

MAHLE surpasses own targets in first half of 2015

- Double-digit growth in sales and operating profit
- Strategic acquisitions expand expertise in mechatronics and thermal management
- Innovations set new performance standards in engine and air conditioning technology

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In the first half of 2015, the MAHLE Group achieved sales of EUR 5.53 billion and has thereby grown by 12.5 percent compared with the same period in the previous year. At EUR 324.5 million, earnings before interest and taxes (EBIT) are also 17.2 percent above the previous year's value. The EBIT margin rose to 5.9 percent. "This half-year result has exceeded our own expectations. We need to bear in mind that the high exchange rate effects have had a positive impact on our business," says Wolf-Henning Scheider, Chairman of the MAHLE Management Board and CEO. Nevertheless, it should be noted that even without these special effects, MAHLE has grown faster than the market as a whole. "We can therefore speak of a satisfactory development." Adjusted for consolidation effects, sales grew by 10.1 percent in the first half-year. Adjusted for consolidation and currency exchange rate effects, the MAHLE Group's growth amounted to 2.3 percent.

For the year as a whole, MAHLE anticipates an overall growth of about 15 percent, amounting to approximately EUR 11.4 to 11.6 billion. "The course we have set ourselves is paying off," comments Scheider.

MAHLE is viewing the development of the global vehicle market with cautious optimism. The economy will be supported by the further recovery of the markets in western Europe and North America. However, the decline in China, Russia, and

South America is clouding the overall picture. All in all, the global production of passenger cars and light commercial vehicles is expected to increase slightly by 1.7 percent to around 89 million units, which still corresponds to a new all-time high in vehicle production. With regard to medium-weight and heavy-duty commercial vehicles, the group is anticipating a reduction of 3.7 percent to 3.2 million vehicles worldwide.

During the first half of the year, MAHLE has grown in all business segments and regions except in South America.

Sales in Europe rose by 9.1 percent to around EUR 2.8 billion in the first half-year. MAHLE thus continues to earn every second euro (51.4 percent) in this region. The market launch of passenger car steel pistons contributed to sales growth alongside the strong demand for diesel aluminum pistons. The business for air intake modules, fuel filters, and almost all air conditioning and cooling products has also been performing well. Besides improved demand in Germany, the Italian and Spanish markets in particular have shown clear signs of recovery. The current development is being hampered by the strong decline in eastern Europe and especially Russia (minus 26 percent). "The present situation is less than encouraging. Nevertheless, one should not underestimate the potential of this market. Above-average growth can be expected there in the medium term," observes Scheider.

The development in North America was particularly pleasing. In the first half of 2015, MAHLE increased sales by 19.2 percent to around EUR 1.3 billion, and generates approximately 24 percent of group sales in this market compared with 22.6 percent in the previous year. This business development was primarily driven by the revaluation of the U.S. dollar. There was a positive development in the demand for passenger car aluminum pistons and piston rings, and an increase in the sales volume for air filter modules and oil coolers. Adjusted for exchange rate effects, the business in Mexico performed particularly well. "We were able to take advantage of the boost in this region, which—at a rate of three percent for passenger cars and light commercial vehicles—is currently showing the strongest growth," says Scheider. Production of medium-weight and heavy-duty commercial vehicles has even achieved a plus of 8.5 percent. A few weeks ago, MAHLE commissioned two

new Mexican locations in Ramos Arizpe and Celaya, where air conditioning modules and air cleaner systems for the markets in North and South America are manufactured. By the end of 2015, MAHLE will have more than 8,000 employees at ten locations in Mexico.

By contrast, the Asian market has clearly lost momentum. Nevertheless, MAHLE was able to counteract the trend and increase sales by 22.2 percent. As a result, for the very first time, MAHLE generated more than one billion euros in this region within the first half-year. While the decline in commercial vehicle production particularly in China clouded this picture, the Indian market has recovered significantly in this segment. “Despite its current restrained performance, Asia still remains the number one growth market with 18.5 percent of our group sales today. Consequently, we must and will continue to vigorously expand our business in this region,” says Scheider. The company was already able to record great success in recent weeks. Over the next few years, MAHLE will be supplying a major local manufacturer in China with cooling modules for two families of gasoline turbocharged engines.

Development remains difficult in the Latin American market, where MAHLE currently only generates around six percent of total sales. Vehicle production for this year is expected to shrink by more than 16 percent and the trend seems to remain negative when considering the sales figures. Car sales in Brazil even plummeted by a quarter in July, reaching the same level as in 2007. Measured against this overall picture, the MAHLE Group still performed well despite a decline in sales of 7.7 percent to EUR 310 million. “South America still remains a market with great potential, even though the current situation is extremely difficult. It would therefore be a mistake to write off this region,” emphasizes Scheider.

As at June 30, MAHLE employed approximately 67,000 people at 170 locations worldwide—5.5 percent more than at the same time in the previous year.

Strategic cutting-edge fields of mechatronics and thermal management strengthened

The half-year result includes the first-time consolidation of Letrika Group and Amovis, with sales totaling a good EUR 110 million. Not least, though, the integration of the latest company acquisitions is noticeably driving the technological advancement of the group. For example, in the business segment of mechatronics, MAHLE is currently using the expertise for electric machines, which was newly acquired from Letrika. "We are developing a series of electrically powered auxiliary accessories, such as coolant pumps and motors for electric steering, which operate independently of the combustion engine and improve CO₂ efficiency," explains Scheider. Another contributing factor is the expertise from the Japanese company Kokusan Denki, of which MAHLE acquired more than 90 percent of the shares in June 2015; it was therefore not yet included in the half-year financial statements. "We see significant growth potential in the field of mechatronics and are targeting a sales volume of around EUR 500 million in this market segment in the medium term," comments Scheider.

Also not included in the figures for the first half-year is the thermal business acquired from U.S. supplier Delphi in February. Its approximately 7,500 employees and 13 locations have become legally part of the MAHLE Group since June 30, 2015. In the past year, this company generated sales of around EUR 1 billion. "This acquisition now makes us the world's second largest supplier of thermal management solutions in the automotive industry today," stresses Scheider. The portfolio includes cooling systems for engines, cabin air conditioning, air conditioning technology for mobile and stationary applications, as well as solutions for electric drives. "High-performance batteries require a constantly tempered environment. Our solutions not only meet this requirement but also make an important contribution to the further development of e-mobility and the diversification of MAHLE," says Scheider. The financing of the purchase prices paid in June was already secured in May. Among other things, MAHLE was able to place a second bond with an overall volume of EUR 500 million, which was oversubscribed by a factor of four. "MAHLE is perceived as an interesting investment on the capital market," emphasizes Scheider. Through the expansion of its activities, the company already generates

more than 50 percent of its sales outside the traditional business of components and systems for combustion engines in the passenger car market.

Revolutionary new development for charge air cooling exhibited at the IAA

MAHLE also continues to focus on the gasoline and diesel engine business. At the IAA, the Group will be introducing a number of exciting solutions that can significantly reduce fuel consumption and emissions. For instance, MAHLE developers have succeeded for the first time to connect the engine coolant circuit with the refrigerant circuit of the HVAC system. The charge air temperature can thus be lowered below all levels previously achieved in the industry. As a result, the engine's responsiveness is significantly improved. At the same time, fuel consumption and emissions values are reduced. Visitors to the MAHLE stand in Hall 8 at the IAA will also experience how MAHLE is generating new impetus for the electrification of the vehicle, for example, by means of electric auxiliary components.

Series production models benefit from motorsport technology

Commitment to motorsport has been part of MAHLE's overall strategy for decades. For the very first time, MAHLE is using a patented solution in motorsport, with which fuel efficiency in combustion engines can be drastically improved. The newly developed MAHLE Jet Ignition® lean burn combustion process relies on a special surface ignition, which in turn allows for higher engine performance. MAHLE will now develop this process further for series vehicles, as this technology opens the way for efficiency levels in gasoline engines otherwise only achievable with diesel engines. The following example shows that the transfer from the race track to series production works: MAHLE steel pistons, which helped achieve victory no less than five times at the 24 Hours of Le Mans in recent years, are now being installed in the new 1.5- and 1.6-liter diesel engines from Renault, which fulfill the Euro 6 standard.

Strategic interplay of powertrain and thermal management

In addition to in-house development, MAHLE is permanently exploring the market for practical innovations to complement its own product range. In spring, MAHLE therefore acquired the startup company Amovis GmbH in Berlin, which develops intelligent exhaust gas heat recovery technology using the ORC (Organic Rankine Cycle). ORC systems are an advanced development of the steam cycle, in which the waste heat from combustion engines is not released into the environment via the exhaust gas, but used to generate electrical or mechanical energy. This means that fuel consumption in commercial vehicles, for example, can be reduced by up to four percent, thereby significantly reducing in CO₂ emissions. The CEO of MAHLE explains: "As customer interest in this future technology for CO₂ reduction is high, the first trucks featuring MAHLE's ORC technology are likely to be on our roads by 2020."

Both the latest motorsport technology and the takeover of Amovis illustrate the company's overall strategy: "This clearly demonstrates how our expertise in the areas of powertrain technology and thermal management successfully complement each other and leads to unique results," comments Scheider. Thanks to this strategy, MAHLE was able to take a major leap forward and almost double its sales in the past five years. In this context, the integration of Behr, Letrika, Delphi Thermal, and Kokusan Denki were particularly important milestones. Not least thanks to these acquisitions, the group now ranks among the 20 largest automotive suppliers worldwide. "Owing to the size of MAHLE, our company can now have an impact on the automotive industry and be an important partner for our customers. We want to drive innovations in the fields of combustion engines and air conditioning, as well as in the development of new electrical systems and e-mobility. This is, and remains, our aspiration," emphasizes Scheider.