



# Annual Report **2008**



# BENTELER GROUP IN FIGURES



FINANCIAL YEAR (JANUARY 1 – DECEMBER 31)	2008	2007	2006	2005	2004
External Sales [€ million]	6,327.4	6,319.4	5,597.7	5,315.3	4,450.1
Employees (annual average)	24,281	22,938	21,992	21,234	19,107
Personnel expenses [€ million]	1,031.3	986.3	946.3	901.9	823.5
Personnel expenses/employee [T €]	42.5	43.0	43.0	42.5	43.1
Investments [€ million]	208.5	317.9	191.3	257.4	172.3
Depreciation of fixed assets [€ million]	164.9	156.0	144.7	127.3	118.9
Cash flow <sup>1)</sup> [€ million]	296.3	309.7	243.1	190.0	182.6
Equity <sup>2)</sup> [€ million]	802.3	773.9	712.3	642.8	463.5
Total assets [€ million]	2,551.2	2,502.6	2,268.7	2,106.3	1,719.5
Equity ratio [%]	31.4	30.9	31.4	30.5	27.0
Net income before taxes [€ million]	175.1	249.2	192.5	139.4	98.3
Consolidated income [€ million]	113.6	140.2	89.3	58.9	54.7

1) Net income  
+ Depreciation  
- Write-ups  
+/- Changes in pension  
provisions

2) Shareholders' equity including  
50 % of the special items for  
investment allowances on fixed  
assets and 100 % of the invest-  
ment grants

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# FOREWORD



Paderborn, March 2009

## LADIES AND GENTLEMEN,

We face great challenges ahead. The sharp downturn in the world economy as a result of the financial crisis has also had something of an impact on the Benteler Group. In the fourth quarter of 2008, we experienced substantial setbacks in every division. Consequently sales for the year under review here remained about constant from the year before, and profits were below those of 2007.

To prepare our company even better for these difficult times, we already began initiating a wide variety of measures throughout the Benteler Group in 2008. All divisions are hard at work adjusting capacity to lower demand, and cutting costs. To preserve the Group's good liquidity position, we are reducing working capital and limiting our capital spending to projects that are necessary in order to maintain business. But we do not intend to cut back expenditures for research and development, because innovation will remain a crucial competitive advantage for the future. Our solid financing structure and the prompt implementation of these measures will help us overcome the crisis and make the most of future opportunities.

On behalf of the Executive Board of Benteler AG and of the divisions' Managing Directors, I want to thank our employees for their dedication and their outstanding performance in these difficult times. We also want to thank our business partners for their confidence in our company, and our shareholders for their constructive cooperation and support.

A handwritten signature in blue ink, appearing to read 'H. Benteler', with a stylized flourish at the end.

**Hubertus Benteler**

Chairman of the Executive Board

# BENTELER AT A GLANCE

## THE BENTELER GROUP

The Benteler Group is internationally active. Its three legally autonomous divisions – Automotive, Steel/Tube and Distribution – operate under the parent company Benteler AG as the Management Holding. The Group can look back on 130 years of success, and is now owned by the fourth generation of its founding family. Profitable growth and progress drawing on a long tradition are essential so that Benteler can safeguard its entrepreneurial autonomy in the future.

**BENTELER EMPLOYS A TOTAL WORKFORCE OF 24,281 AT 150 LOCATIONS IN 35 COUNTRIES.**

## BENTELER AUTOMOTIVE

- Research, development and production for tailor-made customer solutions
- Chassis Systems Product Group:  
High-tech chassis components and integrated chassis modules made of state-of-the-art, highly specialized materials
- Structures Product Group:  
Extremely lightweight, ultra high-strength components for the safety requirements of tomorrow
- Engine and Exhaust Systems Product Group:  
Components, modules and systems to optimize exhaust gas temperature and management and to reduce emissions, and parts for engine management and engine peripherals
- Engineering Services Product Group:  
PDE Automotive, Optical Systems and Mechanical Engineering for Glass Processing

## BENTELER STEEL/TUBE

- Automotive Product Group:  
Tubes for a wide variety of applications in the car
- Energy Product Group:  
Tubes for applications in the chemical and petrochemical industries, for exploration, and for boiler and heat exchanger construction
- Industry Product Group:  
Tubes for industrial applications in the hydraulic, large-scale equipment and consumer goods industries, and for the entire spectrum of mechanical engineering

## BENTELER DISTRIBUTION

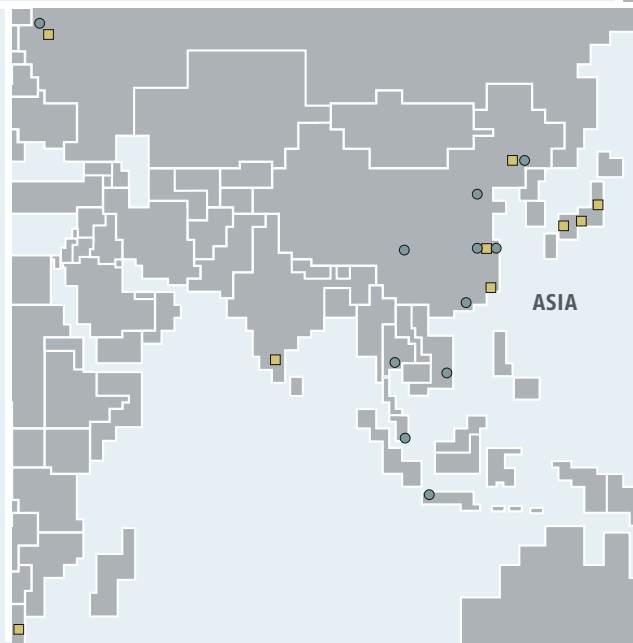
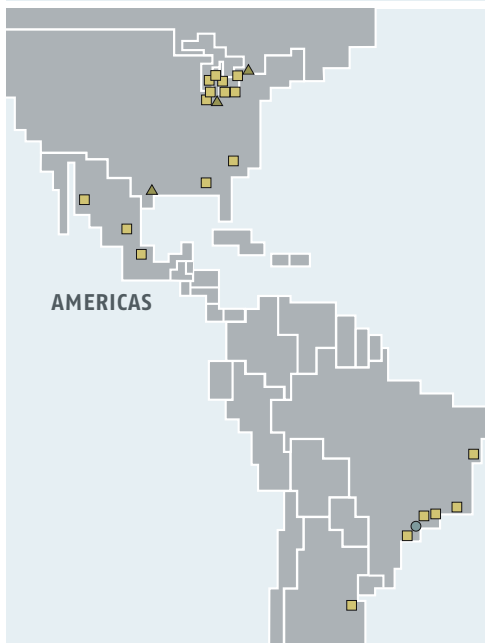
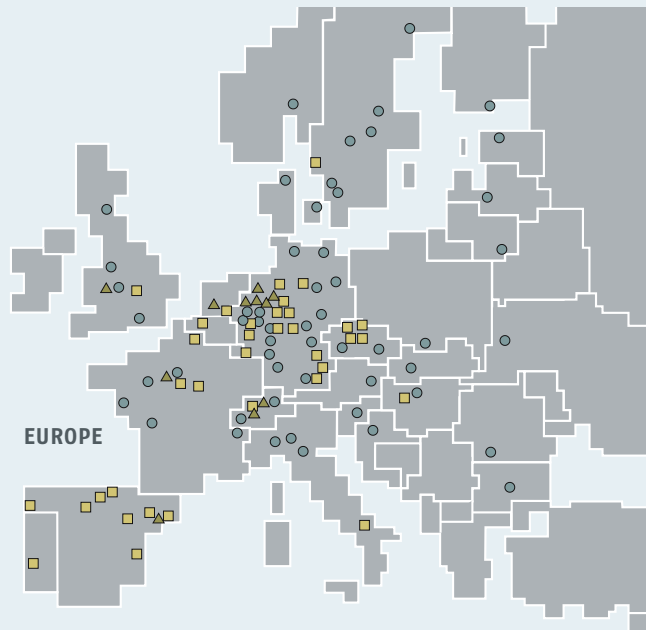
- Custom-made concepts
- International sales network
- Excellent supplier relationships
- Extensive know-how in steel
- Processing capabilities
- Know-how in applications engineering
- Industry, Automotive and Energy Product Groups



- AUTOMOTIVE
- ▲ STEEL/TUBE
- DISTRIBUTION

When we say close to the customer,  
we mean it!

Our way of working emphasizes short  
distances, quick decisions and close coop-  
eration with our business partners. It goes  
without saying that we are also nearby,  
which allows us to do our work better –  
as a skilled development partner and a  
reliable supplier.



# PERSONNEL MATTERS

## THE SUPERVISORY BOARD OF BENTELER AG

**Robert J. Koehler**, Wiesbaden  
(Chairman)  
Chairman of the Executive Board of  
SGL Carbon SE, Wiesbaden

**Clemens Franzen**, Duisburg  
(Deputy Chairman)  
Trade Union Secretary of IG Metall,  
NRW Regional Head Office, Düsseldorf

**Rainer Backhaus**, Warburg  
Chairman of the General Works Council  
of Benteler Automobiltechnik GmbH,  
Paderborn

**Dr. Ralf Bethke**, Deidesheim  
Chairman of the Supervisory Board  
of K+S AG, Kassel

**Paul-Günter Duscha**, Dinslaken  
Chairman of the Corporate Works  
Council of Benteler AG, Paderborn

**Rolf Eckrodt**, Berlin  
Chairman of the Supervisory Board  
of Berlin Partner GmbH, Berlin

**Dr. Markus Flik**, Gerlingen  
Chairman of the Executive  
Management of Behr GmbH & Co. KG,  
Stuttgart

**Heinz Pfeffer**, Osnabrück  
First Authorized Representative of  
IG Metall, Rheine Administrative Office

**Axel Prym**, Roetgen  
Partner in William Prym  
GmbH & Co. KG, Stolberg

**Christian Schachten**, Paderborn  
Chairman of the Works Council of  
Benteler Automobiltechnik GmbH,  
Paderborn (Talle)

**Dr. Gert Vaubel**, Warburg  
Former Member of the Executive Board  
of Benteler AG, Paderborn

**Franz-Josef Wischer**, Paderborn  
Commercial Director of the Chassis  
Systems Product Group of Benteler  
Automobiltechnik GmbH, Paderborn







Executive Board and Management Boards of the Benteler Group (from left):  
Eric Alstrom, Dr. Mathias Hüttenrauch, Hein Van Gerwen,  
Siegmund Wenk, Hubertus Benteler, Norbert Bergs, Matthias Jäger,  
Giorgio Frigerio, Ralf Moysig

#### THE EXECUTIVE BOARD OF BENTELER AG

**Hubertus Benteler**, Chairman  
**Siegmund Wenk**

#### MANAGEMENT BOARDS OF THE DIVISIONS

##### BENTELER AUTOMOTIVE

**Hein Van Gerwen**, Chairman (from May 1, 2008)  
**Nizar N. Ghoussaini**, Chairman (to January 31, 2008)  
**Eric Alstrom** (from June 1, 2008)  
**Ulrich Becker** (to March 14, 2008)  
**Dr. Mathias Hüttenrauch**

##### BENTELER STEEL/TUBE

**Norbert Bergs**, Chairman  
**Matthias Jäger**

##### BENTELER DISTRIBUTION

**Giorgio Frigerio**, Chairman  
**Ulf Michael Kranz** (to March 31, 2008)  
**Ralf Moysig** (from May 1, 2008)

# BUSINESS CONDITIONS AND GLOBAL ECONOMIC SITUATION

## WORLD ECONOMY SLUMPS IN 2008

The world economy went through a difficult year in 2008. The real estate crisis that began in 2007 gained strength in 2008 and became a significant impediment to the financial sector. Sentiment grew increasingly pessimistic as the year wore on. The insolvency of Lehman Brothers in September was followed by a full-scale downturn. The automotive sector in particular was affected. The crisis struck all industrialized and developing economies almost simultaneously, and spread to every branch of business. Yet, thanks to better conditions in the first few months of the year, the world economy still grew 3%. The primary drivers of this growth were developing and emerging nations: Once again, China, India and Russia grew faster than the average and became even more important. The industrialized countries showed only slight growth for 2008 as a whole. The European Union again reported somewhat better results than the United States or Japan. At first, Germany benefited from strong exports and large capital expenditures. However, growth slackened significantly in the second half, and came to about 1.3% for the full year.

## AUTOMOTIVE PRODUCTION DOWN WORLDWIDE

About 69 million passenger cars and trucks were produced in 2008, 4% less than the year before. Sentiment deteriorated over the year, until the real plunge came in the fall. Record highs for oil prices, the debate about CO<sub>2</sub>, and considerably more restricted financing options were a significant burden on sales volumes. Passenger car production for the year as a whole decreased 5%, to 57.5 million units. By contrast, production of utility vehicles held its own, exceeding 11 million units as it had done the year before.

Asia increased its production by another 1%, to nearly 30 million units. Thus this region accounted for 43% of world production – significantly more than Europe (32%) and NAFTA (19%). Japan was once again the world's largest automotive producer, with 11.6 million units. Despite the strong yen, Japan marginally increased its passenger car exports and thus actually slightly expanded its world market share. Production in China increased 6%, to 9.4 million units. As in the other countries, high energy costs and interest rates, as well as losses in the stock market, held sales volumes back so that growth slowed significantly against previous years. Nevertheless, in 2008 China overtook the United States to become the world's second-largest automotive producer. International OEMs and a large number of domestic producers share the local market. A total of about 100 companies produce automobiles in China. India increased its production by another 2%, to 2.3 million units. In contrast to China, production in India is conducted almost entirely by automakers from India, Japan and Korea; three-quarters of production volume there is small vehicles.

Automotive production in Europe decreased 4%, to 22.0 million units. Production in Western Europe was down 7%, to 15.6 million units. The decrease in volume was especially sharp in Italy, at 16%, and in Spain, at 11%, while German production was down only 3%. In the new Eastern European member states of the EU, production grew 5%, to 3.3 million passenger cars. Europe outside the European Union produced 3.3 million vehicles in 2008. The Russian and Turkish automotive industries particularly gained in importance. Turkey produced more vehicles than Italy or the Czech Republic. Because the market in Russia is so attractive, 17 foreign OEMs already have their own plants there.



Vehicle production in the NAFTA region decreased 16 % during the year, to 12.9 million units. The figure plunged nearly 20 % in the United States and Canada; it increased only in Mexico. These markets continued the past few years' trend toward smaller, gas-saving vehicles; passenger cars gained substantial market shares, at the expense of light trucks. The "Big Three" of Detroit had an extremely difficult year in 2008. Their market share in the United States decreased nearly 4 percentage points, to less than 50 %. Because of acute liquidity problems, GM and Chrysler received 17.4 billion US dollars in bailout funding from the American government in December. South America was not affected by the global economic crisis until the fourth quarter of the year, and showed growth of 8 %, with 3.8 million vehicles. Brazil continues to account for most of the production here.

The automotive industry faced immense challenges during the year under review. In expectation of steady growth in the world economy, the industry had added new capacity, which now found itself seriously underutilized as production volumes declined. The rise of oil prices to record highs, and the debate on global warming and on limiting CO<sub>2</sub> emissions exerted ever-increasing pressure that shifted consumer preferences toward smaller, more economical vehicles. But

these changes offer opportunities for the industry as well as challenges. There are especially great options for companies that are able to offer solutions that save energy or enhance safety and driving comfort.

#### **VOLUMES IN STEEL TUBING INDUSTRY FEEL IMPACT OF ECONOMIC CRISIS**

Demand for steel tubes initially held firm at a high level in 2008, but then slumped from October onward. Commodity prices rose to record highs, and initially ensured good market opportunities for tubing to be used in petroleum and natural gas exploration. But as oil and gas prices receded sharply, volumes decreased considerably. Increasing worldwide energy consumption supported demand during the year for tubing to be used in boiler and heat exchanger construction, before the slackening economy and more limited financing options imposed increasing burdens on this segment. Automotive production was likewise severely affected by deteriorating economic conditions in the second half of the year.

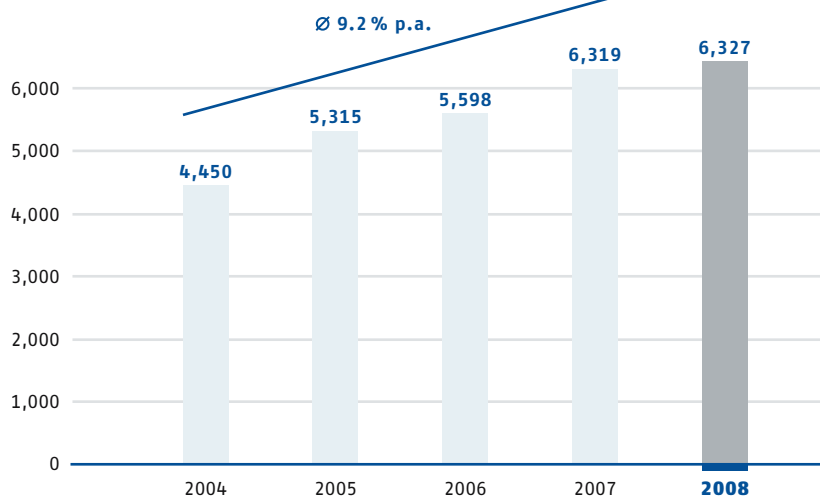
Economic developments had considerable effects on costs of materials, energy and shipping. Steel and scrap metal became significantly more expensive up to mid-year, before the spot markets then collapsed. Prices for alloys also slackened off over the course of the year, after initial sharp rises. The steel tubing industry was able to pass on most increases in purchase prices to customers during the year.

The slumping economy and high volatility of prices posed significant challenges for sales in the tubing industry in 2008. From October onward, as clients grew increasingly uncertain about economic conditions and future price changes, they became very reluctant to order. The result was declining sales volumes in all customer segments and product lines.

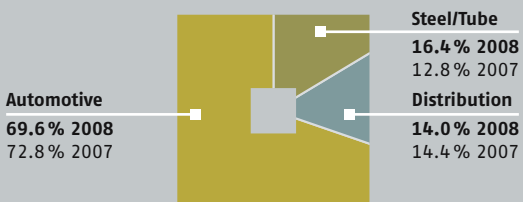
## EXTERNAL SALES BY DIVISION

	2008	2007	CHANGE	
	[€ million]	[€ million]	[€ million]	[%]
Automotive	4,580	4,772	-192	-4
Steel/Tube	1,076	840	236	28
Distribution	920	947	-27	-3
	<b>6,576</b>	<b>6,559</b>	<b>17</b>	<b>0.3</b>
Less Internal Sales	249	240	9	4
<b>External Sales</b>	<b>6,327</b>	<b>6,319</b>	<b>8</b>	<b>0.1</b>

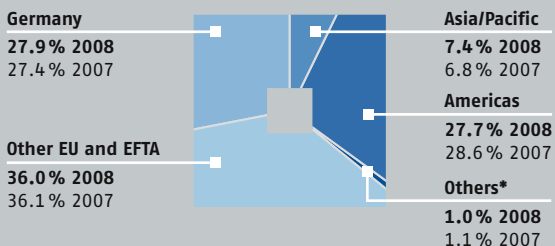
## REVENUE PERFORMANCE SINCE 2004 – EXTERNAL SALES [€ MILLION]



#### GROUP SALES BY BUSINESS DIVISION (INCLUDING INTERNAL SALES)



#### EXTERNAL SALES BY MARKET AREA



\*including Eastern Europe, without EU

## EARNINGS SITUATION

### BENTELER GROUP SALES MAINTAIN PRIOR YEAR'S LEVELS

In spite of the difficult environment, the Benteler Group generated sales of 6,327 million euros in 2008 – about the same as the year before. Sales were up about 4 % against the previous year for the first nine months, but were down 11 % against the prior-year period in the fourth quarter. After adjustment for currencies (by converting the sales figures of foreign Group companies at the previous year's exchange rates), revenues would have been up 1 %. Consequently the year under review did not continue the strong growth of the past few years. But sales growth since 2004 has still averaged 9.2 %.

Sales performance at the various divisions varied widely in 2008. Sales at the Steel/Tube Division rose substantially because of the initial consolidation of the

Rothrist Group, which was acquired as of December 31, 2007, and because of increases in cost of materials that were passed on to customers. Benteler Steel/Tube accounted for 16.4 % of Group sales for the year. Sales at the Automotive and Distribution Divisions were down in 2008. Automotive remained the largest division, with nearly 70 % of Group sales.

Sales between divisions (internal sales) came to 249 million euros for the year. Of this figure, 90 % was for deliveries by Benteler Steel/Tube to the Distribution and Automotive Divisions.

The various markets' shares of external sales changed little in 2008 against the prior year. The steady advance of internationalization means that Germany accounted for only a bit more than one-quarter of sales (28 %). The rest of Europe contributed 36 %, the Americas 28 %, and Asia 7 %.





## SALES DECREASE AT AUTOMOTIVE DIVISION

Sales at the **AUTOMOTIVE** Division decreased by 4 %, to 4,580 million euros. The division develops and produces ready-to-install modules, components and parts for bodies, chassis and engines at 16 engineering offices and 52 plants in 22 countries.

The Chassis Systems Product Group's sales were down 5 %. This product group develops and manufactures chassis subframes, control arms and knuckles, as well as complete, ready-to-install front and rear suspension modules. Module sales decreased because one customer procured materials for a major order directly. A plant closing in Canada also had the effect of reducing revenues. The customer halted production of the vehicle at the end of 2007. A new module order began in Spain; here Benteler Automotive built a module assembly plant for the VW Polo and Seat Ibiza. Production of chassis components remained at the previous year's level in 2008. Sales of both modules as well as chassis components were increasingly impacted by the economic situation during the course of the year.

The Structures Product Group is the second-largest business unit at Benteler Automotive. It manufactures high-strength safety components such as bumpers, roof frames, A- and B-pillars, door beams and instrument panel supports, as well as press parts (primarily for internal use). This product group's sales revenues

maintained the prior year's level in 2008. As in the other units, sales volumes to outside customers decreased. But this decrease was compensated by increased deliveries of press parts to other product groups.

The Engine and Exhaust Systems Product Group develops and manufactures components and systems to optimize exhaust gas temperature and management, and to reduce emissions. These include, for example, exhaust manifolds and housings for converters and diesel particle filters. The product group also manufactures parts for engine management and fuel supply. Its sales revenues were down 16 % in 2008. Lower sales volumes caused revenues for exhaust systems to decrease especially sharply in North America. In components for engine management and fuel supply, the revision of the product portfolio in past years joined with recent economic conditions to reduce revenues.

The Engineering Services Product Group offers engineering services for external and internal customers. It also produces machines and tools for Benteler Automotive and for the glass industry. Both the engineering business and the glass processing business grew. During the year, a portion of this group's activities were transferred to other product groups, so that sales are not comparable with the prior-year figures.





## STEEL/TUBE DIVISION GROWS AGAIN IN 2008

Sales at the **STEEL/TUBE** Division increased by 28 % against the prior year, to 1,076 million euros. The 2008 revenues include the Rothrist Group for the first time; it was acquired as of December 2007. But Steel/Tube sales would have risen by 10 % even without this acquisition. Shipped tonnage increased by 15 % when Rothrist was added. However, volumes in Steel/Tube's previous business remained unchanged. Prices were above the prior-year levels because it was possible to pass on most of the increased cost of raw materials to customers, and because the group sold larger volumes of products with higher value added.

The Energy Product Group's sales grew by 17 % for the year. This Group supplies seamless tubes for applications in the chemical and petrochemical industry, for petroleum and natural gas exploration, and for boiler and heat exchanger construction. With energy prices at record highs, business grew primarily in tubes for oil and gas exploration. The product group also reported gains in applications for power plant and heat exchanger construction.

Sales in the Industry Product Group increased by 14 %; 11 percentage points of this figure came from the initial consolidation of Rothrist. This product group sells hot-rolled tubes for the large-scale equipment and mechanical engineering industry, seamless cold-drawn precision steel tubes for the hydraulic and mechanical engineering industries, and welded tubes for the construction and home appliance industry. The takeover of Rothrist expanded the product range with welded and cold-drawn hydraulic tubes.

The Automotive Product Group offers solutions for weight optimization using high-strength steels, to both external customers and the Automotive Division; these are used, for example, in axles, shafts, tie rods and stabilizers. The product group also develops products to improve safety with intelligent materials solutions, such as for airbags. Sales grew by 58 % in 2008. Without Rothrist, sales would have increased by 6 %. Rothrist produces welded and cold-drawn tubes for demanding applications in automotive construction, such as camshafts.



## DISTRIBUTION DIVISION SALES DOWN

The Benteler **DISTRIBUTION** Division delivers steel and stainless steel tubes to customers through an international logistics network, and offers a variety of different tube processing techniques, as well as expert technical consulting.

In 2008 the division generated sales of 920 million euros, down 3 % from the year before. The decrease was a consequence of lower volumes, which Benteler Distribution was unable to fully make up for, even though revenues were increased by higher costs of raw materials and the larger percentage of processed tubes.

In Western Europe and Scandinavia, the division's core markets, sales revenues were down significantly. Every country except France and Switzerland saw decreases. However, sales in Central and Eastern Europe grew, as did revenues overseas. Exports to China and

business in Singapore and Brazil saw substantial growth. In Eastern Europe, growth came from both the recently founded local companies in Romania, Croatia and the Ukraine, and the division's established locations in Poland, Slovenia, the Czech Republic, the Baltic states and Slovakia – further confirmation for the division's strategy of increasing investments in these regions.

Mechanical engineering, at 40 %, remains by far the most important market segment. The supplier business for the automotive industry (especially for trucks and special vehicles), together with accessories manufacturers, represents the second largest area, with more than 20 %. Furthermore, the division especially supplies customers in plant engineering and in steel and metal construction.

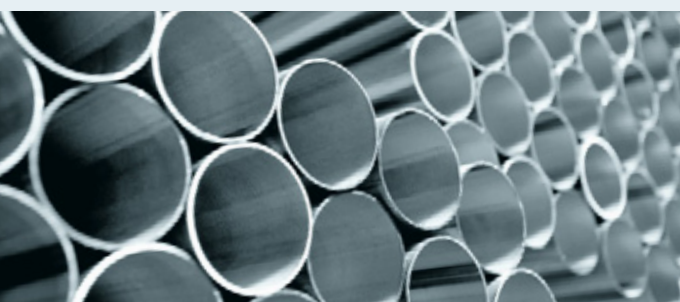
#### **ECONOMIC CRISIS PULLS DOWN CONSOLIDATED INCOME**

Consolidated pre-tax profits decreased by 30 % against the prior year, to 175.1 million euros. The return on sales decreased from 3.9 % to 2.8 %.

Cost of materials as a percentage of the total performance of 6,361 million euros rose slightly, from 70.6 % to 70.9 %, as a consequence of higher raw material prices in all three divisions. The share of personnel expenses increased from 15.5 % to 16.2 %. As sales decreased over the year, it was not possible to adjust the existing capacity fast enough. Because of the large capital expenditures of the past few years, depreciation and amortization rose from 2.4 % to 2.6 %. Other oper-

ating expenses as a percentage of total performance rose from 8.2 % to 8.6 %. The takeover of Rothrist in December 2007 pushed the average debt higher than the year before. The net interest expense increased by 5.9 million euros, to 34.8 million euros. Net interest remained steady at 0.5 % of total performance.

The Automotive Division showed a small loss for 2008. Substantially lower volumes, together with operating difficulties at two plants in the United States and one plant in France, pulled the profitability down. Benteler Steel/Tube's profits increased again during the year. This division's earnings include the profit from the Rothrist Group for the first time. But the profit in



Steel/Tube's existing business also increased, on higher revenues. Volumes at the Distribution Division were down and costs were up, especially for the growth regions in Eastern Europe and overseas, so that the profit was considerably lower than in 2007.

The tax expense came to 53.2 million euros. The tax rate fell to 30 %, against 40 % in 2007. After income taxes, the Benteler Group showed a net profit of 121.9 million euros for the year 2008, 27.9 million euros less than in the previous year. Allowing for 8.3 million euros attributable to minority shareholders, the Group net income was 113.6 million euros, compared to 140.2 million euros in 2007.

# ASSETS AND FINANCIAL POSITION

## **CAPITAL EXPENDITURES AGAIN WELL ABOVE DEPRECIATION**

The Benteler Group invested 208 million euros during the year. Thus capital expenditures for 2008 were well above the depreciation of 165 million euros, but down 35 % against the prior year. Total investments reached a record high in 2007 because the Rothrist Group was acquired at year's end.

Out of the total for 2008, 197 million euros was for fixed tangible assets, 4 million euros was for financial assets, and 7 million euros was for intangible assets, primarily IT software. Of the figure for fixed tangible assets and intangible assets, 57 % went for plants in Germany and 43 % for plants in other countries. All three divisions invested significantly in sites in Germany.

Of the total, 133 million euros, or 64 %, went for production facilities and equipment in the Automotive Division, primarily for new orders. Important single projects included axis projects for Toyota and Audi, and a new hot forming line. There were no major investments to establish new plants in 2008.

The Steel/Tube Division invested 57 million euros during the year, or 27 % of the Benteler Group's total volume. Thus Benteler Steel/Tube again received substantially more investment funds than the other divisions, relative to its share of Group sales. Most of

the funding went to expand capacity for tube processing, as well as measures for quality assurance and environmental protection.

The Distribution Division doubled total investments, to 16 million euros. By far the most substantial project was the construction of a new warehouse location in Stuttgart, which was needed to optimize logistics in Germany. Further investments went for processing equipment and for renovating or expanding warehouse locations.

## **CASH FUNDS SIGNIFICANTLY HIGHER AT END OF 2008**

The cash flow reflects only the consolidated net profit, depreciation and the change in accruals for pensions; the cash flow from business operations additionally takes account for changes in working capital and in other assets and liabilities. On these bases, cash flow was 296 million euros, 4 % less than in the previous year. In spite of the lower consolidated net profit, higher depreciation and larger allocations to accruals for pensions ensured that cash flow remained almost as high as in 2007. Because of a large increase in working capital and other assets, the cash flow from business operations was significantly lower, at 186 million euros. The Benteler Group endeavors to finance its investments (not including corporate acquisitions) out of cash flow.



## INVESTMENTS

	2008	2007	CHANGE	
	[€ million]	[€ million]	[€ million]	[%]
Automotive	133	132	1	1
Steel/Tube	57	174	-117	-67
Distribution	16	8	8	100
Holding	2	4	-2	-50
<b>Total Investments</b>	<b>208</b>	<b>318</b>	<b>-110</b>	<b>-35</b>

## CASH FLOW STATEMENT

	2008	2007
	[€ million]	[€ million]
Cash flow from business operations	186.1	280.2
<i>(of this, cash flow</i>	<i>296.3</i>	<i>309.7)</i>
Cash flow from investment activity	-194.6	-303.7
Cash flow from financing activity	72.5	-4.3
Foreign exchange/Consolidation effects on cash and cash equivalents	-0.6	0.6
	<b>63.4</b>	<b>-27.2</b>
Funds at beginning of the period	172.8	200.0
Funds at end of the period	236.2	172.8

The cash flow from investing activities includes not only investing tasks, but proceeds from the sale of investments. Net investments for 2008, at 195 million euros, were also substantially less than the cash flow of 296 million euros. The cash flow generated by financing activities came to 73 million euros in 2008. Proceeds from bonded loans and borrowings were substantially higher than payments to redeem borrowings and distributions of dividends to shareholders and minority interests. Cash included in cash funds increased by 63 million euros against the prior year, to 236 million euros in 2008; liquidity represented 9.3 % of assets, compared to 6.9 % in 2007.

#### TOTAL ASSETS INCREASE

Total assets in 2008 were 2,551 million euros, 2 % more than in 2007. The Rothrist Group was fully consolidated for the first time in the fiscal year 2008; at December 31, 2007, it was recognized as a financial asset. Total assets decreased by 4 million euros as a consequence. Fixed assets decreased by 3 million euros in all, to 1,001 million euros. Fixed financial assets decreased by 116 million euros, particularly because of the initial consolidation of the Rothrist Group; fixed tangible assets and intangible assets increased by 112 million euros. Additions of 204 million euros to fixed tangible assets and intangible assets, as well as 86 million euros from the initial consolidation of the Rothrist Group, were countered by disposals of 13 million euros at remaining book values, and depreciation of 165 million euros.

#### KEY FINANCIAL RATIOS

		2008	2007
Equity ratio <sup>1)</sup>	[%]	31.4	30.9
Internal financing ratio <sup>2)</sup>		1.42	0.97
Debt-equity ratio <sup>3)</sup>		0.38	0.29
Dynamic debt-equity ratio <sup>4)</sup>		1.03	0.73
Return on equity <sup>6)</sup>	[%]	22.2	33.5
ROCE <sup>7)</sup>	[%]	14.9	21.6
EBIT <sup>9)</sup>	[€ million]	209.9	278.1
Degree of interest coverage I <sup>10)</sup>		4.6	6.9
EBITDA <sup>11)</sup>	[€ million]	374.8	434.0
Degree of interest coverage II <sup>12)</sup>		8.2	10.8

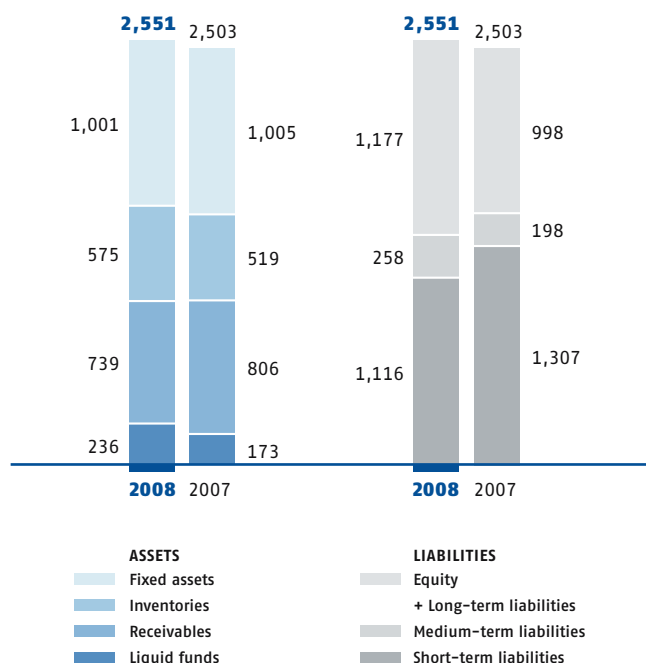
Assets other than fixed assets and cash funds decreased by 11 million euros, to 1,314 million euros. The initial consolidation of Rothrist resulted in an increase of 38 million euros in this category of assets. Inventories grew by 56 million euros, of which 49 million euros came from Rothrist as of the reporting date. Receivables were down 108 million euros against the prior year, primarily because of the significantly lower sales in the fourth quarter compared to 2007. Rothrist caused receivables to decrease by 14 million euros. Rothrist did add trade receivables of 21 million euros to the consolidated financial statements, but the financial receivables from the ownership interest in Rothrist that had been shown as of December 31, 2007, were eliminated as a result of the consolidation. Other current assets increased by 41 million euros, to 143 million euros. Most of the increase in this item resulted from tax refund entitlements.

The Group's cash funds increased by 63 million euros, to 236 million euros. As a result of central cash pool liquidity management, these funds are deposited mainly at Benteler AG and are available on a daily basis.



- 1) Shareholders' equity according to balance sheet, including 50 % of the special items for investment allowances for fixed and financial assets and 100 % of capital investment subsidies : Balance sheet total
- 2) Cash flow : Investments
- 3) Net-financial debts<sup>5)</sup> : Economic shareholders' equity (year-end balance)
- 4) Net-financial debts<sup>5)</sup> : Cash flow
- 5) Liabilities to banks, bonded loans, credits contained in other liabilities less financial assets like loans, securities and liquid funds
- 6) Result from ordinary operations : Economic shareholders' equity (average between beginning and end of the year)
- 7) (Pre-tax result + net interest) : (intangible assets + fixed tangible assets + working capital<sup>6)</sup>) (average between beginning and end of the year)
- 8) (Inventory + trade receivables from third parties, related and associated companies) ./. (trade payables to third parties, related and associated companies + notes payable)
- 9) Pre-tax result + Interest result
- 10) EBIT : Interest expenditures
- 11) EBIT + Depreciation
- 12) EBITDA : Interest expenditures

#### STRUCTURE OF THE CONSOLIDATED BALANCE SHEET [€ MILLION]



#### SOLID FINANCING STRUCTURE EVEN IN A DIFFICULT ENVIRONMENT

Economic equity increased by 28 million euros, to 802 million euros. This figure already takes into account the effects of the initial consolidation of Rothrist. The open netting of goodwill against reserves reduced equity by 43 million euros. The consolidated net profit resulted in an increase of 122 million euros in expenditures, while dividends distributed to shareholders of Benteler AG and minority interests reduced equity by 41 million euros.

Accruals came to 466 million euros at the end of 2008, a rise of 20 million euros from the previous year. This increase resulted from the takeover of Rothrist. Trade payables, at 616 million euros, were down 109 million euros from the prior-year figures, primarily because of slow business in December.

Working capital increased by 98 million euros to 533 million euros, and came to 8.4 % of sales, compared to 6.9 % a year earlier. Rothrist accounted for 63 million euros of the increase in working capital. Without the initial consolidation of Rothrist, working capital would have come to 7.6 % of sales.

Long-term funds (equity, pension accruals, and long-term borrowings with remaining terms of more than five years) came to 1,177 million euros, equivalent to 46 % of total assets. They covered 118 % of fixed assets.

The equity ratio in 2008, at 31.4 %, was marginally higher than the previous year's 30.9 %. Net financial debt increased by 79 million euros, to 306 million euros.

The gearing ratio rose from 29 % to 38 %. The initial consolidation of Rothrist produced 31 million euros of the increase in net financial debt. Despite the fourth-quarter slump, the Benteler Group generated an ROCE of nearly 15 %. Thus even under adverse conditions, the Company achieved all the goals it had targeted: an equity ratio of at least 30 %, a gearing ratio of not more than 50 %, and an ROCE of at least 15 %.

#### **CENTRAL CASH AND FOREIGN EXCHANGE MANAGEMENT**

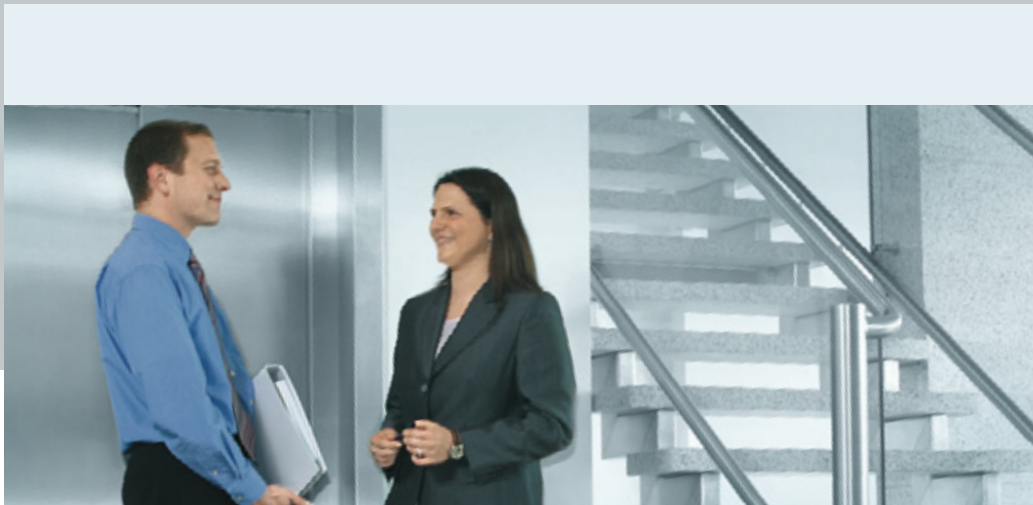
In general, the financing of the Benteler Group's capital expenditures is centralized. Liquidity surpluses or shortages are pooled within Benteler AG by way of internal investment and borrowing capabilities. This allows surpluses from individual Group companies to be transferred and used by other Group companies as needed.

As a rule, capital expenditures are financed by long-term funding and working capital by short-term funding. To ensure that long-term capital was sufficient

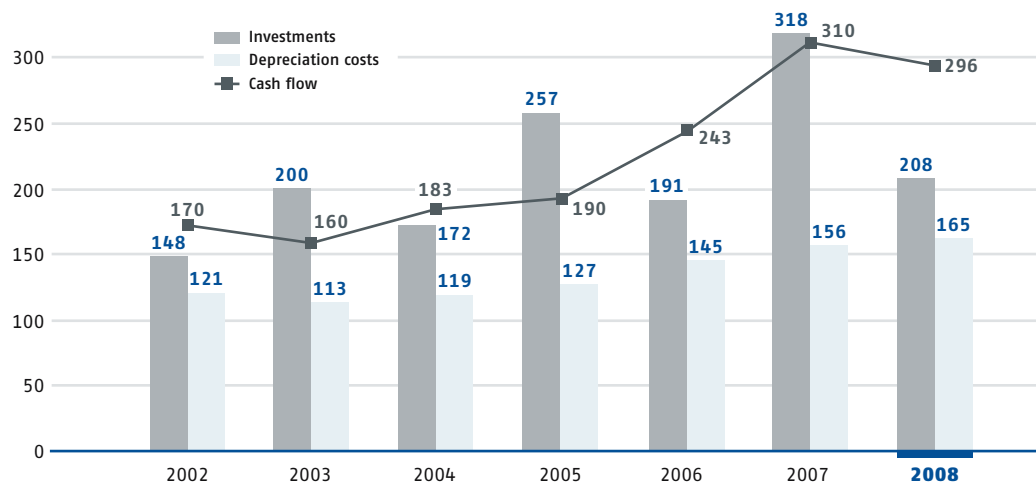
to cover fixed assets, existing loans were renewed during the year. An additional 120 million euros bonded loan was taken out to finance the Rothrist acquisition at the beginning of 2008. Credit lines of 355 million euros were available to finance working capital as of December 31, 2008; 16 million euros of this had been drawn as of the reporting date. All credit approvals are free from collateral (for an exception, see Note 17 in the Consolidated Financial Statements) and from financial covenants.

To reduce debtor risk and cover short-term financing needs, an asset-backed security program is in place in Germany (up to 75 million euros) to sell trade receivables. The program had generated 43.4 million euros in cash as of the balance sheet date.

A large portion of internal payables and receivables are netted between Group companies by way of Benteler AG, so that payment transactions can be carried out cost-effectively. The netting volume increased by 6 % in 2008, to 697 million euros.



TOTAL INVESTMENTS, DEPRECIATION AND CASH FLOW [€ MILLION]



# RISK REPORT

## COMPREHENSIVE RISK MANAGEMENT

All three divisions of the Benteler Group are exposed to a variety of risks that may have a considerable impact on the Group's assets, financial position and earnings. The Benteler risk management system is especially important in the current difficult economic environment. It governs the identification, assessment and reporting of risks, and is integrated into the Group's processes for strategy, planning and information.

Benteler AG manages its divisions on the basis of strategic and operating targets. A detailed management information system monitors the achievement of objectives; it tracks all relevant key figures in terms of actual, planned and projected figures. If there are negative deviations from the plan, the Holding initiates prompt and appropriate measures. Each month, all divisions report on their economic performance, and point out opportunities and risks affecting planned results and future developments. In addition, an aggregate risk status report is also submitted to the Executive Board every six months on the basis of an annual inventory of risks that might pose a threat to the Company's continued existence. This report informs the Executive Board of the status of risks and countermeasures on the basis of defined indicators. Officers are appointed to monitor and manage measures taken to address each risk.

The Group also has a company-wide Internal Control System (ICS) that provides for organizational safeguards, procedural arrangements, and system audits. The Executive Board has commissioned the Corporate Audit department to audit all areas of the Group at regular intervals. The matters it examines include com-

pliance with guidelines, the regularity and efficiency of business processes and reporting, and the proper functioning of risk management.

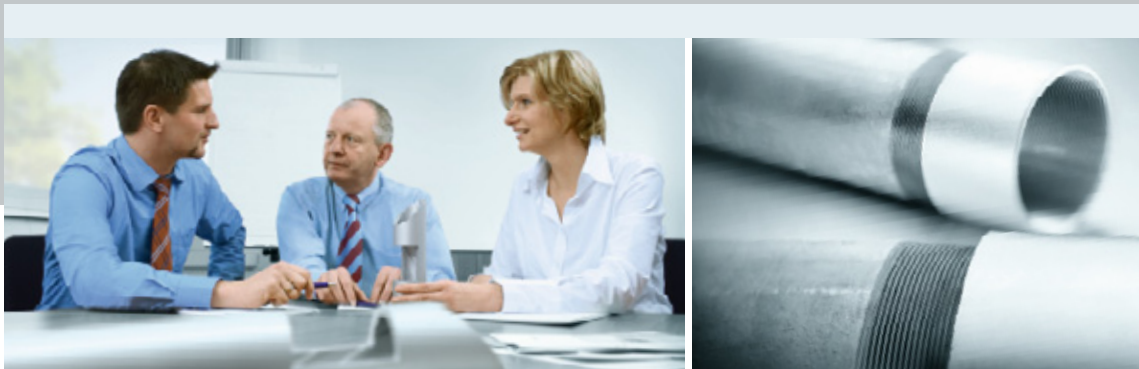
Certain especially important risks are transferred to insurers by the corporate service provider BLV, in consultation with the Executive Board. In particular, claims resulting from recalls or cases of liability are covered, as are property damage and losses caused by interrupted operations.

The risks described below are not the only ones to which the Benteler Group is exposed. Unforeseen risks or risks considered negligible today may also have adverse effects on business activities.

In the current difficult economic environment, special attention must be paid to risks related to the influence of business cycles on demand, especially customer and supplier risks, as well as liquidity risks. The management also pays careful attention to changes in procurement markets, as well as project risks, quality risks, currency risks and IT risks. To safeguard its future business, Benteler has developed scenarios and corrective strategies in the following areas.

## RISKS RELATED TO EFFECTS OF BUSINESS CYCLES ON DEMAND

The business plans point out opportunities in new products, clients and markets. These are countered by risks relating to sales volumes, sales revenues, and profits, which arise if carmakers' production stagnates or indeed even declines for the car models for which Benteler serves as a supplier. Cyclical economic fluctuations may also significantly influence the business



with steel tubes. During 2008, demand decreased significantly in all three of the Benteler Group's divisions. Sales revenues and volumes declined sharply in the fourth quarter.

The diversification of the Benteler Group's activities cushions the effects of the current crisis. On the one hand, the Group's three divisions serve different markets. On the other hand, the Group has expanded its presence worldwide. In addition, the Automotive Division sets limits on concentrating volume on single customers, while the Steel/Tube and Distribution Divisions serve highly diversified clienteles. Additional steps had become necessary because the current slump in sales volumes has spread to nearly every market and client segment. During the fourth quarter of 2008, the Executive Board and the Management Boards started projects to adjust cost structures in every department to fit reduced demand. Moreover, every division is hard at work to sustainably safeguard the Benteler Group's solid liquidity position by cutting back capital expenditures and reducing working capital.

#### SPECIFIC CUSTOMER AND SUPPLIER RISKS

Adverse economic performance among individual contracting partners could have consequences for the Benteler Group's sales and earnings. The Group limits these risks by maintaining a broad diversification of its

customer and supplier base, as already described above, and by insuring some of its receivables and continually monitoring major market developments.

The Benteler Group might take losses if the creditworthiness of individual customers deteriorates so that delays or defaults occur in payments, or planned sales volumes cannot be realized. In the current adverse economic climate, the Company has intensified its debtor management even further. Each day, the divisions' sales organizations track clients' economic condition and payment performance, and review opportunities for hedging risks.

To meet its obligations as a supplier, the Benteler Group must rely on materials and services provided by numerous other companies. Especially in today's tense business conditions, existing suppliers may have difficulties in supplying Benteler, or new suppliers might have to be found on short notice, thus impeding the Company's business. The Automotive Division has an especially large number of specialized suppliers. Here the purchasing department has developed an extensive range of tools for mitigating risks. Suppliers' credit ratings are continuously monitored with the assistance of external and internal sources of information. Specialized purchasing teams make sure that if a crisis arises, the division's supplies – and thus its ability to serve its end customers – are safe.



#### CHANGES IN THE SUPPLY MARKETS

Fluctuations in the price of steel, scrap metal and alloys pose a considerable risk for the Benteler Group. If prices for raw materials rise, for example, it is not always immediately possible to pass on the entire increase to the customers by raising sales prices. The result may be an adverse effect on operating profits. Conversely, delays in passing on lower procurement prices may also have a positive influence on earnings.

The Automotive Division buys considerable quantities of hot-rolled and cold-rolled steel, generally under rather long-term contracts. It passes on most increases in procurement prices to the customer. To compensate for price increases in raw materials, the Steel/Tube Division introduced a material cost increase in 2005. At Benteler Distribution, declining procurement prices may reduce revenues on the sale of stock on hand. For that reason, the division actively manages its inventory levels, especially when market volatility is high.

#### PROJECT RISKS

The Automotive Division is involved in complex development and production projects. Their inherent risks include unexpected technical difficulties or problems with Benteler or its suppliers. Those, in turn, may lead to higher costs for the start of series production and/or higher investments than were planned, among other consequences. To avert or reduce these risks, the division has set revised standards for project execution.

These call for regular project reviews to permit early countermeasures when needed. Suppliers are included in this process, and are audited at stipulated intervals.

#### QUALITY RISKS

Shortcomings in development, production or logistics at Benteler plants or suppliers may cause parts to be delivered to customers late or in faulty condition. Such problems may expose Benteler to claims for damages. For that reason, the Benteler Group has introduced extensive operating procedures governing process reliability, quality management and process audits, at its own plants and for its suppliers. To mitigate such risks in their own production operations, the divisions constantly refine their production methods and apply preventive maintenance on their equipment. At the same time, they continue expanding their systems for seamless documentation of the production steps for each part. These measures are intended to minimize the potential consequences if suppliers deliver defective parts, or if Benteler itself produces defective products (recall risk). The Benteler Group has taken out insurance policies to limit residual risks resulting from liability or damage claims. Damage claims may also result from purchases of defective materials. Through a cooperative arrangement with an insurance broker, the Benteler Group also offers advantageous ways for its external suppliers to take out product liability and recall insurance.

#### FOREIGN EXCHANGE RISKS

The scope of our international business relations, especially in purchasing and sales, exposes the Benteler Group to foreign exchange risks as a result of fluctuations in exchange rates. The finance and foreign exchange management functions, which are managed centrally through Benteler AG, largely rule out foreign exchange risks by applying an information system and associated hedging transactions. The Group generally hedges customer orders and additional purchasing volumes denominated in foreign currencies, using well-established procedures.

#### LIQUIDITY RISKS

The Benteler Group requires a sufficient supply of liquidity to safeguard its continuing existence. The financing that must be covered is computed on the basis of plans, and is generally obtained by way of medium- and long-term borrowings, primarily from core banks. Additional financing needs may develop if economic risks arise. Borrowed funds may also be needed in order to take advantage of opportunities. Having a supply of liquidity on hand is especially important at the moment, since the financial crisis has made it significantly more difficult, and more expensive, to obtain additional funding.

Thanks to its long-term, conservative financing policy, the Benteler Group is well prepared to meet the current challenges. It significantly stepped up its long-term financing in 2008, especially by taking out a bonded loan. The inventory credit lines maintained to finance working capital were renewed to a large degree.

This solid financing structure ensures that the Company will remain solvent even under the burden of adverse economic conditions. Additionally, the Benteler Group has taken further steps to enable it to assess future financing needs even more accurately, and to free up liquidity within the Company. The main emphasis here is on reducing working capital, and on limiting investments to those projects that are necessary in order to maintain business operations.

#### IT RISKS

The failure of IT systems and/or the manipulation of data could interfere with important processes of the Benteler Group, and might for example result in delivery problems or failed deliveries. Benteler counters this risk with a redundant configuration of IT systems and with authorization rules, emergency plans, and IT security guidelines, all of which are regularly reviewed.

#### OVERALL ASSESSMENT OF RISK MANAGEMENT

In the reporting year, in addition to auditing the Consolidated Financial Statements, the auditors of the German companies' single-entity financial statements also examined their risk management processes. They concluded that the Benteler Group complies with the requirements of law, and that the Company's early warning system is capable of identifying any developments that might pose a threat to the Company's continuing existence on time.

After examining the current risk situation, there is no identifiable risk at present that could pose a threat to the continuing existence of the Benteler Group.

# REPORT ON RESEARCH AND DEVELOPMENT ACTIVITIES

## **PROGRESS THROUGH INNOVATIVE TECHNOLOGIES, PRODUCTS AND PROCESSES**

The Benteler Group feels an obligation to offer its customers competitive advantages by way of high-performance products and processes, comprehensive service and new materials. For that reason, innovation is a key feature of every department. We work with customers to analyze their needs and develop the best solutions in terms of technology and cost.

## **TUBE SOLUTIONS ENHANCE CUSTOMER BENEFIT**

Benteler Steel/Tube offers high-grade tubes for customers in the energy, industrial and automotive sectors. The entire organization focuses on advancing the technical development of products and accelerating innovation processes. To move ahead even faster here, in 2008 the Division pooled innovation management and technology management in a new Central Development unit. Its work will focus primarily on steel goods that meet requirements, improved geometries, closer tolerances, new surfaces, and expanded service. This comprehensive tube know-how enabled the Steel/

Tube Division to expand its share of especially high-grade, high-performance products – which it calls tube solutions.

## **BETTER MATERIALS AND SURFACES**

The ability to develop improved coatings for materials and surfaces, quickly and efficiently, is increasingly becoming a crucial factor in competition. The focused use of high-performance simulation methods is now indispensable in this regard. To offer innovations in materials simulation as well, during the year Benteler launched a cooperative effort with the newly founded ICAMS materials research center at Ruhr University in Bochum. ICAMS stands for Interdisciplinary Center for Advanced Materials Simulation.

## **HIGHER EFFICIENCY WITH NEW TUBES**

Higher-alloy tube materials are becoming more and more important in meeting steadily rising requirements for energy efficiency (in combination with lower CO<sub>2</sub> emissions) at large-scale power plants. That's why the Steel/Tube Division focused its product development





further on these materials during the year, so as to fit customers' needs better. Benteler also developed its first tube solutions for the renewable energy sector, especially for heat exchangers in solar thermal power plants. This was made possible by producing the first extremely small, very long U-bend tubes. The Steel/Tube Division is also hard at work developing suitable coatings for solar applications.

#### **SAVING WEIGHT WITH TUBE SOLUTIONS**

Benteler Steel/Tube's skills in automotive tubing are primarily in lightweight construction. In 2008, it produced its first hollow springs made of welded and drawn tubes. The tubes, formed into springs, are hardened to a strength of more than 1,800 MPa. In uses with undamped masses they are more than a third lighter than conventional wire springs. The new springs are expected to see their first applications in innovative sports chassis. In lightweight trucks, a new

axle solution made of an air hardened steel has reduced component weight by 10 % and cut fuel consumption. The steel also offers the necessary strengths of about 700 MPa without the usual additional hardening treatment. Series production is planned for 2009.

#### **IDEAS FOR THE CARS OF TOMORROW**

At Benteler Automotive, research and development activities focus on refining existing products and processes, and on new ideas for tapping additional lines of business for the Benteler Group. Here the main concerns of the automotive industry are the primary interest: lightweight construction, lower emissions, safety, and comfort. Custom-made components, new materials and mechatronic systems will have an increasingly strong influence on future business. Additionally, developing new technologies opens up opportunities for improving costs together with product characteristics.

### HIGH POTENTIAL FOR CFP COMPOSITES

In the face of climate change and the resulting CO<sub>2</sub> debate, lighter-weight auto bodies are becoming more and more important. Working with carbon-fiber reinforced plastics (CFPs) offers particularly great potential for significant reductions in vehicle weight. Today's high-cost processes, with their large proportions of manual activity, are suitable only for small series production. To tap this material's performance in series production, Benteler Automotive founded a joint venture with European carbon fiber maker SGL Group. Benteler SGL GmbH & Co. KG, headquartered in Paderborn, pools the capabilities of Benteler Automotive and the SGL Group in automotive component production and development, and in the production of carbon fibers and semifinished materials.

The first task of the joint venture was to identify components in which to use a steel-CFP composite that can reduce weight or increase performance significantly for a reasonable additional cost. Studies showed weight savings of up to 50%, depending on the component. The innovative composite can be used, for example, to make CFP-reinforced B-pillars that are designed individually to meet particular crash

resistance requirements. A variety of approaches were also developed to make the technology suitable for large series production. The emphasis here was on developing new resin systems that permit shorter curing cycles and take over the function of the adhesive layer. In parallel, CAE methods were developed for calculating mechanical characteristics, and will be available to OEMs in the future for computing entire vehicles.

### ALUMINUM TO INCREASE PERFORMANCE

Hybrid steel-aluminum components have a high potential for further weight reduction. For such applications, Benteler Automotive has developed innovative joining technologies such as adhesive methods, composite casting, and a special welding process. These methods can be used, for example, to produce especially high-performance axles, or for crash boxes that have the same safety as current series-produced solutions, but are significantly lighter-weight.

The Benteler Group increased its development expenditures in 2008 to 123.3 million euros, 12.8 % more than in 2007.

# REPORT ON QUALITY AND THE ENVIRONMENT

## COMPREHENSIVE QUALITY MANAGEMENT

International quality standards are a matter of course at all Benteler sites. Regular, successful certifications of production sites according to the ISO/TS 16949 management system standard guarantee that Benteler Group customers can expect a uniform standard of quality worldwide. Benteler also has accreditations, certificates and licenses from notable German and international certification and classification organizations. The quality management system is also revised and expanded regularly to make it more efficient and make employees even more quality-conscious.

## UP-TO-DATE ENVIRONMENTAL PROTECTION

Modern environmental protection measures are an important part of the Benteler Group's business processes.



They include continuous improvements in processes and technologies, with the aim of saving resources and energy, and avoiding or recycling waste. The Company encourages environmentally aware attitudes and actions worldwide, aiming to achieve ecological and economic goals on an equal footing. The environmental management system, certified according to DIN ISO 14001, is regularly reviewed and refined with external and internal audits.

In a world of ever more rigorous environmental conditions, farsighted action is needed if a company is to remain able to act at all. That is why the Benteler Group made sure at an early stage that the substances affected by the new EU Chemicals Regulation (REACH) could be pre-registered by December 1, 2008. Relevant suppliers were audited for their compliance with REACH requirements, and clients were notified of the procedure.

The Company also works continuously to make its use of energy and raw materials more efficient, through a wide variety of measures – such as modern furnace control systems, using waste heat to heat process baths, or installing additional thermal insulation in administrative and production buildings.

# PERSONNEL REPORT

## PEOPLE ARE THE KEY TO OUR SUCCESS

The success of the Benteler Group is closely tied to the employees' performance, their creativity, and their personal and professional expertise. Their dedication is the foundation for every success in the marketplace and every new idea that will advance the Company's growth.

The Benteler workforce worldwide averaged 24,281 employees for 2008, 1,343 more than in the previous year. Out of the increase, 573 employees belonged to the Rothrist Group.

During the year there were 452 trainees in Germany and 72 in other countries. Consequently the number of trainees was up a total of 3 %.

In the Automotive Division, the average workforce increased by 619, or 3 %, to 18,361 employees. Most of the increase was at locations outside Germany (+504). In response to new orders, the division hired 208 new employees in the Czech Republic, 188 in South America, and 166 in China. The number of employees in Germany increased by 115, especially due to an expansion of engineering activities. As in the year before, 32 % of the workforce was employed in Germany. In 2008, 76 % of all Benteler Group employees worked in the Automotive Division.

In the Steel/Tube Division, the number of employees rose against the prior year because of the initial consolidation of Rothrist. A total of 4,070 employees worked in this division, an increase of 633, or 18 %, from the year before; 573 of the new employees worked at the Rothrist Group.

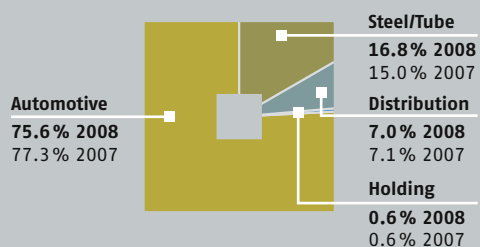
In the Distribution Division, the number of employees increased because of the expansion of sites outside Germany. The staff grew by an average of 5 %, to 1,696. The staff of the Holding increased by 11, to 154.

On average, 13,925 employees were working in countries outside Germany, and 10,356 in Germany during the year. The workforce grew both in Germany (+381) and in other countries (+962). The percentage of employees in Germany remained constant at 43 %.

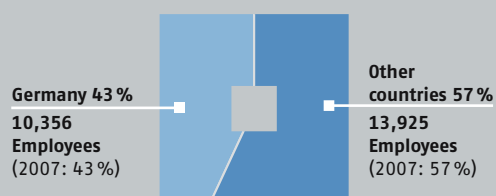
## WORKING AT BENTELER – A PARTNERSHIP WITH A FUTURE

If the Group is to achieve its goals – long-term profitable growth and assured independence – it must be able to recruit and keep creative, high-performing employees, and develop their skills further. For that purpose a joint personnel strategy for all divisions of the Benteler Group was adopted in 2008.

# PERCENTAGE BREAKDOWN OF WORKFORCE BY DIVISION



# BREAKDOWN OF BENTELER GROUP WORKFORCE: STAFF IN GERMANY AND OTHER COUNTRIES



# BREAKDOWN OF EMPLOYEES BY DIVISION (ANNUAL AVERAGE)

	2008	2007	CHANGE	
				[%]
Automotive	18,361	17,742	619	3
Steel/Tube	4,070	3,437	633	18
Distribution	1,696	1,616	80	5
Holding	154	143	11	8
<b>Employees</b>	<b>24,281</b>	<b>22,938</b>	<b>1,343</b>	<b>6</b>
Of which are trainees*	524	507	17	3

\*including retrainees

### **NEW EMPLOYEES BENEFIT**

The increasing competition for skilled employees for the divisions means that an intensive, personal appeal to relevant target groups must be made. The goal is to attract young talents to the Company at an early stage. During the year, some 250 interns and 100 university students about to receive their diplomas were provided with a look at the job world. Many of the students got to know the Benteler Group at one of the 20 company contact fairs the company held in Germany and other countries. Benteler not only aims to build ties with students, but even offers to help finance studies for especially qualified candidates. "Combination Courses of Study" enable students to combine their academic work with phases of intensive practical experience leading to professional certification. In addition to specialties in mechanical engineering, economics, electrical engineering, international business and applied computer sciences, in 2008 accounting and finance was added to the curriculum. The number of participants has risen steadily since the program was launched in 2001. At present 90 students are taking advantage of this unusual combination of theory and practice. By now the first groups of students have completed their training and studies with outstanding results, and are working at Benteler companies. The strong practical orientation and networking offered while they are still studying help these young people to enter their chosen profession successfully.

Vocational training also developed further during the year. The Company had 524 trainees and retrainees during the year, 452 of them in Germany. The numerous prizes that the vocational trainees and academic students won in 2008 prove how well these employees were prepared for their later professions. For example, the Benteler Group produced the state's top trainee for the ninth time in a row, and the best in all of Germany

for the second time. In addition, the Distribution Division has started a graduate program. In response to plans for further expansion worldwide, it has developed a 12-month trainee program that accepted ten trainees from eight different countries during the year. The international program focuses on marketing, sales, IT, logistics, purchasing and business development. The trainees are given intensive training in Germany for their future duties at sites in other countries.

### **E-RECRUITING – A PROMISING FUTURE**

The Internet continues to displace conventional recruiting tools like want ads and job fairs. The Benteler Group introduced an online job application system as early as 2005. It is being expanded all the time, so that more and more Benteler companies can take advantage of this up-to-date tool. Applications are already accepted in four different languages.

### **EMPLOYEE QUALIFICATION WORLDWIDE**

The qualifications of the management and employees are the foundation of Benteler's competitiveness. That is why it is important to keep building their skills systematically. As a basis for a comprehensive management audit and a holistic human resource development system, the Benteler Competency Model that had been introduced several years ago was revised during the year. The characteristics for success that it describes apply throughout the Company, so that all employees are assessed on the basis of comparable, transparent standards.

### **ALL-INCLUSIVE RANGE OF ADVANCED TRAINING**

Worldwide growth and increasing international, inter-divisional cooperation often make jobs more complex. To make sure employees at all levels will always be able to meet the resulting requirements, the Benteler

Group offers them an all-inclusive range of advanced training courses. The programs establish a joint understanding of procedures and process steps within Benteler, and facilitate efficient cooperation under the overarching principle of a lean company.

#### **BUILDING EMPLOYEE LOYALTY – BENTELER DAY CARE CENTER OPENS**

Young people in particular expect their employer to help support compatibility between job and family. For many years now, the Benteler Group has offered them flexible work time plans, and has regularly expanded its already broad range of options and benefits. In 2008, Benteler's Rohrspatzen day care center opened at the main site in Paderborn. The center currently takes care of 46 children, in three mixed-aged groups from four months to preschool. Important elements of the care concept include exercise, speech development, nature and the environment, and exploring and experimenting. To encourage the children to engage in these activities, the center offers an experi-

mentation workshop, a speech laboratory, a sports and games room, and a generously dimensioned outdoor playground.

#### **HEALTH MANAGEMENT**

The changing age structure of the staff is another important feature in human resource work. Apart from qualification and age-appropriate assignments for older employees, this also means establishing attractive loyalty-promotion programs for current and future employees, and offering health programs for the staff. In this way the Company both meets its social responsibility and strengthens its competitiveness. Many sites held health promotion campaigns during the year. These ranged from healthy meals at the canteen, to anti-stress training, to checkups. Company facilities for sports and leisure were another part of the mix. Programs are constantly expanding. Benteler Steel/Tube now has health consultants at every site, who conduct a variety of campaigns as part of company health management.





# FORECAST

## PREPARING FOR A DIFFICULT 2009

Even in the current economic conditions, the Benteler Group's paramount corporate goals are to build enterprise value continuously for the long term through profitable growth, and to maintain financial independence. The Company will continue working to make the most of market opportunities and to prepare for new challenges.

The outlook for the world economy has deteriorated significantly for 2009. Compared to the fourth quarter of 2008, demand has been substantially weaker in the first three months of this year. The International Monetary Fund expects growth of 0.5 % for 2009 as a whole, the lowest figure since the Federal Republic of Germany was founded. According to that projection, gross domestic product this year will decrease by 2 % in industrialized countries, and growth in developing and emerging economies will slow to 3 %. The economic climate index, a good indicator of future economic performance, is currently only slightly above 50 in the United States and Europe, the worst value in 20 years. The banking crisis has made credits less accessible, and the credit costs are rising. The result is a burden on capital expenditures and consumer spending. As demand declines, so do the prices of raw materials and energy, raising the threat of deflation. To halt these changes, almost every country is taking massive steps to support demand and banks, resulting

in substantial budget deficits. It is very difficult to foresee how effective these political measures will be, and how quickly the economy will return to a sustained growth track.

Under these conditions, the primary focus is on preparing the Benteler Group even better for these new market conditions. As recently as the end of 2008, a number of steps were initiated to safeguard our profitability and good liquidity position, even in times of substantially reduced demand. The considerable decreases in sales volumes make it necessary to adjust capacity quickly. The divisions are applying various tools for this purpose; in Germany, for example, they are paring back flextime credits, reducing weekly work hours, and putting staff on shortened schedules. Under the leadership of the Executive Board and the Management Boards, all units are reviewing their processes and structures to adjust costs to the lower volume of business. Every function and company is being treated in the same, systematic way. The Company is taking advantage of every opportunity to free up liquidity by reducing capital expenditures and working capital. These projects aim for ambitious improvements and immediate implementation. We will hold firm to the same conservative financing principles in the future as in the past. As usual, capital expenditures will be financed from cash flow, the equity ratio is to be at least 30 %, and gearing is not to exceed 50 %. Our





measures to safeguard profits and liquidity, and our extremely solid financing, have placed the Benteler Group in a sound position to confront the current difficult economic environment, and we actually view this crisis as an opportunity to position ourselves successfully for the years beyond.

#### **CHALLENGES FOR THE AUTOMOTIVE DIVISION**

Market researchers expect worldwide sales volumes for vehicles to decrease by 12 % in 2009 against 2008. This would mean a further decrease of 8 million, to 61 million units. It may well take until at least 2011 for production volumes to return to the levels of 2007. In the past, it has taken up to five years to overcome crises in sales volumes. Medium-term developments are difficult to foresee, given today's levels of uncertainty. But the trend toward efficient, smaller, more economical vehicles is likely to continue.

Amid this environment, automotive producers and suppliers are under considerable pressure. The sales slump means that their capacity is underutilized. Companies from emerging economies have joined the former list of competitors from industrialized countries; they have developed substantial stores of know-how and expanded their ranges of goods and services. The

difficulties in the financial sector are making the indispensable financing for new car sales significantly more difficult. The automotive industry is having considerable difficulties financing even its own business, so that both OEMs and suppliers are threatened with insolvency.

In spite of these challenges, the future will still hold opportunities for those providers who can weather the current crisis effectively. Growth in new sales regions will continue. Because of the special requirements in these countries, new vehicle segments will develop, especially for low-cost passenger cars. Higher energy prices are spurring a lasting worldwide demand for more efficient, lower-emission engines, and lighter-weight vehicles. The debate about global warming is now leading to political action, with substantial consequences for the passenger cars to be built in the future. At the same time, requirements for active and passive safety are rising, as are expectations about driving comfort.

As a provider of innovative solutions that combine, for example, high performance and low weight, the Automotive Division is well equipped for the competition of the future. Chassis from Benteler win praise in all vehicle classes for their dynamic performance,

safety and driving comfort. As the market leader in hot forming, the Group offers a technology that is particularly effective at meeting requirements for low weight and thus fuel efficiency. Benteler components for uses around the engine help protect the environment by reducing fuel consumption. These products have good market opportunities among European and Asian producers.

In a number of projects, Benteler Automotive is hard at work to adjust to the economic crisis and make the most of strategic opportunities. As in the other divisions, all structures and costs are being put up on the test bench to fit them to lower sales volumes. Steps to safeguard liquidity are being identified and implemented. Additionally, Automotive will continue working on a number of strategic projects. These focus on new materials and products, new markets, and improved operations. One important project, for example, concerns using carbon fibers or CFP to develop high-strength components with optimized weights. Here the Benteler Group is working on the first client projects under a joint venture with SGL Carbon. Because of the current high levels of uncertainty, it is difficult to offer any projection of profits for 2009. The measures that the division has initiated are intended to allow it to break even in spite of the collapse in demand during the current year.

#### **WEAKER OUTLOOK FOR STEEL/TUBE DIVISION**

The economy is also weighing on the Steel/Tube Division. Lower prices for petroleum and natural gas have slowed demand for tubing for energy exploration, especially in the United States. Power plants must still be built in Asia, to enable economic growth even at reduced rates. But weaker energy demand and difficulties with financing are causing delays in new construction. Demand remains high for tubing for repairs and renovations at European and American power plants, but is also being held back by the same factors. Although further innovations have been launched on the market, in light of these developments the Energy Product Group expects sales volumes to decline slightly.

With new orders slack, the mechanical engineering and hydraulics industry's demand for tubes was down significantly at the beginning of 2009. This trend is being reinforced by the fact that dealers who



maintain inventory are adjusting their stock to declining demand. For standard products, moreover, manufacturers from low-wage countries have been penetrating Western European markets, intensifying competition there. The Industry Product Group, with its especially high-performance tube solutions, is well positioned amid this difficult environment. But it will not be able to entirely escape the general market trend, and therefore expects sales volumes to be below the prior year's levels.

The automotive industry expects significantly lower volumes in 2009, which in turn will also affect the demand for tubes. However, the trend will continue toward replacing solid materials with tubes – and where possible, with seamless, welded and cold-drawn tubes – for reasons of weight and cost. The Automotive Product Group's innovative range of products places it in a good position to take advantage of these changes in the market. Nevertheless, in spite of

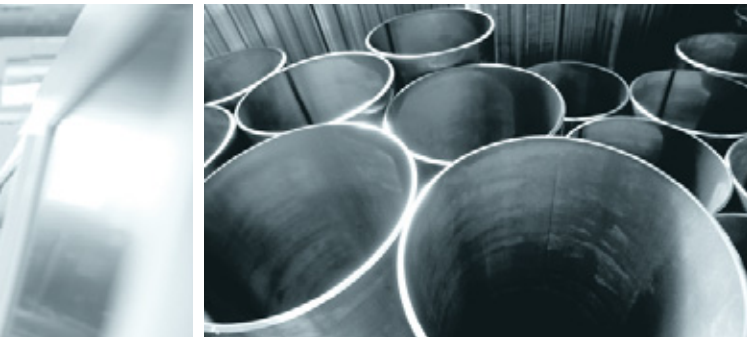
that good positioning, it expects lower volumes because of significantly lower automobile production.

The Steel/Tube Division assumes that price changes for raw materials will not cause losses of margin. Like the other divisions, it has taken extensive steps to adjust costs and safeguard liquidity. But because of lower demand, it expects profits to recede significantly.

#### **LOWER VOLUMES IN DISTRIBUTION DIVISION**

Because of lower demand among its principal customer groups in mechanical engineering, automotive, plant engineering as well as steel and metal construction, Benteler Distribution expects volumes in 2009 to be down from 2008. Many customers have taken steps to free up liquidity and reduce working capital, which will have an additional adverse effect here.

The Distribution Division, like the other divisions of the Benteler Group, has taken extensive steps to cut costs and free up liquidity. Additionally, it will continue pursuing its projects to optimize logistics and processes in 2009, so as to achieve the savings it aims for. In preparation for a revival of growth in the future, Distribution is also investing in new markets and is selectively expanding its product portfolio with articles that are consistent with its core business. Because of reduced volumes, the division expects profits in 2009 to be lower than in 2008.



## SUPPLEMENTARY REPORT

There were no major changes in the business situation for the current year after the preparation of the annual financial statements. There were no transactions of particular importance that would need to be reported after the end of the fiscal year.

This Management Report contains forward-looking statements about expected developments. These statements are based on current estimations and inherently involve risks and uncertainties. Actual events may differ from the statements presented here.



## DISCLAIMER