

## Press release on the business development of the MAHLE Group in 2014

Stuttgart/Germany, April 30, 2015

**In 2014, MAHLE generated sales of nearly EUR 10 billion. The growth of around 43 percent is largely due to the first-time full-year inclusion of the MAHLE Behr Group.**

### **Sales**

In the 2014 business year, group sales increased by 43.2 percent to EUR 9,942.4 million. Changes in the consolidation group, in particular the first-time full-year inclusion of sales from the MAHLE Behr Group, made a significant contribution to the increase, with an overall impact of almost EUR 3 billion. Furthermore, the full consolidation of the Letrika Group as of September 2014 has also had a positive influence on sales. The completed divestment of sinter activities in Switzerland in the previous year has resulted in an adverse effect. Furthermore, exchange rate influences totaling EUR 127.6 million had a negative impact on group sales. The devaluation of the Brazilian real, the Argentine peso, and the Japanese yen had the strongest impact.

Adjusted for these effects, organic sales growth of two percent was achieved. The compound annual growth rate (CAGR) for the last five years amounts to 20.8 percent.

On a business unit level, the situation can be depicted as follows:

- The **Engine Systems and Components** business unit achieved sales growth of around three percent after adjustment for exchange rate effects. The increase in sales volumes in the Asia/Pacific region in particular had a positive impact. In terms of products, alongside the ramp-up of series production for passenger car steel pistons, hollow valves and assembled camshafts made a particularly significant

contribution to the sales growth—in essence with efficiency products aimed at improving fuel economy.

- The **Filtration and Engine Peripherals** business unit achieved growth of three percent after adjustment for exchange rate effects. Complex liquid filtration modules, valve cover modules, and air intake modules accounted for the largest increases. The still fledgling pump segment also made a significant contribution to growth with controlled oil pumps.
- The **Thermal Management** business unit, which originated from the first consolidation of the MAHLE Behr Group, accounted for around 30 percent of group sales, with approximately EUR 3 billion in 2014. Looking at the year as a whole, the business unit developed positively in operational terms and largely contributed to the growth of the group.
- Sales from the **Aftermarket** business unit increased slightly in comparison with the previous year due to the relatively weak markets in South America, eastern Europe, and in the Near East.
- Sales for the **Industry** business unit declined slightly again as a result of the difficult market environment.

At a regional level, 52 percent of sales were generated in **Europe**. The increase in comparison with the previous year is due to first consolidation effects from MAHLE Behr and the Letrika Group. Around 23 percent of total sales are attributable to **North America** and seven percent to **South America**. The **Asia/Pacific region** contributed 18 percent to group sales.

## **Result**

Gross profit was improved by just under EUR 500 million to EUR 1,905.7 million. Gross margin was thus at 19.2 percent. The slight percentage drop largely relates to effects from the first-time full-year inclusion of the Thermal Management business unit and the first consolidation of Letrika. Depreciation and amortization of hidden reserves that were obligatorily disclosed as part of the purchase price allocations for MAHLE Behr and the Letrika Group had a negative impact of EUR 95.4 million and impaired both gross profit and EBIT margins.

Research and development expenses have again increased due to a higher level of expenditure on new technologies to reduce fuel and CO<sub>2</sub>. The balance of other operating income and expenses rose by EUR 55.9 million to EUR 102.2 million. Aside from special effects, this can be attributed in particular to a significant improvement in operational business.

At EUR 401 million, the result from ordinary business activities far exceeded the previous year's level in absolute terms. The financial result improved marginally, although the contribution to profit made by the former Behr Group for nine months in the previous year was omitted as a result of the full consolidation. The balance sheet volume also increased substantially.

### **Net assets position**

The MAHLE Group's balance sheet total rose by EUR 632.6 million to EUR 6,758.4 million in the 2014 business year. The main reasons for the balance sheet extension were the first consolidation of the Letrika Group, positive foreign currency exchange rate effects from the conversion to reference date rates, and high capital expenditure on tangible fixed assets. Despite an increase by 10.3 percent in the balance sheet volume, the equity ratio improved noticeably from 36 percent to 37.8 percent, while the net financial debt remained stable.

The Medium Term Note Program that was established on the Luxembourg Stock Exchange in April enables MAHLE to issue bonds on the open market. In May 2014, the first bond was issued with a volume of EUR 300 million, a term of seven years, and a coupon of 2.5 percent. Subsequently, a further EUR 29 million was issued as a five-year private placement.

### **Investments**

Group-wide capital expenditure on tangible fixed assets reached a record level of nearly half a billion euro. This significantly exceeded the previous year's value. The investment ratio in relation to sales was just under five percent. In comparison with depreciation, this resulted in a ratio of 134.8 percent.

Investments in past years have steadily and significantly increased—at an annual average of 23.2 percent between 2009 and 2014.

To strengthen its presence in major growth markets, MAHLE invested substantially in the expansion and construction of production locations in close proximity to markets and customers. Alongside the capital expenditure on tangible fixed assets, the course was maintained for future growth by means of strategic acquisitions. Particularly worth mentioning is the acquisition of the Letrika Group, which enabled MAHLE to expand its mechatronics and electrical activities. The group also invested substantially in the Bosch Mahle Turbo Systems joint venture and increased its participation in the company Kokusan Denki Co., Ltd., listed on the Tokyo Stock Exchange, by a further 8.05 percent to 38.87 percent.

## **Employees**

As at the end of 2014, the MAHLE Group employed 66,234 people. The year-on-year increase of employees across the entire group amounted to 3.8 percent. This rise is largely due to the acquisition of the Letrika Group.

In the past five years, the global headcount has continued to grow on average by almost nine percent per year.

Breakdown by region:

- Europe: 31,431 (+1,681)
- North America: 10,534 (+177)
- South America: 9,926 (−967)
- Asia/Pacific: 13,454 (+1,018)
- Africa: 889 (−20)

Motivated and qualified employees are the key to ensuring the sustainability of the company. MAHLE therefore invested over EUR 10 million in qualification activities.

## **Development of the MAHLE Group**

The business year as a whole was characterized by consolidation as well as the introduction of additional important strategic steps for future growth. The integration of the MAHLE Behr Group in all major subdivisions was completed. At the same time, the production footprint has been expanded

considerably with the new plants in China, Indonesia, and Mexico. In addition, the mechatronics and electrical activities were strengthened through the acquisition of the Slovenia-based Letrika Group, thereby expanding the product portfolio.

On January 1, 2015, the Industry business unit was organizationally dissolved due to insufficient cross-divisional synergy effects. Its three subsegments are now being managed as independent profit centers. In addition, the new Engineering Services, Motorsports, and Special Applications profit center combines the previously separate Engineering Services with the activities in Motorsports and Special Engines. The Letrika Group was integrated into the group as the Electric Drives and Applications profit center in September 2014. The Thermostats and Valves profit center was integrated into the Thermal Management business unit in the fourth quarter of 2014 to strengthen systems competence.

### **Highlights**

#### March 2014: new distribution and logistics center in Limeira

Just seven kilometers from the former location in Limeira/Brazil, a new 32,000 square meter distribution and logistics center opened after an investment of about EUR 14 million. This has nearly doubled the storage capacity of the Aftermarket business unit in South America. The center is a response to the addition of new products and increasing scope of supply.

#### May 2014: MAHLE Aftermarket in Russia

MAHLE opened a distribution and logistics center in Obninsk, south of Moscow, with 10,400 square meters of warehouse and nearly 2,000 square meters of office and training space. This opening is intended to meet the long-term rise in demand for high-quality automotive spare parts in the markets of Russia, Kazakhstan, and Belarus. The product range, service, price, and quality will be adapted to customer requirements despite the difficult conditions. The crisis in Ukraine and the resulting devaluation of the ruble at the end of 2014 caused turbulence that continued through the start of 2015, thus adversely affecting sales and profit.

June 2014: acquisition of majority shareholding in Letrika Group

MAHLE signed an agreement for the acquisition of the majority share in the Slovenian group Letrika d.d. In the meantime, 100 percent of shares have been acquired and the company was taken off the stock exchange at the start of the year. The company is of central importance to strengthening the MAHLE Group's mechatronics/electrics division. In 2014, the manufacturer of electric motors, generators, and electrical as well as mechatronic drive systems generated sales of around EUR 240 million with approximately 2,500 employees and production locations in Slovenia, Bosnia and Herzegovina, Belarus, Brazil, and China. MAHLE Letrika has now been integrated and consolidated into the group as the Electric Drives and Applications profit center.

August 2014: new plant for the Filtration and Engine Peripherals business unit opened in Wuhan/China

The new MAHLE filter plant in the Hubei province produces air intake modules, plastic cylinder head covers, oil mist separators, and heat exchangers for a large number of local automobile manufacturers. In the future, around two million products are expected to be delivered each year, generating sales of over EUR 120 million.

August 2014: new plant for the Thermal Management business unit opened in Shenyang/China

The new plant in Shenyang in northeast China is the fifth production location for the Thermal Management business unit in China. Following investments of about EUR 35 million, HVAC modules and engine cooling components are manufactured in the new plant.

October 2014: new plant for the Filtration and Engine Peripherals business unit opened in Cikarang/Indonesia

The new plant has a production area of 4,300 square meters and 1,300 square meters of office space—the entire premises comprise 29,000 square meters and offer plenty of room for future expansion. Air intake modules, air ducts, and cylinder head covers are manufactured here—primarily for MAHLE's Japanese key customers at first.

November 2014: third expansion of the research and development center in Shanghai/China completed

With a developed area of more than 35,000 square meters after the expansion, it is the largest MAHLE Tech Center in Asia. The location is also the headquarters of MAHLE in China. In addition, a Bosch Mahle Turbo Systems (BMTS) production plant, as well as production areas for industrial filtration and the manufacturing of tools for the Filtration and Engine Peripherals business unit, were opened on the campus.

April 2015: new plant for the Filtration and Engine Peripherals business unit in Celaya/central Mexico

Start of production in this new plant in central Mexico is planned for May 2015. The total investment amounts to around EUR 16 million. The number of employees is expected to rise from currently 100 to around 450 by 2019. After a product transfer and conclusion of selected program launches, sales of about EUR 100 million are expected in the medium term.

June 2015: new plant for the Thermal Management business unit in Chengdu/China

In mid-2015, MAHLE—via its joint venture company Shanghai Behr Thermal Systems Co. Ltd. (SBTS)—will officially open its first plant in Chengdu/southwest China, which is in the immediate vicinity of the Volkswagen and Volvo plants and not far from a Ford production location. HVAC modules as well as engine cooling components and systems will be manufactured there. Part of the production area is reserved for Dongfeng Behr Thermal Systems Co. Ltd. (DBTS), a joint venture between MAHLE Behr GmbH & Co. KG and Dongfeng Motor Company Co., Ltd. The assembly of HVAC modules already started at the beginning of 2015.

July 2015: new plant for the Thermal Management business unit in Ramos Arizpe/Mexico

The second plant in Mexico of the Thermal Management business unit is being erected in close proximity to the plant of the Engine Systems and Components business unit as well as to an already existing plant of the Thermal Management business unit in Ramos Arizpe; construction started in July 2014. The plant will start series production in July 2015. The

product range will include HVAC modules as well as powertrain cooling components and systems. It will supply automobile manufacturers in the United States and the rising number of manufacturers who are producing directly in Mexico.

#### June 2014: BMTS starts subsidiary in China

Bosch Mahle Turbo Systems (BMTS), the 50/50 joint venture with Robert Bosch GmbH, has founded a wholly owned subsidiary in the People's Republic of China. The company is located on the MAHLE premises in Shanghai. In a first stage, turbochargers for gasoline engines will be produced for globally operating and local Chinese customers in a new building comprising 5,000 square meters. The annual capacity amounts to more than one million, which has been secured thanks to customer orders. Series production started in the fourth quarter of 2014.

#### **Outlook for the 2015 business year**

With an eye on the near future, MAHLE is striving to strengthen and expand its market position as one of the world's 20 largest automotive suppliers. The aim is to secure or maintain a position among the top three global suppliers in all of the group's core product segments.

In this connection, MAHLE concluded a contract with U.S. automotive supplier Delphi Automotive PLC in February 2015 to take over their thermal management operating line. The company comprises a sales volume of around USD 1.2 billion and has approximately 7,600 employees at 13 locations worldwide. This acquisition supports the consistent expansion of the important thermal management growth sector, which will play an increasingly substantial role in all potential alternative drive systems in the future. After approval by the relevant antitrust authorities, a closing of the deal is anticipated for the summer of 2015. In a subsequent step, it is intended to acquire the joint venture of Delphi Thermal in China.

Progress will also continue on the targeted expansion of the product portfolio. With the acquisition of the Slovenian Letrika Group in 2014, MAHLE took an important step toward strategically expanding its mechatronics and electrical activities. Through the expansion of global

development and production activities, MAHLE is planning to generate sales in excess of EUR 500 million in this area in the medium term.

In the first quarter of 2015, MAHLE has substantially increased sales again, which rose by a total of EUR 320 million in comparison with the previous year. This corresponds to sales growth of over 13 percent. The exchange rate development in the first quarter, particularly for the U.S. dollar, positively supported organic growth.

For 2015, the MAHLE Group expects sales to rise to a range of EUR 10.5 to 11.5 billion. This is subject to exchange rate movements and is based on cautiously optimistic expectations for developments in the global automotive markets. The wide corridor of sales is also attributable to the lack of a precise date for the first consolidation of Delphi Thermal activities.