

Press release on the business development of the MAHLE Group in 2009

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1. Business environment/economic situation in the automotive industry

Global economy 2009 in recession

In the second half of the previous year, the real economy was caught in a downward spiral as a result of the real estate and financial crisis in the year 2009. It was not before the second half-year that the downward trend of the global economy came to an end, at least for the moment. Since then, the global economic performance has seen a slow recovery, although on a significantly lower level. This development presented the automotive industry with its biggest challenge in decades. The real estate and financial crisis caused great uncertainty among consumers and led to a significant slowdown in consumption. Due to this and as a result of the instability of the financial system on the real economy, the automotive markets collapsed on an unprecedented scale.

In the year 2009, the global production of passenger cars and light commercial vehicles decreased by 13.1 percent from 66.2 million units in the previous year to 57.5 million units. There was a worldwide decline in automobile production, although its extent varied greatly from region to region. As a consequence, production in Europe and North America was sharply cut back, whereas the drops in production remained relatively moderate in Asia and South America.

Even more seriously affected by the global economic crisis were the manufacturers of medium- and heavy-duty commercial vehicles. In the year 2009, commercial vehicle production shrank by more than a quarter with a decrease from 3.1 million to 2.3 million units. One reason for the even steeper decline in comparison to passenger cars and light commercial vehicles can be seen in the high figures of the previous year. While the market for passenger cars and light commercial vehicles already showed signs of slowdown in the previous year, production of commercial vehicles still continued to remain at a stable level in 2008. As in the case of passenger cars, the declines in the production of commercial vehicles were most pronounced in Europe and North America.

Drastic cuts in vehicle production in Europe

The number of passenger cars and light commercial vehicles produced in Europe dramatically decreased from 20.7 million units to 16.4 million units (-20.8 percent), which was largely due to the sharp fall in exports.

However, the decline in the production of passenger cars and light commercial vehicles showed a very uneven distribution across the markets in Western and Eastern Europe. While production in Western Europe experienced a decline of only 18 percent, cuts in production amounted to 26.6 percent at the Eastern European plants. These differences were primarily due to the vigorous stimuli measures adopted by many Western European governments in order to increase sales levels. Such incentive programs were mostly lacking in the Eastern European countries.

The drop in global commercial vehicle production is largely attributable to the development in Europe. As a result of a sharp decline in demand on the commercial vehicle markets, production volumes of medium- and heavy-duty commercial vehicles decreased by almost two thirds (-63.1 percent). The crucial factor in this development was the restrained investment activity in Europe.

NAFTA: continued massive decline in vehicle production

The year 2009 saw a further decline in vehicle production in North America, which had already decreased massively over the previous year. The substantial loss of wealth resulting from the real estate crisis and the heavy debt loads of many households led to a strong decline in the purchasing power of U.S. consumers.

Owing to the resulting sales crisis on the North American automotive market, the production volumes of passenger cars and light commercial vehicles were 32.2 percent below the preceding year's level. Against this background, the production stops at Chrysler and General Motors following the initiation of the chapter 11 proceedings had a considerable impact on vehicle production in the United States over several months. First signs of a stabilization of sales and, along with these, a slight increase of production volumes, were only seen in the last months of 2009, although at a relatively low level. Accordingly, passenger car and light commercial vehicle sales once again rose above the previous year's levels during the fourth quarter.

Production of medium- and heavy-duty commercial vehicles in North America slackened at a lesser rate than in Europe with 37.1 percent. In the North American market, however, a substantial part of the decrease had already been experienced in the previous year due to declining construction activities and high energy prices. The manufacturing locations in the United States accounted for a substantial part of the decline in production volumes (–39.3 percent), while a significantly smaller portion was attributable to the sites in Mexico (–7.7 percent).

South America: moderate decline in vehicle production

The South American markets, too, were not completely immune to the downward trend in vehicle production, but only experienced a moderate decrease of two percent in total production. Chiefly responsible for this development was the Brazilian economy.

However, production volumes of medium- and heavy-duty commercial vehicles in South America were also significantly below the previous year's levels and fell back by 23.8 percent, which was mainly attributable to the decline recorded in Brazil.

Asia/Pacific: almost unnoticeable drop in vehicle production

In contrast, the decline in vehicle production volumes in the Asia/Pacific region was hardly noticeable. Individual markets developed positively and sometimes even significantly better than projected. This was particularly true for the highly dynamic market expansion in China. Here, production of passenger cars and light commercial vehicles grew by 50.8 percent. Vehicle production in India reported a similarly promising development trend with an increase in production by 16.9 percent to approximately 2.4 million passenger cars and light commercial vehicles produced. In contrast, automobile production in Japan—which, like Germany, is strongly dependent on exports—once again faced a substantial decline of 30.5 percent. These losses, in conjunction with a less marked drop in vehicle production in Thailand and South Korea, resulted in the fact that, overall, the Asian manufacturers were merely able to maintain the previous year's production volumes.

Production of commercial vehicles, as well, only saw a slight decline in Asia. Here, the production number of medium- and heavy-duty commercial vehicles only decreased by 1.5 percent. The main reason for this slight decline lay in the production increases in China, which largely compensated for the extremely marked reductions in production volumes recorded in both producer countries Japan (–46.7 percent) and South Korea (–22.6 percent).

2. Business development in 2009

Sales

While the MAHLE Group was able to maintain a sales level of over five billion euros in the previous year despite the deteriorating economic situation, sales for the year 2009 dropped to EUR 3,864 million. (2008: EUR 5,014 million). The reported sales include foreign currency exchange rate effects amounting to EUR +40.2 million, which were, on the one hand, resulting from operational business activity and, on the other hand, from the translation of sales realized in foreign currencies into the Group currency.

This harsh downfall is without precedent in the entire history of the Group to date and clearly reflects the negative growth of its major markets in the previous year. As a means of adjustment to changed market conditions, the formerly five product lines were grouped into the two "Engine Systems and Components" and "Filtration and Engine Peripherals" business units in the course of a restructuring of the MAHLE Group in order to realize synergy potentials even in central functions.

All regions experienced decreases in sales compared to the previous year, which were, however, significantly less marked in South America and Asia/Pacific than in Europe and North America. As a result of the developments outlined above, there was a rise in the share in total sales of these regions. As a consequence, the proportion of sales generated in Europe now only represents approximately 50 percent of total Group sales. Asia's proportion rose to 18 percent.

Sales generated in Germany decreased by approximately 30 percent in comparison with the previous year to EUR 851.7 million (2008: EUR 1,258 million).

The strong decline in sales was, apart from the general weakness of the market, intensified by two additional factors. Due to its outstanding technological position, MAHLE traditionally holds large market shares with its products for extremely efficient commercial vehicle engines and in highly advanced, low-consumption, passenger car diesel engines. However, both areas exhibited a much stronger decline than the market as a whole, especially in Western Europe, where the use of very small and cost-effective gasoline engines was promoted by

various national incentive schemes and, as a result, the diesel market share artificially dropped by approximately 20 percent.

In the second half-year—particularly in the fourth quarter—sales in Asia/Pacific and South America returned to normal, whereas Europe and North America only showed weak signs of growth.

Profit

For the business year 2009, the MAHLE Group recorded significant losses from ordinary business activities resulting from a drop in sales volume of 22.9 percent and the even higher decrease in operating performance of 24.7 percent. This is largely due to the very poor conditions in nearly all of the Group's major markets during the first half-year. As a result of fixed-cost effects, such as depreciation and residual overhead costs incurred with regard to personnel expenses in the context of necessary capacity adjustments, the production expense ratio rose to 82.8 percent of total sales. Sales, general administration, as well as research and development expenses were cut by EUR 108.5 million, i.e., 12.8 percent. This, however, meant an increase of the relative share in total sales attributable to the indirect Group functions on the basis of the generally weak sales volumes. Over the course of the year, it was possible to adjust variable expenses to the notably lower required capacities. In the area of personnel costs, particular use was made of measures for reducing working hours in Europe, whereas staff reductions were unavoidable in the other regions of the world, sometimes to a considerable extent.

As only moderate market growth is anticipated both in the medium and long term, particularly in Europe and North America, MAHLE agreed to take further structural measures in order to adjust capacities in these regions to the persistently low market level.

As a result of the restructuring measures adopted during this year, expenses for additional provisions for structural measures increased, particularly for severance agreements and other obligations for the period from 2009 to 2011. These resulted in the reported extraordinary result for the year 2009 of EUR –150.4 million. Due to the necessary devaluation of active deferred tax assets, no considerable decrease in the Group's tax expenditure could be achieved despite the significantly lower tax payments from income and earnings.

Over the course of 2009, some considerable achievements were realized by means of the cost-cutting and structural measures promptly adopted. As the effects of these measures were only felt with some delay during the first half of the year, consistently negative figures were recorded on a monthly basis in terms of operating profit (EBIT). By contrast, the second half-year was characterized by a clearly positive EBIT trend. This was partly achieved on the basis of cost-cutting measures, which came into full effect during the second half-year and were particularly successful in the regions outside Europe, and partly due to the improved market situation in Asia and South America.

Balance sheet structure

The MAHLE Group's balance sheet total decreased by EUR 381.4 million (–9.8 percent) in comparison with the previous year to EUR 3,526.0 million (2008: EUR 3,907.4 million).

Fixed assets

The decline in fixed assets over the last business year, from EUR 1,920.4 million to EUR 1,792.8 million, was primarily attributable to depreciation, as, on the one hand, no acquisitions were made except for the takeover of the automobile heat exchanger business of KTM. On the other hand, MAHLE refrained from expansion investments due to the contraction of global automobile production, resulting in a marked drop in fixed asset investments in comparison with the previous year. The mainly ordinary valuation allowances on the Group's goodwill led to a reduction in intangible fixed assets from EUR 315.8 million to EUR 260.9 million.

Inventories

Inventories, in particular, were largely adjusted to weak sales levels and decreased by EUR 184.1 million, i.e., 24 percent in comparison with the previous year, from EUR 759.7 million to EUR 575.6 million.

Receivables and other assets

Receivables also shrunk, declining from EUR 1,227.3 million to EUR 1,157.6 million, resulting in a reduced volume of receivables sold under the asset-backed security program. In contrast, the balance sheet item of marketable securities and liquid assets rose slightly over the course of the year as a consequence of the increasing importance of the availability of cash and cash equivalents.

Equity

On the liabilities side of the balance sheet, equity decreased by EUR 354.4 million to EUR 1,156.9 million due to the distinctly negative year-end result. This development also includes exchange rate effects arising from the conversion of transactions in foreign currencies, which amounted to EUR 39.7 million and led to an increase in equity. The equity ratio continues to remain extremely sound at almost 33 percent.

Accruals

Accruals in the amount of EUR 1,098.5 million (2008: EUR 1,109.5 million) remained largely stable. In this regard, the necessary increase in accruals for severance agreements and other personnel-related obligations was offset by a decrease in accruals for taxes payable and possible losses.

Payables and other liabilities

Payables and other liabilities in the amount of EUR 1,270.6 million (2008: EUR 1,286.7 million) remained virtually unchanged in a year-on-year comparison. Due to the increasing financial requirements, liabilities to banks rose by EUR 71.4 million. In contrast, there was a decrease in the MAHLE Group's trade payables by EUR 98.6 million owing to lower sales and the related smaller volume of orders with suppliers.

In spite of the considerable operating losses, consistent management of working capital almost brought the Group's net liquidity back to its level prior to the economic crisis by the end of the year.

Investments

The unfavorable development of the economic environment did not allow the MAHLE Group—despite its restrictive expenditure policy—to finance all capital requirements for investments through cash flow from operational business activity. This was primarily due to the negative result for the period. These liabilities, however, were compensated for by a considerable reduction in working capital—particularly inventories—resulting in a positive cash flow from operating activities in the amount of EUR 141.3 million. Cash flows from investment activities decreased markedly in comparison with the previous year's level, which can primarily be traced back to the great restraint with regard to investments in fixed assets and to the very low payments for the acquisition of businesses.

As a result of the already mentioned lacking necessity to finance high capital expenditure or sizable company acquisitions, borrowings in the amount of EUR 600.2 million almost corresponded to repayments of credit facilities of EUR 574.2 million. Thus, in the business year 2009, the MAHLE Group almost saw no need to raise additional credit facilities—despite the necessity for debt rescheduling and new loans during the year. This led to a cash flow from financing activities of only EUR +24 million. In addition, exchange rate effects of EUR 40 million had a positive impact, yielding an increase in cash funds, which led in the result to a rise by EUR 15.3 million as compared to the previous year's balance sheet date.

Headcount development

By the end of the year 2009, 43,489 employees (2008: 49,262) were working for the Group. Compared with the peak of 51,383 after completion of strategic acquisitions at the end of the third quarter of 2008, this represents a decrease in the number of employees by approximately 15 percent.

In spite of considerable adjustments in staff numbers—particularly in the regions outside Europe—and extensive use of flexible working-time schemes as well as Group-wide cuts to variable compensation, it was not possible to prevent a global increase in the personnel costs ratio. A reversal in trend only formed by the middle of the year, which was particularly due to numerous site consolidations and the prompt adjustment of staffing levels in North and South America. Nevertheless, a further improvement and the reduction of personnel costs to their level prior to the crisis are not likely to occur before 2010 and subsequent years, when all the restructuring measures agreed upon will have been implemented to their full extent.

The adjustment of our management structures in the context of the Group's reorganization will play a role in this process, just as will the grouping of specialized functions in many parts of our corporate organization as a whole. By placing stronger emphasis on regional responsibilities and, at the same time, integrating strategic key activities into two business units, decision-making processes can be shortened. A reduction in the structural costs of the whole organization was already achieved in the second half of 2009. However, for these organizational measures, too, the full cost effects will not be felt before 2010 and 2011.

The decline in the number of employees at the regional level can be derived from the following overview.

	2008	2009	Variance in %
Europe	21,480	19,512	-9.2
<i>Thereof Germany</i>	<i>9,284</i>	<i>8,631</i>	<i>-7.0</i>
North America	6,788	5,428	-20.0
South America	12,090	10,314	-14.7
Asia/Pacific	8,904	8,235	-7.5
Total	49,262	43,489	-11.7

3. Development of the MAHLE Group

The significant milestones of the MAHLE Group's development were:

October 2009

MAHLE acquires automotive business of KTM-Kühler

On October 23, 2009, the MAHLE Group signed an agreement with KTM-Kühler GmbH on the acquisition of the automotive business of the latter at its Mattighofen location (Upper Austria).

MAHLE thereby intensifies its involvement in the area of thermal management and rounds out its global activities regarding oil-water heat exchangers for engine and transmission applications and oil filter modules. Fuel consumption and CO₂ emissions of combustion engines can be optimized using intelligent thermal management solutions. Further fields of application can be found in the area of alternative drives.

The acquired production unit for heat exchangers currently generates sales of approximately EUR 15 million at the Mattighofen location with 120 employees. It is intended to continue production at the current location.

February 2010

MAHLE takes over majority share in Behr Industry

On February 4, 2010, the Supervisory Boards of MAHLE GmbH and Behr GmbH & Co. KG agreed upon the acquisition of 60 percent of the shares in Behr Industry GmbH & Co. KG by the MAHLE Group. The acquisition of the majority share in Behr Industry by MAHLE is still subject to approval by the antitrust authorities. A positive decision will likely be taken in the very near future.

In 2009, the Industry division of the Behr Group achieved sales of approximately EUR 180 million and currently has around 860 employees at five locations in Germany and the United States. Main products include cooling and air-conditioning systems for railway and special vehicles, buses, ships, construction and agricultural machinery, the aerospace industry, and stationary large engines for power

generation. Behr Industry will henceforth operate under the name of MAHLE Behr Industry.

MAHLE intends to integrate the company MAHLE Behr Industry into its existing industrial activities with regard to large engines and industrial filtration. It is planned to bundle these activities in a new business unit, "MAHLE Industry," with an annual sales volume of approximately EUR 500 million. Thanks to the globalization of business activities in the industrial sector and cross-selling effects between the single divisions, MAHLE anticipates significant growth potential over the next years. Behr on its part will not participate in the existing industrial activities of MAHLE in the areas of large engines and industrial filtration.

MAHLE explores possibility of strategic cooperation with Behr's automotive business

In addition to the acquisition of a majority share in Behr Industry, MAHLE and Behr are also exploring the options of entering into a further strategic partnership in the automotive business. For quite some time, MAHLE has recognized the areas of thermal management and mechatronics as growth markets. This is true both for the CO₂ reduction potential of combustion engines and for all types of alternative drive systems. A cooperation would open up synergy potentials and further strengthen the systems-related know-how of both companies in the automotive sector.

March 2010

First high-volume orders for Bosch Mahle Turbo Systems

18 months after the company's foundation, the 50/50 joint venture Bosch Mahle Turbo Systems (BMTS) has received its first two high-volume orders for exhaust gas turbochargers. The turbo technology of BMTS will be applied in a downsized gasoline engine and a common rail diesel engine. BMTS will ramp up production for the planned number of approximately one million turbochargers per year by the end of 2011. Further production ramp-ups are anticipated for the years 2012/2013. Currently, new developments are being planned with various customers.

BMTS treads new paths in development with regard to simulation, design, and construction, and focused product optimization on spontaneous responsiveness and low exhaust back pressure in order to reduce fuel consumption. With new, high-precision processes for the production of the rotor and the bearing elements as key components, turbochargers set benchmarks for acoustic behavior and stability. Furthermore, the fully automatic assembly line for the basic unit ensures extremely high quality and thus guarantees extraordinary robustness. For reasons of quality assurance, Bosch Mahle Turbo Systems for the first time uses a functional test for exhaust gas turbochargers, which is integrated into the fully automatic assembly process.

In combination with direct gasoline injection, turbochargers play a major role in designing a much more efficient combustion engine by means of downsizing without losses in performance, and thereby contributes to further reductions in CO₂ emissions and fuel consumption. An increasing number of automobile manufacturers concentrate on downsizing concepts for their present and future engine generations. The need for exhaust gas turbochargers will therefore steadily increase over the coming years.

In the course of the business year 2009, Bosch Mahle Turbo Systems made some substantial investments: the development unit in Stuttgart and the production plants in Blaichach/Immenstadt (Germany) and St. Michael (Austria) were established. Following the groundbreaking ceremony in September 2008, the construction of a new machine shop with a production area of approximately 10,000 square meters has been completed in St. Michael. Currently, a major part of the state-of-the-art production equipment is being installed, so that preseries exhaust gas turbochargers for the launch of production at the end of 2011 can already be produced in the facilities for series production.

4. Outlook for the 2010 business year

According to recent projections, the International Monetary Fund expects a global economic growth of 3.9 percent for 2010. The main driving forces behind this growth will come from countries with promising growth potential in the economic regions of Asia and South America. Rising raw material and oil prices may again bear a negative impact on the economy.

Europe is expected to only experience a slight economic growth, since the agreed-upon measures in many countries will expire and the implementation of further incentive programs seems rather unlikely. The strong export orientation may promote growth. However, an increase in unemployment rates must be expected, yielding negative effects on domestic consumption. In North America, a slightly higher growth can be anticipated than in Europe. South America already recovered in 2009 at a relatively fast pace and will remain among the global growth drivers. In this regard, Brazil will most likely continue to take the lead. Asia, especially China and India, will make an even more significant contribution to global economic growth.

Nevertheless, the year 2010 will once again put the whole automotive industry to severe tests. There is no reason to assume that sales figures can be reached on the world market in the year 2010 that will come even close to those of the years 2007/2008. The major passenger car markets, however, show a certain degree of stabilization, which makes a significant increase as compared to the year 2009 seem likely. Current forecasts predict a worldwide growth in vehicle production of approximately ten percent in the year 2010. In this context, however, a lower average value is to be expected in the global vehicle mix, as the vehicles in the countries driving growth, such as China, India, and Brazil, normally have a significantly lower price level. Manufacturers of medium- and heavy-duty commercial vehicles are expecting similarly high growth rates.

Only a slight increase in production volumes can be expected in the passenger car markets of Western Europe since the national incentive schemes launched during the past business year aimed at encouraging the purchase of new vehicles have already expired. Moreover, the initiated measures have led to pronounced structural changes—due to the fact that the benefits received from the programs varied widely among the individual manufacturers and brands. These structural changes are, however, short-lived and will most likely be at least partially reversed in the course of the current year. Despite an expected significant decline of the domestic market, German passenger car production will experience a moderate decrease in the year 2010 in comparison with the previous year's low volumes due to an anticipated stability of exports. It can also be assumed that the generally low inventories throughout the world will have a positive impact on production opportunities. With regard to the U.S. market, where inventory reductions were especially intense, double-digit growth in the number of units produced is projected for the year 2010. However, this development must also be seen against the backdrop of the extremely low level in the year 2009. Further positive impacts can be expected from the Asian markets, particularly from the Chinese market, which will most likely again exhibit significant growth.

In view of the cautiously optimistic forecasts for the total market, the MAHLE Group anticipates a moderate growth in sales for the year 2010, which will primarily be driven by the positive developments in the South American and Asian markets. It is further anticipated that the relative gain in market share in important markets by German manufacturers will also have a positive effect. For example, almost every second new car sold in Western Europe was manufactured by German group brands. The German manufacturers were also able to increase their market shares in the year 2009, both in the United States and South America, by one percentage point each. These trends are likely to continue over the next year, most notably in North America.

The MAHLE Group expects a significant improvement in the results and a return to positive earnings during the current year. A significant role in this regard will be played by the positive effects on profits achieved through restructuring measures and capacity adjustments, which were carried out over the year under report with great consistency. In 2010, as well, measures for capacity adjustment will be taken to adapt the cost structures to the demand situation. In this context, it has also been decided that the instrument of short-time work will continue to be used in Germany in the year 2010 during the first two quarters.

In the second half-year, flexible instruments will be used that are adjusted to the volume of orders to allow for a rapid response on the cost side. The measures for the structural adjustment at several European locations agreed upon in the course of the year 2009 will be implemented according to plan.