

# **Single entity financial statements and management report** of Drägerwerk AG & Co. KGaA

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AS OF DECEMBER 31, 2008

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## Management report of Drägerwerk AG & Co. KGaA

### Changes in the Executive Board of Drägerwerk Verwaltungs AG

On March 17, 2008, the Supervisory Board of Drägerwerk Verwaltungs AG appointed three new members to the Company's Executive Board effective as of April 1, 2008:

- Dr. Dieter Pruss (52) is responsible for sales and marketing for the safety division. Previously, he had headed two of safety's four strategic business segments. He is the first internal candidate the Supervisory Board has appointed to the Executive Board for some time.
- Gert-Hartwig Lescow (41) is the new CFO. Since September 2006, he had worked in a management position at Voith AG in Heidenheim. Prior to that, he was the commercial general manager and head of finance at Mobilcom AG in Büdelsdorf.
- Dr. Herbert Fehrecke (59) is the head of the new production function. Previously, Dr. Fehrecke was a member of the Freudenberg AG & Co. KG management team,

where he was responsible for technology. Prior to that, he was the head of assembly at Volkswagen AG in Wolfsburg.

Prof. Dr. Albert Jugel, the Executive Board Chairman of Dräger Safety AG & Co. KGaA and the Executive Board member for the safety division of Drägerwerk Verwaltungs AG, left the Company on March 31, 2008 on the best of terms and by mutual agreement. For personal and health reasons, Prof. Jugel will return to his hometown of Dresden and may take up a new professional challenge there.

The CFO Hans-Oskar Sulzer also left the Company on March 31, 2008. Mr. Sulzer decided to leave the Company, in full agreement with the Company, to facilitate the successor process.

With the new structure and allocation of areas of responsibility, each level of added value is represented in the Executive Board.

### German Financial Reporting Enforcement Panel

In the second half of 2008, the German Financial Reporting Enforcement Panel ("Deutsche Prüfstelle für Rechnungslegung": DPR) performed a sample audit of the group financial statements and management report, as well as the single entity financial statements and management report of Drägerwerk AG & Co. KGaA as at December 31, 2007 pursuant to Sec. 342b (2) Sentence 3 No. 3 HGB ("Handelsgesetzbuch": German Commercial Code).

In February 2009, the DPR informed Dräger that the audit had been concluded and no errors had been found.

#### AVERAGE AGE OF MEMBERS OF THE EXECUTIVE BOARD, SUPERVISORY BOARD AND UPPER MANAGEMENT

	Dec. 31, 2008 in years	Dec. 31, 2007 in years
Supervisory Board of Drägerwerk AG & Co. KGaA	54	56
thereof shareholder representatives	58	64
Members of the Executive Board of Drägerwerk Verwaltungs AG	49	53
Upper management of the Dräger Group	45	46

## Dividend proposal

Drägerwerk Verwaltungs AG as general partner and the Supervisory Board of Lübeck-based Drägerwerk AG & Co. KGaA propose to distribute out of the net earnings of EUR 86.2 million for fiscal year 2008 a cash dividend of EUR 0.35 per preferred share (2007: EUR 0.55) and EUR 0.29 per common share (2007: EUR 0.49), hence a total EUR 4.1 million, and carry forward the balance of EUR 82.1 million to new account.

The preferred share dividend also governs the dividend for participation certificates, which will amount to EUR 3.50 each (2007: EUR 5.50). Participation certificates entitle the holder to a dividend 10 times the preferred share dividend since their arithmetic par value is 10 times that of a preferred share.

## Business activities

Drägerwerk AG & Co. KGaA, Lübeck, directly or indirectly holds the shares in the parent companies of the medical division (75 percent) and the safety division (100 percent). Following the acquisition from Siemens of a 10 percent interest in Dräger Medical AG & Co. KG on February 28, 2007, the interest held in the latter company and thus in the entire medical division rose from 65 percent to 75 percent. This purchase was agreed as part of the revision of Siemens' contractual put option and has no effect on the collaboration between Dräger and Siemens. With the focus being placed on the core business of the two divisions, medical and safety, in prior years, the Company now only has a few other small shareholdings.

Drägerwerk AG & Co. KGaA has functions which serve to fulfill the core tasks of the Company as well as provide services to the divisions 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.

To leverage the synergies of both the medical and safety divisions, Dräger intends to expand shared services within the Group. The aim is to enhance efficiency and quality. This in particular applies to the Group's information technology, where costs are currently above benchmark level. Dräger plans to invest a considerable amount in improving this over the next few years. To this end, a corporate IT department has been set up within Drägerwerk AG & Co. KGaA which will gradually take over the IT activities including managing external service providers. Corporate communications and the training section of human resources were also centralized. The services to the divisions are closely coordinated with them and invoiced in accordance with arm's length principles.

## Control systems

The internal control system supports management in securing the long-term success of the Company. It comprises budgets, actual cost calculations and forecasts with strategic and operative elements.

The control system is based on the Dräger Group's strategic plan, which is revised annually and reflects expected market developments, technological trends and their influence on products and services, as well as the financial means of the Dräger Group. The results are condensed in a five-year plan, the first year of which is developed into a detailed budget for the coming year. The monthly group reporting includes the IFRS financial statements of all of the group companies and shows the development of the net assets, financial position and results of operations of the Group, the divisions and other controlling units.

These data are supplemented by detailed information required for the management of the Group's operating activities. Forecasts for estimating the overall net earnings for the year are produced at regular intervals during the fiscal year. Reports prepared every six months which address the Company's significant risks are a further component of the control system. These reports are discussed during Executive and Supervisory Board meetings and are important as a basis for key decisions.

The most important key figures used to monitor the Company's development are net sales, EBIT, EBIT margin, return on capital expenditure (ROCE), as well as cash flow and key figures for the capital tie-up. The volume and composition of order intake and orders on hand are important indicators of current performance. Early indicators for strategic development are development projects and their status, market response to new products and the Company's development and competitive position within the various regional markets.

Further information on the management and control structure can be found in the corporate governance report contained in the 2008 annual report of the Dräger Group.

## Overall economic environment

### HIGH RISKS FOR THE GLOBAL ECONOMY

According to the International Monetary Fund (IMF), the global economy is heading towards the greatest recession since the 1930s. 2008 was shaped by the consequences of the financial crisis which the central banks met with hefty interest rate reductions to between 0 percent and 0.25 percent (for example in the US), guarantees for banks and investments in banks at risk in order to combat the breakdown of confidence and also to give positive impulses to interbank trade. In addition, ongoing adjustments on residential real estate markets, sharp fluctua-

tions in the price of crude oil and other commodities and volatile currency exchange rates also characterized 2008. Although the global economy still recorded overall growth of 3.4 percent in 2008 (2007: 5.2 percent), the financial crisis spread to the real economy in the second six months of the year and led to negative development. The recession in the US intensified significantly towards the end of the year. As announced by the US Department of Commerce at the end of January 2009 as part of a first publication, the gross domestic product (GDP) fell by 3.8 percent (annualized) between October and December. This was the largest reduction in US economic output since the first quarter of 1982 when GDP shrank by 6.4 percent (annualized). On an annual basis, US economic growth was still at 1.1 percent, according to IMF data. Due to the weak performance in the second half of the year, economic output also fell significantly in the eurozone, such that the growth rate decreased to 1.0 percent. Italy's economy even fell by 0.6 percent in 2008. The financial crisis not only lamed the real economy in the US and Europe, but also in Japan. According to the IMF, Japanese GDP decreased by 0.3 percent. Only developing and emerging countries recorded relatively strong growth of 6.3 percent, although this was considerably weaker than in the prior year (up 8.3 percent).

### COMMODITIES MARKETS

At the end of December 2008, the oil price stood at USD 39.50, which was 58 percent lower than at the start of the year. Translated into euros, this represents a decrease of around 54 percent. According to the German Institute for Economic Research ("Deutsches Institut für Wirtschaftsforschung": DIW), the low oil price in the second half of 2008 stabilized the economy. In Germany alone, the decrease in the price of oil and petrol saved the economy and consumers at least EUR 10 billion in the second half of 2008. In aggregate terms, the price index for non-energy commodities (denominated in US dollars) was approximately 23 percent lower at the end of Decem-

ber 2008 than in the prior year, although it had still been approximately 10 percent higher at the end of September, according to a report by the European Central Bank (ECB). Metal prices in particular also fell due to fears of a global economic slowdown and considerably reduced freight costs.

#### INFLATION

On a global scale, consumer prices rose by 3.5 percent in industrial countries, according to the IMF. The upward trend slowed down considerably in the second half of the year. Inflation was at 4.8 percent in July. In the eurozone, annual inflation amounted to only 1.6 percent in December 2008 and therefore had continued to decrease following its dramatic drop to 2.1 percent in November 2008. At the same time, there are signs that the price pressure on the production chain has decreased very sharply, according to the ECB. The annual rate of change of industrial manufacturer's prices (excluding the building trade) fell significantly to 3.4 percent in November (October: 6.3 percent). In contrast, labor cost growth accelerated in the eurozone in the third quarter of 2008. The significant decrease in overall inflation in the second half of 2008 was chiefly attributable to considerably lower global commodity prices in the last few months.

#### EXCHANGE RATE

According to the European Central Bank, the euro's nominal effective exchange rate (measured against the currencies of 21 important eurozone trade partners) was at an index value of 113.0 (base value Q1 1999: 100) on average in 2008. Compared to the average value of 107.5 in 2007, the value of the euro therefore rose by 5.1 percentage points – a significant burden on export business. In the first quarter, the average value of the euro had already risen to an index value of 112.9, and even increased to 116.0 in the second quarter. In the third quarter, the euro began to fall in value (114.1), before the value decreased significantly to 109.1 in the fourth quarter.

In the fourth quarter, the bilateral exchange rates of the euro posted considerable deviations with extensive volatility. In nominal effective terms, the euro fell in October, remained predominately stable in November and recouped some of its previous losses in December. From a bilateral perspective, the development of the euro varies. Strong devaluation of the euro against the US dollar, the Japanese yen, the Swiss franc and the Chinese renminbi was contrasted by currency gains against most other important currencies, which applies in particular to pound sterling, the Swedish krona and the currencies of some new EU member states. The extreme values of the euro against the US dollar document the high volatility in the course of the year. At the beginning of the year, the euro was valued at 1.4602 against the US dollar. The annual high was at USD 1.6039 (July 15, 2008) and it reached an annual low of USD 1.2328 on October 28, 2008. The exchange rate was USD 1.3919 as of December 31, 2008. Overall, the euro therefore fell by 4.7 percent against the US dollar in the course of the year.

#### EFFECTS OF THE ECONOMIC ENVIRONMENT ON THE DRÄGER GROUP

The Dräger Group has barely felt the effects of the downturn as yet. Both divisions are only marginally dependent on economic cycles. The development of the oil price is only minimally affecting the Company's procurement activities. However, exports were impacted by the euro's strength on average throughout the year. The Dräger Group can fall back on development and production capacities in the US. The weak US dollar in terms of the annual average has therefore had a positive impact on earnings.

#### MEDICAL DIVISION – INDUSTRY PERFORMANCE

The volume of the global market for medical division products is EUR 18 billion and grew by approximately 3 percent in 2008. This is stable year-on-year growth and in line with expectations. Competition has remained intense against the backdrop of further consolidation among man-

ufacturers and customers. Hospital mergers have continued to lead to a greater pooling of demand. Competitive pressure in the hospital sector is leading to a preference for cost-effective process-based solutions. Demographic trends and rising demand for more technically advanced medical technology products in emerging economies continued to have a positive impact.

#### **SAFETY DIVISION – INDUSTRY PERFORMANCE**

The safety division's global market grew by between 2 percent and 4 percent in fiscal year 2008, with considerable regional differences in growth rates. The volume remained at approximately EUR 5 billion due to changes in exchange rates. The strongest growth region was still Asia, in particular China; however, the German market also expanded slightly following strong growth in 2007. In the US, state subsidies for investment in equipment for municipal fire departments had a positive effect. The oil, gas and mining industries are greatly stimulating demand the world over. The considerable cost benefits enjoyed by US-based competitors on the back of the relatively weak US dollar against the euro (until September 2008) intensified competition in 2008, in particular in project business but also in national tenders. The consolidation process continued through mergers and acquisitions of competitors. Until the international financial crisis took effect, global market performance in 2008 confirmed the safety division's assessment in the annual report for 2007. Despite unfavorable exchange rates and consolidation within the industry, the safety division has succeeded in increasing its market share slightly.

## **Business trend and results of operations**

In 2008, Drägerwerk AG & Co. KGaA's business trend and net profit of EUR 14.7 million (2007: EUR 32.1 million) have essentially been influenced by

- a) its result from operating activities
- b) its investment result.

#### **AS TO A) ITS RESULT FROM OPERATING ACTIVITIES**

Drägerwerk AG & Co. KGaA's result from operating activities, including services to group companies and third parties, only changed to a minor extent in fiscal year 2008.

The decrease in personnel expenses reflects the conversion of Drägerwerk AG into an AG & Co. KGaA. Since the conversion, the Executive Board has received its remuneration from the general partner. As a result, Drägerwerk AG & Co. KGaA recognizes these expenses under other operating expenses and not under personnel expenses. Pension plans were offered to the members of the Executive Board at Drägerwerk AG & Co. KGaA, with the related expenses being recognized as personnel expenses at Drägerwerk AG & Co. KGaA. The shared services were further expanded and strengthened by external employees in fiscal year 2008. In fiscal year 2008, non-recurring expenses of EUR 3.7 million (2007: EUR 1.4 million), comprising EUR 2.2 million for the restructuring of the IT department, had an impact on the result.

#### **AS TO B) ITS INVESTMENT RESULT**

Income from profit and loss transfer agreements (including intragroup tax allocations) decreased due to the lower distribution by Dräger Medical AG & Co. KG to Dräger Medical Holding GmbH (of EUR 67.5 million, 2007: EUR 82.7 million). As in the prior year, no losses had to be absorbed in fiscal year 2008.

## Net assets and financial position

As a result of its function within the Dräger Group, Drägerwerk AG & Co. KGaA presents a balance sheet where high financial assets, intercompany receivables and liabilities, and liabilities from group financing prevail.

In fiscal year 2008, non-current assets remained stable at EUR 653.3 million (December 31, 2007: EUR 650.8 million). As regards property, plant and equipment and intangible assets, additions of EUR 8.7 million outweighed disposals with net carrying values of EUR 0.1 million. Software licenses were purchased for EUR 2.8 million and infrastructure measures were carried out for EUR 1.0 million in connection with the new medical building.

Non-current investments relate to funds which are used to hedge pension obligations.

This amount was netted with cash and cash equivalents, producing net financial liabilities to banks of EUR 232.6 million (December 31, 2007: EUR 209.7 million); group financing to affiliates amounted to EUR 74.7 million (2007: EUR 61.7 million).

Drägerwerk AG & Co. KGaA's net profit increased equity to EUR 392.9 million (December 31, 2007: EUR 384.8 million). It now equals 45.5 percent of the balance sheet total (December 31, 2007: 42.8 percent).

## Personnel

As of December 31, 2008, Drägerwerk AG & Co. KGaA employed 325 people (December 31, 2007: 246).

### EMPLOYEE SURVEY

Dräger's global employee survey is a well-established, regularly-used feedback tool and was last conducted in

November 2007. 82.1 percent of all employees took part – a very high figure compared with the rest of the industry. In January 2008, every manager received their results. Subsequently, the follow-up process began during which measures were drawn-up and implemented. As regards content, job satisfaction increased slightly throughout the Company as a whole. Resulting from the survey, the Executive Board stipulated “set targets and give feedback” and “optimize organizational work conditions” as group-wide action areas. The managers received support on how to effectively utilize survey results by way of classroom-based and web-based training. The implementation of the follow-up process was monitored continuously and reported to the Executive Board. The level of commitment in all divisions is high, employees are proud to work for Dräger and recommend Dräger as an employer. The next global survey will take place at the end of 2009.

### MANAGEMENT DEVELOPMENT

Since 2005, the Dräger Group has been running management development programs for managers, project managers and specialists as part of its personnel development program.

The programs aim to support the business by expanding the competencies and efficiency of the managers. The programs serve to intensify personal networks within the Dräger Group, support the principle ‘speak the same language, live the same values’ and use the positive effect of filling management and key positions internally.

Each of the three group-wide management development programs md:1, md:2 and md:3 has its own focus. All of them meet the highest quality requirements which are implemented by our cooperation partners Babson Executive Education (Boston, US) and Malik Management Zentrum (St.Gallen, Switzerland) during the programs. They support the participants in strengthening their corporate competencies and leadership qualities, for example,

on the subject of entrepreneurship, change management, finances, leadership and marketing.

Overall, 122 employees (2007: 159 employees) around the world attended one of the management development programs in 2008.

## Research and development

The research department at Drägerwerk AG & Co. KGaA employs 53 people (2007: 47 people), who are engaged in product basics and researching and developing promising new technologies for the divisions.

The specialists from Drägerwerk AG & Co. KGaA's basic research department work closely with the subsidiaries' development departments in Germany, Europe, China and the US. Our basic research department's main task is to investigate new technologies and develop technical solutions for potential applications. These technologies are not transferred to product development until they reach a sufficiently high level of maturity, which reduces the development risk. All research and development departments cooperate internationally with universities, research institutes and other innovative companies.

The transparently-structured innovation processes facilitate the inclusion of the latest research findings and cutting-edge technologies that meet our high quality standards in the product development process. The divisions' procurement, quality assurance and manufacturing functions are also included in the comprehensive innovation processes. This means that strategic suppliers are also increasingly being trained together with the divisions' procurement departments, enabling them to expertly and systematically contribute to development projects. This accelerates the development projects and means the products are ready for series production using state-of-the-art production methods more rapidly.

Customer value is always our key focus when developing a product. Information and communication technologies are becoming increasingly important, in particular in the development of software for integrated products, systems and services.

In 2008, expenses of EUR 5.5 million (2007: EUR 5.7 million) for research and development services were incurred and recharged to the two divisions. Expenses not allocated to projects in the divisions and long-term research activities at Drägerwerk AG & Co. KGaA came to EUR 2.6 million (2007: EUR 1.6 million).

## Corporate IT

### IT STRATEGY

The most important strategic areas of action for IT this year and in the coming years are to:

- Establish a standardized group-wide IT infrastructure
- Harmonize and standardize the group-wide application landscape
- Optimize procurement
- Establish a global IT organization

Dräger has taken the first organizational step by integrating medical and safety's US IT departments into corporate IT in Germany. A region-based IT structure is to be introduced around the world in the first quarter of 2009 (America, Europe/Middle East/Africa and Asia/Pacific). In 2009 and 2010, the existing local IT organizations will be integrated into their respective regions in a common functional IT organization.

### IT HEADCOUNT

The corporate IT shared service was expanded both in Lübeck and internationally, taking its headcount to around 88 in Germany (2007: 48) and around 20 in the US (2007: 24) in December 2008.

## MAJOR IT PROJECTS

In the US, safety's sales staff in the Texas sales region have been working with the first release of the new customer relationship management (CRM) system since the end of December 2008. This system is being set up in close collaboration between medical and safety employees in the US, the UK, the Netherlands and Germany. This sub-project was successfully executed on time and on budget. The integration of the international SAP systems in another sub-project reduces the risk arising from using customized software from a small provider. The software survey is running according to plan and is due to be concluded in the first half of 2009.

The managed desktop project harmonized infrastructure, which included establishing a standardized hardware and software environment. In total, 2,000 desktop computers and notebooks were exchanged and the required infrastructure was set up in the computer center of the new outsourcing partner, EDS.

The new structure of Dräger's internet portal will be launched in Germany and the US in the first half of 2009.

The marketing operations management (MOM) project comprises an image database which contributes to safeguarding the guidelines for brand communication.

## IT COSTS

A total of 27 IT projects were completed in fiscal year 2008. IT costs for the Dräger Group stood at approximately EUR 81.5 million in 2008. This represents some 4.2 percent of total net sales of the Dräger Group (2007: 4.2 percent) and breaks down between operating expenses of EUR 67.4 million and project expenses of EUR 14.1 million.

## Environmental protection

With its revision of the group-wide quality and environmental policy, the Executive Board has emphasized the special importance Dräger attaches to climate protection and highlighted the fact that Dräger intends to consistently contribute towards reducing harmful emissions.

Over the past six years, Dräger has managed to cut direct CO<sub>2</sub> emissions from production and administration at its Lübeck site by 22.9 percent overall and by 20.3 percent when adjusted for climatic conditions. This equals an annual reduction of almost 2,750 metric tons (mt) of CO<sub>2</sub> compared to 2002. Dräger companies are directly responsible for around 70 percent of these emissions. Major suppliers at the same site produced the remaining 30 percent. In order to achieve these drastic savings, Dräger has invested heavily in heat supply facilities and distribution networks, as well as building maintenance. Medical's move into the new building, which was completed in 2008, will generate additional savings as energy consumption for this building is 25 percent below the legal limit and Dräger employees working in less energy-efficient buildings have been relocated to the new building.

The Dräger environmental management system will gather data from all subsidiaries in the future in order to determine their direct and indirect CO<sub>2</sub> emissions through their local energy consumption, use of company vehicles, and business trips, and will assess their savings potential.

As a manufacturer and seller of medical and safety equipment, our production is only relevant for the environment and climate change to a minor extent. It is predominated by non-energy-intensive assembly processes. Only in the manufacture of soda lime and impregnated activated carbon for breathing filters by safety's departments are raw materials and intermediate products produced in the middle-tonnage band. The related production lines have

been built and extended in the last five years and are distinguished by their high efficiency and environmental standards as well as extremely low emissions, which are far below legal limits. In production units with increased water consumption, Dräger uses recycling systems.

Since 1998, the environmental management systems of Dräger's companies in Lübeck have been certified in accordance with DIN EN ISO 14001:2005 as part of the group certification held by the parent Drägerwerk AG & Co. KGaA. Following the successful conclusion of the third recertification audit in February 2008, the environmental certificates are valid until 2011. The current group certification covers not only Dräger companies but also two third-party companies operating on our site in Lübeck. In this way, Dräger boosts Lübeck as a business location and at the same time imposes its high environmental standards on these third-party companies.

Furthermore, some of our subsidiaries also hold ISO 14001 or OHSAS (Occupational Health and Safety Assessment Series) certification; namely the safety division in Blyth, UK, and Dietlikon, Switzerland, as well as the medical division in Madrid, Spain, and Danvers, USA.

Dräger hopes to extend the ISO certification to additional subsidiaries. As part of group-wide certification, Dräger Safety AG & Co. KGaA plans to include the subsidiaries in Sweden, Spain, Australia, Singapore and Indonesia in 2009. Dräger will then consolidate the previously independently certified subsidiaries in Switzerland and the UK under the group certification.

Electricity, water, natural gas and heating oil consumption as well as total solid waste remain the most important measures of direct environmental considerations at the Lübeck site. This consumption also includes the energy used to produce compressed air. They underscore the fact that consumption in fiscal year 2008 leveled off at or

below the prior-year level. It is particularly pleasing that with its block-type thermal power station, Dräger has generated almost 5 million kWh of electricity from combined heat and power and thereby not only covered nearly 15 percent of its own electricity requirements but also contributed to a reduction in external CO<sub>2</sub> emissions. Overall, the electricity consumption in fiscal year 2008 only climbed by a slight 2 percent, with the Dräger companies accounting for 55 percent of the consumption on site. Electricity consumption, which has a greater effect on the climate, accounts for roughly 45 percent of total energy consumption.

Due to its production, the safety division is the major electricity user (approximately 10 million kWh p.a.), and is therefore central to our future measures to reduce electricity consumption.

Water consumption at the Lübeck site in fiscal year 2008 was practically unchanged, standing at 82,000 m<sup>3</sup>, of which 15 percent is attributable to the medical division and 50 percent to the safety division. Despite some recycling, the production of filter paper and suction filters still requires high volumes of water in order to meet the production targets for light-duty breathing apparatus, for example. The average water consumption per employee at the other Dräger companies is around 35 liters per day, which is on a par with standard household consumption.

At the Lübeck site, the waste recorded by the Dräger waste disposal association (Dräger Abfallwirtschaftsverband e.V.) rose by around 7 percent to 4,633 mt in 2008. Over 98 percent of this waste was recycled; just 59.2 mt had to be disposed of that had mainly been incurred in surface treatment processes. There was no change in the types or the majority of volumes of waste per company. Cardboard and paper waste and waste wood are responsible for the increasing volume. Waste wood alone rose by almost 200 mt to a total of 770 mt. This is attributable to the increase in

the number of quality parts and components sent overseas in wooden crates (environmentally friendly sea freight) for production at the medical division and was unable to be compensated by the use of returnable packaging which we usually prefer.

In a major group-wide project, Dräger is going to improve the systematic recording and evaluation of its products' ingredients with a view to boosting product-related environmental protection. Critical ingredients in Dräger products will then be able to be avoided or substituted even more effectively across the entire supply chain. On publication of the SVHC substances list (substances of very high concern) by the new European Chemicals Agency (ECHA), Dräger evaluated its product portfolio for such ingredients in order to ensure compliance with supply chain and end user information requirements.

Pursuant to the amendment proposals published by the EU Commission in December 2008, electronic devices of the medical and safety divisions will no longer be exempted from the list of banned substances as of 2014 and 2017, respectively. In their development projects, the safety and medical divisions are therefore already systematically endeavoring to be RoHS-compliant to meet these external requirements in advance and to avoid costly follow-up or new developments.

As a producer and importer of certain chemicals, the safety division has had five substances pre-registered in good time and will be involved in the subsequent registration in order to secure the legal basis for the long-term REACH-compliant production and use of these substances in our products. The medical division is not affected by any (pre-)registrations.

When developing new devices, cutting the costs of ownership when using Dräger devices will remain an important aim. This is largely compatible with a policy of conserving

resources and reducing environmental impact when using Dräger equipment as exemplified in the lower energy consumption and resulting longer periods of use for our new gas detection devices, for example.

## Opportunities and risks relating to future development

### RISK AND OPPORTUNITY MANAGEMENT

The Dräger Group's risk and opportunity management system ensures 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.

The Dräger Group's 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 divisions' annually revised strategic plans and the resultant short and medium-term plans, systematic risk control covers business units, companies and regions, divisions 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 segments, 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, the medical and safety divisions 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. This includes regularly adapting and improving our structure. The greater use of shared services within the Group is an example of this. There are also significant opportunities within the measures to strengthen the Dräger brand which, together with the guiding philosophy “Technology for Life”, conveys the high standard of technology, quality and reliability. Short-term options are identified by regularly monitoring the market and the competition.

Our systems ensure that opportunities and risks are identified, measured, managed and monitored. Information on risks and opportunities flows to the respective process owners, the Executive and Supervisory Boards and, if necessary, enables action to be taken at short notice.

The Dräger Group’s risk management process complies fully with the objectives of the German Act on Corporate Control and Transparency (“Gesetz zur Kontrolle und Transparenz im Unternehmensbereich”: KonTraG).

Both the risks presented below and risks of which we may currently be unaware can have an impact on the Dräger Group.

#### OVERALL ECONOMIC RISKS

The precarious situation on the real estate market in the USA triggered a crisis in the financial markets and led to a global financial and economic crisis in 2008. Against the backdrop of a severe global economic recession, eco-

nomie activity in most industrialized nations is shaped by huge uncertainties.

If the fluctuations and distortions resulting from the financial crisis continue or worsen, the Dräger Group cannot guarantee that its net assets, financial position and results of operations or its ability to secure financing will not be affected. For example, the current credit crunch could make it more difficult for our customers to obtain financing, which could mean that they might change, delay or abandon plans to purchase our products and services. Furthermore, if our customers generate inadequate net sales or have restricted access to the capital markets they may be unable to settle outstanding invoices on time or in full. Our earnings and cash flows could be negatively impacted as a result.

By strengthening its global business, Dräger has achieved a broad regional diversification of net sales. Our growth targets are still focused on the Americas and Asia. Key manufacturing sites in the US, the UK and China are instrumental in reducing the currency risks associated with global business.

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.

#### STRATEGIC RISKS

The industries in which Dräger operates are considered future-oriented. Within each industry, further consolidation processes are expected that are likely to affect the structure and intensity of competition. Dräger is up against strong competitors, some of whom have access to extensive resources. In both divisions, the Dräger Group is dependent on the investment capacity of public bodies, since the majority of customers both in Germany and

abroad are public hospitals and other institutions, for example the fire service, the police force, the military and public disaster response. A trend toward lower public spending has emerged in many industrialized nations in the past years, for example in the US, China and also in Germany. This trend could continue given the current market environment. In response to these challenges, the Dräger Group is cementing and further expanding its position in the traditional and emerging markets through customer focus, innovation, the high quality and reliability of its products and services and, where expedient to business, active involvement in the consolidation process.

## Operational risks

### SUPPLIER RISKS

In order to maintain the current product portfolio and those products that are being developed, we need to work closely with reliable, competent suppliers. Our suppliers are integrated into our processes, since the level of vertical production in our business model has been reduced to the necessary core technologies and the assembly of purchased parts and components. To manage 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.

### PRODUCT LIFECYCLE RISKS

One important challenge is keeping the product portfolio of the Dräger Group divisions up to date. This necessitates making both technologically innovative products and products which appeal to a large section of the market available in good time. Together with technology, excellent cost structures are important for 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 order fulfillment through to maintenance of the product portfolio. In line with the increase in project business in the divisions of the Dräger Group, cost accounting and cost-related risks for single orders are increasing.

### IT RISKS

Our business processes require reliable, cost-effective IT systems.

As a shared service, corporate IT at Drägerwerk AG & Co. KGaA provides IT services to all group companies.

In this connection, Dräger also took over parts of the IT services that had been outsourced to external providers. IT management, coordination, project management and control are the functions which will first and foremost be strengthened. Defined roles ensure that the business and IT processes are linked. Coordination with external service providers is still of prime importance. These service providers are highly competent companies.

### PERSONNEL RISKS

Competition for highly qualified staff is fierce in the industries in which our divisions operate. Recruiting and retaining well-qualified staff for all functions and regions is crucial for our further development. It is therefore very important to cultivate and improve our attractiveness as an employer.

### REGULATORY AND LEGAL RISKS

The companies of the Dräger Group are subject to varying and ever-increasing regulation in all of the countries they operate in, regardless of the extent of their operations. The extensive measures necessary to comply can generate considerable operating costs. The obligations can arise from public law, such as tax law, or civil law. Also impor-

tant for our business are laws to protect intellectual property and third-party concessions, varying licensing regulations for products, competition law regulations, regulations in connection with awarding contracts, provisions on export control, and much more. Drägerwerk AG & Co. KGaA is also subject to legal regulations governing capital markets.

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

In some regions, legal uncertainty could result from us only having limited possibilities to assert our rights.

The Dräger Group endeavors to comply with all legal and regulatory obligations and corresponding internal regulations and directives are in place.

#### **RISKS FROM FINANCIAL INSTRUMENTS**

The aim of the Dräger Group is to control liquidity risk and risk from financial instruments, i.e. interest rate, currency and credit risk. Liquidity risk and the interest rate risk are hedged centrally by Drägerwerk AG & Co. KGaA, whereas currency risk is the joint responsibility of Drägerwerk AG & Co. KGaA and the divisions. The credit risk with regard to cash investments and derivatives is mitigated centrally, while the credit risk from receivables from operating activities is the responsibility of the divisions.

Marketable hedging instruments contracted with reputable 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.

Dräger mitigates its liquidity risk by diversifying the maturity structure of its financing instruments. In addition to near-equity participation certificates, the Dräger Group has also raised note loans which are due in one to seven years. Dräger also has non-current and current liabilities to banks as well as a liquidity reserve comprising freely available credit facilities with numerous banks with which bilateral agreements have been concluded. Due to the maturity structure of these financing instruments, there is only a limited repricing risk.

Substantial cash and cash equivalents and current trade receivables also provide us with additional financial scope.

The solid financing structure of the Dräger Group is also evidenced by our equity ratio of 31.3 percent (2007: 30.9 percent).

The Dräger Group is mainly exposed to interest rate risks in relation to the euro. Dräger counters 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.

The Dräger Group counteracts the currency risk by hedging – based on the net balances of budgeted income and expenses as well as on 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 the medical division. Production in the US is also bolstering the safety division.

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, however the financial crisis could have negative repercussions.

The management of financial risks is detailed under Note 45 of the notes to the financial statements.

The joint venture agreement between the participating companies of Drägerwerk AG & Co. KGaA (Dräger) and Siemens AG (Siemens) and the articles of association 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. In fiscal year 2006, the agreement was amended to the effect that Dräger is no longer obligated to buy the limited shares. Now, Dräger has the option to either agree to buy the limited shares offered by Siemens at the formula price or else support a sale by Siemens to a third party by selling some of its own limited shares if necessary. Both parties agreed in this connection that Dräger would increase its stake in Dräger Medical AG & Co. KG from 65 percent to 75 percent in 2007 by acquiring limited shares held by Siemens. It was agreed that Siemens would have the option of acquiring 2.5 percent of Drägerwerk AG & Co. KGaA. If Siemens offers to sell back its remaining shares and Drägerwerk AG & Co. KGaA accepts this offer, it could result in a high financial liability. Following its transformation into a partnership limited by shares, Dräger is permitted to finance such a purchase using debt and, to a considerable extent, equity.

#### OVERALL RISK

Overall, the most important of all risks facing the Group are the strategic risks, especially those stemming from consolidation processes that affect the competitive structure, and the current state of the economy. However, this risk is mitigated both by the regional spread and the diversification of the product and service offerings of the Dräger Group. The performance risks from the completion of orders are well spread and are therefore limited.

All in all, the risks to the Dräger Group are limited and, based on the information currently known to us, the

Group's management, the Dräger Group's continued existence as a going concern is not at risk.

## Remuneration report

The remuneration report, which explains the principles for determining the remuneration of the Executive Board of the general partner and the Supervisory Board, is contained in Note 30 of the notes to the financial statements.

## Other disclosures pursuant to Sec. 289 (4) HGB

The following disclosures pursuant to Secs. 289 (4) and 315 (4) HGB describe the conditions as they were on the balance sheet date. These disclosures are explained in individual sections in accordance with Sec. 120 (3) Sentence 2 AktG ("Aktengesetz": German Stock Corporation Act).

#### COMPOSITION OF CAPITAL STOCK

The capital stock of Drägerwerk AG & Co. KGaA amounts to EUR 32,512,000. It consists of 6,350,000 voting bearer common shares and 6,350,000 non-voting bearer preferred shares each with a EUR 2.56 share in capital stock. Shares of the same type carry the same rights and obligations. The rights and obligations of the shareholders are laid down in the German Stock Corporation Act, in particular in Secs. 12, 53a et seq., 118 et seq. and 186 AktG, as well as in the articles of association of the Company. 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.

#### **RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES**

Legal structures at Dr. Heinrich Dräger GmbH mean that neither Stefan Dräger nor Stefan Dräger GmbH, which he controls, have any influence on the exercise of the voting rights of common shares held by Dr. Heinrich Dräger GmbH at the annual general meeting of Drägerwerk AG & Co. KGaA for resolutions within the meaning of Sec. 285 (1) Sentence 2 AktG. There are no further restrictions which relate to voting rights or the transfer of shares, even though they could arise from agreements between shareholders.

#### **DIRECT OR INDIRECT SHAREHOLDINGS EXCEEDING 10 PERCENT**

97.87 percent of the common shares of Drägerwerk AG & Co. KGaA, equivalent to 6,215,000 common shares or 48.94 percent of the total capital stock, belong to Dr. Heinrich Dräger GmbH, Lübeck. 58.73 percent of its shares are held by Stefan Dräger GmbH, Lübeck, 23.15 percent by the Dräger Foundation Munich/Lübeck, and the remainder by various members of the Dräger family. Stefan Dräger GmbH is wholly owned by Stefan Dräger, Lübeck. Stefan Dräger, Stefan Dräger GmbH, the Dräger Foundation Munich/Lübeck, and Dr. Heinrich Dräger GmbH informed us in accordance with Sec. 21 WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act) that their share in the voting rights of Drägerwerk AG & Co. KGaA, Lübeck, equals 97.87 percent. The voting rights are attrib-

uted to Stefan Dräger GmbH and the Dräger Foundation Munich/Lübeck via the jointly controlled company Dr. Heinrich Dräger GmbH; the voting rights are attributed to Stefan Dräger via Stefan Dräger GmbH and Dr. Heinrich Dräger GmbH, which he controls. Through Stefan Dräger GmbH, Stefan Dräger also holds all shares in Drägerwerk Verwaltungs AG, Lübeck, the general partner of Drägerwerk AG & Co. KGaA. Thus Stefan Dräger is both the shareholder of the general partner and also common shareholder of Drägerwerk AG & Co. KGaA. In the cases covered by Sec. 285 (1) Sentence 2 AktG he would therefore not be entitled to vote. Legal structures at Dr. Heinrich Dräger GmbH ensure that, for such resolutions, Stefan Dräger does not exert any influence on the exercise of the voting rights of limited shares held by Dr. Heinrich Dräger GmbH.

#### **SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL**

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

#### **NATURE OF CONTROL OVER VOTING RIGHTS BY EMPLOYEE SHAREHOLDERS WHO DO NOT DIRECTLY EXERCISE THEIR CONTROL RIGHTS**

No employees hold voting shares in the capital stock of the Company. If employees of the Company or the Dräger Group wish to acquire shares in the Company, they can purchase preferred shares on the stock exchange. Preferred shares do not confer any control rights.

#### **APPOINTMENT AND REMOVAL OF MANAGEMENT AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

In the legal form of a partnership limited by shares (KGaA), the general partner is authorized to manage and represent the Company, a regulation derived from partnership law. Drägerwerk Verwaltungs AG is the general partner of Drägerwerk AG & Co. KGaA, and acts through its Executive Board. The Supervisory Board of Drägerwerk AG & Co. KGaA, which has half of its members elected by employees, is not authorized to appoint or remove the general

partner or its Executive Board. The general partner joined the Company by declaration of accession; it withdraws from the Company in the cases defined under Art. 14 (1) of the articles of association.

The general partner's Executive Board, which is authorized to manage and represent Drägerwerk AG & Co. KGaA, is appointed and removed pursuant to Secs. 84 and 85 AktG and Art. 8 of the articles of incorporation and bylaws of Drägerwerk Verwaltungs AG. The Executive Board of the general partner comprises at least two persons, the Supervisory Board of the general partner determines how many other members there are. The Supervisory Board of the general partner, elected by its annual general meeting, is responsible for appointing and removing members of the Executive Board. It appoints members of the Executive Board for a maximum of five years. Repeat appointments or extensions of the term of office are permissible.

The Supervisory Board of Drägerwerk AG & Co. KGaA is not authorized to adopt rules of procedure for management or to define a catalog of management transactions requiring approval. The Joint Committee – comprising four members of each of the Supervisory Boards of the Company and its general partner – and not the annual general meeting, decides on the management transactions by the general partner which require approval as set out in Art. 23 (2) of the articles of association of Drägerwerk AG & Co. KGaA. The Supervisory Board of Drägerwerk AG & Co. KGaA represents the Company in dealings with the general partner.

Pursuant to Secs. 133, 179, 278 (3) AktG, amendments to the articles of association must be approved by the annual general meeting, which requires a simple majority of votes cast as well as a majority of at least three quarters of the capital stock represented upon adoption of the resolution. The articles of association may stipulate a different

majority of capital stock, but for changes in the purpose of the Company this can only be a greater majority (Sec. 179 [2] Sentence 2 AktG). At Drägerwerk AG & Co. KGaA, pursuant to Art. 30 (3) of the articles of association, resolutions by the annual general meeting are adopted by a simple majority of votes cast (simple voting majority) if this does not conflict with any legal provisions, and if the law additionally requires a majority of capital they are adopted by a simple majority of the capital stock represented upon adoption of the resolution (simple capital majority). The Company has not made use of the possibility pursuant to Sec. 179 (2) Sentence 3 AktG to define further requirements in the articles of association for amendments to the same agreement. As well as the relevant majority of limited shareholders, amendments to the articles of association also require the approval of the general partner (Sec. 285 [2] AktG). Pursuant to Art. 20 (7) of the articles of association of the Company, the Supervisory Board is authorized to make amendments and additions to the articles of association which relate only to its wording.

#### **POWER OF THE GENERAL PARTNER TO ISSUE OR BUY BACK SHARES**

At present, Drägerwerk AG & Co. KGaA has neither approved nor conditional capital at its disposal. As such, the general partner is currently not in a position to increase the Company's capital unless this is agreed by resolution at the annual general meeting and, if applicable, approved by the Supervisory Board.

In accordance with the resolution of the annual general meeting of May 9, 2008, the general partner is authorized to buy back preferred shares of up to 10 percent of the capital stock until November 8, 2009. The authorization can be exercised fully or in partial amounts, on one or more occasions, for one or more purposes, by the Company or group companies or for their account by a third party. The purchase is made, as elected by the general partner,

either on the stock exchange or by means of a public purchase offer to all preferred shareholders or a public request for the submission of such an offer. If the purchase is made on the stock exchange, the price paid for each share (excluding acquisition charges) may not be more than 5 percent above or below the stock market price. The stock market price for this purpose is the price of the preferred shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange in the opening auction. If the purchase is made by means of a public purchase offer to all preferred shareholders or a public request for the submission of a purchase offer, the purchase price offered or the start or end values of the purchase price range per share (excluding acquisition charges) may not be more than 10 percent above or below the stock market price. The stock market price for this purpose is the mean of the closing prices of the preferred shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last five trading days preceding the announcement of the purchase offer or the public request for the submission of a purchase offer. If, following the announcement of a purchase offer or its publication or the public request for the submission of a purchase offer, significant changes occur in the underlying stock market price, the offer or the request for the submission of such an offer can be adjusted. In this case, the mean of the closing prices of the preferred shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last five trading days preceding the announcement of the purchase offer may be adjusted. If the offer is oversubscribed or if, following a request for the submission of an offer, not all of several offers submitted of the same value are accepted, such offers may be accepted on a proportionate basis. It is permitted to give preferential treatment to small volumes of up to 100 preferred shares per shareholder.

In respect of treasury shares acquired pursuant to the abovementioned authorization, the general partner is also

authorized, with the approval of the Supervisory Board, to either redeem them without a further annual general meeting resolution being necessary for the execution of the redemption, or to dispose of the shares again in a way other than on the stock exchange or by means of an offer to all shareholders, i.e. as consideration to a third party as part of a business combination or the acquisition of equity investments, or, if the sale price payable in cash per share is not significantly lower than the mean of the closing prices in Xetra trading (or a comparable successor system) of substantially equivalent shares already listed on the Frankfurt Stock Exchange during the last five trading days preceding the sale of the shares and the number of the shares sold in this way, together with the number of new shares which are issued from approved capital as a result of concurrently existing authorizations under exclusion of subscription rights pursuant to Sec. 186 (3) Sentence 4 AktG and the number of new shares which are issued during the term of this authorization through the exercise of options or conversion rights or the fulfillment of conversion obligations from options or convertible bonds and/or participation certificates, under exclusion of subscription rights pursuant to Sec. 186 (3) Sentence 4 AktG, does not exceed 10 percent of the capital stock. The authorization can also be exercised fully or in partial amounts, once or several times, by the Company or group companies, or for their account by a third party.

The annual general meeting granting authorization to purchase treasury shares is common practice at listed stock corporations in Germany. The authorization to buy and sell treasury shares is intended to enable the Company to quickly and flexibly offer treasury shares to national and international investors, to extend its group of investors and stabilize share value. In addition, the Company can use treasury shares in order to offer these as consideration for business combinations or equity investments. As of December 31, 2008, the Company had no treasury shares.

### **MATERIAL ARRANGEMENTS MADE BY THE COMPANY SUBJECT TO A CHANGE OF CONTROL IN THE WAKE OF A TAKEOVER BID**

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, whereby it may demand that the limited partner under the influence of a third party acquires its shares in the partnership.

### **COMPENSATION AGREEMENTS MADE BY THE COMPANY WITH MEMBERS OF THE EXECUTIVE BOARD OF THE GENERAL PARTNER OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID**

There are no agreements in place in the Dräger Group with members of the Executive Board of the general partner or employees in the event of a takeover bid.

## **Subsequent events**

Dräger considers the repurchase of the share held by Siemens in Dräger Medical AG & Co. KG.

Drägerwerk AG & Co. KGaA (Dräger) is considering acquiring the 25 percent share in Dräger Medical AG & Co. KG currently held by Siemens Medical Holding GmbH (Siemens). This would increase Dräger's stake in its medical subsidiary to 100 percent. Dräger is currently negotiating financing in connection with this.

Initial exploratory talks between Siemens and Dräger have shown that a repurchase may lead to a provisional total financial burden of approximately EUR 300 million for Dräger.

Dräger and Siemens will intensify their discussion on the possible share acquisition over the next few weeks. In addition, both companies agree that they should continue to collaborate.

### **DISTRIBUTIONS**

The general partner and the Supervisory Board of Lübeck-based Drägerwerk AG & Co. KGaA propose to distribute out of the net earnings of Drägerwerk AG & Co. KGaA of EUR 86.2 million for fiscal year 2008 a cash dividend of EUR 0.35 per preferred share and EUR 0.29 per common share, hence a total EUR 4.1 million, and carry forward the balance of EUR 82.1 million to new account. The preferred share dividend also governs the dividend for participation certificates, which will amount to EUR 3.50 each. Participation certificates entitle the holder to a dividend 10 times the preferred share dividend since their arithmetic par value is 10 times that of a preferred share.

## **Outlook**

In fiscal year 2008, Drägerwerk AG & Co. KGaA will continue to provide services to its group companies.

The Company's 2008 net profit or loss will principally consist of income from investments and P&L transfers, the latter in particular depending on the performance of the medical and safety divisions.

The range of market forecasts reflects the uncertainty in the current environment. Although neither of the Dräger Group's two divisions is directly dependent on the development of the economy, it is possible that the effects of

the financial crisis could impact customers' investment decisions.

Government investment programs may have a positive effect on the demand for medical and safety technology products, but this effect should not be overestimated. The tight financial situation of private and public clinics and institutions, as well as banks' hesitant lending increase the uncertainty in the investment budgets of the customers of both divisions for 2009. In addition, a strengthening euro could have a negative impact on international demand. Due to its innovative products and relatively balanced customer structure, the divisions expect net sales to develop slightly better than the market. However, Dräger will not be immune to the economic developments. In the event that the market contracts, the Company forecasts a drop in net sales of up to 5 percent. However, the Dräger Group could still achieve a positive EBIT, even if net sales were to fall by up to 15 percent. Dräger will continuously report on the two divisions' current development and may announce a more detailed forecast for fiscal year 2009 at a later date.

Provided that the economic situation in the markets relevant to Dräger does not get any worse, Dräger forecasts net sales and earnings growth slightly above the market level for 2010. The Dräger Group's medium-term goal is to achieve net sales which are at least in line with the market, an EBIT margin of 10 percent and an ROCE of 20 percent.

## Single entity financial statements of Drägerwerk AG & Co. KGaA

### INCOME STATEMENT OF DRÄGERWERK AG & CO. KGAA FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31

	Note	2008	2007
		€ thousand	€ thousand
Other operating income	21	86,882	42,366
Personnel expenses	22	(26,530)	(28,415)
Amortization of intangible assets and depreciation of property, plant and equipment	23	(6,743)	(6,948)
Other operating expenses	24	(88,951)	(37,484)
Investment result	25	67,792	82,888
Write-downs on financial assets and current securities	26	(13)	0
Interest result	27	(13,274)	(14,170)
<b>Result from ordinary operations</b>		<b>19,163</b>	<b>38,237</b>
Income taxes		730	1,932
Other taxes		(255)	(277)
<b>Profit before distribution for participation capital</b>		<b>19,638</b>	<b>39,892</b>
Distribution for participation capital	36	(4,947)	(7,774)
<b>Net profit</b>		<b>14,691</b>	<b>32,118</b>
Profit brought forward from prior year		71,512	45,998
<b>Net earnings</b>	<b>38</b>	<b>86,203</b>	<b>78,116</b>

**BALANCE SHEET OF DRÄGERWERK AG & CO. KGAA AS OF DECEMBER 31**

	Note	December 31, 2008	December 31, 2007
		€ thousand	€ thousand
<b>Assets</b>			
Intangible assets	6	4,425	3,356
Property, plant and equipment	7	44,680	43,812
Financial assets	8	604,221	603,645
<b>Non-current assets</b>		<b>653,326</b>	<b>650,813</b>
Trade receivables		172	151
All other receivables and other assets		180,419	171,689
Receivables and other assets	10	180,591	171,840
Cash and cash equivalents	11	22,942	75,864
<b>Current assets</b>		<b>203,533</b>	<b>247,704</b>
<b>Prepaid expenses</b>	<b>12</b>	<b>7,313</b>	<b>1,102</b>
<b>Total assets</b>		<b>864,172</b>	<b>899,619</b>

	Note	December 31, 2008	December 31, 2007
		€ thousand	€ thousand
<b>Equity and liabilities</b>			
Capital stock	13	32,512	32,512
Capital reserves	14	38,867	38,867
Retained earnings	15	160,477	160,477
Net earnings		86,203	78,116
Participation capital – par value € 36,127 thousand	16	74,797	74,797
<b>Equity</b>		<b>392,856</b>	<b>384,769</b>
Provisions for pensions and similar obligations		74,438	73,893
Other provisions		24,379	26,134
<b>Provisions</b>	<b>17</b>	<b>98,817</b>	<b>100,027</b>
Liabilities to banks		255,515	285,592
Trade payables		12,518	5,874
All other liabilities		104,466	123,357
<b>Liabilities</b>	<b>18</b>	<b>372,499</b>	<b>414,823</b>
<b>Total equity and liabilities</b>		<b>864,172</b>	<b>899,619</b>

## ANALYSIS OF NON-CURRENT ASSETS OF DRÄGERWERK AG &amp; CO. KGAA

	As of Jan. 1, 2008	Additions	Disposals	Reclassi- fications	Cost As of Dec. 31, 2008
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Franchises, concessions, industrial property and similar rights and assets, as well as licenses thereto	14,482	2,835	21	132	17,428
Prepayments made	0	0	0	0	0
<b>Intangible assets</b>	<b>14,482</b>	<b>2,835</b>	<b>21</b>	<b>132</b>	<b>17,428</b>
Land, equivalent titles, and buildings (incl. on leased land)	125,733	1,740	0	1,890	129,363
Production plant and machinery	1,762	109	107	415	2,179
Other plant, factory and office equipment	19,937	1,812	1,392	136	20,493
Prepayments made and assets under construction	2,166	2,194	0	(2,324)	2,036
<b>Property, plant and equipment</b>	<b>149,598</b>	<b>5,855</b>	<b>1,499</b>	<b>117</b>	<b>154,071</b>
<b>Intangible assets and property, plant and equipment</b>	<b>164,080</b>	<b>8,690</b>	<b>1,520</b>	<b>249</b>	<b>171,499</b>
Shares in Group companies	605,330	0	3	0	605,327
Loans to Group companies	472	0	0	0	472
Investments	170	0	0	0	170
Other non-current securities	1,057	1,182	0	0	2,239
Other loans	655	10	600	0	65
<b>Financial assets</b>	<b>607,684</b>	<b>1,192</b>	<b>603</b>	<b>0</b>	<b>608,273</b>
	<b>771,764</b>	<b>9,882</b>	<b>2,123</b>	<b>249</b>	<b>779,772</b>

The additions of intangible assets and property, plant and equipment from group companies can be found in the reclassifications column with their historical values.

	Amortization, depreciation, and write-down						Carrying values	
	As of Jan. 1, 2008	Additions	Disposals	Write-ups	Reclassifications	As of Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2007
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
	11,126	1,848	21	0	50	13,003	4,425	3,356
	0	0	0	0	0	0	0	0
	<b>11,126</b>	<b>1,848</b>	<b>21</b>	<b>0</b>	<b>50</b>	<b>13,003</b>	<b>4,425</b>	<b>3,356</b>
	88,070	2,693	0	0	0	90,763	38,600	37,663
	1,627	141	107	0	0	1,661	518	135
	16,089	2,061	1,280	0	97	16,967	3,526	3,848
	0	0	0	0	0	0	2,036	2,166
	<b>105,786</b>	<b>4,895</b>	<b>1,387</b>	<b>0</b>	<b>97</b>	<b>109,391</b>	<b>44,680</b>	<b>43,812</b>
	<b>116,912</b>	<b>6,743</b>	<b>1,408</b>	<b>0</b>	<b>147</b>	<b>122,394</b>	<b>49,105</b>	<b>47,168</b>
	3,506	0	0	0	0	3,506	601,821	601,824
	472	0	0	0	0	472	0	0
	26	0	0	0	0	26	144	144
	0	13	0	0	0	13	2,226	1,057
	35	0	0	0	0	35	30	620
	<b>4,039</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,052</b>	<b>604,221</b>	<b>603,645</b>
	<b>120,951</b>	<b>6,756</b>	<b>1,408</b>	<b>0</b>	<b>147</b>	<b>126,446</b>	<b>653,326</b>	<b>650,813</b>

# Notes to Drägerwerk AG & Co. KGaA single entity financial statements 2008

## 1 GENERAL

The annual general meeting of Drägerwerk AG on May 11, 2007 approved the Company's change in legal form to a partnership limited by shares carrying the name Drägerwerk AG & Co. KGaA and ratified its articles of association. At the same meeting, Drägerwerk Verwaltungs AG, Lübeck, declared its accession as general partner of the converted Drägerwerk AG & Co. KGaA and approved its articles of association. The resolution to change the legal form took effect on December 14, 2007 upon entry in the commercial register at Lübeck local court.

Drägerwerk Verwaltungs AG, Lübeck, is the sole general partner of Drägerwerk AG & Co. KGaA but it holds no shares in capital.

The single entity financial statements of Drägerwerk AG & Co. KGaA have been prepared in accordance with the provisions of the German Commercial Code ("Handelsgesetzbuch": 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 single entity financial statements are all shown in thousands of EUR (EUR thousand).

## 2 CORPORATE GOVERNANCE

Drägerwerk AG & Co. KGaA's declaration of conformity under the terms of Sec. 161 AktG ("Aktengesetz": German Stock Corporation Act) has been issued and made available to the shareholders (cf. page 21 of the annual report of the Dräger Group).

## 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 Sec. 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, production plant and machinery over eight years, other plant, factory and office equipment over 15 years, but mainly between two and five 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 with a value between EUR 150 and EUR 500 are posted under a collective item and fully expensed in the year of acquisition. Assets with a value between EUR 500 and EUR 1,000 are recognized separately and depreciated over their respective useful lives. For tax purposes, assets with a value between EUR 500 and EUR 1,000 are recognized under a collective item and depreciated using the straight-line method over five years. In fiscal year 2008, no special depreciation solely for tax purposes was charged.

Within **financial assets**, the **shares in group companies, investments and non-current securities** are stated at the lower of cost and realizable value. 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 collection 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, the **participation capital** is reported 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 & Co. KGaA'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 over and above the par value can be neither transferred to the capital reserves 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 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 Dräger Group's business performance (EBIT).

The funds resulting from the new pension plan are invested in a restricted fund set up especially for Dräger that is subject to special restraints on disposal. The employees' pension accounts have a minimum guaranteed return 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 measured at their nominal value 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 2008, 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 relate to the purchase of software (EUR 2.8 million).

### 7 PROPERTY, PLANT AND EQUIPMENT

EUR 5.8 million was spent on additional property, plant and equipment. Investment focused on infrastructure measures in connection with the Dräger Medical AG & Co. KG's new building (EUR 1.0 million), conversion work (EUR 0.7 million), investment in basic research equipment (EUR 0.5 million) and prepayments on the construction of a workshop at Revalstrasse (EUR 1.7 million).

### 8 FINANCIAL ASSETS

Due to the basis of the Company's business ceasing to exist, the shares in Degesudo Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG, Eschborn, were sold in fiscal year 2008.

The non-current securities are shares in a restricted fund set up exclusively for Dräger (WKN [securities identification number] A0HG1B) and a settlement account, which are managed by Commerztrust GmbH as trustee. This fund and the settlement account serve to safeguard pension obligations made under the new pension plan and are subject to special restraints on disposal.

### 9 MAJOR SHAREHOLDINGS OF DRÄGERWERK AG & CO. KGAA

A list of Dräger AG & Co. KGaA's shareholdings is published in the electronic version of the German Federal Gazette ("Bundesanzeiger") under HRB No. 7903 HL. The major shareholdings of Drägerwerk AG & Co. KGaA are listed on page 50 of this report.

### 10 RECEIVABLES AND OTHER ASSETS

The movements in receivables from group companies in 2008 reflect cash management and intercompany service fee clearing.

Other assets include taxes receivable which stem from income tax and VAT credit and miscellaneous non-trade receivables.

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

**RECEIVABLES AND OTHER ASSETS**

	2008	2007
<b>Trade receivables</b>	<b>172</b>	<b>151</b>
thereof due in more than 1 year	(0)	(0)
<b>All other receivables and other assets</b>		
Receivables from group companies	175,619	166,946
thereof due in more than 1 year	(0)	(0)
Other assets	4,800	4,743
thereof due in more than 1 year	(1,401)	(2,824)
	<b>180,419</b>	<b>171,689</b>
<b>Receivables and other assets</b>	<b>180,591</b>	<b>171,840</b>

**11 CASH AND CASH EQUIVALENTS****CASH AND CASH EQUIVALENTS**

	2008	2007
Cash and cash equivalents	22,942	75,864

This caption comprises cash on hand and in bank. The decrease in cash and cash equivalents stems from improved cash management.

The existing balance with special restraints on disposal of EUR 184.59 was converted into shares in the restricted fund.

**12 PREPAID EXPENSES**

These exclusively comprise transitory items.

**13 CAPITAL STOCK**

Drägerwerk AG & Co. KGaA's capital stock amounts to EUR 32,512,000 and is divided into 6,350,000 limited no-par bearer shares each of common and non-voting preferred shares. Drägerwerk Verwaltungs AG, the general partner, holds no shares in capital.

## 14 CAPITAL RESERVES

### CAPITAL RESERVES

	€ thousand
<b>Drägerwerk AG &amp; Co. KGaA's capital reserves originated from the share premiums from participation certificates</b>	
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
<b>Capital reserves</b>	<b>38,867</b>

## 15 RETAINED EARNINGS

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

## 16 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 general 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, 2008 (No new participation certificates were issued in 2008.)	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.

**17 PROVISIONS**

Other provisions provide for personnel-related risks, mainly for profit shares/incentives to employees, accrued vacation pay and phased retirement, as well as for supplier invoices not yet received, lawsuit costs/risks and various other risks. The bonuses to the Executive Board disclosed under this item in the prior year are posted in other liabilities in fiscal year 2008 as the Executive Board of the general partner of Drägerwerk AG & Co. KGaA receives its remuneration from Drägerwerk Verwaltungs AG. This is refunded to Drägerwerk Verwaltungs AG on the basis of the articles of association of Drägerwerk AG & Co. KGaA.

**PROVISIONS**

	2008	2007
Provision for pensions and similar obligations	74,438	73,893
Tax provisions	6,218	6,687
Other provisions	18,161	19,447
<b>Provisions</b>	<b>98,817</b>	<b>100,027</b>

## 18 LIABILITIES

## LIABILITIES

	2008	thereof due within one year	thereof due in more than five years	2007	thereof due within five years	thereof due in more than five years
Liabilities to banks	255,515	25,515	75,000	285,592	30,592	100,000
Trade payables	12,518	12,518	0	5,874	5,874	0
Liabilities to group companies	89,093	89,093	0	100,760	100,760	0
Other liabilities	15,373	15,090	0	22,597	22,372	0
thereof for taxes	(302)	(302)	(0)	(719)	(719)	(0)
thereof for social security	(0)	(0)	(0)	(0)	(0)	(0)
<b>Liabilities</b>	<b>372,499</b>	<b>142,216</b>	<b>75,000</b>	<b>414,823</b>	<b>159,598</b>	<b>100,000</b>

Liabilities to banks include liabilities from a note loan of EUR 255 million due in up to seven years, of which EUR 100 million was raised for the acquisition of a 10 percent share in Dräger Medical AG & Co. KG from Siemens in fiscal year 2007.

The increase in trade payables is due to a higher volume of incoming invoices from IT service providers.

The change in other liabilities stems from lower deferrals of outstanding bank interest (EUR 1.4 million), the payment of severance payments (EUR 6.0 million), lower profit distributed in favor of participation capital (EUR 2.8 million) and the increase in liabilities to the general partner, Drägerwerk Verwaltungs AG (EUR 3.5 million).

## 19 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

## CONTINGENT LIABILITIES

	2008	2007
Contingent liabilities from suretyships and guarantees	4,000	4,000
Contingent liabilities under warranty/indemnity contracts	229,339	223,837
thereof from group companies	0	0
thereof loan amounts actually drawn	52,113	48,019

In fiscal year 2007, Drägerwerk AG & Co. KGaA took on an order completion guarantee, which is still in place, for an order totaling EUR 29.7 million placed with Dräger Safety AG & Co. KGaA.

## OTHER FINANCIAL OBLIGATIONS

### Rental and lease agreements

As of the balance sheet date, other financial obligations from long-term rental and lease agreements came to around EUR 80.4 million (prior year: EUR 61.6 million), including some EUR 41.6 million in obligations to group companies (prior year: EUR 40.7 million).

The annual burden comes to some EUR 5.4 million (prior year: EUR 5.1 million).

### Purchase obligations

As part of the sale of the IT companies in fiscal year 2004, Drägerwerk AG (now: Drägerwerk AG & Co. KGaA), 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 remaining obligation amounted to EUR 2.0 million as of December 31, 2008.

In line with the usual requirements, Drägerwerk AG & Co. KGaA has also entered into purchase obligations with other service providers in order to guarantee the availability of IT services.

Due to the centralization of IT activities at Drägerwerk AG & Co. KGaA, the Company has assumed all existing long-term obligations to IT service providers of the medical and safety divisions.

### Other

As a result of outstanding orders, the Group has obligations to purchase intangible assets of EUR 71 thousand (2007: EUR 32 thousand) and items of property, plant and equipment of EUR 120 thousand (2007: EUR 294 thousand) as of December 31, 2008.

In connection with the construction of a building for Dräger Medical AG & Co. KG, Drägerwerk AG (now: Drägerwerk AG & Co. KGaA) 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, 2008, Drägerwerk AG & Co. KGaA was not obligated to pay up any shares.

The joint venture agreement between the participating companies of the Dräger Group and the Siemens Group 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. 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.

**20 LEGAL RISKS**

Drägerwerk AG & Co. KGaA is involved in certain legal disputes 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)

**21 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, 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.

In the second half of 2007, corporate IT and corporate communications were established as shared services at Drägerwerk AG & Co. KGaA. The increase in other operating income is attributable to the charging on of shared services provided by Drägerwerk AG & Co. KGaA, including the outside services purchased, to the relevant group companies.

**22 PERSONNEL EXPENSES/HEADCOUNT****PERSONNEL EXPENSES/HEADCOUNT**

	<b>2008</b>	<b>2007</b>
Salaries	20,079	24,103
Social security, pension expense and related employee benefits	6,451	4,312
thereof pension expense	(3,661)	(2,392)
<b>Personnel expenses</b>	<b>26,530</b>	<b>28,415</b>
<b>Annual average headcount</b>		
Production operations	0	0
Other operations	291	194
<b>Headcount as of the balance sheet date</b>		
Production operations	0	0
Other operations	325	246

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. Cf. Note 27, "Interest result".

The decrease in personnel expenses reflects the conversion of Drägerwerk AG into an AG & Co. KGaA. Since the conversion, the Executive Board has received its remuneration from the general partner. As a result, Drägerwerk AG & Co. KGaA recognizes these expenses under other operating expenses and not under personnel expenses (see Note 24). Pension plans were offered to the members of the Executive Board at Drägerwerk AG & Co. KGaA, with the related expenses being recognized as personnel expenses at Drägerwerk AG & Co. KGaA.

The shared services were further expanded and reinforced by external employees in fiscal year 2008.

## 23 AMORTIZATION OF INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

### DEPRECIATION/AMORTIZATION

	2008	2007
Depreciation, amortization and write-downs of intangible assets and property, plant and equipment	6,743	6,948

Depreciation charged in previous years solely for tax purposes improved net profit for fiscal year 2008 by approx. EUR 648.3 thousand (2007: EUR 669.3 thousand). The total value of special depreciation to be charged for tax purposes in future fiscal years amounts to EUR 8.3 million.

## 24 OTHER OPERATING EXPENSES

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

The significant increase in other operating expenses stems from the outside services purchased in connection with the shared services of Drägerwerk AG & Co. KGaA. The allocation of the salaries of the Executive Board of the general partner is recognized under other operating expenses. In 2007, they were recognized under personnel expenses.

## 25 INCOME FROM INVESTMENTS

### INCOME FROM INVESTMENTS

	2008	2007
Income from investments	248	213
thereof from group companies	0	(15)
Income from P&L transfer agreements – group companies	59,218	72,405
Expenses from loss absorption – group companies	0	0
Intragroup tax allocation	8,326	10,270
<b>Income from investments</b>	<b>67,792</b>	<b>82,888</b>

The intragroup tax allocation is calculated based on the taxable income of each company.

The reduction in income from profit and loss transfer agreements stems from the lower profit distribution for fiscal year 2007 of Dräger Medical AG & Co. KG to Dräger Medical Holding GmbH in 2008, which has also concluded a profit and loss transfer agreement with Drägerwerk AG & Co. KGaA.

The corporate income tax for the limited shares in Dräger Medical AG & Co. KG was recharged by Drägerwerk AG & Co. KGaA to Dräger Medical Holding GmbH, the limited partner of Dräger Medical AG & Co. KG. The amount of tax payable is based on the taxable profit of Dräger Medical AG & Co. KG and not on the dividend distribution contained in the income from profit and loss transfer agreements.

## 26 WRITE-DOWNS ON FINANCIAL ASSETS AND CURRENT SECURITIES

This item only contains write-downs on other financial assets of EUR 13 thousand.

## 27 INTEREST RESULT

### INTEREST RESULT

	2008	2007
Income from other non-current securities and loans	55	93
thereof from group companies	55	(93)
Other interest and similar income	8,695	9,171
thereof from group companies	7,400	(5,916)
Interest and similar expenses	17,814	19,243
thereof to group companies	(3,901)	(3,830)
Interest expense from pension provisions	4,210	4,191
<b>Interest result</b>	<b>13,274</b>	<b>14,170</b>

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

## 28 DERIVATIVE FINANCIAL INSTRUMENTS

To hedge against currency and interest rate risks, derivatives are used, 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 & Co. KGaA, these exclusively involve closed positions. Interest rate hedges comprise caps. The determination of the fair values is based on a mark-to-market valuation as of the balance sheet date.

The caps have maturities up to 2012 and a residual carrying amount of EUR 331 thousand after write-downs (2007: EUR 1,176 thousand) and are contained in other assets. Other provisions include obligations from currency forwards totaling EUR 0 thousand (2007: EUR 68 thousand).

In fiscal year 2008, income of EUR 0 thousand was recognized from interest rate swaps (2007: EUR 120 thousand) and no loss was recognized (2007: EUR 0 thousand).

### DERIVATIVE FINANCIAL INSTRUMENTS

	Nominal amount	Term	Fair value	Carrying value
	€ thousand	in years	€ thousand	€ thousand
Interest rate hedges	125,000	up to 5	331	331
Interest rate hedges	0	more than 5	0	0
Currency forwards and futures	0	up to 1	0	0

## 29 Remuneration report

The Company still compiles a remuneration report following the change in legal form to a partnership limited by shares. Executive Board remuneration refers to remuneration of members of the Executive Board of Drägerwerk AG up to the date the change in legal form took effect. After that date, it refers to remuneration of members of the Executive Board of Drägerwerk Verwaltungs AG. Supervisory Board remuneration is the remuneration of the members of the Supervisory Board of Drägerwerk AG & Co. KGaA. The remuneration report also includes information on the shares owned by the members of the Executive and Supervisory Boards as defined above.

Based on the resolution adopted at the annual general 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. Supervisory Board remuneration is the remuneration of the members of the Supervisory Board of Drägerwerk AG & Co. KGaA and is stated for the Supervisory Board in total.

### 30 EXECUTIVE BOARD REMUNERATION

Since the change in legal form to a partnership limited by shares, the Supervisory Board of Drägerwerk Verwaltungs AG has been responsible for determining the remuneration of the general partner's Executive Board members. All the employment contracts of the Executive Board members of Drägerwerk Verwaltungs AG have been concluded with Drägerwerk Verwaltungs AG.

Obligations from the pension plan, however, remain at Drägerwerk AG & Co. KGaA. 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. When determining remuneration, it is also possible to grant a special performance-related bonus as a component of the variable remuneration. Defined benefit plans for members of the Executive Boards are agreed individually.

The remuneration of Executive Board members consists of fixed and variable components. The variable component of the remuneration of the active Executive Board members is pegged to the Group's net profit. If a retired Executive Board member concurrently chaired an executive board of a division, their remuneration was mainly pegged to the respective division's earnings and only to a minor degree to the Group's net profit. In addition, certain Executive Board member's contracts provide for the payment of an annual discretionary bonus. There are no long-term incentive components of remuneration.

The fixed remuneration is paid monthly as a salary.

Executive Board remuneration amounts to

#### EXECUTIVE BOARD REMUNERATION (EUR)

	2008				2007			
	Fixed	Variable	Other	Total	Fixed	Variable	Other	Total
Incumbent members of the Executive Board	1,394,875	1,748,420	101,138	3,244,433	1,135,387	2,747,850	78,990	3,962,227
thereof:								
Chairman of the Executive Board	415,660	1,030,400	6,821	1,452,881	406,977	1,453,700	6,880	1,867,557
Executive Board members removed in the fiscal year	148,270	230,710	4,031,254	4,410,234	182,136	78,000	4,515,469	4,775,605
<b>Total</b>	<b>1,543,145</b>	<b>1,979,130</b>	<b>4,132,392</b>	<b>7,654,667</b>	<b>1,317,523</b>	<b>2,825,850</b>	<b>4,594,459</b>	<b>8,737,832</b>

Fringe benefits awarded to members of the Executive Board encompass private use of the company car they are each provided with and payment of accident insurance, health insurance and pension insurance premiums.

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 is based on an annual contribution of 15 percent of the 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. Stefan Dräger receives a further contribution of 50 percent from the Company on deferred compensation, but no more than 8 percent of his basic annual salary. This top-up payment is only made if consolidated EBIT equals 8 percent or more of net sales.

EUR 705,341 in pension obligations for Executive Board members was accrued in the financial statements for fiscal year 2008 (2007: EUR 277,270), EUR 501,849 of which for the Chairman of the Executive Board (2007: EUR 267,706). Pension obligations of EUR 1,682,227 (2007: EUR 1,384,541) were recognized for those members of the Executive Board who left the Executive Board during the fiscal year.

In fiscal year 2008, EUR 428,071 (2007: EUR 229,172) was allocated to the pension provisions for active members of the Executive Board and EUR 297,686 (2007: EUR 0) for those who left the Executive Board during the fiscal year. In fiscal year 2008, EUR 234,143 (2007: EUR 71,578) was allocated to the pension provisions for the Chairman of the Executive Board.

The Company pays the premium for the D&O liability insurance policy and legal expense insurance policy for economic loss claims for members of the Executive Board. In the opinion of the German tax authorities, this does not constitute part of the Executive Board's remuneration. 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 severance agreement.

EUR 2,733,628.67 was paid to former members of the Executive Board and their surviving dependants (2007: EUR 5,762,929.44). The prior-year figure includes payments to Executive Board members who left the Executive Board in fiscal year 2006.

A total EUR 28,840,553 provides for the pension obligations to former Executive Board members and their surviving dependants (2007: EUR 28,468,025).

In fiscal year 2008, severance payments of EUR 4,020,109 were defined in severance agreements (2007: EUR 6,403,838), which are included in the other remuneration of those who left the Executive Board in the fiscal year. In fiscal year 2007, the severance payments were in part included in the other remuneration of those who left the Executive Board in 2007 and in part in the remuneration of former Executive Board members.

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.

If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, pursuant to Art. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly. Pursuant to Art. 11 (4) of the articles of association of Drägerwerk AG & Co. KGaA, for the management of the Company and the assumption of personal liability the general partner receives a fee, independent of profit and loss, of 6 percent of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements. For fiscal year 2008, this remuneration amounts to EUR 63 thousand (2007: EUR 60 thousand) plus any VAT incurred.

### 31 SUPERVISORY BOARD REMUNERATION

On May 9, 2008, the annual general meeting of Drägerwerk AG & Co. KGaA resolved to replace the shareholder representatives on the Supervisory Board. As a result, the remuneration of the former members of the Supervisory Board and of those elected in May 2008 is calculated pro rata. At the annual general meeting of Drägerwerk AG & Co. KGaA on May 8, 2009, a proposal awarding the Supervisory Board total remuneration of EUR 310,360.00 (2007: EUR 509,500.00) will be put to vote. Every member of the Supervisory Board receives basic remuneration which is composed of a fixed amount of EUR 10,000.00 (2007: EUR 10,000.00) and a dividend-based amount of EUR 5,400.00 (2007: EUR 17,400.00), the latter being the product of EUR 600.00 for each EUR 0.01 above a preferred dividend of EUR 0.26, on the basis of a dividend of EUR 0.35 per preferred share as proposed for the year under review. The change against the prior year is due to the reduction in variable remuneration as a result of its dependency on the dividend per preferred share.

Pursuant to Art. 21 (1) of the articles of association of Drägerwerk AG & Co. KGaA, the distribution of the remuneration of members of the Supervisory Board is determined by a Supervisory Board resolution. To date, the Supervisory Board has adopted the following principles for distribution: Its chairman is entitled to four times, any vice-chairman two times, the other members of the Executive Committee 1.5 times the set amount. The members of the Audit Committee receive an additional EUR 5,000.00, and the chairman of the Audit Committee an additional EUR 10,000.00. Moreover, a total per diem of EUR 2,640.00 (2007: EUR 3,420.00) was paid in fiscal year 2008. Since the change in legal form to a partnership limited by shares, the Executive Committee no longer exists, as the Supervisory Board of Drägerwerk Verwaltungs AG now appoints the Executive Board members.

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 56,330.25 (2007: EUR 93,725.00) was paid to the law firm Feddersen Heuer & Partner in the fiscal year. Professor Dr. Feddersen was the Chairman of the Supervisory Board of Drägerwerk AG & Co. KGaA until May 9, 2008. These amounts do not include VAT. An agreement was concluded with Mr. Theo Dräger, who was a member of the Supervisory Board until May 9, 2008 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 179,800.00 (2007: EUR 177,600.00) for their membership in supervisory boards of group companies.

**32 SHARES OWNED BY THE EXECUTIVE AND SUPERVISORY BOARDS**

As of December 31, 2008, the members of the Executive Board of Drägerwerk Verwaltungs AG and their related parties directly or indirectly held 6,000 preferred shares in Drägerwerk AG & Co. KGaA, equivalent to 0.05 percent of the total, and the members of the Supervisory Board and their related parties a total of 1,152 preferred shares, equivalent to 0.01 percent of the total.

Altogether, 97.87 percent of Drägerwerk AG & Co. KGaA's limited common stock is held via Dr. Heinrich Dräger GmbH. The same percentage of voting rights is attributable to Executive Board member Stefan Dräger under the terms of Sec. 22 (1) Sentence 1 No. 1 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act).

**33 DIRECTORS' DEALINGS**

The following member of the Supervisory Board purchased preference shares (ISIN DE 000 555 063 6):

Trade date	Name	Purchase/Sale	Price in €	No.	Value in €
October 8, 2008	Uwe Lüders	Purchase	29.50	1,000	29,500

Since then until the publication of this annual document in accordance with Sec. 10 WpPG ("Wertpapierprospektgesetz": German Securities Prospectus Act), Drägerwerk AG & Co. KGaA has not published any further information on securities transactions by persons with management functions in accordance with Sec. 15a WpHG.

Reports on transactions by persons with management functions (directors' dealings) in accordance with Sec. 15a WpHG are published at [www.dgap.de](http://www.dgap.de) under the heading Directors' Dealings.

**34 THE COMPANY'S BOARDS**

The Company's Supervisory and Executive Board members are listed under "The Company's Boards" on pages 46 and 49.

**Other disclosures****35 PUBLICATIONS REGARDING SIGNIFICANT VOTING RIGHTS IN ACCORDANCE WITH SEC. 25 WPHG**

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

**36 AUDITOR'S FEE**

The fee of EUR 271 thousand (2007: EUR 497 thousand) incurred in fiscal year 2008 for the single entity financial statements of Drägerwerk AG & Co. KGaA and the group financial statements related exclusively to audits. In 2007, the amount also includes the fee for the audit of the stock exchange prospectus for the transformation of Drägerwerk AG into Drägerwerk AG & Co. KGaA.

**37 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 10 times the cash dividend for the Company's preferred shares, hence EUR 3.50.

**38 PROPOSED APPROPRIATION OF NET EARNINGS**

Net earnings for fiscal year 2008 amount to EUR 86,202,967.81. This item contains profit brought forward from the prior year of EUR 71,512,029.53. Drägerwerk Verwaltungs AG, general partner of Drägerwerk AG & Co. KGaA, will propose to the annual general meeting to distribute these net earnings as follows:

**PROPOSED APPROPRIATION OF NET EARNINGS**

	€
€ 0.29 cash dividend for 6,350,000 common shares	1,841,500,00
€ 0.35 cash dividend for 6,350,000 preferred shares	2,222,500,00

We further propose that the remaining net earnings for fiscal year 2008 of EUR 82,138,967.81 be carried forward to new account.

Lübeck, Germany, March 3, 2009

The general partner  
Drägerwerk Verwaltungs AG  
represented by its Executive Board

Stefan Dräger  
Herbert Fehrecke  
Gert-Hartwig Lescow  
Dieter Pruss  
Ulrich Thibaut

## Management compliance statement

We confirm to the best of our knowledge that, in accordance with the applicable financial reporting framework, the single entity financial statements give a true and fair view of the net assets, financial position and results of operations of the Company, the management report presents business performance including business results and the situation of the Company so as to give a true and fair view, and that the significant opportunities and risks relating to the Company's development have been described.

Lübeck, Germany, March 3, 2009

The general partner  
Drägerwerk Verwaltungs AG  
represented by its Executive Board

Stefan Dräger  
Herbert Fehrecke  
Gert-Hartwig Lescow  
Dieter Pruss  
Ulrich Thibaut

## 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 AG & Co. KGaA, Lübeck, for the fiscal year from January 1 to December 31, 2008. 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 articles of association are the responsibility of the Company's management. Our responsibility is to express an opinion on the single entity 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 Sec. 317 HGB ("Handelsgesetzbuch": German Commercial Code) 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 articles of association 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, March 4, 2009

**BDO Deutsche Warentreuhand**  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dyckerhoff  
Wirtschaftsprüfer  
(German Public Auditor)

Dr. Probst  
Wirtschaftsprüfer  
(German Public Auditor)

## The Company's Boards

### SUPERVISORY BOARD OF DRÄGERWERK AG & CO. KGAA

Chairman

#### **Prof. Dr. h. c. mult. Nikolaus Schweickart**

since May 9, 2008

Lawyer, Bad Homburg

Former Chairman of the Executive Board of ALTANA AG, Bad Homburg

Supervisory Board memberships:

- Drägerwerk Verwaltungs AG, Lübeck (Chairman)
- GEBB GmbH, Cologne (Chairman)

Memberships on comparable boards of German or foreign companies:

- Diehl-Gruppe, Nuremberg (Chairman of the Advisory Board)
- Fraport AG, Frankfurt am Main (Economic Advisory Board)

Chairman

#### **Prof. Dr. Dieter Feddersen (until May 9, 2008)**

Lawyer at Feddersen Heuer & Partner, Kronberg

Supervisory Board memberships:

- ASKLEPIOS Kliniken Verwaltungsgesellschaft mbH, Königstein (Chairman)
- ASKLEPIOS Kliniken Hamburg GmbH, Hamburg (formerly LBK Hamburg GmbH, Hamburg) (Chairman)
- Drägerwerk Verwaltungs AG, Lübeck (Chairman)
- Dräger Medical Verwaltungs AG, Lübeck (Chairman since January 1, 2008)
- Dräger Safety AG & Co. KGaA, Lübeck

Vice-Chairman

#### **Siegfried Kasang**

Works Council Chairman of Dräger Medical AG & Co. KG, Lübeck

Group Works Council Chairman of medical division

Group Works Council Chairman of Drägerwerk AG & Co. KGaA, Lübeck

Supervisory Board memberships:

- Dräger Medical Verwaltungs AG, Lübeck (Vice-Chairman)

Additional Vice-Chairman

#### **Theo Dräger (until May 9, 2008)**

Former Executive Board Chairman of Drägerwerk AG, Lübeck

Supervisory Board memberships:

- Drägerwerk Verwaltungs AG, Lübeck (Vice-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

#### **Daniel Friedrich**

District secretary of the metalworkers' union IG Metall Küste, Hamburg

Supervisory Board memberships:

- Dräger Medical Verwaltungs AG, Lübeck, since April 22, 2008

#### **Dr. Thorsten Grenz**

since May 9, 2008

CEO of Veolia Umweltservice GmbH, Hamburg

Supervisory Board memberships:

- Drägerwerk Verwaltungs AG, Lübeck

#### **Dr. Thomas Lindner (until May 9, 2008)**

Management Chairman of Groz-Beckert KG, Albstadt

Supervisory Board memberships:

- Drägerwerk Verwaltungs AG, Lübeck
- HDI Haftpflichtverband der Deutschen Industrie VAG, Hanover
- Talanx AG, Hanover

#### **Uwe Lüders**

since May 9, 2008

Chairman of the Executive Board of L. Possehl & Co. mbH, Lübeck

Supervisory Board memberships:

- Drägerwerk Verwaltungs AG, Lübeck

Memberships on comparable boards of German or foreign companies:

- Commerzbank AG, Frankfurt am Main (Central Advisory Board)

#### **Bernd Mußmann**

Works Council Vice-Chairman and Group Works Council Vice-Chairman of Dräger Safety AG & Co. KGaA, Lübeck, until November 30, 2008

Application and Market Manager SBF Core, Marketing,

Dräger Safety AG & Co. KGaA, Lübeck, since December 1, 2008

Supervisory Board memberships:

- Dräger Safety AG & Co. KGaA, Lübeck

**Walter Neundorf**

Officer of Dräger Medical AG & Co. KG, Lübeck

**Regina Pawils (until May 9, 2008)**

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

Supervisory Board memberships:

- Dräger Medical Verwaltungs AG, Lübeck

**Jürgen Peddinghaus**

since May 9, 2008

Self-employed business consultant, Hamburg

Supervisory Board memberships:

- Faber-Castell AG, Nuremberg (Vorsitzender)
- Jungheinrich AG, Hamburg (Vorsitzender)
- May Holding GmbH & Co. KG, Erfstadt (Vorsitzender)
- Drägerwerk Verwaltungs AG, Lübeck
- Zwilling J. A. Henckels AG, Solingen

**Dr. Martin Posth (until May 9, 2008)**

Business consultant

Supervisory Board memberships:

- Berlinwasser International AG, Berlin
- Demag Cranes AG, Düsseldorf
- Drägerwerk Verwaltungs AG, Lübeck

Memberships on comparable foreign boards:

- Deinger Management Consulting (Shanghai) Co. Ltd., Shanghai (Chairman of the Board of Directors)
- Iberia Motor Company S. A., Piastów/Polen (Vice Chairman of the Board of Directors)
- MSM Mandarin Strategic Management Consulting GmbH, Düsseldorf/Beijing (Chairman of the Global Advisory Council)

**Dr. Klaus Rauscher**

since May 9, 2008

Former Chairman of the Management Board of Vattenfall Europe AG, Berlin

Supervisory Board memberships:

- Endi AG, Halle (Chairman)
- Deutsche Annington Immobilien GmbH, Düsseldorf
- Drägerwerk Verwaltungs AG, Lübeck
- ThyssenKrupp Technologies AG, Essen

Memberships on comparable boards of German or foreign companies:

- Bayern LB, Munich (Economic Advisory Council)
- Deutsche Bank AG, Frankfurt am Main (Eastern Advisory Board)
- IVG Immobilien AG, Bonn (Advisory Board)
- Landis + Gyr AG, Zug/Switzerland (Advisory Board)
- Verbundnetzgas, Leipzig (Advisory Board)

**Thomas Rickers**

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

Supervisory Board memberships:

- Wadan Yards, Wismar (until September 22, 2008 Aker MTWWerft GmbH)
- Dräger Medical Verwaltungs AG, Lübeck
- Minimax Management GmbH, Bad Oldesloe, until December 17, 2008

**Gordon Riske (until May 9, 2008)**

Executive Board Chairman of Linde Material Holding GmbH, Aschaffenburg

Supervisory Board memberships:

- Drägerwerk Verwaltungs AG, Lübeck
- ISRA Vision Systems AG, Darmstadt

**Dr. Dietrich Schulz (until May 9, 2008)**

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

Supervisory Board memberships:

- Süd-Chemie AG, Munich (Chairman)
- Ad Capital AG, Stuttgart
- Drägerwerk Verwaltungs AG, Lübeck

Memberships on comparable foreign boards:

- Possehl México, S. A. de C. V., Mexico City (Chairman of the Board)
- ACC Resources, New Jersey / USA

**Ulrike Tinnfeld**

since May 9, 2008

Works Council Vice-Chairperson and Group Works Council Vice-Chairperson of Dräger Safety AG & Co. KGaA, Lübeck

Supervisory Board memberships:

- Dräger Safety AG & Co. KGaA, Lübeck

**Dr. Reinhard Zinkann**

since May 9, 2008

Managing Partner of Miele & Cie. KG, Gütersloh

Supervisory Board memberships:

- Falke KGaA, Schmalleberg (Chairman)
- Drägerwerk Verwaltungs AG, Lübeck

Memberships on comparable boards of German or foreign companies:

- Allianz Dresdner Bank AG, Düsseldorf (Regional Advisory Board)
- Allianz Global Corporate & Specialty AG, Munich (Advisory Board)
- Nobilia-Werke J. Stickling GmbH & Co. KG, Verl (Advisory Board)
- Unternehmensgruppe Graf von Oeynhausen-Sierstorff GmbH & Co. KG Holding, Bad Driburg (Advisory Board)
- Viessmann-Werke GmbH & Co. KG, Allendorf (Advisory Board)

**Members of the Executive Committee:**

All until May 9, 2008

Prof. Dr. Dieter Feddersen (Chairman)

Siegfried Kasang (Vice-Chairman)

Theo Dräger

Thomas Rickers

Since December 14, 2007, duties are performed jointly by members of the Supervisory Board of Drägerwerk Verwaltungs AG.

**Members of the Audit Committee:**

Dr. Thorsten Grenz (Chairman), since May 9, 2008

Walter Neundorf

Jürgen Peddinghaus, since May 9, 2008

Ulrike Tinnefeld, since May 9, 2008

The following persons until May 9, 2008

Dr. Dietrich Schulz (Chairman)

Theo Dräger

Prof. Dr. Dieter Feddersen

Regina Pawils

**Members of the Nomination Committee:**

All until May 9, 2008

Prof. Dr. Dieter Feddersen

Theo Dräger

Since December 15, 2008

Prof. Dr. Nikolaus Schweickart

Uwe Lüders

Dr. Reinhard Zinkann

**Members of the Joint Committee:**

Representatives of Drägerwerk Verwaltungs AG:

The following persons since May 9, 2008

Dr. Thorsten Grenz

Uwe Lüders

Jürgen Peddinghaus

Dr. Klaus Rauscher

The following persons until May 9, 2008

Prof. Dr. Dieter Feddersen (Chairman)

Theo Dräger

Dr. Thomas Lindner

Gordon Riske

Representatives of Drägerwerk AG & Co. KGaA:

Prof. Nikolaus Schweickart (Chairman), since May 9, 2008

Dr. Reinhard Zinkann, since May 9, 2008

Siegfried Kasang

Thomas Rickers

The following persons until May 9, 2008

Dr. Dietrich Schulz

Dr. Martin Posth

**MEMBERS OF THE EXECUTIVE BOARD OF  
DRÄGERWERK VERWALTUNGS AG, ACTING FOR  
DRÄGERWERK AG & CO. KGAA**

**Stefan Dräger**

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Chairman of the Executive Board

CEO medical

Chairman of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)  
Chairman of the Executive Board of Dräger Medical Verwaltungs AG, Lübeck (general partner of Dräger Medical AG & Co. KG)

Supervisory Board memberships:

- Dräger Medical Deutschland GmbH, Lübeck (Chairman), until May 31, 2008
- Dräger Safety AG & Co. KGaA, Lübeck (Chairman)
- Dräger Safety Verwaltungs AG, Lübeck (Chairman)

**Dr. Herbert Fehrecke**

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since April 1, 2008

Production, quality, logistics and IT

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)

**Prof. Dr.-Ing. Albert Jugel (until March 31, 2008)**

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CEO safety

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

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)

Supervisory Board memberships:

- GEHE Pharma Handel GmbH, Stuttgart

**Gert-Hartwig Lescow**

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since April 1, 2008

CFO

CFO medical, since June 1, 2008

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)

Member of the Executive Board of Dräger Medical Verwaltungs AG, Lübeck (general partner of Dräger Medical AG & Co. KG)

Supervisory Board memberships:

- Dräger Medical Verwaltungs AG, Lübeck, from April 2, 2008 until May 31, 2008
- Dräger Safety AG & Co. KGaA, Lübeck, since April 2, 2008
- Dräger Safety Verwaltungs AG, Lübeck, since April 2, 2008

**Dr. Dieter Pruss**

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since April 1, 2008

Marketing and sales safety

Member of the Executive Board of Dräger Safety Verwaltungs AG,  
Lübeck, since April 1, 2008

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

Supervisory Board memberships:

Dräger Medical Verwaltungs AG, Lübeck, since June 1, 2008

Dräger Medical Deutschland GmbH, Lübeck, since June 1, 2008

**Hans-Oskar Sulzer (until March 31, 2008)**

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CFO

Member of the Executive Board of Drägerwerk Verwaltungs AG,  
Lübeck (general partner of Drägerwerk AG & Co. KGaA)

Supervisory Board memberships:

- Dräger Medical Verwaltungs AG, Lübeck
- Dräger Safety AG & Co. KGaA, Lübeck
- Dräger Safety Verwaltungs AG, Lübeck

**Dr. Ulrich Thibaut**

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Research and development

Member of the Executive Board of Drägerwerk Verwaltungs AG,  
Lübeck (general partner of Drägerwerk AG & Co. KGaA)

## Major shareholdings of Drägerwerk AG & Co. KGaA

### MAJOR SHAREHOLDINGS

	Name and registered office	Capital stock in LCU thousand	Shareholding in %
<b>Germany</b>	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	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
<b>Europe</b>			
<b>UK</b>	Draeger Medical UK Limited, Hemel Hempstead	GBP 4,296	30
<b>Netherlands</b>	Dräger Beheer B.V., Zoetermeer	EUR 454	100
	Dräger Finance B.V., Zoetermeer	EUR 11	100
<b>Switzerland</b>	Dräger Finanz AG, Zug	CHF 500	100
<b>Americas</b>			
<b>Brazil</b>	Dräger do Brasil Ltda., São Paulo	BRL 27,021	100

## 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.



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