of passenger cars and light commercial vehicles of 10.3 percent to 40.8 million units. Japan was able to record an above-average increase in vehicle production with 19.7 percent. This can be attributed to the low figure from the previous year, resulting from the tsunami catastrophe, as well as to national purchase incentive programs. Once more, a major contribution to the region's production growth was made by the Chinese market, which achieved solid growth with a production increase of almost one million units, a plus of 5.4 percent. China has thus expanded its production in the last ten years from 4.4 to 18.6 million units.

Economic situation in the automotive industry: commercial vehicles (incl. buses)

The global production of medium- and heavy-duty commercial vehicles decreased to 3.3 million units in 2012, and consequently fell far short of expert forecasts.

In **Europe**, the weak economic conditions caused production to drop below the previous year's level. This can be predominantly attributed to the development in western Europe. Conversely, production increased in central and eastern Europe.

The market for medium- and heavy-duty commercial vehicles continued its robust recovery in **North America** during the first half-year by recording double-digit growth. However, production declined again during the second half in the year-on-year comparison.

In **South America**, production and sales experienced a setback in 2012. Production was affected by the introduction of the Euro V standard, which had triggered anticipatory effects in the 2011 business year, as well as by a noticeable economic slowdown. The Brazilian production volume decreased by 33.8 percent.

In the **Asia/Pacific** region, production could not match the previous year's level. The significant increase in Japanese vehicle production was only able to partially offset the considerable drop in Chinese production. In China, weakened growth in exports and investments impairs the

production of medium- and heavy-duty commercial vehicles. Chinese production dropped by around 19 percent and thus experienced a noticeable decline for the second successive time. In India, production figures also remained clearly below the previous year's level.

2. Business development of the MAHLE Group in 2012

Sales

MAHLE increased its sales in the 2012 business year by nearly three percent to EUR 6,159.5 million. This figure, however, does include positive exchange rate effects. Adjusted for positive foreign currency exchange rate effects, sales remained at around the previous year's level.

In general, a slowdown was observed during the course of 2012. While sales in the first half-year achieved a year-on-year increase of just under eight percent, business development was considerably more restrained in the second half.

In view of the challenging market conditions seen particularly in Europe, the Group benefited during 2012 from the reinforcement of its non-European business, which has been systematically pursued in recent years and proved to be a key stabilizing factor.

The previous year's sales figures could not be achieved in Europe and South America due to the prevalent economic conditions. In Europe, MAHLE recorded sales totaling EUR 2,867.2 million (-3.8 percent) in 2012. South America contributed EUR 730.6 million to sales (-9.4 percent). The MAHLE Group achieved considerable sales growth in the North America region during the past business year. With EUR 1,258.9 million, sales exceeded the previous year's value by approximately 20 percent. The units in the Asia/Pacific region increased their sales by 11.4 percent to EUR 1,302.8 million.

The share of sales generated outside of Europe in the 2012 business year rose to 53 percent of Group sales. Only 47 percent of sales were recorded in Europe, with 21 percent in Asia/Pacific, while North and South America contributed 20 percent and 12 percent, respectively, to Group sales.

Particularly when compared with the precrisis year of 2008, there has been a significant shift. While the importance of Asia and North America has surged considerably during this time period (from 16 to 21 percent and 17 to 20 percent, respectively), the European share has dropped from 54

to 47 percent. The significance of South America has remained more or less the same during this period. Adjusted for acquisitions, almost the entire growth of the Group (+22.8 percent) occurred outside of Europe.

This comparison becomes even more impressive when considering automotive sales. In the reporting period, the European share dropped from 51 to 39 percent, while the Asian share rose from 19 to 26 percent and the North American share from 19 to 24 percent. As a result, Asia is now the second most important market for MAHLE with a continued upward trend. This also reflects the excellent market position MAHLE holds with all Asian automobile manufacturers.

Business units experienced uneven sales developments. The Engine Systems and Components business unit was not able to fully match the previous year's level. This can be traced back to the difficult market conditions in Europe and South America as well as to the significant proportion of sales in the globally dwindling market for commercial vehicles. In contrast, the Filtration and Engine Peripherals business unit transformed into the Group's main growth driver in 2012. Despite the economic downturn in several regions, the business unit increased sales by 13.2 percent and boosted its share of Group sales to 31.3 percent. Sales from the Aftermarket business unit also exceeded the previous year's value. The Industry business unit was able to match the level of the previous year.

Profit

A disproportionate increase in the cost of sales was avoided by the timely introduction of cost adjustment and additional productivity improvement measures. This is reflected in an almost unchanged gross margin of 21.3 percent (previous year: 21.5 percent). The pleasing development of the gross margin must be regarded more positively as the expenditure for prototypes has been included in the cost of sales for the first time in 2012. In previous years, it was reported as part of research and development expenses.

The administrative and selling expenses accounted for 10.4 percent of Group sales—a figure on a par with the previous year.

Research and development expenses totaled EUR 289.4 million (previous year: EUR 322.8 million). The reduction in comparison with the 2011 business year arises solely from the previously mentioned change in reporting of expenditure for prototypes. On a comparable basis, MAHLE increased research and development expenses again in 2012—despite the partly difficult business environment.

The figure for other expenses and income amounted to EUR 25.9 million. The substantially higher income from the previous year was heavily influenced by extraordinary items arising from the sale of shares in the listed company of MAHLE Metal Leve in Brazil. This was necessary in 2011 to achieve the minimum free flow required for the primary segment on the São Paulo stock exchange.

Adjusted for this income, EBITDA rose from EUR 693.8 million to EUR 711.8 million. A similar development was observed with the adjusted EBIT, which recorded growth from EUR 359.7 million to EUR 387.4 million. The adjusted EBITDA quota of 11.6 percent was therefore on a par with the previous year's quota; the adjusted EBIT quota increased from 6.0 percent to 6.3 percent.

The financial result has deteriorated by EUR 63.5 million to EUR –136.8 million. The drop can mainly be ascribed to a considerably lower result from associated enterprises, including the impact of extraordinary items for the Behr Group and increased expenditure arising from anticipated startup losses of Bosch Mahle Turbo Systems.

Overall, the Group generated an income from ordinary business activities of EUR 267.1 million. Adjusted for the extraordinary items described above, the result is clearly better than the previous year's value despite partly challenging market conditions. Therefore, business development in 2012 can be described as overall satisfactory.

Balance sheet structure

In 2012, MAHLE was able to successfully reduce the balance sheet total by EUR 375 million to EUR 4,248.4 million and improve once again key balance sheet ratios.

Fixed assets fell by EUR 51.7 million to EUR 1,920.7 million. A decline in fixed assets has predominantly resulted from a decrease in intangible assets, which also includes goodwill. These contracted to EUR 126.6 million, particularly due to amortizations in accordance with HGB. In contrast, tangible fixed and financial assets remained on a par with the previous year's value. Investments in tangible fixed assets considerably higher than depreciation were offset by negative foreign currency exchange rate effects.

For current assets, not only was there a decrease in inventories (EUR –47 million) and a decline in trade receivables (EUR –82.7 million); there was also a significantly lower cash position (EUR –172.1 million). The development of inventories is a reflection of the continued optimization of inventory management. The decline in receivables was a result of the restrained business development seen in the fourth quarter.

The decrease in cash to EUR 335.9 million resulted from the repayment of liabilities to banks. It was part of the Group's strategy to secure liquidity by means of a medium-term syndicated loan totaling EUR 750 million, which enabled a reduction in the actual cash reserves related to the repayment of liabilities to banks. In the event of a full integration of the Behr Group during the contractual period, there is an option to raise the syndicated credit line to one billion euros. Overall, liabilities to banks fell by EUR 363.5 million to EUR 702.6 million. As a result, the share of liabilities to banks fell from 23.1 percent in 2011 to 16.5 percent of the balance sheet total.

The liabilities side of the balance sheet was characterized by an increase in equity to EUR 1,775.2 million. This led to the equity ratio increasing to 41.8 percent. Generally, the development of the Group's result had a positive effect, while negative foreign currency exchange rate effects had a negative impact.

Accruals were reduced by EUR 57.8 million in comparison with the previous year. The decline was predominantly attributable to foreign currency exchange rate effects and to lower accruals for potential losses.

Trade payables fell by EUR 44.7 million, while other payables rose to EUR 215.9 million. This change mainly resulted from payables to associated enterprises.

Investments

MAHLE invested in the expansion and modernization of its output capacities at a level significantly above depreciation once again in 2012. 62 percent of capital expenditure on tangible fixed assets was invested in non-European markets.

In the process, MAHLE strengthened its production capacities particularly in the Asia/Pacific region. In Kyushu/Japan, a new production plant for air intake and filtration systems was constructed in close proximity to major Japanese customers. In Thailand, both plants located in Greater Bangkok were extended. By expanding these plants, the Group demonstrated a proactive stance toward the rising trend of Japanese automobile manufacturers relocating production to Thailand and to growing local vehicle production.

Furthermore, MAHLE expanded the research and development centers in Detroit/USA and Shanghai/China. MAHLE is thereby consolidating its innovative strength on site and is ultimately responding to increased development orders from these regions. The new facilities in Shanghai took up operation in November 2012, with the official start-up in Detroit scheduled for the first half-year of 2013.

Cash flow development

The cash flow from operating activities in 2012 totaled EUR 580.8 million. Apart from the Group result, in particular the reduction in inventories and trade receivables had a positive impact. The Group was thus in a position to fully finance cash requirements for investment activities from the cash flow from operating activities. Furthermore, additional cash was generated.

Human resources

As at December 31, 2012, the number of employees in the MAHLE Group was 47,662; this represents a decline of 1,156 employees compared with the 2011 business year. Reflecting the development of sales, headcount in

Europe and South America was reduced, while the number of employees increased in North America and Asia/Pacific. Furthermore, several European plants had to resort to short-time work owing to the challenging market environment. The number of employees working outside of Europe remained almost constant at 57.9 percent.

The headcount development by region was as follows (change 2011/2012 in percent):

- Europe (–3.1 percent), of which Germany (–2.1 percent)
- North America (+1.3 percent)
- South America (–7.5 percent)
- Asia/Pacific (+2.7 percent)

MAHLE supports the personal and professional development of professionals with intensive training and further education measures as well as targeted national and international subsidy programs. In 2012, the Group invested almost EUR 7 million in ongoing qualification activities for employees. As part of the accreditation of HR activities, working conditions, and development opportunities for employees in Germany, MAHLE received the award as top automotive employer in 2012/2013 from the CRF Institute.

Long-term trends

In the long-term perspective, MAHLE has almost doubled sales over the last ten years and increased the headcount by approximately 17,000—despite slumps in demand during the most recent, global financial and economic crisis and more recent uncertainties on many markets.

3. Development of the MAHLE Group

Holding in the Behr Group

The call option to acquire the majority share in the Behr Group that had been scheduled for 2012 had to be delayed. In May 2012, MAHLE was informed in its role as shareholder by Behr's Management Board that antitrust authorities in both Europe and the USA had launched investigations against manufacturers of thermal systems for the automotive industry, including Behr. Therefore, MAHLE has delayed the majority acquisition until all potential implications have been clarified and assessed both in legal and commercial terms. Our positive strategic evaluation of a complete integration of Behr into the MAHLE Group is still unaltered.

The Behr Group generated sales of approximately EUR 3.6 billion for the 2012 business year. Considering the restrained market situation, the development of operating profit was satisfactory. Once again, we have included the Behr results in the annual financial statements using the equity method according to the percentage of our holding. The collaboration of the MAHLE and Behr development and sales teams has led to the acquisition of additional large customer projects for systems and module solutions, which is to be regarded positively.

MAHLE acquires share of Kokusan Denki Co., Ltd.

At the turn of the year, MAHLE acquired a share of approximately 30 percent in the Tokyo-listed company Kokusan Denki Co., Ltd., a specialist for mechatronic products. This participation is aimed to help MAHLE in establishing itself in the long term on this growth market and to expand the existing product range. Kokusan Denki Co., Ltd. has about 820 employees in Japan and generated consolidated sales totaling JPY 23.4 billion (nearly EUR 190 million) during the 2011/2012 business year.

Acquisition of RTI Technologies, Inc.

The acquisition of RTI Technologies, Inc. paves the way for strategically expanding the activities of MAHLE Aftermarket in the workshop equipment sector. RTI Technologies specializes in the development and distribution of automotive maintenance equipment, which most notably includes air conditioning service units. Headquartered in York, Pennsylvania/USA, RTI generated sales of approximately USD 16.6 million in 2012; this equates to approximately EUR 13 million.

4. Outlook for the 2013 business year

Global economy

Global economic development continues to be tinged with great uncertainty at the start of the 2013 business year. The International Monetary Fund forecast global growth of 3.5 percent for 2013—under the premise that European governments can ease the debt crisis and the USA resolve the dispute about public deficit.

In the **European Economic Area**, the economy is forecast to remain weak in light of the ongoing sovereign debt crisis. For the coming business year, the recessionary trend is expected to continue in many of the peripheral countries primarily affected by the crisis. In the **USA**, analysts are forecasting solid economic growth. Favorable financial market conditions and the reversal in trend on the U.S. housing market should aid consumer spending in the process. Should the parties be unable to reach a solution in the ongoing fiscal dispute, analysts are assuming that the U.S. economy will weaken due to extensive budget cuts. An improvement of economic output in **Brazil** by 3.5 percent in 2013 seems possible, following the implementation of monetary incentive programs and economic stimulus packages. The **Japanese economy** may have slowed considerably during 2012; nonetheless, analysts expect the ratified economic stimulus package to generate growth impetus for 2013. Stabilizing economic growth is forecast for the **Asian emerging markets**. Economic growth is projected to be more dynamic than in 2012 in both **China** and **India**. Overall, the Asian emerging markets are predicted to achieve growth of 7.1 percent in 2013, which is significantly higher than the growth of 1.4 percent forecast for advanced economies.

Passenger cars and light commercial vehicles

In 2013, the vehicle markets for passenger cars and light commercial vehicles will in all probability record only moderate growth. Analysts estimate that the number of units manufactured will rise to a total of 82.7 million (+1.5 percent). In **Europe**, it is anticipated that the production level will drop once more. Central and eastern Europe are expected to maintain production at the previous year's level; in western Europe, production is forecast to decrease again in 2013. For the **North America** region,

analysts anticipate production figures to increase for 2013; however, at a considerably lower scale than in the 2012 business year. In the **South American markets**, demand is expected to stabilize and production figures to increase accordingly. For **China**, an increase in production by 8.9 percent to more than 20 million units is expected. Production in China would then exceed both European and American production. For production in **India**, an increase of 7.8 percent to 4.1 million vehicles is forecast. By contrast, production is expected to dwindle in **Japan** as a result of the post-tsunami recovery effect seemingly coming to an end and the expiry of national purchase incentive programs.

Commercial vehicles

The forecasting institute IHS Automotive has predicted an increase in the global production of medium- and heavy-duty commercial vehicles for 2013. In light of the current prevailing risks and the high level of market volatility, this forecast is shrouded in considerable uncertainty, however. MAHLE anticipates a difficult commercial vehicle market particularly in Europe and North America during 2013.

MAHLE

For 2013, MAHLE expects continued market restraint in Europe. This will represent a challenge in terms of utilizing our European production capacities. We also anticipate subdued growth for the other regions of the world.

In order to achieve a higher level of production flexibility at the German locations, MAHLE has concluded an agreement with the advisory boards to safeguard employment until the middle of 2015, which in return enables the temporary reduction of working hours and an increase in the percentage of fixed-term and agency employees.

The Group's globalization strategy continuously pursued in the past few years represents a major competitive advantage. It can be expected that the impact of the challenging European market conditions will be offset at least to some extent by other regions. In 2013 and 2014, the production footprint, in particular, will be further expanded for the automotive business

in Asia/Pacific. Specifically, expansion-related investments are planned for China and Indonesia.

As part of the long-term development of the Group, MAHLE is continuing to strive for a further diversification of the product range and the expansion of the nonautomotive sector in 2013. In addition to sustained investments in research and development, the Group is using strategic acquisitions to continuously expand its range of products.

5. MAHLE 2012 business year—at a glance