

# Press release on the business development of the MAHLE Group in 2011

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

### Global economy grows consistently in all areas

The global economy experienced further growth in 2011, although signs of a slowdown emerged in a number of individual regions during the second half of the year. The sovereign debt crisis in parts of Europe and the debate about lifting the debt ceiling in the USA created uncertainties and fears of a new recession. Natural disasters in Japan and Thailand as well as ongoing tension in North Africa and the Near East also dampened economic development.

In **Europe**, the economic recovery came to a standstill after a positive first half-year. Weakening world trade and the debt problems in some euro zone countries had a particularly negative impact on the economic situation. In the countries most affected by the debt crisis, economic growth was diminished considerably by the necessary consolidation measures. The German economy was able to maintain its upturn in the second half of the year and picked up speed at the end of the year following a temporary slowdown.

In the **USA**, the economic dynamics did not gain momentum although interest rates remained low. High energy prices and subdued labor and real estate markets adversely affected growth. The debate about lifting the debt ceiling furthermore contributed to a loss of confidence in the development of the economy. However, the year ended with positive development trends.

In **Brazil and Argentina**, economic development slowed down. After two years of steady increase, the Central Bank of Brazil started to regularly decrease the base rate from August to counteract the effects of the deteriorating global economic environment.

The **emerging markets of Asia** provided positive impetus for the global economy, although growth tailed off even in these regions during the course of the year. In China, an increasingly restrictive monetary policy, falling real estate investment, and weakening foreign trade had a

dampening effect. Economic development in **Japan** was heavily affected by the earthquake in spring and the subsequent reconstruction efforts.

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

The passenger car market benefited from the dynamic development of the global economy in the first half of the year. Worldwide production of passenger cars and light commercial vehicles increased by 3.3 percent to a total of 76.9 million units.

In **Europe**, production of passenger cars and light commercial vehicles increased by 6.2 percent to a total of 20.3 million units. With 5.8 million vehicles produced and growth of 6.5 percent, Germany remains by far the largest European passenger car manufacturer. Development was particularly dynamic in the Russian market. With a production increase of over 540,000 units to 1.9 million vehicles, the country made a substantial contribution to growth of 11.8 percent in Central and Eastern Europe, which was significantly higher than the growth of 3.7 percent in Western Europe.

The total market volume also increased in the **USA**, despite the difficult situation on the labor and real estate market. The German passenger car manufacturers continued their successful course in the U.S. market and achieved a sales increase of 18 percent, a considerably higher margin than the market as a whole.

In **South America**, production of passenger cars and light commercial vehicles increased slightly to 4.3 million units. The Brazilian market remained only at around the previous year's level. Increases in other countries of the region, such as Argentina, only partially compensated for this development.

The **Asian market** did not replicate the dynamic growth achieved in the previous year. Although more passenger cars and light commercial vehicles were sold in China despite incentive programs coming to an end and the rise in tax on new registrations, the rates of increase remained considerably lower than those of the previous year. In India, the 2011

business year was successful overall for vehicle manufacturers, although production growth weakened significantly toward the end of the year as a result of increasing consumer prices and less favorable financing conditions. At the end of the year, vehicle production in Japan returned to the level recorded before the natural disaster, but could not make up for the production losses suffered in 2011.

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

With a rise of 7.6 percent to 3.5 million units, global production of medium- and heavy-duty commercial vehicles developed positively, yet remained below the high growth rate recorded in the previous year.

Production figures in **Europe** increased noticeably thanks to replacement purchases during the economic recovery. With production growth of 27.6 percent, Germany made a substantial contribution to this positive development.

The **USA and the other countries of the NAFTA region** also recorded significant growth because of the recovery in the relevant economic sectors. Production rose by more than 488,000 units—thus over 50 percent. In Brazil, production increased by 12.9 percent because of anticipatory effects relating to the introduction of the Euro 5 standard in 2012.

The significant growth impetus provided by Europe and North America only partially compensated for the decline in production in Asia. In **China**, production of medium- and heavy-duty commercial vehicles fell, in line with expectations, by 9.7 percent to approximately 1.3 million units; the significantly higher production level in 2010 was heavily influenced by one-off economic effects. Nevertheless, China remains by far the world's largest producer of medium- and heavy-duty commercial vehicles. In **Japan**, production remained below the previous year's level following the devastating effects of the earthquake.

## **2. Business development of the MAHLE Group**

### Sales

The 2011 business year developed more positively for MAHLE as a whole than originally anticipated. Annual sales increased by EUR 741.6 million to EUR 6,002.2 million—the highest sales figures in the Company's history. This corresponds to a growth of 14.1 percent.

An achievement that is even more remarkable in light of the fact that MAHLE was hit by two major natural disasters in Asia: the earthquake in Japan on March 11 and the flooding of large areas of Thailand in November/December. Our plants in these countries suffered considerable damage in some cases and were unable to produce on a normal scale for several months. However, our strong competitive position on the international market and our status as a global development partner to the automotive and engine industry allowed us to absorb the sales losses and to grow considerably more quickly than the market as a whole.

Sales were influenced by first-time consolidation effects in the amount of EUR 99.5 million and exchange rate effects of EUR -52.2 million. Allowing for currency exchange rate effects, the MAHLE Group achieved growth of 15.1 percent, of which 13.2 percent was due to organic growth.

Of the total sales, 50 percent was generated in Europe, 17 percent in North America, and 13 percent in South America, with 20 percent attributable to Asia. The European units achieved sales of EUR 2,980.2 million, thus recording growth of 18.8 percent. North America contributed EUR 1,045.6 million to sales, which corresponds to an increase of 15.9 percent. In the South America region, the Group achieved sales of EUR 806.6 million, slightly above the previous year's level. The MAHLE plants in the Asia/Pacific region increased their sales by 8.2 percent, despite production downtimes lasting several months in some cases, bringing the figure to EUR 1,169.8 million. In comparison with 2008—the last year before the global financial and economic crisis—the proportion of sales achieved in Europe fell from 54 percent to 50 percent, while the proportion generated in Asia increased from 16 percent to 20 percent. In terms of automotive OE sales, Asia already accounts for more than 25 percent.

Key growth impetus came from the Engine Systems and Components as well as Filtration and Engine Peripherals business units, which both increased their sales by a double-digit percentage. In addition, the Aftermarket and Industry business units partly achieved disproportionately strong sales increases.

#### Profit

The unexpectedly strong sales growth presented our production plants with some unanticipated challenges. A large number of cost-intensive special measures were needed, particularly in the first half of the year, in order to keep pace with the high, volatile level of demand from our customers. In some cases, this led to considerable one-off costs, which counteracted the positive effects of increased productivity and the generally good capacity utilization. The massive disruptions to production in some of MAHLE's eight production plants in Japan and Thailand also had a considerable impact on profit. Market-related increases in material prices likewise impaired profit significantly.

The factors mentioned above made it impossible to avoid an increase of almost one percent in the cost of sales ratio. In contrast, a disproportionately small increase in selling and administrative expenses had a positive impact on the operating profit margin.

Research and development expenses were increased to EUR 323 million as part of our efforts to safeguard the long-term, sustainable development of the Group.

The balance of other operating expenses and other operating income amounted to EUR 67.5 million. This was considerably higher than the previous year's level, partly as a result of the minimum free float requirements imposed by the Brazilian stock exchange for shares in MAHLE Metal Leve and the associated disposals of shares.

Overall, we were thus able to reach our internal objective of an operating profit margin of > 5 percent. The result from ordinary business activities consequently rose in comparison with the previous year, by exactly EUR 100 million to EUR 351.5 million.

The tax ratio increased by a relatively strong percentage in comparison with the previous year. Taking into account the Group's tax expenditure, the net income for the year amounted to EUR 231.1 million. The significantly lower tax ratio of the previous year was mainly a result of one-time effects arising from internal Group restructuring.

#### Balance sheet structure

The expansion of our business activities led to a rise in the balance sheet total, which grew in comparison with the previous year by EUR 436.8 million to EUR 4,623.4 million. Foreign currency exchange rate effects reduced the balance sheet total by EUR 34.7 million.

The increase in the fixed assets resulted primarily from the rise of EUR 125.3 million in financial assets—due to the acquisition of a further 16.95 percent of the shares in Behr GmbH & Co. KG and the increase in capital contributions to Bosch Mahle Turbo Systems GmbH & Co. KG. MAHLE recorded a decline of EUR 57.8 million in intangible assets, which was due to amortization in accordance with HGB.

Besides the significant rise in financial assets, the growth of current assets was largely responsible for the increase in the balance sheet total. A considerable increase in trade receivables (EUR +127.3 million) was recorded as a result of improved sales. Inventories also grew in connection with the larger production volume, although the increase of 4.8 percent was kept significantly below the sales growth. The current cash item was expanded significantly, which also contributed to a more enduring balance sheet total. The proportion of fixed assets in the balance sheet total decreased from 44.5 to 42.7 percent.

Despite the considerable expansion of the business volume, the liabilities side of MAHLE's consolidated balance sheet indicates a solid equity base, showing an improvement on the previous year. In absolute terms, the equity rose to EUR 1,695.7 million. Foreign currency exchange rate effects had only a minor impact on this figure. As a result, the equity ratio rose by 1.7 percent in comparison with 2010 to 36.7 percent.

The accruals were reduced by EUR 47 million in comparison with the previous year. This is primarily due to lower accruals for taxes and in the human resources sector.

The growth of EUR 161 million in liabilities to banks, accompanied by an increase in cash, is connected with the MAHLE Group's future financing requirements.

### Investments

In tangible fixed assets, depreciation of EUR 265.2 million was recorded. This was more than compensated for by investments of EUR 318.9 million, which resulted in an overall increase in tangible fixed assets. Following the low level of investment in 2009 and 2010 because of the crisis, MAHLE invested in the expansion and modernization of its production capacities at a level significantly above depreciation. Large amounts were invested in research and development equipment once again, a policy that will be pursued in the current business year.

### Cash flow and financial requirements due to business expansion

The capital expenditure on tangible fixed assets, the business expansion at Bosch Mahle Turbo Systems, and the increase in the holding in the Behr Group from 19.9 percent to 36.85 percent resulted in a cash outflow from capital expenditure of EUR 348.8 million. The financial requirements were almost fully covered by the cash flow from ongoing business activity, which grew in comparison with the previous year from EUR 311.4 million to EUR 342.3 million.

### Headcount

As at December 31, 2011, the MAHLE Group had a headcount of 48,818 employees—an increase of 1,361 employees (2.9%) in comparison with the previous year. Throughout the year, all business units hired new employees. Thanks to the advances in productivity, which we were able to achieve through consistently pursued optimization projects, the growth in headcount remained below the level of increase in sales. The restructuring and cost reduction measures successfully implemented during the global financial and economic crisis also had an effect stretching into 2011.



Overall, we were able to further increase our personnel efficiency markedly.

The headcount development by region was as follows:

- Europe (+2.7%), including Germany (+0.2%)
- North America (+6.7%)
- South America (-0.7%)
- Asia/Pacific (+4.9%)

We invested EUR 6.2 million in ongoing qualification activities for our employees. After the introduction of the worldwide MAHLE Talent Management System, over 80 percent of our executive positions were covered through internal candidates within the succession planning.

#### Long-term trends

From a long-term perspective, compared with a baseline at the turn of the millennium (2000), MAHLE has improved its sales by a factor of 2.5 (CAGR = 8.7%), almost doubled the result from ordinary business activities, and increased its headcount by 23,000.

### **3. Development of the MAHLE Group**

#### Holding in the Behr Group

The development of the MAHLE Group in 2011 was heavily characterized by our holding in the Behr Group, which strengthens our market position sustainably and puts us in a position to expand and optimize our product range. This applies to the complete systems environment for modern combustion engines as well as for alternative powertrain technologies and thermal management of the entire vehicle. At the beginning of the year, we increased our participation in the Behr Group to 36.85 percent and have now started making plans to initiate the acquisition of the majority share in the course of 2012.

The integration planning is also progressing well. The integration team created specifically for this process is doing a good job—not only in Europe but also in North and South America and Asia. This means that, following the majority acquisition, we will quickly be in a position to implement new structures and processes, acquire joint customer projects, and thus achieve further synergy effects. A large number of projects are currently in the product planning process. In the medium term, the Behr integration will make MAHLE a bigger and more efficient company that counts among the top 15 automotive suppliers worldwide and plays a significant role in the global automotive supply industry.

#### Increased holding in MAHLE Mopisan

In line with its strategic commitment to engine components for the aftermarket, MAHLE acquired the remaining shares in the Turkish engine components manufacturer MAHLE Mopisan at the beginning of 2011. In Turkey, MAHLE Mopisan operates two production plants in Izmir and Konya as well as a regional warehouse for the aftermarket in Izmir. Since the acquisition, the companies have operated under the names MAHLE Izmir A.S. and MAHLE Konya A.S.

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### MAHLE Industry acquires InnoWa Membrane GmbH

At the beginning of 2012, the MAHLE Industry business unit acquired InnoWa Membrane GmbH based in Schwaikheim/Germany. The company specializes in the development, application, and manufacture of high-performance filter systems based on membrane technology. The company now trades under the name MAHLE InnoWa GmbH.

#### **4. Outlook for the 2012 business year**

##### Global economy

As a result of the debt crisis in some European countries, the growth of the global economy has slowed since the middle of 2011. The International Monetary Fund (IMF) projects worldwide growth of 3.3 percent for 2012.

A mild recession is anticipated in the **European Economic Area** as the necessary consolidation policy in the countries affected by the debt crisis will lead to a weakening of economic growth in Europe. In the **USA**, the IMF anticipates moderate growth comparable with that of the previous year, which is supported by the increasingly strong domestic demand. The economic nations in **South America** have recovered relatively quickly from the global economic crisis, although economic development slowed even in this region during 2011. A further decline in economic growth is anticipated for 2012. For the **emerging markets of Asia**, analysts expect more moderate economic development than in the previous year. The weak worldwide demand is likely to put a strain on both the Chinese and Indian economies.

##### Passenger cars and light commercial vehicles

The forecast institute IHS Automotive predicts that 2012 will once again significantly exceed the high level of the preceding business year, with 80.7 million passenger cars and light commercial vehicles produced, reaching a total volume of 85.4 million units by 2013. However, it is likely that the individual markets will continue to develop very differently. A decline in the production level (-7.6%) is anticipated for **Europe** as a whole, with the sovereign debt crisis expected to put a strain on demand for passenger cars and light commercial vehicles, particularly in the southern part of Europe. In the **NAFTA region**, market analysts are predicting sustained high demand for economical passenger car models and an overall increase in production volume (+9.6%). A rise in the production volume (+7.7%) is also expected in **South America**. The forecast for **China** suggests an increase of 7.5 percent in production to just under 19 million units; for **India**, an increase of 6.2 percent to 3.8 million vehicles is anticipated. From today's perspective, the forecasts for both countries should be regarded as rather optimistic. However, it is also

expected that production figures in **Japan** will return to the level recorded before the natural disaster, with a significant increase in 2012 in comparison with the previous year (+17.8%).

#### Commercial vehicles

As regards the commercial vehicle market, economic analysts are likewise optimistic for 2012, with production figures of 3.8 million vehicles (+7.4%), provided that the financial markets are stabilized. For **Europe**, an increase in quantities comparable with that of the previous year appears rather unlikely. Although market development has thus far remained positive in **Central and Eastern Europe**, Western Europe is likely to experience a decline in production (Europe as a whole: +4.3%). For **North America**, a significant rise in the production of medium- and heavy-duty commercial vehicles is predicted (+8.4 percent). This is partly connected to the emissions standards applicable in the USA since 2010, while the investment backlog that still exists in many companies offers potential. A lower production level is expected for **South America** because of the anticipatory effects relating to the introduction of the EURO 5 standard (-8.5%). In the **Asian market**, economic analysts anticipate another increase (+10.3%). In particular, production growth is expected for China (+6.1%) in 2012, following a slight decline in production in 2011.

#### MAHLE

For MAHLE, we anticipate stable business development on a global scale in 2012 and we assume that, because of our strong competitive position, we will be able to participate in the global trends apparent in worldwide automobile production in terms of sales and profit in both 2012 and 2013. The current uncertainties make our global positioning an even more important competitive advantage. Possible declines in demand in individual markets may be absorbed at least partially by other regions. Once again, we expect growth impetus to come from the Asia/Pacific and North America regions.

In order to further strengthen our competitiveness, we will strive to continuously expand our market position in all major automotive markets in 2012 and 2013. For 2012, we therefore anticipate slight sales growth for the MAHLE Group, despite the production cuts in Europe. We also expect

that the restructuring measures, capacity adjustments, and productivity increases effected in recent years will continue to boost the development of the Group's revenue.

MAHLE now holds 36.85 percent of the shares in the Behr Group. The participation agreement of 2010 made provision for a staged increase in the holding. A call option is set to be exercised on July 1, 2012, to give MAHLE a majority holding of > 50 percent and thus allow full consolidation.

Chart: MAHLE business year 2011—at a glance