

BERU AKTIENGESELLSCHAFT

ANNUAL REPORT 2008



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GROUP MANAGEMENT REPORT OF BERU AG

BUSINESS AND ECONOMIC CONDITIONS

BERU Aktiengesellschaft is an automotive supplier domiciled in Ludwigsburg. Since the middle of 2008, BERU has had a domination and profit transfer agreement with BorgWarner Germany GmbH, whereby BorgWarner Germany GmbH is the dominating company and BERU AG is the dependent company.

BERU operates with three product divisions: Diesel Cold Start Technology, Ignition Technology and Electronic and Sensors. BERU steadily pursues the goal of achieving a leadership position in all of its divisions. In line with its internal organization, BERU reports on its three sales segments: Original Equipment, Aftermarket and General Industry.

International Group organization and management

BERU focuses its business policy on profitable growth. The subsidiaries within the BERU Group also follow this strategy.

The Group's operating business is managed with the use of key financial performance indicators. The primary indicator is the operating profit margin and the secondary indicator is economic value (EV). The profit margin is measured as EBIT (profit on ordinary activities, defined at BERU as earnings before investment income, interest and taxes) as a percentage of sales revenue. EV is an indicator that reflects a company's ability to generate profits from its investments. It is based on the concept that a company has to constantly generate enough profit to cover its liabilities. Each amount that exceeds this requirement constitutes economic value. Both indicators will continue to serve as key instruments of financial control in the future.

In the automotive industry, BERU is in a situation of intense competitive pressure. The Group is therefore making strenuous efforts to continuously improve its operating efficiency.

Worldwide BERU locations

The BERU Group is globally active and is represented internationally. It has production and sales companies and joint ventures in Europe, Asia and America. The Group places particular emphasis on its presence in the major automobile markets and its close contacts with customers. BERU continually reviews and optimizes its individual locations with regard to their efficiency and competitiveness.

BERU has a well-developed production and distribution network in Europe, the Group's most important sales market. The headquarters of BERU AG are in Ludwigsburg, where the central administrative functions, the production of glow plugs, ignition coils and ignition connectors, our research and development center and a logistics center are located. BERU AG has other production plants in Germany: in Muggendorf, Neuhaus-Schierschnitz and Bretten. BERU Electronics GmbH, a subsidiary of BERU AG, is located in Bretten. BERU AG also holds a 50% equity interest in BERU-Eichenauer GmbH in Kandel (the company is domiciled in Hatzenbühl). Other production companies, each of which is a 100% subsidiary, are located in Great Britain, Ireland and Spain, and BERU has a distribution company in Italy. BERU's interest in the Dutch joint venture, IMPCO-BERU Technologies B.V., was sold in 2008. Production in Italy was discontinued in the third quarter of 2008 and production in Hungary is to be discontinued at the beginning of 2009; both those companies shall be closed during 2009. In addition, BERU's French production and distribution companies were given a new legal structure and then sold to and integrated into the French organization of the parent company, BorgWarner. BERU continues to bear responsibility for those companies' operating business.

In the North American market, BERU operates a sales company with an application center in the United States and a company in Mexico, which was transformed from a production company into a distribution company in 2008. The BERU Group is represented in Asia, with distribution companies in Singapore and Japan. However, the Japanese company is to be closed in 2009. Production in South Korea was discontinued at the end of 2008 and that company is also to be closed in the first quarter of 2009. The BERU Group additionally includes a 51% equity interest in BERU Korea Co. Ltd. and a 49% equity interest in BERU Diesel Systems Pvt. Ltd. India.

World economy and automotive industry

Global economic developments play a major role for the BERU Group due to its international orientation. Particularly important aspects are the levels of demand in the automotive industry and new car registrations in the sales markets of Western Europe and Asia and the rapidly growing BRIC countries (Brazil, Russia, India and China).

WORLDWIDE ECONOMIC DOWNTURN

Following stable growth of the world economy in 2007, the serious crisis of the international financial markets then spread to other sectors of the economy, bringing an end to the expansion of the global economy. This downswing accelerated during the second half of 2008. According to the Institute for the World Economy, global gross domestic product (GDP) grew by 3.6% in real terms in 2008, which was slightly below the prior-year rate (3.8%).

In the United States, the downward trend of 2007 continued. Economic growth of 1.2% in 2008 was lower than in the prior year (2.0%).

Growth rates in the BRIC countries were also lower than in 2007.

In the euro zone, real GDP growth of 0.9% was significantly lower than in 2007 (2.4%).

The German economy also grew only moderately in 2008. Although price-adjusted GDP was 1.3% above the prior-year level as a result of strong growth in the first half of the year, there has been a clear downward economic trend in Germany since the middle of the year. The downswing did not yet affect the German labor market in 2008: The number of persons employed increased by 1.5% compared with the prior year, partially due to the flexible deployment of temporary workers and the application of working-time accounts.

AUTOMOTIVE INDUSTRY IN CRISIS

Demand for automobiles has fallen worldwide as a result of the financial and economic crisis. In the United States, unit sales of light vehicles fell by 18% in 2008, following a significant decrease in the prior year (-3%).

In Western Europe, BERU's most important market, demand for new cars was also much lower than in 2007. New registrations decreased by 8.4% compared with the prior year. The drop of 19.3% in the fourth quarter compared with Q4 2007 was particularly dramatic. Only four countries were able to report growth in new car registrations for the full year: Fiscal policy actions had positive effects in Finland (+11.2%) and Portugal (+5.7%), while slight growth was achieved in Belgium (+2.1%) and Switzerland (+1.0%) despite the economic crisis.

New registrations decreased also in Germany in 2008. But at minus 1.8%, this decrease was only slight compared with the prior year (-9.2%) and with other European countries.

Unit sales even fell in the dynamic BRIC markets in the fourth quarter compared with the prior-year period, following decreasing year-on-year growth rates in the first three quarters.

DIESEL DEFENDS ITS POSITION

Diesel-powered vehicles continued their successful progress last year. The reasons for this development are low diesel prices, new technologies, increasing environmental awareness and an improved image.

In Western Europe, more diesel vehicles were registered than gasoline vehicles for the third year in succession in 2008. Although diesel's share of the market of 52.7% was slightly lower than in 2007 (53%), this high share of the market demonstrates the success of modern diesel technology with its low emissions and powerful engines.

In Germany, earlier expectations were not fulfilled and sales did not match the level of the prior year. Diesel vehicles accounted for 44.1% of total new registrations, which is significantly below the average for Western Europe (52.7%). The diesel market in Germany can be regarded as nearly saturated. However, it can be expected that diesel's share of new registrations will remain stable at this high level. Eastern Europe has further growth potential.

In the United States, German manufacturers are making efforts to increase their sales of diesel automobiles with environmentally friendly technologies and new models. It is to be expected that the present market share of light vehicles with diesel engines will be multiplied from its present low level to approximately 9% in the next five years.

Impact on the segments and divisions of the BERU Group

DEVELOPMENTS BY SEGMENTS

The BERU Group's most important sales market is Europe, and in particular, the Germany domestic market. In 2008, BERU generated 80.4% of its sales revenue in Europe and defended its strong leadership position.

Overseas markets are increasingly gaining importance. Above all, the Asian markets offer growth potential, but the anticipated increase in diesel's popularity in the United States offers long-term growth opportunities there as well.

Original Equipment

BERU's Original Equipment segment supplies nearly all of the world's automobile and engine manufacturers and generated approximately 65% of consolidated revenue in 2008. The Original Equipment segment essentially maintained its share of supply and thus defended its leadership position in 2008.

The direct measuring tire-pressure monitoring system, TSS (Tire Safety System), of which a cost-optimized version went into series production last year, is fitted to all BMW models destined for export to the United States. In addition, many well-known European carmakers offer TSS as an optional extra. In the United States, Ford and Hyundai models are supplied with TSS in collaboration with Lear.

BERU supplies its PTC auxiliary heating system to many automobile manufacturers, who fit it as standard equipment. In 2008, the first application of a BERU PTC auxiliary

heater for an electric vehicle was made by a European manufacturer for export to the United States. This electric version will also be sold in Europe in the near future.

In the field of ignition technology, BERU succeeded in acquiring new orders for spark plugs.

And in the area of diesel cold-start components, BERU defended its position as one of the global market leaders.

Aftermarket

The development of the worldwide spare-parts business was uneven in 2008. Following a strong beginning to the year with high growth rates compared with the prior-year period, growth slowed down in the second half. Nonetheless, the BERU Group succeeded in meeting its targets and thus reinforced its strong leadership position both in Germany – the domestic market – and internationally.

Within the field of ignition components, the sale of ignition coils developed positively. In regional terms, the growth drivers were once again the countries of Eastern Europe, which recorded double-digit growth, as did France. Positive growth was also achieved in the German market. Europe and Germany remain BERU's most important markets, but in the future, market position in the so-called BRIC countries (Brazil, Russia, India and China) is also expected to be expanded.

The strong euro fell significantly in the second half of 2008. Towards the end of the year, however, it climbed again and closed the year just slightly lower than its level at the beginning of 2008. The weaker euro was a slight advantage for the export business; on the other hand, there were burdens due to the disadvantageous exchange rates for the British pound and the Mexican peso.

BERU successfully launched a new product last year: the Ultra X Titan series of spark plugs. With this new product, BERU offers its customers an assortment that covers more than 95% of all automobile models.

A high rapid-delivery rate is a key factor for success in the aftermarket business. With a rapid-delivery rate of 94.3% in 2008, BERU was once again above the industry average. The BERU Group steadily pursues its goals of expanding its product range and continuing to offer a maximum of quality and service, thus strengthening the BERU brand internationally.

General Industry

In the General Industry segment, the BERU Group supplies renowned manufacturers of oil and gas burners. The segment's business development in 2008 was impacted by a difficult market environment and unit sales declined. In order to gain a leadership position abroad, the technical sales staff outside Germany is to be selectively expanded.

Flat and declining sales of burners and boilers for fossil fuels and the trend towards alternative energies such as solar, photovoltaic, heat pumps and pellet heating require a component mix for alternative energy and heat generation. This necessitates the development of new products and the penetration of new markets. BERU is therefore working on new and ongoing developments in the field of electronics and sensors and on projects for the reduction of particulate emissions. These developments are to be implemented in the short term. The Group anticipates rising revenue once again this year.

DEVELOPMENTS BY DIVISIONS

Despite falling revenues, BERU has succeeded in defending its strong leadership position in all three divisions. The Group strives to further expand its activities in all areas, especially in the field of electronics and sensors. In general, the BERU Group is subject to intense price pressure and competitive pressure.

Diesel Cold Start Technology

BERU is one of the world's leading suppliers of glow plugs and electronic control units for diesel engines, with a market share of more than 40%. The high proportion of diesel cars in Western Europe and the trend towards diesel in Asian markets such as India and South

Korea form an important basis for this division. BERU expects diesel to become much more popular also in the United States in the long term.

Due to the drastic decline in demand in the entire automotive industry, BERU posted a decrease in revenue generated by the Diesel Cold Start Technology division. Nonetheless, the Group was able to defend its leading position.

BERU's innovative PSG (pressure-sensor glow plug) went into series production with great success last year.

Potential for future growth in the field of diesel cold-start components is also offered by stricter emission limits and general efforts to reduce fuel consumption. The BERU product range includes many products that are compatible with this trend.

Furthermore, BERU's ceramic glow plug is currently being tested by several manufacturers.

Ignition Technology

BERU further established its position as a supplier of ignition components in the European market last year. The division's decrease in revenue in 2008 was also caused by the slump in demand from the automotive industry. On the other hand, unit sales of ignition coils developed positively – both as original equipment and in the aftermarket. However, this did not quite offset the overall lower revenue in the division. New ignition technologies are now being developed in order to generate additional sales potential.

Electronics and Sensors

BERU's Electronics and Sensors division has its focus on the sharply increasing proportion of electronic components and the spread of sensor applications in engines and drive trains. In 2008, we launched an improved version of the tire-pressure monitoring system, TSS. This version is less expensive than its predecessor due to the reduced number of components, which is why the revenue generated by the TSS decreased although market share remained the same. At the EU level, there is a debate about whether tire-pressure monitoring systems should be mandatory in motor vehicles, like they are in the United States. These systems allow optimal tire pressure to be maintained, thus making a significant contribution towards road safety and helping to reduce fuel consumption. BERU could benefit from such European legislation.

There is still strong demand for BERU's PTC auxiliary heating system. By successfully fitting an electric vehicle with a PTC system, BERU was able to demonstrate its competence also in this field, with good prospects of additional growth.

ASSESSMENT OF BUSINESS DEVELOPMENTS

Business in the Original Equipment segment did not develop according to plan in 2008. Following a strong first half of the year, demand fell significantly in the second half, especially in the fourth quarter. This was the result of the crisis in the automotive industry, causing nearly all manufacturers either to cut their production volumes drastically or even to cease production temporarily. BERU succeeded in defending its leadership position for original equipment nonetheless. The General Industry segment also failed to meet its targets. The Aftermarket segment developed positively, however, but was not able to offset the fall in revenue in Original Equipment and General Industry. BERU was able to defend its leadership position in its three product divisions.

The automotive industry is currently in a difficult phase with substantial falls in unit sales. Price pressure and competitive pressure will become more intense. The BERU Group strives to achieve sustained improvements in its competitiveness by optimizing internal processes, and will adopt various actions to cope with the lower volumes.

The Group continues to see Europe as its most important sales market. In the medium term, the markets of Asia and the United States are expected to account for rising shares of revenue. In the future, we expect our growth driver will be the Electronics and Sensors division in the Original Equipment segment.

RESEARCH AND DEVELOPMENT REPORT

The entire automotive industry is in a situation of upheaval. Its biggest challenge is to achieve significant reductions in fuel consumption and thus also in CO₂ emissions. Solving these problems requires a holistic approach. As a technology leader in the industry, BERU aims to make a significant contribution to achieving these goals with its own products.

More than 200 people work in the area of research and development at BERU and 4.8% of revenue was invested in R&D in the year 2008 (3.1%).

In order to strengthen research and development activities and to further extend the Group's innovation leadership, a new department was created for basic development last year; this department works on predevelopment and innovation management.

DIESEL COLD START TECHNOLOGY: INNOVATIONS FOR NEW COMBUSTION METHODS

BERU's PSG (pressure sensor glow plug) went into series production in 2008. With this component, diesel engines' emissions of pollutants can be reduced by directly controlling the combustion process. In this way, the PSG helps to meet future limits for particulate matter and nitrogen oxides. The start of series production was very successful and demand in the United States is far higher than expected.

BERU will also launch ceramic glow plugs in 2009. This type of glow plug has the advantage of reaching higher temperatures more quickly, allowing engines to start more smoothly and thus reducing the emission of pollutants.

IGNITION TECHNOLOGY: EVEN BETTER PERFORMANCE

Modern gasoline engines are becoming increasingly compact but also more powerful – due to turbocharging for example. But the higher the pressure in the combustion chamber, the higher the required voltage to be supplied by the spark plug, which ignites the fuel. BERU launched a spark plug with a titanium electrode last year. With the titanium spark plug, the poly-V top electrode is made of a highly burn-resistant nickel-titanium alloy. The titanium electrode, combined with the tapered platinum ignition point of the central electrode, facilitates reliable, long-term ignition performance with optimal fuel utilization.

ELECTRONICS AND SENSORS: ENVIRONMENT AND SAFETY

Since 2007, tire-pressure monitoring systems have been mandatory for all newly registered cars and light trucks in the United States. These systems help to improve road safety. Furthermore, optimal tire pressure reduces fuel consumption and thus also emissions. Similar regulations are also under discussion in Europe and Asia. The EU has already taken account of the possible fuel savings offered by tire-pressure monitoring systems in its CO₂ regulations with an estimate of 0.1 to 0.2 liters per 100 kilometers.

With its third-generation TSS (tire safety system), BERU has developed a cost-optimized system that fulfills these regulations while offering drivers the convenience of seeing tire pressure individually for each tire. For the further development of tire-pressure monitoring systems, the main priority is to reduce costs by means of a high level of integration. In the future, we expect that battery-free systems can also be developed as soon as they are required by our customers.

Another innovative component that contributes to better environmental compatibility is the high-temperature sensor (HTS). The HTS was designed for use in the exhaust-gas aftertreatment of gasoline and diesel engines and is suitable for monitoring exhaust-gas recirculation systems, oxidation catalysts, particulate filters and de-NO_x systems. In addition to applications in various measuring positions in the exhaust system, other positions in the vicinity of the turbocharger are being investigated in cooperation with Turbo & Emissions Systems, a BorgWarner business unit.

REMUNERATION REPORT

Remuneration of the members of the Executive Board

COMPOSITION OF THE EXECUTIVE BOARD IN 2008

There were no personnel changes in the Executive Board of BERU AG in 2008. On January 15, 2009, Dr. Reinhard Meschkat stepped down from the Executive Board by mutual agreement.

GENERAL INFORMATION ON EXECUTIVE BOARD REMUNERATION

The remuneration system for the Executive Board, including its main contractual elements, is decided upon by the Supervisory Board following proposals from the Human Resources Committee and is regularly reviewed. The Human Resources Committee is responsible for determining the details of appropriate Executive Board remuneration.

Key criteria for the appropriateness of remuneration are the tasks of the individual members of the Executive Board, their personal performance and the performance of the entire Executive Board, as well as the economic situation, the Company's success and its future prospects in relation to comparable companies.

The remuneration of the members of the Executive Board comprises fixed and performance-related components as well as benefits promised to Executive Board members in the case that their employment is terminated. The elements of remuneration unrelated to performance are the fixed salary and the fringe benefits. The performance-related elements of remuneration consist of the economic value portion (a variable component of remuneration related to the increase in BERU's enterprise value), and also, for one current Executive Board member and for Dr. Meschkat, who stepped down from the Executive Board in 2009, a bonus.

The benefits promised to the Executive Board members in the case that their employment is terminated are the pension commitments. A change-of-control commitment was also made to Dr. Meschkat, who stepped down from the Executive Board in 2009.

Details of the elements of remuneration are as follows:

COMPONENTS OF FIXED REMUNERATION

Fixed salary

Each member of the Executive Board receives a fixed annual salary paid in twelve equal monthly installments at the end of each month. The appropriateness of the fixed salary is reviewed at intervals of two years.

Fringe benefits

As a fringe benefit, each member of the Executive Board is provided with a company car for both company and private use. In addition, the regular costs of a telephone connection in the private residence of Dr. Meschkat are reimbursed in accordance with his contract of service. BERU AG has also taken out accident insurance cover for the benefit of all Executive Board members and their heirs, as well as a directors' and officers' (D&O) insurance policy (for the benefit of the Executive Board members).

COMPONENTS OF PERFORMANCE-RELATED REMUNERATION

Bonus

The contracts of one current member of the Executive Board and of Dr. Meschkat, who stepped down from the Executive Board in 2009, include a bonus. The bonus is granted annually as a certain percentage of the Group's EBIT. With regard to the year 2008, in both cases a modified calculation of Group EBIT has been used solely for the purpose of the bonus.

Economic value portion

As a second component of performance-related remuneration, and as the only component of performance-related remuneration with one contract of service, the members of the Executive Board are granted an economic value portion.

The economic value portion is calculated and paid out annually in relation to the contractually defined increase in enterprise value. It is calculated in relation to the ratio between operating profit after taxes and capital employed – in each case at Group level. The amount of the economic value portion is limited ("cap"). In light of the current economic situation, the Supervisory Board is considering an adjustment of the method of calculating the increase in enterprise value for the economic value portion.

BENEFITS AFTER TERMINATION OF EXECUTIVE BOARD MEMBERSHIP

Pension commitments

A pension agreement was concluded with the Dr. Meschkat, who stepped down from the Executive Board in 2009, in which the following commitments was made:

- A commitment to the provision of a retirement pension upon retirement for age reasons after the age of 62 in the amount of 25% of the last fixed salary paid before the end of Executive Board membership. The rate of 25% increases by one percentage point for each full year that Dr. Meschkat has spent as a member of the Executive Board of BERU AG at the time when he enters retirement, but does not exceed 35%. In the case of the retirement pension being paid before the normal retirement age, the aforementioned percentages are reduced. Company pension benefits from previous employment are included in the calculation.
- A commitment to the provision of a disability pension. The disability pension is paid out if an Executive Board member leaves the Company prematurely due to partial or complete occupational disability, and is equal to a certain percentage of the last fixed salary paid before leaving. The percentage, which in no case exceeds the percentage of the retirement pension, is related to the time when the invalidity occurs. The reductions compared with the percentage of the retirement pension are higher the earlier the disability occurs.
- A commitment to the provision of a widow's pension. The widow's pension is equal to a certain percentage of the pension that the deceased Executive Board member last received or to which he would have been entitled at the time of death if he had become occupationally disabled at that time. The percentage of the widow's pension is 50%.
- A commitment to the provision of an orphan's pension. The orphan's pension for each legitimate child is equal to a certain percentage of the pension that the deceased Executive Board member last received or to which he would have been entitled at the time of death if he had become occupationally disabled at that time. The percentage for legitimate children of Dr. Meschkat is 16.67%.

As a result of two Group agreements between management and employee representatives reached in 2006, BERU AG created a defined-contribution and capital-oriented retirement-benefit system for the employees of BERU AG. This pension plan also applies to members of the Executive Board Dr. Thomas Waldhier and Mr. Marcus Knödler, with consideration of the following special points:

On the occasion of Mr. Marcus Knödler's appointment as a member of the Executive Board effective April 13, 2007, an agreement was entered into that changed his existing occupational retirement pension with the inclusion of the following commitments:

- The annual amount contributed to the base account for Mr. Knödler's occupational retirement pension was increased to 7.5% of his remuneration that is subject to contributions. Only the fixed remuneration is subject to contributions, but not the variable components of remuneration.
- It was agreed that Mr. Knödler's entitlement to the benefits of his occupational retirement pension would be made contractually non-lapsable with immediate effect.
- A minimum risk benefit was agreed upon, whereby if the benefit credits for disability pension, widow's pension or orphan's pension have not reached the level of the annual fixed salary applicable at the time that such pension falls due, the benefit credit is to be increased to that amount.

On the occasion of Dr. Thomas Waldhier's appointment as the Chairman of the Executive Board effective October 1, 2007, an agreement was entered into concerning his occupational retirement pension that includes the following commitments:

- The annual amount contributed to the base account for Dr. Waldhier amounts to 20.0% of his remuneration that is subject to contributions, which is solely the annual fixed salary, but not the variable remuneration to which Dr. Waldhier is entitled.
- It was agreed that Dr. Waldhier's entitlement to the benefits of his occupational retirement pension would be made contractually non-lapsable with immediate effect.
- A minimum risk benefit was agreed upon, whereby if the benefit credits for disability pension, widow's pension or orphan's pension have not reached the level of the annual fixed salary applicable at the time that such pension falls due, the benefit credit is to be increased to that amount.

Change-of-control commitments

In the contract of service with Dr. Meschkat, who stepped down from the Executive Board in 2009, a change-of-control commitment was made. The commitment is valid only if Dr. Meschkat loses his Executive Board position as the result of a contractually defined change of control. In that case, Dr. Meschkat receives as compensation his fixed salary until the regular end of his contract of service and his performance-related component of remuneration until the regular end of his contract of service on the basis of the last financial year prior to leaving the Company.

RESTRICTED SHARE PLAN OR OTHER COMPONENTS OF REMUNERATION WITH A LONG-TERM INCENTIVE EFFECT

There is no restricted share plan at BERU. Neither have the members of the Executive Board been granted any other variable component of remuneration with a long-term incentive effect and risk element. Since the control and profit-transfer agreement now exists with BorgWarner Germany GmbH, the current members of the Executive Board were offered for the first time in February 2009 the opportunity to take part in the stock options program from BorgWarner. The stock options program serves as a long-term incentive for the future.

Eligible participants are allocated BorgWarner Inc. stocks, or their equivalent in cash, after a specified amount of time and fulfilling particular terms specified by BorgWarner Inc.

DETAILS OF THE REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD

REMUNERATION OF THE ACTIVE MEMBERS OF THE EXECUTIVE BOARD IN 2008

- a) The total remuneration in financial year 2008 of the active members of the Executive Board and of Dr. Meschkat, who stepped down from the Executive Board in 2009, amounted to EUR 840,740.20 (EUR 768,697.83). The economic value portion as a part of performance-related remuneration was not paid for 2008, because the value-increasing goals were not achieved.
- b) In individualized form, the remuneration of the members of the Executive Board for their activities in the 2008 financial year was as follows:

| Executive Board member | Fixed components including fixed one-time payments | | Performance-related components | | Total remuneration | |
|--|--|-------------------------|--------------------------------|-------------------|--------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| EUR | | | | | | |
| Dr. Thomas Waldhier | 328,134.96 | 81,595.93 | 55,904.00 | 75,809.00 | 384,038.96 | 157,404.93 |
| Marcus Knödler | 164,426.88 | 140,339.26 ¹ | 0.00 | 0.00 | 164,426.88 | 140,339.26 |
| Dr. Reinhard Meschkat | 262,458.36 | 377,228.64 ² | 29,816.00 | 93,725.00 | 292,274.36 | 470,953.64 |
| Total remuneration of all Executive Board members | 755,020.20 | 599,163.83 | 85,720.00 | 169,534.00 | 840,740.20 | 768,697.83 |

¹ Including a fixed one-time payment of EUR 22,500.00

² Including a fixed one-time payment of EUR 115,410.00

- c) In addition, the following allocations to pension provisions were made during the 2008 financial year, taking the corridor method into consideration:

| Executive Board member EUR | Allocations to pension provisions | |
|-------------------------------|-----------------------------------|----------------|
| | 2008 | 2007 |
| Dr. Thomas Waldhier | 80,740 | 19,929 |
| Marcus Knödler | 14,986 | 28,500 |
| Dr. Reinhard Meschkat | 70,786 | 62,569 |
| Total | 166,512 | 110,998 |

FORMER MEMBERS OF THE EXECUTIVE BOARD

The remuneration of former members of the Executive Board and their surviving dependants amounted to EUR 1,094,117 (EUR 1,095,483). Pursuant to IAS 19, pension obligations towards members of the Executive Board and their surviving dependants are covered by provisions of EUR 6,988,994 (EUR 7,061,134).

Remuneration of the members of the Supervisory Board

COMPOSITION OF THE SUPERVISORY BOARD IN 2008

There were no personnel changes in the Supervisory Board of BERU AG in 2008.

GENERAL INFORMATION ON SUPERVISORY BOARD REMUNERATION

The remuneration of the members of the Supervisory Board is regulated by Article 10 of the Articles of Incorporation of BERU AG. This article was amended in 2008 by resolution of the Annual Shareholders' Meeting of May 21.

This specifies that each member of the Supervisory Board shall generally receive fixed annual remuneration, payable in four equal installments after the end of each quarter. The Chairman of the Supervisory Board, his Deputy and the chairmen and members of Supervisory Board committees generally receive additional remuneration, oriented towards their attendance at committee meetings.

Furthermore, the Company reimburses the expenses of the members of the Supervisory Board as well as any value-added tax due to be paid on their remuneration. The members of the Supervisory Board are also included in a third-party-liability insurance taken out in an appropriate amount by the Company for its boards and committees and certain officers to protect the Company's interests (directors' and officers' insurance), the premium for which is paid by the Company.

DETAILS OF THE REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

The remuneration granted to members of the Supervisory Board in the 2008 financial year amounted to EUR 172,000.00 (EUR 131,500.00). In individualized form, the remuneration of the members of the Supervisory Board was as follows:

| Supervisory Board member | Fixed components | | Performance-related components | | Total remuneration | |
|--|-------------------|------------------|--------------------------------|------------------|--------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| EUR | | | | | | |
| Dr. Ulrich Wöhr (Chairman) | 98,000.00 | 26,000.00 | 18,000.00 | 55,500.00 | 116,000.00 | 81,500.00 |
| Robin J. Adams (Deputy Chairman) ¹ | - | - | - | - | - | - |
| Marina Cee | 28,000.00 | 6,500.00 | - | 18,500.00 | 28,000.00 | 25,000.00 |
| Anthony D. Hensel ¹ | - | - | - | - | - | - |
| Bernd Immekamp | 28,000.00 | 6,500.00 | - | 18,500.00 | 28,000.00 | 25,000.00 |
| Alfred Weber ¹ | - | - | - | - | - | - |
| Total remuneration of all Supervisory Board members | 154,000.00 | 39,000.00 | 18,000.00 | 92,500.00 | 172,000.00 | 131,500.00 |

¹ Waived Supervisory Board remuneration

ADDITIONAL DISCLOSURE PURSUANT TO SECTION 315, SUBSECTION 4 OF THE GERMAN COMMERCIAL CODE (HGB)

PURSUANT TO SECTION 315, SUBSECTION 4, NO. 1 OF THE HGB

The subscribed capital of BERU Aktiengesellschaft amounted to EUR 26 million at the balance sheet date, and is divided into 10 million shares. The Company's shares are bearer shares. Each share grants the right to one vote.

PURSUANT TO SECTION 315, SUBSECTION 4, NO. 3 OF THE HGB

At March 17, 2008, BorgWarner Germany, Ketch, held a total of 82.17% of the 10 million shares in BERU AG. In 2008, BERU AG received no notifications pursuant to Section 21 ff of the German Securities Trading Act (WpHG) that a shareholder had acquired an equity interest of more than 10%.

On January 7, 2009, BorgWarner Germany GmbH informed BERU AG that BorgWarner Germany GmbH meanwhile holds 95.58% of the shares of BERU AG. At the same time, BorgWarner Germany GmbH requested that a squeeze-out (compulsory acquisition of shares from minority shareholders) be decided upon in the next Annual Shareholders' Meeting in accordance with Sections 327a ff of the German Stock Corporation Act.

PURSUANT TO SECTION 315, SUBSECTION 4, NO. 6 OF THE HGB

With regard to the appointment and dismissal of members of the Executive Board, we refer to the stipulations of Sections 84 and 85 of the German Stock Corporation Act. Furthermore, Article 6, Paragraph 2 of the Company's Articles of Incorporation stipulates that the number of Executive Board members is determined by the Supervisory Board. Pursuant to Article 7,

Paragraph 2 of the Articles of Incorporation, the Supervisory Board can authorize individual members of the Executive Board to represent the Company alone.

The Articles of Incorporation of BERU AG can be amended in accordance with the provisions of Sections 133 and 179 of the German Stock Corporation Act. In addition to these legal regulations, Article 12, Paragraph 3 of the Company's Articles of Incorporation includes the following stipulation: "In order to pass resolutions in the Annual Shareholders' Meeting, a simple majority of the votes cast is necessary and sufficient – provided that this is not contrary to the provisions of applicable law. If the law requires a majority of the equity capital represented when voting in order to pass a resolution, also in this case a simple majority is necessary and sufficient – provided that this is not contrary to the provisions of applicable law."

PURSUANT TO SECTION 315, SUBSECTION 4, NO. 7 OF THE HGB

On May 21, 2008, the Annual Shareholders' Meeting of BERU AG resolved to authorize the Company to acquire its own shares in accordance with Section 71, Subsection 1, No. 8 of the German Stock Corporation Act in an amount up to 10% of the capital stock. The authorization is valid until October 31, 2009. As of December 31, 2008, BERU AG held none of its own shares.

PURSUANT TO SECTION 315, SUBSECTION 4, NO. 8 OF THE HGB

BERU AG has concluded a supply agreement with a customer on the basis of which the BERU Group had sales revenue of approximately EUR 4 million in 2008. The customer can terminate this agreement without any compensation with a period of notice of 60 days if BERU AG sells or exchanges shares in the Company, offers to sell or exchange shares, or causes the sale or exchange of shares, and as a result a change of control takes place. Furthermore, a credit framework agreement exists with a bank covering credit lines of up to EUR 5 million, which have not yet been utilized, which can be terminated extraordinarily by the bank if there is a change in the ownership situation / a change of control and no agreement between the parties on the continuation of the contract under amended conditions takes effect in good time.

PURSUANT TO SECTION 315, SUBSECTION 4, NO. 9 OF THE HGB

One member of the Executive Board, who stepped down from his position in January 2009, was granted a change-of-control commitment. The commitment is applicable only in the case that the Executive Board member loses his Executive Board position due to a change of control. A change of control is deemed to be (i) the acquisition by a third party of voting rights giving the third party a majority of the votes in the Annual Shareholders' Meeting of BERU AG, (ii) the conclusion of a company agreement by BERU AG as a dependent company (see Sections 291 ff of the German Stock Corporation Act), (iii) the integration of BERU AG into another company (see Sections 319 ff of the German Stock Corporation Act), or (iv) a change in the form of organization of BERU AG (see Sections 190 ff of the German Act Regulating the Transformation of Companies (UmwG)). If the respective Executive Board member loses his Executive Board position as a result of such a change of control, he can demand as severance compensation his fixed salary until the regular end of his contract of employment as well as his performance-related element of compensation until the regular end of his contract of employment on the basis of the last financial year before leaving the Company.

There were no facts to be disclosed pursuant to Section 315, Subsection 4, No. 2, No. 4 or No. 5 of the HGB in 2007.

SITUATION OF ASSETS, FINANCES AND PROFITABILITY

Note: All percentages and amounts in millions have been rounded to one decimal place. The comparative prior-year figures are shown in brackets.

The presentation of the income statement has been changed from the total-cost method to the cost-of-sales method. For better comparability, the sales revenues of the prior year have been adjusted accordingly. The difference in prior-year revenue according to the new method relates to other revenue with machine tools and to testing and development revenue in a total amount of EUR 10.8 million. However, these adjustments solely consist of reclassifications within the income statement; the earnings figures themselves are not affected.

Key earnings figures

| € million | FY 2008 | (in %) | FY 2007 | (in %) |
|--|---------|--------|---------|--------|
| Sales revenue | 409.4 | | 439.1 | |
| Profit on ordinary activities | -26.0 | -6.4 | 39.1 | 8.9 |
| Adjusted for the disposal of TDA (-€38.3m) | 12.3 | 3.0 | 39.1 | 8.9 |
| Financial income | 5.0 | 1.2 | 5.2 | 1.2 |
| Profit before income taxes | -21.0 | -5.1 | 44.2 | 10.0 |
| Profit for the year | -28.3 | -6.9 | 30.9 | 7.0 |
| Earnings per share (in EUR) | -2.89 | | 2.98 | |

Profitability

The BERU Group posted a net loss after minority interest of EUR 29.5 million in 2008, compared with a net profit after minority interest of EUR 29.7 million in the prior year. The result of ordinary activities fell from a profit of EUR 39.1 million to a loss of EUR 26.0 million. Earnings were primarily influenced by the deconsolidation loss of EUR 38.3 million from the disposal of the French subgroup. Adjusted for this effect, there was a profit on ordinary activities of EUR 12.3 million. Operating profit was also impacted by the continuation of restructuring actions within the Group.

Earnings per share amounted to minus EUR 2.95, compared with plus EUR 2.98 in 2007.

SALES REVENUE

The BERU Group's sales revenue decreased by 6.9% from EUR 439.9 million in 2007 to EUR 409.4 million in 2008, mainly due to the unit-sales slump in the automobile industry in the second half of the year. An additional factor is that BERU was once again obliged to grant price reductions, as in the previous years. Solely in 2008, discounts granted totaled EUR 9.2 million. Furthermore, it is necessary to consider the fact that the French companies are no longer consolidated following their disposal to BorgWarner at the beginning of December 2008.

Sales revenue by region

The BERU Group recorded falling sales revenue worldwide. The biggest drop in sales revenue was the 37.9% recorded in the North American market, where the United States has been hit particularly hard by the automotive crisis. Sales revenue in North America fell from EUR 35.5 million in 2007 to EUR 22.0 million in 2008. BERU anticipates a shrinking market and falling sales revenue in North America also in 2009. In Germany, the domestic market,

sales revenue decreased by 2.6% to EUR 150.2 million (EUR 154.1 million). Nonetheless, BERU defended its strong leadership position in Germany. In the rest of Europe, (excluding Germany), sales revenue decreased from EUR 184.3 million to EUR 179.1 million, equivalent to a decrease of 2.8%. In Asia, BERU posted sales revenue of EUR 40.9 million in the reporting period, which was EUR 7.6 million less than in 2007. Although the crisis of automobile sales is not as serious in Asia as in the United States or Europe, growth has significantly weakened also in that region. Sales revenue in the rest of the world decreased slightly by 1.3% to EUR 17.3 million (EUR 17.5 million).

Sales revenue by segment

In the Original Equipment segment, BERU generated sales revenue of EUR 265.4 million in 2008, equivalent to a 10.1% decrease compared with the prior year (EUR 295.1 million). The drop in revenue in this segment reflects the drastic slump in unit sales in the automobile industry. An additional factor is that less revenue was generated by the tire-pressure monitoring system due to the launch of a less expensive version. Revenue in the Original Equipment segment from sales of diesel cold-start components was also lower. Revenue from sales of PTC auxiliary heating systems increased, however. 64.9% of the Group's total sales revenue was generated in the Original Equipment segment (67.1%).

BERU marginally increased its sales revenue in the Aftermarket segment in 2008: The figure of EUR 118.4 million was just 0.7% higher than in 2007 (EUR 117.6 million). The increase resulted from strong unit sales of ignition coils. The proportion of Group revenue accounted for by the Aftermarket segment increased from 26.7% in 2007 to 28.9% in 2008.

The sales revenue of the General Industry segment decreased to EUR 25.6 million in 2008 (EUR 27.2 million). This was primarily due to the difficult market environment and the ongoing debate about state support for regenerative energies. General Industry's share of total revenue remained stable at 6.2% in 2008.

Sales revenue by division

BERU's Diesel Cold Start Technology division once again defended its position as a world leader in its field. However, due to the sales crisis in the automobile industry, the Group suffered falling sales revenue in this division in 2008, as in the other two divisions, posting revenue of EUR 143.0 million (EUR 164.1 million). The decline was also partially due to the intense pressure of prices and competition. In the long term, however, the Group anticipates a revival of business in this division. This revival should be assisted in the coming years by the pressure-sensor glow plug (PSG), which went into series production in 2008, as well as launches of innovative new products. Potential for growth in the Diesel Cold Start Technology division is also offered by the possibility of stricter emission limits and by efforts to further reduce fuel consumption.

The sales revenue of the Ignition Technology division decreased by 5.2% to EUR 122.2 million in 2008, compared with EUR 128.9 million in the prior year. Increased unit sales of ignition coils were unable to compensate for the overall reduction in revenue.

The Electronics and Sensors division posted the lowest decline in sales revenue, with a decrease of 1.8% from EUR 146.9 million in 2007 to EUR 144.3 million. With the less expensive version of its tire-pressure monitoring system, BERU generated sales revenue of EUR 65.0 million, or 5.3% less than in the prior year. However, demand for PTC auxiliary heaters was positive, resulting in significantly higher sales revenue of EUR 26.4 million (EUR 21.8 million). BERU anticipates rising sales revenue in the Electronics and Sensors division in the coming years.

GROSS PROFIT

Gross profit decreased in 2008 from EUR 114.1 million to EUR 98.5 million, equivalent to a margin of 24.0% (25.9%) in relation to sales revenue.

As in recent years, **cost of materials** as a percentage of sales revenue tended to increase again in 2008. This was primarily due to a further shift in the product mix towards the products of the Electronics and Sensors division. These products have a much higher

proportion of materials than the products of the Diesel Cold Start Technology and Ignition Technology divisions. The trend of rising raw-material prices also continued in the world markets during 2008, temporarily leading to record price levels during the year. Material prices did not start to fall again until the financial crisis worsened and affected the real economy in the fourth quarter of 2008. Irrespective of this development, BERU was able to avoid the general trend. By taking measures such as intensified negotiations on purchasing prices and in some cases changing to new suppliers, purchasing prices were reduced by a low single-digit percentage. BERU expects to consistently maintain this strategy in the coming years. Long-term price agreements were entered into in order to secure our purchasing prices. This applies in particular to raw-material prices such as aluminum, nickel and steel. Our purchasing prices for copper and platinum have been hedged with the use of derivative transactions. BERU also attempts to counteract price increases by utilizing new sources of supply, especially in low-wage countries, and by developing so-called second suppliers. Furthermore, BERU is working effectively on reducing its purchasing costs through reengineering the design of its products and components.

Directly and indirectly production-related personnel expenses amounted to EUR 73.5 million, compared with EUR 80.4 million in 2007. In relation to sales revenue, personnel expenses thus decreased from 18.3% in 2007 to 17.9% in 2008. This reduction was partially the result of the aforementioned production shift towards products of the Electronics and Sensors division, which are significantly more material intensive but less personnel intensive than the products of the Diesel Cold Start Technology and Ignition Technology divisions. Due to the international restructuring of the BERU Group that started in 2007, the number of persons employed decreased to 1,953 at the end of the year (end of 2007: 2,560). The reduction is also a reflection of the smaller workforce following the disposal of the French companies: 425 persons were employed by the French companies on December 31, 2007. Most of the rest of the headcount reduction took place at the locations in Germany, as well as in Italy, Mexico and Hungary. The 2.4% wage increase resulting from the collective bargaining agreement in Germany as of June 1, 2008 partially offset the reduction in personnel expenses resulting from the smaller workforce. This wage increase resulted from the collective bargaining agreement reached for the metalworking industry in Baden Württemberg in 2007. Furthermore, one-time payments had to be made to the employees of some sites in Germany in November and December, based on the wage settlement reached in 2008. Additional restructuring expenses for the German locations increased personnel expenses by EUR 2.4 million.

As a result of targeted cost-saving actions in 2008, **operating overheads** were reduced by EUR 4.4 million from EUR 46.4 million to EUR 42.0 million. Most of the savings were realized in connection with maintenance expenses. Depreciation and amortization were also reduced, partially due to lower investment in property, plant and equipment. These adjustments were necessary due to recent market developments and will lead to further reductions in depreciation of plant and machinery in the coming years. **Depreciation** of production plants was also affected by the restructuring actions at the sites outside Germany that were already started in the past year. Due to plant closures, there was non-scheduled depreciation of production plant and equipment of EUR 0.6 million at the plant in Mexico and of EUR 0.5 million at a plant in South Korea. The non-scheduled depreciation in Mexico was necessary because the company was transformed in 2008 from a production company into a pure distribution company, and the existing production equipment was therefore no longer useful. The depreciation of production equipment at BERU Automotive in South Korea was necessary because of the planned discontinuation of production there.

Other costs of production increased significantly. According to the cost-of-sales method, these costs include items such as external production wages, transport expenses, inventory write-downs and warranty expenses. Warranty expenses increased from EUR 4.4 million to EUR 12.0 million, primarily due to warranty claims in the segments of Original Equipment and General Industry.

PROFIT ON ORDINARY ACTIVITIES (EBIT)

Selling expenses

The BERU Group's **selling expenses** were held almost at the same level as in 2007 and increased only slightly from EUR 26.2 million to EUR 26.9 million. Despite the difficult market environment, BERU expects to continue to invest in its excellent customer care in all three sales segments in order to maintain customer satisfaction at the present high level.

Administrative expenses

General **administrative expenses** increased compared with the prior year by EUR 1.2 million to EUR 34.0 million. In relation to sales revenue, administrative expenses increased from 7.4% to 8.3%. This increase was partially due to restructuring expenses of EUR 2.3 million, including changes in the management structure at various locations of the BERU Group. General administrative expenses also included increased expenses for legal advice, partially relating to the control and profit transfer agreement between BERU AG and BorgWarner Germany GmbH that was decided upon at the Annual Shareholders' Meeting on May 21, 2008. BERU incurred expenses of approximately EUR 0.6 million for these advisory services in 2008. This amount was for 50% of the total costs, as BorgWarner Germany GmbH, Ketsch, bore the other 50%.

Research and development expenses

Research and development expenses also increased compared with the prior year. R&D expenses amounted to EUR 13.4 million or 3.1% of sales revenue in 2007, increasing to EUR 19.6 million or 4.8% of sales revenue in 2008. This increase was mainly the result of the substantial decrease compared with 2007 of the net capitalization of development spending of EUR 3.8 million. This was due to the impairment of capitalized development projects. These impairments were necessary because the projects' carrying values could no longer be justified due to reduced expectations for future revenue developments.

Other operating expenses

The increase in **other operating expenses** of EUR 3.0 million resulted primarily from the impairment of goodwill in an amount of EUR 2.1 million. These impairments were recognized on goodwill at the companies BERU Motorsports Holding, B80 and BERU Hungaria.

In order to realize synergies in connection with the domination and profit transfer agreement with BorgWarner Germany GmbH, following instructions from BorgWarner, BERU decided to integrate its French companies into the French organizational structure of BorgWarner in 2008. The companies BERU TdA SAS and Eyquem SNC were first merged and recapitalized by means of converting receivables and loans. Then they were combined with the French BorgWarner companies and formally restructured. Due to their negative profitability, the companies were sold for a symbolic price of one euro. This resulted in a capital loss for the BERU Group of EUR 38.3 million, partially as a result of the recapitalization that took place in 2008.

In total, the result of ordinary activities (EBIT) includes special items of EUR 47.0 million, so the adjusted result of ordinary activities amounts to a profit of EUR 21.0 million, representing an operating margin of 5.1% (9.8%). The aforementioned special items primarily comprise the aforementioned restructuring actions, goodwill impairments, changes in subsidiaries and associated companies, and advisory services connected with the conclusion of the domination and profit transfer agreement. They also include a deconsolidation loss from the disposal of the French subgroup. In the prior year, special items of EUR 3.9 million resulted from restructuring actions, the new management structure and an allocation to provisions for environmental damage.

Profit on ordinary activities before depreciation, amortization and impairments (EBITDA) amounted to EUR 8.9 million (EUR 70.6 million), equivalent to a margin of 2.2% (16.0%).

EBITDA adjusted for the deconsolidation loss from the disposal of the French BERU companies amounted to EUR 47.2 million. This represents an EBITDA margin of 11.5% in relation to the sales revenue generated in the year under review.

PROFIT BEFORE INCOME TAXES

Net interest income and income from investments totaled EUR 5.0 million in 2008 (EUR 5.2 million). This figure includes interest income from short-term deposits of EUR 6.0 million (EUR 4.1 million). EUR 2.6 million of that amount is interest income on a loan granted to BorgWarner Europe GmbH, Ketsch. The net interest result also includes interest expenses of EUR 0.5 million (EUR 0.9 million). Income from investments is mainly the result of dividend income from an Indian subsidiary of EUR 0.1 million, impairments of financial investments of EUR 0.2 million and losses from associated companies of EUR 0.4 million. The impairment of financial investments resulted from the impairment of BERU's equity interest in the Japanese distribution company. This distribution company is to be wound up in 2009 in the context of the international efficiency-enhancing program. All of the business operations carried out there have been transferred to BERU AG. For this reason, BERU's equity interest in the company had to be impaired to zero. Unlike the prior year, when income from associated companies amounted to EUR 2.0 million, the earnings of associated companies were negative in 2008. This was due to the sale of the 49% interest in IMPCO-BERU Technologies B.V., Netherlands, on August 1, 2008. The sales proceeds realized amounted to EUR 3.9 million and the related capital loss was EUR 1.4 million. Income from the write-up of investments accounted for using the equity method amounted to EUR 1.0 million (EUR 1.9 million).

The loss before income taxes thus amounted to EUR 21.0 million (profit of EUR 44.2 million). This represents a return on sales before income taxes of minus 5.1% (plus 10.1%). Adjusted for the deconsolidation loss for the French companies, there was a profit before income taxes of EUR 17.3 million, equivalent to a return on sales before income taxes of 4.2%.

INCOME TAX EXPENSE

The income tax expense amounted to EUR 7.4 million in 2008 (EUR 13.4 million). The pretax result includes expenses from the deconsolidation of the French companies, goodwill impairments and other items with no tax effects. Furthermore, tax losses of some companies have not been capitalized. At the same time, the tax expense includes items independent of the pretax result. The adjusted effective tax rate thus amounts to 29.9%, compared with 30.3% in the prior year.

ORDERS RECEIVED AND ORDER BACKLOG

Due to the financial and economic crisis, BERU's market environment also became more difficult in 2008. For this reason, orders received decreased from EUR 442.4 million in 2007 to EUR 370.6 million in 2008. The order backlog at December 31, 2008 amounted to EUR 163.2 million, compared with EUR 202.0 million at the end of the prior year.

Asset position

INVESTMENT

The Group's total investment in property, plant and equipment and intangible assets (including advance payments made) amounted to EUR 29.5 million in 2008, which was significantly lower than in the prior year (EUR 40.2 million). Adjusted for capitalized development work, 83.6% of the total was invested in Germany (85.6%). Investments in intangible assets totaled EUR 11.6 million (EUR 11.4 million), including the capitalization of development projects in an amount of EUR 9.5 million (EUR 10.1 million). The ratio of total investments in tangible and intangible non-current assets and advance payments before

capitalized development expenses to revenue thus decreased by 1.9 percentage points to 4.9% (6.8%).

In total, BERU invested EUR 19.8 million in research and development in 2008, before the capitalization of development expenses (EUR 17.4 million). In relation to the Group's sales revenue, R&D expenditure therefore increased from 4.0% to 4.8%, mainly as a result of the lower revenue. The capitalization rate, defined as the ratio of newly capitalized development work to total R&D spending, decreased from 58.0% to 47.7%.

At the main site in Ludwigsburg, BERU invested in a production line for high-temperature sensors. This is an investment in one of BERU's key strategic products, which should secure long-term growth potential for the Group. Also in Ludwigsburg, further investments were made in production equipment for the pressure sensor glow plug (PSG). Furthermore, BERU made substantial investments in its IT infrastructure. As in the prior year, BERU made substantial expansionary investment also in 2008 for additional production capacity for the manufacture of the diesel instant-start system (ISS) and the tire-pressure monitoring system at the Bretten plant. And before the sale of the French companies to BorgWarner, investments were made in equipment for the production of original-equipment spark plugs in Chazelles sur Lyon in France.

OTHER CHANGES IN TOTAL ASSETS

The reduction in non-current intangible assets is primarily due to goodwill impairment losses of EUR 2.1 million, which were recognized following impairment tests carried out at Group level. Property, plant and equipment in BERU's consolidated balance sheet decreased from EUR 149.3 million to EUR 117.8 million; EUR 27.8 million of the decrease was due to the disposal of the French subsidiaries. With investment in property, plant and equipment of EUR 17.5 million, non-scheduled depreciation of EUR 21.4 million contributed towards the overall decrease in property, plant and equipment. Another factor is that property, plant and equipment of various subsidiaries in an amount of EUR 2.3 million was reclassified into a separate balance sheet item due to the intended disposal or closure. Property, plant and equipment also decreased due to non-scheduled depreciation of EUR 1.5 million on production equipment in Mexico and South Korea as well as at BERU AG. With regard to the non-scheduled depreciation in Mexico and South Korea, we refer to the details given under "Operating overheads and depreciation and amortization." There was also non-scheduled depreciation on equipment for the production of tire-pressure monitoring systems at BERU's Muggendorf plant.

Also within non-current assets, financial assets accounted for using the equity method decreased from EUR 6.5 million to EUR 1.3 million. This was mainly the result of the sale of BERU's 49% interest in IMPCO-BERU, Netherlands. The reduction in the balance sheet item financial investments resulted from the impairment of BERU's interest in BERU Japan Corporation. This company was not consolidated in the past. We refer to the information given above regarding the reasons for the impairment.

Deferred tax assets decreased from EUR 5.5 million to EUR 3.7 million, partially due to the reduction in the balance sheet difference between values for tax purposes and values in the consolidated balance sheet according to the accounting principles of IFRS. The disposal of the French companies also led to a reduction in this balance sheet item.

BERU's continued strong focus on the spare-parts business is the reason for the high levels of inventories compared with other automotive suppliers. For success in the aftermarket business, it is crucial to be able to supply customers from a wide range of products within a short time. However, by means of targeted inventory management, BERU succeeded in reducing inventories compared with the prior year. The disposal of the French companies also had the effect of reducing inventories. Overall, inventories decreased from EUR 60.2 million to EUR 42.8 million, or by 28.9%. We also focused on our collectibles management in 2008 and continuously improved it. As a result, trade receivables decreased by EUR 18.0 million to EUR 63.2 million, although falling revenues in the fourth quarter of 2008 also led to a significant decrease in trade receivables. With largely unchanged trade payables, working capital (total of inventories and trade receivables less trade payables) decreased by nearly 37% from EUR 95.6 million to EUR 60.4 million. Working capital in

relation to sales revenue thus decreased from 21.7% to 14.7%. BERU expects to make targeted efforts to continue this positive trend and to further optimize its working capital.

In 2007, BERU granted BorgWarner Europe GmbH, Ketsch, a loan of EUR 35.0 million. This loan was increased to EUR 120.0 million at normal market conditions for short-term loans. It can be terminated at any time by either party to the agreement, and has therefore been allocated to BERU's current assets. During the preparation of the annual financial statements, the Executive Board of BERU AG regularly dealt in detail with the value of this loan and received information on the liquidity and credit lines available to BorgWarner Europe GmbH. As its liquidity and credit lines were not sufficient to cover repayment of the loan at short notice, the parent company of the BorgWarner Group was included in those considerations. In this context, the Executive Board determined that BorgWarner Inc. has access to a credit line of US \$600 million from a consortium under the leadership of JP Morgan and Bank of America; BorgWarner Inc. has not yet made use of this credit line but can do so at any time. This would therefore be possible in order to provide cash to BorgWarner Europe GmbH at short notice. The Executive Board of BERU AG also dealt with the liquidity planning of the BorgWarner Group and came to the opinion that BorgWarner has the required liquidity for a possible repayment of the loan and to satisfy a claim for a loss adjustment. Due to the increase of the loan amount, BERU's other financial receivables increased substantially from EUR 36.6 million to EUR 142.6 million. Another reason for the increase in this balance sheet item was the loss compensation claim of BERU AG of EUR 19.4 million against BorgWarner Deutschland GmbH.

The Group's securities and cash and cash equivalents decreased by 65.2% from EUR 88.0 million to EUR 30.6 million; this was also primarily due to the increased loan to BorgWarner Europe GmbH. When the net financial position is considered (liquid funds less liabilities to banks), there is a decrease of 65.5% to EUR 30.3 million (EUR 87.9 million). As a result of the near-complete elimination of liabilities to banks in 2006, BERU is virtually debt free with liabilities to banks of just EUR 0.3 million (EUR 0.1 million). The decrease in other current assets is due primarily to lower advance payments on fixed assets and also to lower value-added-tax receivables.

The Group's cash flow, defined as profit for the period plus depreciation, amortization and impairments and changes in non-current provisions, amounted to EUR 42.9 million in 2008 (EUR 61.6 million). The effect from the deconsolidation of the French companies was eliminated as it had no impact on cash. This means that the cash-effective investments of EUR 20.0 million and the dividend distribution of EUR 11.0 million were fully covered out of the cash flow. The free cash flow from operating activities (profit for the period plus depreciation, amortization and impairments and changes in non-current provisions minus cash-effective investments) amounted to EUR 22.8 million (EUR 31.6 million).

Overall, our total assets decreased by EUR 31.0 million or 6.3% from EUR 493.2 million to EUR 462.2 million at December 31, 2008.

Financial position

Despite the difficult situation of the market environment and the disposal of the French companies, BERU has a sound balance sheet structure at December 31, 2008, as in the previous years. Equity attributable to shareholders of the parent company decreased by EUR 22.8 million or 6.3% from EUR 360.0 million to EUR 337.2 million. The equity ratio is thus unchanged from the prior year at the high level of 73.0%. Due to the special items, return on equity was minus 8.4% in 2008, compared with plus 8.4% in the prior year. BERU will continue to place high priority on maintaining a sound balance sheet structure.

The reduction in provisions for pensions from EUR 17.2 million in 2007 to EUR 15.9 million in 2008 was mainly due to the disposal of the pension obligations of the former BERU TdA SAS, France. The reduction in other non-current provisions resulted primarily from the change in provisions for personnel expenses.

In December 2007, BERU announced an extensive program for efficiency improvements within the BERU Group. For the actions required, a provision of EUR 3.1 million was recognized at the end of 2007. Most of the related restructuring plan was implemented in 2008. Furthermore, BERU determined in 2008 that there was an additional need to optimize internal processes, affecting 60 jobs in administrative positions at the German sites. A provision of EUR 2.4 million was recognized for this purpose at the end of 2008. Significant organizational changes were also carried out in the management structure. In this context, it was necessary to recognize further provisions for severance compensation totaling EUR 1.6 million in 2008. Provisions for warranty claims also increased significantly - from EUR 8.4 million to EUR 15.3 million – mainly as a result of customers' pending warranty cases in the Original Equipment and General Industry segments. We are working hard to counteract this development with improved process management and the continuous further development of quality management. Intensive customer contacts is expected to help limit BERU's rising risk from warranty obligations.

The gearing ratio (net financial debt as a ratio of equity attributable to shareholders of the parent company) decreased to 9.0% as a result of the increased loan to BorgWarner Europe GmbH (24.4%). The debt-equity ratio decreased from 35.7% at December 31, 2007 to 35.6% on December 31, 2008, thus demonstrating BERU's sound balance sheet structure.

Summarizing statement on assets, finances and profitability

Due to the difficult environment in the automotive industry, BERU was unable to achieve its planned operating profit also in 2008. This was due in particular to the partially drastic falls in sales revenue in the fourth quarter of 2008. In addition, BERU was unable to avoid the intensified pressure on prices and margins in the automotive supply industry. High prices in our purchasing markets, discounts granted to customers and an ongoing shift in the production and sales mix towards electronic and sensor products led to a further reduction in our operating margin.

Despite sharp decreases in sales revenue, last year BERU once again made relatively large investments in innovative production technologies, the launch of new products, and expanding its production capacities. The Group is expected to continue to effectively take all the necessary measures to improve its internal cost efficiency. This includes making cost adjustments to adapt to current developments in our market environment. Product launches in the coming years are expected to return BERU to a path of appropriate profitability. Once again last year, all of the BERU Group's payments were made out of its current cash flow.

EVENTS AFTER THE BALANCE SHEET DATE

Due to internal reorganization, Dr. Reinhard Meschkat left the company as of January 15, 2009.

Revenue has fallen substantially due to the current situation of the national and international automobile markets. But the management believes that the present crisis is temporary and that BERU can cope with it. However, it is necessary to adjust our existing capacities to the reduced production output. Short-time work has therefore been introduced in all departments at several BERU's sites in.

In connection with the current economic weakness, the German federal government has decided on measures designed to stimulate the economy. A key element is the so-called environmental bonus. Buyers of new cars or of certain cars up to one year old with emission class Euro 4 or better receive an amount of EUR 2,500 if they simultaneously scrap an

existing car that is at least nine years old. Various other European countries have implemented similar arrangements. The first positive indications that this state support is working are to be observed in the market. However, BERU does not anticipate any significant boost in demand, because most consumers taking advantage of this program are deciding in favor of smaller vehicles with gasoline engines.

With regard to our loan receivables of EUR 120 million due from BorgWarner Europe GmbH, the Executive Board continued to assess the borrower's liquidity also after the balance sheet date and is still of the opinion that the loan can be repaid if required. In addition, the interest rate on the loan has been kept at an acceptable level.

Also after the balance sheet date, our activities for the restructuring of foreign subsidiaries have been continued and are progressing as expected and without any major difficulties.

Between the end of the 2008 financial year and March 17, 2009 (the date when the consolidated financial statements were released for publication and passed on to the Supervisory Board) no further events occurred that are of particular significance for the Group's asset position, financial position or profitability.

RISK REPORT

RISK MANAGEMENT SYSTEM

BERU has a systematic risk management system. Risk management is an integral component of all business processes and is closely linked with the planning system. The current risk situation is reported on quarterly with the inclusion of all the companies of the Group. The executives responsible for risk management report according to a risk catalogue with Group-wide validity and are also obliged to report on an ad-hoc basis whenever any risks arise unexpectedly. The scope of identified risks, the countermeasures introduced or planned, and the appropriateness and efficiency of business routines are regularly reviewed.

The consolidated risk report is submitted to the Executive Board and the Supervisory Board.

As in prior years, the external auditors reviewed the Group's risk management system and came to the conclusion that it complies with the requirements of the law.

Risk exposure has increased compared with the prior year, but is not expected to threaten the Group's existence.

ECONOMIC RISKS

As a Group with international operations, BERU is subject to the economic development of global markets.

Last year's financial crisis, the associated worldwide economic downswing, and the resulting falls in production by the automobile manufacturers represent a high sales risk for BERU. BERU has therefore taken several measures to counteract the lower volumes. Nonetheless, as an automotive supplier in the current economic situation, the Group is exposed to an increased risk, which has also increased the risk of non-payment of debt and supplier insolvencies.

MARKET AND PRODUCT RISKS

Because BERU as an automotive supplier is dependent on the risk of vehicle manufacturers' business development, the risk situation has deteriorated in the currently difficult market situation. BERU has a consistent system of cost management and strives to counteract lower volumes with flexible arrangements.

In the field of spark plugs, the Group is confronted by risks relating to the profit margins achievable in the market. These risks result from the worldwide overcapacity in this area.

In general, new technologies constitute a potential risk if they are capable of replacing our products. BERU therefore makes all possible efforts to extend its innovation and technology leadership.

BERU is subject to strong price pressure from the automobile manufacturers. This pressure will continue to rise in the future. The Group is unable to completely compensate for this price pressure and therefore considers foreseeable price discounts and rebates already in its budgeting.

In the case of supply commitments arising from unprofitable orders, provisions for impending losses are recognized in an appropriate volume and additional cost-reducing measures are initiated or the production of such products is discontinued.

COUNTRY RISKS

Due to prevailing political circumstances and influences, losses can arise despite individual customers' ability and willingness to pay. These risks are believed to be manageable for BERU, however.

PROCUREMENT MARKET RISKS

Raw-material prices have fallen as a result of the economic downturn. However, the BERU Group expects metal prices to rise again in 2009. For copper, an agreement has been concluded together with BorgWarner to protect against future price increases. In addition, fixed prices have been agreed for platinum with the use of raw-material derivatives. In some cases, we are dependent on individual suppliers for certain raw materials and components. BERU counteracts this dependence by developing secondary suppliers.

The risk of supplier insolvency has also increased.

RISKS FROM EQUITY INVESTMENTS

Risks arising from equity investments are examined and assessed with the use of a mathematical finance model based on the discounted cash flow method. The main asset risks for the parent company, BERU AG, are to be found in the valuation of some of our subsidiaries and the loans granted to them. These investments and loans are subject to impairment tests carried out at least once a year and impairment losses are recognized if necessary.

Material receivables of EUR 0.6 million were written off at BERU Mexico S.A. de C.V. Furthermore, impairments of EUR 0.4 million were recognized on BERU's interest in B80 S.r.l. In addition, BERU's interest in BERU Motorsports Holding was impaired by EUR 1.3 million. However, the aforementioned impairments have no significant effects on the consolidated balance sheet or the consolidated income statement.

Our equity interest in the company BERU Japan Corporation was impaired by EUR 0.2 million. This company is not consolidated.

QUALITY RISKS

BERU has implemented a Group-wide quality management system, but the risk of complaints and warranty claims cannot be excluded completely. In this respect, there is generally an increased risk with electronic products.

The risk of possible warranty claims increased by EUR 6.9 million in 2008. There is also a residual risk from warranty cases.

In particular, the risk has increased that it will become more difficult to resolve warranty issues with our customers by way of amicable arrangements. There is an increasing tendency for warranty claims to be made against BERU that go beyond the normal range and which cannot be accepted by BERU (e.g. extensive goodwill concessions made by our customers). Although the provisions recognized for such issues are regarded as adequate and appropriate, it cannot be ruled out that for strategic reasons, BERU might make larger concessions than in the past.

LIQUIDITY RISKS

The Treasury department monitors the Group's central exchange-rate and interest-rate management and controls the application of financial instruments. Liquidity requirements within the Group are determined within the framework of the budgeting process with the use of cash flow planning. Liquidity developments are constantly monitored.

The payment periods granted to customers are within the limits of the terms and conditions common in the industry. Payments received are continuously monitored by the Accounting department and are coordinated in close cooperation with the Sales department. In order to minimize risk, the credit limits defined for each customer are regularly monitored and adjusted to the particular circumstances.

FINANCIAL MARKET RISKS

BERU maintained its sound balance-sheet and financing structures in 2008. The Group has virtually no debts to third parties. In line with our internal Treasury guidelines for short-term deposits, we make use only of low-risk financial instruments. Most of the Group's liquid funds are invested in certificates on a euro basis. The related interest-rate risk is reduced to a minimum by regularly monitoring the investment structure.

BERU invoices up to 1% of its sales in US dollars. As BERU AG has US-dollar expenses in roughly the same amount, no forward exchange transactions are entered into. There were no forward exchange contracts on the balance sheet date.

In 2008, BERU transferred liquidity to BorgWarner Europe GmbH in the form of a loan. On the balance sheet date, receivables due from the BorgWarner Group total EUR 154.4 million. The Executive Board regularly examines the value of these receivables in the context of ongoing communication with the indirect majority shareholder.

LEGAL RISKS

BERU is not currently involved in any legal or arbitration proceedings that could have a significant effect on the Group's financial position.

ENVIRONMENTAL RISKS

An environmental management system certified to ISO-14001 is installed at the BERU Group to ensure that all relevant regulations are adhered to.

Appropriate liability insurance has been taken out for certain environmental risks.

Because environmental regulations are highly complex and increasingly strict, infringements could occur despite all our efforts.

COMMUNICATION AND INFORMATION RISKS

In order to reduce potential risks from the failure of IT technologies, BERU takes extensive security and prevention precautions. The data centers are protected against internal and external influences.

The IT organization is also audited annually by external experts.

The misuse of data and unauthorized data access represent another risk, which is counteracted through the installation of up-to-date firewalls and antivirus software.

Furthermore, persons who have access to sensitive data receive special training on the subject of data protection.

ORGANIZATIONAL AND CONTROL RISKS

Due to the majority interest held by BorgWarner, BERU is also obliged to comply with United States legislation. Our internal monitoring system therefore complies with the requirements of the Sarbanes-Oxley Act and monitors adherence to all relevant guidelines. Our Internal Auditing department supports the internal monitoring system for the recognition of fraudulent actions.

All of the BERU Group's companies are included in these reviews. The Group's executives have been sensitized to existing risks. The monitoring system is regularly subjected to internal audits and also to an annual external audit.

It is not possible to preclude the possibility of errors in the implementation of these regulations, but this risk is regarded as relatively low due to the large number of monitoring mechanisms installed at the Group.

OVERALL RISK

The Group's overall risk exposure has increased due to the financial crisis. At the same time, it is relatively moderate due to the Group's good financial position and independence of external sources of finance. Against this backdrop, no risks can be recognized that could jeopardize BERU's continuing existence. However, BERU assumes that the global competitive situation will become much more difficult and that profitability will develop accordingly. But with the measures initiated and actions decided upon at the end of 2008, BERU believes that it is well prepared to react quickly and flexibly to market developments.

OPPORTUNITIES AND OUTLOOK

Development of the economy and the automotive industry

RECOVERY OF WORLD ECONOMY STILL UNCERTAIN

The effects and duration of the financial market crisis are currently very difficult to assess, and any forecasts are therefore connected with a high degree of uncertainty. Experts agree that the world economy will hardly expand in 2009. A gradual upturn could start in 2010, whereby forecasting uncertainty is unusually high. It is therefore difficult to make reliable statements about the future.

Following negative growth of 1.5% this year, gross domestic product (GDP) may then expand by 1% in real terms in 2010.

In Europe, real GDP is likely to shrink by more than 2% in 2009, with slightly positive growth expected for 2010.

The German economy is particularly impacted by the international weakness of demand, because export orders for investment goods are declining. Market researchers predict the most severe economic slump since the Second World War: Forecasts are for a decrease in real GDP of 2.7% in 2009 compared with 2008. Also in Germany, economic recovery is not expected to come until next year, with growth in real GDP of approximately 0.3% expected in 2010.

AUTOMOTIVE INDUSTRY SUFFERING FROM THE ECONOMIC CRISIS

The automotive industry has been hit hard by the economic crisis, with drastic falls in demand all over the world in recent months. This situation of weak demand is unlikely to change before there is a general economic improvement. Due to the high degree of uncertainty, the various forecasts diverge substantially.

For 2009, the market research institute CSM Worldwide anticipates a decline in global new car registrations of 7.9%; unit sales are then expected to rise again by approximately 7% in 2010.

According to Germany's Automobile Association (VDA), unit sales in the United States will drop by between 13% and 24% in 2009, and should rise again in 2010.

For the BRIC countries, the VDA forecasts a reduction in car production of 12% in 2009.

The European automobile market is expected to also remain in recession in 2009; experts assume that new registrations will fall by 14%. No end to the downward trend can be expected until the fourth quarter of 2009 at the earliest, and the recovery of the automotive industry might not come until the end of 2010.

According to the VDA, the year-on-year fall in new registrations in Germany of 3% to 9% will be similar to the European average in 2009. Fiscal-policy measures such as the consumer bonus for scrapping old cars or tax relief could provide marginal incentives.

A WEAKENING OF DIESEL GROWTH RATES

With their low emissions and strong performance, diesel engines will probably become even more popular in the future. The growth rates of recent years are unlikely to be matched, however. In terms of share of new registrations, it must be assumed that diesel automobiles are approaching their limits in Western Europe, but will maintain their present high levels.

The Eastern European market is expected to provide further growth potential. In the United States, diesel could move out of its present niche position in the long term. German automobile manufacturers are already moving into the US market with environmentally friendly diesel technology. Due above all to their low fuel consumption, in times of financial and economic crisis and rising fuel prices, diesel automobiles could increase or even multiply their market share in the United States. Levels of market penetration like in Europe are unlikely, however.

Whereas new drive technologies might gain importance for smaller cars, diesel is likely to remain popular above all for medium-sized and large cars as well as for commercial vehicles.

Opportunities for the BERU Group

The risks described in the risk report also offer potential opportunities for the BERU Group. Like the risks, these opportunities are identified and assessed and are thus an important component of our planning process.

Investment and acquisition decisions are made following a careful examination of the opportunities with regard to the generation of profitable growth.

The main opportunities from our business operations, which are offered by product innovations and process optimizations, are described in detail in the management report. Additional opportunities arise for BERU as a result of efficiency improvements within the network of the Group's companies. The Group is therefore continuously optimizing the structure of its locations with regard to efficiency and economy. The cooperation with our majority shareholder, BorgWarner, opens up opportunities of synergy effects. Joint development projects could bring positive results in the medium to long term.

Increasing environmental awareness also offers potential opportunities, as BERU is working on product innovations that can contribute towards making cars more environmentally compatible.

Outlook for future business developments

Due to forecasting uncertainty regarding economic developments and the effects on automobile sales in various European countries of political actions such as environmental bonuses, planning is relatively uncertain.

BERU assumes that worldwide demand for automobiles will be significantly lower in 2009 than in the prior year. Furthermore, in 2009 the BERU Group will no longer have any sales revenue from the French companies, which have been disposed of. From the present perspective, therefore, the BERU Group anticipates a decrease in revenue to between EUR 300 million and EUR 310 million in 2009, and a proportional reduction in operating profit. In this context, it is necessary to consider the fact that a comparison with the prior year is only possible to a limited extent due to the change in the consolidated group following the disposal of the French companies.

Assuming that the economy begins to recover and returns to growth in 2010, BERU anticipates rising demand again in the automobile industry. However, if it occurs, this growth

in demand will be very small. BERU assumes that in 2010, revenue will be close to the level of 2008 and earnings will be positive.

The market environment will continue to feature intense competition and price pressure. The BERU Group strives to counteract this pressure by means of productivity advances and improvements in internal processes.

For Diesel Cold Start Technology, the trend towards more environmentally friendly drive concepts is expected to provide a solid basis for the coming years. BERU aims to defend its position as one of the world's leading suppliers in this field also in the future. Product innovations such as the pressure sensor glow plug (PSG) offer potential for future growth in this area.

In the Ignition Technology division, sales of ignition coils offer growth potential. Electronics and Sensors could benefit from long-term sales potential for tire-pressure monitoring systems (TSS) resulting from new legislation in the European Union and Asia. However, BERU launched a cost-optimized and less expensive version of TSS on the market last year, so increasing unit sales will not result in revenue rising at the same rate. Due to the sales crisis in the automobile industry, the Aftermarket segment is expected to be the main growth driver within the BERU Group in the next two years. However, it remains to be seen to what extent the environmental bonus will affect the average age of cars on the road and thus also the spare-parts business.

The Group anticipates stable growth for the Original Equipment segment in the long term. Especially the products from the Electronic and Sensors division are expected to generate additional growth. The short-term development depends on the general development of the automobile industry.

In the General Industry segment, BERU looks forward to rising revenue resulting from innovations and further developments for private households in the area of reducing emissions of particulate matter, which can be implemented in the short term.

Our activities in Asia will be expanded in the medium to long term so that we can profit more from the dynamic upswings in those markets. Furthermore, it is planned to purchase more components and input materials in so-called low-cost countries in the future, in order to reduce our material costs.

Our investments in research and development are to be planned and implemented more efficiently in 2009 and 2010. The focus will be on diesel cold start technology, in particular on our ceramic glow plugs.

The BERU Group pursues a strategy of profitable growth. Revenue growth is therefore not our only corporate goal. BERU is to be positioned in strategic and operational terms so that it can continue to maintain the high quality of its profit margins in the future.

CORPORATE GOVERNANCE

Supervisory Board report

Corporate governance report

Responsibility Statement

Supervisory Board Report

Once again in 2008, the Supervisory Board of BERU AG worked in close collaboration with the Executive Board, advised it intensively and monitored it, and performed the duties incumbent upon it in accordance with applicable law, the Company's Articles of Incorporation and the principles of corporate governance.

Among other matters, the Supervisory Board regularly assured itself of the legality, correctness, appropriateness and efficiency of the Company's management by means of regular reports submitted by the Executive Board in written and verbal form. The main issues dealt with in these reports, which the Supervisory Board discussed intensively with the Executive Board, included the intended business policy and fundamental questions of strategic corporate planning, the situation of orders, revenue, earnings and cash flows, as well as business of the BERU Group of overriding importance. One particular focus of the monitoring and advisory activities of the Supervisory Board in 2008 consisted of questions concerning the strengthening of profitability and the reduction or elimination of sources of losses, as well as Group-wide risk management and the compliance situation. The Chairman of the Supervisory Board was in regular close contact with the Executive Board also outside the meetings in order to consult with it in intensive discussions on all important topics and questions.

Activities or business transaction requiring the consent of the Supervisory Board in accordance with applicable law, the Company's Articles of Incorporation or the Rules of Procedure of the Executive Board were submitted to the Supervisory Board and dealt with in the context of the Supervisory Board's monitoring and advising function.

The Supervisory Board regularly carries out an efficiency review of its own activities with the use of a ten-point check list. For the year 2008, this review was carried out in March 2009.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The entire Supervisory Board convened for four ordinary meetings, which were also attended by the members of the Executive Board, on March 17, May 20, September 25 and December 2, 2008.

The main issues for discussion in these meetings were corporate strategy, the business development of BERU AG and the BERU Group and the individual divisions, important business matters, the risk situation and risk management. Intensive discussion also took place on the subjects of the domination and profit transfer agreement with BorgWarner Germany GmbH, the sale of BERU's interest in the joint venture IMPCO-BERU Technologies B.V. to the other shareholder, and the restructuring of the French companies of the BERU Group and their disposal within the BorgWarner Group. In addition, the Executive Board thoroughly explained deviations from the planning and reported on the investment and personnel planning as well as on the status of the efficiency-enhancing program decided upon at the end of 2007. The Supervisory Board passed its resolutions following detailed reviews based on written documentation as an aid to decision making. The decisions made were primarily in the areas of strategic orientation, investment, considerations of optimizing the network of companies, and personnel matters.

The Human Resources Committee, comprising Mr. Robin J. Adams, Mr. Anthony D. Hensel and Dr. Ulrich Wöhr, convened four times in 2008 – on March 16, May 19, September 24 and December 2 – to discuss Executive Board matters and to pass the required resolutions.

The Strategy Committee, comprising Mr. Robin J. Adams, Mr. Alfred Weber and Dr. Ulrich Wöhr, convened on June 11 and December 2, 2008. In these meetings, it held discussions with the Executive Board, in particular on the current production locations and their future functions, as well as the future focus of BERU's aftermarket activities.

The Nomination Committee, comprising Mr. Robin J. Adams, Mr. Anthony D. Hensel and Dr. Ulrich Wöhr, did not convene in 2008.

The plenum of the Supervisory Board was informed about the activities of the committees.

AUDIT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS; ADOPTION OF THE ANNUAL FINANCIAL STATEMENTS

The accounts, the annual financial statements, the consolidated financial statements and the management reports for BERU AG and the BERU Group have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, the company of auditors elected by the Annual Shareholders' Meeting to carry out the independent audit, and have each been provided with an unqualified audit opinion. The auditors' report and the documents to be reviewed were provided to each member of the Supervisory Board in good time before the meeting of the Supervisory Board on March 27, 2009.

In the meeting of the Supervisory Board on March 27, 2009, which was attended by the Executive Board and representatives of the auditors, who reported on the significant results of the audit, the Supervisory Board discussed and carefully reviewed the annual financial statements, the consolidated financial statements and the management reports for the Company and the Group – following a thorough study of these documents prior to the meeting – in terms of their legality, correctness, appropriateness and efficiency. The Supervisory Board is in agreement with the statements and assessments contained in the Company Management Report and the Group Management Report.

In this context, the Supervisory Board carefully read the auditors' report and intensively discussed it with representatives of the auditors and the Executive Board in its meeting on March 27, 2009. The Supervisory Board was convinced that the reports comply with the relevant legal requirements and therefore approved the auditors' results in that same Supervisory Board meeting on March 27.

Following the final result of its own review, the Supervisory Board raised no objections to the annual financial statements, the consolidated financial statements and the management reports for the Company and the Group. The Supervisory Board approved and thereby adopted the annual financial statements of BERU AG as prepared by the Executive Board for the year 2008 and approved the consolidated financial statements.

The Supervisory Board of BERU AG has received a dependent-company report from the independent auditors as required by Section 7.2.1 of the German Corporate Governance Code.

The Supervisory Board thanks the members of the Executive Board, all of the BERU workforce and the employee representatives for their committed efforts and successful work in 2008.

Ludwigsburg, March 27, 2009

On behalf of the Supervisory Board



Dr. Ulrich Wöhr

Chairman of the Supervisory Board

Corporate Governance Report

The German Corporate Governance Code constitutes an important foundation for responsible corporate governance at BERU AG. The Executive Board and the Supervisory Board approve of the principles of the Code and strive to follow most of its recommendations.

MANAGEMENT AND MONITORING STRUCTURE

The Executive Board and the Supervisory Board of BERU AG work closely together for the good of the Company. The Supervisory Board acts as a monitoring body; its consent is required for important company decisions. The duties of the Executive Board to inform and report and the responsibilities of the its members are in laid down in a set of Rules of Procedure.

REVIEW OF THE SUPERVISORY BOARD'S EFFICIENCY

The efficiency of BERU AG's Supervisory Board is reviewed regularly with the use of a ten-point checklist. The last efficiency review took place in March 2009.

FORMATION OF COMMITTEES

The German Corporate Governance Code recommends the formation of committees with special qualifications. The Supervisory Board follows this recommendation and has established a Human Resources Committee, a Strategy Committee and a Nomination Committee.

DECLARATION OF COMPLIANCE

Pursuant to Section 161 of the German Stock Corporation Act, BERU AG issues a declaration of compliance with the recommendations of the German Corporate Governance Code each year. The Executive Board and the Supervisory Board issued the last such declaration of compliance on March 27, 2009, and made it permanently accessible to the shareholders on the Company's website at www.beru.com.

The declaration of compliance is worded as follows:

“Since its last declaration of compliance of March 17, 2008, BERU AG has complied with the recommendations of the “Governmental Commission of the German Corporate Governance Code” as amended on June 14, 2007 and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on July 20, 2007 and with the recommendations of the “Governmental Commission of the German Corporate Governance Code” as amended on June 6, 2008 and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on August 8, 2008 with the exception of the recommendations in Section 5.3.2, Sentence 1 on the establishment of an Audit Committee and in Section 5.4.6, Sentence 4 on performance-related remuneration of the members of the Supervisory Board and in Section 7.1.2, Sentence 2 on the discussion of half-year reports.

BERU AG will continue to comply in the future with the recommendations of the German Corporate Governance Code as amended on June 6, 2008 with the exception of the recommendations in Section 4.2.5 on the remuneration report of the Executive Board and in Section 5.4.6, Sentence 6 on the remuneration report of the Supervisory Board, each included as part of the Corporate Governance Report; in Section 5.3.2, Sentence 1 on the establishment of an Audit Committee; in Section 5.4.6, Sentence 4 on performance-related remuneration of the members of the Supervisory Board; and in Section 7.1.2, Sentence 4 on financial reporting deadlines.

The aforementioned exceptions are hereby justified as follows:

- BERU AG does not comply with the recommendations of the Code in Section 4.2.5 on the

remuneration report of the Executive Board included as part of the Corporate Governance Report or in Section 5.4.6 Sentence 6 on the remuneration report of the Supervisory Board included as part of the Corporate Governance Report. Pursuant to Section 289, Subsection 2, No. 5 of the German Commercial Code (HGB), these details are also to be provided in the Management Report and must be audited by the Company's external auditors. For reasons of efficiency, BERU refrains from stating the same details in both the Management Report and the Corporate Governance Report (i.e. in duplicate) and instead refers expressly in the Corporate Governance Report to the Remuneration Report section in the Management Report of the Annual Report.

- BERU AG has not complied with and will not comply with the recommendation of the Code in Section 5.3.2, Sentence 1 concerning the establishment of an Audit Committee because the Supervisory Board consists of only six members and there would be no increase in efficiency as a result of establishing an Audit Committee. The Supervisory Board itself deals intensively with questions of accounting and risk management, the necessary independence of the external auditors, issuing the external auditors with the audit assignment, determining the main areas of the audit, and the audit fee agreement.
- BERU AG has not complied with and will not comply with the recommendation of the Code in Section 5.4.6, Sentence 4 on performance-related remuneration of the members of the Supervisory Board. According to the version of the Articles of Incorporation of BERU AG valid until July 4, 2008, the members of the Supervisory Board received, in addition to fixed annual remuneration, an element of variable remuneration linked to the level of the dividend paid out. The link to the dividend paid out normally has an incentive function. Due to the dividend guarantee foreseen in the domination and profit transfer agreement entered into with BorgWarner Germany GmbH, this incentive function can no longer be fulfilled. The shareholders of BERU AG therefore decided at the Annual Shareholders' Meeting held on May 21, 2008 to amend the Articles of Incorporation so that the members of the Supervisory Board now only receive fixed annual remuneration, which is also oriented towards their participation in committee meetings. This new regulation applies for the first time as of the year 2008.
- With regard to Half-Year Report 2008, BERU AG did not comply with the recommendation of the Code in Section 7.1.2, Sentence 2, whereby the Supervisory Board is to discuss the half-year report and any quarterly reports with the Executive Board prior to publication. Half-Year Report 2008 was submitted to the Supervisory Board by the Executive Board prior to publication so that the Supervisory Board had the opportunity to make a statement on it. BERU AG will comply with this recommendation in the future.
- In 2009, BERU AG will not comply with the recommendation of the Code in Section 7.1.2, Sentence 4 on financial reporting deadlines for the consolidated financial statements and the interim reports. The reason is that the Company has limited capacities due to the importance of preparing the upcoming Shareholders' Meeting. “

SECURITIES TRANSACTIONS

No directors' dealings as defined by Section 15a of the German Securities Trading Act took place in the year under review.

No members of the Executive Board and no members of the Supervisory Board hold any shares in BERU AG or any related financial instruments on the balance sheet date.

SUPERVISORY BOARD REMUNERATION

Pursuant to Section 5.4.7 of the German Corporate Governance Code, the remuneration of the members of the Supervisory Board is to be reported individually and subdivided according to its components in the Corporate Governance Report. Pursuant to Section 289, Subsection 2, No. 5 of the German Commercial Code (HGB), these details are also to be

given in the Management Report and must be audited by the Company's external auditors. As the Corporate Governance Report is not subject to the external audit, BERU discloses the remuneration of the members of the Supervisory Board individually and subdivided according to its components in the Remuneration Report section of the Management Report on page 16. We refer expressly to the details given there. The Management Report is printed on pages 5-31 of this Annual Report.

EXECUTIVE BOARD REMUNERATION

Pursuant to Sections 4.2.4 and 4.2.5 of the German Corporate Governance Code, the remuneration of the members of the Executive Board is to be reported individually and subdivided according to fixed, performance-related and long-term incentive components in the Corporate Governance Report. Pursuant to Section 289, Subsection 2, No. 5 of the German Commercial Code (HGB), these details are also to be given in the Management Report and must be audited by the Company's external auditors. As the Corporate Governance Report is not subject to the external audit, BERU discloses the remuneration of the members of the Executive Board individually and subdivided according to its components in the Remuneration Report section of the Management Report on page 14. We refer expressly to the details given there. The Management Report is printed on pages 5-31 of this Annual Report.