

# **Press release on the business development in the 1st half of 2014 and outlook for the MAHLE Group**

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## 1. Business environment/economic situation in the automotive industry

### **Slower recovery of global economy**

The International Monetary Fund (IMF) continues to expect the global economy to recover, although the latest July forecast anticipates slower growth than projected in April of this year. A somewhat weaker first quarter in the United States, owing to the long winter season among other things, and in China, as well as the crisis in Ukraine prompted the IMF to downgrade the current growth forecast by 0.3 percentage points to 3.4 percent. However, early indicators have shown that the global recovery has regained strength in the second quarter. Consequently, positive economic development, albeit at a slower pace, is still anticipated in North America and China. This contrasts with the recovery of the euro zone, which is only advancing slowly, and the heavily burdened economic output in Russia and Brazil. MAHLE therefore expects vehicle production in 2014 to grow slightly in comparison with the previous year, although this will fall short of the level forecast this spring.

### **Growth in the passenger car and light commercial vehicle sector**

The current forecast from the information company IHS estimates global production of 87.8 million passenger cars and light commercial vehicles (vehicles < 6 tons) for 2014 compared with 84.7 million in the previous year. This would correspond to growth of 3.6 percent.

### Europe

In western Europe and parts of central Europe, the recovery in demand for passenger cars and light commercial vehicles is expected to continue. However, this will be accompanied by a significant decline in demand in Russia and Turkey. For Europe as a whole, production of 20.0 million passenger cars and light commercial vehicles is anticipated, corresponding to an increase of 2.5 percent.

### North America

For the North America region, IHS forecasts growth from 16.2 million in the previous year to 17.0 million passenger cars and light commercial vehicles (+5.2%). This estimate reflects the continued positive economic development of demand in the United States.

### Asia/Pacific

Vehicle production in the Asia/Pacific region has been projected at 45.0 million units, which would represent an increase of 4.6 percent compared with the previous year. This development is predominantly attributable to the expansion of vehicle production in China to 22.8 million vehicles (+9.1%). Owing to the weak economic development in the first half-year, a slight increase of only 1.3 percent to 3.7 million vehicles is anticipated in India, and, with 9.1 million vehicles (+0.4%), the market in Japan is expected to remain at the previous year's level.

### South America

For the South America region, a decline in production from 4.5 to 4.0 million vehicles (–10.8%) has been forecast due to the persisting difficult economic situation in the key markets of Brazil and Argentina; this is a rather optimistic estimate.

### **Weak forecast for commercial vehicles**

IHS currently projects global commercial vehicle production of 3.4 million vehicles for 2014, following 3.3 million vehicles in 2013. This would represent an increase of only 1.8 percent compared with a much more positive forecast at the start of the year.

### Europe

Due to anticipatory effects related to the introduction of Euro VI in 2013, restrained demand is expected in western Europe for the year as a whole. This will be accompanied by a weakening of the markets in Russia and

Turkey. The current forecast anticipates a decrease from 589,000 to 580,000 units (–1.6%).

#### North America

A slight increase in demand for heavy-duty commercial vehicles was already recorded in the United States in the first half-year due to a solid employment market situation and a lighter fiscal burden. The growth for commercial vehicles in North America in the second half of 2014 is expected to amount to 13.6 percent, or 528,000 units.

#### Asia/Pacific

An increase of 1.3 percent in commercial vehicle production has been predicted for the Asia/Pacific region in comparison with 2013, which would amount to a total of 2.1 million units. The largest market of China is expected to match the level of the previous year with production of 1.2 million vehicles. Due to the delayed nationwide introduction of the “China 4” emission level, anticipatory effects are still expected in 2014 although this positive effect was already largely recorded in the correspondingly strong previous year. For India, IHS projects a slight increase in production in comparison with the weak previous year, supported by a recent pleasing development in demand.

#### South America

The difficult economic situation in Argentina and Brazil is evident in the forecast for commercial vehicle production in South America. A significant double-digit percentage decline is therefore expected for 2014.

## 2. Business development in 2014 and outlook

In the first half of 2014, the MAHLE Group achieved global sales of EUR 4,914.6 million, thereby exceeding the figure for the corresponding period of the previous year by EUR 1,881.2 million (+62.0%). This increase is largely due to the first consolidation of the MAHLE Behr Group (Thermal Management business unit and associated Thermostats and Valves, Control Units, and Front-end Modules profit centers, including the resulting Aftermarket activities) on October 1, 2013. Exchange rate effects of EUR 175.4 million had a negative effect on group sales—primarily due to the further weakening of the Japanese yen, the Brazilian real, and the U.S. dollar against the euro. Adjusted for consolidation and exchange rate effects, the MAHLE Group achieved an increase in sales of 3.4 percent in the first half-year.

In Europe, the MAHLE Group achieved sales of EUR 2,605.4 million in the first half of 2014, thereby exceeding the previous year's figure by EUR 1,160.4 million (+80.3%). Thanks to its high sales of air conditioning and heat exchanger products for premium manufacturers, the new Thermal Management business unit contributed to the sales growth in this region. Business remained relatively stable in Germany. A slow recovery was recorded in most western European units. In contrast, sales in individual countries such as Russia and Turkey were much lower than expected—this was due to the political as well as the economic situation. Exchange rate effects of EUR 11.4 million also had an adverse impact on sales. Overall, the share of group sales generated by European units amounted to 53.0 percent, which corresponds to an improvement of 5.4 percentage points in comparison with the first half of 2013. This was due to the stable market environment as well as the high contributions to sales made by the MAHLE Behr Group in this region.

In North America, total sales were 76.2 percent above the previous year's value at EUR 1,112.4 million (EUR +481.2 million). Adjusted for strong negative exchange rate effects (EUR –47.9 million), primarily due to the weakening of the U.S. dollar, sales in the corresponding period of the previous year were exceeded by 83.8 percent. The units recently added as part of the first consolidation of the MAHLE Behr Group, as well as the growth in sales of MAHLE products compared with the first half of 2013, contributed to this development. The share of group sales generated in North America rose slightly in the first half-year to 22.6 percent.

At EUR 335.7 million, sales in the South America region fell short of the previous year's value by EUR 24.0 million. Exchange rate effects of EUR 61.0 million had a considerably adverse impact on sales—in particular due to the devaluation of the Brazilian real and the Argentinian peso. Adjusted for these currency exchange rate effects, sales exceeded the figure for the corresponding period in 2013. The MAHLE Behr Group, which has a far less marked presence in South America, contributed EUR 46.9 million to sales. Correspondingly, the share of group sales generated in South America fell from 11.9 percent to 6.8 percent.

In the Asia/Pacific region, the previous year's value was exceeded by 40.1 percent with sales of EUR 837.4 million. In addition to the stable development in Japan and South Korea, the continued pleasing trend in China in particular and an increase in market shares were indicators of sales growth in this region. The units of the new MAHLE Behr Group contributed EUR 214.6 million to the sales growth in the region, although the greatest contributions of the MAHLE Behr Group came primarily from the 50/50 joint venture company in China. In contrast, a decline in the development of sales was recorded in some markets, in particular in Thailand, where a slump in sales was recorded on account of governmental stimulus programs in 2013 and the actual political situation in the current year. As in the previous year, negative exchange rate effects of EUR 50.8 million had a major impact on

the entire Asia/Pacific region. This was largely due to the further devaluation of the Japanese yen by around 12 percent in the year-on-year comparison. The share of group sales in Asia amounted to 17.0 percent in the first half of 2014.

Due to the integration of the MAHLE Behr Group, sales were also generated in South Africa for the first time, which amounted to EUR 23.7 million in the first half of 2014.

### Result

The overall positive development of sales and the inclusion of the MAHLE Behr Group, which was first consolidated on October 1, 2013, significantly improved group result in the first half-year in the year-on-year comparison. In the first half of 2014, MAHLE achieved an overall income from ordinary activities totaling EUR 217.1 million, which corresponds to a return on sales of 4.4 percent, following 3.8 percent in the corresponding period of the previous year. At EUR 146.1 million, the net income for the half-year also significantly exceeded the previous year's value.

### Outlook for the full year

For 2014 as a whole, MAHLE continues to anticipate uneven development in Europe. Despite the ongoing political unrest in parts of eastern Europe, slight increases are expected in the passenger car sector whereas a slight decline should be observed in the commercial vehicle sector. The recovery in both vehicle segments is forecast to continue in North America, while significantly declining market development is anticipated in South America for the year as a whole. For Asia, in particular China, continued positive development and additional growth is expected. Overall, we envisage potential total annual sales for the MAHLE Group of around EUR 9.7 billion to EUR 9.8 billion. The group is closely monitoring the current situation in the various crisis regions of the world. As a result, this will likely burden both sales and result.

### Employees

As at the reference date of June 30, 2014, there was a year-on-year increase of 15,564 in the number of employees to 63,519 (+32.5 percent). This increase compared with the previous year is exclusively attributable to the integration of the MAHLE Behr Group (+16,310 employees). In Europe (including Germany), the number of employees increased by 9,334 to 29,338. The headcount in North America rose by 2,661 to 10,183, and the number of employees in the Asia/Pacific growth markets increased by 2,878 to 12,618 (in particular in China with +1,639 employees). In the lower-growth region of South America, a cyclical reduction in headcount by 257 to 10,432 was recorded. As at the reference date, the headcount in Africa, recently represented in the group through the MAHLE Behr Group, was 948. In the European countries of Spain, Italy, and Germany, the instrument of short-time work had to be used in light of the persisting partly restrained market demand in some locations.

Overall, the MAHLE Group recorded healthy organic sales growth as well as positive development in all key result indicators in the first half of 2014, even after adjustment for the effects of the first consolidation of the MAHLE Behr Group.



### 3. Development of the MAHLE Group/major events

The motto of MAHLE for the 2014 business year is “consolidation with simultaneous preparation for future growth.” While the consolidation and integration of the MAHLE Behr Group is progressing well and has already been completed in key subdivisions, MAHLE Group has undertaken further steps in the first half of 2014 to achieve future strategic growth and the targeted expansion of its product portfolio. The significant highlights of the first half of 2014 include:

#### **New sales and logistics center doubles the capacity of the MAHLE Aftermarket business unit in South America**

In March, MAHLE opens a new Aftermarket sales and logistics center in Limeira in the state of São Paulo/Brazil. This new location boasts 32,000 square meters of constructed area and doubles the storage and logistics capacity previously available. The construction of the new center is a response to the increased sales volume in South America and will permit MAHLE to expand its sales and add new product lines for that region. MAHLE employs around 380 people at this location.

#### **First Aftermarket sales and logistics center in Russia**

In June, MAHLE opens a new sales and logistics center, also for the Aftermarket business unit, in Obninsk/Russia, around 100 kilometers to the south of Moscow. Storage space of 10,400 sqm and office and training space of 1,800 sqm is available. With its center, which currently employs around 50 people, MAHLE strengthens its presence in the eastern European automotive parts market. MAHLE can now provide its customers with on-site support and shortened delivery times, and avoid customs formalities and fees. Furthermore, the location provides a good base for potential future production of original equipment. Due to the current unstable political situation in parts of eastern Europe, the development of sales has, however, progressed at a considerably slower pace than projected.

### **Acquisition of majority shareholding in Letrika**

In June, MAHLE signed an agreement for the acquisition of the majority share in the Slovenian group Letrika d.d. The relevant antitrust and supervisory authorities have approved the majority acquisition. The closing is expected to take place around mid-September. The Slovenian manufacturer of electric motors, generators, and electric and mechatronic drive systems is to be integrated afterward in the MAHLE Group in the second half of 2014. The functional divisions of development, sales, and controlling & finance, as well as all relevant service-related functional divisions, will be involved.

The acquisition of Letrika, which generated sales of EUR 242.5 million in 2013 with its 2,416 employees and production locations in Slovenia, Bosnia and Herzegovina, Belarus, China, and Brazil, is of central importance as part of the medium- and long-term strategy to strengthen the mechatronics/electrics unit within the MAHLE Group. Letrika is headquartered in Šempeter pri Gorici in Slovenia, close to the Italian border.

Sales of around EUR 500 million are anticipated in the near future for this business segment, which is still relatively new for MAHLE.

### **MAHLE on expansion course in China**

Two new plants were officially opened in Wuhan and Shenyang in mid-August. Now with 16 locations in this country, the group can participate even further in the continued growth of the Chinese market and move closer to its long-term strategic goal of a balanced regional distribution of sales between Europe, North and South America, and Asia.

#### Opening of MAHLE filter plant in Wuhan

The new Wuhan production plant in the Hubei province is the fifth Chinese location of the MAHLE Filtration and Engine Peripherals business unit. MAHLE Filtration Systems (Hubei) Co., Ltd (MFSH) will manufacture filtration products for a multitude of international vehicle manufacturers based in

central China. With an annual production of up to two million components, the new plant is set to become the largest MAHLE plant in central China in the medium term.

#### Opening of MAHLE plant for vehicle air conditioning and engine cooling products in Shenyang

The recently opened plant in Shenyang, the capital of the Liaoning province, where numerous automobile and engine manufacturers are located, is specialized in the manufacture of products for vehicle air conditioning and engine cooling. With Shenyang, Shanghai Behr Thermal Systems Co., Ltd. (SBTS)—a joint venture of MAHLE Behr GmbH & Co. KG and Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd—has opened its second joint production location, thereby establishing itself in the booming region of north China. The 50/50 joint venture SBTS celebrates its ten-year anniversary in 2014. Since its foundation, it has developed from a cooler manufacturer into a successful systems provider of thermal management products with a research and development center in Shanghai.

#### **Outlook**

The implementation of further growth investment is scheduled for the second half of the year. An additional new plant of the Thermal Management business unit will thus be commissioned in Chengdu/China, while the Filtration and Engine Peripherals business unit will open a new production plant in Jakarta/Indonesia, primarily for the supply of key Japanese MAHLE customers.

In November 2014, expansion phase III of our research and development center in Shanghai/China will be completed. Shanghai will thus become the largest MAHLE research and development center in Asia, alongside Okegawa and Kawagoe in Japan and Pune in India. The MAHLE TechCenter (MTC) will then have over 35,000 m<sup>2</sup> of office, laboratory, and test bench space (including over 15,000 m<sup>2</sup> of production space in the buildings of

expansion phase III) and has capacity for 1,000 employees. Toward the end of 2014, the production of the exhaust gas turbochargers of the 50/50 joint venture Bosch Mahle Turbo Systems (BMTS) for the Chinese market will commence in a separate production plant situated on the same campus.

In addition to the above plant and capacity expansions in the Asian growth market, construction work for two new plants of the Thermal Management and Filtration and Engine Peripherals business units is progressing in Ramos Arizpe/north Mexico and Celaya/central Mexico. Production at both plants is expected to commence in the first half of 2015. In the future, MAHLE will therefore have a total of nine production plants in Mexico with currently around 4,800 employees, who will exclusively serve the automobile production in North America.