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

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1. Business environment/economic situation in the automotive industry

Subdued growth of global economy
In its January report, the International Monetary Fund (IMF) estimated the average growth of the global economy in 2013 to be 3.0 percent in comparison with 3.1 percent in the previous year. A slight improvement in the economic trend was recorded in key advanced economies in 2013. However, the emerging markets, with the exception of China, fell short of growth expectations, partly due to cyclical developments, partly, according to the IMF, to a general decrease in growth potential.

In Europe, signs of recovery were observed in certain countries. After 18 months of recession, the euro zone has been on a modest growth course since the second quarter of 2013. However, the development in the southern peripheral countries in particular remains fragile and is only stabilizing slowly. Improved competitiveness and increasing exports in these countries were not yet sufficient to offset the weak domestic demand.

In the United States, the economy continued to recover, albeit at a slower pace than in 2012. According to the IMF, the U.S. economy grew by 1.9 percent in 2013 (previous year: 2.8 percent). The economic situation in the United States was supported by the recovering real estate market, the capital gain of private households, and the easing of bank requirements for the granting of credit. Uncertainties arose, however, as a result of the dispute over the United States federal budget.

In South America, the economic growth rates achieved by Brazil and Argentina in 2013 were again higher than in the previous year. The economic development in South America was adversely affected by comparatively high inflation rates and a difficult political climate in several countries.
In Japan, the massive devaluation of the yen and the high government spending in the 2013 business year led to a revival of the economy. In China, economic growth stabilized after the government yet again introduced a series of measures to strengthen the economy. Overall, the Chinese economic growth in the period under report remained, at 7.7 percent, in line with the previous year’s level. Compared with the dynamism of earlier years, the Indian economic growth was only subdued in the 2013 business year.

The development of exchange rates was very volatile in the difficult global economic environment. The loss in value of the average exchange rate of the Japanese yen against the euro alone amounted to over 26 percent in the period under report. The Brazilian real fell by around 14 percent against the euro, and the Indian rupee by around 13 percent. The rate of the U.S. dollar against the euro fluctuated between 1.27 and 1.39. On the one hand, the exchange rate trend has a significant impact on the procurement of raw materials. On the other hand, the conversion of specific data as part of the global accounting of internationally operating companies is influenced to a large extent by the development of exchange rates.

Economic situation in the automotive industry: passenger cars and light commercial vehicles
The passenger car and light commercial vehicle market continued to grow in the 2013 business year. The global production of passenger cars and light commercial vehicles increased by 4.0 percent to 84.8 million units, but development varied across the regions.

In Europe, production increased slightly in comparison with the 2012 business year. The western European market had a weak start, but showed signs of recovery as the year progressed. While production was still lower during the first half-year than in the same period of the previous year, it increased in the second half compared with the same period of the previous year. Besides the development in Germany, a positive trend also emerged in the crisis states in the second half-year, although some production figures in 2013 did not yet reach the previous year’s low value.
In central and eastern Europe, production was slightly above the level of the previous year.

The market in North America was a major growth driver for global production in the 2013 business year. At 16.2 million units, the North American production reached its highest level in ten years. With a rise in production of 7.5 percent, the development of the United States in particular was dynamic.

In South America, an increase in the production of passenger cars and light commercial vehicles was recorded in 2013 as a whole with 4.5 million units produced; production declined in comparison with the previous year, however, in the last few months of 2013. In the previous year, sales stimulus programs had led to a strong rise in demand and production in this region.

In the Asian market, the greatest absolute increase in the production of passenger cars and light commercial vehicles worldwide was recorded in 2013. With 43 million units produced, the figure increased by 2.3 million units. The main driver was the sustained positive development of the Chinese market, which achieved a volume of 21.3 million units (+14.5 percent) in 2013 for the first time. In the year under report, one quarter of all passenger cars and light commercial vehicles manufactured worldwide were therefore produced in China. Adversely impacted by the restrained overall economic development and high financing costs, the production of passenger cars and light commercial vehicles in India did not achieve the volume of the previous year. In Japan, the production volume also declined in comparison with the previous year as government buying incentives supported the market in 2012 and the catch-up effect following the natural disaster in 2011 generated an extraordinary level of demand.

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

At 3.4 million units, the global production of medium-sized and heavy-duty commercial vehicles increased in the 2013 business year in comparison with the previous year. It did not, however, reach the level of 2011.
In **Europe**, the weak market environment had a negative impact on commercial vehicle production. Overall, production fell short of the previous year’s level. Although production stabilized in the last few months of the business year, this was primarily due to the anticipatory effects prior to the introduction of the new EURO VI emission standard.

In **North America**, commercial vehicle production was also below the previous year’s level. In the first few months of the business year in particular, marked declines in the production volume were recorded.

In **South America**, however, commercial vehicle production increased in 2013 following the weak previous year.

Production in the **Asia/Pacific** region rose in the 2013 business year. In the important Chinese market, the production of medium-sized and heavy-duty commercial vehicles rose again markedly to 1.2 million units, after two years of declining production figures. This positive development was supported among others by the anticipatory effects before the nationwide introduction of the new China IV emission standard. In India, however, the number of commercial vehicles produced was again lower than the previous year’s value. Japanese commercial vehicle production remained at around the previous year’s level.

**Development of the markets for off-highway applications**

The development of the market for off-highway applications, an important one for MAHLE, was weak in the 2013 business year, especially in relation to construction machines. Significant losses were recorded above all in North America. The production of construction machines also declined in the Asia/Pacific region. The previous year’s value was not achieved in either the key Chinese market or in Japan and India.

**Development of the markets for industrial applications**

In the 2013 business year, this market segment was also unable to compensate for the partly weak automotive sector. To the contrary, market segments such as large engines for power generation or ship propulsion fell significantly short of expectations and lagged behind previous years. The situation was similar in the segment of industrial filtration systems.
2. Business development of the MAHLE Group in 2013

Sales
For the MAHLE Group, 2013 was a business year characterized by the ongoing strategic development of the product portfolio. 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 overall impact on group sales.

As at the reference date of 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 has been fully consolidated in the MAHLE Group since October 2013. The automotive business of MAHLE Behr is incorporated in the group’s organizational structure within the new Thermal Management business unit. The functional and regional organization of the new unit is similar to the other automotive business units of the MAHLE Group. Behr Thermot-tronik (BTT) and the joint ventures Behr-Hella Thermocontrol (BHTC) and Hella Behr Plastic Omnium (HBPO) are now managed within the group as the Thermostats and Valves, Control Units, and Front-end Modules profit centers. The MAHLE Group thus consists of five business units and seven profit centers.

Overall, changes to the consolidation group had a positive impact on sales of EUR 956.7 million. Besides sales from MAHLE Behr between October and December, sales from the acquisition of the U.S. company RTI Technologies are also included. Taking into consideration the newly acquired units, just under 50 percent of sales 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, locations in Africa were added to the group’s production network for the first time, thanks to the majority acquisition of the company’s shares in the former Behr Group.

Compared with the previous year, MAHLE recorded significant negative foreign currency exchange rate effects of EUR –311.7 million when converting sales figures into the euro group currency in 2013 as a result of
the distinct global positioning of the group and the partly dramatic exchange rate shifts in MAHLE’s key foreign currencies. The Japanese yen, the Brazilian real, and the U.S. dollar had a particularly adverse impact and put a huge burden on the development of sales in the euro group currency in the different regions.

The various business units experienced mixed fortunes in terms of the development of sales:

- The **Engine Systems and Components** business unit was not able to match the previous year’s level. On the one hand, the exchange rate effects mentioned above led to declines in sales related to the conversion into the euro group currency. 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, however, performed very well. Adjusted for negative exchange rate effects, the business unit achieved solid sales growth of 6.7 percent in comparison with the previous year. The unit benefited from the increasing complexity of engine peripherals in downsizing engines and the technological strength of the group.

- The new **Thermal Management** business unit generated sales of EUR 747 million between October and December 2013, thereby contributing 10.8 percent to group sales in the 2013 business year.

- 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**

Gross profit exceeded the previous year’s level at EUR 1,410.6 million. 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 on gross profit, 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 put a burden on gross profit. In Europe, the MAHLE
Group expects continued restrained market development in the next few
years for established products in particular and therefore took definite
actions in the 2013 business year 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 reduction in administrative and selling expenses by
0.3 percentage points had a positive effect. The financial result improved
to EUR –116.2 million (previous year: EUR –136.8 million). The financial
result of the previous year was influenced by negative special effects of
the former Behr Group. In contrast, a positive result was recorded for the
former Behr Group in the financial result for the first nine months of the
2013 business year. Furthermore, the group achieved a considerably
lower tax ratio in the 2013 business year compared with the previous year.
This decline was predominantly a result of deferred tax income arising
from improved earnings prospects in individual companies as well as from
one-time effects due to changes in the statutory framework in Mexico.
Moreover, the reversal of deferred tax liabilities on disclosed hidden
reserves as part of the purchase price allocation for the MAHLE Behr
Group had a positive impact.

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.
Balance sheet structure
In 2013, the balance sheet total of MAHLE increased by EUR 1,877.5 million to EUR 6,125.8 million. The balance sheet extension was due to the full consolidation of the MAHLE Behr Group. Foreign currency exchange rate effects reduced the balance sheet total by EUR 252.9 million.

As at the balance sheet date, fixed assets increased by EUR 1,015.4 million to EUR 2,936.1 million. This development resulted predominantly from the increase in intangible assets as well as the growth in tangible fixed assets and is mainly due to the first full consolidation of the MAHLE Behr Group. As part of the purchase price allocation in accordance with the German Commercial Code (HGB), the trademark rights of trade names, customer relationships, and technologies acquired were recorded as additional intangible assets. The tangible fixed assets of the former Behr Group at market value were included in the group’s tangible fixed assets for the first time. Moreover, investments, which significantly exceeded depreciation, led to an increase in tangible fixed assets. In contrast, the financial assets showed a decline due to a change to the full consolidation of the MAHLE Behr Group. The most important item in this balance sheet category is now our 50:50 joint venture Bosch Mahle Turbo Systems with Robert Bosch GmbH.

The full consolidation of the MAHLE Behr Group and the associated first consolidation effects also led to a significant increase in current assets. This was counteracted once again by foreign currency exchange rate effects. Adjusted for first consolidation and foreign currency exchange rate effects, inventories fell slightly—this was owing among others to the ongoing improvement in operating working capital management. Besides first consolidation effects, the increase in trade receivables to EUR 1,346.8 million (previous year: EUR 881.8 million) resulted from the positive business development in the fourth quarter. As at the balance sheet date, the MAHLE Group held securities and liquid funds of EUR 465.5 million (previous year: EUR 335.9 million). The increased level of cash and cash equivalents takes into account the considerable business expansion.
The development of the liabilities side was also characterized by the significant first consolidation effects. At the end of the business year, equity totaled EUR 2,207.5 million in comparison with EUR 1,775.2 million in the previous year. Taking into account the first-time integration of the MAHLE Behr Group, there is still a solid capital base with an equity ratio of 36.0 percent. In the coming business year, we again plan to achieve an equity ratio in the historical MAHLE Group regions.

Adjusted for first consolidation effects, the increase in accruals for pensions to EUR 466.3 million is primarily due to interest rate effects resulting from the reduction in the discount factor as well as lower interest income from the related plan assets.

Liabilities to banks rose in the 2013 business year to over one billion euro; the share of the balance sheet total only increased slightly to 17.1 percent (previous year: 16.5 percent). The expenditure toward the acquisition of the majority shareholding in the MAHLE Behr Group and the liabilities associated with the full consolidation of the MAHLE Behr Group played a key role in this increase. The increase in trade payables to EUR 797.9 million (previous year: EUR 482.4 million) and in other payables to EUR 481.7 million (previous year: EUR 215.9 million) also arose essentially from first consolidation effects. Without taking into account the first consolidation and foreign currency exchange rate effects, a decline was recorded in other payables. Trade payables slightly exceeded the previous year’s level.

Capital expenditure on tangible fixed assets
The capital expenditure on tangible fixed assets of the MAHLE Group amounted to EUR 397.4 million in the 2013 business year, thereby exceeding the investment value of the previous year by EUR 73.6 million. Measured in terms of group sales, this corresponds to an investment ratio of 5.7 percent. The ratio of capital expenditure on tangible fixed assets to depreciation and amortization was just under 140 percent in comparison with 120 percent in the previous year; the capital expenditure on tangible fixed assets was above all geared toward creating the necessary conditions for further growth. Investments were largely made to prepare for additional series orders and to implement new production technologies.
Key individual projects in this area were the preparation of the production ramp-up of passenger car steel pistons for modern diesel engines and investments in production capacities for the production of assembled camshafts in North America and Asia for globally operating OEM customers. Furthermore, the group invested in new installations to increase the level of automation as well as in projects to rationalize production processes.

MAHLE also invested extensively in key growth markets in order to further intensify its proximity to markets and customers. In this context, important projects included the construction of the Brazilian logistics and Aftermarket location at Limeira in São Paulo and the investment in a new logistics center in Obninsk/Russia. Investments were carried out in Brazil due to increasing delivery orders and the introduction of new products; in Russia, the decision was made on the basis of the increasing demand for quality spare parts in Russia and Belarus. Further investments were made in new production locations in China and Indonesia in order to create capacities for several new orders that have already been taken. The new locations will start production in 2014. 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 responding to increased development orders from the Asia/Pacific region.

Cash flow development
The cash flow from operating activities in 2013 totaled EUR 487.5 million. The expenditure for tangible fixed assets was fully covered by the cash flow from operating activities. Besides its own cash flow, the group used a limited amount of external financing to finance the acquisitions, in particular that of the majority share of the MAHLE Behr Group.

Human resources
As at the reference date of December 31, 2013, the headcount totaled 64,345 and was therefore around 35.0 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. First, the integration is reflected in the new Thermal Management business unit that employed a total of 14,698 employees at the end of the year. Second, the number of
employees in the Aftermarket business unit and in the profit centers increased by more than 2,000 with the integration of MAHLE Behr.

The headcount development by region was as follows:
- Europe (+9,666 employees), of which Germany (+5,557 employees)
- North America (+2,849 employees)
- South America (+328 employees)
- Asia/Pacific (+2,931 employees)
- Africa (+909 employees)

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. Worldwide, MAHLE employees attended 53,426 qualification activities. As part of the certification of HR activities, working conditions, and development opportunities for employees, MAHLE received the outstanding automotive employer award in Europe.

Long-term trends
The new, enlarged MAHLE family totals 64,345 employees on five continents, in 28 countries, at over 140 production locations, and ten major research and development centers. The aim is to achieve sales of around ten billion euros in 2014. This means that our sales will have more than tripled in comparison with 2003. We again expect the corridor of our operating return on sales (EBIT) to be six to seven percent in the 2014 business year.
3. Development of the MAHLE Group

The MAHLE Group invested extensively in strategic acquisitions and startups in the 2013 business year.

Bosch Mahle Turbo Systems starts subsidiary in China
Bosch Mahle Turbo Systems, the 50:50 joint venture with Robert Bosch GmbH, has founded a wholly owned subsidiary in the People’s Republic of 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. The headquarters of the company, which is operating under the name Bosch Mahle Turbo Systems (Shanghai) Co., Ltd., are currently being built on the MAHLE premises at the Shanghai location. In a first stage, turbochargers for gasoline engines will be produced for globally operating customers as well as local Chinese customers in a new building comprising 5,000 square meters.

The initially installed production capacity amounts to more than one million turbochargers per year, which has already been secured thanks to firm customer orders that have already been taken. The start of series production is scheduled for the fourth quarter of 2014.

Acquisition of majority shareholding in former Behr Group, now MAHLE Behr Group
In 2013, the largest individual investment was the increased share in the MAHLE Behr Group to 50.71 percent as part of the long-term development of the group. The unit now trading as MAHLE Behr has been fully consolidated since October 2013.

With a view to implementing the integration of the MAHLE Behr Group into the group target organization, the 2014 business year will be one of transition for MAHLE. There are plans to unite the following interdisciplinary and service functions: sales, advanced engineering, purchasing of non-production materials, finance and accounting, IT, quality and environment, legal, corporate communications/PR, and HR. Implementation commenced in 2013 and should be completed swiftly in all world regions during the 2014 business year.
MAHLE acquires share of Kokusan Denki Co., Ltd.
In addition, MAHLE acquired a share of 30.82 percent in the Tokyo-listed company Kokusan Denki Co., Ltd., a specialist for mechatronic products. This investment will be used to gain a firm foothold for MAHLE in this growth market in the long term. At the beginning of 2014, MAHLE increased its share to 38.87 percent.

Kokusan Denki Co., Ltd. has about 820 employees in Japan and generated consolidated sales totaling JPY 21.9 billion (around EUR 160 million) during the 2012/2013 business year.

Increased participation in MAHLE India Pistons Ltd.
At the end of the 2013 business year, MAHLE increased its participation in the Indian piston manufacturer MAHLE India Pistons Limited to 100 percent. Previously, MAHLE held around 60 percent of the shares. In view of numerous new contracts for globally operating key accounts, MAHLE aims to independently conclude investment measures and technology transfers in the future.

The piston plant, which is located in Chennai in southern India, generated sales of approximately 15 million euros in 2013. MAHLE also operates MAHLE Engine Components India Private Limited, a wholly owned subsidiary in Pithampur/India, and is a majority shareholder in the filter company MAHLE Filter Systems (India) Limited and Behr India Limited.
4. Outlook for the 2014 business year

Global economy
The International Monetary Fund (IMF) forecasts a strengthening of global economic activities in 2014. In contrast to the past few years, positive stimuli are now primarily expected from the advanced economies. While the growth in economic output in the emerging markets should continue to significantly exceed that in the advanced economies, it will not achieve the level of earlier years. In its January forecast, the IMF predicts the global economy to grow by 3.7 percent overall in 2014.

The economic situation is expected to continue stabilizing in the European Economic Area in 2014, but differences between individual countries will still be significant. The IMF anticipates a rise in gross domestic product of 2.8 percent for the United States in 2014. In view of the improved economic prospects, the U.S. Federal Reserve has introduced a change of course in its monetary policy and started to slow the pace of the expansionary policy. Analysts expect stabilization at the previous year’s level in Brazil. At 7.5 percent, a solid but comparatively moderate growth is expected for the Chinese economy. In India, the development of the economy may gain momentum again. Growth in line with the previous year’s level is expected for the Japanese economy in 2014. Any burden—due to higher consumption taxes—should be offset at least to some extent by temporary fiscal stimuli.

Passenger cars and light commercial vehicles
Analysts currently predict that the global production of passenger cars and light commercial vehicles will rise by around three percent in the 2014 business year. Based on the current situation, moderate growth in the European production seems feasible. The production of passenger cars and light commercial vehicles is again expected to develop positively in the North America region, whereas the growth trend will normalize further following the strong recovery in the last few years. In the South America region, a challenging market development seems probable in view of expiring government purchasing incentives and increasing inflation. Vehicle production in the Asia/Pacific region will likely increase again in
2014, primarily supported by the sound development of Chinese production.

**Commercial vehicles**
For 2014, analysts expect an increase in the global production of medium-sized and heavy-duty commercial vehicles. However, the predictions for the commercial vehicle market in Europe are subject to uncertainties. In 2013, the pending introduction of the new EURO VI emission standard led to anticipatory effects. The resulting impact on 2014 is difficult to estimate; an adverse influence on the market is probable. Production is expected to increase in North America. A generally weaker market development is anticipated in China. The delayed nationwide introduction of the emission standard China IV led to anticipatory effects in 2013.

**Off-highway applications**
In 2014, MAHLE anticipates overall moderate growth for off-highway applications in the markets for agricultural and construction machinery. The North American production of construction machines is expected to stabilize and expand moderately.

**MAHLE**
In 2014, MAHLE expects significantly increased sales in connection with the acquisition of the majority of shares of the former Behr Group on September 30, 2013. With its new structure, MAHLE plans to achieve sales of around ten billion euros in 2014—depending on the general market development and exchange rates.

The targeted expansion of the product portfolio is to be pursued in the 2014 business year. Some of the areas of focus of our product range are being redefined in relation to the majority acquisition of the MAHLE Behr Group. Thermal management, an important topic for the future, is now one of the central themes of our future developments. 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 the 2014 business year, four two new plants in China and Indonesia will commence production. Preparations for 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 the 2014 business year in order to safeguard financial independence in the long term.

5. MAHLE 2013 business year—at a glance