

ANNUAL REPORT

2006

**BENTELER** 

# BENTELER GROUP

## IN FIGURES

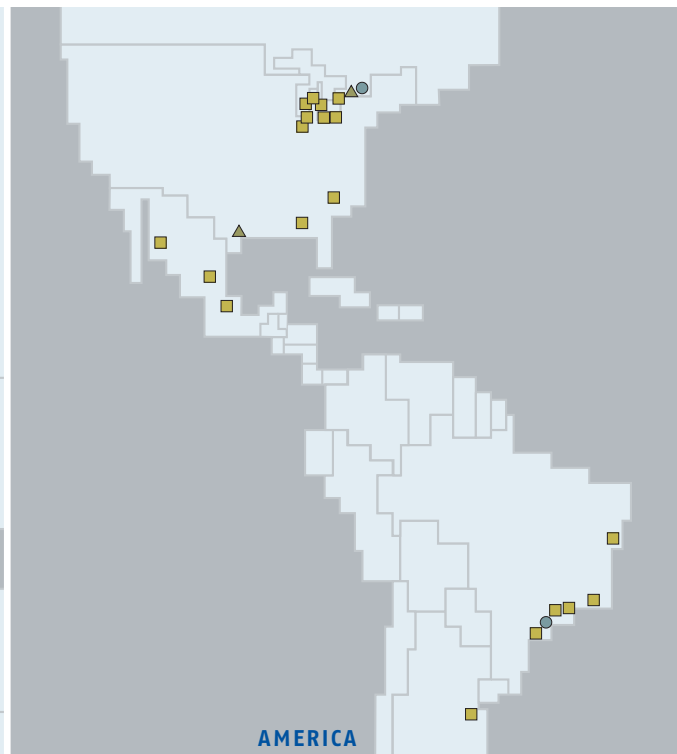
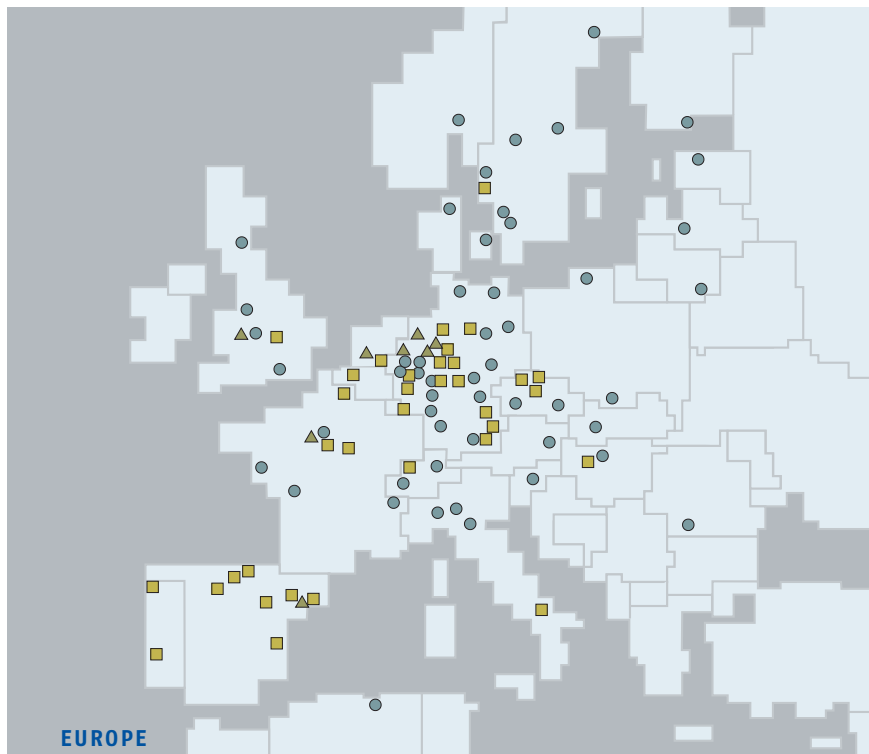
FINANCIAL YEAR (JANUARY 1 – DECEMBER 31)	2006	2005	2004	2003	2002
External Sales [€ million]	5,597.7	5,315.3	4,450.1	3,682.6	3,287.2
Employees incl. apprentices (annual average)	21,992	21,234	19,107	18,173	17,378
Personnel expenses [€ million]	946.3	901.9	823.5	782.1	769.7
Personnel expenses/employee [€ thousand]	43.0	42.5	43.1	43.0	44.3
Investments [€ million]	191.3	257.4	172.3	199.5	147.6
Depreciation of fixed assets [€ million]	144.7	127.3	118.9	113.2	121.2
Cash flow <sup>1)</sup> [€ million]	243.1	190.0	182.6	159.5	170.1
Equity <sup>2)</sup> [€ million]	712.3	642.8	463.5	421.9	421.9
Total assets [€ million]	2,268.7	2,106.3	1,719.5	1,494.7	1,421.7
Equity ratio [%]	31.4	30.5	27.0	28.2	29.7
Net income before taxes [€ million]	192.5	139.4	98.3	72.3	80.3
Consolidated income [€ million]	89.3	58.9	54.7	41.3	46.6

1) Net income  
+ Depreciation  
- Write-ups  
+/- Changes in pension provisions

2) Shareholders' equity including 50 % of the special items for investment allowances on fixed assets and 100 % of the investment grants

# BENTELER – TRADITIONALLY PROGRESSIVE

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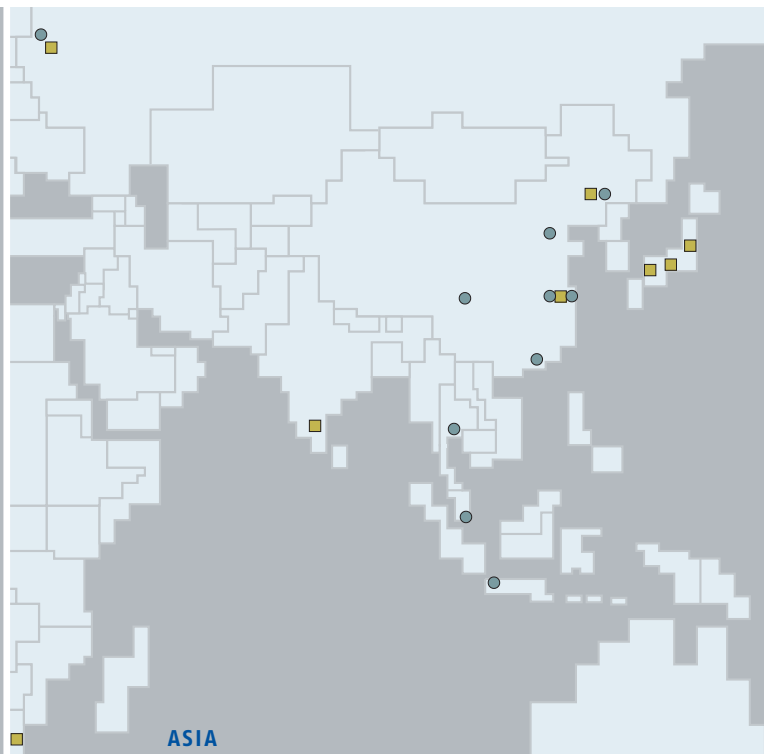
#### THE BENTELER GROUP

The Benteler Group is internationally active. The three legally independent divisions Automotive, Steel/Tube and Distribution operate under the parent company Benteler AG as Management Holding.

The Group looks back on 130 years of success and is now a family-owned company in the fourth generation. Profitable growth and a tradition of progress are decisive for Benteler in order to ensure its entrepreneurial autonomy in the future as well.

**BENTELER EMPLOYS A TOTAL WORKFORCE OF 22,000 AT 150 LOCATIONS IN 34 COUNTRIES.**





### WE TAKE CUSTOMER PROXIMITY LITERALLY!

Short transport routes, quick decisions and intensive cooperation with our business partners characterize our work. It is self-evidence that we are located near them, to better handle the tasks at hand and be both a competent development partner and reliable supplier.

- Automotive
- ▲ Steel/Tube
- Distribution

#### BENTELER AUTOMOTIVE

- Research, development and production for individual customer solutions
- Chassis Systems Product Group:  
High-tech chassis components and integrated chassis modules from state-of-the-art, highly specialized materials
- Structures Product Group:  
Extremely light, ultra high-strength components for the safety requirements of tomorrow
- Exhaust Systems Product Group:  
Components, modules and systems for hot- and cold-end of the exhaust system
- Engine Applications Product Group:  
Innovative solutions for applications in the field of engine management and engine peripherals
- Engineering Services Product Group:  
PDE Automotive, Optical Systems and Mechanical Engineering Glass Processing

#### BENTELER STEEL/TUBE

- Automotive Product Group:  
Tubes for applications in the car
- Energy Product Group:  
Tubes for applications in the chemical and petrochemical industries, for exploration purposes and boiler and heat exchanger tubes
- Industry Product Group:  
Tubes for industrial applications in the construction, large-scale equipment and consumer goods industries as well as for the entire spectrum of mechanical engineering

#### BENTELER DISTRIBUTION

- Full range of tube products and accessories
- Full-coverage performance association
- Delivery according to national and international standards and dimensions
- Solid technical advice
- Competent development support
- Customized solutions by processing
- Convincing logistics concepts, also with just-in-time delivery
- Market segments: Mechanical engineering, process engineering, steel and metal constructions, automotive industry, furniture and leisure equipment





Hubertus Benteler

**Dear Ladies and Gentlemen,**

The 2006 business year was once again a successful one for the Benteler Group because we have continued to concentrate on our business targets – long-term profitable growth and securing our autonomy. We have never before achieved a higher sales volume nor had better business results. All the divisions contributed to this success.

This success is based on innovative products, new processes and competitive cost structures. As a result, we have enjoyed considerably above-average growth in the last few years. Our strategy was honored in 2006 by the conferment of the “Best of European Business Award” to Benteler AG in the category Growth/Large-scale enterprise.

We want to keep to this path in the future, and continue to strengthen our innovation capability in all divisions. To promote this end, we have introduced a company-wide Continuous Improvement Program and founded our own Benteler Academy. Employees and executive managers will be trained here to ensure long-term grounding in the principles of lean production and efficient processes. On this firm basis, we are planning to continue the positive development of the Benteler Group in the coming years.

The success of the company is closely linked to the special expertise and personal competence of our employees. Their knowledge, their abilities and their dynamic work commitment have advanced us to a leading position on the international market. Today, the Benteler Group is active with 150 locations in 34 countries all over the world.

In the name of the Executive Board of Benteler AG and on behalf of the Managing Directors of our divisions, I thank our employees for their commitment and high performance. We also thank our business partners for their confidence in our company and our shareholders for their constructive cooperation and support.

**Hubertus Benteler**

Chairman of the Executive Board



From left to right:

Siegmund Wenk and  
Hubertus Benteler

Ulrich Becker and  
Nizar N. Ghossaini

Norbert Bergs and  
Matthias Jäger

Ulf M. Kranz  
and Giorgio Frigerio

#### EXECUTIVE BOARD OF BENTELER AG

**Hubertus Benteler**, Chairman  
**Siegmund Wenk**

#### SUPERVISORY BOARD OF BENTELER AG

**Robert J. Koehler**, Wiesbaden (Chairman)  
Chairman of the Executive Board of SGL Carbon AG,  
Wiesbaden

**Clemens Franzen**, Duisburg (Deputy Chairman)  
Trade Union Secretary of IG Metall,  
Head of the NRW region, Düsseldorf

**Dr. Ralf Bethke**, Deidesheim  
Chairman of the Executive Board of K+S AG, Kassel  
(as of April 26, 2006)

**Jürgen Dietrich**, Lingen  
Chairman of the Works Council,  
Benteler Stahl/Rohr GmbH, Paderborn

**Dr.-Ing. E. h. Heinz Dürr**, Berlin  
Chairman of the Supervisory Board of Dürr AG,  
Stuttgart (until April 26, 2006)

**Paul-Günter Duscha**, Dinslaken  
Chairman of the Works Council,  
Benteler Stahl/Rohr GmbH, Dinslaken

**Rolf Eckrodt**, Berlin  
Chairman of the Supervisory Board of Berlin  
Partner GmbH, Berlin





## PERSONNEL MATTERS

**Dr. Markus Flik**, Gerlingen  
Chairman of the Management Board of  
Behr GmbH & Co. KG, Stuttgart

**Heinz Pfeffer**, Osnabrück  
Second Authorized Representative of IG Metall,  
Rheine administrative unit

**Axel Prym**, Roetgen  
Shareholder of William Prym GmbH & Co. KG,  
Stolberg

**Dr. Gert Vaubel**, Warburg  
Former Member of the Executive Board of Benteler AG,  
Paderborn

**Franz-Josef Wischer**, Borcheln  
Commercial Director of the Chassis Systems  
Product Group of Benteler Automobiltechnik GmbH,  
Paderborn

**Robert Wood**, Paderborn  
Chairman of the total Works Council of Benteler AG,  
Paderborn

### MANAGEMENT BOARDS OF THE DIVISIONS

#### BENTELER AUTOMOTIVE

**Nizar N. Ghossaini**, Chairman

**Ulrich Becker**

**Rainer Fuess** (until March 31, 2006)

#### BENTELER STEEL/TUBE

**Norbert Bergs**, Chairman

**Matthias Jäger**

#### BENTELER DISTRIBUTION

**Giorgio Frigerio**, Chairman

**Dr. Robert Hannemann** (until January 31, 2006)

**Ulf M. Kranz** (as of April 1, 2006)



## BUSINESS CONDITIONS AND GLOBAL ECONOMIC SITUATION



### THE INTERNATIONAL ECONOMY CONTINUES TO GROW

The international economy expanded by about 5% in 2006. Developing and emerging economies contributed considerably to this growth. In particular, China, India and Russia were able to achieve significant growth rates. These countries have become increasingly important for the world economy. In contrast, the traditional industrial nations developed more slowly: The USA registered a growth rate of 3.5%, ahead of Japan and Europe, which had 2.0% and 3.0% growth rates respectively. Germany more than doubled its growth rate compared to the preceding year, attaining 2.5% in 2006. As in the past, strong exports and investments played a role, but also private consumption and construction investments made an appreciable contribution to economic growth.

### CAR PRODUCTION INCREASES

According to estimates of the German Association of the Automotive Industry, 67 million vehicles were manufactured globally in 2006, about 3.5% more than in the previous year. Passenger car production (including light trucks in America) rose by 3% to 57 million units. Production of commercial vehicles grew at a rate 4% stronger than passenger car production, attaining some 10 million units.

Asia achieved an increase of 8% and once again enjoyed the highest growth rate. With 26 million units

or 39 % of the total car production, Asia holds a significantly higher share of the world market than Europe (32 %) or America (28 %). China and India each increased their production volumes by about 20 %. After China, India is now becoming increasingly important as a production location and sales market.

South America reported a growth rate in car production of 7 % to 3 million units in 2006. In the NAFTA countries, however, the number of units fell by 3 % to 15.9 million vehicles. The volume in Mexico increased by 22 % and dropped in Canada and the USA by 5 % and 6 % respectively. These markets experienced intensified demand for smaller vehicles with lower fuel consumption. Thus, the production of passenger vehicles increased by 5 %, whereas the production of light trucks dropped by 9 %. The North American "Domestics" (GM, Ford, Chrysler) once again had to face a slump. Their joint market share in the USA sank by 11 percentage points from 2002 to 2006, dropping from 65 % to 54 %.

In the European Union (EU 25), vehicle production rose by 1 % to 18.5 million units. As in the NAFTA region, increasingly, the European production of small vehicles shifted to less expensive regions. Accordingly, in the new EU Eastern European member countries, the number of cars produced rose by 23 % to 2.1 million units. Several manufacturers have erected new plants in the Czech Republic and Slovakia. In contrast, car produc-

tion declined slightly in the other European Union member countries. Due to high energy prices, for the first time, diesel vehicles attained more than 50 % of the market in Western Europe in the reporting year.

Despite the worldwide increase in sales, 2006 was not an easy year for a large part of the automotive industry. Numerous vehicle manufacturers introduced restructuring programs which had considerable impact on suppliers. The supplier industry also worked intensively on improving its competitiveness. Nevertheless, many companies, especially in the USA, had to face economic difficulties.

#### **STEEL TUBES CONTINUE TO BE IN STRONG DEMAND**

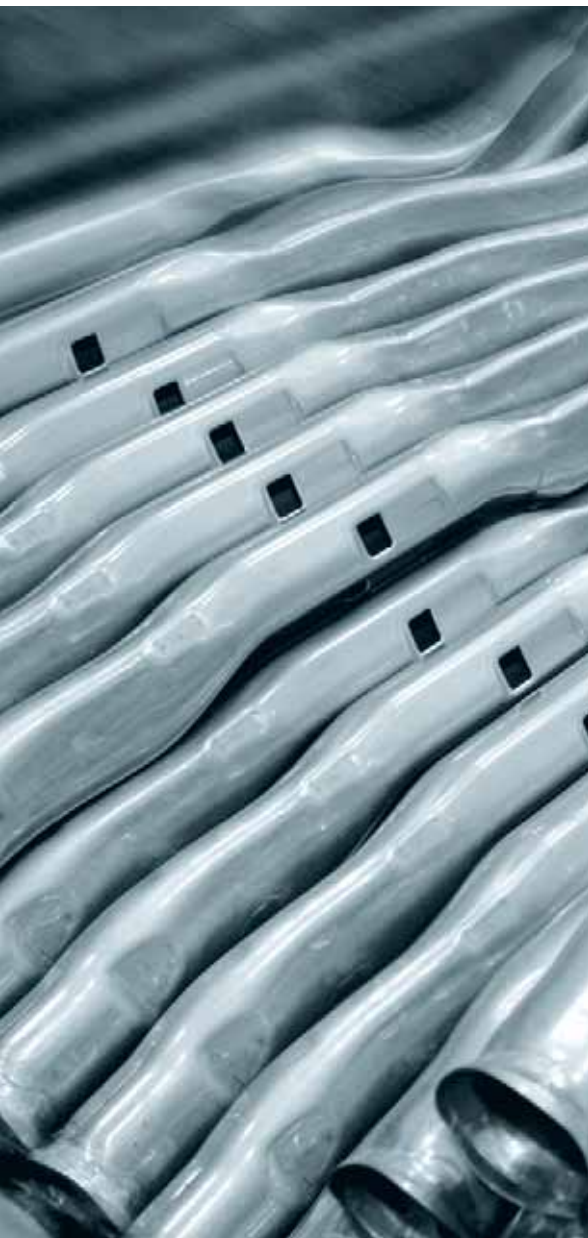
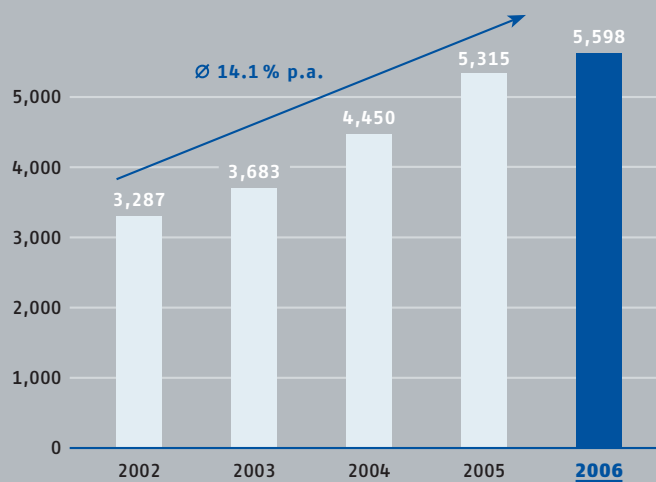
The demand for steel tubes remained stable in 2006. As in previous years, high energy prices created a strong demand for tubes for crude oil and natural gas exploration as well as for power generation. For this reason, the production of hot-rolled tubes increased. Due to robust economic development in other market segments, the demand for seamless and welded precision tubes was also strong.

Raw material prices developed unevenly, but continued at high levels. The steel tube industry managed to pass on most increases in raw material to the customer by applying raw material surcharges. While scrap metal prices remained almost stable, prices for some alloys and for energy rose significantly compared to 2005.

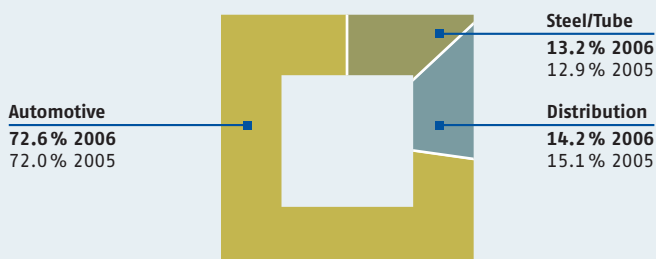


## EARNINGS SITUATION

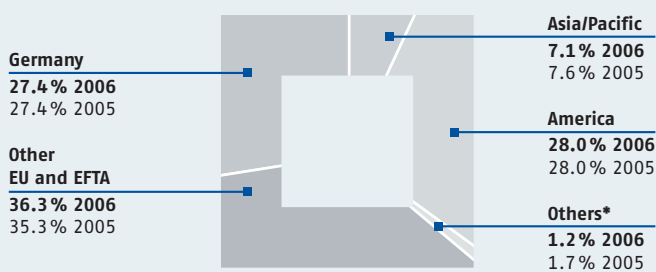
CONSOLIDATED GROUP SALES 2002–2006 [€ MILLION]



GROUP SALES BY BUSINESS DIVISIONS  
(BEFORE INTERNAL SALES)



EXTERNAL SALES BY MARKET AREAS





## EXTERNAL SALES BY BUSINESS DIVISIONS

	2006	2005	CHANGE	
	[€ million]	[€ million]	[€ million]	[%]
Automotive	4,211	3,969	242	6
Steel/Tube	764	712	52	7
Distribution	821	835	-14	-2
	<b>5,796</b>	<b>5,516</b>	<b>280</b>	<b>5</b>
Less internal sales	198	201	-3	-2
<b>External Sales</b>	<b>5,598</b>	<b>5,315</b>	<b>283</b>	<b>5</b>

**BENTELER GROUP ONCE AGAIN WITH STRONG GROWTH**

The Benteler Group generated a sales volume of 5,598 million euros in 2006, 5 % more than in the previous year. Currency effects had no appreciable influence on this growth rate. Group sales have grown by an average 14.1 % per year since 2002, when sales totaled 3.3 billion euros.

The Automotive and Steel/Tube Divisions increased their volume of business by adding new orders. Sales in the Distribution Division dropped due to program adjustments in Russia and China. Benteler Automotive remained the strongest division with a 72.6 % share in turnover. Internal sales between the business divisions totaled 198 million euros in the reporting year.

More than 90 % of these transactions concerned pipe deliveries to the Distribution and Automotive Divisions. Thus, the internal sales volume remained at the previous year's level.

With the exception of Asia, the sales volume rose significantly in all regions. Asia's share of sales decreased due to program adjustments in Distribution. The sales share of European Union countries (without Germany) increased slightly compared to 2005. Here the Automotive and Distribution Divisions were able to effect an above-average expansion of their business. The share of domestic sales as well as America's contribution to total sales remained constant compared to the previous year.



#### LEADING EDGE!

Many auto makers rely on our experience and technical know-how. For instance, very early on we recognized the potential of hot stamping and hydro-forming for important structural components. We have continued to develop these technologies and brought them to series production, providing a broad range of advantages for our customers worldwide.

Today, we process hot-formed ultra high-strength steels with up to 1600 MPa tensile strength for bumpers, such as the front bumper of the Ford Mondeo, A- and B-pillars, doorbeams and other structural components. Employing these materials in combination with hot-forming technology offers our customers considerable weight reduction potential while simultaneously boosting crash performance – improvements which can give our customers a competitive advantage in safety and environmentally critical fuel economy and emissions.

#### TECHNOLOGICAL PERSPECTIVES – WITH BENTELER



Photo: Ford

## FURTHER EXPANSION IN THE AUTOMOTIVE DIVISION

Total sales revenue in the Automotive Division increased by 6 % to 4,211 million euros. The Automotive Division was thus able to increase its share of the consolidated group revenues to 72.6 %. This division develops and produces ready-to-install modules, components and parts for body, chassis and engine at 59 locations in 22 countries.

The Product Group Chassis Systems grew by 6 %. This product group develops and manufactures chassis subframes, control arms and knuckles as well as complete, ready-to-install front and rear suspension modules. The production of axle modules for the Mercedes Sprinter in Düsseldorf, Germany, begun in 2005 and ran a full year for the first time in 2006. Moreover, the assembly of modules for the new BMW X5 started up in Spartanburg, USA, at the end of the year. The plant in Migennes, France, took up the delivery of chassis subframes for the Peugeot 207. Significant components for this program come from the Benteler's Czech plant in Rumburk. The plant in Vigo, Spain, and the joint venture in Changchun in northern China produced larger numbers of units for the first time.

The Structures Product Group manufactures high-strength vehicle safety components such as bumpers, roof frames, A- and B-pillars, door beams and instrument panel supports. It produces press parts as well. In 2006 the product group was able to boost its sales by 8 %. The growth essentially comes from new orders for the plants in Goshen, USA, and Chrastava, Czech Republic.

The Exhaust Systems Product Group increased its turnover by 4 %. The product group develops and produces components such as manifolds, catalytic converter housings, diesel particulate filters and tubing which control and optimize acoustics and temperature while reducing emissions. The sales volume in the Engine Applications Product Group rose by 17 % compared to the previous year due to the launching of technically more sophisticated components such as fuel supply manifold and exhaust gas recirculation systems.

The Engineering Services Product Group offers engineering, design and development services and manufactures machinery, equipment and tools primarily for the automotive industry. In the reporting year sales volume of the product group increased by 12 %, partly due to the investment in a share of a Swedish engineering company.



#### **HOT IN DEMAND!**

In power plant boilers, a simple formula applies: the hotter the better – because an increase in boiler temperature raises the effectiveness and the energy efficiency of the plant. Benteler produces highly specialized, rifled tubes for the leading builders of power plants.

Based on Benteler-made steel with chromium content of 2 % (or even above) and their unique interior geometry, these tubes permit higher boiler temperatures and insure maximum heat transfer. The advantages are obvious: higher performance, longer service life, less environmental burden and lower costs.

#### **MATERIAL PERSPECTIVES – WITH BENTELER**



Photo: E.ON Kraftwerke



## SALES VOLUME GROWTH IN THE STEEL/TUBE DIVISION

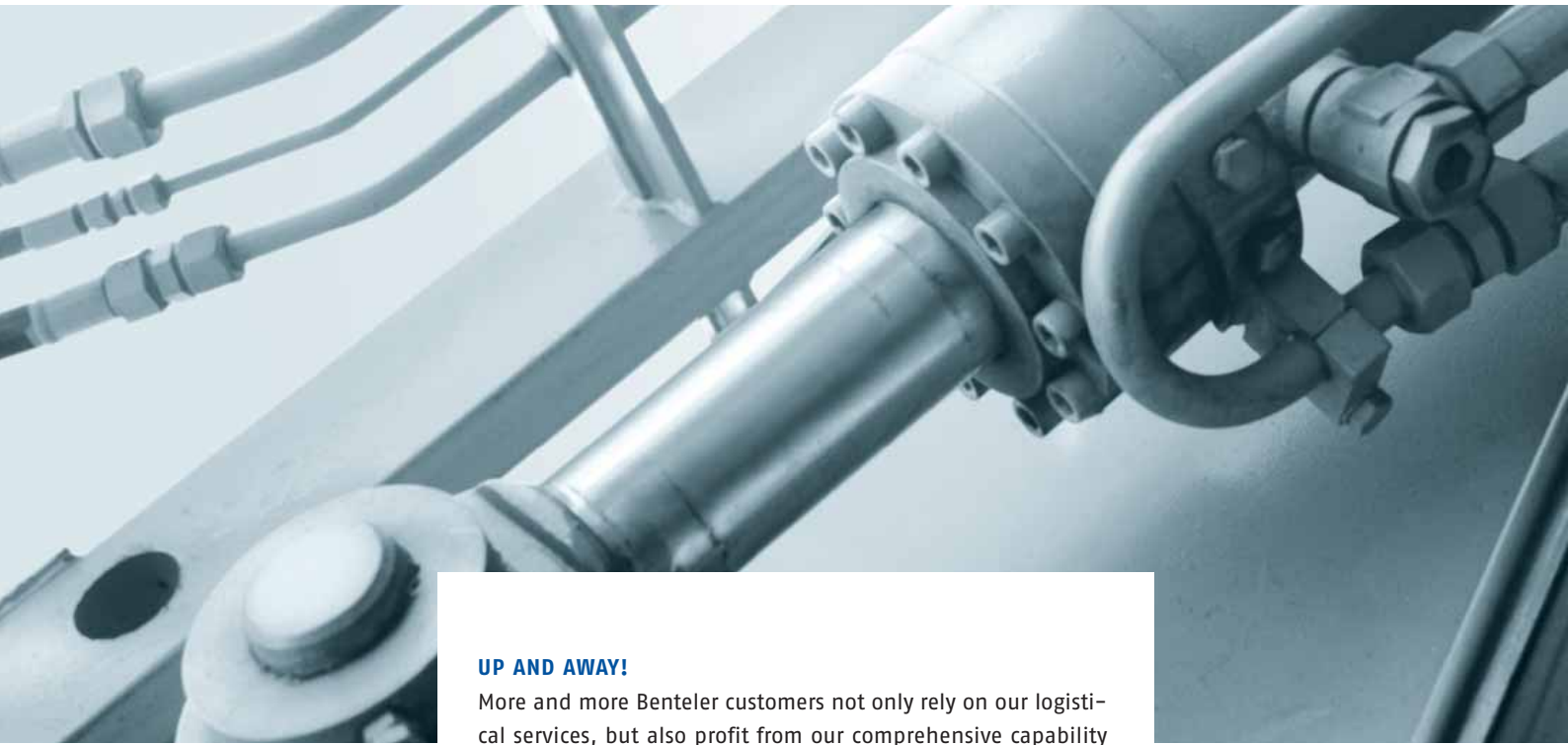
Sales of the Steel/Tube Division increased compared to the previous year by 7 % to 764 million euros. Volume rose by 3 % to 608,000 tons. Since less steel was sold to third parties and instead was processed into tubes in Benteler plants, the value added factor improved. Prices were slightly higher than in the previous year. The Steel/Tube Division share of sales remained unchanged at a level of 13 %.

The Energy Product Group, with 18 %, once again reported strong growth in 2006. It delivers seamless and welded tubes for crude oil and natural gas exploration applications in the chemical and petro-

chemical industry, and it produces boiler and heat exchanger tubes.

The sales volume of the Industry Product Group dropped 3 % due to a reduction of third-party steel sales. In contrast, the tube business was able to grow. This product group produces hot-rolled tubes for the large-scale equipment and machine construction industry, seamless, cold drawn precision steel tubes for the hydraulic and machine construction industry and welded tubes for the construction and home appliance industry.

The Automotive Product Group's sales grew by 5 % in 2006. Here, Benteler primarily provides customers with precision steel tubes for the production of anti-roll bars, steering shafts, camshafts, airbags and diesel injection pump systems.



#### UP AND AWAY!

More and more Benteler customers not only rely on our logistical services, but also profit from our comprehensive capability of customized tube processing. With subsidiaries in 22 countries on three continents, we benefit from a finely meshed international network that allows us to successfully solve the most sophisticated and demanding tasks both technically and logistically.

“Perfect Performance, Made to Order” – this motto applies to our work for the world leader in the production of mobile concrete pumps. The specialized company, Putzmeister, has relied on our ability to provide the necessary logistics for years. Our contribution to their success: seamless galvanized hydraulic line pipes, welded line pipes, hot-formed cylinder tubes and high-strength steel tubes from Benteler in Paderborn and selected suppliers are all delivered directly to the Putzmeister production plant.

#### LOGISTICAL PERSPECTIVES – WITH BENTELER



Photo: Putzmeister

## **DISTRIBUTION DIVISION STRENGTHENS THE CORE BUSINESS**

The Distribution Division generated sales volume of 821 million euros, 2 % less than in the previous year. The Distribution Division's share of consolidated group revenues fell slightly from 15 % to 14 %. This decline resulted from adjustments to the business transactions in Russia and China. Without this measure, the Distribution Division would have attained 10 % higher

revenues than in the previous year. The warehousing trade and processing business increased significantly.

A considerable increase in turnover and sales volume was achieved in the European core markets. The new markets in Central and Eastern Europe are increasingly gaining in significance. The founding of a subsidiary in China was the first step towards establishing a warehousing trade business in the Asian region. Mechanical engineering and the supplier business for the automotive sector are the most important market segments with a 55 % sales share.



#### **CONSOLIDATED INCOME ONCE AGAIN SIGNIFICANTLY IMPROVED**

Consolidated pre-tax profits rose by a total of 38 % to 192.5 million euros. The return on sales increased from 2.6 % to 3.4 %. All divisions were profitable.

The material quota fell from 69.9 % to 69.1 %. This slight decline can be attributed to the sub proportional rise in business with chassis modules and the higher added value for Steel/Tube. Labor costs as percentage of total remained at the same level as the previous year. Compared to 2005, the negative interest balance increased by 3.3 million euros to 31.2 million euros. This occurred because, for the first time, the profit-participation certificate issued in 2005 was serviced throughout the year. The share of interest balance in the total operating performance increased slightly to 0.6 % compared to the previous year.

The Automotive Division slightly increased its contribution to results compared to 2005. Due to new launches, rises in steel prices not passed on to cus-



tomers and operative problems, the U.S. business once again strongly burdened the results. Performance improved in other countries. The Steel/Tube Division increased its profits as a consequence of a higher-value product mix and increased capacity utilization compared to the previous year. The Distribution Division expanded its core business and improved its results compared to 2005.

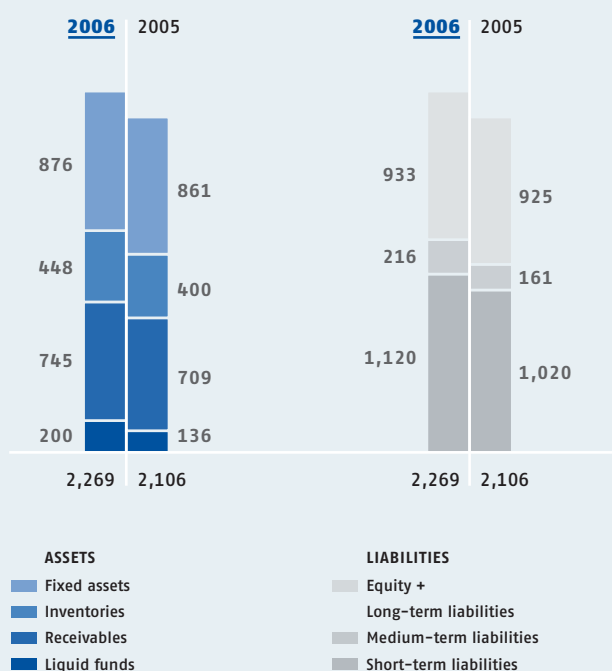
Tax expenditures amounted to 97.9 million euros. It results from the tax burdens of the Benteler AG and its foreign subsidiaries, but was again high. The tax rate fell to 51 % (vs. prior year 55 %) because some foreign subsidiaries closed with losses.

After income taxes, the Benteler Group achieved an annual net profit of 94.7 million euros in the 2006 business year, 32.4 million euros more than in the previous year. Considering the share of 5.3 million euros of other shareholders, the Group net income was 89.3 million euros, compared to 58.9 million euros in 2005.



## ASSETS AND FINANCIAL POSITION

STRUCTURE OF THE GROUP BALANCE SHEET [€ MILLION]



### CONTINUED HIGH INVESTMENT REQUIREMENTS

The Benteler Group invested 191 million euros in the reporting year, 26 % less than in the previous year. Of this sum, 186 million euros were invested in tangible fixed assets and 5 million euros in intangible assets, predominantly computer software. 69 % of the investments were made in foreign plants, and 31 % in German plants.

150 million euros or 79 % of the total investments went into automotive production equipment and systems, primarily to expand capacity. Main focus areas were the plants in Rumburk, Czech Republic, Spartanburg and Goshen in the USA, as well as German production plants. The volume in 2006 decreased significantly compared to 2005, since investments in basic equipment for the new plants were made to a considerable extent in the previous year.

The investments in the Steel/Tube Division increased by 25 % compared to the prior year, amounting to 30 million euros, primarily invested in the expansion of capacity for tube processing and environmental measures.

In the Distribution Division, capital expenditures dropped by 9 % to 10 million euros. 83 % of this sum went to foreign countries – for instance, the warehouse expansions in Poland and Sweden.

In 2006 the capital investment again lay considerably above the depreciation costs of 145 million euros.

### LARGER VOLUME OF BUSINESS BOOSTS BALANCE SHEET TOTAL

In consequence of the business expansion, the balance sheet total has grown by 163 million euros to 2,269 million euros. Changes in the scope of consolidation had no significant impact on the balance sheet total. On the asset side, the fixed assets rose by 15 million euros. Additions of 191 million euros were offset by



## INVESTMENTS

	2006	2005	CHANGE	
	[€ million]	[€ million]	[€ million]	[%]
Automotive	150	221	-71	-32
Steel/Tube	30	24	6	25
Distribution	10	11	-1	-9
Holding	1	1	0	0
<b>Total investments</b>	<b>191</b>	<b>257</b>	<b>-66</b>	<b>-26</b>

decreases in book value of 18 million euros due to exchange rates, disposals of 16 million euros residual book value and depreciation of fixed assets of 145 million euros.

Other assets increased by 84 million euros. Both the stock value (+48 million euros) as well as receivables and other assets (+36 million euros) grew due to the expansion in sales volume in 2006.

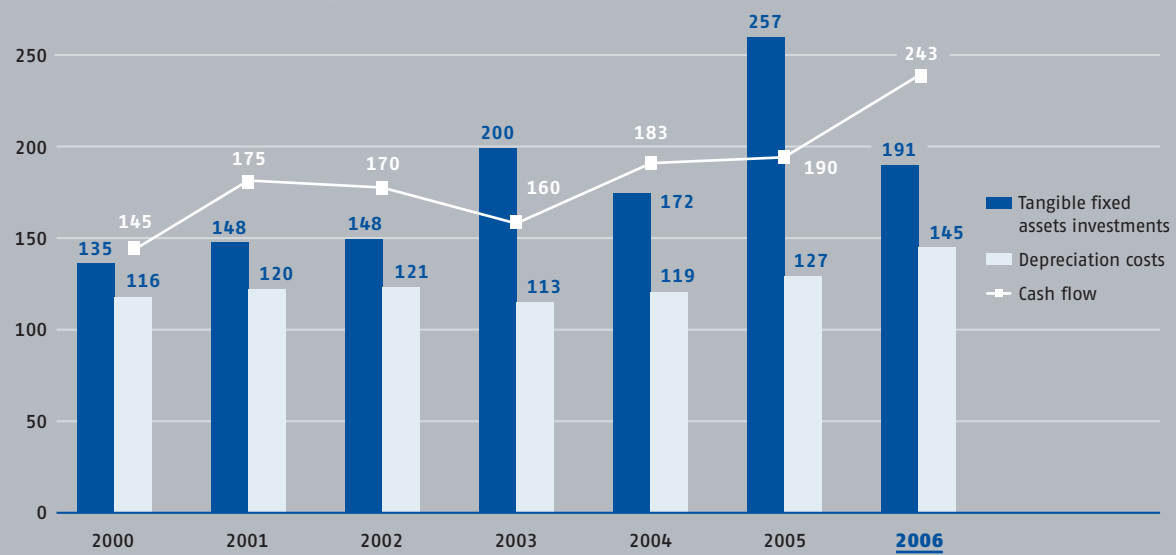
The liquid funds of the Group grew by 64 million euros to 200 million euros. These funds are primarily deposited at Benteler AG in consequence of central cash pool liquidity management and are available on a daily basis. The proportion of the liquidity of the balance sheet total amounts to 8.8 %, compared to 6.4 % in the previous year.

#### EQUITY RATIO IMPROVED

Shareholders' equity increased by 70 million euros to 712 million euros. The Group net income led to an increase in the shareholders' equity by 89 million euros, the exchange rate effect to a reduction of 12 million euros. Shareholders' equity achieved a share of 31.4 % of the balance sheet total compared to 30.5 % in the previous year. Due to the business expansion, trade payables amounted to 656 million euros, an increase of 8 % above the level of 2005. Working Capital rose by 18 million euros to 414 million euros and amounted to 7.4 % of the sales volume, compared to 7.5 % in the previous year.

The long-term funds (equity plus long-term debt with residual maturities of more than five years) amounted to 933 million euros and attained a share of 41 % of the balance sheet total. These funds covered the fixed assets to 107 %. With the addition of unused firmly committed credit lines longer than five years of 67 million euros, the degree of the long-term capital to fixed assets amounted to 114 %.

TANGIBLE FIXED ASSET INVESTMENTS, DEPRECIATION COSTS AND CASH FLOW [€ MILLION]





## KEY FINANCIAL RATIOS

	2006	2005
Equity ratio <sup>1)</sup> [%]	31.4	30.5
Internal financing ratio <sup>2)</sup>	1.27	0.74
Debt-equity ratio <sup>3)</sup>	0.23	0.33
Dynamic debt-equity ratio <sup>4)</sup>	0.67	1.11
Return on equity <sup>6)</sup> [%]	28.4	25.2
ROCE <sup>7)</sup> [%]	17.7	15.6
EBIT <sup>9)</sup> [€ million]	223.7	167.2
Degree of interest coverage I <sup>10)</sup>	5.2	5.3
EBITDA <sup>11)</sup> [€ million]	368.4	294.5
Degree of interest coverage II <sup>12)</sup>	8.6	9.4

1) Shareholders' equity according to balance sheet including 50 % of the special items for investment allowances for the fixed and financial assets and 100 % of the capital investment subsidies : balance sheet total

2) Cash flow : investments

3) Net-financial debts <sup>5)</sup> : economic shareholders' equity (year-end balance)

4) Net-financial debts <sup>5)</sup> : cash flow

5) Liabilities to banks, bonded loans, credits contained in other liabilities less financial assets like loans, securities and liquid funds

6) Result from ordinary operations : economic shareholders' equity (average between beginning and end of the year)

7) (Pre-tax result + interest) : (intangible assets + tangible fixed assets + working capital <sup>8)</sup>) (average between beginning and end of the year)

8) (Inventory + trade receivables from third parties, related and associated companies) minus (trade payables to third parties, related and associated companies + notes payable)

9) Pre-tax result + interest result

10) EBIT : interest expenditures

11) EBIT + depreciation

12) EBITDA : interest expenditures

At 243 million euros, the cash flow was 28 % above the previous year as a consequence of improved income results and greater depreciation. The amount sufficed to finance investments of 191 million euros and amortize a part of the net financial debts. The net financial debts decreased by 48 million euros to 163 million euros. The gearing rate improved from 33 % to 23 %. The Return on Capital Employed (ROCE) of 17.7 % significantly surpassed the 15.6 % level of the previous year.

## CENTRAL CASH AND FOREIGN EXCHANGE MANAGEMENT

The financing of the Group is centralized as a matter of principle. An intra-company system enables the pooling of assets and liabilities whereby surpluses of individual companies of the Group can be transferred and used by other member companies as needed.

As a rule, investments are financed by long-term funding and the working capital by short-term funding. In order to ensure coverage of fixed assets by

long-term capital, existing loans were extended in the reporting year. No larger new loans were required on account of the good earnings situation. To finance the working capital, there were credit lines of 450 million euros at the disposal as per December 31, 2006 which were not used at this date. All credits are free of collateral (exception: see Group Appendix Paragraph 17) and Financial Covenants.

To reduce debtor risk and to cover the short-term financial needs, an asset-backed security program is in place in Germany (75 million euros until 2010) and in the USA (40 million US dollars until 2008) to sell trade receivables. The German program was made use of 41 million euros as of the balance sheet date; the foreign program was used 25 million US dollars.

A large portion of the internal payables and receivables are netted between the Group companies, enabling Benteler to reduce the payment transactions cost effectively. The netting volume in 2006 amounted to 520 million euros.



## RISK REPORT



### COMPREHENSIVE RISK MANAGEMENT

Benteler is exposed to various risks in all three divisions, which to a certain extent can have considerable influence on the asset, financial, and earnings situation. There is a company-wide risk management system in place for the early detection and control of risks. It provides for the identification, evaluation and reporting of risks and is integrated into the strategy, planning, and reporting process of the company.

Benteler AG guides its divisions through strategic and operative targets. The achievement of objectives is tracked by a detailed management information system which tracks all the relevant key figures in terms of actual, planned and prognosis statements. In the event of negative deviations from the plan, the Holding initiates prompt and appropriate measures. All divisions report monthly on their economic development and show opportunities and risks to planned results and future developments. Every quarter, the Executive Board additionally receives an aggregate risk status report based on an annual inventory of possible risks.

In addition, the Group possesses a company-wide Internal Control System (ICS), which takes care of organizational safeguarding measures, procedural arrangements and system testing. The Corporate Audit department is commissioned by the Executive Board to make sure that all areas of the Benteler Group comply with the guidelines and to examine the regularity and efficiency of all business processes and the reporting and functional readiness of its risk management.

In coordination with the Executive Board of Benteler AG, the central service BLV Versicherungsmanagement GmbH arranges the risk transfer of certain risks to insurers.

The risks described below are not the only risks that Benteler is exposed to. Risks that are currently unknown or risks which presently consider negligible can likewise impair the business activities.

Risks to the Benteler Group could result from slow downs of demand, large-scale projects in the automobile business segment, risks related to specific customers and suppliers, market supply developments as well as foreign exchange fluctuations. To safeguard the future business, Benteler has developed scenarios and action plans for corrective measures in the areas described below.

### RISKS RELATED TO BUSINESS CYCLE DEMAND

The business plan includes opportunities with regard to new products, customers and markets. Stagnating or even declining production volumes of car models to which Benteler supplies can bring risks for sales, business volume and profit results. The Group reduces these risks in the Automotive Division by a broad regional presence as well as by independence from individual automakers, and also by a broad range of customers in the Steel/Tube and Distribution Divisions.

### SPECIFIC CUSTOMER AND SUPPLIER RISKS

There could be consequences to the sales volume and result of the Group due to a negative economic development of individual contract partners. Benteler limits these risks by the already described broad distribution of its customer and supplier base, underwriting a part of the receivables and continuous observation of important market developments.

### CHANGES IN THE SUPPLY MARKETS

Price fluctuations of steel, scrap metal and alloys are not an insignificant risk for some areas of the Benteler Group. If raw material prices rise, it is not always possible to pass increases on to the customers without

delay. This can have a negative effect on the development of operating profit. Inversely, the delayed passing on of decreasing purchase prices can also produce a positive effect on the earning situation. To compensate for raw materials price increases, a material cost increase surcharge was introduced in the Steel/Tube area in 2005. Long-term contracts with suppliers reduce the procurement risk for steel purchasing.

#### PROJECT RISKS

The Automotive Division is involved in complex development and construction projects whose inherent risks include unexpected technical difficulties or problems with Benteler or its suppliers which can lead to higher costs for the start of series production and/or higher investments than planned. To avoid or reduce these risks, the division has set revised standards for the project execution and taken action to better develop and control the suppliers. In addition, regular project reviews and audits are carried out to allow for early actions if necessary.

#### QUALITY RISKS

Development, production, or logistic errors in the Benteler plants or the suppliers can lead to the delivery of faulty parts to our customers or to not delivering on time, thus possibly exposing Benteler to the risk of claims for restitution of damages. Therefore, Benteler has introduced comprehensive operating procedures for ensuring process reliability and quality management for audits in Benteler plants as well as at the suppliers.

To reduce such risks in their own production, the divisions continually develop their production processes and pursue preventive maintenance of their own equipment. At the same time they continue to expand systems for the tracking of all manufacturing steps. This will prevent, or at least contain, the possible consequences of receiving defective parts from the

suppliers or our manufacture of defective products (recall risk). Benteler has taken out insurance policies to cover liability risks and damage claims in order to contain residual risks for the company.

#### FOREIGN EXCHANGE RISKS

The scope of our international business relationships exposes the Benteler Group to foreign exchange risks due to fluctuations in exchange rates, especially for purchasing and sales activities. The central finance and foreign exchange management of Benteler AG largely rules out foreign exchange risks with an effective information system, thus harmonizing security transactions. The Benteler Group hedges orders and future volumes in foreign currencies according to well established procedures.

#### IT RISKS

The failure of IT systems and/or the manipulation of data could disturb important processes of the Benteler Group, possibly resulting in delivery problems or even failed deliveries. Benteler meets this potential risk by installing redundant IT systems that provide authorization concepts, emergency plans and guidelines on IT security which are regularly checked.

#### OVERALL STATEMENT ON RISK MANAGEMENT

In the reporting year, the auditors of the domestic financial statements examined the risk management processes in addition to the Annual Financial Statements. They determined that the legal requirements are being adhered to and that the Benteler Group's early-warning system will detect, in a timely manner, any identifiable developments that could threaten the survival of the company.

After examination of the current risk situation, it is concluded that there are no discernible risks which might threaten the survival of the Benteler Group.



## REPORT ON RESEARCH AND DEVELOPMENT ACTIVITIES



### CUSTOMER BENEFIT WITH INNOVATIVE PRODUCTS, TECHNOLOGIES AND PROCESSES

Benteler considers it a duty to offer its customers a competitive advantage with high performance products, expanded service and new materials. Along with the customer, we analyze wants and needs in order to work out the optimal solution with respect to technology and cost. Apart from the close cooperation between the divisions, Benteler also utilizes the synergies between the areas and is continuously extending the external network.

### STEEL – A MOST DIVERSE MATERIAL

Customers increasingly demand more and better performance with regard to corrosion resistance and mechanical properties. For example, dynamically ultra-high stressed tubes for chassis construction must satisfy considerable demands on the surface condition. To ensure these qualities, Benteler's Steel/Tube Product Group integrated a measuring system based on laser triangulation and the surface coating method was developed further for improved corrosion protection.

Steel materials provide numerous combinations of high strength and ductility (formability). It is a particular challenge to produce ultra-high tensile steels with sufficient ductility. Transmission electron microscopy was added to the spectrum of in-house analysis capability for this purpose. The method makes it possible to identify and evaluate structural components on the nanometer scale.

#### **INNOVATIVE APPROACHES IN AUTOMOTIVE TECHNOLOGY**

New ideas concerning the central themes of the automotive industry – safety, comfort, lightweight design and reduced emissions – are the focus of research and development at Benteler Automotive. Key areas of development are improved materials, optimized production processes and costs, and the transfer of innovative technologies to new and related product fields.

In the area of hydroforming technology, the Automotive Division is testing the use of alternate products and materials. For example, Benteler has introduced new processes with significantly expanded

shaping possibilities for lightweight design with aluminum. Furthermore, for the first time in series production, Benteler is using frictional welding of sensor sockets as an innovative low-heat joining process.

Ever more stringent quality standards demand ever more complex testing and measurement methods in production. Benteler developed a 3D laser scanner to measure stamping parts in the production and goods receipt areas. This new technology is being marketed under the name Benteler LaserGauge®.

The division has integrated another optical system in a new production line. A camera-based optical gauge that measures axle components is currently being run through the process of series release.

After the enormous growth of the last few years and the considerable research and development expenditures which went along with it, Benteler Automotive concentrated its efforts on the execution of numerous launches and the further expansion of production plants in the reporting year. For this reason, development expenditures declined by 8% to 107 million euros.





## REPORT ON QUALITY AND THE ENVIRONMENT



### UNIFORM INTERNATIONAL QUALITY STANDARDS

All Benteler sites fulfill international quality norms and standards. The plants are certified according to ISO/TS 16949:2002. Moreover, Benteler has accreditations, certificates and licenses of notable German as well as international acceptance and classification organizations. The quality of Benteler products was underscored by numerous awards in the reporting year. These include the "Quality Excellence Performance Award" from Toyota, the "Quality Award" from Honda and the "Best Supplier Award" from Valeo for plants of the Automotive Division.

### CONTINUAL IMPROVEMENT PROCESS

The strong growth of the last few years also brings along special challenges: Benteler has to ensure that processes run efficiently and are continually improved. Therefore, the aforementioned measures were channeled into a comprehensive program. Experienced trainers are now teaching courses to convey the principles of lean production. Employees then implement these principles in workshops in their plants. The inclusion of all employees as well as the intensive involvement of the management has improved both quality and productivity. The objective is not short-term, one-time optimization, but rather the sustainable anchoring of the continuous improvement process throughout the Benteler Group.

### **OCCUPATIONAL SAFETY LOWERS THE ACCIDENT RATE**

Benteler has continued to develop its occupational safety management system above and beyond legal requirements. The first plants have already been certified according to the international specification OHSAS 18001 (Occupational Health and Safety Assessment Series). These comprehensive measures led to yet another decrease in the number of accidents in 2006.

### **INTEGRATED ENVIRONMENT MANAGEMENT SYSTEM**

Protecting the environment, preserving our natural resources, consuming energy conscientiously and taking advantage of secondary raw materials are all self-evident maxims at Benteler. An extensive environmental management system supports the plants in the implementation of these requirements. The system is regularly audited according to the internationally valid ISO 14001 standard.

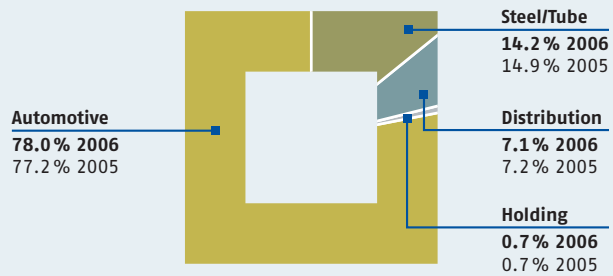
The central raw material for steelmaking at Benteler, the basis for high grade tube products, is scrap steel. Thus, the value-added chain is primarily based on the recycling of raw materials. This saves valuable natural resources. Energy efficiency is ecologically and economically important for the Group. Benteler participates in the European Emission Trading System, which makes an essential contribution to environmental conservation. Furthermore, the Benteler Group continuously invests in the modernization of the company's furnace and energy management systems in order to ensure maximum efficiencies in the economical use of energy sources.



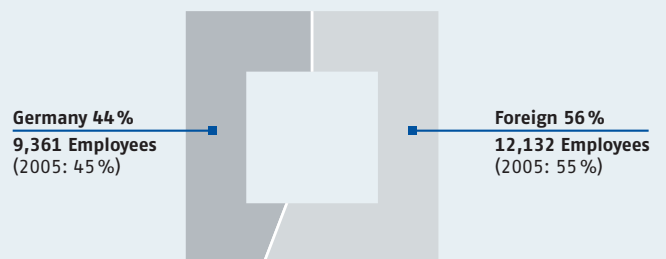
## PERSONNEL REPORT



PERCENTAGE BREAKDOWN OF WORKFORCE  
BY DIVISIONS



BREAKDOWN OF BENTELER GROUP WORKFORCE:  
GERMAN VERSUS FOREIGN STAFF





## BREAKDOWN OF EMPLOYEES BY DIVISIONS (ANNUAL AVERAGE)

	2006	2005	CHANGE	
			[%]	
Automotive	16,777	16,011	766	5
Steel/Tube	3,057	3,080	-23	-1
Distribution	1,516	1,487	29	2
Holding	143	146	-3	-2
	<b>21,493</b>	<b>20,724</b>	<b>769</b>	<b>4</b>
Apprentices	499	510	-11	-2
Total Employees	<b>21,992</b>	<b>21,234</b>	<b>758</b>	<b>4</b>

## PEOPLE ARE THE KEY TO OUR SUCCESS

The success of the Benteler Group is closely associated with the capability and performance of our employees, their creativity and their professional and personal expertise. Their ideas provide the fuel for change and thus, the indispensable prerequisite for the continued growth process.

The Benteler workforce worldwide averaged 21,493 employees for 2006, 769 more than in the prior year. In addition, 499 people are engaged in vocational training, including 439 apprentices and trainees in Germany.

In the Automotive Division, the average workforce rose by 766 employees or 5 % to 16,777 persons. This increase occurred primarily at non-German sites (+702). In support of new plants and orders, Benteler hired an additional 312 persons in China and 334 new employees in the Czech Republic. The number of employees also

increased in Germany as well. Nevertheless, due to the stronger foreign growth, the share in Germany declined from 34 % to 33 %. 78 % of all employees of the Benteler Group work in this division.

In the Steel/Tube Division, the number of employees remained practically constant compared to the previous year. A total of 3,057 persons worked here in the reporting year. In the Distribution Division the number of employees increased slightly due to growth in foreign countries. The workforce grew by an average of 2 % to 1,516 persons. The number of employees in the Management Holding dropped slightly to a staff of 143.

On average, 12,132 employees worked abroad and 9,361 were employed in Germany in the reporting year. The workforce grew in foreign countries (+734 persons) as well as in Germany (+35 persons). Because of the stronger increase in employees abroad, however, the domestic share declined from 45 % to 44 %.

### **WORKING AT BENTELER – A PARTNERSHIP WITH PROSPECTS**

Benteler challenges and promotes its employees. In this way, the company is able to gain the best people for the job and stimulate enthusiasm for Benteler.

### **MANAGEMENT PRINCIPLES**

The Benteler Management Principles were revised in the reporting year in order to take the company's increasing growth and globalization into account. Employees from all divisions, different countries and management levels were involved in the task. The managers of the Benteler Group align their actions according to these principles.

### **INTERCULTURAL COMPETENCE**

In global markets, intercultural preparation for international cooperation and time working abroad can play a mayor role. Employees, therefore, take extensive advantage of the opportunity to prepare themselves for the respective cultures in appropriate training sessions.

### **BENTELER ACADEMY**

The program for continual improvement at Benteler requires intensive training of employees. In the Benteler Academy, which opened in 2006 in Paderborn, seminars are held instructing participants in the principles

of lean production, where various processes are simulated in a model factory.

### **DEVELOPMENT PROGRAMS**

In order to bond its top performers and their know-how to the company for the long term, if possible, Benteler fills its management positions internally. Selected employees are prepared for extended tasks and responsibilities in various management programs. Furthermore, the company offers specific measures for promoting managerial skills in the production environment.

### **TRAINEE PROGRAMS**

Benteler prepares its future generation of academic recruits for demanding positions in the company with the help of technical and financial business training programs. The business program, in which the trainees collaborate in different departments and projects, was expanded with additional main focus areas in 2006. The technical trainee program targets highly qualified foreign university graduates. Within two years, they become acquainted with the development and production of high-quality automotive components and systems. They then bring this know-how back to their native countries for application. Currently, the main countries involved here are China, India, Mexico, the Czech Republic, Brazil and the USA.



### COMBINATION COURSES OF STUDIES

In Germany, Benteler promotes students of mechanical and electrical engineering in cooperation with Paderborn University and the Chamber of Industry and Commerce (IHK). The students complete their technical training in the company parallel to their studies. The program was expanded by adding industrial engineering in the reporting year.

### APPRENTICESHIP

In 2006 Benteler opened its first training center outside of Germany in Puebla, Mexico, the Group's second largest site. The center also serves as a pilot project for the internationalization of training within the Benteler Group. Investments in training were also made in Germany. By expanding the Paderborn Education and Training Center, additional capacity was created for practical training in technical fields.

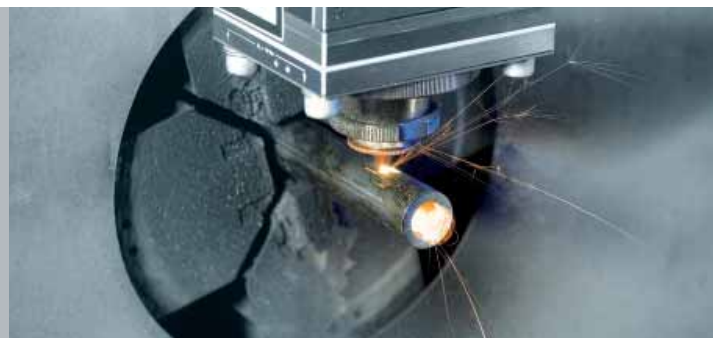
### SCHUB

Benteler promotes the educational maturity of middle school pupils with its project SchuB (School and Benteler). This project was awarded first place in 2006 by the Association for Innovative Professional Training in the competition for the Hermann-Schmidt Prize in Germany.





## FORECAST



### GOOD STARTING POSITION

The uppermost future business targets of the Benteler Group remain the long-term and continuous increase of corporate value through profitable growth and the preservation of financial independence. Benteler will take advantage of its solid starting position in order to further increase competitiveness and ensure the future of the Group.

The Benteler Group expects an increase in sales to just under 6 billion euros and an improved result for the business year 2007. The Five Year Plan expects an increase in sales volume of nearly 20 % by 2011. All three business divisions will continue to upgrade their market position and improve their results. As before, the investments necessary for the growth will be financed conservatively. The debt-equity ratio (net financial debts in relation to shareholders' equity) should not exceed 50 %.

### AUTOMOTIVE DIVISION

#### SEES ADDITIONAL MARKET OPPORTUNITIES

Market researchers expect average annual increases of 3 % for worldwide vehicle production in the next five years. This means a rise in the number of new cars from 67 to 77 million units. In Western Europe, the NAFTA countries, Japan and Korea, the production will presumably only increase slightly. In contrast, it will grow annually by 5 % in Eastern Europe, and by 11 % in Asia (without Japan and Korea). Of the 10 million additional vehicles, 7 million will be produced in Asia and 1 million in Eastern Europe.

The expanding market brings both challenges and opportunities for the automotive industry and auto-

mobile component supplier industry. Rising energy prices and stronger environmental constraints demand more efficient engines and lighter vehicles. At the same time, demands for active and passive safety features as well as enhanced comfort in cars are on the rise. As a provider of innovative solutions which combine high performance with low weight, Benteler is well set to face future competition. In particular, especially good market opportunities for Benteler products can be expected from European and Japanese manufacturers.

The Automotive Division is counting on an increase in sales volume of 5 % for 2007. While results will improve, they remain characterized by the strong downward pressure on prices in the market and the restructuring of the US business. Benteler will implement a comprehensive action plan in the USA in 2007. To increase its competitiveness worldwide, the Automotive Division will, furthermore, advance the continuous improvement process and the standardization of all its IT systems which began in 2006.

#### **STRONG DEMAND IN THE STEEL/TUBE DIVISION**

Benteler Steel/Tube also expects a rise in the worldwide demand for energy and continuing stable energy prices in the coming years. Therefore, investments for crude oil and natural gas exploration, as well as power plants, will remain at a high level. The Energy Product Group also forecasts good sales opportunities for boiler and heat exchanger tubes and OCTG/line pipes in the future. Due to the increased demand for mechanical engineering applications and the orientation towards high value-added innovative products, the

Industry Product Group of Benteler Steel/Tube also assumes there will be an increase in sales volume. However, manufacturers from low-wage countries are increasingly pushing products into the Western European markets and thus intensifying the competition.

The high pressure of competition in the automotive industry drives an increased demand for sophisticated solutions. The Automotive Product Group will expand its business especially with high-strength diesel injection tubes, coated line pipes and tubes for drive shafts and gearbox shafts.

The division assumes that price increases for raw material will also be able to be passed on to customers with a raw material price increase surcharge in 2007. With increasing sales and a higher added value, sales volume will presumably grow by about 10 % and the result will at least attain the level of the previous year.

#### **DISTRIBUTION DIVISION**

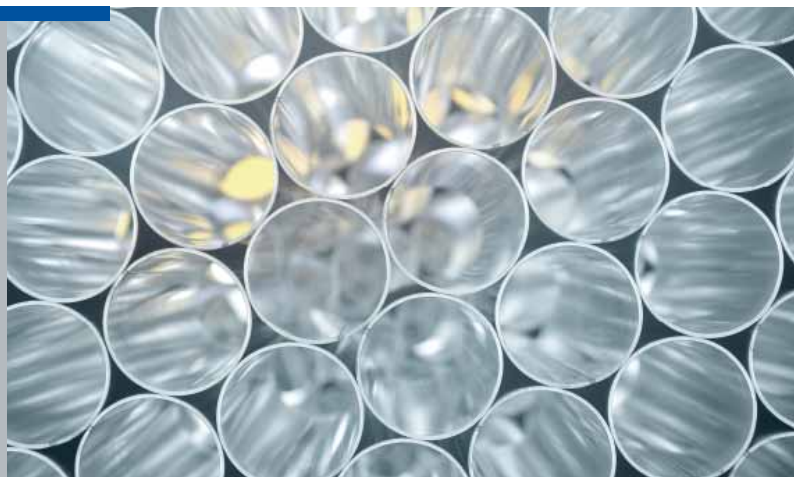
##### **WITH POSITIVE GROWTH PERSPECTIVES**

The Distribution Division is working intensively on exploiting the growth markets of Eastern Europe and China. In particular, the business should be expanded in Poland, the Baltic States, the Czech Republic, Slovakia, Slovenia, Romania and Russia. Very little market growth is expected in Western Europe. Nevertheless, Benteler Distribution wants to work more successfully in this environment by combining consultation in tube selection with logistics and processing services. Another increase in turnover and sales volume is planned for 2007. Despite the costs for developing new markets, Distribution expects a better result than in the previous year.





## SUPPLEMENTARY REPORT



After completion of the Annual Financial Statements, there were no major changes in the business situation for the current year.

## DISCLAIMER

This Management Report contains future-related statements about expected developments. These statements are based on current assessments and are naturally encumbered with risks and uncertainties. The events that actually occur can deviate from the statements formulated here.

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