ANNUAL REPORT 2006

THIELERT

IMPORTANT FIGURES

ACCORDING TO IFRS

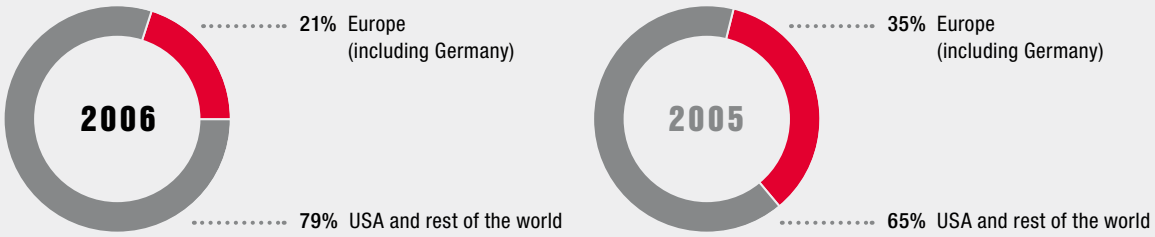
in EUR '000

	2006	2005	Δ in %
Thielert At A Glance			
Revenues	59,940	37,579	59.5
› Europe (including Germany)	12,588	13,088	-3.8
› USA and rest of the world	47,352	24,491	93.3
EBITDA	13,281	16,116	-17.6
EBIT	9,251	13,143	-29.6
EBT	7,775	9,109	-14.6
Consolidated net profit for the year	5,230	7,666	-31.8
Balance sheet total	171,385	123,410	38.9
Equity	103,645	99,155	4.5
Capital expenditures	20,390	7,194	183.4
Depreciation, amortization	4,030	2,974	35.5
Liquid funds	5,208	18,213	-71.4
Debt [1]	37,668	12,213	208.4
Net debt [2]	32,460	-6,000	-641.0
Net working capital [3]	77,348	60,889	27.0
Capitalized development cost	11,408	5,250	117.3
EBITDA, adjusted for capitalized R&D expenses	-2,327	10,866	-121.4
EBIT, adjusted for capitalized R&D expenses	1,703	7,893	-78.4
Share Data			
Earnings per share (EUR)	0.26	0.55	-52.7
Employees	320	252	27.0

For the entire Annual Report percentage figures refer to unrounded Euro values. Figures have been rounded off where appropriate.

1 Liabilities against banks, silent shareholders, shareholders and group companies as well as finance leases 2 Debt less liquid funds 3 Inventory plus trade receivables, less payments on account and less trade payables

REVENUE DISTRIBUTION ACCORDING TO REGION



KEY SEGMENT DATA

AIRCRAFT ENGINES

in EUR '000

	2006	%	2005	%
Revenues	31,466	100	22,221	100
EBITDA	9,368	36	9,540	43
EBIT	7,086	28	7,780	35

The business unit Aircraft Engines increased by 41.9 percent compared to 2005. On the one hand, the business unit supplied more engines than in the year before. On the other hand, thanks to the newly added distributors, the business unit sold more retrofit kits.

TECHNOLOGY & PROTOTYPING

in EUR '000

	2006	%	2005	%
Revenues	28,473	100	15,358	100
EBITDA	3,914	16	6,577	44
EBIT	2,165	11	5,362	36

Technology & Prototyping grew compared to 2005 by 85.1 percent. The decisive factor in this regard were the Superior Air Parts sales that had been relevant since the second quarter and the continuing positive demand for development services in the area of defense technology and civil aviation.

HIGHLIGHTS 2006

// SALES INCREASE BY 59,5 %

// WORKING CAPITAL IMPROVEMENT

// ADMISSION AT SDAX

// THIRD GERMAN PLANT OPENED IN ALTENBURG

// CERTIFICATION AND SERIAL PRODUCTION RAMP UP OF TWO NEW ENGINES

// EXPANSION OF CAPACITIES: NEW ASSEMBLY LINES

// ACQUISITION OF SUPERIOR AIR PARTS

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FOREWORD BY THE MANAGEMENT BOARD

Dear Shareholders,

The Company has been successfully designing, manufacturing, and marketing high-quality engine components and engine adaptations for approximately eight years – first for the automotive industry, then for the aviation industry, and, more recently, also for the military technology segment. The figures for fiscal year 2006 are testimony to this success: revenues climbed by 59.5 percent to EUR 59.9 million.

The key to the Company's success in 2006 was once again the CENTURION 1.7 – Thielert's core product. The reception of, and demand for, the CENTURION 1.7 increased considerably, particularly among frequent flyers and flying schools. Thielert has been marketing the CENTURION 2.0, the next development stage after the CENTURION 1.7, since the beginning of 2007. The new engine fully replaces its predecessor model with immediate effect. Furthermore, the Company launched series production of its second kerosene piston aircraft engine, the CENTURION 4.0, towards the end of the reporting year. Over the next few years, we want to continue to systematically pursue our existing strategy and to grow profitably, the objective being to achieve a market share of 50 percent for piston aircraft engines in the medium term. This objective is an ambitious one, but achievable.

In addition to product developments, a number of key measures were also taken on the production side in 2006: The Company commissioned a new facility in the Thuringian town of Altenburg as scheduled after a construction period of only six months. Together with Hamburg and Lichtenstein (Saxony), Altenburg is now the Group's third German location. Also, the engine production was completely revamped in the year under review, switching the construction process from cluster assembly to assembly line production. The new system is considerably more flexible, while the lower working time and the improved process safety create substantial potential for savings. The Group has also introduced a PDM system (product data management) in order to take account of the increasing complexity in the manufacturing industry. This IT-supported system will ensure the mutual coordination of design, production, documentation production, and certification processes in the future.

As far as sales are concerned, the Group tackled the US market, the most important and largest regional market for all business areas. In March 2006, Thielert AG took over the PMA and aircraft engine manufacturer Superior Air Parts, Inc. from Coppell near Dallas, Texas (USA). The company is the world's leading provider of replacement parts for conventional aircraft engines such as Lycoming and Continental, and of replacement engines on the secondary and experimental market. The Company also stepped up its business relationships with major OEM manufacturers in the general aviation segment in the US, expanding these relationships considerably in some cases. We are convinced that the expansion of our business activities on the US market offers huge growth potential for the years to come, too.

The performance of Thielert's shares tells a mixed story: they were admitted to the SDAX ahead of schedule on March 1, 2006, further boosting a positive share price performance, which resulted in a yearly high of EUR 28.00 in April.

The fraud allegations circulated by Schutzgemeinschaft der Kapitalanleger e.V. (SdK) based on the anonymous filing of criminal charges then pushed the share price with an above-average order-book level to an annual low of EUR 14. As soon as the Company rejected the allegations, the share price recovered on the very same day and closed at EUR 18.25. Nevertheless, the allegations considerably increased the volatility of the Company's shares, meaning that they closed the fiscal year under review at EUR 17.80.

Following the publication of the allegations, we made intensive efforts to prove them to be false and to restore confidence in the Company, which had suffered as a result. Due to the difficult and complex background behind the allegations, however, we were unable, particularly in the course of last year, to offer you, our shareholders, with information on our suspicions without running the risk of either endangering the ongoing investigations or jeopardizing our own credibility. We are aware that the information flow on this matter has not always been as ideal as would have perhaps been hoped. As a result, we would like to thank you all the more for your confidence in Thielert AG last year, and hope that your satisfaction with the Company will be uninterrupted in 2007 and beyond.

From an operating point of view, we are once again optimistic with respect to fiscal year 2007. We expect the measures taken will boost growth in the long term, and forecast that we will report positive figures again at the end of the year. We also expect to be able to rebut the allegations made, bringing the exclusive focus back to the performance of the Company.

Our employees made the main contribution to the success of the Company. We would therefore like to take this opportunity to thank them. Furthermore, however, we would like to thank you, our shareholders, as well as our clients and suppliers, for the trust that you have shown in us during these turbulent times.

Hamburg, May 2007

Frank Thielert
Chief Executive Officer

Roswitha Grosser
Chief Financial Officer

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

2006 was an eventful year for Thielert AG that was both very encouraging and impressive. The Company grew substantially, as in all previous years, and further expanded its excellent market position. Share price performance outstripped expectations, often considerably. This shows that the capital market continues to have confidence in our Company. Our shares managed to make a quick recovery from the sudden slumps resulting from anonymous criminal charges and anonymous slanderous remarks, particularly on the Internet. The Supervisory Board maintained close contact with the Management Board with respect to all key decisions that had to be taken in the year under review. All major business transactions were discussed with the Management Board and all potential alternatives for courses of action were examined in detail. With regard to those affairs that require the involvement of the Supervisory Board by law, in accordance with the articles of association, the Corporate Governance Code, or the rules of procedure, we passed the necessary resolutions.

We used six Supervisory Board meetings to gain detailed information on business development, the situation of the Group, and key individual measures. The Management Board presented its financial, investment, and personnel strategy for the next few years in detail to the Supervisory Board in the meeting approving the annual financial statements. The Management Board addressed all of the questions posed by the Supervisory Board in a comprehensive, clear and unambiguous manner. A resolution was passed within the scope of a circulation procedure. This related to the borrower's note loan taken out by the Company in the year under review. The members of the Supervisory Board were provided with comprehensive and detailed written information on this loan due to its particular economic importance. After all questions and suggestions had been dealt with, the approval resolution was then passed as part of a circulation procedure.

Outside of the formal Supervisory Board meetings, the Supervisory Board members met four times during the year under review at informal meetings. The Management Board also informed me, as the Chairman of the Supervisory Board, of significant business developments on an ongoing basis, i.e. even outside of the Supervisory Board meetings and the informal meetings. The overall Board was fully informed of all key affairs of which I, as Chairman, was made aware outside of the Supervisory Board meetings.

There is no need to provide any further details on the fact that the anonymous accusations and slanderous remarks that the Company has been confronted with since the fourth quarter of 2006 was a key issue at the formal and informal meetings held in the fourth quarter. We obtained detailed reports from both the Management Board and BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the company appointed as auditor. Given that the accounting association "Deutsche Prüfstelle für Rechnungslegung DPR" is examining the matter, the Supervisory Board has, after much deliberation, decided not to commission an

additional auditing firm. We would like to take this opportunity to once again affirm the trust that we have in the Management Board.

The consolidated financial statements, the annual financial statements of Thielert AG, and both the group management report and the management report of Thielert AG have been audited by BDO Deutsche Warentreuhand Aktiengesellschaft, the company appointed auditor by the Annual General Meeting, and awarded an unqualified audit opinion.

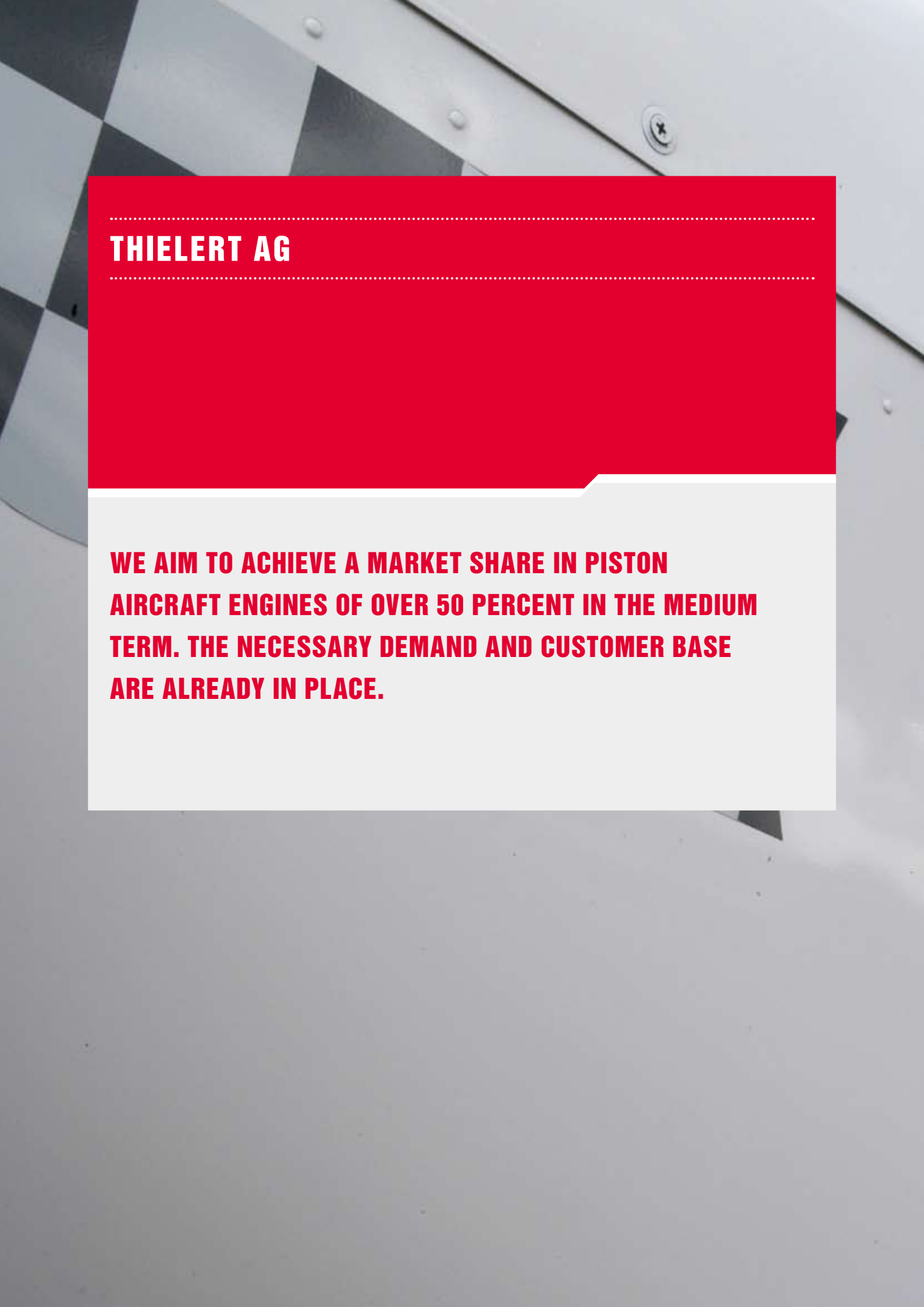
The annual financial statements, including the group management report and the management report of Thielert AG, as well as the audit reports, were provided to all members of the Supervisory Board. The responsible auditors participated in the balance sheet meeting of the Supervisory Board, at which they reported on all key aspects of the audit and offered further explanations to the Supervisory Board. The Supervisory Board approves the result of the audit.

The consolidated financial statements, the annual financial statements of Thielert AG, and both the group management report and the management report of Thielert AG, as well as the proposal for the appropriation of the balance sheet profit, were assessed by the Supervisory Board. No objections were raised. The financial statements prepared by the Management Board were approved by the Supervisory Board. As a result, the annual financial statements have been assessed. The Supervisory Board approves the report on the situation of the Group and, in particular, with the forecast regarding its future development.

The Supervisory Board would like to thank the Management Board and all employees of Thielert AG for their successful work in fiscal year 2006.

Hamburg, April 2007

Dr. Georg A. Wittuhn
Chairman of the Supervisory Board



THIELERT AG

WE AIM TO ACHIEVE A MARKET SHARE IN PISTON AIRCRAFT ENGINES OF OVER 50 PERCENT IN THE MEDIUM TERM. THE NECESSARY DEMAND AND CUSTOMER BASE ARE ALREADY IN PLACE.


CENTURION
Built by THIELERT

THE THIELERT GROUP IN 2006

The Thielert Group is a globally recognized manufacturer of aircraft engines and engine components: innovative, offering high-quality products, and service-oriented. The Group has set new standards in both the automotive and aviation industries. Its CENTURION kerosene piston engines have introduced a new standard on the aircraft engine market after decades of technological stagnation. Its technological leadership has allowed the Company to establish itself as the leading global provider of kerosene piston aircraft engines.

International engine specialist

When it comes to engines, the Thielert Group is seen as an experienced, internationally recognized, and sought-after specialist. The Company has been developing high-performance engines for automotive development, complex engine components, and both hardware and software solutions for digital engine controls since as early as 1989, when it was still known as Thielert Motoren. For around eight years, it has also been designing, manufacturing, and marketing high-quality engine components and engine adaptations for the aviation industry and, in recent years, for the defense technology market. And its strategy has certainly proved successful: today, the Company, which is listed on the SDAX, is the world's leading provider of certified kerosene piston engines for general aviation aircraft. As a certified aviation development, manufacturing, and maintenance organization, the subsidiary of Thielert AG, Thielert Aircraft Engines GmbH, was the first company in the world to be granted certification for a kerosene piston aircraft engine.

Group remains on the path to growth

The figures for fiscal year 2006 show that the Company is, and remains, set for success in both strategic and operational terms. Revenues improved by 59.5 percent to EUR 59.9 million (EUR 37.6 million), but earnings before taxes decreased to EUR 7.8 million (EUR 9.1 million). At EUR 4.8 million, operating cash flow was in the black for the first time in the fourth quarter of 2006, as against the negative amount of EUR 6.2 million in the same quarter of 2005. This positive overall performance was down to the Company's 320 employees, representing a workforce that grew by 27 percent as against the previous year.

Over the next few years, the Thielert Group wants to remain systematically focused on its existing strategy and to continue to grow profitably, the objective being to achieve a market share of 50 percent for piston aircraft engines in the medium term. The Company took a number of key measures to prepare for such growth in 2006: all business areas turned to the US, the Company's most important and largest regional market. The expansion of Thielert's business activities to cover the US market offers enormous growth potential, including for the years to come. Furthermore, measures were taken to increase productivity and to adjust capacities to reflect the planned growth.

New facility in Altenburg

At the end of 2006, Thielert commissioned a new facility in the town of Altenburg, Thuringia, following a construction phase that lasted only six months. The main advantage of the site, which covers an area of 21,500 square meters, is its direct access to the taxiway at Altenburg-Nobitz airport. The new building offers usable space of 2,732 square meters, and is the Group's third German location after Hamburg and Lichtenstein (Saxony). The Altenburg factory ideally complements the nearby engine factory in Lichtenstein. The expanded production capacities will allow the Company to accelerate the production and integration of aircraft engines into aircraft in line with the growth of the Company. The Company also intends to step up its research, development, and testing operations on its diesel aircraft engines, work which will also include flight tests. Expansion was required as a matter of urgency due to the substantial increase in the number of retrofit kits delivered over the past few months.

Moreover, the Company has only been supplying preassembled kits in which the CENTURION engine has already been integrated into the frame and the entire engine peripherals, such as the cooling and electrical systems, have already been installed, to its clients, including its OEM clients, since the end of 2006.

Thielert wants to invest around EUR 6.4 million in the new location over a period of three years, and aims to employ a workforce of 50 after only a short space of time. The employees that started work in the Altenburg factory in mid-December had already been trained intensively for their duties over a period of several months at the Company's factory in Lichtenstein, Saxony.

Acquisition of Superior Air Parts, Inc.

In March 2006, Thielert AG took over the PMA and aircraft engine manufacturer Superior Air Parts, Inc. from Coppell near Dallas, Texas (USA). The company is the world's leading provider of replacement parts for conventional piston aircraft engines such as Lycoming and Continental, which are used in general aviation light aircraft. Furthermore, Superior is the leading provider of replacement engines on the secondary and experimental market. Only recently, the first gas piston aircraft engine to be manufactured in the US was developed and certified under the "Vantage Engine" brand name. The engine can be operated using unleaded car gasoline. The so-called XP engine series also covers the high-growth experimental market.

The Group uses Superior's expanded sales and marketing channels for all of its products on the US markets. Thielert has been offering seminars on the maintenance of its CENTURION engines at Superior's headquarters in Dallas since March 2006 so that it can ensure that its US clients, too, have access to qualified on-site service.

With its engine components, conventional gas engines, and the innovative CENTURION kerosene engines, the Thielert Group covers the entire light aircraft engine spectrum. In particular, the certification from the US aviation authorities as a manufacturer of aircraft engines (production organization approval) and engine replacement parts (parts manufacturer approval, PMA) support the positive development of the Thielert Group's core business engines and engine replacement parts. The value of the transaction stood at around USD 10 million.

Client base includes renowned companies

For the Thielert Group, the path to success means the intelligent combination of state-of-the-art technologies by highly qualified employees and on the basis of a comprehensive, integrated process security system. This means that the Company can support its clients along the entire process chain, from the initial design idea to series launch, and manufactures components for smaller production batches.

The extensive expertise and sophisticated services on offer are echoed in the Company's broad-based, diversified, and renowned client structure: DaimlerChrysler AG, Volkswagen AG, Porsche Motorsport, and Robert Bosch AG rank among the clients of the Thielert Group. Furthermore, the Company's client base includes

renowned aircraft manufacturers such as General Aeronautical Systems, Cessna Aircraft, or Diamond Aircraft Industries, their sales partners, EADS Airbus GmbH, and a whole number of flying schools and charter companies.

Rationalized engine production

In the year under review, Thielert fundamentally improved its engine manufacturing process, developing it from a cluster assembly to an assembly line system. Now, the mechanics no longer assemble the entire engine in what is known as a "cluster," but rather pass it through specific work cycles. Specific automations are provided in each work cycle. This makes the new system considerably more flexible and allows the Company to react more quickly to certain market requirements, for example. Furthermore, the lower working times and the improved process safety create substantial potential for savings. Assembly line production will allow the Group to considerably increase its output without raising personnel expenditure. As a result, engine manufacturing productivity can be risen by a good 60 percent. The assembly systems were introduced both in Lichtenstein, for engine and component group assembly, and in Altenburg for kit assembly.

Increasing complexity within the manufacturing industry also calls for ever more efficient processes and higher-performance tools to control production processes. This has prompted the Group to implement a PDM (product data management) system across the entire group by the end of 2007. This IT-supported system serves to ensure the mutual coordination of design, production, documentation production, and certification processes, which the Company expects will reduce the set-up time for the machines by 50 percent, among other things. This will reduce variable costs and ultimately improve productivity further.

Certifications as a strategic competitive advantage

The investments made by the Thielert Group allowed it to achieve further key milestones in 2006. Naturally, market success does not depend solely on such measures, especially in the aviation industry. The market for aircraft engines has a number of special features that have a considerable impact on all market participants.

All aircraft engine manufacturers and their products (aircraft engines as well as components) must be approved by the responsible national and international aviation authorities. This means that the companies and their products always have to meet all of the required safety and performance standards. Furthermore, all suppliers must comply with the quality and safety standards of their clients, in particular those of the aircraft manufacturers (OEMs, original equipment manufacturers).

There are three main types of authorizations and approvals:

1. Organization approval: In the first instance, companies that develop, produce, and maintain aircraft engines or other aircraft equipment requiring type certification, must be certified, and therefore approved, as development, production, and maintenance organizations. Obtaining approval as a production organization is the biggest hurdle. The Thielert AG subsidiary Thielert Aircraft Engines GmbH has been a development and production organization since 2001, and a maintenance organization since 2004, for piston aircraft engines, engine integrations, and propeller control systems in accordance with JAR (Joint Aviation Requirements). JAR set out comprehensive aviation rules developed by JAA (Joint Aviation Authorities), a consortium of 34 European civil aviation authorities.

Provisions for the future:
the new plant in Altenburg and
the modern assembly lines

STATE-OF-THE-ART TECHNOLOGY FROM THE AUTOMOTIVE INDUSTRY: THE NEW ASSEMBLY SYSTEM

The new assembly system is characterized by a high degree of flexibility and expandability. This means, on the one hand, that the Company is better placed to meet market requirements and, on the other, that it can generate substantial potential for savings due to lower working times and increased process safety. Further improvements have also been made with respect to process security. Measures such as the “inline test processes,” visualization at the respective assembly station, digital work sheets, and the use of proven assembly technology from the automotive industry result in significant improvements in process safety and, as a result, productivity, setting new standards in general aviation engine manufacturing. The new logistics concept reduces the expense otherwise incurred as a result of the partial commissioning of each individual engine. At the same time, susceptibility is reduced and resource utilization is improved by means of the flexible production process control system in accordance with the Kanban method, a just-in-time supply procedure.

The system is characterized by a coherent logistics concept between the Company’s Altenburg and Lichtenstein locations, as well as a high degree of flexibility and expandability. Kit output can be increased considerably, and the logistics expense reduced substantially at a relatively low investment cost and with shorter throughput times.

2. Type certification: aircraft equipment – i.e. all manufactured aircraft engines and the related components – require type certification for national air transportation in accordance with the local aviation act. Such type certification is only granted once a type compliance demonstration has been performed for the responsible authorities. This compliance demonstration must provide evidence of the airworthiness of the aircraft type. The relevant authorities are the EASA (European Aviation Safety Agency) and the FAA (Federal Aviation Administration). Type certification is a drawn-out multistage process.

3. Supplemental type certification: the integration of an aircraft engine or components into a certain type of aircraft requires further certification. This certification must be granted separately for each type of aircraft and is known as Supplemental Type Certification, or STC.

Thielert Aircraft Engines in Lichtenstein: administration building and training facility for the service center

As a result, these long-winded certification processes by the national or international general aviation supervisory authorities, which can sometimes last years, produce high market entry barriers for potential competitors of the Thielert Group, in addition to the substantial development costs involved in the production of a new aircraft engine.

Thielert has successfully mastered the difficulties that go hand-in-hand with the certification process. The Company was not only the world's first provider to produce a kerosene piston engine, but has also successfully completed the long-winded and complex certification process: the CENTURION 1.7 is currently certified as an aircraft engine in 54 countries – including the European Union, the US, and China. Its successor, the CENTURION 2.0, was certified by both the European and the US aviation authorities in 2006. Like the CENTURION 2.0, the CENTURION 4.0 can already be used in 36 countries at present. In the year under review alone, the Company was awarded over 350 certifications. Together with engine installations, the Company was granted over 1,800 international certifications for its CENTURION engines, in addition to Superior's more than 2,000 PMA certifications. This gives the Group a strong market position and a considerable competitive edge over potential competitors.

The business areas of the Thielert Group

The Thielert Group operates in two business areas, "Aircraft Engines" and "Technology & Prototyping." The "Aircraft Engines" segment develops, certifies, and markets Thielert kerosene piston engines for both general aviation and unmanned aircraft. The "Technology & Prototyping" segment focuses on order-related development services and the production of engine components for the aviation, automotive, and defense industries.

BUSINESS SEGMENT AIRCRAFT ENGINES

The Aircraft Engines segment develops, designs, and manufactures certified kerosene piston aircraft engines based on automotive diesel technology for both general aviation and unmanned aircraft (UAV). The sector also produces engine components such as digital engine controls, electronic displays, and high-pressure pumps.

General aviation is Thielert's main market, because this is where the most piston aircraft engines are used, both in fixed-wing and rotary-wing aircraft. The general aviation market and, as a result, the Aircraft Engines segment, covers all aircraft that are not used for commercial scheduled air traffic or military aviation. The engines that Thielert adapts for military technology clients and that do not have civil aviation certifications are allocated to the Technology & Prototyping segment.

The engine market can be split into three segments: new engines for aircraft manufacturers (original equipment manufacturers, OEMs), which produced 2,750 small aircraft in the year under review. The retrofit market with overhauled and replacement engines represents the second segment. Engines are also produced for the kit plane and experimental market, which is a particularly key market for the engines manufactured by Thielert's subsidiary Superior Air Parts. Thielert's strategic aim is to grow on the OEM market, in particular, in the first instance and to expand the market potential on the retrofit market with further supplemental type certifications.

OEMs already account for a large part of series production. Thielert's customer Diamond Aircraft Industries, based in Austria, is already experiencing above-average growth on the market with its diesel aircraft, making it the third-largest light aircraft manufacturer in the world. Thielert is the exclusive engine supplier for the twin-engine Diamond DA42 Twin Star and the European and Asian Diamond DA40 TDI. Further clients that offer substantial future potential for the CENTURION engines are the numbers one and two on the market: Cessna Aircraft and Cirrus Design Corporation. These three OEMs supply almost 75 percent of new aircraft. The Company also aims to supply engines for helicopters from 2009 onwards.

The retrofit market is fuelled by the fact that engines have a limited lifetime, after which they have to be overhauled or replaced. The lifetime for gas engines generally lies at around 2,000 hours. CENTURION engines have a life span of 2,400 hours. Around 13,000 piston engines have to be refitted or replaced every year. The market potential can be calculated by multiplying the average number of annual flying hours by the number of active engines and then dividing this figure by the average lifetime.

For strategic reasons, Thielert has started out by obtaining supplemental type certifications for aircraft that are used particularly often in flying schools and clubs, as well as by charter companies and other fleet operators. The time that these clients spend using their aircraft is three times longer than average. This means that savings due to lower fuel consumption are particularly important to this client group.

Flying hours up to 400,000 and circumnavigation of the globe

Thielert Aircraft Engines GmbH's CENTURION 1.7 kerosene piston aircraft engine has become a real best seller and has made a key contribution to the success of the Company in the past. With well over 1,500 units manufactured, the engine has already clocked up over 400,000 cumulative flying hours in various different general aviation aircraft in only four years. This has provided the Company with a lot more than just valuable experience. Its high performance and reliability has allowed the CENTURION 1.7 to prove itself not only in daily use at flying schools, charter companies, and associations, but, most notably, in several trans-Atlantic flights, as well as in the impressive circumnavigation of the globe by the World Flight For Hearing team. The three Swedish pilots started out in early 2006 in a Diamond DA42 Twin Star fitted with two CENTURION 1.7 engines to perform the first circumnavigation of

the globe in a diesel aircraft. All in all, the Swedish team covered 32,000 nautical miles (59,000 km), using only 8,000 liters of fuel. The longest stage of the flight from Hilo, HI, USA, to Crescent City, CA, USA, covered a distance of 2,140 nautical miles and took 12 hours and 53 minutes. In addition to reliability, ease of use, and economy, the pilots also benefited primarily from the opportunity to use kerosene, the standard aviation fuel which is available in an similar quality across the globe.

CENTURION 1.7 – the engine success story

The CENTURION 1.7 (or, now, the successor model CENTURION 2.0), the core product of the Aircraft Engines segment, is a 135 hp 1.7 l (now, 2.0 l) diesel aircraft engine for use in general aviation. With state-of-the-art technology such as a single lever control, the engine also has a constant speed propeller, a fully electronic engine, and propeller control system (FADEC), and turbo charging for improved altitude performance. German type certification was granted by the German Federal Aviation Office (Luftfahrt-Bundesamt) on May 3, 2002. US type certification followed on October 29, 2003, and Chinese type certification on February 3, 2005. These certifications, which cover a good 90 percent of the global market, allow aircraft manufacturers to integrate the CENTURION 1.7 into aircraft certified in the US, China, and Europe. At present, the CENTURION 1.7 is certified for over 25 aircraft types.

The CENTURION 1.7 is available as a retrofit engine for the Cessna 172, the best-selling aircraft in the world. Thielert has been offering a corresponding refit kit for older Cessna and Piper models for three years now.

In July of last year, the renowned US flying school “American Flyers” decided to fit its aircraft with modern Centurion diesel aircraft engines with immediate effect. American Flyers has 55 training aircraft. The flying school plans to refit all of its Cessna 172 aircraft.

Since November 2006, the world’s largest Cessna sales partner, Van Bortel Aircraft, Inc., has also been integrating the Thielert engine into the brand new Cessna 172 Skyhawks. The cooperation with Van Bortel Aircraft opens new distribution channels for Thielert, as well as new opportunities on the general aviation market.

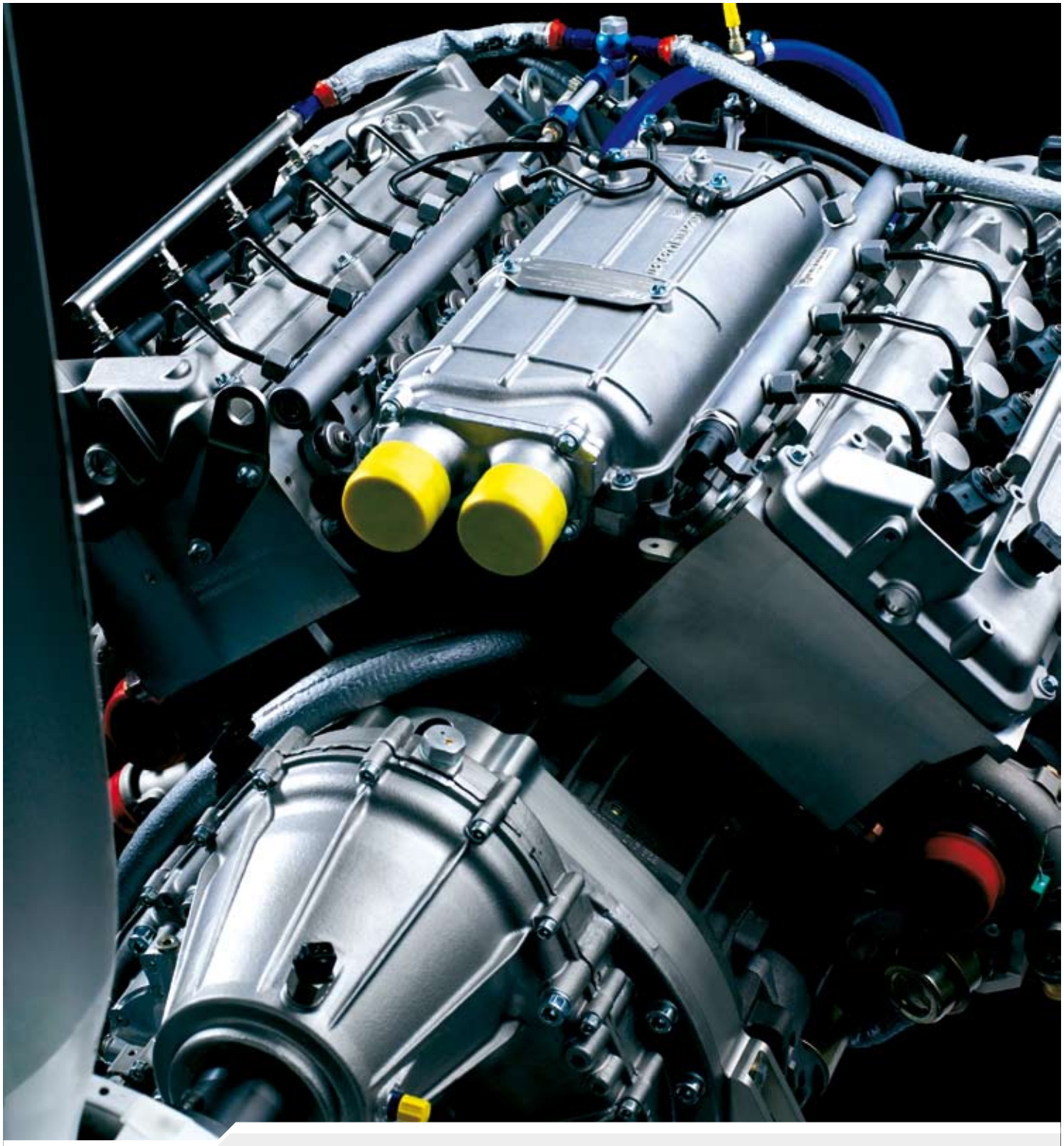
The Piper PA28 is one of the most popular general aviation aircraft together with the Cessna 172. The Centurion 1.7 has been used for integration into the Piper PA28-161 as a replacement engine for over two years now. In 2006, the supplemental type certification was extended by the European aviation authorities to cover the Piper PA28-140, -150, -160, -180 and -151. This reduced the weight of the Piper PA28-160 and -180 to 976 kg. On May 24, 2006, the Australian aviation authority granted certification for the Piper PA28. On July 24, 2006, Thielert received supplemental type certification from the US aviation authority for the PA28-161. The new certifications mean that the Thielert Group now covers almost all Piper PA28 models – a large market: after all, around 15,500 Piper PA28 aircraft are certified in North America alone, all of which can be retrofitted with a CENTURION 1.7.

The CENTURION 1.7 has been fitted as standard in Diamond Aircraft Industries’ Diamond DA40 for some time now. The new, twin-engine DA42 also flies exclusively with the German engine. In addition to numerous other awards, the specialist aviation magazine “Aviation Consumer,” among others, crowned the DA 42 Twin Star aircraft of the year 2006, while the model was voted the “Editor’s Choice 2006” by “Flying” magazine. Diamond Aircraft Industries is the third-largest manufacturer of fixed-wing aircraft for the general aviation market and sold 33 percent more aircraft in 2006 than in the previous year. This meant that the aircraft manufacturer outperformed the market, as a whole, a development that was due, among other things, to Thielert’s Centurion engines. According to information provided by the General Aviation Manufacturers Association, the market as a whole grew by 11.6 percent in 2006.

The Robin 135 CDI (formerly DR400) manufactured by Apex Aircraft is also fitted with a CENTURION engine ex-works. The aircraft has been supplied since October 2005.

CENTURION 2.0 – the successor model

Thielert has been marketing the CENTURION 2.0, the next phase in the development of the CENTURION 1.7, since the beginning of 2007. The new engine replaces its predecessor, both for new aircraft and in the replacement business. The newly developed cylinder block for the Centurion 2.0 meets the high aviation requirements even better than its predecessor. Further product improvements include a flatter FADEC (Full Authority Digital En-



CENTURION 4.0: THE NEW GROWTH DRIVER

With the CENTURION 4.0, the Company was able to further develop the next engine to the series production stage in 2006. The engine covers a further 40 percent of the piston aircraft engine market and can be integrated into best sellers such as the Cessna 206 or the Cirrus SR22. Thielert offers the engine in several performance levels. The 310 and 350 HP categories have already been certified. Further categories will follow ranging down to 280 hp. This measure is important for the retrofit market in particular. Not all aircraft airframes are approved for the full engine performance.

The full preparations for series production were conducted in the year under review. Series production has now commenced and the first engines have been delivered to clients. A early as this year, the CENTURION 4.0 will contribute to the success of the Company and will become a key growth driver. The engine will be launched by major OEM clients shortly.

gine Control), a lighter cast gearbox housing, interfaces for glass cockpits, and a new service tool that also allows the FADEC to be programmed in the field. The expansion of the displacement to two liters is largely the result of a change in the automotive basis, and is aimed particularly at meeting the demand on the US market. Since, in terms of its dimensions, the new engine has only been modified slightly, it is, for the most part, compatible with the existing CENTURION 1.7 kit. As a result, the CENTURION 1.7 can be replaced with the CENTURION 2.0 relatively easily at the end of its lifetime.

The Group has already had certification by the European and US aviation authorities since August and October 2006. At present, the Centurion 2.0 is certified for installation in the most important models of the Cessna 172 in 40 countries including the USA. Certification for models of the PA28 followed in March 2007. The Centurion 2.0 will be delivered as an installation kit to the aircraft manufacturer Diamond Aircraft Industries and will be integrated into the successful aircraft DA40 TDI and DA42 Twin Star.

CENTURION 4.0 – the high-performance model

At the end of the year under review, series production was launched for the second kerosene piston aircraft engine, the CENTURION 4.0. As with the CENTURION 2.0, the CENTURION 4.0 is a low-consumption, turbocharged, high-torque engine based on proven diesel technology from the automotive sector. The CENTURION 4.0 boasts cylinder capacity of 3,996 cm^3 and is offered in various performance levels ranging from 280 to 350 hp in order to keep the time and expense involved for supplemental type certifications for various types of aircraft low. The 310 and 350 hp models had already been certified by the end of the reporting year. The CENTURION 4.0 is set to make a breakthrough on the market for piston aircraft engines. The engine is currently undergoing prototype testing, a process that involves integration into a Cessna 206, among others. Certification by the European aviation authority was granted in the spring of 2007 for important models like Cirrus SR22 and Cessna 206. At the same time, the Group is also determined to drive ahead with the integration of the engine into various other models. Integration development and certification for twin-engine aircraft such as the Cessna 340 A and the Cessna-414 series has already commenced. The aim is to fly a twin-engine Cessna at the AERO trade fair in April 2007. EASA certification is likely to be granted in mid-2007.

The Centurion 4.0 is offered as a preassembled firewall forward kit with engine, mount, and periphery. This means that the engine has already been integrated into the frame and connected to the engine peripherals. The Centurion 4.0 elevates the Cessnas into a completely new league in terms of attractiveness compared with conventional engine configurations. The Thielert engine not only offers improved safety and comfort, but also enables a larger range due to its low consumption, averaging 45 liters an hour, and an optimized payload, while offering a higher cruising speed at the same time. The design of the engine nacelles for the twin-engine models is also impressive with its aerodynamic efficiency and effective styling.

CENTURION 3.2 – new model planned

In General Aviation, piston aircraft engines are categorized into three power classes. Thielert covers the two main power classes, which each have a market share of around 40 percent, with the CENTURION 2.0 and the CENTURION 4.0. At the Berlin Air Show in May 2006, Thielert also announced that it was planning an engine for the middle power class of between 230 and 250 hp in order to round off its product offering. The CENTURION 3.2, which is currently under development, is to offer 230 hp, meaning that it closes the gap in the power class between the two production engines. The new engine is a further component in the Group's growth strategy, in accordance with which it aims to cover the entire spectrum of piston aircraft engine technology with its engines and engine integrations in the medium term.

The Centurion 4.0 in a Cessna 206 and the new Centurion 2.0 (left and middle)

Thielert customers fuel kerosene

In training fixed-based operators learn the maintenance for the Centurion engines to extend the service center network

Advantage: kerosene engine

Unlike other piston aircraft engines, Thielert engines do not run on traditional, leaded aviation gasoline (avgas), but can be fuelled using the standard aviation fuel kerosene (jet fuel). Furthermore, CENTURION engines offer the key advantage that they burn fuel in an exceptionally efficient manner, meaning that consumption costs are extremely low, substantially increasing the range and safety of the aircraft. An additional advantage is the worldwide availability of kerosene. In light of constantly rising oil prices, cost efficiency and operation guarantee are convincing arguments in favor of the kerosene piston aircraft engine.

Even over the past few years, the prices of Avgas have been far higher than those of kerosene on many major markets, a trend that is due, among other things, to high production costs. The reasons are higher safety requirements for the fuel storage and an unreliable supply chain. The high price and the fact that the fuel is leaded, and therefore constitutes an environmental burden, will considerably reduce the status of Avgas over the next few years and increase demand for kerosene piston engines. Furthermore, Avgas is unavailable, or scarcely available, in many regions, e.g. Asia, Africa, and Southern Europe. This is due not only to price developments, but also to the short shelf life of the fuel in high-temperature environments as a result of the volatility of various different additives. Moreover, Avgas has a very low flash point, meaning that it harbors a comparable high risk of fire and explosion. The fuel also contains tetraethyl lead (TEL), an antiknock additive. Tetraethyl lead is suspected to cause cancer and can damage the nervous system, in particular. This highly poisonous substance was banned from use in the automotive industry in the US back in 1996 and in the European Union in January 2000. Leaded petrol has been unavailable for years now for cars, and it can be stated that aviation will follow the example of the automotive industry.

BUSINESS SEGMENT TECHNOLOGY & PROTOTYPING

The business segment Technology & Prototyping develops and manufactures engine and precision parts for general aviation, the defense technology segment, and the automotive industry. Technology & Prototyping also offers individual, client-specific solutions: engine adaptations that optimize the CENTURION engines for special use.

Prototypes and racing components

Prototype construction and the motor sports segment naturally come hand in hand with high requirements with respect to flexibility and quality. Client demands are high, and the number of units produced is comparatively low. As a result, Thielert's Technology & Prototyping segment specializes in high-quality, high-margin engine components. As a result, all of the machinery is geared towards prototype manufacturing and small-scale serial production for these engine components: From the turning and milling of the raw material to the grinding of highly complex profiles, Thielert performs all manufacturing processes in-house. Turning, milling, gun drilling, and grinding – Thielert has mastered all of these disciplines at the highest technological level.

Technology & Prototyping uses state-of-the-art software (e.g. Pro-Engineer) for the design of all engine components. Post-processor technology transmits the design data – naturally also in accordance with the client's 3D models – directly to the machine. In concrete terms, Thielert produces the following products:

– Crankshafts with complex freeform surfaces are manufactured on 4- to 7-axes CNC millturn centers. The manufacturing process covers the entire crankshaft manufacturing process, including billet crankshafts where required, which is standard in motor sports and automotive prototyping.

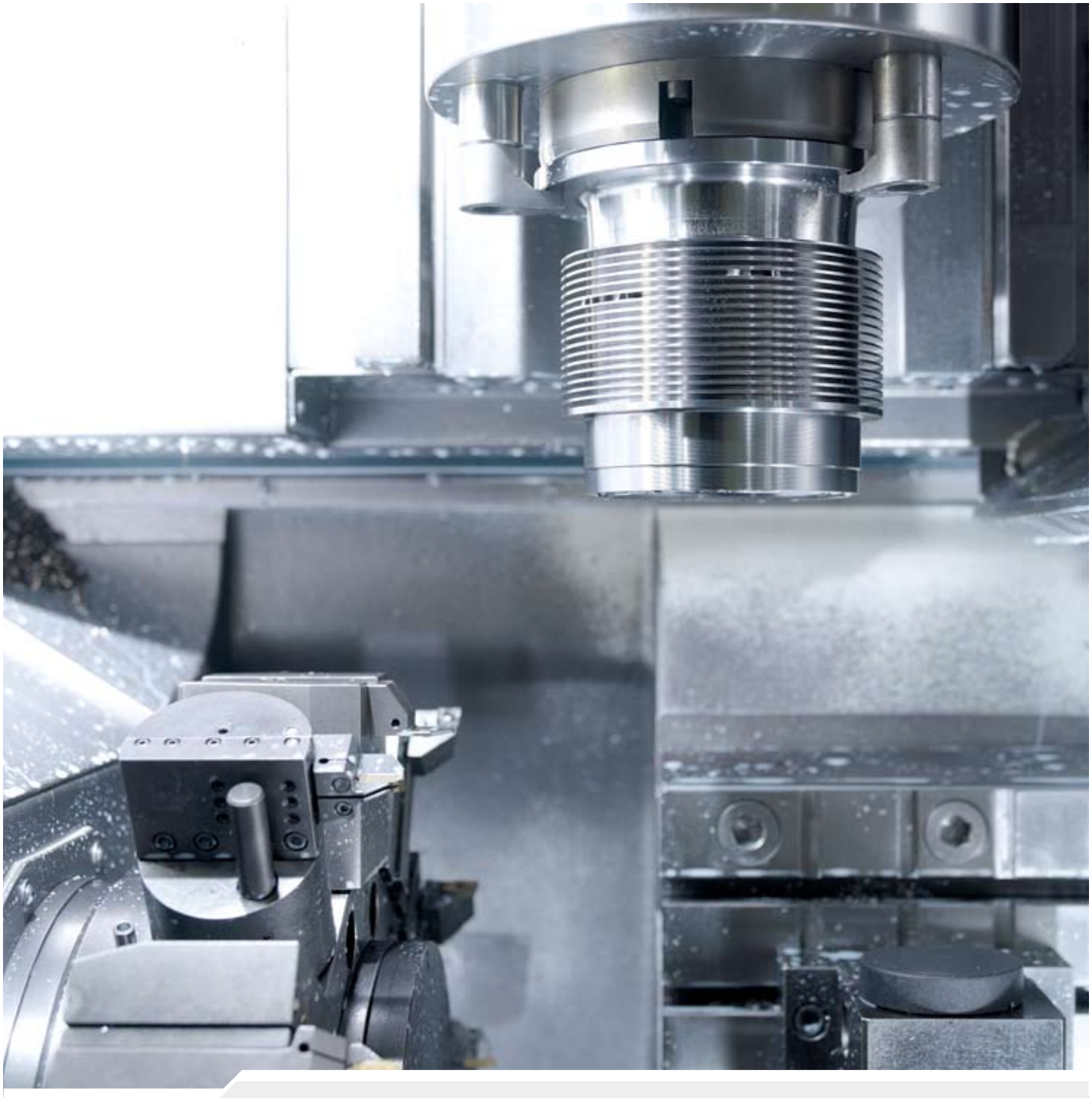
– The Company manufactures camshafts on state-of-the-art CNC machines: from turning and milling of the raw material to the grinding of extremely complex concave and inclined cam profiles. This allows Thielert to achieve the highest possible degree of precision, even for the most sophisticated cam profiles (with concave radii up to 40 mm).

– The Company manufactures connecting rods in small runs for both aviation and prototyping. Thielert manufactures exhaust components, such as exhaust manifolds, out of highly alloyed nickel steels (including Iconell and Nimonic).

– Cylinders and cylinder heads are produced in full on 5-axes CNC machines and horizontal machining center with pallet changer.

In addition to the manufacture of small batches for automotive prototyping and motor sport, the Company also produces components for aviation. The PMA components for conventional aircraft

Component manufacturing:
prototype crankshafts
for automotive industry
and Superior cylinder



COMPONENT PRODUCTION AT THE HIGHEST POSSIBLE LEVEL

In addition to development, metal machining is one of the key processes in the Technology & Prototyping segment. From the turning and milling of the billet to the grinding of highly complex profiles, Thielert performs all processes in-house. As a general rule, all common steels and alloys can be machined both from solid metal and using forged or cast raw material.

The Company's state-of-the-art, high-performance machinery includes 4 to 7-axes CNC machining centers. When it comes to the manufacture of engine components such as crankshafts, camshafts, connecting rods, teethed shanks, gears, cylinders, and cylinder heads, as well as crankcases, both the Company's employees and its machines must be able to master a comprehensive range of manufacturing techniques: circular milling on inclined surfaces, mill-turning of crankpins, b-axis milling, for example, for turbines, the broaching of internal splines and keyways, gun drilling and gear hobbing, and the milling of cam contours. This is why our machinery is continually adjusted to reflect new challenges and our employees are given intensive training.

engines, which are produced for Thielert's subsidiary, Superior Air Parts, are particularly worth mentioning in this respect. These are especially crankshafts, camshafts, cylinders, cylinder heads, and connecting rods, which are offered as replacement parts for Lycoming and Continental engines. Unlike in prototype construction, these components are systematically produced in larger quantities. This is why the Company has made further investments in machinery in the fiscal year under review, namely in CNC milling machines. The acquisition also allows necessary synergy effects to be generated, particularly with respect to quality assurance and logistical processing.

Engines to meet all requirements

One of the Thielert Group's key strengths lies in engine adaptation for special applications. The engine control software enables the versatile use of engines in aircraft, ground vehicles, or marine services, for example. In particular, the empirical development experience and the integration of mechanical and electronic components allow Thielert's Technology & Prototyping segment to improve the power output and reliability of existing engine concepts. We assess our mechanical and electronic developments on an ongoing basis for improvement potential using high-performance Schenck dynamometers during the entire application process. The flexibility of the operating environment allows the Company to test engines under all kinds of different conditions.

Technically advanced engine management systems

Thielert develops well-rounded concepts for engine management systems, as well as single controls and modules for individual applications. A modern graphical user interface and parameter-driven software allow the flexible and user-friendly application of control strategies in accordance with the specific requirements of the client. All engine management products are delivered cased in housings, milled from the billet in accordance with MIL standards.

The Technology & Prototyping employees develop and produce tailor-made digital engine control systems (32-bit engine management systems) within a short space of time, including the integration of linear lambda closed loop and adaptive knock detection. Thielert has also developed sophisticated turbo control strategies, as well as engine and propeller control systems for the aviation market (FADEC – full authority digital engine control). Thielert's CANbus-based communication software allows the integration of random numbers of vehicle-specific modules (such as sequential gearboxes) as well as the online representation in the application phase. The user can configure a personalized interface using preconfigured display modi.

Centurion engines for military technology

The US Department of Defense and NATO are aiming to operate with a single type of fuel from 2008 onwards. This principle was made public under the name of "Single fuel for the battlefield" and is aimed at improving the logistics, availability, range, and cost-efficiency of the armed forces. Within this context, the decision has fallen in favor of diesel fuel or "heavy fuel" because, even today, the engines of most military applications in the NATO states run with various diesel raffinates. With its kerosene piston engines, the only engines of their kind worldwide, the Thielert Group is set to benefit from this decision. After all, its engines meet all of the requirements of the US armed forces: they are economical, easy to maintain and very reliable. The engines can be run on kerosene-based fuels, have already received numerous civil aviation certifications, are fully operational, and have been given the highest "Technology Readiness Level" ranking.

As a result, the US company General Atomics Aeronautical Systems, Inc. (GA-ASI) has already integrated the CENTURION engine into its UAVs (Unmanned Aerial Vehicles). GA-ASI is one of the world's leading manufacturers of UAVs. The maiden flight

Development and testing: core skills of the segment Technology & Prototyping

of the Sky Warrior – formerly known as Predator Warrior – model took place in October 2004. The Sky Warrior UAV is the long-distance diesel version of the mission-tested Predator UAV with a conventional gas engine and is designed to be used by the US armed forces as a communication station in long-term observations and in supply missions. The Sky Warrior was selected by the US Army for the Extended Range/Multi-Purpose (ER/MP) UAV Program, which spans several years. Series production of the Sky Warrior will begin in mid-2007. In the run-up to series production, GA-ASI issued the Company with further orders, which were booked as income, in November 2007. As part of the ER/MP program, the ongoing order for 2006 was increased by 50 percent. This relates mainly to further development services for the engine for the Sky Warrior UAV. Thielert is the exclusive engine supplier for this program. Further equipment modernization programs are also planning with the Sky Warrior.

In general, there is high demand for innovative diesel engine concepts in the military technology sector. The main fields of application include unmanned aerial vehicles (UAV), as well as unmanned all-terrainvehicles (UV, ATV).

Defense projects are subject to special confidentiality declarations, which is why no further information can be provided as to the use of Thielert kerosene engines in various projects. The following projects, however, are public knowledge.

PROJECTS OF THIELERT AG/THIELERT AIRCRAFT ENGINES

Program	DoD-contractor	Service	Budget, comments
US Army ER/MP – Extended Range/Multi-Purpose	General Atomics	Development services and certified aircraft engines for the Warrior UAV. Each UAV system has three engines	Where possible, the Sky Warrior is to be used for several branches of service. Cooperation since 2002. A total of over USD 1.04 billion has been approved for the ER/MP program
US Army FCS – Future Combat System	Various participants	Engines suitable for various UAVs and TUGVs, as well as development services	Total project volume in the period leading up to 2011 totals USD 9.37 billion. USD 614 million of this amount is attributable to the development of UAVs
	General Atomics	CLASS IV B	Probably the ER/MP UAV
US Army E-Hunter	Northrop Grumman	–	As part of this program, the Hunter will be replaced by the ER/MP UAV from 2007 onwards
LCS VSR-700	Eurocopter	Engine suitable for ORKA	Engine integration in the planning phase
FCT	MMIST	Engine suitable for CQ-10 Snowgoose	49 vehicles planned, integration planned

THE SHARE

In a stock market environment that has been generally very friendly, Thielert AG stock showed itself to be in good shape. At year's end, the security was quoted at EUR 17.80, thereby achieving a 16 percent increase within one year, despite the fraud allegations published in October. By virtue of the strategic course set during the reporting period – such as the acquisition of Superior Air Parts, Inc., and the opening of the new site in Altenburg – the SDAX company is, and will remain, a valuable investment.

Admission to the SDAX

Thielert AG was admitted to the SDAX index ahead of schedule with effect from March 1, 2006, and took the place of the Vivacon share, which moved up into the MDAX to replace Degussa. This means that Thielert AG has gained its place alongside 49 other companies from traditional sectors in the Prime Standard segment of the Frankfurt Stock Exchange, coming in below the MDAX stocks. Thielert's shares had been a hot favorite for entry to the SDAX ever since the index ranking was published on Jan. 31, 2006. The stock's admission to the segment is testimony to the strong performance of both the Company and its employees, and reflects the very positive development of the Company since the IPO in November. As far as the stock exchange ranking for the MDAX index composition is concerned, Thielert's shares currently rank 84th in terms of market capitalization and 54th in terms of order-book turnover.

Stock exchange climate remains favorable

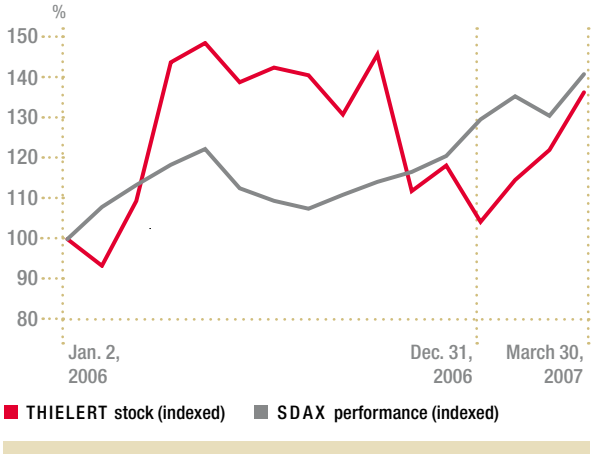
2006 was another good year for equity investors. The international stock markets reported gains for the fourth consecutive year and managed to avoid critical overvaluations at the same time. The positive sentiment, albeit characterized by very realistic assessments, was the result of the sustained low interest rate level, coupled with robust corporate earnings growth. Things clouded over temporarily in May when inflationary fears prompted investors to be more cautious with respect to their readiness to assume risk. Within only a few days, the markets lost around ten percent. Nevertheless, this slump proved to be relatively short-lived and the upward trend continued in the middle of the year. At the end of the year, the DAX closed at 6,596.92 points. The previous day had seen the highest level seen in several years at 6,629 points. All in all, the index gained 22 percent in the course of the year.

The performance of Thielert shares

Following the extremely dynamic performance of Thielert shares in the first quarter of the year (up by 49.8 percent), the second quarter was characterized by profit-taking and price corrections on all indices. At the beginning of May, the solid quarterly figures resulted in rising prices in the first instance (up to EUR 27.90). Nevertheless, the more volatile market environment then led to slight price corrections. At the end of the quarter, the share price made considerable gains again. Thielert shares closed the quarter at EUR 24.02. At the beginning of the third quarter, the share initially reached highs of EUR 24.75. This was followed by a period of very volatile development, although the announcement of the increase in the stake of Global Opportunities (GO) Capital Asset Management B.V. stabilized the share price.

THIELERT STOCK PERFORMANCE

(XETRA closing price)



After the company was confronted with fraud allegations at the beginning of October, its share price, accompanied by extremely high volumes, dropped to an annual low of EUR 14. Following the immediate repudiation of the allegations, the share price recovered on the very same day and closed out at EUR 18.25. The highest mark Thielert AG hit during the reporting period was EUR 28. At year's end the share price was at EUR 17.80 (15.35): an increase of 16 percent over that of last year's reporting date, and an increase of 32 percent since its initial quote in November 2005.

Growth stock with solid performance

The share price performance is testimony to the fact that Thielert shares represent a solid growth stock, as announced when the Company went public (Nov. 17, 2005). In the year under review, the Group once again substantially increased its overall performance by increasing capacity, boosting production, diversifying its product range, and acquiring the US-based company Superior Air Parts Inc. The Company boasts high earnings and a good profit margin. Both the cash flow situation and the working capital were improved in the last quarter. Earnings per share totaled EUR 0.26.

DATA ON THE THIELERT SHARE

WKN/ISIN:	605 207/DE0006052079
Stock exchange code:	T3C (Deutsche Börse)
Bloomberg symbol:	T3C GY (XETRA), T3C GF (floor trading)
Reuters symbol:	T3CGn.DE (XETRA), T3CGn.F (floor trading)
Main trading exchange:	XETRA
Additional stock exchanges:	Berlin-Bremen, Düsseldorf, Frankfurt am Main, Hamburg, Munich, Stuttgart
Share capital:	19,891,530 EUR
Number of shares outstanding:	19,891,530

PERFORMANCE IN THE 2006 FISCAL YEAR (IN EUR)

Opening price on the first trading day Nov. 17, 2005:	13.50
Highest price:*	27.49
Lowest price:*	15.47
Share price on Dec. 29, 2006:*	17.80
Market capitalization on Dec. 29, 2006:	354.1 Mio.
Earnings per share:	0,26

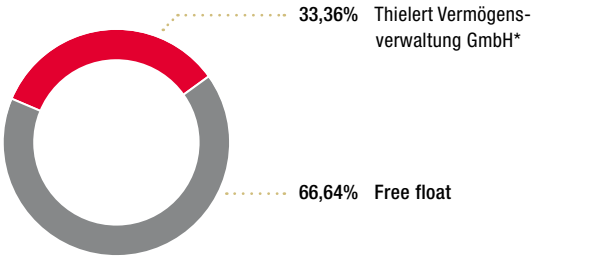
*Closing price

A clear strategy, exceptional products, and an excellent market position form a solid basis that should give the Company a helping hand along the growth path in the future, too. Thielert also has a value-oriented management system: all decisions and actions within the Group are based on the issue as to whether or not, and to what extent such measures will have a positive impact on the value of the Company.

Free float increase

SHAREHOLDER STRUCTURE

(as of March 30, 2006)



* Thielert AG has knowledge that with respect to 3,682,952 shares Thielert Vermögensverwaltung GmbH has initiated legal proceedings which probably will also clarify legal title to these shares. To date Thielert AG has not received a notification by Thielert Vermögensverwaltung GmbH of the loss of voting rights with respect to these shares. Thielert AG assumes that the voting rights attributed to these shares still belong to Thielert Vermögensverwaltung GmbH, as long as such notification or notifications by potential new owners are not affected. Thielert AG further assumes that respective notifications will be made to it as soon as the relevant facts have been clarified.

As at the balance sheet date, Thielert Vermögensverwaltung GmbH still held 33.36 percent of all shares. The free float (according to the definition of Deutsche Börse) increased to 66.64 percent – including Global Opportunities Asset Management B.V. with 17.63 percent and Schroder Investment Management Ltd. with 5.21 percent of the shares, CRE Fiduciary Services Inc. with 4.34 percent, UBS AG 3.35 percent, and Threadneedle Asset Management Limited with 3.08 percent.

No dividend – profits invested

So that the Group can continue on its growth path, the Company does not intend to distribute a dividend to its shareholders for 2006 despite a very successful financial year. All of the Company's profits are to be retained and used to develop the Group's business activities.

Open information policy held in the highest regard

Membership of the SDAX is testimony to the importance that transparent and comprehensive reporting has for the entire Group. As a result, the Company focused on drawing more attention to the value of its shares among investors, analysts, and the financial press in fiscal year 2006. The Company reported on its business developments in several publications – annual reports, quarterly reports, newsletters, and press releases. The latest relevant news was published on the Company's website (www.thielert.com) so that all interested parties could keep themselves up to date with current events within the Company. The management provided private investors with information in person at the annual general meeting, among other events, while institutional investors were provided with information at press and background discussions and in various roadshows. In 2007, Thielert will continue with, and further optimize, these investor relations activities, which have proven to be valuable in the past and are also recognized by the financial community.

CORPORATE GOVERNANCE

The Thielert Group is aware of the importance of accountable, transparent company management and control for securing the trust of the financial community. As a result, the management always takes care to ensure that its conduct with customers, shareholders, employees, and the general public is responsible, honest, and open.

Declaration of conformity in accordance with § 161 AktG (Stock Corporation Act)

The Company's Management Board and Supervisory Board declare that Thielert AG has conformed and in future will conform with the recommendations of the government commission contained in the German Corporate Governance Code, in its version dated 12 June 2006, officially announced in the electronic version of the German Federal Gazette, with the following exceptions:

Item 2.3.1 Paragraph 2 The Management Board shall not only provide the reports and documents, including the annual report, required by law for the General Meeting, and send them to shareholders upon request, but shall also publish them on the Company's Internet site together with the agenda.

Thielert AG waives the recommendation to publish the Company's individual accounts on the Internet.

Item 2.3.4 The Company should make it possible for shareholders to follow the General Meeting using modern communication media (the Internet).

In addition to participating in the general shareholders' meeting, the Company makes it possible for shareholders to follow a transmission of the event via modern communications media within the venue rooms. However, the Company does not provide any further means than this for following the proceedings of the general shareholders' meeting.

Item 4.2.3 Paragraph 3 In particular, Company stocks with a multi-year blocking period, stock options, or comparable instruments (e.g. phantom stocks) serve as variable compensation components with long-term incentive effect and risk elements. Stock options and comparable instruments shall be related to demanding, relevant comparison parameters. Changing such performance targets or the comparison parameters retroactively shall be excluded. For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed by the Supervisory Board. The existing long-term, variable compensation agreements do not entail any, nor do they consist of, share options or comparable instruments. On the contrary, they are based on a long-term-oriented system involving key indicators.

Item 3.8 Paragraph If the Company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed.

The Management Board and Supervisory Board are not subject to a deductible for the D&O policy.

Item 5.3.1 Depending on the specifics of the enterprise and the number of its members, the Supervisory Board shall form committees with sufficient expertise. They serve to increase the efficiency of the Supervisory Board's work and the handling of complex issues. The respective committee chairmen report regularly to the Supervisory Board on the work of the committees.

The Supervisory Board has not formed any committees, as it is only composed of three members.

Item 5.3.2 The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points, and the fee agreement. The chairman of the Audit Committee shall have specialist knowledge and experience in the application of accounting principles and internal control processes. He should not be a former member of the Management Board of the Company.

An Audit Committee also has not been set up.

Item 6.6 Paragraph 2 The ownership of shares in the Company or related financial instruments by Management Board and Supervisory Board members shall be reported if these directly or indirectly exceed one percent of the shares issued by the Company. If the entire holdings of all members of the Management Board and Supervisory Board exceed one percent of the shares issued by the Company, these shall be reported separately according to Management Board and Supervisory Board.

The buying and selling of Thielert AG shares by Management Board and Supervisor Board members are published to the extent required by §15a of the Securities Trading Act. Shares held by the Company's directors and officers and the related financial

instruments beyond this have not been published thus far, nor are there any future plans for such.

Item 7.1.2 Clause 2 The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period.

The Company's Consolidated Financial Statements were made publicly accessible in excess of 90 days after the end of the reporting period.

REMUNERATION REPORT

The remuneration report for the 2006 financial year is part of the management report under Section 315 of the German Commercial Code (HGB).

Remuneration of the Management Board Members

The Supervisory Board is responsible for dealing with contracts of Management Board members and thus in particular for determining the remuneration of the Management Board members. The Supervisory Board reviews the structure of the remuneration system for the Management Board in a full assembly.

The goal is to determine appropriate remuneration. The criteria for this are particularly the tasks of the respective Management Board member, his personal performance, the performance of the Management Board, as well as the economic situation, the success, and the prospects of the company taking into account its environment as a comparison.

A. Remuneration Structure and Components

The remuneration for the Management Board members is comprised of non-performance-based salary payments and benefits in kind as well as performance-based components. The performance-based, variable remuneration components consist of annually recurring components that are linked to the commercial success and of components with a long-term incentive effect and risk character.

The fixed remuneration is paid in the form of a monthly salary payment. These are supplemented by benefits in kind, which are granted particularly in the form of a company car as well as payment of insurance premiums.

The fixed remuneration is reviewed regularly and, if applicable, adjusted, taking into account the general development of salaries and the sphere of responsibility of the respective Management Board member.

An ambitioned system, which is oriented according to meaningful performance indicators, was introduced for the bonus, which is oriented according to the commercial success and is paid once every year.

The amount of the annual bonus is limited (cap).

B. Remuneration of the Management Board Members 2006

The total remuneration of the Management Board members for their activity in the 2006 financial year amounted to EUR 0.8 million. Details of the Management Board remuneration, particularly the statement of remuneration in an individual form, are contained in the Notes to the Consolidated Financial Statements under Item M.8.

Remuneration of the Supervisory Board Members

The structure and the amount of the remuneration for the Supervisory Board are determined by the shareholders' meeting and are set forth in Section 14 of the Articles of Association. It is oriented according to the tasks and responsibilities of the Supervisory Board members as well as the group's economic success.

A. Annual Remuneration

The annual remuneration is comprised of the following components:
– a base amount (fixed remuneration) of EUR 12,000 Euro, as well as
– a variable remuneration (bonus) depending on the dividend distributed. It provides for a bonus of EUR 100.00 for each EUR 0.01 of dividend exceeding a dividend amount of EUR 0.10 per share, however, no more than EUR 8,000.00.

The chairman of the Supervisory Board receives twice, the deputy chairman receives one and one-half times this amount. Supervisory Board members, who are members of a committee, receive an additional quarter of the remuneration and, if they chair the committee, a further quarter of the remuneration in addition. Supervisory Board members, who have not been members of the Supervisory Board throughout a full financial year, receive the remuneration corresponding to the duration of their membership in the Supervisory Board.

The Supervisory Board members furthermore receive reimbursement of all expenses as well as reimbursement of the value-added tax payable in respect to their remuneration and expenses.

B. Remuneration of the Supervisory Board Members 2006

The total remuneration to be paid to the members of the Supervisory Board for 2006 amounted to EUR 54,000.00.

CONSOLIDATED MANAGEMENT REPORT

THIELERT ACTS IN STRONG GROWING NICHE MARKETS. IN THE YEAR 2006 THE BASIS FOR A SUSTAINABLE SUCCESS OF THE COMPANY WAS BUILT.

CONSOLIDATED MANAGEMENT REPORT

A. ECONOMIC ENVIRONMENT

The Thielert Group develops and manufactures kerosene fuel piston aircraft engines for general aviation (GA), components for high-performance engines and special parts with complex geometries, in addition to hardware and software for digital control units. The Group is active in the worldwide market for piston aircraft engines.

As expected, the global market for piston aircraft engines continued to chart positive development in 2006. In this dynamic environment, the Thielert Group continued, unimpeded, on its growth path. The balance sheet is testimony to a fundamentally solid, high-growth and profitable company. The Thielert Group boosted its revenues[1] by 59.5 percent.

1. Global economy 2006: sustained growth

The global economy continued a boom that has now spanned a three-year period. Economic expansion was broader based. In addition to the dynamic East Asian and US economies, the euro zone, too, again reported a strong increase in gross domestic product this year.

International economic growth is particularly encouraging given the high exports/international contribution to the revenues of the Thielert Group.

In Germany, too, however, gross domestic product increased by an impressive 2.7 percent this year. Unlike in previous years, the economic momentum was no longer due solely to a substantial increase in exports of goods and services; the domestic economy also played a key role in the increase. Although a range of special factors came into play, economic momentum was based largely on a more solid economy.

2. General Aviation 2006: General Aviation continues to gain ground

In the year under review, the general aviation market showed extremely positive development, as in previous years. According to the 2006 report of the General Aviation Manufacturers Association (GAMA), revenues grew by 24.1 percent in 2006 (previous year: 27.2 percent). Unit sales increased by 12.9 percent (previous year: 20.8 percent). The Thielert Group's relevant market segment of piston aircraft also witnessed growth of 11.6 percent (previous year: 20.2 percent), rising to 2,750 delivered piston aircraft. Aircraft manufacturers that use modern technology with respect to engines, avionics and airframe reported particularly substantial growth. GAMA believes that the growth seen within the sector is due to global economic growth and the increased use of general aviation aircraft for both private and business travel. The industry association expects further growth for 2007 and beyond, too.

3. Competitive situation: technology and market leadership strengthened

Competition on the market for piston engines remained virtually unchanged in 2006. The Thielert Group is the technology leader and the only company to have successfully launched a new engine concept on the market over the past 40 years. The Company's competitors with respect to the development of kerosene piston aircraft engines such as SMA (France) or DeltaHawk (USA) showed stagnating development. They were unable to either achieve any significant new certifications or to gain market share in the year under review. This means that, with a market share

[1] Including proceeds from sales from Superior Air Parts Inc., Coppell, Texas/USA for the past three quarters

of over 90 percent, Thielert remains the market leader for global deliveries of kerosene piston aircraft engines. Other development projects such as Bombardier-Rotax's project for a 300 hp V engine were discontinued.

The current market leading manufacturers of aircraft engines – Textron Lycoming and Teledyne Continental – continue to rely on their conventional technology, based on a concept developed over 40 years ago. The Boxer engines consume extremely high volumes of leaded aviation gasoline. There are virtually no signs suggesting that Lycoming and Continental will be breaking from their fundamental concept and launching new developments. Several attempts in this direction have failed to produce any certified, marketable engines to date. We are unaware of additional projects related to modern, efficient diesel technology that would enable one to fly with standard aviation fuel (kerosene).

Thielert's client Diamond Aircraft Industries strengthened its market position as the third-largest manufacturer of GA aircraft and sold 33 percent more aircraft in the year under review than in the previous year. This means that Diamond charted above-average growth vis-à-vis the market as a whole thanks to Thielert's Centurion engines. The market leader Cessna announced that it was testing Centurion engines for the so-called next generation piston (NGP) aircraft.

B. BUSINESS DEVELOPMENT: ON THE GROWTH PATH

1. Strategic acquisition of Superior Air Parts, Inc.

Fiscal year 2006 was particularly marked by the acquisition of Superior Air Parts Inc. (SAP), Coppell/Texas. The acquisition was completed with an effective date of 31 March 2006. As part of the acquisition, the company acquired 100 of the voting rights in SAP. The transaction volume amounted to a total of 10.0 million USD.

Of that, 8.0 million USD had to do with the repayment of a bank credit; the remaining 2.0 million USD had to do with the takeover of the voting rights.

SAP is one of the world's leading provider of replacement parts approved by the Federal Aviation Administration (FAA) for Lycoming and Continental aircraft engines. In the U.S., SAP enjoys an outstanding reputation in this segment as a quality supplier which also has an excellent distribution network.

The SAP product portfolio is complemented by retrofit replacement engines that are based on the widespread Lycoming technology. Therefore, Superior has pushed ahead with Vantage engine certification, which is designed as a direct alternative to the conventional and widespread Lycoming O-360 with 180 hp – and tied to the advantage that this engine runs on unleaded automobile gasoline. Moreover, SAP distinguishes itself with the XP-360 engine as an engine manufacturer for the strong-growth market of experimental aircraft.

Already in the past, SAP had grown into one of the most important customers and distribution partners of Thielert in the U.S. With the acquisition, the already existing strategic business relationship was given a new foundation. In the past, Thielert manufactured various PMA components for SAP, such as crankshafts, camshafts and cylinders.

Both in terms of the product portfolio and the existing distribution channels, SAP ideally complements the Thielert Group.

As a result of the SAP acquisition, the company expects improved access to the important American market for piston aircraft engines and the afiliated markets for engine replacement parts for general aviation aircraft. In particular, U.S. aviation certification as a production organization for aircraft engines (Production Organization Approval, POA) and engine replacement parts (Parts Manufacturer Approval, PMA) supports the positive development of Thielert's core business with piston engines and engine replacement parts

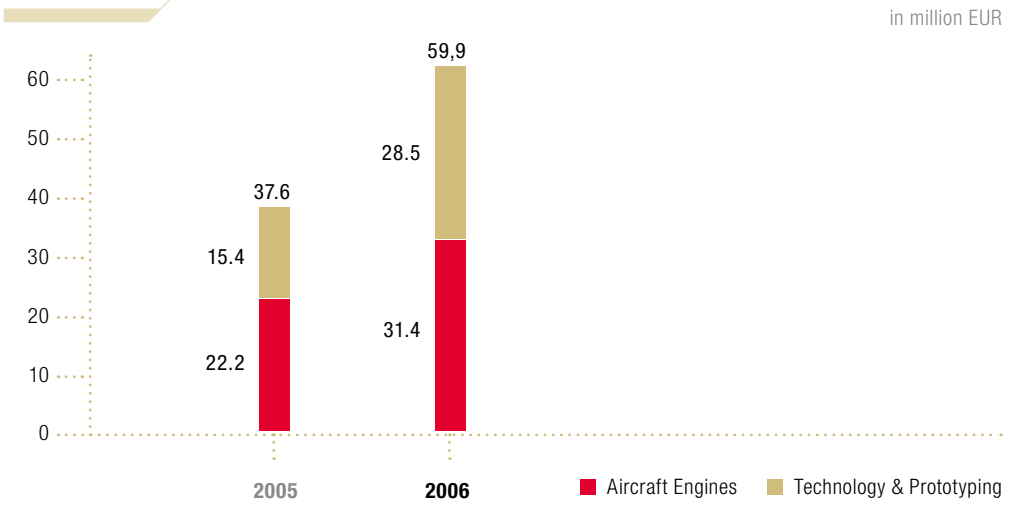
2. Clear rise in consolidated sales

In the 2006 financial year the Group remained on an expansion course with marked growth. Sales rose compared to the previous year by 59.5 percent to EUR 59.9 (37.6) million. Both business units contributed to the higher double digit sales increase:

The business unit Technology & Prototyping grew compared to 2005 by 85.1 percent to EUR 28.5 (15.4) million in revenues. The decisive factor in this regard were the SAP sales that had been relevant since the second quarter and the continuing positive demand for development services in the area of defense technology and civil aviation.

The business unit Aircraft Engines increased by 41.9 percent to EUR 31.5 (22.2) million. On the one hand, Thielert was able to supply more engines in the business unit Aircraft Engines in 2006 than in the year before. On the other hand, thanks to the newly added distributors, the business unit sold more retrofit kits.

REVENUE TREND



3. Present worldwide and successful

In Europe (incl. Germany) Thielert earned EUR 12.6 (13.1) million. This meant a sales proportion of 21.0 percent. The remaining 79.0 percent – EUR 47.4 (24.5) million – were achieved in the USA and elsewhere abroad.

In this regard, as in the previous year, the North American market developed with above average dynamism. Thanks to the growth in defense technology and PMA business, the increases achieved there almost doubled compared to 2005 (93.3 percent growth). The sales achieved in Europe (incl. Germany) fell due to the reduced activity in the automotive prototyping compared to the previous year by -3.8 percent.

The sales and service network of the Group underwent a major expansion in the year under review. Overall, 80 service centers were trained and put under contract. On December 31, 2006, there 156 service centers worldwide, of which 27 were in Germany and 129 abroad. In addition, further sales partners were acquired in the USA, the United Kingdom, Slovenia, Switzerland and Philippines, among other places. The number of sales partners increased from 9 to 19.

4. Positive earnings development

The growth in sales also permitted gross earnings to rise: from EUR 23.4 million in 2005 by 44.9 percent to EUR 33.9 million in the year under review. However, the gross margin fell by comparison with the previous year from the high level of the previous year from 62.2 percent to 56.6 percent. Both the sales realization carried over into the future of development services, which is related to combined development and serial delivery orders, as well as the inclusion of Superior Air Parts from the second quarter, which operates as a firm with lower margins, contributed to this. In addition, in the year under review there was a disproportionate rise in sales in the retrofit market. The retrofit kits do not yet possess the same high margin level as the entire engine manufacture, since an elevated proportion of externally purchased parts for the engine kits, such as propellers, results in a lower value-added ratio. The development of the US dollar was an additional burden on the gross margin.

The aforementioned revenue increase on the retrofit market and the general growth in business volume resulted in a significant increase of cost of sales in the year under review to EUR 26.0 (14.2) million.

As a result of the revenue jump, sales and marketing expenses rose to EUR 8.7 (2.1) million. This quadrupling is in particular attributable to the acquisition of SAP, which has a high sales quota as a reseller and furthermore contributes additional product liability expenditure.

General administrative costs fell to EUR 6.9 (8.0) million. The one-off expenditure in relation to the IPO was responsible for the high expenditure in the area of general administration in the previous year.

The operative earnings before depreciation (EBITDA) fell in the year under review from EUR 16.1 million to EUR 13.3 million. The EBIT fell to EUR 9.3 (13.1) million.

The background to the development of earnings is on the one hand discounting of old receivables to the amount of EUR 3.1 million, which were the object of public criticism. The company remains convinced that the receivables are completely unimpaired, but in reaction to the ongoing uncertainty decided to discount these receivables. On the other hand, revenues from development services with combined development- and serial delivery orders were not stated to the extent planned with an effect on the operating result. Here too, a more conservative accounting approach was chosen, which resulted in sales and revenue shifts from 2006 to the financial year 2007 and the succeeding years. In addition, the earnings situation at Superior Air Parts, Inc. was a burden on the consolidated earnings. As a result of the acquisition, measures were initiated that are intended to bring about a lasting improvement in the revenue situation at Superior Air Parts, Inc., but which will only have an effect from 2007. Due to the high US business proportion, the development of the US dollar was an additional burden on the result.

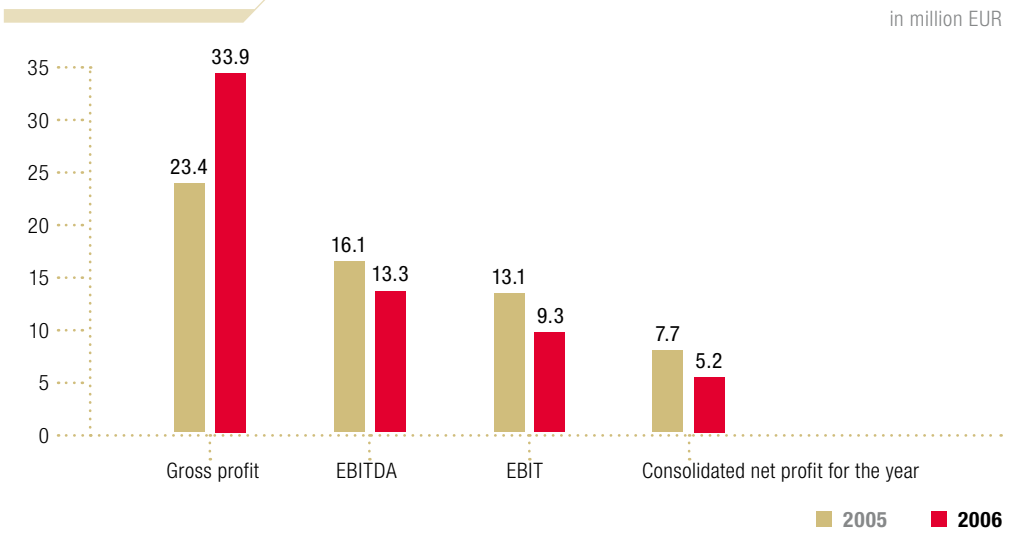
The funds gained from the IPO in November of the previous year contributed to a renewed relief of the financial earnings. The financial earnings improved in the financial year 2005 overall from EUR -3.6 million to EUR -1.3 million.

The consolidated surplus after taxes was EUR 5.2 (7.7) million.

The undiluted earnings per share in the year under review were EUR 0.26 (0.55).

The amortization on assets of the non-current assets in the financial year was EUR 4.0 (3.0) million. The increase resulted essentially from the high investment activity of the previous years.

SELECTED PROFIT FIGURES



5. Business units: Growth in the segments

The Aircraft Engines segment achieved revenues of EUR 31.5 (22.2) million and earned an EBITDA of EUR 9.4 (9.5) million. The EBIT of the business unit was EUR 7.1 (7.8) million.

Although the sales at Technology & Prototyping clearly expanded as a result of the takeover of Superior Air Parts Inc. from EUR 15.4 million in 2005 to EUR 28.5 million, the EBITDA fell to EUR 3.9 (6.6) million. This corresponds to a decline of -40,9 percent. The EBIT fell correspondingly to EUR 2.2 (5.4) million. The earnings of the segment Technology & Prototyping were in particular affected by the revenue situation at SAP. Measures were initiated in this connection in order to bring about a lasting improvement of the revenue-earning capacity of this segment, so that here too a clearly positive development can be expected.

6. Product approvals – international breakthrough of CENTURION technology

In 2006, too, Thielert continued to considerably expand its market position on the basis of new certifications for its engines and aircraft equipment. The EASA certification of the new Centurion 2.0 on August 14, 2006, which was quickly followed by FAA certification on October 25, 2006, is particularly worth mentioning. Furthermore, the 350 hp version of the Centurion 4.0 was certified. All in all, the Company gained a total of 350 new certifications for engines and engine equipment worldwide. This brought the number of certifications up to over 1,800.

7. Marketing and sales – presence at key trade fairs

The Company intensified the marketing of its products at trade fairs and fly-ins at the beginning of the 2006 flight season. Its appearance at the Berlin Air Show in the spring, at which the Cessna 206 became the first aircraft to fly in directly with the Centurion 4.0 - proved particularly successful.

At the world's largest general aviation trade fairs in the US– Sun-N-Fun, EAA Airventure and AOPA Expo – Thielert presented its entire range of engines and engine components together with its subsidiary Superior Air Parts. In fiscal year 2006, Thielert was present at the following selected fairs of the automotive and aviation industry, as well as international exhibitions of the military technology sector:

- Berlin Air Show (ILA), Berlin
- Farnborough International Airshow, London
- EAA (Experimental Aircraft Association) AirVenture in Oshkosh, Wisconsin
- AOPA Expo (Aircraft Owners and Pilots Association) in Palm Springs, California
- Sun-N-Fun in Lakeland, Florida
- EngineExpo in Stuttgart
- AUVSI (Association for Unmanned Vehicle Systems International) in Baltimore
- AUSA (Association of the United States Army), Washington D.C.
- Eurosatory in Paris
- Airborne in Stadtlohne
- Air Magdeburg in Magdeburg
- Tannkosh in Tannheim

C. SOLID NET ASSETS AND FINANCIAL SITUATION

The expansion of the Company's operating activities is also reflected in the balance sheet as at December 31, 2006:

All in all, total assets increased from EUR 123.4 million to EUR 171.4 million. Non-current assets amounted to EUR 67.0 (39.4) million, while current assets totaled EUR 104.4 (84.0) million. Equity increased to EUR 103.6 (99.2) million, while the equity ratio climbed to 60.4 (80.3) percent.

1. Improvements to working capital management

The financial status continues to be dominated by the liquid assets.

The working capital increased from EUR 60.9 million to EUR 77.3 million.

Although inventories at EUR 41.3 (18.6) million remained at a high level, taking the extended business activities into account as well as the effects of the SAP acquisition, the first successes in the area of working capital management are becoming apparent. Thus the working capital in relation to revenue fell from 162 percent in the previous year to 129 percent in 2006.

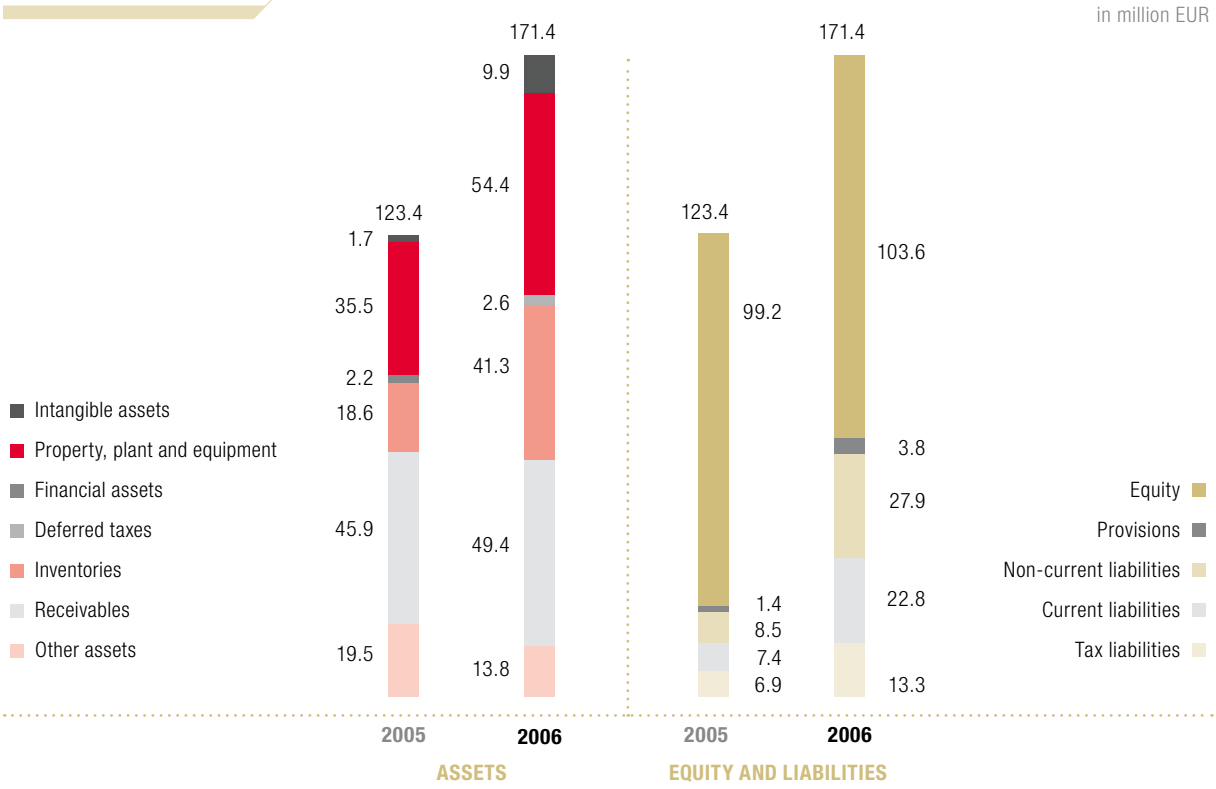
The working capital situation is likely to be improved by the upcoming series production of the CENTURION 4.0 and CENTURION 2.0, which led to an increase in inventories. In this regard, a letter of intent was signed with DaimlerChrysler at the end of July, arranging the delivery of part kits, which form the basis for the series production of the CENTURION 2.0 and CENTURION 4.0.

The receivables from deliveries and services increased in the previous business year from EUR 45.3 million to EUR 48.9 million. The cause for the increase, besides the inclusion of SAP accounts receivable, is essentially an extension of the customer-specific production contracts in the accounts receivable for deliveries and services that are entered in the balance sheet according to their progress (known as PoC receivables).

In view of the age structure of the receivables the resulting debitor risk has been graded according to age, as in the previous year in accordance with the company guidelines for risk management.

In addition to the working capital, the company's asset status has been strongly influenced by the acquisition of SAP.

BALANCE SHEET STRUCTURE



2. Cash flow affected by operating growth

In fiscal year 2006, the internal financing of the company's operating activities was still not sufficient. As a result, it took out a borrower's note loan which is payable at maturity, has a term of 7 years and accounts for a volume of EUR 20.0 million in order to refinance the acquisition of SAP, among other things. These funds, together with the proceeds of the IPO, helped the Company to step up its investment activities, allowing it to meet the demand for CENTURION engines, which has already increased considerably, in the medium and long term. These investments include, in particular, the investments in the new location in Altenburg, Thuringia, as well as the introduction of an automated engine assembly line at the Company's Lichtenstein site.

The expansion of the CENTURION product range regarding the CENTURION 4.0 and the CENTURION 2.0 also had an impact on the Company's financing requirements.

All in all, operating cash flow (2006: -11.4; previous year -11.1) charted positive development in fiscal year 2006 despite a relatively weak first half of the year in 2006 (EUR –14.4 million) thanks to improvements in Q3 (EUR –1.8 million) and Q 4 (EUR +4.8 million). This development underscores the Company's aim of achieving a sustained, balanced free cash flow at the end of the coming financial year.

Investments generated cash flow of EUR -26.9 million. (-3.6) million. The investments in capacity expansion as well as in preparations for series production and rationalization were running at EUR 20.4 (7.0) million for the group as a whole, more than doubling in comparison with the previous year. Furthermore, the SAP acquisition reduced the cash flow from investment activities by EUR 6.9 million.

Cash flow from finance activities was EUR 25.3 (57.2) million and basically reflected the taking out of a bond. Due to anticipated new supply contracts with OEM customers and the associated shorter payment cycles, the company is expecting a major improvement in the operative cash flow in the business year 2007.

D. FACTORS THAT PROVIDE VALUE-ADDED

1. Investments: new locations and investments in machinery and manufacturing technology

In the year under review, the Company took a number of strategic measures that are designed to secure its market position for the next years. In particular, it set up two new locations – in Coppell/Texas, USA and in Altenburg, Thuringia, Germany – which will open up new opportunities for unit sales, on the one hand, and for production on the other.

The takeover of SAP in March saw the Company make direct inroads into the US market, a major general aviation market, and, at the same time, allowed it to expand its product portfolio to include the segment covering conventional replacement parts for Lycoming and Continental engines. SAP acts primarily as a distributor on this market and boasts an excellent distribution network. SAP employs a workforce totaling around 47 employees.

Furthermore, the Company moved into the first of a total of two production halls in Altenburg-Nobitz as scheduled in December 2006. Production started on December 18, 2006. The facility in Thuringia is already Thielert's third German location and will employ a staff of around 50, creating approximately 35 new jobs.

The company initiated research and development for the integration of the engines in various aircraft models at the new location. This includes test rig operations and flight tests. In addition, the company extended the production of retro-fit kits as well as their installation in aircraft.

At the Lichtenstein facility, the Company also launched the introduction of the new automated assembly system that replaces the existing cluster assembly system. This means that mechanics no longer assemble the entire engine in what is known as a "cluster", but rather pass it through specific work cycles. Specific automations are provided in each work cycle. The introduction of assembly line production considerably increases output, meaning that the required quantities can be achieved without raising personal expenditure. The Company expects to boost productivity by as much as 60 percent. The automated engine assembly system was introduced in selected areas in November 2006.

The Company is also in the course of implementing a PDM (product data management) system across the entire group in order to take account of the increasingly complex nature of production processes and to boost productivity. This IT-supported system serves to ensure the mutual coordination of design, production, documentation production and certification processes, which the Company expects will reduce the set-up time for the machines by 50%, among other things. This will reduce variable costs considerably. In the third quarter, the Company implemented a number of key measures in order to decisively forge ahead with the integration of the PDM system into production. The Company expects that the system will be implemented in full by the middle of 2007.

All of these measures are aimed at further expanding the Group's market position and thus securing its future success.

2. Research and development

The Thielert Group is a technology-driven company that has its technological innovations and the high quality of its products to thank for its strong market position. Research and development play a central role in securing this position.

As a result, the Company is able to compete very successfully on a global high-tech market, on which it has proven its ability to develop and market new technologies head of its competitors. This means that Thielert is the technology leader for kerosene/diesel piston aircraft engines for general aviation aircraft.

The Company sees research and development as a responsibility for the Company as a whole, which is why these activities are performed in the two individual segments as well as on a cross-segment basis.

The Aircraft Engines segment focuses primarily on company-related research and development, the emphasis being on the development, certification, and production of kerosene piston aircraft engines for aircraft applications and unmanned aviation. This includes the development of the entire engine periphery necessary through to engine controls and electronic displays.

Development services in the Technology & Prototyping segment are order-specific. They represent a major part of the segment's service range, which is why they are not considered as development services in accounting terms.

In the year under review, Thielert capitalized a total of EUR 11.4 (5.3) million for development activities, 115 percent more than in the previous year.

The company does not conduct any research affecting expenditure.

3. Employees: creation of new jobs

In the business year 2006, Thielert AG was again able to create new jobs. The number of employees increased in the course of the year from 252 to 320[2], of whom 19 are still in training (previous year: 13 trainees). After adjustments for the purchase of Superior Air Parts, the workforce grew by 8 percent to total 273 on the reporting date. New jobs were created primarily in the engine and electronics assembly segments.

In the period under review, personnel expenses totaled EUR 12.8 (8.6) million. The share of personnel costs changed by two percentage points to 21 (23) percent.

Due to the fact that the Company developed as planned, and that such development contributed to its excellent result, the Company's employees were awarded a bonus amounting to 1.5 monthly salaries at the end of the fiscal year.

[2] Initially discounting those in limited employment such as interns, auxiliaries, students and graduands

4. Environmental protection and job safety

Thielert AG is well aware of its economic and ecological responsibility. Consequently, the Group has committed itself to acting responsibly with regard to natural resources and to putting as little a burden on the environment as possible. Thielert's products and production processes are subject to strict environmental guidelines. Ecological aspects are given a high priority during the manufacturing process. Energy, water and raw materials are used sparingly, air and water emissions are cleaned with the help of state-of-the-art technology and waste is recycled. Furthermore, the Company has very good environmental protection facilities at its disposal which are constantly monitored, modernized and expanded.

Thielert views social responsibility as one of the major pillars of its sustainable development. The Group aims for modern and ergonomic workplaces on top of the legal job safety and accident prevention requirements.

Furthermore, production methods and processes are subject to an ongoing quality control process.

E. RISK REPORT

Entrepreneurial action is constantly exposed to risks. Risks are defined as uncertainties that may hinder/prevent the achievement of the Company's objectives.

1. Control systems guarantee safety

The Company manages its risks traditionally within the scope of its internal monitoring and control system. This system signals whether adverse effects threaten the operating efficiency and performance of the Company early on. The system primarily comprises comprehensive planning, detailed reporting, approved methods and quality control tools, as well as various early-warning systems. This means that risks threatening the existence of the Group are recognized early on, allowing counter-measures to be introduced with immediate effect. The effectiveness of the system is constantly monitored and, wherever necessary, updated.

Early recognition, together with the systematic and professional handling of potential risks guarantees the operating efficiency, performance and continued existence of the Company. The management always makes decisions on investments, participations and cooperations on the basis of detailed analyses of financial and other entrepreneurial risks.

2. Identified risks

As an internationally active company, the Thielert Group is exposed to general entrepreneurial and industry-specific risks. These include capacity and utilization risks, as well as strategic, political, operational, quality, purchasing, information, financial and treasury risks.

a. Operating risks

Operating risks refer to possible losses due to human or technical failure, defective systems or processes and external events. Thielert constantly develops its systems, regularly monitors all processes and adjusts them wherever necessary in order to limit these risks. Wherever possible, the Group's technical systems are designed in a redundant manner to maintain their functionality. In order to minimize risks attributable to employees, in-service training and courses are continually offered.

b. Market risks

The customer structure of the Thielert Group is primarily comprised of companies from the automotive and aviation supply sector. These customer groups are dependent on the general economic situation, albeit to varying degrees. Although the Group's customers almost exclusively include well known, international companies with high creditworthiness, order intakes can still fluctuate depending on the economic environment.

c. Financing risks

Companies from the automotive and aviation industry will continue to lower their level of vertical integration over the next few years and will be increasingly outsourcing parts of the value-added chain and development activities to the supplier industry. As a result, a supplying and development company such as Thielert must always research, develop and produce at the highest level possible.

Furthermore, there is a growing need for ways to finance start-up costs and capital expenditure. In order to relieve the cash flow, all investments within the entire Group are therefore planned and implemented in an efficient manner, making use of subsidies. Investment plans which do not meet the strict underlying monitoring criterion are not approved.

Interest and currency risks that can emerge due to the international focus of the Group's activities are identified centrally at the parent company, Thielert AG, and, where possible and economically feasible, are hedged using derivatives.

The expansion of the Company's US business due to the acquisition of SAP means that it incurs an increased foreign currency risk. As a result, the Company has revised its existing concept with respect to the hedging of foreign currency transactions and the hedge accounting option in accordance with IAS 39 respectively the option of what is known as natural hedging.

Due to the uncertain development of the US dollar, the Company has started to hedge the resulting risk using currency-hedging contracts during the year. At the balance sheet date, the Company had entered into the following hedging transactions that were booked directly in equity within the meaning of cash flow hedge accounting.

The long, medium and short-term debt financing via banks is regularly reviewed in close cooperation with the principal banks of the Thielert Group and is adjusted to reflect changing market conditions.

Furthermore, the Company has taken further steps towards financing via the capital market, which will reduce its reliance on bank loans, by means of the issue of a borrower's note loan. These efforts are to be maintained in future.

Neither financing nor liquidity shortages affected the year under review due to the existing sufficient lines of credit. The Company is not dependent on any particular banks. Furthermore, the Company's IPO further has strengthened its equity base. This means that the financing of the Group and its subsidiaries is assured in the long term.

Key debt financing agreements – with the exception of short-term money market transactions – are agreed with fixed interest rates so that no material risk with respect to changes in the interest rate is incurred.

Due to the negative earnings reported by SAP in the past, there is a risk that the planned turnaround of SAP cannot be achieved either at all, or within the planned period of time. This could give rise to risks for the financial and earnings situation of the Group as a whole, which could have an impact on its liquidity.

d. Legal risks

Legal or liability risks could result from contractual agreements, which cannot be enforced in favor of the Thielert Group, or from (amended) general legal conditions. In order to limit these risks, all contracts are scrutinized intensively by employees of the Company and/or external legal advisors prior to their conclusion.

The activities of SAP in the US give rise, in particular, to an increased product liability risk in accordance with US law for the entire Group. Nevertheless, this risk is limited by existing product liability insurance.

There is adequate insurance coverage for risks stemming from natural hazards and the resulting breakdown of operations, as well as warranty and product liability risks and the risk of recalls. The existing insurance coverage is subject to regular reviews and adjustments where appropriate. The process stability is simultaneously monitored at regular intervals and is optimized when necessary. Furthermore, the Group has implemented extensive quality control measures.

In addition to the risks set out above, no material risks are foreseeable which could endanger the going-concern of the Group as a whole or of certain parts of it. There are no economic, legal or other threats that could have a fundamental impact on the net assets, financial and earnings situation of the Company.

F. STATEMENTS UNDER §315 PARA. 4

The subscribed stock consists of 19,891,530 common shares made out to the holder without nominal value (share without par value) that are respectively assigned a proportionate share in the equity capital of EUR 1 per share with a full profit-sharing entitlement.

The executive board is not aware of any restrictions on the voting rights or transfer of shares. Direct holdings of capital stock that exceed 10 percent of voting rights will be presented under “Major changes in share ownership” in Section M.6.

On the closing day, no shares with special rights or similar were in circulation.

To the extent that employees own equity, the company has no reasons to believe that they do not directly exercise their voting rights.

The legal regulations apply in respect of the appointment and recall of members of the executive board as well as of changes to the articles.

The powers of the Board with respect to the option to issue or buy back shares are presented in the annex under Section H.6. Accordingly the Management Board is entitled to raise the company’s capital stock by September 14, 2010 by a decision with agreement of the Supervisory Board by an amount of up to EUR 4,207,824.00 by the single or several issue of new equity shares in the name of the holder in the form of individual share certificates against cash and/or investments in kind (Authorized Capital II).

No arrangements have been made pertaining to a takeover bid.

No compensation arrangements have been made by the company with the members of the Board or employees in case of a takeover bid.

G. EXTRAORDINARY EVENTS DURING THE FISCAL YEAR AND BEYOND

On 5 October 2006, Schutzgemeinschaft der Kapitalanleger e.V. published a statement reporting the anonymous filing of criminal charges against responsible employees at the Company. These charges relate to the falsification of documents, accounting fraud and prospectus and investment fraud. The allegations came on the back of doubts expressed as to the revenues reported by the Company as at 31 December 2004, as well as with respect to the recoverability of the receivables reported on this balance sheet date.

These accusations put the Company's share price under pressure to the detriment of our shareholders. Volatility also increased considerably.

Thielert AG strongly rejected these accusations. Major efforts were made in this respect to shed light on the source of the accusations.

Thielert AG communicated intensively with investors in order to substantiate the discussion. The Company is working actively with the responsible public prosecutor's office. The cooperation with the Deutsche Prüfstelle für Rechnungslegung DPR e.V. (DPR) had to be halted at an advanced stage due to legal specifications, as on 23 March 2007 annulment suits were submitted against the financial statements for 2003 to 2005. The accusations made are thus subject to examination by the public prosecutor.

The results of these efforts prompted the Chairman of the Management Board, Frank Thielert, to file charges against a former investor of the Company relating to a breach of trust at the public prosecutor's office in Kiel. The mentioned annulment suits, which let the DPR to stop their investigation were initiated by this former investor, too. The public prosecutor's office went on to launch investigations, searched offices and apartments and seized extensive documents. The background is that an accused party is suspected of having violated an agreement by selling a large package of Thielert shares. These investigations were still open at the date of publication.

Furthermore the company is sued by a former investor in order to delivery to him allegedly missing shares valuing EUR 65,9 million. The company considers these allegations unfounded not least due to the facts concerning the shareholder sphere but not the company.

H. OUTLOOK – GROUP REMAINS ON THE PATH TO GROWTH

In light of the solid global economic development, Thielert will continue on the growth path in the future, too.

Now that the first engines of the new series have already been delivered to aircraft manufacturers, known as OEM clients, in the last quarter of the year, the Company will be further expanding the serial production of the CENTURION 2.0 and the CENTURION 4.0, which has already commenced, in 2007, in order to meet encouraging demand. In this context, business relationships with existing OEM customers will be extended and efforts to expand the OEM customer base will be reinforced, notwithstanding the surfeit of orders from existing customers.

Both engines have been certified by the European and US aviation authorities since 2006. As a result, the

Company's planning is based on increasing unit sales of aircraft engines, particularly for the US market.

Due to the encouraging unit sales development at SAP and due to the expansion of the TAE production capacities, as well as the product range based on SAP's single-source supplier concept for PMA replacement parts, the Company also expects to see increased business volume in this segment.

After an increased investment volume in the year under review, the Company expects a considerable reduction in investment activity in the ongoing year, which will nevertheless continue to meet technological and innovation-related demands.

Together with its improved market position and a general increase in business volume, the Company should therefore be able to take considerable pressure off its cash flow in fiscal year 2007 and beyond.

I. NOTICE OF FUTURE UNCERTAINTIES

The previously made statements and information pertaining to future developments are based on our present expectations and on certain assumptions and therefore contain a series of risks and uncertainties. A variety of factors, many of which beyond our direct influence, affect our business activities and results. These factors may mean that the actual performance and results of the Thielert Group significantly differ from the above statements.

Hamburg, 7 May 2007

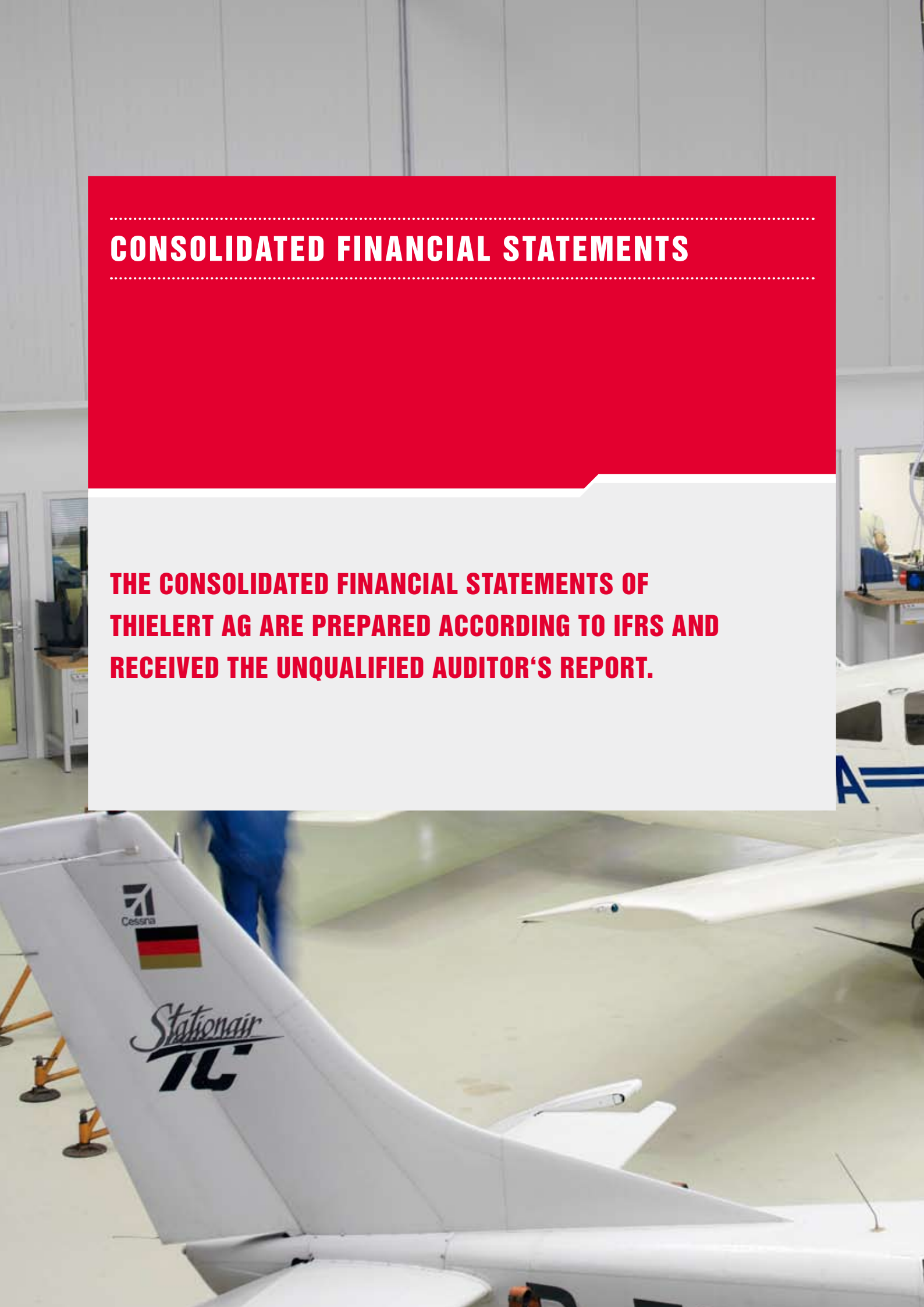
The Management Board

Frank Thielert
Chief Executive Officer

Roswitha Grosser
Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

THE CONSOLIDATED FINANCIAL STATEMENTS OF THIELERT AG ARE PREPARED ACCORDING TO IFRS AND RECEIVED THE UNQUALIFIED AUDITOR'S REPORT.




THIELERT
AIRCRAFT ENGINES
Piper

CONSOLIDATED BALANCE SHEET

ASSETS

in EUR

	Notes	Dec. 31, 2006	Dec. 31, 2005
A. Non-Current Assets		66,957,534.11	39,420,442.60
I. Intangible assets	H. 1.	9,929,704.79	1,694,802.79
II. Property, plant and equipment	H.2.	54,395,554.45	35,521,238.86
1. Land, land rights and buildings including buildings on third-party land		6,919,255.09	5,062,647.43
2. Technical equipment and machines		16,584,646.03	12,361,476.76
3. Other equipment, factory and office equipment		29,894,169.17	17,911,919.67
4. Payments on account and assets under construction		997,485.16	185,195.00
III. Financial assets	H.3.	0.00	2,204,400.95
Loans		0.00	2,204,400.95
IV. Deferred tax assets	H.8.	2,632,273.87	0.00
B. Current Assets		104,427,104.15	83,989,756.44
I. Inventories	H.4.	41,324,093.97	18,622,485.13
1) Raw materials and supplies		1,875,161.61	1,604,490.14
2) Work-in progress		7,794,137.52	6,140,127.95
3) Finished goods and merchandise		31,617,654.84	10,814,267.04
4) Payments on account		37,140.00	63,600.00
II. Receivables and other current assets	H.5.	63,103,010.18	65,367,271.31
1) Trade receivables		48,946,880.07	45,306,137.39
2) Receivables from shareholders		438,870.77	565,818.09
3) Other current assets		8,509,612.19	1,282,222.17
5) Cash and bank balances		5,207,647.15	18,213,093.66
Total Asstes		171,384,638.26	123,410,199.04

EQUITY AND LIABILITIES

in EUR

	Notes	Dec. 31, 2006	Dec. 31, 2005
I. Equity	H.6.	103,644,637.34	99,154,905.68
1. Subscribed capital		19,891,530.00	19,891,530.00
2. Capital reserves		64,363,812.87	64,363,812.87
3. Revenue reserves		606,475.11	606,475.11
4. Consolidated retained earnings		18,782,819.36	14,293,087.70
II. Liabilities		67.740,000.92	24,255,293.36
1. Provisions	H.7.	3,839,481.64	1,413,100.00
Current provisions		3,839,481.64	1,413,100.00
2. Other liabilities	H.8.	50,612,743.97	15,908,992.31
a) Non-current liabilities		27,914,486.10	8,477,244.93
i. Liabilities to banks		26,773,730.13	7,277,575.92
ii. Other liabilities		1,140,755.97	1,199,669.01
b) Current liabilities		22,698,257.87	7,431,747.38
i. Liabilities to banks		6,979,010.39	1,118,016.30
ii. Receipts on account for orders		542,073.92	320,727.86
iii. Trade payables		12,380,677.99	2,718,439.28
iv. Payables to silent shareholders		2,200,000.00	2,080,000.00
v. Other liabilities		596,495.57	1,194,563.94
thereof social security contributions: EUR 8,512.09 (previous year: EUR 342,302.03)			
3. Tax liabilities	H.8.	13,287,775.31	6,933,201.05
i. Tax provisions and liabilities		3,367,695.69	2,635,340.90
ii. Deferred tax liabilities		9,920,079.62	4,297,860.15
Total Equity and Liabilities		171,384,638.26	123,410,199.04

CONSOLIDATED INCOME STATEMENT

in EUR

	Notes	2006	Δ in %	2005	Δ in %
Revenues	I.1.	59,939,501.53	100.0	37,578,749.32	100.0
Costs of sales	I.2.	26,032,009.29	43.4	14,208,909.47	37.8
Gross profit		**33,907,492.24**	56.6	**23,369,839.85**	62.2
Marketing and selling expenses	I.3.	8,686,127.01	14.5	2,074,379.20	5.5
General administration expenses	I.4.	6,873,684.59	11.5	8,022,645.59	21.3
Other operating income	I.5.	2,053,462.74	3.4	3,089,358.08	8.2
Other operating expenses	I.5.	11,093,610.49	18.5	3,104,793.22	8.3
Other taxes		56,086.32	0.1	114,770.66	0.3
Operating profit (EBIT)		**9,251,446.57**	15.4	**13,142,609.26**	35.0
Interest income	I.6.	520,014.60	0.9	504,729.00	1.3
Interest expenses	I.6.	1,814,097.36	3.0	4,118,612.94	11.0
Interest result		-1,294,082.76	-2.1	-3,613,883.94	-9.7
Other income and expenses	I.7.	-182,074.55	-0.3	-419,608.01	-1.1
Profit before tax (EBT)		**7,775,289.26**	13.0	**9,109,117.31**	24.2
Income taxes	I.8.	2,545,231.61	4.2	1,443,293.90	3.8
Consolidated net profit for the year		**5,230,057.65**	8.8	**7,665,823.41**	20.4

Earnings per share	J.		
Weighted average number of outstanding ordinary shares		19,891,530	13,892,630
Dilutive effects of potential ordinary shares		0	0
Basic earnings per share		0.26	0.55
Diluted earnings per share		0.26	0.55

CONSOLIDATED CASH FLOW STATEMENT

in EUR '000

	2006	2005
Cash flow from operating activities		
Profit before tax and profit transfer	7,775	9,109
Adjustments for:		
Depreciation and amortization	4,030	2,974
Profit [-]/Loss [+] on disposal of fixed assets	84	0
Exchange rate gains	1,469	-890
Interest income	-521	-197
Interest expense	1,814	4,139
Increase in trade and other receivables	-22,915	-20,261
Exchange rate gains	308	0
Change in inventories	-13,437	413
Increase in trade and other payables	10,825	-2,949
Cash generated from operating activities	-10,568	-7,662
Interest paid	-662	-3,311
Income taxes paid	-170	-139
Nettoszahlungsmittel aus betrieblicher Tätigkeit	**-11,400**	**-11,112**
Cash flow from investing activities		
Acquisition of SAP, net of cash acquired	-6,897	0
Purchase of property, plant and equipment	-20,390	-7,013
Proceeds from the sale of property, plant and equipment	226	355
Interest received	160	393
Repayment of loans granted	0	2,708
Net cash used for investing activities	**-26,901**	**-3,557**
Cash flow from financing activities		
Loans taken up and silent participations	26,936	0
Proceeds from capital increase	0	70,500
Repayment of loans granted	-1,640	-13,355
Net cash used for financing activities	**25,296**	**57,145**
Net increase in cash and cash equivalents	-13,005	42,476
Cash and cash equivalents at the beginning of the reporting period	18,213	-24,263
Cash and cash equivalents at the end of the reporting period	**5,208**	**18,213**

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS

	Acquisition and production costs						
	Jan. 1, 2006	Changes in the basis of consolidation	Additions	Currency translation	Reclassi-fication	Disposals	Dec. 31, 2006
I. Intangible assets							
1. PMA-Goodwill	0.00 (0.00)	6,833,868 (0.00)	208,324 (0.00)	-565,733 (0.00)	0.00 (0.00)	0.00 (0.00)	6,526,459 (0.00)
2. Software licenses and internally produced intangible assets	2,576,919 (2,375,786)	1,720,770 (0.00)	585,423 (230,997)	-129,953 (0.00)	0.00 (0.00)	1,259 (29,864)	4,751,900 (2,576,919)
	2,576,919 (2,375,786)	**8,604,637 (0.00)**	**793,748 (230,997)**	**-695,686 (0.00)**	**0.00 (0.00)**	**1,259 (29,864)**	**11,278,360 (2,576,919)**
II. Property, plant and equipment							
1. Land, land rights and buildings including buildings on third-party land	5,556,224 (2,299,985)	63,015 (0.00)	2,298,159 (34,415)	-5,418 (0.00)	0.00 (3.221.825)	0,00 (0,00)	7,911,980 (5,556,224)
2. Technical equipment and machines	20,054,071 (19,300,864)	3,138,949 (0.00)	3,720,761 (306,673)	-266,517 (0.00)	0.00 (450.395)	360,661 (3,860)	26,286,603 (20,054,071)
3. Other equipment, furniture and fixtures	19,846,372 (13,628,888)	202,862 (0.00)	12,765,806 (6,536,209)	-17,990 (0.00)	0.00 (42.319)	21,275 (361,043)	32,775,775 (19,846,372)
4. Payments on account and assets under construction	185,195 (3,814,357)	0,00 (0,00)	812,290 (85,377)	0,00 (0,00)	0.00 (-3,714,538)	0,00 (0,00)	997,485 (185,195)
	45,641,862 (39,044,093)	**3,404,826 (0.00)**	**19,597,016 (6,962,673)**	**-289,925 (0.00)**	**0.00 (0.00)**	**381,936 (364,904)**	**67,971,843 (45,641,862)**
III. Financial assets							
Loans	2,204,401 (4,614,509)	0.00 (0.00)	0.00 (0.00)	0,00 (297,850)	0.00 (0.00)	2,204,401 (2,707,958)	0,00 (2,204,401)
	50,423,183 (46,034,388)	**12,009,463 (0.00)**	**20,390,764 (7,193,670)**	**-985,611 (297,850)**	**0.00 (0.00)**	**2,587,596 (3,102,726)**	**79,250,203 (50,423,183)**

in EUR

Depreciation							Net book values		
thereof capital lease	Jan. 1, 2006	Additions	Currency translation	Disposals	Dec. 31, 2006	thereof capital lease	Dec. 31, 2006	thereof capital lease	Dec. 31, 2005
0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	6,526,459	0.00 (0.00)	0.00
57,151 (57,151)	882,117 (691,585)	471.881 (195,486)	-4,895 (0.00)	448 (4,954)	1,348,655 (882,117)	20,508 (13,456)	3,403,246	36,644 (43,695)	1,694,803
57,151 (57,151)	**882,117 (691,585)**	**471,881 (195,486)**	**-4,895 (0.00)**	**448 (4,954)**	**1,348,655 (882,117)**	**20,508 (13,456)**	**9,929,705**	**36,644 (43,695)**	**1,694,803**
19,838 (19,838)	493,576 (392,563)	499,359 (101,013)	-211 (0.00)	0,00 (0,00)	992,725 (493,576)	14,052 (12,068)	6,919,255	5,545 (7,770)	5,062,647
3,599,574 (3,199,249)	7,692,595 (5,670,350)	2,108,192 (2,022,874)	-10,900 (0.00)	87,929 (629)	9,701,957 (7,692,595	1,437,294 (1,168,481)	16,584,646	2,136,295 (2,030,768)	12,361,477
751,351 (753,991)	1,934,453 (1,313,932)	950,909 (654,328)	-2,147 (0.00)	1,408 (33,807)	2,881,606 (1,934,453	305,512 (235,648)	29,894,169	472,064 (518,343)	17,911,920
0,00 (0,00)	0,00 (0,00)	0,00 (0,00)	0,00 (0,00)	0,00 (0,00)	0,00 (0,00)	0,00 (0,00)	997,485	0,00 (0,00)	185,195
4,370,763 (3,973,078)	**10,120,623 (7,376,845)**	**3,558,260 (2,778,215)**	**-13,258 (0.00)**	**89,338 (34,437)**	**13,576,288 (10,120,623)**	**1,756,858 (1,416,197)**	**54,395,555**	**2,613,905 (2,556,881)**	**35,521,239**
0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00	0.00 (0.00)	2,204,401
4,427,914 (4,030,229)	**11,002,740 (8,068,430)**	**4,030,141 (2,973,701)**	**-18,153 (0.00)**	**89,786 (39,391)**	**14,924,943 (11,002,740)**	**1,777,366 (1,429,653)**	**64,325,260**	**2,650,548 (2,600,576)**	**39,420,443**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR

	Subscribed capital	Capital reserve	Revenue reserves	Consolidated retained earnings	Total
January 1,2005	13,006,000.00	750,052.16	606,475.11	6.627.264,29	20,989,791.56
Comprehensive income					
Consolidated net profit for the year	0.00	0.00	0.00	7,665,823.41	7,665,823.41
Other comprehensive income	0.00	0.00	0.00	0.00	0.00
Total comprehensive income	0.00	0.00	0.00	7,665,823.41	7,665,823.41
Allocation to revenue reserves	0.00	0.00	0.00	0.00	0.00
Allocation to equity	4,590,354.00	50,908,936.71	0.00	0.00	55,499,290.71
Allocation from contribution in kind	2,295,176.00	12,704,824,00	0.00	0.00	15,000,000.00
December 31, 2005	19,891,530.00	64,363,812.87	606,475.11	14,293,087.70	99,154,905.68
January 1,2006	19,891,530.00	64,363,812.87	606,475.11	14,293,087.70	99,154,905.68
Comprehensive income					
Consolidated net profit for the year	0.00	0.00	0.00	5,230,057.65	5,230,057.65
Comprehensive income	0.00	0.00	0.00	0.00	0.00
Foreign currency gains/losses from net investment & translations	0.00	0.00	0.00	-1,247,322.56	-1,247,322.56
Foreign currency cash flow hedges	0.00	0.00	0.00	33,014.00	33,014.00
Deferred taxes on other comprehensive income	0.00	0.00	0.00	473,982.57	473,982.57
Total comprehensive income	0.00	0.00	0.00	4,489,731.66	4,489,731.66
Allocation to revenue reserves	0.00	0.00	0.00	0.00	0.00
Capital increase from company funds	0.00	0.00	0.00	0.00	0.00

REVENUES PER SEGMENT

AIRCRAFT ENGINES

in EUR '000

	2006	%	2005	%
Revenues	31,466	100	22,221	100
Cost of sales	10,716	34	8,467	38
Gross profit	**20,750**	66	**13,754**	62
Marketing and selling expenses	3,727	12	1,252	6
General administration expenses	3,808	12	4,744	21
Other operating income (+), expenses (-) and taxes	6,129	19	-22	0
Operating profit (EBIT)	**7,086**	23	**7,780**	35
Operating profit (EBIT)	7,086	23	7,780	35
Depreciation and amortization	2,282	7	1,760	8
Operating profit before depreciation/amortization (EBITDA)	**9,368**	30	**9,540**	43

TECHNOLOGY & PROTOTYPING

in EUR '000

	2006	%	2005	%
Revenues	28,473	100	15,358	100
Cost of sales	15,316	54	5,742	37
Gross profit	**13,157**	46	**9,616**	63
Marketing and selling expenses	4,959	17	822	5
General administration expenses	3,066	11	3,279	21
Other operating income (+), expenses (-) and taxes	2,967	10	153	1
Operating profit (EBIT)	**2,165**	8	**5,362**	36
Operating profit (EBIT)	2,165	8	5,362	36
Depreciation and amortization	1,748	6	1,215	8
Operating profit before depreciation/amortization (EBITDA)	**3,913**	14	**6,577**	44

NOTES TO THE 2006 CONSOLIDATED FINANCIAL STATEMENTS

A. GENERAL INFORMATION

The consolidated financial statements of Thielert AG as at December 31, 2006 were prepared in accordance with the IFRS of the International Accounting Standards Boards (IASB) that were valid on the reporting date. The term IFRS also covers the International Accounting Standards (IAS), which are still valid and have been implemented by the European Union. All of the binding interpretations of the International Financial Reporting Interpretations Committee (IFRIC for the fiscal year) valid as at December 31, 2006 were also applied. There was no material impact resulting from new or amended standards. The IFRS financial statements also comply with the 7th EU Directive. Supplementary disclosure requirements in accordance with section 315a (1) of the German Commercial Code (HGB) are contained in the Notes.

The consolidated income statement is prepared on the cost of sales format. The balance sheet is structured in accordance with maturity principles.

The functional reporting currency is the Euro (EUR). Unless set forth otherwise, all values are stated in Euro or, as the case may be, are rounded to thousand Euros (EUR k). Rounding differences may occur.

The Group did not apply IFRS Standards und Interpretations early, which are published but become effective only after the end of the reporting period. Forgoing an early application has no effects on the group's asset, financial, and earnings situation, but merely on the extent of the provided information.

B. SCOPE OF CONSOLIDATION

The parent company is Thielert Aktiengesellschaft, which has been entered in commercial register B at Hamburg Local Court under the number 77 997 since November 28, 2000. The company's offices in the Federal Republic of Germany are located in Hamburg at Helbingstrasse 64-66.

The Thielert Group develops and manufactures kerosene piston aircraft engines for General Aviation (GA) as well as components for high-performance engines and special parts with complex geometries, as well as hard and software for digital engine management. The Group operates particularly in the global market for piston aircraft engines.

The consolidated financial statements include not only Thielert AG, but also all subsidiaries over which Thielert AG has control with respect to financial and business policy in accordance with the articles of association or the affiliation agreement. Subsidiaries are included in the consolidation from the time of acquisition, i.e. from the

time at which the Group acquires control. The inclusion in the consolidated financial statements ends as soon as the parent company no longer has control.

The consolidated financial statements include the single entity financial statements of Thielert AG and of the following companies:

		Share in %	
Name, registered office	Abbreviation	Dec. 31, 2006	Dec. 31, 2005
Thielert Aircraft Engines GmbH, Lichtenstein/Sachsen	TAE	100	100
Superior Air Parts Inc., Coppell/Texas USA	SAP	100	0

Thielert AG acquired a 100% stake in Superior Air Parts Inc., Coppell / Texas, USA (SAP) with effect from March 31, 2006.

Thielert Motoren GmbH, Hamburg – included in the consolidated group in the previous year as a wholly-owned subsidiary of Thielert AG – was merged retroactively as of January 1, 2006, upon registration in the commercial register of November 7, 2006, onto Thielert Aircraft Engines GmbH, Lichtenstein (TAE).

There are no additional holdings.

C. CONSOLIDATION PRINCIPLES

The consolidated financial statements were prepared on the reporting date for the annual financial statements of the parent company, Thielert AG, i.e. on December 31, 2006. The annual financial statements of the consolidated subsidiaries were also prepared on the reporting date that applies to the consolidated financial statements.

The amount of the purchase price exceeding the fair values is allocated to the cash generating unit of manufacturer approvals for aviation replacement parts (Parts Manufacturer Approval – PMA) and accounted for as PMA-Goodwill.

The **capital consolidation** of the subsidiaries is performed in accordance with the purchase method. This means that the book values of the investments are compared to the proportional equity to be consolidated at the time of acquisition of the shares, or, in the event that the shares are purchased at different points in time, at the time at which the company became a subsidiary.

All loans, receivables and liabilities between the companies included in the Thielert AG consolidated financial statements are eliminated as part of **debt consolidation**. Contingent liabilities are consolidated in the same way.

All revenues, expenses and income between companies included in the Group are eliminated as part of **income and expense consolidation**.

Any intragroup profits are eliminated (**elimination of intercompany profit and loss**) from the merchandise inventories and non-current asset items to the extent that they arise from deliveries in periods during which these

companies belonged to the Group.

D. CURRENCY TRANSLATION

The functional and stated currency of the company is Euro. Monetary assets and debt in foreign currencies are translated at the effective date exchange rate. All currency differences are recognized affecting net income. Exempt from this are currency differences from foreign currency loans, which were granted in order to secure a net investment in the foreign subsidiary. Until the net investment is sold and transferred, they are recognized directly in equity and affect net income only upon its disposal.

The inclusion of the financial statements of Superior Air Parts Inc., Coppell/Texas is performed in accordance with the functional currency concept. The functional currency of Superior Air Parts Inc. is US-Dollar.

The balance sheet items are translated at the rate prevailing on the balance sheet date, i.e. EUR 1,3178/USD (previous year: EUR 1,1835/USD), and the items in the profit and loss statement at the average annual rate of EUR 1,2831/USD. Differences from the currency translation of the balance sheet items compared to the previous year's translation were treated as follows:

– Translation of net investment not affecting net income: EUR 1,247k (previous year: EUR 0)
– Translation of intra-group accounts receivable affecting net income: EUR 765k (previous year: (EUR 0)

E. CHANGES OF ACCOUNTING AND VALUATION PRINCIPLES

The applied accounting and valuation methods correspond to the principle applied in the previous year. There were no significant effects of new or changed standards.

During the reporting period, the Group has applied the new and revised IFRS Standards and Interpretations listed below, to the extent that they are relevant for the consolidated financial statements of Thielert AG:

– IAS 21 Amendment – effects of changes in foreign exchange rates

1. Application of new or revised standards

The Group has applied the amendment of IAS 21 for the first time as at January 1, 2006. As a consequence, all translation differences from a monetary item, which is part of a net investment of the Group in a foreign business, are recognized as a separate component of the equity in the consolidated financial statements. This applies irrespectively of the currency in which the monetary item is denominated. After the acquisition of SAP, the Group applied the amendment of IAS 21 for the first time as of April 1, 2006.

2. Standards that are published but not mandatory yet

The IASB has issued the following standards, interpretations, and amendments regarding existing standards, the application of which is not mandatory yet and which are not applied early by Thielert AG either.

- IAS 1 Amendment – Capital disclosures (effective date: January 1, 2007): the Group is currently examining the potential effects of this amendment.
- IFRS 7 Financial Instruments: Disclosures (effective date: January 1, 2007): this new standard will require additional information regarding the Group's financial instruments.
- IFRS 8 Operating Segments (effective date: January 1, 2009): the Group is currently examining the potential effects of this new standard.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date: March 1, 2006): this interpretation has no effect on the consolidated financial statements.
- IFRIC 8 Scope of IFRS 2 (effective date: May 1, 2006): the Group is currently examining the potential effects of this new interpretation.
- IFRIC 9 Reassessment of Embedded Derivatives (effective date: June 1, 2006): this interpretation will probably not have any effect on the consolidated financial statements.
- IFRIC 10 Interim Financial Reporting and Impairment (effective date: November 1, 2006): this interpretation will probably not have any effect on the consolidated financial statements.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective date: March 1, 2007): this interpretation will not have any effect on the consolidated financial statements.
- IFRIC 12 Service Concession Arrangements (effective date: January 1, 2008): this interpretation will probably not have any effect on the consolidated financial statements.

The new standards, amendments of standards, and interpretation have to be applied to reporting periods commencing on or after their effective date.

F. ACCOUNTING AND VALUATION PRINCIPLES

In the scope of the preparation of the consolidated financial statements, **assumptions** have been made and **estimates** have been used which have had an impact on the amount and value of assets and liabilities in the balance sheet, income and expenses, as well as contingent liabilities. The assumptions and estimates relate mainly to the uniform determination of the useful economic life of fixed assets, the valuation of development expenses, the valuation of production orders, the accounting and valuation of accruals, as well as the probability of occurrence of future tax burdens throughout the Group. The actual values may deviate from the assumptions and estimates made, which are reflected in the book value, in individual cases. Changes are taken into account affecting net income at the time better knowledge exists.

Corporate mergers are shown on the books using the acquisition method. That entails recording identifiable assets (including the previously unrecorded intangible assets) and liabilities (including eventual debts, yet without considering future restructuring) of the business purchased at its then-present value.

Goodwill resulting from a corporate merger is valued for the initial estimate at the purchase cost, which is measured as the balance of the purchase cost of the corporate merger after subtracting the purchaser's share of the then-present values of the identifiable assets, liabilities and eventual debts of the purchased company.

After the initial estimate, the goodwill is assessed as the purchase cost minus the cumulative loss-of-value expenditure.

For the purpose of the **impairment test** the goodwill purchased within the scope of the corporate merger will be assigned to the cash-generating "PMA" unit as of the time of purchase. It represents the lowest level within the company at which goodwill is monitored for the internal corporate control and it is not larger than a segment that is based on the primary or secondary report format of the Group, as stipulated by IAS 14 ("Segment Reporting").

Intangible assets are capitalized in accordance with IAS 38 ("Intangible Assets"), if there is a probable future economic benefit from the use of the assets and if the costs of the asset can be determined reliably. These are valued at acquisition costs and amortized on a straight-line basis from the time at which they are ready to be used. A useful economic life of two to ten years is assumed, unless a different period is applicable. The useful economic life and the amortization method in the case of intangible assets with a limited useful economic life are reviewed at least as at the end of each financial year.

Research costs are recognized as expenses during the period in which they occur. Research costs are capitalized, if the Group can demonstrate the technical feasibility of the individual project as well as the generation of a future economic benefit from the asset, the availability of resources to complete the asset, and the ability to determine the expenses attributable to the asset during the development reliably. The amortization begins after completion of development and occurs on a per-unit basis. The underlying number of units is reviewed annually and, to the extent necessary, adjusted based on a current prospective estimate.

Property, plant and equipment is valued at purchasing or manufacturing costs. Investment subsidies reduce the historical costs.

Land and buildings held for production or administration purposes are recorded in the balance sheet at historical costs less straight-line depreciation.

The manufacturing costs for property, plant and equipment developed by the Company itself include the directly attributable production costs, as well as pro rata production overheads. Loan interest is not included in manufacturing costs. Repair costs are expensed immediately.

Interest on debt is recognized as an expense at the time it accrues.

The manufacturing costs for prototype engines are capitalized as tangible assets from the time at which an application is filed for the certification of the relevant prototype engine.

With the exception of prototype engines, property, plant and equipment is depreciated over the following useful lives:

- 25 years for buildings
- 21 years for airplanes
- 10 years for other technical equipment
- 10 years for office and factory equipment
- 10 years for machines
- 10 years for testing and measuring systems
- 5 years for vehicles

Low-value assets are depreciated on a straight-line basis over a period of five years.

Depreciation of prototype engines is charged based on volume, i.e. in relation to the number of engines sold during the fiscal year based on the planned total number of sales of such engines.

The **financial assets** of the previous year are classified as loans held-to-maturity pursuant to IAS 39 and are valued at amortized cost using the effective interest method, reduced by redemption amounts. These were consolidated through the acquisition of SAP.

Inventories are measured at the lower of cost and net realizable value. The net realizable value is the estimated sales proceeds achievable during the ordinary course of business minus the estimated manufacturing costs until completion and the estimated selling costs required. The manufacturing costs include the directly attributable production costs as well as pro rata production overheads. The attributable overheads are based primarily on actual utilization, otherwise on the basis of normal utilization. Inventory values are adjusted where the acquisition or manufacturing costs are higher than the expected net realizable value.

The inventory movement method is the first-in-first-out method (FIFO).

Client-specific manufacturing orders and development services are reported in accordance with the percentage-of-completion method (PoC) pursuant to IAS 11. This means that the pro rata revenues are calculated, taking into account the cost of sales in accordance with the percentage of completion at the balance sheet date. This calculation is based on the income from the order as agreed with the client and the expected order costs. The percentage of completion is generally calculated on the basis of the proportion of the total planned order costs that have been incurred by the balance sheet date (cost-to-cost method). In the case of client-specific development orders, the percentage of completion is calculated on the basis of contractually agreed milestones (milestone method). In the balance sheet, revenues recorded in accordance with the PoC method are reported as trade receivables.

Accounts receivable and other assets are financial assets with fixed or determinable payments, which are valued with their fair value on the balance sheet date. Where necessary, provisions against risks with net income effect were established based on the age structure of the receivables or, as the case may be, they were discounted. The translation of accounts receivable and other assets occurred at the effective day exchange rate with net income effect.

Provisions are set up in accordance with IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets") when an external obligation exists, its settlement is probable and the amount of the provision can be reliably estimated. The best estimate is applied to the valuation of provisions.

Liabilities are initially recognized at their historical costs, which represent the fair value of the consideration received. Transaction costs are also taken into account. Liabilities are measured at their adjusted carrying values. Foreign currency liabilities as of the balance sheet date are translated at the mean exchange rate valid on this date. Exchange gains and losses resulting from this translation are included in income for the fiscal year.

Financial liabilities are reported at the repayment amount in accordance with IAS 39, taking into account the effective interest rate method.

Leasing contracts refer to all agreements which transfer the right to the use of a certain item of property, plant and equipment for a fixed term. This also applies to agreements in which the transfer of such a right is not explicitly described.

IAS 17 ("Leases") includes provisions with respect to which an assessment is performed, on the basis of rewards and risks, as to whether the economic ownership of the leased assets is to be allocated to the lessee ("finance lease") or to the lessor ("operating lease"). In order to make a concrete distinction, the Thielert Group uses appropriate criteria based on IAS 17 to qualify a leasing relationship as a finance lease:

a Ownership of the asset is transferred at the end of the lease.
b A "more favorable" purchase option was agreed.
c The lease term amounts to at least 75% of the economic life of the asset.
d The present value of the minimum lease payments amounts to at least 90% of the fair value.

Finance Lease assets are capitalized at the present value of the minimum lease payments plus the guaranteed residual value.

The Thielert Group uses the implicit interest rate of the leasing transaction as the discount rate for calculating the present value. The capitalized present value is matched by a corresponding liability for the leasing commitment on the liabilities side of the balance sheet. The leased assets are depreciated over their economic useful lives on the same basis as own assets. Other leased assets are classified as operating leases and the lease payments are recorded as expenses.

In the fiscal year under review, **derivative financial instruments** were used to hedge the foreign currency risk. The instruments used only included currency forwards, which were valued at fair value. The fair value of currency forwards is calculated on the basis of the forward exchange rate valid on the balance sheet date for the remaining term of the contract compared with the agreed forward exchange rate.

The foreign currency hedging transactions concluded are reported in accordance with IAS 39 within the meaning of Hedge Accounting. The application of **Hedge Accounting** means that gains and losses from an underlying transaction in relation to a derivative are summarized in a valuation unit and reported with no impact on earnings. The Group only hedged cash flows in foreign currencies within the meaning of cash flow hedge accounting. The resulting foreign currency balance from the valuation unit is reported directly in equity by means of application of cash flow hedge accounting.

Revenues are disclosed after deducting discounts, price reductions and rebates. Freight and shipping costs are disclosed in cost of sales of the relevant period. Revenues are recorded when the goods or services that have been contractually agreed have been delivered or performed, the compensation has been agreed upon and is determinable, and receipt can be expected.

Furthermore, client-specific manufacturing orders and development services are reported in revenues in accordance with the PoC method.

Sales deductions are recorded when revenues are recognized or utilized.

The companies applied a corporation tax rate of 25% as at December 31, 2005 for calculating **deferred taxes** (previous year: 25%). Furthermore, a solidarity surcharge of 5.5% on corporation tax and an effective trade tax rate of 15.05% were also accounted for. Taking into account the solidarity surcharge and trade tax on income, a tax rate of 38% was determined for the calculation of deferred taxes at the companies (previous year: 38%).

Deferred taxes mainly relate to the accounting effects caused by the capitalization of finance leases, changes in depreciation methods, the capitalization of internal services for the development of prototype engines, as well as earnings reported according to the percentage of completion method. Deferred taxes are released over the term of the lease or over the useful lives of non-current assets. After the completion of the project, earnings which have been reported according to the percentage of completion method are realized with an effect on taxes and the related deferred taxes are released accordingly.

The **cash flow statement** has been prepared in accordance with the provisions of IAS 7. It is presented in accordance with the indirect method. The impact of changes to the scope of consolidation is eliminated in the respective operating cash flow items and allocated to cash flow from investments on a cumulative basis.

G. ACQUISITION OF PARTICIPATING INTERESTS AND PURCHASE PRICE ALLOCATIONS

In fiscal year 2006, the scope of consolidation was expanded to include Superior Air Parts Inc.

The acquisition was implemented with effect as at March 31, 2006. During the course of the acquisition, the company acquired 100% of the voting rights in SAP. The aggregate transaction volume amounted to USD 10.0 million.

USD 8.0 million of the transaction volume are attributable to the repayment of a bank loan, the remaining USD 2.0 million to the acquisition of voting rights.

SAP is one of the globally leading spare parts manufacturers, which are licensed by the Federal Aviation Administration (FAA) for Lycoming and Continental aircraft engines. In the USA, SAP has an excellent reputation as a high-quality supplier in this segment, which also has an outstanding distribution network.

The purchase price was allocated on a retroactive basis as at March 31, 2006. The following fair values were attributed to the SAP carrying amounts as part of the distribution of the purchase price:

FINAL DISTRIBUTION OF THE PURCHASE PRICE

in EUR

Composition of the purchase price	
Payment of the takeover of the shares and voting rights	1,653,576
Payment for the settlement of an SAP bank loan	6,709,304
Total payment for the takeover of SAP	**8,362,880**
The following individual assets and liabilities were acquired, each at the fair value:	
Liquid assets	1,465,503
Receivables from clients	2,917,326
Other assets	68,073
Inventories	10,113,065
Property, plant and equipment	3,404,826
PMA	1,720,769
Financial liabilities	0
Liabilities to suppliers	-15,850,681
Other liabilities	-2,359,869
	1,479,012
PMA goodwill	6,883,868
Total purchase price	**8,362,880**
In the cash flow statement, the acquisitions are accounted for as follows:	
Payments for investments (acquisition of subsidiaries)	8,362,880
Less acquired liquid assets	-1,465,503
Outflow of funds	**6,897,377**

The result for the last three quarters amounted to EUR -2.2k million. Incidental acquisition costs totalled T€ 208 and increased the capitalized PMA-goodwill.

H. NOTES TO THE BALANCE SHEET

1. Intangible assets

Intangible assets contain the following items:

in EUR '000

	Dec. 31, 2006	Dec. 31, 2005
PMA goodwill	6,526	0
Parts Manufacturer Approval (PMA)	1,354	0
Software licenses	1,275	850
Instruction for the retrofit kit	774	845
	9,929	**1,695**

PMA goodwill was reported as part of the final purchase price allocation. It has an undetermined useful life. The intrinsic value is scrutinized as part of an annual impairment test.

PMAs are replacement parts approved (certified) by the aviation authorities that can be used in Continental and Lycoming engines and play an increasingly key role in the maintenance of these engines. The useful life applied totals 15 years.

The installation manual for the retrofit kit is an asset generated by the Group itself. It is amortized based on the volume of retrofit kits sold in the fiscal year.

2. Property, plant and equipment

The development of non-current group assets is displayed in the non-current asset movement schedule at the end of the Notes.

Expenses as a part of own work capitalized for the development of CENTURION sample engines, as well as for the installation kits have been capitalized in non-current assets. The manufacturing costs capitalized for these amounted to EUR 11,408k (previous year: EUR 5,250k) in the year under review. The book values of the capitalized model engines and kits amount to EUR 28,286k (previous year: EUR 16.997k).

The investment subsidies deducted from the acquisition costs amount to EUR 3,623k (previous year: EUR 4,205k).

Finance lease assets are included in the non-current asset movement schedule. The corresponding liabilities are displayed in the liability movement schedule.

Deprecation and amortization on non-current assets (incl. intangible assets) amounted to EUR 4,030k (previous year: EUR 2,974k) in the reporting period.

3. Financial assets

The other loans disclosed under financial assets in the previous year related to a non-interest-bearing loan amounting to USD 3,025k to finance the manufacture of production tools for the aircraft engine parts production for SAP. These were eliminated following the acquisition of SAP as part of the first-time consolidation of the company.

4. Inventories

Inventories include the following:

in EUR '000

	Dec. 31, 2006	Dec. 31, 2005
Raw materials, consumables and supplies	1,875	1,604
Work in process	7,794	6,140
Finished goods and merchandise	31,618	10,814
Payments on account	37	64
	41,324	**18,622**

Work in process relate to manufacturing costs incurred for the continuation of contract work to produce aircraft engines, cylinders, crankshafts and camshafts in the year und review. The costs are recorded based on a mark-up calculation of direct costs plus overheads. Write-downs of EUR 243k (previous year: EUR 300k) were accounted for against finished goods.

5. Receivables and other assets

The increase in receivables and other assets to EUR 57,895k (previous year: EUR 47,154k) is attributed to the increase in receivables from deliveries and services as well the increase in other assets. The resulting collection risk is accounted for as follows:

Risk provisions of 10% were formed for open items older than half a year, 25% for those older than one year, 50% for those older than one and a half years and 100% for those older than two years. Overall, this produced a risk provision of EUR 3,151k (previous year: EUR 1,605k). Amounts due from military technology customers with a term of more than one year were written-down with a lump-sum allowance of EUR 3,711k (previous year: EUR 1,250k).

The accounts receivable are comprised as follows:

in TEUR

	Dec. 31, 2006	Dec. 31, 2005
Accounts receivables	36,120	39,520
Receivables reported according to percentage of completion (PoC)	12,827	5,786
	48,947	**45,306**

Long-term client-specific manufacturing and development orders were accounted for according to the percentage of completion method for both military technology and general aviation. Long-term manufacturing orders are reported in accordance with the cost-to-cost method, while long-term development orders are reported in accordance with the milestone method. Final settlement is performed after completion.

The term of the accounts receivable was as follows (previous year's values in brackets):

in TEUR

		of these with a residual term of:		
	Dec. 31, 2006	up to one year	between one and five years	of more than five years
Accounts receivable	36,120 (39.520)	27,308 (39,520)	8,812 (0)	0 (0)
Accounts receivable according to the PoC method	12,827 (5.786)	11,202 (5,786)	1,628 (0)	0 (0)
Accounts receivable as of December 31, 2006	48,947 (45,306)	38,310 (45,306)	10,440 (0)	0 (0)

The sales revenues according to the PoC method for the reporting period amounted to EUR 12,827k (previous year: EUR 0). The result of these sales revenues amounted to EUR 6,901k (previous year: EUR 0).

Other assets amounting to EUR 8,510k (previous year: EUR 1,282k) are mainly comprised of an amount due from the tax authorities (EUR 3,928k; previous year: EUR 364k), suppliers with debit balances (EUR 361k; previous year: EUR 139k), customer claims from contestable warranty issues (EUR 1,853k; previous year: EUR 359k). Other financial assets have useful life of up to a year.

6. Equity

Equity comprises the following items:

in EUR

	Dec. 31, 2006	Dec. 31, 2005
Subscribed capital	19,891,530.00	19,891,530.00
Capital reserves	64,363,812.87	64,363,812.87
Revenue reserves	606,475.11	606,475.11
Consolidated retained earnings	18,782,819.36	14,293,087.70
	103,644,637.34	**99,154,905.68**

We refer to the statement of changes in equity on page 52 for the development of equity in the fiscal year under review.

a. Subscribed capital

The share capital of Thielert AG is divided into 19,891,530 (previous year: 19,891,530) no-par value bearer shares.

Authorized Capital II

In accordance with a resolution passed by the Annual General Meeting held on September 19, 2005, the Management Board is authorized, with the consent of the Supervisory Board, to increase the nominal capital in the period leading up to September 14, 2010, by means of a resolution, by up to EUR 4,207,824.00 by issuing new no-par value ordinary shares in return for a cash contribution or contribution in kind (Authorized Capital II) by way of one or several issues.

The new shares are to be offered to the shareholders for subscription. The Management Board is also authorized to exclude shareholders' subscription rights, with the consent of the Supervisory Board,

(i) In the event of a capital increase against cash contribution for a partial amount totaling up to 10% of the nominal capital available at the point in time at which the authorization is registered or – if this value is lower – at the point in time at which the resolution on the use of Authorized Capital was passed, provided that the issue price of the new shares does not fall significantly below the stock exchange price of the shares in the Company of the same class and with the same features (sections 203 (1) and (2), 186 (3) sentence 4 AktG); with respect to the issue as to whether or not the 10% threshold has been met, the exclusion of subscription rights due to other authorizations has to be taken into account in accordance with section 186 (3) sentence 4 AktG;

(ii) If the new shares are issued for inclusion in trading on a foreign stock exchange on which the Company's shares are not currently listed;

(iii) If the new shares are issued to third parties as a consideration within the framework of company mergers, the acquisition of companies and shareholdings, or for other contributions in kind;

(iv) If the new shares are offered as employee stock to employees and retired employees of the Company and its subordinated affiliated companies;

(v) Insofar as this is required in order to settle fractional amounts;

(vi) Insofar as this is required in order to grant the holders of convertible bonds and/or warrant bonds a subscription right for the new shares corresponding to that which they would be entitled following the exercise of the option/conversion right.

The Management Board is also authorized to stipulate the further details of the capital increase and its implementation with the consent of the Supervisory Board. Within the framework of the implementation of the capital increase, the Management Board is authorized, in particular, to offer the new shares to shareholders by means of the indirect subscription right in accordance with section 186 (5) sentence 1 AktG.

Conditional Capital

The nominal capital is conditionally increased by up to EUR 800,000.00 by means of the issue of up to 800,000 new no-par value bearer shares in the Company (Conditional Capital). The conditional capital increase is only implemented to the extent that the holders of stock options issued by the Company on the basis of the authorization resolution of the Annual General Meeting held on September 19, 2005 within the framework of the 2006 stock option program in the period leading up to December 31, 2008 make use of their right to subscribe to shares in the Company and the Company does not grant any treasury shares in order to satisfy these subscription rights. The new shares resulting from the exercise of these subscription rights shall carry dividend rights from the beginning of the fiscal year, for which, at the point in time at which the subscription right is exercised, the Annual General Meeting has not yet passed a resolution on the use of the unappropriated surplus.

b. Capital reserve

The capital reserve results from premium amounts from capital increases.

7. Provisions

The development of provisions is shown in the following table:

in EUR '000

	Dec. 31, 2006	Utilization	Releases	Additions	Dec. 31, 2006
Personnel expenses	600	600	0	150	150
Holiday provision	28	28	0	31	31
Employee accident insurance	27	27	0	27	27
IHK (Chamber of Commerce)	14	14	0	14	14
Guarantees	200	100	0	1,723	1,823
Year-end audits	90	90	0	90	90
Outstanding invoices	153	153	0	0	0
Other risks	301	54	0	62	309
Sonstige Rückstellungen SAP	0	0	0	1,395	1,395
	1,413	1,066	0	3,492	3,839

Other provisions of SAP include provision for insurance (EUR 667k), provision for warranties (EUR 686k), as well as other provisions (EUR 42k).

8. Liabilities (previous year amounts in brackets)

in EUR '000

		Of which with a remaining term		
	Dec. 31, 2006	less than one year	between one and five years	more than five years
Liabilities to banks	33,753 (8,395)	6,979 (1,118)	3,723 (3,948)	23,051 (3,329)
Receipts on accounts for orders	542 (321)	542 (321)	0 (0)	0 (0)
Trade payables	12,381 (2,718)	12,381 (2,718)	0 (0)	0 (0)
Payables to silent shareholders	2,200 (2,080)	2,200 (2,080)	0 (0)	0 (0)
Other liabilities	1,737 (2,395)	596 (1,195)	1,141 (1,082)	0 (118)
thereof finance lease	1,716 (1,737)	575 (537)	1,141 (1,082)	0 (118)
Liabilities on Dec. 31, 2006	**50,613 (15,909)**	22,698 (7,432)	4,864 (5,030)	23,051 (3,447)

Minimum lease payments on present values of finance lease				
Minimum lease payments		681	1,317	0
Discounted value		106	176	0
Present value	1,716	575	1,141	0

The Group has various financing leasing contracts and lease-purchase contracts for various technical facilities and office and plant equipment. The contracts contain “more favorable” purchase options, contract terms amounting to at least 75% of the useful economic life, or present values, the minimum rent payments of which amount to at least 90% of the fair value.

a. Liabilities to banks

The Company issued a promissory note bond, which is payable at maturity, with a nominal amount of EUR 20.0 million as at May 31, 2006. This issue costs were deducted from this amount.

The liabilities with a remaining term of more than five years primarily include the loan liabilities taken out to finance the investment projects of TAE. In most cases, the Group is jointly and severally liable for amounts due to banks. Beyond this, various land charges, liens, sureties, assignments, and transfers of title as collateral exist within the Group.

b. Liabilities to silent shareholders

As of the balance sheet date, two silent shareholdings exist within TAE with Mittelständische Beteiligungsgesellschaft Sachsen GmbH dated March 2002 and August 2003 for a total of EUR 1,000k each. Mittelständische Beteiligungsgesellschaft Sachsen GmbH receives annual fixed interest of 7.5% and a profit share amounting to a maximum of 4% of the contribution p. a. Both shareholdings were cancelled by TAE effective December 31, 2006 and paid out on January 2, 2007.

c. Tax liabilities

Tax liabilities comprise the following:

in EUR ’000

	Dec. 31, 2006		Dec. 31, 2005	
	Due within one year	Due after one year	Due within one year	Due after one year
Income taxes	1,039	0	1,747	0
Deferred taxes	0	9,920	0	4,298
Other tax liabilities	2,328	0	888	0
	3,367	**9,920**	**2,635**	**4,298**

Tax provisions include the income tax provisions for TAE and Thielert AG. The tax provisions include undisputed charges from the current tax audit. The disputed tax charges of EUR 740k relating to TAE’s 2000 loss carry forward are not accounted for in the provisions due to the low probability of their occurrence.

Deferred tax assets and liabilities from temporary differences are composed as follows:

in EUR '000

	Dec. 31, 2006	%	Dec. 31, 2005	%
Deferred tax liabilities for				
Property, plant and equipment	7,411	75	3,333	77
Financial assets	0	0	113	3
Receivables	2,509	25	851	20
	9,920	100	**4,297**	100

Deferred tax assets totalled EUR 2.632k (previous year: EUR 0k). EUR 2.162k (previous year: EUR 0k) relate to capitalized loss carry forwards regarding foreign exchange translation losses accounted for with not effect on earnings in other comprehensive income. Tax loss carry forwards as of December 31, 2006 valued at EUR 5.679k out of which a total of EUR 1.039k relate to previous years which are utilizable for the first time as a result of the merger of subsidiaries. Additionally, tax loss carry forwards exist for the parent company. However, these are not considered utilizable as the parent company does not maintain own business operations. Deferred tax assets are reported as part of long term assets.

I. NOTES TO THE PROFIT AND LOSS ACCOUNT

1. Revenues

in EUR '000

	2006	%	2005	%
Europe including Germany	12.588	21	13,088	35
USA and rest of the world	47,352	79	24,491	65
	59,940	100	**37,579**	100

Sales revenues are based on the registered office of the customer.

2. Cost of sales

The cost of sales contains the following items:

in EUR '000

	2006	%	2005	%
Material expenses	-13,591	52	-5,532	39
Depreciation and amortization	-3,673	14	-2,708	19
Personnel expenses	-8,768	34	-5,969	42
	-26,032	100	**-14,209**	100

3. Marketing and selling expenses

Marketing and selling costs can be broken down as follows:

in EUR '000

	2006	%	2005	%
Personnel expenses	-1,475	17	-544	26
Other marketing and selling expenses	-7,211	83	-1,530	74
	-8,686	100	**-2,074**	100

Other selling expenses mainly include costs of product liability insurance, advertising, trade fairs and selling goods.

4. General administrative expenses

General administrative expenses mainly contain the following items:

in EUR '000

	2006	%	2005	%
Personnel expenses	-2,527	37	-2,058	26
Legal and consultancy fees	-621	9	-722	9
Premises costs	-445	6	-599	7
Motor vehicle costs	-126	2	-326	4
Repairs and maintenance expenses	-97	1	-577	7
Other administrative costs	-3,058	45	-3,741	47
	-6,874	100	**-8,023**	100

5. Other operating income and expenses

Other operating income and expenses can be broken down as follows:

in EUR '000

	2006	%	2005	%
Other operating income resulting from				
Exchange differences	678	34	0	0
Decrease of risk provisioning	306	15	1,562	51
Others	1,069	51	1,527	49
	2,053	100	3,089	100
Other operating expenses resulting from				
Risk provisioning	-4,503	41	-1,846	59
Exchange differences	-1,530	14	-110	4
Development and certifications expenses	-464	4	0	0
Others	-4,597	41	-1,149	37
	-11,094	100	-3,105	100
Other taxes	-56		-115	
	-9,097		-131	

Other operating expenses primarily include prepayment penalties due to the premature repayment of liabilities.

6. Net interest income/expense

in EUR '000

	2006	%	2005	%
Interest income	306	59	505	100
Other neutral income	214	41	0	0
	520	100	505	100
Interest on long-term loans	-1,534	85	-1,753	43
nterest on short-term loans	-130	7	-1,910	46
Other payments to silent shareholders	-150	8	-456	11
	-1,814	100	-4,119	100
Net interest income/expense	-1,294		-3,614	

7. Other income and expenses

Other income and expenses are not directly linked to the Company's operating activities. In particular, they include the following items:

in EUR '000

	2006	%	2005	%
Other Income				
Income from recharges	650	95	98	33
Other expenses	34	5	200	67
	684	100	**298**	100
Other expenses				
Other expenses	-866	100	-718	100
	-182		**-420**	

8. Taxes on income

Taxes on income include the following items:

in EUR '000

	2006	%	2005	%
Corporation tax	-878	34	-683	47
Trade tax	-1,568	62	-723	50
Solidarity levy	-99	4	-37	3
	-2,545	100	**-1,443**	100

The effective tax expense according to international accounting standards is calculated as follows:

in EUR '000

	2006	%	2005	%
Tax expenses at a tax rate of 38%	-3,338	131	-3,461	240
Tax-exempt expenses	0	0	2,459	-171
Non-deductible operating expenditures	-125	5	-94	7
Tax expenses of the fiscal year	-3,463	136	-1,096	76
Tax expenses from previous years	918	-36	-347	24
Effective tax expenses	**-2,545**	100	**-1,443**	100

J. EARNINGS PER SHARE

Earnings per share are calculated as follows:

	2006	2005
Net income	EUR 5,230k	EUR 7,666k
Weighted average number of outstanding common shares	19,891,530	13,892,630
Dilutive effect	0	0
Basic earnings per share	0.26 EUR per Share	0.55 EUR per Share
Diluted earnings per share	0.26 EUR per Share	0.55 EUR per Share

There were no dilutive effects in the fiscal year under review. Potential dilution effects are discussed in the information pertaining to the equity under section H. 6.

K. PRO FORMA DISCLOSURES

Due to the timing of the takeover on March 31, 2006, the revenues generated by SAP in the first quarter of 2006 (USD 7.1 million) are not included in the revenues of the Thielert Group. If SAP's revenues for the first quarter are taken into account, the pro forma revenues of the Thielert Group amount to EUR 64.1 million. The pro forma result amounts to EUR 7.6 million accordingly. This includes one-time effects from the acquisition of SAP totaling EUR 3.0 million.

L. SEGMENT REPORTING

The segment reporting is generally based on the same reporting and valuation methods as the consolidated financial statements.

1. Business segments

The operating business activity includes – unchanged from the previous year – the segments Aircraft Engines as well as Technology & Prototyping.

The business segment Aircraft Engines comprises the development, construction, and manufacturing of licensed piston aircraft engines for General Aviation and for unmanned aerial vehicles of the defense technology sector. Included is the development and manufacture of the required licensed engine and structural components.

The business segment Technology and Prototyping comprises development services for engine components for the automotive industry, General Aviation, and the defense technology sector, for which the company does not arrange for required licenses. Furthermore, the area includes the production and distribution of engine and precision parts for aviation and high-performance engine components for the automotive industry.

AIRCRAFT ENGINES

in EUR '000

	2006	%	2005	%
Revenues	31,466	100	22,221	100
Cost of sales	10,716	34	8,467	38
Gross profit	**20,750**	66	**13,754**	62
Marketing and selling expenses	3,727	12	1,252	6
General administration expenses	3,808	12	4,744	21
Other operating income (+), expenses (-) and taxes	6,129	19	-22	0
Operating profit (EBIT)	**7,086**	23	**7,780**	35
Operating profit (EBIT)	7,086	23	7,780	35
Depreciation and amortization	2,282	7	1,760	8
Operating profit before depreciation/amortization (EBITDA)	**9,368**	30	**9,540**	43

TECHNOLOGY & PROTOTYPING

in EUR '000

	2006	%	2005	%
Revenues	28,473	100	15,358	100
Cost of sales	15,316	54	5,742	37
Gross profit	**13,157**	46	**9,616**	63
Marketing and selling expenses	4,959	17	822	5
General administration expenses	3,066	11	3,279	21
Other operating income (+), expenses (-) and taxes	2,967	10	153	1
Operating profit (EBIT)	**2,165**	8	**5,362**	36
Operating profit (EBIT)	2,165	8	5,362	36
Depreciation and amortization	1,748	6	1,215	8
Operating profit before depreciation/amortization (EBITDA)	**3,913**	14	**6,577**	44

A separation of assets per segment is not possible due to the close link between production capacities, building, inventories and liabilities. It is therefore not possible to state investments per segment.

There are no intra-company sales between the segments so that the sum of the individual items constitutes the respective total item.

2. Geographic segments

The following shows information on sales revenues and assets for the geographic segments:

SALES REVENUES

in TEUR

	2006	%	2005	%
Europe incl. Germany	12,588	21	13,088	35
USA and other foreign countries	47,352	79	24,491	65
	59,940	100	**37,579**	100

SEGMENT ASSETS

in TEUR

	Dec. 31, 2006	%	Dec. 31, 2005	%
Europe incl. Germany	145,008	85	123,410	100
USA and other foreign countries	26,377	15	0	0
	171,385	100	**123,410**	100

Investments in Europe including Germany amounted to EUR 12,809k (previous year: EUR 7,194k) and in the USA and other foreign countries EUR 7,582k (previous year: EUR 0)

The assets and investments of the respective geographic segments are reported according to the geographic location of these assets and investments.

M. FINANCIAL RISK MANAGEMENT

The main financial instruments used by the Group – except for derivative financial instruments – include bank loans and current account credits, bonds, financing leases, trade accounts payable, and lease-purchase contracts. The purpose of these financial instruments is the financing of the Group's business activities. The Group has various assets such as trade accounts receivable as well as means of payment, which result directly from its business activity.

In addition, the Group also has derivative financial instruments in the form of currency futures. These currency futures are used as a hedge against foreign exchange risks resulting from the Group's business activity.

Corresponding to the Group's internal guidelines, there was no trading in derivatives during the 2006 and 2005 financial years and no such trading will occur in the future.The material risks of the Group resulting from the financial instruments include interest-related cash flow risks as well as liquidity, currency, and credit risks.

Interest and currency risks, which arise as a result of the Group's internationally-oriented business activity are recorded centrally at the parent company Thielert AG and – to the extent possible and economically sensible – hedged through derivatives.

1. Interest rate fluctuation risk

Material debt financing agreements are – except for short-term money market transactions – agreed with fixed interest rates so that no material interest rate fluctuation risk exists.

2. Currency risk

The expansion of the U.S. business resulting from the acquisition of SAP leads to a larger foreign currency risk. The company has therefore revised the existing concept pertaining to the hedging of foreign currency transactions and the possibilities of hedge accounting under IAS 39 or, as the case may be, the possibility of so-called natural hedges.

Due to the uncertain development of the US-Dollar, the company began to hedge the resulting risk through foreign currency hedging contracts during the year. As at the balance sheet date, the following hedging transactions existed, which under the cash flow hedge accounting were recognized in the equity without affecting net income:

in TEUR

	Dec. 31, 2006			Dec. 31, 2005
	up to 1 year	more than 1 year	total	total
Nominal volume				
Foreign currency sales	1,000	0	1,000	0
Fair market value				
Foreign currency sales	33	0	33	0

3. Credit risk

The Group enters into transactions only with creditworthy third parties. The customer structure of the Thielert Group consists mainly of companies in the aviation industry, automotive production, and automotive supplier industry. Even though the Group's customers are mainly reputable and internationally-active companies with good credit standing, the risk of non-payment cannot be ruled out completely.

All customers who intend to enter into transactions with the Group on a credit basis are therefore subjected to a creditworthiness check. In addition, the level of accounts receivable is monitored continuously. The company has furthermore established provisions for credit risks from the operating business based on the age structure.

In connection with other financial assets of the Group such as cash and cash equivalents and certain derivative financial instruments, the maximum credit risk in the case of failure of the counterparty corresponds to the book value of these instruments.

4. Liquidity risk

The Group continuously monitors the risk of a potential liquidity squeeze using a liquidity planning tool.

The long-, medium-, and short-term debt financing through banks is regularly reviewed in close cooperation with the house banks of the Thielert Group and adapted to changed market conditions.

N. OTHER DISCLOSURES

1. Contingent liabilities

There were no contingent liabilities as at December 31, 2006.

2. Other financial commitments

In addition to liabilities, provisions and contingent liabilities, other financial commitments exist in particular with respect to rental and leasing contracts for buildings, machines, tools, IT, motor vehicles and aircraft. The contracts have a term of up to 9 years and some include extension options and purchase options, as well as price adjustment clauses. The total future minimum payments from non-cancelable rental contracts and operating leases comprise the following:

in EUR '000

	Due within one year	Due between one and five years	Due in more than five years
Car leasing	142	192	0
Aircraft leasing	139	1,059	104
Machinery leasing	376	1,067	5
Rental contracts	313	1,593	1,593
Maintenance contracts	30	149	149
	1,000	4,060	1,851

3. Transactions with related parties

Legal transactions between the Company, the shareholder and companies controlled by the latter are explained in greater detail in accordance with IAS 24.9 in the following sections.

a. Recharges

TM, TAE and Thielert AG concluded a "global contract for the recharges between enterprises within the Thielert Group and with Thielert Vermögensverwaltung GmbH" on December 3, 2003 with effect from January 1, 2003. In the period from January 1, 2006 to December 31, 2006, recharges were charged to Thielert Vermögensverwaltung GmbH on the basis of the global contract as follows:

– Thielert AG charged a total net amount of EUR 647k.
– TAE charged a total net amount of EUR 3k.

A subsequent calculation is intended for each of the following fiscal years in which the value of the amount to be paid will be determined.

The costs affected by the recharges include use of the bookkeeping, controlling and corporate communications of Thielert AG by the above mentioned company, among others. In addition, use of the premises rented from TM by the abovementioned companies is also recharged.

b. Loans and current accounts

The claims of Thielert AG against Thielert Vermögensverwaltung GmbH amount to EUR 759k as of December 31, 2006, which were repaid in full at the beginning of the new financial year.

c. Other transactions with related parties

The usual motor vehicle and mobile telephone contracts exist between Thielert AG and the general managers of the subsidiaries/Board members of the Aktiengesellschaft (public limited company). Otherwise, there were no services or measures extending beyond the scope of ordinary business transactions between the Group and parties related to the Group. In respect to the remuneration of the members of the Management Board, we refer to the statements under N. 8.

The law firm Huth Dietrich Hahn, based in Hamburg, of which Supervisory Board Chairman Dr. Georg Wittuhn is a partner, advises the Company on the basis of the conditions agreed upon as of 2004. In terms of individual orders that were placed on the basis of that agreement, the Huth Dietrich Hahn law firm charged a total of EUR 204k for 2006.

4. Securities transactions by management employees requiring disclosure in accordance section 15a WpHG

Members of the Management Board and Supervisory Board of Thielert AG are bound by law under section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz) to disclose all transactions that they have executed with respect to Thielert shares. The notification requirement also relates to all transactions which exceed a total amount of EUR 5,000 per calendar year, and that are executed by either individuals in management positions at Thielert AG, or individuals related to the latter. The transactions reported in fiscal year 2006 were published on the Company's website.

5. Shareholder structure

	Number of shares Dec. 31, 2006	%
Thielert Vermögensverwaltung GmbH, Hamburg	6,636,504	33.36
Free float in accordance with the Exchange Rules of the Frankfurt Stock Exchange	13,255,026	66.64
	19,891,530	100.00

Frank Thielert has an indirect holding of 6,636,504 shares through his wholly owned Thielert Vermögensverwaltung GmbH (TVV). Thielert AG has knowledge that with respect to 3,682,952 shares TVV has initiated legal proceedings which probably will also clarify legal title to these shares. To date Thielert AG has not received a notification by Thielert Vermögensverwaltung GmbH of the loss of voting rights with respect to these shares. Thielert AG assumes that the voting rights attributed to these shares still belong to Thielert Vermögensverwaltung GmbH, as long as such notification or notifications by potential new owners are not effected. Thielert AG further assumes that respective notifications if necessary will be made to it as soon as the relevant facts have been clarified.

6. Key changes in shareholdings

The following notifications were made to Thielert AG in accordance with section 21 (1a) WpHG, which were published in Börsenzeitung newspaper :

1. Since November 16 the voting interests of the Thielert Vermögensverwaltung GmbH, Hamburg exceed the thresholds of 5 %, 10 % and 25 % and amounts 36,63 % whereof 1,44 % are attributable in accordance with § 22 para. 1 sent. 1 no. 2 WpHG.

2. Since November 16 the voting interests of Mr. Frank Thielert, Hamburg exceed the thresholds of 5 %, 10 % and 25 % and amounts 36,63 % whereof 35,19 % are attributable in accordance with § 22 para. 1 sent. 1 no. 1 WpHG and 1,44 % according to § 22 para. 1 sent. 1 no. 2, sent. 2 WpHG

3. On August 3, 2006 the percentage of voting rights held by Camberwell Associated S.A., Road Town Tortola, British Virgin Islands, in Thielert AG pursuant to § 21 Abs. 1 WpHG fell below the threshold of 5% and then amounted to 2.90%.

4. On August 3, 2006 the percentage of voting rights held by Sputnik Group Ltd., Nassau, The Bahamas, in Thielert AG pursuant to §§ 21 Abs. 1, 22 Abs. 1 S. 1 Nr. 1 WpHG fell below the threshold of 5%. Pursuant to § 21 Abs. 1 WpHG, the percentage of voting rights then amounted to 2.87%.

5. On August 3, 2006 the percentage of voting rights held by Field Nominees Limited, Hamilton, Bermuda, in Thielert AG pursuant to §§ 21 Abs. 1, 22 Abs. 1 S. 1 Nr. 1 WpHG fell below the threshold of 5% and then amounted to 2.90%.

6. On September 4, 2006 the voting interests held by Global Opportunities (GO) Capital Asset Management B.V., Amsterdam / Netherlands in Thielert AG exceeded the threshold of 15 % and now amounts to 10.66 %, which are attributable in accordance with § 22 para. 1 sent. 1 no. 6 of the WpHG.

7. On September 4, 2006 the voting interests held by Global Opportunities Fund, Amsterdam / Netherlands in Thielert AG exceeded the threshold of 15 % and now amounts to 10.66%.

8. On September 4, 2006 the voting interests held by Global Opportunities (GO) Capital Asset Management N.V., Amsterdam / Netherlands exceeded the threshold of 15 % and now amounts to 10.66 %, which are attributable in accordance with § 22 para. 1 sent. 1 no. 6 of the WpHG.

9. Since October 16, 2006 the percentage of voting rights of CRE Fiduciary Services Inc. in Thielert AG in the capacity as trustee for CRE Trust amounted to less than 5% of the total voting rights of the company, namely 4.34%.

10. On December 12, 2006 the voting interests held by Schroders plc and Schroder Administration Limited, London/England, eceeded the threshold of 5 % and now amounts 5,21 %, which are attributable in accordance § 22 para. 1 sent. 1 no. 6 and sent. 2 and 3 WpHG.

11. On December 12, 2006 the voting interests held by Schroder Investment Management Ltd, London/England, eceeded the threshold of 5 % and now amounts 5,21 %, which are attributable in accordance § 22 para. 1 sent. 1 no. 6 WpHG.

7. Corporate Bodies

During the fiscal year under review, the following were appointed as Management Board members:

– Frank Thielert, businessman, Chief Executive Officer
– Roswitha Grosser, businesswoman

The joint power of attorney granted to Frank Ripka in September 2005 was revoked when he resigned from the Company with effect from June 30, 2006.

The Supervisory Board is comprised of the following:

– Dr. Georg A. Wittuhn LL. M., Chairman of the Supervisory Board
  Lawyer, partner in the law firm Huth Dietrich Hahn, Hamburg.
  Supervisory Board of spot-media AG (Chairman), Hamburg
  Supervisory Board of Verwaltung TOPHI Warenhandelsgesellschaft AG, Hamburg
  General Manager of Eschnapur Trust GmbH, Hamburg

– Achim von Quistorp, Supervisory Board Vice Chairman
  Member of the management board of Wölbern Invest AG and speaker of the management board of Wölbern Private Equity AG,Hamburg
  Advisory council of Melwo Beteiligungs GmbH, Ludwigsburg
  Advisory council of v. Saldern Transportbeton GmbH & Co. KG, Sottrum

– Dr. Wolfgang Warnecke
  General Manager of Shell GS (Deutschland) GmbH, Hamburg
  Supervisory Board of Shell Deutschland Oil GmbH, Hamburg

8. Total Remuneration of the Management Board

in EUR '000

	Dec. 31, 2006		Dec. 31, 2005	
	Fixed salary	Performance-related bonus	Fixed salary	Performance-related bonus
Frank Thielert, CEO	362	150	219	350
Roswitha Grosser	253	0	180	250
	615	**150**	**399**	**600**

9. Total Remuneration of the Supervisory Board

The members of the Supervisory Board receive fixed remuneration of EUR 12,000.00 for each full fiscal year of membership of the Supervisory Board, which is payable after the end of the fiscal year, and a royalty in the amount of EUR 100.00 for each EUR 0.01 of distributed dividend exceeding an amount of EUR 0.10 per share, albeit capped at EUR 8,000.00. The Chairman receives double the amount of fixed remuneration, and the Vice Chairman receives one and a half times the amount of the fixed remuneration.

10. Employees

Personnel expenses of EUR 12,770k (2005: EUR 8,571k) accrued for the average number of 307 (231) employees.

11. Audit fees

During the financial year, the auditor costs amounted to EUR 91k for the consolidated financial statements as well as the annual financial statements of Thielert AG and of the subsidiaries and EUR 40k for the group's quarterly reviews as well as EUR 17k for other services. During the previous year, the costs for the consolidated financial statements amounted to EUR 162k and to EUR 138k for the individual financial statements of Thielert AG and the subsidiaries. Furthermore, EUR 25k for other advisory services as well as EUR 160k for the preparation of a comfort letter plus EUR 40 from the prior auditor were incurred in 2005.

12. Corporate Governance

The updated declaration of conformity in accordance with section 161 AktG will be made available to the shareholders in May 2007 when the Annual Report is published and shall be published on the Company's homepage.

13. Events after the balance sheet date

There were no further events other than those mentioned in the management report that occurred after the balance sheet date that are worthy of disclosure.

The Management Board assumes that Thielert AG will look forward to a successful year in 2007 if the Company develops as expected.

Hamburg, 7 May 2007

The Management Board

Frank Thielert
Chief Executive Officer

Roswitha Grosser
Chief Financial Officer

AUDITOR'S REPORT

We have conducted our audit of the consolidated financial statements, comprising the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement and the notes as well as the consolidated management report for the fiscal year from 1 January 2006 to 31 December 2006 prepared by Thielert Aktiengesellschaft. The preparation of the consolidated financial statements and consolidated management report according to IFRS in the form applied in the EU and the supplementary regulations of § 315a section 1 German Commercial Code (HGB) are the responsibility of the legal representative of the company. Our responsibility is to express an opinion about the consolidated financial statements and consolidated management report on the basis of our audit.

We have conducted our audit of the consolidated financial statements according to § 317 HGB and the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit with reasonable assurance that any incorrectness and material misstatements which significantly impact the asset, financial and earnings situation of the consolidated financial statements are detected. Knowledge of the business activity and the economic and legal environment of the Group and expectations of possible mistakes are considered in the determination of audit procedures. The effectiveness of the internal accounting-related control system and evidence supporting the amounts and disclosures in the consolidated financial statements and consolidated management report are examined on a test basis within the framework of the audit. The audit comprises assessments of the financial statements of the companies included in the consolidated financial statements, the extent of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our assessment and resulting from the knowledge gained during the audit, the consolidated financial statements comply with IFRS in the form applied in the EU and the supplementary regulations of § 315a section 1 German Commercial Code (HGB) and considering these regulations give a true and fair view of the net assets, financial position and earnings situation of the Group. The consolidated management report complies with the consolidated financial statements, gives an overall true picture of the situation of the Group and provides a reasonable view of the opportunities and risks of its future development.

Hamburg, 11 May 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

von Thermann
Auditor

by procuration Briese
Auditor

GLOSSARY

AAAA Army Aviation Association of America – association representing interersts of flying groups in the U.S. Army

AERO Most important European trade fair for General aviation that takes place every 2 years in Friedrichshafen, Germany

ATV All Terrain Vehicle

AVGAS Aviation Gasoline

BAZL Bundesamt für Zivilluftfahrt – Federal Office for Civil Aviation (Switzerland)

BMWA Bundesministerium für Wirtschaft und Arbeit (Federal Ministry for Economic Affairs an Employment)

CAAC Civil Aviation Authority of China

CAD Computer Aided Design

CAM Computer Aided Manufacturing

CENTURION Protected trademark in Europe and the United States for the jet fuel piston aircraft engines of Thielert Aircraft Engines

CNC-Machines Computerized Numerical Control. Control of machines is done with the help of a computer, which is directly integrated into the controls of machine tools

Department of Defense American defense ministry (Pentagon)

DNC Distributed Numerical Control in manufacturing technology means the embedding of computer-controlled machine tools (CNC-Machines) into a computer network.

EASA European Aviation Safety Agency – aviation authority of the European Union

ECU Electronic Control Unit – electronic engine control

EMV-criteria Requirements for testing electromagnetic compatibility

Engine Expo Important international automotive trade show focusing on engine construction and development that takes place every year in Stuttgart

ER/MP see Extended Range/ Multi-Purpose Program

ERP/PPS-System Software which covers a company's entire information flow

Extended Range/Multi-Purpose PROGRAM UAV system as per requirements of U.S Army with regard to flight altitude and range for long-term observation, as a communications station and in re-supply applications

FAA Federal Aviation Authority

FADEC see Full Authority Digital Engine Control

Firewall-Forward-Kit FCompletely preassembled mounting unit for Centurion engines. The engine can be bolted along with the entire motor periphery as one piece onto the aircraft's firewall

Full Authority Digital Engine Control Fully electronic, redundant aircraft engine and propeller control unit with single-lever operation in the cockpit and an electronically recorded engine history for servicing and maintenance

General Aviation Includes all aviation that is not military and not airline transportation service

Heavy Fuel Generic term for diesel fuels such as automotive diesel, jet fuel, JB-8 etc.

Maintenance operation Operation that is authorized by the aviation authority for maintenance of products used in aviation

Manufacturing operation Operation that is authorized by the aviation authority for manufacture of products used in aviation

JAA Joint Aviation Authorities – union of the aviation authorities of 37 European countries

JAR Joint Aviation Requirements

Jet Fuel kerosene

JP-8 Military diesel fuel

Kerosene Civil and military diesel fuel. Comprises 98.75 % of total aviation fuel around the world

Piston Aircraft Engine Thermal power machine that by internal combustion of fuel performs mechanical work and is used in aircraft

LBA Luftfahrt-Bundesamt – German aviation authority

Prototype engine Engine which documents the then currently authorized construction stage of an engine model. A requirement for certification

NATO North Atlantic Treaty Organization – military alliance of European and North American countries

OEM Original Equipment Manufacturer – In general aviation, aircraft manufacturers, in the automotive area the vehicle manufacturers

PMA Part Manufacturer Approval – Company licensed by the FAA as manufacturer of certified aircraft parts or components

Retrofit Term generally used in aviation for replacement of an old engine with a new one

Self-ignition Principle Fuel in a combustion chamber is injected with compressed and heated air and ignites on its own

"Single-Fuel-For-The-Battlefield" Principle that goes back to DoD Directive 4041 of DoD and provides for standardization of military fuels on a "heavy fuel" basis

Single-Source-Supplier Key supplier

Six-Sigma Quality management method, which uses in particular an analysis of the current state in order to recognize important procedural parameters, possibilities for defects, and key process figures and make these available for statistical analysis

SMA French aircraft engine manufacturer

SOCOM Special Operations Command – U.S. military unit

STC Supplementary Type Certification – Refers to the installation approval of an engine in an existing aircraft in Thielert's relevant market.

TAE 110 First Thielert Aircraft Engines engine that was authorized

TAE 125 Name under which the CENTURION 1.7 engine was authorized

TBO Time Between Overhaul – lifetime limit for piston engines to be overhauled extensively or must be replaced

TBR Time Between Replacement – lifetime limit for piston engines to be replaced

Tracking Name of technical process

UAV Unmanned Aerial Vehicles

UGV Unmanned Ground Vehicles

CONTACT/ IMPRINT

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You can view the annual report as well as interim reports and additional information about Thielert online at www.thielert.com.

This annual report is also available in German

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FINANCIAL CALENDAR 2007

May 16, 2007
Publication of the interim report for Q1 2007

August 1, 2007
Ordinary Annual General Meeting, Hamburg, Hotel InterContinental

August 15, 2007
Publication of the interim report for H1 2007

November 14, 2007
Publication of the interim report for Q3 2007

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