BERU AKTIENGESELLSCHAFT

ANNUAL REPORT 2008

CONTENTS

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 CO_2 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-NOx 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	
EUR	2008	2007	2008	2007	2008	2007
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	Allocations to pension provisions	
EUR	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	
EUR	2008	2007	2008	2007	2008	2007
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 gain 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 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 deprecation 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 our 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 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

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.

RESPONSIBILITY STATEMENT BY THE MANAGEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group."

Ludwigsburg, 17 March 2009

The Executive Board

Dr.-Ing. Thomas Waldhier　　　　Marcus Knödler

CONSOLIDATED FINANCIAL STATEMENTS

BERU AKTIENGESELLSCHAFT
LUDWIGSBURG

DECEMBER 31, 2008

I. CONSOLIDATED BALANCE SHEET

OF BERU AKTIENGESELLSCHAFT AT DECEMBER 31, 2008

ASSETS			
EUR thousand	Notes	Dec. 31, 2008	Dec. 31, 2007
Non-current assets			
Intangible assets	[10]	39.878	42.381
Property, plant and equipment	[11]	117.833	149.337
Investments accounted for using the equity method	[12]	1.252	6.504
Financial investments	[13]	340	509
Deferred tax assets		3.744	5.548
Other financial assets	[14]	12	51
Entitlement to income tax refunds		5.871	6.261
		168.930	**210.591**
Current assets			
Inventories	[15]	42.831	60.200
Trade receivables	[16]	63.225	81.214
Other financial assets	[17]	142.616	36.550
Marketable securities	[18]	0	9.960
Other assets	[19]	6.539	12.723
Entitlement to income tax refunds		2.041	3.930
Cash and cash equivalents	[20]	30.636	78.043
		287.888	**282.620**
Non-current assets held for sale (disposal group(s))	[21]	5.390	0
		293.278	**282.620**
		462.208	**493.211**

EQUITY AND LIABILITIES			
EUR thousand	Notes	Dec. 31, 2008	Dec. 31, 2007
Equity			
Issued capital	[22]	26.000	26.000
Additional paid-in capital	[23]	73.147	73.147
Retained earnings	[24]	238.037	260.814
Equity attributable to equity holders of the parent		**337.184**	**359.961**
Minority interest		3.606	3.407
Total equity		**340.790**	**363.368**
Non-current liabilities			
Provisions for pensions	[25]	15.837	17.184
Other provisions	[26]	6.824	7.621
Borrowings	[27]	259	295
Deferred tax liabilities		13.293	12.987
Other liabilities	[28]	1.457	1.556
		37.670	**39.643**
Current liabilities			
Other provisions	[26]	24.442	18.114
Borrowings	[29]	249	271
Trade payables		45.681	45.839
Other financial liabilities	[30]	2.271	7.149
Current tax liabilities		1.326	2.063
Other liabilities	[31]	8.443	16.764
		82.412	**90.200**
Liabilities relating to non-current assets held for sale/disposal group(s)	[21]	1.336	0
Total liabilities		**121.418**	**129.843**
		462.208	**493.211**

II. CONSOLIDATED INCOME STATEMENT

OF BERU AKTIENGESELLSCHAFT FOR THE YEAR 2008

EUR thousand	Anhang	2008	2007 *
Revenue	[35]	409.415	439.860
Expenses	[36/37]	-435.411	-400.809
Profit on ordinary activities		**-25.996**	**39.051**
Expense from loss transfer	[38]	-1	-1
Interest and similar income	[38]	6.026	4.084
Interest and similar expenses	[38]	-547	-881
Result of equity-accounted investments	[38]	-444	1.880
Result of investments in non-consolidated companies	[38]	-68	114
Profit before income taxes		**-21.030**	**44.247**
Income tax expense	[39]	-7.414	-13.394
Profit for the year		**-28.444**	**30.853**
Attributable to:			
Minority interest		1.053	1.103
Equity holders of the parent company		-29.497	29.750
Profit for the year		**-28.444**	**30.853**
Earnings per share, basic/diluted (EUR)	[40]	-2,95	2,98

* Adjusted. See explanation in Note 3.

III. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OF BERU AKTIENGESELLSCHAFT AT DECEMBER 31, 2008

			Retained earnings					
EUR thousand	Issued capital	Additional paid-in capital	Revalu-ation reserve	Currency translation reserve	Other retained earnings	Equity holders of the parent	Minority interest	Total
December 31, 2006 / January 1, 2007	**26.000**	**73.147**	**84**	**-60**	**243.256**	**342.427**	**2.654**	**345.081**
Currency differences				-1.107		-1.107	-350	-1.457
Valuation of original financial instruments								
not through profit and loss			29			29		29
through profit and loss			-199			-199		-199
Changes in deferred taxes								
Tax rate change			13			13		13
Fair value changes			-8			-8		-8
Through profit and loss			56			56		56
Changes in equity not through profit and loss	**0**	**0**	**-109**	**-1.107**	**0**	**-1.216**	**-350**	**-1.566**
Profit for the year					**29.750**	**29.750**	**1.103**	**30.853**
Total recognized income and expense	**0**	**0**	**-109**	**-1.107**	**29.750**	**28.534**	**753**	**29.287**
Transac tions with shareholders								
Dividend					-11.000	-11.000		-11.000
December 31, 2007 / January 1, 2008	**26.000**	**73.147**	**-25**	**-1.167**	**262.006**	**359.961**	**3.407**	**363.368**
Currency differences				-1.565		-1.565	-854	-2.419
Valuation of original financial instruments								
through profit and loss			35			35		35
Changes in deferred taxes								
through profit and loss			-10			-10		-10
Changes in equity not through profit and loss	**0**	**0**	**25**	**-1.565**	**0**	**-1.540**	**-854**	**-2.394**
Currency differences from disposal groups				-169		-169	0	-169
Changes in equity not through profit and loss from disposal groups	**0**	**0**	**0**	**-169**	**0**	**-169**	**0**	**-169**
Profit for the year					**-29.498**	**-29.498**	**1.053**	**-28.444**
Total recognized income and expense	**0**	**0**	**25**	**-1.734**	**-29.498**	**-31.207**	**199**	**-31.007**
Transac tions with shareholders								
Dividend					-11.000	-11.000		-11.000
Guaranteed dividend					0	0		0
Transfer of income tax liability to parent company					0	0		0
Transfer of tax loss carryforwards to parent company					0	0		0
Trasnfer of profit to parent company (including charge for income taxes)					0	0		0
Loss compensation by parent company					19.429	19.429		19.429
December 31, 2008	**26.000**	**73.147**	**0**	**-2.901**	**240.937**	**337.183**	**3.606**	**340.790**

IV. CONSOLIDATED STATEMENT OF CASH FLOWS

OF BERU AKTIENGESELLSCHAFT FOR THE YEAR 2008

EUR thousand	2008	2007
Profit before income taxes	-21.030	44.247
Depreciation, amortization and impairments	36.180	31.548
Changes in provisions	4.184	6.127
Other expenses/income not affecting cash	39.023	-1.626
Interest income	-6.026	-4.084
Interest expense	547	881
tangible assets	1.102	297
Changes in inventories	2.119	-676
Changes in receivabkles and other assets	-6.521	199
Changes in payables and other liabilities	14.274	-711
Proceeeds from financial assets as part of temporary financial management	10.000	44.468
Payments for financial assets as part of temporary financial management	0	-9.500
Reclassification of current to non-current assets	-85.000	-35.000
Income taxes paid	-3.738	-16.422
Income taxes received	128	3.673
Net cash inflow from operating activities	**-14.758**	**63.421**
Proceeds from the disposal of property, plant and equipment	337	917
Payments for investments in property, plant and equipment	-17.461	-24.705
Payments for investments in intangible assets	-11.650	-11.357
Advance payments made on property, plant and equipment	-364	-4.099
Impairment of financial assets	177	0
Proceeds on the grant / payments on refund of government subsidies	76	187
Proceeds from the disposal of non-current financial assets and investments	3.900	475
Dividends from associated companies	908	836
Interest received	2.327	3.079
Payments for investments in non-current financial assets	-14	-116
Net proceeds from the sale of consolidated companies	0	0
Net cash outflow from investing activities	**-21.764**	**-34.783**
Dividend payments	-11.000	-11.000
Proceeds from the sale of treasury shares	0	0
Payments to shareholders for the purchase of treasury shares	0	0
Proceeds from borrowings	214	0
Repayment of borrowings	-272	-285
Interest paid	-7	-109
Net cash outflow from financing activities	**-11.065**	**-11.394**
Changes in cash and cash equivalents affecting cash flow	**-47.587**	**17.244**
Currency translation effects not affecting cash flow	180	-649
Cash and cash equivalents at the beginning of the year	78.043	61.448
Cash and cash equivalents at the end of the year	**30.636**	**78.043**

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. INFORMATION ON THE BERU GROUP

The BERU Group operates worldwide with 9 fully consolidated companies (prior year: 13) in eight countries (prior year: nine) and is a supplier to the automobile industry for the supply of ignition technology for gasoline engines and cold-start technology for diesel engines. The parent company of the Group is BERU Aktiengesellschaft (also referred to as “BERU AG” or “the Company”), which is domiciled in Ludwigsburg, Germany (address: Mörikestr. 155, 71636 Ludwigsburg, Germany). BERU AG is a stock corporation (“Aktiengesellschaft”) under German law.

The Company has prepared consolidated financial statements and a Group management report as of December 31, 2008 in accordance with Section 315a of the German Commercial Code (HGB). The consolidated financial statements and the Group management report as of December 31, 2008 have been published in the electronic version of the German Federal Gazette (Bundesanzeiger).

The Executive Board of BERU Aktiengesellschaft approved the consolidated financial statements for submission to the Supervisory Board on March 17, 2009.

A majority of the equity of BERU Aktiengesellschaft, Ludwigsburg, is held by BorgWarner Germany GmbH, Ketsch, an indirect subsidiary of BorgWarner Inc. which is the ultimate parent company. BERU AG entered into a domination and profit transfer agreement with BorgWarner Germany GmbH on March 17, 2008.

2. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Emphatic and unreserved statement of compliance with IFRS, the application of which is mandatory in the EU

The consolidated financial statements as of December 31, 2008 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as they are applicable and mandatory in the European Union. In addition, the German accounting regulations pursuant to Section 315a (1) of the German Commercial Code (HGB) have also been also observed.

The consolidated financial statements have been prepared with the application of the cost-of-acquisition principle, except for certain financial instruments, which have been measured at their fair values.

The consolidated financial statements are presented in euros, the Group’s functional currency. All amounts are stated in thousands of euros (EUR thousand), except where otherwise indicated.

The year-end financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation methods. They have all been prepared as of the balance-sheet date of the consolidated financial statements.

In accordance with IFRS 5 “Non-current assets held for sale and discontinued operations,” the non-current assets held for sale and disposal groups are presented separately in the balance sheet. The same applies to liabilities that are directly related to the non-current assets held for sale or the disposal groups. IFRS 5 does not call for the adjustment of prior-year figures in the balance sheet. Scheduled depreciation and amortization has no longer been carried out on the non-current assets held for sale since their reclassification.

3. CHANGES IN ACCOUNTING AND VALUATION METHODS

The income statement is prepared according to the **cost-of-sales method** as of 2008; the Company believes it communicates more relevant information than the total-cost method (IAS 1.88 and 1.84). Instead of grouping operating expenses by type (material expenses, personnel expenses, depreciation and amortization), operating expenses are now broken down in the Notes according to their function (e.g. administrative expenses or selling expenses). The change in method has no impact on the level of operating expenses, profit on ordinary operations, profit for the period or earnings per share. The prior-year figures in the income statement have been adjusted accordingly. The following changes to the IFRS were to be adopted for the first time in 2008:

- **Changes to IAS 39 and IFRS 7 – "Reclassification of Financial Assets"** (to be applied to the reclassifications affected by these standard changes that take place after July 1, 2008). The amended IAS 39 now allows in exceptional cases the reclassification of certain financial assets of the "held for trading" category and extends reclassification possibilities for financial assets of the "available for sale" category. The amended IFRS 7 defines additional disclosure in the Notes to the extent that such reclassifications have taken place.

- **IFRIC 11 "IFRS 2 Group and Treasury Share Transactions"** The interpretation regulates individual issues relating to the application of IFRS 2 "Share Based Payment" to agreement that grant as remuneration a company's own equity instruments or equity instruments of another company within the same group (such as equity instruments of the parent company).

- **IFRIC 14 "IAS 19 Employee Benefits: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"** provides guidelines for determining the upper limit of the surplus of a pension fund that can be recognized as an asset according to IAS 19. IFRIC 14 also clarifies how statutory or contractual minimum financing rules can affect the accounting of assets and liabilities from a defined benefit plan.

Initial adoption of these new/amended IFRS has no relevance for BERU and therefore no affects on the consolidated financial statements.

4. STANDARDS AND INTERPRETATIONS NOT ADOPTED EARLIER THAN IS MANDATORY

The following new or amended standards and new interpretations were not yet mandatory for the financial year beginning on January 1, 2008 and were not adopted earlier than is mandatory:

- **IFRS 8 "Operating Segments"** (to be applied for financial years beginning on or after January 1, 2009). IFRS 8 replaces IAS 14 "Segment Reporting" and adapts the rules on segment reporting, with the exception of slight differences, to the US rules of the Statement of Financial Accounting Standards (SFAS) 131 Disclosures about Segments of an Enterprise and Related Information. IFRS 8 requires that companies disclose financial and descriptive information on their reportable segments. Reportable segments are operating segments or groupings of operating segments that fulfill certain criteria. Operating segments are the components of a company for which separate financial information is available that is regularly reviewed by the company's Chief Operating Decision Maker in order to assess business success and to decide how resources are to be allocated. According to IFRS 8, financial information must be disclosed in the segment reporting on the basis of internal management.

- Revision of **IAS 23 "Borrowing Costs"**: The most significant change compared with the previous standard is the abolition of the option of expensing borrowing costs that can be allocated to a qualifying asset. The new standard calls for the capitalization of these borrowing costs as part of the asset's cost of acquisition or production. The revision of IAS 23 is to be applied to borrowing costs that relate to qualifying assets with acquisition/production on or after January 1, 2009.

- Revision of **IAS 1 "Presentation of Financial Statements"**: Changes compared with the previous version of IAS 1 include: (a) separate presentation of all non-owner changes in equity either in one "statement of comprehensive income" or in two separate statements (a traditional income statement and a statement of comprehensive income); (b) with the retroactive application of an accounting policy or with a correction or a change in presentation, an additional balance sheet is to be included in the financial statements as of the beginning of the earliest comparative period. The revised standard is to be applied for financial years beginning on or after January 1, 2009.

- Amendment to **IFRS 2 "Vesting Conditions and Cancellations"** (to be applied for financial years beginning on or after January 1, 2009): (a) Vesting conditions comprise performance conditions and service conditions only. Other features of a share-based payment are not vesting conditions. According to IFRS 2, features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. (b) All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. A cancellation of equity instruments is accounted for as an acceleration of the vesting period, i.e. any amounts unrecognized that would otherwise have been charged are recognized immediately. Any payments made in connection with the cancellation (up to the fair value of the equity instrument) are to be accounted for as the repurchase of an equity instrument. Any payment in excess of the fair value of the equity instruments granted is recognized as an expense.

- Revision of **IFRS 3 and IAS 27 "Business Combinations 'Phase II'"** (if endorsed unchanged by the EU, to be applied for financial years beginning on or after July 1, 2009). The amendment to the standard relates to the capital consolidation and the accounting of goodwill. Changes include: (a) Acquisition costs that are incurred in connection with the business combination are to be recognized as an expense. (b) Accounting for contingent consideration whose amount depends on events after the acquisition (e.g. earn-out clauses, payments upon the achievement of performance targets) depends upon whether the additional benefit is to be granted in the form of equity instruments or for example in the form of cash. (c) There is the option of capitalizing goodwill according to the full goodwill method, i.e. also to the extent that it relates to minority interests (now termed "non-controlling interests"). (d) Disposals of shares without losing control are recognized purely as transactions with owners, i.e. through equity. (e) The same applies to acquisitions of additional shares in subsidiaries after control has been achieved.

- Amendment to **IAS 32 and IAS 1 "Puttable Instruments"** (if endorsed unchanged by the EU, to be applied for financial years beginning on or after January 1, 2009). Under the existing version of IAS 32, instruments are to be classified as financial liabilities if the issuer can be obliged to deliver cash or other financial assets for the return or repurchase of a financial instrument. As a result of the amendment, some financial instruments that currently fulfill the definition of a financial liability will be classified as equity because they represent the most subordinate claim on the net assets of the entity.

- Amendment to **IFRS 1 and IAS 27 "Cost of a Subsidiary in the Separate Financial Statements of a Parent"** (if endorsed unchanged by the EU, to be applied for financial years beginning on or after January 1, 2009). The new versions eases the measurement of the cost of acquiring shares in subsidiaries, jointly controlled entities and associated companies in the separate financial statements with first-time adoption of the IFRS. It also regulates the measurement of the cost of acquiring shares in the separate financial statements of a new parent company that has resulted from reorganization.

- Amendment to **IAS 39 "Exposures Qualifying for Hedge Accounting"** (if endorsed unchanged by the EU, to be applied for financial years beginning on or after July 1, 2009). As part of the revision of IAS 39, risks that qualify for hedge accounting have been classified and specified, and it has been clarified in which cases an entity can designate a portion of the cash flow of a financial instrument as the underlying transaction to be hedged.

- Revision of **IAS 39 "Reclassification of Financial Assets."** On 27 October 2008, the IASB published an updated version of the amendments to IAS 39 of 13 October 2008. The IASB makes clear that each reclassification carried out on or after 1 November 2008 takes effect as of the date of the reclassification. However, reclassifications carried out before 1 November 2008 can take effect as of 1 July 2008 or a later date. Reclassifications cannot be carried out retroactively on or before 1 July 2008. The revision has not yet been endorsed by the EU.

- Revision of **IFRS 1 "Fist Time Adoption of International Financial Reporting Standards"**. IFRS 1 has been revised in the context of the annual improvement project to make it more comprehensible and to word it so that future changes can be better integrated. The revised version of IFRS 1 takes effect (if endorsed unchanged by the EU) for entities that adopt the IFRS for the first time for periods beginning on or after 1 January 2009. Earlier application is permitted.

In May 2008, for the first time the Board issued a collection of amendments entitled **Improvements to IFRS** with the primary goal of eliminating inconsistencies and clarifying wording. Each standard has its own transition provisions. If endorsed by the EU, the amendments are to be adopted at the earliest for periods beginning on or after 1 January 2009.

- **IFRIC 12 "Service Concession Agreements"** refers to agreements in which a public-sector client places orders with a private-sector operator to provide public services (e.g. roads) and addresses the adoption of the IFRS by the private-sector operator. If endorsed by the EU, IFRIC 12 is to be applied for financial years beginning on or after 1 January 2008.

- **IFRIC 13 "Customer Loyalty Programmes"** refers to the accounting of companies that grant their customers loyalty awards when buying goods or services. In particular, it clarifies how these companies account for their obligations to provide customers with free or discounted goods or services ("points") when they redeem their credits. IFRIC 13 is to be applied for financial years beginning on or after July 1, 2008.

- **IFRIC 15 "Agreements for the Construction of Real Estate.**" IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 "Construction Contracts" or of IAS 18 "Revenue." IFRIC 15 explains when revenue from the construction of real estate should be recognized in the financial statements. If endorsed unchanged by the EU, IFRIC 15 is to be applied for financial years beginning on or after January 1, 2009.

- **IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”** (if endorsed unchanged by the EU, to be applied for financial years beginning on or after October 1, 2008). IFRIC 16 primarily addresses the following questions: (a) A parent company can only designate as hedged risk those foreign currency differences that arise from the deviation of the parent’s functional currency from the functional currency of foreign operation. (b) Hedging instruments can be held by any company within a group, i.e. not necessarily from the parent company that holds the net investment. (c) IAS 39 to be applied when determining the amounts that, with regard to the hedging instrument, are to be reclassified from the currency translation reserve to the income statement when the net investment is sold. IAS 21 is to be applied with regard to the underlying transaction.

- **IFRIC 17 “Distribution of Non-cash Assets to Owners”** (if endorsed unchanged by the EU, to be applied prospectively for financial years beginning on or after July 1, 2009). According to IFRIC 17, dividends are to be recognized as payable when the dividend is authorized and no longer at the discretion of the distributing entity. Non-cash dividends are to be measured at the fair value of the assets concerned. If there is a difference between the fair value and the carrying value of the assets, it should be recognized in profit and loss.

The situations addressed by the new IFRICs have not yet existed at BERU. IAS 1 (revised) will affect the presentation of the consolidated financial statements, but not the assets, finances and profitability of BERU. BERU is checking the effects of the first-time adoption of IFRS 8 on the presentation of its segment reporting. The revised version of IFRS 3 is mainly to be applied prospectively. Depending on the type and extent of future transactions, the changes will affect the BERU Group’s assets, finances and profitability. In the other cases, BERU does not anticipate any effects on the presentation of the Group’s assets, finances and profitability. BERU will adopt the revised or amended IFRS at the latest when it is mandatory due to being endorsed by the EU.

5. SIGNIFICANT CRITICAL ESTIMATES AND JUDGMENTS

Important facts that require estimates and judgments are:

- determining the useful lives of property, plant and equipment and intangible assets,
- goodwill impairment tests,
- determining value adjustments on doubtful accounts,
- measuring pension obligations,
- capitalizing development costs, and
- warranty provisions, and
- presentation of the sale of the French subsidiaries.

In 2008, the Group had amortized carrying values of **intangible assets** of EUR 39,878 thousand (prior year: EUR 42,381 thousand; Note [10]) and a carrying value for **property, plant and equipment** of EUR 117,833 thousand (prior year: EUR 149,337 thousand; Note [11]). Intangible assets with defined useful lives and property, plant and equipment are amortized over their expected useful lives. The expected useful lives are based on estimates of the period in which the intangible asset or property, plant and equipment generates cash flows. The estimated useful lives are explained in Note [9]. The Executive Board regards the estimates related to the expected useful lives of certain assets, the assumptions relating to macroeconomic conditions and developments in the industry in which the Group is operating, and estimated present value of future cash flows as reasonable. Nonetheless, changed assumptions or circumstances may necessitate corrections, which in the future may lead to additional unscheduled write-downs or write-ups if actual developments should be different from those expected by the Executive Board.

The carrying value of **goodwill** is comprised as follows:

Company	EUR thousand	Dec. 31, 2008	Dec. 31, 2007
From company financial statements			
BERU Motorsport Holdings Limited, Diss, United Kingdom		0	790
BERU Eyquem SAS, Nanterre, France		0	22
		0	**812**
From the consolidation			
B 80 S.r.l., Biassono, Italy		0	1.144
BERU Microelectrónica S.A., Vitoria, Spain		355	355
BERU Hungaria zRt., Tiszakécske, Hungary		0	141
BERU Korea Co. Ltd., Chungju-City, South Korea		888	888
		1.243	**2.528**
		1.243	**3.340**

Pursuant to IAS 36, the measurement of goodwill has taken place on the basis of cash-generating units. For the purpose of goodwill impairment tests, these units were equivalent to the primary reporting segments Original Equipment, Aftermarket and General Industry until the end of 2007.

Goodwill in the primary segment / cash-generating unit	OEM	IAM EUR thousand	GI	Total
BERU SAS, La Ferté-Macé, France			22	22
B 80 S.r.l., Biassono, Italy		1.144		1.144
BERU Microelectrónica S.A., Vitoria, Spain			355	355
BERU Hungaria zRt., Tiszakécske, Hungary			141	141
BERU Motorsport Holdings Limited, Diss, United Kingdom			790	790
BERU Korea Co. Ltd., Chungju-City, South Korea	806	47	35	888
	806	**1.191**	**1.343**	**3.340**

In 2008, the management updated its internal reporting and reporting structures and adapted them to new requirements. The degree of detail in the reporting was increased. In particular, the management now monitors goodwill on the basis of smaller cash-generating units, which are nearly always equal to the individual companies.

As of 2008, goodwill is therefore allocated to the following cash-generating units (before impairment test pursuant to IAS 36):

Goodwill in the primary segment / cash-generating unit (Dec. 31, 2008)*	OEM	IAM	GI	Total
		EUR thousand		
BERU SAS, La Ferté-Macé, France				0
B 80 S.r.l., Biassono, Italy				0
BERU Microelectrónica S.A., Vitoria, Spain			355	355
BERU Hungaria zRt., Tiszakécske, Hungary				0
BERU Motorsport Holdings Limited, Diss, United Kingdom				0
BERU Korea Co. Ltd., Chungju-City, South Korea	806	47	35	888
	806	47	390	1.243

*After sale of BERU SAS, impairment of B 80 S.r.l, BERU Motorsport Holdings Ltd. and BERU Hungaria zRt.

When allocating goodwill to the new cash-generating units, it was specifically taken into consideration which of the units profited from the former business combination.

When carrying out the impairment tests, like before, the value in use is calculated on the basis of the future budgeted cash flows for the cash-generating units over the next five financial years. The plans are based on experience of the past and on the management's best estimates of future developments. When estimating the future budgeted cash flows, in particular the effects of the current economic and financial markets crisis was taken into consideration. To the extent that BERU plans to sell the respective cash-generating units, value in use and fair value less costs to sell are equal, because in this case the value in use primarily comprises the net sales proceeds.

Furthermore, the weighted average growth rates used in the planning correspond with the expectations in the respective growth forecasts. In order to measure the values, management estimates the cash inflows over the planning period by projecting a constant growth rate for the following years. With the use of a discounted cash-flow method, the recoverable amount is calculated for each cash-generating unit. Whereas in the prior year, an average cost of capital of 6.13% and an average growth rate of 1% were estimated for all cash-generating units, the following parameters were used in 2008:

Weighted average cost of capital in perpuity	Dec. 31, 2008
	in %
BERU Microelectrónica S.A., Vitoria, Spain	8,48
BERU Korea Co. Ltd., Chungju-City, South Korea	8,48

Discount for growth in perpetuity	Dec. 31, 2008
	in %
BERU Microelectrónica S.A., Vitoria, Spain	1,00
BERU Korea Co. Ltd., Chungju-City, South Korea	1,00

The parameters were calculated with consideration of the enterprise-specific risk situation in conjunction with industry-specific parameters and also reflect the experience of the past, as well as the current economic and financial markets crisis.

The recoverable amounts calculated in this way were then compared with the carrying values of the cash-generating units so that their values could be measured. Whereas in
2007 no need for impairment was recognized as a result of the impairment test for goodwill, the following impairments were recognized for goodwill in 2008:

Goodwill impairment	2008
	EUR thousand
B 80 S.r.l., Biassono, Italy	1.144
BERU Motorsport Holdings Limited, Diss, United Kingdom	760
BERU Hungaria zRt., Tiszakécske, Hungary	141
	2.045

A sensitivity analysis was carried out for the goodwill impairment test. With unchanged future cash flows, an increase in the weighted cost of capital of 1 and 2 percentage points was assumed. Larger changes are possible, however, depending on the development of the capital market.

Goodwill impairment with increase in weighted cost of capital of:	1 %-point	2 %-points
	EUR thousand	
BERU Microelectrónica S.A., Vitoria, Spain	0	0
BERU Korea Co. Ltd., Chungju-City, South Korea	1.355	2.572
	1.355	2.572

Doubtful accounts are recognized at an amount that the Group regards as recoverable based on historical default rates. As soon as it is clear that the risk connected with a certain receivable is greater than the normal credit risk (e.g. poor creditworthiness of the debtor, lack of agreement on the existence or amount of the receivable, lack of enforceability of the claim for legal reasons etc.), the receivable is reviewed and – if the circumstances indicate that the receivable is not recoverable – written off. In addition, the Group carries out (as in the prior year) a general impairment of the receivables: after 90 days, the domestic (foreign) trade receivables are impaired by 10% (50%), after another 90 days by 50% (75%) and after being overdue for 360 days the receivables are impaired by 100% (100%).

This procedure is backed up by previous experience, which shows that trade receivables older than 360 days can no longer be expected to yield any cash inflow.

See Note 16 for details of the development of the adjustment account used with trade receivables, the composition of receivables overdue but not impaired and accumulated impairments.

With the **measurement of pension obligations,** the Group makes use of statistical and/or actuarial calculations. These calculations are based on assumptions on the discount rate, the expected yield on plan assets, and the rate of wage increases. With the interest rate used to calculate the present value of future obligations falling due upon retirement, the Group the yields on key dates of the respective country-specific, high-value, first-rate industrial bonds, alternatively the yields on key dates of government bonds. At December 31, 2008, the present value of defined-benefit pension obligations and similar obligations was EUR 20,279 thousand (prior year: EUR 22,110 thousand). The entire item of pension obligations is explained in more detail under Note 25.

The Group carries out internal **research and development** work to develop new components and to improve existing products. The accounting policies relating to the capitalization of development costs are explained in Note 9. At December 31, 2008, development costs of EUR 33,885 thousand were capitalized (prior year: EUR 33,645 thousand). See Note 9 for details of non-capitalized research and development expenses.

The Group recognized **warranty provisions** in a total amount of EUR 15,602 thousand at December 31, 2008 (prior year: EUR 8,712 thousand). The volume of the warranty provisions is largely based on the warranty expenses actually incurred in the past. The main basis for estimates, in addition to the numbers of products supplied, are the production costs for the respective products. Reasonable markups for removing faulty parts and installing new or repaired parts are also taken into consideration.

In 2008, BERU sold its **French subsidiaries** BERU TdA SAS (Chazelles sur Lyon), EYQUEM SNC (Nanterre), BERU Eyquem SAS (Nanterre) and BERU SAS (La Ferté-Macé) to BorgWarner Investment Holding, Inc. The companies were therefore deconsolidated in 2008. As the French companies (a) together were neither a cash-generating unit no a group of cash-generating units, and (b) were also not a separate significant operation, and (c) BERU will continue to supply the French market, the does not lead to the presentation of a discontinued operation pursuant to IFRS 5. To that extent, the results of the French subsidiaries are not retrospectively separated in the income statement. See Note 43 for details of the sale price and the result of deconsolidation.

6. CONSOLIDATED GROUP

The consolidated group includes the consolidated financial statements of the parent company and the companies it controls (subsidiaries). Subsidiaries are all German and foreign companies in which BERU AG directly or indirectly holds a majority of the voting rights or can exercise a controlling influence in another way.

The consolidated financial statements include, as well as BERU AG, 9 subsidiaries (prior year: 13).

	Equity according to IFRS Dec. 31, 2008 National currency		EUR k[1]	Stake %	Revenue (before consolidation) 2008 National currency		EUR k[1]	EBIT* (before consolidation) 2008 National currency		EUR k[1]
Stakes in subsidiaries										
Consolidated companies										
Germany										
Bretten[2]	TEUR	18.976	18.976	100%	TEUR	122.955	122.955	TEUR	3.206	3.206
Ausland										
B 80 S.r.l., Biassono, Italy	TEUR	6.655	6.655	100%	TEUR	4.388	4.388	TEUR	-933	-933
BERU Automotive Co. Ltd., Shihung-City, South Korea	TKRW	1.702.622	970	100%	TKRW	8.551.262	5.387	TKRW	-1.744.181	-1.099
Jiutepec, Estado de Morelos, Mexico[3]	TMXN	-67	-3	100%	TMXN	72.735	4.473	TMXN	-31.786	-1.955
BERU Microelectrónica, S.A., Vitoria, Spain	TEUR	10.421	10.421	100%	TEUR	5.587	5.587	TEUR	894	894
BERU Korea Co. Ltd., Chungju-City, South Korea	TKRW	12.911.845	7.360	51%	TKRW	36.865.330	23.225	TKRW	3.961.611	2.496
BERU Motorsport Holdings Limited, Diss, United Kingdom[4]	TGBP	681	711	100%	TGBP	6.534	8.244	TGBP	842	1.062
BERU Hungaria zRt., Tiszakécske, Hungary	THUF	568.148	2.142	100%	THUF	745.500	2.967	THUF	-178.405	-710
BERU Italia S.r.l., Cassina de Pecchi, Italy[5]	TEUR	80	80	100%	TEUR	6.048	6.048	TEUR	114	114

* Earnings before interest and taxes (EBIT)
1) Translated at the official exchange rate and/or the average rate at December 31, 2008
2) Profit-and-loss transfer agreement with BERU AG; equity and revenue include the branch in Tralee, Ireland
3) One of the 50,000 shares is held by BERU Electronics GmbH
4) Equity and revenue consolidated including BERU f1systems Ltd., Diss, United Kingdom
5) For company-law reasons, BERU Electronics GmbH owns a 10% minority interest in BERU Italia S.r.l.

Companies of minor significance are not consolidated. See Note 13.

7. CONSOLIDATION PRINCIPLES

Subsidiaries are consolidated starting from the time when they are acquired, i.e. from the time when BERU gains control. Consolidation ends as soon as the parent company no longer has control.

When a company is acquired, the assets, liabilities and contingent liabilities of the respective subsidiaries are measured at their fair values at the time of acquisition. If the cost of acquisition exceeds the fair values of the acquired identifiable assets, liabilities and contingent liabilities, the amount of the difference is recognized as goodwill. If the fair values of the acquired identifiable assets, liabilities and contingent liabilities exceed the cost of acquisition, the amount of the difference is recognized as a gain in the income statement in the period of acquisition. Minority interests are recognized in the amount of their proportion of the newly measured net assets of the subsidiary.

The effects of intra-Group transactions are eliminated. Receivables and payables between the companies of the Group are netted off, interim gains and losses are eliminated. Intra-Group gains are netted off against the corresponding expenses. Deferred tax assets and/or liabilities are recognized as required on temporary differences from the consolidation, in accordance with IAS 12.

8. CURRENCY TRANSLATION

The translation of financial statements prepared in foreign currencies by the consolidated companies takes place on the basis of the functional-currency concept. This means that the functional currency is the currency of the primary economic environment in which the company operates. As in financial and organizational terms, the subsidiaries run their businesses independently, the functional currency is always identical with each company's respective national currency.

The assets and liabilities of foreign subsidiaries are translated at the exchange rate on the balance sheet date; expenses and income are translated at the annual average exchange rate. Translation differences are charged directly to equity with no effect on the income statement until the subsidiary is deconsolidated.

Any goodwill and adjustments to fair values of the carrying values of assets and liabilities in connection with the acquisition of subsidiaries are dealt with as if they were assets and liabilities of the foreign subsidiary. They are therefore stated in the functional currency of the foreign subsidiary and translated into the presentation currency according to the above rules.

In the financial statements of the individual companies of the Group, foreign-currency transactions are first translated into the functional currency by translating the foreign-currency amount with the spot rate of exchange valid between the functional currency and the foreign currency on the date of the transaction. In the following periods, monetary amounts in foreign currencies are translated at the rate of exchange applicable on the balance-sheet date. Any resulting currency gains and/or losses are immediately recognized with a corresponding effect on the income statement. See the breakdown of other operating expenses and income in Note 37 for details of currency gains and losses.

The following exchange rates were used for currency translation:

	Exchange rate on the balance sheet date		Average exchange rate for the year	
EUR	Dec. 31, 2008	Dec. 31,2007	2008	2007
1 British pound	1.04467	1.361145	1.26169	1.459440
1 Hungarian forint	0.00377	0.003953	0.00398	0.0039809
1 Mexican peso	0.05219	0.062748	0.0615	0.0667931
1 South Korean won	0.00057	0.000732	0.00063	0.0007852

9. ACCOUNTING POLICIES

The financial statements of BERU Aktiengesellschaft and of its German and foreign subsidiaries are prepared using uniform accounting and valuation principles.

Income is measured at the fair value of the goods or services received or supplied. The following details apply to the recognition and measurement of income.

Revenue from the sale of products are recorded at the time that the ownership and risk are transferred to the customer if a price has been agreed or can be reliably determined, it can be assumed that it will be paid, and if the costs already incurred or to be incurred in connection with the sale can be reliably determined. Sales revenue is shown after the deduction of cash discount, price reductions, commissions and volume discount.

Interest income from securities and other financial assets is recognized as income using the effective interest method only when it is likely that the economic benefit will accrue to the Company and the level of the income can be reliably determined.

Dividends are recognized as income as soon as there is a legal claim to payment. All **borrowing costs** are recognized and expensed in the period in which they are incurred.

Research costs and development costs that cannot be capitalized are expensed when incurred.

Public-sector subsidies are only recognized if there is reasonable assurance that the related conditions will be fulfilled and the subsidies will be granted. They are recognized as revenue and as other operating income in the periods in which the expenses are incurred that the subsidies are intended to offset.

Acquired **intangible assets** are capitalized when acquired at cost of acquisition if it is likely that the BERU Group will have a future economic benefit from them and if the cost of acquisition can be reliably measured. For subsequent measurement, a difference is made between intangible assets with definite and indefinite lives.

Intangible assets with **definite lives** are subjected to systematic amortization on a straight-line basis over their expected useful lives. The period and method of amortization are reviewed annually at the balance sheet date. Impairment tests are carried out in accordance with IAS 36 as soon as there are any indications of a loss in value, and losses are recognized if impairments are found. The recoverable amount of an asset is defined as the higher of the fair value less costs to sell and value in use. An asset is impaired if the carrying value of the individual asset exceeds its recoverable amount. The resulting impairment loss is entered as an expense in the income statement under depreciation and amortization.

There are no intangible assets that have an **indefinite life** apart from goodwill. In accordance with IFRS 3, **goodwill** is not amortized. Instead, goodwill must be tested for impairment at least annually in accordance with IAS 36.

To carry out these impairment tests, goodwill is allocated to those cash-generating units that benefit from the goodwill. The cash-generating units are the primary segments of the BERU Group. Due to the change in the internal reporting structures, as of 2008 the cash-generating units used for the impairment tests also had to be adjusted. An impairment loss is recognized if the carrying value of the cash-generating unit to which the goodwill is allocated is higher than the recoverable amount for this unit. The recoverable amount is equal to the higher of the asset's fair value less costs to sell and its value in use. Any resulting impairment loss recognized in this way is entered as an expense under depreciation and amortization.

Development costs for new or substantially improved products are capitalized when incurred at their cost of production, provided that a clear allocation of expenses is possible and both technical feasibility and the marketing viability and intention are certain. Such development activities must have a reasonable probability of yielding a future benefit for the Company. The capitalized costs of production include the costs that can be directly allocated to the development process. Capitalized development expenses are systematically amortized with the straight-line method from the time when production starts over a useful life, which is appropriate to the planned product cycle. Development projects that are not completed and capitalized are tested annually for impairment in accordance with IAS 36 in the same way as intangible assets. The effects of future market developments are taken into consideration.

Property, plant and equipment are initially measured at cost of acquisition or production. They are then subjected to systematic depreciation related to the use of the assets, as well as impairment tests. Systematic depreciation takes place using the straight-line method over an asset's useful life. The period and method of depreciation are reviewed annually on the annual balance sheet date. Impairment losses are recognized pursuant to IAS 36 as soon as there are any indications of a loss in value. The procedure with impairment tests is the same as with intangible assets.

Cost of acquisition or production comprises the purchase price plus any non-deductible duties and taxes and less any price reductions or allowances. Any additional directly allocable costs incurred to put an asset into working condition are recognized as cost of acquisition or production. Borrowing costs are not included under cost of acquisition or production. Expenses for regular repairs and maintenance of property, plant and equipment are expensed in the year when they are incurred. Expenses that fulfill the requirements of IAS 16.13 and the recognition criteria of IAS 16.7 are capitalized in the carrying value of the respective asset and depreciated over the expected useful life. The replaced parts are retired. There are no significant buildings or plots of land that constitute a financial investment pursuant to IAS 40.

Lease agreements entered into that transfer substantially all of the risks and rewards incidental to ownership to BERU Group as the lessee are capitalized as **finance leases** under property, plant and equipment. They are recognized at the lower of fair value of the asset and the present value of the minimum lease payments. Systematic depreciation takes place over the expected useful life. The financial obligations resulting from future lease payments, equivalent to the future minimum lease payments, are recognized as financial liabilities.

Lease agreements that do not fulfill the conditions for finance leases are classified as **operating leases**. In this case, the lease payments to be paid are expensed at the time when they fall due.

The **systematic depreciation and amortization** of intangible assets and of property, plant and equipment is based on the following useful lives, which are uniform throughout the Group, as in the prior year:

in years	Useful life
Industrial property rights and similar rights	4 to 15
Development costs	4 to 8
Buildings	10 to 50
Technical equipment and machinery	6 to 10
Other equipment, office equipment and furniture	4 to 15

A shorter useful life of three years is applied for equipment used in multi-shift operations with an average of at least three shifts per day.

Non-current assets or disposal groups are classified as held for sale if their carrying values are primarily realized through a sale transaction and not through continued use. This condition is only regarded as fulfilled when the sale is highly likely and the asset (or the disposal group) is available in its current condition for immediate sale. It must be possible to assume that the sale transaction will be completed within one year after such a classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their original carrying value and their fair value less costs to sell.

Equity interests in **associated companies** are measured using the equity method in accordance with IAS 28. Starting with the cost of acquisition when the equity is acquired, the carrying value is increased or reduced in line with changes in the equity value of the associated company. Any required impairments are recognized through profit and loss.

The Group is a member of a **joint venture** in the form of a jointly managed company. A joint venture is a contractual agreement under which the Group and other contracting parties are involved in business activities that are subject to joint management. A jointly managed company is a joint venture that includes the establishment of an independent company in which each partner company holds an equity interest. The Group accounts for its share in the joint venture using the equity method.

Raw materials, manufacturing and factory supplies and merchandise are measured at their cost of acquisition; **unfinished and finished goods** are measured at their cost of production. If inventory items cannot be measured individually, the weighted-average method is used. Cost of production includes the costs directly allocable to the production process as well as an appropriate portion of the production-related overhead costs. Financing costs are not a component of cost of acquisition and production. If at the balance sheet date the expected net cost to sell is below the cost of acquisition and production, for example because of the period of storage, damage or diminished marketability, the goods are written down to the lower value. The net sale value is the sales proceeds estimated to be realizable in the normal course of business less the estimated costs until completion and the estimated necessary costs to sell.

Financial assets consist of receivables, acquired equity and debt securities, cash and cash equivalents and derivative financial instruments with positive fair values. Financial assets are recognized and measured in accordance with IAS 39. This means that financial assets are shown in the balance sheet if the Group has a contractual right to receive cash or other financial assets from a third party. Market acquisitions and disposals of primary financial assets are generally recognized on the settlement date. Financial assets are initially recognized at fair value plus transaction costs. Transaction costs that arise in connection with acquiring financial assets recognized at fair value through profit or loss are immediately expensed. Subsequent measurement takes place in accordance with the allocation of financial assets to the following categories:

- Financial assets **at fair value through profit or loss** comprise financial assets held for trading (HFT). Assets of this category are allocated to the derivative financial instruments shown under other financial assets if hedge accounting is not applied. Changes in the fair value of financial assets of this category are recognized as gains or losses when they occur.

- **Loans and receivables** (LAR) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost. The assets allocated to this category are (i) trade receivables, and (ii) financial receivables and loans included in other financial assets. The interest income from items of this category is calculated with the use of the effective-interest method apart from with short-term receivables and when the interest effect is insignificant.
- **Held-to-maturity investments** (HTM) are non-derivative financial assets with fixed or determinable payments and fixed terms for which they are held. They are measured at amortized cost – with the application of the effective-interest method. There were no held-to-maturity investments in 2008 (also not in the prior year).
- **Financial assets available for sale** (AFS) are any non-derivative financial assets that are not allocated to one of the above categories. These are, in particular, the equity (e.g. shares) and debt securities (e.g. bonds) at fair value through profit and loss included in the balance sheet items "Financial investments" and "Securities". Changes in the fair values of financial assets available for sale are recognized directly in equity and only recognized as profit or loss when the assets are sold or impaired. This does not apply, however, if changes in the fair value of a debt instrument result from exchange-rate fluctuations. In cases in which the market value of equity securities can be reliably determined, this is used as the fair value. If there is no listed market price and the fair value cannot be reliably estimated, these financial assets are measured at cost of acquisition less impairment losses.

IAS 39 only allows financial instruments to be reclassified to different categories in exactly defined exceptions. As in the prior year, the Group has not reclassified any financial instruments.

The Group has so far not made use of the possibility to designate financial assets upon initial recognition as financial assets at fair value through profit or loss.

If, with financial assets of the categories loans and receivables, held-to-maturity investments and debt instruments available for sale, there are objective, material indications of impairment, a test is carried out as to whether carrying amount exceeds the present value of the expected future cash flows. With items measured at amortized cost, the discount rate used is the original effective interest rate. With financial assets available for sale, discounting takes place at the current market yield on a comparable financial asset. If this is the case, an impairment loss is recognized in the amount of the difference between the recoverable amount and the carrying amount.

With equity instruments available for sale, a sustained or significant reduction in the fair value or a company's operating loss over several years can constitute an objective indication of impairment. An impairment loss is then recognized. Indications of the impairment of debt instruments include a company's operating loss over several years, a reduction in market value, a substantial worsening of creditworthiness, a significant breach of contract, a high probability of insolvency or another form of the debtor's financial restructuring or the disappearance of an active market due to the issuer's financial difficulties.

If the reason for a previous impairment no longer applies, a reversal is carried out – but not to an amount above the cost of acquisition. Reversals on debt instruments are recognized as gains. With equity instruments that are held as available for sale, reversals are entered under equity. Impairments relating to investments in available-for-sale equity securities measured at cost are not reversed.

Financial assets are derecognized if the contractual rights to cash flows from the financial asset expire or the financial asset is transferred with all of its risks and rewards.

There were no financial assets whose conditions are altered because they would otherwise be overdue or impaired in 2008 (as in the prior year).

Financial liabilities consist of original liabilities and the negative fair values of derivative financial instruments. Original liabilities are recognized if the Group has a contractual obligation to transfer cash or other financial assets to a third party.

Initial measurement of an original liability takes place at the fair value of the consideration received or at the value of the cash received less any transaction costs. Subsequent measurement takes place at amortized cost (AC) using the effective-interest method. Liabilities from finance leases are measured at the present value of the minimum lease payments. Derivative financial instruments are measured at fair value through profit or loss if hedge accounting is not applied (held for trading / HFT). The negative fair values of derivative financial instruments are entered under other liabilities. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or expired.

With its financial liabilities, the Group has not yet made use of the option to designate them as financial liabilities at fair value through profit or loss upon initial recognition.

The Group uses **derivative financial instruments** to hedge interest-rate, exchange-rate and price risks resulting from its operations, financial transactions and investments. No derivative financial instruments are held or issued for speculative purposes. As the BERU Group does not use hedge accounting as defined by IAS 39, changes in the fair value of derivative financial instruments are always recognized as gains or losses in the income statement.

Current entitlement to income tax rebates covers claims to the refund of taxes from the respective tax authorities. Entitlement to income tax rebates entered under non-current assets includes income tax credits, measured at their present value using a discount rate of 3.15% (prior year: 4.46%; calculated on the basis of term-congruent risk-appropriate investments in the form of government bonds).

Other assets primarily comprise advance payments made on property, plant and equipment; receivables from value added tax; and accrued expenses. Other assets are initially recognized at fair value and are subsequently measured at amortized cost of acquisition.

Since January 2008, BERU AG has been a subsidiary in a fiscal unity with its direct parent company, BorgWarner Germany GmbH, Ketsch (see also Note 43 for details of the domination and profit transfer agreement). Accordingly, no **income taxes** arise at the level of BERU AG. IAS 12 does not include any special rules for accounting for current or deferred income taxes of subsidiaries in a fiscal unity. Therefore, BERU applies other international accounting standards which refer to the same or similar circumstances. These include other IFRSs than IAS 12, the conceptual framework of the IASB, announcements of other standard setters provided that they do not contradict IFRS or the conceptual framework of the IFRS. In accordance with the Australian “Urgent Issue Group Interpretation 1052 – Tax Consolidation Accounting” from the year 2005, current and deferred income taxes were allotted to BERU AG when preparing the consolidated financial statements. Accordingly, the consolidated financial statements were prepared as if BERU AG were not part of an organic unity, but as if BERU AG were a separate taxable entity independent of an organic unity. This procedure was applied with the goal of obtaining better comparability of the consolidated financial statements. In addition to recognizing a fictitious tax expense at the level of BERU AG, deferred taxes were also recognized on taxable temporary differences at BERU AG. The basis used was the tax rate currently applicable or to be applied in the foreseeable future. Deferred tax assets were only recognized to the extent that it is reasonably likely that they can be utilized.

Pursuant to IAS 19, **provisions for pensions** are measured according to the projected unit credit method. With this method, not only the pensions and acquired rights to future pensions at the balance sheet date are taken into consideration, but also increases in pensions and salaries to be expected in the future with a cautious estimate of the relevant parameters. The calculation takes place on the basis of actuarial expertise and with the use of biometric assumptions.

Actuarial gains and losses are not recognized in the income statement unless they are beyond a bandwidth of the higher of 10% of the present value of the defined benefit obligations and 10% of the fair value of plan assets at the beginning of the period. In this case, they are spread over the future average remaining period of service of the employees involved. The expense from servicing the retirement benefit obligations is allocated to personnel expenses, apart from the portion of interest received.

Other provisions are recognized for all other uncertain obligations and risks of the BERU Group towards third parties. A precondition for the recognition of such provisions is that a present obligation (legal or constructive) has arisen as a result of a past event, payment is probable, and the amount can be reliably estimated. The amounts recognized represent the best possible estimates of the expenditure required to settle the present obligation at the balance sheet date. Long-term provisions with a remaining term of more than one year are measured at their present values using a discount rate of 5.9% (prior year: 5.6%). The discount rate is a pre-tax rate that reflects the current market expectations with regard to the interest effect and the specific risks for the liability, provided that the risk is not already reflected in the cash flows underlying the calculation of present values.

Pursuant to IAS 20, government grants and subsidized assets are presented under **other liabilities**. The liability items are derecognized through profit and loss, e.g. over the useful life of the subsidized asset (entered as other operating income). The conditions for such grants sometimes stipulate that a certain number of employees are maintained for a certain period.

10. INTANGIBLE ASSETS

Intangible assets comprise goodwill, capitalized development costs, licenses, patents and software.

EUR thousand	Goodwill	Development costs	Other intangible assets	Total
Gross amounts Dec. 31, 2007	15.877	48.077	30.067	94.021
Additions	0	9.454	2.196	11.650
Impairments	0	0	0	0
Reclassifications into disposal groups	0	0	-179	-179
Disposals	-22	-2.528	-465	-3.015
Changes in the consolidated group	0	0	-8.814	-8.814
Currency differences	-324	0	-5	-329
Reclassifications	0	0	8	8
Gross amounts Dec. 31, 2008	**15.531**	**55.003**	**22.808**	**93.342**
Amortization at January 1, 2008	12.537	14.432	24.671	51.640
Additions	2.068	6.309	2.029	10.406
Impairments	0	2.905	0	2.905
Reclassifications into disposal groups	0	0	-178	-178
Disposals	-22	-2.528	-466	-3.016
Changes in the consolidated group	0	0	-7.993	-7.993
Currency differences	-295	0	-5	-300
Reclassifications	0	0	0	0
Amortization at December 31, 2008	**14.288**	**21.118**	**18.058**	**53.464**
Book value Dec. 31, 2008	**1.243**	**33.885**	**4.750**	**39.878**
Book value Dec. 31, 2007	**3.340**	**33.645**	**5.396**	**42.381**

EUR thousand	Goodwill	Development costs	Other intangible assets	Total
Gross amounts Dec. 31, 2006	16.008	37.938	29.303	83.249
Additions	0	10.139	1.218	11.357
Disposals	0	0	-381	-381
Currency differences	-131	0	0	-131
Reclassifications	0	0	-73	-73
Gross amounts Dec. 31, 2007	**15.877**	**48.077**	**30.067**	**94.021**
Amortization at January 1, 2007	12.644	7.772	23.207	43.623
Additions	0	5.156	1.904	7.060
Impairments	0	1.504	0	1.504
Disposals	0	0	-382	-382
Currency differences	-107	0	0	-107
Reclassifications	0	0	-58	-58
Amortization at December 31, 2007	**12.537**	**14.432**	**24.671**	**51.640**
Book value Dec. 31, 2007	**3.340**	**33.645**	**5.396**	**42.381**
Book value Dec. 31, 2006	**3.364**	**30.166**	**6.096**	**39.626**

The impairments in 2008 primarily relate to discontinued development projects in a total amount of EUR 1,773 thousand (prior year: EUR 976 thousand). In addition, impairments of EUR 1,132 thousand (prior year: EUR 528 thousand) were recognized for development projects of which the value in use had fallen below the carrying value. The impairments were allocated to depreciation, amortization and impairments in the area of research and development in the income statement.

As in the prior year, there were no mortgages or similar disposal restrictions on intangible assets.

At the balance sheet date, there were no contractual obligations for the purchase of property, plant and equipment, as in the prior year.

11. PROPERTY, PLANT AND EQUIPMENT

EUR thousand	Land and buildings	Technical equipment and machinery	Office equipment and furniture	Assets under construction	Total
Gross amounts at Dec. 31, 2007	89.002	233.640	45.293	4.036	371.971
Additions	1.294	8.657	3.797	3.713	17.461
Impairments	0	0	0	0	0
Reclassification into disposal groups	-1.799	-3.205	-1.513	0	-6.517
Disposals	-347	-9.400	-4.332	-109	-14.188
Changes in the consolidated Group	-9.186	-28.031	-877	-2.415	-40.509
Currency differences	-801	-1.248	-752	-24	-2.825
Reclassifications	408	7.760	756	-2.447	6.477
Gross amounts at Dec. 31, 2008	**78.571**	**208.173**	**42.372**	**2.754**	**331.870**
Depreciation at Jan. 1, 2008	21.711	171.903	29.020	0	222.634
Additions	2.857	14.286	4.253	0	21.396
Impairments	0	1.472	0	0	1.472
Reclassification into disposal groups	-420	-2.415	-1.411	0	-4.246
Disposals	-313	-8.417	-4.019	0	-12.749
Changes in the consolidated Group	-2.142	-9.902	-703	0	-12.747
Currency differences	-233	-852	-638	0	-1.723
Reclassifications	0	0	0	0	0
Depreciation at Dec. 31, 2008	**21.460**	**166.075**	**26.502**	**0**	**214.037**
Book value at Dec. 31, 2008	**57.111**	**42.098**	**15.870**	**2.754**	**117.833**
Book value at Dec. 31, 2007	**67.291**	**61.737**	**16.273**	**4.036**	**149.337**

EUR thousand	Land and buildings	Technical equipment and machinery	Office equipment and furniture	Assets under construction	Total
Gross amounts at Dec. 31, 2006	81.841	216.213	43.402	4.661	346.117
Additions	2.380	14.517	5.681	2.127	24.705
Disposals	-268	-2.123	-3.661	-111	-6.163
Write-ups	0	0	0	0	0
Currency differences	-354	-559	-341	-10	-1.264
Reclassifications	5.403	5.592	212	-2.631	8.576
Gross amounts at Dec. 31, 2007	**89.002**	**233.640**	**45.293**	**4.036**	**371.971**
Depreciation at Jan. 1, 2007	19.864	157.560	27.803	0	205.227
Additions	1.967	16.364	4.508	0	22.839
Disposals	-22	-1.888	-3.040	0	-4.950
Write-ups	0	0	0	0	0
Impairments	0	146	0	0	146
Currency differences	-98	-307	-281	0	-686
Reclassifications	0	28	30	0	58
Depreciation at Dec. 31, 2007	**21.711**	**171.903**	**29.020**	**0**	**222.634**
Book value at Dec. 31, 2007	**67.291**	**61.737**	**16.273**	**4.036**	**149.337**
Book value at Dec. 31, 2006	**61.977**	**58.653**	**15.599**	**4.661**	**140.890**

In 2008, in addition to systematic depreciation, impairments of EUR 1,472 thousand were recognized (prior year: EUR 146 thousand). The impairments are related to the planned closure of a production plant (EUR 509 thousand) and the restructuring of a production plant into a sales branch (EUR 613 thousand) outside Germany and the scrapping of plant and equipment that was necessary in this context. In addition, a production line for sensors was impaired by EUR 350 thousand in 2008 due to falling utilization of capacity. The impairments were allocated to depreciation, amortization and impairments in the area of production in the income statement.

In the prior year, property, plant and equipment was impaired in connection with the closure of a production plant outside Germany and the related scrapping of plant and equipment.

The reclassification into disposal groups relates to the planned sale or closure of some subsidiaries that are not part of the core business of the BERU Group. See Note 21 for more details.

As in the prior year, under property, plant and equipment, leased technical equipment and machinery and other plant was capitalized that is to be allocated to the Group due to the design of the respective lease agreements (finance leases), because substantially all risks and rewards connected with ownership are transferred to the Group. These assets are used in the production plant in Ludwigsburg. The lease agreements run until 2009. For each individual contract, there is a purchase or extension right at the end of the lease period. Details of the minimum lease payments of the relevant lease agreements are shown under financial liabilities. The book value of the equipment capitalized as finance leases in accordance with IAS 17 amounted to EUR 680 thousand at December 31, 2008 (prior year: EUR 779 thousand).

As in the prior year, there were no mortgages or other restrictions of disposal on property, plant and equipment at December 31, 2008.

On the balance sheet date, there were no significant contractual obligations to purchase property, plant and equipment, as in the prior year.

12. FINANCIAL ASSETS ACCOUNTED FOR USING THE EQUITY METHOD

The **associated company** in the prior year was IMPCO-BERU Technologies B.V., Delfgauw, Netherlands. BERU sold its interest on August 1, 2008.

BERU-Eichenauer GmbH, Hatzenbuhl, Germany, is a **joint venture** in which the Group holds a 50% equity interest, as in the prior year. The summarized financial information on BERU-Eichenauer GmbH is as follows (before weighting with the Group's equity interest of 50%):

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Non-current assets	2.555	3.030
Current assets	4.243	5.843
Total assets	**6.798**	**8.873**
Non-current liabilities	0	0
Current liabilities	4.294	6.484
Total liabilities	**4.294**	**6.484**
Equity	2.504	2.389
	2008	2007
Income	13.493	13.327
Expenses	-12.739	-12.688
Profit for the year	754	639

13. FINANCIAL INVESTMENTS

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Equity interests in non-consolidated subsidiaries	27	204
Other equity interests	313	305
	340	**509**

In 2008, the sales office in Japan was closed; BERU's interest in EUR 177 thousand was therefore impaired to zero.

	Equity at Dec. 31, 2008			Stake	Revenue 2008		
	National currency		EUR k[1)]	%	National currency		EUR k[1)]
Companies not consolidated							
Hakatherm Elektronik Verwaltungs GmbH, Ludwigsburg	EUR k	37	37	100%	EUR k	0	0
BERU Corporation, Auburn Hills, Michigan, USA 2)	USD k	120	85	100%	USD k	1.246	852
BERU Corporation, Yokohama, Japan 3)	JPN k	31.345	248	100%	JPN k	73.476	482
Other equity interests							
TecCom GmbH, Munich 2)	EUR k	612	612	2,1%	EUR k	6.802	6.802
TecDoc GmbH, Cologne 2)	EUR k	1.871	1.871	3,03%	EUR k	11.781	11.781
BERU Diesel Start Systems Pvt. Ltd., Pune, India 2)	INR k	53.150	782	49,0%	INR k	170.650	2.663

1) Translated at the official exchange rate and/or the average exchange rate on December 31, 2008

2) Equity and annual revenue at December 31, 2007

3) Preliminary equity and annual revenue

14. OTHER FINANCIAL ASSETS (NON-CURRENT)

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Other loans	12	51
Derivative financial instruments	0	0
	12	**51**

15. INVENTORIES

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Raw materials and manufacturing supplies	15.423	23.783
Merchandise	7.611	7.068
Work in progress	7.360	12.679
Finished goods	12.437	16.670
	42.831	**60.200**

The inventories measured at fair value were EUR 9,767 thousand (prior year: EUR 23,371 thousand). Expenses for the year include inventory impairments of EUR 3,946 thousand (prior year: EUR 2,716 thousand).

16. TRADE RECEIVABLES

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Trade receivables		
due from third parties	62.312	80.554
due from non-consolidated subsidiaries	753	528
due from affiliated companies	160	132
	63.225	**81.214**

All trade receivables have a maturity of less than twelve months on the balance sheet date.

Trade receivables were impaired as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Impairments at January 1	1.072	1.698
Utilized during the year	-111	-887
Additions	166	586
Reversals	-2	-311
Other changes	-514	-14
Impairments at December 31	**611**	**1.072**

Other changes include the reversal of impairments of the French companies due to de-consolidation in an amount of minus EUR 513 thousand and reclassifications into assets from disposal groups in an amount of minus EUR 7 thousand.

At December 31, trade receivables in a nominal amount of EUR 1,107 thousand were impaired (prior year: EUR 1,912 thousand).

Due to the general allowance for non-payment, an impairment loss was recognized for all receivables more than 90 days overdue. The nominal values of trade receivables that were not impaired are shown in the following table:

EUR thousand		Neither overdue	Overdue but not impaired		
	Total	nor impaired	<30 days	30-60 days	60-90 days
2008	62.728	48.040	11.502	2.548	638
2007	80.374	67.447	9.862	2.693	372

17. OTHER FINANCIAL ASSETS (CURRENT)

EUR thousand	Dec. 31, 2008	Dec. 31, 2007	Interest rate	Maturity
Loans				
BorgWarner Europe GmbH	120.000	35.000	variabel	jederzeit
BERU-Eichenauer GmbH	750	1.000	variabel	jederzeit
BERU Diesel Start Systems Pvt. Ltd	76	151	variabel	31.03.2009
BERU Japan Corporation	0	0		
Interest	14	366		
Derivative financial instruments	0	0		
Receivables due from related companies				
Loss compensation	19.429	0		
Guaranteed dividend	1.377	0		
Interest	970	0		
Miscellaneous	0	33		
	142.616	**36.550**		

Of the other financial assets, none were overdue at December 31 in 2008, as in the prior year.

18. SECURITIES

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Fixed-interest securities	0	7.460
Variable-interest securities	0	2.500
	0	**9.960**

19. OTHER ASSETS

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Advance payments made	146	6.429
Other taxes	339	2.980
Investment grants	0	190
Receivables from early retirement	0	289
Guarantee claims	278	0
Accruals	186	359
Tax receivables due from related companies	4.737	0
Miscellaneous	853	2.476
	6.539	**12.723**

20. CASH AND CASH EQUIVALENTS

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Checks, cash in hand	407	19
Cash at banks	30.229	78.024
	30.636	**78.043**

Cash at banks primarily comprises money on current accounts. The interest paid on current accounts is variable.

21. NON-CURRENT ASSETS HELD FOR SALE / DISPOSAL GROUP(S)

In the coming months, the Group intends to sell or close some subsidiaries that are no longer regarded as strategically important. The actions are currently scheduled to be completed by the middle of 2009. The assets of the companies involved have therefore been classified as non-current assets held for sale. The assets are measured at the lower of carrying value and fair value less costs to sell. At the time of reclassification, impairments of EUR 509 thousand were recognized. Additional impairments of EUR 2,045 thousand were recognized at December 31, 2008. The main groups of assets and liabilities of the companies involved are as follows:

EUR thousand	Dec. 31, 2008
Intangible assets	1
Property, plant and equipment	2.271
Inventories	1.091
Trade receivables	733
Deferred tax assets	324
Tax receivables	60
Other assets	44
Cash and cash equivalents	866
Disposal group assets held for sale	**5.390**
Pension provisions	129
Trade payables	814
Deferred tax liabilities	2
Tax payables	162
Other liabilities	229
Liabilities relating to disposal group assets	**1.336**

22. SUBSCRIBED CAPITAL

The subscribed capital of BERU Aktiengesellschaft, Ludwigsburg, amounts to EUR 26,000 thousand, unchanged from the prior year. It consists of 10,000,000 paid-up bearer shares of no par value. By resolution of the Annual Shareholders' Meeting of May 21, 2008, the Company was authorized, as in the prior year, to acquire treasury shares in a volume of up to 10% of the share capital at that time. That authorization is limited until October 31, 2009. The Company did not make any use of the authorization in 2008, so on the balance sheet date, all 10,000,000 shares were actually in circulation (prior year: 10,000,000) and no treasury shares were held.

No additional share capital was approved for issue at December 31, 2008 or at December 31, 2007.

23. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital consists of the premium on the issue of shares in BERU Aktiengesellschaft. On the balance sheet date, it amounted to EUR 73,147 thousand, as in the prior year. Additional paid-in capital may only be distributed to the shareholders in accordance with the provisions of Section 150 of the German Stock Corporation Act.

24. RETAINED EARNINGS

As in the past, retained earnings include the earnings achieved by the companies included in the consolidated group, except for such earnings that were distributed as dividends. Another component of retained earnings is the adjustments made (with no effect on the income statement) in connection with the first application of IFRS. Goodwill from the capital consolidation is not included in retained earnings. However, with the application of IFRS 3, badwill from capital consolidation has been reclassified into equity and is thus included in other retained earnings in an amount of EUR 2,696 thousand.

As before, differences from the currency translation of foreign subsidiaries' financial statements (not affecting the income statement) and the effects of recording changes in the fair values of financial instruments after taxes (also with no effect on the income statement) are also included. A detailed list of changes in retained earnings can be derived from the statement of changes in equity.

Pursuant to Section 58, Subsection 2 of the German Stock Corporation Act, the dividend distribution of BERU Aktiengesellschaft is based on the balance sheet profit shown in the financial statements of BERU Aktiengesellschaft prepared according to German accounting principles (the German Commercial Code). In 2008, BERU entered into a domination and profit transfer agreement with BorgWarner Germany GmbH, Ketsch, obliging it to transfer its entire profits to BorgWarner Germany.

25. PROVISIONS FOR PENSIONS

Pension provisions are recognized for commitments arising from the rights of entitled employees, former employees of the BERU Group and their surviving dependants to current and future pensions. The Company's pension plan is regulated as a **defined benefit plan**, whereby the benefits promised to employees and former employees are fulfilled by the Company. Company pensions are mainly financed by the recognition of provisions and by a fund-financed pension plan.

The amount of the pension obligation (present value of expected future pension obligations) was calculated according to actuarial methods, with which estimates must be made. Apart from assumptions concerning life expectancy, the following factors are also relevant, and depend on the economic situation of the respective country:

	Germany		France		Ireland	
	Dec. 31, 2008	Dec. 31, 2007	Nov. 30, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Discount rate	5,82-5,87%	5,45-5,62%	5,25%	5,3%	5,75%	5,5%
Salary trend	1,5-3,0%	2-3%	3,50%	3,5%	3,5%	4,0%
Pension trend	1,5%	2,0%	2,00%	2,0%	2,0%	2,25%
Fluctuation rate	2,5%	1,49%	-	-	-	-

All the other factors of the other companies are of minor importance due to the level of the respective pension provisions.

Provisions for pensions are comprised as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Present value of provision-financed retirement benefits	14.696	17.644
Present value of fund-financed retirement benefits	5.583	4.466
Present value of defined benefit obligation	**20.279**	**22.110**
Fair value of plan assets	-4.582	-4.476
Accrual of plan assets	167	154
Net obligation	**15.864**	**17.788**
Actuarial gains and losses		
not yet recognized	102	-604
Book value at December 31	**15.966**	**17.184**
thereof pension provision	15.966	17.184
thereof plan assets	0	0

The present value of expected future pension obligations (defined benefit pensions) developed as follows:

EUR thousand	2008		2007	
Present value at January 1		22.110		23.797
Expense for the period				
Current service cost	1.433		1.558	
Interest expense	1.172		1.009	
Plan introduction/alteration	-31	2.574	0	2.567
Subsequent service cost		26		69
Benefits paid		-1.158		-1.724
Actuarial gain		-2.167		-2.550
Change in the consolidated group		-1.083		0
Currency changes		-23		-49
Present value at December 31		**20.279**		**22.110**

The change in the consolidated group resulted from the sale of the French companies. The fair value of pension plan assets is comprised as follows:

EUR thousand	2008		2007	
Fair value of plan assets at January 1		4.476		3.892
Income for the year				
Expected yield on plan assets	277		238	
Change due to plan introduction/alteration	0	277	0	238
Allocation to the plan from the Group		393		232
Allocation to the plan from the beneficiaries		493		468
Actuarial gain/loss		-961		-149
Benefits paid		-6		-205
Changes in currency exchange rates		-90		0
Fair value of plan assets at December 31		**4.582**		**4.476**

The fair value of pension plan assets breaks down as follows:

	Germany				Ireland			
	Balance at Dec. 31, 200	Expected yield Dec. 31, 2008	Balance at Dec. 31, 200	Expec ted yield Dec. 31, 2007	Balance at Dec. 31, 2008	Expected yield Dec. 31, 2008	Balance at Dec. 31, 2007	Expec ted yield Dec. 31, 2007
Reinsurance	64,0%	4,5%	100,0%	4,5%	0,0%	0,0%	0,0%	-
Shares	14,0%	-	0,0%	-	66,9%	7,75%	80,2%	7,25%
Bonds	22,0%	-	0,0%	-	27,8%	3,50%	14,2%	4,25%
Real estate	0,0%	-	0,0%	-	5,3%	6,25%	5,6%	6,25%
	100,0%	**4,5%**	**100,0%**	**4,5%**	**100,0%**	**6,5%**	**100,0%**	**6,8%**

The expected return on plan assets is calculated on the basis of current market prices for the period during which the obligation exists.

The development of the net obligation (present value of future benefit obligations minus fair value of plan assets) over the past five years is as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Mar. 31, 2005
Present value of future benefit obligations	20.279	22.110	23.797	23.894	18.987
Fair value of plan assets	-4.582	-4.476	-3.892	-3.170	-811
Net obligation	**15.697**	**17.634**	**19.905**	**20.724**	**18.176**
Expected increase (+) or decrease (-) in pension obligations	0	0	0	0	0
Expected increase (+) or decrease (-) in pension plan assets	0	0	0	0	0

For the year 2009, the Group anticipates contributions to defined benefit pension in an amount of EUR 825 thousand (prior year: EUR 630 thousand).

Operating expenses do not include amounts that result from the interest accrued on the pension provisions, which is part of the interest expense.

EUR thousand	2008	2007
Current service cost	1.433	1.558
Interest expense	1.172	1.009
Expected income on plan assets	-277	-238
Expense/income on plan changes	-31	0
Recognized actuarial gains/losses	-8	248
Subsequent service cost	26	69
Expense of pension benefits	**2.315**	**2.646**
Actual income on plan assets	-672	38

The statutory pension-insurance system in Germany is deemed to be a defined-contribution pension plan. The expense recorded for the statutory pension-insurance system amounted to EUR 6,568 thousand (EUR 6,426 thousand).

The values shown here include the companies of the Group that are to be sold or closed. In the consolidated balance sheet, the pension provisions of these companies in an amount of EUR 129 thousand are shown under the item “Non-current assets held for sale (disposal group(s)).”

26. OTHER PROVISIONS

Other provisions developed as follows in 2008:

EUR thousand	Balance at Jan. 1, 2008	Utilization	Releases	Additions	Currency differences	Interest amount	Balance at Dec. 31, 2008
Personnel and social-security obligations							
Current	5.527	2.348	422	2.073	0	36	4.866
Non-current	6.650	1.628	100	1.227	0	338	6.487
Obligations from operating activities							
Current	10.622	2.986	1.599	11.057	-108	0	16.986
Non-current	296	2	40	89	-65	0	278
Other obligations							
Current	1.965	1.272	873	2.754	16	0	2.590
Non-current	675	0	616	0	0	0	59
Current	**18.114**	**6.606**	**2.894**	**15.884**	**-92**	**36**	**24.442**
Non-current	**7.621**	**1.630**	**756**	**1.316**	**-65**	**338**	**6.824**

Personnel and social-security provisions relate mainly to obligations for pre-retirement part-time work and jubilee expenses. The measurement of provisions for pre-retirement part-time work and jubilee expenses is based on actuarial assumptions.

In October 2008, BERU announced further restructuring actions including not only the outsourcing of activities, but also job reductions and dismissals due to business operations. This constitutes the continuation of the restructuring actions announced in 2007 for 2008. The provision was recognized for the severance compensation payments connected with the restructuring and amounts to EUR 4,493 thousand (prior year: EUR 3,468 thousand). The restructuring provision recognized at December 31, 2007 was largely utilized in 2008. At December 31, 2008, the provision for the 2007 restructuring program amounts to EUR 1,066 thousand.

Provisions for operating costs include provisions for guarantee obligations, which are determined on the basis of past experience, and for anticipated contract losses. The provision for other obligations covers a variety of recognizable individual risks and uncertain obligations.

The maturities of the provisions are shown in the following table:

EUR thousand	Balance at Dec. 31, 2008	<1 year	1-5 years	>5 years	Balance at Dec. 31, 2007	<1 year	1-5 years	>5 years
Obligations from								
personnel and social security	11.353	4.866	4.427	2.060	12.177	5.527	5.427	1.223
Obligations from								
current business operations	17.264	16.986	278	0	10.918	10.622	296	0
Other obligations	2.649	2.590	59	0	2.640	1.965	675	0
	31.266	**24.442**	**4.764**	**2.060**	**25.735**	**18.114**	**6.398**	**1.223**

27. NON-CURRENT LIABILITIES

EUR thousand	2008	2007	Interest rate	Maturity
Liabilities to banks				
Industry Ministry	259	33	0%	Nov. 21, 2015
l'Agence de l'Eau Loire-Bretagne	0	46	0%	Jan. 1, 2009
Finance leases	0	216		
	259	**295**		

As in the prior year, liabilities to banks are not secured by mortgages.

28. OTHER LIABILITIES (NON-CURRENT)

EUR thousand	2008	2007
Irish government grants	1.126	1.172
Spanish government grants	3	6
German government grants	328	378
	1.457	**1.556**

The government grants are primarily subsidies for the branch in Ireland of BERU Electronics GmbH, Bretten. The Irish government grants subsidies as investment incentives for the acquisition of certain assets of between 30% and 55% of the purchase price. A part of this amount has to be repaid if the terms of the subsidy are contravened. The repayment obligation therefore diminished by 10% each year.

The German government grants are investment grants and subsidies that are intended to encourage investment. As in the prior year, they were mainly subsidies for BERU Aktiengesellschaft for investments in the Neuhaus-Schierschnitz plant, which were granted by the state of Thuringia in the framework of the European Union project “Improvement in Regional Economic Structures” and the European Fund for Regional Development.

In addition, BERU Aktiengesellschaft received investment grants for operational investment in the development areas of the new eastern states of Germany pursuant to Section 2 of the German Investment Subsidy Act 1999.

29. FINANCIAL LIABILITIES (CURRENT)

EUR thousand	2008	2007	Interest rate	Maturity
Liabilities to banks				
Industry Ministry	33	45	0%	July 1, 2009
Finance leases	216	226		
	249	**271**		

In total, banks granted the companies of the BERU Group a credit line of EUR 19,715 thousand (prior year: EUR 42,215 thousand).

The minimum leasing payments on finance-lease agreements are comprised as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Total of future minimum leasing payments		
Due within one year	221	242
Due between one and five years	0	221
Due after five years	0	0
	221	**463**
Interest portion included in		
the future minimum leasing payments		
Due within one year	5	16
Due between one and five years	0	5
Due after five years	0	0
	5	**21**
Present value of the future minimum leasing payments		
Due within one year	216	226
Due between one and five years	0	216
Due after five years	0	0
	216	**442**

30. OTHER FINANCIAL LIABILITIES (CURRENT)

EUR thousand	2008	2007
Guaranteed dividend	1.870	0
Bonuses/discounts	275	6.986
Miscellaneous	126	163
	2.271	**7.149**

Unlike in the prior year, the liabilities for bonuses and discounts of BERU AG of EUR 6,152 thousand were included in trade liabilities. On March 17, 2008, BERU AG entered into a domination and profit transfer agreement with BorgWarner Germany GmbH. Under that agreement, BorgWarner Germany GmbH guarantees the remaining minority shareholders of BERU AG a guaranteed dividend. BorgWarner Germany GmbH has instructed BERU AG to distribute the guaranteed dividend to the minority shareholders. Liabilities from the guaranteed dividend includes a tax amount of EUR 493 thousand.

31. OTHER LIABILITIES (CURRENT)

EUR thousand	2008	2007
Holiday pay	779	3.039
Flexitime	953	1.771
Social security	219	1.485
Gratuities	2.130	5.143
Grants / investment subsidies	158	152
Other taxes	1.772	1.847
Advance payments received	689	927
Miscellaneous	1.743	2.400
	8.443	**16.764**

32. FINANCIAL INSTRUMENTS – ADDITIONAL DISCLOSURE

Starting from the relevant balance sheet items, the following table shows the connections between the categorization of financial instruments according to IAS 32/39, the classification of financial instruments according to IFRS 7, and the measured amounts of the financial instruments. At the BERU Group, classification according to IFRS 7 applies to the categories of financial instruments according to IAS 32/39.

EUR thousand at December 31, 2008	IAS 39 categories or IFRS 7 classes	Carrying value	Amortized cost / Cost	Fair value not through profit and loss	Fair value through profit and loss
Non-current financial instruments					
Financial investments					
Shares in related companies	AfS	27	27		
Other shares	AfS	313	313		
Securities	AfS	0		0	
Other financial receivables					
Loans	LaR	12	12		
Derivative financial instruments	HfT	0			0
Current financial instruments					
Trade receivables	LaR	63.225	63.225		
Other receivables					
Loans	LaR	120.826	120.826		
Derivative financial instruments	HfT	0			0
Miscellaneous receivables	LaR	21.790	21.790		
Securities	AfS	0		0	
Cash and cash equivalents		30.636	30.636		
Aggregated by classes/categories					
Held for trading	HfT	0	0	0	0
Loans and receivables	LaR	205.853	205.853	0	0
Available for sale	AfS	340	340	0	0
Cash and cash equivalents		30.636	30.636	0	0

EUR thousand at December 31, 2007	IAS 39 categories or IFRS 7 classes	Carrying value	Amortized cost / Cost	Fair value not through profit and loss	Fair value through profit and loss
Non-current financial instruments					
Financial investments					
Shares in related companies	AfS	204	204		
Other shares	AfS	305	305		
Other financial receivables					
Loans	LaR	51	51		
Derivative financial instruments	HfT	0			3
Current financial instruments					
Trade receivables	LaR	81.214	81.214		
Other receivables					
Loans	LaR	36.151	36.151		
Derivative financial instruments	HfT	0			0
Miscellaneous receivables	LaR	399	399		
Securities	AfS	9.960		9.960	
Cash and cash equivalents		78.043	78.043		
Aggregated by classes/categories					
Held for trading	HfT	0	0	0	3
Loans and receivables	LaR	117.815	117.815	0	0
Available for sale	AfS	10.469	509	9.960	0
Cash and cash equivalents		78.043	78.043	0	0

EUR thousand at December 31, 2008	IAS 39 categories or IFRS 7 classes	Carrying value	Amortized cost	Fair value through profit and loss
Non-current financial debt				
Financial debt to banks	AC	259	259	
Finance leases	not "IFRS 7" FI	0	0	0
Derivative financial instruments	HfT	0	0	0
Current borrowings				
Financial debt				
Financial debt to banks	AC	33	33	
Finance leases	not "IFRS 7" FI	216	-	-
Trade payables	AC	45.681	45.681	
Other financial liabilities				
Derivative financial instruments	HfT	0		0
Miscellaneous financial liabilities	AC	2.271	2.271	
Aggregated by class/category				
Measured at amortized cost	AC	48.244	48.244	0
Held for trading	HfT	0	0	0
Not IFRS 7 financial instruments	not "IFRS 7" FI	216	-	-

EUR thousand at December 31, 2008	IAS 39 categories or IFRS 7 classes	Carrying value	Amortized cost	Fair value through profit and loss
Non-current financial debt				
Financial debt to banks	AC	79	79	
Finance leases	not "IFRS 7" FI	216	-	-
Derivative financial instruments	HfT	0		0
Current borrowings				
Financial debt				
Financial debt to banks	AC	45	45	
Finance leases	not "IFRS 7" FI	226	-	-
Trade payables	AC	45.839	45.839	
Other financial liabilities				
Derivative financial instruments	HfT	0		0
Miscellaneous financial liabilities	AC	7.149	7.149	
Aggregated by class/category				
Measured at amortized cost	AC	53.112	53.112	
Held for trading	HfT	0		0
Not IFRS 7 financial instruments	not	442	-	-

The following table shows the net gains and losses from financial instruments in accordance with the categories defined in IAS 39:

Net gains and losses before currency translation EUR thousand	From subsequent measurement: at fair value Fair Value	Impairments berichtigung	From disposals	Net profit 2008	Net profit 2007
Net gains or losses					
from financial instruments of the categories					
Loans and receivables	0	-164	0	-164	-275
available for sale (at fair value not through profit and loss)	0	0	0	0	-106
available for sale (at cost)	0	-177	0	-177	0
held for trading	0	0	0	0	0
financial liabilities at amortized cost	0	0	0	0	0
	0	**-341**	**0**	**-341**	**-381**

Currency translation resulted in a net loss of EUR 824 thousand (prior year: EUR 81 thousand), relating solely to trade receivables and payables, and thus to financial assets and liabilities, which are measured at amortized cost.

The net losses of EUR 1,165 thousand (prior year: net gains of EUR 300 thousand) include impairments, writeups, impairment reversals, retirements (only if recognized through profit and loss), subsequent additions from written-off financial instruments, gains or expenses on recognition at fair value and currency effects. Current interest revenue and expense and dividends received are not included.

Of the financial assets classified as “available-for-sale”, a total of EUR 0 thousand valuation gains and losses was recognized directly under equity (prior year: a total of EUR 29 thousand, comprising EUR 2 thousand valuation losses and EUR 31 thousand valuation gains). In 2008, EUR 35 thousand was transferred from equity for these financial instruments and recognized in the income statement (prior year: EUR 199 thousand).

The interest income and/or interest expense for financial assets and/or financial liabilities calculated according to the effective-interest method, not measured at fair value through profit and loss, amounted to:

EUR thousand	2008	2007
Interest income	6.026	4.084
Interest expense	-547	-881

As in the prior year, in 2008 there was no income or expense from fees and commission, which are not included in the calculation of the effective interest rate.

The following table shows the impairment losses for each class of financial asset (see above for impairments of financial instruments recognized directly in equity):

EUR thousand	2008	2007
Impairment losses recognized on financial instruments of the categories		
Loans and receivables	-166	-586
available for sale		
thereof at fair value	0	-257
thereof at cost	-177	0

In 2008, as in the prior year, no significant interest income was recognized that according to IAS 39.93 has to be accrued on impaired financial assets.

The following table shows the book values and fair values for each class of financial asset and financial liability:

EUR thousand	IAS 39 categoriess or IFRS 7 classes	December 31, 2008 Carrying value	December 31, 2008 Fair value	December 31, 2007 Carrying value	December 31, 2007 Fair value
Non-current financial instruments					
Financial investments					
Shares in non-consolidated subsidiaries	AfS	27	not measurable	204	not measurable
Shares in other companies	AfS	313	not measurable	305	not measurable
Securities	AfS	0	0	0	0
Other financial receivables					
Derivative financial instruments	HfT	0	0	0	0
Loans	LaR	12	12	51	51
Miscellaneous	LaR	0	0	0	0
Current financial instruments					
Trade receivables	LaR	63.225	63.225	81.214	81.214
Other financial receivables					
Loans	LaR	120.826	120.826	36.151	36.151
Derivative financial instruments	HfT	0	0	0	0
Other receivables	LaR	21.790	21.790	399	399
Securities	AfS	0	0	9.960	9.960
Cash and cash equivalents		30.636	30.636	78.043	78.043
Non-current borrowings					
Liabilities to banks	AC	259	259	79	79
Finance leases	not "IFRS 7" FI	0	0	216	216
Derivative financial instruments	HfT	0	0	0	0
Current borrowings					
Borrowings					
Liabilities to banks	AC	33	259	45	45
Finance leases	not "IFRS 7" FI	216	216	226	226
Trade payables	AC	45.681	45.681	45.839	45.839
Other financial liabilities					
Derivative financial instruments	HfT	0	0	0	0
Miscellaneous	AC	2.271	2.271	7.149	7.149
Aggregated by class/category					
Held for trading	HfT	0	0	0	0
Loans and receivables	LaR	205.853	205.853	117.815	117.815
Available for sale - measured at amortized cost	AfS	340	-	509	-
Availabnle for sale- measured at fair value (not through profit and loss)	AfS	0	0	9.960	9.960
Measured at amortized cost	AC	48.244	48.470	53.112	53.112
Financial instruments not covered by IFRS 7	not "IFRS 7" FI	216	216	442	442
Cash and cash equivalents		30.636	30.636	78.043	78.043

The fair values of **loans** and **financial liabilities** are measured on the basis of expected future cash flows, discounted with a suitable market interest rate.

Like the other equity investments, equity investments in non-consolidated subsidiaries are not traded on active markets, so it was not possible to reliably measure the investments' fair value. These financial instruments are measured at cost of acquisition, and there is currently no intention to sell them. But to the extent that a closure is planned in the foreseeable future and insofar as the fair value can be determined, shares in non-consolidated subsidiaries are impaired to their fair values. To the extent that a closure is not planned, no sale of these financial instruments is currently intended. No such financial instruments were sold in 2008 or 2007.

Like trade receivables and trade payables, most of the other financial assets and the other financial liabilities have short residual periods. Their book values therefore approximate their fair values. The same applies to trade receivables and trade payables.

The amounts presented for **securities** are the listed market prices at the balance sheet date.

The Group's financial debt is not secured.

The Group does not hold any collateral (prior year: bank guarantee for the loan granted to BorgWarner Europe GmbH, Ketsch).

The Group has not issued any hybrid financial instruments.

As in the prior year, there were no breaches of contract in connection with loan liabilities at the Group in 2008.

33. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Objectives and methods of financial risk management

Due to the international scope of its activities, the BERU Group is exposed to various risks in its operating business. Financial risk management therefore aims to recognize all significant financial risks at an early stage and to take suitable measures to safeguard existing and future potential for success. The possible risks for the BERU Group connected with financial instruments are mainly **market risks**, which comprise (i) **exchange-rate risks**, resulting from activities in various currency areas, (ii) **interest-related fair-value risks**, leading to changes in the fair value of financial instruments due to the fluctuation of market interest rates, and (iii) **interest-related cash-flow risks**, which lead to a change in the future cash flow of a financial instrument due to the fluctuation of market interest rates. In addition to market risks, **liquidity risk** is also relevant for the BERU Group, and is counteracted by ensuring that the BERU Group is always solvent, as well as **default risks**, arising from the non-fulfillment of contractual obligations by business associates.

For the assessment and consideration of such risks, the BERU Group has set up a centralized risk-management system to define principles serving the purpose of the uniform and systematic identification and valuation of risks. In order to check for compliance with all of these principles, there is continuous reporting within the BERU Group. This means that any risks arising can be quickly identified and analyzed.

To a limited extent, derivative financial instruments were applied in the prior year to minimize the risks connected with financial instruments. In 2008, the Group only concluded commodity hedges. In accordance with IAS 39.5, they are not accounted for under IAS 39, but are shown as provisions in accordance with IAS 37 if and to the extent that the hedge is connected with impending losses.

For the presentation of market risks, IFRS 7 requires sensitivity analyses, showing the effects on earnings and equity of hypothetical changes in relevant risk variables. In addition to currency risks, the BERU Group is also subject to interest-rate risks in relation to the loans it has granted. The periodic effects are determined by relating the hypothetical changes in the risk variables solely to the balance of financial instruments on the balance sheet date. For the interest-related cash-flow risk, it is assumed that the balance of financial instruments at the balance sheet date was the same during the entire year 2008.

Market risk – exchange-rate risks

No forward exchange transactions are carried out to protect assets, debts and other liabilities and expected cash flows in foreign currencies (prior year: to a limited extent). At the balance sheet date, there were no forward exchange transactions, as in the prior year.

Financial instruments in foreign currencies exist in particular for trade reveivables and trade payables. The following table shows the in which main currencies trade receivables and trade payables are denominated:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Trade receivables		
in EUR	58.108	72.666
in KRW	3.432	5.508
in USD	1.320	1.188
in other currencies	1.098	1.852
	63.958	**81.214**
Trade payables		
in EUR	42.833	39.643
in KRW	1.935	4.388
in USD	268	316
in other currencies	1.458	1.492
	46.494	**45.839**

The values shown above include trade receivables of the companies shown in the balance sheet as a disposal group in an amount of EUR 733 thousand. Accordingly, trade payables include an amount of EUR 813 thousand that is to be allocated to the disposal group.

Currency risks as defined by IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature; exchange-rate-related differences from the translation of financial statements into the Group's currency are not taken into consideration. All non-functional currencies in which the BERU Group transacts financial instruments are generally deemed to be a relevant risk variable. The BERU Group's currency risk is thus primarily limited to receivables and payables denominated in US dollars.

The following table shows the sensitivity from the perspective of the BERU Group of a 10% rise or fall of the euro against the US dollar. The sensitivity analysis includes only outstanding monetary positions denominated in foreign currencies and adapts their translation at the end of the financial year in accordance with a 10% change in the exchange rate.

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Change (USD climbs against the EUR by 10%)		
Profit for the year	105	222
Change (USD falls against the EUR by 10%)		
Profit for the year	-105	-222

In the view of the Executive Board, the sensitivity analysis does not represent the actual currency risk, because the risk at the end of the year does not reflect the risk during the year. The goal of currency management at the BERU Group with regard to the US dollar is to balance US dollar receivables and payables over time. To this extent, the actual currency risk is lower.

Market risk – interest-rate risks

The BERU Group is also exposed to interest-rate fluctuations. The interest-rate-sensitive assets and liabilities at Dec. 31, 2008 primarily relate to loans granted (prior year: loans granted and securities). In the estimation of the management, only limited risks are connected with interest-rate fluctuations at present, because BERU AG has completely repaid its liabilities to banks.

		Dec. 31, 2008		29.06.1905	
		book value	interest rate	book value	interest rate
fixed-interest securities					
maturities:	< 1 year	0	-	7.460	3,25-3,75%
	1 to 5 years	0	-	0	-
	> 5 years	0	-	0	-
		0		7.460	
variable interest securities		0		2.500	
		0		**9.960**	

The fixed-interest securities (2008: EUR 0 thousand; 2007: EUR 7,460 thousand) are subject to an interest-related change in their fair values due to their fixed interest rates. At December 31, 2008, there was no risk from interest-related fair-value changes (prior year: very minor risk).

An interest-related cash-flow risk also resulted from the Group's variable-interest loans to BorgWarner GmbH of EUR 120,000 thousand (prior year: EUR 35 thousand) and to Eichenauer GmbH of EUR 750 thousand (prior year: EUR 1,000 thousand). If the level of market interest rates had been 50 base points lower or higher at December 31, 2008, the BERU Group's interest income would have been EUR 612 thousand lower or EUR 612 thousand higher respectively (prior year: EUR 182 thousand lower or EUR 182 thousand higher). Due to the measurement of loans at amortized cost, (effective interest method), the change in the interest rate would not have had a direct effect on equity. As the loan granted to BorgWarner GmbH of EUR 35,000 thousand was increased to EUR 120,000 thousand in 2008, the result of the sensitivity analysis is only representative for the past financial year to a limited extent.

Cash at banks (2008: EUR 31,502 thousand, including EUR 866 thousand allocated to the disposal group; prior year: EUR 78,024 thousand) primarily comprises cash on checking accounts (prior year: short-term deposits and cash on checking accounts). As the interest received is variable, this gives rise to a cash-flow risk. If the level of market interest rates at December 31, 2008 had been 50 base points lower or higher, the BERU Group's interest income would have been EUR 160 thousand lower or EUR 160 thousand higher respectively (prior year: EUR 390 thousand lower or

EUR 390 thousand higher).

In the view of the management, the Group is not currently exposed to significant fair-value or cash-flow risks due to interest-rate fluctuations related to financial liabilities, because most of the liabilities to banks of BERU AG were already repaid in the prior year.

The effects of the risk of changes in interest rates can be summarized as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Change (market interest rate plus 50 base points)		
Profit for the year	772	585
Equity	0	-13
Change (market interest rate minus 50 base points)		
Profit for the year	-772	-585
Equity	0	13

Market risk – other price risks

Other price risks connected with financial instruments arise from changes for example in share prices on stock exchanges. At December 31, 2008, the BERU Group held only equity capital instruments in the form of holdings in non-listed companies of EUR 313 thousand (prior year: EUR 509 thousand). No reliable estimate of the fair values of the equity investments in non-listed companies could be determined due to the lack of an active market.

Default risks

The BERU Group is exposed to default risks if contracting parties do not fulfill their obligations. In the attempt to avoid such risks, contracts are only entered into with contracting parties with first-class creditworthiness. The agreed payment periods are within the range typical for the industry. The Accounting department continually monitors incoming payments, which are coordinated in close consultation with the responsible sales department. In order to minimize risks, the credit limits defined for each customer are regularly monitored and adjusted to requirements. Due to our broad customer structure, the resulting losses of receivables are of relatively minor importance.

Therefore, no significant default risk existed at December 31, 2008 or at December 31, 2007, so that in the view of the management, the risk of non-fulfillment by the contracting parties is very low, but cannot be entirely excluded. In connection with the financial assets that are neither overdue nor impaired, there are no indications (as in the prior year) that the debtors will not meet their payment obligations.

Default risks affect the BERU Group mainly through trade receivables. They are minimized for example by taking out del credere insurance.

Landesbank Baden-Württemberg, Stuttgart, provided a bank guarantee for BERU AG in an amount of EUR 198 thousand in 2007; this guarantee was in favor of Oriental Bank of Commerce, Pune, India. The bank guarantee was terminated in 2008. BERU AG has also issued guarantees to suppliers of the subsidiary BERU Hungaria zRt, Tiszakécske, Hungary, in an amount of EUR 4 thousand (prior year EUR 6 thousand).

Under a loan agreement of September 27, 2007, BERU AG granted a short-term, variable-interest loan of EUR 35,000 thousand to BorgWarner Europe GmbH, Ketsch. This loan was increased to EUR 120,000 thousand in 2008. The bank guarantee of EUR 35,000 thousand of Deutsche Bank AG, Mannheim Branch was terminated in 2008.

If default risks are identifiable for trade receivables, appropriate impairment charges are recognized. See the above notes on trade receivables for details of impairments and their development.

Thus the amount of financial assets shown in the balance sheet reflects the maximum default risk for the case that the contracting parties fails to fulfill their payment obligations, irrespective of existing safeguards. No concentration of default risks from business relations with individual customers or groups of customers can be recognized.

Liquidity risk

The Treasury department monitors and controls the use of financial instruments. The liquidity needs of the parent company and its subsidiaries are determined in the context of the budgeting process by means of cash-flow planning. The development of liquidity during the year is subject to constant monitoring. The seasonally cyclical development of business at BERU in the aftermarket business leads to inventories being built up – and thus tying up liquidity – in the second and third quarters of a calendar year in order to be able to serve the stronger demand in the fourth and first quarters.

In total, the companies of the BERU Group were granted a credit line of EUR 19,715 thousand by banks (prior year: EUR 42,215 thousand).

The following table shows the maturity structure of financial liabilities with contractually agreed residual terms:

Total cash flow (capital repayment and interest) due in EUR thousand at December 31, 2008	< 1 year	1-5 years	> 5 years
Libailities to banks	33	259	
Liabilities from finance leases	221		
Current financial liabilities			
Trade liabilities[1]	46.495		
Other financial liabilities			
Derivative financial instruments			
Miscellaneous	2.271		
	49.020	**259**	**0**

[1] Including EUR 814 thousand allocated to the disposal group

Total cashflow (capital repayment and interest) due In EUR thousand at December 31, 2007	< 1 year	1 – 5 years	> 5 years
Liabilities to banks	46	79	0
Liabilities from fiancne leases	242	221	0
Current financial liabilities			
Trade liabilities	45,839	0	0
Other financial instruments			
Derivative financial instruments	0	0	0
Miscellaneous	7,149	0	0
	53,276	**300**	**0**

Capital management

One of the prime goals of capital management at the BERU Group is to ensure that a sound balance sheet structure is attained with an appropriate equity ratio. BERU AG is not subject to any capital requirements due to its Articles of Incorporation.

The BERU Group controls its capital structure depending on economic conditions solely with the use of the equity ratio. These are defined as the quotient of equity capital and the total of equity capital and net financial liabilities.

An adjustment of the capital structure or the maintenance of a required capital structure can be achieved for example by (i) making capital disbursements, or (ii) issuing new shares or acquiring and cancelling the Company's own shares.

In 2008, as in the prior year, no changes were made in the goals or procedures of capital controlling.

EUR thousand	Dec. 31, 2008	Dec. 31, 2007	Change
Equity	**340.789**	**363.368**	**-6%**
as % of total capital	*74%*	*74%*	
Non-current liabilities	37.670	39.643	
Current liabilities	83.749	90.200	
Total liabilities	121.419	**129.843**	**-6%**
as % of total capital	*26%*	*26%*	
Total capital (equity plus liabilities)	**462.208**	**493.211**	**-6%**

34. OTHER FINANCIAL LIABILITIES AND CONTINGENT LIABILITIES

Other financial liabilities

Other financial liabilities relate to framework agreements covering cooperation on the warehousing, commissioning, processing and transport of raw materials, work in progress and BERU products, as well as minimum purchase obligations with one supplier. Operating lease agreements exist for office equipment and office and factory buildings, most of which have a remaining term of up to 5 years, as in the prior year. There were no special lease extension clauses, as in the prior year. In 2008, leasing installments of EUR 569 thousand (prior year: EUR 668 thousand) were recognized through profit and loss. The liabilities from operating lease agreements are shown in the amount of the minimum lease payments.

The remaining terms of the other financial liabilities are shown in the following table, grouped according to their maturities:

EUR thousand	Balance at Dec. 31, 2008	With a remaining term of <1 year	1-5 years	>5 years	Balance at Dec. 31, 2007	With a remaining term of <1 year	1-5 years	>5 years
Minimum lease payments from								
Operating leases	3.881	1.254	1.841	786	4.148	1.204	1.967	978
Supply agreements	45	45	0	0	159	159	0	0
Framework agreements	2.721	2.177	544	0	2.721	2.177	544	0
Investments in property, plant and equipm	967	967	0	0	2.789	2.789	0	0
State subsidies	1.004	93	278	633	741	93	278	371
Miscellaneous	554	554	0	0	498	498	0	0
	9.172	5.090	2.663	1.419	11.056	6.920	2.789	1.349

Contingent liabilities

No provisions were recognized for the following contingent liabilities, which are shown at their nominal values, because the probability of occurrence of the risk was estimated as too low:

	Dec. 31, 2008	Dec. 31, 2007
Notes payable	0	0
Sureties	4	6
Letters of comfort	0	0
	4	**6**

The contingent liabilities comprise bank guarantees towards suppliers.

35. REVENUE

Revenue results solely from the sale of products by the following divisions:

EUR thousand	2008	2007
Diesel Cold Start Technology	142.957	164.067
Ignition Technology	122.194	128.931
Electronics and Sensors	144.264	146.862
	409.415	**439.860**

In 2008, revenue from the sale of designs and from customer cooperations in development services was shown for the first time not under revenue but under research and development expenses. Revenue from licences was recalssified in other operating expenses. The revenue in 2008 amounted to EUR 7,625 thousand. For comparability with the prior year, revenue in 2007 of EUR 10,782 thousand was reclassified from revenue and into research and development expenses and other expenses.

36. EXPENSES

EUR thousand	2008	2007
Cost of sales	310.958	325.756
Selling expenses	26.916	26.213
Administrative expenses	33.951	32.733
Researcg and development expenses	19.583	13.420
	391.408	**398.122**

Expenses include depreciation, amortization and impairments and personnel expenses as follows:

EUR thousand	2008	2007
Depreciation, amortization and impairments		
Amortization of intangible assets	10.406	7.060
Depreciation of property, plant and equipment	6	22.838
Impairments (non-scheduled depreciation/amortization	4.377	1.649
	14.789	**31.548**
Personnel expenses		
Personnel expenses - direct	73.472	80.412
Personnel expenses - sales	13.237	12.997
Personnel expenses - administration	18.815	20.646
Personnel expenses - research and development	10.706	10.226
	116.230	**124.281**

The average numbers of employees were as follows:

	2008	2007
Factory employees	1.199	1.460
Office employees	1.081	1.070
Apprentices, trainees, interns	63	53
	2.343	**2.583**

37. OTHER OPERATING EXPENSES

EUR thousand	2008	2007
Gains/losses on currency translation	824	-81
Operating depreciation	1.155	179
Operating amortization/impairment of goodwill	2.113	0
Losses on the disposal of property, plant and equipment		
and intangible assets	591	553
Other taxes	591	340
Losses from deconsolidation	38.315	0
Miscellaneous other operating expenses	414	1.696
	44.003	**2.687**

38. FINANCIAL INCOME

EUR thousand	2008	2007
Income from securities and long-term loans	84	1.384
Other interest and similar income	5.942	2.700
Interest and similar income	**6.026**	**4.084**
Other interest and similar expenses	-547	-881
Interest and similar expenses	**-547**	**-881**
Interest income	**5.479**	**3.203**
Expenses from the transfer of a loss	-1	-1
Income from shares in non-consolidated subsidiaries	109	114
Share of profits and losses of associated companies	-444	1.880
Impairment of securities	-177	0
Beteiligungsergebnis	**-513**	1.993
	4.966	**5.196**

Shares of profits and losses of consolidated companies in 2008 include the loss of EUR 1,400 thousand from the sale of IMPCO-BERU Technologies B.V., Delfgauw, Netherlands as of 1 August 2008.

39. INCOME TAXES

The income-tax expense comprises the following main components:

EUR thousand	2008	2007
Actual tax expense	6.288	14.484
Deferred tax expense from the utilization and impairment of		
deferred tax assets on tax-loss carryforwards	0	2.937
Deferred tax expense/income from timing differences	1.126	-4.027
	7.414	**13.394**

The actual tax expense for the year 2008 includes an expense of EUR 567 thousand for actual taxes from earlier periods (prior year: EUR 3,270 thousand).

Deferred taxes are calculated with country-specific tax rates, which were between 10% and 34%, as in the prior year. These rates are generally based on the regulations in force or already legislated at the balance sheet date. Changes in future tax rates that had already been decided upon on the balance sheet date were taken into consideration in the calculation of deferred taxes.

Within the BERU Group, on the balance-sheet date there were non-utilized tax-loss carryforwards of EUR 3,657 thousand (prior year: EUR 15,253 thousand), of which EUR 0 thousand were covered by deferred taxes, as in the prior year. The decreases in tax-loss carryforwards resulted from the sale of the French subsidiary BERU TdA SAS. Of the tax-loss carryforwards, an amount of EUR 2,996 thousand (prior year: EUR 14,692 thousand) is utilizable without limit. The additional tax-loss carryforwards of EUR 661 thousand (prior year: EUR 561 thousand) become void in 2009. An amount of EUR 1,313 thousand resulted from the tax-loss carryforwards with unlimited utilizability from the closure process of subsidiaries and therefore can possibly be utilized only in 2009.

Deferred tax assets recognized on tax-loss carryforwards were not impaired in 2008 (prior year: EUR 2,370 thousand). The non-applicability of deferred tax assets to current operating losses had an impact on earnings of EUR 2,965 thousand (prior year: EUR 0 thousand).

The actual tax expense was not reduced by the utilization of tax-loss carryforwards from previous years that had not yet been capitalized (prior year: EUR 155 thousand). The tax effects described above are included in the reconciliation statement under the item “Effects of tax losses”.

The income tax expense recognized in 2008 of EUR 7,414 thousand (prior year: EUR 13,394 thousand) is EUR 13,344 thousand higher (prior year: EUR 3,247 thousand lower) than the expected income tax gain of EUR - 5,930 thousand (prior year: expense of EUR 16,641 thousand).

With the following reconciliation for the Group, the individual company-related reconciliations prepared with each country’s specific tax rate were summarized with due consideration of consolidation measures. The expected tax expense was thus reconciled with the effective reported tax expense.

The tax rate of 28.2% (prior year: 37.61%) applied in the reconciliation reflects the German combined income-tax and solidarity-surcharge rate of 15.83% (prior year: 26.38%) valid since 2008 and the effective trade-tax rate of 12.37% (prior year: 11.23%).

EUR thousand	2008	2007
Profit before income taxes	21.030	-44.247
Effective tax rate for the Group	28,20%	37,61%
Expected tax expense	-5.930	16.641
Tax-rate related deviations	-335	-283
Tax-free income/expenses	-533	-1.667
Effects of tax losses	2.965	2.215
Increases and decreases for tax purposes	412	449
Tax payments and refunds for prior years	-504	-775
Consolidation effects	665	-392
Effect of tax-rate changes	0	-2.879
Impairment of deferred taxes on timing differences	369	49
Deconsolidation of French subgroup	10.269	0
Other deviations	36	36
Income taxes	**7.414**	**13.394**
Steuerquote in %	-35,25%	30,27%

The discounted entitlement to income tax refunds of the corporate income tax credit amounted to EUR 6,954 thousand at the balance sheet date (prior year: EUR 7,094 thousand), of which EUR 1,083 (prior year: EUR 833 thousand) is included in current tax assets.

The amounts of deferred tax assets and deferred tax liabilities as of December 31 are allocated to the following items (not offset):

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Intangible assets and property, plant and equipment	712	1.208	12.966	12.751
Financial investments	0	0	0	0
Inventories	1.130	1.428	7	0
Receivables and other assets	817	636	21	272
Securities, cash and cash equivalents	4	19	0	0
Equity	0	0	0	0
Special item which in part constitutes a reserve	0	0	0	0
Provisions and other financial obligations	1.080	2.477	278	225
Liabilities and other debts	1	54	21	13
Tax-loss carryforwards	0	0	0	0
Miscellaneous	0	0	0	0
	3.744	**5.822**	**13.293**	**13.261**

Impairments of EUR 0 thousand (prior year: EUR 2,370 thousand) were recognized on tax-loss carryforwards. Deferred tax assets are impaired if there is uncertainty regarding their utilizability. In carrying out the impairment tests, all positive and negative influencing factors were taken into consideration for a sufficiently high taxable income in the future, whereby the underlying estimates may change over time.

The amount of deferred tax assets recognized under equity amounts to EUR 0 thousand (prior year: EUR 10 thousand deferred tax liabilities).
At the balance sheet date, current entitlement to tax refunds of EUR 2,041 thousand (prior year: EUR 3,930 thousand) and current tax liabilities of EUR 1,326 thousand (prior year: EUR 2,063 thousand) were recognized.

The total of the amounts of temporary differences in connection with shares in subsidiaries, branches, associated companies and joint ventures for which no deferred tax liabilities have been recognized is EUR 17,705 thousand (prior year: EUR 53,535 thousand).

40. EARNINGS PER SHARE

Earnings per share are calculated by dividing the result for the period to which the ordinary shareholders are entitled of minus EUR 29,497 thousand (prior year: plus EUR 29,750 thousand) by the weighted average number of ordinary shares outstanding during the period (January 1 to December 31, 2008: 10,000,000; January 1 to December 31, 2007: 10,000,000). Despite the authorization granted to the Company at the Annual Shareholders' Meeting of May 21, 2008 to buy its own shares up to a limit of 10% of the issued shares, BERU held no treasury shares on the balance-sheet dates of December 31, 2008 and December 31, 2007; neither were any treasury shares held temporarily.

There were no factors which would lead to a dilution of earnings per share, neither in the period under review nor in the prior period. Basic and diluted earnings per share are therefore equal.

Earnings per share are calculated as follows:

	Dec. 31, 2008	Dec. 31, 2007
Profit attributable to the		
equity holders of the parent (EUR thousand)	-29.497	29.750
Weighted average		
number of shares outstanding	10.000.000	10.000.000
Earnings per share (EUR)	-2,95	2,98

41. STATEMENT OF CASH FLOWS

The balance of cash and cash equivalents shown in the statement of cash flows includes all of the liquid funds in the balance sheet, i.e. cash in hand, checks and cash at banks, provided that they are available within a period of three months. Since 2006, BERU's fixed-interest securities are no longer presented under cash flows from financing activities, but under cash flows from operating activities.

The change in cash and cash equivalents as a result of operating activities, investing activities and financing activities is adjusted to exclude the effects of currency translation.

In 2008, BERU AG increased the loan it granted in the prior year to BorgWarner Europe GmbH, Ketsch from EUR 35,000 thousand to EUR 120,000 thousand. Due to the contractual conditions, this loan is to be classified as short-term; therefore, the related cash outflow was allocated to the cash flow from operating activities.

The change in cash and cash equivalents as a result of investing and financing activities is calculated on the basis of actual payments. On the other hand, the change in cash and cash equivalents as a result of operating activities is derived indirectly from the net income for the period.
In the year under review, BERU AG received a dividend of EUR 109 thousand (prior year: EUR 114 thousand) from BERU Diesel Start Systems Pvt. Ltd., Pune, India. Furthermore, a dividend of EUR 320 thousand (prior year: EUR 248 thousand) was received from BERU-Eichenauer GmbH, Hatzenbühl and a dividend of EUR 588 thousand (prior year: EUR 588 thousand) was received from IMPCO-BERU Technologies B.V., Delfgauw, Netherlands.

42. SEGMENT REPORTING

In the segment reporting, activities in the segments are shown as the primary reporting format and activities in the various regions are shown as the secondary format. These segments are oriented towards the Group's internal management and reporting, and take the segments' various risk and income structures into consideration.

The BERU Group is active in the field of manufacturing and selling glow plugs and spark plugs as well as other electronic components, mainly for the automotive industry. The Group's activities are divided into the following segments:

In the **Original Equipment segment,** an extensive range of products including diesel cold-start technology, ignition technology, and electronics and sensor technology are developed, produced and sold. All of this segment's customers are manufacturers of motor vehicles.

The **Aftermarket segment** supplies a broad range of automotive spare parts. These include not only diesel cold-start and ignition technology, but also a large number of products which are not produced by the BERU Group covering common automotive spare-part requirements.

The **General Industry segment** develops and distributes products for customers in the oil and gas-burning industries. It also includes activities in the field of industrial electronics, mainly electronic components and control units.

Segment information is generally based on the same disclosure, accounting and valuation methods as BERU Aktiengesellschaft's consolidated financial statements. Receivables and liabilities, provisions, income and expenses, and intercompany profits and losses are eliminated in the reconciliation. There was no inter-segment sales revenue.

The Group's internal charging included in the segments' results (operating profit) takes place at arm's length prices.

On both balance-sheet dates, apart from depreciation and amortization, no substantial expenditures were recorded that did not affect on cash flow. Of the impairments of property, plant and equipment (EUR 1,472 thousand), EUR 613 thousand relate to the Aftermarket segment and EUR 859 thousand relate to the Original Equipment segment. Impairments of intangible assets (development costs) relate to the Original Equipment segment (EUR 2,905 thousand).

The investments represent additions to property, plant and equipment and intangible assets.

Segment assets and segment liabilities include all assets and liabilities which have contributed towards generating the segment earnings of the respective segment. Segment assets consist mainly of intangible assets and property, plant and equipment, inventories, receivables, and other assets. Segment liabilities primarily comprise provisions, payables, and other liabilities. Financial assets and liabilities and consolidations between the segments are shown in the reconciliation.

	Original Equipment		Aftermarket		General Industry		Consolidation / reconciliation		Group	
EUR thousand	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
External revenue	265.415	305.856	118.414	117.630	25.586	27.156	0	0	409.415	450.642
Profit on ordinary activities	-10.699	21.679	-15.518	13.739	220	3.633	0	0	-25.997	39.051
Depreciation, amortization and impairments	25.945	24.097	8.272	6.452	1.963	999	0	0	36.180	31.548
Share of profits and losses of associated companies	0	0	0	0	-821	1.312	0	0	-821	1.312
Share of profits and losses of joint ventures	377	568	0	0	0	0	0	0	377	568
Shares in associated companies	0	0	0	0	0	5.309	0	0	0	5.309
Shares in joint ventures	1.252	1.195	0	0	0	0	0	0	1.252	1.195
Investments	23.112	31.325	4.662	7.839	1.699	997	0	0	29.473	40.161
Assets	284.794	236.291	110.610	125.350	24.173	27.317	42.631	104.253	462.208	493.211
Liabilities	51.714	56.143	35.129	36.666	3.611	4.233	30.965	32.801	121.419	129.843

Shares in associated companies and the share of profits and losses from associated companies are allocated to the Original Equipment and General Industry segments. In the case of segment information by region, external revenue is allocated depending on the location of the customer. In line with internal management and reporting, the regions of Germany, Rest of Europe, North America, Asia, and Other Countries are shown separately.

	External revenue		Assets		Investments	
EUR thousand	2008	2007	2008	2007	2008	2007
Germany	150.152	154.125	299.014	261.633	26.195	34.336
Rest of Europe	179.084	184.292	106.382	113.547	2.870	4.644
North America	22.026	35.492	1.404	2.662	22	613
Asia	40.888	48.451	12.776	11.116	387	567
Other countries	17.265	17.500	0	0	0	0
Consolidation/reconciliation		0	42.632	104.253	0	0
Group	409.415	439.860	462.208	493.211	29.474	40.160

43. RELATED PARTY TRANSACTIONS

The BERU Group was affected in the financial year 2008 by the disclosure obligations of IAS 24 solely with regard to transactions with the majority shareholder, BorgWarner, with non-consolidated subsidiaries and joint ventures, with associated companies and with members of the Executive Board and the Supervisory Board of the BERU Group.

a. BorgWarner Inc.

BorgWarner Germany GmbH, Ketsch, an indirect subsidiary of BorgWarner Inc., USA, has held a majority interest in BERU Aktiengesellschaft, Ludwigsburg since the 2004/05 financial year. BERU AG entered into a domination and profit transfer agreement with BorgWarner Germany GmbH on March 17, 2008. BERU has entered its claim to loss compensation for the year 2008 directly in equity as a shareholder transaction.

Additional transactions between the BERU Group and the BorgWarner Group, in addition to the loan of EUR 120,000 thousand granted by BERU AG to BorgWarner Europe GmbH, Ketsch (prior year: EUR 35,000 thousand) and the sales by BERU AG of its French subsidiaries to BorgWarner Investment Holdings, Inc. were mainly with the former subsidiaries in France. The sale price for the French subsidiaries was one euro. The sale led to a deconsolidation loss of EUR 38,315 thousand.

The volumes of the transactions between BERU and the BorgWarner Group are shown in the following table:

	2008	2007
EUR thousand		
Revenue	589	159
Purchased goods and services	1.459	0
Claim to loss compensation	19.429	0
Income from compensation of disadvantage	65	582
Other transactions	-1.510	54
Financial income[1)]	2.619	448
Receivables	135.010	35.132
Payables	4.162	47

[1)] Interest income on the loan of EUR 120,000 thousand (prior year: EUR 35,000) to BorgWarner Europe GmbH, Ketsch

The receivables due from BorgWarner Germany GmbH and other companies of the BorgWarner Group are not secured. In the prior year, there was a guarantee of Deutsche Bank AG for EUR 35,000 thousand for the receivable of BERU AG due from BorgWarner Europe GmbH.

As in the prior year, no impairments were recognized on the receivables due from the BorgWarner Group.

b. Non-consolidated subsidiaries and other equity holdings

The following non-consolidated subsidiaries are also deemed to be related parties:

BERU Corporation, Auburn Hills, USA

BERU Japan Corporation, Yokohama, Japan

BERU Diesel Start Systems Pvt. Ltd., Pune, India

Hakatherm Elektronik Verwaltungs GmbH, Ludwigsburg

TecDoc GmbH, Cologne

TecCom GmbH, Munich

The balances and transactions with non-consolidated subsidiaries are shown in the table below.

EUR thousand	2008	2007
Sales revenue	1.350	982
Other transactions	-1.084	-1.450
Financial income	8	27
Receivables	756	655
Payables	1	13
Provisions	175	167

As in the prior year, the receivables due from non-consolidated subsidiaries were not secured. No impairments were recognized on those receivables in 2007 or 2008.

c. Joint-venture company BERU-Eichenauer GmbH

The company BERU-Eichenauer GmbH, Hatzenbühl, is included in the consolidated financial statements using the equity method of accounting. The balances and transactions are shown in the table below.

EUR thousand	2008	2007
Sales revenue	23	16
Purchased goods and services	-16.944	-14.778
Other transactions	49	79
Financial income	53	73
Receivables	823	1.024
Payables	2.776	4.937

As in the prior year, the receivables due from joint ventures were not secured. No impairments were recognized on those receivables in 2007 or 2008.

d. Associated companies

BERU's shares in IMPCO-BERU Technologies B.V. ("IMPCO-BERU") were sold in 2008. Transactions with IMPCO-BERU were concluded at arm's length conditions. Within the context of supplying goods and services, the BERU Group's revenue with IMPCO-BERU amounted to EUR 0 thousand in 2008 (prior year: EUR 68 thousand). The total of outstanding balances with IMPCO-BERU Technologies B.V. amounted to EUR 0 thousand, as in the prior year. In 2008, EUR 588 thousand was received as dividends from IMPCO-BERU (prior year: EUR 588 thousand).

e. Members of the Executive Board and the Supervisory Board

The compensation of the members of the Executive Board amounted to EUR 1,007 thousand (prior year: EUR 2,128 thousand) and was comprised as follows:

EUR	2008	2007
Current benefits	840.740,20	1.838.166,75
Share-based payment	0,00	0,00
Allocation to pension plan assets	166.512,00	289.895,00
	1.007.252,20	**2.128.061,75**

On December 31, 2008, provisions (including profit sharing and bonuses) amounted to EUR 86 thousand (prior year: EUR 1,139 thousand). As in the prior year no receivables were outstanding from members of the Executive Board.

Of the total retirement benefit obligation recognized under liabilities, EUR 324 thousand was accounted for by the active members of the Executive Board (prior year EUR 196 thousand). The legal form of these commitments is not significantly different from that of the commitments made to the employees.

The individualized remuneration of the members of the Executive Board for financial year 2008 is comprised as follows:

	Fixed remuneration	Variable remuneration	Total remuneration
	EUR	EUR	EUR
Dr. Thomas Waldhier	328,134.96	55,904.00	384,038.96
Marcus Knödler	164,426.88	0.00	164,426.88
Dr. Reinhard Meschkat	262,458.36	29,816.00	292,274.36
Total	755,020.20	85,720.00	840,740.20

The compensation of the members of the Supervisory Board totaled EUR 172 thousand (prior year: EUR 132 thousand).

As in the prior year, all of the compensation was paid as current benefits.

The total remuneration of the members of the Supervisory Board for financial year 2008 breaks down as follows, in accordance with the Articles of Incorporation:

	Fixed remuneration	Variable remuneration	Total remuneration
	EUR	EUR	EUR
Robin J. Adams*	-	-	-
Marina Cee	28,000.00	0.00	28,000.00
Anthony D. Hensel*	-	-	-
Bernd Immekamp	28,000.00	0.00	28,000.00
Alfred Weber*	-	-	-
Dr. Ulrich Wöhr	98,000.00	18,000.00	116,000.00
Total	154,000.00	18,000.00	172,000.00

* Waived entitlement to Supervisory Board compensation

f. Former members of the Executive Board

Payments made to former members of the Executive Board and their surviving dependents amounted to EUR 1,094 thousand (prior year: EUR 1,095 thousand).

The provisions recognized in accordance with IAS 19 for pension obligations towards former members of the Executive Board and their surviving dependents amount to EUR 6,989 thousand (prior year: EUR 7,061 thousand). Actuarial gains and losses which were not recognized due to the application of the corridor method amount to EUR 492 thousand (prior year: EUR 858 thousand).

Provisions of EUR 455 thousand were recognized for severance compensation at December 31, 2008 (prior year EUR 900 thousand). Severance payments amounted to EUR 262 thousand in 2008 (prior year: EUR 0 thousand).

44. BOARDS OF THE COMPANY

a. Supervisory Board

Dr. Ulrich Wöhr, Oberursel
Chairman
Graduate in business administration

Deputy Chairman of the Supervisory Board of:
Euro Avionics Navigationssysteme GmbH & Co. KG, Weil the Stadt/Hausen

Member of the Board of Directors of:
CAP Clean Air Power Limited, Hamilton, Bermuda

Robin J. Adams, Bloomfield Hills, Michigan, USA
Deputy Chairman
Executive Vice President, Chief Financial Officer and Chief Administrative Officer, Member of the Board of Directors, BorgWarner Inc.

Anthony D. Hensel, Oakland TWP, Michigan, USA
Vice President and Treasurer BorgWarner Inc.

Member of the Supervisory Board of:
BorgWarner Turbo Systems GmbH, Kirchheimbolanden
(until February 15, 2008)

Alfred Weber, Ithaca, New York, USA
Vice President BorgWarner Inc.
President and General Manager, BorgWarner Morse TEC/Thermal Systems, Ithaca, USA

Marina Cee, Besigheim
Office employee (employee representative)

Bernd Immekamp, Ludwigsburg
Factory employee (employee representative)

b. Executive Board

Dr. Thomas Waldhier, Pforzheim
Chairman
Graduate in engineering and business administration

Officer BorgWarner Inc.

Member of the Advisory Board of:
Kreissparkasse Ludwigsburg, Ludwigsburg

Marcus Knödler, Asperg
Master of Business Administration (MBA)

Dr. Reinhard Meschkat, Walsdorf
Graduate in engineering
(until January 15, 2009)

45. INDEPENDENT AUDITORS' FEES

The fees for services provided by the independent auditors to BERU Aktiengesellschaft and its subsidiaries and recognized as expenses are comprised as follows:

EUR thousand	2008	2007
Audit services (including outlays)	288	335
Tax services	155	174
Other certification or valuation services	0	9
Other services provided to the parent company or the subsidiaries	6	15
	449	**533**

46. DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Executive Board and the Supervisory Board of BERU Aktiengesellschaft have issued the declaration required by Section 161 of the German Stock Corporation Act and have made it permanently accessible on the Company's website at www.beru.com.

47. PAID/PROPOSED DIVIDENDS AND GUARANTEED DIVIDENDS

EUR thousand	2008	2007
The dividends proposed to the Annual Shareholders' Meeting	0	11.000
Dividends decided upon and paid out during the financial year	11.000	11.000
Guaranteed dividends from domination and profit transfer agreement	1.377	0

48. EVENTS AFTER THE BALANCE SHEET DATE

Sales revenue has decreased substantially due to the current situation on the national and international automobile markets. In order to adjust capacities to the present demand situation, short working time arrangements have been introduced at various production plants in all areas of the Group. In addition, Dr. Reinhard Meschkat left the company as of January 15, 2009 as a result of the internal reorganization. No further significant events occurred after the balance sheet date but before the consolidated financial statements were submitted to the Supervisory Board March 17, 2009.

Ludwigsburg, March 17, 2009

The Executive Board

Dr. Thomas Waldhier　　　　　Marcus Knödler

AUDITOR'S OPINION

We have audited the consolidated financial statements prepared by the BERU Aktiengesellschaft, Ludwigsburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 17 March 2009

KPMG AG
Wirtschaftsgesellschaft

(vormals
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Kursatz	Feller
Auditor	Auditor