

**MAHLE annual press conference for the financial year**

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**Check against delivery**

**Statements:**

**Dr. Jörg Stratmann**

Chairman of the Corporate Management Board and CEO of the MAHLE Group

**Michael Frick**

Member of the MAHLE Management Board and CFO

**Anke Felder**

Member of the MAHLE Management Board and Director of Personnel

Dr. Jörg Stratmann, Chairman of the Corporate Management Board and CEO

Ladies and Gentlemen,

Welcome to our Annual Press Conference, which this year is taking place under entirely different circumstances. We are all feeling the effects of the global coronavirus crisis. It is a matter of great concern to us all, not least to our employees. These are challenging weeks for us all, and I would like to thank them most sincerely, also on behalf of my colleagues on the Management Committee, for their commitment. We will address the coronavirus issue in more detail later on.

But first let me say this:

At MAHLE, we responded very quickly to this crisis in order to protect our workforce. This enabled us to keep the infection rate at MAHLE worldwide at an extremely low level. We are glad to report that the current infected numbers are still falling.

The pandemic presents us, as a company, with enormous challenges. But we have strong financial reserves. And MAHLE will overcome this crisis.

First of all, though, let's take a look at our 2019 business year. A year ago, we had already indicated that 2019 would be a challenging year. And our assumption was correct:

- Deteriorating markets worldwide,
- the ongoing, radical transformation of our industry,
- geopolitical concerns like the trade dispute between the USA and China,
- the Brexit debate, and
- a political environment that demands a great deal from us, especially in view of the legally defined targets

were all serious factors that caused considerable turbulence.

But despite these adverse conditions we continued to focus on our work and are still on track. We have a clear plan of how we intend to make our company fit for the future:

1. We are expanding our future business areas and investing in new technologies
2. We are working to increase our productivity and thus also our profitability
3. We are restructuring our group in order to ensure our long-term competitiveness.

As before, our most important markets in 2019 were the regions of Europe, North and South America, and Asia. And although we were unable to buck the downward trend in the overall markets, adjusted for deconsolidation and exchange rate effects we were able to hold our ground much more successfully and thus outperform the market as a whole.

The decline in business, our persistently high investments in research and development, operational issues as well as the extensive accruals we created, as announced, for our planned restructuring measures, all led last year to a balance sheet loss at group level. Michael Frick will be giving you more details about this shortly.

To put it quite clearly: We accepted this temporary trend. Because we have a plan as to how we can proceed consistently and sustainably in our business activities on the future-proof positioning of the group. As you know, today our industry is characterized by completely new topics: like the trend toward e-mobility or digitalization and artificial intelligence. These trends are also having a massive impact on our business.

We embrace this change. A sustainable future does not come for free. We want to play a leading role and secure further growth, especially in these new fields of technology.

This is also reflected in our group structure: On January 1, 2020 we established our new Electronics and Mechatronics business unit. This is where we bundle

our expertise in these technologies. This allows us to focus even more strongly on the development and production of electric motors as well as electronic and mechatronic systems.

We were quick to anticipate the technological transformation in our industry, long before many of our competitors. Today, we have a range of expertise in these drive types that no one else in the industry can offer. We achieved this, for example, by undertaking major efforts in research and development and continued to invest heavily in this area in the year under review.

For many years, the MAHLE brand has been synonymous with pistons, filters, and camshafts. This is what made us big and strong. Today, MAHLE is a modern technology group. Whether software, power electronics and control units, electric motors, air management, filtration, materials expertise or manufacturing know-how and thermal management, as well as 3D printing technologies – MAHLE is optimally positioned to actively shape the sustainable mix of future drive systems. Our dependency on the car combustion engine has steadily decreased over the past years and is now nearing the 40 percent mark.

Our product innovations include control systems for e-vehicle charging processes, a highly efficient and integrated cooling concept for electric motors as well as a modular hybrid drive. We have also developed both wired and wireless charging solutions for e-vehicles. In 2019, we won the prestigious CLEPA Award in the Environment category for our electric air-conditioning compressor, thus beating 63 competitors!

Our transformation is bearing fruit: MAHLE products are proving highly popular with our customers. Today, our order intake is higher than ever before. In the new technology sectors, alone, it is gratifying to see that we already have several billion euros on the books for the coming years. This goes to show that we are on the right track.

Ladies and Gentlemen, the massive upheavals in the auto industry are not only being felt on the technology side. To keep pace with and actively shape this rapid transformation, we also have to adapt our costs and structures. The implementation of our comprehensive measures to reduce costs and improve

profitability is in full swing. In 2019, we centralized, digitalized and thus optimized many parts of our processes in the company.

The individual programs are running very successfully to date, and we have largely achieved, and even partly exceeded, our interim goals. Let me give you just three examples:

- Our company-wide Performance Lift program to boost profitability made a key contribution to the positive operating result we achieved in 2019, despite the challenging environment.
- Our Plant Performance Initiative (PPI) designed to improve the operational performance of our MAHLE plants worldwide surpassed all our expectations. It resulted in savings in operating expenses that exceeded our already ambitious target by a medium double-digit million figure.
- On top of that, we were able to cut our global expenditure for non-production material (NPM) by a high double-digit million figure and jointly set up an optimized purchasing organization with our suppliers.

Also, in the past year we stepped up the systematic review of our production sites. The aim is to assess their sustainable positioning and competitiveness in the changed market environment. In some unavoidable cases, following a detailed appraisal and in close consultation with our respective partners on the employees' side, we had to make initial staffing adjustments. Last year this affected around 2,500 employees worldwide.

Let me just make one thing very clear about this: These decisions are among the hardest we have to make, both professionally and for me personally. As a foundation-owned company, we believe we have a special responsibility that we take very seriously. But these decisions are critical to meeting our corporate responsibility of ensuring the long-term competitiveness of the entire group. MAHLE wants to remain a strong player in the market, a reliable partner to its customers, and an attractive employer.

To this end we are investing in our workforce. This includes a new training and qualification program that is designed to tap our employees' potential even more

effectively and make them fit for our future technology business. In the initial phase we are focusing on the areas of research and development as well as central administration, and will then gradually roll out the program to our individual plants worldwide.

Ladies and Gentlemen, in spite of the enormous challenges in an extremely complex and difficult environment, we have propelled our group forward in 2019, both technologically and structurally.

My colleague, Michael Frick, will now talk about MAHLE's financial performance in the year under review.

*Michael Frick, Member of the Corporate Management Board and CFO*

Thank you, Jörg!

Ladies and Gentlemen, first of all, my most important message is this: MAHLE is financially sound and our financial situation is stable. We have strong financial reserves and high liquidity. And we will also master the current massive crisis.

Despite the challenging market situation with all its negative effects, MAHLE closed the 2019 business year with a positive EBIT.

A particular highlight in 2019 that Jörg Stratmann just mentioned is this: We are happy to report a strong acquisition year above target in the high single-digit percentage range. We were particularly successful with projects in the new fields of technology where we recorded a sharp increase of over 50 percent compared to the previous year. This means that we have made a significant step forward in our transformation and further strengthened our future business.

And here is an overview of the most important figures:

In the year under review, MAHLE generated group sales of EUR 12.0 billion. This is a drop of 4.2 percent. However, when adjusted for changes in the scope of consolidation and exchange rate effects, we are left with a minus of three percent. The changes to the consolidation group result from the sale of our

shares in the joint venture Hella Behr Plastic Omnium that had previously been consolidated on a proportionate basis. This had an effect amounting to minus EUR 331 million.

This means that we have clearly outperformed the market as a whole, given that in the year under review the production of medium and heavy-duty commercial vehicles was around four percent lower than in the previous year. Production of passenger cars and light commercial vehicles even dropped by some six percent worldwide.

As far as the distribution of regional sales is concerned, most of the regions were hit by the global decline in the automotive markets. The only exceptions were South America and Africa where we achieved organic growth after adjustment for exchange rate effects that were in part substantially negative. At the same time, our revenues in North America and Asia/Pacific benefited from positive currency effects in 2019, which stabilized sales in these regions.

## **Development of the business segments**

Due to the continuing fall in diesel engine sales, the Engine Systems and Components as well as the Filtration and Engine Peripherals business units recorded the sharpest drop in sales. The Thermal Management business unit was also affected, albeit only slightly.

This contrasts with the positive trend in our Aftermarket business unit. Here, we recorded sales totaling EUR 950 million. This is a good 2 percent more than in the previous year.

Our Mechatronics division also saw strong growth in the year under review. Sales here grew by 8.6 percent to EUR 492 million. This is mainly thanks to production ramp-ups in the electromobility sector and our pedelec activities.

## **Results of operations**

As anticipated, at EUR 10 million, the result from business activities was significantly lower than in the previous year (EUR 614 million). While disposal

gains from the sale of the shares in the joint venture HBPO exerted a strong positive impact on the previous year's value, high levels of expenditure were incurred in the year under review in relation to several planned restructuring measures, for which we had to make accounting provisions. Adjusted for these two special effects, the decrease in the result from business activities was significantly lower and amounted to a figure in the high-double-digit millions, for which sales losses resulting from the economic slowdown in the automobile and commercial vehicle sector were largely responsible.

Our profitability was further impacted by operational efficiencies.

Our expenditure on research and development has remained on the same high level as in the previous year. This shows that our work to implement our dual strategy is resolute and goal-oriented. Unlike with many other company groups, at MAHLE R&D expenditure flows directly into the results.

The development of the items in the income statement resulted overall in a substantial decrease in EBIT from EUR 773 million in 2018 to EUR 96 million in the year under review. Consistent with the effects described above, the EBIT margin also fell significantly to 0.8 percent (previous year: 6.1 percent). Adjusted for the effects of the purchase price allocations and the amortization of goodwill, the EBIT margin was at 1.7 percent (previous year: 7.2 percent).

Our financial result significantly improved by EUR 68 million in 2019 compared with the previous year. This was largely a result of a positive market development in pension assets and the absence of negative effects in connection with the sale of shares in the joint venture Bosch MAHLE Turbo Systems (BMTS) which took place in 2018.

Consequently, the overall result in our 2019 group result was a net loss for the year of EUR 212 million (previous year: net income for the year of EUR 446 million).

Due to the net loss for the year, and also as a result of foreign currency and consolidation effects, the MAHLE group's equity reduced significantly by EUR 272 million to EUR 2.742 billion in the year under review. This led to a

corresponding reduction in our equity ratio, from 36.4 percent to 32.7 percent. Accruals rose to EUR 2.259 billion, which corresponds to an increase of EUR 153 million in comparison with the end of 2018. A major part is intended for restructuring measures and other personnel-related obligations.

## Investments

At EUR 549 million, our investments in tangible fixed assets were EUR 60 million lower than in 2018. The investment ratio, which shows the relationship between investments and sales, decreased to 4.6 percent (previous year: 4.6 percent). With a ratio of 113 percent, investments exceeded the depreciation on tangible fixed assets.

More than half of these investments were made in Europe, where Germany was the country with the highest level of capital expenditure. The Asia/Pacific region accounted for around 28 percent of our investments. By contrast, we scaled back investments in North America, where in 2019 they amounted to around 15 percent. Our investments in South America remained at the previous year's level.

This about sums up the main key performance indicators for the year under review. We knew that 2019 would be a difficult year, as indicated at last year's press conference. We had anticipated these figures. Our restructuring and cost-reduction activities are essential to securing our company's long-term success.

Today, I would like to have provided you with an assessment of our expectations for 2020. But, as you know, our world has been turned upside down. The coronavirus pandemic is having a massive impact on every aspect of our lives, affecting our health, society, and the economy. No-one can currently predict the consequences, including those for our industry. The economic effects of the pandemic and the widespread shutdown in the automobile industry – and that includes MAHLE – will be severe. The figures for March and April show significant sales slumps, which will probably worsen.

The MAHLE group has a solid financial base. This will allow us to survive this lean spell, at least for a certain time. But we have to continue our cost-reduction efforts in the future. As a leading auto supplier and employer, we have a

responsibility toward our company to continue our strategy of rigorous cost discipline.

My colleague, Anke Felder, who in January was appointed as the member of the MAHLE Management Board responsible for Human Resources, will now talk about how our company has responded to the coronavirus crisis.

*Anke Felder, Member of the Corporate Management Board and Director of Personnel*

Thank you, Mr. Frick.

Ladies and Gentlemen, the coronavirus crisis presents us, like all other companies, with enormous challenges. At MAHLE, we began monitoring the situation at a very early stage, analyzed it intensively in our specially set up crisis teams, and quickly introduced specific measures to protect and safeguard the health of our employees.

We quickly issued travel alerts, stopped business trips and presence meetings, installed local quarantine rules, created extensive home office arrangements, and established social distancing and hygiene rules for all employee work areas.

Since March 20, work has stopped at many of MAHLE's European locations, with only few exceptions. The majority of our sites around the globe quickly followed suit. Our measures are proving effective. The overall infection rate within our workforce is in the very low three-digit range. Moreover, the number of recoveries is now higher than the number of those currently infected.

Our activities are geared to minimizing the impact of this crisis on our workforce as far as possible. We feel particularly responsible for them and for the sustainability of our company. In this context, the short-time work schemes we use in Germany are an effective and proven tool to save jobs, and we quickly agreed with MAHLE employee representatives to apply it. We also introduced short-time work in other European and non-European countries, where available, or equivalent measures.

MAHLE is at home on five continents with around 160 production locations and 16 major R&D centers. All of these countries have their own legislation and are responding to this crisis with sometimes very disparate regulatory measures. That makes it very cumbersome for us to quickly adjust capacities and find affordable solutions that meet the needs of our employees in the respective countries.

We are working closely with all our locations worldwide, re-assessing the situation daily, and adapting our measures as needed.

As far as the partial restart of operations at our plants is concerned – which is already increasingly underway in Europe – the activities are being carried out under strict observation of our safety precautions to protect our workforce along with an ongoing risk assessment.

Ladies and Gentlemen, I am convinced that every crisis always creates new opportunities. For example, we are seeing a huge commitment on the part of our employees to successfully steer MAHLE through this crisis. For instance, within just a few days, we managed to set up the production of face masks in cooperation with underwear manufacturer Triumph. These use our FFP3-compliant filter medium that filters out viruses. Production is slated at around 1.5 million face masks a month. The masks will be supplied to official bodies who will then distribute them as needed. Thanks to this cooperation we are making a key contribution in the present critical phase.

And there are further fantastic examples at numerous other MAHLE locations around the world: In Spain or North America, for example, MAHLE employees are using our 3D printers to manufacture face shields for local hospitals. At another site in Spain, MAHLE staff are producing sensors that are used in Corona quick tests. Meanwhile, MAHLE Brazil is supporting local hospitals with nose-mouth masks and other medical resources. These initiatives that stemmed from our respective locations are most gratifying and truly embody the principles of corporate social responsibility that MAHLE subscribes to, especially in these difficult times.

That's all from me and I will now hand you back to Jörg Stratmann.

Dr. Jörg Stratmann, Chairman of the Corporate Management Board and CEO

Ladies and Gentlemen, 2020 will be an extremely difficult year for us. The coronavirus crisis is already having a severe impact on our business development, but it is not yet possible to put a realistic figure on it. Our financial situation is good.

Our most important task is to navigate our company and employees safely through the crisis. At the moment we are busy organizing the restart of our plants, especially in Europe. Stability in the supply chains must be ensured. This is a crucial factor. I can assure you that we are able to deliver and are serving our customers' needs. We will continue to live up to our reputation as a reliable and valued partner.

In Germany, operations have meanwhile been resumed at a large part of our plants, but not on a full scale in most cases. The ramp-up is being implemented step-by-step and in line with our customers' needs and order calls.

In all these cases, the safety and health of our employees always has top priority. All work processes are subject to the strict safety precautions in place at MAHLE, which have been further tightened.

We are making a crucial contribution to bringing our industry back on track. In our view, policy makers have so far been very circumspect and prudent in their actions. The objective now is to quickly lay the groundwork to revive the economy and stimulate demand in order to secure value added and employment in Germany. This applies also and in particular to the passenger car market.

I believe that interim measures like a bonus for buyers could prove effective, or temporarily reducing VAT as an incentive to purchase cars. What is important, now, is to create prospects for the economy and consumers.

We are expressly advocating measures that take into account all technology options available on the market. So that means not just e-vehicles and hybrid drives, but also modern, fuel-efficient gasoline and diesel vehicles.

Let me make one thing clear: MAHLE supports the goal of making our economy carbon neutral by 2050, and fully subscribes to the current fleet targets of the EU.

Given the present circumstances, I am observing the Green Deal debate in Brussels with a critical eye regarding a further tightening of the already highly ambitious EU fleet targets so soon after their enforcement. Companies should first be given an opportunity to get back on a stable footing. Progress and climate protection should go hand in hand. But such an approach calls for capable and powerful players.

Our position on climate protection is clear: The solution to this challenge is a holistic approach to CO<sub>2</sub> emissions and a technology neutral policy that factors in both efficient gasoline and diesel engines as well as e-mobility, hydrogen and e-fuels.

Ladies and Gentlemen, in spite of all these difficulties and uncertainties, we are boldly looking ahead and gearing up for the coming weeks and months. And we have a lot to put on the table. Here is a brief summary:

1. The MAHLE group has never recorded a higher order intake than today. The new technologies play a key role in this respect. We want to grow our business in this area. Our dependency on the combustion engine is continuing to fall.
2. We have the technological solutions to actively shape the transformation of the industry. This year, for example, we will be focusing more strongly on the topic of batteries. This entails a systems approach that integrates the cooling, housing and electronics. No other supplier can outdo MAHLE in terms our portfolio for battery peripherals.
3. Our restructuring efforts are on track.
4. MAHLE is on a sound financial footing and will master the crisis.

Thank you for your attention.