



## **Annual Press Conference on April 20, 2010, in Stuttgart**

### **Statements by Markus Flik, CEO of Behr GmbH & Co. KG**

Ladies and Gentlemen:

First of all I would like to introduce you to **Hermann Tetzner**, our new Chief Financial Officer. An industrial engineer, he gained many years' experience in various leading administrative positions at the pharmaceuticals group Boehringer Ingelheim, including in Brazil and the USA. Before joining us in early February, Hermann Tetzner held the position of CFO at SMS, a plant and machinery manufacturing company in Düsseldorf, Germany. We are glad to have him on board.

#### **Market**

A year filled with bad news lies behind us. The entire industry is suffering from an unprecedented crisis.

#### **Light vehicle market**

In the first half of 2009, production figures in Europe dropped by 34% and in North America by 50%. Due to their insolvency, General Motors and Chrysler closed down their plants for several weeks. In the third quarter, we were still seeing decreases of 15 to 21%. In the fourth quarter, Europe was able to pick up by 13%, also because of the weak fourth quarter in 2008, while the figures for North America remained stable. In the year as a whole, production in Europe fell by 20% and in North America by 32%.

### Truck market

Between January and September 2009, truck production in Europe fell by 72% compared to 42% in North America. This slump only decreased noticeably in the fourth quarter. Altogether, production figures in 2009 in these markets were two thirds and one third below the previous year's level, respectively.

These slumps were much steeper than those encountered in the last industry crisis from 1991-93 and had their origins in the market cycle and the financial crisis as well as in structural causes.

### Fiscal year 2009

- 2009 was an extremely difficult year for Behr in which we sustained a massive loss.
- We timely introduced and implemented comprehensive measures to lower costs and capital commitment.
- These measures took full effect and already resulted in a positive EBIT, excluding restructuring, in the fourth quarter of 2009.

Ladies and gentlemen,

the facts speak for themselves. The year 2009 was the most difficult year to-date for the Behr Group and also the worst year in our entire company history in terms of earnings:

- Our **sales**, adjusted for the sale of Behr Industry, which is still pending approval by the antitrust authorities, fell by 22% to 2.60 billion euros, which is in line with our forecast from March 2009. Reported sales decreased from 3.3 to 2.47 billion euros. We experienced a decline of 19% in the Air Conditioning Product Division, 24% in Engine Cooling, and 14% in the service and aftermarket business.

- Earnings before interest and taxes (**EBIT**), excluding restructuring, came to -112 million euros as opposed to -3 million euros in the previous year.
- We registered a **loss** of -235 million euros before taxes, compared to -70 million euros in the previous year. This figure includes approximately 80 million euros for restructuring expenses. This means that, excluding restructuring, our loss has more than doubled, from 67 million euros to 155 million euros.
- Due to the massive loss, our **equity ratio** has dropped from 22% to 13%.

The drastic reduction in capital expenditure in fixed assets from 185 million euros to 97 million euros and the consistent reduction of inventories from 308 million euros to 247 million euros (-20%) allowed us to limit the increase in **net debt** to 45 million euros – from 479 million euros to 524 million euros.

In addition to the consistent lowering of tied-up capital, our focus in 2009 was on **reducing costs** across all divisions:

- Primarily, increased efficiency brought development expenses down by 48 million euros to 206 million euros (8.3% of sales).
- Despite lower production volumes, the plants operated at high productivity levels around the globe and were able to cut their costs by 57 million euros.
- We succeeded in reducing administrative costs by 39 million euros.
- Overall, measures to improve earnings, corresponding to 229 million euros, were implemented under our Project 2010 initiative. Our original target of 175 million euros was thus significantly exceeded.

The effectiveness of these measures is reflected in the EBIT performance during the quarter, excluding restructuring: In the fourth quarter, we were already seeing a positive EBIT excluding restructuring excluding restructuring at 7 million euros, which was partly attributable to the good sales figures in October and November.

As a result of these measures, the number of **employees** worldwide fell by 1,741, or 9.3%, to 17,071. In North America, around 15% fewer staff were employed. On December 31, 2009, staff numbers in Germany totaled 6,516, which is 7% less than in 2008. In terms of full-time equivalents, the reduction in Germany amounted to as much as 16%, or 23% overall, compared to the peak value recorded in August 2008. These figures reflect the effectiveness of short-time working measures and other instruments employed to enhance flexibility.

Even in the crisis we remain committed to offering training opportunities. At the end of 2009, around 170 trainees, and students enrolled at universities of cooperative education, were taking part in such schemes at Behr Germany.

We are using the short-time work to implement extensive qualification measures to enhance skills in areas such as, for example, quality management methods, management training, and production optimization.

### **Restructuring**

Among other factors, the crisis in our sector is a result of excess capacities. Accordingly, structural adjustments are unavoidable.

In 2009, we had to implement the following measures at Behr:

- An agreement with the works council and IG Metall (German metalworkers' union) concerning the reduction of up to 300 development and administration jobs in Stuttgart
- Complete closedown of the production plant in Barcelona, affecting around 200 employees
- At Behr America, the reduction of around 200 salaried staff and the offshoring of a considerable volume of development work to Behr Engineering Services in India
- In Dayton/Ohio the additional relocation of labor-intensive products to Mexico, as well as the conclusion of a plant agreement involving a reduction in costs of more than 10 million US dollars annually

While these measures were painful for the employees involved, they were unavoidable. We have applied them consistently and with sound judgement.

A further measure was the **sale** of non-core business activities:

- The business with thermostats for domestic applications was sold to Vernet.
- A share of 60% of Behr Industry will be sold to Mahle, pending the approval of the antitrust authorities. In 2009, Behr Industry generated sales of 178 million euros with approximately 860 employees. In our 2009 Annual Statements, Behr Industry is listed as "held for sale" in line with IFRS. Hermann Tetzner will provide more details on this later.

Why has Behr been hit so hard by the crisis? The reason lies in the fact that we are strongly involved in three areas that have experienced a massive slump.

- in North America
- in the truck business,
- and in the premium segment.

When all three areas recover as anticipated – and there is already some evidence of this – our business prospects will also improve. Nevertheless, this does not alter the fact that the restructuring measures need to be implemented.

### **Position in Growth Markets**

The companies in the growth markets of Brazil, India and China have developed well. For example, in 2009 Behr generated sales of 274 million euros in Asia, which is 31% up on the previous year. These markets also generated positive earnings.

In the established automotive markets of Europe, North America and Japan, production will not regain the level of 2007/2008 for some years. Growth in our industry is mainly being generated in the emerging markets, especially in India and China.

Behr is well positioned to accommodate this trend and will continue to expand globally. Let me give you three current examples:

**China**

The Chinese truck market remains unaffected by the global downturn and is still growing strongly. In 2009, at our three joint ventures in China we employed more than 1,000 staff members, pro rated, and generated sales of around 160 million euros.

With Behr Jinan, our first wholly-owned Behr subsidiary in China, we are further leveraging our strong position in the local truck business. The new plant is located approximately 900 km northwest of Shanghai and started production in early 2010. From here, Behr delivers air conditioning components and engine cooling systems to CNHTC, one of China's most successful manufacturers of heavy trucks. Behr Jinan currently employs around 130 employees and will generate sales in excess of 20 million euros by 2011.

**India**

In the year under review, Behr India employed 500 staff and generated sales of 45 million euros, which will continue to increase strongly.

In order to additionally benefit from the availability of skilled engineers in India, we established Behr Engineering Services (BES) in 2009. A business unit of Behr India and located in Pune, BES performs development services for other Behr locations, especially Troy/Michigan and Stuttgart. The number of employees, which totaled around 100 at the end of 2009, will continue to rise. BES gives us added flexibility, thus strengthening the competitive standing of our traditional development locations.

**Turkey**

As the gateway between Europe and Asia, Turkey plays an increasingly vital role for the European auto industry – also in terms of exports. Within the past few years, the country has evolved into a key region for European auto makers and parts suppliers and constitutes an important bridgehead for the markets in the Middle East and neighboring countries.

We aim to participate in the potential this market offers. We have signed an agreement with the Turkish supplier Kale Oto Radyatör to found a joint venture that will sell engine cooling systems for cars as well as for light and heavy trucks in Turkey. The agreement is pending the approval of the Turkish antitrust authorities.

### **Ecological mobility**

Successful acquisitions play a decisive role in our future, and new products are a key factor in this. That is why we did not stop a single one of our Advanced Engineering projects in 2009. In the coming years, essential growth drivers will be products that contribute to ecological mobility. In the truck sector, the focus in this context will be on reducing emissions, while the light vehicle segment will center on downsizing and electromobility. Here are just a few examples:

### **Reducing truck emissions**

Legislation governing exhaust emission limits for heavy trucks was first introduced in the EU in 1992. Since then, the limits for nitrogen oxides (NOx) and particulates have been reduced by 60% and 80%, respectively. Although the limits for the future Euro 6 standard have not yet been specified, they will nevertheless require a further reduction in emissions. In the US and Japan, legislative requirements are also steadily increasing.

The concepts developed by Behr for cooled exhaust gas recirculation and indirect charge air cooling are already helping toward meeting the Euro 5 emission targets for trucks. Our EGR coolers, for example, are already on board Daimler's Heavy Duty Engine platform. In 2009, we also launched production of our integrated charge air cooler for MAN. Behr innovations will also enable compliance with Euro 6 standards in the further developed version.

Our new, performance and efficiency-enhanced range of Visco® fans supply up to 20% more cooling air in the same space envelope. Together with our further refined radiators, they are able to meet the increased demand for cooling necessitated by the Euro 6 standard. The controlled Visco® water pump likewise enables compliance with Euro 6 limits while minimizing consumption.

### **Reducing fuel consumption in cars**

The objective, here, is to make the gasoline engine as efficient as the Diesel. In this context, downsizing – or the reduction of displacement volume without compromising engine power – has become the predominant instrument for reducing fuel consumption and emissions in all car segments. Downsizing is achieved with the aid of turbocharging in combination with charge air cooling and, in future systems, also with cooled EGR technology. For Behr, the increasing number of downsized, turbocharged gasoline engines, and thus the growing need for additional heat exchangers, presents interesting growth opportunities. In the year under review we have further extended our leading edge in this product segment and are offering our customers solutions for engine-mounted charge air coolers as well as coolers integrated into the intake manifold or compressor housing.

The thermostats developed by Behr Thermot-tronik for indirect charge air cooling applications enable constantly optimal coolant flow which further reduces fuel consumption and pollutant emissions.

### **Electromobility**

In times of spiraling fuel prices, growing eco-awareness and increasingly stringent eco-legislation, the issue of powertrain electrification is becoming increasingly important. We are supporting this development with innovative products designed to thermally control the temperature-sensitive lithium-ion drive batteries and to provide energy-saving heating and air conditioning systems for vehicle cabins.

**Battery cooling**

Cooling of the temperature-sensitive lithium-ion batteries used in hybrid and electric vehicles represents a new and attractive business area for Behr. We began developing initial concepts in 2005. In 2009, we were able to introduce the world's first cooling plate for lithium-ion batteries in a production vehicle application for the battery cooling system of the Mercedes-Benz S 400 BlueHybrid. This cooling plate is directly cooled by refrigerant supplied by the vehicle's air conditioning system, which means that an additional water circuit can be omitted.

Depending on our customers' requirements, we also offer battery cooling concepts that feature a so-called chiller. In this case, water that has previously been cooled in the chiller by evaporating refrigerant from the air conditioner flows through the coolant plate. Production of the chiller will start this very year. A further option is to control the temperature of the battery using a separately cooled stream of air. Production of this technology will start in 2011.

Battery cooling combines expertise from traditional engine cooling with vehicle air conditioning requirements. It also demands specialized knowledge, for example in electrochemistry. The industrialization of Behr battery cooling products therefore takes place in a separate product center especially created for this new business sector where engineers from the aforementioned specialist divisions work hand in hand.

**Thermal management of hybrid and electric vehicles**

The increasing trend toward electrification creates numerous new challenges for the vehicle air conditioning system. For example, in micro hybrid vehicles equipped with start-stop systems, the air conditioning compressor, which is driven by the internal combustion engine, is also shut off during stop phases. During summer operation, this can have a negative impact on comfort. However, this can be avoided with the help of our new storage evaporator. In this system, the air flowing into the vehicle cabin is adequately cooled by the latent accumulator even during vehicle stops.

Efficient heating of the vehicle cabin is a further challenge posed by electric vehicles. The conventional heater core which is heated by the coolant from the engine is completely eliminated here. The high-voltage PTC heater developed by Behr and equipped with a control unit supplied by our joint venture, Behr-Hella Thermocontrol (BHTC), can be directly interfaced with the high-voltage vehicle electric system without the use of lossy converters. First small-volume series are already being supplied.

Under the brand ECO-Heat we also offer efficient cabin heating concepts for hybrid vehicles which, through specially configured system design, enables additional fuel consumption in the heating mode to be halved.

In hybrid and electric vehicles, the energy for air conditioning the cabin has to be used particularly efficiently. Our ECO-A/C<sup>®</sup> brand offers numerous improvements to the refrigerant circuit, HVAC module and control system design. Compared to current air conditioning systems, this permits a further reduction of fuel consumption caused by air conditioning by more than 20%.

### **Systems competence in thermal management**

As a systems partner, we provide manufacturers with comprehensive single-source thermal management. This know-how helps our customers to comply with increasingly stringent emission standards, utilize energy more efficiently, and thus lower fuel consumption and CO<sub>2</sub> emissions. One example of which we are particularly proud is the Porsche Panamera, which went into production last year:

For this sports sedan, we developed the world's first four-zone climate control system with temperature and air mass control in a single device, i.e. without additional additional rear HVAC module. Similarly, Behr has developed the air ducting in the cabin, the refrigerant and heating circuits, as well as the cooling module for the engine and powertrain. BHTC developed the climate control system including the control head, while HBPO provided the front-end module. In cooperation with Dräxlmaier, Behr and BHTC were also closely involved in the integration of the cockpit. Thus the Porsche Panamera incorporates a combined expertise of Behr and its joint ventures.

## Outlook for 2010

Ladies and gentlemen,  
according to J.D. Power, in 2010 **light vehicle production** in North America will increase by 25% to 10.7 million vehicles due to the considerable inventories reduced by the manufacturers in 2009 and to increased vehicle sales. In Western Europe, production is expected to remain virtually constant: an increase in premium vehicles contrasts with a slight drop in high-volume series due to phasing out of the scrapping incentive programs. Our current orders confirm this prognosis and even exceed it slightly. However, it will not become clear until the middle of the year whether these orders can be sustained. The growth markets Brazil, India, and China will develop positively. The forecast growth in Eastern Europe should be regarded with a certain degree of skepticism.

According to Power Systems Research, **truck production** will increase by 13% in the NAFTA region and by 4% in Western Europe. It remains to be seen whether these volumes will actually be achieved, especially in Europe. The large fleets remain cautious in their purchasing behavior, also regarding sourcing of replacements. The recovery in Eastern Europe is also likely to be less pronounced than predicted. The growth markets in South America and Asia will also record higher production figures for trucks.

Based on this, we expect approximately 10% **sales growth** in 2010, especially stemming from new product launches and our strong position on the growth markets.

We have established clear **priorities** for the current fiscal year:

1. Consistent further pursuit of cost reduction measures
2. Implementation of restructuring measures in Europe and North America
3. Minimization of capital employed even during an economic upturn
4. Group refinancing
5. Bolstering equity

### **1. Cost reduction measures**

Our target for 2010 is within the same range as that of 2009. Based on the already implemented or defined measures, we are confident that we will achieve it.

### **2. Restructuring in Europe and North America**

- We are negotiating with the works councils and IG Metall concerning the closure of the plant in Stuttgart and restructuring of the Kirchberg and Kornwestheim locations. A total of up to 440 employees will be affected by these measures. The negotiations are proceeding constructively.
- At the Stuttgart location we have already shed 110 jobs in Development and Administration by not filling vacated positions, and by offering partial retirement and voluntary severance pay schemes. We still cannot rule out redundancies as of March 31, 2011.
- After closing of the plant in Barcelona in 2009, we will also close the development and administrative location this year. This will affect 127 employees. Approximately half of them are offered employment in Montblanc, which is one hour away by car. This will essentially conclude the restructuring of our loss-making Spanish subsidiary.
- In Dayton/Ohio, we are transferring part of the production, the so-called North Complex, to the South Complex and to Mexico. This reduces the production space by half, with the associated reductions in structural costs. In addition to this, development activities will also be offshored from Troy/Michigan to Behr Engineering Services in India. Supported by the market trend, these restructuring measures will enable Behr America to achieve turnaround in 2011.

### **3. Minimization of capital employed**

We will use the accomplished logistics process improvements to handle the growth in sales with a constant inventory level. In 2010, we will continue to invest substantially below depreciation by optimally utilizing the existing capacities globally.

#### 4. Group refinancing

We are conducting constructive negotiations with our banks concerning a new financing structure for the entire restructuring period until the year 2013. We are confident that we will be able to conclude the talks by the third quarter of the year. Herrmann Tetzner will provide more on this later.

#### 5. Bolstering equity

After agreeing with Mahle in early February on the acquisition of a majority interest in our subsidiary Behr Industry, we are currently conducting negotiations concerning a strategic cooperation. We see opportunities for strengthening our joint market position in the area of engine-mounted components, thermal energy management and mechatronics. This cooperation would be underpinned by a participation by Mahle in Behr. As an industrial investor, Mahle would be a good partner for us. However, as is usual for such processes, there is more than one possible partner for strategic alliances, which is why we are also negotiating with other interested parties, including both industrial and financial investors.

Due to the restructuring program, 2010 is a year of transition for us. We are confident that we will be able to achieve **turnaround** in **2011**. As our measures are already showing proportionate results, and given the market trend that is evident at this time, we will be able to halve our **losses** in **2010**.

Ladies and gentlemen,  
since 2007, we have been implementing the necessary measures – which we originally started in the USA – to overcome the crisis Behr is currently encountering. Our employees are cooperating excellently with us in handling these difficult measures. Behr is not out of the woods yet. This year, we need to apply the same diligence in implementing the planned measures as we did in 2009. However, the measures which have been taken are proving effective. We have broken the downward trend and our sights are firmly focused on the turnaround. This is thanks to the outstanding commitment of our management and staff.

I will now ask Herrmann Tetzner to elaborate on our 2009 financial statements for you.

Thank you.