

BERU AKTIENGESELLSCHAFT

HALF-YEAR REPORT 2009



## Group Interim Management Report

### **Annual Shareholders' Meeting approves squeeze-out**

On May 20, 2009, the Annual Shareholders' Meeting of BERU Aktiengesellschaft, Ludwigsburg, approved the transfer of the shares of the remaining shareholders of BERU AG (the minority shareholders) to BorgWarner Germany GmbH, Ketsch (squeeze-out). Several shareholders have instituted lawsuits against this decision, aiming to achieve its rescission or annulment. These lawsuits are currently pending in the Stuttgart District Court; a hearing has been arranged for November 6, 2009.

### **Business development in the first half of 2009**

Comparison with the prior-year period is only possible to a limited extent due to the change in the consolidated group resulting from the integration of the French BERU subsidiaries into the BorgWarner Group in December 2008.

The BERU Group posted revenue of EUR 143.9 million in the first half of 2009 (H1 2008: EUR 230.4 million). The revenue decline of 37.5% was caused by the worldwide slump in unit sales in the automobile industry. Profit on ordinary activities (EBIT) amounted to EUR 4.5 million for the reporting period (EUR 15.8 million), equivalent to an EBIT margin of 3.1% (6.9%). Earnings per share amounted to EUR 0.62 (EUR 1.20).

### **European automobile industry in crisis**

The worldwide economic slump and its effects put severe pressure on the automobile industry in the first half of 2009. Worldwide unit sales of automobiles showed the first signs of stabilization, and individual segments and markets achieved moderate growth in new car registrations in the second quarter due to the incentive programs introduced in many countries. Nonetheless, new registrations in Europe decreased to 7.2 million units in the first half of 2009; this represents a decrease of 11.1% compared with the first half of 2008 (8.1 million units).

In Western Europe, only Germany (+26.1%) and France (+0.2%) exceeded the new registrations recorded in the first half of last year, while double-digit decreases were recorded in the United Kingdom (-25.9%), Italy (-10.7%) and Spain (-38.3%). New registrations in Germany rose particularly sharply in June: Thanks to the government's scrappage incentive and the new structure of vehicle taxation, new car registrations increased by 40.5% compared with June 2008.

Although the slump of the automobile industry in the United States has slowed down, no recovery is in sight in the short term. The development in China is positive, however, with rising demand for cars.

### **Diesel growth temporarily stopped**

The proportion of diesel cars sold in Germany and Western Europe decreased in the first half of 2009. In Germany, diesel vehicles accounted for only 29.6% of new registrations (45.0%). This is mainly due to the fact that small cars with gasoline engines have been increasingly preferred because of the scrappage incentive programs introduced by many EU countries.

This is not expected to be a long-term trend, however. As before, fuel-efficient engines and strict emission regulations make diesel an attractive alternative to the gasoline engine.

### **Development of revenue by sales region**

The worldwide sales crisis led to BERU's revenue falling in all regions with Germany and other European markets impacted by the shift away from diesel vehicles to gasoline engines. Revenue in Germany in the first six months of this year amounted to EUR 54.4 million, compared with EUR 84.5 million in the prior-year period. BERU's

revenue in its other European markets amounted to EUR 64.5 million (EUR 102.7 million). In North America, BERU generated revenue of EUR 9.0 million, which is 30.8% less than in the first half of 2008 (EUR 13.0 million). In Asia, first-half revenue of EUR 12.3 million was EUR 10.0 million lower than in the prior-year period. The proportion of Group revenue generated outside Germany was 62.2% (63.3%).

#### **Development of revenue by sales segment**

Due to the economic crisis, the Original Equipment sales segment suffered a significant revenue decline in the first half of 2009. The revenue posted by this segment amounted to EUR 88.9 million in the reporting period, which is 43.4% below the figure for the prior-year period of EUR 157.3 million.

Revenue in the Aftermarket segment fell from EUR 59.8 million to EUR 44.5 million. The General Industry segment, which comprises the business with producers of oil and gas burners as well as industrial electronics, recorded a 21.1% reduction in revenue from EUR 13.3 million to EUR 10.5 million.

#### **Development of revenue by product division**

The Diesel Cold Start Technology division achieved revenue of EUR 51.1 million in the first half of 2009, compared with EUR 81.5 million in the prior-year period. The 37.3% decrease is partially due to the disproportionately sharp fall in new registrations of cars with diesel engines, especially in Germany.

BERU's Ignition Technology division posted revenue of EUR 48.1 million (EUR 65.9 million), which is a decrease of 27.0%.

In the Electronics and Sensors division, the revenue generated by tire-pressure monitoring systems fell particularly sharply, by 58.5% to EUR 16.6 million (EUR 40.0 million). This was due to weak demand in the United States, which is the main market for BERU's Tire Safety System (TSS). Overall, Electronics and Sensors' revenue decreased by 46.2% from EUR 83.0 million to EUR 44.7 million.

#### **Workforce**

At June 30, 2009, the BERU Group employed a workforce of 1,778 persons (December 31, 2008: 1,953). Of that total, 1,342 were employed in Germany (75.5%) and 436 were employed in other countries (24.5%).

#### **Production and administrative expenses**

Cost of sales fell almost in proportion to revenue to EUR 110.9 million (H1 2008: EUR 165.0 million). Gross profit for the first half of 2009 thus amounted to EUR 33.1 million (EUR 65.4 million), equivalent to a gross margin of 23.0% (28.4%).

General and administrative expenses and selling expenses totaled EUR 19.0 million, compared with EUR 31.6 million in the same period of 2008.

#### **Sharp decrease in profit on ordinary activities (EBIT)**

First-half profit on ordinary activities (EBIT) amounted to EUR 4.5 million (EUR 15.8 million). The EBIT margin was thus 3.1% (6.9%). Due to falling revenue, it was not possible to achieve the level of prior-year earnings. An even sharper fall in EBIT was prevented thanks to the consistent implementation of cost-cutting and efficiency-improving actions, resulting in an incremental margin decline of 13.1% on sales.

#### **Net profit**

Financial income increased from EUR 2.1 million to EUR 5.0 million, due to the interest income from the loan to the BorgWarner Group. Profit before income taxes amounted to EUR 9.5 million (EUR 17.9 million). Profit for the period after taxes amounted to EUR 6.5 million (EUR 12.3 million), with a nearly unchanged effective tax rate of 31.9% (31.3%).

### **Investing in the future**

Despite the economic crisis, BERU invested EUR 13.0 million in research and development, which is still a high level (EUR 14.9 million). The ratio of R&D spending to revenue increased to 9.0% (6.5%).

Investment in intangible assets and property, plant and equipment totaled EUR 1.5 million in the reporting period (EUR 4.7 million), while capitalized development expenses before depreciation totaled EUR 4.4 million (EUR 5.1 million). The Group's total investment during the first half of the year thus amounted to EUR 5.9 million (EUR 9.8 million).

Once again, all investments were financed out of cash earnings. The free cash flow from operating activities (after the dividend payout) amounted to EUR 19.0 million (EUR 15.2 million).

### **Balance sheet structure and financial position**

BERU once again maintained a stable balance sheet structure in the reporting period. The balance sheet total amounted to EUR 453.3 million at June 30, 2009 (June 30, 2008: EUR 486.4 million), and was thus only slightly lower than at December 31, 2008 (EUR 462.2 million). The equity ratio (before minority interest) was 74.7% with total equity of EUR 338.8 million, compared with 73.0% and EUR 337.2 million at December 31, 2008. A positive effect resulted from the inventory reduction. Cash and cash equivalents amounted to EUR 12.3 million at June 30, 2009 (December 31, 2008: EUR 30.6 million). The net financial position (cash and cash equivalents less liabilities to banks) amounted to EUR 12.0 million (EUR 30.3 million).

### **Opportunities and risks**

BERU benefits from systematic risk management at the Group. This is an integral component of all business processes and is closely linked with the planning system. Due to the worldwide financial market crisis, overall risk for the BERU Group has increased, but remains comparatively moderate due to BERU's sound financial position and independence of external sources of finance.

Most of the opportunities and risks described in Annual Report 2008 continue to apply. At present, no risks are apparent that could jeopardize the BERU Group's continuing existence.

### **Effects of the economic crisis**

Starting in October 2008, BERU has already initiated several measures to counteract the economic crisis. At the beginning of 2009, additional short-time working arrangements were introduced at several sites, and have meanwhile been extended until the beginning of 2010. Cost-reducing actions will be steadily continued.

### **Outlook**

Unit sales of automobiles will very probably remain weak in the second half of 2009. According to the Association of the German Automotive Industry (VDA), unit sales in full-year 2009 are likely to fall by between 13% and 14%. In Western Europe, the downward trend seems to have halted, but a decrease of 6% to 10% is still forecasted. In 2010, global demand for automobiles is expected to stabilize at a low level.

In view of this development, the BERU Executive Board affirms its previous revenue guidance for the full year and anticipates slightly positive EBIT. In 2010, the Executive Board assumes that revenue will be at a similar level to 2009.

Tough price pressure and competitive pressure will continue to be features of the automotive industry. BERU is continually working to counteract this pressure by reducing costs, increasing productivity and improving internal processes.

## Consolidated balance sheet of BERU Aktiengesellschaft at June 30, 2009

### Assets

EUR thousand	June 30, 2009	Dec. 31, 2008
<b>Non-current assets</b>		
Intangible assets	38,122	39,878
Property, plant and equipment	111,300	117,833
Investments accounted for using the equity method	1,073	1,252
Financial investments	340	340
Deferred tax assets	4,462	3,744
Other financial assets	12	12
Entitlement to income tax refunds	5,704	5,871
	<b>161,013</b>	<b>168,930</b>
<b>Current assets</b>		
Inventories	37,582	42,831
Trade receivables	54,655	63,225
Other financial assets	178,199	142,616
Other assets	2,485	6,539
Entitlement to income tax refunds	2,231	2,041
Cash and cash equivalents	12,330	30,636
	<b>287,482</b>	<b>287,888</b>
Non-current assets and disposal groups held for sale	4,771	5,390
	<b>292,253</b>	<b>293,278</b>
<b>Total assets</b>	<b>453,266</b>	<b>462,208</b>

**Equity and liabilities**

EUR thousand	June 30, 2009	Dec. 31, 2008
<b>Equity</b>	<b>342,750</b>	<b>340,790</b>
<b>Non-current liabilities</b>		
Provisions for pensions	15,952	15,837
Other provisions	6,569	6,824
Borrowings	259	259
Deferred tax liabilities	13,349	13,293
Other liabilities	1,397	1,457
	<b>37,526</b>	<b>37,670</b>
<b>Current liabilities</b>		
Other provisions	19,071	24,442
Borrowings	0	249
Trade payables	39,180	45,681
Other financial liabilities	4,662	2,271
Current tax liabilities	1,256	1,326
Other liabilities	8,123	8,443
	<b>72,292</b>	<b>82,412</b>
Liabilities relating to non-current assets and disposal groups held for sale	698	1,336
	<b>72,990</b>	<b>83,748</b>
<b>Total equity and liabilities</b>	<b>453,266</b>	<b>462,208</b>

Consolidated Income Statement and Statement of comprehensive income  
of BERU Aktiengesellschaft for the six months ended June 30, 2009

EUR thousand	H1 2009	H1 2008
Revenue	143,943	230,390
Cost of sales	-110,861	-165,002
<b>Gross profit</b>	<b>33,082</b>	<b>65,388</b>
Selling expenses	-10,589	-12,763
Administrative expenses	-8,365	-18,771
Research and development expenses	-13,036	-14,901
Other operating income/ expenses	3,420	-3,094
<b>Profit on ordinary activities (EBIT)</b>	<b>4,512</b>	<b>15,859</b>
Other interest and similar income	4,728	2,801
Other interest and similar expenses	-23	-274
Finance cost	4,705	2,528
Share of profit and losses from associated companies	198	-579
Income from equity holdings in non-consolidated companies	65	109
Income from investment	263	-470
<b>Profit before income taxes</b>	<b>9,480</b>	<b>17,917</b>
Income tax expense	-2,985	-5,587
<b>Profit for the period</b>	<b>6,495</b>	<b>12,330</b>
<b>Other comprehensive income</b>		
Currency differences	-105	-1,623
Valuation of original financial instrument not through profit and loss	0	53
Changes in deferred taxes on valuation of original financial instruments	0	-10
<b>Other comprehensive income net of tax</b>	<b>-105</b>	<b>-1580</b>
<b>Total comprehensive income for the period</b>	<b>6,390</b>	<b>10,750</b>
<b>Profit for the period attributable to:</b>		
Equity holders of BERU AG	6,158	11,865
Minority interest	337	465
	<b>6,495</b>	<b>12,330</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of BERU AG	6,117	10,887
Minority interest	273	-137
	<b>6,390</b>	<b>10,750</b>
<b>Earnings per share in Euro (basic and diluted)</b>	<b>0.62</b>	<b>1.20</b>

Consolidated statement of cash flows  
of BERU Aktiengesellschaft for the six months ended June 30, 2009

EUR thousand	H1 2009	H1 2008
Profit before income taxes	9,480	17,917
Depreciation, amortization and impairments	14,248	20,535
Changes in provisions	-5,511	4,847
Other expenses/income not affecting cash	-207	-487
Interest income	-4,729	-1,803
Interest expense	23	1,547
Proceeds from the disposal of intangible and tangible assets	-1,536	98
Changes in inventories	5,530	-4,151
Changes in receivables and other assets	32,639	6,645
Changes in payables and other liabilities	-10,011	-9,266
Proceeds from financial assets as part of temporary financial management	0	10,000
Payments related to financial receivables due from BorgWarner GmbH	-56,945	-20,000
Income taxes paid	-3,290	-9,450
Income taxes received	3,227	0
<b>Net cash inflow from operating activities</b>	<b>-17,081</b>	<b>16,432</b>
Proceeds from the disposal of property, plant and equipment	2,254	438
Payments for investments in property, plant and equipment	-1,625	-4,202
Payments for investments in intangible assets	-4,481	-5,242
Advance payments made on property, plant and equipment	-780	-277
Dividends from associated companies	377	908
Interest received	3,261	1,599
<b>Net cash outflow from investing activities</b>	<b>-994</b>	<b>-6,776</b>
Dividend payments	0	-11,000
Net repayment of borrowings	-249	-134
Interest paid	-4	0
<b>Net cash outflow from financing activities</b>	<b>-253</b>	<b>-11,134</b>
<b>Changes in cash and cash equivalents affecting cash flow</b>	<b>-18,329</b>	<b>-1,478</b>
Changes in cash and cash equivalents not affecting cash flow	23	-796
Cash and cash equivalents at the beginning of the period	30,636	78,043
<b>Cash and cash equivalents at the end of the period</b>	<b>12,330</b>	<b>75,769</b>



Consolidated statement of changes in equity  
of BERU Aktiengesellschaft for the six months ended June 30, 2009

EUR thousand	Equity of the shareholders of BERU AG						Minority interest	Total equity
	Issued capital	Additional paid-in capital	Re-valuation reserve	Currency translation reserve	Other retained earnings	Total		
<b>As at January 1, 2008</b>	<b>26,000</b>	<b>73,147</b>	<b>-25</b>	<b>-1,169</b>	<b>262,007</b>	<b>359,960</b>	<b>3,407</b>	<b>363,367</b>
Profit transfer with fiscal unity parent						0		0
Dividend					-11,000	-11,000		-11,000
<b>Transactions with owners</b>	<b>26,000</b>	<b>73,147</b>	<b>-25</b>	<b>-1,169</b>	<b>251,007</b>	<b>348,960</b>	<b>3,407</b>	<b>352,367</b>
Total comprehensive income			43	-1,021	11,865	10,887	-137	10,750
<b>As at June 30, 2008</b>	<b>26,000</b>	<b>73,147</b>	<b>18</b>	<b>-2,190</b>	<b>262,872</b>	<b>359,847</b>	<b>3,270</b>	<b>363,117</b>
<b>As at January 1, 2009</b>	<b>26,000</b>	<b>73,147</b>	<b>0</b>	<b>-2,901</b>	<b>240,938</b>	<b>337,184</b>	<b>3,606</b>	<b>340,790</b>
Profit transfer with fiscal unity parent					-4,430	-4,430		-4,430
<b>Transactions with owners</b>	<b>26,000</b>	<b>73,147</b>	<b>0</b>	<b>-2,901</b>	<b>236,508</b>	<b>332,754</b>	<b>3,606</b>	<b>336,360</b>
Total comprehensive income				-41	6,158	6,117	273	6,390
<b>As at June 30, 2009</b>	<b>26,000</b>	<b>73,147</b>	<b>0</b>	<b>-2,942</b>	<b>242,666</b>	<b>338,871</b>	<b>3,879</b>	<b>342,750</b>

## Notes to the interim consolidated financial statements for the first half of 2009

The consolidated financial statements of the BERU Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the IFRS by the International Financial Reporting Interpretations Committee (IFRIC). The interim report for the six months ended June 30, 2009 has been prepared in accordance with the regulations of IAS 34 (Interim Reporting).

### Accounting and valuation methods

As of financial year 2009, the revised version of IAS 1 “Presentation of Financial Statements” has been applied. This standard revises the income statement, adding a reconciliation from net income to comprehensive income and presenting the components of other comprehensive income. This results in changes in the presentation of changes in equity. In the statement of changes in equity, transactions with shareholders are presented separately and profit/loss and other income/expense are allocated to the individual components of equity.

Apart from that, the same accounting and valuation methods and the same methods of calculation have been used as in the previous consolidated financial statements for the year ended December 31, 2008. The regulations of IAS 34 have been complied with in the presentation of these interim consolidated financial statements. Other new IFRS standards and interpretations to be applied as of January 1, 2009 have no material effects on the interim consolidated financial statements for the six months ended June 30, 2009. All amounts are presented in thousands of euros, unless otherwise indicated. In 2008, BERU changed the presentation of its consolidated income statement from the total-cost method to the cost-of-sales method. This serves to make the presentation of the earnings situation more transparent, improving comparability with other market players. The definition and calculation of profit on ordinary activities (EBIT), profit before income taxes (EBT) and profit for the period remain unchanged, however.

### Changes in the consolidated group

As well as BERU Aktiengesellschaft (BERU AG), the interim consolidated financial statements include 9 companies. 13 subsidiaries were included in the prior year. During 2008, BERU sold its French subsidiaries, BERU TdA SAS (Chazelles sur Lyon), Eyquem SNC (Nanterre) and BERU SAS (La Ferte'-Mace') to BorgWarner Investment Holding Inc., thus reducing the size of the consolidated Group.

**Segment report**

The segment report has been prepared in accordance with IAS 14. Each segment's external revenue and profit from ordinary activities (EBIT) developed as follows:

EUR million	H1 2009	H1 2008
<b>Original Equipment</b>		
External revenue	89.0	157.3
EBIT	-2.8	6.4
<b>Aftermarket</b>		
External revenue	44.4	59.8
EBIT	6.4	9.0
<b>General Industry</b>		
External revenue	10.5	13.3
EBIT	0.9	0.4
<b>Group</b>		
External revenue	143.9	230.4
EBIT	4.5	15.8

**Related-party transactions**

BorgWarner Germany GmbH, Ketsch, holds a majority interest in BERU Aktiengesellschaft, Ludwigsburg. At December 31, 2008, BERU Aktiengesellschaft, Ludwigsburg, had granted a loan of EUR 120 million to BorgWarner Europe GmbH, Ketsch. This loan was increased in the first half of 2009 in a first step to EUR 130 million. In a second step, BERU Aktiengesellschaft was included in the cash pool of BorgWarner Europe GmbH. The resulting receivable amounted to EUR 176.9 million at June 30, 2009. Interest is paid on the settlement accounts at the usual short-term market rates. Any other business transactions between the BERU Group and the BorgWarner Group were not significant. BERU AG concluded a domination and profit transfer agreement with BorgWarner Germany GmbH on March 17, 2008. BERU has presented the resulting obligation to transfer profits for the first half of 2009 directly in equity as a shareholder transaction with no effect on the income statement.

**Events after the balance sheet date**

There have been no significant events since the interim balance sheet date of June 30, 2009.

**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 (AktG) and have made it permanently accessible on the Company's website at [www.beru.com](http://www.beru.com).

**Other notes**

There have been no significant changes to contingent liabilities since December 31, 2008. This interim report has not been reviewed by external auditors.

**Responsibility statement**

To the best of our knowledge and in accordance with the applicable reporting principles for interim financial reporting, the interim 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's interim management report presents a fair review of the development and performance of the business and of the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group during the remaining months of the financial year.

The Executive Board



Dr. Thomas Waldhier



Marcus Knödler