Annual Financial Report 2006

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Supervisory Board Report

Dear shareholders,

During the 2006 financial year, the Supervisory Board fulfilled its duties pursuant to legal requirements and company bylaws. The Supervisory Board will report on its activities as follows at the annual shareholders' meeting:

How the Supervisory Board operates

The task of the Supervisory Board is to monitor the management of the company, that is to say the Board of Management. The Supervisory Board's monitoring of management activities focussed on issues of legality, correctness, efficaciousness and economic viability. It checks the activities already carried out by the Board of Management and discusses in detail with the Board of Management future-oriented decisions and plans based on reports from the Board of Management as well as on an examination of, and with regard to concrete business documents and/or submissions. The Board of Management kept the Supervisory Board informed of the performance of the company on a regular basis. As part of its activities, the Supervisory Board regularly received timely and comprehensive reports from the Board of Management. These reports were both written and verbal in form, and were given both outside and within the confines of Supervisory Board meetings. In addition, the Chairman of the Supervisory Board regularly met the spokesman for the Board of Management for an intensive exchange of information and views, with the result that the Supervisory Board was guaranteed a continuous supply of comprehensive information regarding the performance of the Group. Where necessary, the Supervisory Board also had direct access to the company's account books and documents.

Regular subjects of reports to the Supervisory Board were business policy and in particular business transactions, business planning and compliance therewith, profitability and the financial and liquidity situation as well as business performance overall.

If the consent of the Supervisory Board was required for Board of Management decisions, or if the Board of Management requested the consent of the Supervisory Board for its measures, the Supervisory Board was informed of this in advance and the background was explained in detail. Consent was then granted after a discussion by the Supervisory Board. In the case of events of considerable economic relevance, the Board of Management kept the Supervisory Board regularly informed of the progress of measures implemented, in addition to providing information prior to implementing the measures. The Supervisory Board has monitored to what extent its decisions, proposals and recommendations have been taken into account in management of the company. During the period under review, the Supervisory Board deemed it unnecessary to impose special approval conditions for the execution of managerial decisions due to its close contact with the Board of Management.

Supervisory Board meetings

The Supervisory Board held six meetings in the 2006 financial year in which the members of the Board of Management participated.

During the meetings, the Supervisory Board was informed of the strategic orientation and business performance of the company and its subsidiaries and provided advice in this respect. The meetings focused on the financial position of the Group, its different business segments, strategic issues, staffing policy, business projections and risk situation.

The Supervisory Board discussed the following topics in particular in the course of its meetings:

- In the March 2006 meeting, the Board of Management presented preliminary business figures for the Group up to 31 December 2005, and on the basis of reporting documents explained in detail the balance sheets, statements of earnings and financial calculations for all companies within the Group. The economic situation of the Group was discussed in detail. In addition, the Supervisory Board examined the efficiency of its work in 2005. In this respect, an efficiency test was undertaken in accordance with the guidelines for „Efficiency testing the Supervisory Board“ issued by Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

- In the April 2006 meeting, the Supervisory Board discussed in detail the adoption of the presented annual financial statements as at 31 December 2005 as well as approval of the presented consolidated financial statements, taking as a basis on each occasion the consolidated management report and the Board of Management's proposal for appropriation of the net profit. The auditor reported on the results of his audit in this meeting and answered questions from the Supervisory Board. In addition, legal and organisational preparations for the annual shareholders' meeting were discussed.

- In its May 2006 meeting, the Supervisory Board reviewed the consolidated interim financial statements presented by the Board of Management for the first quarter of 2006 and also analysed the performance of the individual Group companies. In addition, corporate strategy and long-term corporate financing were discussed.

- In August 2006, the Supervisory Board analysed the consolidated interim financial statements for the first half of 2006, from the perspective of the individual equity holdings as well. Details of the imminent annual shareholders' meeting were also discussed.

- In its November 2006 meeting, the Supervisory Board discussed the interim financial statements for the individual equity holdings and for the Group up to 30 September 2006. Questions regarding corporate strategy and long-term corporate financing were also discussed in detail. In addition, the Supervisory Board was informed of the progress in internal company preparations for the amendments to company reporting publication obligations expected in 2007.

- In its December 2006 meeting, the Supervisory Board's agenda included a review of business during the financial year ended and setting the definitive stock corporation dates for 2007.

Other individual topics were dealt with in all Supervisory Board meetings and discussed with the Board of Management.

Corporate governance

Corporate Governance was also the subject of deliberations by the Supervisory Board, during which the updating of the Corporate Governance declaration was determined by resolution. Reference is made to the Corporate Governance Report provided within the Management Report.

Supervisory Board committees

The three-member Supervisory Board did not form any committees.

Audit of annual financial statements

Following appointment of the auditing firm Morison AG, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main by shareholders at the 31 August 2006 meeting, the Supervisory Board formally approved the audit assignment. Over the course of the year the Supervisory Board devoted special attention to monitoring the independence of the auditor.

Auditor Morison AG, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main audited the Brüder Mannesmann AG annual financial statements, consolidated annual financial statements per IFRS and management report for financial year 2006 on the basis of company bookkeeping data, providing unqualified audit certificates.

All financial statement documents and audit reports were discussed with the auditor at length at the 30 April 2007 Supervisory Board meeting. The auditor answered questions posed by Supervisory Board members.

The Supervisory Board likewise carefully reviewed the annual and consolidated annual financial statements and respective management reports. The Supervisory Board was in accordance with the auditor as to the audit results, finding on the basis of its own review that no exceptions were to be noted. The Supervisory Board thereupon approved the annual and consolidated annual financial statements for financial year 2006. The annual financial statements are thus adopted pursuant to Article 172, Stock Corporation Act. The Supervisory Board concurred with the Board of management's proposal for appropriation of the net profit.

Declaration of information pursuant to Articles 289, Para. 4 and 315, Para. 4 of the German Commercial Code

In the 2006 financial year, the Acquisition Guideline Implementation Act of 8 July 2006 provided for the first time for the additional information obligations in the management report contained in Articles 289, Para. 4, and 315, Para. 4 of the German Commercial Code. The Supervisory Board must comment on this in accordance with Article 171, Para. 2, Clause 2 of the Stock Corporation Act. The Board of Management has included the requested information in the summarised management report and consolidated management report. We concur with the explanations of the Board of Management. To avoid repeating information, reference is made to the remarks and explanations contained in the summarised management report.

There were no conflicts of interest affecting Supervisory Board members during the period under review arising in connection with these or other board memberships.

The Supervisory Board expresses its gratitude to all the employees of the Group as well as to the members of the Board of Management and its appreciation for the work carried out in the financial year and the excellent results this has achieved.

Remscheid, 30. April 2007

Supervisory Board

R. C. Mannesmann

Reinhard C. Mannesmann
Chairman

Corporate Governance Report

Item 3.10 of the German Corporate Governance Code of 2 June 2006, amended version (hereinafter simply called the „Code“) stipulates that the Board of Management and Supervisory Board must submit annual reports on their organisation’s corporate governance (Corporate Governance Report) within the company management report. The Code sets forth principles for the management and oversight of publicly traded German corporations and contains internationally and nationally recognised standards for effective and responsible corporate management. Corporate governance is designed to promote principled corporate management and controls that are geared toward long-term value creation. The Board of Management and Supervisory Board review and shape corporate governance policy on an ongoing basis to ensure effective and responsible corporate management and create transparency. Corporate governance is aimed at promoting confidence on the part of national and international investors, customers, staff members and the public in the management and oversight of publicly traded German corporations. The Board of Management and Supervisory Board last submitted a declaration of conformity pursuant to Article 161 of the Stock Corporation Act (AktG) in April 2007 and set forth and explained the deviations from the Code. The declaration of conformity can be viewed on the company’s website and is also given in this report. Also available on the company’s website are declarations pursuant to Article 161 of the AktG which are no longer up to date but which must be kept there for a period of five years pursuant to item 3.10 of the Code.

Element of this report is a remuneration report pursuant to item 4.2.5 of the code.

General notes on management structure

Brüder Mannesmann Aktiengesellschaft is a stock corporation under German law. The administration of the company is conducted by its Board of Management and Supervisory Board, which cooperate closely in representing the company‘s interests. Brüder Mannesmann Aktiengesellschaft is subject to German law governing stock corporations, to capital market regulations and to provisions within the company’s memorandum of association and bylaws concerning the Board of Management and Supervisory Board. Brüder Mannesmann Aktiengesellschaft maintains a bipartite governance and oversight structure consisting of the Board of Management and the Supervisory Board. The Board of Management and Supervisory Board are bound to represent the interests of shareholders and the welfare of the firm. The body of shareholders represents a third corporate governance entity.

Supervisory Board

The composition of the company’s Supervisory Board is in accordance with Articles 96, Para. 1 and 101, Para. 1 of the AktG, and in accordance with the memorandum of association comprises three members appointed by the annual shareholders’ meeting. The Supervisory Board advises the Board of Management and monitors the execution of its administrative obligations vis-à-vis the company. Management measures cannot be transferred to the Supervisory Board. However, the memorandum of association or the Supervisory Board can stipulate that certain types of transactions may only be carried out by the Board of Management with the consent of the Supervisory Board. If the Supervisory Board refuses to give its consent, the Board of Management can request that the annual shareholders’ meeting resolve the issue.

The Supervisory Board can form committees. Nevertheless, it has not so far taken advantage of this opportunity as it is composed of the statutory minimum number of three members and therefore the appointment of committees would not be of any advantage.

The Board of Management

The Board of Management of Brüder Mannesmann Aktiengesellschaft, which is comprised of one or more members to be appointed by the Supervisory Board, manages the company and carries out its transactions. The Board of Management is currently comprised of two members. The Board of Management is bound to represent the interests of the company and undertakes to increase company value over the long-term. It determines the strategic alignment of the company and ensures the implementation thereof in consultation with the Supervisory Board. The Board is additionally responsible for projections of the company's performance and finances on both a year-to-year and multi-year basis and for producing mandatory reports including the annual and consolidated annual financial statements and quarterly reports.

Furthermore the Board of Management is responsible for ensuring that adequate risk management and risk controlling procedures are in place and that timely and comprehensive information is provided to the Supervisory Board on a regular basis on any issues affecting the corporation in relation to strategic planning, operational planning, business outlook, risk assessment and risk management.

Shareholders' meetings

Shareholders exercise their decision-making power at shareholders' meetings through observance of their voting rights. Each share held confers a single vote. The annual shareholders' meeting is held within the first eight months of each fiscal year. Shareholders' meeting agendas and any reports and documentation requested for presentation at the shareholders' meeting are additionally posted on company's web site.

The company provides a non-discretionary proxy to facilitate the exercise of shareholders' personal voting rights. Shareholders are instructed upon the convening of a shareholder meeting and in shareholder communications as to proxy voting procedures.

Shareholders additionally have the right to authorise an individual of their choice with power of attorney for voting.

Transparency

Brüder Mannesmann Aktiengesellschaft makes use of the company web site, www.bmag.de, for the rapid distribution of information to shareholders and investors. Mandatory disclosures and reports are likewise posted here. Ad-hoc disclosures and press releases keep shareholders and other parties informed about current developments above and beyond the company's consolidated and unconsolidated annual, half-yearly and quarterly reports. Brüder Mannesmann Aktiengesellschaft announces important dates on the company calendar with sufficient advance notice.

The compiled company notifications pursuant to stock exchange and securities law as defined by Article 10 of the Securities Prospectus Act (WpPG) are also available on the website www.bmag.de.

Accounting and risk management

For the 2006 reporting year, the consolidated financial statements were compiled in accordance with the principles of the International Financial Reporting Standards (IFRS). The annual financial statements of Brüder Mannesmann Aktiengesellschaft are compiled in accordance with the provisions of the German Commercial Code (HGB). The risk management system is revised by the Board of Management and reviewed by auditors on an ongoing basis to adapt it to changing circumstances.

Remuneration report

Pursuant to item 5.4.7 of the Code, the members of the Supervisory Board shall receive performance-based or variable remuneration in addition to a fixed component. Pursuant to Article 18 of the memorandum of association, each member of the Supervisory Board shall receive fixed remuneration of EUR 12,000 in addition to reimbursement of his expenses. In addition, the members of the Supervisory Board shall receive variable remuneration of EUR 500 for each percentage of the dividend resolved by the annual shareholders' meeting above 4 % of the share capital (variable remuneration). The Chairman receives double this amount while his deputy receives one and a half times this amount. Variable remuneration was not granted to the members of the Supervisory Board for the 2006 financial year.

Remuneration for the Board of Management is exclusively comprised of fixed salary components. These also contain employer's pension commitments. Incidental expenses were not paid.

To avoid repeated statements, please refer to the descriptions in the summarised management report and in the Consolidated notes.

There is currently no individualisation of the information, as the annual shareholders' meeting of the company resolved on 31 August 2006 pursuant to Articles 286, Para. 5 and 314, Para. 2 of the HGB that individualized disclosure of the remuneration of the Board of Management will not be carried out.

Transactions in shares and rights (Directors' Dealings)

No transactions were reported to the company in the 2006 financial year.

Supplemental disclosures per German Corporate Governance Code

Disclosures on stock option plans and other company incentive systems involving securities (item 7.1.3): No stock option or similar option plans are in place.

Declaration of the Board of Management and Supervisory Board pursuant to Article 161 of the AktG (declaration of conformity)

A new provision, Article 161, was incorporated into the Stock Corporation Act upon enactment of the Transparency and Disclosure Act, obligating the boards of management and supervisory boards of publicly-traded companies to issue an annual declaration of conformity with the German Corporate Governance Code and any principles not being observed.

Backward-looking declaration by the Board of Management and Supervisory Board as per Article 161, Stock Corporation Act regarding prior adoption of recommended policies outlined in the German Corporate Governance Code.

The Board of Management and Supervisory Board of Brüder Mannesmann Aktiengesellschaft declare the company to be in compliance with the recommended policies outlined in the German Corporate Governance Code during the period dating from the last declaration of conformity issued 28 April 2006 through the date of the current declaration as issued and with the exceptions noted herein.

Forward-looking declaration as per Article 161, Stock Corporation Act by the Board of Management and Supervisory Board on the recommended policies outlined in the German Corporate Governance Code, 12 June 2006 amended version.

The Brüder Mannesmann Aktiengesellschaft Board of Management and Supervisory Board declare that, in future, compliance will be maintained with the amended version of the German Corporate Governance Code dated 12 June 2006, with the exceptions noted below:

- D&O insurance deductible (item 3.8): There is no set deductible per policy provisions. The company expects its executive bodies to be able to continue to observe their duties with all due diligence and prudence in the absence of a set deductible per policy provisions.

- Board of Management remuneration (item 4.2.3): Board of Management remuneration currently does not involve variable components such as stock options, as none are provided for under the contracts currently in force. Additional explanations are not provided as no such components as stock options or similar instruments are in place requiring explanation. For other information, reference is made to the remuneration report within the Corporate Governance report.

- Reporting of Board of Management remuneration (item 4.2.4): There is currently no individualisation of the information, as the annual shareholders' meeting of the company resolved on 31 August 2006 pursuant to Articles 286, Para. 5 and 314, Para. 2 of the HGB that the information stipulated in Article 285, Clause 1, Subclause 9, Indent a) sentences 5 to 9 of the HGB and Article 314, Clause 1, Subclause 6, Indent a) sentences 5 to 9 of the HGB will be omitted.

- Age limit for Board of Management members (item 5.1.2): No age limit currently applies for Board of Management members; this appears unnecessary in view of the age of Board of Management members.

- Formation of committees (item 5.3.1): In view of the current number of Supervisory Board members (three), the formation of committees does not appear practical.

- Age limit for Supervisory Board members (item 5.4.1): No age limit currently applies for Supervisory Board members; this appears unnecessary in view of the age of Supervisory Board members.

- Shareholdings of individual Board of Management and Supervisory Board members (item 6.6): Data is not currently provided on an individual basis as the company believes this information is immaterial to the capital markets.

- Release of consolidated financial statements (item 7.1.2): The consolidated financial statements for a given financial year are publicly released within four months of financial yearend. Interim reports are made publicly accessible within two months of the conclusion of the reporting period. These time limits correspond to the Deutsche Börse Prime Standard rules and the current new rules of the Securities Trading Act brought about by the Transparency Guideline Implementation Act (TUG), with which the company maintains compliance.

- Disclosure of material equity holdings in third-party firms (item 7.1.4): A list is published within the Management Report containing the names and headquarters of such holdings and the percentage stake held. Earnings or shareholders' equity data for the prior financial year are not provided. Publishing such information is not of fundamental importance to the capital markets in the opinion of Brüder Mannesmann Aktiengesellschaft, as it does not provide a transparent view of the specific way in which earnings are structured. Such information may furthermore be to the detriment of the companies concerned as it could potentially be exploited by competitors.

Remscheid, 30. April 2007

The Board of Management Supervisory Board

Executive Bodies

The Supervisory Board consists of the following persons:

Mr. Reinhard C. Mannesmann
Chairman
Alling/Germany

Mr. Michael Nagel
Assistant chairman
Ofterschwang/Germany

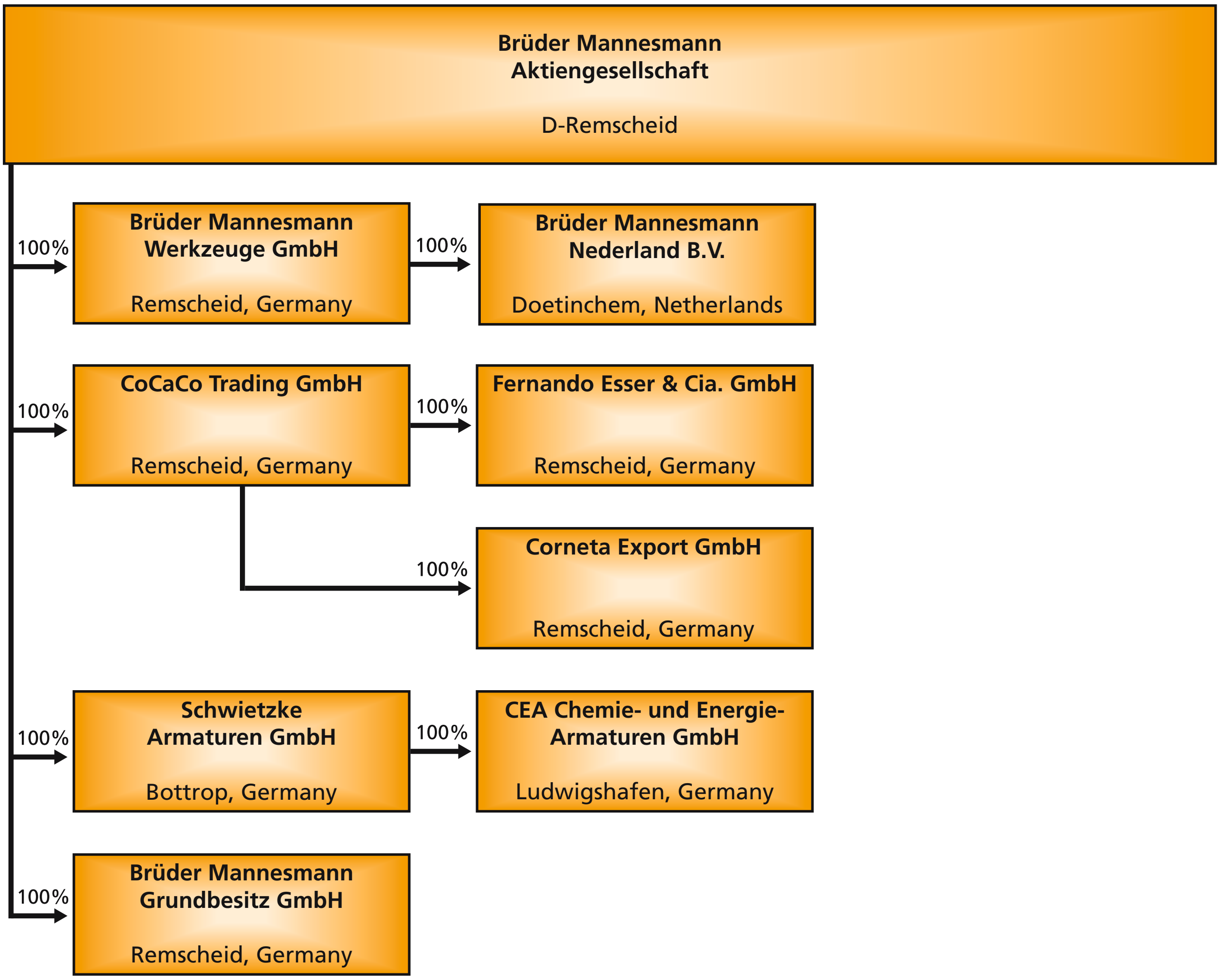
Mrs. Nicole Coen
Wermelskirchen/Germany

The Board of Management consists of the following persons:

Mr. Jürgen Schafstein
Speaker of the Board of Management
Remscheid/Germany

Mr. Bernd Schafstein
Remscheid/Germany

Organization Chart of Brüder Mannesmann AG
as at 31. December 2006



Group Management Report

Group Management Report

1. Preliminary remarks

Brüder Mannesmann Aktiengesellschaft is a holding company with subsidiaries operating internationally in the fields of tools and valves. The holding combines two independently operating divisions, "Tool Trade" and "Valve Trade", under a single umbrella. The subsidiary Brüder Mannesmann Grundbesitz GmbH acts solely as a leasing company for property and is not involved in market operations. These properties are industrial and office property which has been held decades and which is mostly still used for the company's own business operations.

2. Business development in the operating divisions

2.1. Tools trade

2.1.1. General development of business

The economic climate in 2006, especially consumption in Germany, was considerably more benign than in previous years. In the tools industry, this found expression in appreciable growth of between 1% and 5% throughout the entire industry. There was also an increase in export sales in the industry.

Under these conditions, our business development in the Tool division was well above average.

Based on the market position as a competent trading partner which we built up over years, sales in all target segments expanded. The strengthening of the „Brüder Mannesmann" brand as an umbrella term for quality tools and consistent supply, price and product expertise was successfully continued.

Income developed to a pleasing level despite the unremitting fierce competition, predominantly in terms of price levels. The quality and service aspect, which represents an important component in the brand strategy at Brüder Mannesmann tools and is a clear competitive advantage in the price-led market, brought positive results.

The success factors of our corporate strategy that we have been following in recent years have stood the test of time on the market. We will thus continue to follow them and in essence build on the following pillars, as in previous years:

- Opening up new customer segments,
- Ongoing adaptation and refinement of our product range,
- Customer-oriented expansion into new international markets,
- Rigorous quality and service orientation with an outstanding price/performance ratio,
- Further cultivation of our purchasing relationships with reliable suppliers.

2.1.2. Key operating figures

Sales for the Tools division rose by 11.1% to €65.2 million. Sales thus increased significantly from the previous year's level and outperformed the development of the industry. Expansion of the trade volume was even somewhat better.

By customer groups, sales development broke down as follows:

Tools Division: sales according to customer group

	2006		2005		Change	
	Mio. €	%	Mio. €	%	Mio. €	%
Markets and purchasing associations	35.17	54.0	29.18	49.7	5.99	20.5
Export	22.26	34.2	20.51	34.9	1.75	8.5
Wholesale	4.57	7.0	5.82	9.9	-1.25	-21.5
Mail order	3.16	4.8	3.15	5.5	0.01	0.3
	65.16	100.0	58.66	100.0	6.50	11.1

The structure of the customer groups thus changed in favour of the markets and purchasing associations group with growth of 20.5%. The decline in the Wholesale customer group was the result of a shift in market structures and there was substantial overcompensation for this in the form of growth in other areas.

There was above-average growth in international activities in the regional distribution of sales. International sales rose accordingly by 13.8% while domestic activities rose by 9.3%. This is partially the direct result of the strategic promotion of customer-oriented expansion into new international markets but can also be traced back to growth in existing areas. It demonstrates that the combination of both elements is successful.

Tools Division: sales according to region

	2006		2005		Change	
	Mio. €	%	Mio. €	%	Mio. €	%
Domestic	39.33	60.4	35.97	61.3	3.36	9.3
Abroad, including export	25.83	39.6	22.69	38.7	3.14	13.8
	65.16	100.0	58.66	100.0	6.50	11.1

In addition to the traditional export sales of goods, which were originally manufactured and created in Germany, international sales also include activities abroad which transfer the business model that has successfully been implemented in Germany to international markets.

In terms of quality and service aspects in particular, well integrated, maintained and supported purchasing conditions are particularly important for the success of our company. Almost all of our quality suppliers are headquartered in Germany and the Far East.

Tools Division: purchasing according to region

	2006 %	2005 %	Change in %-Punkten
Germany	13.1	20.1	-7.0
Far East	83.3	77.4	5.9
Other international	3.6	2.5	1.1
Total	100.0	100.0	

The contribution of purchasing volume from the Far East was accordingly increased.

Tools Division: expenses

	2006 Mio. €	2005 Mio. €	Change Mio. €
Staffing costs	8.1	5.1	3.0
Depreciation and amortisation of assets	0.2	0.2	0.0
Other operating expenses	7.4	7.4	0.0
Total	15.7	12.7	3.0

The average number of employees in the Tools division was 77 (previous year: 74.5). Sales per employee amounted to €0.85 million (previous year: €0.79 million). Staffing costs rose by €3 million to €8.1 million. The reason for this is an adjustment to the pension plans undertaken in line with IFRS in order to close a gap in accordance with IFRS which had developed in the past.

The gross margin was 25% (previous year: 25.3%). Gross income was €16.3 million (previous year: €14.9 million).

Despite the substantial expansion of business, the level of foreign currency liabilities attendant with divisional operations declined by 23.4% to USD 7.2 million (previous year: USD 9.4 million). Financial earnings improved by €0.4 million to €-0.8 million (previous year: €-1.2 million)

The Tools division was thus not only able to make full use of the positive economic conditions, it also generated above-average and once again excellent business growth with its own distinctive momentum.

2.2. Valves trade

2.2.1. General development of business

The Valves division, represented by the Schwietzke company headquartered in Bottrop, involves sales of standard valves and related products with distribution focused regionally in Germany as well as valve sales on a project basis primarily for industrial applications on a national and international scale.

The high level of consulting competence in advising customers and uncompromising customer orientation are important success factors in this respect. A form of selling, not usually encountered in the industry, namely the taking over of complete warehousing and inventory logistics in order to act as a universal service provider for up-market major customers enables us to assume an extraordinary position on the market.

The company has offices in Cologne and Ludwigshafen.

The stagnation of industry experienced in recent years continued throughout 2006. Up to now, the positive economic trends could only generate relatively weak momentum for investments within the industry. The rising raw material and energy prices were not passed on to the market in full.

The following pillars of the corporate strategy continue to be responsible for the positive development of our own business activities despite these circumstances:

- A high level of consulting competence in advising customers not typical for the industry

- A high level of sales activity in project business requiring substantial expertise

- Flexibility and proximity to our customers through our locations in Bottrop, Cologne and Ludwigshafen

2.2.2. Key operating figures

Sales for the Valves division reached € 27.8 million (previous year: € 25.2 million). This corresponds to an increase of 10.6%. The success was based on growth in the new customer business, especially through targeted technical advice for customers, and the increased expansion of our position as a universal service provider for up-market major customers. The positioning of Schwietzke as a specialist for material-related new equipment and orientation of all work processes to the customer are also important factors for sales volume. Combining the customer‘s personal information on site with transparency and clear decisions in selecting valve components is a significant factor for the continuity of customer relations.

The breakdown by business area is as follows:

Valves Division: sales according to business area	2006 Mio. €	2006 %	2005 Mio. €	2005 %	Change Mio. €	Change %
Industrial technology	19.98	71.8	18.89	75.1	1.09	5.8
Project business	7.83	28.2	6.26	24.9	1.57	25.1
Total	27.81	100.0	25.15	100.0	2.66	10.6

Gross income was €5.65 million (previous year: €5 million). This corresponds to a gross margin of 20.3% (previous year: 19.9%).

Valves Division: expenses	2006 Mio. €	2005 Mio. €	Change Mio. €
Staffing costs	3.1	3.0	0.1
Depreciation and amortisation of assets	0.1	0.1	0.0
Other operating expenses	1.8	1.7	0.1
Total	5.0	4.8	0.2

All costs items therefore remained virtually constant. The average number of employees in the Valves division was 55 (previous year: 54). Sales per employee amounted to €0.51 million (previous year: €0.47 million).

Business development in the Valves division can be regarded as very successful, especially in light of the continuing difficulties of the market environment.

3. Group business development

Consolidated sales were up to €93.8 million after €84.6 million the previous year. Both operating divisions contributed to this significant increase of €9.2 million or 10.8%.

Consolidated sales Group	2006 Mio. €	2006 %	2005 Mio. €	2005 %	Change Mio. €	Change %
Tools division	65.16	69.5	58.66	69.3	6.50	11.1
Valve division	27.81	29.7	25.15	29.7	2.66	10.6
Property (sales outside the division)	0.80	0.8	0.80	1.0	0.10	14.3
Total	93.77	100.0	84.61	100.0	9.16	10.8

The following measures were of material importance in the 2006 financial year:

- Optimisation of long-term corporate financing by setting up mezzanine subordinated financing,
- Improvement in the equity resources of the operating companies,
- Expansion of customer and purchasing relationships as well as further internationalisation in the Tools division,
- Expansion of the position as a universal service provider capable of supplying expert advice for up-market major customers in the Valves division.

3.1. Group result

Both operating divisions in the Group contributed to positive earnings. EBIT of € 2.1 million was generated from Group business operations. The decline compared with the previous year was principally the result of an adjustment to pension plans in line with IFRS. Without this procedure, which was necessitated by IFRS, EBIT would have increased substantially to over € 5.3 million and group result to € 1.8 million.

The margins continued to improve slightly despite the unremitting fierce competition, predominantly in terms of price levels. Gross consolidated income increased by more than 10% to € 22.8 million (previous year: € 20.7 million).

Group: Results

	2006 Mio. €	2005 Mio. €	Change Mio. €
1. EBIT (operating result)	2.1	3.9	-1.8
./. Financial result	-2.3	-2.2	0.1
2. Earnings before tax	-0.2	1.6	-1.8
./. Taxes	0.4	-0.7	1.1
3. Consolidated net income	0.2	0.9	-0.7

Despite the substantial increase in business expansion and the attendant financing requirement, the Group's net interest result (financial result) of € -2.3 million remained approximately the same as last year. This is a direct consequence of the improved long-term corporate financing. The entire effect of loan savings will be rise in 2007 due to debt restructuring was proceeded during 2006.

€ 0.9 million of the interest expense (previous year: € 1.3 million) is attributable to current liabilities to banks and € 0.94 million to non-current liabilities to banks. € 0.77 million is attributable to liabilities from mezzanine capital.

Consolidated net income equalled € 0.2 million (previous year € 0.9 million).

Earnings per share (EBIT) amounted to € 0.70, following € 1.29 in the previous year.

3.2. Consolidated balance sheet

The 2006 financial year saw the consolidated balance sheet total increase year-on-year by € 10.2 million from € 51.7 million to € 61.9 million. This substantial increase in the balance sheet total is mainly attributable to the raising of a mezzanine subordinated loan.

Group: Working capital

	2006 Mio. €	2005 Mio. €	Change Mio. €
Inventories	13.5	12.0	1.5
Receivables	11.1	14.3	-3.2
Liquid funds	12.0	0.7	11.3
Total	36.6	27.0	9.6
Current financial liabilities	0.9	9.4	-8.5
Creditors	7.1	9.2	-2.1
Total	8.0	18.6	-10.6
Working capital	28.6	8.4	20.2

Inventories increased by €1.5 million in the course of business expansion. At the same time, inventory turnover for the Group was maintained at a pleasing level of 7.1 after 6.9 in the previous year.

The increase in liquid funds can be attributed to the positive cash flow from financing activities which mainly resulted from the mezzanine financing.

Working capital increased by €20.2 million from last year's level of €8.4 million to €28.6 million.

At €9.5 million (previous year: €9.4 million), equity for the 2006 financial year results in an equity ratio of 15.4% (previous year: 18.2%). If the successful mezzanine financing is added to equity, this results in equity of €21.6 million and thus an equity ratio of 34.9%.

The book value per share, based on the equity, amounted to €3.17, following €3.13 in the previous year.

3.3. Guarantees and other contingent liabilities

Contingent liabilities totalled €0.3 million (previous year: €0.7 million).

3.4. Employees

The average number of employees in the Group was 137 (previous year: 133.5). Sales per employee amounted to €0.68 million (previous year: €0.63 million).

Group employees

	2006	2005	Change
Industrial employees	32.0	32.0	0.0
Salaried employees	105.0	101.5	3.5
Number of staff employed	137.0	133.5	3.5
Trainees and apprentices	6.0	5.0	1.0
Sales per employee in € million	0.68	0.63	0.05

The number of trainees and apprentices increased to the current number of six, now representing 4.4% of the total work force (previous year: 3.7%).

Group: expenses

	2006 Mio. €	2005 Mio. €	Change Mio. €
Staffing costs	12.3	8.9	3.4
Depreciation and amortisation of assets	0.5	0.6	-0.1
Other operating expenses	8.6	8.4	0.2
Total	21.4	17.9	3.5

Depreciation and amortisation of assets and other operating expenses changed only slightly year-on-year despite the substantial expansion of business. The increase in staffing costs is mainly attributable to an adjustment to the pension plans undertaken in line with IFRS in order to close a supply gap in accordance with IFRS which had developed in the past. This meant that staffing and material costs, including depreciation, rose to € 21.4 million in 2006 (previous year: € 17.9 million).

4. Risk management and safeguarding the future

Critical business risks potentially jeopardising the continued existence of the company or its ability to obtain important strategic goals are addressed through the deployment of a reporting and control system. The information obtained through the system is incorporated into management planning. Responsibility for implementing countermeasures lies with division management.

With regard to industry-specific risks, both divisions employ a variety of measures on an ongoing basis in the areas of new customer segments and innovative product range policy to safeguard the future of the company.

The company counters currency risk through efficient management of its foreign currency liabilities. At the same time, price calculations are adapted to anticipate developments as far as possible.

The company employs an internal computer-supported controlling and reporting system. Financial accounting data from operating Group companies are transferred into the system on a monthly basis and analysed according to certain criteria focusing on deviation from projected earnings and financial status. The implications drawn from these analyses and steps taken in light of them are communicated to operating Group companies in regular meetings. In addition, the Board of Management forwards the quarterly figures from the companies to the Supervisory Board for review. The Supervisory Board convenes at least six times per year.

The individual equity holdings of the Group are, as indicated in detail in the respective divisional reporting, on an excellent course. The opportunities on the flip side of corporate risk taking are therefore being successfully exploited at operating level. At Group level, the exercising of higher-ranking holding functions in particular supported the operating opportunities of the equity holdings on the market. This includes assistance with questions of strategy and the safeguarding of funds. At Group level, there is still the opportunity to make commensurate contributions to earnings.

5. Other information

No events of material importance took place after the close of the financial year.

On 31 December 2006, the company's share capital amounted to EUR 7,700,000 (previous year: EUR 7,700,000) and is divided into 3,000,000 ordinary bearer shares. The Board of Management is authorised, by 30 August 2011 and with the consent of the Supervisory Board, to increase the share capital by up to EUR 3,850,000 by issuing new bearer shares against cash or payments in kind on a one-off basis or repeatedly. On 25 August 2005, the annual shareholders' meeting resolved to contingently increase the share capital by up to EUR 1,540,000 by issuing 600,000 new bearer shares. The contingent capital increase will be used to grant the rights to the holders of warrants and/or convertible profit-sharing certificates issued by the company up to 24 August 2010. No participation certificates had been issued as at 31 December 2006. The Board of Management was authorised by a resolution passed at the annual shareholders' meeting on 31 August 2006 to acquire by 29 February 2009 ordinary company shares with a proportional amount of the share capital on these shares of a total of up to 10% of the share capital in existence on 31 August 2006. Furthermore, the Board of Management was authorised to sell the acquired own shares with the consent of the Supervisory Board, excluding the subscription right of the shareholders, to third parties for payment in kind, especially in connection with business combinations and the acquisition of companies, parts of companies and/or equity holdings in companies. The Board of Management was also authorised, with the consent of the Supervisory Board, to sell the acquired own shares, excluding the subscription right of the shareholders, against cash payment in a manner other than via the stock exchange or through an offer to all shareholders. Furthermore, the Board of Management was authorised to redeem the acquired own shares without the need for a further resolution by the annual shareholders' meeting.

On 31 December 2006, the members of the Board of Management held 696,300 ordinary shares (previous year: 696,300) representing 23.21% of share capital. On 31 December 2006, the members of the Supervisory Board held 228,500 ordinary shares (previous year: 228,500) representing 7.62% of share capital.

Remuneration for the Board of Management is exclusively comprised of fixed salary components. These also contain employer's pension commitments. To avoid duplication, please refer to the descriptions in the Consolidated notes.

6. Outlook

Tools trade

The order book at the end of 2006 was €13.7 million compared with €16.0 at the end of the previous year. This is primarily due to a slight change in the ordering behaviour of major customers. Future plans, especially for promotional business, are accorded ever shorter lead times. For Brüder Mannesmann tools, this sometimes even represents a competitive advantage, as we are able to fulfil customer wishes at short notice from our own stocks, and we can generally boast a high response speed thanks to especially good purchasing conditions.

Activities outside Germany have been expanding by applying the business model which has proven to be a success in Germany, to international markets. This has brought good results up to now and will remain a focus of our strategic orientation in the current financial year.

This process has been applied over a number of years and the end result will be an EU-wide presence in the form of exclusive dealers, sales representatives and supporting branches, with which we have already achieved good progress. As in the previous year, the focus will be regional, especially Croatia, Bosnia, Romania, Bulgaria, Turkey and Hungary. We will thus provide our customers who are expanding into these markets with their own regional presence and will remain a reliable partner. Considerable potential for expansion is anticipated in addition to the national growth prospects in the medium and long-term.

Purchase prices, which are likely to increase further, represent a fundamental risk factor in terms of costs. This means that the traditional, long-term purchasing relations maintained by our company are even more important as they not only allow for reliable planning, but also appropriate pricing.

Large clients in particular are demanding ever-higher standards of quality. In response to new EU safety regulations, we will train our entire purchasing staff team, prepare ourselves throughout the entire company for these extensive requirements and aim to use them as a competitive advantage.

Valves trade

The economic conditions for the German-speaking economic area as the primary sales market for the Valves division should continue to improve in 2007. We expect this trend to have a positive effect in our industry as well, albeit with a slight delay and to a lesser extent. Based on our very good market position, we will seek to participate in this positive development to an above-average degree.

In particular, there are excellent prospects with our sales concept to take over complete warehousing and inventory logistics in our role as a universal service provider for up-market major customers. We thus have a successfully established business element which can be applied straight away to a wider customer group.

The number of orders received in the first few months of the new financial year is greater than the previous year. Some promising negotiations regarding the implementation of major projects have progressed further while other negotiations are still in the initial stages. At any rate, there has been an increase in customer activities in terms of projects and we will be able to accommodate with our sales expertise.

Current framework agreements for the ongoing supply of valves to our regular customers and for projects, some of which are scheduled for years, guarantee an important proportion of sales in the long term. Together with the acquisition of new customers and agreements for project business that we expect to conclude, we are confident of at least equalling the business figures from last year.

Group

The overall development of the Group is based on the success of the two operating divisions Tools Trade and Valves Trade. Both divisions are excellently positioned on the market and make valuable contributions to earnings.

The development of the economy in Germany and Europe, a decisive factor for us, is positive. The objective for both divisions will be to take strategic advantage of this trend, based on their own good positioning, and even to outperform it.

In terms of corporate financing, the setting up of a further mezzanine financing created a lasting basis for responding to the increasing volume of business. Both Group divisions were thus able to take unlimited advantage of their operating chances on the market with a solid financial base.

It is virtually impossible to predict how economic, industry-specific and international political conditions will develop with any degree of certainty. A reliable overall forecast for future business development in concrete figures is thus extremely difficult. However, we tend to assume that it will be possible to again develop the company with growth rates substantially above the market average.

This expectation is supported by the development which has occurred in the first few months of this financial year.

Remscheid, April 2007
Brüder Mannesmann Aktiengesellschaft
Board of Management

Jürgen Schafstein　　Bernd Schafstein

Consolidated Financial Statements

Consolidated Balance Sheet

ASSETS

	Notes	31.12. 2006 TEUR	31.12.2005 TEUR
NON-CURRENT ASSETS			
Goodwill	3.1.	3,845	3,845
Other intangible assets	3.1.	825	582
Property, plant and equipment	3.2.	7,298	7,530
Investment property	3.3.	8,377	8,377
Financial assets	3.4.	35	35
Deferred tax assets	3.5.	3,611	3,110
Other assets	3.6.	131	0
		24,122	23,479
CURRENT ASSETS			
Inventories	3.7.	13,508	12,047
Trade receivables	3.8.	11,053	14,343
Other receivables and other assets	3.9.	1,202	1,089
Cash and cash equivalents	3.10.	11,996	720
		37,759	28,199
Balance sheet total		61,881	51,678

LIABILITIES

	Notes	31.12. 2006 TEUR	31.12.2005 TEUR
EQUITY			
Share capital	3.11.	7,700	7,700
Reserves	3.12.	1,697	810
Unappropriated surplus	3.13.	151	903
		9,548	9,413
NON-CURRENT LIABILITIES			
Mezzanine subordinate loans	3.16.	12,053	0
Provisions for pensions and similar liabilities	3.14.	7,282	3,737
Financial liabilities	3.16.	20,876	14,996
Other liabilities	3.17.	807	2,229
Deferred tax liabilities	3.18.	225	111
		41,243	21,073
CURRENT LIABILITIES			
Other provisions	3.15.	1,129	765
Financial liabilities	3.16.	873	9,410
Trade liabilities	3.19.	7,075	9,176
Other liabilties	3.17.	2,013	1,483
Current income tax liabilities	3.20.	0	358
		11,090	21,192
Balance sheet total		61,881	51,678

Consolidated Statement of Earnings

	Notes	01.01.-31.12. 2006 TEUR	01.01.-31.12. 2005 TEUR
Sales revenue	4.1.	93,771	84,611
Other operating income	4.2.	791	1,141
Costs of materials		-71,009	-63,925
Staffing costs	4.3.	-12,330	-8,945
Other operating expenses	4.4.	-8,628	-8,406
EBITDA		2,595	4,476
Amortisation and depreciation of intangible assets and property, plant and equipment		-494	-620
EBIT (operating result)		2,101	3,856
Financial earnings	4.5.	-2,303	-2,239
EARNINGS BEFORE TAX		-202	1,617
Income taxes	4.6.	353	-714
NET CONSOLIDATED INCOME		151	903
Earnings per share (undiluted) in EUR	4.7.	0.05	0.30
Earnings per share (diluted) in EUR	4.7.	0.05	0.30

Consolidated Capital Finance Account

	Notes	2006 TEUR	2005 TEUR
EBIT		2,101	3,856
Depreciation on noncurrent assets		494	620
Gains on disposal on noncurrent assets		-3	-3
Change of noncurrent provisions and other noncurrent liabilities		2,123	1,441
Other non-cash income and expenses		55	-40
Interest payments		-893	-1,314
Income tax payments		-565	14
Cash inflows / outflows from operating activities before change in current net assets	6.1.	3,312	4,574
Change of current assets / liabilities			
Inventories		-1,461	1,665
Trade receivables		3,220	-1,462
Other receivables and other assets		44	-47
Financial liabilities		-8,929	-3,246
Trade liabilities		-2,101	335
Other liabilities and other items		848	-1,435
Inflows / outflows from operating activities	6.1.	-5,067	384
Inflows from disposal of noncurrent assets		24	9
Outflows for investment properties		-657	-177
Interest received		307	13
Dividends received		19	0
Current financial instruments		61	0
Inflows / outflows from investing activities	6.1.	-246	-155
Change of long-term financial liabilities			
Borrowing subordinated loan		12,500	0
Borrowing other long-term financial liabilities		7,300	497
Repayment long-term financial liabilities		-1,475	-442
Interest payments		-1,736	-938
Inflows/outflows from financing activities	6.1.	16,589	-883
Changes in cash and cash equivalents	6.1.	11,276	-654
Cash and cash equivalents on 1 January	6.1.	720	1,374
Cash and cash equivalents on 31 December	6.1.	11,996	720

Statement of Changes to Shareholders‘ Equity

	Share capital TEUR	Capital reserves TEUR	Revenue reserves* TEUR
Shareholders'equity as at December 31, 2004	7,700	770	40
Shareholders'equity as at December 31, 2005	7,700	770	40
Transfer to earnings reserves from 2005 net income			903
Adjustment of deferred taxes			-16
Shareholders'equity as at December 31, 2006	7,700	770	927

* Currency translation differences incurred in previous years have been offset against revenue reserves.

	Retained earnings brought forward TEUR	Net income TEUR	Total share holders' equity TEUR
Shareholders'equity as at December 31, 2004	0	0	8,510
Profit January 1, to December 31, 2005		903	
Shareholders'equity as at December 31, 2005	0	903	9,413
Transfer to earnings reserves from 2005 net income		-903	
Profit January 1, to December 31, 2006		151	
Shareholders'equity as at December 31, 2006	0	151	9,548

Notes to the Consolidated Financial Statements

1. General information about the consolidated financial statements

Brüder Mannesmann Aktiengesellschaft is a holding company whose operating subsidiaries operate in international trading of tools and valves. Two independently operating lines are established on the market, “Tools Trading” and “Valves Trading”. The subsidiary Brüder Mannesmann Grundbesitz GmbH operates exclusively as a company renting existing property. It does not operate on the market.

The registered business address of the group is: Lempstraße 24, 42859 Remscheid, Deutschland.

Brüder Mannesmann Aktiengesellschaft is entered into the Commercial Register of the Wuppertal District Court under HRB 11838.

Brüder Mannesmann Aktiengesellschaft is a listed company accepted for trading in the Prime Standard segment.

2. Accounting and valuation policies

2.1. Principles of preparing the financial statements

Accounting

The consolidated financial statements of Brüder Mannesmann Aktiengesellschaft as at 31 December 2006 were prepared in accordance with Article 315a of the German Commercial Code (HGB) in conjunction with EU Directive 1606/2002 of 19 July 2002 and in accordance with the International Financial Reporting Standards (IFRS) accepted by the EU and valid on the reporting date of the financial statements.

The consolidated financial statements are based on historical cost with the exception of certain items, such as properties held as investments and derivative financial instruments which are carried at fair value.

The consolidated income statement was prepared in line with the total cost procedure.

Individual items in the consolidated balance sheet and the consolidated income statement individual items are summarised for clearer presentation. These items are explained in the notes.

Assets and liabilities on the balance sheet are classified are current or noncurrent. Assets and liabilities are classified as current if they are due to be sold within a year. Assets and liabilities are classified as noncurrent if they remain in the company longer than a year. Trade payables and receivables, ongoing tax refund claims and liabilities and inventories are classified as current. Deferred tax assets and liabilities are classified as noncurrent.

Reporting currency

The consolidated financial statements are prepared in euro. Unless otherwise stated, there are stated ins of euro (TEURs).

Scope of consolidation

In the consolidated financial statements in addition to Brüder Mannesmann Aktiengesellschaft, all subsidiaries were included in which Brüder Mannesmann Aktiengesellschaft determines the finance and business policy as a result of the majority of voting rights or in line with the articles of association, company agreement or contractual arrangement.

Seven German (previous year seven) and one foreign (previous year one) subsidiary are controlled by Brüder Mannesmann Aktiengesellschaft in line with IAS 27 (Consolidated and Separate Financial Statements). There has been no change to the scope of consolidation in comparison to the previous year.

Full details of the shareholdings of Brüder Mannesmann Group are published in the electric Federal Gazette.

Principles of consolidation

The single-entity financial statements of the companies included in the scope of consolidation are prepared in a common format. For consolidation, a transition takes place in line with International Financial Reporting Standards (IFRS).

The single-entity financial statements of the consolidated companies are prepared to the reporting date of the consolidated financial statements.

The initial consolidation of the companies included in the scope of consolidation before 1 January 2004 was implemented in line with the purchase method according to Article 301 Section 1 (1) of the German Civil Code. Here the group share of the equity of the consolidated subsidiaries is recognised against the carrying amount of the participation at the time of acquisition. In the process, positive differences after the allocation of hidden reserves and hidden charges liabilities are capitalised as good will from capital consolidation and are written down on a straight-line basis in line with the economic life. With the first-time application of IFRS 3 (Business Combinations), straight-line depreciation of this goodwill was discontinued from 1 January 2004. From this point in time, goodwill from capital consolidation is regularly subjected to a check for a possible reduction in value (impairment test) at least once as year, and if applicable reduced to the recoverable amount. There was no impairment requirement in the reporting year.

After 1 January 2004 no business combinations occurred.

Intragroup gains and losses are eliminated. Revenues, expenditure and income as well and receivables and liabilities and portions between group companies are consolidated. Deferred taxes are established for consolidation adjustments in line with IAS 12 (Income Taxes).

Currency translation

For all companies included in the scope of consolidation, the euro is specified as the functional currency. For this reason there was no requirement to translate the financial statements.

For the single-entity financial statements of the group companies, foreign exchange transactions are translated in line with IAS 21 (The Effects of Changes in Foreign Exchange Rates) at the exchange rate applicable at the time of the transaction. Monetary assets and debts whose values are expressed in a foreign currency are carried at the currency rates on the reporting date. The resulting price gains and losses are recognised in income.

2.2. Application of new accounting policies

In the consolidated financial statements as of 31 December 2006, the revised and new accounting standards and interpretations were applied which were mandatory for Brüder Mannesmann Aktiengesellschaft in the reporting year:

IAS 19

(Employee Benefits)

The revised IAS 19 allows the option of posting actuarial gains and losses without impacting income. In the Brüder Mannesmann Aktiengesellschaft consolidated financial statements, the method of recognising actuarial gains and losses in income on the basis of the corridor method was retained.

Except for more extensive information in the notes, the first-time application of the revised IAS 19 has no impact on the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

IAS 21

(The Effect of Change in Foreign Exchange Rates)

The extension of the standards relates to the treatment of specific monetary positions from foreign business relationships as investments in a foreign business operation.

The application of the extended standard had no impact on the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

IAS 39

(Financial Instruments: Recognition and Measurement)

The changes in IAS 39 relate to the option of accounting for certain financial instrument at the attributable fair value, the expansion of the area of application to the balance sheet treatment of financial guarantees granted as well as recording on the balance sheet cash flow hedges to cover foreign currency risks which will occur with a high degree of probability on future transactions between group companies.

The option of the recognising financial instruments in income was used for derivatives, but had no material impact on the consolidated financial statements . The two other changes were not applied in the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

IFRIC 4

(Determination whether an Arrangement contains a Lease)

IFRIC 4 contains criteria for the identification of leasing components which may be included in agreements not formally designed as leasing agreements. Such leasing components are to be accounted for in line with the requirements of IAS 17. The first-time application of the regulation had no impact on the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

IFRIC 6

(Liabilities arising from Participation in a Specific Market-Waste Electrical and Electronically Equipment)

The interpretation relates to establishing provisions for disposal obligations resulting from Directive 2003/108/EC electrical and electronic equipment.

The application of the interpretation in the 2006 financial year had no impact on the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft, as the relevant provisions had already been established in line with national law since 2005.

New accounting standards published

Listed below are the IFRS and supplements to IFRS to 31 December 2006 for which application for the financial statements to 31 December 2006 is not mandatory. There was no early application of these regulations.

Brüder Mannesmann Aktiengesellschaft is currently examining the impact of the new regulations on the consolidated financial statements. The Company does not expect any material impact from the first-time application of these new regulations with the exception of the application of IFRS 7 requiring more extensive information in the notes.

IFRS 7 – Financial Instruments: Disclosures

IFRS 8 – Operating Segments

IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 8 – Scope of IFRS 2

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 10 – Interim Financial Reporting and Impairment

IFRIC 11 – IFRS 2 Group and Treasury Share Transactions

IFRIC 12 – Service Concession Arrangements

Supplement to IAS 1 – Capital Disclosures

2.3. Assumptions and estimates

In the consolidated financial statements assumptions and estimates have to be made to a certain extent which have an impact on the level of assets and liabilities recognised, income and expense and contingent liabilities. The actual figures can deviate from these assumptions and estimates. If the original basis of the assumption or estimate is changed position is recognised.

The main areas in which assumptions and estimates apply include determining the useful lives of assets, the calculation of discounted cash flows in the context of impairment tests, the calculation of attributable fair values for derivative financial instrument, the deployment of deferred tax assets on tax loss carryforwards, establishing provisions for employee pensions and for uncertain obligations, the calculation of doubtful debts and inventory measurements.

2.4. Summary of important account and valuation policies

Intangible assets

Goodwill from capital consolidation is capitalised in line with IFRS 3 and is regularly subjected to a check for a possible reduction in value, at least once a year and should there be evidence to suggest that this may be the case (impairment test) and, if applicable, reduced to the recoverable amount. To measure the value, expected future case flows are discounted at a factor of 8%.

Other intangible assets are carried at cost and depreciated pro rata temporis for the expected period of use. Any impairment in excess of depreciation is recognised. Reversals are recognised if the reasons for impairment no longer exist. The periods of use are between 3 and 15 years.

Property, plant and equipment

Property, plant and equipment are carried at cost, less straight-line depreciation and impairment, if applicable.

Across the group, the following periods of use apply for property, plant and equipment:

- Buildings and construction including buildings on third-party land 8-60 years,
- Technical equipment and machinery 2-15 years,
- Other plant and equipment 2-15 years.

In line with IAS 17 (Leases) in connection with IFRIC 4, the economic ownership on leasing objects is to be assigned to the lessee if the lessee carries all material opportunities and risks associated with the object (finance leasing). There were no leases which can be classified as above. All leasing relationships were classified as operate leases, with the leasing instalments as ongoing expenses.

Investment property

In accordance with IAS 40 (Investment Property), investment property is defined as property held to earn rental or for capital appreciation or both. They are carried at attributable fair value.

The fair value is calculated by an independent expert and is basis on the income value, taking into account all aspects of the property market.

Financial assets

In line with IAS 39 financial assets are recognised either at amortised cost or at fair value, depending on the classification.

Deferred tax assets and liabilities

Deferred taxes are calculated in line with IAS 12. Accordingly temporary differences between the carrying amounts from the consolidated financial statements and tax recognition of assets and liabilities are carried at the level of the probable future tax benefits and expenses. Expected tax savings from the anticipated use of tax losses carried forward are capitalised. Deferred tax assets from deductible temporary differences and tax loss carryforwards are recognised at the level when there is a high level of probability that sufficient taxable income will be generated to realise the corresponding benefit.

Inventories

In line with IAS 2 (Inventories), inventories are those assets which are held in normal business operations (goods) and which are consumed in providing services (raw materials and supplies).

Goods carried as inventories are recognised at cost. Cost is determined as weighted average cost. Costs at the reporting date are recognised as the lower of cost and net realisable value. For goods individual valuation discounts are taken if the proceeds to be released at sale are considerably lower than the carrying amounts of the inventories. Net realisable value is expected net proceeds which can be generated less the cost of sales to be incurred to the time of sale.

Trade receivables

In line with IAS 39, trade receivables as classified as loans and receivables and are carried at amortised cost.

Doubtful receivables are carried at the lower realisable amount.

Other receivables and other assets
The assets carried in other receivables and other assets which are to be classified in line with IAS 39 as loans and receivables are carried at amortised cost.

Other assets include derivative financial instrument which are carried at fair value in line with IAS 39.

Transitory deferrals are posted in the context of deferred income. Deferred income with a remaining duration exceeding one year are carried under noncurrent assets (other noncurrent assets).

Cash and cash equivalents
Cash and cash equivalents are checks, cash, deposits at banks with a duration of up to three months and are carried at the respective nominal amounts.

Provisions
In accordance with IAS 19 (Employee Benefits), the actuarial valuation of pension provisions is based on the projected unit credit method for defined benefit pension plans. Pension payments and vested entitlements existing at the balance sheet date are taken into account here as well as expected future increases in salaries and pensions. In line with the corridor method, actuarial gains and losses resulting at the year end are also recognised if they are outside a range of 10% of the scope of obligation. In this case, they are distributed across the remaining service time of the employee with entitlements from the following year and recognised in income or expense. In line with IAS 19, past service cost for vested new commitments and for changes of pension plans are recognised in income immediately.

Other provisions are established in line with IAS 37 to the extent that there are legal or factual obligations to third parties which related to past transactions or events and which probably result in asset outflows which can be reliably determined. They are carried at the expected redemption value taking into account all identifiable risks.

Liabilities
Financial liabilities in line with IAS 39 are carried at amortised cost using the effective interest rate.

Trade payables are carried as liabilities at amortised cost

Other liabilities are carried at the repayment amount, providing they are not items which are to be carried at fair value in line with IAS 39.

Income and expenses
Sales and other operating income are only recognised when the applicable risks and opportunities related with ownership of the goods are transferred to the customer.

Operating expenditure is realised with utilisation of the service or at the time of cause.

Loan costs are recorded as expenses in the period they are incurred in line with the benchmark method in IAS 23.

3. Notes on the consolidated balance sheet

3.1. Intangible assets

Schedule of intangible assets in TEUR	Goodwill	Other intangible assets	Total
Cost			
As of 01.01.2005	8,172	2,589	10,761
Additions	0	42	42
Disposals	0	-3	-3
As of 31.12.2005	**8,172**	**2,628**	**10,800**
As of 01.01.2006	8,172	2,628	10,800
Additions	0	422	422
Disposals	0	0	0
As of 31.12.2006	**8,172**	**3,050**	**11,222**
Cumulated deprecation			
As of 01.01.2005	4,327	1,880	6,207
Depreciation	0	166	166
Disposals	0	0	0
As of 31.12.2005	**4,327**	**2,046**	**6,373**
As of 01.01.2006	4,327	2,046	6,373
Depreciation	0	179	179
Disposals	0	0	0
As of 31.12.2006	**4,327**	**2,225**	**6,552**
Carrying amount			
01.01.2005	3,845	709	4,554
31.12.2005	3,845	582	4,427
01.01.2006	3,845	582	4,427
31.12.2006	**3,845**	**825**	**4,670**

Under goodwill, goodwill from capital consolidation is reported. It relates to the carrying amounts of the following cash-generating units (companies).

The impairment test for the goodwill confirmed the carrying values. Registered rights and software licences are posted under intangible assets.

	2006 TEUR	2005 TEUR
Segment tools	2,497	2,497
Segment valves	1,348	1,348
	3,845	3,845

3.2. Property, plant and equipment

Schedule of property, plant and equipment in TEUR	Land and buildings	Technical equipment and machinery	Other plant and equipment	Total
Cost				
As of 01.01.2005	9,660	37	1,374	11,071
Additions	0	0	135	135
Disposals	-26	0	-64	-90
As of 31.12.2005	**9,634**	**37**	**1,445**	**11,116**
As of01.01.2006	9,634	37	1,445	11,116
Additions	0	0	103	103
Disposals	0	-2	-44	-46
As of 31.12.2006	**9,634**	**35**	**1,504**	**11,173**
Cumulated depreciation				
As of 01.01.2005	2,058	22	1,139	3,219
Depreciation	345	7	102	454
Abgänge	-26	0	-61	-87
As of 31.12.2005	**2,377**	**29**	**1,180**	**3,586**
As of 01.01.2006	2,377	29	1,180	3,586
Depreciation	204	2	108	314
Disposals	0	-2	-23	-25
As of 31.12.2006	**2,581**	**29**	**1,265**	**3,875**
Carrying amount				
01.01.2005	7,602	15	235	7,852
31.12.2005	7,257	8	265	7,530
01.01.2006	7,257	8	265	7,530
31.12.2006	7,053	6	239	7,298

3.3. Investment property

Investment properties are carried at attributable fair value in line with IAS 40. As of 31 December 2006, this amounted to TEUR 8,337 (previous year TEUR 8,337). The valuation is made by an independent expert and is based on the income value, taking into account all aspects of the property market.

The Group has transferred all investment property as collateral for a property-secured loan.

All investment property held by the Group is let through a lease contract. Rent income resulting from this totalled TEUR 736 (previous year TEUR 736). Expenditure directly related to investment property amounted to TEUR 66 (previous year TEUR 11).

3.4. Financial assets

Schedule of financial assets in TEUR	Other equity investments	Other loans	Total
Cost			
As of 01.01.2005	26	9	35
Additions	0	0	0
Disposals	0	0	0
As of 31.12.2005	**26**	**9**	**35**
As of 01.01.2006	26	9	35
Additions	0	0	0
Disposals	0	0	0
As of 31.12.2006	**26**	**9**	**35**
Cumulated depreciation			
As of 01.01.2005	0	0	0
Depreciation	0	0	0
Disposals	0	0	0
As of 31.12.2005	**0**	**0**	**0**
As of 01.01.2006	0	0	0
Depreciation	0	0	0
Disposals	0	0	0
As of 31.12.2006	**0**	**0**	**0**
Carrying value			
01.01.2005	26	9	35
31.12.2005	26	9	35
01.01.2006	26	9	35
31.12.2006	**26**	**9**	**35**

3.5. Deferred tax assets

Deferred tax assets break down as follows:

	31.12.2006 TEUR	31.12.2005 TEUR
Recoverable taxes from tax loss carryforwards	2,591	3,086
Deferred taxes on time valuation differences	1,000	0
Deferred taxes on consolidation adjustments	20	24
	3,611	3,110

Deferred tax claims were estimated in respect of loss carry-forwards which can be used for tax purposes based on an evaluation of their expected possible use. In the reporting year, latent tax claims in respect of loss carry-forwards totalling 494 TEUR (previous year: 566 TEUR) were used.

In addition, the active deferred taxes contain temporary differences in results arising from consolidation measures as well as temporary valuation differences in the Group companies arising from valuation differences in accordance with IFRS (pension provisions).

3.6. Other noncurrent assets

Other noncurrent assets relate noncurrent deferred income of TEUR 131 (previous year 0).

3.7. Inventories

The inventories of TEUR 13,508 (previous year TEUR 12,047) held by the Brüder Mannesmann Group comprise largely commercial goods.

3.8. Trade receivables

For expected uncollected trade receivables write-downs of TEUR 69 (previous year 25) were charged.

3.9. Other receivables and other assets

The other receivables and other assets comprise the following:

	31.12.2006 TEUR	31.12.2005 TEUR
Receivables from financial authorities (thereof income tax	550 (181)	331 (38)
Creditors with debt balances and bonus credits	204	388
Deferred income	300	335
Derivative financial instruments	75	0
Other	73	35
	1,202	1,089

3.10. Cash and cash equivalents

Cash and cash equivalents are composed of cash and bank deposits and total TEUR 11,996 (previous year TEUR 720). The increase against the previous year is due largely to positive cash flow from financing activities.

3.11. Subscribed capital

Share capital

As of 31 December 2006, the share capital of the company totalled TEUR 7,700 (previous year TEUR 7,700) and is divided into 3,000,000 bearer shares.

Authorised capital

The Board of Management is authorised, with the approval of the Supervisory Board, to increase the share capital against cash or non-cash contributions by up to TEUR 3,850 on one or several occasions until 30 August 2011 through the issue of new bearer shares.

Contingent capital

With the resolution of the Annual General Meeting on 25 August 2005, the share capital of the Company was contingently increased by up to TEUR 1,540 by the issue of up to 600,000 new bearer shares. The contingent capital increase serves to grant rights to owners of options or convertible profit-sharing certificates which can be issued by the company to 24 August 2010. As of 31 December 2006 no profit-share certificates had been issued.

Authorisation to buy and sell own shares

By resolution of the Annual General Meeting on 31 August 2006, the Board of Management is authorised to acquire up to 29 February 2009 shares of the company with a share of up to 10% of the share capital as of 31 August 2006.

The authorisation may not be deployed for trading own shares. The acquisition takes place via the stock exchange or on the basis of a public offer directed to all shareholders of the Company.

Furthermore, with the consent of the Supervisory Board, the Board of Management is authorised to sell the own shares acquired excluding the shareholders‘ subscription right to third parties against non-cash contribution, especially in connection with company mergers and the acquisition of companies, parts of company and/or participations.

Furthermore, with the consent of the Supervisory Board, the Board of Management is also authorised to sell the shares acquired excluding the shareholders’ subscription right against a cash payment in a different manner from the stock market or on the basis of an offer to all shareholders.

Furthermore, the Board of Management is authorised to withdraw the own shares acquired without further resolution of the Annual General Meeting.

3.12. Reserves

The reserves are comprise the following:

	31.12.2006 TEUR	31.12.2005 TEUR
Capital reserves	770	770
Other retained earnings	927	40
	1,697	810

Capital reserves include the premium from capital increases. Other retained earnings include the undistributed profit of TEUR 1,387 from companies included in the consolidated financial statements, to the extent this was generated during affiliation to the Group.

3.13. Unappropriated surplus

The unappropriated surplus items contains the consolidated net income of the reporting year of TEUR 151 (previous year TEUR 903).

The development of equity is presented in the statement of changes in equity.

3.14. Employee benefits

The company pension provided by the Brüder Mannesmann Aktiengesellschaft is mainly based on direct defined benefit pension plans. The pension commitments are generally based on the amount for the performance and the employee‘s length of employment (defined benefit plans).

Liabilities resulting from the pension plans are calculated on an annual basis by independent evaluators using the projected unit credit method in accordance with IAS 19.

The key assumptions are:

	2006 %	2005 %
Discount interest	4.5	4.2–5.0
Expected salary increases	2,0	2,0
Future pension increases	1.5	1.5

The biometric probability of death was calculated in line with the 2005 G tables compiled by Dr. K. Heubeck.

Actuarial gains and losses are amortised over the average term of the pension liabilities after up to 10% of the gross liabilities have been placed in a corridor that is not taken into account.

Pension provisions break down as follows:

	2006 TEUR	2005 TEUR
Pension provisions on 1 January	3,737	3,520
Pension expenses	3,545	284
Reversed	0	-67
Pension provisions on 31 December	7,282	3,737

Liabilities comprise the following:

	31.12.2006 TEUR	31.12.2005 TEUR
Cash value of performance-related liability	7,806	4,736
Actuarial gains / (-) losses not to be taken into account	-474	-339
Actuarial gains / (-) losses to be repaid	-50	-564
Remaining transition loss	0	-96
Balance sheet provision	7,282	3,737

The following pension expenses are included in staffing costs on the consolidated income statement:

	31.12.2006 TEUR	31.12.2005 TEUR
Expenses for length of service	130	78
Interest expenses	191	174
Actuarial gains / losses to be repaid	78	0
Repayment of the past service cost	3,100	0
Repayment of the transition loss	96	96
Pension payments paid	-50	-64
Net pension expenses	3,545	284

The past service costs results largely from an adjustment of the pension plans. The measures were necessary to close a gap according to IFRS resulting in the past among pension recipients.

The financing status of the obligations is as follows:

	31.12.2006 TEUR	31.12.2005 TEUR
Cash value of performance-related liability	7,806	4,736
Plan assets	0	0
Financing status	7,806	4,736

3.15. Other provisions

The composition and development of the other provisions is as follows:

Statement of changes in provisions in accordance with IAS 37.84

	Opening balance as at 01.01.2005 TEUR	Used financial year TEUR	Reversed financial year TEUR	Addition financial year TEUR	Closing balance as at 31.12.2005 TEUR
Provisions for bonuses and personnel expenses	335	-317	-5	306	319
Provisions for disposal cost	0	0	0	122	122
Provisions for other uncertain liabilities	348	-232	-58	265	323
Total provisions	**683**	**-549**	**-63**	**693**	**764**

	Opening balance as at 01.01.2006 TEUR	Used financial year TEUR	Reversed financial year TEUR	Addition financial year TEUR	Closing balance as at 31.12.2006 TEUR
Provisions for bonuses and personnel expenses	319	-307	-1	298	309
Provisions for disposal cost	122	0	0	0	122
Provisions for other uncertain liabilities	323	-229	-13	617	698
Total provisions	**764**	**-536**	**-14**	**915**	**1,129**

Personnel provisions are established largely for holiday pay and for contributions to employers' liability insurance association. Provisions for other uncertain liabilities relate primarily to provisions for litigation costs, insurance premiums, costs associated with the annual financial statements, advertising bonuses and warranties.

3.16. Financial liabilities

Financial liabilities comprise the following:

Noncurrent financial liabilities:	31.12.2006 TEUR	31.12.2005 TEUR
Mezzanine subordinate loan	12,053	0
Bank loan	20,876	14,996
	32,929	14,996

The share of noncurrent financial liabilities with a duration over 5 years is TEUR 29,330 (previous year TEUR 12,492).

The mezzanine subordinate loan related to a 7.933% fixed-interest borrower's note loan between Brüder Mannesmann Aktiengesellschaft as issuer and H.E.A.T. Mezzanine II 2006 S.A., Luxembourg as creditor for a nominal amounts of EUR 12,500,000.

The carrying amount on 31 December 2006 contains the amount disbursed taking account of a discount.

The loan is subordinate to claims of all existing and future creditors. The loan duration is seven years. The interest rate is fixed over the entire duration.

The mezzanine subordinate loan considered as economic equity serves the long-term financing of the Group. As a result the group was able to pay back the current bank liabilities and to secure the financing of the increased working capital resulting from the expansion of business.

Noncurrent financial liabilities:	31.12.2006 TEUR	31.12.2005 TEUR
Long-term bank loans to be repaid in the following year	873	462
Current account loans	0	8,948
	873	9,410

The weighted average interest rate for noncurrent financial liabilities is 7.5% for 2006 (previous year 7.8 %).

Financial liabilities of TEUR 16,931 (previous year TEUR 24,363) are secured by liens, land charges, assignment of receivables and securities on stores.

3.17. Other liabilities

Other liabilities comprise the following:

Noncurrent other liabilities:	31.12.2006 TEUR	31.12.2005 TEUR
Pension commitments	807	871
Loan liabilities to a former subsidiary	0	1.358
	807	2,229

The share of noncurrent financial liabilities with a duration over 5 years is TEUR 408 (previous year TEUR 439).

Noncurrent other liabilities:	31.12.2006 TEUR	31.12.2005 TEUR
Liabilities to tax authorities	915	597
Debtors with credit balances	710	316
Pension commitments	169	163
Advance payments received for orders	111	35
Commissions	85	117
Social security liabilities	4	145
Other	19	110
	2,013	1,483

3.18. Deferred tax liabilities

Deferred tax liabilities of TEUR 225 (previous year TEUR 111) include the temporal difference between the carrying amounts in the tax balance sheet and the consolidated financial statements and result from valuation differences in line with IFRS.

In line with IAS 1 (revised 2005), deferred tax liabilities are carried as noncurrent liabilities irrespective of their maturity.

3.19. Trade payables

Trade payables total TEUR 7,075 (previous year 9,176). They are carried at fair value.

3.20. Deferred income tax liabilities

Deferred income tax liabilities in the reporting year totalled TEUR 0 (previous year 358). In the previous year, this related to provisions for corporation and trade tax at the parent company.

4. Notes on the consolidated income statement

4.1. Sales

Groups sales break down as follows:

	2006 TEUR	2005 TEUR
Germany	67,128	60,090
European Union	17,301	15,357
Other	9,342	9,164
	93,771	84,611

4.2. Other operating income

Other operating income comprise the following:

	2006 TEUR	2005 TEUR
Income from exchange gains	220	374
Income from car use	152	146
Income from the reversal of provisions	117	130
Delcredere	101	91
Income from damage claims	53	70
Pension growth	32	100
Income from the reversal of value adjustments	0	61
Other	116	169
	791	1,141

4.3. Staffing costs

The Brüder Mannesmann Group employed an average of 137.0 employees in the 2006 financial year (previous year 133.5). Part-time employees are included using the economic concept.

	2006	2005
Workers	32.0	32.0
Employes	105.0	101.5
	137.0	133.5
Trainees	6.0	5.0

4.4. Other operating expenses

Other operating expenses the following:

	2006 TEUR	2005 TEUR
Selling expenses	4,183	3,998
Travel, entertainment and representation expenses	842	945
Purchased services, consultancy, legal protection	747	527
Insurance and telecommunications expenses	667	688
Transaction expenses	456	482
Rental and lease expenses	451	412
Maintenance, cleaning, waste disposal expenses	306	373
Other	976	981
	8,628	8,406

4.5. Net finance costs

Net finance costs break down as follows:

	2006 TEUR	2005 TEUR
Income from participations	19	0
Other interest and similar incomee	307	13
Interest and similar expenses	-2,629	-2,252
	-2,303	-2,239

4.6. Income taxes

This item comprises the following:

	2006 TEUR	2005 TEUR
Current tax expenses within Germany (of which from prior periods)	-50 (+17)	-170 (+16)
Actual tax income outside Germany	0	+33
Deferred tax expenses	-601	-602
Deferred tax income (of which from prior periods)	+1,004 (+258)	+25 (0)
	+353	-714

Income (previous year expenses) from income and deferred taxes is derived from the Group result before taxes as follows:

	2006 TEUR	2005 TEUR
Earnings before tax	-202	1.617
Expected tax income / expense (Group income tax rate deployed 43%)	+87	-695
Tax income or charge on non-deductible expenses and tax-free income	-10	-35
Deferred tax income / expenses from prior periods	+276	+16
	+353	-714

The prior-period tax income of the reporting period primarily concerns the deferred taxes from the adjustment of the pension provisions.

4.7. Earnings per share

Earnings per share is calculated on the basis of the net income/loss and the share of outstanding shares (in both years unchanged at 3,000,000 shares).

There were no dilutive options. Diluted earnings per share thus is the same as undiluted earnings per share.

5. Segment reporting

Segment reporting was prepared in line with the regulations of IAS 14 (Segment Reporting). In line with the internal reporting structure, the individual annual financial statement data is dividend into the company segments of tools, values and land. Transactions between segments were conducted at standard market conditions.

The segment information is based on the same accounting information as the consolidated financial statements. The key non-cash items are changes in provisions, value adjustments and changes in deferred taxes.

Investments relate to additions of intangible assets and property, plant and equipment.

Segment report by segment and region to 31 December 2006

	Tools 31.12.2006 TEUR	Valves 31.12.2006 TEUR	Land 31.12.2006 TEUR	Reconciliation 31.12.2006 TEUR	Group 31.12.2006 TEUR
Revenue with third parties	65,161	27,812	798	0	93,771
Revenue with other segments	1,098	0	598	-1,696	0
Total revenues	66,259	27,812	1,396	-1,696	93,771
Revenues by region					
Germany	39,330	27,000	798	0	67,128
Outside Germany	25,831	812	0	0	26,643
Of which EU	16,602	699	0	0	17,301
Result	943	984	838	-2,614	151
Assets	30,232	6,347	13,510	11,792	61,881
Liabilities	13,395	2,667	160	36,111	52,333
Investments in assets	496	24	0	6	526
Depreciation	-247	-118	-144	15	-494
Non-cash expenses excluding depreciation	-3,139	-1	0	-541	-3,681
Number of employees (average figure for the year) (without trainees)	77	55	0	5	137

Breakdown by segments is in line with the internal reporting structure and covers the segments tools, valves and land.
Segment assets, segment liabilities and segment investments occur entirely in Germany.

Tools 31.12.2005 TEUR	Valves 31.12.2005 TEUR	Land 31.12.2005 TEUR	Reconciliation 31.12.2005 TEUR	Group 31.12.2005 TEUR
58,661	25,152	798	0	84,611
1,063	0	598	-1,661	0
59,724	25,152	1,396	-1,661	84,611
35,967	23,325	798	0	60,090
22,694	1,827	0	0	24,521
13,693	1,664	0	0	15,357
2,771	509	737	-3,114	903
25,662	8,556	13,653	3,807	51,678
10,600	4,327	191	27,147	42,265
95	71	0	11	177
-232	-115	-283	10	-620
-282	-38	0	0	-320
74.5	54	0	5	133.5

6. Supplementary information

6.1. Cash flow statement

The cash flow statement shows how the cash and cash equivalents changed during the reporting year as a result of cash inflows and outflows. In line with IAS 7 (Cash Flow Statements) a differentiation is made between operating, investing and financing activities. The cash and cash equivalents in the cash flow statement are composes of cash, checks and bank deposits.

6.2. Hedging policy and risk management

Brüder Mannesmann AG has a powerful and flexible risk management system for the early identification and management of economic risks.

Currency risks

Due to its international business operations, Brüder Mannesmann AG is subject to currency fluctuations, primarily in the Tools segment. The risks are limited by the conclusion of hedging transactions matching in terms of amount and maturity.

Standard derivative finance instruments are deployed, such as foreign exchange future transactions and currency swaps. Contracts are concluded exclusively with banks with first-class ratings whose credit standing is assessment on an ongoing basis by leading rating agencies.

In 2006, only the US dollar was hedged.

The nominal volume of the hedging transactions is based on the net amount of the buying and selling on which the transactions are based:

Foreign exchange future transactions	21,722 TEUR
Currency swaps	8,000 TEUR

The remaining duration of these finance instruments is less than one year. These relate to fully effective heading transactions.

Interest rate risks

Due to interest rates being committed largely at a long-term level, the interest rate change risk is to be considered low. In this connection that company has concluded exclusively interest rate optimisation transactions as follows:

Nominal volume	25,000 TEUR
Fair value	75 TEUR

Due to the missing informative value along the same lines as IAS 39.A 74, as an alternative the fair value was calculated in accordance with the analysis of the discounted cash flows.

These relate exclusively to interest rate swap transactions concluded with banks with impeccable credit ratings.

6.3. Contingent liabilities

	31.12.2006 TEUR	31.12.2005 TEUR
Guarantees	150	575
Liabilities on bills	124	77

6.4. Other financial liabilities

	31.12.2006 TEUR	31.12.2005 TEUR
Total lease instalments due within one year	326	236
Total lease instalments due between 1 and 5 years	254	247
Total lease instalments due in over 5 years	–	–

6.5. Related party disclosures

In line with IAS 24 (Related Party Disclosures) persons or companies which control the Brüder Mannesmann Group or are controlled by is must be stated, should they not already be included in the scope of consolidation as associated companies.

In the Brüder Mannesmann Group there are no such relationships.

Each of the members of the Board of Management may represent the company individually.

The following are members of the Board of Management of the parent company:

- **Mr. Jürgen Schafstein**
  Speaker of the Board of Management
  Businessman
  Member of the Board of Management of Deutsche Armaturen AG, Remscheid,
  Chairman of the Supervisory Board of Saltus Technology AG, Solingen

- **Mr. Bernd Schafstein**
  Businessman
  Member of the Supervisory Board of Deutsche Armaturen AG, Remscheid

Total remuneration of the Board of Management was TEUR 1,023 in the reporting year (previous year TEUR 1,205). Article 285 Sentence 1 No. 9 a) sentences 5 to 9, Article 314 Paragraph 1 No. 6 a) sentences 5 to 9 of the German Commercial Code state that a listed company must provide not only the total remuneration of the Board of Management in the notes to the Annual Report, but also to state the remuneration of each individual member of the Board of Management separately. By resolution of the Annual General Meeting of Brüder Mannesmann Aktiengesellschaft on 31 August 2006. this information need not bee provided in line with Article 286 Paragraph 5, and Article 314 Paragraph 2 of the German Commercial Code.

In the reporting year, the Supervisory Board received remuneration of TEUR 54 (previous year TEUR 54).

Statement regarding existing equity holdings

On 28 March 2007, Mr. Jürgen Schafstein reported a 16.67 % share of the voting rights.

On 12 September 2002, Mr. Bernd Schafstein reported a 7.39 % share of the voting rights.

On 12 September 2002, Mrs. Nicole Coen reported a 7.62 % share of the voting rights.

The following are members of the Supervisory Board of the parent company:

- **Mr. Reinhard C. Mannesmann**
  Chairman
  Businessman
  Member of the Supervisory Board of Deutsche Armaturen AG, Remscheid
  Member of the Supervisory Board of Saltus Technology AG, Solingen

- **Mrs. Nicole Coen**
  Banker
  Member of the Supervisory Board of Deutsche Armaturen AG, Remscheid
  Member of the Supervisory Board of Saltus Technology AG, Solingen

- **Mr. Michael Nagel**
  Businessman
  Member of the Supervisory Board of Deutsche Armaturen AG, Remscheid

6.6. Exemption in line with Article 264 Paragraph 3 of the German Commercial Code

For Brüder Mannesmann Werkzeuge GmbH the simplifications in respect to the preparation of the notes, the management report and publication in line with Article 264 Paragraph 3 of the German Commercial Code were utilised.

For Brüder Mannesmann Grundbesitz GmbH the simplifications in respect to the preparation of the notes and publication in line with Article 264 Paragraph 3 of the German Commercial Code were utilised.

For Schwietzke Armaturen GmbH the simplifications in respect to publication and the preparation of the management report in line with Article 264 Paragraph 3 of the German Commercial Code were utilised.

6.7. Corporate Governance Code

The declaration prescribed by Article 161 of the German Stock Corporation Act (AktG) has been issued and made available to shareholders.

6.8. Auditors

TEUR 60 for the audit of the parent company and TEUR 10 for the subsidiaries were included in expenses as fees for the auditor of the financial statements in 2006.

6.9. Events after the reporting date

Events of material importance for the assessment of the income, finance and net assets of the group had not occurred to the release of the accounts for submission to the Supervisory Board in April 2007.

The Supervisory Board has the task to examine the consolidated financial statements and to ratify them.

Remscheid, April 2007
Brüder Mannesmann Aktiengesellschaft
Board of Management

Jürgen Schafstein

Bernd Schafstein

7. List of share holdings

Fully-consolidated subsidiaries	%	Equity in TEUR
Brüder Mannesmann Werkzeuge GmbH, Remscheid	100	10,000
Brüder Mannesmann Nederland B.V., Doetinchem/Netherlands	100	540
CoCaCo Trading GmbH, Remscheid	100	1,559
Fernando Esser & Cia. GmbH, Remscheid	100	64
Corneta Export GmbH, Remscheid	100	25
Schwietzke Armaturen GmbH, Bottrop	100	3,000
CEA Chemie- und Energie-Armaturen GmbH, Ludwigshafen	100	80
Brüder Mannesmann Grundbesitz GmbH, Remscheid	100	126

Independent Auditor's Report

We have audited the consolidated financial statements prepared by the Parent Company Brüder Mannesmann Aktiengesellschaft, Remscheid, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1. January 2006 to 31. December 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Absatz 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group 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 consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 30. April 2007

MORISON AG
Wirtschaftsprüfungsgesellschaft

Rolf Peter Krukenkamp	**Karl-Heinz Wolf**
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial Statements

AG-Balance Sheet

ASSETS

	31.12.2006 EUR	31.12.2006 EUR	31.12.2005 TEUR
A. FIXED ASSETS			
I. Intangible assets			
Licences, trade marks and patents, etc., as well as licences to such rights and assets	6,749.00		11
II. Tangible assets			
Office and plant equipment	6,196.00		2
III. Financial assets			
1. Shares in group companies	21,699,066.22		11,417
2. Loans due from affilated companies	1,200,000.00		0
		22,912,011.22	11,430
B. CURRENT ASSETS			
I. Receivables and other current assets			
1. Amounts due from group companies	3,069,986.55		2,810
2. Other current assets	548,599.37		243
		3,618,585.92	3,053
II. Cash, deposits with commercial banks		7,145,385.01	41
		10,763,970.93	3,094
C. PREPAID EXPENSES			
1. Disagio	446,428.58		
2. Other prepayments and accrued income	190,039.03		
		636,467.61	0
		34,312,449.76	14,524

LIABILITIES

	31.12.2006 EUR	31.12.2006 EUR	31.12.2005 TEUR
A. SHAREHOLDERS' EQUITY			
I. Share capital	7,700,000.00		7,700
II. Capital reserve	1,292,930.53		1,293
III. Earnings reserves			
Other earnings reserves	3,850,000.00		1,247
IV. Net profit	419,682.54		1,534
		13,262,613.07	11,774
B. ACCRUALS			
1. Accruals for pensions and similar obligations	140,482.00		0
2. Accruals for taxes	0.00		357
3. Other accruals	73,400.00		82
		213,882.00	439
C. LIABILITIES			
1. Liabilities from mezzanine financing	12,500,000.00		0
2. Amounts due to banks	7,250,394.47		0
3. Trade payables	13,156.13		5
4. Amounts due to group companies	64,804.29		120
5. Other liabilities	1,007,599.80		2,186
thereof taxes EUR 122,887.24 (December 31, 2005 EUR 12,551.28) thereof in respect of social security EUR 0.00 (December 31, 2005 EUR 7,274.27)		20,835,954.69	2,311
		34,312,449.76	14,524

AG-Statement of Earnings

	01.01.-31.12. 2006 EUR	01.01.-31.12. 2006 EUR	01.01.-31.12. 2005 TEUR
1. Sales		1,098,000.00	1,062
2. Other operating income		730,409.21	290
3. Personnel costs			
a) Wages and salaries	-546,766.01		-783
b) Social security and other pension costs, of which in respect of old-age pensions EUR 140,482.00 (December 31, 2005 EUR 0)	-187,124.01		-46
		-733,890.02	-829
4. Depreciation, amortization and special provisions on intangible and tangible assets		-8,055.40	-14
5. Other operating expenses		-1,373,007.63	-693
6. Investment income of which from affiliated companies EUR 7,035.01 (December 31, 2005 EUR 0)		7,035.01	0
7. Income from profit transfer agreements and partial profit transfer agreements		2,630,785.85	1,986
8. Income from other investments and long-term loans of which relating to affiliated companies EUR 45.698,66 (December 31, 2005 EUR 0)		45,698.66	0
9. Other interest and similar income of which from affiliated companies EUR 2,508.50 (December 31, 2005 EUR 3)		65,887.38	4
10. Interest and similar expenses of which from affiliated companies EUR 905.41 (December 31, 2005 EUR 3)		-906,228.73	-83
11. Result of ordinary operations		1,556,634.33	1,723
12. Taxes on income		-67,338.88	-189
13. Other taxes		-1,293.00	0
14. Net income of the year		1,488,002.45	1,534
15. Transfer to earnings reserves		-1,068,319.91	0
16. Net profit		419,682.54	1,534

Fixed Assets Schedule and Liabilities Schedule

Development of fixed assets as per December 31, 2006

	Historic cost of acquisition			
	As of 01.01.2006 EUR	Additions EUR	Disposals EUR	As of 31.12.2006 EUR
I. Intangible assets Licences, industrial property rights and similar rights and assets, as well as licences to such rights	43,227.99	900.00	0.00	44,127.99
II. Tangible assets Furnitures and fixtures	33,330.44	6,621.40	6,200.00	33,751.84
III.Financial assets				
1. Shares in group companies	13,105,077.96	9,710,708.12	0.00	22,815,786.08
2. Loans due from affilated companies	0.00	1,200,000.00	0.00	1,200,000.00
	13,105,077.96	10,910,708.12	0.00	24,015,786.08
Total	13,181,636.39	10,918,229.52	6,200.00	24,093,665.91

Schedule of liabilities as of December 31, 2006

Type of liability	Balance sheet value 31.12.2006 TEUR	with a remaining term up to one year TEUR	one to five years TEUR	more than five years TEUR	of which collateralised TEUR
Liabilities from mezzanine financing	12,500	0	0	12,500	0
Amounts due to banks	7,250	413	1,482	5,355	0
Trade liabilities	13	13	0	0	0
Amounts due to group companies	65	65	0	0	0
Other liabilities - thereof taxes: 122,887.24 EUR (December 31, 2005: 12,551.28 EUR) - thereof in respect of social security: 0.00 EUR) (December 31, 2005: 7,274.27 EUR)	1,008	279	321	408	
	20,836	770	1,803	18,263	0

Depreciations						Book values	
As of 01.01.2006 EUR	Additions EUR	Write-up EUR	Disposals EUR	As of 31.12.2006 EUR		As of 31.12.2006 EUR	As of 31.12.2005 EUR
31,909.99	5,469.00	0.00	0.00	37,378.99		6,749.00	11,318.00
31,168.44	2,586.40	0.00	6,199.00	27,555.84		6,196.00	2,162.00
1,688,010.74	0.00	571,290.88	0.00	1,116,719.86		21,699,066.22	11,417,067.22
0.00	0.00	0.00	0.00	0.00		1,200,000.00	0.00
1,688,010.74	0.00	571,290.88	0.00	1,116,719.86		22,899,066.22	11,417,067.22
1,751,089.17	8,055.40	571,290.88	6,199.00	1,181,654.69		22,912,011.22	11,430,547.22

Notes for the 2006 AG-Financial Year

A. General information about the annual financial statements

1. Legal basis

The annual financial statements as at 31 December 2006 were prepared in accordance with the provisions of the Handelsgesetzbuch (German Commercial Code – HGB) and the Aktiengesetz (German Stock Corporation Act – AktG).

In accordance with Article 275 (2) of the HGB, the total cost method was applied to the profit and loss account.

2. Shareholders' equity

2.1. Share capital

Share capital amounts to TEUR 7,700 and is divided into 3,000,000 bearer shares.

2.2. Authorised capital

The Board of Management is authorised, with the approval of the Supervisory Board, to increase the share capital by up to TEUR 3,850 on one or more occasions until 30 August 2011 through the issue of new bearer shares against cash or non-cash contributions.

2.3. Contingent capital

By resolution of the Annual General Meeting on 25 August 2005, the share capital was contingently increased by up to TEUR 1,540 by issuing up to 600,000 new bearer shares. The contingent capital increase serves to grant rights to owners of options and convertible profit-sharing certificates to be issued by the company up to 24 August 2010. As of 31 December 2006 no profit-sharing certificates had been issued.

3. Currency translation

Receivables and liabilities of Brüder Mannesmann Aktiengesellschaft were denominated solely in euro as at the balance sheet date.

B. Notes to the accounting policies

1. Accounting policies

Intangible assets are recognised at cost, less amortisation. Tangible assets are carried at cost and reduced by straight-line depreciation over their useful operating lives.

Low-value assets with acquisition or production costs of up to, and including, EUR 410.00 are written down in full in the year of acquisition.

Financial assets are carried at cost or the lower of cost or market.

The statement of changes in fixed assets is presented in the appendix to the Notes.

Receivables and other assets are carried at their nominal amount.

Pension accruals are calculated in line with the Klaus Heubeck 2005G tables with an interest rate of 6%. The tax option of distributing the allocation amount was utilised.

Other accruals take into account all discernible risks and uncertain obligations. They are recognised in the amount dictated by prudent business practice.

Liabilities were carried at their redemption amount and pension obligations at their actuarial values as at the balance sheet date.

2. Balance sheet disclosures

In accordance with Article 287 and Article 286, Para. 3, Subpara. 2 of the HGB, details regarding share ownership are summarised separately in these notes.

Receivables from affiliated companies are due to profit-pooling agreements trade receivables (Group contributions), entity liability for VAT, interest rates, costs and profit entitlements that are charged on.

Other assets include primarily receivables from taxes.

From the mezzanine financing a disagio of TEUR 446 was posted under prepaid expenses in line with section 250 (3) of the HGB.

Please refer to part A section 2 for details of equity.

From the profit/loss brought forward, the Annual General Meeting appropriated an amount of TEUR 1,534 other revenue reserves. TEUR 1,068 from the net annual profit of the financial year was transferred to other retained earnings.

Other accruals relate to the expected costs of mandatory audits prescribed in German commercial law as well as for remaining paid leave claims and contributions to a professional occupational liability association.

Liabilities to affiliated companies include settlement accounts with subsidiaries (value-added tax group).

In order to cover interest risks from interest rate change, interest rate optimisation transaction at a level of TEUR 25,000 were concluded. The carrying value of these items is TEUR 75. In the balance sheet they are carried as other liabilities at TEUR 61. Due to the missing informative value along the same lines as IAS 39 A 74, as an alternative the fair value was calculated in accordance with the analysis of the discounted cash flows.

Other liabilities primarily relate to trade and corporate tax as well as a pension obligation.

Please refer to the maturity structure of liabilities for details of the maturity and collateral of liabilities.

Other financial commitments comprise rental agreements and leases totalling TEUR 58.

C. Contingent liabilities

As at the balance sheet date, liabilities from guarantees and joint and several liability amounted to TEUR 2,459, TEUR 2,309 of which was attributable to affiliated companies and TEUR 150 to third-party companies.

D. Notes to the profit and loss account

1. Sales

Sales primarily relate to Group contributions to affiliated companies, TEUR 60 of which was to an affiliated company outside Germany.

2. Other income

The income relates primarily to costs charged on to affiliated companies and a reversal about TEUR 571 on the participation in CoCaCo Trading GmbH. This item also includes income from the adjustment of the cash value of the bond.

3. Income from profit-pooling

This item relates to the profit of affiliated companies transferred for 2006 within the framework of profit transfer agreements.

4. Interest and similar income

This item includes interest from affiliated companies of EUR 2,508.50.

5. Interest and similar expenses

This item includes interest to affiliated companies of EUR 905.41.

E. Other disclosures

During the financial year, the Company employed an average of 5 other persons in addition to the Board of Management. The Board of Management manages the company.

The company is the parent company for the purposes of the consolidated financial statements. The consolidated financial statements are announced in the Bundesanzeiger (Federal Gazette).

As fees for the audit a figure of TEUR 60. They only concern asset services which are subject to the audit.

F. Executive bodies

The following are members of the Board of Management:

- **Mr. Jürgen Schafstein**
  Speaker of the Board of Management
  Businessman
  Board of Management of
  Deutsche Armaturen AG, Remscheid,
  Chairman of the Supervisory Board of
  Saltus Technology AG, Solingen

- **Mr. Bernd Schafstein**
  Businessman
  Member of the Supervisory Board of
  Deutsche Armaturen AG, Remscheid

The following are members of the Supervisory Board:

- **Mr. Reinhard C. Mannesmann**
  Chairman
  Businessman
  Member of the Supervisory Board of Deutsche Armaturen AG, Remscheid
  Member of the Supervisory Board of Saltus Technology AG, Solingen

- **Mrs. Nicole Coen**
  Banker
  Member of the Supervisory Board of Deutsche Armaturen AG, Remscheid
  Member of the Supervisory Board of Saltus Technology AG, Solingen

- **Mr. Michael Nagel**
  Businessman
  Member of the Supervisory Board of Deutsche Armaturen AG, Remscheid

During the year under review, the members of the Board of Management received payment of TEUR 303 from the company. The Supervisory Board's remuneration amounted to TEUR 54. By resolution of the Annual General Meeting on 31 August 2006, information in line with section 285 no. 9a sentence 5 of the HGB is not provided in line with section 286 (5) of the HGB.

Statement regarding existing equity holdings

The company was informed about the following:

On 28 March 2007, Mr. Jürgen Schafstein reported a 16.67 % share of the voting rights.

On 12 September 2007, Mr. Bernd Schafstein reported a 7.39 % share of the voting rights.

On 12 September 2007, Mrs. Nicole Coen reported a 7.62 % share of the voting rights.

The declaration in accordance with Article 161 of the AktG (German Stock Corporation Act) has been issued and made available to the shareholders.

G. Appropriation of profit

Please refer to part B section 2 for information on the appropriation of profit.

Remscheid, April 2007
Brüder Mannesmann Aktiengesellschaft
Board of Management

Jürgen Schafstein   Bernd Schafstein

Independent Auditor's Report

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 the Brüder Mannesmann Aktiengesellschaft, Remscheid, for the business year from 1. January 2006 to 31. December 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 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 incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with 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 of future development.

Frankfurt am Main, 30. April 2007

MORISON AG
Wirtschaftsprüfungsgesellschaft

Rolf Peter Krukenkamp	**Karl-Heinz Wolf**
Wirtschaftsprüfer	Wirtschaftsprüfer

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