TECHNOLOGY WITH RESPONSIBILITY

ANNUAL REPORT 2007

THE BERU GROUP AT A GLANCE

INCOME STATEMENT

EUR million	2003/04[1]	2004/05[1]	2005[2]	2006	2007
Sales revenue	354.5	385.8	305.8	439.0	450.6
Changes in inventories and work in progress and own work capitalized	8.3	4.2	3.9	–0.8	2.8
Other operating income	7.4	7.3	4.7	11.1	5.0
Cost of materials	–130.2	–139.5	–116.1	–175.5	–186.8
Personnel expenses	–102.6	–114.9	–87.0	–117.4	–124.3
Depreciation and impairments	–27.0	–27.1	–25.8	–34.4	–31.5
Other operating expenses	–57.0	–65.1	–52.2	–66.6	–75.0
Other taxes	–1.9	–2.1	–1.3	–1.9	–1.7
Earnings before interest and taxes	51.5	48.6	32.0	53.5	39.1
Financial income	3.1	–1.4	1.5	3.0	5.2
Earnings before taxes	54.6	47.2	33.5	56.5	44.2
Income taxes	–18.4	–23.3	–13.7	–12.8	–13.4
Net profit	36.2	23.9	19.8	43.7	30.9

OTHER KEY FIGURES

EUR million	2003/04	2004/05	2005[2]	2006	2007
Investments in property, plant and equipment	35.6	34.9	24.8	24.1	24.7
Research and development expenditure	27.6	30.1	24.8	33.5	34.3
Equity ratio (on balance sheet date in %)	68.5	68.6[3]	70.5[3]	72.8[3]	73.7[3]
Working capital[4]	106.2	110.5	118.0	94.4	95.6
Net cash inflow from operating activities[5]	64.2	51.1	45.9	77.4	61.6
Free cash flow from operating activities[6]	27.1	13.7	19.7	44.2	31.6
Return on sales before taxes (in %)	15.4	12.2	11.0	12.9	9.8
Dividend distribution	11.0	11.0	8.3	11.0	11.0[7]
Dividend per share (in EUR)	1.10	1.10	0.83	1.10	1.10[7]
Number of employees at end of period	2,694	2,664	2,702	2,555	2,560

[1] Change in EBIT and EBT due to change in accounting for other taxes as of short financial year 2005
[2] Short financial year of April 1 to December 31, 2005
[3] With the inclusion of the minority interest in equity capital
[4] Inventories plus trade receivables minus trade payables
[5] Net profit minus minority interest plus depreciation and impairments and changes in long-term provisions
[6] Net profit minus minority interest plus depreciation and impairments and changes in long-term provisions minus investments with an effect on cash flow
[7] Proposal on the appropriation of profits by the management for the Annual Shareholders' Meeting on May 21, 2008

TECHNOLOGY WITH RESPONSIBILITY

The automotive industry is faced with enormous challenges. BERU AG meets these challenges with intelligent innovations in its three divisions of Ignition Technology, Diesel Cold Start Technology, and Electronics and Sensors. Our modern technologies aim to enhance individual mobility and safety. The environment is one of our most important considerations, and it goes without saying that our products meet the high quality standards that you rightly expect of us.

Are you curious? Then we are pleased to invite you to get to know more about BERU, and hope you enjoy reading our Annual Report.

CONTENTS

THE EXECUTIVE BOARD OF BERU

DR. REINHARD MESCHKAT
Member of the Executive Board
Responsible for:
Procurement, Engineering,
Logistics, Production,
Quality Management

DR. THOMAS WALDHIER
Chairman of the Executive Board
Responsible for:
Research and Development,
Human Resources,
Legal Affairs, Internal Auditing,
Corporate Development,
Corporate Communications, Sales

MARCUS KNÖDLER
(Deputy)
Member of the Executive Board
Responsible for:
Finance and Accounting,
Investor Relations,
IT & Organizational Development

Dear shareholders,

2007 was an eventful year for BERU. Compared with the prior year, sales revenue increased by just 2.6 % to EUR 450.6 million – and this was after several years of close to 10 % annual growth. Massive price concessions in combination with higher prices for raw materials and above-average increases in personnel expenses caused operating profit before special items to fall to EUR 43.1 million. Taking into consideration the efficiency-enhancing program that was decided upon in December 2007, earnings before interest and taxes (EBIT) amounted to EUR 39.1 million; this represents a margin of 8.7 % in relation to sales revenue. Profit for the year of EUR 30.9 million was 29.3 % lower than the prior-year figure, which was boosted, however, by special one-time income of EUR 7.0 million.

In our strongest-growing division, Electronics and Sensors, as we had expected, we were able to increase the sales revenue generated by our tire-pressure monitoring system TSS (Tire Safety System) by more than 50 % compared with 2006. Ignition Technology also developed positively once again, with growth of 6.6 %. However, more than half of this combined effect was neutralized by the decline in sales revenue by the Diesel Cold Start Technology division, which was partially due to the weak aftermarket business in the first quarter of 2007. Nonetheless, BERU succeeded in defending its leading market position in its core business of diesel cold-start components, and will strengthen that position again with the innovative pressure-sensor glow plugs and ceramic glow plugs that are due to go into series production in 2008 and 2009. Furthermore, a newly developed high-temperature sensor will offer us additional growth potential as of the year 2009.

There was an important change in our shareholder structure last year. BorgWarner Germany GmbH informed us on December 11, 2007 that it had exceeded the share-ownership threshold of 75 %. Since December 13, 2007, BorgWarner has held approximately 82.17 % of the voting rights in BERU AG. Furthermore, on March 17, 2008, we entered into a domination and profit transfer agreement with BorgWarner. BorgWarner has proven to be a good strategic partner for BERU and we are convinced that both companies will be able to profit from numerous synergy effects as a result of this agreement. The domination and profit transfer agreement requires the approval of the shareholders at the next annual shareholders' meeting to be held on May 21, 2008.

At that meeting, the Executive Board and the Supervisory Board will propose the distribution to the shareholders of a dividend of EUR 1.10 per share. In this way, we are continuing our dividend policy featuring a long-term orientation and a high degree of continuity.

The personnel changes in the Executive Board are another major event in 2007. In the context of these personnel decisions, the areas of responsibility have also been reallocated: Dr. Reinhard Meschkat has the position of Chief Operating Officer, Marcus Knödler has been a deputy member of the Executive Board and Chief Financial Officer since April 2007, and I have held the position of Chairman of the Executive Board since October 1, 2007.

Tough competition will continue to be a dominating feature of our market environment. Therefore, we only anticipate slight growth of sales in the year 2008. In order to stop the negative trend in the development of margins, the Executive Board has decided to implement an efficiency-enhancing program. Its key elements are the improvement and acceleration of all corporate processes in connection with a leaner organization, increased personnel productivity and the optimization of our production facilities around the world. In the medium term, we intend to save an additional EUR 5 million per annum in this way. In line with the five-year planning we approved last year, we anticipate sales revenue in the magnitude of EUR 570 million in 2012 as a result of internal growth.

In order to establish a steady course for future profitable growth, we have intensified our innovation efforts. Our goal is to be technology leaders in each of our three divisions: Ignition Technology, Diesel Cold Start Technology, and Electronics and Sensors. At the same time, it is necessary to keep a constant watchful eye on the environment. That's why this year's annual report stands under the heading of "Technology with Responsibility."

We have also started to strengthen our presence in growth markets outside Europe so that we can participate more in their development. The planned construction of a new factory in India this year is the first step in this direction. Our aim is to strengthen our market position, whereby we will also examine all possibilities to make acquisitions.

My Executive Board colleagues and I would like to thank you for your trust. We will continue to work on BERU's strategy and operations to secure its long-term profitable growth. We look to the future with optimism.

Yours sincerely,

THOMAS WALDHIER
– CHAIRMAN OF THE EXECUTIVE BOARD (CEO) –

BERU ON THE STOCK MARKET

BERU SHARE PRICE RISES TO NEW ALL-TIME HIGH

Despite the real-estate and financial crises in the United States, which had a negative impact on many stock exchanges around the world, following the successful year 2006, the German stock market performed well once again in 2007. The DAX, Germany's leading share index, reached the record level of 8,151 in the middle of 2007 and ended the year at 8,067. This downward trend continued during the first weeks of 2008.

BERU's share price started 2007 at the high level of EUR 82.65. In its tenth year on the stock exchange, towards the end of the first quarter our stock rose to an all-time high of EUR 88.00 in Xetra trading. During the year, the share price then fell to EUR 69.83, but rose again significantly in December. Finally, the closing price of our shares in trading at the end of the year was EUR 75.10.

Since the day of our initial public share offering in October 1997, the value of our stock has increased by nearly 300%.

DOMINATION AND PROFIT TRANSFER AGREEMENT PLANNED

BorgWarner Germany GmbH has been BERU's majority shareholder since 2005 with an equity interest of 69.42%. On December 11, 2007, BorgWarner Germany GmbH announced that it had increased its stake to more than 75%. Since December 13, BorgWarner has held approximately 82% of voting rights. Furthermore, on March 17, 2008, we entered into a domination and profit transfer agreement with BorgWarner. The conclusion of such an agreement will enable both companies to simplify many processes. The stock market reacted positively to the news: BERU's share price rose by nearly 10% after the announcement. Assuming that the domination and profit transfer agreement is approved by the Annual Shareholders' Meeting on May 21, 2008, BERU's shareholders will have the choice between one-time compensation and an appropriate annual compensation payment.

FOCUS: INFORMATION POLICY

www

More information
on BERU's share
www.beru.com

BERU continues to place high priority on its information policy. Financial reports and corporate communications are posted on our Internet site in a clear form and can be downloaded if required. In addition, shareholders, journalists and other interested parties can register there for BERU's information service, and are then regularly kept up to date electronically.

At regular intervals, analysts have the opportunity to engage directly in discussions with the Executive Board in the form of telephone conference calls. In the past financial year, we also held numerous individual discussions with analysts and investors.

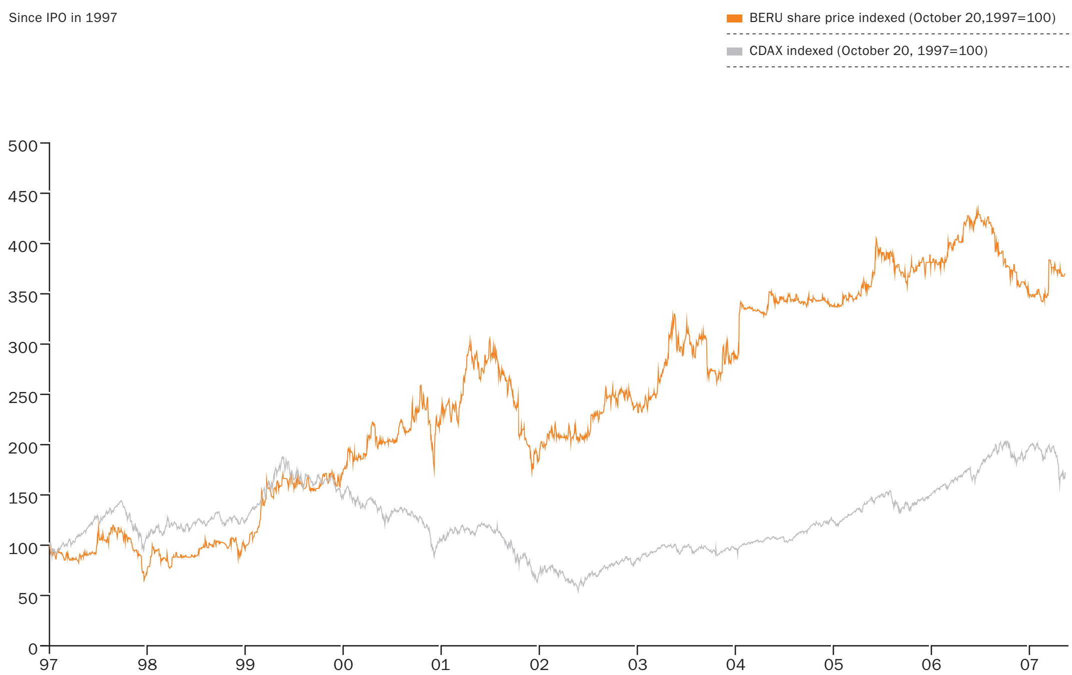
TENTH ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting on June 27, 2007 took place at the BERU's domicile in Ludwigsburg, as in prior years. The attendance rate at the tenth Annual Shareholders' Meeting was 76.65% (2006: 74.2%).

All of the proposals made by the management were approved by the shareholders almost unanimously. These proposals included the distribution of a dividend of EUR 1.10 per share for the 2006 financial year. This represents a total dividend payout of EUR 11 million, and received a positive response from the shareholders. In addition, the Company was once again authorized to acquire its own shares in a volume of up to 10% of the total equity capital. Analogously to the resolution passed at the previous Annual Shareholders' Meeting, this resolution is to be regarded as contingent authorization; at present, there are no plans to make use of the authorization. Accordingly, the Company held none of its own shares at the end of the year. The shareholders also approved the proposal to receive information from the Company in electronic form. The Articles of Incorporation have been amended accordingly.

BERU SHARE PRICE COMPARED WITH THE CDAX

Since IPO in 1997



THE WORKFORCE

In the past financial year, the BERU Group employed 2,560 people worldwide, which was approximately the same number as in the prior year (2,555). While the number of people employed outside Germany was 1,053 (1,072), the number of factory and office staff at German plants rose slightly to 1,507 (1,483).

NEW INSTRUMENT DEVELOPING NEW TALENT

A successful company distinguishes itself not least by way of a well thought-out personnel structure and low levels of staff turnover. Consequently, in 2007 BERU AG began to introduce a Talent Management System (TMS) at predetermined pilot locations. With the aid of this new instrument, we aim not only to identify, develop and retain talented employees within our company at an early stage, but also to attract promising candidates elsewhere in the market. Furthermore, the model enables managers to independently and individually plan the development of their own personal and technical skills. Based on a model of competencies, core competencies were identified which are in line with the company's guiding principle of technology leadership and thereby provide optimal support for the strategy pursued by BERU. The employees define the relevant competencies for their current job or a future position, from which they then derive specific development measures.

The Talent Management System is an important instrument especially for filling vacant management positions and in terms of succession planning. Our goal is to fill up to 70 % of vacant positions using our own personnel. In this way, BERU not only provides more attractive development opportunities, but also counteracts the ever-increasing shortage of skilled personnel and managers.

TRAINING CONTINUES TO ENJOY A HIGH LEVEL OF RECOGNITION

www

More information on entry and career opportunities at BERU can be found at www.beru.com/career

To ensure that training at BERU not only maintains its high standards in the future, but also becomes even more attractive, in 2007 we devised and implemented a package of measures with a range of interesting offers. The curriculums were expanded in a number of ways: Besides English courses and bonuses for good performance, we now have an Internet forum in which our 60 apprentices provide information on occupational training at BERU.

We also successfully implemented the program for university graduates, and in 2007 we already took on the first graduate trainees.

PENSION PLANS WELL RECEIVED

Since 2007, in terms of their pension planning, BERU employees have been able to combine company-financed insurance contributions with their own savings, and the new model has met with a positive response from the employees. Shortly after its introduction, around 30 % of employees had already chosen to privately supplement their pension plans through BERU.

INNOVATIVE IDEAS MANAGEMENT

BERU has further improved its Ideas Management department and has introduced a new ratings system. This led to savings of EUR 615,537, more than double the figure achieved in the prior year. In recognition of their good ideas, BERU awarded bonuses totaling EUR 101,888 (EUR 49,380) to its employees.

QUALITY AND ENVIRONMENT

Quality and the environment play a crucial role in the development of our products. Our aim is to manufacture high-quality products while conserving resources by using the most modern production processes possible. In order to achieve these standards at all levels, BERU has structured its operating processes accordingly with the use of an integrated management system for quality, occupational health and safety, and environmental protection.

STRICT ENVIRONMENTAL TARGETS

As early as 2006, BERU started its comprehensive environmental protection program, which was further developed in 2007. Now, all locations have set measurable targets in each of the three categories of energy, water and waste, and provide evidence of the measures they adopt to achieve these goals. Regular audits support this process in the long term.

NEW OCCUPATIONAL HEALTH AND SAFETY PROGRAM: GLOBAL STAR SAFETY

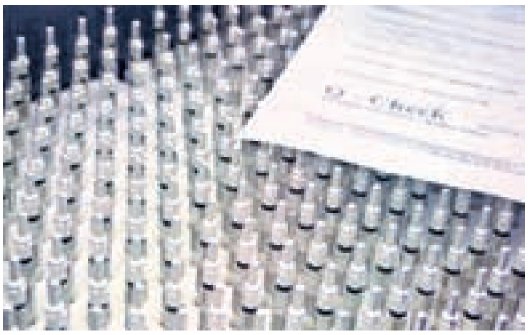
In 2007, BERU decided to introduce a comprehensive safety plan as part of its occupational health and safety practices. The Global Star Safety program affects, among other things, health and safety guidelines, regulations concerning industrial hygiene, as well as training courses and the layout of workplaces in terms of ergonomic considerations. Based on a range of evaluation criteria, each of these elements can be rated on a scale from zero to five. Our aim in the medium term is to reach at least the second-highest level in each of the program's categories throughout the Group. To ensure that we achieve this, structured self-assessment which is subject to strict rules will be carried out in all locations in 2008 and, where necessary, continuous measures for improvement will be drawn up and implemented.

THIRD ROUND OF THE Q25 QUALITY OFFENSIVE

Last year, the Q25 quality offensive we started in 2005 entered its third year. Apart from one exception, we once again succeeded in achieving the ambitious objective of considerably further reducing internal quality costs in comparison with the prior year, and in some cases even exceeded it.

To further reduce quality costs, the focus in 2008 will be on further expanding product and process optimization. The expansion will take place as part of Six Sigma, a recognized method of improving quality and reducing costs.

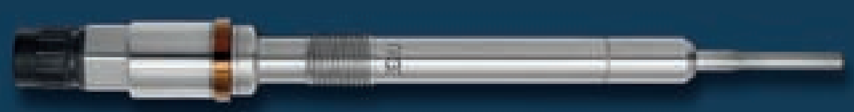
Furthermore, in order to improve performance in our supply chain, as of 2008 we will carry out more selective development of our suppliers. Only by using efficient suppliers will we be in a position to achieve our future targets.



LEFT:
Glow plugs are tested for perfect functionality …

RIGHT:
… and prepared for shipping.

REDUCING NITROGEN OXIDES. PSG, OUR PRIZEWINNING PRESSURE-SENSOR GLOW PLUGS, ENSURE OPTIMAL COMBUSTION AND THUS REDUCE EMISSIONS OF NITROGEN OXIDES. LOWER EMISSIONS, MORE POWER – IT'S AS SIMPLE AS THAT.



GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT OF BERU AG

BUSINESS AND ECONOMIC CONDITIONS

BERU Aktiengesellschaft is an automotive supplier domiciled in Ludwigsburg, and has been listed on the stock exchange since 1997. BERU focuses on market niches with strong growth potential; its products are divided into the three divisions of Diesel Cold Start Technology, Ignition Technology, and Electronic and Sensors. In these areas, BERU consistently aims to achieve globally leading positions. The BERU Group reports on its three sales segments: Original Equipment, Aftermarket and General Industry.

International Group organization and management

The corporate strategy of BERU AG has a strong focus on profitable growth. The business policy of the companies of the Group reflects the corporate strategy and is substantially influenced by the management of BERU AG, the parent company.

The Group's operating business is managed with the use of key financial performance indicators. The primary indicator is the profit margin, which is EBIT (profit on ordinary activities, defined at BERU as earnings before investment income, interest and taxes) as a percentage of sales revenue. Another key indicator is economic value (EV), which measures a company's performance in terms of the value added it has achieved. EV is an indicator with a dynamic focus on the future 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 represents value added (or economic value). Both indicators, EBIT margin and economic value, will continue to serve as the Group's key instruments of financial control in the future.

Despite the recent negative trend in the development of margins, over the past ten years, BERU has always succeeded in achieving profit margins higher than those of the industry on average, thus demonstrating its solid profitability. However, intensified competition and rising raw-material prices require renewed efforts by the Group so that it can improve its operating efficiency and maintain the quality of margins.

Worldwide BERU locations

BERU AG and its subsidiaries have an international orientation and worldwide operations. We have production companies, distribution units and joint ventures in 14 countries on three continents. We place great importance on proximity to our customers and on maintaining direct contacts with them. Our production structures are continually reviewed and improved in terms of their economy and competitiveness.

Further information on BERU's companies and our respective ownership interests can be found in the notes to the consolidated financial statements.

WELL POSITIONED IN GERMANY AND EUROPE

Europe is BERU's most important sales market. The Group has a well-developed production and distribution network in this region.

The headquarters of BERU AG are in Ludwigsburg. At this location, we also have the production of glow plugs, ignition coils and ignition connectors, our research and development center and a logistics center. BERU has a total of four production sites in Germany: in Ludwigsburg, Bretten, Muggendorf and Neuhaus-Schierschnitz. In addition, BERU AG holds a 50% equity interest in BERU-Eichenauer GmbH in Kandel (the company is domiciled in Hatzenbühl).

The Group's other European sites are in France, Great Britain, Ireland, Italy, Spain and Hungary. These production companies are 100% subsidiaries of the BERU AG. BERU Electronics GmbH, Bretten, a subsidiary of BERU AG, has a branch in Tralee, Ireland. BERU AG also holds a 49% equity interest in the Dutch company, IMPCO-BERU Technologies B.V., and has distribution companies responsible for sales in France and Italy.

IMPORTANT LOCATIONS IN AMERICA AND ASIA

On the American continent, BERU operates a sales company with an application center in the United States and a facility in Mexico.

In the growth markets of Asia, BERU has sales offices in Singapore and Japan as well as a plant in South Korea. We also hold a 51% equity interest in BERU Korea Co. Ltd. and a 49% equity interest in BERU Diesel Start Systems Pvt. Ltd., India.

World economy and automotive industry

The development of the world economy is highly important to the BERU Group due to the international reach of our operations. We focus in particular on the automotive industry and new car registrations in the sales markets of Western Europe and Asia as well as in the rapidly expanding BRIC countries (Brazil, Russia, India and China).

STABLE GROWTH OF GLOBAL ECONOMY

Following a very dynamic year 2006, economic growth generally slowed down a little last year. According to estimates by Global Insight, a market-research institution, the world's real gross domestic product (GDP) increased by 3.8%. In Western Europe, economic output grew by 2.4%, a slightly lower rate than in the prior year. In the United States, growth slowed down considerably due to the real-estate and financial crises – GDP expanded by just 2%, which was substantially less than in 2006.

As expected, economic growth also slowed down somewhat in Germany. But despite the lower level of private consumption, price-adjusted GDP was 2.5% higher than in 2006. The number of persons employed in Germany increased to 39.7 million – the highest level since reunification. Economic growth in Germany in 2007 was primarily based on the strong export performance (8.3%) and the increased investment in property, plant and equipment (8.4%).

MIXED DEVELOPMENT OF DEMAND FOR AUTOMOBILES

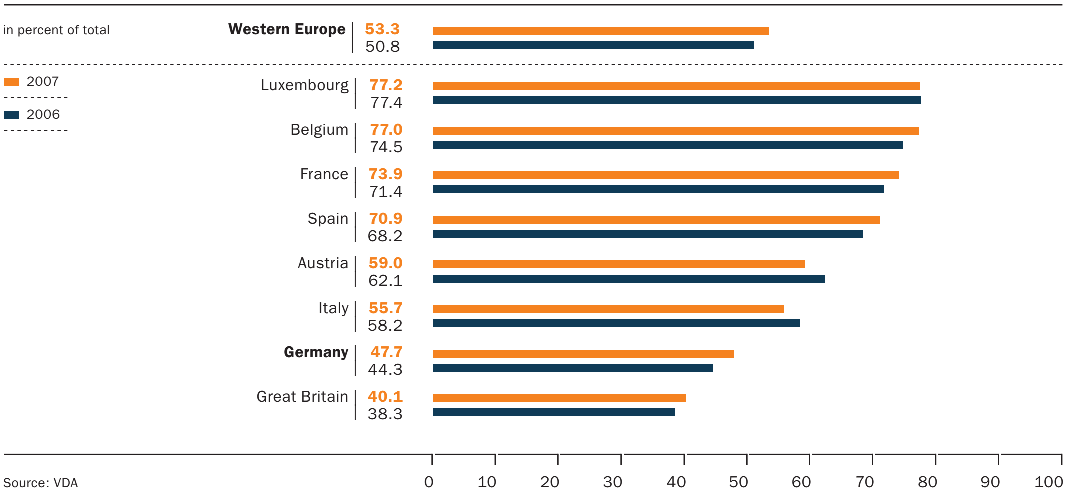
Global demand for automobiles increased once again last year. A total of 66.3 million new vehicles were registered in 2007, 4.3% more than in 2006. Vehicle sales in Japan and the United States decreased once again, however. Brazil, Russia, China and India were among the countries with the strongest market growth.

In Western Europe, BERU's most important market, aggregate demand was reduced by the weakness of the German market. The number of 14.8 million newly registered cars in Western Europe was close to the prior-year level. Record growth of 7% was recorded in Italy, however, largely due to a state bonus for scrapping old cars with two-year tax relief. Car markets expanded also in France (3.2%) and the United Kingdom (2.5%).

In Germany, however, new car registrations decreased substantially last year, with unit sales falling by almost 10%. This was mainly a result of the increase to 19% in the rate of value added tax as of January 1, 2007. Due to the impending tax increase, many customers brought planned purchases forward to the end of 2006.

The US financial crisis also had an impact on car sales in that market. Only 16.1 million light vehicles (cars and light trucks) were sold in the United States in 2007. The three US automakers, GM, Ford and Chrysler, were particularly hard hit by this overall 3% decrease.

DIESEL MARKET SHARE AS A PERCENTAGE OF NEW CAR REGISTRATIONS



Source: VDA

Of the rapidly growing emerging markets, Brazil had the strongest growth rate for vehicle sales of 27.9%. In Asia, the expansion of the Chinese market was especially dynamic. With nearly 5.4 million newly registered vehicles, China became the world's most important sales market after the United States. In India, unit sales of passenger cars increased by 15% to nearly 1.5 million units.

CONTINUED SUCCESS OF DIESEL VEHICLES

The rapid development of diesel technology, especially by German manufacturers, continued to be rewarded by consumers. Although fewer cars overall were sold in Western Europe in 2007 than in the prior year, diesel-powered automobiles outsold cars with gasoline engines for the second time in succession. As result of rising gasoline prices and the intense debate about CO_2 emissions, more than 53% of customers in Western Europe decided in favor of a diesel engine in 2007.

Diesel's success also continued in Germany, where it accounted for a record 47.7% of newly registered vehicles. Strong interest in diesel engines is not solely due to the fact that diesel is less expensive than gasoline. The combustion process in diesel engines is more efficient than in gasoline engines, and modern diesel engines no longer have starting disadvantages compared with gasoline engines.

The latest developments in the United States show that interest in diesel is increasing also in that market. Difficult economic conditions on the one hand and intelligent, clean diesel technology on the other hand are helping to gain a larger market share for cars with diesel engines. It is safe to assume that this will be a sustained trend, reflecting both Americans' rising environmental awareness and higher gasoline prices.

Impact on the segments and divisions of the BERU Group

DEVELOPMENTS BY SEGMENT

BERU's core sales markets are Germany and the rest of Europe. More than 70% of the Group's revenue was generated in this region in 2007. BERU successfully defended its position in its domestic market, Germany.

As a consequence of the international expansion of business operations, foreign markets are becoming increasingly important for BERU. The Group therefore aims to strengthen its international presence. The anticipated spread of diesel vehicles in the United States and the ongoing dynamic demand for automobiles in Asia offer BERU the opportunity to achieve stronger growth rates in these regions than in the past.

Original Equipment

In the 2007 financial year, BERU succeeded in maintaining its share of supply in the original equipment business. In the direct business with automobile manufacturers, BERU supplies nearly all producers of cars and engines worldwide. The Original Equipment segment accounts for nearly 70% of the Group's total revenue. As in the prior year, the sources of growth were the Ignition Technology division and the Electronics and Sensors division.

Premium manufacturer BMW uses BERU's tire-pressure monitoring system TSS (Tire Safety System) in all models exported to the United States. Numerous other manufacturers such as Audi, Bentley, Bugatti, Daimler, Ferrari, Maserati, SsangYong and VW offer TSS as optional equipment. In the United States, Ford and Hyundai are supplied with TSS in cooperation with our joint-venture partner, Lear.

Our PTC auxiliary heating system is fitted as standard equipment by producers such as Audi, Ford, Hyundai, Kia, Mazda, Seat, Škoda, Volvo and VW.

In the field of ignition technology, BERU slightly expanded its share of supply with the French automaker, Renault, in 2007. Although BERU did not expand its market share in the field of diesel cold-start technology, it defended its position as one of the global market leaders.

Aftermarket

The worldwide spare-parts business was flat in 2007. The unusually mild winter weather in the first quarter of the year led to a reduced need to replace worn-out components, mainly affecting products that are sold more in winter for seasonal reasons. From BERU's product range, this includes cold-start components and ignition parts. This led to lower revenue for the Aftermarket segment, which could not be fully compensated for in the rest of the year. However, BERU demonstrated its strong position in the domestic market and strengthened its international market position.

Sales of ignition components developed positively in North America. BERU also increased its unit sales in the Far East. But due to the strong euro and the resulting low level of prices in Asia, this success was not always reflected in revenue. The weak US dollar is generally negative for our export business. The strong expansion of markets in Eastern Europe continued in 2007, although revenue growth slowed down compared with the strong prior year. BERU aims to achieve double-digit growth in this region. The BRIC countries (Brazil, Russia, India and China) will offer BERU further growth opportunities in the future. Europe, and especially Germany, our domestic market, still constitute the most important sales markets for BERU, and business in this region is to be further expanded in the future.

BERU supplied its customers quickly and reliably also in 2007. The rapid-delivery rate of 95.7 % was once again significantly better than the industry average.

The average age of cars on the road in Germany continued increasing in 2007, offering good potential for the spare-parts business. And the introduction of new products such as the high-temperature sensors that are due to go into series production in 2009 also offers additional opportunities in the aftermarket.

We are constantly working to strengthen the BERU brand worldwide.

General Industry

In the General Industry segment, the BERU Group supplies renowned manufacturers of oil and gas burners and is represented in major export markets. In Germany, the discussion about renewable energy and the unclear legal situation are leading to consumer uncertainty. The market is therefore declining at present, which also affected BERU in 2007. However, BERU achieved good revenue figures in its export markets. In 2007, BERU successfully launched an ignition device with flame recognition. At present, BERU is working intensively on new technology to reduce the emission of particulate matter, which will be the subject of legislation in 2008. The segment's revenue should increase once again following the launch of more new ignition devices this year.

DEVELOPMENTS IN THE DIVISIONS

BERU consistently pursued its strategic goals once again last year. The Group expanded its activities in the Electronics and Sensors division and the Ignition Technology division. In the Diesel Cold Start Technology division, BERU defended its position as market leader despite a decrease in revenue.

Diesel Cold Start Technology

BERU is one of the global market leaders in the field of diesel cold-start technology, with a worldwide market share of more than 40% for glow plugs and electronic control units for diesel engines. In 2007, the Group's core division posted a decrease in revenue, mainly due to intensified price pressure and the weak aftermarket business. Nonetheless, BERU defended its position as one of the global market leaders. The trend towards diesel-powered cars in Western Europe is one of the main reasons for the success of this BERU division. In the long term, we expect diesel to become established also in the United States. Further potential is offered by the stricter emission regulations planned for the future and by the efforts being made to achieve further reductions in fuel consumption. BERU supplies products that assist these efforts and trends. The prizewinning Pressure Sensor Glowplug (PSG) will be fitted as standard equipment by two European automobile manufacturers as of the middle of 2008. In 2009, BERU will also put a ceramic glow plug on the market, for which the first orders have already been received. And we see additional sales potential for the second generation of the diesel Instant Start System (ISS).

Ignition Technology

The BERU Group is one of the leading suppliers in Europe in the field of ignition technology for gasoline engines. Despite the trend towards diesel and the resulting lower sales of gasoline engines, BERU's Ignition Technology division posted revenue growth also in 2007. The development of unit sales of ignition coils was particularly pleasing. We also anticipate positive future impetus from the expansion of our international aftermarket program.

Electronics und Sensors

The Electronic and Sensors division was the growth driver within the BERU Group once again in 2007, especially with its tire-pressure monitoring system. BERU is rapidly expanding in the field of electronics, with a focus on complete electronic systems for the automotive industry. As had been expected, the tire-pressure monitoring system, TSS (tire safety system), made a significant contribution to the division's positive revenue trend. Since the fall of 2007, the US National Highway Traffic Safety Administration (NHTSA) has required tire-pressure monitoring systems in all newly registered passenger cars and light trucks. In addition, within the context of the carbon-dioxide debate, the European Union is considering making tire-pressure monitoring systems mandatory, as these devices allow optimal tire pressure to be maintained, which is crucial for reducing fuel consumption and CO_2 emissions. This could generate further growth for BERU.

BERU continues to be faced with strong demand for its PTC auxiliary heating systems. However, the trend in this area is towards less expensive product solutions without electronic components, so despite rising unit sales, we anticipate lower revenue from this product in the next two years.

ASSESSMENT OF BUSINESS DEVELOPMENTS

Business developed as expected in the Original Equipment segment, and BERU was able to defend its strong position in the Aftermarket and General Industry segments.

In the three divisions (Diesel Cold Start Technology, Ignition Technology, Electronics and Sensors), the Group succeeded in strengthening its market positions.

The automotive industry is still in a situation of tough competition; pressure on sales prices and high prices for raw materials and energy are a burden on earnings. An efficiency program that BERU decided on in December 2007 is designed to counteract this tendency and to improve the Group's competitiveness over the long term. The BERU Group continues to see Europe as its most important sales market. But we also anticipate rising revenue in Asia in the medium term.

The Original Equipment segment is BERU's key growth driver, particularly in the Electronics and Sensors division.

RESEARCH AND DEVELOPMENT REPORT

Climate protection is a great challenge for the automotive industry. In line with its ambition to occupy a pioneering position as a technology leader in the industry, BERU develops products that can help to protect the environment.

More than 200 people work on future BERU innovations at our research and development facilities in Germany. In 2007, BERU invested 7.6 (7.6)% of its revenue in this area, which was once again above the average for the industry.

EXPANSION OF RESEARCH AND DEVELOPMENT CENTER COMPLETED

In the spring of 2007, the extension of our research and development center (FEZ) was officially opened, allowing BERU to fulfill customers' growing requirements in terms of research, development and quality. The main element of this EUR 5 million extension is a new all-wheel dynamometer inside a cooling chamber, in which tests can be carried out at temperatures down to –40 °C. This puts BERU in a position to test and validate its products and systems in vehicles under normal driving conditions. In this way, development times can be shortened so that products can be launched on the market more quickly.

DIESEL COLD-START TECHNOLOGY: INNOVATIONS FOR LOWER EMISSIONS

In order to fulfill future limits on particulate matter and nitrogen oxides (NO_x), diesel engines' raw emissions have to be reduced. The combustion process can be controlled directly with BERU's intelligent Pressure Sensor Glowplug (PSG), allowing combustion with lower emissions. The PSG will be fitted as standard equipment by two automobile manufacturers starting in the middle of 2008. As of 2009, we will also supply the PSG with ceramic heating elements.

BERU will also launch a ceramic glow plug in 2009. Ceramic glow plugs reach higher temperatures faster than steel glow plugs, so engines have better starting characteristics, supply heat for vehicle interiors more quickly, and generate lower emissions.

IGNITION TECHNOLOGY: HIGH PERFORMANCE AND SPACE SAVING

Against the backdrop of the current CO_2 debate, it is essential to improve the fuel consumption of gasoline engines. Modified combustion processes with direct fuel injection and downsizing, i.e. increasing performance for a given engine size in order to reduce fuel consumption, play an important role in this context. Spark plugs have to fulfill the highest requirements in terms of design and the selected materials. BERU meets these requirements, for example with its slim Bi-Hex spark plugs, innovative ceramic blends, spark plugs with electrodes that can be exactly positioned, and extremely precise manufacturing methods.

ELECTRONICS AND SENSORS: SAFE AND ENVIRONMENTALLY FRIENDLY

The US NHTSA (National Highway Traffic Safety Administration) introduced strict regulations concerning the monitoring of vehicles' tire pressures in the autumn of 2007. These requirements can be fulfilled with BERU's Tire Safety System (TSS). The TSS monitors tire pressure, warns the driver of dangerous pressure loss in good time, and thus reduces the risk of accidents. In addition, optimal tire pressure helps to reduce fuel consumption and thus also emissions. BERU is currently developing a system that works without the need for batteries.

Another innovative and environmentally friendly component is our High Temperature Sensor (HTS). This closed temperature sensor, which is constructed similarly to a glow plug, is designed for use in the exhaust-gas after-treatment of gasoline and diesel engines. It is used to monitor exhaust-gas recirculation systems, oxidation catalysts, particulate filters and deNO_x systems, and will go into series production in 2009.

REMUNERATION REPORT

Remuneration of the members of the Executive Board

COMPOSITION OF THE EXECUTIVE BOARD IN 2007

There were some personnel changes in the Executive Board of BERU AG in 2007. Two members of the Executive Board left BERU AG by mutual agreement with the Company, and the Executive Board of BERU AG gained two new members.

Mr. Marco von Maltzan and Dr. Rainer Podeswa stood down from the Executive Board of BERU AG effective June 26, 2007 and December 11, 2007 respectively. In the cancellation agreement reached with Mr. von Maltzan, the parties agreed that his contract of employment would continue with a release from service obligations but otherwise with largely unchanged conditions until January 31, 2008, but with leave of absence for Mr. von Maltzan. The Supervisory Board of BERU AG is currently negotiating a cancellation agreement with Dr. Podeswa. As long as no cancellation agreement has been reached, the contract of employment continues to apply until April 30, 2009 with leave of absence for Dr. Podeswa.

Mr. von Maltzan's contract in the form modified by the cancellation agreement and the contracts of employment of Dr. Reinhard Meschkat and Dr. Podeswa are termed "old contracts" hereinafter.

Effective April 13, 2007, Mr. Marcus Knödler was appointed as a new (deputy) member of the Executive Board. As a replacement for Mr. Marco von Maltzan, Dr. Thomas Waldhier was appointed as a new member of the Executive Board of BERU AG effective October 1, 2007. The contracts of the two Executive Board members newly appointed in 2007 are termed "new contracts" hereinafter.

GENERAL INFORMATION ON EXECUTIVE BOARD REMUNERATION

The structure of the remuneration system for the Executive Board is discussed by the Supervisory Board whenever this is suggested by 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 fixed elements of remuneration are the fixed salary and the fringe benefits, as well as a fixed one-time payment for two members of the Executive Board for the year 2007. Since the 2006 financial year, the performance-related elements of remuneration have consisted of the bonus and the economic value portion (a variable component of remuneration related to the increase in BERU’s enterprise value), but in one of the two new contracts it consists solely of the economic value portion.

The benefits promised to the Executive Board members in the case that their employment is terminated are the pension commitments. In two old contracts, change-of-control commitments were also made.

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.

Fixed one-time payment

Two members of the Executive Board each received a fixed, one-time payment in 2007.

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 the cancellation agreement reached with Mr. von Maltzan, Mr. von Maltzan was assured that he would be allowed to use his company car for up to six months after the end of his employment in line with the provisions of the employment contract. In addition, the costs of a telephone connection in the private residence of the members of the Executive Board with old contracts are reimbursed. 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 and of one former Executive Board member).

COMPONENTS OF PERFORMANCE-RELATED REMUNERATION

Bonus

According to the old contracts and one of the new contracts, the members of the Executive Board receive a bonus. The bonus is granted annually as a certain percentage of the Group's profit for the year (with two old contracts) or of the Group's EBIT (with one old contract and one new contract).

Economic value portion

As a second component of performance-related remuneration, and as the only component of performance-related remuneration with one new contract, all members of the Executive Board are granted an economic value portion for the year 2007.

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"). For the period of the financial years of 2006 through 2008, one Executive Board member with an old contract receives a certain minimum amount as the economic value portion irrespective of the accomplishment of set targets, whereas the economic value portion to which Mr. von Maltzan is entitled for this period was defined in the cancellation agreement reached with Mr. von Maltzan. The Chairman of the Executive Board newly appointed in 2007 receives a minimum amount for the year 2007.

BENEFITS AFTER TERMINATION OF EXECUTIVE BOARD MEMBERSHIP FOR THE THREE MEMBERS OF THE EXECUTIVE BOARD WHO HAVE OLD CONTRACTS

Pension commitments

Pension agreements have been concluded with the three members of the Executive Board who were in office before the year 2007. In these agreements, the following commitments were made:

– A commitment to the provision of a retirement pension, the amount of which is a certain percentage of the last fixed salary paid before the end of Executive Board membership. This percentage was 35% for Mr. von Maltzan and is 25% for Dr. Meschkat and Dr. Podeswa. In the cancellation agreement reached with Mr. von Maltzan, the parties agreed that in view of the early departure, the percentage would be 22.87%. The rate of 25% for Dr. Meschkat increases by one percentage point for each full year that he 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.

– 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 60% for Mr. von Maltzan and 50% for Dr. Meschkat and for Dr. Podeswa.

– 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 Mr. von Maltzan is 10% and for legitimate children of Dr. Meschkat and Dr. Podeswa it is 16.67%.

Change-of-control commitments

A change-of-control commitment has been made to two members of the Executive Board who have old contracts. The commitments are valid only if an Executive Board member loses his Executive Board position due to a contractually defined change of control. In that case, the departing Executive Board member can demand as remuneration 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.

BENEFITS AFTER TERMINATION OF EXECUTIVE BOARD MEMBERSHIP FOR THE TWO MEMBERS OF THE EXECUTIVE BOARD WHO HAVE NEW CONTRACTS

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.

On the occasion of Mr. Marcus Knödler's appointment as a member of the Executive Board, an agreement was entered into that took effect on April 13, 2007 and 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, the variable components of remuneration are not.

– 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, an agreement was entered into concerning his occupational retirement pension that took effect on October 1, 2007 and 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.

STOCK-OPTION PLAN OR OTHER COMPONENTS OF REMUNERATION WITH A LONG-TERM INCENTIVE EFFECT

There is no stock-option 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.

DETAILS OF THE REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD

REMUNERATION OF THE ACTIVE MEMBERS OF THE EXECUTIVE BOARD IN 2007

a) The total remuneration of the active members of the Executive Board during the 2007 financial year amounted to EUR 1,838,166.75 (EUR 2,528,797.16). This amount includes the remuneration paid to Mr. von Maltzan and Dr. Podeswa for the proportion of the year until their departures in June and December 2007 respectively. Also after their departure from the Executive Board, the two employment contracts run until their official end. The remuneration already paid or still to be paid to Mr. von Maltzan and Dr. Podeswa for the year 2007 after the end of their Executive Board positions (prorated for time: EUR 508,917.31) is shown under remuneration for former members of the Executive Board. Salary components that the two former Executive Board members will receive for the year 2008 (estimated at EUR 973,112.81) due to the contract of employment (Dr. Podeswa) or the cancellation agreement (Mr. von Maltzan) have been taken into consideration in the 2007 financial statements through the recognition of appropriate provisions. The fixed remuneration of Dr. Meschkat in 2007 included a one-time payment of EUR 100,000.00 and a supplementary payment for previous years of EUR 15,410.00. The fixed remuneration of Mr. Knödler in 2007 included a one-time payment of EUR 22,500.00.

b) In individualized form, the remuneration of the members of the Executive Board for the 2007 financial year was as follows:

	Fixed components including fixed one-time payments		Performance-related components		Total remuneration	
Executive Board member EUR	2007	2006	2007	2006	2007	2006
Dr. Thomas Waldhier (since October 1, 2007)	81,595.93	0.00	75,809.00	0.00	157,404.93	0.00
Marco Freiherr von Maltzan (until June 2007)	183,964.70	375,101.96	273,376.00	734,020.00	457,340.70	1,109,121.96
Marcus Knödler (since April 13, 2007)	140,339.26[1]	0.00	0.00	0.00	140,339.26	0.00
Dr. Reinhard Meschkat	377,228.64[2]	252,499.20	93,725.00	330,809.00	470,953.64	583,308.20
Dr. Rainer Podeswa (until December 2007)	246,739.22	258,819.00	365,389.00	577,548.00	612,128.22	836,367.00
Total remuneration of all Executive Board members	**1,029,867.75**	**886,420.16**	**808,299.00**	**1,642,377.00**	**1,838,166.75**	**2,528,797.16**

[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 2007 financial year, taking the corridor method into consideration:

	Allocations to pension provisions	
Executive Board member EUR	2007	2006
Dr. Thomas Waldhier	19,929	0.00
Marco Freiherr von Maltzan	117,417	33,755
Marcus Knödler	28,500	0.00
Dr. Reinhard Meschkat	62,569	30,016
Dr. Rainer Podeswa	61,480	–14,647
Total	**289,895**	**49,124**

FORMER MEMBERS OF THE EXECUTIVE BOARD

The remuneration of former members of the Executive Board and their surviving dependents amounted to EUR 1,095,483.31 (EUR 573,466.00). Pursuant to IAS 19, pension obligations towards members of the Executive Board and their surviving dependents are covered by provisions of EUR 7,061,134.00 (EUR 6,498,722.37).

Remuneration of the members of the Supervisory Board

COMPOSITION OF THE SUPERVISORY BOARD IN 2007

There were no personnel changes in the Supervisory Board of BERU AG in 2007.

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 specifies that each member of the Supervisory Board shall receive fixed annual remuneration and performance-related remuneration calculated in relation to the level of the dividend distributed.

The Chairman of the Supervisory Board, his Deputy and the chairmen and members of Supervisory Board committees generally receive additional remuneration.

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 2007 financial year amounted to EUR 131,500.00, the same as in 2006. In individualized form, the remuneration of the members of the Supervisory Board was as follows:

	Fixed components		Performance-related components		Total remuneration	
Supervisory Board member EUR	2007	2006	2007	2006	2007	2006
Dr. Ulrich Wöhr (Chairman)	26,000.00	26,000.00	55,500.00	55,500.00	81,500.00	81,500.00
Robin J. Adams (Deputy Chairman)[1]	–	–	–	–	–	–
Marina Cee	6,500.00	6,500.00	18,500.00	18,500.00	25,000.00	25,000.00
Anthony D. Hensel[1]	–	–	–	–	–	–
Bernd Immekamp	6,500.00	6,500.00	18,500.00	18,500.00	25,000.00	25,000.00
Alfred Weber[1]	–	–	–	–	–	–
Total remuneration of all Supervisory Board members	**39,000.00**	**39,000.00**	**92,500.00**	**92,500.00**	**131,500.00**	**131,500.00**

[1] Waived Supervisory Board remuneration

DEPENDENT-COMPANY REPORT

Pursuant to Section 312 of the German Stock Corporation Act (AktG), the Executive Board of BERU AG has prepared a dependent-company report for the financial year 2007. With this report, in which comments are made on transactions undertaken or not undertaken with the majority shareholder BorgWarner and on measures taken or not taken in the interests of or at the instigation of the majority shareholder, the Executive Board reports on its relationship to the related companies of BorgWarner Inc., Auburn Hills, USA. The dependent-company report concludes with the following statement: “If, in the light of circumstances known to the Executive Board at the time when transactions took place or actions were taken or omitted, any disadvantages were caused to the Company, either the Company received direct and adequate compensation during the same financial year, or, at the end of the financial year the Company received a legal claim to adequate compensation pursuant to Section 311, Subsection 2 Sentence 2 of the German Stock Corporation Act.” The Supervisory Board has reviewed the dependent-company report prepared by the Executive Board.

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 December 10, 2007, BorgWarner held a total of 77.67 % of the 10 million shares in BERU AG. In 2007, 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 %.

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 13, Paragraph 2 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 June 27, 2007, 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 December 26, 2008. As of December 31, 2007, 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 15 million in 2007. 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 22.5 million, which have not yet been utilized, to which the bank has the extraordinary right of termination if there are material changes in the ownership situation of the creditor company or the Group. Another credit agreement covering a working-capital credit line of EUR 5 million, which has not yet been utilized, 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

Two members of the Executive Board, one of whom stepped down from his position in 2007, have been granted a change-of-control commitment. Each of these commitments is applicable in the case that the respective 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), and (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 service 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

Profitability

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

In 2007, BERU achieved a net profit after minority interest of EUR 29.7 million, compared with EUR 43.0 million in 2006. Earnings per share in 2007 amounted to EUR 2.98 (EUR 4.30). Operating profit in 2007 was primarily influenced by items related to the planned restructuring measures in Germany and the recognition of provisions for claims to remuneration of members of the Executive Board who left BERU in 2007. Restructuring measures were also taken by our subsidiary in Italy in 2007. Earnings were additionally reduced by the continuation of high raw-material and energy prices. On the revenue side, there was a negative impact in particular from the strong euro. Operating profit in 2006 was primarily affected by additional personnel expenses connected with changed legislation on pre-retirement part-time contracts and impairments on production equipment, but also by positive items related to retirement benefit obligations and restructuring provisions.

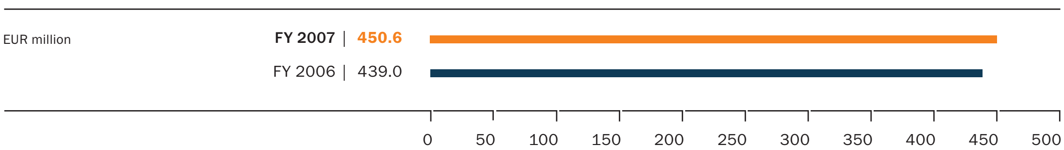
SALES REVENUE

In 2007, revenue rose slightly by 2.6% to EUR 450.6 million, compared with EUR 439.0 million in the prior year. Revenue growth was only slight due to lower unit sales in the high-margin aftermarket business. An additional factor was that BERU was increasingly confronted by demands for price reductions by the automobile manufacturers.

Sales revenue by region

In Germany, the domestic market, BERU increased its sales revenue by EUR 24.1 million from EUR 137.1 million to EUR 161.2 million. This represents revenue growth of 17.6%, enabling BERU to maintain its strong market position. Revenue in the rest of Europe decreased by 10.0% to EUR 187.1 million (EUR 207.8 million). This was partially due to the falling revenue from sales to French automakers, but also a result of changes in BERU's distribution channels. Since 2007, products destined for Asia are exported directly to customers in those countries, whereas until 2006 they had been exported via a European wholesaler. BERU's revenue in the American market also fell: from EUR 43.3 million in 2006 to EUR 36.2 million last year. However, due to the anticipated economic expansion in the United States, we look forward to rising growth rates in the coming years. Ongoing economic growth in Asia enabled BERU to increase its revenue in that region from EUR 38.7 million to EUR 48.6 million, representing growth of 25.6%. The Group's revenue in other countries increased by 44.6% from EUR 12.1 million in 2006 to EUR 17.5 million in 2007.

GROUP SALES REVENUE



Sales revenue by segment

In its Original Equipment segment, BERU achieved growth in sales revenue of 5.9% to EUR 305.8 million (EUR 288.8 million). The increase was primarily due to higher sales of ignition technology components and the tire-pressure monitoring system, TSS. Revenue generated by the PTC auxiliary heating systems decreased due to product simplification towards non-electronic auxiliary heaters. This meant that despite higher unit sales, revenue from these products actually decreased by EUR 9.4 million. Lower revenue was also generated in the field of diesel cold-start products. In total, the share of Group revenue generated in the Original Equipment segment increased slightly to 67.9% (65.8%).

In BERU's important Aftermarket segment, sales revenue decreased by 4.2% to EUR 117.6 million (EUR 122.7 million). This was primarily due to the mild winter weather in 2006/2007 and the resulting lower requirement for wear-and-tear repairs. All markets and product groups were affected by the decrease in revenue, but especially our diesel cold-start products. The Aftermarket segment accounted for 26.1% of the Group's total revenue (27.9%).

Sales revenue in the General Industry segment was also lower in 2007 than in the prior year, falling by EUR 0.3 million to EUR 27.2 million (EUR 27.5 million). This reduction was mainly caused by the public and media discussion taking place in 2007 about promoting regenerative energy sources, which led to uncertainty among private households and the postponement of planned consumer investment.

Sales revenue by division

In the past financial year, BERU once again defended its position as one of the global market leaders for glow plugs and glow-plug control units. But BERU cannot indefinitely avoid competitors' growing pressure on prices. For this reason, our core division of Diesel Cold Start Technology posted a reduction in sales revenue to EUR 166.9 million (EUR 181.2 million). However, we anticipate a revival of revenue growth in this division starting at the end of 2009. This will be caused on the one hand by the ongoing worldwide trend in favor of diesel engines and on the other hand by the ramp-up of new, innovative products in the coming years.

The Ignition Technology division, which produces components for gasoline engines, developed positively in 2007. Despite the continuation of declining production and unit sales of gasoline engines in Western Europe, BERU succeeded in raising its revenue in this division to EUR 130.0 million last year (EUR 122.0 million). The main contributory factor was the growth of revenue generated by ignition coils, which increased from EUR 35.7 million to EUR 42.6 million.

SALES REVENUE BY REGION

in EUR million	FY 2007	FY 2006	Change in %
Germany	161.2	137.1	17.6
Rest of Europe	187.1	207.8	–10.0
North America	36.2	43.3	–16.4
Asia	48.6	38.7	25.6
Rest of the world	17.5	12.1	44.6
	450.6	**439.0**	**2.6**

SALES REVENUE BY SEGMENT

in EUR million	FY 2007	FY 2006	Change in %
Original Equipment	305.8	288.8	5.9
Aftermarket	117.6	122.7	–4.2
General Industry	27.2	27.5	–1.1
	450.6	**439.0**	**2.6**

As in the prior year, the Electronics and Sensors division posted the strongest growth rates. Its sales revenue grew from EUR 135.8 million in 2006 to EUR 153.7 million in 2007, which is an increase of EUR 17.9 million or 13.2 %. Growth was particularly strong in the field of tire-pressure monitoring systems, where revenue rose by EUR 26.1 million to EUR 72.6 million (EUR 46.5 million). This was mainly a result of rising sales to a German automobile manufacturer that installs our systems in its vehicles destined for export to the United States. Despite higher unit sales of PTC auxiliary heating systems, the revenue generated by these products fell to EUR 22.2 million (EUR 31.5 million) in 2007 as a result of product simplification towards non-electronic auxiliary heaters. BERU anticipates further revenue growth in the Electronics and Sensors division in the coming years.

OTHER OPERATING INCOME

Other operating income amounted to EUR 5.0 million in 2007, which was substantially lower than in the prior year. Other operating income primarily comprises gains on the release of provisions and on currency translation. The higher level in the prior year was partially the result of the release of a provision that was no longer required for restructuring expenses for the French subgroup BERU Eyquem, and from the release of provisions for impending losses.

COST OF MATERIAL

The total cost of materials in the year 2007 amounted to EUR 186.8 million (EUR 175.5 million). As a proportion of sales revenues, the cost of materials amounted to 41.4 % (40.0 %). As in the prior year, the increase in this ratio was primarily due to the shift in the product mix towards electronic products, which have a significantly higher material input than the products of the Diesel Cold Start Technology and Ignition Technology divisions. Despite slight increases in world market prices, BERU was able to maintain its purchasing prices at a nearly stable level in 2007. This is the result of our intensive efforts to take suitable measures to counteract rising procurement prices, which are secured for example by means of long-term price agreements and, for copper, by means of derivative hedging transactions. On the other hand, BERU attempts to counteract price increases by finding new international sources of supply, especially in low-wage countries, and by developing secondary supply sources. An additional goal for the coming years is to reduce procurement costs by reengineering the design of components and products.

SALES REVENUE BY DIVISION

EUR million	FY 2007	FY 2006	Change in %
Diesel Cold Start Technology	166.9	181.2	–7.9
Ignition Technology	130.0	122.0	6.6
Electronics and Sensor Technology	153.7	135.8	13.2
	450.6	**439.0**	**2.6**

PERSONNEL EXPENSES

In 2007, personnel expenses amounted to EUR 124.3 million (EUR 117.4 million), equivalent to 27.6% of revenue (26.7%). The increase in personnel expenses was caused by higher wages following a collective bargaining agreement on a 4.1% pay rise for our employees in Germany as of June 1, 2007. Additional one-time payments were made for the months of April and May 2007. The Group-wide restructuring project with a provision of EUR 3.1 million and the management restructuring provision of EUR 0.9 million also led to higher personnel expenses. Furthermore, restructuring measures were taken by our Italian subsidiary, with reductions in both manufacturing depth and manufacturing personnel. The resulting expenses amounted to approximately EUR 0.4 million. In total, the BERU Group employed a worldwide workforce of 2,560 people at December 31, 2007, which was just 0.2% higher than a year earlier (2,555). In Germany, the workforce expanded slightly to 1,507 persons (1,483).

DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

Depreciation, amortization and impairments amounted to EUR 31.5 million in 2007 (EUR 34.4 million), equivalent to 7.0% (7.8%) of revenue. This item was significantly affected by impairments of EUR 1.5 million recognized on development projects that became necessary due to the discontinuation or limited value of some development projects. Another impairment of EUR 0.1 million was recognized on production plant that was no longer required by our Italian subsidiary. In the prior year, impairments recognized on a production line for PTC auxiliary heating systems and on a production line for spark plugs totaled EUR 1.1 million.

OTHER OPERATING EXPENSES

Other operating expenses, comprising general, administrative and selling expenses, amounted to EUR 75.0 million (EUR 66.6 million), equivalent to 16.6% of revenue (15.2%). Guarantee expenses in a total amount of EUR 4.4 million that BERU incurred in connection with product warranties had a significant impact on this item in 2007. An additional factor was the expense relating to environmental actions taken by BERU TdA SAS, France, in an amount of EUR 0.4 million. As in 2007, in the coming years, BERU will continue to work hard on identifying and utilizing cost-cutting potential.

PROFIT ON ORDINARY ACTIVITIES (EBIT)

Profit on ordinary activities (EBIT) amounted to EUR 39.1 million in 2007 (EUR 53.5 million), equivalent to an EBIT margin of 8.7 (12.2)%. As mentioned above, special items in 2007 in an overall negative amount of EUR 3.9 million resulted from restructuring measures (EUR 3.5 million), management restructuring (EUR 0.9 million) and an allocation to provisions for environmental damage in Chazelles sur Lyon caused by nickel pollution (EUR 0.4 million). There was a positive effect of EUR 0.9 million from the reversal of an impairment of patents by BERU TdA SAS. The decrease in the profit margin was caused on the one hand by the price reductions increasingly demanded by the automobile manufacturers in excess of internal cost-cutting effects. On the other hand, BERU is affected by the high level of raw-material prices. As in the prior years, the product mix continued to shift in favor of the products of the Electronics and Sensors division, which have lower margins than the products of our core division, Diesel Cold Start Technology. As in 2006, profit on ordinary activities included other taxes of EUR 1.7 million (EUR 1.9 million). A substantial part of this amount comprises asset taxes paid by our French companies.

Profit on ordinary activities before depreciation, amortization and impairments (EBITDA) amounted to EUR 70.6 million (EUR 87.9 million), equivalent to a margin of 15.7 (20.0)%.

PROFIT BEFORE INCOME TAXES

Net interest income and income from investments totaled EUR 5.2 million in 2007 (EUR 2.9 million). This figure includes interest income from short-term deposits of EUR 4.1 million (EUR 2.1 million) and interest expenses of EUR 0.9 million (EUR 0.9 million). Income from equity investments, which primarily comprises income from write-ups on investments accounted for using the equity method, amounted to EUR 2.0 million (EUR 1.6 million).

Profit before income taxes including all special items amounted to EUR 44.2 million (EUR 56.5 million). This represents a return on sales before income taxes of 9.8 % (12.9 %).

INCOME TAXES

The income tax expense amounted to EUR 13.4 million in 2007 (EUR 12.8 million), representing an effective tax rate of 30.3 % (22.6 %). For the calculation of deferred taxes at the German companies of the BERU Group, the reduced tax rate of 28.2 % was applied already on the balance sheet date of December 31, 2007 (37.6 %).

In 2006, the tax expense was reduced by EUR 7.0 million following changes in German tax legislation relating to the capitalization of corporate income tax credits.

The income tax expense increased in 2007 due to another impairment of deferred tax assets from tax-loss carryovers at two French companies in an amount of EUR 2.4 million; an impairment of EUR 2.5 million had been recognized in the prior year. The additional impairment was required because the prospects for future profits of the two companies concerned no longer conformed to the original expectations of the Group's management.

ORDERS RECEIVED AND ORDER BACKLOG

BERU continues to have a good order situation. In 2007, orders received totaled EUR 442.4 million (EUR 448.6 million). At December 31, 2007, the order backlog amounted to EUR 202.0 million, compared with EUR 210.2 million a year earlier.

KEY FIGURES AT A GLANCE

EUR million	FY 2007	FY 2006
Sales revenue	450.6	439.0
Earnings before interest and taxes (EBIT)	39.1	53.5
Financial income	5.2	2.9
Earnings before taxes	44.2	56.5
Net profit	30.9	43.7
Earnings per share (in EUR)	2.98	4.30

Asset position

INVESTMENT

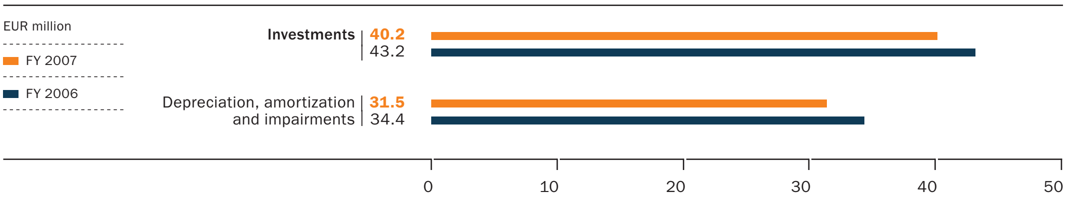
The Group's total investment in property, plant and equipment and intangible assets (including advance payments made) amounted to EUR 40.2 million in 2007, which was slightly lower than in the prior year (EUR 43.2 million). Adjusted for capitalized development work, 85.6% of the total was invested in Germany (53.8%). Investment in intangible assets totaled EUR 11.4 million (EUR 11.7 million), including the capitalization of development projects in an amount of EUR 10.1 million (EUR 10.0 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 0.9 percentage points to 6.7% (7.6%).

In total, BERU invested EUR 34.3 million in research and development in 2007 (EUR 33.5 million), equivalent to 7.6% of Group revenue, as in the prior year. The capitalization rate, defined as the ratio of newly capitalized development work to total R&D spending, was 29.4% (29.8%).

At the main site in Ludwigsburg, BERU completed the extension of its Research and Development Center and inaugurated the building in the spring of 2007. This expansion is to strengthen BERU's innovative capabilities in the field of product development while securing BERU's high quality standards. Investment also continued in Ludwigsburg and Neuhaus in new equipment for the production of BERU's important products for the future: ceramic glow plugs and Pressure Sensor Glowplugs (PSG). In both Muggendorf and Ludwigsburg, substantial sums were invested in new facilities for the production of ignition coils and in the expansion of such facilities. This puts BERU in a position to serve new orders for original equipment. At the Group's electronics plant in Bretten and at the plant in Muggendorf, investments were carried out for additional production lines for BERU's Tire Safety System (TSS).

Substantial sums were also invested at the plant in Bretten for additional production lines for the diesel Instant Start System (ISS). Investment in modernized production facilities continued at our plant in Chazelles sur Lyon, France, where our European production of spark plugs is concentrated; it amounted to EUR 2.7 million in 2007. Furthermore, BERU invested EUR 0.8 million in Tralee, Ireland, part of which was for the production lines for sensor production.

INVESTMENT AND DEPRECIATION



OTHER CHANGES IN TOTAL ASSETS

Under non-current assets, financial assets accounted for using the equity method increased from EUR 4.6 million to EUR 6.5 million. This resulted on the one hand from the write-up of EUR 0.7 million on BERU's 49% equity interest in BERU-IMPCO. On the other hand, BERU accounted for its equity interest in the BERU-Eichenauer joint venture under this item for the first time with an amount of EUR 0.9 million and recognized a write-up of EUR 0.3 million. Deferred tax assets decreased from EUR 9.0 million to EUR 5.5 million; this was primarily due to the impairment by EUR 2.4 million of capitalized tax-loss carryforwards at the French companies.

The high level of inventories is due to the strong focus on the spare-parts business. For success in the aftermarket business, it is crucial to be able to serve customers from a wide range of products within a short time. However, the targeted management of inventories meant that they increased at a much lower rate than revenue growth. Total inventories rose only slightly from EUR 60.0 million to EUR 60.2 million, equivalent to an increase of just 0.3%. We continued improving our receivables management. As a result, trade receivables decreased by EUR 1.5 million to EUR 81.2 million. With a slight decrease in trade payables, working capital (total of inventories and trade receivables less trade payables) increased by 1.2% from EUR 94.4 million to EUR 95.6 million.

In 2007, BERU granted BorgWarner Europe GmbH, Ketsch, a loan of EUR 35.0 million at normal market conditions. The loan can be terminated at any time by either party to the agreement, and has therefore been allocated to BERU's current assets. As a result of this loan, other financial receivables increased sharply from EUR 2.9 million to EUR 36.6 million.

The Group's securities and cash and cash equivalents decreased by 17.0% from EUR 106.1 million to EUR 88.0 million, primarily due to granting the aforementioned loan to BorgWarner. When the net financial position is considered (liquid funds less liabilities to banks), there is a decrease of 17.0% to EUR 87.9 million (EUR 105.9 million). As a result of reducing liabilities to banks to just EUR 0.1 million in 2006, BERU is now virtually debt free. The decrease in other current assets is primarily due to lower advance payments on fixed assets.

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 61.6 million in 2007 (EUR 77.4 million). Therefore, investments with an effect on cash of EUR 30.0 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 investments with an effect on cash) amounted to EUR 31.6 million (EUR 44.2 million).

Overall, our total assets increased by EUR 19.2 million or 4.0% from EUR 474.0 million to EUR 493.2 million.

Financial position

BERU once again had a very sound balance sheet structure at December 31, 2007. Equity attributable to shareholders of the parent company increased by EUR 17.6 million or 5.1% from EUR 342.4 million to EUR 360.0 million. The equity ratio increased from 72.2% to 73.0%. Return on equity was 8.4% in 2007, compared with 13.3% in the prior year. BERU will continue to place high priority on maintaining a sound balance sheet structure.

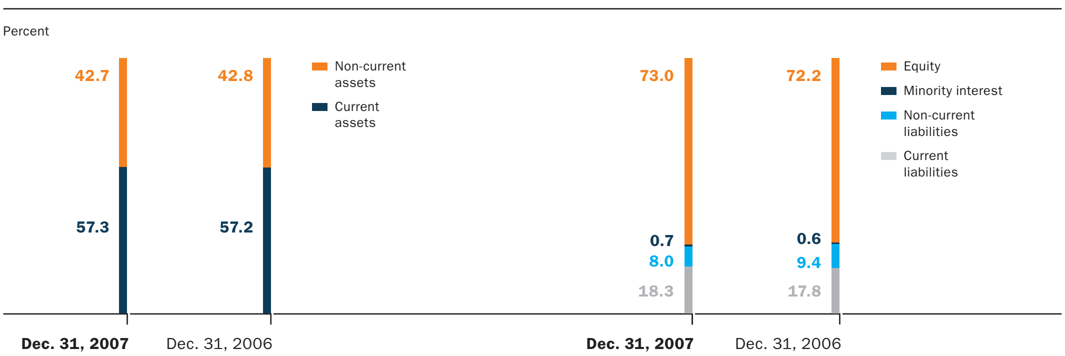
The reduction in non-current provisions was primarily due to the change in provisions for warranty claims. However, this occurred only as a result of shifting certain obligations relating to warranty claims from non-current to current provisions.

Deferred tax liabilities decreased considerably. This was mainly caused by a tax-rate change in Germany, which was already taken into consideration for the calculation of this balance sheet item on the balance sheet date.

In December 2007, BERU announced that extensive restructuring measures would be taken within the BERU Group. In connection with these planned measures, a provision of EUR 3.1 million was recognized, which is the main factor behind the increase in current provisions. Another factor was the recognition of provisions of EUR 0.9 million for contractually due elements of remuneration for two Executive Board members who stepped down in 2007. Due to the shift of provisions for warranty claims from non-current to current, there was also an increase in current provisions. In total, BERU's provisions for warranty claims were EUR 0.7 million higher at December 31, 2007 than they were a year earlier.

The gearing ratio (net financial debt in relation to equity attributable to shareholders of the parent company) decreased to 24.4% (30.9%) due to the grant of a loan to BorgWarner Europe GmbH. The debt-equity ratio decreased from 37.4% at December 31, 2006 to 35.7% on December 31, 2007, thus demonstrating BERU's sound balance sheet structure.

STRUCTURE OF THE CONSOLIDATED BALANCE SHEET



Summarizing statement on assets, finances and profitability

Due to the difficult environment in the automotive industry, we did not achieve our planned operating profit in 2007. BERU cannot indefinitely avoid the intensifying pressure on prices and margins in the automotive supply industry. Above all, rising prices in our procurement markets, the price reductions demanded by our customers, and the shift in the production and sales mix towards the products of our Electronics and Sensors division led to a reduction in our operating margin. This development was accelerated by the fall in unit sales in the high-margin aftermarket business. But despite the currently negative development, BERU is still a very profitable company.

As in the prior years, BERU made large investments in innovative production technologies, the launch of new products, and in expanding its production capacities in 2007. Internal cost reductions and product launches in the coming years should secure our future profitability. All of the BERU Group's payments were made out of the current cash flow last year. At the same time, our equity ratio increased and our debt-equity ratio decreased once again.

EVENTS AFTER THE BALANCE-SHEET DATE

Within the context of the worldwide efficiency-enhancing program, the Executive Board has decided on measures to be taken to reorganize the Group's facilities in Italy, Hungary and Mexico.

Between the end of the 2007 financial year and March 13, 2008 (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

The BERU Group is exposed to various risks in the course of its business activities. BERU therefore has a systematic risk management system to allow it to focus on value-based management, to utilize present and future potential for success, and to achieve the agreed corporate goals. Due to methodical monitoring and a controlled approach to risks, developments that might jeopardize our corporate goals can be recognized at an early stage and the related risks can be minimized.

Risk management is an integral component of all business processes and is closely linked with the planning system. With the help of an internal reporting system encompassing all of the companies of the Group, the current risk situation is reported on once a quarter. 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. They identify risks, evaluate their potential extent of damage taking into consideration their probability of occurrence, and propose measures to be taken to avoid or minimize the risks. The Executive Board assesses the efficiency of these proposed measures and resolves accordingly. The department responsible for the risk management system regularly examines the risk situation with the countermeasures that have been planned or already initiated, and assesses the appropriateness and efficiency of business processes.

The Group's consolidated risk report is submitted to the Executive Board and the Supervisory Board. As in prior financial years, the external auditors reviewed the Group's system for the early recognition of risks and came to the conclusion that it complies with the requirements of the law.

As in 2006, the main risks to which the Group is exposed are as described below.

ECONOMIC RISKS

BERU is a group with global operations and is therefore subject to the economic development of international markets, whose various underlying conditions and economic fluctuations constitute a potential risk.

The substantial increase in fuel prices in recent years is likely to have a significant impact on BERU as an automotive supplier, as these price increases may result in lower sales of cars. However, higher fuel prices could also influence consumers' purchasing decisions with a resulting increase in the market share of cars with diesel engines. BERU would profit from such a development due to its strong position in the field of diesel technology.

The policy pursued by the European Union of limiting the CO_2 emissions of new automobiles would have a particularly negative impact on German manufacturers, because their fleets primarily comprise medium to large cars. A resulting decline in unit sales would have a negative effect also on BERU.

MARKET AND PRODUCT RISKS

As an automotive supplier, the BERU Group is highly dependent on the vehicle manufacturers' business development. BERU counteracts the resulting risks by means of effective cost management.

Fluctuations in demand can lead to problems of capacity utilization in our factories, which can be minimized by taking suitable measures. In the field of spark plugs, BERU is confronted by the global excess capacities of its major competitors. This results in risks relating to the utilization of capacity and the margins that can be attained in the market.

An additional risk is presented by new technologies that could possibly replace our products. In order to counteract this risk, BERU strives to maintain and extend its innovation and technology leadership, and makes all the required efforts to identify innovative ideas and to convert them into successful products.

Customers' pressure on our sales prices has increased, and will become even more intense in the future. As BERU cannot fully compensate for this price pressure, in our corporate planning we already take into consideration agreed and foreseeable price reductions and rebates. 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

In addition to customer-specific default risks, there is also the danger that despite individual customers' ability and willingness to meet their financial obligations, a loss might arise due to overriding political factors. These risks are regarded as manageable for BERU, however.

PROCUREMENT MARKET RISKS

Due to strong demand, especially from Asia, raw-material and energy prices have risen substantially in recent years. This may have negative effects on our profitability. Our purchasing department has made intensive efforts to counteract these price increases. For example, a price agreement has been entered into for nickel for the entire year 2008. Our Treasury department hedges the risk of rising copper prices with the use of derivative financial instruments. On the purchasing side, it is hard to avoid partial dependence on individual suppliers for certain raw materials and components. We counteract the associated price and supply risks by making intensive efforts to obtain alternative sources of supply.

RISKS FROM EQUITY INVESTMENTS

Risks arising from equity investments are examined and evaluated 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 annual impairment tests at least once a year and are written down if necessary.

In the company financial statements of BERU AG, an impairment loss of EUR 2.0 million was recognized on our investment in the company BERU Eyquem SAS. In addition, trade receivables due from BERU TdA SAS were impaired by EUR 0.5 million. The loan made to Eyquem SNC was impaired by EUR 7.0 million. The interest receivables due from Eyquem SNC were impaired by EUR 3.5 million. The investment in BERU f1systems Ltd. was written up by EUR 1.5 million. The impairments and write-ups described above affect neither the consolidated balance sheet nor the consolidated income statement, however.

QUALITY RISKS

BERU pursues an ambitious quality strategy in order to fulfill customers' high expectations. Throughout the Group, we make use of adequate quality management systems that include the certification norms required by our customers. The risk of customer complaints and warranty claims exists nonetheless. In this respect, there is generally an increased risk in connection with electronic products. We counteract the risk of warranty claims by recognizing appropriate provisions. The risk of possible warranty claims increased in 2007.

LIQUIDITY RISKS

The Group's exchange-rate and interest-rate management is centrally monitored by the Treasury department, which also controls the application of financial instruments. The liquidity needs of the parent company and its subsidiaries are determined within the framework of the budgeting process by means of cash flow planning. The development of liquidity is constantly monitored throughout the year.

The payment periods granted to customers are within the limits of the terms and conditions common in the industry. The Accounting department continuously monitors payments received, and coordinates them in close cooperation with the responsible sales departments. In order to minimize risk, the credit limits defined for each customer are regularly monitored and adjusted to the particular circumstances. Due to our broad customer structure, default losses are relatively insignificant.

FINANCIAL MARKET RISKS

BERU maintained its sound balance-sheet and financing structure in 2007. The Group has virtually no debts to third parties. In line with our internal Treasury guidelines, we make use only of low-risk financial instruments. Most of the Group's liquid funds are invested in certificates on a euro basis. We minimize the related interest-rate risks and credit risks by regularly monitoring the investment structure in terms of creditworthiness, residual period and interest-rate sensitivity.

All hedging transactions require the approval of the Executive Board and are monitored by the Corporate Finance department. In this way, we ensure that the Group applies a uniform strategy and that the individual measures taken are effective for the Group.

BERU invoices up to 2% of its sales in US dollars. Most of that amount was hedged at specified exchange rates by means of forward exchange contracts in 2007. There were no open forward exchange contracts on the balance sheet date. Furthermore, currency risks for the Mexican peso and the South Korean won were also hedged.

LEGAL RISKS

BERU is not currently involved in any legal or arbitration proceedings that could have a significant effect on its financial position. As described under "Quality risks", there is the risk of being confronted with warranty claims. Appropriate provisions are recognized as required. Unpredictable damage is covered by insurance policies to the extent deemed financially reasonable. This insurance includes an adequate product-liability policy.

WORKFORCE RISKS

The loss of qualified personnel represents a potential risk for the Group. BERU therefore makes efforts to motivate its employees and to retain them over the long term. The staff-turnover rate at the Group's sites in Germany was only 1.5% in 2007, which was a repeated improvement compared with the prior year (2.3%). Rising personnel expenses from future collective-bargaining agreements could jeopardize BERU's competitiveness.

ENVIRONMENTAL RISKS

BERU is committed to active environmental protection and places high priority on this issue. The areas of quality and environmental protection as well as health and safety at work are included in an integrated management system. Our approach to environmental protection is laid down in our management principles, which guide the actions of all of our employees worldwide.

Our environmental management system, which has been certified according to ISO-14001 since 1999, ensures that we are aware of our impact on the environment, adhere to all relevant regulations, satisfy market demands for environmentally compatible products, and continually work on improving environmental protection. As an additional precaution, for certain environmental risks we have the usual type of liability insurance, as deemed appropriate by the management.

Because environmental regulations are highly complex and tend to become increasingly stringent, infringements could occur in spite of all our efforts.

COMMUNICATION AND INFORMATION RISKS

In the context of normal business operations, BERU makes extensive use of modern information technology. At the same time, we attempt to preclude and minimize the related risks by means of comprehensive security concepts and preventive measures. For example, we have redundant data centers, system components for software applications of critical importance, and data backup procedures for all relevant systems. Various additional measures protect our data centers against internal and external influences.

The misuse of data and unauthorized data access represent another risk. In order to counteract that risk, we make use of sophisticated firewall and virus-protection software. Furthermore, persons who have regular access to data receive additional special training.

The non-availability of IT systems can lead to substantial financial damage. For this reason, BERU has an emergency manual designed to preclude or minimize such damage. Annual audits by external experts help to secure the reliability and security of our IT organization.

ORGANIZATION AND CONTROL RISKS

BERU is subject not only to German accounting regulations, but is also obliged to observe US corporate-government regulations due to the majority equity interest held by BorgWarner. The Group's internal monitoring system, which was revised in 2005, therefore complies with the requirements of the Sarbanes-Oxley Act and monitors adherence to all relevant guidelines. Our internal auditing supports the internal monitoring system for the recognition of fraudulent actions. The examinations and measures taken involve all the companies of the BERU Group. Executives in all departments are comprehensively sensitized to existing risks. BERU sites outside Germany have also been subjected to additional audits.

BERU regularly reviews the functionality of its internal monitoring system and arranges annual external audits. 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 is relatively moderate due to its good financial position and profitability. 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 more difficult. But with the measures taken at the end of 2007 to enhance efficiency, BERU believes that it is well prepared for the future and will achieve its strategic and operating goals.

OPPORTUNITIES AND OUTLOOK

Development of the economy and the automotive industry

SOMEWHAT SLOWER GLOBAL GROWTH

For the years 2008 and 2009, we anticipate stable growth of the world economy, although growth rates will be rather lower than the very dynamic rates recorded in the last two years. Growth in the United States' gross domestic product is likely to slow down again to approximately 1.9% in 2008, but is expected to accelerate to 2.7% in the following year. Weaker growth is also anticipated in Europe, and is likely to be lower than last year's 2.6% in both 2008 and 2009 (1.7% and 1.9% respectively).

For Germany, economic experts forecast GDP growth of 1.7% and 2.0%, representing a significant decrease compared with 2007.

AUTOMOTIVE INDUSTRY FACED WITH GREAT CHALLENGES

Climate change poses a great challenge for the automotive industry, both now and in the foreseeable future. It is safe to assume, however, that worldwide demand for automobiles will continue rising thanks to intelligent innovations and environmentally friendly technologies.

In the German market, following weak unit sales in 2007, slight growth in car sales is anticipated this year and next. We assume that unit sales will return to the level of 2006 in two years from now. Forecasts for the United States indicate a further decline in unit sales. A slight decrease is also expected in Western Europe this year, but unit sales are likely to rise again in 2009.

Economic growth is very strong in most of the emerging markets, and new car registrations should remain at double-digit rates, whereby China seems likely to continue catching up with the United States in terms of vehicle unit sales. Growth potential is also seen in the markets of India and Russia in the next two years, but a slight decline is expected in Brazil.

DIESEL CONTINUES CATCHING UP

Diesel sales are likely to continue catching up with sales of gasoline vehicles in the coming years. Lower fuel consumption and new, low-emission engines are likely to attract more customers to diesel than in the past all over the world. In Germany, more than 50% of new vehicles are expected to be registered with diesel engines than gasoline for the first time ever in 2008.

In the United States, where sales of light vehicles with diesel engines have always been very low, there is now more potential for the new generation of low-emission and powerful diesel engines. A steady rise in new registrations of diesel vehicles is to be expected in the next two years due to Americans' increasing environmental awareness and ongoing fuel-price increases. J.D. Power, a renowned market research company, forecasts that the percentage of newly registered light vehicles with diesel engines in the United States will be into double digits by the year 2015.

India and South Korea are the most important countries for the success of diesel vehicles in Asia. But according to forecasts, unit sales will continue rising in China and Japan, with significant acceleration in 2009.

Opportunities for the BERU Group

Opportunities and risks are the two sides of entrepreneurial activity. In principle, the risks described in the risk report also offer potential opportunities. Identifying these opportunities is an integral part of our planning and decision process.

The main opportunities in the operational business, which are offered by innovation and process optimization, are described in detail in the management report.

Decisions on investment and acquisitions offer opportunities for further profitable growth, but will have to be considered carefully.

In order to utilize opportunities to enhance efficiency, full use has to be made of the synergy potential offered by the worldwide production network and by supply-chain management. BERU therefore intends to continue optimizing its existing site structure in terms of efficiency and economy. In the medium term, this will be reflected by improved profitability. At the same time, additional opportunities and synergy effects are offered by the cooperation with our strategic partner, BorgWarner, especially in connection with the planned control and profit-and-loss agreement.

We also see further opportunities in the general increase in environmental awareness. This trend offers BERU possibilities for product innovations that help to make cars more environmentally friendly.

Outlook for future business developments

The BERU Group expects organic growth to slow down in the year 2008. We anticipate revenue growth of a low single-digit percentage this year, as in 2007. In terms of operating profit, we expect 2008 to be a year of consolidation.

Starting in the year 2009, new orders and the market launch of new products should lead to stronger revenue growth and a slight improvement in earnings once again. The efficiency-improving program decided upon in December 2007 will also show its full effects in 2009 and will make a positive contribution to profitability. In the medium term, we expect to achieve savings of EUR 5 million per annum, partially compensating for the pressure on prices from the automobile manufacturers. The efficiency-improving program includes streamlining our organizational structure and optimizing our worldwide production capacities to make internal processes faster and more efficient and placing more priority on close customer relations.

For Diesel Cold Start Technology, our core division, the trend towards diesel engines continues to offer a solid basis in 2008 and 2009. We intend to maintain our position as one of the global market leaders in this field. Intense competition, the strong euro and high raw-material and energy prices continue to pose a great challenge. But we believe we are well prepared for the future as a result of measures taken in the context of the efficiency-improving program and with our upcoming product innovations (Pressure-Sensor Glowplugs, High Temperature Sensors and ceramic glowplugs).

In the Ignition Technology division, we anticipate a sustained improvement in our competitiveness. We see growth opportunities in unit sales of ignition coils and in the expansion of our international aftermarket program.

In our third division, Electronics and Sensors, we have the potential for additional long-term revenue growth with our tire-pressure monitoring systems. As well as the legal situation in the United States, where tire-pressure monitoring systems have been mandatory in all newly registered cars and light trucks since the autumn of 2007, the European Union is now considering making these devices mandatory to help reduce CO_2 emissions. In connection with PTC auxiliary heaters, the trend towards product solutions with a lower electronic content is continuing. We therefore expect the revenue generated by these products to decrease in the next two years.

The Original Equipment segment will continue to be the main source of growth for the BERU Group. BERU supplies nearly all of the world's leading automobile manufacturers with diesel cold-start components. Products from the Electronics and Sensors division should also generate additional growth in the Original Equipment segment. In the Aftermarket segment, we anticipate stable growth in the coming years due to our strong market position and the international expansion of our customer network. In the General Industry segment, we look forward to rising revenues due to the launch of new ignition devices. BERU aims to maintain its technology leadership with innovative and high-quality products.

Intense competition will continue to be a feature of the market environment in the next two years. With the help of the efficiency-improving program, BERU aims to partially compensate for the pressure on prices and margins and to position itself successfully in the marketplace. We therefore intend to increasingly source components and materials in low-cost countries in order to reduce our material costs.

In the medium to long term, BERU aims to expand its activities in the BRIC countries (Brazil, Russia, India and China) and thus to participate more in the dynamic upswing taking place there.

In the area of research and development (R&D), BERU plans to invest more efficiently in the years 2008 and 2009. The main area of investment will be in diesel cold-start technology, especially for the products diesel Instant Start System (ISS), Pressure Sensor Glowplugs (PSG) and ceramic glowplugs. A large part of the investment in the area of sensors will be for the industrialization of the High Temperature Sensor (HTS).

To secure profitable growth also in the future, BERU will this year increasingly investigate options for possible acquisitions in the area of automotive supply. The required funds are available. Revenue growth is not BERU's sole corporate goal, however. It is even more important for the Group to attain a strategic and operational positioning enabling it to grow profitably over the long term.

REDUCING FUEL CONSUMPTION. TOO LITTLE TIRE PRESSURE INCREASES FUEL CONSUMPTION. OUR TIRE-PRESSURE MONITORING SYSTEM WARNS THE DRIVER AS SOON AS TIRE PRESSURE IS NO LONGER OPTIMAL. THIS MAKES YOUR CAR NOT ONLY SAFER, BUT ALSO MORE ENVIRONMENTALLY FRIENDLY.

CORPORATE GOVERNANCE

SUPERVISORY BOARD REPORT

In the financial year 2007, on the basis of applicable law and the Articles of Incorporation of BERU AG, the Supervisory Board also performed the duties incumbent upon it and advised and monitored the Executive Board in close collaboration. The Executive Board regularly, promptly and comprehensively informed the Supervisory Board about the important events and developments concerning the Company and its subsidiaries, and involved it at an early stage in all significant decisions. Outside the meetings, the Chairman of the Supervisory Board was in close contact with the Executive Board in order to consult with him on all important topics and questions in intensive discussions. The Supervisory Board regularly assured itself of the legitimacy of the management. It discussed the organization of the company with the Executive Board and thus assured itself of its capability. The issues of strengthening profitability and eliminating any sources of loss as well as the Group-wide risk management practices and the Group-wide compliance situation were also monitored by the Supervisory Board in the 2007 financial year.

In the reporting period, there were four ordinary and two extraordinary Supervisory Board meetings attended by the members of the Executive Board; they took place on March 22, April 12, June 26, August 27, September 27, and December 11, 2007. The main topics in these meetings were predominantly the Group's strategy, the medium-term planning, the economic situation, the development of the asset position, financial position and profitability as well as the Company's and its subsidiaries' risk exposure and risk management. Deviations from planning and the ongoing global expansion of business were explained in detail by the Executive Board and reviewed by the Supervisory Board. Investment and personnel planning was also reported to the Supervisory Board. The Supervisory Board examined all decisions and measures subject to its approval, if necessary prepared by the committees, as well as proposals on resolutions, and contributed to the decisions to be made. The main issues were the strategic focus of BERU AG, business developments in the individual divisions and companies, investments, considerations concerning production locations and personnel decisions.

The Human Resources Committee advised on matters concerning the members of the Executive Board and made necessary decisions. The Human Resources Committee, comprising Mr. Robin J. Adams, Mr. Anthony D. Hensel and Dr. Ulrich Wöhr, met six times during the year under review: on March 15, March 21, April 11, June 26, September 26 and December 10, 2007. On April 13, 2007, Mr. Marcus Knödler was appointed as the new CFO. On October 1, 2007, the Supervisory Board appointed Dr. Thomas Waldhier as a member of the Executive Board and named him Chairmen at the same time. He succeeded Mr. Marco von Maltzan, who had stepped down by mutual consent on June 26, 2007. In December, Dr. Rainer Podeswa, previously responsible for the Sales and Research and Development departments, left the company by mutual consent. The departments previously accounted for by Dr. Podeswa were divided among the other members of the Executive Board. The Supervisory Board thanks Mr. von Maltzan and Dr. Podeswa for their work and for their commitment to BERU.

The Strategy Committee, comprising Mr. Robin J. Adams, Mr. Alfred Weber and Dr. Ulrich Wöhr, met on March 21, and June 25, 2007.

DR. ULRICH WÖHR

Chairman of the Supervisory Board

The plenum of the Supervisory Board was informed about the activities of the Supervisory Board committees. In addition, the Supervisory Board formed a Nomination Committee last year, which has not yet convened. Mr. Robin J. Adams, Mr. Anthony D. Hensel and Dr. Ulrich Wöhr are the members of the Nomination Committee.

In December 2007, the Supervisory Board carried out a review of the efficiency of its own activities with the use of a checklist.

The accounts, the annual financial statements, the consolidated financial statements and the management reports for BERU AG and the Group have been audited by Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, of Munich, the company of auditors elected by the Annual Shareholders' Meeting to carry out the independent audit and which provided an unqualified audit opinion. The Supervisory Board has carefully read the auditors' report and has intensively discussed the content with the auditors and the Executive Board. The Supervisory Board was convinced that the report corresponds to the legal requirements. In its meeting held on March 17, 2008, the Supervisory Board therefore approved the results of the auditors' reports. In its meeting held on March 17, 2008, the Supervisory Board furthermore carefully examined the annual financial statements, the consolidated financial statements, the management reports of the Company and the Group, as well as the Executive Board's proposal on the appropriation of the balance sheet profit – after a thorough study of these documents prior to the meeting. The statements made in the management reports of the Company and the Group are in conformance with the Supervisory Board's evaluations. In the examination of the Executive Board's proposal on the appropriation of the balance sheet profit, the Supervisory Board considered the Company's financial and investment planning and its liquidity. With due consideration of the interests of the Company and the shareholders, there are no objections to the Executive Board's proposal on the appropriation of the balance sheet profit. After the final result of its own audit by the Supervisor Board, there were no objections to be made to the annual financial statements, the consolidated financial statements, the management reports of the Company and the Group, or the Executive Board's proposal on the appropriation of the balance sheet profit. The Supervisory Board approved and thereby adopted the annual financial statements of BERU AG prepared by the Executive Board for 2007. It approved the consolidated financial statements and it adopted the Executive Board's proposal on the appropriation of earnings.

The dependent-company report was examined by the independent auditors, who issued the following opinion:

“In accordance with our dutiful audit and assessment, we confirm that the actual statements made in this report are correct, that with the transactions listed in the report the payments made by the company were not unreasonably high or any disadvantages were compensated, and that in connection with the actions listed in the report there are no circumstances indicating significantly different assessments from the ones given by the Executive Board.” The Supervisory Board has read the dependent-company report as well as the auditor’s report on it and has discussed them with the Executive Board and the auditors. The Supervisory Board is convinced that all legal transaction and measures taken in terms of Section 314, Subsection 1, Sentence 2 of the German Stock Corporation Act (AktG) have been completely included. Neither the report of the independent auditors nor their statement of opinion gives cause for concern. Following its final examination, the Supervisory Board agrees with the statement of the Executive Board given at the end of the report. There are no objections to be raised.

The Supervisory Board of BERU AG has received a statement of independence from the external auditors as stipulated 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 commitment and successful work in the 2007 financial year.

Ludwigsburg, March 17, 2008

On behalf of the Supervisory Board

DR. ULRICH WÖHR
– CHAIRMAN OF THE SUPERVISORY BOARD –

CORPORATE GOVERNANCE REPORT

As resolved by the relevant governmental commission, the German Corporate Governance Code was initially issued in February 2002 with the aim of creating basic principles for good corporate governance and of strengthening confidence in German companies.

For BERU AG, the German Corporate Governance Code constitutes an important foundation for responsible corporate governance. One of our key objectives is therefore to essentially follow the Code's recommendations and suggestions and to gear our corporate activities towards them.

MANAGEMENT AND MONITORING STRUCTURE

The main principles of responsible corporate government and control are efficient and trusting collaboration between the Executive Board and the Supervisory Board, open corporate communication and a performance-oriented remuneration system. The Supervisory Board acts as a monitoring body, and its consent is required for important company decisions. The duties of the Executive Board to inform and report to the Supervisory Board are laid down in the Rules of Procedure. BERU AG is committed to the abovementioned principles and will do its utmost to implement them in the best possible way.

EFFICIENCY TEST OF THE SUPERVISORY BOARD

A test of BERU AG's Supervisory Board's efficiency is carried out annually with the use of a ten-point checklist.

ESTABLISHMENT OF COMMITTEES

The German Corporate Governance Code recommends that the Supervisory Board form committees with special qualifications. The Supervisory Board has followed this recommendation and has formed a Human Resources Committee, a Strategy Committee and, in accordance with the Code as amended on June 14, 2007, also a Nomination Committee.

DECLARATION OF COMPLIANCE

Pursuant to Section 161 of the German Stock Corporation Act, each year, BERU AG issues a declaration of compliance with the recommendations of the "Governmental Commission of the German Corporate Governance Code". The Executive Board and the Supervisory Board issued the last such declaration of compliance on March 17, 2008, 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:

"BERU AG has complied with the recommendations of the "Governmental Commission of the German Corporate Governance Code" as published by the Federal Ministry of Justice in the official part of the electronic Federal Gazette and amended on June 12, 2006 in the period from March 22, 2007 to July 19, 2007, and as amended on June 14, 2007 in the period since July 20, 2007, with the exceptions of the recommendations in Section 5.3.2, Sentence 1 on the establishment of an Audit Committee, and in Section 7.1.4 regarding the publishing of a list of third-party companies in which the Company holds a stake that is not of minor significance to the Company and specifying the previous year's results of those third-party companies. Also in the future, BERU AG will follow the recommendations of the German Corporate Governance Code as amended on June 14, 2007 with the exception of Section 5.3.2, Sentence 1 recommending the formation of an Audit Committee. In detail:

– BERU AG has not complied with the recommendation of the Code in Section 7.1.4, according to which BERU AG has to publish a list of third-party companies in which it has a stake that is not of minor significance to the Company and specifying the previous year's results of those companies. In the future BERU AG will also adhere to this Code recommendation in order to enhance transparency, and will report the previous year's results in the list of third-party companies.

– BERU AG has not complied with and will not comply with the recommendation in Section 5.3.2, Sentence 1 of the Code 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 deals intensively with questions of financial accounting and risk management, the necessary independence of the external auditor, the ascertainment of the audit focus and the fee agreement."

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 held 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 Civil 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 27. We refer expressly to the details given there. The Management Report is printed on pages 14–45 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 Civil 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 26. We refer expressly to the details given there. The Management Report is printed on pages 14–45 of this Annual Report.

RESPONSIBILITY STATEMENT

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, March 13, 2008

The Executive Board

DR.-ING. THOMAS WALDHIER **DR.-ING. REINHARD MESCHKAT** **MARCUS KNÖDLER**

REDUCING EMISSIONS. BERU'S HIGH-PERFORMANCE SPARK PLUGS FACILITATE EFFECTIVE AND CLEAN COMBUSTION. THAT EXTENDS ENGINE LIFETIME AND REDUCES THE EMISSION OF POLLUTANTS.

CONSOLIDATED FINANCIAL STATEMENTS

I. CONSOLIDATED BALANCE SHEET

OF BERU AKTIENGESELLSCHAFT AT DECEMBER 31, 2007

EUR thousand	Notes	Dec. 31, 2007	Dec. 31, 2006
Non-current assets			
Intangible assets	[10]	42,381	39,626
Property, plant and equipment	[11]	149,337	140,890
Investments accounted for using the equity method	[12]	6,504	4,584
Financial investments	[13]	509	1,287
Deferred tax assets	[43]	5,548	9,004
Other financial assets	[14]	51	507
Entitlement to income tax refunds	[43]	6,261	7,029
		210,591	**202,927**
Current assets			
Inventories	[15]	60,200	60,004
Trade receivables	[16]	81,214	82,703
Other financial assets	[17]	36,550	2,888
Marketable securities	[18]	9,960	44,640
Other assets	[19]	12,723	15,430
Entitlement to income tax refunds	[43]	3,930	4,021
Cash and cash equivalents	[20]	78,043	61,448
		282,620	**271,134**
		493,211	**474,061**

EUR thousand	Notes	Dec. 31, 2007	Dec. 31, 2006
Equity			
Issued capital	[21]	26,000	26,000
Additional paid-in capital	[22]	73,147	73,147
Retained earnings	[23]	260,814	243,280
Equity attributable to equity holders of the parent		**359,961**	**342,427**
Minority interest	[24]	3,407	2,654
Total equity		**363,368**	**345,081**
Non-current liabilities			
Provisions for pensions	[25]	17,184	16,912
Other provisions	[26]	7,621	8,166
Borrowings	[27]	295	521
Deferred tax liabilities	[43]	12,987	17,535
Other liabilities	[28]	1,556	1,548
		39,643	**44,682**
Current liabilities			
Other provisions	[26]	18,114	11,869
Borrowings	[29]	271	330
Trade payables	[30]	45,839	48,350
Other financial liabilities	[31]	7,149	6,180
Current tax liabilities	[43]	2,063	2,111
Other liabilities	[32]	16,764	15,458
		90,200	**84,298**
Total liabilities		**129,843**	**128,980**
		493,211	**474,061**

II. CONSOLIDATED INCOME STATEMENT

OF BERU AKTIENGESELLSCHAFT FOR THE YEAR 2007

EUR thousand	Notes	2007	2006
Revenue	[36]	450,642	439,035
Changes in inventories and own work capitalized	[37]	2,820	–799
Other operating income	[38]	4,951	11,074
		458,413	**449,310**
Material expenses	[39]	–186,789	–175,518
Personnel expenses	[40]	–124,282	–117,391
Depreciation, amortization and impairments	[10; 11]	–31,548	–34,377
Other operating expenses	[41]	–75,010	–66,580
Other taxes		–1,733	–1,881
Profit on ordinary activities		**39,051**	**53,563**
Expense from loss transfer	[42]	–1	–3
Interest and similar income	[42]	4,084	2,178
Interest and similar expenses	[42]	–881	–923
Share of profits and losses of associated companies	[42]	1,880	1,211
Income from equity holdings in non-consolidated companies	[42]	114	429
Profit before income taxes		**44,247**	**56,455**
Income tax expense	[43]	–13,394	–12,753
Profit for the year		**30,853**	**43,702**
Attributable to:			
Minority interest		1,103	681
Equity holders of the parent company		29,750	43,021
Profit for the year		**30,853**	**43,702**
Earnings per share, basic/diluted (EUR)	[44]	**2.98**	**4.30**

III. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OF BERU AKTIENGESELLSCHAFT AT DECEMBER 31, 2007

EUR thousand	Issued capital	Additional paid-in capital	Retained earnings: Revaluation reserve	Retained earnings: Currency translation reserve	Retained earnings: Other retained earnings	Equity holders of the parent	Minority interest	Total
January 1, 2006	26,000	73,147	–151	200	208,535	307,731	2,056	309,787
Currency differences	–	–	–	–260	–	–260	–83	–343
Valuation of original financial instruments								
not through profit and loss	–	–	78	–	–	78	–	78
through profit and loss	–	–	191	–	–	191	–	191
Changes in deferred taxes	–	–	–34	–	–	–34	–	–34
Changes in equity not through profit and loss	–	–	235	–260	–	–25	–83	–108
Profit for the year	–	–	–	–	43,021	43,021	681	43,702
Total recognized income and expense	–	–	235	–260	43,021	42,996	598	43,594
Dividend for the prior year[1]	–	–	–	–	–8,300[1]	–8,300	–	–8,300
Transfer from/to retained earnings	–	–	–	–	–	–	–	–
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
on fair-value changes	–	–	–8	–	–	–8	–	–8
through profit and loss	–	–	56	–	–	56	–	56
Changes in equity not through profit and loss	–	–	–109	–1,107	–	–1,216	–350	–1,566
Profit for the year	–	–	–	–	29,750	29,750	1,103	30,853
Total recognized income and expense	–	–	–109	–1,107	29,750	28,534	753	29,287
Dividend for the prior year[2]	–	–	–	–	–11,000[2]	–11,000	–	–11,000
Transfer from/to retained earnings	–	–	–	–	–	–	–	–
December 31, 2007	**26,000**	**73,147**	**–25**	**–1,167**	**262,006**	**359,961**	**3,407**	**363,368**

[1] Dividend constitutes a distribution to the shareholders of EUR 0.83 per share.

[2] Dividend constitutes a distribution to the shareholders of EUR 1.10 per share.

IV. CONSOLIDATED STATEMENT OF CASH FLOWS

OF BERU AKTIENGESELLSCHAFT FOR THE YEAR 2007

EUR thousand	Notes	2007	2006
Profit before income taxes		44,247	56,455
Depreciation, amortization and impairments		31,548	34,377
Changes in provisions		6,127	–2,033
Other expenses/income not affecting cash		–1,626	–1,546
Interest income		–4,084	–2,178
Interest expense		881	923
Proceeds from the disposal of intangible and tangible assets		297	517
Changes in inventories		–676	2,530
Changes in receivables and other assets		199	–1,935
Changes in payables and other liabilities		–711	13,617
Proceeds from financial assets as part of temporary financial management		44,468	23,427
Payments for financial assets as part of temporary financial management		–9,500	–33,000
Loan granted to BorgWarner Europe GmbH		–35,000	–
Income taxes paid		–16,422	–21,080
Income taxes received		3,673	2,154
Net cash inflow from operating activities	[45]	**63,421**	**72,228**
Proceeds from the disposal of property, plant and equipment		917	568
Payments for investments in property, plant and equipment		–24,705	–24,083
Payments for investments in intangible assets		–11,357	–11,710
Advance payments made on property, plant and equipment		–4,099	–7,385
Proceeds on the grant/payments on refund of government subsidies		187	–
Proceeds from the disposal of non-current financial assets		475	–
Dividends from associated companies		836	588
Interest received		3,079	1,649
Payments for investments in non-current financial assets		–116	–160
Net cash outflow from investing activities	[45]	**–34,783**	**–40,533**
Dividend payments		–11,000	–8,300
Proceeds from the sale of treasury shares		–	–
Payments to shareholders for the purchase of treasury shares		–	–
Proceeds from borrowings		–	–
Repayment of borrowings		–285	–11,147
Interest paid		–109	–338
Net cash outflow from financing activities	[45]	**–11,394**	**–19,785**
Changes in cash and cash equivalents affecting cash flow		**17,244**	**11,910**
Currency translation effects not affecting cash flow		–649	–68
Cash and cash equivalents at the beginning of the year		61,448	49,606
Cash and cash equivalents at the end of the year	[45]	**78,043**	**61,448**

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. INFORMATION ON THE BERU GROUP

The BERU Group operates worldwide with 13 fully consolidated companies (prior year: 13) in nine countries and is a partner 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, 2007 in accordance with Section 315a of the German Commercial Code (HGB). The consolidated financial statements and the Group management report as of December 31, 2007 have been published in the electronic version of the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements of BERU Aktiengesellschaft, Ludwigsburg, as of December 31, 2007 include the parent company and all subsidiaries (referred to as “the BERU Group” below) as well as all associated companies and jointly controlled companies.

The Executive Board of BERU Aktiengesellschaft approved the consolidated financial statements for submission to the Supervisory Board on March 13, 2008. One of the tasks of the Supervisory Board is to review the consolidated financial statements and state whether or not it adopts them.

A majority of the equity of BERU Aktiengesellschaft, Ludwigsburg, is held by BorgWarner Germany GmbH, Ketsch, an indirect subsidiary of BorgWarner Inc., Auburn Hills, USA, which is the ultimate parent company.

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, 2007 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) were 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 income statement has been prepared using the total cost method. In order to enhance the clarity of presentation, various items have been grouped together in the balance sheet and in the income statement. These items are shown separately and explained in these notes to the consolidated financial statements.

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.

3. NEW AND AMENDED STANDARDS APPLIED FOR THE FIRST TIME IN 2007

With the exception of the standards and interpretations newly adopted in 2007, the accounting and valuation methods applied are identical to those applied in the prior year.

The mandatory application for periods beginning on or after January 1, 2007 of IFRS 7 "Financial Instruments: Disclosures" leads solely to additional disclosure in the field of financial instruments. The same applies to the application of the revised version of IAS 1 "Presentation of Financial Statements", which requires additional disclosure on capital for periods beginning on or after January 1, 2007. With the application of IFRS 7, individual items of financial instruments have been regrouped or renamed.

The interpretations adopted for the first time in 2007 were:

- IFRIC 7 ("Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"),
- IFRIC 8 ("Scope of IFRS 2"),
- IFRIC 9 ("Reassessment of Embedded Derivatives"), and
- IFRIC 10 ("Interim Financial Reporting and Impairment").

The first-time adoption of these interpretations had no effects on the consolidated financial statements.

4. STANDARDS AND INTERPRETATIONS NOT ADOPTED EARLIER THAN IS MANDATORY

The following new or amended IFRSs (published as of December 31, 2007) were not yet mandatory for the 2007 financial year and were not adopted by the Group:

- IFRS 8 "Operating Segments" (to be applied for financial years beginning on or after January 1, 2009)
- IFRIC 11 "IFRS 2 Group and Treasury Share Transactions" (to be applied for financial years beginning on or after March 1, 2007)
- IFRIC 12 "Service Concession Arrangements" (to be applied for financial years beginning on or after January 1, 2008)
- IFRIC 13 "Customer Loyalty Programmes" (to be applied for financial years beginning on or after July 1, 2008)
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (to be applied for financial years beginning on or after January 1, 2008).
- IAS 1 (revised) "Presentation of Financial Statements" (to be applied for financial years beginning on or after January 1, 2009)
- IAS 23 (revised) "Borrowing Costs" (to be applied for qualified assets, with capitalization after January 1, 2009)

The circumstances described by IFRIC 11, 12, 13 and 14 have not yet occurred at the BERU Group. In the other cases, the Group is reviewing the effects of the new or revised IFRS on the presentation of its asset position, financial position and profitability.

The revision of IAS 1 of September 2007, the revision of IAS 23 and of IFRIC 12, 13 and 14 have not yet been endorsed by the European Union (EU).

The Group will apply the new or revised IFRS at the latest when their adoption is mandatory in the EU following their endorsement by the EU.

5. SIGNIFICANT CRITICAL ESTIMATES AND JUDGMENTS

The preparation of the financial statements of the companies included in the consolidated financial statements according to IFRS by their legal representatives sometimes requires the use of critical estimates and judgments, which influences the amounts of the reported assets and liabilities, details of contingent liabilities, revenue and expenses in the reporting period, as well as other details given in these notes to the consolidated financial statements. The actual values can differ from the assumptions and estimates made.

Those accounting policies are to be regarded as significant that materially affect the presentation of the Group's asset position, financial position, profitability and cash flows or which require a difficult, subjective and complex assessment of facts, which are often inherently uncertain and which may change in the following reporting periods, thus making their consequences difficult to assess. The Group's most important accounting policies are described in Note [9] of these notes to the consolidated financial statements.

Not all important accounting rules require a difficult, subjective or complex assessment of facts. Nonetheless, the following accounting and valuation rules can be considered to be significant.

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.

In 2007, the Group had amortized carrying values of **intangible assets** of EUR 42,381 thousand (prior year: EUR 39,626 thousand; Note [10]) and a carrying value for **property, plant and equipment** of EUR 149,337 thousand (prior year: EUR 140,890 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 values 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, 2007	Dec. 31, 2006
From company financial statements			
BERU Motorsport Holdings Limited, Diss, United Kingdom		790	814
BERU Eyquem SAS, Nanterre, France		22	22
		812	**836**
From the consolidation			
B 80 S.r.l., Biassono, Italy		1,144	1,144
BERU Microelectrónica S.A., Vitoria, Spain		355	355
BERU Hungaria zRt., Tiszakècske, Hungary		141	141
BERU Korea Co. Ltd.,Chungju-City, South Korea		888	888
		2,528	**2,528**
		3,340	**3,364**

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 are equivalent to the primary reporting segments Original Equipment, Aftermarket and General Industry. The cash-generating units with their goodwill at the balance sheet date are comprised as follows:

Goodwill in the primary segment/cash-generating unit	EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Original Equipment		806	806
Aftermarket		1,191	1,212
General Industry		1,343	1,346
		3,340	**3,364**

For the execution of impairment tests, value in use is calculated on the basis of the planned future cash flows from 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.

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 fair values less cost of sale were calculated for each cash-generating unit. The following parameters were used:

Weighted average cost of capital in perpuity	%	Dec. 31, 2007	Dec. 31, 2006
Original Equipment		6.13	5.74
Aftermarket		6.13	5.74
General Industry		6.13	5.74

Discount for growth in perpetuity	%	Dec. 31, 2007	Dec. 31, 2006
Original Equipment		1.0	1.00
Aftermarket		1.0	1.00
General Industry		1.0	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.

The amount calculated in this way was then compared with the carrying value of the cash-generating units so that their values could be measured. In the year 2007, there were no goodwill impairments, as in the prior year.

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.

The aggregate impairment of receivables at December 31, 2007 was EUR 1,072 thousand (prior year: EUR 1,698 thousand). We refer to Note [16] for information on the development of the impairment account applied used in connection with trade receivables and the composition of the overdue but not impaired receivables.

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 applies 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, 2007, the present value of defined-benefit pension obligations and similar obligations was EUR 22,110 thousand (prior year: EUR 23,797 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 [10]. At December 31, 2007, development costs of EUR 33,645 thousand were capitalized (prior year: EUR 30,166 thousand).

The Group recognized **warranty provisions** in a total amount of EUR 8,712 thousand at December 31, 2007 (prior year: EUR 8,056 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.

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. Subsidiaries are included in the consolidated financial statements beginning at the time when BERU AG gains the possibility of control.

The consolidated financial statements include, as well as BERU AG, 13 subsidiaries, as in the prior year.

	Equity according to IFRS at December 31, 2007		Stake	Revenue 2007		EBIT* (before consolidation) 2007	
	National currency	EUR k[1]	%	National currency	EUR k[1]	National currency	EUR k[1]
Stakes in subsidiaries							
Consolidated companies							
Germany							
BERU Electronics GmbH, Bretten[2]	EUR thou. 18,692	18,692	100	EUR thou. 139,903	139,903	EUR thou. 7,022	7,022
International							
BERU SAS, La Ferté-Macé, France	EUR thou. 6,128	6,128	100	EUR thou. 11,891	11,891	EUR thou. 508	508
BERU Eyquem SAS, Nanterre, France	EUR thou. 4,782	4,782	100	EUR thou. 12,345	12,345	EUR thou. 3,880	3,880
EYQUEM SNC, Nanterre, France	EUR thou. 693	693	100	EUR thou. 14,982	14,982	EUR thou. 556	556
BERU TdA SAS, Chazelles sur Lyon, France	EUR thou. 19,870	19,870	100	EUR thou. 35,668	35,668	EUR thou. −2,009	−2,009
B 80 S.r.l., Biassono, Italy	EUR thou. 7,452	7,452	100	EUR thou. 4,908	4,908	EUR thou. −369	−369
BERU Automotive Co. Ltd., Shihung-City, South Korea	KRW thou. 4,287,745	3,138	100	KRW thou. 9,244,564	7,259	KRW thou. 538,192	423
BERU Mexico S.A. de C.V., Civac-Jiutepec, Estado de Morelos, Mexico[3]	MXN thou. 32,338	2,029	100	MXN thou. 107,758	7,197	MXN thou. −21,882	−1,462
BERU Microelectrónica, S.A., Vitoria, Spain	EUR thou. 9,385	9,385	100	EUR thou. 6,170	6,170	EUR thou. 982	982
BERU Korea Co. Ltd., Chungju-City, South Korea	KRW thou. 9,500,401	6,953	51	KRW thou. 34,703,038	27,250	KRW thou. 3,315,734	2,604
BERU Motorsport Holdings Limited, Diss, United Kingdom[4]	GBP thou. 210	286	100	GBP thou. 5,780	8,435	GBP thou. 567	828
BERU Hungaria zRt., Tiszakécske, Hungary	HUF thou. 742,397	2,934	100	HUF thou. 1,243,494	4,950	HUF thou. 109,480	436
BERU Italia S.r.l., Cassina de Pecchi, Italy[5]	EUR thou. 57	57	100	EUR thou. 5,893	5,893	EUR thou. 46	46

* Earnings before interest and taxes
[1] Translated at the official exchange rate and/or the average rate at December 31, 2007
[2] 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. Please 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. In the consolidated financial statements, the expenses and income of the financial statements of companies which are prepared in foreign currencies are translated into the presentation currency at annual average exchange rates. The conditions of IAS 21.39b are fulfilled. Assets and liabilities are translated at the exchange rate on the balance-sheet date. The currency difference resulting from the translation of the balance sheet and the income statement and the opening values of the net capital at the exchange rate on the balance-sheet date which is different from the rate on the previous balance-sheet date is charged to equity with no effect on the income statement.

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. In total, currency gains of EUR 81 thousand were recognized in 2007 (prior year: currency gains of EUR 39 thousand).

The euro exchange rates used for currency translation changed as follows in relation to one unit of the foreign currency:

	Exchange rate on the balance-sheet date		Average exchange rate for the year	
	Dec. 31, 2007	Dec. 31, 2006	**2007**	2006
1 British pound	1.361145	1.489203	1.459440	1.466656
1 Hungarian forint	0.003953	0.003972	0.0039809	0.003786
1 Mexican peso	0.062748	0.069832	0.0667931	0.072796
1 South Korean won	0.000732	0.000816	0.0007852	0.000835

9. ACCOUNTING POLICIES

The financial statements of BERU Aktiengesellschaft and of its German and foreign subsidiaries are prepared using uniform accounting and valuation principles. Valuations in the financial statements of associated companies that deviate from the Group's uniform principles have been retained where the amounts involved are negligible.

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. The expensed research and development spending of the BERU Group amounted to EUR 30,825 thousand in 2007 (prior year: EUR 27,758 thousand) and is included under other operating expenses as well as under personnel expenses, material expenses and depreciation.

In accordance with IAS 20, **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 limited and unlimited lives.

Intangible assets with **limited 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, amortization and impairments.

There are no intangible assets that have an **unlimited 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. An impairment 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, amortization and impairments.

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 the 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.

Furthermore, any impairment losses recognized on intangible assets and property, plant and equipment as a result of impairment tests carried out at the balance sheet date pursuant to IAS 36 are also entered under depreciation and amortization.

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 2007 (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 2007 (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 corporate tax credits, measured at their present value using a discount rate of 4.46% (prior year: 3.75%; 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.

Deferred taxes are measured with the use of the balance-sheet-oriented liability method. Deferred tax assets and liabilities are generally recognized for all temporary value differences between the carrying values of an asset or liability and the value imputed for tax purposes. Deferred tax assets are also recognized for tax-loss carryforwards.

Deferred tax assets are recognized for tax-loss carryforwards when it is likely that the tax-loss carryforwards can be utilized in the future. Therefore, all deferred tax assets bases on tax losses have been recognized with due consideration of their realizability.

Deferred taxes are measured on the basis of the tax rates that are valid or expected according to the current legal situation in the various countries at the time of realization. The effects of tax-rate changes on deferred taxes are therefore recognized through profit and loss at the time of the announcement of when the legal changes will take effect.

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.

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 5.6% (prior year: 4.5%). 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, 2006	16,008	37,938	29,303	83,249
Additions	–	10,139	1,218	11,357
Disposals	–	–	–381	–381
Changes in the consolidated Group	–	–	–	–
Currency differences	–131	–	–	–131
Reclassifications	–	–	–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	–	5,156	1,904	7,060
Impairments	–	1,504	–	1,504
Disposals	–	–	–382	–382
Currency differences	–107	–	–	–107
Reclassifications	–	–	–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**

EUR thousand	Goodwill	Development costs	Other intangible assets	Total
Gross amounts Dec. 31, 2005	15,977	27,963	28,064	72,004
Additions	–	9,975	1,735	11,710
Disposals	–	–	–497	–497
Currency differences	31	–	–	31
Reclassifications	–	–	1	1
Gross amounts Dec. 31, 2006	**16,008**	**37,938**	**29,303**	**83,249**
Amortization at January 1, 2006	12,628	3,406	20,758	36,792
Additions	–	4,366	2,938	7,304
Disposals	–	–	–496	–496
Currency differences	16	–	7	23
Reclassifications	–	–	–	–
Amortization at December 31, 2006	**12,644**	**7,772**	**23,207**	**43,623**
Book value Dec. 31, 2006	**3,364**	**30,166**	**6,096**	**39,626**
Book value Dec. 31, 2005	**3,349**	**24,557**	**7,306**	**35,212**

The impairments of EUR 976 thousand primarily relate to discontinued development projects. In addition, impairments of EUR 528 thousand were recognized on development projects whose useful values had fallen below their carrying values.

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, 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
Changes in the consolidated Group	–	–	–	–	–
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	–	205,227
Additions	1,967	16,364	4,508	–	22,839
Impairments	–	146	–	–	146
Disposals	–22	–1,888	–3,040	–	–4,950
Currency differences	–98	–307	–281	–	–686
Reclassifications	–	28	30	–	58
Depreciation at Dec. 31, 2007	**21,711**	**171,903**	**29,020**	**–**	**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**

EUR thousand	Land and buildings	Technical equipment and machinery	Office equipment and furniture	Assets under construction	Total
Gross amounts at Dec. 31, 2005	80,973	207,120	43,371	2,792	334,256
Additions	1,135	10,693	5,190	7,065	24,083
Disposals	–409	–7,929	–5,470	–328	–14,136
Write-ups	–	–1	–	–	–1
Currency differences	–33	–177	–47	–2	–259
Reclassifications	175	6,507	358	–4,866	2,174
Gross amounts at Dec. 31, 2006	**81,841**	**216,213**	**43,402**	**4,661**	**346,117**
Depreciation at Jan. 1, 2006	18,310	144,725	28,265	–	191,300
Additions	1,840	19,513	4,577	–	25,930
Disposals	–275	–7,766	–5,010	–	–13,051
Write-ups	–	–1	–	–	–1
Impairments	–	1,143	–	–	1,143
Currency differences	–11	–54	–29	–	–94
Reclassifications	–	–	–	–	–
Depreciation at Dec. 31, 2006	**19,864**	**157,560**	**27,803**	**–**	**205,227**
Book value at Dec. 31, 2006	**61,977**	**58,653**	**15,599**	**4,661**	**140,890**
Book value at Dec. 31, 2005	**62,663**	**62,395**	**15,106**	**2,792**	**142,956**

In 2007, in addition to systematic depreciation, impairments of EUR 146 thousand were recognized (prior year: EUR 1,143 thousand). The impairments are related to the planned closure of a production plant outside Germany and the scrapping of plant and equipment required in this context. The recoverable value of these assets is a result of the fair value less cost to sell. In the prior year, a production line for PTC auxiliary heaters was impaired due to the loss of a main customer for electronically controlled PTC heaters and the resulting under-utilization of that plant (EUR 606 thousand). A production plant for spark plugs was also impaired in the prior year (EUR 537 thousand).

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 right or an 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 779 thousand at December 31, 2007 (prior year: EUR 878 thousand).

As in the prior year, there were no mortgages or other restrictions of disposal on property, plant and equipment at December 31, 2007.

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

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

IMPCO-BERU Technologies B.V., Delfgauw, Netherlands, is an **associated company** in which the Group holds a 49% equity interest, as in the prior year. The summarized financial information on IMPCO-BERU Technologies B.V. is as follows (before weighting with the equity interest of 49%):

EUR thousand	Assets	Liabilities	Equity	Revenue	Profit/loss
Dec. 31, 2007	12,965	3,600	9,365	20,135	2,679
Dec. 31, 2006	12,215	4,240	7,975	17,624	2,472

BERU-Eichenauer GmbH, Hatzenbühl, Germany, is a **joint venture** in which the Group holds a 50% equity interest, as in the prior year. The company is included in the consolidated financial statements using the equity method since the 2007 financial 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, 2007**	Dec. 31, 2006
Non-current assets	3,030	3,729
Current assets	5,843	5,415
Total assets	**8,873**	**9,144**
Non-current liabilities	–	–
Current liabilities	6,484	6,898
Total liabilities	**6,484**	**6,898**
Equity	2,389	2,247

EUR thousand	2007	2006
Income	13,327	14,225
Expenses	–12,688	–13,534
Profit for the year	639	691

13. FINANCIAL INVESTMENTS

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Equity interests in non-consolidated subsidiaries	204	204
Other equity interests	305	1,064
Securities	–	19
	509	**1,287**

Other equity interests at December 31, 2006 include BERU-Eichenauer GmbH, Hatzenbühl, Germany (carrying value of equity interest EUR 875 thousand, equity stake of BERU AG 50%). BERU-Eichenauer GmbH is included in the consolidated financial statements using the equity method since the 2007 financial year. See Note [12].

	Equity according to IFRS at Dec. 31, 2007			Stake	Revenue 2007		
	National currency		EUR k[1]	%	National currency		EUR k[1]
Companies not consolidated							
Hakatherm Elektronik Verwaltungs GmbH, Ludwigsburg	EUR thou.	37	37	100	EUR thou.	–	–
BERU Corporation, Auburn Hills, Michigan, USA[2]	USD thou.	80	54	100	USD thou.	1,303	951
BERU Corporation, Yokohama, Japan	JPN thou.	28,758	174	100	JPN thou.	47,778	296
Simesa Brasil Ltda., Sao Paulo, Brazil[3]	BRL thou.	–108	–41	100	BRL thou.	–	–
Other equity holdings							
TecCom GmbH, Munich[4]	EUR thou.	185	185	2.1	EUR thou.	5,579	5,579
TecDoc GmbH, Cologne[4]	EUR thou.	1,465	1,465	3.03	EUR thou.	9,202	9,202
BERU Diesel Start Systems Pvt. Ltd., Pune, India[5]	INR thou.	64,803	1,116	49	INR thou.	119,852	2,064

[1] Translated at the official exchange rate and/or the average exchange rate on December 31, 2007
[2] Preliminary equity and annual revenue
[3] The shares are held by BERU Microelectrònica, Vitoria, Spain, equity and annual revenue at December 31, 2006
[4] Equity and annual revenue at December 31, 2006
[5] Equity and annual revenue at March 31, 2007

14. OTHER FINANCIAL ASSETS (NON-CURRENT)

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Other loans	51	504
Derivate financial instruments	–	3
	51	**507**

15. INVENTORIES

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Raw materials and manufacturing supplies	23,783	23,651
Merchandise	7,068	6,371
Work in progress	12,679	13,017
Finished goods	16,670	16,965
	60,200	**60,004**

The book value of inventories measured at fair value was EUR 23,371 thousand at the end of 2007 (prior year: EUR 32,558 thousand). Expenses for the year include inventory impairments of EUR 2,716 thousand (prior year: EUR 2,438 thousand).

16. TRADE RECEIVABLES

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Trade receivables		
due from third parties	80,554	81,780
due from non-consolidated subsidiaries	528	477
due from affiliated companies	132	446
	81,214	**82,703**

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, 2007	Dec. 31, 2006
Impairments at January 1	1,698	2,402
Utilized during the year	–887	–38
Additions	586	213
Withdrawals	–311	–838
Other changes	–14	–41
Impairments at December 31	**1,072**	**1,698**

At December 31, trade receivables in a nominal amount of EUR 1,912 thousand were impaired (prior year: EUR 2,145 thousand).

Due to the general allowance for non-payment, an impairment 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:

			Overdue but not impaired		
EUR thousand	Total	Neither overdue nor impaired	< 30 days	30–60 days	60–90 days
2007	80,374	67,447	9,862	2,693	372
2006	80,256	68,890	11,005	1,911	450

Receivables due from related companies comprise solely a receivable due from BorgWarner Germany GmbH, Ketsch, in an amount of EUR 132 thousand (prior year: EUR 405 thousand), which was granted to BERU Aktiengesellschaft, Ludwigsburg, due to an agreement on compensation for deleterious effects.

17. OTHER FINANCIAL ASSETS (SHORT TERM)

EUR thousand	Dec. 31, 2007	Dec. 31, 2006	Interest rate	Maturity
Loans				
BorgWarner Europe GmbH	35,000	–	variable	any time
BERU-Eichenauer GmbH	1,000	1,750	variable	any time
BERU Diesel Start Systems Pvt. Ltd	151	252	variable	Mar. 31, 2009
BERU Japan Corporation	–	75		
Others	–	20		
Interest	366	329		
Derivative financial instruments	–	166		
Others	33	296		
	36,550	**2,888**		

Of the other financial assets, none were overdue at December 31 in 2007, as in the prior year.

18. MARKETABLE SECURITIES

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Fixed-interest securities	7,460	16,478
Variable-interest securities	2,500	28,162
	9,960	**44,640**

As in the prior year, the fixed-interest securities are bonds with a rating of AAA or BBB+ and a return of 3.25% to 3.75% (prior year: 3.25% to 4.08%). In total, fixed interest securities are held in a nominal value of EUR 7,500 thousand (prior year: EUR 16,500 thousand).

The Group holds variable-interest securities in a nominal value of EUR 2,500 thousand (prior year: EUR 28,000 thousand). As of December 31, 2007, these are participation bonds in the form of an index certificate with a rating of AA- (prior year: AA+ to AAA).

The fixed-interest and variable-interest securities include securities in an amount of EUR 2,500 thousand (prior year: EUR 6,000 thousand) that fall due within three months of the balance sheet date. They do not include any securities that fall due more than twelve months after the balance sheet date (prior year: EUR 10,478 thousand).

In the year under review and in the prior year, no mortgages or assignments of securities were undertaken.

As in the prior year, the marketable securities of the BERU Group are only held in the short term, and are thus shown under current assets.

19. OTHER ASSETS

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Advance payments made	6,429	10,979
Other taxes	2,980	2,587
Investment grants	190	190
Receivables from early retirement	289	272
Reinsurance	–	109
Accruals	359	1,292
Others	2,476	1
	12,723	**15,430**

Miscellaneous other assets primarily comprise license receivables of EUR 448 thousand (prior year: EUR 0 thousand).

20. CASH AND CASH EQUIVALENTS

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Checks, cash in hand	19	17
Cash at banks	78,024	61,431
	78,043	**61,448**

As in the prior year, cash at banks is mainly either in fixed-term deposit accounts (terms of less than three months) or current accounts. The average interest rate on the funds in fixed-term deposit accounts is between 3.50% and 4.85% (prior year: 2.10% and 3.70%). A maximum interest rate of 4.01% was paid on money in current accounts (prior year: 3.09%).

21. ISSUED CAPITAL

The issued 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 June 27, 2007, 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 was limited until December 26, 2008. The Company did not make any use of the authorization in 2007, 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, 2007 or at December 31, 2006.

22. 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.

23. 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). According to the financial statements of BERU Aktiengesellschaft prepared according to the German Commercial Code, at December 31, 2007, a balance-sheet profit of EUR 11,000 thousand can be distributed. Please see Note [51] for the proposal on the distribution of profits.

24. MINORITY INTEREST

Minority interest includes the share of equity, the share of profit after taxes, and the share of currency effects in the following companies:

EUR thousand	Minority interest (in %)	Dec. 31, 2007	Dec. 31, 2006
BERU Korea Co. Ltd., South Korea	49.00	3,407	2,654

25. PROVISIONS FOR PENSIONS

A provision for pensions is 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, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Discount rate	5.45–5.62	4.3	5.25	4.0	5.5	4.8
Salary trend	2.0–3.0	2.5	3.5	3.5	4.0	4.0
Pension trend	2.0	2.0	2.0	2.0	2.25	2.3
Fluctuation rate	1.49	2.3	–	–	–	–

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

The salary trend comprises expected future salary increases, which are estimated annually and depend on, among other things, inflation and the company involved.

Provisions for pensions are comprised as follows:

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Present value of provision-financed retirement benefits	17,644	19,647
Present value of fund-financed retirement benefits	4,466	4,150
Present value of defined benefit obligation	**22,110**	**23,797**
Fair value of plan assets	–4,476	–3,892
Net obligation	**17,634**	**19,905**
Actuarial gains and losses not yet recognized	–450	–3,102
Book value at December 31	**17,184**	**16,803**
thereof pension provision	17,184	16,912
thereof plan assets	–	109

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

EUR thousand		2007		2006
Present value at January 1		23,797		23,894
Expense for the period				
Current service cost	1,558		1,188	
Interest expense	1,009		895	
Plan introduction/alteration	–	2,567	–560	1,523
Subsequent service cost		69		–
Benefits paid		–1,724		–1,278
Actuarial gain		–2,550		–326
Currency changes		–49		–16
Present value at December 31		**22,110**		**23,797**

The fair value of pension plan assets developed as follows:

EUR thousand		2007		2006
Fair value of plan assets at January 1		3,892		3,170
Income for the year				
Expected yield on plan assets	238		194	
Change due to plan introduction/alteration	–	238	–	194
Allocation to the plan from the Group		232		160
Allocation to the plan from the beneficiaries		468		105
Actuarial gain/loss		–149		263
Benefits paid		–205		–
Fair value of plan assets at December 31		**4,476**		**3,892**

The fair value of plan assets breaks down as follows:

%	Germany				Ireland			
	Balance at Dec. 31, 2007	**Expected yield Dec. 31, 2007**	Balance at Dec. 31, 2006	Expected yield Dec. 31, 2006	**Balance at Dec. 31, 2007**	**Expected yield Dec. 31, 2007**	Balance at Dec. 31, 2006	Expected yield Dec. 31, 2006
Reinsurance	100.0	4.5	100.0	4.5	–	–	–	–
Shares	–	–	–	–	80.2	7.25	82.6	7.25
Bonds	–	–	–	–	14.2	4.25	12.1	3.75
Real estate	–	–	–	–	5.6	6.25	5.3	6.25
	100.0	**4.5**	**100.0**	**4.5**	**100.0**	**6.8**	**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, 2007**	Dec. 31, 2006	Dec. 31, 2005	Mar. 31, 2005	Mar. 31, 2004
Present value of future benefit obligations	22,110	23,797	23,894	18,987	16,820
Fair value of plan assets	–4,476	–3,892	–3,170	–811	–663
Net obligation	**17,634**	**19,905**	**20,724**	**18,176**	**16,157**

For the year 2008, the Group anticipates contributions to defined-benefit pension plans in an amount of EUR 630 thousand (prior year: EUR 247 thousand).

The pension expense is comprised as follows and is included in full, apart from the interest expense, in the line “Personnel expenses” in the consolidated income statement (see also Note [40]).

EUR thousand	**2007**	2006
Current service cost	1,558	1,188
Interest expense	1,009	895
Expected income on plan assets	–238	–194
Expense/income on plan changes	–	–560
Recognized actuarial gains/losses	248	71
Subsequent service cost	69	–
Expense of pension benefits	**2,646**	**1,400**
Actual income on plan assets	38	194

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 6,426 thousand (prior year: EUR 6,111 thousand).

26. PROVISIONS

Provisions developed as follows in the year under review:

EUR thousand	Balance at Jan. 1, 2007	Group additions	Utilization	Releases	Additions	Currency differences	Interest amount	Balance at Dec. 31, 2007
Personnel and social-security obligations								
current	1,791	–	174	496	4,355	–	51	5,527
non-current	6,444	–	–	609	532	–	283	6,650
Obligations from operating activities								
current	8,848	–	1,958	1,494	5,293	–67	–	10,622
non-current	1,446	–	241	1,095	215	–29	–	296
Other obligations								
current	1,230	–	561	539	1,834	1	–	1,965
non-current	276	–	–	–	399	–	–	675
Current	**11,869**	**–**	**2,693**	**2,529**	**11,482**	**–66**	**51**	**18,114**
Non-current	**8,166**	**–**	**241**	**1,704**	**1,146**	**–29**	**283**	**7,621**

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.

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, 2007	Maturities			Balance at Dec. 31, 2006	Maturities		
		< 1 year	1–5 years	>5 years		<1 year	1–5 years	>5 years
Obligations from personnel and social-security	12,177	5,527	5,427	1,223	8,235	1,791	4,496	1,948
Obligations from current business operations	10,918	10,622	296	–	10,294	8,848	1,446	–
Other obligations	2,640	1,965	675	–	1,506	1,230	276	–
	25,735	**18,114**	**6,398**	**1,223**	**20,035**	**11,869**	**6,218**	**1,948**

27. BORROWINGS (NON-CURRENT)

EUR thousand	2007	2006	Interest rate	Maturities
Liabilities to banks				
Industry Ministry	33	79	0%	July 1, 2009
l'Agence de l'Eau Loire-Bretagne	46	–	0%	Jan. 31, 2009
Finance Leases	216	442		
	295	**521**		

Liabilities to banks are not secured by mortgages (prior year: EUR 0 thousand).

The minimum lease payments from finance lease agreements are comprised as follows:

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Total of future minimum lease payments		
Due within one year	242	242
Due between one and five years	221	463
Due after more than five years	–	–
	463	**705**
Interest component of future minimum lease payments		
Due within one year	16	26
Due between one and five years	5	21
Due after more than five years	–	–
	21	**47**
Present value of future minimum lease payments		
Due within one year	226	215
Due between one and five years	216	442
Due after more than five years	–	–
	442	**657**

28. OTHER LIABILITIES (NON-CURRENT)

EUR thousand	2007	2006
Irish government grants	1,172	1,264
Spanish government grants	6	–
German government grants	378	284
	1,556	**1,548**

The government grants are primarily subsidies for the branch in Ireland of BERU Electronics GmbH, Bretten, and for the Spanish subsidiary BERU Microelectrónica S.A., Vitoria, Spain. 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 Spanish government and the Basque regional government also grant subsidies as investment incentives for property, plant and equipment under various, frequently changing programs.

The 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. BORROWINGS (CURRENT)

EUR thousand	2007	2006	Interest rate	Maturities
Liabilities to banks				
Industry Ministry	45	46	0%	July 1, 2008 and Oct. 15, 2008
l'Agence de l'Eau Loire-Bretagne	–	69	0%	
Finance leases	226	215		
	271	**330**		

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

30. TRADE PAYABLES

Trade payables of EUR 45,839 thousand (prior year: EUR 48,350 thousand) are recognized in the balance sheet completely under current liabilities. Bills payable were allocated to trade payables.

31. OTHER FINANCIAL LIABILITIES (CURRENT)

EUR thousand	2007	2006
Derivative financial instruments	–	72
Interest	–	274
Discounts and other price reductions	6,986	4,469
Inventors' fees	–	95
Other financial liabilities	163	1,270
	7,149	**6,180**

32. OTHER LIABILITIES (CURRENT)

EUR thousand	2007	2006
Holiday pay	3,039	3,049
Flexitime	1,771	1,589
Social-security	1,485	606
Gratuities	5,143	5,281
Grants / investment subsidies	152	82
Other taxes	1,847	1,569
Advance payments received	927	1,154
Other liabilities	2,400	2,128
	16,764	**15,458**

Other taxes comprise both value-added-tax liabilities and liabilities for other non-income taxes.

Investment grants and subsidies are explained in Note 28 of these notes to the consolidated financial statements.

The miscellaneous other liabilities are primarily liabilities relating to contributions and levies EUR 633 thousand (prior year: EUR 653 thousand) and liabilities relating to wages and salaries EUR 498 thousand (prior year: EUR 1,155 thousand).

33. 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 Dec. 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	–	–	–	–
Current financial instruments					
Trade receivables	LaR	81,214	81,214	–	–
Other receivables					
Loans	LaR	36,151	36,151	–	–
Derivative financial instruments	HfT	–	–	–	–
Other 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	–	–	–	–
Loans and receivables	LaR	117,815	117,815	–	–
Available for sale	AfS	10,469	509	9,960	–
Cash and cash equivalents		78,043	78,043	–	–

EUR thousand at Dec. 31, 2006	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	1,083	1,083	–	–
Other financial receivables					
Loans	LaR	–	–	–	–
Derivative financial instruments	HfT	3	–	–	3
Other financial receivables	LaR	504	504	–	–
Current financial instruments					
Trade receivables	LaR	82,703	82,703	–	–
Other receivables					
Loans	LaR	2,097	2,097	–	–
Derivative financial instruments	HfT	166	–	–	166
Other receivables	LaR	625	625	–	–
Securities	AfS	44,640	–	44,640	–
Cash and cash equivalents		61,448	61,448	–	–
Aggregated by classes/categories					
Held for trading	HfT	169	–	–	169
Loans and receivables	LaR	85,929	85,929	–	–
Available for sale	AfS	45,927	1,287	44,640	–
Cash and cash equivalents		61,448	61,448	–	–

EUR thousand at Dec. 31, 2007	IAS 39 categories or IFRS 7 classes	Carrying value	Amortized cost	Fair value through profit and loss
Non-current borrowings				
Financial debt to banks	AC	79	79	–
Finance leases	not “IFRS 7” FI	216	–	–
Derivative financial instruments	HfT	–	–	–
Current borrowings				
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	–	–	–
Other financial liabilities	AC	7,149	7,149	–
Aggregated by class/category				
Measured at amortized cost	AC	53,112	53,132	–
Held for trading	HfT	–	–	–
Not IFRS 7 financial instruments	not “IFRS 7” FI	442	–	–

EUR thousand at Dec. 31, 2006	IAS 39 categories or IFRS 7 classes	Carrying value	Amortized cost	Fair Value through profit and loss
Non-current borrowings				
Financial debt to banks	AC	79	79	–
Finance leases	not "IFRS 7" FI	442	–	–
Derivative financial instruments	HfT	–	–	–
Current borrowings				
Financial debt				
to banks	AC	115	115	–
Finance leases	not "IFRS 7" FI	215	–	–
Trade payables	AC	48,350	48,350	–
Other financial liabilities				
Derivative financial instruments	HfT	72	–	72
Other financial liabilities	AC	6,108	6,108	–
Aggregated by class/category				
Measured at amortized cost	AC	54,652	54,652	–
Held for trading	HfT	72	–	72
Not IFRS 7 financial instruments	not "IFRS 7" FI	657	–	–

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

	From subsequent measurement				
EUR thousand	At fair value	Impairment	From disposals	**Net profit 2007**	Net profit 2006
Net gains/losses from financial instruments of the categories					
Loans and receivables	–	–275	–	–275	625
Available for sale (at fair value not through profit and loss)	29	–	–135	–106	–135
Available for sale (at cost)	–	–	–	–	–
Held for trading	–	–	–	–	–
Financial liabilities at amortized cost	–	–	–	–	–
	29	**–275**	**–135**	**–381**	**490**

Currency translation resulted in a net gain of EUR 81 thousand (prior year: EUR 39 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 300 thousand (prior year: net gains of EUR 529 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 29 thousand valuation gains and losses was recognized directly under equity, comprising EUR 31 thousand valuation gains and EUR 2 thousand valuation losses (prior year: a total of EUR 78 thousand, comprising EUR 318 thousand valuation losses and EUR 396 thousand valuation gains). In 2007, EUR 199 thousand was transferred from equity for these financial instruments and recognized in the income statement (prior year: EUR –191 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	2007	2006
Interest income	4,084	2,178
Interest expense	–881	–923

As in the prior year, there was no income or expense from fees and commission, which are not included in the calculation of the effective interest rate, in 2007.

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

EUR thousand	2007	2006
Impairment losses recognized on financial instruments of the categories		
Loans and receivables available for sale	–586	–213
thereof at fair value	–257	–268
thereof at cost	–	–

In 2007, 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, 2007 Book value	December 31, 2007 Fair value	December 31, 2006 Book value	December 31, 2006 Fair value
Non-current financial instruments					
Financial investments					
Shares in non-consolidated subsidiaries	AfS	204	n.a.	204	n.a.
Shares in other companies	AfS	305	n.a.	1,083	n.a.
Other financial receivables					
Derivative financial instruments	HfT	–	–	3	3
Loans	LaR	51	51	–	–
Miscellaneous	LaR	–	–	504	504
Current financial instruments					
Trade receivables	LaR	81,214	81,214	82,703	82,703
Other financial assets					
Loans	LaR	36,151	36,151	2,097	2,097
Derivative financial instruments	HfT	–	–	166	166
Other receivables	LaR	399	399	625	625
Securities	AfS	9,960	9,960	44,640	44,640
Cash and cash equivalents		78,043	78,043	61,448	61,448
Non-current borrowings					
Liabilities to banks	AC	79	79	79	79
Finance leases	not “IFRS 7” FI	216	216	442	442
Derivative financial instruments	HfT	–	–	–	–
Current borrowings					
Borrowings					
Liabilities to banks	AC	45	45	115	115
Finance leases	not “IFRS 7” FI	226	226	215	215
Trade payables	AC	45,839	45,839	48,350	48,350
Other financial liabilities					
Derivative financial instruments	HfT	–	–	72	72
Miscellaneous	AC	7,149	7,149	6,108	6,108
Aggregated by class/category					
Held for trading	HfT	–	–	241	241
Loans and receivables	LaR	117,815	117,815	85,929	85,929
Available for sale – measured at amortized cost	AfS	509	–	1,287	–
Available for sale – measured at fair value (not through profit and loss)	AfS	9,960	9,960	44,640	44,640
Measured at amortized cost	AC	53,112	53,112	54,652	54,652
Financial instruments not covered by IFRS 7	not “IFRS 7” FI	442	442	657	657
Cash and cash equivalents		78,043	78,043	61,448	61,448

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. No such financial instruments were sold in 2007 or 2006.

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

The values shown for **derivative financial instruments** correspond with their market values as determined with the use of the present-value method on the basis of the current reference prices of the respective banks, taking forward premiums and forward discounts into consideration. Fair value is equivalent to market value with "smoothing" of the transactions on the balance-sheet date.

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

The Group's financial debt ist not secured.

Other than a bank guarantee for the loan granted to BorgWarner Europe GmbH, Ketsch, the Group does not hold any collateral.

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 2007.

34. 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 are applied to minimize the risks connected with financial instruments. Hedge accounting as defined by IAS 39 is not used at present, however. The nominal volumes on which the derivative financial instruments are based and their market data are shown in the following table:

	Nominal volumes		Fair values	Nominal volumes		Fair values
EUR thousand	Total Dec. 31, 2007	Maturity >1 year	Dec. 31, 2007	Total Dec. 31, 2006	Maturity >1 year	Dec. 31, 2006
with positive fair values	–	–	–	3,759	–	166
with negative fair values	–	–	–	621	–	–15
Forward exchange contracts	**–**	**–**	**–**	**4,380**	**–**	**151**
with positive fair values	–	–	–	10,000	10,000	3
with negative fair values	–	–	–	–	–	–
Interest cap contracts	**–**	**–**	**–**	**10,000**	**10,000**	**3**
with positive fair values	–	–	–	–	–	–
with negative fair values	1,012	–	–84[1]	593	–	–57
Commodity hedging contracts	**1,012**	**–**	**–84**	**593**	**–**	**–57**
with positive fair values	–	–	–	13,759	10,000	169
with negative fair values	1,012	–	–84	1,214	–	–72
Derivative financial instruments	**1,012**	**–**	**–84**	**14,973**	**10,000**	**97**

[1] As defined by IAS 39.5, as own-use contracts, commodity hedging contracts are not recognized under IAS 39, but are recognized as provisions in accordance with IAS 37 if and to the extent that the hedging contract is connected with a pending loss.

The nominal volume of derivative financial instruments represents the arithmetical parameter from which the payments are derived. The risk thus arises not from the nominal volume, but from the related exchange-rate and interest-rate changes.

The market values of the forward exchange contracts are determined with the use of the present-value method on the basis of the current reference exchange rates of the respective bank with consideration of forward premiums or forward discounts. Fair value is equivalent to market value with “smoothing” of the transactions on the balance-sheet date.

Interest-rate options are valued using a generally recognized option price model. The market values of the interest-rate hedges are determined on the basis of the present value of expected future cash flows. Valid market interest rates and interest volatilities are used for the respective residual terms of the derivatives.

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 above all subject to the risk of changes in interest rates. 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 2007.

Market risk – exchange-rate risks

Forward exchange transactions are carried out to a limited extent in order to protect assets, debts and other liabilities and expected cash flows in foreign currencies. At the balance sheet date, there were no forward exchange transactions, however (prior year: nominal value EUR 4,380 thousand). The maturity of the forward transactions depended on the expected cash flow. In general, however, no such contracts were concluded with a term of more than one year. The hedged currency risks in the prior year related solely to the US dollar.

The BERU Group's financial instruments in foreign currencies relate primarily to trade receivables.

The following table shows the main currencies in which trade receivables and trade payables are denominated:

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Trade receivables		
in EUR	72,666	72,481
in KRW	5,508	6,699
in USD	1,188	1,268
Others	1,852	2,255
	81,214	**82,703**
Trade payables		
in EUR	39,643	43,636
in KRW	4,388	2,043
in USD	316	1,318
Others	1,492	1,353
	45,839	**48,350**

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, 2007	Dec. 31, 2006
Change (USD climbs by 10% against the EUR)		
Profit for the period	222	137
Change (USD falls by 10% against the EUR)		
Profit for the period	–222	–137

In the view of the management, 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 primarily relate to 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.

		December 31, 2007		December 31, 2006	
EUR thousand		Book value	Interest rate	Book value	Interest rate
Fixed-interest securities					
Maturities	<1 year	7,460	3.25–3.75%	6,000	3.85%
	1–5 years	–	–	10,478	3.61%
	>5 years	–	–	–	–
		7,460		16,478	
Variable-interest securities		2,500		28,162	
		9,960		**44,640**	

The fixed-interest securities (2007: EUR 7,460 thousand; prior year: EUR 16,478 thousand) are subject to an interest-related change in their fair values due to their fixed interest rates. If the market interest rate at December 31, 2007 had been 50 base points higher or lower, the market value of these fixed-interest financial instruments would have been EUR 13 thousand lower or EUR 13 thousand higher respectively (prior year: market value EUR 65 thousand lower or EUR 65 thousand higher). As the changes in values are recognized directly under equity, this would only have affected equity and not the profit for the period.

On the one hand, the Group's interest-related fair-value risk sensitivity had decreased significantly at December 31, 2007 due to the decrease in fixed-interest securities in 2007. The low fair-value risk sensitivity at December 31, 2007 is due on the other hand to the short residual period of the fixed-interest securities held by the Group on the balance sheet date. In the view of the management, the sensitivity analysis is thus only representative of the past financial year to a limited extent.

Unlike fixed-interest securities, variable-interest securities (2007: EUR 2,500 thousand; prior year: EUR 28,162 thousand) are connected with an interest-related cash-flow risk. If the market interest rate at December 31, 2007 had been 50 base points lower or higher, the BERU Group's interest income (related to the balance of financial instruments on the balance sheet date) would have been EUR 13 thousand lower or EUR 13 thousand higher respectively (prior year: EUR 142 thousand lower or EUR 142 thousand higher). As significant variable-interest securities were sold or their contractual terms expired in the second half of 2007, the result of the sensitivity analysis is only representative for the past financial year to a limited extent.

An interest-related cash-flow risk also resulted from the Group's variable-interest loans to BorgWarner Europe GmbH of EUR 35,000 thousand (prior year: EUR 0 thousand) and to BERU-Eichenauer GmbH of EUR 1,000 thousand (prior year: EUR 1,750 thousand). If the level of market interest rates had been 50 base points lower or higher at December 31, 2007, the BERU Group's interest income would have been EUR 182 thousand lower or EUR 182 thousand higher respectively (prior year: EUR 9 thousand lower or EUR 9 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 Europe GmbH of EUR 35,000 thousand was transferred in September 2007, the result of the sensitivity analysis is only representative for the past financial year to a limited extent.

As in the prior year, cash at banks (2007: EUR 78,024 thousand; prior year: EUR 61,431 thousand) primarily comprises short-term deposits (with terms of less than three months) and cash on checking accounts. The average rate of interest received on short-term deposits was between 3.50% and 4.85% (prior year: 2.10% and 3.70%). Maximum interest of 4.01% (prior year: 3.09%) is paid on checking accounts. As the interest rate is variable, this gives rise to a cash-flow risk. If the level of market interest rates at December 31, 2007 had been 50 base points lower or higher, the BERU Group's interest income would have been EUR 390 thousand lower or EUR 390 thousand higher respectively (prior year: EUR 307 thousand lower or EUR 307 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, 2007	Dec. 31, 2006
Change (market interest rate plus 50 base points)		
Profit for the year	585	458
Equity	–13	–65
Change (market interest rate minus 50 base points)		
Profit for the year	–585	–458
Equity	13	65

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, 2007, the BERU Group held only equity capital instruments in the form of holdings in non-listed companies of EUR 509 thousand (prior year: EUR 1,287 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, 2007 or at December 31, 2006, 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, has provided a bank guarantee for BERU AG in an amount of EUR 198 thousand; this guarantee is in favor of Oriental Bank of Commerce, Pune, India. BERU AG has also issued guarantees to suppliers of the subsidiary BERU Hungaria zRt., Tiszakécske, Hungary, in an amount of EUR 6 thousand.

Under a loan agreement of September 27, 2007, BERU AG granted a current, variable-interest loan of EUR 35,000 thousand to BorgWarner Europe GmbH, Ketsch. This loan is secured up to an amount of EUR 35,000 thousand with a bank guarantee of Deutsche Bank AG, Mannheim Branch.

If default risks are identifiable for trade receivables, appropriate impairment charges are recognized. The impairments recognized in the period under review totaled EUR 1,072 thousand (prior year: EUR 1,698 thousand).

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

Liquidity risks

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.

Due to the significant reduction in liabilities to banks that already took place in the prior year and in view of the levels of liquidity, the BERU Group is exposed to only a limited liquidity risk.

In total, the companies of the BERU Group were granted a credit line of EUR 42,215 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, 2007	<1 year	1–5 years	>5 years
Liabilities to banks	46	79	–
Liabilities from finance leases	242	221	–
Current financial liabilities			
Trade payables	45,839	–	–
Other financial liabilities			
Derivative financial instruments	–	–	–
Miscellaneous	7,149	–	–
	53,276	**300**	**–**

Total cash flow (capital repayment and interest) due in EUR thousand at December 31, 2006	<1 year	1–5 years	>5 years
Liabilities to banks	115	79	–
Liabilities from finance leases	242	463	–
Current financial liabilities			
Trade payables	48,350	–	–
Other financial liabilities			
Derivative financial instruments	72	–	–
Miscellaneous	6,108	–	–
	54,887	**542**	**–**

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 resulting from its Articles of Incorporation.

The BERU Group controls its capital structure depending on economic conditions solely with the use of the equity ratio. This is 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) adjusting the dividend payments, (ii) making capital disbursements, or (iii) issuing new shares or aquiring and cancelling the Company's own shares.

In 2007, as in the prior year, no changes were made to the goals or procedures of capital controlling.

EUR thousand	Dec. 31, 2007	Dec. 31, 2006	Change
Equity	363,368	345,081	5%
as % of total capital	74	73	
Non-current liabilities	39,643	44,682	
Current liabilities	90,200	84,298	
Total liabilities	129,843	128,980	1%
as % of total capital	26	27	
Total capital (equity plus liabilities)	493,211	474,061	4%

35. 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 2007, leasing installments of EUR 668 thousand (prior year: EUR 385 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:

		With a remaining term of				With a remaining term of		
EUR thousand	Balance at Dec. 31, 2007	<1 year	1–5 years	>5 years	Balance at Dec. 31, 2006	<1 year	1–5 years	>5 years
Minimum lease payments from operating leases	4,148	1,204	1,967	978	4,050	788	1,950	1,312
Supply agreements	159	159	–	–	100	100	–	–
Framework agreements	2,721	2,177	544	–	2,984	2,424	560	–
Investments in property, plant and equipment	2,789	2,789	–	–	5,556	5,556	–	–
State subsidies	741	93	278	371	927	927	–	–
Miscellaneous	498	498	–	–	765	765	–	–
	11,056	**6,920**	**2,789**	**1,349**	**14,382**	**10,560**	**2,510**	**1,312**

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:

EUR thousand	**Dec. 31, 2007**	Dec. 31, 2006
Notes payable	–	94
Sureties	6	80
Letters of comfort	–	95
	6	**269**

The contingent liabilities comprise guarantees towards suppliers.

36. REVENUE

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

EUR thousand	2007	2006
Diesel Cold Start Technology	166,947	181,248
Ignition Technology	130,033	122,043
Electronics and Sensors	153,662	135,744
	450,642	**439,035**

We refer to the segment reporting for further information on revenue.

37. CHANGES IN INVENTORIES AND OTHER OWN WORK CAPITALIZED

EUR thousand	2007	2006
Changes in the stock of finished goods and work in progress	–98	–4,058
Other own work capitalized	2,918	3,259
	2,820	**–799**

38. OTHER OPERATING INCOME

EUR thousand	2007	2006
Income from currency transactions	1,678	768
Income from security price gains	–	254
Income from the release of provisions and the retirement of liabilities	1,197	5,878
Book gains on the disposal of property, plant and equipment and intangible assets	255	147
Income from the release of accrued investment subsidies and investment grants	108	226
Income from the recognition of written-off receivables and the reversal of impairments	336	600
Miscellaneous other operating income	1,377	3,201
	4,951	**11,074**

Income from the release of provisions and the retirement of liabilities includes income of EUR 288 thousand from the release of provisions for anticipated contract losses (prior year: EUR 2,332 thousand).

The miscellaneous other operating income consists mainly of income from other disposals and services of EUR 217 thousand (prior year: EUR 1,580 thousand), income for providing employees with vehicles of EUR 394 thousand (prior year: EUR 334 thousand), refunds for pre-retirement part-time working expenses of EUR 129 thousand (prior year: EUR 226 thousand) and income for services invoiced to BorgWarner Germany GmbH, Ketsch, of EUR 637 thousand (prior year: EUR 942 thousand).

39. MATERIAL EXPENSES

EUR thousand	2007	2006
Cost of raw materials, factory supplies and consumables	177,881	163,679
Cost of purchased services	8,908	11,839
	186,789	**175,518**

40. PERSONNEL EXPENSES

EUR thousand	2007	2006
Wages and salaries	101,707	96,580
Social levies and support expenses	20,938	19,392
Retirement benefit expenses	1,637	1,419
	124,282	**117,391**

The average numbers of employee were as follows:

	2007	2006
Factory employees	1,460	1,451
Office employees	1,070	1,052
Apprentices, trainees, interns	53	50
	2,583	**2,553**

41. OTHER OPERATING EXPENSES

EUR thousand	2007	2006
Selling expenses	19,209	18,321
Administrative expenses	16,749	13,529
Losses on currency translation	1,597	729
Losses on receivables	712	285
Losses on the disposal of property, plant and equipment and intangible assets	553	663
Losses on the disposal of securities	256	268
Miscellaneous other operating expenses	35,934	32,785
	75,010	**66,580**

Miscellaneous other operating expenses consist mainly of maintenance costs of EUR 4,310 thousand (prior year: EUR 4,460 thousand), costs of services of EUR 1,724 thousand (prior year: EUR 1,539 thousand), costs of energy of EUR 2,469 thousand (prior year: EUR 2,276 thousand), costs for the production of tools of EUR 1,261 thousand (prior year: EUR 1,496 thousand), costs for own construction of EUR 657 thousand (prior year: EUR 2,132 thousand) and costs for warranty claims of EUR 4,012 thousand (prior year: EUR 4,525 thousand).

42. FINANCIAL INCOME

EUR thousand	2007	2006
Income from securities and long-term loans	1,384	1,313
Other interest and similar income	2,700	865
Interest and similar income	**4,084**	**2,178**
Other interest and similar expenses	–881	–923
Interest and similar expenses	**–881**	**–923**
Interest income	**3,203**	**1,255**
Expenses from the transfer of a loss	–1	–3
Income from shares in non-consolidated subsidiaries	114	429
Share of profits and losses of associated companies	1,880	1,211
Investment income	**1,993**	**1,637**
Financial income	**5,196**	**2,892**

43. INCOME TAXES

The income-tax expense comprises the following main components:

EUR thousand	2007	2006
Actual tax expense	14,484	5,320
Deferred tax income from the recognition of deferred tax assets on tax-loss carryforwards	–	–1,381
Deferred tax expense from the utilization and impairment of deferred tax assets on tax-loss carryforwards	2,937	2,825
Deferred tax expense from tax-rate changes	–	–
Deferred tax expense/income from timing differences	–4,027	5,989
	13,394	**12,753**

The calculation of deferred taxes takes place with each country's specific tax rates, which were between 10% and 34% for the financial year 2007 (prior year: between 10% and 40%). 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.

The German business taxation law applicable for the year 2007 calls for a tax rate of 25% (prior year: 25%) plus the solidarity surcharge of 5.5% of income tax. The average trade tax rate for the domestic companies of the BERU Group amounted to 11.23% (prior year: 11.23%). Due to the Corporate Taxation Reform Act 2008, the corporate income tax rate for the domestic companies decreases to 15% as of the year 2008, while the average trade tax rate increases slightly to 12.37%. Therefore, the deferred taxes of German companies are measured at December 31, 2007 at an overall tax rate including the solidarity surcharge of 28.2% (prior year: 37.61%). The domestic tax reduction resulted in a deferred tax gain of EUR 2,879 thousand in 2007. In addition, the Corporate Taxation Reform Act 2008 includes various individual measures that can compensate for part of the income-tax expense in the future.

Within the BERU Group, on the balance-sheet date there were non-utilized tax-loss carryforwards of EUR 15,253 thousand (prior year: EUR 17,287 thousand), of which EUR 0 thousand (prior year: EUR 9,241 thousand) were covered by deferred taxes. EUR 14,692 thousand of the tax-loss carryforwards are utilizable without any time limit (prior year EUR 16,542 thousand), while the remainder in the amount of EUR 561 thousand is due to expire in 2008.

The impairment of deferred tax assets and tax-loss carryforwards led to a tax expense of EUR 2,370 thousand (prior year: EUR 1,557 thousand). The non-applicability of deferred tax assets to current operating losses led to a charge of EUR 0 thousand (prior year: EUR 997 thousand). A deferred tax asset of EUR 0 thousand (prior year: EUR 439 thousand) resulted from the recognition of deferred tax assets on tax-loss carryforwards from earlier periods that had not previously been covered by deferred taxes.

The actual tax expense was reduced by the utilization of tax-loss carryforwards from previous years that had not yet been capitalized of EUR 155 thousand (prior year: EUR 0 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 2007 of EUR 13,394 thousand (prior year: EUR 12,753 thousand) is EUR 3,247 thousand lower (prior year: EUR –8,480 thousand) than the expected income tax expense of EUR 16,641 thousand (prior year: EUR 21,233 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 37.61% applied in the reconciliation reflects the German combined income-tax and solidarity-surcharge rate of 26.38% valid since 2004 and the effective trade-tax rate of 11.23%.

EUR thousand	2007	2006
Profit before income taxes	**44,247**	**56,455**
Effective tax rate for the Group in %	37.61	37.61
Expected tax expense	**16,641**	**21,233**
Tax-rate related deviations	–283	–359
Tax-free income/expenses	–1,667	–1,652
Effects of tax losses	2,215	2,115
Increases and decreases for tax purposes	449	–742
Tax payments and refunds for prior years	–775	–7,461
Consolidation effects	–392	–289
Effect of tax-rate changes	–2,879	–
Impairment deferred taxes on timing differences	49	–
Other deviations	36	–92
Income taxes	13,394	12,753
Tax rate in %	30.27	22.59

The change in corporate income-tax legislation (entitlement to refund of corporate income tax credits pursuant to Section 37, Subsection 5 of the German Corporate Income Tax Act) led to an extraordinary tax gain of EUR 7,029 thousand for BERU AG in 2006, which was recognized as “Tax refund for prior years” and as non-current entitlement to income tax refunds. The discounted entitlement to income tax refunds amounted to EUR 7,094 thousand on the balance sheet date (prior year: EUR 7,029 thousand), of which EUR 833 thousand (prior year: EUR 0 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, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Intangible assets and property, plant and equipment	**1,208**	**1,471**	**12,751**	**15,448**
Financial investments	–	7	–	–
Inventories	1,428	1,541	–	82
Receivables and other assets	636	305	272	2,149
Securities, cash and cash equivalents	19	–	–	149
Equity	–	–	–	–
Special item which in part constitutes a reserve	–	126	–	–
Provisions and other financial liabilities	2,477	2,913	225	35
Liabilities and other debts	54	36	13	4
Tax-loss carryforwards	–	2,937	–	–
Miscellaneous	–	–	–	–
	5,822	**9,336**	**13,261**	**17,867**

Deferred tax assets and deferred tax liabilities have been offset in compliance with IAS 12.74. Accordingly, deferred tax assets amount to EUR 5,548 thousand (prior year: EUR 9,004 thousand) and deferred tax liabilities amount to EUR 12,987 thousand (prior year: EUR 17,535 thousand).

Impairments of EUR 2,370 thousand (prior year: EUR 2,501 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 10 thousand (prior year: EUR 51 thousand deferred tax liabilities).

At the balance sheet date, current entitlement to tax refunds of EUR 3,930 thousand (prior year: EUR 4,021 thousand) and current tax liabilities of EUR 2,063 thousand (prior year: EUR 2,111 thousand) were recognized.

44. EARNINGS PER SHARE

Earnings per share are calculated by dividing the profits for the period to which the ordinary shareholders are entitled of EUR 29,750 thousand (prior year: EUR 43,021 thousand) by the weighted average number of ordinary shares outstanding during the period (January 1 to December 31, 2007: 10,000,000; January 1 to December 31, 2006: 10,000,000). Despite the authorization granted to the Company at the Annual Shareholders' Meeting of June 27, 2007 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, 2007 and December 31, 2006. 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:

EUR thousand	Dec. 31, 2007	Dec. 31, 2006
Profit attributable to the equity holders of the parent (EUR thousand)	29,750	43,021
Weighted average number of shares outstanding	10,000,000	10,000,000
Earnings per share (EUR)	2.98	4.30

45. 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 activies and financing activities is adjusted to exclude the effects of currency translation.

In 2007, BERU AG granted BorgWarner Europe GmbH, Ketsch, a loan of EUR 35,000 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 114 thousand (prior year: EUR 69 thousand) from BERU Diesel Start Systems Pvt. Ltd., Pune, India. Furthermore, a dividend of EUR 248 thousand (prior year: EUR 360 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.

To improve the presentation of the statement of cash flows, interest received has been allocated to the cash flow from investing activities. In the prior year, interest received was shown under the cash flow from financing activities.

46. 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 sensors 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, amortization and impairments, no substantial expenditures were recorded that did not affect on cash flow. Impairments of property, plant and equipment (EUR 146 thousand) relate to the Aftermarket segment; impairments of intangible assets (development costs) relate to the Original Equipment segment (EUR 1,504 thousand).

The investments represent additions to property, plant and equipment and intangible assets including advance payment made.

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	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
External revenue	305,856	288,831	117,630	122,658	27,156	27,546	–	–	450,642	439,035
Profit on ordinary activities	21,679	32,036	13,739	18,457	3,633	3,070	–	–	39,051	53,563
Depreciation, amortization and impairments	24,097	21,574	6,452	11,144	999	1,659	–	–	31,548	34,377
Share of profits and losses of associated companies	–	–	–	–	1,312	1,211	–	–	1,312	1,211
Share of profits and losses of joint ventures	568	–	–	–	–	–	–	–	568	–
Shares in associated companies	–	–	–	–	5,309	4,584	–	–	5,309	4,584
Shares in joint ventures	1,195	875	–	–	–	–	–	–	1,195	875
Investments	31,325	29,620	7,839	11,527	997	2,032	–	–	40,161	43,179
Assets	236,291	200,802	125,350	118,456	27,317	27,375	104,253	127,428	493,211	474,061
Liabilities	56,143	49,084	36,666	37,505	4,233	4,982	32,801	37,409	129,843	128,980

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	2007	2006	2007	2006	2007	2006
Germany	161,242	137,114	261,633	232,797	34,336	35,506
Rest of Europe	187,064	207,836	113,547	100,509	4,644	6,393
North America	36,157	43,281	2,662	2,877	613	194
Asia	48,679	38,706	11,116	10,450	567	1,086
Other countries	17,500	12,098	–	–	–	–
Consolidation/reconciliation	–	–	104,253	127,428	–	–
Group	**450,642**	**439,035**	**493,211**	**474,061**	**40,160**	**43,179**

47. RELATED PARTY TRANSACTIONS

The BERU Group was affected in the financial year 2007 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., Auburn Hills, USA

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. Pursuant to Section 311 of the German Stock Corporation Act, the expenses incurred were settled by BorgWarner Germany GmbH. In this context, we refer to the dependent-company report included in the Management Report. Any other business transactions between companies of the BERU Group and the BorgWarner Group were of only slight significance, with the exception of the loan granted by BERU AG to BorgWarner Europe GmbH, Ketsch.

EUR thousand	2007	2006
Sales revenue	159	62
Income from compensation for disadvantages	582	942
Other transactions	54	–14
Financial income[1]	448	–
Receivables	35,132	446
Liabilities	47	–

[1] Interest income from the loan of EUR 35,000 thousand to BorgWarner Europe GmbH, Ketsch

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
- Simesa Brasil Ltda., São Paulo, Brazil
- 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	2007	2006
Sales revenue	982	983
Other transactions	–1,450	–980
Financial income	27	74
Receivables	655	528
Payables	13	–
Provisions	167	137

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	2007	2006
Sales revenue	16	29
Purchased goods and services	–14,778	–14,880
Other transactions	79	–
Financial income	73	450
Receivables	1,024	1,773
Payables	4,937	4,153

d. Associated companies

Transactions with the associated company IMPCO-BERU Technologies B.V. (49%) are allocated without exception to operating activities, and were concluded at arm’s length conditions. Within the context of supplying goods and services, the BERU Group’s revenue with IMPCO-BERU Technologies B.V. amounted to EUR 68 thousand (prior year: EUR 46 thousand). The total of outstanding balances with IMPCO-BERU Technologies B.V. amounted to EUR 0 thousand (prior year: EUR 6 thousand). EUR 588 thousand was received as dividends from that associated company (prior year: EUR 588 thousand).

e. Members of the Executive Board and the Supervisory Board

The compensation of the members of the Executive Board who were active in 2007 amounted to EUR 2,128 thousand (prior year: EUR 2,578 thousand) and was comprised as follows:

EUR	2007	2006
Current benefits	1,838,166.75	2,528,797.16
Share-based payment	0.00	0.00
Allocation to plan assets	289,895.00	49,124.00
Total	**2,128,061.75**	**2,577,921.16**

Of the total retirement benefit obligation recognized under liabilities, EUR 196 thousand was accounted for the members of the Executive Board who were active on the balance sheet date (prior year: EUR 720 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 2007 is comprised as follows:

EUR	Fixed remuneration	Variable remuneration	Total remuneration
Dr. Thomas Waldhier (since October 1, 2007)	81,595.93	75,809.00	157,404.93
Marco Freiherr von Maltzan (until June 2007)	183,964.70	273,376.00	457,340.70
Marcus Knödler (since April 13, 2007)	140,339.26	0.00	140,339.26
Dr. Reinhard Meschkat	377,228.64	93,725.00	470,953.64
Dr. Rainer Podeswa (until December 2007)	246,739.22	365,389.00	612,128.22
Total	**1,029,867.75**	**808,299.00**	**1,838,166.75**

The compensation of the members of the Supervisory Board totaled EUR 132 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 2007 breaks down as follows, in accordance with the Articles of Incorporation:

EUR	Fixed remuneration	Variable remuneration	Total remuneration
Robin J. Adams [1]	–	–	–
Marina Cee	6,500.00	18,500.00	25,000.00
Anthony D. Hensel [1]	–	–	–
Bernd Immekamp	6,500.00	18,500.00	25,000.00
Alfred Weber [1]	–	–	–
Dr. Ulrich Wöhr	26,000.00	55,500.00	81,500.00
Total	**39,000.00**	**92,500.00**	**131,500.00**

[1] Waived their 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 1,095 thousand (prior year: EUR 573 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 7,061 thousand (prior year: EUR 6,499 thousand). Actuarial gains and losses which were not recognized due to the application of the corridor method amount to EUR 858 thousand (prior year: EUR 1,527 thousand).

48. 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 der 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., Auburn Hills, USA

Anthony D. Hensel, Oakland TWP, Michigan, USA
Vice President and Treasurer BorgWarner Inc., Auburn Hills, USA
– Member of the Supervisory Board of:
  BorgWarner Turbo Systems GmbH, Kirchheimbolanden

Alfred Weber, Ithaca, New York, USA
Vice President BorgWarner Inc., Auburn Hills, USA
President und 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.-Ing. Thomas Waldhier, Pforzheim
Chairman (since October 1, 2007)
Graduate in engineering and business administration

Marco Freiherr von Maltzan, München
Chairman (until June 26, 2007)
Graduate in engineering
– Member of the Administrative Board of:
Landeskreditbank Baden-Württemberg-Förderbank, Karlsruhe

Marcus Knödler, Asperg
(since April 13, 2007)
Bachelor of Business Administration (BBA)

Dr.-Ing. Reinhard Meschkat, Walsdorf
Graduate in engineering

Dr. Rainer Podeswa, Beilstein
(until December 11, 2007)

49. 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	2007	2006
Audit services (including outlays)	335	332
Tax services	174	146
Other certification or valuation services	9	42
Other services provided to the parent company or the subsidiaries	15	60
	533	**580**

50. 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.

51. PROPOSAL ON THE APPROPRIATION OF PROFITS

The company financial statements of BERU Aktiengesellschaft, Ludwigsburg have been prepared in accordance with German accounting regulations.

Pursuant to the German Stock Corporation Act, the amount distributable to the shareholders is the accumulated distributable profit shown in the balance sheet of BERU Aktiengesellschaft, Ludwigsburg (balance-sheet profit). After receiving the approval of the Supervisory Board, the Executive Board will propose to the Annual Shareholders' Meeting that the balance-sheet profit as of December 31, 2007 be appropriated as follows:

Distribution of a dividend of EUR 1.10 per share	11,000,000.00
Transfer to retained earnings	0.00
Carried forward to new account	0.00
Balance-sheet profit	**11,000,000.00**

52. EVENTS AFTER THE BALANCE SHEET DATE

Within the context of the worldwide efficency-enhancing program, the Executive Board has decided on measures to be taken to reorganize the Group's facilities in Italy, Hungary and Mexico.

No further significant events occurred after the balance sheet date but before the consolidated financial statements were submitted to the Supervisory Board on March 13, 2008.

Ludwigsburg, March 13, 2008

The Executive Board

DR.-ING. THOMAS WALDHIER **DR.-ING. REINHARD MESCHKAT** **MARCUS KNÖDLER**

Auditors' 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 2007. 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.

Munich, 13 March 2008

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Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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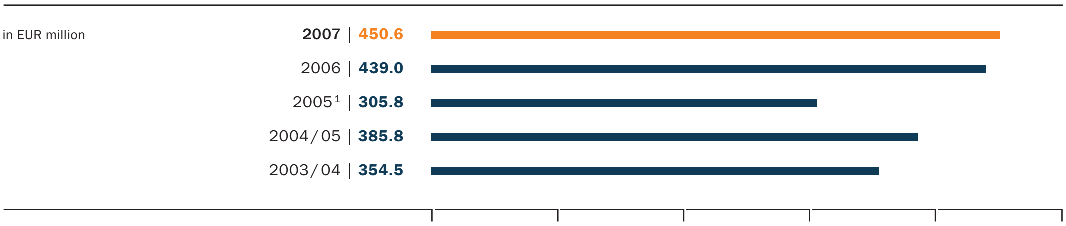
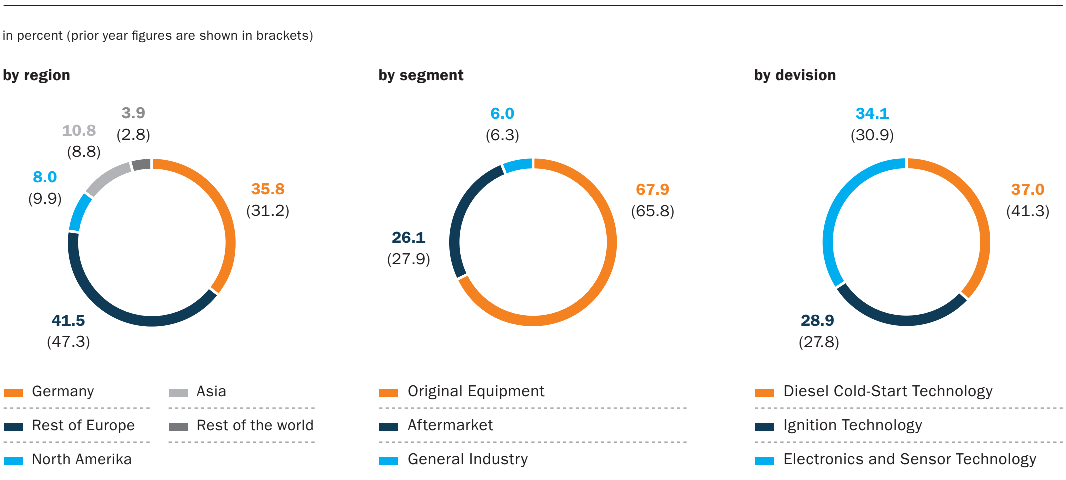
SALES REVENUE

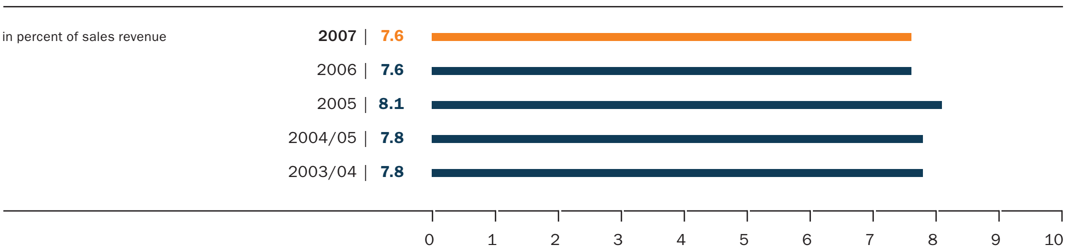


[1] Short financial year 2005 (April 1–December 31, 2005)

BREAKDOWN OF SALES REVENUE FOR FINANCIAL YEAR 2007



HIGH LEVELS OF RESEARCH AND DEVELOPMENT



FINANCIAL CALENDAR 2008

Annual Report on financial year 2007	**March 27, 2008**
Press conference on the results of financial year 2007	**March 27, 2008**
Annual Shareholders' Meeting	**May 21, 2008**
Half-Year Report 2008	**August 14, 2008**

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