



Annual Report  
**2007**

Brüder Mannesmann Aktiengesellschaft  
Remscheid



## Annual Report 2007

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## Introduction from the Board of Management

### **Dear shareholders,**

The dynamic growth of the world economy continued in 2007. However, the impact of the crisis in the US mortgage market spread, particularly as of the third quarter. In Germany, private consumption did not provide any impulses, despite a significant decrease in unemployment, as uncertainty prevailed among consumers due to increased levies and higher food and energy prices.

Against this background, we can look back on a successful financial year in 2007. Consolidated sales reached €90.6 million and earnings before interest and taxes (EBIT) rose to over €3.5 million. However, consolidated net income was very negatively impacted by an increase in deferred taxes. This was due partly to external factors and a direct result of the Corporate Tax Reform Act adopted on 6 July 2007. While rising EBIT more than absorbed this impact, consolidated net profit only came to €0.1 million or approximately €0.04 per share as a result. Based on EBIT, earnings per share amounted to €1.17, following €0.70 for the previous year.

At the annual shareholders' meeting we will propose a dividend payment of 10 cent per share.

With sales of €60.96 million, the Tools division again generated a very good result which approaches the previous year's level of €65.16 million. Though lower by 6.4%, this was due to the industry trend and the high level of the previous year. The previous year saw extremely strong promotional business that was not repeatable in identical fashion, creating a difficult standard of comparison. With growth of 15.3%, international activities increased even more significantly than in the previous year (13.8%). The Tools Trade division thus performed well in a somewhat adverse environment, again improving its position in the market.

Sales for the Valve division reached €28.9 million (previous year: €27.8 million), thus rising by 3.7%. This growth was largely generated through acquisition of new customers, with whom long-term framework agreements were concluded. This once again demonstrates good positioning in the market, particularly in view of the fierce competition within the industry. Furthermore, business operations in the area of long-term customer relations proved stable, showing a slight upward trend.

The Valve division anticipates a rising trend in volume of business in the current financial year. In the Tools Trade, a further decline in the promotional business is to be expected, owing to the concentration process observed among business groups. The fall in sales posted in this area in fiscal year 2007 should therefore continue in 2008. An upturn is not expected to set in until September 2008 at the earliest, which means that it will probably not be possible to compensate this sales shortfall. However, since Tools promotional business only makes relatively low contributions to earnings and the fact that the Valve division ensures a structural spread of risks, this should only have a minor impact on the profitability of the Brüder Mannesmann Group.

On behalf of both Management and Supervisory Board, we would like to thank all the employees of our company. The successes of the 2007 fiscal year would not have been possible without the ongoing high level of commitment of our workforce.

Remscheid, April 2008  
Brüder Mannesmann Aktiengesellschaft,  
The Board of Management



Jürgen Schafstein  
Chairman of the  
Board of Management



Bernd Schafstein

## Supervisory Board Report

### **Dear shareholders,**

During the 2007 financial year, the Supervisory Board fulfilled its duties pursuant to legal requirements and the company bylaws. The Supervisory Board will report on its activities as follows at the annual shareholders' meeting:

### **How the Supervisory Board operates**

The task of the Supervisory Board is to monitor the management of the company, that is to say the Board of Management. The Supervisory Board's monitoring of management activities focussed on issues of legality, correctness, effectiveness and economic viability. The Supervisory Board monitored Board of Management activities and discussed decision-making and planning based on reports from the Board of Management, reviewing and considering specific business documents and filings. The Supervisory Board heard regular, up-to-date and comprehensive reports on company performance. These reports were both written and verbal in form, and were given both outside and within the confines of Supervisory Board meetings. Additionally, the Chairman of the Supervisory Board maintained regular contact with the Board of Management Chairman for an intensive exchange of information and views, ensuring that the Supervisory Board was comprehensively informed at all times regarding Group performance. Where necessary, the Supervisory Board also had direct access to the company's account books and documents.

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

If the consent of the Supervisory Board was required for Board of Management decisions, or if the Board of Management requested the consent of the Supervisory Board for its measures, the Supervisory Board was informed of this in advance and the background was explained in detail. Consent was then granted after a discussion by the Supervisory Board. In the case of events of considerable economic relevance, the Board of Management kept the Supervisory Board regularly informed of the progress of measures implemented, in addition to providing information prior to implementing the measures. The Supervisory Board has monitored to what extent its decisions, proposals and recommendations have been taken into account in management of the company.

During the period under review, the Supervisory Board deemed it unnecessary to impose special approval conditions for the execution of managerial decisions in view of its close contact with the Board of Management.

### Supervisory Board meetings

The Supervisory Board met seven times in financial year 2007. During the meetings, the Supervisory Board was informed of the strategic orientation and business performance of the company and its subsidiaries and provided advice in this respect. The meetings focused on the financial position of the Group, its different business segments, strategic issues, staffing policy, business projections and risk situation.

The meetings focused on the following topics:

- In the March 2007 meeting, the Board of Management presented a review of the year 2006 to the Supervisory Board and preliminary business figures for the Group through 31 December 2006. The Board of Management discussed in detail the balance sheets, statements of earnings and financing calculations for all Group companies on the basis of reporting documents. The Supervisory Board also heard reports on the impact of upcoming legislative changes on the Company. In addition, the Supervisory Board examined the efficiency of its work in 2006. To this end an efficiency review was conducted in accordance with the Supervisory Board Efficiency Review guidelines issued by the investor advocacy organisation Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
- In the April 2007 meeting the single entity financial statements dated 31 December 2006, based on the Group Management Report as the management report of Brüder Mannesmann Aktiengesellschaft were presented and adopted, and the consolidated financial statements and Group Management Report dated 31 December 2006 were presented and approved. The single entity and consolidated financial statements dated 31 December 2006 were exhaustively analysed in the presence of the Company auditor, both on the basis of the Group Management Report, and subsequently approved. There followed a resolution on the Board of Management proposal to shareholders for the appropriation of net profits. The Board of Management has proposed that € 360,000.00 of the net retained profits for fiscal year 2006 be distributed in the form of a dividend of € 0.12 per share and that the remaining sum of € 59,682.54 be appropriated to other revenue reserves. The Supervisory Board has approved this proposal.
- The May 2007 meeting focused on analysis of business in the first quarter of 2007 and presentation of the consolidated interim financial statements dated 31 March 2007. In addition, corporate strategy and long-term corporate financing were discussed. Formal preparations were also made for the annual shareholders meeting to be held in August 2007.
- In its August 2007 meeting, the Supervisory Board reviewed the consolidated interim financial statements for the first half of 2007, including on an individual equity holding level, in addition to reviewing corporate strategy.

- Following the annual shareholders meeting of the Company held 30 August 2007, the newly constituted Supervisory Board convened to elect its officers, Reinhard C. Mannesmann being appointed Supervisory Board Chairman and Michael Nagel Assistant Chairman.
- In its November 2007 meeting, the Supervisory Board discussed the interim financial statements of the individual equity holdings and for the Group dated 30 September 2007.
- In its December 2007 meeting the Supervisory Board conducted a preliminary review of business during the financial year ended. The Board of Management also presented a separate tools trade industry report to the Supervisory Board providing a comprehensive review of the present situation in the tools industry. Additionally, the definitive stock corporation dates were set for 2008.

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

### Corporate governance

Corporate Governance was also the subject of deliberations by the Supervisory Board, during which the updating of the compliance declaration regarding Code recommendations was resolved. These discussions were intended in particular to applying the Code recommendations in a manner commensurate with the Company's specific structure, with the outcome of conformance with Code recommendations again on all major points.

### Supervisory Board committees

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

### Audit of annual financial statements

Following appointment of the auditing firm Morison AG, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main by shareholders at the 31 August 2007 meeting, the Supervisory Board formally approved the audit assignment. Over the course of the year the Supervisory Board also reviewed and monitored the independence of the auditor.

Auditor Morison AG, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main audited the Brüder Mannesmann AG single entity financial statements, consolidated annual financial statements per IFRS and management report for financial year 2007 on the basis of company bookkeeping data, providing unqualified audit certificates.

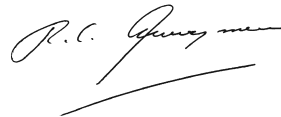
All financial statement documents and audit reports were discussed with the auditor at length at the 28 April 2008 Supervisory Board meeting. The auditor answered questions posed by Supervisory Board members.

The Supervisory Board likewise carefully reviewed the single entity and consolidated financial statements and respective management reports. The Supervisory Board was in accordance with the auditor as to the audit results, finding on the basis of its own review that no exceptions were to be noted. The Supervisory Board thereupon approved the single entity and consolidated annual financial statements for financial year 2007. The annual financial statements are thus adopted pursuant to Article 172, Stock Corporation Act. The Supervisory Board concurred with the Board of management's proposal for appropriation of the net profit.

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

The Supervisory Board would like to expressly recognise and thank both our employees and the Board of Management for their hard work last year and the outstanding results achieved.

Remscheid, April 2008  
Supervisory Board



Reinhard C. Mannesmann  
Chairman



## Corporate Governance Report

The Government Commission of the German Corporate Governance Code – in its version of the German Corporate Governance Code (subsequently only called the Code) dated 14 June 2007 – resolved upon a series of changes to the Code. The Board of Management and the Supervisory Board have been intensively examining the issue as to how Brüder Mannesmann Aktiengesellschaft can implement the recommendations of the Code in a meaningful manner for a company of its structure. In April 2008, a declaration of conformity was then submitted, declaring that most of the material recommendations of the Code were again complied with.

The declaration of conformity can be viewed on the company's website and can also be found in this report. Furthermore, previous declarations pursuant to Article 161 of the German Stock Corporation Act (AktG) are available on the company's website, where they are maintained for a five-year period in line with Item 3.10 of the Code.

A remuneration report pursuant to Item 4.2.5 of the Code also forms part of this report.

### General notes on management structure

In line with German law, Brüder Mannesmann Aktiengesellschaft is a listed company and is subject to German law governing stock corporations, to capital market regulations and also to provisions within the company's articles of association and rules of procedures concerning the Board of Management and the Supervisory Board. The administration of the company is conducted by its Board of Management and Supervisory Board, which cooperate closely in representing the interests of the company and its shareholders. With the Board of Management and the Supervisory Board, Brüder Mannesmann Aktiengesellschaft maintains a two-tier governance and monitoring structure. The shareholders form the third body of the company.

### The Supervisory Board

In line with Articles 96, Para. 1 and 101, Para. 1 of the German Stock Corporation Act and the articles of association, the company's Supervisory Board is composed of three members appointed by the annual shareholders' meeting. The Supervisory Board advises and monitors the Board of Management in its management of the company. Management measures cannot be transferred to the Supervisory Board. However, the articles of association or the Supervisory Board can stipulate that certain types of transactions may only be carried out by the Board of Management with the consent of the Supervisory Board. If the Supervisory Board refuses to give its consent, the Board of Management can request that the annual shareholders' meeting resolve the issue.

The Supervisory Board can form committees. However, it has not done this so far as it is composed of the statutory minimum number of members (three). Therefore, establishing committees would not generate any advantage.

### The Board of Management

Brüder Mannesmann Aktiengesellschaft Board of Management, comprising one or more members to be appointed by the Supervisory Board, manages the company and conducts its business. The Board of Management is currently made up of two members. The Board of Management is bound to represent the interests of the company and to increase enterprise value on a sustainable basis. It determines the strategic alignment of the company in coordination with the Supervisory Board and ensures its implementation. The Board is also responsible for projections of company performance and finances on both a year-to-year and multi-year basis as well as producing mandatory reports including the single-entity and consolidated financial statements and quarterly reports.

Furthermore, the Board of Management is responsible for ensuring that adequate risk management and risk controlling procedures are in place and that timely and comprehensive information is provided to the Supervisory Board on a regular basis for all issues concerning the Group in relation to strategy, operational planning, business development, risk situation and risk management.

### The annual shareholders' meeting

At the annual shareholders' meeting, shareholders can exercise their rights and cast their votes. Each share carries one vote. The annual shareholders' meeting is held within the first eight months of each financial year. The agenda for the annual shareholders' meeting and any reports and documentation required at the annual shareholders' meeting are also published on the company's website.

To facilitate the exercising of rights at annual shareholders' meetings, the company provides shareholders with a proxy bound by instructions. When convening of the annual shareholders' meeting and in communications to shareholders, it is explained how instructions can be issued for exercising voting rights prior to the annual shareholders' meeting.

In addition, a shareholder may authorise an individual of his choice with power of attorney for voting.

### Transparency

Brüder Mannesmann Aktiengesellschaft makes use of the company website ([www.bmag.de](http://www.bmag.de)) to distribute information to shareholders and investors promptly. Likewise, mandatory disclosures and notifications are posted here. In addition to the consolidated and single-entity financial statements as well as half-yearly and quarterly reports, ad-hoc disclosures and press releases also provide information about current developments. Important dates at the company are announced with sufficient advance notice.

The compiled company notifications made in line with stock exchange and securities law as defined by Article 10 of the Securities Prospectus Act (WpPG) are also available on the website [www.bmag.de](http://www.bmag.de).

### Accounting and risk management

For the 2007 reporting year, the consolidated financial statements were compiled in accordance with the principles of the International Financial Reporting Standards (IFRS). The single-entity financial statements of Brüder Mannesmann Aktiengesellschaft are compiled in line with the provisions of the German Commercial Code (HGB). The risk management system is further developed on an ongoing basis by the Board of Management and adjusted to changing circumstances as well as reviewed by auditors.

### Remuneration report

Pursuant to Item 5.4.7 of the Code, Supervisory Board members shall receive performance-based or variable remuneration in addition to a fixed component. Pursuant to Article 18 of the articles of association, each Supervisory Board member receives fixed remuneration of EUR 12,000 in addition to reimbursement of his expenses. Furthermore, Supervisory Board members receive a variable remuneration of EUR 500 for each percentage of the dividend resolved by the annual shareholders' meeting above 4% of the share capital (variable remuneration). The Chairman receives double this amount while his deputy receives one and a half times this amount. For the 2006 financial year, variable remuneration totalling EUR 1,518.75 was granted to members of the Supervisory Board.

Remuneration for the Board of Management is comprised solely of fixed salary components. These also contain pension commitments. Incidental expenses were not incurred.

Currently, there is no individualisation of the information. This is because on 31 August 2006, pursuant to Articles 286, Para. 5 and 314, Para. 2 of the German Commercial Code, the annual shareholders' meeting of the company resolved that an individualised disclosure of the Board of Management remuneration will not be made.

To avoid repetition, reference is made to the descriptions in the summarised management report and in the Consolidated notes.

### Shares and rights transactions (Directors' Dealings)

In the 2007 financial year, the company was not notified of any transactions. Information regarding shares held by the members of administration can be found in the notes to the annual financial statements in the equity holdings reported by the company.

### Supplementary disclosures pursuant to the provisions of the German Corporate Governance Code

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

### Declaration of the Board of Management and the Supervisory Board of Brüder Mannesmann AG on the German Corporate Governance Code in its version dated 14 June 2007 pursuant to Article 161 of the German Stock Corporation Act (AktG)

In line with Article 161 of the German Stock Corporation Act, the Board of Management and the Supervisory Board of Brüder Mannesmann AG must declare annually that the recommendations of the Government Commission of the German Corporate Governance Code, published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, were and are complied with or which recommendations were not and are not applied. The declaration pursuant to Article 161 of the German Stock Corporation Act is to be made accessible to the shareholders on an ongoing basis.

### Backward-looking declaration by the Board of Management and the Supervisory Board on the recommendations of the German Corporate Governance Code pursuant to Article 161 of the German Stock Corporation Act.

The Board of Management and the Supervisory Board of Brüder Mannesmann AG declare that the recommendations of the German Corporate Governance Code were complied with in the period between the last declaration of conformity dated 30 April 2007 to the point of this declaration in the form as shown, except the deviations as mentioned there.

### Forward-looking declaration by the Board of Management and the Supervisory Board on the recommendations of the German Corporate Governance Code pursuant to Article 161 of the German Stock Corporation Act.

The Board of Management and the Supervisory Board of Brüder Mannesmann AG declare that in future, the German Corporate Governance Code in its version dated 14 June 2007 shall be complied with, except the recommendations listed below:

- Information transfer by electronic means (Item 2.3.2): The articles of association of the company resolves that information can also be sent via electronic means to the owners of authorised securities of the company. The company believes that this is a necessary structure, but not a mandatory course of action, not least because the company shares are bearer shares so the contact details of company shareholders are generally not known.
- Deductible for D&O insurance (Item 3.8): A deductible has not been set. The company believes that its executive bodies are able to observe their duties with all due diligence and prudence even in the absence of a set deductible.
- Board of Management remuneration (Item 4.2.3): Currently, the Board of Management remuneration does not involve variable components such as stock options, as none are provided for under the contracts still in force at this point in time. As no variable components, stock options or similar instruments requiring explanations are in place, additional explanations are not provided. Refer to the remuneration report in the Corporate Governance Report for pension commitments and other commitments.
- Reporting of Board of Management remuneration (Item 4.2.4): There is currently no individualisation of the information as the annual shareholders' meeting resolved on 31 August 2006 pursuant to Articles 286, Para. 5 and 314, Para. 2 of the German Commercial Code, that the information stipulated in Articles 285, Clause 1, Subclause 9, Indent a) sentences 5 to 9 and 314, Clause 1, Subclause 6, Indent a) sentences 5 to 9 of the German Commercial Code will be omitted.
- Age limit for Board of Management members (Item 5.1.2): No age limit currently applies for Board of Management members. This appears unnecessary in view of the age of Board of Management members.

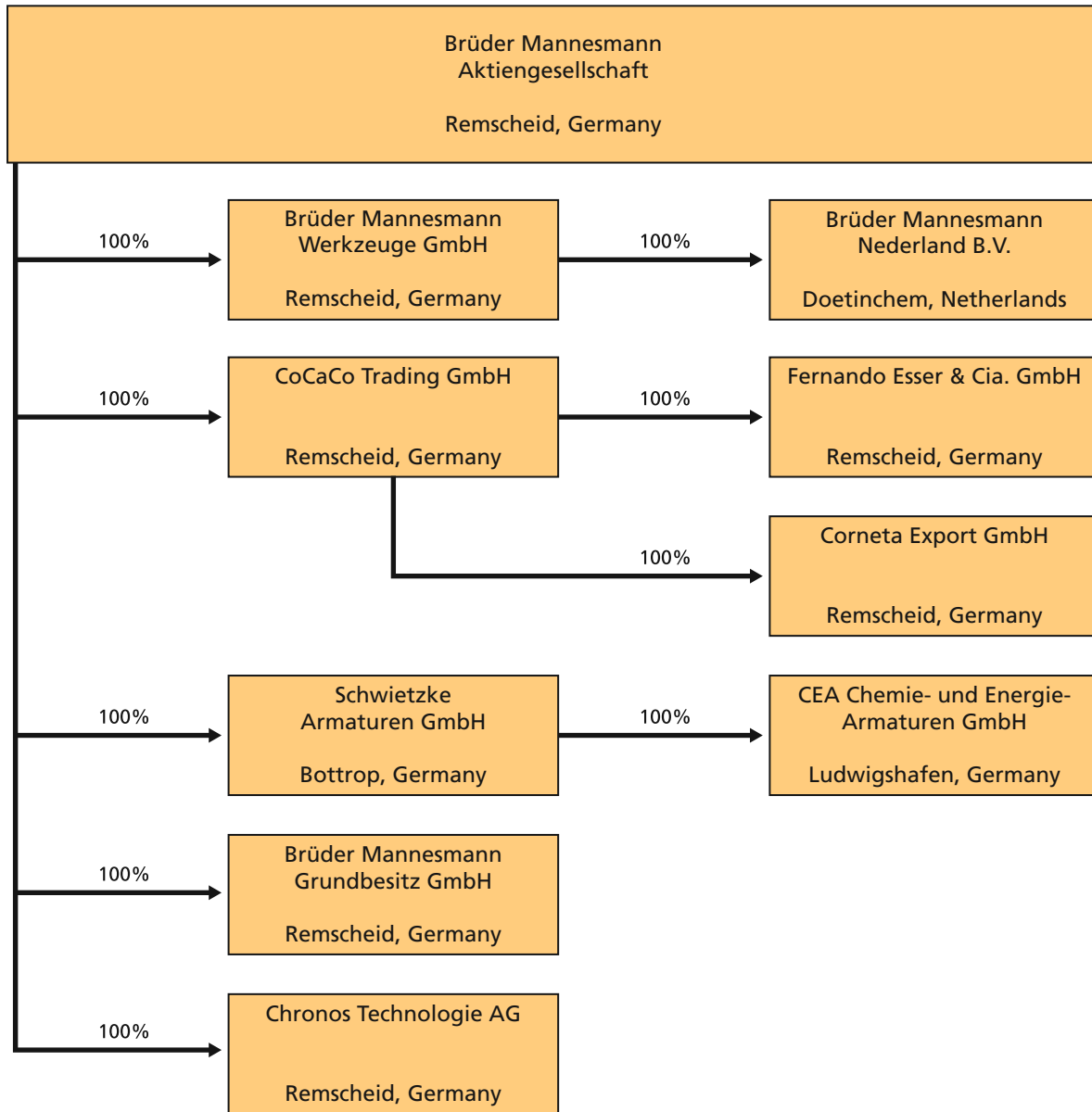
- Formation of committees (Item 5.3.1 until 5.3.5): In view of the current number of Supervisory Board members (three), the formation of committees does not appear meaningful.
- Age limit for Supervisory Board members (Item 5.4.1): No age limit currently applies for Supervisory Board members. This appears unnecessary in view of the age of Supervisory Board members.
- Publication of consolidated financial statements (Item 7.1.2): The single-entity financial statements and the consolidated financial statements for a financial year are publicly accessible at the latest four months after the end of the financial year. Half-yearly and quarterly reports are made publicly accessible within two months after the conclusion of the reporting period. These deadlines are in adherence to the rules and regulations of the Deutsche Börse Prime Standard and the Securities Trading Act.
- Publication of a list of external companies in which a substantial stake is held (Item 7.1.4): The list is published within the Management Report and contains information regarding the names and headquarters of such holdings, the stake held and the amount of the equity. Earnings for the previous financial year are not included. In the opinion of Brüder Mannesmann AG, publishing such information is not of fundamental importance to the capital markets as it does not provide a transparent view of the specific way in which earnings are structured. In some cases, such information may be to the detriment of the companies concerned as it could be exploited e.g. by its competitors.

Remscheid, April 2008

The Board of Management

The Supervisory Board

# Organization Chart of Brüder Mannesmann AG as at 31. December 2007



# Group Management Report



# Group Management Report

## 1. Preliminary remarks

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

This management report is a combined report for Brüder Mannesmann-Holding and for Brüder Mannesmann Aktiengesellschaft.

## 2. Business development in the operating divisions

### 2.1. Tools trade

#### 2.1.1. General development of business

The global economy continue to grow dynamically in 2007. In the third quarter, the US mortgage crisis worsened, having a slowing effect on the economies of most industrialised nations.

The strategic positioning of the Tools Trade division as an expert trade partner offering professional quality and service again proved valuable, and the division further solidified its excellent market position in concert with the systematic Brüder Mannesmann Tools brand strategy.

Accordingly, we feel more than justified in sticking to those corporate strategy elements that have led to our success thus far. Going forward we will remain committed to the following key elements, as in the past:

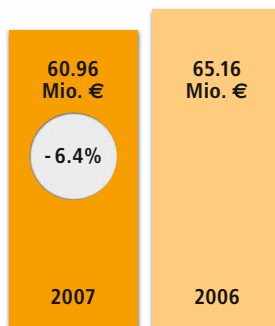
- Opening up new customer segments,
- Ongoing adaptation and refinement of our product range,
- Customer-oriented expansion into new international markets,
- Rigorous quality and service orientation with an outstanding price/performance ratio,
- Further cultivation of our purchasing relationships with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

### 2.1.2. Key operating figures

Sales remained strong for the Tools division, nearing last year's level at € 60.96 million. Though lower by 6.4%, this was due to the industry trend and as result of the high level of the previous year. The previous year saw extremely strong promotional business that was not repeatable in identical fashion, creating a difficult standard of comparison.

Income rose despite unremitting fierce competition and declining business volume.

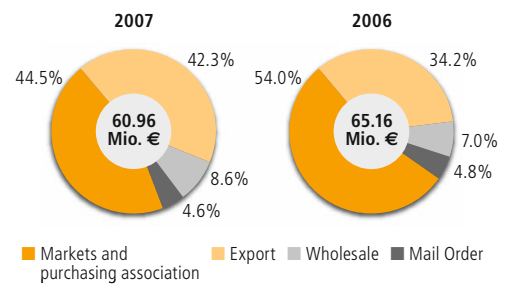
#### Tools Trade: Sales



#### Tools trade: Sales by customer group

By customer groups, sales development broke down as follows:

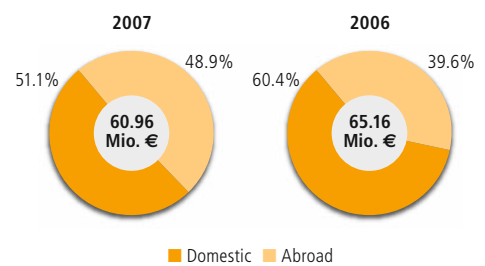
|                                     | 2007         |              | 2006         |              | Change       |             |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                                     | Mio. €       | %            | Mio. €       | %            | Mio. €       | %           |
| Markets and purchasing associations | 27.11        | 44.5         | 35.17        | 54.0         | -8.06        | -22.9       |
| Export                              | 25.78        | 42.3         | 22.26        | 34.2         | 3.52         | 15.8        |
| Wholesale                           | 5.23         | 8.6          | 4.57         | 7.0          | 0.66         | 14.4        |
| Mail order                          | 2.84         | 4.6          | 3.16         | 4.8          | -0.32        | -10.1       |
|                                     | <b>60.96</b> | <b>100.0</b> | <b>65.16</b> | <b>100.0</b> | <b>-4.20</b> | <b>-6.4</b> |



As in the previous year, export business increased substantially. However, this was not to the detriment of other customer groups, but was generated as additional business volume. The changes in wholesale and mail order sales are not significant in amount. The decline in markets and purchasing associations was largely attributable to promotion business which was not repeated.

Tools trade: Sales by region

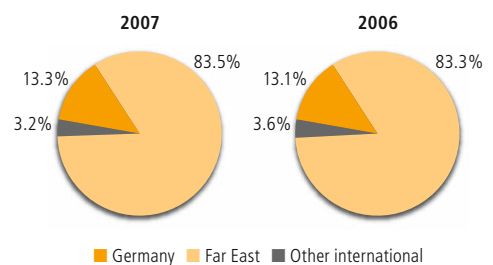
|                          | 2007         |              | 2006         |              | Change       |             |
|--------------------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                          | Mio. €       | %            | Mio. €       | %            | Mio. €       | %           |
| Domestic                 | 31.18        | 51.1         | 39.33        | 60.4         | -8.15        | -20.7       |
| Abroad, including export | 29.79        | 48.9         | 25.83        | 39.6         | 3.96         | 15.3        |
|                          | <b>60.96</b> | <b>100.0</b> | <b>65.16</b> | <b>100.0</b> | <b>-4.20</b> | <b>-6.4</b> |



Sales from abroad rose again sharply reflecting our structural international focus, up 15.3%, ahead of last year's increase (13.8%). The decline in domestic sales reflected declining divisions sales due to industry conditions and promotional business from the previous year.

Tools trade: Purchasing by region

|                     | 2007         | 2006         | Change |
|---------------------|--------------|--------------|--------|
|                     | %            | %            | %      |
| Germany             | 13.3         | 13.1         | 6.4    |
| Far East            | 83.5         | 83.3         | -5.3   |
| Other international | 3.2          | 3.6          | -1.1   |
|                     | <b>100.0</b> | <b>100.0</b> |        |



The Far East remains the most important region.

## Tools trade: Expenses

|  | 2007<br>Mio. € | 2006<br>Mio. € | Change<br>Mio. € |
|--|----------------|----------------|------------------|
| Staffing costs                             | 6.1            | 8.1            | -2.0             |
| Depreciation and<br>amortisation of assets | 0.2            | 0.2            | 0.0              |
| Other operating expenses                   | 7.5            | 7.4            | 0.1              |
|  | <b>13.8</b>    | <b>15.7</b>    | <b>-1.9</b>      |

The average number of employees in the Tools division was 76 (previous year: 77). Sales per employee was only slightly lower year-on-year at € 0.8 million versus € 0.85 million for the previous year.

This corresponds to gross margin of 25.3% (previous year: 25.0%). Gross income was € 15.4 million (previous year: € 16.3 million).

Foreign currency liabilities due to divisional operations declined 2.8% to USD 7.0 million (previous year: USD 7.2 million). The financial result improved by € 0.6 million to € -0.2 million (previous year: € -0.8 million).

The Tools Trade division thus performed well in a somewhat adverse environment, again improving its position in the market.

## 2.2. Valves trade

### 2.2.1. General development of business

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

Technical consulting expertise and our uncompromising customer focus have been key factors for our success in this intensely competitive market. Our unique sales proposition in the industry of taking over complete warehousing and inventory logistics functions as a full-service provider for large, up-market customers affords us outstanding positioning in the marketplace.

Thus far a stable economic environment has provided little stimulus for the industry. Despite this circumstance, the key focuses of our corporate strategy have proven their effectiveness, allowing us to again improve upon the previous year's business results.

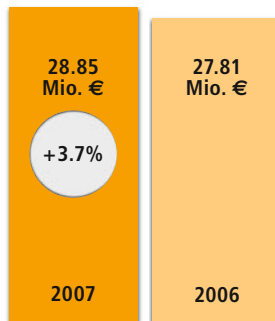
Thus going forward we will also remain committed to the following key focuses in the Valves division as well:

- Cultivating our reputation through consulting expertise,
- A high level of sales activity in project business requiring substantial expertise
- Flexibility and proximity to our customers through our locations in Bottrop, Cologne and Ludwigshafen

## 2.2.2. Key operating figures

Sales for the Valves division totalled € 28.9 million (previous year: € 27.8 million), up 3.7%. This increase was primarily driven by new customer acquisition under long-term framework agreements. In view of the heated competition in the industry, this provides further demonstration of our excellent market positioning and the reputation we enjoy with our customers. Business from long-term customer relationships has been stable, trending slightly upwards.

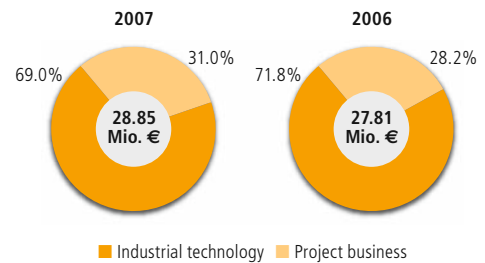
### Valves Trade: Sales



Looking at sales by business area, project business gained ground relative to industrial technology as a percentage of total sales, although the proportion remains largely the same.

### Valves trade: Sales by business area

|                       | 2007         |              | 2006         |              | Change      |            |
|-----------------------|--------------|--------------|--------------|--------------|-------------|------------|
|                       | Mio. €       | %            | Mio. €       | %            | Mio. €      | %          |
| Industrial technology | 19.90        | 69.0         | 19.98        | 71.8         | -0.08       | -0.4       |
| Project business      | 8.95         | 31.0         | 7.83         | 28.2         | 1.12        | 14.3       |
|                       | <b>28.85</b> | <b>100.0</b> | <b>27.81</b> | <b>100.0</b> | <b>1.04</b> | <b>3.7</b> |



Gross income was € 5.77 million (previous year: € 5.65 million). This corresponds to a gross margin of 20.0% (previous year: 20.3%).

### Valves trade expenses

|   | 2007<br>Mio. € | 2006<br>Mio. € | Change<br>Mio. € |
|---|----------------|----------------|------------------|
| Staffing costs                          | 3.1            | 3.1            | 0                |
| Depreciation and amortisation of assets | 0.1            | 0.1            | 0.0              |
| Other operating expenses                | 1.7            | 1.8            | -0.1             |
|   | <b>4.9</b>     | <b>5.0</b>     | <b>-0.1</b>      |

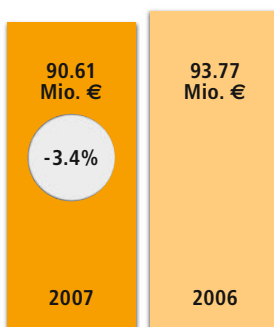
Costs declined slightly versus the previous year despite rising business volume. The average number of employees in the Valves division was 53 (previous year: 55). Sales per employee increased again to € 0.54 million (previous year: € 0.51 million).

The Valves division thus posted excellent performance, which in view of strategic new customer acquisition is of a sustainable nature.

### 3. Group business development

Results for financial year 2007 were quite satisfying in view of the industry trends discussed above affecting the respective divisions. Business volume remained high with consolidated sales of € 90.6 million, even though there was a slight decline of 3.4% against the previous year. This related principally with extraordinarily strong promotional business in the Tools division in 2006, which was not repeated in 2007. All the same, the Tools Trade division performed well in a somewhat adverse environment, again improving its position in the market. The Valves division likewise performed well, with rising sales and increasing business volume, particularly in the new customer segment.

#### Group: Sales



#### Sales: Group

|                                 | 2007         |              | 2006         |              | Change       |             |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                                 | Mio. €       | %            | Mio. €       | %            | Mio. €       | %           |
| Tools division                  | 60.96        | 67.3         | 65.16        | 69.5         | -4.20        | -6.4        |
| Valves division                 | 28.85        | 31.8         | 27.81        | 29.7         | 1.04         | -3.7        |
| Property (non-divisional sales) | 0.80         | 0.9          | 0.80         | 0.8          | 0.00         | 0.0         |
|                                 | <b>90.61</b> | <b>100.0</b> | <b>93.77</b> | <b>100.0</b> | <b>-3.16</b> | <b>-3.4</b> |

The business performance of Brüder Mannesmann Aktiengesellschaft is significantly shaped by that of its equity holdings. Net investment income has been increased by € 0.3 million to € 3.0 million.

### 3.1. Group result

EBIT of € 3.5 million was generated from Group business operations versus € 2.1 million in the previous year. This increase underscores the earnings-generating ability of our operating subsidiaries.

Margins remained stable in the face of unremitting fierce competition, particularly in terms of pricing. Gross consolidated income was € 22.0 million (previous year: € 22.8 million).

#### Group: Results

| in Mio. €                         | 2007       | 2006        | Change      |
|-----------------------------------|------------|-------------|-------------|
| <b>1. EBIT (operating result)</b> | <b>3.5</b> | <b>2.1</b>  | <b>1.4</b>  |
| ./. Financial result              | -2.4       | -2.3        | 0.1         |
| <b>2. Earnings before tax</b>     | <b>1.1</b> | <b>-0.2</b> | <b>1.3</b>  |
| ./. Taxes                         | -1.0       | 0.4         | -1.4        |
| <b>3. Consolidated net income</b> | <b>0.1</b> | <b>0.2</b>  | <b>-0.1</b> |

Consolidated net income was negatively impacted by a sharp rise in deferred taxes. This was due to the Corporate Tax Reform Act adopted 6 July 2007, necessitating the derecognition of tax assets from loss carryforwards in significant dimension. While rising EBIT serves to absorb this impact, consolidated net profit only came to € 0.1 million or approximately € 0.04 per share as a result. Earnings per share (EBIT) came to € 1.17, following € 0.70 for the previous year.

The Group's net interest result (financial result) of € -2.4 million was nearly unchanged versus the previous year.

Brüder Mannesmann Aktiengesellschaft achieved net income of € 0.6 million in fiscal year 2007 (previous year: € 1.5 million). The decline is primarily a result of a fall in interest income.

The Board of Management has proposed to the Supervisory Board that € 300,000.00 of the net retained profits for fiscal year 2007 be distributed in the form of a dividend of € 0.10 per share and that the remaining sum of € 275,803.96 be retained as profits carried forward.



## 3.2. Consolidated balance sheet

In financial year 2007, the consolidated balance sheet total increased from € 61.9 million year-on-year to a current € 63.1 million. This includes the stock dividend distributed in 2007.

### Group: Working capital

| in Mio. EUR                   | 2007        | 2006        | Change     |
|-------------------------------|-------------|-------------|------------|
| Inventories                   | 14.6        | 13.5        | 1.1        |
| Receivables                   | 10.8        | 11.1        | -0.3       |
| Liquid funds and Securities   | 12.0        | 12.0        | 0.0        |
| <b>Total</b>                  | <b>37.4</b> | <b>36.6</b> | <b>0.8</b> |
| Current financial liabilities | 3.8         | 0.9         | 2.9        |
| Creditors                     | 5.0         | 7.1         | -2.1       |
| <b>Total</b>                  | <b>8.8</b>  | <b>8.0</b>  | <b>0.8</b> |
| <b>Working capital</b>        | <b>28.6</b> | <b>28.6</b> | <b>0.0</b> |

Working capital remained at € 28.6 million.

At € 8.7 million (previous year: € 9.5 million), equity on the 2007 balance sheet yields an equity ratio of 13.8% (previous year: 15.4%). If subordinated loans (mezzanine capital) are added to equity, equity totals € 25.7 million for an equity ratio of 40.7% (previous year 34.9%).

The total assets of Brüder Mannesmann Aktiengesellschaft increased by € 1.0 million to € 35.3 million. Liabilities to banks were reduced by taking on a further subordinated loan for a nominal sum of € 5.0 million.

### 3.3. Employees

The average number of employees in the Group was 134 (previous year: 137). Sales per employee remained unchanged year-on-year at € 0.68 million.

#### Group employees

|   | 2007         | 2006         | Change      |
|---|--------------|--------------|-------------|
| Industrial employees                    | 31.0         | 32.0         | -1.0        |
| Salaried employees                      | 103.0        | 105.0        | -2.0        |
| <b>Number of staff employed</b>         | <b>134.0</b> | <b>137.0</b> | <b>-3.0</b> |
| Trainees and apprentices                | 5.5          | 6.0          | -0.5        |
| <b>Sales per employee<br/>€ million</b> | <b>0.68</b>  | <b>0.68</b>  | <b>0</b>    |

### 3.4. Expenses

#### Group: Expenses

| in Mio. €                               | 2007        | 2006        | Change      |
|---|-------------|-------------|-------------|
| Staffing costs                          | 10.1        | 12.3        | -2.2        |
| Depreciation and amortisation of assets | 0.5         | 0.5         | 0.0         |
| Other operating expenses                | 9.2         | 8.6         | 0.6         |
|   | <b>19.8</b> | <b>21.4</b> | <b>-1.6</b> |

Depreciation and amortisation of assets and other operating expenses remained unchanged, whereas other operating expenses were up slightly. Overall, expenses decreased 7.5% due to reduced staffing costs.

## 4. Risk management and safeguarding the future

The Company has a reporting and control system in place for the early identification of business risks potentially jeopardising the existence of the company as a going concern and its ability to obtain important strategic goals. The information obtained through the system is incorporated into management planning. Responsibility for implementing countermeasures lies with division management.

With regard to industry-specific risks, both divisions employ a variety of measures for attracting new customer segments, internationalisation and innovative product range policy as a means to safeguard the future of the company.

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

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

The individual equity holdings of the Group are solidly on track, as described in detail in divisional reporting. The opportunities result in corporate risk taking are therefore being successfully exploited at operating level. Overarching holding company functions performed at Group level are key to supporting the business operations of these equity holdings in the marketplace. This includes assistance with questions of strategy and the safeguarding of funds. At Group level, there is still the opportunity to make commensurate contributions to earnings.

## 5. Other information

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

On 31 December 2007, the members of the Board of Management held 696,300 ordinary shares (previous year: 696,300) representing 23.21% of share capital. On 31 December 2007, the members of the Supervisory Board held 228,500 ordinary shares (previous year: 228,500) representing 7.62% of share capital.

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

Confirmation by legal representatives in accordance with Article 289, Para. 1, Clause 5 and Article 315, Para. 1, Clause 6 of the German Commercial Code (HGB) can be found in the notes and Consolidated notes.

## 6. Disclosures per Article 289 Para. 4 and Article 315 Para. 4 of German Commercial Code regarding the annual and consolidated financial statements

1. As of 31 December 2007, Company share capital totalled € 9,000,000.00, consisting of 3,000,000 no par value bearer shares.
2. The Board of Management is not aware of any restrictions in place concerning voting rights or sale of shares pursuant to any agreements between shareholders.
3. According to Company information, Board of Management Chairman Jürgen Schafstein is above the 10% of voting rights threshold, directly holding 16.67% of equity and voting shares. The Company has no information concerning any other direct or indirect shareholdings exceeding the threshold of 10% of voting shares in the Company.
4. No special rights are in place conferring control privileges.
5. There is no monitoring conducted of employee shareholdings in the Company.

6. Appointing and dismissing members of the Board of Management is done in line with Articles 84 and 85 of the Stock Corporation Act. Pursuant to Article 7 of the Company bylaws, the Board of Management may consist of one or more members. At this time there are two members. The Supervisory Board appoints Board of Management members and determines their number. The Supervisory Board may appoint a Chairman or Speaker of the Board of Management. The Company bylaws may be amended by shareholder resolution in accordance with Articles 119 Para. 1 no 5, 179 and 133 of the Stock Corporation Act. As permitted by law, resolutions are passed by a simple majority of votes cast and a simple majority of share capital represented in accordance with Article 179 Para. 2 of Stock Corporation Act in conjunction with Article 21 Para. 2 of the Company bylaws, instead of by a majority of three quarters of share capital represented as provided under Article 179 Para. 2 sentence 1 Stock Corporation Act. Pursuant to Article 17 of the Company bylaws, the Supervisory Board is only authorised to amend the Company bylaws in respect of the version.

7. The Board of Management is authorised to issue and buy back shares as outlined below.

- The Board of Management is authorised pursuant to Article 5 Para. 3 of the Company bylaws to increase Company share capital (authorised capital) one or more times by a maximum € 4,500,000.00 through 29 August 2012 through the issuance of bearer shares versus cash or contributions in kind, subject to Supervisory Board approval. The Board of Management is furthermore authorised to determine the further specifics concerning share class rights and the terms of share offerings, subject to Supervisory Board approval.
- Existing shareholders must be given opportunity to subscribe to new shares. However, the Board of Management is authorised to exclude shareholder subscription rights under the following circumstances, subject to Supervisory Board approval: for fractional shares, capital increases against contributions in kind (particularly for granting shares for the purpose of mergers, acquisitions, partial buyouts and equity investments) and cash contributions not exceeding 10% of share capital either at the time of effective authorisation or exercise thereof when the offering price is not significantly below the market price of Company shares actively trading on the secondary market at the point of final price determination. Shares purchased and sold excluding shareholder subscription rights under in line with Article 71 Para. 1 no 8 sentence 5 Stock Corporation Act in conjunction with Article 186 Para. 3 sentence 4 Stock Corporation Act count toward the aforementioned 10% threshold. Shares issued or to be issued without subscription rights under such authorisation in connection with convertible bonds, warrants and other hybrid securities in line with Article 186 Para 3 sentence 4 Stock Corporation Act also apply towards this threshold.

- On 25 August 2005, the annual shareholders' meeting authorised the Board of Management to issue bearer or registered profit sharing rights and/or participation certificates (the latter also referred to below as debentures) on one or more occasions to 24 August 2010. The total nominal value of the profit sharing rights and/or participation certificates issued under this authorisation with a duration not exceeding 15 years may not exceed € 20,000,000.00. Bearer warrants may be attached to the participation certificates or they can be provided with a conversion right for the bearer. The option or conversion rights may only be issued with a proportionate amount of the share capital up to a nominal amount of € 1,800,000.00. The Company has not thus far exercised this authorisation. Share capital was increased on a contingent basis by a maximum € 1,800,000.00 for the issuance of a maximum 600,000 new bearer shares. The contingent capital increase will be implemented only to the extent that the owners of conversion rights or options connected with participation certificates to be issued by the Company up to 24 August 2010 exercise their conversion or option rights or to the extent the owners of the convertible participation certificates of the Company to be issued up to 24 August 2010 exercise their conversion obligation. The new shares participate in profits from the start of the financial year in which they originate as a result of the exercise of conversion rights or options or by fulfilling conversion obligations.
  
  - On 30 August 2007, the annual shareholders' meeting authorised the Company effective 31 August 2007 to buy back Company shares up to a maximum of € 900,000.00 of share capital for a period of 18 months, i.e. through 28 February 2009. The Board of Management was further authorised to sell the acquired shares without subscription rights or retire the repurchased shares, subject to Supervisory Board approval.
8. The Company has no clauses in place of material significance predicated upon change of control in consequence of a buyout/takeover offer.
9. Nor does the Company have any golden parachute clauses in place with Board of Management members or employees in the event of a buyout/takeover.

## 7. Outlook

### Tools trade

At 31 December 2007, order backlog and incoming orders totalled € 5.6 million and € 69.5 million respectively. Although lower than the figures reported on 31 December 2006 (€ 13.7 million and € 74.8 million respectively), these levels are still acceptable given the variable and increasingly unpredictable nature of ordering behaviour.

Strategy for the current financial year will revolve around the continued expansion of our international activities by applying the same business model which has proven successful in Germany. We will thus provide our customers who are expanding into these markets with their own regional presence and will remain a reliable partner. Considerable expansion potential is seen over the medium to long-term above and beyond our national-market growth prospects. This ongoing, multi-year process is geared toward ultimately establishing an EU-wide presence through a network of exclusive dealers, sales representatives and supporting branches. The regional focus is on South Eastern and Eastern Europe including Turkey.

Owing to the concentration process observed among business groups, a further decline in the promotional business is to be expected. The fall in sales posted in this area in fiscal year 2007 should therefore continue in 2008. An upturn is not expected to set in until September 2008 at the earliest, which means that it will probably not be possible to compensate this sales shortfall. As this is an area of business with a relatively low margin, the impact on the segment's profitability should be below average.

Further increases in energy and transport costs represent a risk, as the Far East is still our main purchasing region, involving high transportation expenditures. A further shortening of trade order turnaround times could also become a stumbling block for achieving our long-term objectives.

### Valves trade

The number of inquiries received from new and existing customers is increasing, pulling incoming orders and order backlog along with it. Thus the business outlook is at least stable.

The effectiveness of our sales concept of taking over complete warehousing and inventory logistics functions as a full-service provider for major, up-market customers is now established. Because of the experience we have gained and smooth processes in place, we are now able to incorporate smaller customers into this concept, accessing additional market potential.

The unpredictability of commodity and energy prices and the corresponding impact they have on capital expenditure poses a risk.

## Group

The Group's two operational divisions, Tools Trade and Valve Trade, are well positioned in their markets, and have been able to solidify and grow their businesses. On this basis, the outlook for the Group's further development should be viewed positively. Although in the Tools division a fall in sales due to the concentration process among business groups and owing to this a decline in the promotional business is to be expected, this should only have a minor impact on the profitability of the Brüder Mannesmann Group, as the promotional business only makes relatively low contributions to earnings and on top of this the second division ensures a structural spread of risks.

Group-internal conditions are good for further growth. Mezzanine corporate finance on attractive terms has been particularly instrumental in creating a solid foundation for growth.

The economic situation in Germany and Europe however allows for no type of security with regard to planning. The US mortgage crisis has now erupted into a global financial crisis, the full effects of which are still unknown.

Predictions as to how economic, industry-specific or international political conditions may develop necessarily involve a great degree of uncertainty. A reliable overall forecast for future business development in concrete figures is thus extremely difficult. Our expectation however is for the Company to continue to show above-average earnings growth.

Business data from the first months of the current financial year confirm this expectation.

Remscheid, April 2008  
Brüder Mannesmann Aktiengesellschaft,  
The Board of Management



Jürgen Schafstein  
Chairman of the  
Board of Management



Bernd Schafstein





# Consolidated Financial Statements

## Consolidated Balance Sheet

| Assets in TEUR                     | Notes | 31.12.2007    | 31.12.2006    |
|------------------------------------|-------|---------------|---------------|
| Non-current assets                 |       |               |               |
| Goodwill                           | 3.1.  | 3,845         | 3,845         |
| Other intangible assets            | 3.1.  | 638           | 825           |
| Property, plant and equipment      | 3.2.  | 7,189         | 7,298         |
| Investment property                | 3.3.  | 8,377         | 8,377         |
| Financial assets                   | 3.4.  | 636           | 35            |
| Deferred tax assets                | 3.5.  | 2,599         | 3,611         |
| Other assets                       | 3.6.  | 142           | 131           |
|                                    |       | <b>23,426</b> | <b>24,122</b> |
| Current assets                     |       |               |               |
| Inventories                        | 3.7.  | 14,641        | 13,508        |
| Trade receivables                  | 3.8.  | 10,808        | 11,053        |
| Other receivables and other assets | 3.8.  | 1,791         | 1,021         |
| Assets for current tax             |       | 420           | 181           |
| Investments                        | 3.9.  | 3,792         | 0             |
| Cash and cash equivalents          | 3.10. | 8,209         | 11,996        |
|                                    |       | <b>39,661</b> | <b>37,759</b> |
| <b>Balance sheet total</b>         |       | <b>63,087</b> | <b>61,881</b> |

| Liabilities in TEUR                             | Notes | 31.12.2007    | 31.12.2006    |
|---|-------|---------------|---------------|
| Equity  |       |               |               |
| Share capital                                   | 3.13. | 9,000         | 7,700         |
| Reserves  | 3.14. | 770           | 1,697         |
| Accumulated losses brought forward              |       | -1,188        | 0             |
| Net consolidated income                         |       | 125           | 151           |
|   |       | <b>8,707</b>  | <b>9,548</b>  |
| Non-current liabilities                         |       |               |               |
| Mezzanine subordinate loans                     | 3.18. | 16,949        | 12,053        |
| Provisions for pensions and similar liabilities | 3.16. | 8,320         | 7,282         |
| Financial liabilities                           | 3.18. | 15,233        | 20,876        |
| Other liabilities                               | 3.19. | 803           | 807           |
| Deferred tax liabilities                        | 3.20. | 639           | 225           |
|   |       | <b>41,944</b> | <b>41,243</b> |
| Current liabilities                             |       |               |               |
| Other provisions                                | 3.17. | 1,527         | 1,129         |
| Financial liabilities                           | 3.18. | 3,797         | 873           |
| Trade liabilities                               | 3.21. | 5,035         | 7,075         |
| Other liabilities                               | 3.19. | 2,065         | 2,013         |
| Current income tax liabilities                  | 3.22. | 12            | 0             |
|   |       | <b>12,436</b> | <b>11,090</b> |
| <b>Balance sheet total</b>                      |       | <b>63,087</b> | <b>61,881</b> |

## Consolidated Statement of Earnings

| in TEUR  | Notes       | 01.01.-31.12.2007 | 01.01.-31.12.2006 |
|--|-------------|-------------------|-------------------|
| Sales revenue  | 4.1.        | 90,610            | 93,771            |
| Other operating income   | 4.2.        | 1,313             | 791               |
| Costs of materials   |             | -68,629           | -71,009           |
| Staffing costs   | 4.3.        | -10,076           | -12,330           |
| Other operating expenses   | 4.4.        | -9,217            | -8,628            |
| <b>EBITDA</b>  |             | <b>4,001</b>      | <b>2,595</b>      |
| Amortisation and depreciation of intangible assets and property, plant and equipment |             | -475              | -494              |
| <b>EBIT (operating result)</b>   |             | <b>3,526</b>      | <b>2,101</b>      |
| Financial earnings   | 4.5.        | -2,438            | -2,303            |
| Earnings before tax  |             | 1,088             | -202              |
| Income taxes   | 4.6.        | -963              | 353               |
| <b>Net consolidated income</b>   |             | <b>125</b>        | <b>151</b>        |
| <b>Earnings per share (undiluted) in EUR</b>   | <b>4.7.</b> | <b>0.04</b>       | <b>0.05</b>       |
| <b>Earnings per share (diluted) in EUR</b>   | <b>4.7.</b> | <b>0.04</b>       | <b>0.05</b>       |

## Consolidated Capital Finance Account

| in TEUR  | Notes       | 2007          | 2006          |
|--|-------------|---------------|---------------|
| EBIT   |             | 3,526         | 2,101         |
| Depreciation on noncurrent assets  |             | 475           | 494           |
| Gains on disposal on noncurrent assets   |             | -17           | -3            |
| Change of noncurrent provisions and other noncurrent liabilities                           |             | 1,038         | 2,123         |
| Other non-cash income and expenses   |             | 96            | 55            |
| Interest payments  |             | -392          | -893          |
| Income tax payments  |             | -343          | -565          |
| <b>Cash inflows/outflows from operating activities before change in current net assets</b> | <b>6.2.</b> | <b>4,383</b>  | <b>3,312</b>  |
| Change of current assets/liabilities   |             |               |               |
| Inventories  |             | -1,133        | -1,461        |
| Trade receivables  |             | 245           | 3,220         |
| Other receivables and other assets   |             | -693          | 44            |
| Financial liabilities  |             | 2,926         | -8,929        |
| Trade liabilities  |             | -2,040        | -2,101        |
| Other liabilities and other items  |             | -287          | 848           |
| <b>Inflows/outflows from operating activities</b>  | <b>6.2.</b> | <b>3,401</b>  | <b>-5,067</b> |
| Inflows from disposal of noncurrent assets   |             | 47            | 24            |
| Outflow for investment properties  |             | -810          | -657          |
| Interest received  |             | 340           | 307           |
| Dividends received   |             | 26            | 19            |
| Investments  |             | -4,070        | 0             |
| Current financial instruments  |             | 853           | 61            |
| <b>Inflows/outflows from investing activities</b>  | <b>6.2.</b> | <b>-3,614</b> | <b>-246</b>   |
| Change of long-term financial liabilities  |             |               |               |
| Borrowing subordinated loan  |             | 4,800         | 12,500        |
| Borrowing other long-term financial liabilities  |             | 0             | 7,300         |
| Repayment long-term financial liabilities  |             | -5,643        | -1,475        |
| Interest payment   |             | -2,371        | -1,736        |
| Distribution of profits  |             | -360          | 0             |
| <b>Inflows/outflows from financing activities</b>  | <b>6.2.</b> | <b>-3,574</b> | <b>16,589</b> |
| <b>Changes in cash and cash equivalents</b>  | <b>6.2.</b> | <b>-3,787</b> | <b>11,276</b> |
| <b>Cash and cash equivalents on 1 January</b>  | <b>6.2.</b> | <b>11,996</b> | <b>720</b>    |
| <b>Cash and cash equivalents on 31 December</b>  | <b>6.2.</b> | <b>8,209</b>  | <b>11,996</b> |

## Statement of Changes to Shareholders' Equity

| in TEUR   | Share capital | Capital reserves | Revenue reserves | Retained earnings brought forward | Net income | Total shareholders' equity |
|---|---------------|------------------|------------------|-----------------------------------|------------|----------------------------|
| <b>Shareholders' equity as at December 31, 2005</b> | <b>7,700</b>  | <b>770</b>       | <b>40</b>        | <b>0</b>                          | <b>903</b> | <b>9,413</b>               |
| Transfer to earnings reserves from 2005 net income  |               |                  | 903              |                                   | -903       |                            |
| Adjustment of deferred taxes                        |               |                  | -16              |                                   |            |                            |
| Profit January 1, to December 31, 2006              |               |                  |                  |                                   | 151        |                            |
| <b>Shareholders' equity as at December 31, 2006</b> | <b>7,700</b>  | <b>770</b>       | <b>927</b>       | <b>0</b>                          | <b>151</b> | <b>9,548</b>               |
| Transfer to earnings reserves from 2006 net income  |               |                  | 151              |                                   | -151       |                            |
| Increase of share capital                           | 1,300         |                  | -1,300           |                                   |            |                            |
| Profit distribution                                 |               |                  | -360             |                                   |            |                            |
| Adjustment of deferred taxes                        |               |                  | -606             |                                   |            |                            |
| Reclassification to the result brought forward      |               |                  | 1,188            | -1,188                            |            |                            |
| Profit January 1, to December 31, 2007              |               |                  |                  |                                   | 125        |                            |
| <b>Shareholders' equity as at December 31, 2007</b> | <b>9,000</b>  | <b>770</b>       | <b>0</b>         | <b>-1,188</b>                     | <b>125</b> | <b>8,707</b>               |

# Notes to the Consolidated Financial Statements



# Notes to the Consolidated Financial Statements

## 1. General information on the consolidated financial statements

Brüder Mannesmann Aktiengesellschaft is a holding company whose operating subsidiaries are active in the international trading of tools and valves. Two independent operating lines – Tools Trading and Valves Trading – are established on the market, while the subsidiary Brüder Mannesmann Grundbesitz GmbH acts exclusively as a rental company for the property held by the Group and does not operate on the market.

The registered business address of the Group is:  
Lempstraße 24, 42859 Remscheid, Germany.

Brüder Mannesmann Aktiengesellschaft is entered in the commercial register of the Wuppertal Local Court under HRB 11838.

Brüder Mannesmann Aktiengesellschaft is a listed company admitted for trading in the Prime Standard segment of the Frankfurt Stock Exchange.

## 2. Accounting policies

### 2.1. Basis of preparation of the financial statements

#### Accounting

In accordance with section 315a of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with EU Directive 1606/2002 dated 19 July 2002, the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft for the year ended 31 December 2007 were prepared on the basis of the applicable International Financial Reporting Standards (IFRSs) adopted by the EU at the balance sheet date.

The consolidated financial statements are based on the historical cost convention with the exception of specific items, such as investment property, derivative financial instruments and certain securities, which are measured at fair value.

The consolidated income statement was prepared in accordance with the total cost (nature of expense) method.

Individual items in the consolidated balance sheet and the consolidated income statement are summarised in order to improve the clarity of presentation. These items are discussed in greater detail in the notes to the financial statements.

The structure of the balance sheet is based on the term of the respective assets and liabilities.

Assets and liabilities are classified as current if they fall due or are held for sale within one year. Accordingly, assets and liabilities are classified as non-current if the Group intends to hold them for more than one year. Trade payables and receivables, current tax assets and liabilities and inventories are generally classified as current, while deferred tax assets and liabilities are classified as non-current.

### Reporting currency

The consolidated financial statements are prepared in euros. All amounts are presented in thousands of euros (TEUR) unless otherwise stated.

### Basis of consolidation

In addition to Brüder Mannesmann Aktiengesellschaft, the consolidated financial statements include all of the subsidiaries whose financial and business policy are controlled by Brüder Mannesmann Aktiengesellschaft on account of it holding a majority of the voting rights or in accordance with the relevant articles of association, partnership agreement or other contractual arrangements, with the exception of one subsidiary.

A total of seven German subsidiaries (previous year: seven) and one foreign subsidiary (previous year: one) controlled by Brüder Mannesmann Aktiengesellschaft in accordance with IAS 27 (Consolidated and Separate Financial Statements) are included in the consolidated financial statements.

The full list of shareholdings of the Brüder Mannesmann Group is published in the electronic Bundesanzeiger (Federal Gazette).

### Consolidation principles

The single-entity financial statements of the companies included in consolidation are reconciled to uniform, consolidation-ready financial statements in accordance with International Financial Reporting Standards (IFRSs).

The single-entity financial statements of the companies included in consolidation are prepared to the same reporting date as the consolidated financial statements.

The initial consolidation of the companies included in consolidation prior to 1 January 2004 was performed on the basis of the purchase method set out in section 301 (1) no. 1 of the HGB. Under this method, the Group's interest in the shareholders' equity of a consolidated subsidiary is offset against the carrying amount of the investment at the acquisition date. Any remaining excess after the allocation of hidden reserves and liabilities is recognised as goodwill from capital consolidation and amortised on a straight-line basis over the economic life of the respective investment.

Following the initial application of IFRS 3 (Business Combinations), the straight-line amortisation of goodwill was discontinued with effect from 1 January 2004. Since this date, goodwill has been regularly tested for impairment at least once a year, with the carrying amount written down to the recoverable amount as necessary. No impairment losses were recognised in the year under review.

There were no business combinations after 1 January 2004.

Intragroup profits and losses are eliminated. Intragroup revenues, expenses and income, receivables, liabilities and provisions are consolidated. Deferred taxes are recognised for consolidation adjustments in accordance with IAS 12 (Income Taxes).

### Currency translation

As the euro is the functional currency of all the companies included in consolidation, no single-entity financial statements were required to be translated.

Foreign currency transactions in the single-entity financial statements of Group companies are translated in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates) at the applicable exchange rate at the transaction date. Monetary assets and liabilities whose values are stated in a foreign currency are translated at the closing rate on the balance sheet date. The resulting exchange rate gains and losses are recognised in income.

## 2.2. Application of new accounting policies

The revised and new standards and interpretations issued by the IASB that were required to be applied by Brüder Mannesmann Aktiengesellschaft in the year under review were applied for the first time in preparing the consolidated financial statements for the year ended 31 December 2007.

### IAS 1 (Presentation of Financial Statements – Capital Disclosures)

This amendment to IAS 1 introduces additional disclosures on the Company's capital and capital management and the fulfilment of external capital requirements.

### IFRS 7 (Financial Instruments: Disclosures)

IFRS 7 expands the existing disclosure requirements for financial instruments set out in IAS 32. The first-time application of this standard resulted in additional disclosures on financial instruments in the notes to the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

#### IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies)

IFRIC 7 contains guidance on how an entity should restate its financial statements when it identifies the existence of hyperinflation in the economy of its functional currency. In this case, the financial statements should be restated as if the economy had always been hyperinflationary. This does not apply to any of the Brüder Mannesmann Group companies, meaning that the first-time application of this interpretation did not affect the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

#### IFRIC 8 (Scope of IFRS 2)

IFRIC 8 clarifies the application of IFRS 2 (Share-based Payment). Accordingly, IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. The first-time application of this interpretation did not affect the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

#### IFRIC 9 (Reassessment of Embedded Derivatives)

IFRIC 9 contains guidance on structured financial instruments consisting of a non-derivative host contract and an embedded derivative. The first-time application of this interpretation did not affect the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

#### IFRIC 10 (Interim Financial Reporting and Impairment)

In accordance with IAS 36 and IAS 39, an impairment loss recognised in respect of goodwill or certain financial assets may not be reversed in a subsequent period. IFRIC 10 specifies that impairment losses of this nature recognised in interim periods may also not be reversed. The first-time application of this interpretation did not affect the consolidated financial statements of Brüder Mannesmann Aktiengesellschaft.

#### Newly published accounting standards

The following list shows the IFRSs and amendments published as of 31 December 2007 that are not required to be applied until 1 January 2008 at the earliest.

Brüder Mannesmann Aktiengesellschaft is currently examining the impact of the new standards and interpretations on its consolidated financial statements. The Company does not expect the first-time application of these new standards and interpretations to have a material effect on its consolidated financial statements.

IAS 1

Presentation of Financial Statements (revised) (to be applied from 1 January 2009)

IAS 23

Borrowing Costs (to be applied from 1 January 2009)

IFRS 8

Operating Segments (to be applied from 1 January 2009)

IFRIC 11 – IFRS 2

Group and Treasury Share Transactions (to be applied from 1 January 2008)

IFRIC 12

Service Concession Arrangements (to be applied from 1 January 2008)

IFRIC 13

Customer Loyalty Programmes (to be applied from 1 January 2009)

IFRIC 14 – IAS 19

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (to be applied from 1 January 2008)

### 2.3. Assumptions and estimates

The preparation of the consolidated financial statements requires the application of certain assumptions and estimates affecting the amount and classification of assets, liabilities, income, expenses and contingent liabilities. The actual amounts may deviate from these assumptions and estimates. In the event of a change in the original basis of an assumption or estimate, the resulting change in the value of the affected item is recognised in income.

The main areas in which assumptions and estimates are applied include the determination of the useful lives of non-current assets, the calculation of discounted cash flows for the purposes of impairment testing and the measurement of interest optimisation transactions, the calculation of the fair values of derivative financial instruments, the recognition of deferred tax assets from tax loss carryforwards, the recognition of provisions for employee benefits and uncertain obligations, the recognition of onerous contracts and the measurement of inventories.

## 2.4. Summary of significant accounting policies

### Intangible assets

Goodwill from capital consolidation is recognised in accordance with IFRS 3 and regularly tested for impairment at least once a year, and more often if there is evidence of impairment. The carrying amount of goodwill is written down to the recoverable amount as necessary. For the purpose of impairment testing, goodwill is allocated to the cash-generating units tools (TEUR 2,497) and valves (TEUR 1,348). To measure the value, expected future cash flows are discounted at a factor of 8 %.

Other intangible assets are carried at cost and depreciated on a time proportion basis over their estimated useful life. An impairment loss is recognised for any impairment in excess of scheduled amortisation. Impairment losses are reversed if the reasons for their recognition no longer exist. The useful lives of intangible assets are between 3 and 15 years.

### Property, plant and equipment

Property, plant and equipment is carried at cost less straight-line depreciation and any impairment losses.

The following useful lives for property, plant and equipment are applied throughout the Group:

- Buildings, including buildings on third-party land: 8-60 years
- Technical equipment and machinery: 2-15 years
- Other equipment, office and operating equipment: 2-15 years

In accordance with IAS 17 (Leases) in conjunction with IFRIC 4, the beneficial ownership of leased assets accrues to the lessee if substantially all of the risks and rewards incidental to the asset are also transferred to the lessee (finance leases). The Group did not have any leases meeting this definition in the year under review. All of the Group's leases were classified as operating leases, with the corresponding lease instalments expensed as incurred.

### Investment property

IAS 40 (Investment Property) defines investment property as property held to earn rentals or for capital appreciation or both. Investment property is carried at fair value.

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

## Financial instruments

Financial assets and liabilities are recognised in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

Financial assets are broken down into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial assets held to maturity
- Available-for-sale financial assets

Financial liabilities are broken down into the following categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities carried at amortised cost

At the balance sheet date, the Brüder Mannesmann Group did not hold any financial assets classified as held to maturity.

The purchase and sale of financial instruments in arm's length transactions is recognised at the settlement date, i.e. the date on which the asset is delivered to or by the Brüder Mannesmann Group. Financial assets and liabilities are not generally offset unless the Group has a current right to offset the respective amounts and intends to settle them on a net basis.

On initial recognition, financial assets and liabilities are measured at fair value. Subsequent measurement is performed on the basis of the IAS 39 categories to which the respective items are allocated.

Financial assets include both primary and derivative financial instruments.

Financial instruments are carried at amortised cost (calculated in accordance with the effective interest method) or fair value. They are derecognised when the right to receive payments from the instruments expire or are transferred and the Brüder Mannesmann Group transfers significantly all the risks and rewards incidental to ownership. The amortised cost of a financial asset or liability is the amount applied on initial recognition less

- repayments,
- impairment losses or allowances for uncollectability, and
- the cumulative allocation of any differences between the original amount and the amount repayable on maturity (e.g. premiums).

Premiums are calculated over the term of the financial asset or liability using the effective interest method.

The amortised cost of current receivables and liabilities generally corresponds to their notional or settlement amount.

The fair value of a financial instrument generally corresponds to its market value or quoted price. If no active market exists for a financial instrument, the fair value is calculated using recognised investment techniques, e.g. by discounting the estimated future cash flows using the applicable discount rate, and examined by obtaining confirmations from the banks responsible for settling the respective transactions.

Financial assets are examined for objective evidence of impairment at each balance sheet date.

#### Non-current financial assets

Non-current financial assets primarily relate to shares in an unconsolidated subsidiary and an equity investment. As there is no market for these instruments and their fair values cannot be reliably determined without an unreasonable degree of cost and effort, they are generally carried at original cost. If there is evidence that the fair value of a non-current financial asset is lower than its carrying amount, the carrying amount is written down to fair value accordingly.



### Deferred tax assets and liabilities

Deferred taxes are calculated in accordance with IAS 12. Temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax base are recognised in the amount of the probable future tax benefits and expenses. The expected tax savings from the future utilisation of tax loss carryforwards are capitalised. Deferred tax assets from deductible temporary differences and tax loss carryforwards are recognised at the amount in which it is reasonably certain that sufficient taxable income will be generated to realise the corresponding benefits.

### Inventories

In accordance with IAS 2 (Inventories), inventories are defined as assets held for sale in the ordinary course of business (goods) and consumed in providing services (raw materials and supplies).

Goods classified as inventories are initially carried at cost, which is determined in accordance with the weighted average cost method. At subsequent reporting dates, goods are carried at the lower of cost and net realisable value. Specific valuation allowances are recognised for goods if the proceeds on their sale are expected to be lower than their carrying amount. Net realisable value is defined as the expected selling price less the direct selling expenses attributable to the goods up until their sale.

### Trade receivables

Trade receivables are classified as loans and receivables in accordance with IAS 39 and carried at amortised cost.

Doubtful receivables are carried at the lower recoverable amount.

### Other receivables and other assets

The assets reported in other receivables and other assets that are required to be classified as loans and receivables in accordance with IAS 39 are carried at amortised cost.

Other assets include derivative financial instruments, which are measured at fair value in accordance with IAS 39.

Prepaid expenses include transitional deferrals. Prepaid expenses with a remaining term of more than one year are reported in non-current assets (other non-current assets).

### Cash and cash equivalents, current tax assets and other securities

Cash and cash equivalents are composed of checks, cash in hand and bank balances with a term of three months or less, and are carried at the respective nominal amounts.

Current tax assets relate to income tax receivables from tax authorities.

Other securities are classified as available for sale and carried at fair value in accordance with IAS 39.

### Provisions

In accordance with IAS 19 (Employee Benefits), the actuarial valuation of pension provisions is performed using the projected unit credit method for defined benefit obligations. This includes current and future pension claims at the balance sheet date and expected future salary and pension increases. In accordance with the corridor method, actuarial gains and losses at the end of the year are only recognised if they fall outside a range of 10% of the amount of the obligation. Any such actuarial gains or losses are distributed across the average remaining working life of the respective beneficiaries and recognised in income. In accordance with IAS 39, past service cost for vested new benefits and changes in pension plans are recognised in income immediately.

Other provisions are recognised in accordance with IAS 37 if the Group has a legal or constructive obligation to a third party resulting from a past transaction or event that is likely to result in an outflow of benefits that can be reliably determined. Provisions are carried at the expected settlement amount, taking into account all identifiable risks.

### Liabilities

In accordance with IAS 39, financial liabilities are carried at amortised cost using the effective interest method.

Trade payables are carried at amortised cost.

Other liabilities are carried at their repayment amount, unless they are required to be measured at fair value in accordance with IAS 39.

### Income and expenses

Revenues and other operating income are recognised only when the significant risks and rewards incidental to ownership of the goods are transferred to the customer.

Operating expenses are recognised when the respective services are utilised or when the event giving rise to the expenses occurs.

Borrowing costs are expensed in the period in which they are incurred in accordance with the benchmark method set out in IAS 23.

### 3. Disclosures on the consolidated balance sheet

#### 3.1. Intangible assets

| Schedule of intangible assets in TEUR | Goodwill     | Other intangible assets | Total        |
|---------------------------------------|--------------|-------------------------|--------------|
| <b>Cost</b>                           |              |                         |              |
| As of 01.01.2006                      | 3,845        | 2,628                   | 6,473        |
| Additions                             | 0            | 422                     | 422          |
| Disposals                             | 0            | 0                       | 0            |
| <b>As of 31.12.2006</b>               | <b>3,845</b> | <b>3,050</b>            | <b>6,895</b> |
| As of 01.01.2007                      | 3,845        | 3,050                   | 6,895        |
| Additions                             | 0            | 0                       | 0            |
| Disposals                             | 0            | 0                       | 0            |
| <b>As of 31.12.2007</b>               | <b>3,845</b> | <b>3,050</b>            | <b>6,895</b> |
| <b>Cumulated depreciation</b>         |              |                         |              |
| As of 01.01.2006                      | 0            | 2,046                   | 2,046        |
| Depreciation                          | 0            | 179                     | 179          |
| Disposals                             | 0            | 0                       | 0            |
| <b>As of 31.12.2006</b>               | <b>0</b>     | <b>2,225</b>            | <b>2,225</b> |
| As of 01.01.2007                      | 0            | 2,225                   | 2,225        |
| Depreciation                          | 0            | 187                     | 187          |
| Disposals                             | 0            | 0                       | 0            |
| <b>As of 31.12.2007</b>               | <b>0</b>     | <b>2,412</b>            | <b>2,412</b> |
| <b>Carrying amount</b>                |              |                         |              |
| 01.01.2006                            | 3,845        | 582                     | 4,427        |
| 31.12.2006                            | 3,845        | 825                     | 4,670        |
| 01.01.2007                            | 3,845        | 825                     | 4,670        |
| 31.12.2007                            | <b>3,845</b> | <b>638</b>              | <b>4,483</b> |

Goodwill consists of goodwill from capital consolidation and relates to the carrying amounts of the following cash-generating units:

| <b>in TEUR</b> | <b>31.12.2007</b> | <b>31.12.2006</b> |
|----------------|-------------------|-------------------|
| Tools segment  | 2,497             | 2,497             |
| Valves segment | 1,348             | 1,348             |
|                | <b>3,845</b>      | <b>3,845</b>      |

The carrying amounts recognised by the Group were confirmed in the course of goodwill impairment testing.

Rights to company names and software licences are reported in other intangible assets.

### 3.2. Property, plant and equipment

| Schedule of property, plant and equipment in TEUR | Land and buildings | Technical equipment and machinery | Other plant and equipment | Total         |
|---|--------------------|-----------------------------------|---------------------------|---------------|
| <b>Cost</b>                                       |                    |                                   |                           |               |
| As of 01.01.2006                                  | 9,634              | 37                                | 1,445                     | 11,116        |
| Additions   | 0                  | 0                                 | 103                       | 103           |
| Disposals   | 0                  | -2                                | -44                       | -46           |
| <b>As of 31.12.2006</b>                           | <b>9,634</b>       | <b>35</b>                         | <b>1,504</b>              | <b>11,173</b> |
| As of 01.01.2007                                  | 9,634              | 35                                | 1,504                     | 11,173        |
| Additions   | 0                  | 15                                | 194                       | 209           |
| Disposals   | 0                  | -2                                | -97                       | -99           |
| <b>As of 31.12.2007</b>                           | <b>9,634</b>       | <b>48</b>                         | <b>1,601</b>              | <b>11,283</b> |
| <b>Cumulated depreciation</b>                     |                    |                                   |                           |               |
| As of 01.01.2006                                  | 2,377              | 29                                | 1,180                     | 3,586         |
| Depreciation                                      | 204                | 2                                 | 108                       | 314           |
| Disposals   | 0                  | -2                                | -23                       | -25           |
| <b>As of 31.12.2006</b>                           | <b>2,581</b>       | <b>29</b>                         | <b>1,265</b>              | <b>3,875</b>  |
| As of 01.01.2007                                  | 2,581              | 29                                | 1,265                     | 3,875         |
| Depreciation                                      | 167                | 5                                 | 116                       | 288           |
| Disposals   | 0                  | -1                                | -68                       | -69           |
| <b>As of 31.12.2007</b>                           | <b>2,748</b>       | <b>33</b>                         | <b>1,313</b>              | <b>4,094</b>  |
| <b>Carrying amount</b>                            |                    |                                   |                           |               |
| 01.01.2006  | 7,257              | 8                                 | 265                       | 7,530         |
| 31.12.2006  | 7,053              | 6                                 | 239                       | 7,298         |
| 01.01.2007  | 7,053              | 6                                 | 239                       | 7,298         |
| 31.12.2007  | <b>6,886</b>       | <b>15</b>                         | <b>288</b>                | <b>7,189</b>  |

### 3.3. Investment property

Investment property is carried at fair value in accordance with IAS 40. At 31 December 2007, the fair value of the investment property recognised by the Group amounted to TEUR 8,337 (previous year: TEUR 8,337). Valuation was performed by an independent expert on the basis of the capitalised income value, taking into account all aspects of the property market.

The Group has transferred all of its investment property as real estate liens to secure a loan.

All of the investment property held by the Group is let under the terms of a rental agreement. The resulting rental income amounted to TEUR 735 in the year under review (previous year: TEUR 736). The expenses relating directly to investment property amounted to TEUR 18 (previous year: TEUR 66).

### 3.4. Financial assets

| Schedule of financial assets<br>in TEUR | Shares in<br>affiliated companies | Other equity<br>investments | Other loans | Total      |
|---|-----------------------------------|-----------------------------|-------------|------------|
| <b>Cost</b>                             |                                   |                             |             |            |
| As of 01.01.2006                        | 0                                 | 26                          | 9           | 35         |
| Additions                               | 0                                 | 0                           | 0           | 0          |
| Disposals                               | 0                                 | 0                           | 0           | 0          |
| <b>As of 31.12.2006</b>                 | <b>0</b>                          | <b>26</b>                   | <b>9</b>    | <b>35</b>  |
| As of 01.01.2007                        | 0                                 | 26                          | 9           | 35         |
| Additions                               | 606                               | 0                           | 0           | 606        |
| Disposals                               | 0                                 | -5                          | 0           | -5         |
| <b>As of 31.12.2007</b>                 | <b>606</b>                        | <b>21</b>                   | <b>9</b>    | <b>636</b> |
| <b>Cumulated depreciation</b>           |                                   |                             |             |            |
| As of 01.01.2006                        | 0                                 | 0                           | 0           | 0          |
| Depreciation                            | 0                                 | 0                           | 0           | 0          |
| Disposals                               | 0                                 | 0                           | 0           | 0          |
| <b>As of 31.12.2006</b>                 | <b>0</b>                          | <b>0</b>                    | <b>0</b>    | <b>0</b>   |
| As of 01.01.2007                        | 0                                 | 0                           | 0           | 0          |
| Depreciation                            | 0                                 | 0                           | 0           | 0          |
| Disposals                               | 0                                 | 0                           | 0           | 0          |
| <b>As of 31.12.2007</b>                 | <b>0</b>                          | <b>0</b>                    | <b>0</b>    | <b>0</b>   |
| <b>Carrying value</b>                   |                                   |                             |             |            |
| 01.01.2006                              | 0                                 | 26                          | 9           | 35         |
| 31.12.2006                              | 0                                 | 26                          | 9           | 35         |
| 01.01.2007                              | 0                                 | 26                          | 9           | 35         |
| 31.12.2007                              | <b>606</b>                        | <b>21</b>                   | <b>9</b>    | <b>636</b> |



## 3.5. Deferred tax assets

Deferred tax assets are composed as follows:

| in TEUR  | 31.12.2007   | 31.12.2006   |
|--|--------------|--------------|
| Deferred tax assets from tax loss carryforwards      | 1,446        | 2,591        |
| Deferred taxes from timing difference                | 789          | 1,000        |
| Deferred taxes from derivative financial instruments | 343          | 0            |
| Deferred taxes from consolidation adjustments        | 21           | 20           |
|  | <b>2,599</b> | <b>3,611</b> |

Deferred tax assets were recognised for tax loss carryforwards to the extent that they are expected to be utilised. In the year under review, deferred tax assets from tax loss carryforwards were recognised in the amount of TEUR 529 (previous year: TEUR 494).

The reduction in deferred tax assets from tax loss carryforwards is primarily attributable to the 2008 German corporate tax reform, which was passed on 6 July 2007. The resulting changes were taken directly to equity.

Deferred tax assets also include timing differences relating to consolidation adjustments and timing differences arising from valuation differences at Group companies in accordance with IFRSs. The effects of the German corporate tax reform are also included in these items.

## 3.6. Other non-current assets

Other non-current assets relate to prepaid expenses with a remaining term of more than one year in the amount of TEUR 142 (previous year: TEUR 131).

## 3.7. Inventories

The inventories reported by the Brüder Mannesmann Group in the amount of TEUR 14,641 (previous year: TEUR 13,508) primarily relate to merchandise.

### 3.8. Trade receivables

Write-downs of TEUR 25 (previous year: TEUR 69) were recognised for trade receivables that are expected to be uncollectable. The carrying amounts of trade receivables are roughly approximate to their fair values.

| Changes in valuation allowances on capitalised financial instruments in TEUR | Trade receivables | Other assets |
|--|-------------------|--------------|
| <b>Balance at 31 Dec. 2005 / 1 Jan. 2006</b>                                 | <b>42</b>         | <b>21</b>    |
| Utilisation  | -24               | 0            |
| Addition/Reversal  | 16                | 0            |
| <b>Balance at 31 Dec. 2006 / 1 Jan. 2007</b>                                 | <b>34</b>         | <b>21</b>    |
| Utilisation  | -2                | 0            |
| Addition/Reversal  | -2                | 0            |
| <b>Balance at 31 Dec. 2007</b>   | <b>30</b>         | <b>21</b>    |

The Group also had trade receivables that were overdue as of 31 December but for which no valuation allowances were recognised. These items were composed as follows:

| in TEUR                   | 31.12.2007 | 31.12.2006 |
|---------------------------|------------|------------|
| 1-30 days overdue         | 2,332      | 2,482      |
| 31-60 days overdue        | 367        | 544        |
| 61-90 days overdue        | 207        | 54         |
| More than 90 days overdue | 712        | 617        |

Receivables that are overdue by 1-30 days do not generally lead to default, as the delays in payment are primarily due to temporary posting differences. Based on past experience, the recognition of valuation allowances on receivables that are overdue for more than 30 days is generally also not necessary, as the delays primarily relate to export customs and the receivables are usually settled in full.

### 3.9. Other receivables and other assets

Other receivables and other assets are composed as follows:

| in TEUR   | 31.12.2007   | 31.12.2006   |
|---|--------------|--------------|
| Receivables from tax authorities                | 346          | 370          |
| Loan receivables                                | 397          | 0            |
| Prepaid expenses                                | 236          | 300          |
| Creditors with debit balances and bonus credits | 161          | 204          |
| Miscellaneous derivative financial instruments  | 523          | 75           |
| Miscellaneous                                   | 128          | 72           |
|   | <b>1,791</b> | <b>1,021</b> |

### 3.10. Current tax assets

Current tax assets amounted to TEUR 420 (previous year: TEUR 181) and related to prepayments of taxes.

### 3.11. Securities

This item contains bonus and basket certificates on various DAX and EURO STOXX 50 stocks. At 31 December 2007, the fair value of these instruments was TEUR 3,792 (previous year: 0).

### 3.12. Cash and cash equivalents

Cash and cash equivalents, which are composed of checks, cash in hand and bank balances, amounted to TEUR 8,209 at the balance sheet date (previous year: TEUR 11,996).

### 3.13. Issued capital

#### Share capital

In order to guarantee its long-term corporate strategy and sustainably expand its equity base, the Company's share capital was increased from TEUR 7,700 to TEUR 9,000 from retained earnings in accordance with sections 207 ff. of the Aktiengesetz (AktG – German Stock Corporation Act). This capital increase was implemented by converting other revenue reserves in the amount of TEUR 1,300. As no new shares were issued, the Company's share capital is still divided into 3,000,000 no-par value bearer shares.

#### Authorised capital

By resolution of the Annual General Meeting on 30 August 2007, the Board of Management is authorised, with the approval of the Supervisory Board, to increase the share capital by up to TEUR 4,500 against cash and/or non-cash contributions on one or more occasions until 29 August 2012.

#### Contingent capital

By resolution of the Annual General Meeting on 30 August 2007, the share capital was contingently increased by up to TEUR 1,800 through the issue of up to 600,000 new no-par value bearer shares. The contingent capital increase serves to grant rights to the holders of the options and convertible profit participation certificates to be issued by the Company up until 24 August 2010. No profit participation certificates had been issued as of 31 December 2007.

### 3.14. Reserves

Reserves are composed as follows:

| Reserves in TEUR       | 31.12.2007 | 31.12.2006   |
|------------------------|------------|--------------|
| Capital reserves       | 770        | 770          |
| Other revenue reserves | 0          | 927          |
|                        | <b>770</b> | <b>1,697</b> |

Capital reserves include the premium from capital increases.

Other revenue reserves include the Group's interest in the undistributed profits of the companies included in consolidation, to the extent that they were generated during the companies' membership of the Group.

In the year under review, TEUR 1,300 (previous year: 0) was reclassified from other revenue reserves to issued capital. In addition, changes to deferred taxes from tax loss carryforwards resulting from the 2008 German corporate tax reform in the amount of TEUR 606 (previous year: 0) were taken directly to other revenue reserves in equity. In the year under review, a dividend of EUR 0.12 per share was distributed from other revenue reserves, corresponding to a total dividend of TEUR 360 (previous year: 0). The resulting negative amount was reclassified to retained profits carried forward.

The Board of Management suggest to pay a dividend of 0.10 EUR per share (total 300,000.00 EUR) to the shareholders. In the financial statements the dividend is not yet balanced as a liability.

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

### 3.15. Capital management

In its capital management activities, Brüder Mannesmann Aktiengesellschaft observes the statutory requirements on capital maintenance. The aim of the Group's capital management activities is to ensure the continued existence of the Company and an adequate return on equity.

Capital is monitored on the basis of the ratio of net debt to economic equity. Net debt is defined as liabilities less cash and cash equivalents, securities and current tax assets, while economic equity is defined as the shareholders' equity recognised on the face of the balance sheet plus subordinated loans.

The Group's aim was to at least maintain the aforementioned ratio in the year under review. The table below shows that the ratio improved by 0.33.

| in TEUR  | 31.12.2007    | 31.12.2006    |
|--|---------------|---------------|
| Liabilities  | 37,431        | 40,280        |
| Cash and cash equivalents, securities and current tax assets | -12,421       | -12,177       |
| <b>Net debt</b>  | <b>25,010</b> | <b>28,103</b> |
| Shareholders' equity   | 8,707         | 9,548         |
| Subordinated mezzanine loans                                 | 16,949        | 12,053        |
| <b>Economic equity</b>                                       | <b>25,656</b> | <b>21,601</b> |
| <b>Ratio</b>   | <b>0.97</b>   | <b>1.30</b>   |

### 3.16. Employee benefits

The occupational pensions provided by Brüder Mannesmann Aktiengesellschaft are primarily based on direct defined benefit commitments. The amount of these commitments varies depending on the remuneration and length of service of the respective employee (defined benefit plans).

Obligations resulting from pension plans are calculated on an annual basis by independent valuers using the projected unit credit method set out in IAS 19.

The key assumptions are:

| in percent               | 2007    | 2006 |
|--------------------------|---------|------|
| Discount rate            | 5.5     | 4.5  |
| Future salary increases  | 2.0     | 2.0  |
| Future pension increases | 1.5-3.0 | 1.5  |

Biometric mortality rates were calculated on the basis of the 2005 G mortality tables compiled by Dr. Klaus Heubeck.

Actuarial gains and losses falling outside a range of 10% of the amount of the gross pension obligation are amortised over the average term of the obligations.

Pension provisions developed as follows in the year under review:

| Pension provisions in TEUR               | 2007         | 2006         |
|--|--------------|--------------|
| <b>Pension provisions on 1 January</b>   | <b>7,282</b> | <b>3,737</b> |
| Retirement benefit expenses              | 1,038        | 3,545        |
| Reversal                                 | 0            | 0            |
| <b>Pension provisions on 31 December</b> | <b>8,320</b> | <b>7,282</b> |

The obligations recognised in the balance sheet are derived as follows:

| in TEUR                                     | 31.12.2007   | 31.12.2006   |
|---|--------------|--------------|
| Present value of defined benefit obligation | 7,589        | 7,806        |
| Unrecognised actuarial gains/losses         | 684          | -474         |
| Actuarial gains/losses to be repaid         | 47           | -50          |
| Remaining transition loss                   | 0            | 0            |
| <b>Balance sheet provision</b>              | <b>8,320</b> | <b>7,282</b> |

The following retirement benefit expenses are included in the staff costs reported in the consolidated income statement:

| in TEUR                             | 31.12.2007   | 31.12.2006   |
|-------------------------------------|--------------|--------------|
| Service cost                        | 251          | 130          |
| Interest cost                       | 363          | 191          |
| Repayment of actuarial gains/losses | -72          | 78           |
| Repayment of past service cost      | 574          | 3,100        |
| Repayment of transition loss        | -4           | 96           |
| Retirement benefits paid            | -74          | -50          |
| <b>Net pension expenses</b>         | <b>1,038</b> | <b>3,545</b> |

Past service cost primarily results from an adjustment to the Group's pension plans that was necessary in order to close an IFRS pension gap that had arisen in the past.

The financing status of the obligations is as follows:

| in TEUR                                     | 31.12.2007   | 31.12.2006   |
|---|--------------|--------------|
| Present value of defined benefit obligation | 7,589        | 7,806        |
| Plan assets                                 | 0            | 0            |
| Financing status                            | <b>7,589</b> | <b>7,806</b> |

### 3.17. Other provisions

The composition and development of other provisions is as follows:

| Statement of changes in provisions<br>in accordance with IAS 37.84 in TEUR | Opening balance<br>as at 01.01.2006 | Used<br>financial year | Reversed<br>financial year | Addition<br>financial year | Closing balance<br>as at 31.12.2006 |
|--|-------------------------------------|------------------------|----------------------------|----------------------------|-------------------------------------|
| Provisions for bonuses<br>and personnel expenses                           | 319                                 | -307                   | -1                         | 298                        | 309                                 |
| Provisions for other<br>uncertain liabilities                              | 445                                 | -229                   | -13                        | 617                        | 820                                 |
| <b>Total provisions</b>  | <b>764</b>                          | <b>-536</b>            | <b>-14</b>                 | <b>915</b>                 | <b>1,129</b>                        |
|  |                                     |                        |                            |                            |                                     |
|  | Opening balance<br>as at 01.01.2007 | Used<br>financial year | Reversed<br>financial year | Addition<br>financial year | Closing balance<br>as at 31.12.2007 |
| Provisions for bonuses<br>and personnel expenses                           | 309                                 | -293                   | 0                          | 534                        | 550                                 |
| Provisions for other<br>uncertain liabilities                              | 820                                 | -322                   | -8                         | 487                        | 977                                 |
| <b>Total provisions</b>  | <b>1,129</b>                        | <b>-615</b>            | <b>-8</b>                  | <b>1,021</b>               | <b>1,527</b>                        |

Personnel provisions are largely recognised for holiday pay, severance payments and contributions to the employers' liability insurance association. Provisions for other uncertain liabilities primarily relate to provisions for litigation costs, insurance premiums, year-end closing costs, advertising cost subsidies and warranties.



## 3.18. Financial liabilities

Financial liabilities are composed as follows:

| <b>Non-current financial liabilities in TEUR</b> | <b>31.12.2007</b> | <b>31.12.2006</b> |
|--|-------------------|-------------------|
| Subordinated mezzanine loans                     | 16,949            | 12,053            |
| Bank loans                                       | 15,233            | 20,876            |
|  | <b>32,182</b>     | <b>32,929</b>     |

Non-current liabilities with a term to maturity of more than 5 years totalled TEUR 28,529 (previous year: TEUR 29,330).

In the year under review, the Company received a further subordinated loan with a volume of TEUR 5,000 from H.E.A.T Mezzanine S.A., Luxembourg. Interest is currently charged on the loan at a rate of 8.251%. The carrying amount as of 31 December 2007 consists of the amount disbursed less a discount. The loan is subordinate to the claims of all existing and future creditors and has a term of seven years. It was used to repay a bank loan with a volume of TEUR 4,800.

| <b>Current financial liabilities in TEUR</b>                    | <b>31.12.2007</b> | <b>31.12.2006</b> |
|---|-------------------|-------------------|
| Portion of non-current bank loans to be repaid in the next year | 871               | 873               |
| Bank overdrafts   | 2,926             | 0                 |
|   | <b>3,797</b>      | <b>873</b>        |

In 2007, the weighted average interest rate for financial liabilities was 7.7% (previous year: 7.5%).

Financial liabilities of TEUR 19,022 (previous year: TEUR 16,931) are secured by way of liens, land charges, the assignment of receivables, a collateral pooling agreement and the assignment of inventories.

### 3.19. Other liabilities

Other non-current liabilities in the amount of TEUR 803 (previous year: TEUR 807) relate to the Company's pension obligations. Of this figure, TEUR 408 had a term of more than 5 years (previous year: TEUR 408).

| Current other liabilities in TEUR      | 31.12.2007   | 31.12.2006   |
|--|--------------|--------------|
| Derivative financial instruments       | 1,088        | 0            |
| Debitors with credit balances          | 356          | 710          |
| Liabilities to tax authorities         | 327          | 915          |
| Pension obligations                    | 143          | 169          |
| Commissions                            | 70           | 85           |
| Payments received on account of orders | 65           | 111          |
| Miscellaneous                          | 16           | 23           |
|  | <b>2,065</b> | <b>2,013</b> |

### 3.20. Deferred tax liabilities

Deferred tax liabilities of TEUR 639 (previous year: TEUR 111) include the timing differences between the carrying amounts in the consolidated financial statements and the tax base, which are due to IFRS valuation differences.

In accordance with IAS 1 (revised 2005), deferred tax liabilities are reported as non-current liabilities irrespective of their maturity.

### 3.21. Trade payables

Trade payables amounted to TEUR 5,035 (previous year: TEUR 7,075) and are carried at fair value.

### 3.22. Current income tax liabilities

Current income tax liabilities amounted to TEUR 12 in the year under review (previous year: 0).

## 4. Disclosures on the consolidated income statement

### 4.1. Revenue

The Group's external revenue is composed as follows:

| in TEUR           | 2007          | 2006          |
|-------------------|---------------|---------------|
| Germany           | 59,632        | 67,128        |
| European Union    | 22,004        | 17,301        |
| Rest of the World | 8,974         | 9,342         |
|                   | <b>90,610</b> | <b>93,771</b> |

### 4.2. Other operating income

Other operating income is composed as follows:

| in TEUR   | 2007         | 2006       |
|---|--------------|------------|
| Exchange rate gains and gains on hedges                         | 622          | 220        |
| Prior-period income   | 196          | 0          |
| Income from vehicle use   | 182          | 152        |
| Del credere   | 110          | 101        |
| Income from claims for damages                                  | 72           | 53         |
| Income from the disposal of non-current assets                  | 17           | 6          |
| Income from the reversal of provisions and valuation allowances | 13           | 117        |
| Adjustment to present value of pension obligations              | 0            | 32         |
| Miscellaneous   | 124          | 110        |
|   | <b>1,336</b> | <b>791</b> |

#### 4.3. Staff costs

The Brüder Mannesmann Group employed an average of 134 people in the 2007 financial year (previous year: 137). Part-time employees are included in accordance with the economic concept.

|                    | 2007         | 2006         |
|--------------------|--------------|--------------|
| Hourly workers     | 31.0         | 32.0         |
| Salaried employees | 103.0        | 105.0        |
|                    | <b>134.0</b> | <b>137.0</b> |
| Trainees           | 5.5          | 6.0          |

#### 4.4. Other operating expenses

Other operating expenses are composed as follows:

| Other operating expenses in TEUR                         | 2007         | 2006         |
|--|--------------|--------------|
| Selling expenses   | 3,941        | 4,183        |
| Purchased services, consulting and legal services        | 1,083        | 747          |
| Travel, entertainment and corporate hospitality expenses | 882          | 842          |
| Insurance and telecommunications expenses                | 762          | 667          |
| Rental and lease expenses                                | 645          | 451          |
| Money market and capital market transaction costs        | 427          | 456          |
| Hedging expenses   | 355          | 0            |
| Maintenance, cleaning and waste disposal expenses        | 245          | 306          |
| Pension obligations                                      | 149          | 148          |
| Miscellaneous  | 751          | 828          |
|  | <b>9,240</b> | <b>8,628</b> |

## 4.5. Net finance costs

Net finance costs are composed as follows:

| Net finance costs in TEUR         | 2007          | 2006          |
|-----------------------------------|---------------|---------------|
| Income from equity investments    | 26            | 19            |
| Other interest and similar income | 1,407         | 307           |
| Write-downs of securities         | -376          | 0             |
| Interest and similar expenses     | -3,495        | -2,629        |
|                                   | <b>-2,438</b> | <b>-2,303</b> |

## 4.6. Income taxes

This item is composed as follows:

| in TEUR   | 2007            | 2006             |
|---|-----------------|------------------|
| Current tax expense inside Germany<br>(of which prior-period) | -128<br>(-36)   | -50<br>(+17)     |
| Current tax expense outside Germany                           | -16             | 0                |
| Deferred tax expense<br>(of which prior-period)               | -1,342<br>(-41) | -601<br>(0)      |
| Deferred tax income<br>(of which prior-period)                | +523<br>(0)     | +1,004<br>(+258) |
|   | <b>-963</b>     | <b>+353</b>      |

The overall tax expense (previous year: income) from current and deferred income taxes is derived from the Group's pre-tax profit as follows:

| in TEUR   | 2007        | 2006        |
|---|-------------|-------------|
| Pre-tax profit  | 1,088       | -202        |
| Expected tax income/expense<br>(based on a Group income tax rate of 43%)  | -468        | +87         |
| Reconciliation:   |             |             |
| Differences in foreign tax rates  | +15         | 0           |
| Tax component for:  |             |             |
| Tax-free income and<br>non-tax-deductible expenses                        | -279        | -40         |
| Temporary differences for which<br>no deferred taxes have been recognised | +111        | +30         |
| Prior-period tax income/expense   | -77         | +276        |
| Effects of changes in tax rates   | -265        | 0           |
| <b>Reported tax income/expense</b>  | <b>-963</b> | <b>+353</b> |

Prior-period tax income and expense in the year under review related to the change in the Group tax rate from 43% to 31.5% as a result of the German corporate tax reform.

#### 4.7. Earnings per share

Earnings per share are calculated on the basis of the net profit/loss for the period and the number of shares in circulation (which remained unchanged at 3,000,000 in both years).

There were no dilutive options, meaning that diluted and undiluted earnings per share are identical.

## 5. Segment reporting

Segment reporting was prepared in accordance with IAS 14 (Segment Reporting). Reflecting the Group's internal reporting structure, the figures contained in the annual financial statements are broken down into the Tools, Valves and Land segments. Transactions between these segments were conducted at arm's length conditions.

| in TEUR   | Tools<br>31.12.2007 | Valves<br>31.12.2007 | Land<br>31.12.2007 | Reconciliation<br>31.12.2007 | Group<br>31.12.2007 |
|---|---------------------|----------------------|--------------------|------------------------------|---------------------|
| Revenue with third parties  | 60,964              | 28,849               | 797                | 0                            | 90,610              |
| Revenue with other segments   | 1,063               | 0                    | 598                | -1,661                       | 0                   |
| Total revenues  | 62,027              | 28,849               | 1,395              | -1,661                       | 90,610              |
| Revenues by region  |                     |                      |                    |                              |                     |
| Germany   | 31,177              | 27,659               | 797                | 0                            | 59,633              |
| Outside Germany   | 29,787              | 1,190                | 0                  | 0                            | 30,977              |
| Of which EU   | 20,946              | 1,058                | 0                  | 0                            | 22,004              |
| Result  | 2,167               | 1,109                | 958                | -4,109                       | 125                 |
| Assets  | 28,997              | 7,334                | 13,425             | 13,331                       | 63,087              |
| Liabilities   | 12,404              | 2,861                | 117                | 38,998                       | 54,380              |
| Investments in assets   | 130                 | 77                   | 2                  | 606                          | 815                 |
| Depreciation  | -261                | -131                 | -102               | 19                           | -475                |
| Non-cash expenses excluding depreciation                              | -889                | -1                   | 0                  | -1,085                       | -1,975              |
| Number of employees<br>(average figure for the year without trainees) | 76                  | 53                   | 0                  | 5                            | 134                 |

Breakdown by segments is in line with the internal reporting structure and covers the segments Tools, Valves and Land. Segment assets, segment liabilities and segment investments occur entirely in Germany.

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

|  | Tools<br>31.12.2006 | Valves<br>31.12.2006 | Land<br>31.12.2006 | Reconciliation<br>31.12.2006 | Group<br>31.12.2006 |  |
|--|---------------------|----------------------|--------------------|------------------------------|---------------------|--|
|  | 65,161              | 27,812               | 798                | 0                            | 93,771              |  |
|  | 1,098               | 0                    | 598                | -1,696                       | 0                   |  |
|  | 66,259              | 27,812               | 1,396              | -1,696                       | 93,771              |  |
|  |                     |                      |                    |                              |                     |  |
|  | 39,330              | 27,000               | 798                | 0                            | 67,128              |  |
|  | 25,831              | 812                  | 0                  | 0                            | 26,643              |  |
|  | 16,602              | 699                  | 0                  | 0                            | 17,301              |  |
|  | 943                 | 984                  | 838                | -2,614                       | 151                 |  |
|  | 30,232              | 6,347                | 13,510             | 11,792                       | 61,881              |  |
|  | 13,395              | 2,667                | 160                | 36,111                       | 52,333              |  |
|  | 496                 | 24                   | 0                  | 6                            | 526                 |  |
|  | -247                | -118                 | -144               | 15                           | -494                |  |
|  | -3,139              | -1                   | 0                  | -541                         | -3,681              |  |
|  | 77                  | 55                   | 0                  | 5                            | 137                 |  |



## 6. Supplementary information

### 6.1. Financial instruments

Carrying amounts of financial assets and liabilities (classified by IAS 39 category):

| in TEUR   | 2007          | 2006          |
|---|---------------|---------------|
| <b>Financial assets</b>                         |               |               |
| Loans and receivables                           | 11,872        | 11,760        |
| Cash and cash equivalents                       | 8,209         | 11,996        |
| Available-for-sale financial assets             | 4,428         | 35            |
| Derivative financial instruments                | 523           | 75            |
|   | <b>25,032</b> | <b>23,866</b> |
| <b>Financial liabilities</b>                    |               |               |
| Financial liabilities carried at amortised cost | 35,979        | 33,802        |
| Trade payables                                  | 5,035         | 7,075         |
| Other liabilities                               | 2,981         | 3,034         |
| Derivative financial instruments                | 1,088         | 0             |
|   | <b>45,083</b> | <b>43,911</b> |

Carrying amounts and fair values of financial assets and liabilities carried at cost or amortised cost:

| in TEUR   | 2007<br>Carrying<br>amount | 2007<br>Fair value | 2006<br>Carrying<br>amount | 2006<br>Fair value |
|---|----------------------------|--------------------|----------------------------|--------------------|
| <b>Financial assets</b>   |                            |                    |                            |                    |
| Non-current financial assets*                                   | 778                        | 778                | 166                        | 166                |
| Trade receivables   | 10,808                     | 10,808             | 11,053                     | 11,053             |
| Other receivables   | 922                        | 922                | 576                        | 576                |
| Cash and cash equivalents, securities<br>and current tax assets | 12,421                     | 12,421             | 12,177                     | 12,177             |
|   | <b>24,929</b>              | <b>24,929</b>      | <b>23,972</b>              | <b>23,972</b>      |
| <b>Financial liabilities</b>                                    |                            |                    |                            |                    |
| Mezzanine subordinate loans                                     | 16,949                     | 16,949             | 12,053                     | 12,053             |
| Non-current financial liabilities                               | 15,233                     | 15,233             | 20,876                     | 20,876             |
| Current financial liabilities                                   | 3,797                      | 3,797              | 873                        | 873                |
| Financial liabilities   | 35,979                     | 35,979             | 33,802                     | 33,802             |
| Trade payables  | 5,035                      | 5,035              | 7,075                      | 7,075              |
| Other liabilities   | 2,981                      | 2,981              | 3,034                      | 3,034              |
|   | <b>43,995</b>              | <b>43,995</b>      | <b>43,911</b>              | <b>43,911</b>      |

\* This item includes available-for-sale financial assets carried at cost as their fair value cannot be reliably determined.

Net gains/losses on financial instruments (classified by IAS 39 category):

| in TEUR  | 2007   | 2006   |
|--|--------|--------|
| Loans and receivables  | 85     | -44    |
| Cash and cash equivalents  | 232    | 307    |
| Available-for-sale financial assets  | -252   | 19     |
| Financial liabilities carried at amortised cost                            | -2,762 | -2,629 |
| Derivative financial instruments<br>(at fair value through profit or loss) | 227    | 135    |

Net gains/losses on financial instruments are composed of net income/expense from interest, fair value measurement, currency translation, impairment losses and disposals.

Interest income and expense from financial instruments not measured at fair value:

| in TEUR                            | 2007          | 2006          |
|------------------------------------|---------------|---------------|
| Interest income                    | 338           | 307           |
| Interest expense                   | -2,762        | -2,629        |
| <b>Interest income and expense</b> | <b>-2,424</b> | <b>-2,322</b> |

Impairment losses on financial assets by category:

| in TEUR                  | 2007          | 2006       |
|--------------------------|---------------|------------|
| Fair value               | -1,109        | 0          |
| Amortised cost           | -21           | -44        |
| <b>Impairment losses</b> | <b>-1,130</b> | <b>-44</b> |

Impairment losses result from the fair value measurement of securities and derivative financial instruments.

#### Derivative financial instruments

Brüder Mannesmann Aktiengesellschaft is exposed to exchange rate and interest rate risks in its ordinary course of business. Derivative financial instruments are used to hedge these risks in certain cases. The instruments employed are currency forwards, currency swaps and interest rate caps. Interest optimisation transactions are also concluded in the form of interest rate swaps.

The aforementioned instruments are only employed if corresponding underlyings are also concluded. Exchange rate hedges relate exclusively to the US dollar (USD). The operational hedging of exchange rate risks relates to the liabilities already recognised by the Group and generally covers a period of between one and four months, while strategic hedging covers a maximum period of nine months.

The only interest rate hedges entered into by the Group are interest optimisation transactions. Irrespective of their intended purpose, derivatives are carried at fair value or, if this cannot be reliably determined, on the basis of the discounted cash flow model as set out in IAS 39.A.

Derivatives are reported in other assets and other liabilities on the face of the balance sheet. In the income statement, they are reported in the operating result or net interest income, depending on the nature of the respective underlyings.

| in TEUR                   | 31.12.2007<br>Nominal<br>amount | 31.12.2007<br>Fair value | 31.12.2006<br>Nominal<br>amount | 31.12.2006<br>Fair value |
|---------------------------|---------------------------------|--------------------------|---------------------------------|--------------------------|
| Exchange rate derivatives | 17,605                          | -10                      | 29,772                          | 0                        |
| Interest rate derivatives | 35,500                          | -554                     | 25,500                          | 75                       |

## Information on the nature and extent of risks

### Credit risk

On the whole, the Group is exposed to a low level of credit risk, as it has a broad-based receivables portfolio and only conducts transactions with counterparties with a good credit rating. In all cases, default risk is limited to the carrying amounts of the respective assets. Specific valuation allowances are only recognised for receivables from customers. The Group recognised specific valuation allowances of TEUR 30 (previous year: TEUR 34) on its receivables portfolio before valuation allowances with a volume of TEUR 10,838 (previous year: TEUR 11,087). The receivables for which specific valuation allowances have been recognised do not include any items in significant arrears.

### Exchange rate risk

Exchange rate risks within the meaning of IFRS 7 arise from monetary financial instruments that are denominated in a currency other than the Group's functional currency.

If the euro had appreciated (depreciated) by 10% compared with all of the Group's foreign currency financial instruments as of 31 December 2007, net other finance costs and the fair value of the financial instruments would have been TEUR 334 higher (lower) (previous year: TEUR 449).

### Liquidity risk

Liquidity risk describes the risk that the Company will be unable to meet its payment obligations due to insufficient funds. Brüder Mannesmann Aktiengesellschaft's liquidity is guaranteed at all times by way of liquidity forecasts for fixed periods and the available liquidity reserves and unutilised credit facilities.

The following table provides an overview of the undiscounted cash flows from the interest and repayment of financial liabilities.

| in TEUR                                   | Up to 1 year | 2-5 years     | More than 5 years |
|---|--------------|---------------|-------------------|
| Loans with long-term fixed interest rates | 1,201        | 4,291         | 14,986            |
| Variable-interest loans                   | 511          | 511           | 511               |
| Subordinated mezzanine loans              | 1,404        | 5,617         | 18,346            |
|   | <b>3,116</b> | <b>10,419</b> | <b>33,843</b>     |

### Interest rate risk

In accordance with IFRS 7, interest rate risk is presented using sensitivity analyses showing the effects of changes in market interest rates on interest payments and interest income and expense.

The following assumptions are applied in preparing interest sensitivity analyses:

If market interest rates had been 100 bp higher / lower as of 31 December 2007, earnings would have been TEUR 254 lower / higher (previous year: TEUR 212).

## 6.2. Cash flow statement

The cash flow statement shows the changes in cash and cash equivalents during the year under review as a result of cash inflows and outflows. In accordance with IAS 7 (Cash Flow Statements), these are broken down into cash flows from operating, investing and financing activities. The cash and cash equivalents reported in the cash flow statement are composed of cash in hand, checks and bank balances.

## 6.3. Contingent liabilities

| in TEUR              | 31.12.2007 | 31.12.2006 |
|----------------------|------------|------------|
| Guarantees           | 150        | 150        |
| Liabilities on bills | 165        | 124        |

## 6.4. Other financial obligations

| in TEUR                                     | 31.12.2007 | 31.12.2006 |
|---|------------|------------|
| Lease instalments due within one year       | 330        | 326        |
| Lease instalments due between 1 and 5 years | 301        | 254        |
| Lease instalments due in more than 5 years  | -          | -          |

## 6.5. Related party disclosures

In accordance with IAS 24 (Related Party Disclosures), persons or companies that control or are controlled by the Brüder Mannesmann Group must be disclosed, unless they are already included in the consolidated group.

There are no such related party disclosures for the Brüder Mannesmann Group.

Each of the members of the Board of Management is authorised to represent the company individually.

The Board of Management of the Group parent is composed as follows:

**- Mr. Jürgen Schafstein**

Chairman of the Board of Management  
Businessman

Member of the Management Board of Chronos Technologie AG, Remscheid,  
formerly Deutsche Armaturen AG

Chairman of the Supervisory Board of Saltus Technology AG, Solingen

**- Mr. Bernd Schafstein**

Businessman

Member of the Supervisory Board of Chronos Technologie AG, Remscheid,  
formerly Deutsche Armaturen AG

The total remuneration of the Board of Management in the year under review was TEUR 1,038 (previous year: TEUR 1,023). In accordance with section 285 (1) no. 9 (a) sentences 5-9 and section 314 (1) no. 6 (a) sentences 5-9 of the HGB, listed companies must disclose both the total remuneration paid to the Board of Management and the names of and remuneration paid to the individual members in the notes to the financial statements. By resolution of the Annual General Meeting of Brüder Mannesmann Aktiengesellschaft on 31 August 2006, the Company is exempt from the disclosure of this information in accordance with sections 286 (5) and 314 (2) of the HGB.

In addition 248 TEUR (previous year 118 TEUR) current service cost are transferred to the pension provision.

There are pension provision about 1,920 TEUR (previous year 1,795 TEUR) for former members of the Board of Management.

The remuneration paid to the members of the Supervisory Board in the year under review totalled TEUR 56 (previous year: TEUR 54).

### Notification of equity holdings in accordance with the Wertpapierhandelsgesetz (German Securities Trading Act)

On 28 March 2007, Mr. Jürgen Schafstein notified Brüder Mannesmann Aktiengesellschaft that he held 16.67% of the Company's shares.

On 12 September 2002, Ms. Nicole Coen notified Brüder Mannesmann Aktiengesellschaft that she held 7.62% of the Company's shares.

On 12 September 2002, Mr. Bernd Schafstein notified Brüder Mannesmann Aktiengesellschaft that he held 7.39% of the Company's shares.



The Supervisory Board of the Group parent is composed as follows:

**- Mr. Reinhard C. Mannesmann**

Chairman

Businessman

Member of the Supervisory Board of Chronos Technologie AG, Remscheid,  
formerly Deutsche Armaturen AG

Member of the Supervisory Board of Saltus Technology AG, Solingen

**- Mrs. Nicole Coen**

Qualified bank clerk

Member of the Supervisory Board of Chronos Technologie AG, Remscheid,  
formerly Deutsche Armaturen AG

Member of the Supervisory Board of Saltus Technology AG, Solingen

**- Mr. Michael Nagel**

Businessman

Member of the Supervisory Board of Chronos Technologie AG, Remscheid,  
formerly Deutsche Armaturen AG

## 6.6. Exemption in accordance with section 264 (3) of the HGB

The exemption options provided by section 264 (3) of the HGB for the preparation of the management report and disclosure requirements were exercised for the following companies (to the extent required by law):

- Brüder Mannesmann Werkzeuge GmbH
- CoCaCo Trading GmbH
- Fernando Esser & Cia. GmbH
- Corneta Export GmbH
- Schwietzke Armaturen GmbH
- CEA Chemie- und Energie-Armaturen GmbH
- Brüder Mannesmann Grundbesitz GmbH

The following companies were also exempt from the requirement to prepare notes to their financial statements:

- Brüder Mannesmann Werkzeuge GmbH
- CoCaCo Trading GmbH
- Fernando Esser & Cia. GmbH
- Corneta Export GmbH
- Brüder Mannesmann Grundbesitz GmbH

#### 6.7. Corporate Governance Code

The declaration in accordance with section 161 of the AktG has been submitted and made available to shareholders.

#### 6.8. Auditors

Auditors' fees at Group level for the 2007 financial year consisted of TEUR 85.5 (previous year: TEUR 70) for the audit of the consolidated financial statements and TEUR 44 (previous year: 0) for other services.

#### 6.9. Events after the balance sheet date

There were no events with a significant impact on the evaluation of the net assets, financial position and results of operations of the Group prior to the release of the annual financial statements for submission to the Supervisory Board in April 2007.

The Supervisory Board is responsible for examining the consolidated financial statements and issuing a statement on their approval.

## 7. Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Remscheid, April 2008  
Brüder Mannesmann Aktiengesellschaft,  
The Board of Management



Jürgen Schafstein  
Chairman of the  
Board of Management



Bernd Schafstein

## 8. List of share holdings

| Fully-consolidated subsidiaries                             | %   | Equity in TEUR |
|---|-----|----------------|
| Brüder Mannesmann Werkzeuge GmbH,<br>Remscheid              | 100 | 10,000         |
| Brüder Mannesmann Nederland B.V.,<br>Doetinchem/Netherlands | 100 | 597            |
| CoCaCo Trading GmbH,<br>Remscheid                           | 100 | 1,559          |
| Fernando Esser & Cia. GmbH,<br>Remscheid                    | 100 | 64             |
| Corneta Export GmbH,<br>Remscheid                           | 100 | 25             |
| Schwietzke Armaturen GmbH,<br>Bottrop                       | 100 | 3,300          |
| CEA Chemie- und Energie-Armaturen GmbH,<br>Ludwigshafen     | 100 | 130            |
| Brüder Mannesmann Grundbesitz GmbH,<br>Remscheid            | 100 | 126            |
| Chronos Technologie AG,<br>Remscheid                        | *   | *              |

\* This company was not included in consolidation..

## Independent Auditor's Report

We have audited the consolidated financial statements prepared by the Parent Company Brüder Mannesmann Aktiengesellschaft, Remscheid, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the Company, for the business year from 1. January 2007 to 31. December 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Absatz 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 28. April 2008

**MORISON AG**  
**Wirtschaftsprüfungsgesellschaft**

**Rolf Peter Krukenkamp**  
Wirtschaftsprüfer

**ppa. Bardo Bruchmüller**  
Wirtschaftsprüfer

# Financial Statements

## AG-Balance Sheet

| Assets  | 31.12.2007<br>EUR    | 31.12.2006<br>TEUR |
|---|----------------------|--------------------|
| <b>A. Fixed Assets</b>  |                      |                    |
| I. Intangible assets  |                      |                    |
| Licences, trade marks and patents, etc.,<br>as well as licences to such rights and assets | 4,723.00             | 7                  |
| II. Tangible assets   |                      |                    |
| Office and plant equipment  | 3,698.00             | 6                  |
| III. Financial assets   |                      |                    |
| 1. Shares in group companies  | 22,605,066.22        | 21,699             |
| 2. Loans due from affiliated companies  | 1,031,514.51         | 1,200              |
|   | <b>23,645,001.73</b> | <b>22,912</b>      |
| <b>B. Current Assets</b>  |                      |                    |
| I. Receivables and other current assets   |                      |                    |
| 1. Amounts due from group companies   | 4,820,162.15         | 3,070              |
| 2. Other current assets   | 1,126,137.59         | 549                |
|   | <b>5,946,299.74</b>  | <b>3,619</b>       |
| II. Investments   | 3,693,293.04         | 0                  |
| III. Cash, deposits with commercial banks   | 1,232,362.59         | 7,145              |
|   | <b>10,871,955.37</b> | <b>10,764</b>      |
| <b>C. Prepaid Expenses</b>  |                      |                    |
| 1. Disagio  | 548,809.57           | 446                |
| 2. Other prepayments and accrued income   | 202,839.74           | 190                |
|   | <b>751,649.31</b>    | <b>636</b>         |
|   | <b>35,268,606.41</b> | <b>34,312</b>      |

| Liabilities   | 31.12.2007<br>EUR    | 31.12.2006<br>TEUR |
|---|----------------------|--------------------|
| <b>A. Shareholders' Equity</b>  |                      |                    |
| I. Share capital  | 9,000,000.00         | 7,700              |
| II. Capital reserve   | 1,292,930.53         | 1,293              |
| III. Earnings reserves  |                      |                    |
| Other earnings reserves   | 2,609,682.54         | 3,850              |
| IV. Net profit  | 575,803.96           | 420                |
|   | <b>13,478,417.03</b> | <b>13,263</b>      |
| <b>B. Accruals</b>  |                      |                    |
| 1. Accruals for pensions and similar obligations  | 313,444.00           | 140                |
| 2. Other accruals   | 246,000.00           | 73                 |
|   | <b>559,444.00</b>    | <b>213</b>         |
| <b>C. Liabilities</b>   |                      |                    |
| 1. Liabilities from mezzanine financing   | 17,500,000.00        | 12,500             |
| 2. Amounts due to banks   | 2,068,926.86         | 7,250              |
| 3. Trade payables   | 4,518.61             | 13                 |
| 4. Amounts due to group companies   | 178,134.14           | 65                 |
| 5. Other liabilities<br>thereof taxes EUR 14,703.07<br>(December 31, 2006 EUR 122,887.24)<br>thereof in respect of social security EUR 0.00<br>(December 31, 2006 EUR 0.00) | 1,479,165.77         | 1,008              |
|   | <b>21,230,745.38</b> | <b>20,836</b>      |
|   | <b>35,268,606.41</b> | <b>34,312</b>      |





## AG-Statement of Earnings

|   | 01.01.-31.12.2007<br>EUR | 01.01.-31.12.2006<br>TEUR |
|---|--------------------------|---------------------------|
| 1. Sales  | 1,062,000.00             | 1,098                     |
| 2. Other operating income   | 119,789.84               | 730                       |
| 3. Personnel costs  |                          |                           |
| a) Wages and salaries   | -557,608.80              | -547                      |
| b) Social security and other pension costs,<br>of which in respect of old-age pensions EUR 172,962.00 (December 31, 2006 TEUR 140)          | -221,723.08              | -187                      |
|   | <b>-779,331.88</b>       | <b>-734</b>               |
| 4. Depreciation, amortization and special<br>provisions on intangible and tangible assets   | -4,877.86                | -8                        |
| 5. Other operating expenses   | -1,203,846.49            | -1,373                    |
| 6. Investment income of which from<br>affiliated companies EUR 0,00 (December 31, 2006 TEUR 7)  | 0.00                     | 7                         |
| 7. Income from profit transfer agreements   | 3,002,281.12             | 2,631                     |
| 8. Income from other investments and long-term loans<br>of which relating to affiliated companies EUR 77,531.21 (December 31, 2006 TEUR 46) | 77,531.21                | 46                        |
| 9. Other interest and similar income of which from<br>affiliated companies EUR 1,426.87 (December 31, 2006 TEUR 3)                          | 481,423.08               | 66                        |
| 10. Write - down of financial assets and of securities included in current assets   | -376,358.43              | 0                         |
| 11. Expenditure from losses assumed   | -25,901.22               | 0                         |
| 12. Interest and similar expenses of which from<br>affiliated companies EUR 964.26 (December 31, 2006 TEUR 1)                               | -1,653,526.82            | -906                      |
| <b>13. Result of ordinary operations</b>  | <b>699,182.55</b>        | <b>1,557</b>              |
| 14. Taxes on income   | -122,164.59              | -67                       |
| 15. Other taxes   | -1,214.00                | -2                        |
| <b>16. Net income of the year</b>   | <b>575,803.96</b>        | <b>1,488</b>              |
| 17. Accumulated losses brought forward  | 59,682.54                | 0                         |
| 18. Transfer to earnings reserves   | -59,682.54               | -1,068                    |
| <b>19. Net profit</b>   | <b>575,803.96</b>        | <b>420</b>                |

## Fixed Assets Schedule and Liabilities Schedule

| Development of fixed assets as per December 31, 2007  | Historic cost of acquisition |                   |                   |                      |
|---|------------------------------|-------------------|-------------------|----------------------|
|   | As of<br>01.01.2007          | Additions         | Disposals         | As of<br>31.12.2007  |
| <b>in TEUR</b>  |                              |                   |                   |                      |
| I. Intangible assets  |                              |                   |                   |                      |
| Licences, industrial property rights and similar rights and assets,<br>as well as licences to such rights | 44,127.99                    | 0.00              | 0.00              | 44,127.99            |
| II. Tangible assets   |                              |                   |                   |                      |
| Furnitures and fixtures   | 33,751.84                    | 354.86            | 4,854.37          | 29,252.33            |
| III. Financial assets   |                              |                   |                   |                      |
| 1. Shares in group companies  | 22,815,786.08                | 906,000.00        | 0.00              | 23,721,786.08        |
| 2. Loans due from affiliated companies  | 1,200,000.00                 | 0.00              | 168,485.49        | 1,031,514.51         |
|   | <b>24,015,786.08</b>         | <b>906,000.00</b> | <b>168,485.49</b> | <b>24,753,300.59</b> |
| <b>Total</b>  | <b>24,093,665.91</b>         | <b>906,354.86</b> | <b>173,339.86</b> | <b>24,826,680.91</b> |

| Schedule of liabilities as of December 31, 2007  | Balance<br>sheet value<br>31.12.2007 | with a remaining term |                      |                         |                            |
|--|--------------------------------------|-----------------------|----------------------|-------------------------|----------------------------|
|  |                                      | up to<br>one year     | one to<br>five years | more than<br>five years | of which<br>collateralised |
| <b>in TEUR</b>   |                                      |                       |                      |                         |                            |
| Liabilities from mezzanine financing   | 17,500                               | 0                     | 0                    | 17,500                  | 0                          |
| Amounts due to banks   | 2,069                                | 402                   | 1,482                | 185                     | 0                          |
| Trade liabilities  | 5                                    | 5                     | 0                    | 0                       | 0                          |
| Amounts due to group companies   | 178                                  | 178                   | 0                    | 0                       | 0                          |
| Other liabilities<br>- thereof taxes: 14,7 TEUR<br>(December 31, 2006: 122,9 TEUR)<br>- thereof in respect of social security: 0 TEUR<br>(December 31, 2006: 0 TEUR) | 1,479                                | 750                   | 321                  | 408                     | 0                          |
| <b>Total</b>   | <b>21,231</b>                        | <b>1,335</b>          | <b>1,803</b>         | <b>18,093</b>           | <b>0</b>                   |

|  | Depreciations       |                 |                 |                     |  | Book values          |                      |
|--|---------------------|-----------------|-----------------|---------------------|--|----------------------|----------------------|
|  | As of<br>01.01.2007 | Additions       | Disposals       | As of<br>31.12.2007 |  | As of<br>31.12.2007  | As of<br>31.12.2006  |
|  |                     |                 |                 |                     |  |                      |                      |
|  | 37,378.99           | 2,026.00        | 0.00            | 39,404.99           |  | 4,723.00             | 6,749.00             |
|  |                     |                 |                 |                     |  |                      |                      |
|  | 27,555.84           | 2,851.86        | 4,853.37        | 25,554.33           |  | 3,698.00             | 6,196.00             |
|  |                     |                 |                 |                     |  |                      |                      |
|  | 1,116,719.86        | 0.00            | 0.00            | 1,116,719.86        |  | 22,605,066.22        | 21,699,066.22        |
|  | 0.00                | 0.00            | 0.00            | 0.00                |  | 1,031,514.51         | 1,200,000.00         |
|  | <b>1,116,719.86</b> | <b>0.00</b>     | <b>0.00</b>     | <b>1,116,719.86</b> |  | <b>23,636,580.73</b> | <b>22,899,066.22</b> |
|  | <b>1,181,654.69</b> | <b>4,877.86</b> | <b>4,853.37</b> | <b>1,181,679.18</b> |  | <b>23,645,001.73</b> | <b>22,912,011.22</b> |

## Notes for the 2007 AG-Financial Year

### A. General information on the annual financial statements

#### 1. Legal basis

The annual financial statements for the year ended 31 December 2007 were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Stock Corporation Act).

In accordance with section 275 (2) of the HGB, the income statement was prepared using the total cost method.

#### 2. Shareholders' equity

##### 2.1. Share capital

The share capital amounts to EUR 9,000 thousand and is divided into 3,000,000 no-par value bearer shares.

##### 2.2. Authorised capital

The Annual General Meeting on 30 August 2007 resolved a capital increase from retained earnings of EUR 1,300 thousand to EUR 9,000 thousand. By resolution of the Annual General Meeting on 30 August 2007, the Board of Management was authorised, with the approval of the Supervisory Board, to increase the share capital by up to EUR 4,500 thousand on one or more occasions until 29 August 2012 through the issue of new no-par value bearer shares against cash and/or non-cash contributions. The authorisation to increase the share capital through the issue of new shares that was resolved by the Annual General Meeting on 31 August 2006 was revoked.

##### 2.3. Contingent capital

By resolution of the Annual General Meeting on 30 August 2007, the share capital was contingently increased by up to EUR 1,800 thousand through the issue of up to 600,000 new no-par value bearer shares. The contingent capital increase serves to grant rights to the holders of options and convertible profit participation certificates to be issued by the Company up to and including 24 August 2010. No profit participation certificates had been issued as of 31 December 2007.

#### 3. Currency translation

At the balance sheet date, the receivables and liabilities reported by Brüder Mannesmann Aktiengesellschaft were denominated solely in euros.

## **B.** Disclosures on accounting policies

### 1. Accounting policies

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

Low-value assets with a cost of EUR 410.00 or less are written down in full in the year of acquisition.

Financial assets are carried at the lower of cost or fair value.

The statement of changes in fixed assets is presented as an appendix to the notes.

Receivables and other assets are carried at their nominal amount.

Securities classified as current assets are carried at the lower of cost or fair value, which is the market value at the balance sheet date.

Discounts on mezzanine liabilities are recognised in the form of annual amortisation over the term of the respective items.

Pension provisions are calculated in accordance with the 2005 G mortality tables compiled by Dr. Klaus Heubeck, applying a discount rate of 6%. The options provided by tax law for the distribution of the allocation amount were exercised.

Other provisions are recognised in accordance with prudent business practice, taking into account all identifiable risks and uncertain obligations.

Liabilities are carried at their redemption amount, while pension obligations are carried at their actuarial present value at the balance sheet date.

### 2. Balance sheet disclosures

In accordance with section 287 of the HGB, the disclosures on shareholdings are presented in a separate list that is included as an appendix to these notes.

Receivables from affiliated companies result from profit and loss transfer agreements, the provision of goods and services (intragroup allocation), VAT group liability, interest, oncharged costs and short-term loans.

Other assets primarily consist of tax receivables.

Securities relate to six certificates with a total cost of EUR 4,069 thousand. In accordance with section 253 (3) of the HGB, write-downs to the lower fair value, which is calculated as the market price at the balance sheet date, were recognised in the amount of EUR 376 thousand.

In accordance with section 250 (3) of the HGB, discounts on mezzanine liabilities after settlement were recognised in the amount of EUR 549 thousand.

Details of shareholders' equity can be found in part A, section 2.

The Annual General Meeting appropriated a total of EUR 59 thousand of the profit brought forward from the previous year to other revenue reserves.

Other provisions relate to the expected cost of the audits prescribed by German commercial law, residual paid leave claims and contributions to the employers' liability insurance association, as well as a provision for expected losses on contracts entered into for interest rate optimisation purposes.

Liabilities to affiliated companies include settlement accounts with subsidiaries (VAT group, profit and loss transfer).

At the balance sheet date, the Company had five unsettled interest optimisation transactions with a total nominal value of EUR 35,500 thousand. Four of these positions had positive fair values totalling EUR 179 thousand, while the other position had a negative fair value of EUR 733 thousand. Deferred interest in the amount of EUR 628 thousand was reported in the balance sheet under other liabilities. The fair values were alternatively calculated using the discounted cash flow method set out in IAS 39 A 74 in order to ensure their informative value. A provision of EUR 168 thousand was recognised for expected losses from an onerous contract.

Miscellaneous other liabilities primarily relate to pension obligations.

Details of the terms to maturity of the Company's liabilities and the collateral provided can be found in the "Maturity structure of liabilities" table.

Other financial commitments relate to rental agreements and leases totalling EUR 55 thousand.

## C. Contingent liabilities

At the balance sheet date, liabilities from guarantees and joint and several liability amounted to EUR 2,097 thousand, of which EUR 1,947 thousand was attributable to affiliated companies and EUR 150 thousand to non-Group companies.

## D. Income statement disclosures

- 1. Sales**  
Sales primarily relate to intragroup allocations to affiliated companies, EUR 60 thousand of which was attributable to an affiliated company outside Germany.
- 2. Other income**  
Other income primarily relates to costs oncharged to affiliated companies.
- 3. Income from profit transfers**  
This item relates to the net profit of affiliated companies transferred for 2007 under the terms of the existing profit and loss transfer agreements.
- 4. Cost of loss absorption**  
This item relates to the net loss of affiliated companies transferred for 2007 under the terms of the existing profit and loss transfer agreements.
- 5. Interest and similar income**  
This item includes interest from affiliated companies in the amount of EUR 1,426.87.
- 6. Interest and similar expenses**  
This item includes interest paid to affiliated companies in the amount of EUR 964.26.



### **E.** Other disclosures

In addition to the Board of Management, the Company employed an average of five people during the year under review. The Company is managed by the Board of Management.

The Company is the Group parent for the purposes of the consolidated financial statements. The consolidated financial statements are published in the electronic Bundesanzeiger (Federal Gazette).

Auditors' fees for the 2007 financial year consisted of EUR 73 thousand for the audit of the financial statements and EUR 44 thousand for other services.

### **F.** Executive bodies

The members of the Board of Management are as follows:

**- Mr. Jürgen Schafstein**

Chairman of the Board of Management

Businessman

Member of the Management Board of Chronos Technologie AG, Remscheid, formerly Deutsche Armaturen AG

Chairman of the Supervisory Board of Saltus Technology AG, Solingen

**- Mr. Bernd Schafstein**

Businessman

Member of the Supervisory Board of Chronos Technologie AG, Remscheid, formerly Deutsche Armaturen AG

The members of the Supervisory Board are as follows:

**- Mr. Reinhard C. Mannesmann**

Chairman

Businessman

Member of the Supervisory Board of Chronos Technologie AG, Remscheid, formerly Deutsche Armaturen AG

Member of the Supervisory Board of Saltus Technology AG, Solingen

**- Mrs. Nicole Coen**

Qualified bank clerk

Member of the Supervisory Board of Chronos Technologie AG, Remscheid,  
formerly Deutsche Armaturen AG

Member of the Supervisory Board of Saltus Technology AG, Solingen

**- Mr. Michael Nagel**

Businessman

Member of the Supervisory Board of Chronos Technologie AG, Remscheid,  
formerly Deutsche Armaturen AG

In the year under review, the members of the Board of Management received compensation totalling EUR 300 thousand from the Company. The compensation paid to the members of the Supervisory Board amounted to EUR 56 thousand. By resolution of the Annual General Meeting on 30 August 2007, no disclosures are made in accordance with section 285 (9a) sentence 5 ff. in conjunction with section 286 (5) of the HGB.

### Notification of equity holdings

The following notifications were submitted to the Company:

On 28 March 2007, Mr. Jürgen Schafstein notified the Company that he held 16.67% of the voting rights.

On 12 September 2002, Ms. Nicole Coen notified the Company that she held 7.62% of the voting rights.

On 12 September 2002, Mr. Bernd Schafstein notified the Company that he held 7.39% of the voting rights.

The declaration in accordance with section 161 of the AktG has been submitted and made available to the shareholders.

## **G.** Appropriation of net profit

Details of the appropriation of net profit can be found in part B, section 2.

## H. Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the combined management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Remscheid, April 2008  
Brüder Mannesmann Aktiengesellschaft,  
The Board of Management



Jürgen Schafstein  
Chairman of the  
Board of Management



Bernd Schafstein

## I. List of share holdings

| Fully-consolidated subsidiaries                             | %   | Equity in TEUR |
|---|-----|----------------|
| Brüder Mannesmann Werkzeuge GmbH,<br>Remscheid              | 100 | 10,000         |
| Brüder Mannesmann Nederland B.V.,<br>Doetinchem/Netherlands | 100 | 597            |
| CoCaCo Trading GmbH,<br>Remscheid                           | 100 | 1,559          |
| Fernando Esser & Cia. GmbH,<br>Remscheid                    | 100 | 64             |
| Corneta Export GmbH,<br>Remscheid                           | 100 | 25             |
| Schwietzke Armaturen GmbH,<br>Bottrop                       | 100 | 3,300          |
| CEA Chemie- und Energie-Armaturen GmbH,<br>Ludwigshafen     | 100 | 130            |
| Brüder Mannesmann Grundbesitz GmbH,<br>Remscheid            | 100 | 126            |
| Chronos Technologie AG,<br>Remscheid                        | *   | *              |

\* This company was not included in consolidation..

## Independent Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which is combined with the group management report, of the Brüder Mannesmann Aktiengesellschaft, Remscheid, for the business year from 1. January 2007 to 31. December 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 28. April 2008

**MORISON AG**  
**Wirtschaftsprüfungsgesellschaft**

**Rolf Peter Kruenkamp**  
Wirtschaftsprüfer

**ppa. Bardo Bruchmüller**  
Wirtschaftsprüfer

## Imprint

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