Dräger

Dräger Group
H1/2006 report

Q2

Contents

Business performance of the Dräger Group in the first half of 2006

Further increase in order intake and revenues

Both order intake and revenues saw double-digit growth in the first half of 2006. Order intake rose by 15.5 percent to EUR 931.5 million (H1/2005: EUR 806.8 million). This is more than half of the revenues budgeted for the year. The two subgroups Dräger Medical and Dräger Safety contributed equally to the Group's strong performance. Revenues climbed by 10.8 percent to EUR 819.6 million (H1/2005: EUR 739.9 million); a further improvement in the spread of revenues over the four quarters may therefore be expected. A number of medical technology projects contributed to the growth in order intake and revenues. Changes in exchange rates only had a minor effect on the rise in order intake and revenues, contributing one percent in each case. Growth was primarily generated in Europe excluding Germany (revenues up 12.7 percent to EUR 333.5 million) and the Americas (revenues up 19.2 percent to EUR 176.9 million). Despite conditions remaining difficult, order intake increased in Germany, with our home market developing particularly well for Dräger Safety.

Increase in results on target

EBIT increased 10.9 percent, up from EUR 47.6 million in the prior-year period to EUR 52.8 million. The gross margin dropped slightly to 48.5 percent (H1/2005: 49.8 percent), which was largely due to the completion of projects. Functional costs developed as planned. The research and development costs included in this figure came to EUR 58.5 million or 7.1 percent of revenues. The interest result was influenced by increased financial debt and interest-like expenses from project financing.

The tax expense decreased against the prior-year period due to the change in legal form of Dräger Medical. Overall, the first half of the year saw net profit climb by 20.7 percent to EUR 21.6 million.

Net assets and financial position

The Dräger Group's equity dropped slightly by EUR 14.0 million to EUR 488.8 million, which translates into an equity ratio of 31.4 percent (December 31, 2005: 32.7 percent). The change in equity is attributable, on the one hand, to net profit and, on the other, to the payment of dividends and the share in net profit of minority shareholders for the prior year. Currency translation differences also had a negative impact of EUR 9.0 million.

The balance sheet total of the Dräger Group increased by EUR 22.5 million to EUR 1,558.7 million due to the rise in inventories and other current financial assets coupled with a marginal decrease in trade receivables in the first half of the year. On the liabilities side, trade payables and other liabilities decreased in particular. With a note loan maturing in the first quarter of 2007, non-current financial liabilities were reclassified to current financial liabilities repayable within one year, and the increase in the balance sheet total was financed by raising current debt. However, net financial debt including participation capital was still largely non-current in the first half of 2006.

Business performance of the Dräger Group

		Q2		H1		
		2006	2005	2006	2005	Change in %
Total order intake	**€ million**	**479.3**	**414.3**	**931.5**	**806.8**	**+15.5**
Germany	€ million	94.8	97.2	191.2	181.2	+5.5
Rest of Europe	€ million	184.1	164.9	379.0	321.2	+18.0
Americas	€ million	126.7	76.5	211.3	165.0	+28.1
Asia/Pacific	€ million	49.7	52.0	98.6	96.8	+1.9
Other	€ million	24.0	23.7	51.4	42.6	+20.7
Total revenues	**€ million**	**434.3**	**398.5**	**819.6**	**739.9**	**+10.8**
Germany	€ million	88.5	88.5	166.5	164.9	+1.0
Rest of Europe	€ million	175.4	158.0	333.5	295.8	+12.7
Americas	€ million	100.0	80.1	176.9	148.4	+19.2
Asia/Pacific	€ million	43.8	50.1	91.2	90.3	+1.0
Other	€ million	26.6	21.8	51.5	40.5	+27.2
EBITDA [1]	**€ million**	**45.0**	**41.5**	**77.7**	**70.2**	**+10.7**
Depreciation/amortization	€ million	12.7	11.8	24.9	22.6	+10.2
EBIT [2] **before non-recurring expenses**	**€ million**	**32.3**	**29.7**	**52.8**	**47.6**	**+10.9**
Non-recurring expenses	€ million	0.0	0.0	0.0	0.0	
EBIT [2]	**€ million**	**32.3**	**29.7**	**52.8**	**47.6**	**+10.9**
Net profit	**€ million**	**14.2**	**13.0**	**21.6**	**17.9**	**+20.7**
Cash flow from operating activities	**€ million**	**(28.9)**	**(15.7)**	**(27.4)**	**(20.6)**	**–33.0**
Net financial debt	**€ million**	**319.4**	**274.0**	**319.4**	**274.0**	**+16.6**
Investments	**€ million**	**20.1**	**16.9**	**31.3**	**26.1**	**+19.9**
Capital employed [3]	**€ million**	**930.0**	**856.9**	**930.0**	**856.9**	**+8.5**
Net working capital [4]	**€ million**	**555.9**	**480.1**	**555.9**	**480.1**	**+15.8**
EBIT before non-recurring expenses/ revenues	**%**	**7.4**	**7.5**	**6.4**	**6.4**	
EBIT before non-recurring expenses/ capital employed	**%**	**3.5**	**3.5**	**5.7**	**5.6**	
Gearing [5]	**Factor**	**0.7**	**0.6**	**0.7**	**0.6**	
Headcount as of June 30						
Germany		4,382	4,325	4,382	4,325	+1.3
Abroad		5,505	5,324	5,505	5,324	+3.4
Total headcount		**9,887**	**9,649**	**9,887**	**9,649**	**+2.5**

[1] EBITDA = Earnings before net interest result, income taxes, depreciation, amortization and non-recurring expenses
[2] EBIT = Earnings before net interest result and income taxes
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[4] Net working capital = Current, non-interest bearing assets less current, non-interest bearing debt
[5] Gearing = Net financial debt/equity

Business performance of Dräger Medical

- Double-digit growth in revenues and EBIT
- Dräger Medical continues to growth much faster than the market in 2006

Strong first half

Dräger Medical closed the first half of 2006 with EBIT (before non-recurring expenses) of EUR 38.1 million. Compared to the prior year, this corresponds to an increase of 11.7 percent (H1/2005: EUR 34.1 million). At 6.8 percent, the EBIT margin was on a par with the same prior-year period (H1/2005: 6.9 percent). Order intake rose by 17.3 percent from EUR 545.5 million in 2005 to the current EUR 639.9 million. Revenues climbed 13.7 percent to EUR 559.3 million (H1/2005: EUR 492.1 million). Changes in exchange rates only had a minor effect on the rise in order intake and revenues, contributing one percent in each case.

In the second quarter, EBIT (before non-recurring expenses) rose 13.5 percent from EUR 22.2 million in the prior-year period to EUR 25.2 million. At EUR 336.1 million, order intake was up 19.3 percent on the prior-year figure of EUR 281.7 million. Revenues climbed to EUR 301.1 million, up 13.2 percent on the second quarter of 2005 (EUR 265.9 million).

The significant rise in revenues and order intake was again well above the estimated global market growth in the acute point of care ("APOC") sector including home respiration, which is at two to three percent p.a. at present. The reasons for this growth include the further expansion of the global sales structure and the ongoing drive to improve internal processes as well as an attractive product portfolio. One example of process improvements is the successful funnel management, i.e. the active control and management of order generation on a global scale with complete transparency. The company has already responded to the changing structures in healthcare systems around the world and has been successfully selling new products for the mid-range customer segment for a number of months now: the Fabius *premium* (anesthesia system) and Evita 4 edition (ventilator). A number of projects in global business influenced the rise in order intake and revenues in the first half of the year.

Strong growth in Europe and the Americas

The Americas achieved the largest growth in order intake among the regions, recording 35.8 percent (to EUR 167.9 million), in the first half of 2006. Revenues in this region grew 24.0 percent to EUR 133.8 million thanks to successful business at the still young subsidiaries in Canada, Mexico and Chile as well as the performance of the subsidiaries in Brazil and the US. 14.1 percent growth in order intake was reported in the US.

Europe excluding Germany continues to perform well. Order intake is up 20.4 percent to EUR 243.4 million, while revenues climbed 18.6 percent from EUR 178.0 million to EUR 211.1 million. Behind this positive business performance is the successful sale of

Business performance of Dräger Medical		Q2		H1		
		2006	2005	2006	2005	Change in %
Total order intake	**€ million**	**336.1**	**281.7**	**639.9**	**545.5**	**+17.3**
Germany	€ million	67.9	68.6	128.2	125.8	+1.9
Rest of Europe	€ million	114.0	101.7	243.4	202.2	+20.4
Americas	€ million	104.5	57.6	167.9	123.6	+35.8
Asia/Pacific	€ million	31.2	36.3	61.1	62.2	–1.8
Other	€ million	18.5	17.5	39.3	31.7	+24.0
Total revenues	**€ million**	**301.1**	**265.9**	**559.3**	**492.1**	**+13.7**
Germany	€ million	62.2	59.8	113.8	113.0	+0.7
Rest of Europe	€ million	110.7	95.0	211.1	178.0	+18.6
Americas	€ million	78.9	59.4	133.8	107.9	+24.0
Asia/Pacific	€ million	28.5	34.6	60.4	61.9	–2.4
Other	€ million	20.8	17.1	40.2	31.3	+28.4
EBITDA [1]	**€ million**	**31.1**	**28.1**	**49.9**	**45.3**	**+10.2**
Depreciation/amortization	€ million	5.9	5.9	11.8	11.2	+5.4
EBIT [2] **before non-recurring expenses**	**€ million**	**25.2**	**22.2**	**38.1**	**34.1**	**+11.7**
Non-recurring expenses	€ million	0.0	0.0	0.0	0.0	
EBIT [2]	**€ million**	**25.2**	**22.2**	**38.1**	**34.1**	**+11.7**
Net profit	**€ million**	**15.9**	**14.0**	**23.4**	**20.9**	**+12.0**
Cash flow from operating activities	**€ million**	**(3.6)**	**9.5**	**1.9**	**23.1**	**–91.8**
Net financial debt	**€ million**	**(31.2)**	**(87.8)**	**(31.2)**	**(87.8)**	**–64.5**
Investments	**€ million**	**9.8**	**7.7**	**17.4**	**11.9**	**+46.2**
Capital employed [3]	**€ million**	**652.6**	**572.3**	**652.6**	**572.3**	**+14.0**
Net working capital [4]	**€ million**	**427.9**	**349.9**	**427.9**	**349.9**	**+22.3**
EBIT before non-recurring expenses/ revenues	**%**	**8.4**	**8.3**	**6.8**	**6.9**	
EBIT before non-recurring expenses/ capital employed	**%**	**3.9**	**3.9**	**5.8**	**6.0**	
Gearing [5]	**Factor**	**0.0**	**(0.1)**	**0.0**	**(0.1)**	
Headcount as of June 30						
Germany		2,471	2,401	2,471	2,401	+2.9
Abroad		3,525	3,436	3,525	3,436	+2.6
Total headcount		**5,996**	**5,837**	**5,996**	**5,837**	**+2.7**

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CareArea™ solutions with integrated patient monitoring. Order intake and revenues in Germany remained almost constant year on year (up 1.9 percent and 0.7 percent, respectively). Our home market continues to decrease in relative importance for Dräger Medical; Germany now only accounts for some 20 percent of global revenues compared with 23 percent in the prior-year period. This is mainly a reflection of a slowly shrinking domestic market. There continued to be an investment backlog in German hospitals coupled with uncertainties due to the prolonged political wrangling over the country's healthcare system and further mergers between German hospitals.

In Asia/Pacific order intake dropped 1.8 percent to EUR 61.1 million and revenues by 2.4 percent to EUR 60.4 million. There are three reasons for this development: the Chinese market is showing weak growth in general due to limited investment as a result of current healthcare policies. No increase on the prior year could thus be achieved. However, this situation is only expected to continue in China for another two quarters at most. In Japan, the sole distributor of ventilators ordered very high numbers of such equipment in the prior-year period because it knew that Dräger Medical would terminate the distribution agreement as of June 30, 2005. Since that date, this company has sold the products alongside Dräger Medical in Japan. Likewise, there was no increase in Australia because, in the first half of 2005, a high volume was sold under a government tender to prepare for a potential outbreak of bird flu.

To further improve internal workflows, the relocation of the development, marketing and administration functions for Monitoring & IT from Danvers to Andover, both in the US, was completed in the second quarter as scheduled.

Investment in the future continues

The progress made by the innovation campaign is evidenced by renewed high research and development expenditure of EUR 42.9 million, which corresponds to 7.7 percent of revenues.

With the market launch of the gas measurement system VoluCount™ (VoluCount is not yet available in the US and Canada), the company offers a unique solution: it is now possible to measure the exact consumption of all installed medical gases in each area of the hospital. The advantages are obvious: costs are easier to control and potential savings more readily identified. It is also easier to detect any leakages. In addition, the invoices to private physicians are made more transparent.

In the US, an important market for telemetry, Dräger Medical has applied to the Food and Drug Administration (FDA) for registration of a new telemetry device. The lightweight Infinity® TeleSmart System is worn by the patient, has its own display and transmits ECG data and other parameters to a central station. As in the case of Infinity® OneNet, Dräger Medical uses international standards for this product: data transfer is based on the W-LAN technology familiar to users of PCs.

At the annual meeting of the “European Society of Anaesthesiology”, Dräger Medical presented the Stella operating room lamp featuring an integrated camera for the first time (the product is not yet available in all countries; it is expected to be approved for the European market in summer 2006). The camera installed in the handle saves space in the operating room. Other functions such as permanent orientation towards the area being operated on and auto focus support efficient equipment management in the operating room. The video image can be displayed in conventional form on a separate screen as well as on the Kappa XLT patient monitor at the anesthetist’s work station.

Successful player in a challenging market and competitive environment

Market success in the first half was driven by the excellent performance of patient monitoring business, especially combined with therapy units, across all regions. Strong demand for integrated CareArea™ solutions was a key to business success, especially in the perioperative field. As a result, the subgroup further increased its overall share of the monitoring business.

Dräger Medical was successful in conveying the message that an investment in medical technology in the APOC area can make a significant contribution to process and cost optimization in the hospital as a whole, and further improved its market position.

Despite the developments in the healthcare sector around the world, the company sees itself well positioned to continue its market success.

Business performance of Dräger Safety

- Strong first half in 2006 for order intake
- Subsidiaries perform well

Strong first half

In the first half of 2006, Dräger Safety generated EBIT of EUR 23.9 million. Comparable EBIT for the first half of 2005 came to EUR 21.9 million (EUR 24 million minus an extraordinary profit of EUR 2.1 million from the intragroup transfer of a subsidiary of Dräger Interservices GmbH). The subgroup thus improved (comparable) EBIT by 9.1 percent on the prior year. The EBIT margin in the first half of 2006 was 8.7 percent vs. the comparable figure of 8.3 percent for the first six months of 2005.

Order intake climbed 10.7 percent to EUR 307.5 million (H1/2005: EUR 277.7 million). Both core business and project business contributed to this growth.

The global revenues of Dräger Safety rose in the first six months of 2006 by 4.4 percent to EUR 275.8 million (H1/2005: EUR 264.3 million). This increase across all product and service divisions was largely achieved by core business.

Changes in exchange rates only had a minor effect on the rise in order intake and revenues, contributing one percent in each case.

EBIT stood at EUR 13 million in the second quarter of 2006 (Q2/2005: EUR 12.9 million). The EBIT margin reached 9.2 percent.

Order intake developed positively, up 6.9 percent to EUR 151.1 million (Q2/2005: EUR 141.3 million).

Revenues came to EUR 140.9 million, on a par with the comparable prior-year quarter (EUR 141.1 million), which contained a higher proportion of project business.

Positive trend in all regions

Order intake in Germany climbed 9.9 percent to EUR 78.9 million in the first half of 2006. Despite the strained financial situation and the resulting tight rein on public spending as well as increased competition, revenues were maintained at the prior-year level at EUR 68.2 million. Some of the delivery dates requested by customers are in the second half of the year.

Revenues were driven in this region by respiratory protection equipment for fire departments and the mining industry as well as stationary pollutant monitoring systems, such as for the new central railroad station in Berlin.

Business fared very well in many European countries in the first six months of 2006. In Europe (excluding Germany), order intake was up 13.9 percent, with revenue growth of 3.9 percent. The successful Dräger Alcotest 6510 breathalyzer is now also taking the European shipping market by storm. A major order came from France for the oxygen self-rescuer Dräger Oxy K 30, which significantly improves the safety of miners. We also received orders for two solution projects in this area involving the planning, design, construction and delivery of a fire training gallery and an airplane fire simulation facility for fire departments.

We were commissioned to equip the Austrian army's Dingo 2 reconnaissance vehicles with safety equipment (breathing air management, measurement technology and monitoring).

Business performance of Dräger Safety		Q2		H1		
		2006	2005	2006	2005	Change in %
Total order intake	**€ million**	**151.1**	**141.3**	**307.5**	**277.7**	**+10.7**
Germany	€ million	34.8	37.3	78.9	71.8	+9.9
Rest of Europe	€ million	70.1	63.2	135.6	119.0	+13.9
Americas	€ million	22.2	18.9	43.4	41.4	+4.8
Asia/Pacific	€ million	18.5	15.7	37.5	34.6	+8.4
Other	€ million	5.5	6.2	12.1	10.9	+11.0
Total revenues	**€ million**	**140.9**	**141.1**	**275.8**	**264.3**	**+4.4**
Germany	€ million	34.0	37.2	68.2	68.4	–0.3
Rest of Europe	€ million	64.7	63.0	122.4	117.8	+3.9
Americas	€ million	21.1	20.7	43.1	40.5	+6.4
Asia/Pacific	€ million	15.3	15.5	30.8	28.4	+8.5
Other	€ million	5.8	4.7	11.3	9.2	+22.8
EBITDA [1]	**€ million**	**17.7**	**17.0**	**32.9**	**31.7**	**+3.8**
Depreciation/amortization	€ million	4.7	4.1	9.0	7.7	+16.9
EBIT [2] **before non-recurring expenses**	**€ million**	**13.0**	**12.9**	**23.9**	**24.0**	**–0.4**
Non-recurring expenses	€ million	0.0	0.0	0.0	0.0	
EBIT [2]	**€ million**	**13.0**	**12.9**	**23.9**	**24.0**	**–0.4**
Net profit before profit/loss transfer	**€ million**	**8.6**	**8.7**	**15.8**	**16.1**	**–1.9**
Cash flow from operating activities	**€ million**	**(3.2)**	**(1.0)**	**(3.1)**	**3.2**	**.**
Net financial debt	**€ million**	**55.5**	**39.3**	**55.5**	**39.3**	**+41.2**
Investments	**€ million**	**8.3**	**8.7**	**13.1**	**13.1**	
Capital employed [3]	**€ million**	**219.6**	**190.7**	**219.6**	**190.7**	**+15.2**
Net working capital [4]	**€ million**	**143.6**	**120.5**	**143.6**	**120.5**	**+19.2**
EBIT before non-recurring expenses/ revenues	**%**	**9.2**	**9.1**	**8.7**	**9.1**	
EBIT before non-recurring expenses/ capital employed	**%**	**5.9**	**6.8**	**10.9**	**12.6**	
Gearing [5]	**Factor**	**0.4**	**0.3**	**0.4**	**0.3**	
Headcount as of June 30						
Germany		1,706	1,700	1,706	1,700	+0.4
Abroad		1,975	1,882	1,975	1,882	+4.9
Total headcount		**3,681**	**3,582**	**3,681**	**3,582**	**+2.8**

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We defended our position in the Americas, growing order intake by 4.8 percent and revenues by 6.4 percent. In core business, the company was again able to fend off competition on the American market with its innovative products and services. Many North American and Canadian companies are turning more and more often to safety solutions made by Dräger Safety.

The fire departments of Baltimore, Maryland, and Little Rock, Arkansas, equipped themselves with real fire training galleries from Dräger Safety. A major order for the supply of oxygen self-rescuers was received from the American mining industry. Dräger Safety won the contract in the face of tough competition from local suppliers.

With order intake up 8.4 percent in the Asia/Pacific region, Dräger expanded its market position there through core and project business. Revenues were up 8.5 percent on the prior year. The development in this region's major countries was particularly pleasing. Customers from the petrochemicals industry and fire protection sector ordered Dräger safety technology. Dräger Safety landed a success in the Australian seed industry. A major company from this industry will be using Dräger MiniWarn single-gas detectors to monitor seed stocks in the future. The fire department in the Chinese city of Shangxi decide to buy Dräger BG 4 long-term breathing apparatus. In Japan, a company from the petrochemicals industry ordered X-am 3000 portable multigas detectors to protect its workers.

Innovations unveiled at international trade fairs

At EUR 13.1 million, investments in intangible assets and property, plant and equipment in the first half of 2006 remained at the high level of the prior year. Research and development expenditure amounted to EUR 14.9 million or 5.4 percent of revenues (H1/2005: EUR 11.9 million or 4.5 percent of revenues) and were mainly incurred in the development of new products.

In April, Dräger Safety presented a number of new devices and other comprehensive service packages at the American Industrial Hygiene Conference (AIHC) in Chicago, the largest such conference in the US, and at the Fire Department Instructors' Conference (FDIC) in Indianapolis. The range of portable single and multigas detectors, Dräger Pac and Dräger X-am, as well as the range of new DrägerSensors XXS were extended for use in the above devices.

Drägerwerk AG, other companies, consolidation

The negative revenues are the result of consolidating revenues between the subgroups. EBIT largely corresponds to the expense incurred by Drägerwerk AG for its functions which is not recharged to the subgroups on the basis of services rendered.

The financing costs are mainly incurred because Drägerwerk AG secures most of the Group's external financing.

Business performance of Drägerwerk AG, other companies, consolidation

		Q2		H1		
		2006	2005	2006	2005	Change in %
Total order intake	**€ million**	**(7.9)**	**(8.7)**	**(15.9)**	**(16.4)**	**–3.0**
Germany	€ million	(7.9)	(8.7)	(15.9)	(16.4)	–3.0
Rest of Europe	€ million	0.0	0.0	0.0	0.0	
Americas	€ million	0.0	0.0	0.0	0.0	
Asia/Pacific	€ million	0.0	0.0	0.0	0.0	
Other	€ million	0.0	0.0	0.0	0.0	
Total revenues	**€ million**	**(7.7)**	**(8.5)**	**(15.5)**	**(16.5)**	**–6.1**
Germany	€ million	(7.7)	(8.5)	(15.5)	(16.5)	–6.1
Rest of Europe	€ million	0.0	0.0	0.0	0.0	
Americas	€ million	0.0	0.0	0.0	0.0	
Asia/Pacific	€ million	0.0	0.0	0.0	0.0	
Other	€ million	0.0	0.0	0.0	0.0	
EBITDA [1]	**€ million**	**(3.8)**	**(3.6)**	**(5.1)**	**(6.8)**	**–25.0**
Depreciation/amortization	€ million	2.1	1.8	4.1	3.7	+10.8
EBIT [2] **before non-recurring expenses**	**€ million**	**(5.9)**	**(5.4)**	**(9.2)**	**(10.5)**	**–12.4**
Non-recurring expenses	€ million	0.0	0.0	0.0	0.0	
EBIT [2]	**€ million**	**(5.9)**	**(5.4)**	**(9.2)**	**(10.5)**	**–12.4**
Net profit	**€ million**	**(10.3)**	**(9.7)**	**(17.6)**	**(19.1)**	**–7.9**
Cash flow from operating activities	**€ million**	**(22.1)**	**(24.2)**	**(26.2)**	**(46.9)**	**+44.1**
Net financial debt	**€ million**	**295.1**	**322.5**	**295.1**	**322.5**	**–8.5**
Investments	**€ million**	**2.0**	**0.6**	**0.8**	**1.1**	**–27,3**
Capital employed [3]	**€ million**	**57.8**	**93.9**	**57.8**	**93.9**	**–38.4**
Net working capital [4]	**€ million**	**(15.6)**	**9.7**	**(15.6)**	**9.7**	**–260.8**
EBIT before non-recurring expenses/ revenues	**%**					
EBIT before non-recurring expenses/ capital employed	**%**					
Gearing [5]	**Factor**					
Headcount as of June 30						
Germany		205	224	205	224	–8.5
Abroad		5	6	5	6	–16.7
Total headcount		**210**	**230**	**210**	**230**	**–8.7**

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[3] Capital employed = Total assets less deferred tax assets, cash and cash equivalents and non-interest bearing liabilities
[4] Net working capital = Current, non-interest bearing assets less current, non-interest bearing debt
[5] Gearing = Net financial debt/equity

Outlook

If the market environment remains the same, we expect revenue growth of seven to ten percent for Dräger Medical and three to five percent for Dräger Safety in 2006. Overall, the Dräger Group expects to achieve revenue growth of six to eight percent as well as a slightly greater increase in EBIT (before non-recurring expenses) and net profit. The subgroups also expect the increase in the operating result to be somewhat higher than revenue growth.

Interim financial statements of the Dräger Group as of June 30, 2006 (short version)

Consolidated income statement of the Dräger Group for the period from January 1 to June 30, 2006

	Q2 2006	Q2 2005 [2]	H1 2006	H1 2005 [2]
	€ million	€ million	€ million	€ million
Revenues	**434.3**	**398.5**	**819.6**	**739.9**
Cost of sales	(228.2)	(200.3)	(422.3)	(371.3)
Gross profit	**206.1**	**198.2**	**397.3**	**368.6**
Research and development costs	(30.1)	(26.3)	(58.5)	(50.9)
Marketing and selling expenses	(115.3)	(107.2)	(228.0)	(209.1)
General administrative expenses	(29.2)	(33.1)	(59.3)	(58.8)
Other operating income	1.4	1.3	2.8	3.0
Other operating expenses	(1.4)	(0.6)	(2.4)	(1.9)
	(174.6)	**(165.9)**	**(345.4)**	**(317.7)**
	31.5	**32.3**	**51.9**	**50.9**
Profit/loss from investments in associates	0.1	0.3	0.1	0.3
Other financial result	0.7	(2.9)	0.8	(3.6)
Financial result (before interest result)	**0.8**	**(2.6)**	**0.9**	**(3.3)**
EBIT	**32.3**	**29.7**	**52.8**	**47.6**
Interest result	**(8.7)**	**(6.1)**	**(16.8)**	**(12.7)**
Earnings before income taxes	**23.6**	**23.6**	**36.0**	**34.9**
Income taxes	(9.4)	(10.6)	(14.4)	(17.0)
Net profit	**14.2**	**13.0**	**21.6**	**17.9**
Minority interests in net profit	5.7	5.3	8.5	8.0
Net profit after minority interests	8.5	7.7	13.1	9.9
Earnings per share [1]				
per preferred share (in €)	0.68	0.61	1.05	0.80
per common share (in €)	0.67	0.60	1.02	0.77

[1] The dividend premium of EUR 0.06 on preferred shares is recognized pro rata on a quarterly basis.
[2] Prior-year figures have been adjusted (see Note 4).

Consolidated balance sheet of the Dräger Group as of June 30, 2006

		June 30, 2006	Dec. 31, 2005
	€ million	€ million	€ million
Assets			
Intangible assets	178.9		178.9
Property, plant and equipment	199.7		198.4
Financial assets	5.2		4.7
Other non-current financial assets	20.1		18.1
Deferred tax assets	76.5		78.3
Non-current assets		**480.4**	**478.4**
Inventories	313.0		288.9
Trade receivables	505.0		521.4
Other current financial assets	84.8		64.8
Cash and cash equivalents	175.5		182.7
Current assets		**1,078.3**	**1,057.8**
Total assets		**1,558.7**	**1,536.2**

		June 30, 2006	Dec. 31, 2005
	€ million	€ million	€ million
Equity and liabilities			
Equity		**488.8**	**502.8**
Participation capital	74.8		74.8
Provisions for pensions and similar obligations	194.4		192.2
Other non-current provisions	19.1		19.4
Non-current interest-bearing loans	195.1		233.5
Other non-current financial liabilities	5.1		5.6
Deferred tax liabilities	8.5		9.1
Non-current liabilities		**497.0**	**534.6**
Current loans and liabilities to banks	230.5		130.2
Current provisions	141.2		131.6
All other current financial liabilities	201.2		237.0
Current liabilities		**572.9**	**498.8**
Total equity and liabilities		**1,558.7**	**1,536.2**

Consolidated statement of recognized income and expenses of the Dräger Group

	H1 2006 € million	H1 2005 € million
Currency translation adjustment for foreign subsidiaries	(9.0)	13.6
Changes in value recognized directly in equity	**(9.0)**	**13.6**
Earnings after taxes	21.6	17.9
Earnings after taxes and changes in value recognized directly in equity	**12.6**	**31.5**
thereof shareholders of Drägerwerk AG	6.5	19.4
thereof minority interests	6.1	12.1

Consolidated cash flow statement of the Dräger Group

		H1 2006 € million	H1 2005 [1] € million
Operating activities			
	Group net profit	21.6	17.9
+	Depreciation/amortization of non-current assets	24.9	22.6
+/–	Other non-cash expenses/income	12.8	(18.6)
–	Gain from the disposal of non-current assets	(0.4)	(0.3)
–	Other changes in other assets and equity and liabilities [4]	(86.3)	(42.2)
	Net cash used in operating activities	**(27.4)**	**(20.6)**
Investing activities			
–	Cash outflow for investments in intangible assets and property, plant and equipment	(33.2)	(24.8)
+	Other cash inflow from investments	3.3	6.2
+	Cash inflow from the sale of subsidiaries	14.0	10.5
	Net cash used in investing activities	**(15.9)**	**(8.1)**
Financing activities			
–	Distribution of dividends	(6.0)	(5.3)
+	Net balance of bank loans raised/redeemed and other liabilities to banks	65.4	39.0
–	Profit distributed to minority interests	(19.2)	(20.9)
–	Other changes	(1.1)	(0.2)
	Net cash provided by financing activities	**39.1**	**12.6**
	Change in cash and cash equivalents in the period under review	**(4.2)**	**(16.1)**
–/+	Effect of exchange rates on cash and cash equivalents	(3.0)	4.0
+	Cash and cash equivalents at the beginning of the fiscal year [2]	182.7	178.0
	Cash and cash equivalents as of June 30 of the fiscal year [3]	**175.5**	**165.9**

[1] As in the cash flow statement in the annual report for 2005, other non-cash income and expenses are shown separately. The items mainly contain currency translation differences from the elimination of intragroup balances. The prior-year figures were adjusted accordingly.
[2] Cash and cash equivalents include EUR 10.2 million in cash (2005: EUR 1.7 million) which is subject to restrictions as of January 1.
[3] Cash and cash equivalents include EUR 4.0 million in cash (2005: EUR 1.7 million) which is subject to restrictions as of June 30.
[4] Other changes include EUR 5.5 million in other assets (2005: EUR 0.0 million) which are subject to restrictions as of June 30.

Consolidated statement of changes in equity

	Paid-in capital				Earned equity	Minority interests	Equity
	Capital stock	Additional paid-in capital	Reserves retained from earnings	Group net earnings	Other compre-hensive income		
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
January 1, 2005 [1]	**32.5**	**38.9**	**173.9**	**5.3**	**(24.6)**	**243.1**	**469.1**
Currency translation differences					9.5	4.1	13.6
Group net profit				17.9			17.9
Minority interests in net profit				(8.0)		8.0	0.0
Distributions				(5.3)		(20.9)	(26.2)
Change in consolidated group/other			0.2			(0.2)	0.0
June 30, 2005 [1]	**32.5**	**38.9**	**174.1**	**9.9**	**(15.1)**	**234.1**	**474.4**
January 1, 2006	**32.5**	**38.9**	**202.2**	**6.0**	**(21.9)**	**245.1**	**502.8**
Currency translation differences					(6.6)	(2.4)	(9.0)
Group net profit				21.6			21.6
Minority interests in net profit				(8.5)		8.5	0.0
Distributions				(6.0)		(19.2)	(25.2)
Change in consolidated group/other			0.4			(1.8)	(1.4)
June 30, 2006	**32.5**	**38.9**	**202.6**	**13.1**	**(28.5)**	**230.2**	**488.8**

[1] Prior-year figures have been adjusted (see Note 4).

Notes of the Dräger Group for the first half of 2006

1 Basis of preparation of the interim financial statements

As in 2004, Drägerwerk AG, Lübeck, prepared its consolidated financial statements for fiscal year 2005 in accordance with International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Boards (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Accordingly, in fiscal year 2006, the interim financial statements of the Dräger Group will also be prepared in accordance with IFRSs and the interim reports in compliance with IAS 34 as well as German Accounting Standard No. 6 (GAS 6 – Interim Financial Reporting) of the German Accounting Standards Committee (GASC). The interim financial statements have not been audited or reviewed by an auditor. The interim financial statements were prepared in euros. Unless stated otherwise, all figures are disclosed in millions of euros (EUR million).

2 Accounting policies

The same accounting policies as in the consolidated financial statements for 2005 were applied in preparing the interim financial statements and calculating the comparative figures. A detailed description of these methods is published in the notes to the consolidated financial statements in the annual report for 2005. The report may be downloaded on the internet at www.draeger.com.

In preparing the interim financial statements, we made use of the option to present a short version of the financial statements with selected explanatory notes. Overall, greater use was made of estimates in determining carrying amounts than at fiscal year-end. We recognized items of accrual and deferral where claims or obligations partially arose in the period under review.

3 Consolidated group and consolidation principles

There were no changes to the consolidated group compared to December 31, 2005 and the changes compared to June 30, 2005 were insignificant. The same consolidation principles as in the consolidated financial statements for 2005 were applied.

4 Significant changes to IASs/IFRSs as well as other changes and their effects on the interim financial statements

In the financial statements for 2005, the Dräger Group opted for the first time to recognize actuarial gains or losses directly in equity, taking account of deferred taxes, and then show them in a separate statement of recognized income and expenses instead of continuing to use the ten percent corridor. First-time application was retrospective pursuant to IAS 8 and equity was adjusted in the opening balance sheet for fiscal year 2004. The balance sheet as of June 30, 2005 was adjusted accordingly. This adjustment only had a minor effect of EUR 0.1 million on the income statement for the first half of 2005.

The Dräger Group also opted to disclose other operating income and expenses separately in the income statement of the financial statements in the annual report for 2005. We adjusted the income statement for the quarter ended June 30, 2005 accordingly.

5 Segment report

Business performance of the segments

		Dräger Medical	
		H1 2006	H1 2005
Order intake	**€ million**	**639.9**	**545.5**
Revenues	**€ million**	**559.3**	**492.1**
thereof intersegment revenues	€ million	0.5	1.1
EBITDA [1]	**€ million**	**49.9**	**45.3**
Depreciation/amortization	€ million	11.8	11.2
Impairment losses	€ million		
EBIT [2] **before non-recurring expenses**	**€ million**	**38.1**	**34.1**
Non-recurring expenses	€ million	0.0	0.0
EBIT [2, 3]	**€ million**	**38.1**	**34.1**
Net profit (Safety: before profit/loss transfer)	**€ million**	**23.4**	**20.9**
thereof profit/loss from investments in associates	€ million		
Net profit after minority interests	€ million		
Earnings per share			
per common share	**€**		
per preferred share	**€**		
Capital employed [4]	**€ million**	**652.6**	**572.3**
Assets [5]	**€ million**	**933.6**	**895.7**
thereof investments in associates	€ million		
Liabilities [6]	**€ million**	**203.6**	**216.1**
Net financial debt [7]	**€ million**	**(31.2)**	**(87.8)**
Investments	**€ million**	**17.4**	**11.9**
Non-cash expenses [8]	€ million	45.2	41.3
EBIT [2] **before non-recurring expenses/revenues**	**%**	**6.8**	**6.9**
EBIT [2] **before non-recurring expenses/capital employed**	**%**	**5.8**	**6.0**
Headcount as of June 30		**5,996**	**5,837**
Germany		2,471	2,401
Abroad		3,525	3,436

The prior-year figures were adjusted in line with IFRSs applicable as of October 2005.

[1] EBITDA = Earnings before net interest result, income taxes, depreciation, amortization and non-recurring expenses
[2] EBIT = Earnings before net interest result and income taxes
[3] For the second quarter of 2006, EBIT for all segments is also the segment result (no profits or losses from associates). Based on EBIT and taking into account the elimination of the sales proceeds for Dräger InTek GmbH of EUR 2.1 million, the segment result for the Dräger Safety subgroup was EUR 21.9 million for the prior-year quarter. After consolidating these sales proceeds (which have no effect on the Group's results), the segment result for Drägerwerk AG/other companies/consolidation is –EUR 8.4 million. At group level, EBIT corresponds to the segment result.

Dräger Safety		Drägerwerk AG Other companies Consolidation		Dräger Group	
H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005
307.5	**277.7**	**(15.9)**	**(16.4)**	**931.5**	**806.8**
275.8	**264.3**	**(15.5)**	**(16.5)**	**819.6**	**739.9**
15.9	16.4	(16.4)	(17.5)		
32.9	**31.7**	**(5.1)**	**(6.8)**	**77.7**	**70.2**
9.0	7.7	4.1	3.7	24.9	22.6
23.9	**24.0**	**(9.2)**	**(10.5)**	**52.8**	**47.6**
0.0	0.0	0.0	0.0	0.0	0.0
23.9	**24.0**	**(9.2)**	**(10.5)**	**52.8**	**47.6**
15.8	**16.1**	**(17.6)**	**(19.1)**	**21.6**	**17.9**
		0.0	0.0	0.0	0.0
				13.1	9.9
				1.02	**0.77**
				1.05	**0.80**
219.6	**190.7**	**57.8**	**93.9**	**930.0**	**856.9**
313.8	**298.4**	**29.4**	**7.5**	**1,276.8**	**1,201.6**
0.4	0.4	(0.4)	(0.4)		
82.3	**92.6**	**19.2**	**19.9**	**305.1**	**328.6**
55.5	**39.3**	**295.1**	**322.5**	**319.4**	**274.0**
13.1	**13.1**	**0.8**	**1.1**	**31.3**	**26.1**
25.6	21.1	10.7	9.2	81.5	71.6
8.7	**9.1**			**6.4**	**6.4**
10.9	**12.6**			**5.7**	**5.6**
3,681	**3,582**	**210**	**230**	**9,887**	**9,649**
1,706	1,700	205	224	4,382	4,325
1,975	1,882	5	6	5,505	5,324

4 Capital employed = Total assets less deferred tax assets, cash and cash equivalents and non-interest bearing liabilities

5 Assets excluding other financial assets, tax assets and interest-bearing assets. The addition of all other financial assets (EUR 4.9 million), deferred tax assets (EUR 76.5 million), tax refund claims (EUR 19.4 million), current securities and cash and cash equivalents (total of EUR 181.1 million) produces total assets or the balance sheet total for the Group as of June 30, 2006.

6 Liabilities excluding pension provisions, tax liabilities and interest-bearing liabilities. The addition of participation capital (EUR 74.8 million), pension provisions (EUR 194.4 million), non-current loans (EUR 195.1 million), deferred tax liabilities (EUR 15.0 million), current loans and liabilities to banks (EUR 230.5 million), current tax provisions (EUR 15.3 million), tax liabilities (EUR 36.0 million) as well as non-current and current finance lease liabilities (EUR 3.7 million) produces total liabilities for the Group as of June 30, 2006.

7 Net financial debt including receivables and liabilities from cash management systems

8 Inventory write-downs, losses from bad debt allowances, allocations to provisions

6 Revenues

Revenues	H1 2006	H1 2005
Dräger Medical	559.3	492.1
Dräger Safety	275.8	264.3
Revenues subgroups	**835.1**	**756.4**
Internal revenues subgroups	(16.4)	(17.5)
Revenues service companies	7.9	6.5
Internal revenues service companies	(7.0)	(5.5)
Revenues	**819.6**	**739.9**

A breakdown of revenues by region is shown in the sections covering the performance of the Group and the subgroups Dräger Medical and Dräger Safety.

7 Financial result

Financial result	H1 2006	H1 2005
Financial result (before interest result)	**0.9**	**(3.3)**
Interest and similar income	2.8	2.8
Interest and similar expenses	(19.6)	(15.5)
Interest result (incl. distribution for participation capital)	**(16.8)**	**(12.7)**

8 Income taxes

The income taxes for the first half of 2006 were calculated on the basis of an anticipated effective tax rate of 40 percent following the change in legal form of Dräger Medical.

9 Non-current assets (selected items)

Non-current assets (selected items)	Carrying amount January 1, 2006	Additions	Disposals/ other changes	Amortization/ depreciation write-downs	Carrying amount June 30, 2006
Intangible assets	178.9	8.0	(1.2)	(6.8)	178.9
Property, plant and equipment	198.4	23.3	(3.9)	(18.1)	199.7
Financial assets	4.7	1.7	(1.2)	0.0	5.2

10 Other non-current financial assets

Other non-current financial assets	June 30, 2006	December 31, 2005
Equipment leased out	10.8	8.5
Finance lease receivables (lessor)	1.8	1.9
Trade receivables	1.8	2.0
Other	5.7	5.7
Total	**20.1**	**18.1**

11 Inventories

Inventories	June 30, 2006	December 31, 2005
Finished products and merchandise	149.9	135.0
Work in process	69.1	53.1
Raw materials, consumables and supplies	93.0	96.2
Prepayments made	1.0	4.6
Total	**313.0**	**288.9**

The increase in work in process and finished products and merchandise is chiefly connected to the rise in order volume.

12 Other current financial assets

Other current financial assets	June 30, 2006	December 31, 2005
Tax refund claims	19.4	22.4
Prepaid expenses	24.6	9.3
Purchase price receivables from the sale of subsidiaries	0.0	14.0
Other	40.8	19.1
Total	**84.8**	**64.8**

The increase in prepaid expenses is largely attributable to interim cut-offs.

Purchase price receivables decreased due to contractual payments of EUR 14.0 million.

13 Other non-current and current provisions

Other non-current provisions as of June 30, 2006 mainly comprise provisions for personnel and welfare of EUR 16.2 million (December 31, 2005: EUR 16.4 million) and provisions for uncertain liabilities of EUR 2.9 million (December 31, 2005: EUR 3.0 million).

Current provisions as of June 30, 2006 also include the monthly cut-offs and largely consist of tax provisions of EUR 21.8 million (December 31, 2005: EUR 15.6 million), provisions for personnel and welfare of EUR 31.8 million (December 31, 2005: EUR 47.0 million), warranty provisions of EUR 20.3 million (December 31, 2005: EUR 21.6 million) and provisions for other obligations in the normal course of business of EUR 67.3 million (December 31, 2005: EUR 47.4 million).

14 Non-current interest-bearing loans/current loans and liabilities to banks

The decrease in non-current loans and the increase in current loans and liabilities to banks are mainly attributable to the reclassification of a note loan of EUR 35.0 million which is due in March 2007 and the financing of operations.

15 All other current financial liabilities

All other current financial liabilities

	June 30, 2006	December 31, 2005
Trade payables to third parties	83.1	102.4
Other current financial liabilities		
Liabilities for taxes	36.0	40.5
Other liabilities to employees and for social security	28.9	34.9
Prepayments received	15.6	18.2
Deferred income	22.1	15.1
Other liabilities	15.5	25.9
	118.1	**134.6**
Total	**201.2**	**237.0**

The higher carrying amount of trade payables to third parties as of December 31, 2005 is chiefly the result of a higher level of invoices received as of that date.

16 Contingent liabilities and other financial obligations

There were no significant changes in contingent liabilities and other financial obligations as of June 30, 2006 compared to those disclosed in the annual report for 2005.

17 Related party transactions

Business was transacted in 2006 with the following related enterprises that are part of the widespread share portfolio of the Dräger family, including Executive Board member Stefan Dräger and Supervisory Board member Theo Dräger. Dräger GmbH, Dräger Objekt Finkenstrasse GmbH & Co. KG and Dräger Objekt Lachswehrallee GmbH & Co. KG have leased various real properties to Drägerwerk AG which are located close to the latter's Moislinger Allee head office. Rental payments came to EUR 826 thousand in the first half.

Dräger Objekt Möhringen GmbH & Co. KG was sold in fiscal year 2005 and is therefore no longer owned by the family. Services were rendered for companies and foundations related to the Dräger family for EUR 65 thousand.

In addition, Herbert Rehn GmbH generated revenues of EUR 0.7 million from glass products and installation contracts. This resulted in receivables of EUR 41 thousand from Dräger Group companies.

All transactions with related parties were conducted at arm's length terms and conditions.

Forward-looking statements

This report contains forward-looking statements. The statements are based on the current expectations, presumptions, and forecasts of the Executive Board as well as the information available to it to date. The forward-looking statements do not provide any warranty for the future developments and results contained therein. Rather, the future developments and results are dependent on a number of factors; they entail various risks and uncertainties and are based on assumptions which could prove to be incorrect. We are under no obligation to update the forward-looking statements contained in this report.

Financial calendar 2006	
H1/2006 report Conference call	August 10, 2006
Q3/2006 report Conference call	November 14, 2006
Annual shareholders' meeting, Lübeck	May 11, 2007

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