

MAHLE

Driven by performance

2010 //

ANNUAL REPORT

STRATEGIC PARTNER WITH A SYSTEMS-ENABLED PRODUCT PORTFOLIO //

// What would the automotive industry be without MAHLE? It would be without some important technologies, countless trendsetting developments, and a competent partner for efficiency-raising and environmentally friendly innovations. Half of all cars produced worldwide contain MAHLE components. We offer systems services ranging from power cell units and complete cylinder head assemblies to complete engine assemblies and competence for the entire air and liquid systems. At an early stage, we recognized globalization as an opportunity. We were able to expand our product portfolio systematically with strategic startups and worldwide acquisitions.

The most recent example is our share in the systems supplier Behr. This opens up considerable added potential in the market for complete systems solutions in the field of innovative thermal management for the power train and the passenger compartment of modern passenger cars and commercial vehicles. The product portfolios of MAHLE and Behr fit together excellently. For example, we are able to offer intake modules with integrated indirect charge air coolers, complete exhaust gas recirculation modules with cooler and valve, and HVAC modules with specially designed cabin air filters.

At MAHLE, the growing systems capabilities of the product range are combined with the extensive networking and unification of all major business units. More than 47,000 employees work at over 100 production locations and 8 research and development centers in Stuttgart, Northampton, Detroit (Farmington Hills, Novi), Tokyo (Kawagoe, Okegawa), Shanghai, and São Paulo (Jundiaí). Around the world, approximately 3,000 development engineers and technicians are working on forward-looking concepts, products, and systems for the ongoing development of vehicle power trains.

MAHLE GROUP //

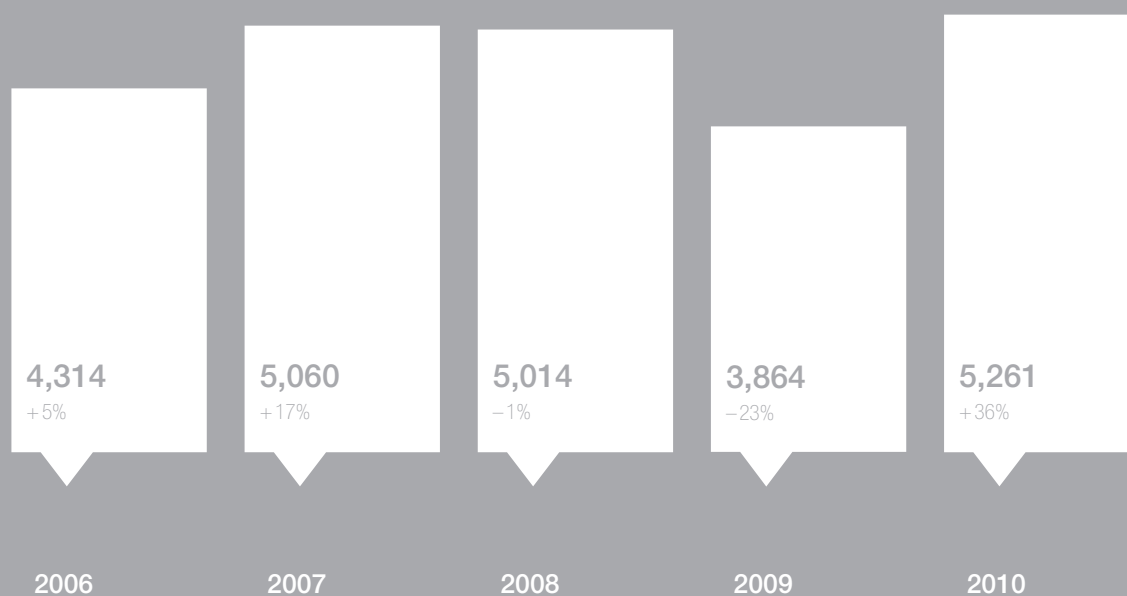
FIGURES //

million EUR

Business year	2006	2007	2008	2009	2010
Sales	4,314	5,060	5,014	3,864	5,261
EBITDA	598	632	498	264	641
EBIT	319	349	160	-100	287
Income from ordinary business activities	295	308	85	-165	252
Net income/loss	192	223	22	-379	177
Tangible fixed assets	1,235	1,430	1,569	1,491	1,522
Capital expenditure for tangible fixed assets (without first consolidation)	264	309	415	172	199
Equity capital	1,363	1,538	1,511	1,157	1,464
Dividend paid by MAHLE GmbH	6.0	7.0	3.0	3.0	5.5
Headcount (as at Dec. 31)	38,603	47,877	49,262	43,489	47,457

DEVELOPMENT OF SALES //

million EUR



ANNUAL CHRONICLE — HIGHLIGHTS 2010 //

JANUARY

Supplier award from Chaoyang Diesel

MAHLE Tri-Ring Valve Train (Hubei) Co., Ltd. in Macheng/China receives the "Core Supplier" award.

FEBRUARY

Supplier award from Toyota

The MAHLE Group receives the "Global Contribution Award."



MARCH

MAHLE day-care center is opened

MAHLE opens a childcare facility at the headquarters in Stuttgart, providing space for around 40 children. This concept actively supports employees in returning to work after maternity and parental leave.



First high-volume orders for Bosch Mahle Turbo Systems

18 months after the company's foundation, 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 is set to ramp up production for the planned number of approximately one million turbochargers per year by the end of 2011.

Supplier award from Toyota

MAHLE Engine Components USA, Inc. in Morristown/USA receives the "Superior Quality Performance Award."

Supplier award from Isuzu

MAHLE Engine Components Japan Corporation in Tsuruoka/Japan receives the "Excellent Supplier for Delivery Cooperation" award.

Supplier award from John Deere

MAHLE Metal Leve S.A. in Mogi Guaçu/Brazil receives the award "Achieving Excellence—In Recognition of Outstanding Supplier Performance."

APRIL

Supplier award from General Motors

MAHLE Argentina S.A. in Rafaela/Argentina receives the "Best Supplier Award."

Supplier award from John Deere

MAHLE Componentes de Motor España, S.L. in Vilanova i la Geltrú/Spain receives the award "Achieving Excellence—In Recognition of Outstanding Supplier Performance."

MAY

High-volume order from Japanese OEM

MAHLE receives a high-volume order for a new generation of gasoline pistons from a Japanese automobile manufacturer. Production will take place in the North America region and China.

JUNE

Majority of shares in Behr Industry acquired

MAHLE acquires 60 percent of the shares in Behr Industry, the Industry business unit of the Behr Group. Headquarters: Stuttgart/Germany. Approximately 950 employees. Sales of around EUR 180 million in 2009. Main products: 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 now trades under the name MAHLE Behr Industry.

24 Hours of Le Mans

Triple victory for the Audi R15 TDI, which features forged steel pistons developed by MAHLE.



Supplier award from FIAT

MAHLE Metal Leve Miba Sinterizados Ltda. in Indaiatuba/Brazil receives the "Qualitas Award."

JULY

MAHLE and Behr sign share agreement

MAHLE and Behr have agreed that MAHLE will acquire shares in Behr in several stages. In the first stage in 2010, MAHLE acquires a holding of 19.9 percent through a unilateral capital increase.

High-volume order from European OEM

MAHLE receives a high-volume order for various engine components and peripherals from a European commercial vehicle manufacturer. Production will take place exclusively in India.

SEPTEMBER

High-volume order for controlled oil pumps in China

MAHLE receives its first high-volume order for a fully variable controlled oil pump, to be produced in China.

IAA—International Motor Show

MAHLE presents innovative technologies and product novelties at the IAA in Hanover/Germany. The Group presents various fields of technology with a high optimization potential with regard to reducing CO₂ emissions in the combustion engine. In focus: innovative cooling and air-conditioning solutions, exhaust gas recirculation, lightweight assembled camshafts fitted with low-friction rolling bearings, innovative and environmentally friendly filtration systems. MAHLE is using a compact, highly turbocharged three-cylinder gasoline engine to demonstrate the potential that lies in its technologies. Tests on the 1.2-liter engine are proving that downsizing rates of up to 50 percent are possible.

TOYOTA GIVES GLOBAL CONTRIBUTION AWARD TO MAHLE AGAIN //

NOVEMBER

Formula 1 season finale in Abu Dhabi

Made for winners: the top 3 in the drivers' world championship—Sebastian Vettel (Red Bull-Renault), Fernando Alonso (Ferrari), and Mark Webber (Red Bull-Renault)—rely on forged piston assemblies developed by MAHLE.

DECEMBER

High-volume order for Bosch Mahle Turbo Systems in the commercial vehicle/off-highway segment

Barely a year has passed since Bosch Mahle Turbo Systems (BMTS) decided to make its entry into the commercial vehicle/off-highway segment. A good decision, it now seems: the company has already received its first high-volume order. BMTS supplies the turbocharger for a new 2.9-liter diesel engine for off-highway applications.

100 percent supplier for major French customer

MAHLE becomes the 100 percent supplier for the systems environment of a fully variable controlled oil pump used in the new 1.6-liter, Euro 6 diesel engine developed by a major French customer. This technology reduces the CO₂ emissions in the driving cycle by up to three percent.

First joint systems activities for MAHLE and Behr

The technical collaboration initiated between MAHLE and Behr bears its first fruits: MAHLE wins the systems order for a complex intake module in a new passenger car engine used for both a French and a German automobile manufacturer. One of its main integrated elements is Behr's indirect charge air cooler.

Supplier award from Ford

Once again, MAHLE Metal Leve S. A. in Mogi Guaçu/Brazil receives the "Best Powertrain Supplier" award.



// MAHLE plays an outstanding role as a supplier for Toyota. The "Global Contribution Award" is a pleasing testament to this relationship. Prof. Dr. Heinz K. Junker already accepted the award for the second time in February. Toyota presents this award to suppliers that have made a major contribution to the manufacturer's globalization. Quality, cost awareness, and technology are among the criteria assessed. In 2010, only three companies from among Toyota's many business partners were selected. The "Global Contribution Award" is rarely given to western companies.

The award ceremony during the Global Suppliers Convention in Aichi/Japan was attended by around 800 industry representatives, including the entire Toyota Board of Directors as well as executives of 400 national and international suppliers. During the following week, we presented our new products in Toyota City together with the other prizewinners, giving around 4,700 visitors the chance to become more familiar with our product portfolio.



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THE COMPANY

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CONSOLIDATED FINANCIAL STATEMENTS

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Dear readers,

The unexpectedly fast recovery of the global economy and thus of the automotive industry led to a premature resurgence in sales and profit key figures for the MAHLE Group, which we originally did not expect for one or two years. While the first quarter was still characterized by cautiousness, we were able to consistently improve our sales and profit levels in the course of the year. Ultimately, we achieved sales of almost EUR 5.3 billion for the 2010 business year. This is the highest sales figure in MAHLE's history. In comparison with the previous year, which was heavily affected by the crisis, this corresponds to a rise of over 36 percent. We have thus achieved a V-shaped recovery in MAHLE's sales and profit situation, which was not considered realistic even a year ago.

While these figures are pleasing at Group level, they should be interpreted differently at a regional level. Taking 2008 as the basis for comparison (as—apart from the last few months—it was still largely unaffected by the financial and economic crisis) reveals significant structural changes in the composition of Group sales. While 54 percent of sales were achieved in Europe in the 2008 business year, this proportion fell to 48 percent in 2010. In absolute terms, this means that the European sales declined from EUR 2,696 million to EUR 2,509 million. The proportion of sales produced in the Asia and South America regions rose from 29 to 35 percent of Group sales in the same period. The North America region remains almost unchanged with a contribution to sales of around 17 percent.

These figures show very clearly where the automotive industry's growth markets are, and that the MAHLE Group invested proactively in these markets at an early stage. Today, we are able to benefit fully from these markets thanks to a further increase in the contribution to sales and profit. We intend to stimulate this development further with a disproportionately high level of investment in these regions. Our large market shares and strong presence among Japanese and Asian automobile manufacturers in particular allow us to be optimistic as regards the medium- and long-term development of business.

Results in Europe are still significantly behind the precrisis period despite pleasing sales growth in this region. We must therefore continue to make every effort to adjust our costs to the diminished market environment. Consequently, we have decided to go ahead with our restructuring program, initiated in 2008, which includes measures to streamline our structures on a long-term basis. While the farthest-reaching measures were carried out or completed in 2010, in the subsequent phase we additionally reserved almost EUR 35 million in profit or loss for restructuring projects in the 2010 business year, in order to cover all long-term plans for capacity adjustment activities for the 2011–2012 period.

These precautions and some operational weaknesses in the monitoring of the rapidly changing demand situation meant that we did not quite reach the target range for our return figures. Despite unplanned acquisition projects, and the fact that new investments exceeded our planning considerably, we were nevertheless able to largely stabilize our balance sheet structures again, thanks to our significantly positive cash flow.

In the middle of the year, we restructured the Group organization to reflect the growing importance of the Industry and Aftermarket business segments. These are now defined as separate business units. At the same time, the former Behr Industry activities, now MAHLE Behr Industry, were fully consolidated as the Thermal Management division of the "Industry" business unit. It is therefore clear that we not only responded to the crisis with cost and structural adjustments, but also used the time to further improve our strategic position for the long term.

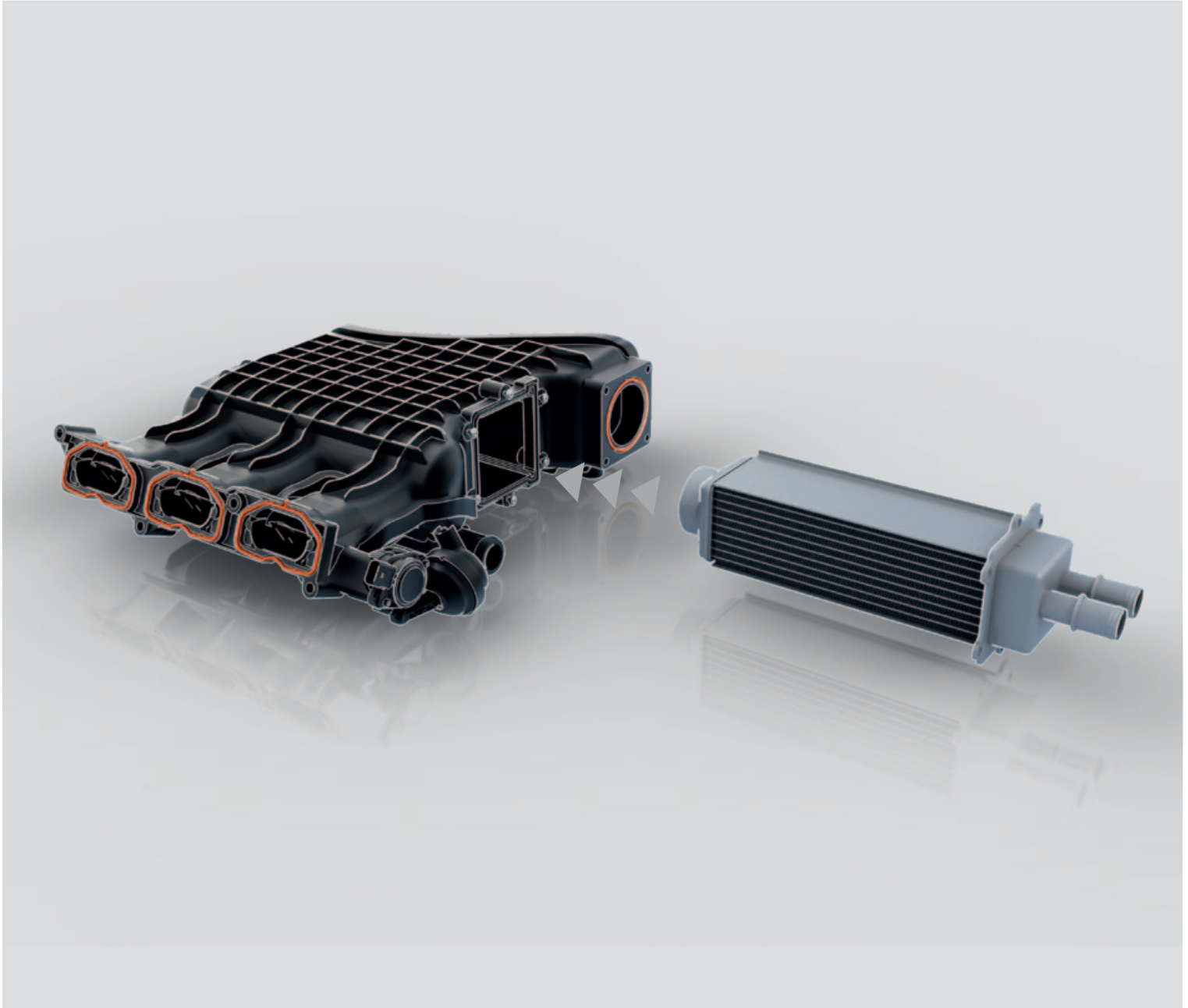
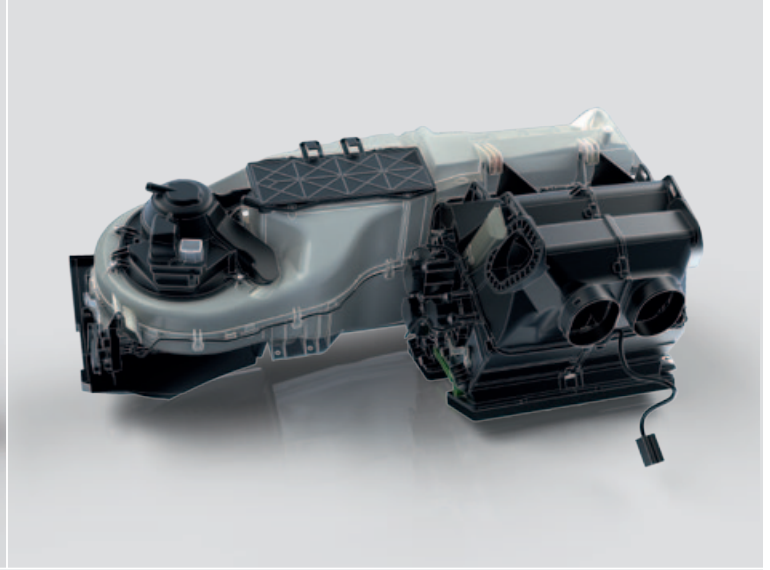
In parallel to the majority acquisition of the Behr Industry activities, we concluded a share agreement with Behr GmbH & Co. KG that will allow us to acquire the majority of the shares in three stages by January 1, 2013. At present, we plan to integrate Behr into the MAHLE Group structure from that date as the Thermal Management business unit. We are thus in a position to expand our product portfolio considerably, and see efficient thermal management in both automotive and industrial applications as a highly interesting technology and growth area. With an integrated Thermal Management business unit, we are targeting Group sales of EUR ten billion and a sustainably positive return on sales of over five percent in the medium term. You can read more about our Behr holding in the "Special" chapter of the annual report.

In research and development, our efforts to reduce CO₂ and optimize the combustion engine led to further successes. Our downsizing engine as a technology demonstrator was able to underpin its consumption savings potential of more than 30 percent in impressive style while delivering an emotional driving experience. Our increased expenditure on development in the areas of mechatronics and controlled engine accessories led to impressive series commissions, which will make considerable contributions to sales and profit from 2012/2013. We were also able to achieve further successes in our 50/50 joint venture Bosch Mahle Turbo Systems with Robert Bosch GmbH for the development and production of exhaust gas turbochargers. In the second half of 2010, we succeeded in acquiring new series projects in the commercial vehicle/off-highway segment.

At this point, I would like to thank all partners, customers, and suppliers for their trusting cooperation in turbulent times. On behalf of my colleagues on the Management Board, I would particularly like to thank all the employees and managers of the MAHLE Group in all regions of the world, who have helped us to overcome a crisis situation of unprecedented proportions by demonstrating personal commitment even in difficult times.


Heinz K. Junker





01 //

THE COMPANY

INTAKE MODULE WITH INTEGRATED INDIRECT CHARGE AIR COOLING //

// THE DOWNSIZING OF COMBUSTION ENGINES PLACES THE HIGHEST DEMANDS ON THE FRESH AIR PATHWAY. IT HAS TO COPE WITH HIGH CHARGE AIR PRESSURES AND TEMPERATURES. THE INTEGRATION OF BEHR'S INDIRECT CHARGE AIR COOLER INTO MAHLE'S INTAKE MODULE GIVES OPTIMAL RESULTS IN TERMS OF PACKAGING, PRESSURE LOSS, COOLING, AND ENGINE RESPONSIVENESS.

GROUP ORGANIZATION //

// The growing importance of the Industry and Aftermarket activities prompted us to expand the Group organization from two to four business units during the course of the year. The new “Industry” business unit was formed by bringing together MAHLE’s existing industrial activities in Filtration and Engine Components and the Thermal Management activities of MAHLE Behr Industry, which were fully consolidated in the middle of the year.

Sales and Application Engineering

Advanced Engineering

BUSINESS UNITS

Engine Systems and Components

Aluminum pistons for gasoline and diesel engines, articulated and steel pistons for commercial vehicle engines, piston assemblies, and complete power cell modules.

Piston rings, piston pins, connecting rods, cylinder liners, bearings, and bushings for combustion engines and other automotive applications, piston inserts.

Complete valve train systems and their components, camshafts, valves, and valve actuating components.

Filtration and Engine Peripherals

Air intake systems with integrated charge air cooling and air filtration systems for gasoline and diesel engines. Exhaust gas recirculation systems with integrated exhaust gas cooler as well as numerous mechatronics components and systems, cylinder head covers with integrated oil mist separation. Active and passive oil mist separator systems with pressure-regulating valves for crankcase ventilation.

Oil filter modules, oil pan modules, thermal management modules, oil and fuel spin-on filters, fuel filter modules, fuel pressure regulators, inline fuel filters, BlueDrain® systems, activated carbon canister modules, transmission oil filter modules, controlled oil and coolant pumps, heat exchangers for engines and transmissions, hydraulic oil filters.

Industry

Filters and filtration systems, liquid separation, and dedusting for multiple applications in marine technology, for large engines, for power generation, for wind energy plants, in process technology, and in general industry.

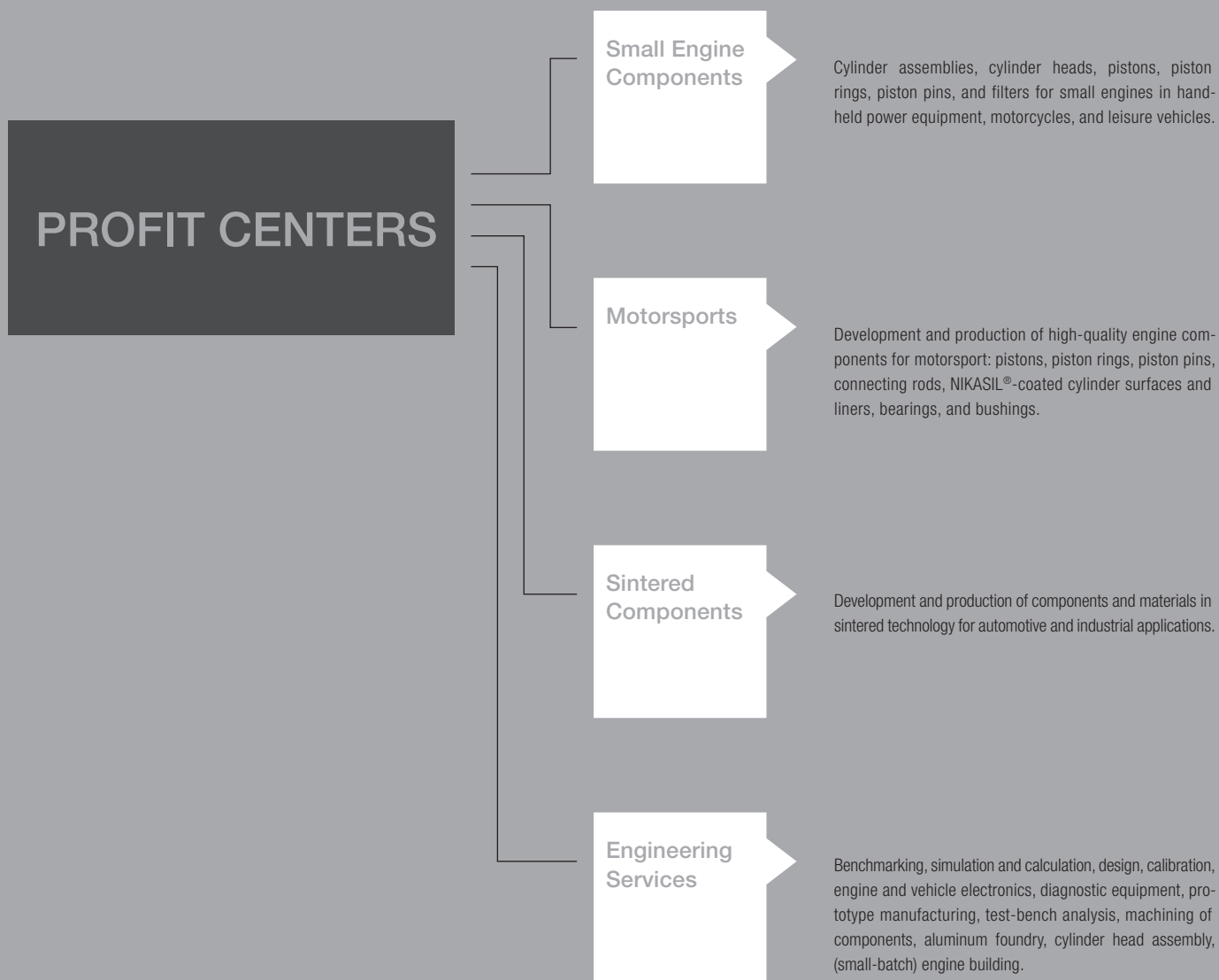
Pistons, piston pins and rings, cylinder liners, valve train components, camshafts, and bearings for large engines for marine, railway, and industrial applications, as well as for energy production.

Cooling systems for a diverse array of vehicles such as trains, ships, buses, construction and agricultural machinery, aircraft, and special vehicles, and cooling applications for gensets as well as wind and solar installations. Air conditioners and complete air-conditioning systems for agricultural and construction machinery, buses, and special vehicles.

Aftermarket

Products for vehicle maintenance and engine repair for passenger cars, motorcycles, transporters, commercial vehicles, stationary engines, and agricultural and construction machinery: pistons, piston rings, cylinder liners, piston assemblies, bearings, valves, valve guides, and valve seat inserts. Air filters, cabin air filters, oil filter elements, spin-on oil filters, fuel filter elements, spin-on fuel filters, inline fuel filters, hydraulic oil filters. Engine gaskets. Exhaust gas turbochargers and turbocharger add-on kits. Mechatronics components and systems. Supplementary ranges.

The Aftermarket activities were changed organizationally from a profit center into a business unit. The Engine Systems and Components as well as the Filtration and Engine Peripherals business units remain unchanged. The Small Engine Components, Motorsports, Sintered Components, and Engineering Services profit centers operate alongside these units.



MANAGEMENT COMMITTEE //

Wolfgang Breuer

Member of the Management Board
Business Unit Filtration and Engine Peripherals

Dr. Michael Matros

Member of the Management Committee
Business Unit Industry

Michael Glowatzki

Member of the Management Board
Human Resources, Legal

Prof. Dr. Heinz K. Junker

Chairman of the Management Board and CEO
Profit Center Engineering Services,
Research and Advanced Engineering,
Corporate Planning, Corporate Communications





Arnd Franz
Member of the Management Committee
Business Unit Aftermarket

Dr. Rudolf Paulik
Member of the Management Board
Business Unit Engine Systems and Components,
Profit Centers Small Engine Components,
Motorsports, Sintered Components;
Corporate Quality Management

Dr. Bernhard Volkmann
Member of the Management Board
Chief Financial Officer
IT Services, Insurances, Internal Audit

Dr. Jörg Stratmann
Member of the Management Committee
Sales and Application Engineering

INSIDE

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MAHLE WORLDWIDE //



EXPLANATION //

Locations as at April 2011

Production locations
 R&D centers



Germany
Albershausen
Barsinghausen
Brattendorf
Eislingen/Fils
Fellbach
Flintbek
Freiberg
Gaildorf
Hamburg
Leibertingen
Lorch
Markgröningen
Öhringen
Plettenberg
Reichenbach
Roßwein
Rottweil
Schorndorf
Stuttgart
Wölfersheim
Wustermark
Zell im Wiesental

Poland
Krotoszyn

Slovakia
Dolný Kubín

Turkey
Gebze
Izmir
Konya

Romania
Timisoara

Austria
Mattighofen
Rankweil
St. Michael ob Bleiburg
Vöcklabruck
Wolfsberg

India
Gurgaon
Maraimalaiagar/Chennai
Parwanoo
Pithampur
Pune

China
Changchun
Chongqing
Guangzhou
Macheng
Nanjing
Shanghai
Tianjin
Yingkou

Thailand
Bangkok
Samutprakarn

Korea
Hwasung
Ulsan

Japan
Fukushima
Ibaraki
Kawagoe
Okegawa
Tochigi
Tsuruoka
Yamagata

Philippines
Cavite

Australia
Laverton North/Melbourne

REFERENCES //

// All automobile and engine manufacturers worldwide are customers of MAHLE.
 Here is an extract of our original equipment references.

ABB	Chery	FAW-Volkswagen
AGCO	Chevrolet	Ferrari
Alfa Romeo	Chrysler	FIAT
Alpina	Citroën	Force Motors
Alstom	CLAAS	Ford
AMG	CNHTC	Freightliner
Ashok Leyland	Cummins	Fuso
Aston Martin	Dacia	Gamesa
Audi	DAF	GAZ
AvtoVAZ	Daihatsu	GE Transportation
BAE Systems	Dalian Diesel	Geely
Bajaj	Detroit Diesel	General Dynamics
Beiqi Foton	Deutsche Bahn	General Motors
Bentley	Deutz	GMDAT
BMW	Dodge	Great Wall
Bombardier	Dongan	Harley-Davidson
Bombardier-Rotax	Dongfeng	HATZ
Brilliance	Doosan Infracore	Hindustan Motors
Bugatti	DPCA	Hino
Buick	Ducati	Hitachi
BYD	EADS	Holden
Cadillac	Eicher Motors	Honda
CAF	Embraco	Hummer
Case	EMD	Husqvarna
Caterpillar	Escorts	Hyundai
Changan	EvoBus	Hyundai Heavy Industries
Chaoyang Diesel	FAW	Infiniti

Irisbus	MWM	Smart
Isuzu	MWM International	SsangYong
IVECO	Navistar International	Star
Jaguar	Neoplan	Steyr
JCB	New Holland	Stihl
Jeep	Nissan	STX
Jinan Diesel	Nissan Diesel	Subaru
JMC	Opel	Sullair
John Deere	Otosan	Suzuki
KAMAZ	Paccar	SVW
Kia	Perkins	Tata Motors
Komatsu	Peugeot	Tecumseh
Krauss Maffei	Piaggio	Teledyne Continental Motors
Kubota	Polaris	Tognum
Lamborghini	Pontiac	Toyota
Lancia	Porsche	Triumph
Land Rover	Proton	Vauxhall
Lexus	Qingling Motors	Vestas
Liebherr	Renault	VM Motori
Liuji	Renault Trucks	Volkswagen
Lycoming Engines	Rheinmetall	Volvo
Mack Trucks	Rolls-Royce	Volvo Penta
Mahindra & Mahindra	Rotax	Volvo Powertrain
MaK	Saab	Volvo Trucks
MAN	SAIC	Vossloh
MAN Diesel & Turbo SE	SAME	Wärtsilä
Maruti Suzuki	Samsung	Waukesha Engine
Maserati	Scania	Weichai Power
Maybach	Scion	Wuxi Diesel
Mazda	SEAT	Yamaha
McLaren	SEMT	YaMZ
Mercedes-Benz	SGM	Yangzhou Diesel
Mercury	SGMW	Yanmar
Mini	Shanghai Diesel	Youngman
Mitsubishi	Siemens	Yulin Diesel
Mitsubishi Heavy Industries	Sisu	Yunnei
MTU	Škoda	ZMZ

STRATEGY //

// An interview with Prof. Dr. Heinz K. Junker, Chairman of the Management Board and CEO

Following the acquisition of a share in Behr, MAHLE is aiming to double its sales in the medium term. The product ranges of the Stuttgart suppliers complement each other extremely well.

Complementary product ranges

Prof. Junker, you believe that CO₂ emissions can be reduced by 30 to 35 percent with an optimized combustion engine. MAHLE is also investing in other technologies to reduce fuel consumption. What role does the acquisition of shares in the Behr Group play in this context?

With an optimized combustion engine, I believe this potential can be realized through conventional methods. These include further downsizing, reduction of friction, variable engine accessories. To achieve the EU target of 95 g CO₂ per km by 2020, we also require various levels of electrification up to the plug-in hybrid for larger vehicles or the use of range extenders for smaller vehicles. However, the critical aspect of each electrification level is the battery, which—for a variety of reasons—requires complex thermal management, i.e., heating and cooling. Behr is well-positioned in this respect. In addition, Behr is currently developing other products for partially electric vehicles, as thermal management both of the power train and for heating and cooling the passenger compartment is becoming considerably more challenging.

The product ranges of MAHLE and Behr complement each other. Which areas are we talking about and where do you see further potential?

We're talking about intake modules with integrated indirect charge air coolers, complete exhaust gas recirculation modules with cooler and valve, oil filter modules with cooling and heating functions, and HVAC modules with specially designed cabin air filters. In addition, the advanced engineering departments will soon take steps to coordinate their future projects and integrate new product ideas and development processes.

By acquiring a participation in Behr, MAHLE is also responding to the increasing importance of alternative drive systems. In the medium term, you envisage a combined sales potential of ten billion euro. Could you explain that to us?

MAHLE and Behr are already set to achieve combined sales in excess of nine billion euro in a pro forma calculation in the next business year. I believe ten billion euro in the medium term is a rather conservative target.

MAHLE Industry

The new Industry business unit is made up of parts of MAHLE and MAHLE Behr Industry. Is this new unit more than the sum of its parts?

Of course, the new business unit is more than the sum of its formerly individual parts, particularly following the integration of the Thermal Management division MAHLE Behr Industry. In the past, the individual divisions, which were organized as profit centers within the Group, acted very independently of one another. In the future, there will be cross-disciplinary cooperation between these divisions. This will create obvious synergy effects and cross-selling opportunities, which were not sufficiently exploited in the past.

The merger shows once again what great potential there is for MAHLE in industrial activities. How will MAHLE expand the business unit over the next few years?

We see considerable growth potential for the Industry business unit and thus for the Group as a result of the merger of the individual divisions. Once again, in the medium and long term, we are aiming to double our

sales. If we are to do this, however, we need a considerably stronger international focus, as the industrial activities are still heavily focused toward Germany and Europe, in contrast to our automotive activities. We recently started production in China and India, and we are already active in the USA and Brazil. There are plenty of future-oriented areas of application for our products and systems: decentralized energy supply, as well as rail, water, and air transport, to name just a few.

Corporate culture

With around 16,500 employees, Behr has a smaller workforce than MAHLE. How would you characterize the corporate cultures of both companies? How will they be brought together?

With around 16,500 employees, Behr is a large, globally positioned company in the automotive supply industry and is even a few years older than MAHLE, with a history stretching back 105 years. There are differences in the corporate cultures, even just in terms of the history. One is a company that was set up as a stock corporation as early as the mid-1960's, and whose nonvoting primary shareholder is a nonprofit foundation, and the other is a partnership with the majority of shares under family ownership. In the past, however, having completed several successful acquisitions, MAHLE has shown that we can handle cultural differences well and start integration processes relatively quickly. For example, in December of last year, we held an integration day with around 120 executives from MAHLE and Behr, and formed specialist groups that will start cooperating at all levels and in all regions of the world. I think that MAHLE's corporate culture, which is based on sustainability and a long-term approach, as well as on technological leadership and a focus on demanding economic criteria, and which is accompanied by a de-

gree of modesty both internally and externally, is a guarantee of success for all employees and for the Company itself.

Both companies have their headquarters in Stuttgart. What advantages does the geographical proximity bring?

Our geographical proximity in Stuttgart does have its advantages, naturally. Almost every day, there are joint meetings involving various working groups. However, the same thing also happens in Detroit, Tokyo, Shanghai, and São Paulo. All regions play a similarly important role in this integration process.

Acquisition in stages

The acquisition of the majority share is taking place in three stages, for accounting reasons. What are the details of these stages? Could you explain the background to this?

The acquisition is being made in stages for the simple reason that we do not want to be overstretched financially by taking this big step. We have set ourselves some financial and accounting criteria that we want to maintain, and which will allow us to remain financially very stable even after acquiring the majority share. There have been enough negative examples in recent times and we do not want to be the next.

What advantages does the acquisition of Behr bring?

We will be able to significantly expand our product portfolio in efficient thermal management, for industrial as well as automotive applications.

What will change for the customers of the two suppliers?

Added value will be created for our customers, because, in many cases, they will be offered function- and cost-optimized systems environments from MAHLE and Behr in the future.

Global market leader

MAHLE and Behr already rank among the globally leading suppliers in their segment. How will the companies be positioned in the global market following the merger?

Sales volume alone does not mean much; there's no such thing as "too big to fail" in our industry. This has been illustrated over the past few years during the crisis, with a series of very large companies falling into insolvency and having to be rescued by the government. For us, the industrial logic needs to be sound. And, in this case, it is. We have complementary product portfolios and we want to be among the top 3 suppliers in the world in everything we do. For some time, this has not only been MAHLE's strategic approach, it has been implemented in practice. We also hope to achieve this goal as soon as possible at Behr, as the technological requirements have already been fulfilled.

CORPORATE CITIZENSHIP //

// Taking responsibility in the social sphere and becoming actively involved in ecology and culture for the long term – for MAHLE, these are important aspects of entrepreneurial activity. The MAHLE Foundation and our own MAHLE employees are continually expanding their commitment.



The holistic orientation of the Filderklinik is also reflected in the architecture and the whole human and spatial experience.

As founders, the entrepreneurs Hermann and Dr. Ernst Mahle contributed actively and sustainably to social welfare. Since 1964, the MAHLE Foundation has fulfilled its mandate with a high level of commitment. It sponsors innovative projects in the areas of health care, youth development and welfare, schooling, general adult and vocational education, and biodynamic farming.

Anthroposophical therapies at the Filderklinik

In Germany, three large acute care clinics treat patients using anthroposophical methods. One of them, the MAHLE Foundation's main funding project, is located south of Stuttgart: the Filderklinik in Filderstadt-Bonlanden. The hospital for acute and holistic medicine is equipped with state-of-the-art technology and has a special place in the clinical landscape. It combines conventional medicine with proven alternative therapies in a unique way. The focus is on relationship-centered medicine, in which physicians, nurses, and therapists consider their patients as competent partners. Besides patients from the surrounding area, more and more people from further afield are choosing to stay at the Filderklinik.

Biodynamic farming and health promotion

Since it was established, the MAHLE Foundation has been an advocate of biodynamic farming (products which are marketed under the "Demeter" quality label throughout the world). For example, the Foundation sponsors "Save our Seeds." Through this initiative, the Berlin office of the Foundation on Future

Farming (Zukunftsstiftung Landwirtschaft) promotes GMO-free seeds. 200,000 citizens of the European Union and more than 300 nongovernmental organizations with over 25 million members now support the "Save our Seeds" cause.

The numerous activities we organize at our locations throughout the world show that MAHLE is dedicated to improving the living conditions of its employees and their families in a holistic way. These include health days and "eat healthy" initiatives in Austria, Germany, and Brazil, as well as new preventive checkups at the plants in the USA. Many employees are also involved in social aid programs or initiatives to support people living in poverty – through the United Way project in the USA, for example. Our employees and apprentices complete social work placements at centers for the disabled or organize Christmas campaigns, with the proceeds going to funding institutions or training centers in Africa.

Holistic education

The MAHLE Foundation has also entered into reliable and sustainable partnerships with educational establishments, e.g., with FORUM Berufsbildung in Stuttgart. FORUM has developed a new educational learning culture for adult further vocational training. It does not aim to exclusively convey professional knowledge, but focuses on holistic adult education that is geared toward the personality of the individual as a whole.

Commitment in Brazil

Over the last four years, the MAHLE Foundation has intensified its activities in Brazil in order to supplement the already considerable number of social activities organized by MAHLE companies in Brazil. The aid program comprises a total of around 70 individual projects. The work is carried out by the Company's own nonprofit association in São Paulo—"ASSOCIAÇÃO BENEFICENTE MAHLE" (ABM). One of our particularly important aims in Brazil is to promote govern-

ment recognition of anthroposophical medicine through the Brazilian Ministry of Health. Another area of focus is the sponsorship of the "Alliance for Childhood." Teachers, parents, specialists, and politicians work together in this network to ensure that children from poorer families have the chance of a proper childhood education.

The first joint project of the MAHLE Group and the MAHLE Foundation was undertaken in Brazil with the maternity unit at the Santa

Casa de Misericórdia public hospital in Itajubá. The foundation for an international, interclinic collaboration was laid in September 2010 with the visit of Brazilian physicians to Filderstadt.

Helping young people obtain qualifications for work

Our Brazilian company also runs seven MAHLE FORMARE schools. These are not only financed by Group funds but are also supported by a large number of employees. They volunteer to provide vocational training and sponsorship for underprivileged young people. During the year under report, 124 students obtained a qualification, with around 800 young people having been successfully prepared for working life since the program started. At the beginning of the year, our employees in Stuttgart had the chance to enjoy a very special evening at MAHLE INSIDE. Camerata Ivoti, a Brazilian youth orchestra, performed at MAHLE for the third time during a concert tour in Europe. In this way, the musicians were able to thank MAHLE for the support in the form of scholarships and the purchase of instruments.

These diverse initiatives prove once again how the Group, together with the MAHLE Foundation, takes sustainable measures to improve living conditions in the areas surrounding its locations. In addition to the larger, institutionally-backed initiatives, there are many small activities that join together as a network in order to fulfill our social responsibility, following the example of the Company's founders.



The MAHLE Foundation supports the "Save our Seeds" initiative, which promotes the preservation of GMO-free seeds.



The Camerata Ivoti youth orchestra from Brazil, sponsored by MAHLE, as guests in MAHLE INSIDE during their European tour.

HUMAN RESOURCES //

// In 2010, MAHLE successfully continued the restructuring of the Company. The headcount rose once again in comparison with 2009. In order to remain attractive to specialists and managers in the future, MAHLE worked on developing a new image as an attractive employer.

The economic situation developed very differently in the various regions of the world in 2010. Strong upward movements in Asia and South America offset the subdued dynamics in Europe and North America. The implementation of the restructuring and cost reduction measures initiated in 2009 had to be continued in these regions. Once again, this created big challenges for our employees and managers, which were overcome with a high level of commitment and discipline. At the end of 2009, the MAHLE Group employed a total of 43,489 people, with the figure increasing to 47,457 employees by the end of the year under report. This reflects, firstly, the effect of the first consolidation of MAHLE Behr Industry and, secondly, the rise in capacity requirements triggered by the increased sales.

Successful restructuring and cost reduction programs

The reorganization of our Company structure necessitated by the crisis, which most visibly led to the five former product lines being combined into two business units, was continued successfully. On July 1, 2010, MAHLE formed a new business unit with three divisions, which comprises the activities of MAHLE Behr Industry as well as the former Large Engine Components and Industrial Filtration profit centers. In addition, the Aftermarket profit center was converted into a business unit. This development attests to the increased significance of industrial and

aftermarket activities for MAHLE as well as the decisive and forward-looking attitude of the Company's management.

The location consolidations initiated in the previous year, the measures to adjust staffing levels, and the improved capacity utilization of the production plants in the course of the year led to efficiency increases and cost reductions in all regions. For example, we made adjustments at our locations, particularly in Europe and the USA, in light of the new market and capacity requirements. This meant that we were largely able to reduce the capacities through socially responsible personnel measures, which included the intensive use of short-time work in all areas in the first half of the year. In addition, we were able to offer a large number of employees alternative employment at other plants. At the same time, large groups of employees from the affected plants in Italy, Austria, and Germany used their period of short-time work to obtain qualifications and prepare for taking on new tasks. The fact that the adjustment measures were implemented successfully was very much related to the cooperation of the employee representatives and unions. In the second half of the year, as a result of the restructuring and cost reduction measures, we were able to reduce the personnel costs ratio back to the level achieved before the financial and economic crisis.

Thanks to the trusting and intensified communication between the Management Board, executives, and employees, we were able to sustain dialog in order to successfully convey information regarding the changes, which were often perceived as drastic by those affected. This allowed us to maintain effective decision-making as well as high levels of motivation and energy within the Company. As a communication platform, our executive meetings played an important part in our efforts to overcome the crisis, and the range of topics addressed was expanded. Topics such as future power train technologies, new products, and a comparison of key figures with those of competitor companies featured prominently.

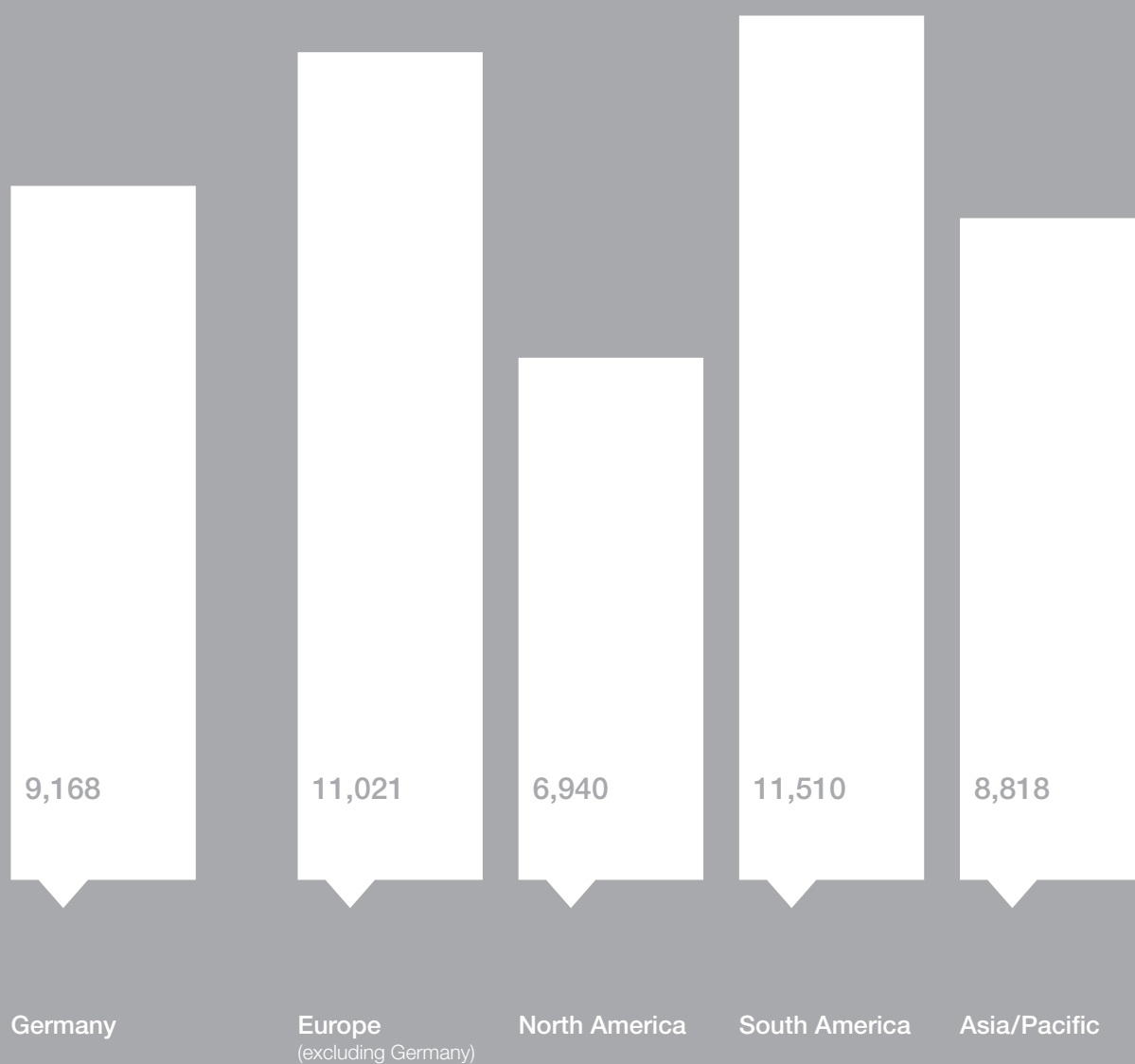
MAHLE's employer brand

The demographic conditions and requirements placed on specialists and managers will continue to change. Our personnel marketing activities therefore focused on establishing MAHLE as a strong employer brand. The aim of these activities was to raise awareness of MAHLE among highly qualified potential employees and help to attract them to the Company. In cross-functional, cross-location workshops, specialists and managers addressed the question of what makes MAHLE special and unique as an employer. They identified characteristics, such as a strong international orientation, a diverse array of development opportunities, broad working scope, an open culture based on dialog, and the strong motivation and dedication of the employees.

47,457

EMPLOYEES WORLDWIDE

as at Dec. 31, 2010





MAHLE traditionally places a high value on initial vocational training. Candidate retention often begins in schools or, as pictured here, at the "Girls Day 2010," which aims to spark girls' interest in technical occupations.

On the basis of these values, we are developing a communication concept for the MAHLE employer brand, built around the message "It's all about the drive. And what drives you?" The concept combines the technical expertise of MAHLE with the passion and enthusiasm of our employees, and shows what makes MAHLE unique as an employer. This will give potential employees—both specialists and managers—a strong impression of our products, our mission, and our Company, and will help us, in the long term, to attract and retain competent and committed employees. The concept has been incorporated in all channels of our applicant communication: advertisements in print and online, employer brochures, the MAHLE careers pages on the website, and stands used at recruiting events.

We consistently expanded the Key University Program, in which we collaborate with selected universities. For the first time, students at these universities were eligible to receive MAHLE awards and scholarships. In December, a "MAHLE Day" was held for the prizewinning students, where they were able to meet our specialists and get to know the Company better.

Training—a foundation for the future

At MAHLE, initial vocational training continues to play an important role. Following the crisis, however, our recruitment focus had to be brought into alignment with future requirements. We therefore increased the number of students at Universities of Cooperative Education and in the field of mechatronics in order to support our business segment strategies. At the end of October, a total of 470 (previous year: 432) young people and retrainees were undergoing initial vocational training in Germany, including the newly added apprentices at MAHLE Behr Industry.

We place a high value on ensuring the maximum possible vertical mobility in our training schemes. Outstanding training qualifications lay the foundation for further courses of study. We allow the best MAHLE apprentices to gain further qualifications at Universities of Cooperative Education by awarding scholarships and offers of employment. MAHLE also supports its employees in other countries in obtaining further qualifications. In Austria, a special class was formed in close cooperation with a Technical School, with a specifically tailored schedule that allows skilled workers to participate in

courses lasting several years. At our Yingkou location in China, we expanded our collaboration with Northeast University, which was started in the previous year, to organize technical training courses for our employees and assist them in obtaining further qualifications.

Qualifications and talent development

In many countries, MAHLE has made consistent use of the underutilization of capacities or periods of short-time work in order to provide systematic further training for its employees and thus build potential for its future success. At the plant in St. Michael/Austria, we familiarized managers and so-called "value stream leaders" with the requirements of the new segment organization via several modules. In Brazil, 55 employees took part in technical courses for our foundries. The training centers have been authorized by the Ministry of Education and award a generally accepted final qualification.

The development programs designed and expanded in previous years were also continued. The Executive Development Program (EDP) for the Group's top executives, suspended in 2009, was resumed in the second half of the year. The jointly developed programs for talent promotion in China and for the Europe and North America regions were continued and brought to a successful conclusion.

The biggest project was the development and introduction of the MAHLE Talent Management System (MTMS). A Group-wide international working team adapted a software application to our requirements in order to create a database of the high-potential employees at all hierarchical levels and document their portfolios. In the future, we will therefore be able to provide even more systematic support for succession planning and the search for suitable candidates to take on additional tasks. The system has been set up as a transparent and cooperative instrument that can not only be used for central planning purposes but also improves the relevant recruitment processes in order to increase the number of internal

successors in the various regions. All managers have the opportunity to enter certain details online regarding their regional mobility, qualifications, and professional goals.

Reconciling family and career

In September of the year under report, the corporate day-care center for children of employees in Stuttgart was officially opened during a small ceremony. It provides space for a total of 40 children and assists our employees significantly in order to balance career and family. We have also made numerous efforts in other areas to maintain contact with parents and ensure a smooth return to working life. This may be through part-time work options, teleworking, or participation in qualification activities, or may simply involve sending the parents our employee magazine in order to maintain contact and help them to stay in touch with the Company's development.

Commitment and confidence

The economic recovery, which gained strength toward the middle of the year in all major regions, allows us to focus more intensively on innovative and future-oriented topic areas again. The fact that we are able to move full steam ahead with these activities after the crisis is due to the commitment of our employees, executives, and employee representatives. We would like to express our appreciation to all of them. As future challenges arise, we will continue to put our faith in the motivation and qualification of our employees. Finally, they determine the success and future of our Company.



MAHLE Performance Awards at our key universities make students aware of MAHLE as a possible employer at an early stage—an example of the intensified contact as part of our personnel marketing program.



The Executive Development Program (EDP) brings together top executives from numerous countries. The aim is to allow the executives to exchange experience with one another and absorb up-to-date management knowledge.

QUALITY //

// Prevention is better than cure, checking better than correcting. MAHLE's quality management focuses heavily on prevention, which allows us to continuously improve the quality in our product development and series production.

A question of perspective: if the pace increases during a race while your own car stays at the same speed, you feel as if your vehicle is slowing down. The same goes for quality in the business environment. If you merely stay at the same level, you fall behind. Quality is a competitive factor and so MAHLE aims to increase it year after year. This applies to all product development processes as well as series production. We see quality management (QM) as an indispensable element of our Company-wide management system. A globally networked team of quality managers constantly develops the corporate standards in the individual business units and profit centers, as well as in the areas of Purchasing, IT, Sales, and HR. They identify potentials for improvement, define Group-wide rules and processes, and implement these into quality management. Moreover, they initiate improvement projects in the context of the annual budget and are responsible for QM controlling.

Quality assurance in new customer projects

When carrying out quality assurance for new customer projects, we are guided by the knowledge that the earlier a defect is detected, the lower the resulting costs are. In order to prevent defects rather than taking expensive measures to correct them, we use the worldwide standard "Prevention APQP" (APQP = Advanced Product Quality Planning). We detect possible defects at an

early stage and include supplied parts in this process. Of course, we also test the solutions used, the production process itself, and our defect detection tools and processes. We also subject all these measures to a long-term performance test.

Quality assurance in series supply

In order to continuously improve quality in our series production, we launched the "Imp-Act" quality program. This is another area in which we have adopted a strategy of prevention rather than correction. The next step is for us to examine how prone to defects each individual production process is, on the basis of key figures. We also test the quality assurance itself, e.g., by ensuring that our employees conduct regular internal audits. In addition, we monitor the number of internal and external customer complaints extremely closely. By conducting an in-depth root cause analysis, we prevent customer complaints from recurring.

Continuous improvement

After testing the "Imp-Act" quality program in eight plants from the Europe, North and South America, and Asia/Pacific regions in pilot projects during the year under report, we are currently incorporating ideas and suggestions for improvement from employees. We have collected all other measures to improve all our business processes in our "Master Plan," which is binding for all QM departments. This comprehensive document is compiled annually, and adjusted or expanded in the meantime if necessary. The more informative we make the "Master Plan," the more effectively it supports us in our continuous improvement and in planning and controlling the improvement process.

Standardized improvement process

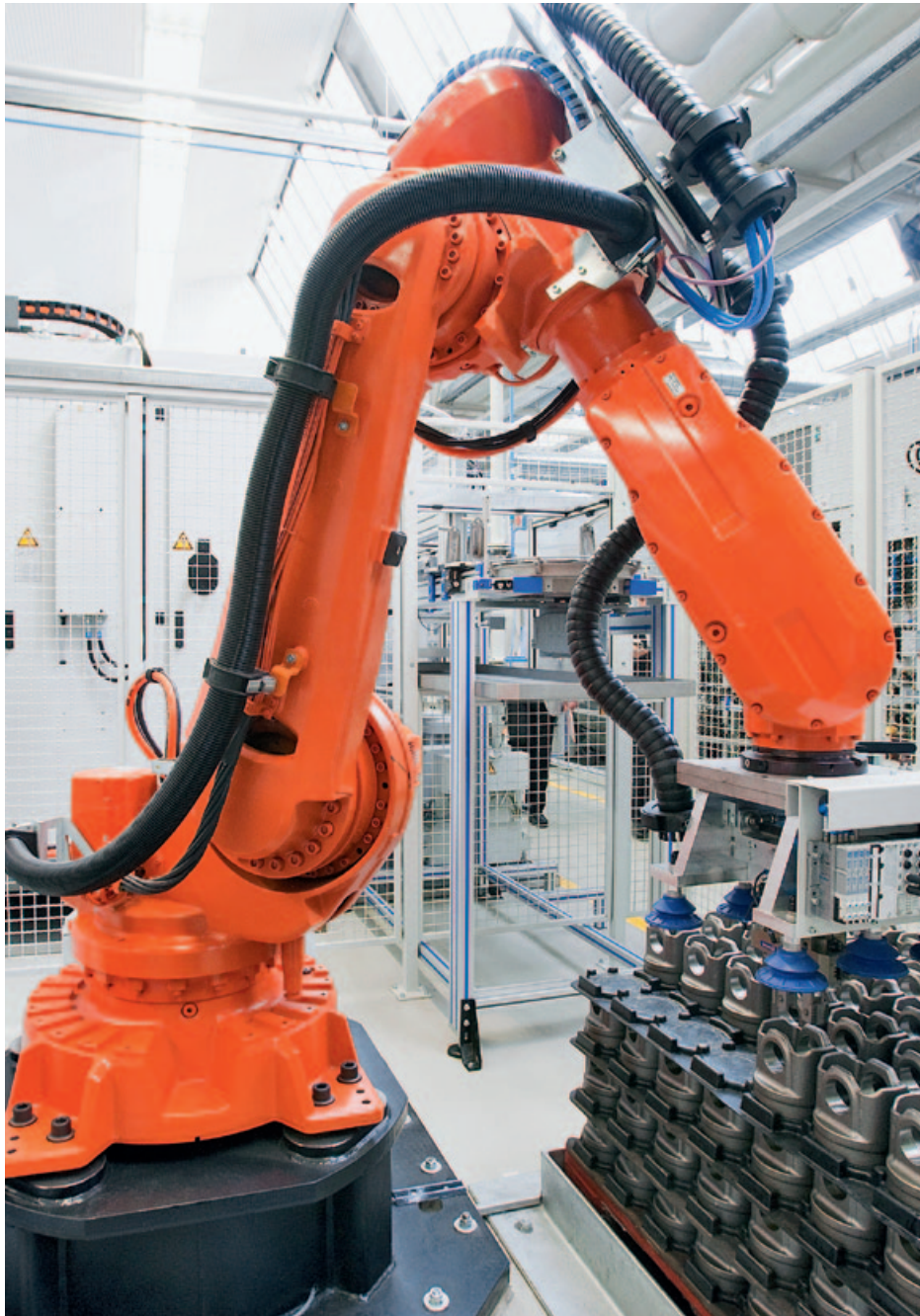
In order to plan and control progress in the improvement process more effectively, the process is always set up identically for all projects, comprising five phases. In the first step, we agree on the problem and goals. Then the solution concept, including the employees involved and the budget, is specified. The individual measures are defined in a detailed, approved action plan. The next step is the implementation, including a performance test for all measures. Finally, we examine the effectiveness of the whole project and ensure that the financial goals have also been achieved. Measures that have proven successful are incorporated into the internal Group standards.

Quality program rolled out worldwide

We are well-prepared for the coming year. The processes and tools for the "Prevention APQP" standard have been revised on the basis of the lessons learned from the last two years and will be reintroduced in 2011. Following the successful pilot projects for the "Imp-Act" quality program, we will now roll this out across the Group. The introduction

of the "Master Plan" for planning and controlling continuous improvement proved successful in 2010 as a best practice example in other development locations and production plants, and will be rolled out further in 2011. All these measures aim to further increase the quality of new production ramp-ups for customer projects and the delivery quality in series production. We have put ourselves in

an outstanding position. The competition may step on the gas but, whatever the pace, we always want to be right up there with the front runners.



At the MAHLE plant in Rottweil, piston blanks are extracted by robots. A camera is installed in the robot arm to check the parts for geometry, position, and orientation.

ENVIRONMENT //

// In terms of the environment, MAHLE's focus in 2010 was primarily on standardization. For instance, we developed a central IT solution for hazardous substance management and established uniform HSE standards.



At the Fellbach plant, a waste water treatment plant ensures efficient cleaning of waste water. The sludge is treated using a sludge thickening process and the plant also makes use of batch systems with automatic clear water extraction and an ion exchanger circulation system in order to produce 100 percent recyclable waste sludge and fully neutralized waste water. The expensive and complex process helps to prevent environmental pollution and conserve valuable water resources.

Since 2007, the REACH Regulation (Registration, Evaluation, Authorisation of Chemicals) has governed the handling of chemicals across the EU—in their pure form, as preparations, and in products. Under the chemical regulation, MAHLE is obliged to inform customers promptly if its products contain Substances of Very High Concern (SVHC) as identified by the European Chemicals Agency (ECHA). This classification process is dynamic. The Candidate List currently includes 46 substances. Every six months, further substances are added. According to estimates, up to 400 substances will eventually be included. As there are a number of additional rules regarding chemicals in addition to the REACH

regulations, MAHLE opted for a new IT solution in 2010 that allows us to check our products continuously against all requirements. This ensures that we always fulfill all legal and customer requirements.

Central hazardous substance management
MAHLE has also developed a new central IT solution to manage and document the use of hazardous materials and supplies. Until now, the individual locations have used different applications for the same cases, making a uniform approval and archiving process impossible. The central solution brings numerous advantages for the future:

- The necessary data for every substance used are available at the touch of a button.
- If the use of a certain substance is restricted or prohibited in the future, it is possible to determine, with little effort, which locations and which processes are affected.
- The new IT solution reduces the product number of materials and supplies used by approximately 30 percent.
- An up-to-date hazardous substance register can very easily be compiled for the individual locations.
- All locations in Europe can adopt the solution.

Uniform HSE process structures

In 2010, MAHLE also began standardizing its Health, Safety, and Environment (HSE) activities. Uniform standards for documenting all processes in these areas are being introduced worldwide. The HSE processes Prevention, Change Management, and Risk Management, as well as HSE Controlling, have already been integrated into the Group's business processes. The new structure systematically prevents negative effects on people and the environment—from the advanced development phase for new products and production processes to ongoing production.

All major HSE tasks and programs are outlined in a guideline. This guideline is developed on an ongoing basis in the same way as the HSE management system and documentation, together with MAHLE's globally active HSE managers. In the future, with the experience of 15 years' HSE management, the Group will identify the best practices for the various tasks from its locations throughout the world and establish them as global standards.

Energy management

Energy management is not just about fulfilling the standard (DIN EN 16001:2009). The aim is to work energy-efficiently in all areas in order to maintain cost-effective production, particularly in view of the rising energy costs. In order for MAHLE to achieve this aim in the long term, the central Environ-

ment department in Stuttgart developed a cost-saving concept for the energy and environment sector in 2010. This concept focused on determining previously unidentified potential, making it usable throughout the Group, and thus helping to further reduce costs. Besides the topic of energy

management, the concept also covers knowledge relating to other environmental topics, such as fluid management, green IT, heating and burner technology, and process engineering. The results will be implemented from 2011.



At the St. Michael plant, an energy team has been appointed to formulate and implement improvements and savings in all areas relating to energy and the environment. For example, targeted workplace lighting has reduced the continuous load of the factory lighting, and additional energy has been saved through the use of low-power lamps.

RESEARCH & DEVELOPMENT //

// By coordinating activities centrally from Stuttgart, MAHLE is able to ensure that the same standards are applied in the research and development centers worldwide—for high quality at every location.

Combined knowledge for innovations

The eight MAHLE research and development centers in Germany, England, the USA, Brazil, Japan, and China combine expertise and operate test equipment that is available to all product divisions to ensure most effective shared use of the resources. The individual locations coordinate the distribution of tasks very closely with one another. By harmonizing simulation procedures, making targeted investments, and adjusting personnel and equipment to the relevant customer needs, we can optimize cooperation, avoid the duplication of effort, and safeguard the high quality of our work. All the necessary expertise is therefore on hand in every region where our customers develop engines. We are able to offer them a comprehensive portfolio: concept, design, simulation, engineering, prototype production, validation, calibration, as well as manufacturing and assembly of complete engines. At the research and development centers, activities also focus on formulating new testing methods to be used for validating new products and methods—such as dynamic online temperature measurement in a running engine, frictional loss measurement as a function of load and/or temperature, and fast, cylinder-selective measurement of oil consumption. This oil consumption measurement allows analyzing the effect of two to three different piston ring packs on oil consumption, depending on load and temperature, in a very short period of time on the basis of a single engine run.

The communication between the individual centers is optimally coordinated, with the center managers reporting to the relevant regional managers. The management of Corporate Research and Advanced Engineering in Stuttgart has functional authority for these activities. The personnel here coordinate the work and ensure that, throughout the world, the same standards are applied, practical knowledge is exchanged, investments are agreed, literature reviews

are optimized, and paper submissions and publications are harmonized. New developments, validated test procedures, and measuring instruments can thus be used immediately worldwide, thanks to the effective cooperation and coordination between the centers.



Networked research & development //

From Detroit to Tokyo: at the research and development centers, the same standards apply worldwide.



MAHLE technology demonstrator // Mid-range vehicles fitted with MAHLE's downsizing engine offer outstanding driving dynamics and emit significantly less CO₂ than conventional passenger cars.

In the area of land-based mobility, the main challenge for the future is to minimize the use of fossil fuels and, consequently, CO₂ emissions. At the same time, the demand for mobility will increase considerably in the future. In the long term, combustion engines, hybrid drives, and purely electric drives will line up alongside one another in the market. Purely electric drives will be primarily used in urban areas and in small vehicles because of the limited cruising range. Some of these vehicles will have a small combustion engine on board, which allows the battery to be recharged via a generator, thus expanding the cruising range. A larger proportion of vehicles will be equipped with hybrid technology, which will be available on the market with different electrification levels. For power trains with a combustion engine only, efforts will focus on the topics of detrotting, friction, and auxiliary drives.

The combustion engine, which—according to all forecast scenarios—will still provide the power for more than 90 percent of all vehicles in 2030, will continue to play by far the most dominant role in power train technology. For long-distance trucks in particular,

no viable alternatives to the combustion engine are anticipated in the future because of the cruising range required and the heavy working loads. For this reason, MAHLE's research and advanced engineering activities will continue to focus on further optimizing the combustion engine in order to further exploit the still existing potential for reducing CO₂ and fuel consumption. With this in mind, MAHLE consistently pursues three goals:

1. Smaller engines
2. Reduced losses
3. Lower emissions

1. Smaller engines

Smaller engines (downsizing engines) save a considerable amount of fuel because they run more efficiently. For gasoline and diesel engines, downsizing is one of the most important technologies for reducing CO₂ emissions in the future. As early as 2007, MAHLE set itself the goal of developing and constructing a consistently downsized engine to push the boundaries and demonstrate the maximum potential of this technology. A six-cylinder naturally aspirated engine with a displacement of 2.4 liters was to be replaced with a

three-cylinder turbocharged engine with a 1.2-liter displacement. Halving the displacement assures a 30 percent reduction in fuel consumption. This engine—developed with single-stage turbocharging—was produced in a limited number and fitted in various demonstrator vehicles, which were presented to a broad public in 2010. The new engine makes it possible to achieve benchmark values for maximum specific brake mean effective pressure or BMEP (30 bar), and for specific output (100 kW/L). This means that in a mid-range vehicle with a curb weight of around 1,500 kg, the fuel consumption in the New European Driving Cycle (NEDC) is just 5.8 L/100 km or more than 40 mpg, with outstanding driving dynamics. With this engine, we have developed a technological demonstrator that preempts future engines and already provides impressive proof of the potential of further innovations.



*CamInCam® camshaft //
 MAHLE has developed an adjustable exhaust camshaft to improve the responsiveness of the exhaust gas turbocharger. This achieves a level of performance that would otherwise only be possible with dual-stage turbocharging.*

The responsiveness of the exhaust gas turbocharger remains an important area for optimization of downsizing engines. MAHLE has worked intensively on this issue and, with the CamInCam® camshaft—an adjustable exhaust camshaft—offers a technically sound series solution for four-cylinder engines, which makes use of the pressure waves in the exhaust manifold to increase the responsiveness of the turbocharger. This technology results in a level of performance that would otherwise only be possible with dual-stage turbocharging.

Range extenders

Range extenders are smaller combustion engines that significantly increase the cruising range of vehicles with electric drives. Although the cruising range requirements for urban vehicles are low, driving situations may occur in which it is essential to recharge the battery. The combustion engine is combined with a generator so that the battery can be recharged when required, even while the vehicle is on the move.

MAHLE is currently developing a range extender that provides a power output of about 30 kilowatts, adequate for a lower mid-range vehicle. The most important criteria for a system of this kind are low costs, a compact size, low noise levels, and low fuel consumption. MAHLE selected a reciprocating piston engine with an integrated generator from several different possible

solutions. The engine has two cylinders in an inline arrangement and functions as a naturally aspirated engine in four-stroke mode. The displacement is 0.9 liters with two valves per cylinder. The generator integrated in the crankcase is designed as a disk rotor in order to save space. The first test-bench results indicate promising values, as defined in the specifications.

2. Reduced losses

By reducing or eliminating different sources of loss, MAHLE is able to noticeably increase the efficiency of the vehicle's power train. This improves its efficiency considerably and provides significant energy savings. Our engineers around the world are currently developing new products to address this issue.

MAHLE supplies complete intake systems—from the intake opening to the cylinder head. The pressure loss resulting from the higher air flow rates of turbocharged engines is minimized by using new filter media as well as resonators designed to reduce the charging noise. Charge air pipes with quick connectors were successfully put into series production this year. The integration of indirect charge air coolers in the intake section allows a smaller package, high cooling capacity, smaller crevice volume, and less pressure losses, which directly leads to better driving dynamics.

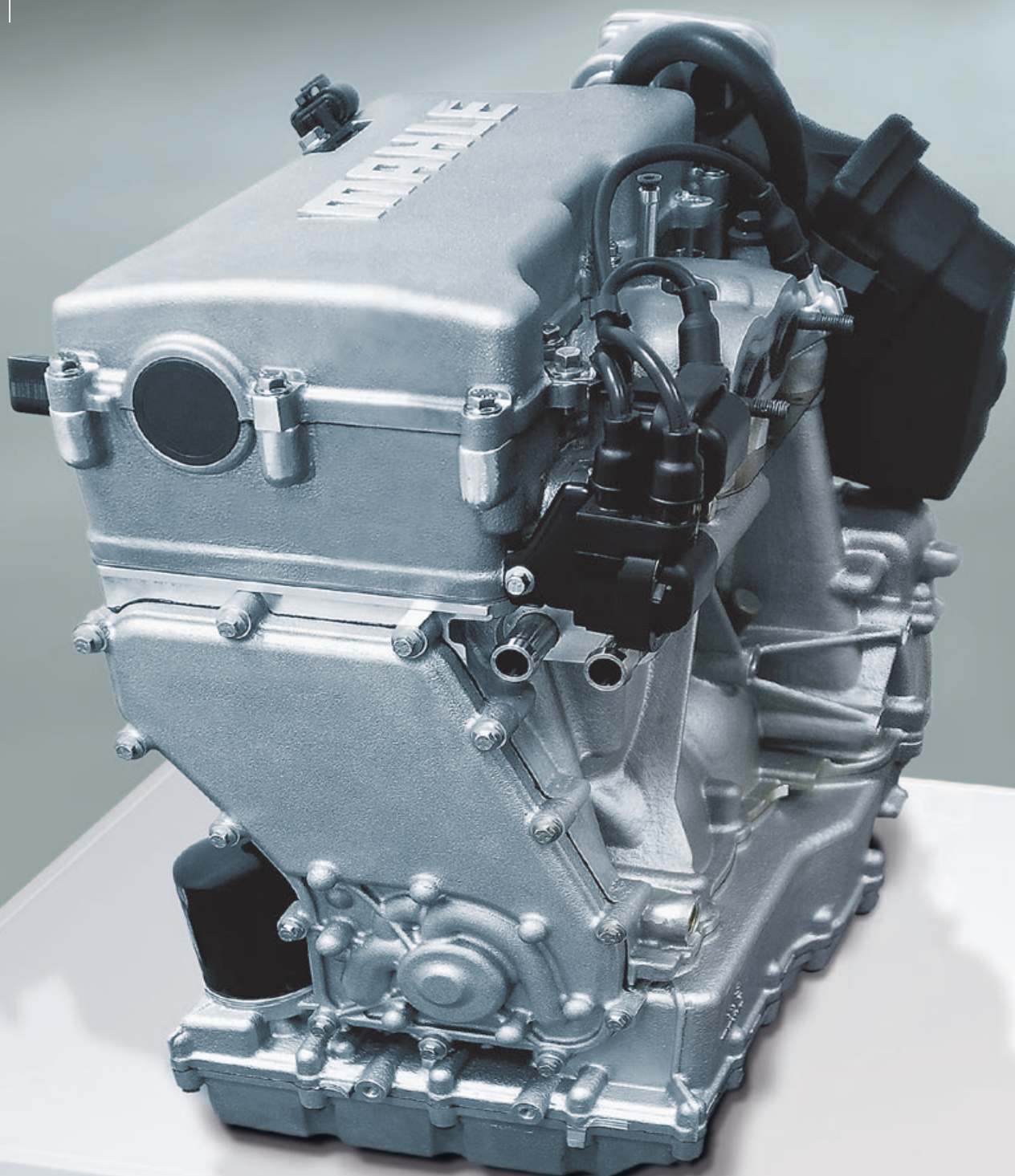
For the first time, the MAHLE electrical wastegate actuator on the turbocharger provides a cost-effective, fast, and precise actuating mechanism that controls the wastegate irrespective of the pressures occurring in the system and thus reduces pressure losses. This results in fuel savings of up to four percent with improved turbocharger responsiveness.

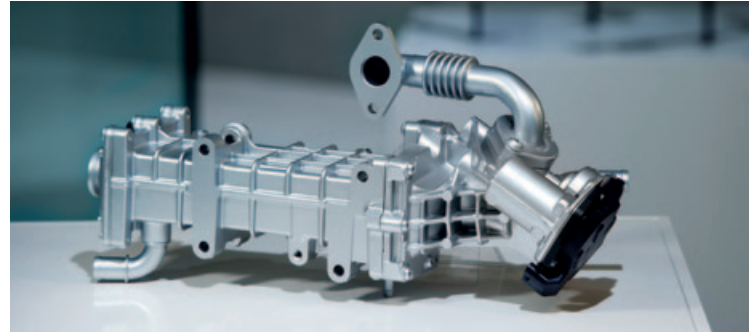
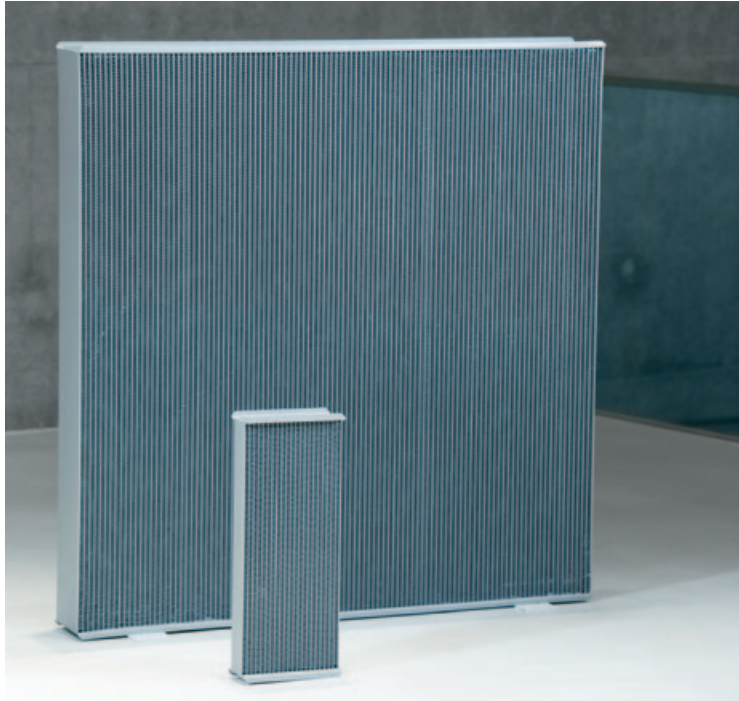
*Wastegate actuator //
 High actuation speeds and more precise control in electric wastegate actuators for turbochargers enable lower consumption.*



Range extender //

Compact power pack: the range extender from MAHLE offers low costs, a compact size, low noise levels, and low fuel consumption.





Above: I-flow exhaust gas cooler in aluminum housing from Behr // In the exhaust gas cooler, the exhaust gas is cooled with coolant. This reduces the combustion temperature and thus the NO_x emissions. The I-flow design makes optimal use of the available installation space.

Left: Modular Core Concept (MCC) // Various sizes of coolers from the Modular Core Concept family allow an individual and cost-optimized modular assembly solution for offroad vehicles.

Mass-reduced pistons, new piston and pin coatings, height-minimized piston rings on finely honed surfaces, and camshafts with roller bearings reduce the friction in the engine considerably. Bearings with additive-doped polymer layers facilitate stop-start operation. In 2010, MAHLE received the renowned SPE Automotive Award in the “Power Train” category for a new weight-optimized all-plastic oil filter module. In its remarks, the panel particularly highlighted the integration of both the engine oil cooler and the transmission oil heat exchanger in the oil filter module.

Unregulated auxiliary drives, such as oil pumps rigidly coupled to the crankshaft, supply engine components with more oil than is required at many operating points, and thus create frictional losses. Controlled power trains are an optimal solution. MAHLE provides mechanically controlled pumps for this purpose that may achieve fuel savings of around three percent. As part of the gradual hybridization process, electric actuators are needed in order to maintain important functions, such as cooling, when the engine is not running.

3. Lower emissions

In vehicles with a hybrid drive, the hydrocarbons are not fully desorbed from the tank system of gasoline engines. A new self-regulating PTC (Positive Temperature Coefficient) heater for activated carbon canisters heats the carbon bed during the desorption process. This allows the very low PZEV (Partial Zero Emissions Vehicle) emissions limits to be achieved, even with the smallest desorption volumes.

Exhaust gas recirculation (EGR) is a key technology for satisfying the NO_x emissions limits in particular. MAHLE offers new systems concepts in this area, with modular design of control valves and heat exchangers. The exhaust gas from diesel and gasoline engines is cooled significantly and is partially used in a combined high- and low-pressure system. In this way, MAHLE ensures optimal EGR in the broadest possible operating map areas. Large diesel engines for heavy-duty vehicles are fitted with a high-pressure EGR system and an exhaust gas aftertreatment system. In all applications, it is beneficial to make the electric control valve and cooler system as compact as possible and ensure that it re-

mains fully functional throughout the entire service life. Above all, it is important to prevent “fouling.” A suitable system for commercial vehicles consists, for example, of the housing for the nonreturn valves, the cooler housing itself, and the controllable shut-off or control valve. For large engines and offroad applications in particular, a very compact and robust type of cooler is used, with a low level of fouling and high resistance to corrosion. These coolers will also meet the specific requirements in terms of vibrations and external excitations.

The aim of minimizing fuel consumption and emissions also applies to large engines for stationary applications as well as offroad engines. Intelligent thermal management of all material flows—charge air, exhaust gas, oil, and coolant—makes a significant contribution to these efforts. In parallel with the automotive activities, MAHLE’s industrial activities therefore include development of exhaust gas heat exchangers specifically optimized for the boundary conditions of large engines to cool the recirculated exhaust gas. A low level of fouling and good heat transfer are the main features of this

innovation. The new range of highly efficient indirect reverse-flow charge air coolers for large engines is characterized by its significantly lower weight and volume.

The requirements placed on engine cooling solutions for offroad vehicles are particularly stringent. All components must be able to withstand not only purely mechanical loads, such as excitations and vibrations, but also function reliably even with a large amount of contamination. The engine cooling solution is determined by the installation conditions and the vehicle manufacturer's module concept ("front to back" or "side by side") as well as the operating and ambient conditions. These very different constraints require a high degree of variability in the definition of the cooler sizes. This is where the MAHLE Modular Core Concept comes in. The Modular Core Concept (MCC) with a fin-and-tube design is a modular system that can be adapted to a wide variety of applications

and effectively fulfills the contrasting requirements such as maximum variability in cooler sizes and a minimal number of different components.

Efficient thermal management is also vital in public transportation, such as high-speed trains. Modern cooling systems produced as part of MAHLE's industrial activities establish the correct temperature in the transformer and converter in electrically powered high-speed trains worldwide, as well as ensuring a high degree of reliability and quality, with a low weight-to-power ratio and compact design.

In the area of water-based mobility, one particularly important aspect is the conservation of water-based resources. For example, ship ballast water often transports "blind passengers" such as fish, crabs, worms, bacteria, or viruses to other regions, which can potentially cause severe damage to the

environment and inhabitants of those regions. The International Maritime Organization (IMO) therefore aims to ensure that the global merchant fleet is equipped with ballast water treatment systems by 2016 at the latest. With the newly developed Ocean Protection System (OPS), MAHLE already provides an optimal technical solution. OPS filters the ballast water when the tanks are flooded, leaving "blind passengers" behind. In addition, a UV light renders microorganisms harmless without the need for chemical additives.

In the area of stationary alternative power generation (wind power systems), MAHLE products filter and cool the oil in gearboxes, for example, as well as in hydraulic systems for rotor blade adjustment, azimuth adjustment, and for brake systems. The filter modules and coolers with a modular design guarantee low wear and ease of maintenance as a result of the optimal filtration with a 30 percent longer service life and transmission cooling.



Ocean Protection System (OPS) // OPS filters the ballast water when the tanks are flooded, leaving "blind passengers" behind.

MODERN THERMAL MANAGEMENT — PARTICIPATION IN BEHR AS A STRATEGIC INVESTMENT //

// MAHLE recognized the value of innovative thermal management solutions at an early stage. Following a series of smaller investments, a comprehensive participation agreement was signed with the Behr Group in summer 2010.

For some time, MAHLE has endeavored to devote more resources to the technological field of thermal management. This is because energy-efficient thermal management—both in the automobile and in industry—carries a large potential for growth and future applications. Besides achieving success in our own activities in Japan and Thailand, smaller acquisitions were made in this area in 2009, for example, the automotive activities of the Austrian company KTM-Kühler; we also invested in a greenfield production location in Mexico in 2010. Previously, the main products were heat exchangers with cooling and heating functions for the hydraulic circuit of power train units in automotive applications.

Following in-depth discussion of various options and courses of action for proceeding with a faster and broader-based market entry, talks with the Behr Group were

held even before the start of the past business year. We were able to quickly identify considerable opportunities for market growth arising from a complementary product range as well as remarkable synergy potential in terms of the overall functional capabilities of both companies.

The first contracts for the founding of a joint venture for industrial applications—now known as MAHLE Behr Industry—were therefore signed as early as February 2010. The authorization for this majority joint venture, with MAHLE holding 60 percent of the shares, was issued by the antitrust authorities before the midpoint of 2010. In the future, MAHLE Behr Industry will contribute to MAHLE's industrial activities with growing sales of over EUR 200 million per year.

Left: Diesel engine cooling system for locomotive //

The system cools the high- and low-temperature circuit of the MTU engine on the TRAXX diesel locomotive built by Bombardier Transportation.

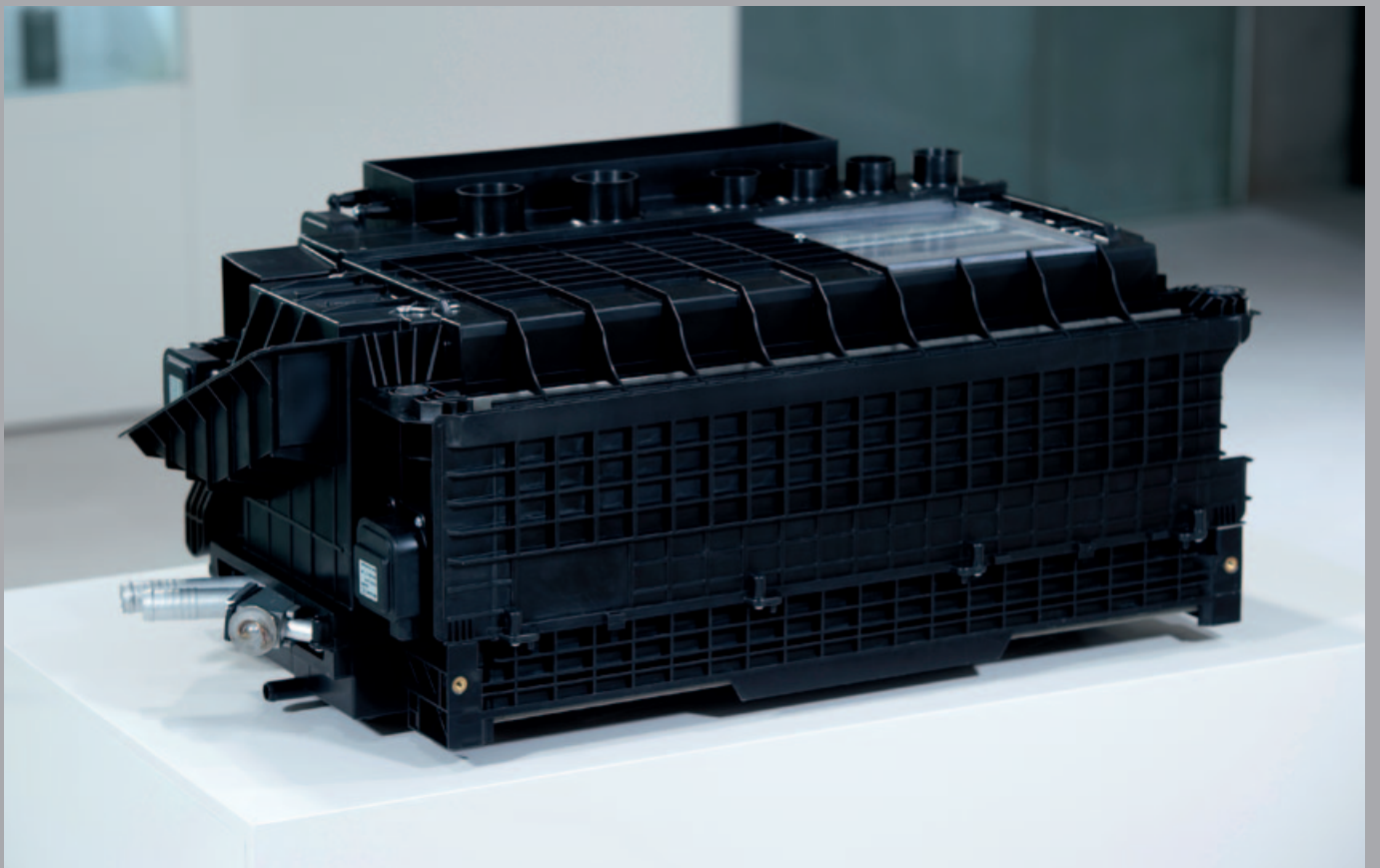
Right above: Indirect charge air cooler //

The engine-mounted component recools the charge air between the low-pressure and high-pressure stages in dual-stage supercharging. The low-pressure charge air cooler consists of two cooling inserts and a cast housing, all laser-welded, used in the MAN bus engine D08.

Right below:

Air conditioner for tour buses of EvoBus (Mercedes-Benz, Setra brands) //
Driver's seat air-conditioning unit constructed with lightweight, molded polypropylene housing along with aluminum heat exchangers and air distribution flaps.





In July 2010, a comprehensive share agreement was then signed with the whole Behr Group, enabling MAHLE to acquire the majority of the company's shares in three stages by January 2013. Since spring 2011, MAHLE has had an interest in all global activities, holding 36.85 percent of the shares in the Behr Group. Following the authorization by the responsible antitrust authorities, a global and cross-functional integration process was started in November 2010 in order to promptly align the process and organizational structures.

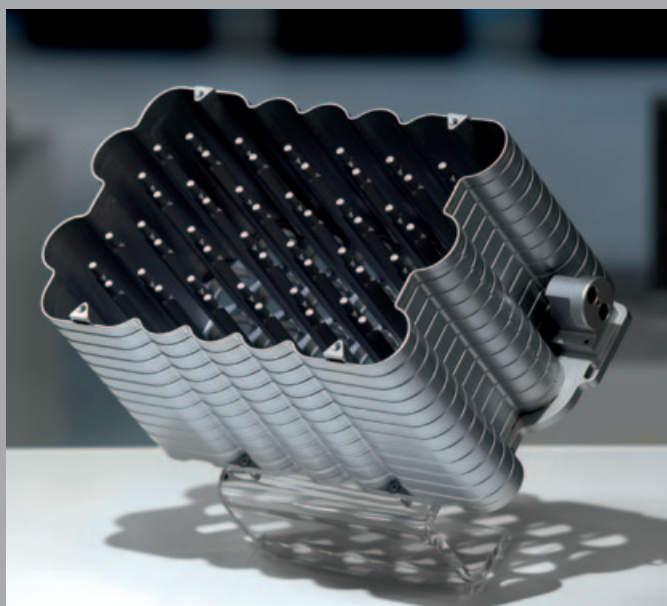
The integration of the Behr Group as a new growth- and future-oriented Thermal Management business unit represents a milestone in the development of the MAHLE Group. In the medium term, MAHLE therefore anticipates potential sales of over EUR ten billion, with a sustainably positive return on sales of over five percent.

About Behr

The Behr Group is a globally active company with a focus on the automotive supply industry. Founded in 1905, Behr is now a leading industrial company with high-quality technological products for thermal management in passenger car and commercial vehicle applications. Behr is among the top 3 systems suppliers in the automotive industry for the segments power train and thermal management of passenger compartments. In the 2010 business year, Behr achieved sales of around EUR 3.3 billion and a positive EBIT of EUR 97.6 million with approximately 16,500 employees in 12 countries (preliminary figures).

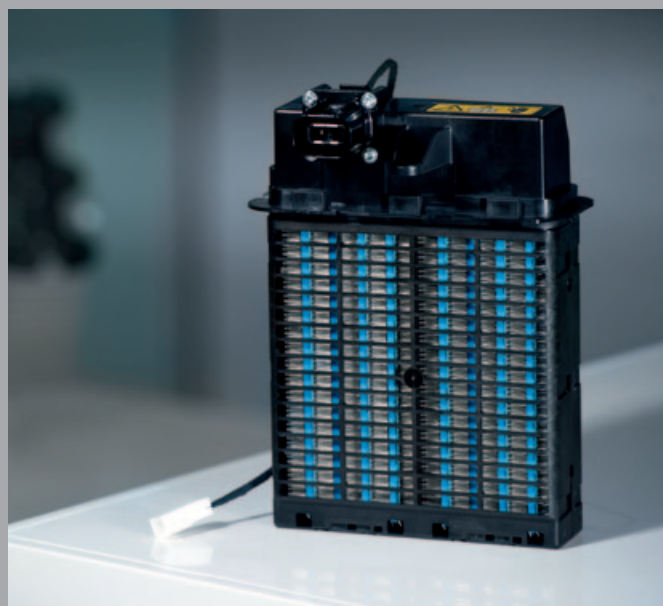
*Behr storage evaporator //
Bridges the engine-off phase in vehicles with stop-start systems;
used in the BMW in series since 2010.*





Battery cooling from Behr //

World's first coolant-cooled cooling plate for lithium-ion batteries in the automotive sector; used in the hybrid Mercedes-Benz S 400 and in the hybrid BMW 7 series.



High-voltage PTC from Behr //

Used instead of a radiator and the conventional PTC in the HVAC of the EV Smart and connected to its 300 V high-voltage electrics. It has a heat output of 4,000 W.

About complementary products

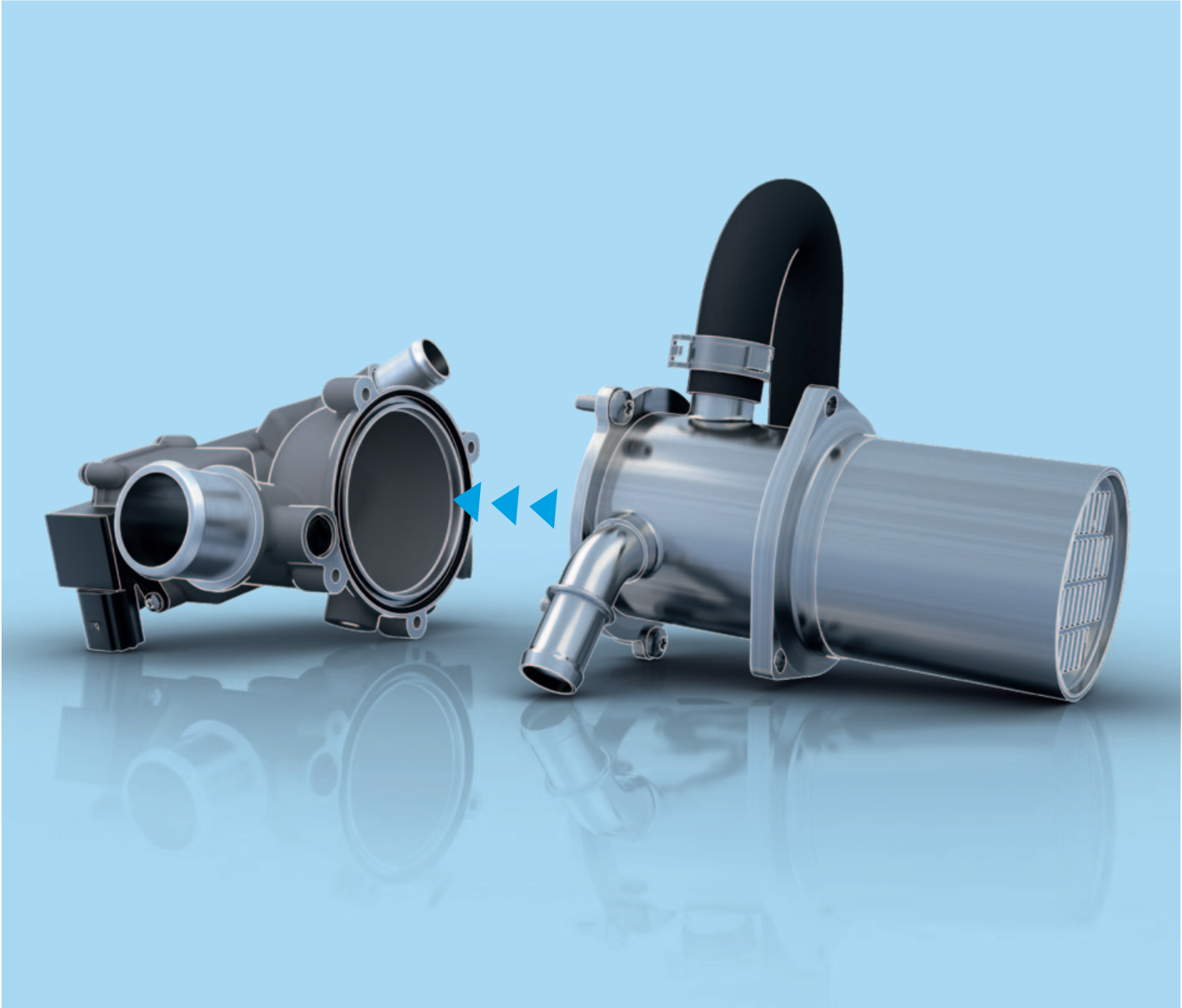
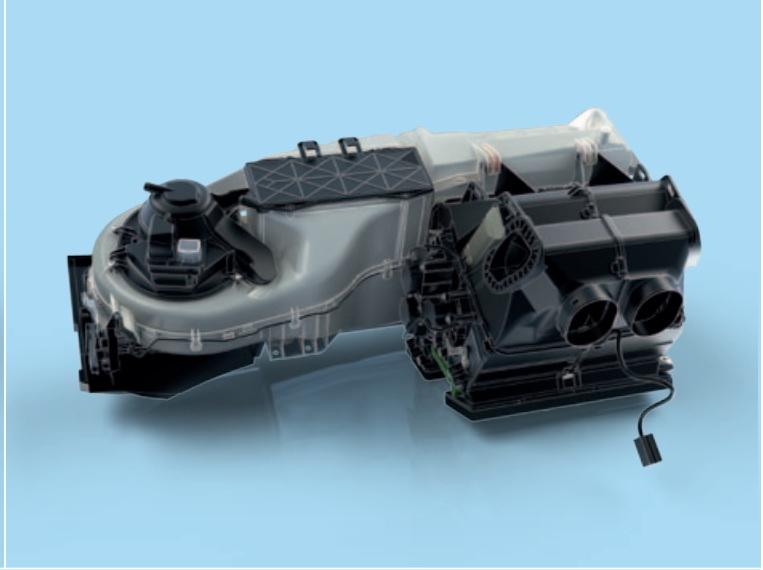
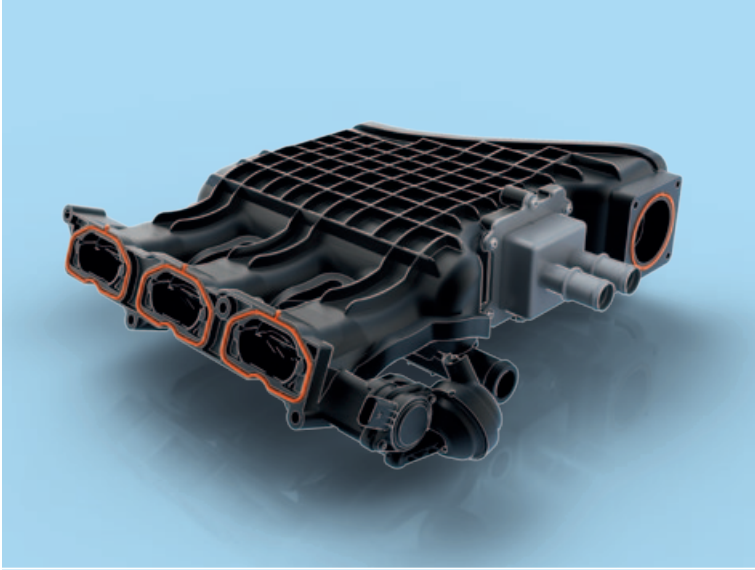
MAHLE and Behr are able to use their systems know-how to develop and produce function- and cost-optimized systems environments such as exhaust gas recirculation modules, air intake modules with integrated indirect charge air coolers, HVAC modules with integrated cabin air filters, and liquid filtration modules with integrated cooling and heating functions for the global customer base. The first joint development projects have already been acquired.

About technologies for alternative power train configurations

In the coming decades, the fuel-optimized combustion engine will be the prevalent power train technology for passenger cars and, in particular, commercial vehicles. Downsizing will play a dominant role as a tried and tested solution for reducing fuel consumption and CO₂. MAHLE is already well-positioned, for instance, through its joint venture Bosch Mahle Turbo Systems with Robert Bosch GmbH. New activities are being added via the participation in Behr, with new technological

components such as EGR modules and integrated charge air coolers.

In parallel to downsizing, increasing electrification of the power train in passenger cars and delivery vehicles is expected. This involves concepts ranging from stop-start technologies to plug-in hybrids and range extender applications. Behr's product portfolio also offers us technological possibilities in this area, including storage evaporators for air conditioning in stop-start systems, elaborate cooling circuits for batteries and power electronics, and high-voltage PTC heating modules.



02 //

STATUS REPORT

COMPLETE EXHAUST GAS RECIRCULATION MODULE WITH COOLER AND VALVE //

// THE FUTURE EMISSION STANDARD EURO 6 PLACES VERY HIGH DEMANDS ON THE EXHAUST GAS RECIRCULATION MODULE, PARTICULARLY IN DIESEL ENGINES. THANKS TO THE COLLECTIVE KNOW-HOW OF BOTH COMPANIES, MAHLE'S EGR VALVE AND THE COOLER PRODUCED BY BEHR COMBINE TO PROVIDE EXCELLENT COOLING PERFORMANCE WITH MINIMAL PRESSURE LOSS.

BACK ON A STABLE GROWTH PATH //

// There is now significantly stronger demand for passenger cars and light commercial vehicles. Overall, the global economy is developing dynamically.

The marked recovery of global economic output in the first two quarters of the 2010 business year weakened in the course of the second half-year. Despite this development, the International Monetary Fund currently projects growth of five percent in the global economy. This sharp increase in output was triggered by growth impetus from the resurgence in industrial production as well as increased capital expenditure on operational activities.

In Europe, the German economy—primarily driven by exports—experienced extremely dynamic development (+3.6 percent), taking on the role of Europe's economic locomotive in the past year. In contrast to most European countries, the national economies in Greece, Ireland, and Spain suffered a decline because these countries were unable to benefit from the healthy condition of the global economy. With these diverging development paths, the gross domestic product (GDP) of the euro zone grew by a comparably small degree—just 1.8 percent—in the past year. The economic upturn observed in the USA at the beginning of the year slowed down noticeably toward the middle of the year. As a result, the production level of the U.S. economy remained below the U.S. government's targets at the end of the year, with a growth rate of 2.8 percent. This is primarily due to the sustained high level of unemployment and the resulting adverse impact on U.S. consumer behavior. In South America, Brazil in particular succeeded in maintaining the high rate of growth achieved

in previous years, on the basis of a sustainably high level of domestic demand and extensive corporate investment. In the past year, an almost precipitous rise in economic output was also observed in most of the emerging markets of Asia. Once again, China in particular made a significant contribution to the positive development of the global economy.

The global passenger car market was noticeably boosted by the favorable overall economic conditions. In 2010, the global production of passenger cars and light commercial vehicles reached a volume of 72.7 million produced units. This represents a new peak in the production of passenger cars and light commercial vehicles and corresponds to a rise of 26.3 percent in comparison with the previous year (57.5 million units). The positive global dynamics in passenger car production also had a noticeable impact in Europe. European production expanded by 15.4 percent overall, from 16.4 to 18.9 million units. Vehicle production grew by a larger percentage in Eastern Europe than in Western Europe, with an increase of approximately 24 percent. Overall, the individual national markets of Europe—primarily Germany, France, Spain, and Great Britain—developed positively, with the exception of Italy. North American vehicle production was also relatively strong, growing by 39 percent compared to the previous year, with 11.9 million units produced. This was primarily due to the rapid recovery of the American manufacturers Ford, Chrysler, and General Mo-

tors—the latter two companies having successfully undergone a Chapter 11 reorganization. Nevertheless, the North American production volume still remains significantly below the historic values of 15 to 17 million vehicles recorded before the outbreak of the economic crisis. South American production of passenger cars and light commercial vehicles increased only moderately from 3.7 to 4.2 million units; however, there were hardly any crisis-related declines to be reversed in this region.

The sustained dynamic growth of the Asian markets, which began in the previous year, continued unabated in 2010. For example, the passenger car and light commercial vehicle market in Asia increased by around a third in the past business year to 35.6 million units. Once again, this expansion was largely driven by production in China, which further improved its position as the world's largest automobile manufacturing country with 15.3 million produced units. 2010 was also a successful year for the Indian vehicle producers, whose production figures rose by almost a third. The combined production of the two countries now roughly corresponds to the vehicle production level for the whole of Europe. Japanese production also increased significantly. The subsidy program recently launched by the Japanese government, focusing on ecological criteria, played a crucial role.

Demand for medium- and heavy-duty commercial vehicles on the global market increased

as a result of measures to address investment backlogs. Consequently, global production rose by more than a third, from 2.3 to 3.3 million units. In Western Europe, production figures grew by around 38 percent as a result of the dynamic development of demand and the very low starting point in many countries. Production increased in almost all European countries. The positive development was supported by growing exports, particularly in Germany. With a rise of more than 50 percent in the course of the year, the German manufacturers doubled their exports and further improved their strong position in exporting business.

Development on the North American commercial vehicle market was on a more moderate scale. The number of medium- and heavy-duty commercial vehicles manufac-

tured in this region rose by approximately 21 percent. Mexico and the USA accounted for the majority of the production increase; Canada likewise experienced a gain in production.

The production figures in most Asian countries remained at a constantly high level. The stable demand in China led to growth of 39 percent in commercial vehicle production, which reached 1.4 million units. As a result of this rapid increase, manufacturers operating in China now produce almost half of all medium- and heavy-duty commercial vehicles worldwide. The Japanese manufacturers achieved an increase of more than 70 percent in comparison with the previous year's low figures. This was partly due to one-time effects triggered by purchase incentive programs.

WORLDWIDE AUTOMOBILE PRODUCTION //

Number in 1,000

Business year	2010	2010	2009	2009
	Passenger cars & light comm. vehicles	Commercial vehicles (incl. buses)	Passenger cars & light comm. vehicles	Commercial vehicles (incl. buses)
America	16,098	593	12,266	453
NAFTA	11,937	344	8,586	283
South America	4,161	249	3,680	170
Asia/Pacific	35,552	2,207	27,122	1,527
Japan	9,066	181	7,642	106
China	15,259	1,444	11,110	1,039
Europe	18,885	448	16,366	325
Germany	5,478	123	4,813	77
Other countries	2,129	4	1,784	4
Total	72,664	3,252	57,538	2,309

Source: CSM, March 2011

TOTAL SALES OVERVIEW //

// With a further improvement in economic conditions during the past business year, the MAHLE Group was able to return to the sales levels achieved in 2007 and 2008.

Following the considerable decline in 2009, the Group sales of EUR 5,260.6 million exceeded the five-billion-euro mark again and, with an increase of 36.1 percent, were significantly higher than in the previous year. Exchange rate variations in comparison with the previous year, arising from the conversion of sales made in foreign currency, particularly the U.S. dollar, Brazilian real, and Japanese yen, had a positive effect of EUR 257 million. In addition, first consolidations made a positive contribution of EUR 99.8 million to the sales figure. As part of the efforts to further adjust the MAHLE Group's organization to future markets, the Large Engine Components and Industrial Filtration profit centers as well as the industrial activities of the Behr Group, taken over on July 1, 2010, were merged to form the new Industry business unit.

The breakdown of sales generated by each individual region is shown in the illustration on page 43. Especially South America and Asia achieved significant increases in sales in comparison with 2009. With the exception of Europe, even the peaks of the 2008 business year were exceeded in all regions, most significantly in Asia/Pacific. It is important to note that Brazil and China were affected considerably less by the economic crisis than the "triad" countries.

The contributions to Group sales made by the individual business units and profit centers are shown in the figure on page 44. A detailed description of the business development in the individual regions is given below.

Europe

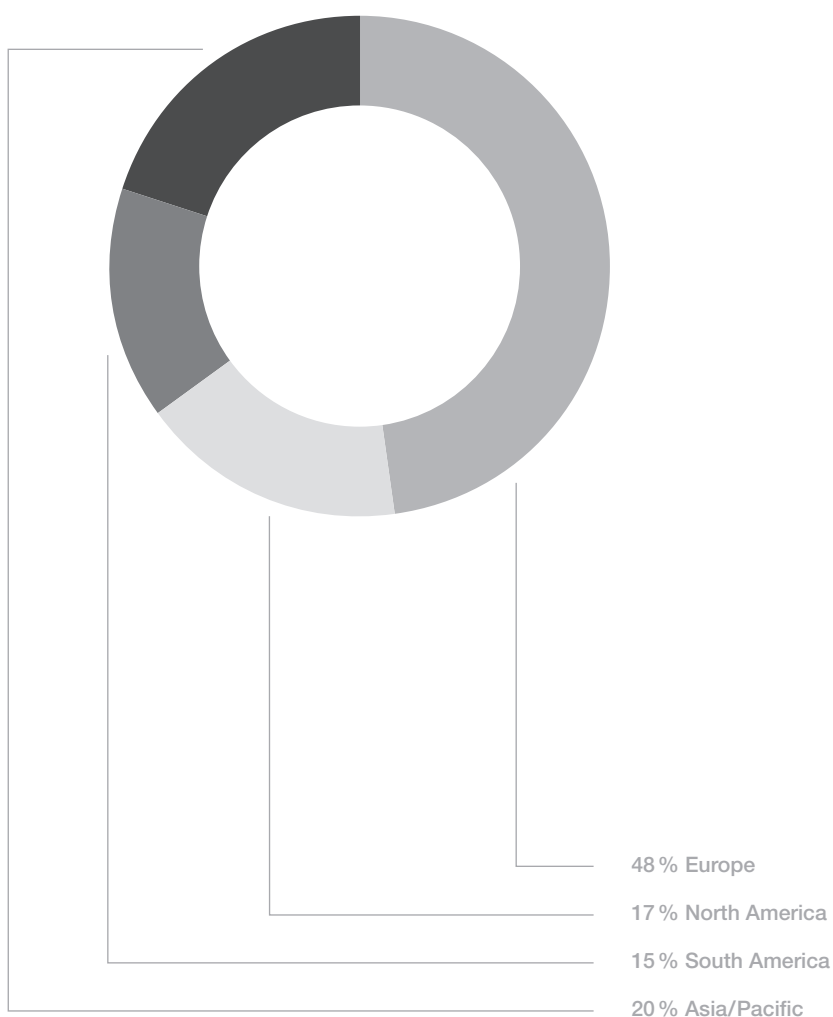
The MAHLE Group's European units recorded considerable sales growth, rising by 28 percent to EUR 2,508.8 million. In the Engine Systems and Components business unit, the sales generated exceeded the previous year's values significantly as a result of a considerable increase in customer demand in all product groups. Material price adjustments and variations in exchange rates had only a minor impact on sales. The market share of passenger car diesel pistons increased again in 2010, following a rise in the proportion of gasoline engines during the crisis due to state subsidy programs. As a result of this market trend, sales generated with pistons for diesel engines developed considerably more positively than sales with passenger car gasoline pistons in the 2010 business year. Similarly to the passenger car piston segment, the commercial vehicle activities continued to perform significantly below the precrisis level. In the Filtration and Engine Peripherals business unit, the positive business development was supported by both the OEM/OES market segment and the development of the independent aftermarket. In comparison with the other regions, however, growth was relatively limited, despite the fact that the sales of the acquired activities of KTM for oil-

water heat exchangers in Mattighofen/Austria were included for the first time. The total sales growth of EUR 95.6 million achieved by the Industry business unit in Europe resulted largely from the majority acquisition of the industrial activities of the Behr Group on July 1, 2010. In addition, the figures recorded by the Filtration division in the previous year were improved by 12.6 percent, with the largest increases achieved in the fluid filtration product segment. Special projects and a rise in demand for components of high-speed large engines also led to increased sales in the Engine Components division. The development of the Aftermarket business unit was primarily characterized by considerable growth in sales generated with filter products. This was largely due to a sustained recovery of the markets in Eastern Europe and stable growth rates in Western Europe, including the German spare part market. The engine parts business, primarily characterized by exports from Europe, also achieved sales above the previous year's level. However, the slower recovery of the markets in the Near and Middle East region resulted in weaker growth than in the other markets. Growth was also inhibited by the fact that, because of the strong OE demand, the availability of individual engine components was not always guaranteed. Business developed positively for the Small Engine Components, Motorsports, and Sintered Components profit centers, too.

North America

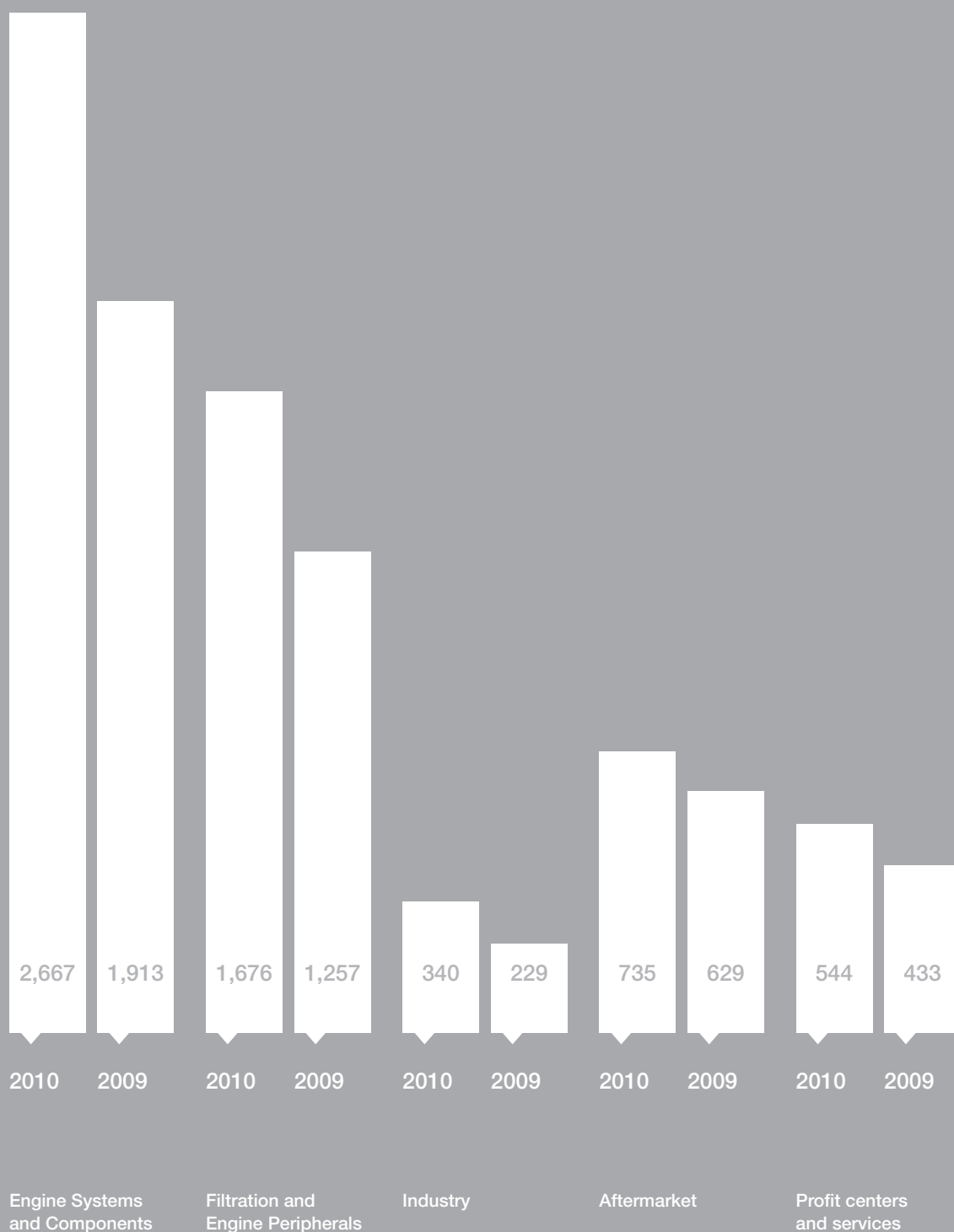
From the previous year's very low figures, which were a result of the crisis, the MAHLE Group achieved strong increases in the North American markets. At EUR 902.4 million, the 2010 sales level exceeded the previous year's by 40 percent. The Engine Systems and Components business unit made a significant contribution to this positive development, benefiting from a considerable increase in customer demand in all product groups and expanding its sales in the passenger car segment in particular. From the very low sales level of the previous year, a significant increase was achieved, primarily in sales generated with pistons, power cell units, and piston rings for passenger car gasoline engines. In contrast, the commercial vehicle market experienced only slight growth in sales, in line with the general market behavior. Sales denominated in euro also increased in comparison with the previous year, partly as a result of the U.S. dollar to euro exchange rate. Similarly, the Filtration and Engine Peripherals business unit was able to improve its sales in North America. Increased sales with Chrysler were largely responsible for the growth—in the previous year, business with this automobile manufacturer was extremely weak because of plant closures and the Chapter 11 reorganization. Sales with the Japanese customers based in the region were also strengthened considerably. The contribution to sales made by the North American units of the Industry business unit remained stable, at around eight percent of the business unit's

SALES BY REGIONS //



DEVELOPMENT OF THE BUSINESS UNITS AND PROFIT CENTERS //

Consolidated sales in million EUR (including intercompany sales to other business units and profit centers)



total sales. Excluding the newly added Thermal Management division, sales increased by 19.9 percent in comparison with the previous year. Thanks to increasing demand for spare parts for commercial vehicles on the U.S. market and an expansion of exports to other regions of the world, the Aftermarket business unit achieved double-digit percentage growth in comparison with the previous year. As in Europe, the Small Engine Components profit center was also able to benefit from the advancing market for hand-held power equipment in North America.

South America

The MAHLE Group recorded considerable sales growth in South America this year. From a sales level of EUR 543.1 million in 2009, sales rose by more than 41 percent in the year under report to EUR 768.7 million. The Engine Systems and Components business unit accounted for a large part of this figure, with its sales increasing by 53.1 percent to EUR 441.8 million. All of the business unit's product groups contributed to this development. Besides significant increases in unit sales, particularly on the Brazilian domestic market, the appreciation of the Brazilian real also boosted the reported growth in euro. The Filtration and Engine Peripherals business unit also recorded considerable growth, which was additionally strengthened by favorable foreign currency exchange rates. Besides the growth in the OE/OES market segment, there was also a substantial increase in sales for aftermarket requirements. The volume of the Industry business unit remains at a low starting level. The activities in South America are still in development, with sales exceeding the previous year's value by 27.4 percent. The Aftermarket business unit also performed well above the previous year's level for all product groups offered. The positive development in Brazil, the most significant market in

this region, played a crucial role. The Sintered Components profit center also increased its sales as a result of increasing demand for compressor and engine components.

Asia/Pacific

As a result of the sustained positive economic development in Asia/Pacific, this region achieved the highest growth rates within the MAHLE Group in 2010. The progressive growth in sales recorded in the previous years, with the exception of 2009, was continued successfully. Sales rose by EUR 364.5 million from EUR 716.2 million to EUR 1,080.7 million, establishing the region as the second-largest market for the MAHLE Group. The Engine Systems and Components business unit also benefited from the healthy conditions. Significant volume growth in our operational business was supplemented by increases in euro sales resulting from exchange rate effects connected with the appreciation of the Chinese, Thai, and Japanese currencies. While increasing unit sales volumes in Japan were primarily supported by the commercial vehicle sector, the rapid market development in China was reflected in the passenger car gasoline engine piston, commercial vehicle aluminum piston, and valves segments in particular. Sales in the Filtration and Engine Peripherals business unit also recovered significantly, with the activities in Japan, Korea, and China acting as the main growth drivers. Asia/Pacific's current share of 42 percent of worldwide sales underlines the region's significance for the business unit. The Industry business unit also achieved above-average growth of 55 percent in the Asia/Pacific region. The significance of the region in the business unit's overall portfolio also increased slightly. The extension and expansion initiated in Japan, China, and India is being continued. On average, the Aftermarket business unit achieved sales growth of seven percent,

adjusted for exchange rate effects. While sales generated with filter products continued to develop positively, the appreciating Japanese currency had an adverse effect on export activities and was partly responsible for declining business development in the engine components product segment.

MAHLE's share of the sales of the acquired minority holding in the Behr Group is not included in the above description of sales, as it is presented as a financial participation in the period under report. On July 26, 2010, the MAHLE Group signed an extensive share agreement with the shareholders of the Behr Group. This allows the MAHLE Group to acquire the majority of the company's shares in three stages by January 2013. In the first stage, MAHLE carried out a unilateral capital increase to acquire a share of 19.9 percent. After receiving authorization from the antitrust authorities, MAHLE's acquisition of a participation in Behr GmbH & Co. KG was completed on November 1, 2010. In the second stage, carried out in January 2011, the participation was increased to 36.85 percent.

ENGINE SYSTEMS AND COMPONENTS BUSINESS UNIT //

Sales and operating profit

After the important changes triggered by the worldwide economic crisis during the 2009 business year, the Engine Systems and Components business unit recorded positive business development again in 2010. Market development was highly dynamic on a global scale, but there were large regional differences for the business unit; as a result, sales increased by 39.5 percent in comparison with the previous year, but did not reach the sales level of 2008 (EUR 2,867 million). Sales in Europe fell the furthest short of the 2008 values. This is primarily because the commercial vehicle activities performed significantly below the precrisis level. In contrast, considerable sales increases in comparison with the previous year were achieved in South America and Asia. Worldwide sales in all product groups rose by a significant percentage. The largest absolute sales increases were recorded in the passenger car and commercial vehicle pistons, cylinder liners, piston rings, bearings, connecting rods, camshafts, and valves product groups. Increasing unit sales figures with the Aftermarket business unit and effects from changes in exchange rate structures also supported the positive trend.

The business unit's operating profit situation was improved considerably because the increases in sales and unit sales in particular contributed to better utilization of output capacities and therefore to better fixed cost coverage. In addition, the restructuring measures initiated in 2008 showed positive effects, with notably visible progress achieved in North America and Europe. So far, however, not all measures have been fully completed in these regions. The short-time work mechanism introduced at many locations in Germany was discontinued almost completely at the end of 2010.

After the reduced demand in the 2009 business year had, in some cases, led to a decline in raw material prices, the price development in 2010 was uneven and character-

ized by greater volatility. Some key metals and alloy components for the business unit became considerably more expensive. The adverse effect on profit was greater than in the previous year, although this was lessened somewhat as price agreements with customers and hedging activities partially absorbed the negative impact. Favorable currency exchange rate effects continued to have a positive impact on the business unit's overall profit consolidated in euro.

Capital expenditure and human resources

The business unit's capital expenditure remained at a cautious level and increased only slightly in comparison with the previous year to EUR 89.4 million. Once again, investments focused on new customer projects, for which new specific output capac-

Commercial vehicle power cell unit consisting of aluminum piston with cooled ring carrier, piston rings and pin, cylinder liner, and connecting rod

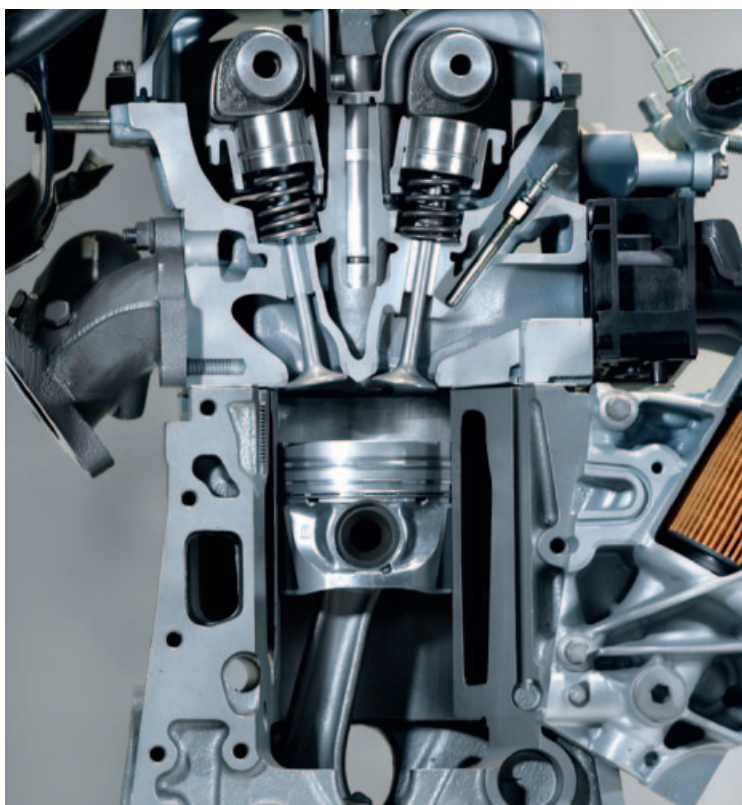


ities and tools were required. Because capacities in Europe and the North America region were sufficient, as a result of the heavy capital expenditure in 2008, expansion-related investments were made almost exclusively in Asia. These focused on the expansion of camshaft production in India and the machining and surface treatment facilities for various product groups in China. A significant proportion of the investments was used for productivity increase and innovation projects in all regions.

In the course of the economic crisis, the number of employees in the Engine Systems and Components business unit was reduced considerably. While a total of 34,352 people were employed at the end of 2008, the number had fallen by 16.3 percent,

i.e., by 5,585 employees, by December 31, 2009. In 2010, however, in order to cover the increased demand and larger production and unit sales quantities, the number of permanent employees was increased again by 1,877 (+6.5 percent) to 30,644. After the headcount in Europe had remained almost constant in 2009 because of short-time work and reductions in working hours, the previous year's level also changed very little in 2010. In contrast, the number of employees in North and South America as well as in Asia/Pacific rose again in 2010 in connection with volume increases.

Cross section of a passenger car diesel engine showing the valve train, and the power cell unit



DEVELOPMENT OF ENGINE SYSTEMS AND COMPONENTS BUSINESS UNIT //

Business year	2010	2009
Consolidated sales*		
Business unit	2,667	1,913
Share of Group sales	2,378	1,679
Capital expenditure on fixed assets*	89	87
Production locations	58	60
Headcount (as at Dec. 31)	30,644	28,767

* million EUR

FILTRATION AND ENGINE PERIPHERALS BUSINESS UNIT //

Sales and operating profit

In comparison with the previous year, sales development in the Filtration and Engine Peripherals business unit was characterized by a significantly improved market environment, with an elevated level of vehicle demand, in all regions. Following the economic crisis of the previous year, sales increased by 33.3 percent to EUR 1,676.2 million in the 2010 business year. All regions contributed to this development with double-digit growth rates. The largest sales growth in comparison with the previous year came from the Asia/Pacific region, where a particularly strong rise in sales took place in the intake manifold product division. The activities in Japan, Korea, and China were the primary growth drivers. With EUR 679.5 million and 41 percent of worldwide sales, the Asia/

Pacific region is now on a par with Europe. Growth was also satisfactory in North America and was driven by the increased sales generated with intake manifolds. Besides increased sales with Chrysler, sales with Japanese customers also played a decisive role. Overall, the sales in this region have not yet reached the level recorded before the onset of the financial and economic crisis. In Europe, the oil-water heat exchanger products for engine and transmission applications acquired from KTM were included for the first time from the beginning of the year. However, sales growth in the Europe region was less marked than that of the other regions. As in North America, the European sales have not yet reached the sales level recorded in the years preceding the crisis.

The business unit returned to a healthy level of profitability at the start of the business year, driven by the strong sales growth and the cost reduction and structural measures initiated in 2009. Substantial improvements in profit in comparison with the previous year were achieved in all regions. The favorable market development and high productivity of the plants in the Asia/Pacific region had a particularly significant impact on the business unit's improved profit situation. In India, the adverse effects of advance expenditure for the construction of the new location in Chennai were successfully offset.

Intake module of a V6 gasoline engine with charge movement flaps and variable-length intake manifold



Oil pan module with filter by-pass valve, oil thermostat, oil windage tray, and fully variable controlled pendulum-slider oil pump with fail-safe valve and heat exchanger



In addition, significant improvements in profit were achieved in Europe as a result of the plant consolidations in England and France carried out in the previous year, with the merger of production and administration divisions. In Germany, the cost reduction programs started in the previous year were systematically continued and all available instruments for making working hours more flexible—including short-time work—were utilized, particularly in the first half of the year. However, besides increases in material prices and the sustained price pressure from customers, significant adverse effects on the region's profit resulted from advance expenditure for imminent production start-ups as well as increased R&D costs for new products and for the locations in Romania and Turkey.

The profit level in the North America region also improved in comparison with the previous year, although the special expenses were temporarily higher than anticipated because of the consolidation of production locations in Mexico. The planned cost optimizations were not yet achieved in the 2010 business year. In contrast, the locations in Canada and the USA improved their profit levels considerably, thanks to optimized structures in the area of indirect personnel and additional contribution margins from the strong sales. Increases in material prices, which could only be partially passed on to the customers, were also offset in this way.

The expansion of the production network for oil-water heat exchangers was continued with the start of activities in Europe and North America. In addition, the development activities in the Mechatronics and Actuator Engineering division, including advance expenditure for future products, further intensified impaired profit in the 2010 business year.

Capital expenditure and human resources

With a ratio of 4.7 percent of sales and an absolute figure of EUR 79.3 million, the previous year's investment level was increased significantly. Once again, investments focused on Asia—in terms of both investments for new products, along with the necessary production facilities, and investments to optimize the Asian production footprint. The construction of a new location in Chennai/India, accounted for a significant proportion of this expenditure. In the North America region, capital expenditure focused on Mexico, with investments in the new customer programs at the Santa Catarina location. In view of the weaker growth in the Western European markets, a relatively small proportion was invested in this region. One exception was the considerable investment required for the start-up of large-scale production of controlled liquid pumps in Germany.

In comparison with the previous year, the headcount increased again, rising by 1,053 to 8,653 employees. In line with market development, recruitment took place primarily in the Asia/Pacific and North America regions. In Europe, the headcount was reduced on a local level, e.g., as a result of restructuring measures in France, with facilities being consolidated to form one production plant. In contrast, staffing additions were necessary at the St. Michael plant in Austria. The development activities in Germany, as well as the production activities at the locations in Romania and Turkey, also saw an increase in personnel. The proportion of employees in the Europe region fell to 43 percent, despite these additions, and is therefore in line with the structural changes in the composition of sales in the Filtration and Engine Peripherals business unit.

DEVELOPMENT OF FILTRATION AND ENGINE PERIPHERALS BUSINESS UNIT //

Business year	2010	2009
Consolidated sales*		
Business unit	1,676	1,257
Share of Group sales	1,522	1,131
Capital expenditure on fixed assets*	79	55
Production locations	28	27
Headcount (as at Dec. 31)	8,653	7,600

* million EUR

INDUSTRY BUSINESS UNIT //

Sales and operating profit

The recovery of the global economy had a positive impact on the sales volume of the Industry business unit newly formed in the 2010 business year. However, demand remained significantly below the 2008 level, and the observable restraint among customers in terms of placing orders for large projects was particularly noticeable, not least because of a lack of financing alternatives.

The business unit's development in 2010 was characterized by the acquisition of a majority holding in the industrial activities of the Behr Group. The new MAHLE Thermal Management division (MAHLE Behr Industry) was consolidated for the first time on July 1, 2010. Adjusted for the first consolidation, the sales growth of the business unit amounted to 11.2 percent.

The sales of the Filtration division exceeded the previous year's figure by 14.7 percent. Besides the air filtration product segment, the fluid filtration segment made a particularly large contribution with hydraulic filters.

The Engine Components division recorded a sales increase of 5.7 percent in comparison with the previous year. Special projects in the decentralized power generation application area compensated for sales losses in the stagnating market for medium-speed large engines. The Thermal Management division achieved sales of EUR 85.5 million in the second half of 2010. Railroad vehicle activities, as well as services in various application areas, accounted for a significant proportion of this figure.

Operating profit increased considerably in comparison with the previous year. In the Engine Components division, sales growth and productivity increases meant that the division's positive contribution to profits remained stable. The newly integrated Thermal Management division also showed a clear profit. Profit was only impaired in the Filtration division, as a result of expenditure for restructuring and the hesitant recovery of demand for projects in process filtration.

Capital expenditure and human resources

The business unit's capital expenditure of EUR 9.4 million was focused primarily on the European locations. The Filtration division pressed ahead with the modernization of the plants in Öhringen/Germany, and in the Netherlands. The Engine Components division restricted its investment activity to expenditure on replacement equipment and investments connected with rationalization measures. In the Thermal Management division, investments were made in type-based tools and processing equipment at the Reichenbach/Germany location. As at the end of 2010, the business unit employed 2,261 people—including the activities of the Thermal Management division, consolidated for the first time. The increase in headcount resulted from the expansion of the activities in Asia and at the plants in eastern Germany, particularly in the Filtration and Thermal Management divisions.

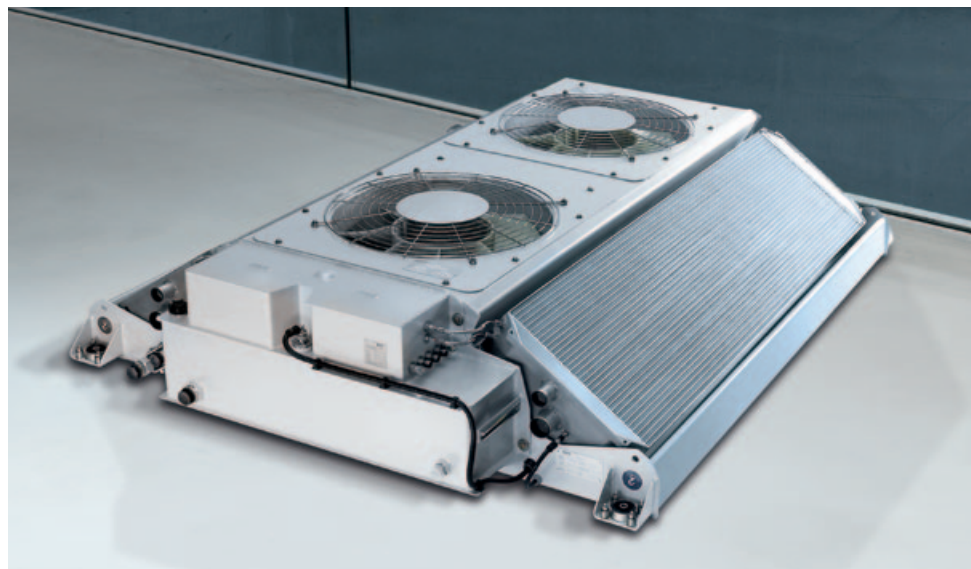
DEVELOPMENT OF INDUSTRY BUSINESS UNIT** //

Business year	2010	2009
Consolidated sales*		
Business unit	340	229
Share of Group sales	334	223
Capital expenditure on fixed assets*	9	13
Production locations	19	14
Headcount (as at Dec. 31)	2,261	1,359

* million EUR

** adjusted figures for the previous year

Roof cooling system for cooling the drive motor of the TDMD regional diesel railcar built by the Spanish state-owned railway operator RENFE



AFTERMARKET BUSINESS UNIT //

Sales and operating profit

In 2010, the sales of the Aftermarket business unit exceeded the previous year's value significantly; this was primarily due to organic growth in many markets, as well as exchange rate effects. Above-average growth was achieved in the filter product activities. The growing demand on the German spare part market and the recovery of demand on the markets of Eastern Europe, which continued over the course of the year, made an especially significant contribution. Continuing positive demand in South America—particularly for pistons and complete piston-cylinder assemblies—boosted development in the engine components activities. The North American market also recovered noticeably from the weak levels of the previous year. This development was supported by both rising demand in the U.S. commercial vehicle sector and increasing exports for American commercial vehicle applications outside the NAFTA region. In contrast, sales levels in the Near and Middle East region

developed heterogeneously, as the economic recovery in certain countries was slower than in other regions of the world. In the Asia/Pacific region, while sales exceeded the previous year's levels in China and India, the strength of the Japanese yen—particularly in relation to other Asian currencies—had an adverse effect on the export-oriented activities of the local company. A weaker small increase in fixed costs, accompanied by sales growth, had a positive impact on the business unit's operating profit. At the same time, preliminary work for the future strategic orientation of the product range was completed. The business unit has already presented various new products, such as exhaust gas turbochargers, at trade fairs this year.

A significant improvement in profit in North America was achieved with the reorganization of the location structures, which began in 2009. Measures to optimize costs in the administration and sales divisions also con-

tributed to the positive profit situation. Nevertheless, the processes in all divisions will be optimized further during the 2011 business year, in order to guarantee necessary productivity increases throughout the process chain.

Capital expenditure and human resources

In 2010, investments primarily included infrastructure measures at the warehouse locations and necessary replacement purchases. These investments focused on further optimization of the logistics processes. This particularly affected the central warehouse location for Europe in Schorndorf/Germany. The number of employees in the whole business unit was increased slightly, in line with the positive development of sales.

Selection of products from the MAHLE Aftermarket product portfolio for passenger cars and commercial vehicles



DEVELOPMENT OF AFTERMARKET BUSINESS UNIT //

Business year	2010	2009
Consolidated sales*		
Business unit	735	629
Share of Group sales	729	627
Capital expenditure on fixed assets*	4	4
Locations	12	12
Headcount (as at Dec. 31)	1,499	1,437

* million EUR

SMALL ENGINE COMPONENTS PROFIT CENTER //

Profit Centers:

Small Engine Components, Motorsports, Sintered Components, Engineering Services, and others

DEVELOPMENT OF ALL PROFIT CENTERS** //

Business year	2010	2009
Consolidated sales*		
Profit centers	544	433
Share of Group sales	298	204
Capital expenditure on fixed assets*	18	13
Production locations	14	9
Headcount (as at Dec. 31)	4,400	4,326

* million. EUR

** adjusted figures for the previous year

Sales and operating profit

In 2010, the sales of the Small Engine Components profit center developed positively, increasing by EUR 38.3 million in comparison with the previous year to EUR 126.3 million. Hand-held power equipment in Europe and North America, which exceeded expectations considerably, made a significant contribution to this development. In addition, increased sales were achieved in the recreational equipment market.

As a result of the pleasing development of sales, the profit for the 2010 business year rose significantly in comparison with the previous year. The plants in Germany and the USA succeeded in improving their profits,

e.g., through higher utilization of production capacities, sales price adjustments, and considerably improved productivity. The Austrian subsidiary also increased its profit, as a result of improved sales. The profit generated by the Chinese production unit also developed positively in comparison with the previous year.

Capital expenditure and human resources

The main investments made by the profit center related to the renovation of machinery at the location in Austria and the procurement of order-related tools in Germany. A slight decline in headcount resulted primarily from measures to adjust staffing levels at the location in China.

MOTORSPORTS PROFIT CENTER //

Sales and operating profit

In 2010, despite the adverse impact of regulation changes in certain motorsport categories, as well as other negative effects, the Motorsports profit center achieved a slight sales increase in comparison with the previous year. The developments in the Formula 1 business segment resulted in stagnating overall sales. In contrast, high-performance road vehicle activities were expanded further. On the basis of the higher contribution margins that accompanied the increased sales, profit improved noticeably in comparison with the previous year. Other positive effects on profit were generated by improvements in productivity.

Capital expenditure and human resources

The profit center's investments in 2010 were reduced in comparison with the previous year and were primarily used for new machining tools manufactured for specific customer orders. The number of employees decreased by 84 in comparison with the previous year, primarily due to a reorganization at the plant in Scotland. A larger number of the employees at this location were transferred to the Engine Systems and Components business unit. In addition, the staffing level at the Fellbach and Barsinghausen locations, both located in Germany, had to be adjusted to changes in production volumes and a new location concept. Strong emphasis was placed on personnel development, as in previous years, with the aim of training employees in connection with the stringent requirements in the motorsport market segment.



Aluminum and steel pistons for racing cars and GT vehicles, Nikasil® cylinder liners made from aluminum and steel, steel high-performance connecting rod, compression and oil scraper rings

SINTERED COMPONENTS PROFIT CENTER //

Sales and operating profit

The sales of the Sintered Components profit center grew significantly in comparison with the previous year. Production quantities of rotors and gearboxes for vacuum pumps, sprocket wheels, and sintered powder at the plant in Grenchen/Switzerland, increased considerably. The South American location increased its sales, primarily because of the noticeably higher demand for transmission components as well as compressor and engine components. Exchange rate effects also led to a rise in sales in South America.

Despite increased unit sales and productivity increases, no improvement was made in operating profit. The development of the exchange rate of the Swiss frank to the euro had a negative impact, putting a considerable strain on profits, particularly in the second half of the year.

Capital expenditure and human resources

The profit center made a targeted investment in the extension of a location in Brazil, and also invested in expanding the powder pressing capacity in Switzerland. The headcount remained almost constant in comparison with the previous year.

ENGINEERING SERVICES PROFIT CENTER //

Sales and operating profit

After the heavy decline in sales in the previous period, the recovering demand shaped the business development of the Engineering Services profit center in 2010. In comparison with 2009, sales rose by 20 percent

overall in the Engineering, Test Systems, and Manufacturing divisions.

In the Test Systems division, the introduction of a diagnostic tool for a North American automobile manufacturer was carried out in a development period of ten months. In the Engineering division, customer demand increased, particularly in Europe and China. The focus was on new development projects to improve fuel consumption and reduce CO₂ emissions—achieved with less friction, optimized combustion in the engine, and the use of alternative fuels. The demonstration vehicle equipped with the MAHLE downsizing engine, which was presented to trade public for the first time at the Aachen Symposium 2010, continued to attract great interest. In the Manufacturing division, the new engine assembly line in Northampton/England, was commissioned at the beginning of 2010. This allowed additional synergies to be achieved with the Engineering division at the same location. Sales were increased with ongoing projects and a series

of new projects involving cast products as well as mechanical machining and engine assembly. The better capacity utilization also allowed a significant improvement in the profit situation in comparison with the previous year.

Capital expenditure and human resources

In 2010, a large proportion of the investments were once again used for replacement purchases, expanding capacities, quality improvement measures, and optimization of test facilities and efficiency on the test benches. The number of employees was increased in line with the order levels. With a restructuring of the organization—particularly the introduction of teams for new products and an extension of the sales organization—the profit center is now better adjusted to the changing market conditions.



Single-cylinder research engine with optical access to the combustion chamber via cylinder head and cylinder thanks to a high-strength quartz cylinder liner and pistons with a sapphire crystal crown

DIFFICULT ENVIRONMENT IN THE PROCUREMENT MARKETS //

// Price increases, supply bottlenecks, and supplier insolvencies required rapid and large-scale action. Suitable measures were taken in order to safeguard customer supply on a sustainable basis.

Firstly, a considerably more rapid increase than initially expected in the prices of many raw materials on the procurement markets was observed in the 2010 business year. The significant price increases at the end of the previous year continued to an appreciable extent in the first half of the year in the MAHLE Group's key material groups. The marked increase in the prices of raw materials, such as aluminum, nickel, copper, cellulose, and steel had a corresponding inflationary effect on related components such as alloys, filter media, sintered powder, and metal components. A dramatic double-digit increase in the price of iron ore directly resulted in a rise in steel prices. The prices of crude oil and related crude oil derivatives also increased. Consequently, the MAHLE Group was faced with heavy price demands from suppliers in the product groups affected by the price of crude oil, such as synthetic resin. The price increases could only be passed on to the customers to a limited extent. Despite measures such as supply quota shifts and approval of alternative suppliers, which were initiated and pushed through immediately, it was not possible to compensate completely for the negative effects of these market developments. However, with the development of raw material prices easing somewhat in the fourth quarter of 2010, the prices in some material groups were reduced again.

As a result of the unexpectedly rapid recovery of the global market and above-average demand from Asia, there were also

shortages of certain materials as well as price increases in the first half of 2010. This was primarily due to the fact that the production capacities of raw material producers had been gradually reduced during the economic crisis and could not be adjusted quickly enough to the soaring demand. These circumstances resulted in longer delivery times, particularly for steel products and electronic components. However, with stringent bottleneck management throughout the complete supply chain, the minimum supply levels were secured and supply failures were prevented. As no significant improvement in the supply situation is anticipated by 2011, further measures were initiated, such as granting extended material approvals and preventive approval of alternative components. This allows customer supply to be maintained on a sustainable basis.

The third challenge was the risk management required in connection with supplier insolvencies. Despite the economic recovery in the market, some suppliers could not improve their business situation sufficiently to avert insolvency. However, customer supply was safeguarded at all locations by means of promptly initiated countermeasures and preventive risk management. These measures were nevertheless accompanied by higher expenditure and enormous cost allocations, partly due to above-average price demands from suppliers at risk of insolvency.

TECHNOLOGICAL LEADERSHIP AS A GUARANTEE OF FUTURE GROWTH //

// The combustion engine still offers considerable potential for reducing CO₂ emissions and fuel consumption. Tapping this potential is the primary aim of more than 3,000 engineers and technicians in the MAHLE Group.

In the future, hybrid and electric drives will line up alongside the combustion engine, currently the main power source. However, because of the cruising range issues—due to the limited amount of energy that can be stored by batteries—small vehicles and short-range applications will remain the primary area of application for purely electric drives in the foreseeable future. In addition, vehicles with series hybrid technology—in which a small-scale combustion engine recharges the battery—will be more prominent in the passenger car segment in the future. Nevertheless, no viable alternatives to the combustion engine are anticipated for the majority of passenger car and commercial vehicle applications. As part of the ongoing development of this power train technology, the realization of the large potential to reduce CO₂ emissions and fuel consumption remains in the spotlight of MAHLE's research and development activities. The thrust of the efforts is directed toward three declared objectives: smaller engines (downsizing), reduced losses within the power train, and lower emissions.

Downsizing engines work with a significantly higher efficiency than larger diesel and gasoline engines with comparable performance. This approach allows considerable reductions in CO₂ emissions to be achieved without limiting performance. The improvement potential offered by this technology was impressively demonstrated by MAHLE with an innovative downsizing concept developed in 2007, in the form of a three-cylinder turbocharged engine with a 1.2-liter displace-

ment. The performance characteristics of this engine, fitted in several demonstration vehicles in the past year, allows the driving performance of a conventional six-cylinder naturally aspirated engine with a 2.4-liter displacement to be achieved with a fuel saving of more than 30 percent. The responsiveness of the exhaust gas turbocharger plays a crucial role for the performance of this new engine.

MAHLE is also conducting intensive research in the area of hybrid technology. Efforts are being focused primarily on range extenders. The term range extender refers to a smaller combustion engine that recharges the battery in a primarily electric vehicle, increasing the vehicle's cruising range considerably. Important criteria for a system of this kind include low costs, a compact size, low noise levels, and low fuel consumption. With its power output of around 30 kilowatts, the two-cylinder, reciprocating piston engine with an integrated generator newly developed by MAHLE is designed for use in the lower mid-range segment.

In line with MAHLE's second goal, efforts are being made to reduce frictional losses in the power train and thus increase the efficiency and provide energy savings. This area represents another focus of research and development in which numerous solutions are being developed. One example of a product developed for series production is the new electrical MAHLE wastegate actuator for exhaust gas turbochargers. This cost-effective, fast, and precise actuating mechanism con-

trols the wastegate irrespective of the exhaust gas pressure and thus reduces gas exchange losses. Another example is an innovative all-plastic oil filter module, which recently received the renowned SPE Automotive Award in the "Powertrain" category.

The third objective of the MAHLE Group's research and development efforts is to reduce emissions. Exhaust gas recirculation systems represent a key technology for satisfying current and future emissions limits. MAHLE develops demand-based solutions for both gasoline and diesel engines, which are used in passenger car, truck, and offroad applications. Furthermore, in line with the majority acquisition of the Behr Group's industrial activities of the, new activities relating to cooling and air-conditioning systems for railroad and special vehicles, buses, ships, construction and agricultural machinery, and the aerospace industry were added in this area. Intelligent thermal management of all material flows—charge air, exhaust gas, oil, and coolant—makes a significant contribution to satisfying current and future exhaust gas limits in these applications.

BALANCE SHEET TOTAL REFLECTS CONSIDERABLE INCREASE IN BUSINESS VOLUME //

// The considerable increase in the MAHLE Group's business volume was reflected in a noticeable rise in the balance sheet total. It increased by EUR 719.1 million to EUR 4,186.6 million in the business year. The structure on the assets and liabilities side developed as follows in comparison with the previous year.

The slight increase in fixed assets (EUR +72.3 million) resulted primarily from the rise in financial assets (EUR +67.2 million) connected with the acquisition of a share of 19.9 percent in Behr GmbH & Co. KG. In addition, an increase in fixed assets overcompensated a slight reduction in the intangible assets, which was exclusively due to regular depreciation. The former resulted primarily from the effects of first consolidation. This relates mainly to the addition of the industrial activities of the Behr Group to the consolidation group, which was completed on July 1, 2010. Nevertheless, in 2010, depreciation once again exceeded capital expenditure on fixed assets, which was offset in the balance sheet by an increase in the fixed assets presented in euro as a result of currency translation effects.

On the assets side, the increase of EUR 719.1 million in the balance sheet total is primarily due to the rise in current assets. Besides an increase in inventories (EUR +174.1 million), this mainly included sales-related growth in trade receivables (EUR +213.5 million) and significantly higher available cash (EUR +93.6 million). As a result of the measures to optimize warehousing and supplier management, however, the rise in inventories (+30.2 percent) remained below business expansion (+36.1 percent). Liquidity was increased in preparation for a further unilateral capital increase at Behr GmbH & Co. KG that was carried out in January 2011; MAHLE's share in Behr GmbH & Co. KG thus increased to 36.85 percent.

The liabilities side of the MAHLE Group's balance sheet is characterized by an improved equity ratio of 35 percent, which results from profitable growth. Equity rose by EUR 307.2 million in comparison with the previous year's value to EUR 1,464.1 million as at the balance sheet date. Two factors influenced this development: firstly, the positive profit was largely retained and, secondly, foreign currency exchange rate effects—particularly from the conversion of the Brazilian real and Japanese yen—had a positive impact on the equity ratio, producing an equity increase of EUR 106 million with no effect on the profit and loss statement.

Increased accruals for taxes, accruals in the area of human resources, as well as for other measures, are primarily responsible for the increase in accruals (EUR +137.1 million). In contrast, accruals for pensions remained almost at the previous year's level. The growth in trade payables (EUR +130.7 million) and the increase in liabilities to banks (EUR +146.4 million) had a significant impact on the Group's financing.

Return to a significantly positive net income for the year

Because of the healthy market conditions and the MAHLE Group's internationally balanced and technologically leading position, Group sales increased to EUR 5,260.6 million. All business units and profit centers contributed to this sales growth. The high utilization of capacities resulted in a considerable decrease in the cost of sales ratio

BALANCE SHEET STRUCTURE OF THE MAHLE GROUP //



in comparison with the previous year to 77.7 percent. This ratio also reflects the results of the consistently pursued restructuring and productivity improvement measures. Both the administrative and selling expenses (EUR +79.4 million) and the research and development expenses (EUR +63.5 million) increased by a lower percentage than sales; as a result, the combined selling, administration, and development costs ratio fell from 19.2 percent to 16.8 percent. Overall, a significant increase in the operating profit was recorded, which, together with the improved financial result, meant that a positive result from ordinary activities amounting to EUR 251.5 million was achieved.

Operating cash flow more than doubled

In the 2010 business year, the MAHLE Group was able to finance its cash requirements for capital expenditure on fixed and financial assets from self-generated funds. In particular, this means: the business expansion led to a considerable increase in working capital. However, as a result of the positive profit situation, the cash flow from ongoing business activity increased overall by EUR 170.1 million to EUR 311.4 million.

The cash flow from capital expenditure of EUR –300.1 million was primarily characterized by the increased capital expenditure on fixed assets in comparison with the previous year, the acquisition of a minority share of 19.9 percent in Behr GmbH & Co. KG, and the majority acquisition of the industrial activities of the Behr Group, now MAHLE Behr Industry.

An increase in financial loans and the other developments already outlined led to an increase of EUR 93.6 million in cash and cash equivalents; liquidity thus reached EUR 354.7 million as at the reference date.

INCOME STATEMENT OF THE MAHLE GROUP //

Figures in million EUR

Business year	2010		2009	
Sales	5,260.6	100.0%	3,864.0	100.0%
Cost of sales	–4,087.1	–77.7%	–3,199.9	–82.8%
Gross profit on sales	1,173.5	22.3%	664.1	17.2%
Selling expenses and general administrative expenses	–573.0	–10.9%	–493.5	–12.8%
Research and development expenses	–310.0	–5.9%	–246.5	–6.4%
Other operating income and expenses	15.8	0.3%	–8.2	–0.2%
Income before financial results	306.3	5.8%	–84.1	–2.2%
Financial results	–54.8	–1.0%	–80.6	–2.1%
Income from ordinary business activities	251.5	4.8%	–164.7	–4.3%
Extraordinary expenses and income	–34.5	–0.6%	–150.4	–3.9%
Taxes	–40.4	–0.8%	–64.2	–1.7%
Net income/loss	176.6	3.4%	–379.3	–9.8%

RISK MANAGEMENT //

// As a globally active company, the MAHLE Group is confronted with a variety of risks. Across the Group, the established risk management system takes into account the current legal, corporate, and customer requirements and is subject to ongoing development.

Based on inspection plans that change every year, the viability of the risk management system is checked regularly by means of a global internal audit. The MAHLE Group's risk management is characterized by the following main aspects:

- The identification of opportunities and risks at an early stage is ensured by systematic monitoring of market and technological trends. Information from these analyses is used in decision making on future business segments and new production processes. The measures taken are described in the strategic or yearly corporate planning and their implementation is monitored in the monthly management reporting.
- Potential operative risks are counteracted by means of safety standards, optimized production processes, and high quality standards. MAHLE is audited and certified in accordance with all major external standards and specifications, and is thus subjected to substantial external checks that limit risks. Possible damages and resulting plant failures, as well as other damage events and liability risks, are covered to an economically prudent degree by means of insurance policies.
- With continuous strengthening of the international orientation and with a diversified customer portfolio, the MAHLE Group is aiming to achieve optimal dispersion of regional market and customer risks. Risks in the form of unexpected supply bottlenecks and/or price increases in purchasing are counteracted by means of regular supplier evaluations, use of alternative raw material sources and materials, preservation of supplier independence, and hedging transactions.
- Currency risks are identified through a Group-wide planning and reporting system. The risks are counteracted by means of hedging activities in accordance with uniform Group principles. The use of derivative financial instruments is necessarily linked to the existence of an operational underlying transaction. Any liquidity risk is minimized by means of systematic Group-wide finance management. According to value-at-risk analyses, the interest rate risk is low.
- The risk of losing employees in strategically important corporate positions is counteracted by means of performance-related remuneration systems, an employee- and goal-oriented leadership style, modern pension schemes, and numerous advanced training activities. Creating a positive and open working atmosphere and allowing a wide scope for individual creativity strengthens the employees' loyalty to the company.
- In the area of information technology, security technologies protect against unauthorized access to data or misuse of data by internal and external parties. Server and storage systems allow data to be recovered at short notice in emergency and crisis situations. The defined security standards are not only geared toward the technical specifications of the hardware and software, but also include functional security structures and organizational provisions.

For the 2010 business year, the auditors have analyzed the accounting-based internal control system as part of the audit of the consolidated financial statements and have raised no objections. The rules of the German Corporate Governance Code have also been implemented insofar as they apply to the MAHLE Group, as a nonlisted company owned by a foundation.

OUTLOOK //

// MAHLE prepared for the anticipated development of the international automotive markets with restructuring measures and capacity adjustments. The continuing instability of the financial systems represents a risk for the global economy.

For the coming business year, the International Monetary Fund (IMF) anticipates a further growth of 4.4 percent in global production, albeit less dramatic than in the previous year. The economic forces underlying the unexpectedly strong growth in the global economy during the past year will continue to have an effect in the coming year. Nevertheless, more moderate growth is forecast for world trade and it is also expected that the government demand incentives still in play during the previous period will not play a significant role in the coming year. Notable risks for the coming business year will come primarily from the further development of the financial systems, which remains unstable. The high national debt of many western industrial nations, often pushed up by economic stimulus packages issued to deal with the crisis, represents a key problem. The financial consequences of the necessary measures to support EU member states may also be an important consideration. The continuation of the expansive U.S. monetary policy of the past two years could pose an additional danger for global economic growth. The currently high level of unemployment in some European countries and in the United States, combined with declining consumer confidence, also represent uncertainties for global growth.

The global automotive market for passenger cars and light commercial vehicles is likely to exhibit a stable growth trend in the coming year because of the positive overall economic environment. The forecast institute

CSM predicts that worldwide passenger car production will reach a new peak in 2011, at 76.6 million units. In the coming year, the vehicle markets in Europe will continue the growth started in the past business year. The German producers in particular should benefit from the opportunities anticipated once again in export activities. On the North American market, further recovery trends are expected in the coming year; the anticipated production volume of 13.1 million passenger cars and light commercial vehicles will still be vastly inferior to the level of 15.1 million vehicles in 2007. The growth level will depend largely on consumer confidence in the USA. For example, a reduction in the currently high unemployment rate could stimulate demand for passenger cars. Once again, the national economies in Asia will account for the majority of the global increase in the production of passenger cars and light commercial vehicles in 2011. On the largest individual market in China, high growth rates in production are still regarded as a possibility. This is primarily due to the continuing heavy increases in demand from Chinese consumers, resulting from the rising household income and the persistently low level of unemployment.

The worldwide production of medium- and heavy-duty commercial vehicles will benefit from a significant improvement in the market environment, with growth of around five percent. The European manufacturers of medium- and heavy-duty commercial vehicles expect a production increase of around 26

percent. As has already been seen on the passenger car markets, impetus in this segment is expected to come primarily from exports. This is already evident from the past year's order intake—a leading indicator for this development. The forecast for the NAFTA region is even more optimistic; produced quantities are expected to grow by around 27 percent. The emissions standards applicable for the first time in 2010 and the existing investment backlog are seen as the most important variables influencing this growth. In contrast, because healthy development was recorded in the previous years, the growth rate of the Asian markets will be relatively low.

For the coming business year, the MAHLE Group expects a further rise in sales in all regional submarkets. Once again, the South American and Asian markets will be vital for MAHLE. The MAHLE Group's good competitive position in these foreign markets will make it possible to achieve more rapid growth than the market as a whole. Assuming that worldwide automobile production expands again in 2012, in comparison with 2011, as predicted by leading forecast institutions, the MAHLE Group expects to be able to participate in this expansion in 2012 with both increased sales and a positive profit situation. We are optimistic about the development of the MAHLE Group's revenue. For the most part, the positive impact of the restructuring measures and capacity adjustments that extend into 2011 will be seen over the full year. Productivity increases should also create positive effects

at many locations. Good economic conditions and targeted programs to develop business lead us to expect a positive development of sales in our industrial activities across all segments in which we operate. The activities in the areas of wind energy, stationary large engines, and water treatment are particularly crucial. Our competitive position will be expanded further, particularly in the Asian markets. At the end of 2011, the joint venture Bosch Mahle Turbo Systems will begin series production of exhaust gas turbochargers for passenger car applications at the St. Michael ob Bleiburg (Carinthia/Austria) and Blaichach (Allgäu/Germany) locations. In 2010, the company was also able to announce its successful market entry in the area of exhaust gas tur-

bochargers for commercial vehicle engines. Series production of exhaust gas turbochargers for commercial vehicle and off-highway engines will start in 2012/2013.

As already reported, the MAHLE Group acquired a share of 19.9 percent in the Behr Group in the 2010 business year, and this share was increased to 36.85 percent in January 2011, as planned, by means of a further contribution. In operational terms, 2011 will be defined by measures to improve the profitability of the Behr Group and by the identification and realization of synergies between MAHLE and Behr. Integration activities to harmonize processes and organizational structures have started in all functional divisions. On February 28, 2011, the MAHLE

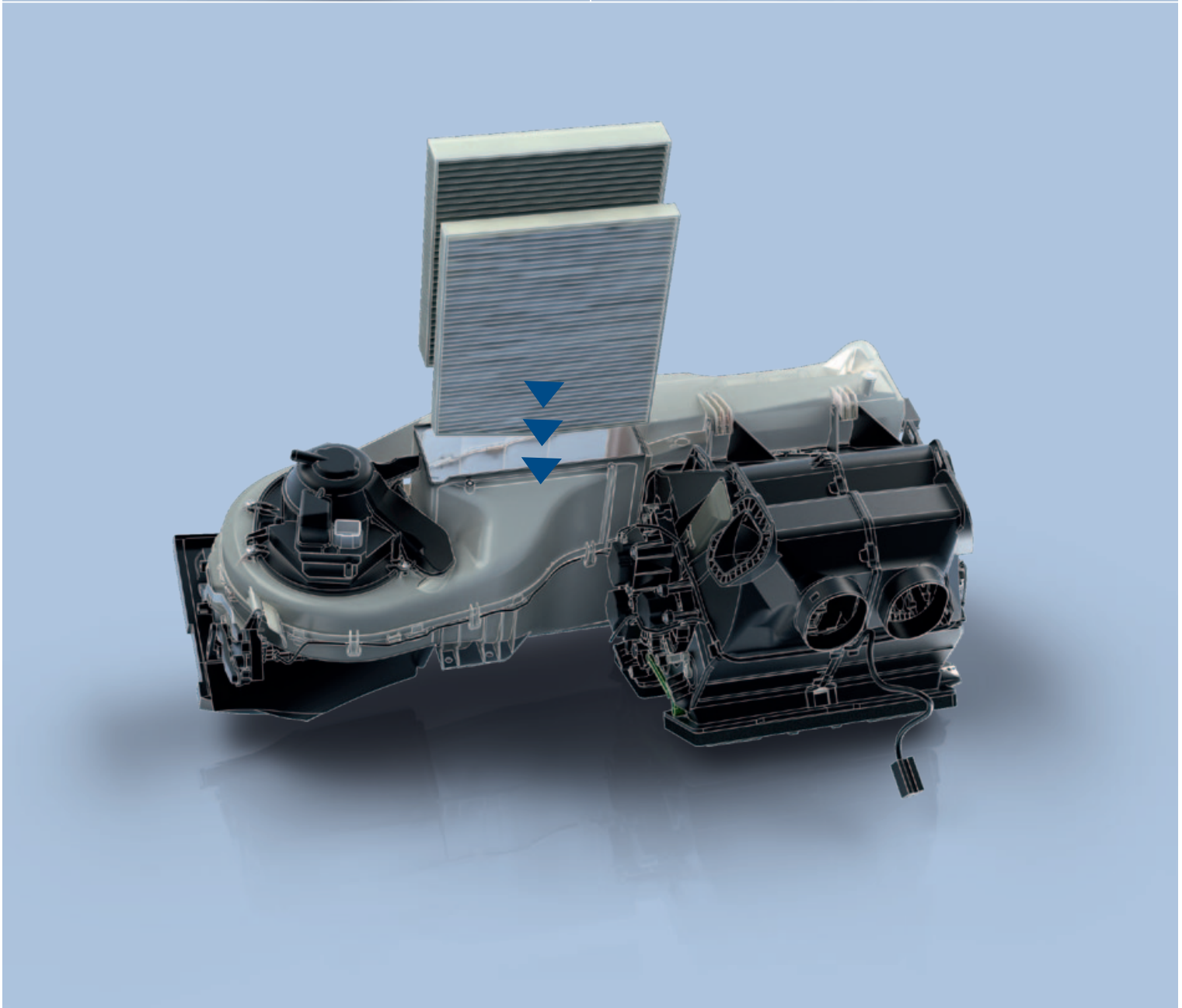
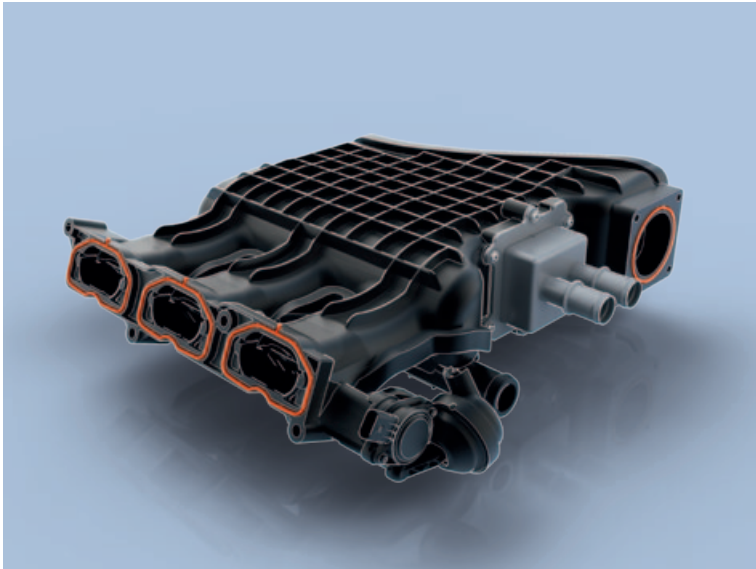
Group acquired all still outstanding minority shares in the Mopisan Group. On March 11, 2011, Japan was shaken by a very severe earthquake. The damage to the MAHLE plants appears to be minor, partly because these plants are not located in the region flooded by the ensuing tsunami. However, it is not yet possible to gauge the consequences of the problems at some of Japan's nuclear power plants. If these problems have far-reaching consequences for the development of Japan's national economy, this could adversely affect the development of sales and income for the Japanese subsidiaries.

WORLDWIDE AUTOMOBILE PRODUCTION //

Number in 1,000

Business year	2011	2011	2010	2010
	Passenger cars & light comm. vehicles	Commercial vehicles (incl. buses)	Passenger cars & light comm. vehicles	Commercial vehicles (incl. buses)
America	17,542	701	16,098	593
NAFTA	13,107	437	11,937	344
South America	4,435	264	4,161	249
Asia/Pacific	37,468	2,156	35,552	2,207
Japan	8,711	194	9,066	181
China	16,521	1,345	15,259	1,444
Europe	19,391	564	18,885	448
Germany	5,713	149	5,478	123
Other countries	2,162	5	2,129	4
Total	76,563	3,426	72,664	3,252

Source: CSM, March 2011



03 //

CONSOLIDATED FINANCIAL STATEMENTS

HVAC MODULES WITH SPECIALLY DESIGNED CABIN AIR FILTERS //

// PASSENGER COMFORT REMAINS AN IMPORTANT ISSUE. BEHR ENSURES INDIVIDUAL COMFORT, E.G., WITH MULTIZONE AIR CONDITIONING, SPECIFIC MASS FLOW CONTROL FOR EACH SEAT, AND DRAFT-FREE VENTILATION. MAHLE IMPROVES THE AIR QUALITY. THIS IS ACHIEVED BY FILTERING THE OUTSIDE AND INSIDE AIR USING MAHLE'S CABIN AIR FILTERS. BEHR EVAPORATOR COATINGS, INTEGRATED IONIZERS, AND INNOVATIVE FRAGRANCE DISPENSING SYSTEMS ALSO HELP TO ENSURE INDIVIDUAL PASSENGER COMFORT.

BALANCE SHEET OF THE MAHLE GROUP //

as at December 31, 2010

Assets

in EUR '000

			Dec. 31, 2010	Dec. 31, 2009
Fixed assets				
Intangible assets				
Purchased industrial and similar rights	26,149			20,100
Goodwill	208,830			239,622
Advance payments	428			1,172
		235,407		260,894
Property, plant, and equipment				
Land, leasehold rights, and buildings including buildings on third-party land	528,102			501,164
Technical equipment and machinery	834,329			828,571
Other equipment, fixtures and furniture	64,006			60,326
Advance payments and assets under construction	95,380			101,118
		1,521,817		1,491,179
Financial assets				
Shares in affiliated enterprises	2,692			2,159
Shares in associated enterprises	19,542			16,788
Other equity investments	77,395			1,333
Long-term investments	3,232			16,118
Other loans	5,061			4,300
		107,922		40,698
			1,865,146	1,792,771
Current assets				
Inventories				
Raw materials and supplies	209,890			156,344
Work in process	167,886			124,781
Finished goods and merchandise	362,584			288,755
Advance payments	9,371			5,763
		749,731		575,643
Accounts receivable and other assets				
Trade receivables	837,156			623,669
Receivables from affiliated enterprises	4,484			4,265
Receivables from enterprises in which investments are held	2,388			1,736
Other assets	135,412			147,656
		979,440		777,326
Marketable securities				
		3,083		383
Cash on hand and at banks				
		354,670		261,025
			2,086,924	1,614,377
Prepaid expenses				
			11,072	10,849
Deferred tax assets				
			223,474	49,500
			4,186,616	3,467,497

Equity and liabilities

in EUR '000		Dec. 31, 2010	Dec. 31, 2009
Equity			
Subscribed capital	150,000		150,000
Capital reserves	166,430		166,430
Revenue reserves	1,043,046		860,808
Equity impact from currency translation	-7,866		-105,461
Unappropriated retained earnings	5,517		3,080
Minority interests	106,970		82,026
		1,464,097	1,156,883
Accruals			
Accruals for pensions and similar obligations	402,395		403,157
Accruals for income taxes	60,025		17,604
Other accruals	714,710		619,193
		1,177,130	1,039,954
Liabilities			
Liabilities to banks	905,074		758,630
Advance payments received on account of orders	20,412		13,619
Trade payables	470,581		339,887
Liabilities on bills accepted and drawn	286		230
Payables to affiliated enterprises	2,029		659
Payables to enterprises in which investments are held	9,615		4,429
Other liabilities	133,713		151,690
Taxes:	36,900 (prev. yr. 32,661)		
Relating to social security and similar obligations:	29,837 (prev. yr. 23,012)		
		1,541,710	1,269,144
Deferred income			
		3,679	1,516
		4,186,616	3,467,497

INCOME STATEMENT OF THE MAHLE GROUP //

from January 1 to December 31, 2010

in EUR '000	2010	2009
Sales	5,260,567	3,864,031
Cost of sales	-4,087,018	-3,199,897
Gross profit on sales	1,173,549	664,134
Selling expenses	-333,945	-276,444
General administrative expenses	-239,019	-217,136
Research and development expenses	-309,986	-246,470
Other operating income	199,606	196,958
thereof income from currency translation:	46,789	
Other operating expenses	-183,851	-205,156
thereof expenses from currency translation:	-50,105	
	-867,195	-748,248
Investment income	1,533	923
thereof from associated enterprises:	1,533 (prev. yr. 922)	
Income from other investments and long-term loans	709	85
Other interest and similar income	29,945	12,188
thereof from affiliated enterprises:	20 (prev. yr. 54)	
thereof income from discounting:	327	
Amortization of financial assets and of marketable securities	-20,546	-16,406
thereof from affiliated enterprises:	0 (prev. yr. -891)	
thereof from associated enterprises:	-20,526 (prev. yr. -15,511)	
Interest and similar expenses	-66,452	-77,420
thereof to affiliated enterprises:	-46 (prev. yr. -2)	
thereof expenses from discounting:	-9,346	
Income from ordinary business activities	251,543	-164,744
Extraordinary result	-34,525	-150,406
Extraordinary income	25,959 (prev. yr. 0)	
Extraordinary expenses	-60,484 (prev. yr. -150,406)	
Taxes on income	-27,106	-51,133
thereof income (prev. yr. expenses) from deferred income taxes:	121,672 (prev. yr. -36,342)	
Other taxes	-13,347	-13,053
Net income/loss	176,565	-379,336
Profit applicable to minority shareholders:	40,670 (prev. yr. 13,380)	
Loss applicable to minority shareholders:	-2,937 (prev. yr. -7,148)	

CASH FLOW STATEMENT OF THE MAHLE GROUP //

from January 1 to December 31, 2010

in EUR '000	2010	2009
Cash funds at the beginning of the period	261,025	245,756
Cash flow from operating activities	311,421	141,338
Net result (including minority share of result)	176,565	-379,336
Write-downs/write-ups on noncurrent assets	350,657	361,240
Increase/decrease in accruals	71,897	-34,025
Other noncash income and expenses	-2,039	-11,820
Profit/loss on disposals of property, plant, and equipment	-597	-1,568
Increase/decrease of inventories, trade receivables, and other assets not related to investing or financing activities	-352,349	313,106
Increase/decrease of trade payables, and other liabilities not related to investing or financing activities	67,287	-106,259
Cash flow from investing activities	-300,104	-189,977
Proceeds from disposals of property, plant, and equipment	13,029	13,811
Purchase of property, plant, and equipment	-198,828	-171,575
Proceeds from disposals of intangible assets	-118	29
Purchase of intangible assets	-5,468	-3,418
Proceeds on disposals of noncurrent financial assets	371	2,944
Acquisition of noncurrent financial assets	-98,315	-24,498
Receipts from disposal of subsidiaries and business units	4,460	0
Acquisition of subsidiaries and business units (less acquired cash funds)	-17,039	-6,937
Receipts/Payments in connection with the short-term financial management of cash investments	1,804	-333
Cash flow from financing activities	46,656	23,951
Cash receipts from issue of capital	52	4,981
Cash payment to owners and minority shareholders (dividends)	-15,114	-6,995
Cash proceeds from issuing bonds/loans and short- or long-term borrowings	600,883	600,193
Cash repayments of bonds/loans or short- or long-term borrowings	-539,165	-574,228
Total cash flow	57,973	-24,688
Change in cash funds from exchange rate movements and valuation procedures	35,672	39,957
Cash funds at the end of the period	354,670	261,025

ANNOTATIONS TO THE BALANCE SHEET OF THE MAHLE GROUP //

For improved comparability, previous year's deferred tax assets and deferred tax liabilities are disclosed as net amount.

Accounts receivable and other assets	Carrying value Dec. 31, 2010	Thereof with a remaining period of more than 1 year
in EUR '000		
Accounts receivable		
Trade receivables	837,156	513
Receivables from affiliated enterprises	4,484	–
Receivables from enterprises in which investments are held	2,388	–
Other assets	135,412	21,121
Total	979,440	21,634

In the previous year, trade receivables (EUR 1,385k), as well as other assets (EUR 31,430k) had a remaining term of more than one year. The disclosure of the previous year's deferred tax assets has been adjusted and is now disclosed in the tax assets item.

Prepaid expenses comprise among others the differences between net loan proceeds and the amount repayable to banks (debt discounts) amounting to EUR 20k (previous year EUR 42k).

The **unappropriated retained earnings** equal that of the parent company and contain the amount carried forward from the previous year of EUR 80k.

Liabilities	Carrying value Dec. 31, 2010	Thereof with a remaining period of up to 1 year	Thereof with a remaining period of more than 5 years
in EUR '000			
Liabilities to banks	905,074	270,495	565
Advance payments received on account of orders	20,412	20,402	–
Trade payables	470,581	470,088	–
Liabilities on bills accepted and drawn	286	286	–
Payables			
To affiliated enterprises	2,029	1,544	–
To enterprises in which investments are held	9,615	9,615	–
Other liabilities	133,713	125,294	364
Total	1,541,710	897,724	929

In the previous year, liabilities to banks (EUR 224,270k), advance payments received on account of orders (EUR 13,494k), trade payables (EUR 338,961k), liabilities on bills accepted and drawn (EUR 230k), payables to affiliated enterprises (EUR 659k), payables to enterprises in which investments are held (EUR 4,429k), and other liabilities (EUR 142,762k) had a remaining term of less than one year.

Of the liabilities to banks, EUR 3,054k are secured by property liens and EUR 9,163k by similar rights.

Contingent liabilities	
in EUR '000	
Contingents from notes	4,785
Bonds and guarantees	343
Warranties	112

To our knowledge, the underlying obligations can be fulfilled in all cases by the companies concerned. We do not expect the liabilities to be called in.

Other financial obligations	
in EUR '000	
Purchase commitments	66,599
Financial obligations resulting from rent and lease agreements	84,388
Others	23,603

ANNOTATIONS TO THE INCOME STATEMENT OF THE MAHLE GROUP //

The income statement of the MAHLE Group is grouped in accordance with the cost of sales method. The sales are set against the expenditure incurred in their realization, which is allocated in principle to the functional divisions production, sales, general administration, and research and development.

The cost of sales includes the material and production costs incurred in the realization of the sales and the landed costs of the trade business. The costs of the allocation to accruals for warranties are also included in this item.

The marketing costs include, in particular, personnel and equipment costs, depreciation allocated to the sales division, logistics, market research, sales promotion, shipping and handling, and advertising costs.

The general administration costs include personnel and equipment costs as well as depreciation allocated to the administration division.

The personnel and equipment costs and depreciation allocated to the research and development division are of considerable importance to the MAHLE Group. In order to present the economic status of the Company more clearly, they have been included as separate items in the breakdown.

Sales by area of operations	
in EUR '000	
Business unit Engine Systems and Components	2,377,928
Business unit Filtration and Engine Peripherals	1,521,979
Business unit Industry	333,826
Business unit Aftermarket	728,723
Profit centers and others	298,111
Total	5,260,567

Sales by geographically defined market (country of manufacture)	
in EUR '000	
Europe	2,487,181
America	1,692,651
Asia, Africa, Australia	1,080,735
Total	5,260,567

Sales by geographically defined market (target area)	
in EUR '000	
Europe	2,316,268
America	1,684,336
Asia, Africa, Australia	1,259,963
Total	5,260,567

Personnel expenses	
in EUR '000	
Total	1,501,352

Depreciation/amortization on tangible and intangible fixed assets	
in EUR '000	
Total	329,796
Thereof extraordinary on account of limited use	4,910

OTHER ANNOTATIONS //

Average headcount (without apprentices) over the year

Direct employees	24,557
Indirect employees	19,594
Total	44,151

Derivatives not yet settled at the balance sheet date in accordance with Secs. 285, 314 of the German Commercial Code (HGB) can be broken down as follows:

Derivatives as at December 31, 2010 in EUR '000	Nominal amounts	Current value to be attributed*
Transactions relating to interest	81,741	-425
Transactions relating to currency	610,793	8,586
Transactions relating to commodity	22,923	1,637

* The current value attributed to the currency- and goods-related transactions corresponds to the market value of the derivatives at the balance sheet date which is identified in accordance with the Net Present Value method. All interest-related transactions are based on recognized financial/mathematical models.

The derivative contracts as at December 31, 2010 are placed exclusively with banks. For all hedges having effective relations with the underlying transaction, valuation units have been established. Accruals of EUR 645k were formed for all other transactions on which potential losses have arisen.

Remuneration paid to the members of the Supervisory Board and the Management Board of MAHLE GmbH (parent company)

in EUR '000	
Supervisory Board	214
Management Board	3,563

The total remuneration paid to the Management Board comprises fixed and variable components. The fixed portions for 2010 came to EUR 1,729k, and the variable compensation for 2010 to EUR 1,898k. The remuneration shown also includes an adaptation for the previous year. The fixed portions include benefits in kind, which consist primarily of the noncash benefits of having company cars.

Remunerations paid to former executive directors and their descendants amounted to a total of EUR 1,198k.


An amount of EUR 15,345k is set aside for this group of persons in the pension accruals as at December 31, 2010.

The fee for Ernst & Young GmbH, the auditor of the consolidated financial statements, which was captured as an expense for the business year and is in accordance with Sec. 314 para. 1 no. 9 of the German Commercial Code (HGB), consists of the following:

Auditor's fee in EUR '000	
Audit of financial statements	573
Other assurance services	128
Tax advisory services	368
Other services	111
Total	1,180

Stuttgart/Germany, March 11, 2011

The Executive Directors of MAHLE GmbH


 Heinz K. Junker


 Wolfgang Breuer


 Michael Glowatzki


 Rudolf Paulik


 Bernhard Volkmann

AUDIT OPINION //

The auditors have issued the following opinion on the complete consolidated financial statements and the Group management report.

We have audited the consolidated financial statements prepared by MAHLE GmbH, Stuttgart, comprising the balance sheet, the income statement, the notes to the consolidated financial statements, cash flow statement, and statement of changes in equity, together with the Group management report for the fiscal year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the Group management report in accordance with German commercial law is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ("Handelsgesetzbuch:" German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany: IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities, the economic and legal environment of the Group, and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities to be included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with German principles of proper accounting. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart/Germany, March 15, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Marbler
German Public Auditor

Weidle
German Public Auditor

MEMBERS OF THE SUPERVISORY BOARD //

Dr. rer. pol. Dr. rer. pol. h.c. Klaus P. Bleyer
Chairman
Former Chairman of the Management Board of
ZF Friedrichshafen AG, Friedrichshafen/Germany

Bernd Hofmaier-Schäfer
Deputy Chairman
Chairman of the Central Works Council of
MAHLE Group Germany and
Deputy Chairman of the European Works Council

Rolf Allmendinger
Former Chairman of the Supervisory Board of
WMF Aktiengesellschaft, Geislingen/Germany

Kai Steffen Bliesener
effective January 1, 2011
Press Relations Officer of Industriegewerkschaft
Metall Baden-Württemberg,
District Administrative Office, Stuttgart/Germany

Herbert Bossert
Chief Operation Officer of the European Works Council

Martin Bücher
Deputy Chairman and Executive Secretary of
the Central Works Council of MAHLE Group Germany

Hubert Dünneheimer
until December 31, 2010
Union Secretary of Industriegewerkschaft Metall
Baden-Württemberg, District Administrative Office,
Stuttgart/Germany

Prof. Dr. jur. Wolfgang Fritzemeyer
LL.M., Attorney-at-Law
Baker & McKenzie, Munich/Germany

Dipl.-Kfm. Horst H. Geidel
until September 30, 2010
Chairman of the Supervisory Board of
Behr GmbH & Co. KG, Stuttgart/Germany

Dr. rer. pol. Rolf A. Hanssen
Former Chairman of the Management Board of
MTU Friedrichshafen GmbH, Friedrichshafen/Germany

Hans D. Jehle
Former President of MAHLE, Inc., Morristown/USA

Thomas R. Letsch
Vice President Sales and Application Engineering
Commercial Vehicles of MAHLE International GmbH,
Stuttgart/Germany

Gerhard Pietsch
Managing Director of the MABEG e.V.
Association to promote and advise the MAHLE Group,
Stuttgart/Germany

Prof. Dr.-Ing. Stefan Pischinger
Director and Professor, Institute of
Combustion Engines, RWTH Aachen/Germany

Willi Ritter
Chairman of the Works Council of Stuttgart plant

Hansjörg Schmierer
Managing Director of Industriegewerkschaft Metall
Local Administrative Office, Stuttgart/Germany

Prof. Dr.-Ing. Dr.-Ing. e.h. Hans-Joachim Schöpf
effective October 19, 2010
Former Executive Vice President R&D at
Mercedes Car Group of Daimler AG

Manfred Steidle
Chairman of the European Works Council and
Deputy Chairman of the Central Works Council
of MAHLE Group Germany

REPORT OF THE SUPERVISORY BOARD //

The Supervisory Board would like to express its thanks to member Horst Geidel, who stepped down on September 30, 2010, for his many years of constructive cooperation. Prof. Dr.-Ing. Dr.-Ing. e.h. Hans-Joachim Schöpf was appointed member of the Supervisory Board by the shareholders for the remaining term of office. The Supervisory Board also wishes to thank member Hubert Dünneleier, who stepped down on December 31, 2010, for his dedication and constructive cooperation, as well as his successor Kai Steffen Bliessner, appointed by the Stuttgart district court ("Amtsgericht Stuttgart"), for his willingness to join the committee and take over Hubert Dünneleier's responsibilities for the remaining term of office.

During the year under report, the Supervisory Board was informed regularly, promptly, and comprehensively through oral and written reports from the Management Board and during meetings on the status and development of the market and the business of the Company and the MAHLE Group. The Supervisory Board held three ordinary meetings and two extraordinary meetings. It also adopted one resolution by written consent.

In this business year, the committee also dealt intensively with the Group's strategic orientation in view of the unexpectedly fast recovery of the global economy, and thus of the whole automotive industry, from the deep crisis affecting the industry in 2009. Discussions focused on the long-term development of the Group, firstly as regards the Industry business segment, which was strengthened by the majority acquisition of Behr's industrial activities and their merger with MAHLE's industrial activities relating to large engines and industrial filtration. Secondly, MAHLE's planned participation in the Behr Automotive Group, which was recently agreed contractually, required a

large amount of intensive and responsible consultations with the aim of working out and evaluating the synergy potential and the opportunities to combine the systems competences of the two companies. In the medium term, the successful completion of these endeavors places MAHLE in a position to participate in the high-growth business segment of energy-efficient thermal management, in both its automotive and industrial activities.

The Supervisory Board reinforced the Management Board in its intention to continue the cost reduction and restructuring measures, which were started in the previous year and have now proved successful, and to promote the efforts to adjust operations to the new customer requirements at both Group and regional level. The continued measures to safeguard the Company's liquidity represented another important issue.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, audited the Annual Financial Statements and the Status Reports of the MAHLE Group and of MAHLE GmbH for the 2010 business year, rendering an unqualified audit opinion. The Supervisory Board agrees with the results of the audit.

The Supervisory Board approves the Annual Financial Statements and the Status Reports of the MAHLE Group and of MAHLE GmbH, and does not raise any objections to the appropriation of income as proposed by the Management Board.

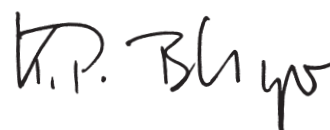
On September 30, 2010, Peter Grunow, who had belonged to the Company since 1974 and had been a member of the Management Board since 2001, left the Company to take on another management role as Chairman of the Management Board of

Behr GmbH & Co. KG. The Supervisory Board would like to thank Peter Grunow for his many years of successful service to the Group. Wolfgang Breuer was appointed Corporate Executive Vice President and General Manager with effect from October 1, 2010. He was appointed Head of the Filtration and Engine Peripherals business unit (BU2). Since January 1, 2011, Dr. Michael Matros has been a member of the expanded Management Committee as Head of the newly formed Industry business unit (BU3) comprising the Filtration, Engine Components, and Thermal Management divisions.

The Supervisory Board would like to thank the Management Board and all employees of the MAHLE Group for their work, their flexible commitment, and their willingness to take on personal financial burdens in order to safeguard the interests of the Company. They played an important role in helping the Company overcome the crisis and continue its strong development.

Stuttgart/Germany, April 14, 2011

For the Supervisory Board



Dr. Klaus P. Bleyer
Chairman

MANAGEMENT BOARD //

Prof. Dr.-Ing. Heinz K. Junker

Chairman and CEO

Business Unit Aftermarket,
Profit Center Engineering Services;
Sales and Application Engineering,
Research and Advanced Engineering,
Corporate Planning, Corporate Communications

Wolfgang Breuer

effective October 1, 2010

Corporate Executive Vice President and General Manager
Business Unit Filtration and Engine Peripherals

Michael Glowatzki

Corporate Executive Vice President
Human Resources, Legal

Dipl.-Kfm. Peter Grunow

until September 30, 2010

Corporate Executive Vice President and General Manager
Business Unit Filtration and Engine Peripherals,
Profit Center Industrial Filtration

Dr. Rudolf Paulik

Corporate Executive Vice President and General Manager
Business Unit Engine Systems and Components,
Profit Centers Small Engine Components,
Motorsports and Sintered Components;
Corporate Quality Management

Dr. rer. pol. Bernhard Volkmann

Corporate Executive Vice President and Chief Financial Officer
IT Services, Insurances, Internal Audit





FINANCIAL CALENDAR 2011 //

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September 5, 2011
Half-year Press Conference

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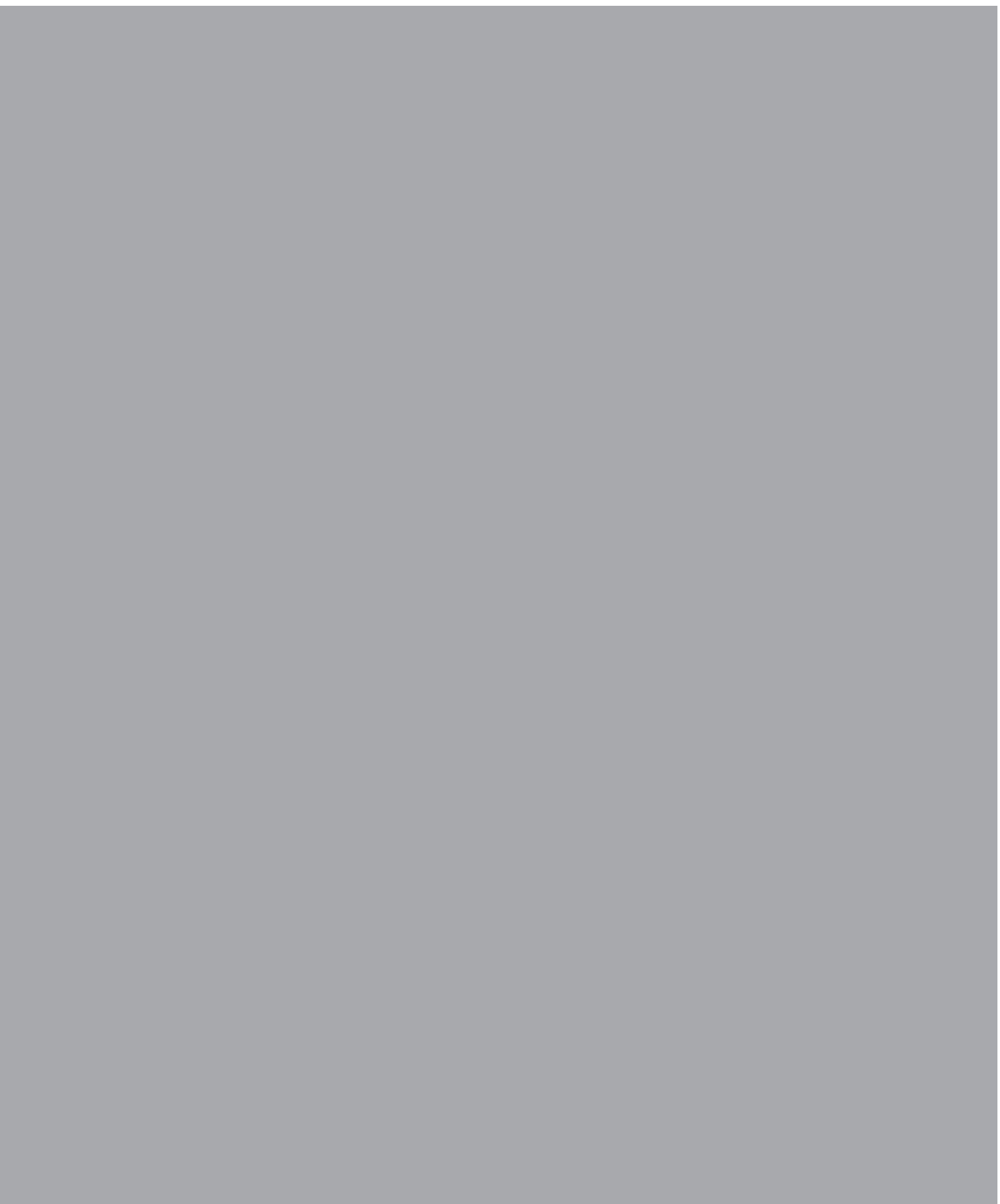
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