

**Separate Financial Statements
and Management Report of Drägerwerk AG**
as of December 31, 2004

Contents

2	Management report of Drägerwerk AG	
----------	---	--

5	Separate financial statements of Drägerwerk AG	
5	Income statement of Drägerwerk AG January 1 to December 31, 2004	
6	Balance sheet of Drägerwerk AG as of December 31, 2004	
8	Fixed-asset analysis of Drägerwerk AG	

10	Notes to Drägerwerk AG's separate financial statements 2004	
-----------	--	--

21	Major shareholdings of Drägerwerk AG	
-----------	---	--

22	The Company's Boards	
-----------	-----------------------------	--

24	Forward-looking statements	
-----------	-----------------------------------	--

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 €27.7 million for fiscal year 2004 a cash dividend of €0.45 per preferred share (2003: €0.40) and €0.39 per common share (2003: €0.34), hence a total €5.3 million, and carry forward the balance of €22.4 million. The preferred dividend also governs the dividend for participation certificates, which will amount to €4.50 each. 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 trend and results of operations

Drägerwerk AG's business trend and net loss of €29.0 million (2003: net profit of €61.4 million) have essentially been influenced by

- (a) intragroup restructuring;
- (b) Drägerwerk AG's operating activities;
- (c) the performance of its operating companies.

Regarding (a) intragroup restructuring

After completion of the organizational and legal restructuring of the Dräger subgroups, the Group's focus lay in 2004 on structuring the mainstream operations of Dräger Medical and Dräger Safety.

In this context, Dräger Aerospace GmbH, the Dräger Electronics GmbH business (asset deal), and the metal-working unit of Dräger ProTech GmbH were sold in 2003, and Dräger InPlast GmbH (plastic parts manufacturing) as of January 1, 2004.

Fiscal year 2004 also saw the divestment of the IT companies Nordac Rechenzentrumsgesellschaft mbH, Dräger Information Technologies GmbH and Dräger Syne-matic GmbH, including its subsidiary, Dräger Electronic Business Portals GmbH, as well as the parts and components manufacturer Dräger ProTech GmbH. This concluded the Group's efforts to focus on the core business of Dräger Medical und Dräger Safety. The loss on disposal of the aforementioned companies totaled €1.9 million. Drägerwerk AG and other group companies have concluded service agreements with the buyer of the IT companies.

As of January 1, 2005, the logistics company Dräger Interservices GmbH was transferred to Dräger Safety and Dräger Medical as its operations are largely integrated in the processes of the operating companies.

Regarding (b) Drägerwerk AG's operating activities

The operating expenses and income of Drägerwerk AG have remained stable. This is partly due to the fact that Drägerwerk AG, as management holding company, places real property at its operating subsidiaries' disposal, and besides consultancy work, confines its activities mainly to assisting in fundamental strategic decisions, legal configurations and human resources issues of basic import. Its parenting functions also include corporate finance and corporate controlling. An intragroup R & D department is able to implement specific projects independently of direct product developments. In 2004, some €0.6 million was spent for this purpose (2003: €2.3 million). Projects such as corporate restructuring and the group controlling system entailed far lower expenses than the year before, reducing other operating expenses accordingly.

Due to the impending change in the use of buildings and land leased over the long term in connection with the new building project for Dräger Medical in Lübeck, provisions totaling €10 million have been set up.

Regarding (c) performance of operating companies

The income from P & L transfer agreements (including the intragroup tax apportionment) declined in fiscal year 2004 to €21.8 million (2003: €29.6 million), as the P & L transfer agreement with Dräger Medical AG & Co. KGaA was performed for the last time in fiscal year 2003. The P & L transfer as of December 31, 2003 left Dräger Medical AG & Co. KGaA with no distributable net earnings out of which it could pay a dividend in fiscal year 2004.

Expenses for loss absorption decreased to €0.9 million (2003: €13.8 million).

Net assets and financial position

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

In fiscal year 2004, fixed assets rose to €658.4 million (Dec. 31, 2003: €648.9 million). This was mainly attributable to capital increases at Dräger Medical Holding GmbH (approx. €17 million), additions resulting from the merger of a subsidiary into Drägerwerk AG, and other capital increases ahead of the sale of the IT companies and Dräger ProTech GmbH. The change in corporate structure led to further additions and disposals of shareholdings.

Net liabilities to banks rose to €149.4 million (Dec. 31, 2003: €36.7 million). This was a result of the slight increase in fixed assets and receivables from third parties as well as the net loss and concurrent return of cash and cash equivalents to Dräger Medical.

Due to the expected net loss for fiscal year 2004, Drägerwerk AG's equity, which now accounts for 41.8 percent of the balance sheet total, dropped to €334.4 million (Dec. 31, 2003: 368.0 million).

Subsequent events

As of January 1, 2005, 70 percent of Dräger Interservices GmbH was transferred to Dräger Safety AG & Co. KGaA and 30 percent to Dräger Medical Holding GmbH. As of the same date, Drägerwerk AG took over Dräger InTek GmbH from Dräger Interservices GmbH. This company serves as facility manager for the premises in Lübeck.

After the executive board of the metalworkers' union IG Metall consented to the supplementary collective wage agreement securing the location of Dräger Medical on January 18, 2005, plans to build new headquarters and production facilities for the Company in Lübeck are underway.

Risks to future development

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

The risk management system of the Dräger Group, including Drägerwerk AG, comprises all tools for measuring, managing and monitoring exposures and potential risks. Based on the Group's and subgroups' annually revised strategic plans and the resultant short and medium-term planning, systematic controlling covers divisions, companies and regions, subgroups and the Group through monthly or quarterly reports.

Risk management is rounded off by the activities of Group Internal Auditing, the statutory annual audit, and risk reports that routinely detail twice annually (and additionally as and when required) all economic, market and currency risks, the competitive position and environment, as well as risks specific to the divisions.

In restructuring the Group, important steps have been taken to safeguard the value of shareholdings and avoid losses.

Of key concern to Drägerwerk AG is the avoidance of risks associated with group financing. The interest rate risk inherent in outside financing is contained by agreeing on fixed long and (partly hedged) short-term rates. For all currency risks pertaining to the operating activities of the subgroups, Drägerwerk AG sets up appropriate hedges with external partners.

The risks to future development from the operations of group companies and investees are detailed in the Group management report.

Outlook

In fiscal 2005, Drägerwerk AG will continue to provide services to its group companies.

The Company's 2005 net profit or loss will principally consist of P & L transfers and income from investments. For 2005, Drägerwerk AG expects its major group companies to continue their earnings uptrend. Dräger Medical AG & Co. KGaA also intends to pay dividends in fiscal year 2005.

Separate financial statements of Drägerwerk AG

Income statement of Drägerwerk AG	Note	2004	2003
January 1 to December 31, 2004		€ thousand	€ thousand
Other operating income	(21)	44,796	37,194
Personnel expenses	(22)	(26,819)	(21,506)
Amortization of intangible assets and depreciation of property, plant and equipment	(23)	(4,725)	(3,359)
Other operating expenses	(24)	(44,581)	(46,476)
Income from investments	(25)	21,387	16,146
Write-down of financial assets and short-term securities	(26)	(359)	(3,693)
Net interest expense	(27)	(9,785)	(8,946)
Result from ordinary operations		(20,086)	(30,640)
Extraordinary result	(28)	(1,869)	97,919
Income taxes		1	(6)
Other taxes		(648)	(228)
Profit before distribution for participation capital		(22,602)	67,045
Distribution for participation capital	(35)	(6,360)	(5,654)
Net loss/profit		(28,962)	61,391
Profit brought forward from prior year		56,692	0
Net earnings	(36)	27,730	61,391

Separate financial statements and management report of Drägerwerk AG as of December 31, 2004

Separate financial statements of Drägerwerk AG

Balance sheet of Drägerwerk AG as of December 31, 2004	Note	2004	2003
		€ thousand	€ thousand
Assets			
Intangible assets	(6)	1,919	440
Property, plant and equipment	(7)	42,318	39,796
Financial assets	(8)	614,182	608,636
Fixed assets		658,419	648,872
Trade receivables		395	782
All other receivables and other assets		58,148	44,284
Total receivables and other assets	(10)	58,543	45,066
Securities	(11)	20,035	30
Cash and cash equivalents	(12)	63,485	131,497
Current assets		142,063	176,593
Prepaid expenses and deferred charges	(13)	422	176
Total assets		800,904	825,641

	Note	2004	2003
		€ 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		27,730	61,391
Participation capital—par value: €36,127 thousand	(17)	74,797	74,797
Equity		334,383	368,044
Provisions for pensions and similar obligations		71,246	67,133
Other provisions		30,490	24,514
Total provisions	(18)	101,736	91,647
Liabilities to banks		232,895	168,159
Trade payables		4,986	2,536
All other liabilities		126,904	195,255
Total liabilities	(19)	364,785	365,950
Total equity and liabilities		800,904	825,641

Fixed-asset analysis of Drägerwerk AG	Cost				
	Balance at Jan. 1, 2004	Additions	Disposals	Book transfers	Balance at Dec. 31, 2004
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Franchises, concessions, industrial property and similar rights and assets, as well as licenses thereto	2,784	819	17	7,293 ¹	10,879
Prepayments	0	0	0	0	0
Intangible assets	2,784	819	17	7,293	10,879
Land, equivalent titles, and buildings (incl. on leased land)	113,336	2,576	0	2,754	118,666
Production plant and machinery	686	94	3	0	777
Other plant, factory and office equipment	13,958	994	348	64 ¹	14,668
Prepayments on property, plant and equipment, assets under construction	2,754	2,337	0	(2,754)	2,337
Property, plant and equipment	130,734	6,001	351	64	136,448
Intangible assets and property, plant and equipment	133,518	6,820	368	7,357	147,327
Shares in group companies	609,649	41,093 ²	36,456	0	614,286
Loans to group companies	3,795	0	3,323	0	472
Investments	307	40	0	0	347
Other long-term loans	3,070	41	639	0	2,472
Financial assets	616,821	41,174	40,418	0	617,577
	750,339	47,994	40,786	7,357	764,904

¹ Additions from subsidiaries (see Note 6)

² Partly from the merger of Dräger Interfor Holding GmbH into Drägerwerk AG (see Note 8)

Amortization/depreciation/impairment						Book values		
Balance at Jan. 1, 2004	Additions	Disposals	Write-up	Book transfers	Balance at Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003	
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	
2,344	1,238	7	0	5,385 ¹	8,960	1,919	440	
0	0	0	0	0	0	0	0	
2,344	1,238	7	0	5,385	8,960	1,919	440	
79,030	2,401	0	0	0	81,431	37,235	34,306	
534	50	3	0	0	581	196	152	
11,374	1,036	343	0	51 ¹	12,118	2,550	2,584	
0	0	0	0	0	0	2,337	2,754	
90,938	3,487	346	0	51	94,130	42,318	39,796	
93,282	4,725	353	0	5,436	103,090	44,237	40,236	
3,993	0	1,361	0	0	2,632	611,654	605,656	
3,795	0	3,323	0	0	472	0	0	
0	0	0	0	0	0	347	307	
397	57	85	(78)	0	291	2,181	2,673	
8,185	57	4,769	(78)	0	3,395	614,182	608,636	
101,467	4,782	5,122	(78)	5,436	106,485	658,419	648,872	

Notes to Drägerwerk AG's separate financial statements 2004

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 captions of the financial statements have been subsumed 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 annual financial statements and these notes are all shown in € thousand, unless expressly stated otherwise.

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 stockholders (cf. page 15 of the annual report).

3 Currency translation

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

4 Accounting and valuation principles

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

Items of **property, plant and equipment** are carried at (acquisition or production) cost, less straight-line depreciation over their estimated useful lives. Acquisition cost is capitalized 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. Factory and office buildings are depreciated over a maximum period of 50 years, the maximum useful life of production plant and machinery being 8 years, that of other plant, factory and office equipment 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 2004, 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 **long-term loans** are disclosed at their present value. Discount and accumulated interest are shown as a write-down or write-up, respectively. Fixed assets whose values, when deter-

mined 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 collection risk. Non or low-interest receivables with a remaining term of more than one year are discounted. **Prepaid expenses and deferred charges** include no loan discount as this is directly expensed. For accounting purposes, **participation capital** is regarded as equity, due to the terms and conditions the participation certificates are based upon. 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 caption 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 loss/profit for the period.

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 **other provisions** adequately allow for all risks foreseeable or identifiable in conservative and prudent business judgment. **Liabilities** are stated at the amount (re)payable. **Contingent liabilities** are valued at the amount or volume of any such liability as of the balance sheet date. For those from guaranties, suretyships and warranty/indemnity contracts, the loan sums actually claimed or utilized at the balance sheet date are disclosed besides the guaranteed ceilings. The other financial obligations under contracts are discounted and disclosed in these notes.

Notes to the balance sheet

(amounts in € thousand unless stated otherwise)

5 Fixed assets

The development of fixed assets, including gross book values and accumulated amortization, depreciation and impairments in fiscal year 2004, is shown in the fixed-asset analysis.

6 Intangible assets

As in the previous year, the additions basically concern new software. Disclosed in the book transfers column, both under cost (€7.3 million) and amortization/depreciation/impairment (€5.4 million), is the transfer of software from subsidiaries (€1.9 million).

7 Property, plant and equipment

€6.0 million was spent on additional property, plant and equipment. Key projects were the conversion of buildings (at €2.6 million) leased to non-group enterprises, as well as prepayments on the conversion of network infrastructure (at €2.3 million).

8 Financial assets

To streamline the Group's structure, Dräger Interfor Holding GmbH was merged into Drägerwerk AG in 2004. As of February 29, 2004, Dräger Synematic GmbH and its subsidiary Dräger Electronic Business Portals GmbH, Nordac Rechenzentrumsgesellschaft mbH and Dräger Information Technologies GmbH were sold to Capgemini Deutschland Holding GmbH (formerly: Cap Gemini Ernst & Young Deutschland Holding GmbH).

In line with capital increases, the additional paid-in capital of Dräger Medical Holding GmbH was increased by €16,990 thousand.

At the beginning of fiscal year 2004, the shares in Dräger Medikal Ticaret ve Servis Limited Sirketi, Turkey, were sold to the Medical subgroup in keeping with the strict segregation of divisions; on July 1, 2004, Dräger ProTech GmbH was sold to Concord GmbH.

9 Major shareholdings of Drägerwerk AG

The list of Drägerwerk AG's shareholdings will be deposited with the Commercial Register of the Local Court of Lübeck under no. HRB 499. The major shareholdings of Drägerwerk AG are listed on page 21 of this report.

10 Receivables and other assets

The movements in the receivables from group companies reflect cash management and intercompany service fee clearing. The other assets include taxes receivable and miscellaneous non-trade receivables, as well as residual purchase price claims against the Cobham Group from the sale of Dräger Aerospace GmbH and against Capgemini Deutschland Holding GmbH from the sale of subsidiaries.

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

	2004	2003
Trade receivables	395	782
› thereof due after 1 year	[0]	[2]
All other receivables and other assets		
Receivables from group companies	27,604	38,935
› thereof due after 1 year	[0]	[0]
Other assets	30,544	5,349
› thereof due after 1 year	[14,390]	[3,764]
	58,148	44,284
Total receivables and other assets	58,543	45,066

11 Securities

These are mainly fixed-income securities due within one year and participation certificates of Drägerwerk AG repurchased for delivery under the employee profit-sharing program in excess of those needed in fiscal year 2004.

12 Cash and cash equivalents

This caption comprises cash on hand and in bank.

13 Prepaid expenses and deferred charges

These exclusively comprise transitory items.

14 Capital stock

The capital stock of Drägerwerk AG amounts to €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

	€ 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 stockholders.

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 before June 30, 1991 in that their holders may give 5 years' notice of termination, however, not to take effect prior to December 31, 2021; the period of termination thereafter is again 5 years. Therefore, these series K participation certificates represent a securities category of their own.

Since the 1997 annual stockholders' 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 IDW-defined terms, 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 5 years at 5 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 €25.56.

Additionally, reference is made to the explanations in Notes 4 and 29.

18 Provisions

The 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.

	2004	2003
Provisions for pensions and similar obligations	71,246	67,133
Tax provisions	2,166	1,818
Other provisions	28,324	22,696
Total provisions	101,736	91,647

19 Liabilities

	2004	Thereof due within 1 year	Thereof due after 5 years	2003	Thereof due within 1 year	Thereof due after 5 years
Liabilities to banks	232,895	126,506	0	168,159	13,859	25,000
Trade payables	4,986	4,986	0	2,536	2,536	0
Payable to group companies	116,825	116,825	0	184,082	184,082	0
Payable to investees	8	8	0	7	7	0
Other liabilities	10,071	10,071	0	11,166	11,166	0
› thereof for taxes	[0]	[0]	[0]	[1,573]	[1,573]	[0]
› thereof for social security	[250]	[250]	[0]	[216]	[216]	[0]
Total liabilities	364,785	258,396	0	365,950	211,650	25,000

The liabilities to banks include liabilities of €120 million under 5-year note loans.

20 Contingent liabilities and other financial obligations

	2004	2003
Contingent liabilities from suretyships and guaranties	0	256
Contingent liabilities under warranty/indemnity contracts	138,862	142,216
› thereof from group companies	0	0
› thereof loan sums actually utilized	47,959	42,041

Other financial obligations

As of December 31, 2004, other financial obligations from long-term leases existed at around €41.4 million (2003: €42.0 million), including some €26.8 million in obligations to group companies (2003: €22.1 million). The annual burden comes to some €5.2 million (2003: €4.9 million).

As part of the sale of the IT companies (see Note 8), Drägerwerk AG, Dräger Medical AG & Co. KGaA and Dräger Safety AG & Co. KGaA made a commitment to an IT services company to purchase IT services to the value of €96.65 million for the entire Dräger Group until February 2009. This volume is within the usual requirements of the Dräger Group.

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

As of December 31, 2004, Drägerwerk AG was not obligated to pay up any shares.

For the stake held by Siemens AG in Dräger Medical AG & Co. KGaA (the latter being a commercial partnership limited by shares with a stock corporation as general partner), Siemens AG holds a put option under which Drägerwerk AG or Dräger Medical Holding GmbH is obligated to repurchase the entire Siemens-held stake and which is exercisable for the first time in 2007 (or 2006 in the case of disagreement on the business plan and annual budget). If and when this put option is exercised, the repurchase price payable by Dräger Medical Holding GmbH is determined in a specific appraisal procedure laid down in detail to account for the economic development of the joint venture. Depending on the specific details of this development, the repurchase price due to Siemens corresponds proportionately to (i) 7.5 to 9 times the average EBITDA of the then current and two preceding fiscal years, after deducting the net financial debt or (ii), if the joint venture shows an equally specified business downtrend, the higher proportionate amount of 6 times the average EBITDA of the then preceding, current and three succeeding fiscal years, also after deducting the net financial debt, or the joint venture's book value. The price will be payable as follows: upfront payment at a defined amount, i. e., at up to—depending on any outside finance (where required) being available—2.5 times the average EBITDA of the then current and two preceding fiscal years after deducting the net financial debt, as well as in up to 10 annual installments of the residual principal plus interest. Each such annual installment shall equal 50 percent of the joint venture's net earnings for that year. In the event that the repurchase price is based on 6 times the average EBITDA of future fiscal years, the upfront payment amounts to 25 percent of the total, the remaining price neither carrying interest nor being due within a defined term. The put option may not be exercised (i) as long as a listing procedure initiated by either party is still pending or (ii) if notice to terminate the joint venture has been given.

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 € thousand unless stated otherwise)

21 Other operating income

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

22 Personnel expenses/employees

	2004	2003
Salaries	15,679	14,406
Social security taxes, pension expense and related employee benefits	11,140	7,100
› thereof pension expense	[9,605]	[5,739]
Personnel expenses	26,819	21,506
Annual average headcount		
Production operations	0	0
Other operations	142	137
Headcount as of the balance sheet date		
Production operations	0	0
Other operations	146	134

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

	2004	2003
Amortization of intangible assets and depreciation of property, plant and equipment	4,725	3,359

Depreciation charged in previous years solely for tax purposes improved net profit for fiscal year 2004 by approx. €773.4 thousand (2003: €990.8 thousand).

24 Other operating expenses

These primarily include administrative expenses, such as rents under various leases, insurance premiums, subscription dues, fees and public levies, travel expenses, provisions for accrued liabilities, as well as losses from foreign exchange and currency translation and on the disposal of fixed assets. In addition, they cover a multitude of individual items not allocable elsewhere.

25 Income from investments

	2004	2003
Income from investments	441	309
› thereof from group companies	[52]	[35]
Income from P & L transfer agreements—group companies	19,228	19,441
Expenses from loss absorption—group companies	(541)	(8,256)
Intragroup tax apportionment	2,259	4,652
Net income from investments	21,387	16,146

26 Write-down of financial assets and short-term securities

Financial assets were written down by €57 thousand and short-term securities by €302 thousand.

27 Net interest expense

	2004	2003
Income from other long-term securities and loans	44	79
› thereof from group companies	[42]	[73]
Other interest and similar income	3,250	2,826
› thereof from group companies	[964]	[2,440]
Interest and similar expense	(13,079)	(11,851)
› thereof to group companies	[3,801]	[1,246]
Net interest expense	(9,785)	(8,946)

28 Extraordinary result

The extraordinary result mainly comprises extraordinary income totaling €11 million and extraordinary expenses totaling €12.9 million from the sale of the three IT companies (Dräger Synematic GmbH, including its subsidiary Dräger Electronic Business Portals GmbH, Nordac Rechenzentrumsgesellschaft mbH, Dräger Information Technologies GmbH) to Capgemini Deutschland Holding GmbH as of February 29, 2004, from the sale of Dräger Medikal Ticaret ve Servis Limited Sirketi, Turkey, to the Medical subgroup, and from the sale of Dräger ProTech GmbH to Concord GmbH as of July 1, 2004.

29 Participation rights

	Number	Par value	Premium	Participation capital
		€	€	€
Balance at December 31, 2004 (No new participation certificates were issued in 2004.)	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

30 Financial derivatives

Derivatives 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 hedge 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 2009 and a residual book value of approx. €63 thousand (after impairment). As of December 31, 2004, the interest rate swap resulted in an unrealized gain of €29 thousand and a realized loss of €125 thousand.

The book value of the interest rate hedges is included in other assets at a total of €63 thousand. Other provisions include obligations from interest swaps and currency forwards and futures of €125 thousand and €2 thousand, respectively.

	Notional volume € thousand	Term in years	Fair value €	Book value €
Interest rate hedges	114,790	up to 5	(33)	(62)
Currency forwards and futures	10,090	up to 1	37	(2)

31 Total remuneration of the Executive and Supervisory Boards

Within Drägerwerk AG, the remuneration of Executive Board members for fiscal year 2004 totaled €6,457,594.67, breaking down into €1,688,234.67 of fixed, and €4,769,360 of variable performance-related, compensation. €1,067,803.08 was paid to former members of the Executive Board and their surviving dependants.

A total €10,362,627 provides for the accrued pension obligations to former Executive Board members and their surviving dependants. The remuneration of Drägerwerk AG's Supervisory Board amounts to €382,460.00 for Drägerwerk AG.

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

32 Preferred stock owned by the Executive and Supervisory Boards

As of December 31, 2004, the board members of Drägerwerk AG directly or indirectly held a total of 57,184 preferred shares (Executive Board, equivalent to 0.45 percent of the total), and 139,792 preferred shares (Supervisory Board, equivalent to 1.10 percent of the total), and including Dr. Christian Dräger's preferred stock portfolio of 139,640 shares (1.0995 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) German Securities Trading Act ("WpHG").

33 and 34 Supervisory and Executive Boards

The Company's Supervisory and Executive Board members are listed under "The Company's Boards" on pages 22 and 23.

35 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 income/profit the dividends for participation certificates in a separate line headed, "Distribution for participation capital." Therefore, and to this extent, 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 €4.50.

36 Proposed appropriation of profit

The net earnings in fiscal year 2004 amount to €27,729,884.53. This includes the profit brought forward from the prior year of €56,692,102.14. In accordance with Art. 16(2) of the Company's bylaws, we will propose to the annual stockholders' meeting to distribute these net earnings as follows:

	€
€0.39 cash dividend for 6,350,000 common shares	2,476,500.00
€0.45 cash dividend for 6,350,000 preferred shares	2,857,500.00

We further propose that the remaining net earnings for fiscal year 2004 of €22,395,884.53 be carried forward.

Lübeck, March 4, 2005

Drägerwerk Aktiengesellschaft
The Executive Board

Theo Dräger
Stefan Dräger
Ingo Gensch
Albert Jugel
Wolfgang Reim
Hans-Oskar Sulzer

Auditor's opinion

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Drägerwerk AG for the fiscal year from January 1 to December 31, 2004. 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 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 the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (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 evaluations of 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 also 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, the annual financial statements 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. On the whole, the management report provides a suitable understanding of the Company's position and suitably presents the risks to future development.

Lübeck, March 18, 2005

BDO Deutsche Warentreuhand

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

Dyckerhoff
Wirtschaftsprüfer

Rohardt
Wirtschaftsprüfer

Major shareholdings of Drägerwerk AG

	Name and registered office of the company	Share capital in LCU thousand	Share- holding in %
Germany	Dräger Safety AG & Co. KGaA, Lübeck	€25,739	100
	Dräger Medical Holding GmbH, Lübeck	€100	100
	Dräger Electronics GmbH, Lübeck	€2,000	100
	Dräger Medizin System Technik GmbH, Lübeck	€1,023	100
	Dräger Safety Verwaltungs AG, Lübeck	€1,000	100
	Dräger Interservices GmbH, Lübeck	€256	100
	DrägerForum GmbH, Lübeck	€26	100
	FIMMUS Grundstücks-Vermietungs GmbH, Lübeck	€25	100
	Dräger KB GmbH, Lübeck	€26	100
	MAPRA Assekuranzkontor GmbH, Lübeck	€51	49
Europe Netherlands	Dräger Beheer B.V., Zoetermeer	€454	100
	Dräger Finance B.V., Zoetermeer	€11	100
Switzerland	Dräger Finanz AG, Zug	Sfr.500	100
UK	Draeger Medical UK Limited, Hemel Hempstead	£4,296	30
Americas Brazil	Dräger do Brasil Ltda., São Paulo	Rs27,021	100

The Company's Boards

Supervisory Board of Drägerwerk AG

Chairman

Prof. Dr. Dieter Feddersen

Lawyer, Frankfurt/Main

Other supervisory board memberships:

Membership of statutory supervisory boards:

Deutsche Beteiligungs AG, Frankfurt/Main (Chairman), until March 18, 2004

Dräger Medical AG & Co. KGaA, Lübeck

SAI Automotive AG, Frankfurt/Main (Chairman), until February 17, 2004

Tarkett Sommer AG, Frankenthal (Chairman)

Sauerborn Trust AG, Bad Homburg, until December 7, 2004

Membership of comparable German or foreign boards:

Gesellschaft für Industriebeteiligungen Dr. Joachim Schmidt AG & Co. Holding-Kommanditgesellschaft, Berlin (Chairman of the Board of Directors)

Vice-Chairman

Werner Gustäbel

Group Works Council Chairman of

Drägerwerk AG, Lübeck

Other supervisory board membership:

Dräger Medical AG & Co. KGaA, Lübeck

Additional Vice-Chairman

Dr. Christian Dräger

Businessman, Lübeck

Other supervisory board memberships:

Dräger Medical AG & Co. KGaA, Lübeck

Dräger Safety AG & Co. KGaA, Lübeck

Uwe Bohm

Works Council member of

Dräger Medical AG & Co. KGaA, Lübeck

Siegfried Kasang

Works Council Chairman of Dräger Medical AG & Co.

KGaA, Lübeck

Group Works Council Chairman of the Dräger Medical subgroup

Other supervisory board membership:

Dräger Medical AG & Co. KGaA, Lübeck (Vice-Chairman)

Dr. Thomas Lindner

Management Chairman of Groz-Beckert KG, Albstadt

Other supervisory board memberships:

Talanx AG, Hanover

HDI Haftpflichtverband der Deutschen Industrie VAG, Hanover

Walter Neundorf

Officer of Dräger Medical AG & Co. KGaA, Lübeck

Dr. Martin Posth

President of Asien-Pazifik-Forum Berlin e.V., Berlin

Other supervisory board membership:

Berlinwasser International AG, Berlin

Waltraud Ricke

Union secretary of the metalworkers' union

IG Metall Lübeck/Wismar, Lübeck

Thomas Rickers

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

Other supervisory board membership:

Dräger Medical AG & Co. KGaA, Lübeck

Gordon Riske

CEO of Deutz AG, Cologne

Other supervisory board membership:

ISRA Vision Systems AG, Darmstadt

Dr. Dietrich Schulz

Businessman, Lübeck

Other supervisory board memberships:

Jungheinrich AG, Hamburg (Chairman), until June 2, 2004

L. Possehl & Co. mbH, Lübeck (Chairman),

until September 28, 2004

Süd-Chemie AG, Munich

(Vice-Chairman),

Ad Capital AG, Stuttgart

Executive Board of Drägerwerk AG**Theo Dräger**

Chairman (CEO)

Supervisory board memberships:

Dräger Medical AG & Co. KGaA, Lübeck (Chairman)

Dräger Medical Verwaltungs AG, Lübeck (Chairman)

Dräger Safety AG & Co. KGaA, Lübeck (Chairman)

Dräger Safety Verwaltungs AG, Lübeck (Chairman)

Dräger ProTech GmbH, Lübeck, until June 30, 2004

Dr. Jens Ehrhardt Kapital AG, Pullach

L. Possehl & Co. mbH, Lübeck (advisory board)

Sparkasse zu Lübeck, Lübeck

Stefan Dräger

Central Functions

Vice-Chairman since March 1, 2005

Supervisory board memberships:

Dräger Medical AG & Co. KGaA, Lübeck

Dräger ProTech GmbH, Lübeck, until June 30, 2004

Ingo Gensch

Corporate Personnel

Supervisory board memberships:

Dräger ProTech GmbH, Lübeck (Chairman),
until June 30, 2004

Dräger Medical Verwaltungs AG, Lübeck

Dräger Safety AG & Co. KGaA, Lübeck

Dräger Safety Verwaltungs AG, Lübeck

Prof. Dr.-Ing. Albert Jugel

Safety

CEO of Dräger Safety Verwaltungs AG, Lübeck

(General partner of Dräger Safety AG & Co. KGaA)

Supervisory board memberships:

C-H-Reynolds Luchterhand AG, Frankfurt/Main
(Chairman) until April 5, 2004

Dr. Wolfgang Reim

Medical

CEO of Dräger Medical Verwaltungs AG, Lübeck

(General partner of Dräger Medical AG & Co. KGaA)

Supervisory board membership:

Dräger Medical Deutschland GmbH (Chairman)

Hans-Oskar Sulzer

Finance (CFO)

Supervisory board memberships:

Dräger Medical Verwaltungs AG, Lübeck

Dräger Safety AG & Co. KGaA, Lübeck

Dräger Safety Verwaltungs AG, Lübeck

Dräger ProTech GmbH, Lübeck, until June 30, 2004

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.



Drägerwerk Aktiengesellschaft
Moislinger Allee 53/55
23542 Lübeck, Germany
www.draeger.com

Corporate Communications
Phone (+49-451) 882-22 01
Fax (+49-451) 882-39 44

Investor Relations
Phone (+49-451) 882-26 85
Fax (+49-451) 882-32 96