Separate financial statements and management report of Drägerwerk AG

as of December 31, 2006

Contents

Management report of Drägerwerk AG

Dividend proposal

The Executive and Supervisory Boards of Lübeck-based Drägerwerk AG will propose to distribute out of the net earnings of EUR 52.6 million for fiscal year 2006 a cash dividend of EUR 0.55 per preferred share (2005: EUR 0.50) and EUR 0.49 per common share (2005: EUR 0.44), hence a total EUR 6.6 million, and carry forward the balance of EUR 46.0 million.

The preferred stock dividend also governs the dividend for participation certificates, which will amount to EUR 5.50 each (2005: EUR 5.00). Participation certificates entitle the holder to a dividend ten times the preferred stock dividend since their arithmetic par value is ten times that of a preferred share.

Business activities

Drägerwerk AG, Lübeck, as the holding company, directly or indirectly holds the shares in the parent companies of the subgroups Dräger Medical (65 percent) and Dräger Safety (100 percent). With the focus being placed on the core business of these two subgroups in prior years, the Company now only has a few other small shareholdings.

Drägerwerk AG has functions which serve to fulfill the core tasks of the Company as well as provide services to the subgroups and their subsidiaries. These functions include the legal, tax and insurance departments, the treasury, public relations, investor relations, financial control and accounting departments for the Company and the Group, HR, the internal audit and basic research departments and real estate management via a real estate company (Dräger Immobilien GmbH). The services to the subgroups are closely coordinated with them and provided in accordance with arm's length principles.

The most important task of Drägerwerk AG is the management of the Group in its capacity as the ultimate parent company. This task has been facilitated by appointing a member of the Executive Board of Drägerwerk AG as Executive Board Chairman of each of the subgroups' parent companies. The business activities of the subgroups Dräger Medical and Dräger Safety are discussed in detail in the group management report.

Control systems

The planning and control systems are based on the annual revision of the Dräger Group's strategic plan. This plan contains the Group's targets, which are developed in line with expected market developments, technological trends and their influence on products and services, as well as with the financial means of the Dräger Group. The head offices of the Group and our subgroups are closely linked with the various business units, regions and group companies in the strategic plan.

The results are condensed in a five-year plan, the first year of which is developed into a detailed budget for the coming year.

Target figures for the monthly reports on the development of the net assets, financial position and results of operations of the group companies, subgroups and the Dräger Group as a whole are derived from this budget. These data are supplemented by detailed information required for the management of the Group's operating activities. In addition to these reports, semi-annual risk reports are then compiled which mainly address the strategic risks that cannot be directly derived from the Group's figures.

The reports are discussed during Executive and Supervisory Board meetings and provide essential information for key decisions.

Further details of the management and control structure can be found in the corporate governance report from page 16 of the 2006 annual report of the Dräger Group.

General economic conditions

2003 to 2006 saw the longest and strongest period of global economic growth since the end of the 1960s. In 2006, for example, real GDP growth worldwide was 3.6 percent. Impressive growth rates were recorded in China (10.3 percent), India (8.0 percent), Malaysia (5.5 percent), Argentina (7.5 percent), Peru (6.0 percent) and other countries classified as "emerging markets". GDP in Russia rose by 6.0 percent. This trend is the result of increasing globalization, with the non-G7 states' share in global GDP increasing from 32 percent to 40 percent over the last ten years.

The major markets, however, particularly the US, remained the driving force behind global economic activity, enjoying renewed GDP growth of 3.3 percent on the prior year. Despite risk factors such as falling real estate prices, the budget deficit, the balance of payments deficit, and rising crude oil prices, the US economy remained stable. The Japanese economy also continued to stabilize.

Positive news came from Europe, where a renewed economic upswing was recorded in 2006. Across the EU, GDP grew by 2.5 percent, as opposed to 1.4 percent in the prior year. Despite burdensome factors such as a stronger euro and rising energy prices, GDP also improved in Germany, rising by 2.4 percent compared with 0.9 percent in the prior year. This positive trend was shored up by strong exports, themselves driven by resurgent consumption in 2006.

Business trend and results of operations

In 2006, Drägerwerk AG's business trend and net profit of EUR 22.2 million (2005: EUR 13.9 million) were essentially influenced by

(a) its result from operating activities;
(b) the performance of its operating companies.

As to (a) its result from operating activities

Drägerwerk AG's result from operating activities, including services to group companies and third parties, was stable in fiscal year 2006. The sharp drop in personnel expenses relates to the absence of non-recurring pension expenses incurred in the prior year.

As to (b) the performance of its operating companies

The income from P&L transfer agreements (including the intragroup tax apportionment) increased in fiscal year 2006 to EUR 70.1 million (2005: EUR 57.2 million). As in the prior year, no losses had to be absorbed in fiscal year 2006.

Net assets and financial position

Being a holding company, Drägerwerk AG presents a balance sheet where high financial assets, intercompany receivables and liabilities, and liabilities from group financing prevail.

In fiscal year 2006, non-current assets remained stable at EUR 648.5 million (December 31, 2005: EUR 650.6 million). As regards property, plant and equipment and intangible assets, additions of EUR 6.0 million outweighed disposals with net carrying amounts of EUR 0.9 million. Additions included licenses for mySAP.com Solutions software (EUR 2.3 million); construction work for Dräger Safety and Dräger Medical as well as infrastructure and prepayments made amounted to EUR 1.9 million.

Liabilities to banks fell to EUR 239.4 million (December 31, 2005: EUR 255.7 million); of that amount, note loans of EUR 180 million are due in one to six years. This amount was netted with cash and cash equivalents, producing a significant decrease in net financial liabilities to banks from EUR 164.2 million as of December 31, 2005 to EUR 123.0 million. Net liabilities to group companies as a result of group financing also decreased to EUR 50.5 million (December 31, 2005: EUR 57.5 million).

Drägerwerk AG's net profit increased equity to EUR 359.3 million (December 31, 2005: EUR 343.0 million), which now equals 43.5 percent of the balance sheet total (December 31, 2005: 42.6 percent).

Personnel and welfare

As of December 31, 2006, Drägerwerk employed 142 people (December 31, 2005: 143).

In 2006, Drägerwerk AG introduced a number of coherent personnel management tools, which, based on clear performance feedback, are aimed at supporting the long-term, systematic development of employees and management. These mainly included an assessment system in the form of a structured annual employee review, as well as a leadership feedback survey.

In order to continue meeting the demands of the Dräger group companies, personnel capacity was increased by recruiting highly qualified staff, particularly in the IT and legal departments.

Research and development

The research department at Drägerwerk AG employs 46 people, who are engaged in product basics and researching and developing promising new technologies for the subgroups.

They provide support for Dräger Safety projects, such as the development of innovative gas sensors and integrated personal protection systems. They also assist Dräger Medical in developing knowledge-based system solutions for acute and subacute points of care in hospitals and networked care units.

Expenses of EUR 6.2 million (2005: EUR 5.8 million) for research and development services were incurred and recharged to the subgroups. These were almost all of the expenses incurred by this department.

Environmental protection

Environmental protection and sustainable operations are key objectives of the Dräger Group that are not only integrated in the processes of our Lübeck-based companies but also anchored in our global quality and environmental policies applicable to all Dräger subsidiaries. Dräger Immobilien GmbH, for example, has been incorporated in the DIN EN ISO 14001 environmental certification of the Group in Lübeck, while the subsidiaries of Dräger Safety in the UK and Switzerland have been certified in accordance with ISO 14001 and ISO 14001/OHSAS18001, respectively. Elements of the environmental protection and occupational safety policies are systematically included in the internal audit of all of Dräger Safety's subsidiaries worldwide.

Our efforts to maintain efficient production processes as well as high environmental standards are reflected in both the gas-fired combined heat and power plant for the new Dräger Medical building, and in the new activated carbon production facility at the Dräger Safety site on Revalstraße in Lübeck. This new facility boasts drastically reduced emissions as well as high standards regarding chemical use and occupational safety. The eco-friendly and fail-safe operation of the facility will also be assisted by cutting-edge air cleaners, process-integrated gas detection and control technology and largely self-contained modules.

The positive trend in environment figures for each production location has continued, although not all areas achieved a further reduction in absolute consumption volumes. During the fiscal year, the rise in consumption figures was mainly attributable to the – in some cases substantial – growth in production output, e.g. medical equipment and the water-intensive production of breathing filters. This led to a slight increase of approximately six percent in absolute electricity consumption, triggered by the improved capacity utilization of the predominantly electrically operated machines and facilities and by additional air-conditioning systems.

Energy consumption in 2006 remained stable at the low level recorded in the prior year. At approximately 9,000 metric tons (mt), CO_2 emissions from the Dräger sites in Lübeck were only up slightly on the prior year.

In terms of water consumption, the construction work and increased production output meant that the low level recorded in the prior year could not be maintained.

Absolute disposable waste at the Lübeck sites increased by approximately three percent to EUR 4,200 mt in fiscal year 2006. This rise is only attributable to a limited extent to production growth in the waste-intensive areas of Dräger Safety and to the consumables and supplies required for the maintenance of production facilities. A key factor influencing the rise in waste was the ongoing restoration and construction work carried out at the Lübeck plants.

Last year, Dräger Medical and Dräger Safety complied with all the European legislation governing the disposal of waste electrical and electronic equipment. As of March 2007, new requirements will have to be met for the supply of electrical and electronic equipment to the Chinese market. Task forces have been put in place at both of Dräger's production companies in order to ensure that the "Chinese RoHS" requirements are fulfilled on time and to guarantee the supply capabilities of Dräger Medical and Dräger Safety.

Opportunities and risks relating to future development

As a management holding company, Drägerwerk AG is fully exposed to the opportunities and risks from the operating subgroups' and other investees' business activities and the value of its shareholdings, as well as to the risks from P&L transfer agreements.

The Dräger Group's risk and opportunity management system allows it to take a responsible approach to dealing with the inevitable uncertainties of doing business. The system enables Dräger to meet its targets by consistently taking advantage of opportunities without losing sight of the associated risks.

Our risk policies are based on the goal of securing and – by exploiting our opportunities – building on our market position and increasing the value of the Group on a sustainable basis. This involves doing our utmost to avoid or insure against risk, and responsibly managing those risks which we have to bear.

The risk management system comprises all measures that allow us to identify, measure, monitor and manage potential strategic and operational risks at an early stage. Based on the Group's and subgroups' annually revised strategic plans and the resultant short and medium-term plans, systematic risk control covers business units, companies and regions, subgroups and the Group through monthly reports. Our risk reports, which are routinely compiled twice a year or ad hoc as required and detail economic, market and currency risks, the competitive situation and environment, as well as risks specific to the business units, are a key part of this process. Risk management is rounded off by the activities of the group internal audit function and the statutory audit of the financial statements.

As a matter of course, Dräger Medical and Dräger Safety submit their products and services to quality inspections and ongoing checks in accordance with stringent national and international standards and always with the special quality and risk orientation of these sectors in mind.

The long-term basis for our opportunity management is the strategic planning process and the resulting development and market positioning plans for products over their respective life cycles. Short-term options are identified by regularly monitoring the market and the competition.

Our systems ensure that information on risks and opportunities flows to the respective process owners, the Executive Board and the Supervisory Board and, if necessary, enables action to be taken at short notice.

Drägerwerk AG's risk management process complies fully with the objectives of the German Act on Corporate Control and Transparency ("KonTraG").

Both the risks presented below and risks of which we may currently be unaware can have an impact on the Dräger Group and therefore also on Drägerwerk AG. The management report of Drägerwerk AG therefore also details these risks and opportunities from a group perspective.

Risks arising from the economic environment

Overall economic risks

The economies of most industrialized nations are characterized by a high degree of uncertainty. Despite the persistent double deficit (budget and balance of payments) and downtrend in real estate prices, the US economy is not expected to fall into recession in the near future. Recently, however, cutbacks have been observed in public procurement programs. In many other industrialized nations, governments have been limited in their ability to boost growth due to the high level of public debt. For export-minded eurozone companies, the weak US dollar, coupled with uncertainty as to how the exchange rate will develop, are major risk factors. Continued growth can be expected in Asia.

Numerous other factors such as global, political and cultural conflicts, including the situation in the Middle East, can affect macroeconomic factors and international capital markets and shape demand for our products and services.

By strengthening its global business, the Dräger Group has achieved a broad regional diversification of revenues. Ten years ago, for example, Germany contributed 43 percent to consolidated revenues. In 2006, this figure was a mere 22 percent. Our growth targets are focused on the Americas and Asia. Key production sites in the US, UK and in China are instrumental in reducing the currency risks associated with global business.

Strategic industry risks

The industries in which Dräger Medical and Dräger Safety operate are considered future-oriented, but within each industry, further consolidation processes are expected that are likely to affect the structure and intensity of competition. We are up against strong competitors, some of whom have access to extensive resources. The contraction of the German market – one of the Dräger Group's major markets – as a result of the health care reform, as well as cost pressure on our customers, have created unfavorable conditions. In response to these challenges, we are cementing and further expanding our position in the traditional and emerging markets through customer focus, innovation, the high quality and reliability of our products and services and, where expedient to business, active involvement in the consolidation process. The focus we have placed on the core businesses of Dräger Medical and Dräger Safety over the last few years is a key pillar of this strategy.

Operational risks

Together with technological leadership, excellent cost structures are of paramount importance to the market position and business success of the Dräger Group. This requires not only a high quality product portfolio in line with market requirements but also the ability to control operating processes, from development, sales and meeting orders through to maintenance of products on the market.

In our business model, in which the level of vertical production is reduced to the necessary core technologies and assemblies, a high level of coordination is required with suppliers, who have to be reliably incorporated into the processes. To avoid the risks this entails, information processes are structured, the necessary internal and external interfaces in the global processes are optimized and the performance of external partners is carefully reviewed. Quality standards safeguard the supplier selection and procurement processes. Our operating processes are continuously being improved; the action taken in recent years is proof that the Dräger Group has responded to these challenges in the subgroups and at Drägerwerk AG.

Personnel risks

Competition for highly qualified staff is fierce in the industries in which our subgroups operate. Recruiting and retaining well-qualified staff for all functions and regions is crucial for our further development. We therefore attach great importance to measures to boost our attractiveness as an employer.

Regulatory and legal risks

In numerous countries, our subgroups' products are subject to varying and ever-increasing conditions. Extensive measures often prove necessary to meet these conditions, which can considerably increase our operating costs.

Companies in the Dräger Group are currently and may in the future be involved in litigation in connection with their business activities. To counter such legal risks, we have taken out liability insurance policies with coverage which the Executive Board considers appropriate and customary for the industry.

Changes in customs laws or other trade barriers and price or currency restrictions can impair our revenues and profitability. Furthermore, legal uncertainty in many a region can limit our options for asserting our rights.

Financial risks

The financial situation of the Dräger Group is key to assessing the financial risks faced by Drägerwerk AG.

The aim of financial measures within the Dräger Group is to control the liquidity, interest rate, currency and credit risk. The liquidity risk and the interest rate risk are hedged centrally by Drägerwerk AG, whereas the currency risk is the joint responsibility of Drägerwerk AG and the subgroups. The credit risk with regard to cash investments and derivatives is mitigated centrally, while the credit risk regarding receivables from operating activities is the responsibility of the subgroups.

Marketable hedging instruments contracted with dependable banks as counterparties are the only financial derivatives we use. Derivatives may only be traded by members of the Dräger Group if they have been approved beforehand.

We mitigate our liquidity risk by diversifying the maturity structure of our financing instruments. In addition to near-equity participation certificates, we have raised note loans which are due in one to six years. We also have non-current and current liabilities to banks as well as a liquidity reserve comprising freely available credit facilities with numerous banks with which we have concluded bilateral agreements. Due to the maturity structure of these financing instruments, there is only a limited repricing risk. Substantial cash and cash equivalents and trade receivables also provide us with additional financial scope. The solid financing structure of the Dräger Group is rounded off by our equity ratio of 33 percent.

The Dräger Group is mainly exposed to interest rate risks in relation to the euro. We counter these risks using a combination of fixed and variable-interest financial liabilities, hedging a portion of the variable interest with interest rate caps. Cash investments are made exclusively on the money market or in short-term, fixed-income investment grade securities.

We counteract the currency risk from euro transactions by hedging the net balances of budgeted income and expenses in the Group as well as short-term positions resulting from the settlement of receivables and liabilities in foreign currencies. Production in the US has proven a favorable factor by almost zeroing the net balance of US dollar income and expenses of Dräger Medical. Production in the US is also bolstering Dräger Safety.

Going by our experience over the last few years, the credit risk from operating activities is extremely low given the customer structure of the Dräger Group.

The joint venture agreement between the participating companies of Drägerwerk AG (Dräger) and Siemens AG (Siemens) and the partnership agreement of Dräger Medical AG & Co. KG originally granted Siemens a put option upon whose exercise Dräger would have to buy the entire stake held by Siemens in the limited partnership at a determined formula price. We already stated in the 2005 annual report that the contracting parties intended to amend this agreement. In fiscal year 2006, the agreement was amended to the effect that Dräger is no longer obligated to buy the limited shares. Now, Dräger can either agree to buy the limited shares offered by Siemens at the formula price or else it must support a sale by Siemens to a third party by selling some of its own limited shares if necessary. Both parties have since agreed that Dräger will increase its stake in Dräger Medical AG & Co. KG from 65 percent to 75 percent in 2007 by acquiring limited shares held by Siemens. In addition, Siemens plans to acquire a 2.5 percent stake in Drägerwerk AG, which is expected to take the form of future limited shares.

Overall risk

In view of the information currently available to us, Drägerwerk AG's continued existence as a going concern is not jeopardized.

Remuneration report

The remuneration report, which details the principles underlying the determination of Executive and Supervisory Board remuneration, is contained in the notes to the separate financial statements and management report of Drägerwerk AG for fiscal year 2006 (Note 30).

Other disclosures pursuant to Art. 289(4) German Commercial Code ("HGB")

The capital stock of Drägerwerk AG consists of 50 percent common shares and 50 percent preferred shares. Other than voting rights, the preferred shares have the same rights as those attached to the common shares. As compensation for the lack of voting rights, an advance dividend of EUR 0.13 per preferred share is distributed from net earnings. If sufficient profits are available, a dividend of EUR 0.13 per common share is then paid. Any profit in excess of this amount, if distributed, is allocated so that preferred shares receive EUR 0.06 more than common shares. If the profit is not sufficient to distribute the advance dividend for preferred shares in one or more years, the amounts are paid from the profit of subsequent fiscal years before a dividend is paid on common shares. If amounts in arrears are not paid in the next year along with the full preferred dividend for that year, the preferred shareholders have voting rights until the arrears have been paid. In the event of liquidation, the preferred shareholders receive 25 percent of net liquidation proceeds in advance. The remaining liquidation proceeds are distributed evenly to all shares.

97.87 percent of the common stock belongs to Dr. Heinrich Dräger GmbH, the majority shareholder of which is Stefan Dräger GmbH, which is owned entirely by Stefan Dräger. Stefan Dräger GmbH informed us in accordance with Art. 21(1) German Securities Trading Act ("WpHG") that its share in the voting rights of Drägerwerk AG equals 97.87 percent.

There are no shares with special rights conferring control, or special controls over voting rights.

At present, Drägerwerk AG has neither approved nor conditional capital at its disposal. As such, the Executive Board is currently not in a position to increase the Company's capital unless this is agreed by resolution at the annual shareholders' meeting and, if applicable, approved by the Supervisory Board. In accordance with a resolution passed at the annual shareholders' meeting on June 2, 2006, the Executive Board is authorized to buy back up to ten percent of the Company's capital stock. This authorization expires on December 1, 2007 and may only be exercised in accordance with Art. 71 German Stock Corporation Act ("AktG").

If employees wish to acquire shares in Drägerwerk AG, they may purchase preferred shares in the Company on the stock exchange. There are no special provisions governing employee shares in the Company's capital.

At Drägerwerk AG, members of the Executive Board are appointed and removed in accordance with Art. 84 AktG. The preparations for such actions are made by the Executive Committee of the Supervisory Board and the members appointed by the Supervisory Board.

Pursuant to Art. 15 of Drägerwerk AG's bylaws, amendments to these bylaws must be approved by resolution at the annual shareholders' meeting, with a simple majority of votes cast and – in accordance with Arts. 179 et seq. AktG – with a majority of three quarters of the voting capital represented upon adopting the resolution.

In a joint venture agreement dated December 28, 2006 regarding Dräger Medical AG & Co. KG, the limited partners Dräger Medical Holding GmbH and Siemens Medical Holding GmbH agreed to grant each other an option, to purchase the limited shares. This option will take effect if more than 50 percent of the voting rights of one of the limited partners is directly or indirectly acquired by one or more third parties and a limited partner falls under the influence of one or more third parties to the extent that the third party or parties are in a position to appoint the majority of the members of the executive board of said limited partner. An alternative option is also granted to the other limited partner, where-by it may demand that the limited partner under the influence of a third party acquires its shares in the partnership.

Drägerwerk AG has no compensation agreements in place for members of the Executive Board or employees in the event of a takeover bid.

Subsequent events

At a special meeting held on January 23, 2007, the Supervisory Board of Drägerwerk AG approved the Executive Board's proposal of continuing to prepare for a change in Drägerwerk AG's legal form to that of a partnership limited by shares ("KGaA") carrying the name Drägerwerk AG & Co. KGaA.

On February 21, 2007, Dräger and Siemens intend to sign an agreement governing the buyback of ten percent of the shares in Dräger Medical AG & Co. KG by Dräger Medical Holding GmbH. This will be entered in the commercial register immediately thereafter. As a result, Dräger's share in the partnership will increase to 75 percent. This acquisition was agreed in connection with the revision of Siemens' contractual put option explained on page 9 of this management report. The change in the partners' stakes has no effect on the Dräger Medical AG & Co. KG joint venture between Dräger and Siemens. The buyback of the ten percent stake is to be financed by raising additional note loans in the amount of EUR 100 million.

Outlook

In fiscal year 2007, Drägerwerk AG will continue to provide services to its group companies.

The Company's 2007 net profit or loss will principally consist of P&L transfers and income from investments. Given the positive performance in fiscal year 2006, our companies' aim in 2007 and 2008 will be to head off the increasing competition with further growth and increased earnings.

Separate financial statements of Drägerwerk AG

Income statement of Drägerwerk AG from January 1 to December 31, 2006			
	Note	2006	2005[1]
		€ thousand	€ thousand
Other operating income	22	38,380	37,477
Personnel expenses	23	(17,876)	(22,679)
Amortization of intangible assets and depreciation of property, plant and equipment	24	(5,515)	(5,181)
Other operating expenses	25	(33,275)	(30,194)
Income from investments	26	70,219	57,721
Write-downs on financial assets and current securities	27	(885)	(59)
Interest result	28	(14,336)	(14,285)
Result from ordinary operations		**36,712**	**22,800**
Income taxes		(6,221)	(1,515)
Other taxes		(485)	(274)
Profit before distribution for participation capital		**30,006**	**21,011**
Distribution for participation capital	38	(7,774)	(7,067)
Net profit		**22,232**	**13,944**
Profit brought forward from prior year		30,371	22,396
Net earnings	**39**	**52,603**	**36,340**

[1] Prior-year figures have been adjusted. See Notes 23 and 28

Balance sheet of Drägerwerk AG as of December 31, 2006

	Note	2006	2005
		€ thousand	€ thousand
Assets			
Intangible assets	6	3,648	2,392
Property, plant and equipment	7	41,737	43,502
Financial assets	8	603,162	604,704
Non-current assets		**648,547**	**650,598**
Trade receivables		52	374
All other receivables and other assets		59,432	63,249
Receivables and other assets	10	59,484	63,623
Securities	11	583	0
Cash and cash equivalents	12	116,330	91,523
Current assets		**176,397**	**155,146**
Prepaid expenses	**13**	**374**	**269**
Total assets		**825,318**	**806,013**

	Note	2006	2005
		€ thousand	€ thousand
Equity and liabilities			
Capital stock	14	32,512	32,512
Additional paid-in capital	15	38,867	38,867
Reserves retained from earnings	16	160,477	160,477
Net earnings		52,603	36,340
Participation capital – par value: € 36,127 thousand	17	74,797	74,797
Equity		**359,256**	**342,993**
Provisions for pensions and similar obligations		74,339	75,341
Other provisions		35,290	24,598
Provisions	**18**	**109,629**	**99,939**
Liabilities to banks		239,374	255,690
Trade payables		2,205	1,432
All other liabilities		114,854	105,959
Liabilities	**19**	**356,433**	**363,081**
Total equity and liabilities		**825,318**	**806,013**

Analysis of non-current assets Drägerwerk AG

	Cost				
	As of Jan. 1, 2006	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2006
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Franchises, concessions, industrial property and similar rights and assets, as well as licenses thereto	12,467	2,733	1,972	0	13,228
Prepayments made	0	0	0	0	0
Intangible assets	**12,467**	**2,733**	**1,972**	**0**	**13,228**
Land, equivalent titles, and buildings (incl. on leased land)	120,497	1,650	1,559	1,771	122,359
Production plant and machinery	1,258	32	8	0	1,282
Other plant, factory and office equipment	17,892	1,033	576	2	18,351
Prepayments made and assets under construction	1,798	550	1	(1,773)	574
Property, plant and equipment	**141,445**	**3,265**	**2,144**	**0**	**142,566**
Intangible assets and property, plant and equipment	**153,912**	**5,998**	**4,116**	**0**	**155,794**
Shares in group companies	605,380	0	0	0	605,380
Loans to group companies	472	0	0	0	472
Investments	340	5	142	0	203
Other loans	1,842	0	600	0	1,242
Financial assets	**608,034**	**5**	**742**	**0**	**607,297**
	761,946	**6,003**	**4,858**	**0**	**763,091**

Amortization, depreciation and write-downs						Carrying amounts	
As of Jan. 1, 2006	Additions	Disposals	Write-ups	Reclassi-fications	As of Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2005
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
10,075	1,458	1,953	0	0	9,580	3,648	2,392
0	0	0	0	0	0	0	0
10,075	**1,458**	**1,953**	**0**	**0**	**9,580**	**3,648**	**2,392**
83,471	2,645	662	0	0	85,454	36,905	37,026
1,051	73	9	0	0	1,115	167	207
13,421	1,339	500	0	0	14,260	4,091	4,471
0	0	0	0	0	0	574	1,798
97,943	**4,057**	**1,171**	**0**	**0**	**100,829**	**41,737**	**43,502**
108,018	**5,515**	**3,124**	**0**	**0**	**110,409**	**45,385**	**45,894**
2,632	874	0	0	0	3,506	601,874	602,748
472	0	0	0	0	472	0	0
59	0	0	0	0	59	144	281
167	0	55	(14)	0	98	1,144	1,675
3,330	**874**	**55**	**(14)**	**0**	**4,135**	**603,162**	**604,704**
111,348	**6,389**	**3,179**	**(14)**	**0**	**114,544**	**648,547**	**650,598**

Notes to Drägerwerk AG's separate financial statements 2006

1 General

The separate financial statements of Drägerwerk AG have been prepared in accordance with the provisions of the German Commercial Code ("HGB"). With a view to enhancing transparency of presentation, certain items of the balance sheet and income statement have been summarized but are detailed further down in these notes. For the income statement, the nature of expense method of presentation has consistently been used. The amounts in the separate financial statements are all shown in thousands of EUR (EUR thousand).

2 Corporate governance

Drägerwerk AG's declaration of conformity under the terms of Art. 161 German Stock Corporation Act ("AktG") has been issued and made available to the shareholders (cf. the annual report of the Dräger Group on page 16).

3 Currency translation

Foreign currency (i.e., non-euro) receivables and liabilities are stated at the historical exchange rate. Losses from different current exchange rates are duly recognized.

4 Accounting policies

Purchased **intangible assets** are carried at cost less straight-line amortization over an estimated useful life of no more than 4 years.

Property, plant and equipment are carried at cost less straight-line depreciation over the assets' estimated useful life. Cost is recognized in accordance with the provisions of Art. 255(1) HGB. Consequently, it includes incidental purchase costs and post-acquisition expenses, duly allowing for acquisition cost deductions, if any. Office and factory buildings are depreciated over a maximum period of 50 years, production plant and machinery over a maximum period of 8 years, and other plant, factory and office equipment over a maximum period of 15 years, but mainly between 2 and 5 years. Wherever permitted by tax regulations, movable items of property, plant and equipment are depreciated according to the declining-balance method, applying the maximum rates permissible. When straight-line depreciation results in higher charges, this method is used thenceforth for the remaining useful life. Low-value assets are fully written off in the year of their addition. In fiscal year 2006, no special depreciation solely for income tax purposes was charged.

Within **financial assets,** the **shares in group companies** and **investments** are stated at cost. Non or low-interest **loans** are disclosed at their present value. Discounting and compounding are shown as a write-down or write-up, respectively. Non-current assets whose values, when determined according to the aforesaid principles, exceed the lower current values are written down accordingly. **Receivables** and **other assets** are stated at principal or par, less any necessary allowances for bad debts, etc. Adequate general allowances provide for the normal credit risk. Non or low-interest receivables with a remaining term of more than one year are discounted. **Prepaid expenses** do not include loan discounts as these are directly expensed. For accounting purposes, **participation capital** is regarded as equity due to the terms and conditions upon which the participation certificates are based. Therefore, it is shown in a separate line additional to the statutory classification format, under equity and after Drägerwerk AG's net earnings. The par value of this participation capital is disclosed in the text column. Although participation capital is treated as accounting equity, the underlying participation rights maintain their obligatory nature under law. Therefore, the premium yielded above par can be neither transferred to the additional paid-in capital nor allocated otherwise. Hence it follows that this premium continues to form an integral part of the item "participation capital". Civil-law considerations require that any profit distributed in favor of participation capital may not be debited to a company's net earnings but offset against net profit. Consequently, the dividends for participation certificates reduce the net profit or increase the net loss for the period. The underlying dividend distribution is shown in a separate line immediately preceding net profit/loss.

Pension provisions provide for the present value of pension obligations on the basis of actuarial calculations, using an imputed annual interest rate of 6 percent.

The new company pension plan for the German group companies introduced on January 1, 2005 is composed of three levels – the employer-funded basic level, the employee-funded top-up level, and the employer-funded supplementary level. The pension cost for the employer-funded basic level is based on the respective employee's income. The employee funded top-up level allows employees to increase their pension entitlement through deferred compensation. The contribution made at the employer-funded supplementary level depends on the employee contribution through deferred compensation and on the company's business performance (EBIT).

The funds resulting from the new pension plan are held in separate bank accounts and invested in securities that are subject to special restraints on disposal. The employees' pension accounts have a minimum guaranteed interest rate of 2.75 percent.

Other provisions adequately allow for all identifiable risks in accordance with prudent business judgment. **Liabilities** are stated at the amount repayable. Contingent liabilities and other financial obligations are valued at the respective volume as of the balance sheet date. For **contingent liabilities** from guarantees, suretyships and warranty/indemnity contracts, the loan sums actually drawn as of the balance sheet date are disclosed in addition to the guaranteed ceilings. The **other financial obligations** under contracts are discounted at a market interest rate of 4.5 percent (2005: 5.0 percent) and disclosed in these notes.

Notes to the balance sheet

(amounts in EUR thousand unless stated otherwise)

5 Non-current assets

The breakdown and development of non-current assets in fiscal year 2006, including cost and accumulated amortization, depreciation and write-downs, is shown in the analysis of non-current assets.

6 Intangible assets

The additions to this item mainly relate to the purchase of licenses for mySAP.com Solutions software (EUR 2.3 million).

7 Property, plant and equipment

Investments in property, plant and equipment amounted to EUR 3.3 million and focused on restructuring measures for the new building being constructed for Dräger Medical (EUR 0.5 million) as well as prepayments made for these purposes (EUR 0.4 million) and the construction of an assembly shop for Dräger Safety (EUR 1.0 million).

8 Financial assets

The ten percent stake in ID-Gesellschaft für Information und Dokumentation im Gesundheitswesen GmbH, Berlin, was sold in fiscal year 2006.

9 Major shareholdings of Drägerwerk AG

A list of Dräger AG's shareholdings is published in the electronic version of the German Federal Gazette ("Bundesanzeiger") under HRB No. 499 HL. The major shareholdings of Drägerwerk AG are listed on page 34 of this report.

10 Receivables and other assets

The movements in receivables from group companies in 2006 reflect cash management and intercompany service fee clearing.

Other assets include taxes receivable and miscellaneous non-trade receivables. The residual purchase price claims against the Cobham Group from the sale of Dräger Aerospace and against Capgemini Deutschland Holding GmbH from the sale of subsidiaries were settled in 2006.

In addition, the cap premiums from interest rate hedges are recognized in this item.

Receivables and other assets	2006	2005
Trade receivables	**52**	**374**
thereof due in more than 1 year	0	0
All other receivables and other assets		
Receivables from group companies	54,303	41,773
thereof due in more than 1 year	0	0
Other assets	5,129	21,476
thereof due in more than 1 year	3,575	3,536
	59,432	**63,249**
Receivables and other assets	**59,484**	**63,623**

11 Securities

This item relates to securities investments made under the new pension plan.

The securities portfolio is made up of the restricted cash and cash equivalents disclosed in 2005, which have since been converted into securities, as well as a cash inflow from the pension plan for 2006.

These securities are subject to special restraints on disposal.

12 Cash and cash equivalents

This item comprises cash on hand and in bank.

The item contains funds of EUR 96 thousand resulting from the new pension plan, which are subject to special restraints on disposal and which have not yet been converted into securities.

13 Prepaid expenses

These exclusively comprise transitory items.

14 Capital stock

Drägerwerk AG's capital stock amounts to EUR 32,512,000 and is divided into 6,350,000 no-par bearer shares each of common and non-voting preferred stock.

15 Additional paid-in capital

Additional paid-in capital	€ thousand
Drägerwerk AG's additional paid-in capital originated from the stock premiums from	
the Company's (trans)formation	2,556
the increases in capital stock of	
March 1979	5,726
June 1981	7,016
July 1991	23,569
Additional paid-in capital	**38,867**

16 Reserves retained from earnings

These reserves were created on the basis of profit appropriation resolutions by the Company and its shareholders.

17 Participation capital

The participation capital from the participation certificates issued and floated up to June 30, 1991 forms part of securities series A, while that created after June 30, 1991 covers securities series K. The terms and conditions underlying the series K participation certificates differ from those for the (series A) certificates outstanding up to June 30, 1991 in that their holders may give five years' notice of termination, however, not to take effect prior to December 31, 2021; the period of termination thereafter is again five years. Therefore, these series K participation certificates represent a securities category of their own.

Since the 1997 annual shareholders' meeting, series D participation certificates have been floated; their terms and conditions have been amended in order to qualify as accounting equity, mainly to adapt to the terms defined by the Institute of Public Auditors ("Institut der Wirtschaftsprüfer"), as follows: waiver of minimum yield, loss-sharing concept for participation certificates and adequate cumulative, compensatory terms. Series D participation certificate holders may exercise their calling right every five years with five years' notice as of calendar year-end, however, not to take effect prior to December 31, 2026.

Since December 1, 1999, the par value of participation certificates has amounted to EUR 25.56.

If the participation certificate holder exercises the calling right, the amount repayable shall equal the average mean rate of the last three months at the Hamburg Stock Exchange or a maximum of the weighted average issue price of this tranche.

Participation certificates

	Number	Par value	Premium	Participation capital
		€	€	€
As of December 31, 2006 (No new participation certificates were issued in 2006.)	1,413,425	36,127,143.00	38,670,225.37	74,797,368.37
Series A	315,600	8,066,736.00	12,353,585.70	20,420,321.70
Series K	105,205	2,689,039.80	1,758,718.44	4,447,758.24
Series D	992,620	25,371,367.20	24,557,921.23	49,929,288.43

Additionally, reference is made to the explanations in Note 4.

18 Provisions

Other provisions provide for personnel-related risks, mainly for profit shares/incentives, accrued vacation pay and preretirement part-time work, as well as for supplier invoices not yet received, litigation costs/risks and various other risks.

Provisions

	2006	2005
Provisions for pensions and similar obligations	74,339	75,341
Tax provisions	8,687	2,956
Other provisions	26,603	21,642
Provisions	**109,629**	**99,939**

19 Liabilities

Liabilities

	2006	Thereof due within 1 year	Thereof due after 5 years	2005	Thereof due within 1 year	Thereof due after 5 years
Liabilities to banks	239,374	54,117	55,000	255,690	29,146	85,000
Trade payables	2,205	2,205	0	1,432	1,432	0
Liabilities to group companies	101,526	101,526	0	93,350	93,350	0
Liabilities to investees	0	0	0	0	0	0
Other liabilities	13,328	13,207	0	12,609	12,380	4
thereof for taxes	1,489	1,489	0	1,277	1,277	0
thereof for social security	0	0	0	252	252	0
Liabilities	**356,433**	**171,055**	**55,000**	**363,081**	**136,308**	**85,004**

The liabilities to banks include liabilities of EUR 215 million from note loans due in up to six years.

20 Contingent liabilities and other financial obligations

Contingent liabilities

	2006	2005
Contingent liabilities from suretyships and guaranties	6,500	0
Contingent liabilities under warranty/indemnity contracts	223,483	181,434
thereof from group companies	0	0
thereof loan amounts actually drawn	50,307	48,014

Other financial obligations

Rental and lease agreements

As of December 31, 2006, other financial obligations from long-term rental and lease agreements existed at around EUR 43.7 million (prior year: EUR 39.6 million), including some EUR 27.5 million in obligations to group companies (prior year: EUR 25.6 million). The annual burden comes to some EUR 5.1 million (prior year: EUR 4.8 million).

Purchase obligations

As part of the sale of the IT companies in fiscal year 2004, Drägerwerk AG, Dräger Medical AG & Co. KGaA (now: Dräger Medical AG & Co. KG) and Dräger Safety AG & Co. KGaA agreed with an IT services company to purchase IT services for the entire Dräger Group until February 2009. The discounted value of this obligation amounted to EUR 49.0 million as of December 31, 2006. This volume is within the usual requirements of the Dräger Group.

Other

The purchasing commitments from initiated capital expenditure projects are within the scope of ordinary day-to-day business.

In connection with the construction of a building for Dräger Medical AG & Co. KG, Drägerwerk AG entered into a rental obligation in respect of Molvina Vermietungsgesellschaft mbH & Co. Objekt Finkenstraße KG under a real estate lease agreement.

As of December 31, 2006, Drägerwerk AG was not obligated to pay up any shares.

The joint venture agreement between the participating companies of Drägerwerk AG (Dräger) and Siemens AG (Siemens) and the partnership agreement of Dräger Medical AG & Co. KG originally granted Siemens a put option upon whose exercise Dräger would have to buy the entire stake held by Siemens in the limited partnership at a determined formula price. We already stated in the 2005 annual report that the contracting parties intended to amend this agreement. In fiscal year 2006, the agreement was amended to the effect that Dräger is no longer obligated to buy the limited shares. Now, Dräger can either agree to buy the limited shares offered by Siemens at the formula price or else it must support a sale by Siemens to a third party by selling some of its own limited shares if necessary. Both parties have since agreed that Dräger will increase its stake in Dräger Medical AG & Co. KG from 65 percent to 75 percent in 2007 by acquiring limited shares held by Siemens. In addition, Siemens plans to acquire a 2.5 percent stake in Drägerwerk AG, which is expected to take the form of future limited shares.

21 Legal risks

Drägerwerk AG is involved in certain legal actions and claims arising in the ordinary course of business. The Executive Board believes that the outcome of such litigation and claims will not have a material adverse effect on the Company’s net assets, financial position or results of operations.

Notes to the income statement

(amounts in EUR thousand unless stated otherwise)

22 Other operating income

This item chiefly covers income from services rendered to group companies. Otherwise, this item basically includes rental income, income from the reversal of allowances, other valuation reserves and provisions, income from the disposal of non-current assets, and gains from foreign exchange and currency translation, as well as many individual amounts not allocable to other items.

23 Personnel expenses/headcount

Personnel expenses/headcount	2006	2005
Salaries	14,063	15,754
Social security, pension expense and related employee benefits	3,813	6,925
thereof pension expense	2,353	5,511
Personnel expenses	**17,876**	**22,679**
Annual average headcount		
Production operations	0	0
Other operations	137	142
Headcount as of the balance sheet date		
Production operations	0	0
Other operations	142	143

The prior-year pension expense was adjusted.

To provide a clearer view of the Company's cost structure, the interest portion of the pension provisions was recognized under interest expense and not under pension expense. In 2006, the interest portion amounted to EUR 4,227 thousand (2005: EUR 4,196 thousand). Cf. Note 28, "Interest result".

In the measurement of provisions for preretirement part-time work, the change in the interest rate from 5 percent in the prior year to 4.5 percent in 2006 led to a one-time increase in personnel expenses of EUR 6 thousand.

24 Amortization of intangible assets and depreciation of property, plant and equipment

Amortization/depreciation	2006	2005
Amortization of intangible assets and depreciation of property, plant and equipment	5,515	5,181

Amortization/depreciation charged in previous years solely for tax purposes improved net profit for fiscal year 2006 by approximately EUR 533.4 thousand (prior year: EUR 573.8 thousand).

25 Other operating expenses

These primarily include administrative expenses, such as rent and lease expenses, insurance premiums, contributions, fees and public levies, travel expenses, provisions for accrued liabilities, losses from foreign exchange and currency translation, as well as on the disposal of non-current assets. In addition, they cover a multitude of individual items not allocable elsewhere.

26 Income from investments

Income from investments	2006	2005
Income from investments	137	488
thereof from group companies	0	9
Income from P&L transfer agreements – group companies	55,119	55,809
Expenses from loss absorption – group companies	0	0
Intragroup tax apportionment	14,963	1,424
Income from investments	**70,219**	**57,721**

In contrast to fiscal year 2005, the corporate income tax for the limited shares in Dräger Medical AG & Co. KG was recharged in fiscal year 2006 by Drägerwerk AG to Dräger Medical Holding GmbH, the limited partner in Dräger Medical AG & Co. KG.

27 Write-downs on financial assets and current securities

This item contains write-downs on financial assets of EUR 874 thousand and write-downs on current securities of EUR 11 thousand.

The shares in two group companies, which now no longer have any operating activities, were written off in full in 2006.

28 Interest result

Interest result	2006	2005
Income from other non-current securities and loans	84	64
thereof from group companies	84	64
Other interest and similar income	4,446	3,310
thereof from group companies	1,352	979
Interest and similar expenses	(18,866)	(17,659)
thereof to group companies	(2,506)	(2,640)
Interest result	**(14,336)**	**(14,285)**

The prior-year interest expense was adjusted.

To provide a clearer view of the Company's cost structure, the interest portion of the pension provisions was recognized under interest expense and not under pension expense.

In 2006, the interest portion amounted to EUR 4,227 thousand (2005: EUR 4,196 thousand).

29 Derivative financial instruments

Derivative financial instruments are used to hedge against currency and interest rate risks, particularly currency forwards, futures and options, as well as interest rate hedges (caps). Such contracts are only transacted with banks of prime standing and confined to hedging finance transactions. The volume of currency futures and forwards substantially includes exchange rate hedges on behalf of group companies for operations-related underlying transactions. At Drägerwerk AG, these exclusively involve closed positions. Interest rate hedges comprise caps and swaps.

The caps have maturities up to 2012 and a residual carrying amount of EUR 1,165 thousand (after write-downs) and are contained in other assets. Other provisions do not contain any obligations from interest rate swaps or currency forwards as neither type of transaction existed as of the balance sheet date.

In fiscal year 2006, a gain of EUR 4 thousand (2005: EUR 464 thousand) and a loss of EUR 6 thousand (2005: EUR 12 thousand) were realized on interest rate swaps.

Derivative financial instruments	Nominal amount € thousand	Term in years	Fair value € thousand	Carrying amount € thousand
Interest rate hedges	94,000	up to 5	630	552
Interest rate hedges	35,000	more than 5	653	613
Currency forwards and futures	0	up to 1	0	0

30 Remuneration report

The remuneration report summarizes the principles used to calculate the remuneration of the Executive and Supervisory Boards of Drägerwerk AG. It also includes information on the stock owned by the Executive and Supervisory Boards.

Based on the resolution adopted at the annual shareholders' meeting of Drägerwerk AG on June 2, 2006, the remuneration of individual members of the Executive Board is not disclosed, with the exception of the Chairman. The remuneration report provides this information accordingly. The remuneration of the Supervisory Board is also stated in total.

31 Executive Board remuneration

The Executive Committee of the Supervisory Board is responsible for determining the remuneration of the Executive Board. Remuneration is based on the size and the global activities of the Company, its economic and financial position, and on the amount of remuneration paid by peer group companies. The duties of the respective Executive Board member are also taken into consideration. The Executive Committee of the Supervisory Board has the option of granting a special performance-related bonus, which forms part of the variable remuneration.

Defined benefit plans are arranged between Executive Board members and the Executive Committee of the Supervisory Board on an individual basis.

The remuneration of Executive Board members consists of fixed and variable components linked to corporate earnings. The variable component of the remuneration of Drägerwerk AG's Executive Board members is pegged to the Group's net profit, yet if they concurrently chair a subgroup executive board, their remuneration is mainly pegged to the respective subgroup's earnings and only to a minor degree to the Group's net profit. The fixed remuneration is paid monthly as a salary.

Executive Board remuneration amounts to

Executive Board remuneration (EUR)

				2006				2005
	Fixed	Variable	Other	Total	Fixed	Variable	Other	Total
Executive Board (total)	1,260,128	3,611,699	76,836	4,948,663	2,000,820	4,864,162	85,861	6,950,843
thereof: Executive Board Chairman	300,533	1,628,006	9,881	1,938,420	–	–	–	–

Based on the resolution adopted at the annual shareholders' meeting on June 2, 2006, the remuneration of the Chairman of the Executive Board will be disclosed from fiscal year 2006 onward.

Fringe benefits awarded by the Company to members of the Executive Board encompass the use of vehicles, including for personal travel, and premium payments for accident, health, pension and D&O insurance.

The defined benefits under the pension plans offered to the members of the Executive Board are either fixed or based on the basic annual salary and years of service on the Executive Board. The defined benefit offered to Mr. Stefan Dräger is based on an annual contribution of 15 percent of his basic annual salary. Under the deferred compensation option, an additional annual contribution of up to 20 percent of the basic annual salary can be made, upon which the Company then pays a further contribution of 50 percent, but no more than 8 percent of the basic annual salary. This top-up payment is only made if consolidated EBIT equals 8 percent or more of revenues.

EUR 1,816,787 in pension provisions for Executive Board members was accrued in the financial statements for fiscal year 2006 (2005: EUR 1,499,670), EUR 192,885.00 of which for the Chairman of the Executive Board.

In the event of termination of service as member of the Executive Board, no further payments shall be made; the underlying contracts do not provide for any severance entitlements. However, a severance payment may be agreed under an individual termination agreement.

EUR 2,675,448.62 was paid to former members of the Executive Board and their surviving dependants (2005: EUR 1,835,034.22). A total EUR 28,066,650 provides for the pension obligations to former Executive Board members and their surviving dependants (2005: EUR 27,929,778).

In the fiscal year, no payments were made or promised by a third party to any member of the Executive Board in relation to his duties as member of the Executive Board.

32 Supervisory Board remuneration

At the annual shareholders' meeting of Drägerwerk on May 11, 2007, a proposal awarding the Supervisory Board total remuneration of EUR 499,118.00 (2005: EUR 434,000.00) will be put to vote. Each member of the Supervisory Board will receive basic remuneration of EUR 27,400.00 (2005: EUR 24,400.00) comprising a fixed amount of EUR 10,000.00 (2005: EUR 10,000.00) and a dividend-based amount of EUR 17,400.00 (2005: EUR 14,400.00), the latter being the product of EUR 600 for each EUR 0.01 above a preferred dividend of EUR 0.26, on the basis of a dividend of EUR 0.55 per preferred share as proposed for the year under review.

According to Art. 12(1) of Drägerwerk AG's bylaws, the Supervisory Board shall decide on how the total remuneration is distributed among the members of the Supervisory Board. To date, the Supervisory Board has adopted the following principles for distribution: its chairman is entitled to 4 times, any vice-chairman 2 times, the other members of the Executive Committee 1.5 times the set amount. The members of the Audit Committee receive EUR 5,000.00, and the chairman of the Audit Committee an additional EUR 10,000.00. Moreover, a total per diem of EUR 3,360.00 (2005: EUR 3,360.00) is paid.

In the opinion of the German tax authorities, the premium for a D&O liability insurance policy and a legal expense insurance policy for economic loss claims is not part of the Supervisory Board's remuneration.

In addition, a legal consulting fee of EUR 59,662.50 (2005: EUR 87,975.00) was paid to law firm Feddersen Heuer und Partner in the year under review. These amounts do not include VAT. An agreement with Mr. Theo Dräger was concluded allowing him to represent the Company in Germany and abroad. His services under this agreement are not remunerated; however, he shall be reimbursed for any out-of-pocket expenses and provided with secretarial services and transportation.

Certain Supervisory Board members received an additional aggregate EUR 173,400.00 (2005: EUR 115,250.00) for their membership on supervisory boards of subsidiaries.

33 Stock owned by the Executive and Supervisory Boards

As of December 31, 2006, the members of the Executive Board of Drägerwerk AG and their related parties directly or indirectly held 6,000 preferred shares, equivalent to 0.05 percent of the total, and the members of the Supervisory Board and their related parties a total of 36,750 preferred shares, equivalent to 0.29 percent of the total.

Altogether, 97.87 percent of Drägerwerk AG's common stock is held via Dr. Heinrich Dräger GmbH and the same percentage of voting rights is attributable to Executive Board member Stefan Dräger under the terms of Art. 22 (1)(1)(1) German Securities Trading Act ("WpHG").

34 Director dealings

In fiscal year 2006, members of the Executive and Supervisory Boards did not sell any preferred stock (ISIN DE0005550636) from their own portfolio or a private portfolio attributable to them.

35 The Company's Boards

The Company's Supervisory and Executive Board members are listed under "The Company's Boards" on pages 32 and 33.

Other disclosures

36 Publications regarding significant voting rights in accordance with Art. 25 WpHG

Drägerwerk AG has not published any reports on significant voting rights in the last twelve months.

37 Auditor's fee

The fee of EUR 289 thousand incurred in fiscal year 2006 for the separate financial statements of Drägerwerk AG and the consolidated financial statements related exclusively to the audit of financial statements.

38 Distribution for participation capital

For the reasons explained in Note 4, dividends for participation certificates may not be distributed from net earnings. Consequently, within the income statement, we show after taxes and before net profit/loss the dividends for participation certificates in a separate line headed, "Distribution for participation capital." Therefore, the participation capital dividend is determined above the line and thus reduces our net profit (or increases our net loss). The claim to annual dividends under the terms of Art. 2(1) of the participation certificate covenants corresponds to ten times the cash dividend for the Company's preferred stock, hence EUR 5.50.

39 Proposed appropriation of net earnings

Net earnings for fiscal year 2006 amount to EUR 52,602,494.97. This item contains profit brought forward from the prior year of EUR 30,370,627.23. In accordance with Art. 16(2) of the Company's bylaws, we will propose to the annual shareholders' meeting to distribute these net earnings as follows:

Proposed appropriation of net earnings

	€
€0.49 cash dividend for 6,350,000 common shares	3,111,500.00
€0.55 cash dividend for 6,350,000 preferred shares	3,492,500.00

We further propose that the remaining net earnings for fiscal year 2006 of EUR 45,998,494.97 be carried forward.

Lübeck, Germany, February 19, 2007

Drägerwerk Aktiengesellschaft
The Executive Board

Stefan Dräger
Albert Jugel
Hans-Oskar Sulzer

Auditor's opinion

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Drägerwerk Aktiengesellschaft, Lübeck, Germany, for the fiscal year from January 1, 2006 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the separate financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with the provisions of Art. 317 German Commercial Code ("HGB") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to future development.

Hamburg, Germany, February 20, 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dyckerhoff	Dr. Probst
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

The Company's Boards

Supervisory Board of Drägerwerk AG

Chairman

Prof. Dieter Feddersen

Lawyer at Feddersen Heuer & Partner, Kronberg

Other supervisory board memberships:
Membership on statutory supervisory boards:
- ASKLEPIOS Kliniken Verwaltungsgesellschaft mbH, Königstein (Chairman)
- LBK Hamburg GmbH, Hamburg (Chairman)
- Tarkett AG, Frankenthal (Chairman) until August 24, 2006
- Dräger Medical Verwaltungs AG, Lübeck
- Dräger Safety AG & Co. KGaA, Lübeck

Membership on comparable German or foreign boards:
- Gesellschaft für Industriebeteiligungen Dr. Joachim Schmidt AG & Co. Holding-Kommanditgesellschaft, Berlin (Chairman of the Board of Directors), until March 31, 2006

Vice-Chairman

Siegfrid Kasang

Works Council Chairman of Dräger Medical AG & Co. KG, Lübeck
Group Works Council Chairman of the Dräger Medical subgroup
Group Works Council Chairman of Drägerwerk AG, Lübeck

Other supervisory board membership:
- Dräger Medical Verwaltungs AG, Lübeck (Vice-Chairman)

Additional Vice-Chairman:

Theo Dräger

Former Executive Board Chairman of Drägerwerk AG, Lübeck

Other supervisory board memberships:
- Dräger Medical Verwaltungs AG, Lübeck (Chairman)
- Dräger Safety AG & Co. KGaA, Lübeck
- Dräger Safety Verwaltungs AG, Lübeck
- Dr. Jens Ehrhardt Kapital AG, Pullach
- L. Possehl & Co. mbH, Lübeck
- Sparkasse zu Lübeck AG, Lübeck

Uwe Bohm

until June 30, 2006
Works Council member of Dräger Medical AG & Co. KG, Lübeck

Daniel Friedrich

since September 6, 2006
District secretary of the metalworkers' union IG Metall Küste, Hamburg

Dr. Thomas Lindner

Management Chairman of Groz-Beckert KG, Albstadt

Other supervisory board memberships:
- Talanx AG, Hanover
- HDI Haftpflichtverband der Deutschen Industrie VAG, Hanover

Bernd Mussmann

since September 6, 2006
Works Council Vice-Chairman and Group Works Council Vice-Chairman of Dräger Safety AG & Co. KGaA, Lübeck

Other supervisory board membership:
- Dräger Safety AG & Co. KGaA, Lübeck

Walter Neundorf

Officer of Dräger Medical AG & Co. KG, Lübeck

Regina Pawils

Works Council Vice-Chairperson of Dräger Medical AG & Co. KG, Lübeck

Other supervisory board membership:
- Dräger Medical Verwaltungs AG, Lübeck

Dr. Martin Posth

Business consultant

Other supervisory board memberships:
Membership on statutory supervisory boards:
- Berlinwasser International AG, Berlin
- Demag Cranes AG, Düsseldorf, since October 25, 2006

Membership on comparable German or foreign boards:
- MSM Mandarin Strategic Management Consulting GmbH, Düsseldorf/Beijing (Chairman of the Global Advisory Council, since September 1, 2006)

Waltraud Ricke

until June 30, 2006
Union secretary of the metalworkers' union IG Metall Lübeck/Wismar, Lübeck

Thomas Rickers

1st Delegate of the metalworkers' union IG Metall Lübeck/Wismar, Lübeck

Other supervisory board memberships:
- Aker MTW Werft GmbH, Wismar
- Dräger Medical Verwaltungs AG, Lübeck
- Minimax Management GmbH, Bad Oldesloe

Gordon Riske

CEO of Deutz AG, Cologne

Other supervisory board membership:
- ISRA Vision Systems AG, Darmstadt

Dr. Dietrich Schulz

Former CEO of L. Possehl & Co. mbH, Lübeck

Other supervisory board memberships:
Membership on statutory supervisory boards:
- Süd-Chemie AG, Munich (Vice-Chairman since June 13, 2006)
- Ad Capital AG, Stuttgart

Membership on comparable German or foreign boards:
- Possehl México, S. A. de C. V., Mexico City (Chairman of the Board)
- ACC Resources, New Jersey, USA (Chairman of the Board, since October 1, 2006)

Members of the Executive Committee:

Prof. Dr. Dieter Feddersen (Chairman)
Siegfrid Kasang (Vice-Chairman)
Theo Dräger
Thomas Rickers

Members of the Audit Committee:

Dr. Dietrich Schulz (Chairman)
Theo Dräger
Prof. Dr. Dieter Feddersen
Uwe Bohm, until June 30, 2006
Walter Neundorf
Regina Pawils, since September 27, 2006

Executive Board of Drägerwerk AG

Stefan Dräger

Chairman of the Executive Board

CEO Medical
Chairman of the Executive Board of Dräger Medical Verwaltungs AG, Lübeck
(general partner of Dräger Medical AG & Co. KGaA), since December 20, 2006

Supervisory board memberships:
- Dräger Medical Verwaltungs AG, Lübeck, until December 19, 2006
- Dräger Medical Deutschland GmbH, Lübeck (Chairman), since December 20, 2006
- Dräger Safety AG & Co. KGaA, Lübeck (Chairman)
- Dräger Safety Verwaltungs AG, Lübeck (Chairman)

Prof. Albert Jugel

CEO Safety
Chairman of the Executive Board of Dräger Safety Verwaltungs AG, Lübeck
(general partner of Dräger Safety AG & Co. KGaA)

Supervisory board membership:
- GEHE Pharma Handel GmbH, Stuttgart, since July 1, 2006

Dr. Wolfgang Reim

until December 19, 2006
CEO Medical
Chairman of the Executive Board of Dräger Medical Verwaltungs AG, Lübeck
(general partner of Dräger Medical AG & Co. KG)
until December 19, 2006

Supervisory board membership:
- Dräger Medical Deutschland GmbH, Lübeck (Chairman), until December 19, 2006

Hans-Oskar Sulzer

CFO

Supervisory board memberships:
- Dräger Medical Verwaltungs AG, Lübeck, since December 20, 2006
- Dräger Safety AG & Co. KGaA, Lübeck
- Dräger Safety Verwaltungs AG, Lübeck

Major shareholdings of Drägerwerk AG

Major shareholdings

	Name and registered office	Capital stock in LCU thousand	Shareholding in %
Germany	Dräger Safety AG & Co. KGaA, Lübeck	EUR 25,739	100
	Dräger Medical Holding GmbH, Lübeck	EUR 100	100
	Dräger Electronics GmbH, Lübeck	EUR 2,000	100
	Dräger Medizin System Technik GmbH, Lübeck	EUR 1,023	100
	Dräger Safety Verwaltungs AG, Lübeck	EUR 1,000	100
	Dräger Immobilien GmbH, Lübeck (formerly: Dräger InTek GmbH)	EUR 250	100
	FIMMUS Grundstücks-Vermietungs GmbH, Lübeck	EUR 25	100
	MOLVINA Vermietungsgesellschaft mbH & Co. Objekt Finkenstraße KG, Lübeck	EUR 5	100
	MAPRA Assekuranzkontor GmbH, Lübeck	EUR 51	49
Europe			
Netherlands	Dräger Beheer B.V., Zoetermeer	EUR 454	100
	Dräger Finance B.V., Zoetermeer	EUR 11	100
Switzerland	Dräger Finanz AG, Zug	CHF 500	100
UK	Draeger Medical UK Limited, Hemel Hempstead	GBP 4,296	30
Americas			
Brazil	Dräger do Brasil Ltda., São Paulo	BRL 27,021	100

Forward-looking statements

This report contains statements concerning the future development of Drägerwerk AG and its companies. These statements are estimates based on all information available to date. If the underlying assumptions do not materialize, or if further risks surface, actual results may differ from current expectations. We therefore do not give any warranty for such statements and estimates.

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