

08

ANNUAL REPORT

From the idea to the customer





TITLE

A special process
turns 3-D CAD drawings
into plastic prototypes.

A close-up, shallow depth-of-field photograph of a STIHL power tool. The focus is on the grey plastic handle and trigger mechanism on the right side. The background is a bright, out-of-focus white surface, likely the tool's body. The lighting is soft and even, highlighting the textures of the plastic and metal components.

FROM THE IDEA TO THE CUSTOMER

At the beginning of a STIHL product stands the idea to make work easier for our customers. As a worldwide leading producer of chain saws and handheld power tools for forestry and agriculture as well as gardening and landscape maintenance and the construction industry, we invest in the ongoing development of our products and production processes servicing our customers, as well as in constantly new product ideas. We're driven by a passion for technology and uncompromising quality.

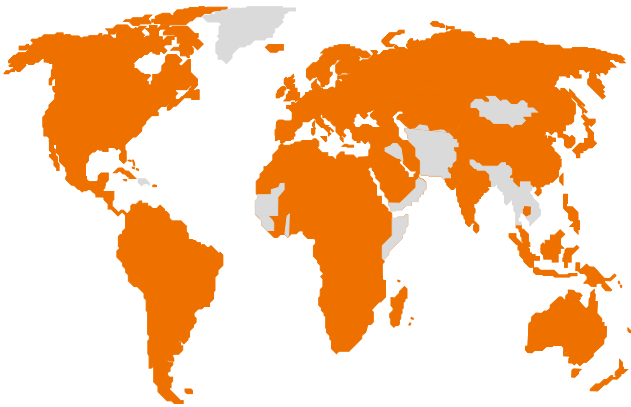
KEY FIGURES

STIHL GROUP		2008	2007	2006
Turnover	million euro	2,142.7	2,087.8	2,018.7
Export share of turnover	%	88.7	88.3	87.9
Employees	Dec. 31	11,484	9,779	9,449
Investments	million euro	190.1	170.9	164.2
CONSOLIDATED STIHL GROUP ¹				
Turnover	million euro	2,136.8	2,083.7	2,014.9
Wages, salaries, social security, pensions	million euro	495.5	484.0	462.9
Employees	Dec. 31	10,063	9,733	9,281
Balance sheet total	million euro	2,521.4	2,256.5	2,163.1
Equity ²	%	60.4	61.0	58.1
ANDREAS STIHL AG & CO. KG		2008	2007	2006
Turnover	million euro	817.9	906.5	869.3
Export share of turnover	%	88.3	86.8	86.2
Wages, salaries, social security, pensions	million euro	246.2	254.9	239.8
Employees	Dec. 31	3,750	3,833	3,788
Investments	million euro	45.4	39.4	34.9
Balance sheet total	million euro	719.6	658.9	730.2
Equity ²	%	51.5	48.5	50.4

¹ Only consolidated companies

² Equity includes the participating capital and the loan from the EVA MAYR-STIHL STIFTUNG (foundation)

STIHL WORLDWIDE



The STIHL Group develops, manufactures and distributes outdoor power equipment for forestry, landscape maintenance and the construction industry. Products are sold exclusively through servicing dealers. The STIHL sales and distribution organization consists of 32 own sales subsidiaries, more than 120 importers and some 35,000 dealers in more than 160 countries. STIHL has been the world's best-selling chain saw brand since 1971.

Globally positioned on five continents
and represented in more than

160 COUNTRIES

STIHL GROUP

STIHL AG

STIHL HOLDING AG & CO. KG

ANDREAS STIHL AG & Co. KG
Founding Company | Waiblingen

STIHL Vertriebszentrale
AG & Co. KG | Dieburg

STIHL & Co.
Wil | Switzerland

STIHL International GmbH | Waiblingen

Subsidiaries of
STIHL International GmbH

EUROPE Austria¹ | Belgium | Bulgaria |
Czech Republic | Denmark | France | Greece |
Hungary | Italy | Norway | Poland | Portugal |
Romania | Spain | Sweden | Switzerland¹ |
The Netherlands | Ukraine | United Kingdom |
THE AMERICAS Argentina | Brazil¹ | Canada |
Mexico | USA¹ | **ASIA** China¹ | Hong Kong |
India | Japan | **OCEANIA** Australia |
New Zealand | **AFRICA** South Africa

Zama-Subsidiaries of
STIHL International GmbH

ASIA Hong Kong | Japan

¹ STIHL Manufacturing and Sales Companies

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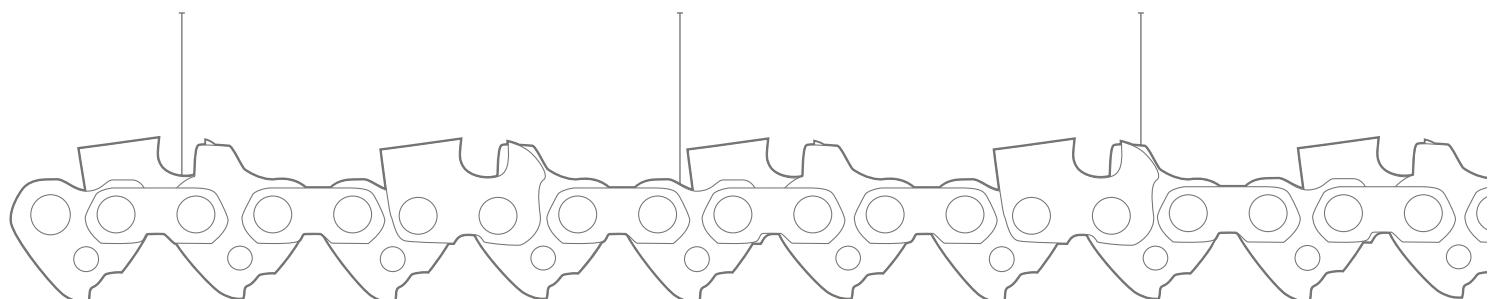
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FROM THE IDEA TO THE CUSTOMER.

All along the journey from the initial idea to advising the customer to the final delivery of our products, people at STIHL show their unflinching commitment and passion for technology by doing everything they can to find the best solutions for our customers. Join us on a voyage of discovery and meet some of those very people.



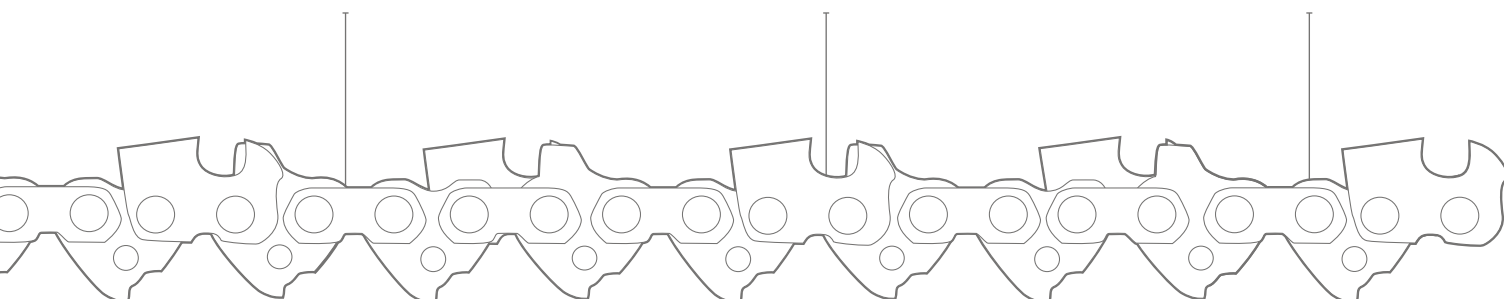
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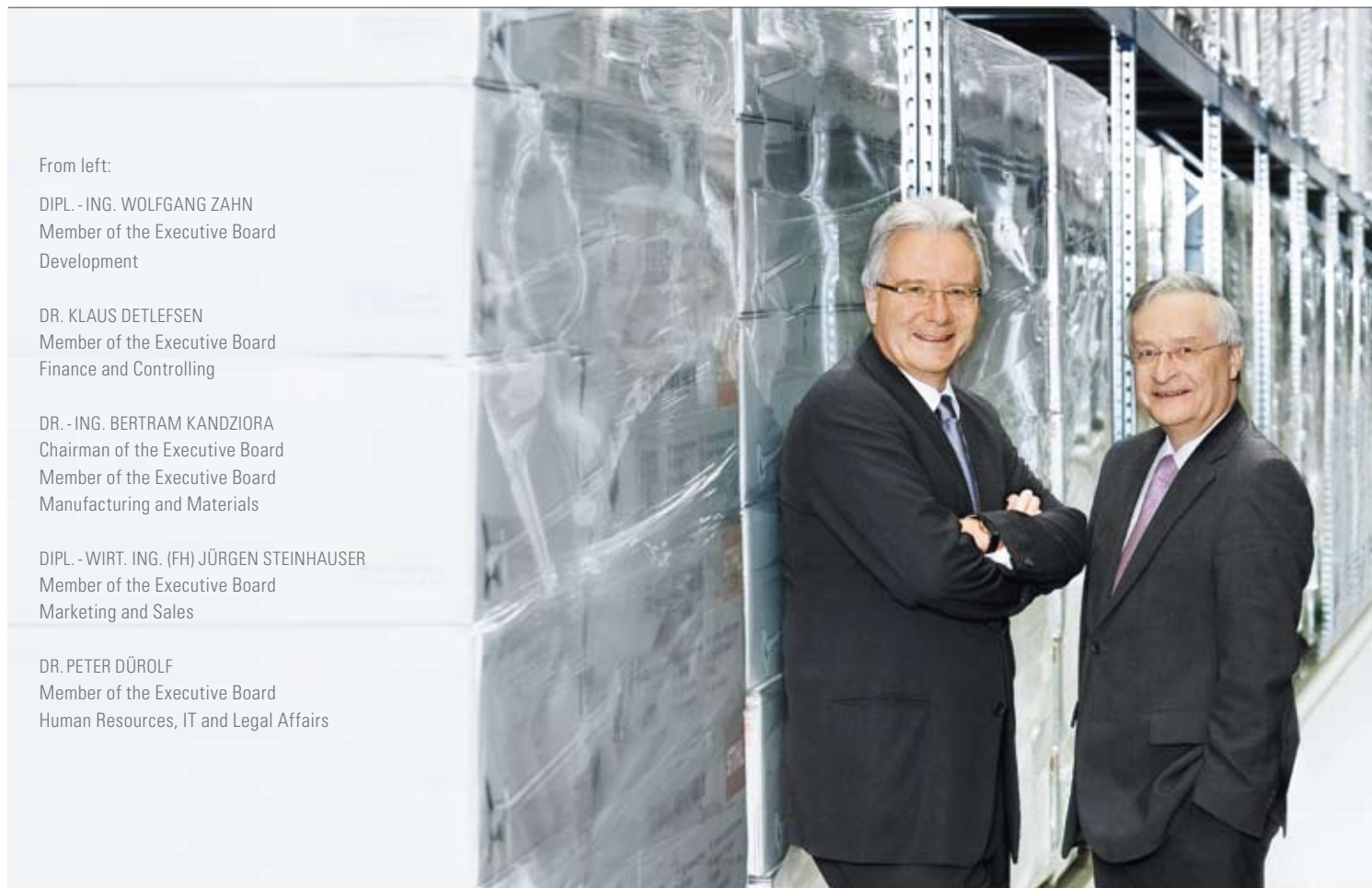
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From left:

DIPL. - ING. WOLFGANG ZAHN
Member of the Executive Board
Development

DR. KLAUS DETLEFSEN
Member of the Executive Board
Finance and Controlling

DR. - ING. BERTRAM KANDZIORA
Chairman of the Executive Board
Member of the Executive Board
Manufacturing and Materials

DIPL. - WIRT. ING. (FH) JÜRGEN STEINHAUSER
Member of the Executive Board
Marketing and Sales

DR. PETER DÜROLF
Member of the Executive Board
Human Resources, IT and Legal Affairs

Dear business partners,
valued staff, dear friends of the company!



In spite of the difficult global conditions, the STIHL Group was able to increase both unit sales and turnover in 2008 and gain market share as well. STIHL was not directly affected by the financial crisis; investments were financed as before from our own resources. The crisis chiefly affected the construction industries in the U.S.A., in Spain and Great Britain, where STIHL professional tools are commonly used.

The Group increased its turnover by 2.6 percent to 2.14 billion euro (2007: 2.09 billion euro). If exchange rates had stayed constant, the increase in turnover would have reached 5.4 percent. The decline in the construction sector in individual markets had a negative effect, especially in the turnover of the German founding company, ANDREAS STIHL AG & Co. KG, leading to a reduced demand for products for professional use. In our global manufacturing network, production at the founding company specializes in these models and as a result was especially affected by the changes in this market segment. As a consequence, turnover sank by 10 percent to 817.9 million euro (2007: 906.5 million euro).

Towards the end of the year, we were able to take over the carburetor manufacturer Zama with the companies Zama Japan KK and Zama Corporation Ltd., Hong Kong. Zama is one of largest manufacturers in the world of carburetors for hand-operated power tools and has been a STIHL supplier for many years. The takeover opened up a new sector of business for STIHL with great potential for growth. The carburetor manufacturer Zama is a leader in technology and an important development partner for the small engine industry in the area of optimal fuel-mixture generation. STIHL will largely pursue Zama's operation course unchanged. All the carburetor manufacturer's customers will be supplied in the future as in the past.

The number of staff around the world surpassed 10,000 for the first time, and on December 12, 2008 was at 10,095 – not including the newly acquired company Zama. Including the carburetor manufacturer, the number of staff amounts to 11,484. The total workforce of ANDREAS STIHL AG & Co. KG fell 2.2 percent to 3,750. Temporary workers in the industrial sector and substitute workers covering vacations were let go. The number of the core workforce, however, increased and reached its highest level for over 20 years. Recruitment in the engineering sector and of skilled workers in development is scheduled to continue in 2009, too. To ensure jobs of the core workforce at the location in Germany, STIHL has transferred the manufacture of 100,000 chain saws from Brazil and the U.S.A. to Waiblingen.

Investments reached a record level of 190.1 million euro, exceeding the previous year by 11 percent (2007: 171 million euro). This is the highest level of investments in the history of the STIHL Group. The majority of the investments were in manufacturing locations. In Switzerland, the new chain factory was opened to increase capacity. STIHL Brazil invested in the extension of a cylinder plant, while warehousing was expanded in the U.S.A. We invested in the expansion and renovation of facilities at the Wiechs am Randen site, belonging to the German founding company.

STIHL also spent considerable sums on its sales subsidiaries. The German sales and distribution center started on a building expansion to meet the expected medium- and long-term growth in the German domestic market. A new logistics center was completed in Argentina, while in Ukraine construction of a new building for a STIHL sales and distribution center got underway. In Sweden extra capacity was added to the warehouse facilities.

The Executive Board was expanded to five members to accommodate additional requirements related to the growing number of manufacturing plants abroad, the takeover of Zama, the establishment of new sales and distribution companies abroad, strongly increasing investments and a staff now numbering over 11,000. In the financial arena, numerous changes in regulations, such as the corporate tax and estate tax reforms, lead to increased costs. As a consequence of this development, the divisions finance and controlling on the one hand and human resources, organization, and legal on the other have been separated and each assigned to an individual member of the Executive Board.

STIHL development brought more interesting innovations to the market in 2008; notably the Picco Duro carbide-tipped saw chain features significantly longer service life and longer lasting sharpness. This makes work with the tool that much easier, because it eliminates the need for sharpening over long periods. The FS 40 / 50 / 56 clearing saw family complies with the stringent European exhaust limits without a catalytic converter and offers a more cost-effective exhaust solution for the customer. The development of a new battery technology is a milestone in STIHL product history: In addition to battery-powered products, we have also developed particularly fast chargers. Another important area of research was the design of a battery diagnosis system to make servicing easier for the dealer.

A main focus of the past fiscal year was the ongoing fight against product and trademark counterfeiting. One of the company members, Dr. Rüdiger Stihl, has taken on the managing directorship of the German industry's Action Group against Product and Trademark Counterfeiting (APM e.V.), where a large number of leading companies work together to protect intellectual property.

The 2008 fiscal year was a good one for the STIHL Group, in spite of the difficult environment. Our staff's commitment, capabilities and STIHL quality consciousness played a decisive role in this success. On behalf of the entire Executive Board, I would like to sincerely thank them. We would also like to thank the members of the works council for the collaborative and constructive partnership.



Dr. Bertram Kandziora
Chairman of the Executive Board



Thinking outside the box

Over 400 engineers and skilled workers are employed at the STIHL development center developing ideas to make our customers' work easier. This also entails a responsible approach to all resources.





MANAGEMENT REPORT – THE STIHL GROUP

The STIHL Group worldwide increased both unit sales and turnover in 2008 and gained market share as well – despite the volatile economic environment. As in previous years, STIHL had a high equity ratio. Investments reached record levels and were financed as before from our own resources.

THE STIHL GROUP GROUP TURNOVER INCREASED BY 2.6 PERCENT

The STIHL Group exceeded the previous year's turnover by 2.6 percent in the year under review (previous year: + 3.4 percent). Total external sales volume including non-consolidated companies reached 2,142.7 million euro. Turnover outside Germany in comparison with the previous year increased 0.4 percentage points to 88.7 percent. Of total turnover, 33.7 percent accounted for the euro zone and 46.2 percent for the EU in total.

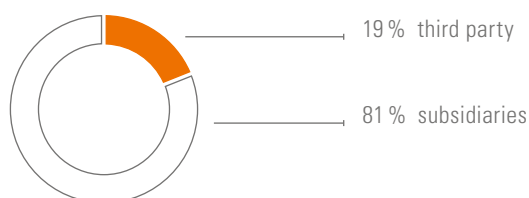
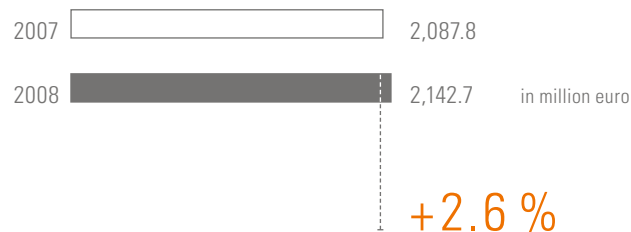
Falling currency exchange rates of -2.8 percent (previous year -2.5 percent) had a strongly negative impact on turnover as in the previous year. The US dollar had a yearly average rate of 1.47 to the euro, making it 10 basis points weaker than in the previous year. Calculated using 2007 annual average rates, that is, without taking

into account changes in monetary parity, the STIHL Group would have achieved a growth in turnover of 5.4 percent.

INVESTMENTS AT HOME AND ABROAD

2008 was again a strong year for investment in the STIHL Group. The volume of investments (tangible and intangible assets) totaled 190.1 million euro (2007: 170.9 million euro). Of this, 24.1 percent accounted for the German founding company and 75.9 percent for the subsidiaries at home and abroad.

Around 83 percent of investments was in the production companies. The funds were used in particular for the expansion and modernization of production buildings and manufacturing plants. Stihl & Co. in Wil (Switzerland)

**SHARE OF TURNOVER 2008 –
SUBSIDIARIES AND THIRD PARTY****TURNOVER – STIHL GROUP**

put a second saw chain factory located in Bronschhofen near Wil into operation to increase capacity. In the U.S.A., warehousing was expanded. Brazil invested in the extension of a cylinder plant. The sales subsidiary in Argentina moved into a new corporate headquarters, while in the Ukraine and in the German sales and distribution center in Dieburg, construction was begun on new logistics centers.

SATISFACTORY EARNINGS AND HIGH LIQUIDITY

STIHL Group profits were satisfactory also in 2008. Liquidity (including securities and fixed assets) continued to increase in comparison to the previous year. Nearly all of the Group's investments could be financed from liquid assets.

**CONSOLIDATED STIHL GROUP
CONSOLIDATED TURNOVER AND INVESTMENTS**

The consolidated turnover increased 2.5 percent over the previous year to 2,136.8 million euro. Investments in tangible and intangible assets totaled 190.1 million euro (2007: 170.9 million euro). Investments were set off against depreciations at the Consolidated Group in the amount of 106.6 million euro.

STRONG FINANCIAL STRUCTURE

As in previous years, the financial structure was characterized by a high equity ratio. The items equity, participating capital and loans from EVA MAYR-STIHL STIFTUNG (foundation) accounted for about 60.4 percent of the balance sheet total. Equity therefore covered all fixed assets and inventories as well as a portion of the trade receivables.

MANAGEMENT REPORT – FOUNDING COMPANY

At the founding company, i.e. in the seven manufacturing plants of the ANDREAS STIHL AG & Co. KG in Germany, the effects of the economic crisis were mainly felt in the second half of the year, and resulted in a 9.8 percent drop in founding company turnover. Investments increased 15.2 percent over the previous year.

FOUNDING COMPANY TURNOVER IN DECLINE

The founding company could not escape the global financial crisis and its effects on the real economy especially in the second half of the year under review. In the 2008 fiscal year, turnover reached 817.9 million euro, a decline of 9.8 percent from the previous year (2007 rate of growth: + 4.3 percent). The export share increased 1.5 percentage points over the previous year to 88.3 percent. Exports in the euro zone fell 6.1 percentage points against the previous year, coming in at 47.4 percent. However, sales percentages to the rest of Europe (in particular Russia) and North America increased.

VOLUME OF INVESTMENTS ABOVE THE PREVIOUS YEAR'S LEVEL

Investments totaled 45.4 million euro, a 6.0 million increase over the previous year's level. In the main, manufacturing plants were modernized and brought in line with ongoing developments in technology.

A portion of investments went towards an expansion and improvement in IT infrastructure.

As in previous years, the product line was further expanded, thanks to substantial investments in research and development concentrated at the Waiblingen site.

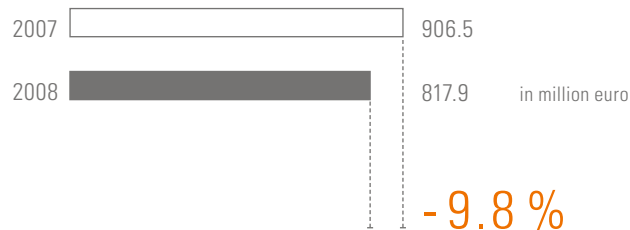
All investments were financed from liquid assets, with the total amounting to more than the volume of depreciations.

EQUITY RATIO CONTINUES GROWTH

Equity, including participating capital and the loan from the EVA MAYR-STIHL STIFTUNG (foundation) amounts to a ratio of 51.5 percent of the balance sheet total. As in the previous year, equity covered all fixed assets and nearly all inventories.

EXPORT 2008 – FOUNDING COMPANY

EXPORT SHARE INCREASE **+ 1.5** percentage points

TURNOVER – FOUNDING COMPANY**SELF-FINANCED PENSION OBLIGATIONS INCREASE SLIGHTLY**

The actuarial expertises led to an increase of 3.1 percent over 2007 (previous year: 5.6 percent) in pension accruals and other liabilities from outstanding capital payments. The basis of the calculations was the new graduated mortality table (Heubeck 2005G) introduced in August 2005. The significance of the pension obligations is also underscored by the fact that they amount to nearly one third of the balance sheet total.

HIGH LIQUIDITY

Liquidity combined with long-term securities amounted to 33.6 percent of the balance sheet total. It must be noted, however, that the liquid assets have to be balanced against the almost equally high long-term obligations arising from the occupational retirement pensions.

Forestry prize

During the course of the 2008 forestry conference, the EVA MAYR-STIHL STIFTUNG (foundation) awarded the German forestry prize for the fourth time. This is the richest prize for forestry sciences in the German-speaking area, with a purse of 15,000 euros, and is awarded every other year in recognition of outstanding research contributing to the conservation, use and function of forest ecosystems. It is intended primarily to highlight the work of up-and-coming scientists who have delivered excellent research promising an exceptional scientific career.

Freiburg-based forest scientist Prof. Dr. Gerhard Oesten heads the prize committee. This year's prize went to Dr. Susanne lost.

DEVELOPMENT

Innovative exhaust solutions comply with the strict European exhaust limits without a catalytic converter and offer a more cost-effective exhaust solution for the customer. The use of battery technology is new at STIHL.

In the 2008 fiscal year, new models featuring significantly improved functionality and lower environmental impact were added to STIHL's product range. In addition, there was positive initial feedback from customers on the MS 171/181/211 chain saw series which came onto the market at the end of 2007. The MS 211, for example, won high praise in the trade magazine Agrartechnik's test report for having the lowest consumption and emission values, the lowest weight, the lowest vibration values and the best practical value. The magazine focused particularly on its outstanding start characteristics. Throughout the trade press, the tool received nothing but similarly positive reviews. Direct feedback from customers was equally positive.

LOWER FUEL COSTS FOR CUSTOMERS – LESS CO₂ FOR THE ENVIRONMENT

The entry-level clearing saw family FS 40/50/56, newly developed in 2008, as well as the blower and vacuum family BG 56/66/86 and SH 56/86 are expected to enjoy the same level of success. They comply with the stringent European exhaust limits and offer a more cost-effective exhaust solution for the customer. The flushing process of the combustion chamber has been improved thanks to innovative, cost-effective product engineering. The

engines use 20 to 25 percent less fuel, adding less CO₂ to the environment in the same proportion. In addition, both product families feature a wide range of ergonomic features, noticeably reduced vibration levels and numerous ergonomic enhancements to make work easier.

The new electric blowers and vacuums BGE 61/71/81 and SHE 71/81 continue the tradition of innovation in the BGE family regarding performance, ergonomics and comfort. The BGE/SHE 81 versions are especially powerful models. Blower or vacuum conversion requires no tools whatsoever with the BGE/SHE 71 and 81 thanks to a blower or vacuum tube sensor. In addition, the speed is infinitely variable adjustable on the BGE/SHE 81.

CARBIDE-TIPPED SAW CHAIN FOR OCCASIONAL USERS

Now there's a carbide-tipped saw chain for occasional users too. The Picco Duro features significantly longer service life and longer lasting sharpness even under extreme conditions such as with dusty or dirty wood or after inadvertent contact with the ground. This makes work with the tool that much easier, because it eliminates the need for sharpening over long periods. The Picco Duro is especially suited for less experienced customers. The soldered, carbide-tipped machined teeth ensure high cutting performance.



Using laser sintering, prototype components can be produced overnight, for all phases of the product creation process.



The prototypes thus produced are tested extremely thoroughly on a series of test stands.

READY FOR THE FUTURE – WITH BATTERY TECHNOLOGY

STIHL is well prepared for a future beyond combustion engines: New battery technology offers new potential for future products. In recent years, STIHL has worked intensively on innovative lithium ion technology for professional use in a variety of STIHL products. This includes the development of especially fast chargers. Another important area of research was the design of a battery diagnosis system to make servicing easier for the dealer.

IMPROVED DEVELOPMENT PROCEDURES

We are always improving both our products and STIHL development itself. In the past fiscal year, development methods have been advanced to increase efficiency and ensure development quality. The »Product development process II« project reduced the development process by 27,000 hours, thanks to 100 separate interventions.

New rapid prototyping procedures accelerated development processes. Transparent components are now also produced using vacuum casting. This makes it possible to inspect the installation space and carry out function testing relating i.e. to flying chips around the cylinder. High-speed camera recordings capture part movements,

allowing wear processes to be assessed and instances of damage to be analyzed more quickly.

An »early feedback program« ensures that responses to new products on the market are gathered at an early stage. This enables us to gather feedback swiftly, and to transfer innovative features to all new product developments quickly.

COMPLYING WITH STATUTORY REQUIREMENTS IN ADVANCE

STIHL developers are constantly being presented with new challenges in the form of expanded statutory requirements. In the U.S.A. and Europe, for example, emissions requirements are being expanded and tightened up – and STIHL has prepared well for this with its new engine concepts.

More raw materials have been prohibited, and the RoHS (restriction of the use of certain hazardous substances in electrical and electronic equipment) directive has been extended. STIHL is now reaping the rewards of having already implemented this directive in previous years. In addition, the REACH chemicals regulation requires companies to register all materials and how they are used. All necessary registration processes have already been completed in the past fiscal year.





Expert testing

Even the prototypes of STIHL parts are tough and resilient. They have to satisfactorily withstand long runs on test stands, comprehensive tests for performance, durability, vibration, sound and many other factors before they can go into series production as a STIHL product.

PURCHASING

2008 saw marked fluctuations in the cost of raw materials. STIHL was able to negotiate favorable prices thanks to the good relationships built up with suppliers over many years, and to the international purchasing network.

The purchasing section has been restructured in order to better exploit synergies using shared processes and to further optimize international purchasing throughout the STIHL group by bundling requirements. Purchasing now includes the areas series materials, operating resources and services, and capital goods, as well as a staff unit for purchasing development.

INCREASING SIGNIFICANCE OF PURCHASING

Early integration of purchasing into procurement is crucial for purchasing results, as alternative sources of supply in the procurement market can be checked, and legal safeguards can be ensured for each contract concluded. Group-wide collaboration in purchasing matters has been intensified in response to the increasingly important role of international production plants in the STIHL Group. An inter-site job rotation program, with assignments lasting several months, has facilitated the development of purchasing strategies and standard processes, and has assisted the indispensable mutual understanding.

INTERNATIONAL PURCHASING AND GOOD SUPPLIER RELATIONSHIPS

Prices of raw materials have been fluctuating frequently and markedly. This makes planning much more difficult, and long-term forecasts were impossible. In the first half of 2008, suppliers were all still operating at close to full capacity, and it was essential to ensure availability in good time by concluding contracts for the longer term. The good cooperative relationships we have built up with suppliers over many years enabled us to negotiate favorable terms. In the second half of 2008, high prices of raw materials and high energy costs led to a huge increase in purchasing expenses. Unfortunately, in this phase we were able to make only limited use of alternative sources of supply, as due to our extremely high quality standards and complex approval processes, only a certain number of suppliers can be considered. In future, STIHL will therefore increasingly pursue a two-supplier strategy in order to increase flexibility in the procurement market, especially where larger volumes are concerned. By the close of the year, raw materials prices had begun to fall, as to some extent had energy costs; however, the effects of this fall on purchasing prices will only begin to be felt in 2009.



STIHL maintains long-term cooperative relationships with its suppliers, who often also have a role as development partners.



The implementation of purchasing on an international basis provides cushioning against currency fluctuations and guarantees availability.

The implementation of purchasing on an international basis cushions heavy currency fluctuations in the STIHL Group. And it also ensured that state-of-the-art technologies available worldwide will be used in our products. Procurement market activities were focused on China and North America.

SUPPLIERS HIT BY ECONOMIC CRISIS

The troubled economic climate lead to an increase in liquidity problems and the risk of insolvency amongst our suppliers, which was countered at STIHL by a detailed risk management strategy. The strategy entails systematic monitoring of all suppliers, so that any risk of insolvency can be recognized and countered as early as possible. Demands on suppliers have increased at the same time. They too have had to optimize costs and support STIHL as development partners. In parallel to the development of functions and components, they increasingly focused on establishing manufacturing structures and capacities that are specific to STIHL.

COMPREHENSIVE PROJECT MANAGEMENT

Strong internal and external project management is essential in order to meet the increasing stringent demands: new developments that are ever more complex, further cuts to development time that have to be implemented without impairing quality, and increasingly complicated networking of the production sites of components and end products.

PRODUCTION

Production figures in STIHL plants rose across the globe, and capacities were expanded accordingly. A second chain production plant was constructed in the Swiss canton Sankt Gallen, equipping us to cope with further increases in sales. Carburetor manufacturer Zama became the newest member of the international STIHL manufacturing network.

The number of engine units produced annually by the STIHL group rose again in 2008. The international manufacturing and purchasing network was further augmented, and manufacturing capacities expanded. A new member of the STIHL manufacturing network is the carburetor manufacturer Zama, including Zama Japan KK and Zama Corporation Ltd., Hong Kong, which was acquired by STIHL late in the year. Zama is one of the world's largest manufacturers of carburetors for handheld power tools and has been a STIHL supplier for many years. With the acquisition of Zama, STIHL has secured its supply of a key component in our products, and has stepped into a new business area with growth potential. Also in the future, all customers of the carburetor manufacturer will be provided as usual.

GERMANY – ANDREAS STIHL AG & CO. KG

Production volumes at the German founding company dropped, due to some products being discontinued and some pre-production in 2007 aimed at ensuring a smooth transition for the launch of new products featuring reduced emissions. The effects of the global economic crisis were also felt as a decline in construction industry activity.

Sales of cut-off machines and the larger chain saws declined in certain markets. Manufacturing activities at the German founding company being concentrated on larger models, changes in this market segment affected the founding company production particularly.

SAFEGUARDING FOUNDING COMPANY PRODUCTION

For the above reasons, securing the position of founding company production locations was a key consideration in our location policy. STIHL has transferred the manufacture of 100,000 chain saws from Brazil and the U.S.A. to Waiblingen, in order to safeguard jobs at locations in Germany. The underlying aim is to secure the positions of STIHL's core workforce.

INCREASE IN EFFICIENCY

Investments in the founding company were made primarily to secure the servicing of customers in the long term. The expansion of the production area with new construction and production restructuring at the Wiechs am Randen plant increased efficiency and thus led to a reduction in costs.



Tool construction is one of STIHL's core areas of expertise. Specialized tools are made in-house.



Even highly complex special-purpose machines requiring specific expertise are made in our in-house special machinery section.

U.S.A. – STIHL INCORPORATED

Three new state-of-the-art assembly systems came on stream in 2008. They are all highly automated, and are operated in a three-shift system. Special training was given to personnel operating the new structures.

STRONG GROWTH IN PRODUCTION OF COMPACT SAWS

A second assembly line for the small chainsaws MS 171, MS 181 and MS 211 was brought on stream in order to meet the increased demand for this series. It is designed for larger quantities and is currently being used in a two-shift operation. Assembly of the BG 56, BG 66, BG 86, SH 56 and SH 86 blowers and vacuums began in March 2008. All models feature a stratified charge engine, and series 86 tools are also equipped with a sophisticated anti-vibration system which enhances user comfort.

EXTENSION OF THE VIRGINIA BEACH SITE

In July 2008, STIHL Inc. was able to purchase a property directly adjoining their headquarters in Viking Drive. The purchase comprised an area of 10,600 square meters and two buildings. The new premises will facilitate future growth at the STIHL Inc. headquarters.

BRAZIL – ANDREAS STIHL MOTO-SERRAS LTDA.

Following the dynamic development in cylinder production seen in previous years, process stabilization and optimization of manufacturing workflows were the focal points of this last financial year. The construction of the new cylinder building was completed on schedule at the end of 2008.

The new STIHL engine concepts are based around gravity cast technology, which will make it possible to already comply with future emissions requirements. Measuring technique was one of the main targets for investments in cylinder production. For example, a computer tomograph was purchased which will be used to compare finished components with the CAD models in three dimensions. X-ray technology also benefited from investments.

GROWTH IN ALL AREAS OF PRODUCTION

Market developments in South America continued to show a satisfying rate of growth, with production volumes in 2008 reaching a new record level. To meet the rising demand, expansions took place both in the area of die-casting at the magnesium foundry and in plastics production.



Crankshafts for the STIHL Group: Every site in the international manufacturing network delivers components to the others as well.



All our products and their components are of uncompromising quality – regardless from which STIHL plant or which supplier they come from.

Guide bars, brush knives and grass cutting blades could also be produced in significantly increased quantities. The range of different types and variants was expanded to cover more possible areas of application for our customers and to better fulfill customers' requirements.

CHINA – ANDREAS STIHL POWER TOOLS (QINGDAO) CO. LTD.

Following the market success of the range of brushcutters from Qingdao, 2008 also saw the successful production start and market launch of a hedge trimmer. Preparations were also completed for production of a chain saw series, due to commence in January 2009. The ambitious plans for developing the factory were carried out in full.

PRODUCTION AT THE HIGHEST LEVEL OF QUALITY EXPANDED

Assembly capacity was doubled from the previous year. Therefore, the supplier base was further upgraded. The level of quality provided by local suppliers was likewise enhanced. The level of production we have achieved in China is further proof of the effectiveness of the enduring and uncompromising quality methods that define what »Made by STIHL« means across the globe.

STATE-OF-THE-ART EXHAUST TECHNOLOGY INSTALLED

With a test stand for exhaust measurement up and running, Qingdao now also fulfills the requirements for supplying all regulated markets. Measurements that go along with production continuously ensure that the products conform with country-specific requirements. The measuring technology used is state-of-the-art and complies with the high standards in force across the STIHL Group.

»BUILD TO ORDER« CONCEPT PROVES SUCCESSFUL

Demand for brushcutters fluctuated heavily throughout the year, and yet was matched to the day thanks to the extremely high levels of flexibility built into all processes – incontrovertible proof of the efficacy of our innovative factory concept. Preconditions for a further reduction in delivery times have been met and successfully tested.



STIHL benefits from an unusually high level of depth in production. We produce all key engine components, plastic and magnesium components as well as cutting tools ourselves.

SWITZERLAND – STIHL & CO.

The October 30, 2008, saw the official opening of the second chain production plant in Bronschhofen, following a record-breaking construction period of only 16 months. The new factory is located only 1.2 km as the crow flies from the existing chain production plant in Wil, ensuring that staff expertise will be shared at both sites.

EXPANSION OF MANUFACTURING CAPACITY

A total 160 million CHF is to be invested in the production facility, and 200 additional jobs will be created there. Manufacturing methods and tooling will be systematically evolved, primarily with the aim of boosting productivity and improving quality. Expansion of manufacturing capacity provides the basis for further increases in sales of chains. A second laser unit was brought online for production of hedge trimmer blades, thus raising production capacity to meet the increased demand for blades.

INTEGRATED QUALITY STRATEGY

Under our Integral Management System (IMS), we consider quality, environmental and safety aspects holistically. Throughout the whole product process, from conception and manufacture to marketing and application, the needs and expectations of the customer and the employee are central.



The final stage in the production of a STIHL tool is assembly.

AUSTRIA – VIKING

The role of VIKING in the STIHL manufacturing network grew more significant in 2008: Demand for electrically powered STIHL products increased, and the number of products assembled at VIKING rose significantly.

INCREASED INTEGRATION OF VIKING IN THE STIHL MANUFACTURING NETWORK

In 2008, VIKING also commenced assembly of STIHL electrical blowers and vacuum shredders. The complete model range BGE and SHE includes 18 models in all country-specific variants. This assembly series was integrated into the existing assembly line for the electrical trimmer, resulting in an increase in the degree of utilization of about 60 percent.

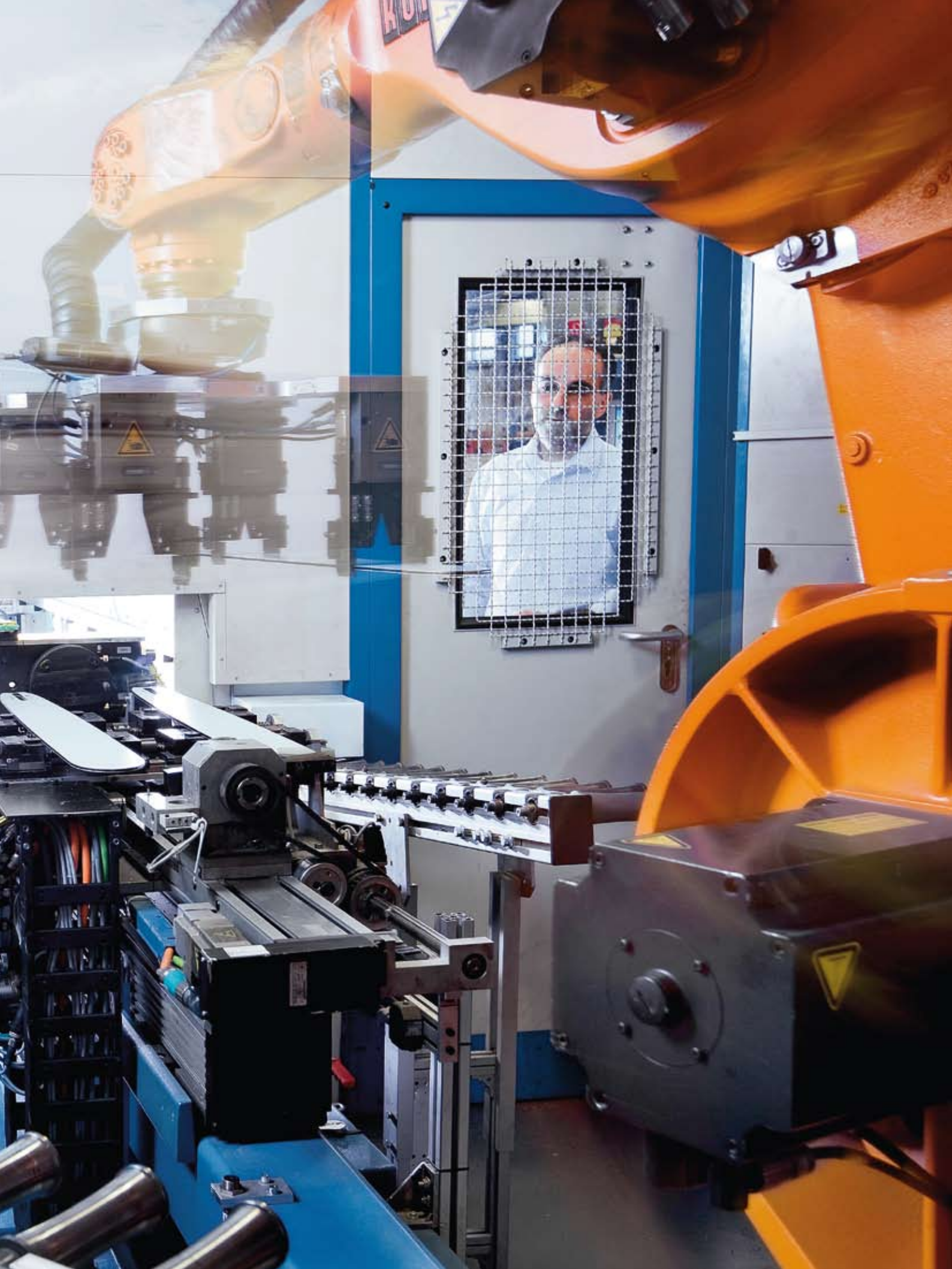
To date, the HTE 60 pole pruner has been assembled at two sites – the engine unit was assembled at VIKING, the final assembly took place in Waiblingen. As of 2008, all assembly work on the tool is being done at VIKING. The finished products can from now on also be delivered directly to retailers from the VIKING finished products warehouse in Strasbourg.



First-rate implementation

STIHL production is always state-of-the-art – as are the products themselves. In this way, we ensure that the customer gets the top quality he expects from STIHL.





QUALITY, OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION

STIHL quality does not come about by chance. It is based on precisely specified processes which are subject to the same constant quality checking as the products. But the deeply rooted quality awareness of our employees is just as crucial to STIHL quality.

The further development of management systems in the STIHL Group continued apace throughout 2008. In the German founding company, all departments were involved in the development of a new process map laying out mandatory procedures for all STIHL business processes. The map was launched and received a positive response. The adoption of this map by the associated manufacturing companies, a process which is already underway in Brazil and in the U.S.A., will form a uniform foundation for the description and optimization of processes within a complex manufacturing network.

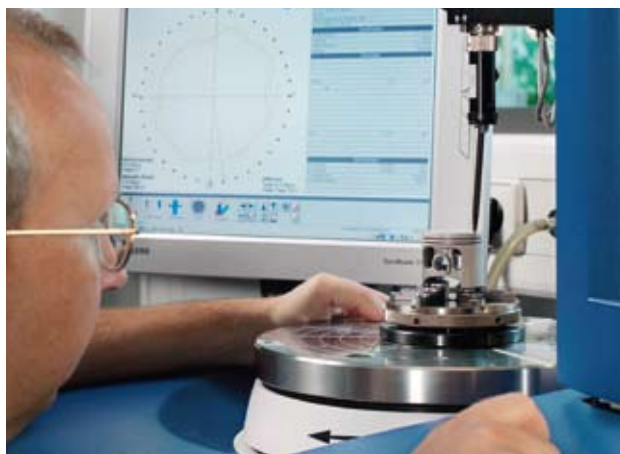
CERTIFIED QUALITY

All our existing ISO 9000 certificates were confirmed in audits by our certifying agent DQS. Additionally, the magnesium foundry in Prüm had its TS 16949 certificate renewed, thus proving that it complies even with the high

standards of the automotive industry. The new-certification to ISO 9001 which had been begun in China has had to be postponed to February 2009, as all certification companies temporarily lost their accreditation there as a result of the tainted milk scandal.

INIMITABLE QUALITY

The high standards of quality that we implement in all corporate activities and in all operational processes is what underlies STIHL's consistently positive quality image – as is illustrated by the results of our dealer surveys or the testimonies of satisfied customers in the Internet forums. STIHL quality also depends on a concomitant and sophisticated level of awareness amongst all our employees. This is a factor which cannot easily be reproduced by the manufacturers of pirated goods; rather it must develop over a period of years, and must be deeply rooted in the corporate culture. Maintaining and building on this competitive advantage is a demanding task and a constant challenge for management and staff.



Each individual component has to measure up to STIHL's stringent quality tests. Cameras and computer systems carry out checks during production.



The frugal use of energy and resources, the latest technologies, and the implementation of closed loops minimize costs, waste and environmental impact.

A CENTRAL ROLE FOR ENVIRONMENTAL PROTECTION

All STIHL production companies with the exception of China were able to demonstrate conformity with the requirements of the ISO 14001 standard, thus demonstrating the significance lent to environmental protection at STIHL. Furthermore, Brazil became the second factory after Switzerland to pass the DQS audit for occupational safety management according to BS OHSAS 18001.

STIHL enshrined the protection of the environment and the conservation of natural resources as corporate aims a long time ago. Ecological and economic aims do not have to be regarded as contradictory; indeed they often mesh well together. The frugal use of energy and resources, the latest technologies, and the implementation of closed loops minimize costs, waste and environmental impact.

OCCUPATIONAL SAFETY AS A CORPORATE AIM

Safeguarding life and health of employees as they undertake their work in all ways necessary has always been and is an explicit aim of the company. The targets that STIHL sets itself in this regard far exceed legal requirements. Technical aides to life and health protection are already implemented in STIHL production facilities; therefore we have been focusing on raising individuals' safety awareness across all levels. We carried out wide-ranging and audience-specific training sessions to encourage the informed detection and avoidance of risks as a permanent factor in all activities.

LAW AND PATENTS

2008 saw a continued focus at STIHL on monitoring and prosecuting trademark and patent infringements – with considerable success. This goes to show that it is in fact worthwhile to combat product piracy.

One of the main concerns of the Law and Patents section at STIHL throughout the past year was the ongoing monitoring and prosecuting of patent and trademark infringements, as well as pirate copies.

COUNTERFEIT PRODUCTS FROM CHINA

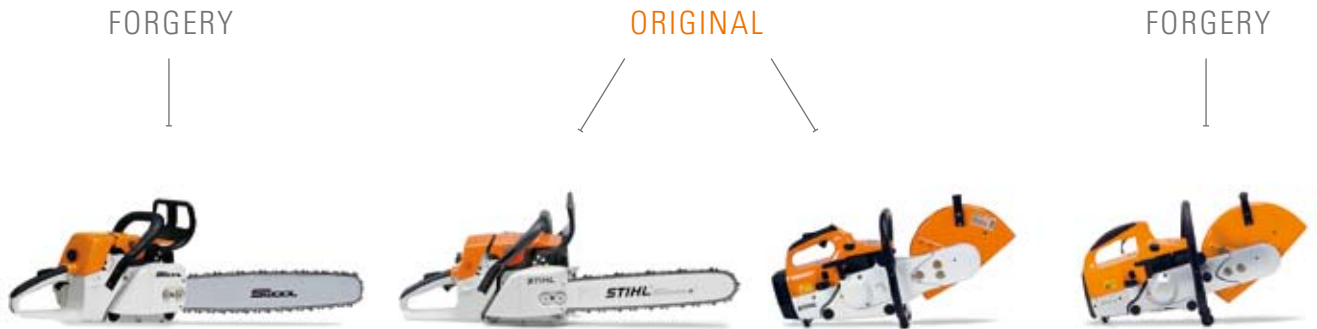
In 2008, a new type of imitation products flooded into the region of South and Eastern Europe: although the products in question are not slavish imitations of STIHL saws, they do feature the »STIHL« brand name along with our signature color scheme – orange top, light gray bottom – which has been a registered trademark for power tools in the EU since 2008. This obviously represents a significant resemblance to our products that is enough to give the counterfeiters a market advantage. In addition, we saw the first cases in Germany of mobile traders operating out of cars, selling products that infringed upon the STIHL brand to private individuals. In 2008, almost 100 percent of all forgeries worldwide originated in China.

STIHL attaches great importance to the fight against product piracy. This is why a new corporate function was created to focus exclusively on monitoring the extent of product counterfeiting in the marketplace. And we continue to do everything we can to combat this problem.

One clear example of STIHL's commitment to the issue of counterfeiting and product piracy is the fact that one of the company's partners, Dr. Rüdiger Stihl, has taken on the managing directorship of the German industry's Action Group against Product and Trademark Counterfeiting (APM e.V.). This platform brings together numerous leading and renowned companies – companies that have joined forces in the APM to defend the protection of intellectual property and stem the tide of escalating product and trademark forgery.

COMBATING THE COUNTERFEITERS – THE »SWOOL CASE«

STIHL achieved a notable victory in the case of the Chinese manufacturer »Swool Power Machinery Co., Ltd.« whom we sued for infringement of patent law in



It's not just the brand that's protected. The signature color scheme – orange top and light gray bottom – may not be copied either.

Original and forgery: the only place where the customer can be sure of getting an original STIHL product is an authorized STIHL dealer.

a Chinese court. At the first instance, on 4 August 2008, Swool was ordered to cease production of the patent-infringing fuel cap and required to pay RMB 150,000 in damages. Swool then lodged an appeal and in addition submitted an application to the patent office for cancellation of the patent. This application was turned down and the initial verdict was upheld in the second court case on 17 November 2008.

QUICK DECISIONS FROM THE COURTS

STIHL was successful despite the fact that the trial and appellate courts were in the same place as Swool's company. Furthermore, the court decisions were not just positive in their outcome but fast too. Contrary to standard practice, the court announced its verdict immediately after the hearing. Normally this can take a matter of weeks. The press was also present as were senior civil servants from the municipal and provincial administration. These had not been summoned by either of the parties so must have been called in by the court.

A POSITIVE SIGNAL TO THE PUBLIC

The underlying intention here was presumably to send a positive signal to the public that European companies can uphold their industrial property rights in the province of Zhejiang despite the region's notorious reputation for widespread counterfeiting activities.

ONLY ORIGINALS OFFER STIHL QUALITY

In some cases, customers can hardly tell the difference between originals and forgeries. Unlike every STIHL product, the safety of these counterfeit products is not tested by an independent organization. Yet with power tools, even minor safety flaws can have highly dangerous consequences. In many cases, the forgeries do not even fulfill the minimum legal requirements. And their performance cannot match the standards set by STIHL. The only place in the world where the customer can be sure of getting an original STIHL product is at an authorized servicing STIHL dealer.





Making things happen

Supreme quality in production is an ultimate priority at STIHL. Our internal suggestion scheme ensures that we continuously improve our processes – including in terms of efficiency and cost effectiveness. There's simply no other way to offer our customers the highest possible quality at competitive prices.



EMPLOYEES

Training and education are particularly important at STIHL. All our sites held extensive activities and in the U.S.A., STIHL opened a new training center. For the first time in its history, STIHL topped the 10,000 employee mark in the fall of 2008.

GERMANY – ANDREAS STIHL AG & CO. KG

One key focus of human resources in 2008 was on strengthening our recruitment marketing. This includes collaborations with universities, which STIHL supported with joint projects, apprenticeships and opportunities for doing thesis work on our sites. This allows students to get a better feel of the company while raising awareness of the company and giving us a higher profile as a potential employer.

FIRST-CLASS MENTORING

»Better student mentoring« is the title of a new seminar aimed at employees responsible for looking after students on apprenticeships or doing thesis work. The employees receive concrete advice on how to conduct interviews and feedback talks, using numerous practical examples to help them develop their own leadership skills. The major benefit is that both sides – the students and the mentors – profit from high-quality mentoring.

TRAINING AT STIHL

The number of apprentices taken on remained at the same high level in 2008. STIHL is aware of the socio-political significance of training and takes an active role in fulfilling this responsibility. As in previous years, all suitable apprentices who wished to stay on were given permanent contracts in 2008.

INTERNATIONAL APPROACH OF TRAINING ACTIVITIES

One aim of training and professional development at STIHL is to strengthen intercultural skills, improve language skills and raise the quality of our training. We achieve this via an international approach to our training activities by means of apprenticeships and exchange programs.

EXTENSIVE PROFESSIONAL DEVELOPMENT ACTIVITIES

In the field of professional development, various different programs exist to enhance specialist expertise, methodological competence and leadership skills across the full spectrum of levels and areas within the company. Increasingly, employees from our European companies are taking part in leadership seminars in particular.



Solid training is important. It includes the promotion of social and intercultural skills and has an international approach at STIHL.

60 YEARS OF IDEAS MANAGEMENT AT STIHL

Ideas management at STIHL takes the form of the suggestion scheme (IdeePlus) and the continuous improvement process (KVP), whereby employees are encouraged to continuously make suggestions and implement measures for improvement.

Employees submitted over 6,000 suggestions to IdeePlus in 2008 and more than 60 percent of them were implemented. This resulted in savings of 1.7 million euro. Bonuses amounting to 400,000 euro were paid to all those who came up with successful ideas. Because STIHL set up the suggestion scheme in 1948, sixty years of the scheme's existence were commemorated last year with the special campaign »60 Years – 60 Prizes«.

U.S.A. – STIHL INCORPORATED

In September, STIHL Inc. opened the new training center on the plant grounds. In just nine months, over 200 square meters of space inside a warehouse were transformed into a training workshop for apprentices. With natural light coming in through the windows and skylights, it provides an ideal working environment for the apprentice CNC Operators, Tool and Die Makers and Mechatronic Technicians. The training center has workbenches and



Communication is a top priority at STIHL. It's a key to success and the basis for good employee relations.

extensive equipment such as lathes, drilling and grinding machines. A separate mechatronics training program includes electropneumatic machines and a training robot. In another part of the building, a computer training room is available for use.

KEY KNOWLEDGE FROM OUR OWN TRAINING

In his speech at the official opening, Peter Müller – the Executive Board member responsible for production – recalled how STIHL Inc. has been training young people since 1978. He emphasized that the entire STIHL team is proud of the internally trained employees and their contribution to the company's success.

THE KEY TO SUCCESS – COMMUNICATION

Good communication is a vital basis for good employee relations. And in order to improve internal communication, STIHL Inc. identified key communication channels and enhanced them with new communication methods. One new mode of communication is a printed newsletter featuring relevant topics that is also published on the intranet. The significantly larger and more in-depth employee magazine appears quarterly and includes detailed articles on subjects such as corporate culture, goals and important events throughout the entire STIHL Group.

BRAZIL – ANDREAS STIHL MOTO-SERRAS LTDA.

As part of the strategic planning process for the years 2008 to 2010, STIHL Brazil revised its mission statement, values and guidelines. It also presented its vision for the future. The new values are aligned with the group-wide STIHL corporate culture, particular emphasis being placed on employee development and the raised importance of sustainability as a core value.

Throughout 2008, we made an intense effort to get the revised mission statement, vision, values and guidelines securely anchored in the minds of our employees. These new principles are designed to provide concrete support in everyday work, helping to make STIHL Brazil increasingly better, more agile and more competitive.

35TH ANNIVERSARY

STIHL Brazil celebrated the company's 35th anniversary in 2008. To coincide with this milestone, the company published the first report on its commitment to social issues. Along with details on environmental protection projects, the report outlined the most important social initiatives of 2007 for STIHL Brazil's employees, their families and the neighborhood.

SWITZERLAND – STIHL & CO.

Based on the healthy order situation and the opening of a second chain production plant, it was possible to expand the workforce by around ten percent. The number of apprentices also rose by a third.

EMPLOYMENT MARKET PICKS UP

In the fourth quarter of 2008, the tense situation on the employment market began to relax significantly. Good technicians and engineers were easier to find. Unsolicited applications were of noticeably higher quality from applicants with superior training and education.

GOOD USE OF GROUP-WIDE JOB POSTINGS

Job vacancies within the STIHL Group suitable for international candidates are published throughout the Group on the relevant production company's intranet. This gives employees the opportunity to also apply for positions in other STIHL companies. STIHL Switzerland made good use of this opportunity, leading to a range of jobs being filled from within the STIHL Group.

AUSTRIA – VIKING

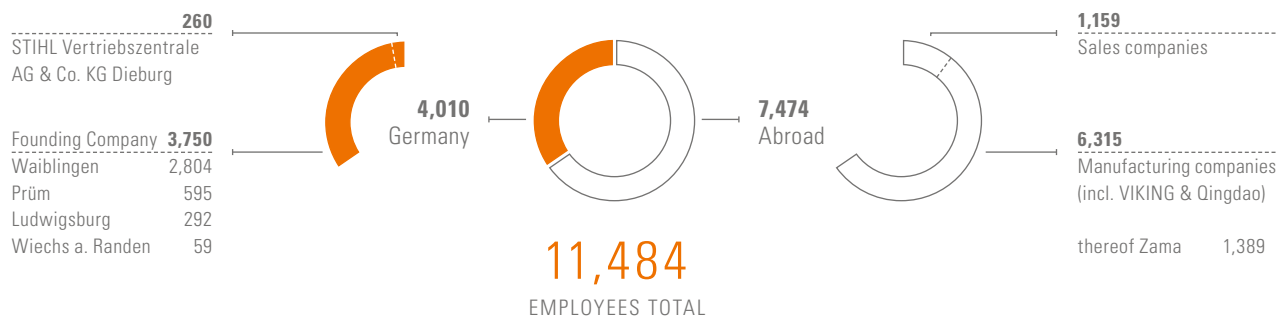
In the past few years, VIKING has increased its focus on quality assurance in human resources. »Bottom-up feedback« was introduced in 2008, whereby employees provide supervisors with feedback on their leadership. This measure helps to guarantee the quality assurance of our conduct and leadership principles.

RECOGNIZING AND CULTIVATING EXPERTISE

Within the framework of the annual employee performance appraisal, we began implementing the »VIKING Expertise Profile«. Supervisors are trained to recognize and support the particular skills of their employees. This helps to identify people with high potential, enabling them to be considered when it comes to succession planning or job rotation.

COLLABORATION WITH UNIVERSITIES

In order to establish early ties between the company and potential employees – particularly in the technical field – VIKING intensified its collaboration with universities. Our offering to young people consists primarily of apprenticeships and thesis works, and these opportunities are very popular.

EMPLOYEES 2008 – STIHL GROUP**CHINA – ANDREAS STIHL POWER TOOLS (QINGDAO) CO. LTD.**

STIHL China experienced strong growth in the past business year. Around 140 new employees were taken on. Processes in the field of human resources had to be modified as a result. This included employee remuneration, wage adjustment processes, bonus payments and social benefits. The canteen was also enlarged with STIHL changing over to an on-site kitchen in the process.

QUALITY ASSURANCE FOR EXPERTISE

STIHL also extends its high levels of quality to employee training. On average, every individual received 67 hours of training at our Chinese production site. In addition, financial incentives were created for employees in assembly. High quality, effectiveness, cost reduction and teamwork are rewarded by a monthly bonus system.

IMPROVING LEADERSHIP

At the site in Qingdao, we developed a new concept for the training of management executives. Each executive is trained in accordance with the groupwide corporate culture.

The annual employee performance appraisal was updated and modified to better suit the Chinese culture and environment.

TRAINING AND KNOWLEDGE MANAGEMENT

A knowledge transfer program with internal training staff helped to improve our knowledge management. Internal courses are designed in which an individual's knowledge is made available to others to ensure that STIHL's high and uncompromising quality is always maintained at the same level as all other locations. In addition, 80 percent of the white collar employees and several blue collar employees from the workshop areas took part in English courses.

Within the framework of a systematic employee development process, high potentials are identified and appropriate development plans are drawn up. This means that even during periods of rapid growth, we remain well prepared for succession planning.

LEGAL CHANGES

Due to several changes in the new Chinese labor legislation, STIHL China's standard employment contracts were modified in a number of points. Furthermore, a »Congress of Employee Representatives« was formed to monitor all internal employment arrangements.



Applying the finishing touch

At the end of the production process, every STIHL product is examined very thoroughly and given its final preparation for use. Only then does it go out to an authorized dealer.





BOX 1

SIEMENS CONTEC

0
2-HAND-START

STIHL
concept 35
CX 500 360 - 1000

Emergency stop button and indicator lights

MARKETS

Despite the difficult economic conditions worldwide, STIHL succeeded in increasing its turnover volume and gaining market share in most of its product categories. In North America, the market for gasoline-fuelled chain saws – the most important segment of all – recorded unexpectedly strong growth once again.

The tough economic conditions – particularly in the main U.S.A. market – also had an impact on our industry. Although the global market for gasoline-fuelled chain saws continued to grow in 2008, the gasoline-fuelled tool category was dominated by stagnating and even declining performance. The negative trend hit the lower price segment much harder than the high quality products. This meant that the outcome from STIHL's perspective was relatively positive. STIHL was able to increase the turnover volume for most of its product categories, enabling us to strengthen our global market position even further. One particular exception were cut-off machines which suffered from the construction industry crisis in key markets such as the U.S.A. and Great Britain.

The global market for chain saws profited from strong demand in Eastern Europe and Latin America. But the North American market also experienced distinct growth, driven by the sharp rise in energy prices during the middle of the year and weather-related special effects. However, market volume was down in Western Europe.

Overall, the global market for gasoline-fuelled tools declined, due primarily to weaknesses in the U.S.A. – the largest market. Here, the faltering economy and the crisis in the housing construction industry had a marked effect.

EUROPE

The positive trend that has been ongoing for years in the European gasoline-fuelled chain saw market continued last year, buoyed up by the dynamic performance of Eastern European markets. However, market volume declined in Western Europe with distinct setbacks particularly in the low-price and low-quality segments.

Gasoline-fuelled power tools experienced uneven development. Most of the product markets remained stable in comparison with the previous year. Cut-off machines were alone in suffering negative development due to the crisis in the construction industry.

At the end of October, a new chain production plant was inaugurated in Bonschhofen in the canton of Sankt Gallen, Switzerland. This was in response to increasing market demand.



STIHL products make work easier for the user. This special harvester »combs« the crop from the trees – olives, for example.



STIHL is represented in over 160 countries – customers work with our products in all different kinds of weather conditions.

NORTH AMERICA

In North America, the market for gasoline-fuelled chain saws witnessed unexpectedly strong growth. This was partly due to the sharp rise in energy prices during the summer months. Furthermore, clean-up operations in the wake of the major storm damages in the south-eastern U.S.A. generated additional demand for chain saws.

But demand for gasoline-fuelled power tools was down from the previous year, particularly from private customers. This downturn was particularly noticeable in large-scale retail. With a distribution policy that revolves exclusively around specialist dealerships, STIHL succeeded in further consolidating its market position. The crisis in the US construction industry had a particularly strong negative impact on the demand for cut-off machines. Even the market leader STIHL was unable to stave off the effects of this development.

LATIN AMERICA

Overall, the markets for gasoline-fuelled chain saws and power tools experienced positive development in Latin America. The robust economic conditions in the key

markets of Argentina and Brazil ensured a favorable climate for consumer spending. In some countries, the growth of the overall market was boosted by an increase in products imported from China.

ASIA

In Japan, the markets consolidated at the previous year's level. Overall, the markets in Southeast Asia moved in a positive direction.

AUSTRALIA AND NEW ZEALAND

In Australia, the product markets recovered somewhat from the pronounced market weakness of previous years. But in New Zealand, forestry and agriculture suffered from their heavy dependence on the US market. This meant that customers held back on new purchases of gasoline-fuelled chain saws and power tools too.

NEW PRODUCTS 2008 (SELECTION)



FS 56

The FS 40/50/56 clearing saw family complies with the strict European exhaust limits and uses 20 percent less fuel than the previous models.



KM 56 RC

The new KombiEngine with Easy2Start system is extremely easy for the user to start. It can also be combined with numerous attachments.



HL 95

The hedge trimmer with 4-MIX engine is available in short and long versions. The adjustable 135° gear system combines with the long shaft to enable ergonomic trimming even on particularly tall hedges.



FT 100

The forest care tool is ideal for pruning in dense forest stands and public parks where importance is placed on clean and smooth cutting surfaces.



MB 655 VR

The VIKING lawn mower 6 Series has been expanded with the MB 650 VR and MB 655 VR premium models. The two back wheels have been replaced by a rear roller.



MB 750 KS

The new lawn mower impresses with its powerful engine performance, robust construction and convenient operation. It is suitable for prolonged use on a daily basis.



LE 540

With its seven fixed double blades, the new scarifier frees the lawn of moss and weeds while aerating the soil at the same time.



GE 375

This garden shredder is powerful and exceptionally versatile. With its innovative and patented VIKING reversal mechanism, it can shred either hard or soft garden waste.



SP 90

This special harvester with its efficient raking principle is ideal for harvesting small fruit and olives. The magnesium gearbox and carbon bars make this tool extremely lightweight.



RE 128 PLUS

Thanks to its telescopic handle, this high-pressure cleaner is easy to stow and no problem to transport. The folding front shroud allows the nozzles to be stored where they are protected from dirt.



SE 122 E

Greater suction, a larger container and a new storage concept for accessories are the key improvements on the new wet and dry vacuum cleaners.



BG 86

The new family of blowers are fitted with low-emission engines that comply with the stringent European emissions guidelines. The anti-vibration system on the BG 86 facilitates ergonomic working.



SH 86

Thanks to its new engine, the fuel consumption of this shredder vac/blower has been significantly reduced. In addition, the suction on this new vacuum shredder is considerably more powerful.



VENT HARD HAT SET

The head protection set that was specially developed for tree maintenance features particularly good ventilation plus close-fitting visor and ear protection.



STIHL

STIHL

STIHL
MAGNUM E

STIHL

STIHL



Partners

Good service means personal service. Which is why STIHL products are only sold by trained staff and authorized STIHL dealers. From advice and customer service to spare part supply – STIHL always regards its mission as to provide excellent service and to be a fair partner.



HANS PETER STIHL, Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of STIHL AG met for four regular meetings in the fiscal year 2008. On each occasion, the members were given detailed reports on the development of the STIHL Group and on the German founding company in particular. The basis for the consultations on the economic development at each meeting was a report from the chairman of the Executive Board on the unit sales, turnover and earnings as well as the employees, investments and financial situation of the family-owned company. In accordance with standard practice, the director of human resources presented the staff report at the first meeting of the fiscal year, providing a clear overview of the workforce structure, the quite stable employment conditions and the general satisfaction of employees in the workplace.

In view of the STIHL Group's particularly extensive investment activities in domestic and foreign production sites, the Supervisory Board focused special attention on the corresponding strategic approaches. Worth mentioning here are the opening of a second chain production plant in Switzerland and not least the efforts involved in acquiring the Japanese carburetor manufacturer ZAMA. At the first meeting of the fiscal year, the Supervisory Board acted on a change in the operating agreement and divided the hitherto executive area of Finance and Human Resources into two distinct executive areas and appointed a fifth board member for the Finance portfolio.

With the discharge of the Executive Board and the Supervisory Board at STIHL AG's annual general meeting on 25 June 2008, the Supervisory Board's term of office came to an end. The ensuing vote among stockholders for the next term of office gave rise to no changes in board membership. In keeping with legal requirements, the employees of the STIHL Group's German production plants had already voted on 5 and 6 May 2008. With two exceptions, they re-elected the same employees' representatives to the Supervisory Board. The Supervisory Board welcomed new members on the employee side with the Chairman of the General Works Council of ANDREAS STIHL AG & Co. KG and a representative of IG Metall. At the statutory meeting of the new Supervisory Board, the Chairman of the Supervisory Board and his two Deputies were elected unanimously into office.

The annual financial statements of STIHL AG prepared by the Executive Board for the fiscal year 2008, including the bookkeeping and the management report, have been audited by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart. The certified public accountants have issued an unreserved confirmation. The Supervisory Board concurs with the result of the audit. The certified public accountant attended the meeting of the Supervisory Board on 25 March 2009 to elucidate the result of the audit and discuss it with the members. The Supervisory Board examined and approved the annual financial statements. It is thus adopted.

The Supervisory Board



Hans Peter Stihl
Chairman

BALANCE SHEET STRUCTURE CONSOLIDATED STIHL GROUP

in million euro

	Fixed assets	Inventories	Other current assets	
ASSETS	941	554	1,026	2,521
EQUITY & LIABILITIES	616	383	71	1,451
	Liabilities	Accruals	Special item ¹	Equity

BALANCE SHEET AS OF DECEMBER 31, 2008

(abbreviated version)

ASSETS	CONSOLIDATED STIHL GROUP			ANDREAS STIHL AG & CO. KG	
	Notes	12-31-2008	12-31-2007	12-31-2008	12-31-2007
in thousand euro					
Fixed Assets					
Intangible assets		16,346	14,268	6,130	4,717
Tangible assets		693,893	596,577	169,895	163,089
Financial assets	(1)	230,808	35,114	89,364	14,405
		941,047	645,959	265,389	182,211
Current Assets					
Inventories		553,718	495,381	137,912	142,059
Receivables and other assets					
Accounts receivable trade		300,419	287,848	30,292	35,055
Receivables from affiliated companies		49,736	48,728	107,664	120,048
Other assets		91,502	54,515	11,056	8,348
		441,657	391,091	149,012	163,451
Securities	(2)	98,983	166,621	–	–
Cash in hand, bank balances and checks		477,842	522,485	166,492	170,393
		1,542,200	1,575,578	453,416	475,903
Deferred taxes		29,599	27,940	–	–
Prepaid expenses		8,514	7,007	820	764
Total		2,521,360	2,256,484	719,625	658,878

BALANCE SHEET STRUCTURE ANDREAS STIHL AG & CO. KG

in million euro

	Fixed assets	Inventories	Other current assets		
ASSETS	266	138	316	720	
EQUITY & LIABILITIES	86	263	71	300	720
	Liabilities	Accruals	Special item ¹	Equity	

¹ The special item includes the participating capital and the loan from the EVA MAYR-STIHL STIFTUNG.

EQUITY AND LIABILITIES**CONSOLIDATED STIHL GROUP****ANDREAS STIHL AG & CO. KG**

in thousand euro	Notes	12-31-2008	12-31-2007	12-31-2008	12-31-2007
Partners' equity	(3)	1,451,334	1,307,360	300,000	250,000
Participating capital	(4)	20,759	19,584	20,759	19,584
Loan from EVA MAYR-STIHL STIFTUNG	(5)	50,000	50,000	50,000	50,000
		1,522,093	1,376,944	370,759	319,584
Accruals	(6)				
Accruals for pensions and similar obligations		243,333	235,794	222,513	215,840
Tax accruals		17,064	26,835	3,832	8,272
Accruals for deferred taxes		2,845	2,914	–	–
Other accruals		119,531	119,833	36,340	42,396
		382,773	385,376	262,685	266,508
Liabilities					
Liabilities to banks		62,517	31,818	–	–
Payments received on account of orders		268	152	–	–
Accounts payable trade		100,280	97,901	26,780	25,203
Liabilities on bills accepted and drawn		11	–	–	–
Liabilities to affiliated enterprises		1,653	0	73	71
Liabilities to members of partnership		401,662	314,379	38,236	26,593
Other liabilities		49,277	49,914	20,036	20,919
		615,668	494,164	85,125	72,786
Deferred income		826	–	1,056	–
Total		2,521,360	2,256,484	719,625	658,878

SUPPLEMENT TO THE FINANCIAL STATEMENTS

CONSOLIDATED STIHL GROUP

Data required by § 13 Sec. 3 in connection with § 5 Sec. 5 Sent. 3 of the »Gesetz über die Rechnungslegung von bestimmten Unternehmen und Konzernen« (German Company Disclosure Law):

1. External net sales	in thousand euro	2,136,834
2. Income from participations	in thousand euro	491
3. Wages, salaries, social security, post-employment and other employee benefit costs	in thousand euro	495,505
4. Number of employees on 31 December 2008		10,063

Waiblingen, March 2009

STIHL Holding AG & Co. KG
Die persönlich haftenden Gesellschafter
(General Partner)
Dipl.-Ing. Hans Peter Stihl
STIHL AG

ANDREAS STIHL AG & CO.KG

Data required by § 5 Sec. 5 Sent. 3 of the »Gesetz über die Rechnungslegung von bestimmten Unternehmen und Konzernen« (German Company Disclosure Law):

1. Net sales	in thousand euro	817,876
2. Income from participations	in thousand euro	–
3. Wages, salaries, social security, post-employment and other employee benefit costs	in thousand euro	246,181
4. Number of employees on 31 December 2008		3,750

Waiblingen, March 2009

ANDREAS STIHL AG & Co. KG
Die persönlich haftenden Gesellschafter
(General Partner)
Dipl.-Ing. Hans Peter Stihl
STIHL AG

The complete financial statements of the STIHL Holding AG & Co. KG Group and ANDREAS STIHL AG & Co. KG are published according to the German company Disclosure Law in the Bundesanzeiger (Official Gazette of the Federal Republic of Germany). Ernst & Young, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, Germany, has provided the unqualified audit certificate for the financial statements to be deposited with the Stuttgart commercial register.

NOTES

ACCOUNTING AND VALUATION METHODS

Intangible and tangible fixed assets as well as financial assets are capitalized at acquisition and manufacturing cost respectively. Manufacturing costs include direct material, direct labor and an adequate portion of manufacturing overhead. Items with a limited useful life are subject to scheduled depreciation in accordance with the highest rate permissible under tax regulations. Special depreciation has been used wherever a devaluation appeared necessary. If the reason for a write-down no longer applies, the write-down needs to be reserved.

Inventories are stated at the lower of cost (acquisition and manufacturing respectively) or market. An adequate devaluation for stock risk was stated.

Receivables and other assets are stated at nominal value. A write-off is made for recognizable individual and general collection risks.

Pension obligations of companies subject to German law are stated in accordance with § 6a of the German Income Tax Law on the basis of the graduated mortality table (Heubeck 2005G). In the case of foreign companies, the respective pension obligations have been calculated in a similar manner taking local laws into account. In the determination of other accruals and reserves, all recognizable risks and uncertain liabilities have been taken into account.

Liabilities are shown at redemption value.

SCOPE OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of STIHL Holding AG & Co. KG as well as the financial statements of all domestic and foreign subsidiaries (see corresponding table).

ANDREAS STIHL EOOD, Sofia, Bulgaria; STIHL Kettenwerk GmbH & Co. KG, Waiblingen, Germany; Zama Holding GmbH, Waiblingen (formerly STIHL GmbH, Düsseldorf), Germany, were included in the scope of consolidation for the first time in 2008.

STIHL Kettenwerk GmbH & Co. KG, Waiblingen, founded a branch in Wil SG (Switzerland) in which all the assets, equity and liabilities of STIHL & Co., Wil, were incorporated on 1 January 2009.

For reasons of immateriality, the consolidated financial statements do not include those of ANDREAS STIHL Ltd., Chai Wan, Hongkong; Taicang ANDREAS STIHL Powertools Company Ltd., Taicang City, Jiangsu, China; ANDREAS STIHL Pvt. Ltd., Taluka-Haveli, Pune, India; Häussler GmbH & Co. KG Sechzehnte Bau + Boden Gesellschaft, Stuttgart, Germany (75 percent of which was acquired in 2006); Zama Corporation Ltd., Tai Po, NT, Hong Kong, and Zama Japan Kabushiki Kaisha, Hachimantai-shi, Iwate-Ken, Japan (both of which were newly acquired in 2008).

CONSOLIDATION OF CAPITAL

Capital consolidation is stated in accordance with § 301 Sec. 1 No. 1 of the German Commercial Code (HGB). Differences (debit) arising from first-time consolidation were netted against the revenue reserves of the STIHL Group.

NOTES ON THE BALANCE SHEET

of the Consolidated STIHL Group
and ANDREAS STIHL AG & Co. KG

ASSETS

1. Financial Assets

The financial assets reported in the Group financial statements consist of interests in companies not included in the Consolidated Group financial statements (see note on scope of consolidation) as well as long-term securities.

2. Securities

These relate mainly to other securities which serve as short-term investments.

EQUITY AND LIABILITIES

3. Partners' Equity

In both balance sheets, partners' equity is represented in a single sum in compliance with § 9 Sec. 3 of the German Company Disclosure Law.

4. Participating Capital

In the fiscal year 2008, employees of ANDREAS STIHL AG & Co. KG made frequent use of the opportunity to participate in the form of participation rights.

5. Loan from EVA MAYR-STIHL STIFTUNG

The loan remained at the previous year's level of 50 million euro and is at the disposal of ANDREAS STIHL AG & Co. KG.

6. Accruals

The pension accruals include not only any current pension claims, but also earned benefits in the amount necessary to spread the benefits over the estimated time of service.

Other accruals relate to personnel claims, employee jubilee obligations and other uncertain risks.

7. Average number of employees of the STIHL Group

Europe	5,705
Americas	3,848
Asia / Oceania / Africa	419
Total	9,972

PARTICIPATIONS OF THE STIHL GROUP

NAME OF COMPANY	SHARE OF CAPITAL IN %	NAME OF COMPANY	SHARE OF CAPITAL IN %
List of companies included in the consolidated financial statements		Other countries (cont.)	
Germany		ANDREAS STIHL S.A. de C.V., Mexico City, Mexico	100.0
STIHL Holding AG & Co. KG, Waiblingen	100.0	ANDREAS STIHL (PTY.) Ltd., Pietermaritzburg, South Africa	100.0
ANDREAS STIHL AG & Co. KG, Waiblingen	100.0	Kabushiki Kaisha STIHL, Kaminokawa-machi, Tochigi, Japan	100.0
STIHL International GmbH, Waiblingen	100.0	STIHL Pty. Ltd., Knoxfield, Victoria, Australia	100.0
STIHL Vertriebszentrale AG & Co. KG, Dieburg	100.0	STIHL Limited, Auckland, New Zealand	100.0
ANDREAS STIHL Verwaltungs-GmbH, Waiblingen	100.0	STIHL Motoimplementos S.A., El Talar, Buenos Aires, Argentina	100.0
STIHL-Verwaltungsgesellschaft mbH, Waiblingen	100.0	ANDREAS STIHL Motounelte S.R.L., Otopeni, Romania	100.0
STIHL Kettenwerk Verwaltungs-GmbH, Waiblingen	100.0	TOV ANDREAS STIHL, Kiev, Ukraine	100.0
STIHL Beteiligungsgesellschaft GmbH & Co. KG, Waiblingen	100.0	TOV ANDREAS STIHL Zemelna Kompanija, Kiev, Ukraine	100.0
STIHL Kettenwerk GmbH & Co. KG, Waiblingen	100.0	ANDREAS STIHL EOOD, Sofia, Bulgaria	100.0
Zama Holding GmbH, Waiblingen	100.0		
Other countries		List of companies not included in the consolidated financial statements	
STIHL & Co., Wil, Switzerland	100.0	Taicang ANDREAS STIHL Powertools Company Ltd., Taicang City, Jiangsu, China	100.0
STIHL Inc., Virginia Beach, Virginia, U.S.A.	100.0	ANDREAS STIHL Ltd., Chai Wan, Hong Kong	100.0
ANDREAS STIHL Moto-Serras Ltda., São Leopoldo, Rio Grande do Sul, Brazil	100.0	ANDREAS STIHL Pvt. Ltd., Taluka-Haveli, Pune, India	100.0
ANDREAS STIHL Power Tools (Qingdao) Co. Ltd., Qingdao, China	100.0	Häussler GmbH & Co. KG	
VIKING GmbH, Langkampfen, Austria	100.0	Sechzehnte Bau + Boden Gesellschaft, Stuttgart	75.0
STIHL Ges.m.b.H., Perchtoldsdorf, Austria	100.0	Zama Corporation Ltd., Tai Po, NT, Hong Kong	100.0
STIHL Vertriebs AG, Mönchaltorf, Switzerland	100.0	Zama Japan Kabushiki Kaisha, Hachimantai-shi, Iwate-Ken, Japan	100.0
ANDREAS STIHL Ltd., Camberley, Surrey, Great Britain	100.0		
ANDREAS STIHL N.V., Puurs, Belgium	100.0		
ANDREAS STIHL S.A.R.L., Torcy, Marne-la-Vallée, France	100.0		
ANDREAS STIHL S.A., Torres de la Alameda, Spain	100.0		
ANDREAS STIHL S.A., Sintra, Portugal	100.0		
ANDREAS STIHL S.p.A., Cambiago, Italy	100.0		
ANDREAS STIHL S.A., Acharnes, Attika, Greece	100.0		
ANDREAS STIHL A/S, Sandefjord, Norway	100.0		
ANDREAS STIHL Norden AB, Stenkullen, Sweden	100.0		
ANDREAS STIHL Sp. z o.o., Tarnowo Podgórne, Poland	100.0		
ANDREAS STIHL spol. s r.o., Modrice, Czech Republic	100.0		
ANDREAS STIHL Kereskedelmi Kft., Biatorbágy, Hungary	100.0		
STIHL Limited, London, Ontario, Canada	100.0		

THE BOARDS

MEMBERS OF THE SUPERVISORY BOARD OF STIHL AG

Shareholders' Representatives

Diplom-Ingenieur Hans Peter Stihl, ¹

Chairman of the Supervisory Board, Remseck

Dr. Dr. h.c. Walther Zügel, ¹

Second Deputy Chairman of the Supervisory Board, Stuttgart

Professor Dr. h.c. Ludwig Georg Braun,

Chairman of the Board of Management of Braun Melsungen AG, Melsungen

Diplom-Kaufmann Horst H. Geidel,

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Eva Mayr-Stihl,

Remseck

Dr. Rüdiger Stihl,

Remseck

Employees' Representatives

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Board of Management of IG Metall, Frankfurt am Main
Deputy Chairman of the Supervisory Board, Neuss (until 06-25-2008)

Luigi Colosi, ¹

Chairman of the General Works Council of ANDREAS STIHL AG & Co. KG, Waiblingen, also Chairman of the Works Council of same company's Waiblingen and Ludwigsburg works, Deputy Chairman of the Supervisory Board (from 06-25-2008)

Matthias Fuchs,

Second Authorized Representative of the IG Metall Office Ludwigsburg, Stuttgart (from 06-25-2008)

Claudia Klenk, ¹

Chairwoman of the Central Works Council of STIHL Holding AG & Co. KG, Waiblingen, Deputy Chairwoman of the General Works Council of ANDREAS STIHL AG & Co. KG, Waiblingen

Dieter Knauß,

Head of IG Metall Waiblingen Office, Waiblingen

Peter Linsbauer,

Senior Manager, Power Tool Design, Cut-off machines, ANDREAS STIHL AG & Co. KG, Waiblingen

Günter Meyer,

Chairman of the Works Council at ANDREAS STIHL AG & Co. KG, Prüm-Weinsheim (Eifel) (until 06-25-2008)

Dr.-Ing. Peter Pretzsch,

Director Group Technology and Buildings
ANDREAS STIHL AG & Co. KG, Waiblingen

MEMBERS OF THE EXECUTIVE BOARD OF STIHL AG

Dr.-Ing. Bertram Kandziora,

Chairman of the Executive Board
and Executive Board Member Manufacturing and Materials

Dr. Klaus Detlefsen,

Executive Board Member Finance and Controlling (from 05-01-2008)

Dr. Peter Düroff,

Executive Board Member Finance and Human Resources (until 04-30-2008)
Executive Board Member Human Resources, Organization/IT, Law and Patents (from 05-01-2008)

Diplom-Wirtschaftsingenieur (FH) Jürgen Steinhauser,

Executive Board Member Marketing and Sales

Diplom-Ingenieur Wolfgang Zahn,

Executive Board Member Development

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Chairman, Remseck

Eva Mayr-Stihl,

Deputy Chairwoman, Remseck

Professor Dr. h.c. Ludwig Georg Braun,

Melsungen

Diplom-Kaufmann Horst H. Geidel,

Stuttgart

Professor Dr. Michael Hoffmann-Becking,

Düsseldorf

Gerhild Schetter,

née Stihl, Kernen

Dr. Rüdiger Stihl,

Remseck

Dr. Dr. h.c. Walther Zügel,

Stuttgart

¹ also member of the Committee in accordance with § 27 Sec. 3 of the Codetermination Law

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This Annual Report is also published in German. In case of doubt the German version is binding.



2008



< **JANUARY**
40th anniversary of our importer (K.T.S.) in Malaysia



< **MARCH**
Members of the Green Party fraction in the Baden-Württemberg State Parliament visit STIHL in Waiblingen

> **MAY**
Official opening of the gallery at Stihl Waiblingen



> **JUNE**
Award of the Forest Science Prize from the KWF (Kuratorium für Waldarbeit und Forsttechnik) for the MS 211



< **JULY**
60th anniversary of the STIHL suggestion scheme (ideeplus)



< **SEPTEMBER**
STIHL® TIMBERSPORTS® Series World Championships in Ireland

> **SEPTEMBER**
Inauguration of the extension to Plant 3 at Wiechs am Randen



> **OCTOBER**
Inauguration of the new building at the second saw chain factory in Bronschhofen, in the Swiss canton of Sankt Gallen



>
APRIL

Dr. Rüdiger Stihl elected chair of the Action Group against Product and Trademark Counterfeiting (APM e.V.)



>
APRIL

Ground-breaking ceremony for the logistics facility at the German distribution centre in Dieburg



>
JULY

Open Day
(Family Day) in Plant 1



>
SEPTEMBER

30th anniversary of
STIHL Great Britain



>
SEPTEMBER

German Forestry Prize 2008
awarded



<
DECEMBER

Bozidar Djelic,
Deputy Prime Minister of Serbia,
visits STIHL

2009





STIHL Holding AG & Co. KG
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71336 Waiblingen
Germany
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