

*The Vorwerk Annual Report*  
**2006**



# REPORT ON THE 123RD FINANCIAL YEAR

增长, *croissance*, 増長, *crescimento*,  
*růst*, การเติบโต, *crescita*, p o c T, 成長.

*Already guessed what it's all about?*

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E N T E R P  I S E

O P P  R T U N I T I E S

W O R L D  I D E

P O  E N T I A L

H I G  - P O W E R E D

## Head Office of the Vorwerk Group (Holding Company)

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## Group Executive Management

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Achim Schwanz (Managing Partner)

Markus von Blomberg (Managing Partner)

Peter Oberegger (Managing Partner  
since 1. 1. 2007)

Wolfgang Bahlmann

Eberhard Pothmann

The Advisory Board serves to advise the Managing  
Partners. Its members are the following:

Dr. Jörg Mittelsten Scheid, Wuppertal (Chairman)

Prof. Dr. Pius Baschera, Schaan/Liechtenstein

Günther Busch, Mülheim/Ruhr

Prof. Dr.-Ing. Hubertus Christ, Friedrichshafen  
(until 31. 12. 2006)

Dr. Axel Epe, Düsseldorf

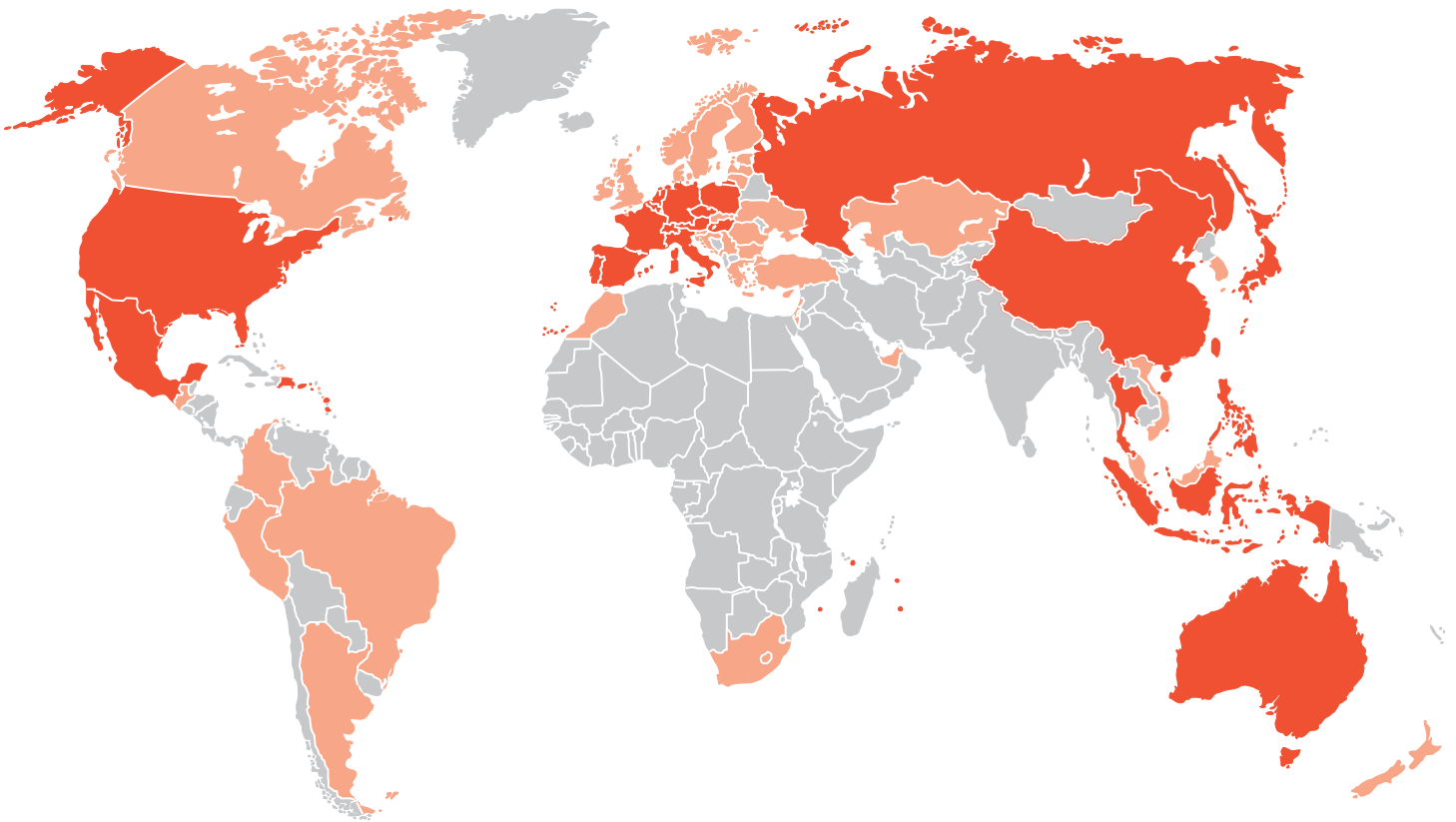
Dipl.-Ing. Rainer Christian Genes, Bremen (since 1. 1. 2007)

Verena Klüser, Munich

Jens Mittelsten Scheid, Munich

Karen Schmidt-Paas, Neuss

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*Subsidiaries:*

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## A REVIEW OF VORWERK

### Key Figures for the Vorwerk Group (not including the akf group)

in million €	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Balance-sheet Total	856	904	964	1,028	1,062	1,150	1,204	1,756	1,693	1,725
Partners' Equity	466	507	519	548	547	568	607	686	750	796
Partners' Equity in %	54	56	54	53	52	49	50	39	44	46
Financial Assets	29	26	68	144	146	147	144	144	47	52
Other Fixed Assets	83	83	86	78	73	81	69	465	461	438
Current Assets	742	793	808	804	841	922	985	1,136	1,162	1,218
Liquid Resources	471	529	553	542	525	609	666	688	710	723
Capital Investments*	36	31	34	25	27	37	20	33	38	26
Depreciation	33	29	28	29	26	27	25	35	47	41
Personnel Costs	359	351	349	351	370	405	401	434	448	455
Number of Employees	14,827	14,550	14,117	13,984	16,913	16,602	16,888	19,704	19,879	19,439
Vorwerk Sales Advisers	20,803	22,661	24,209	23,951	28,409	29,609	30,137	466,443	467,626	514,046**
Group Sales (incl. sales tax)	1,247	1,301	1,268	1,243	1,218	1,231	1,287	1,594	1,772	1,836
New Business, akf group***	182	218	249	289	303	339	348	480	409	507
Total Business Volume	1,429	1,519	1,517	1,532	1,521	1,570	1,635	2,074	2,181	2,343

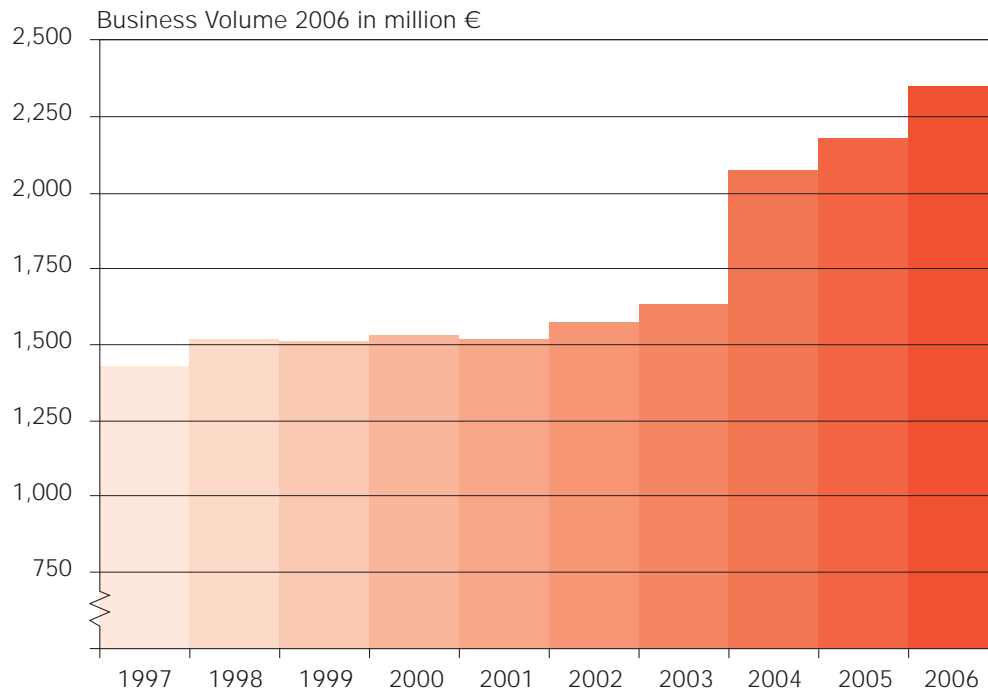
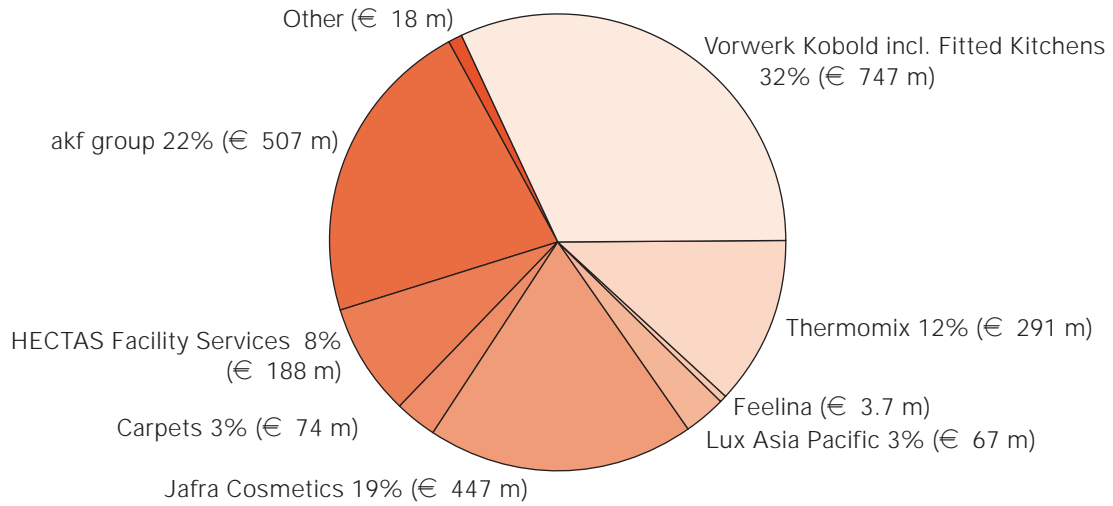
\* Without financial investments \*\* 482,384 thereof Jafra-consultants \*\*\* Included in the consolidated financial statements in accordance with the equity method of accounting, 2004 with a 15-month period

The Vorwerk Group comprised the following business segments in the year 2006:

■ Direct Sales, Vorwerk Kobold, including Fitted Kitchens 
 ■ Direct Sales, Vorwerk Thermomix 
 ■ Direct Sales, Vorwerk Feelina 
 ■ Direct Sales, Jafra Cosmetics 
 ■ Direct Sales, Lux Asia Pacific in Asia 
 ■ HECTAS Facility Services 
 ■ akf Financial Services 
 ■ Vorwerk Carpets for the retail trade and contract business

Vorwerk Group: Business Volume 2006

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2006 was another year of excellent development for the family-owned company Vorwerk. For a fifth consecutive time, the sales volume and operating result exceeded that of the previous year. The volume of business increased by 7 per cent and reached a new record level of 2.343 billion euros. This increase resulted from organic growth. Vorwerk could report growth on all continents and across almost all business segments. Worldwide, more than 533,000 people work for the Vorwerk group either as employees or as self-employed advisers.

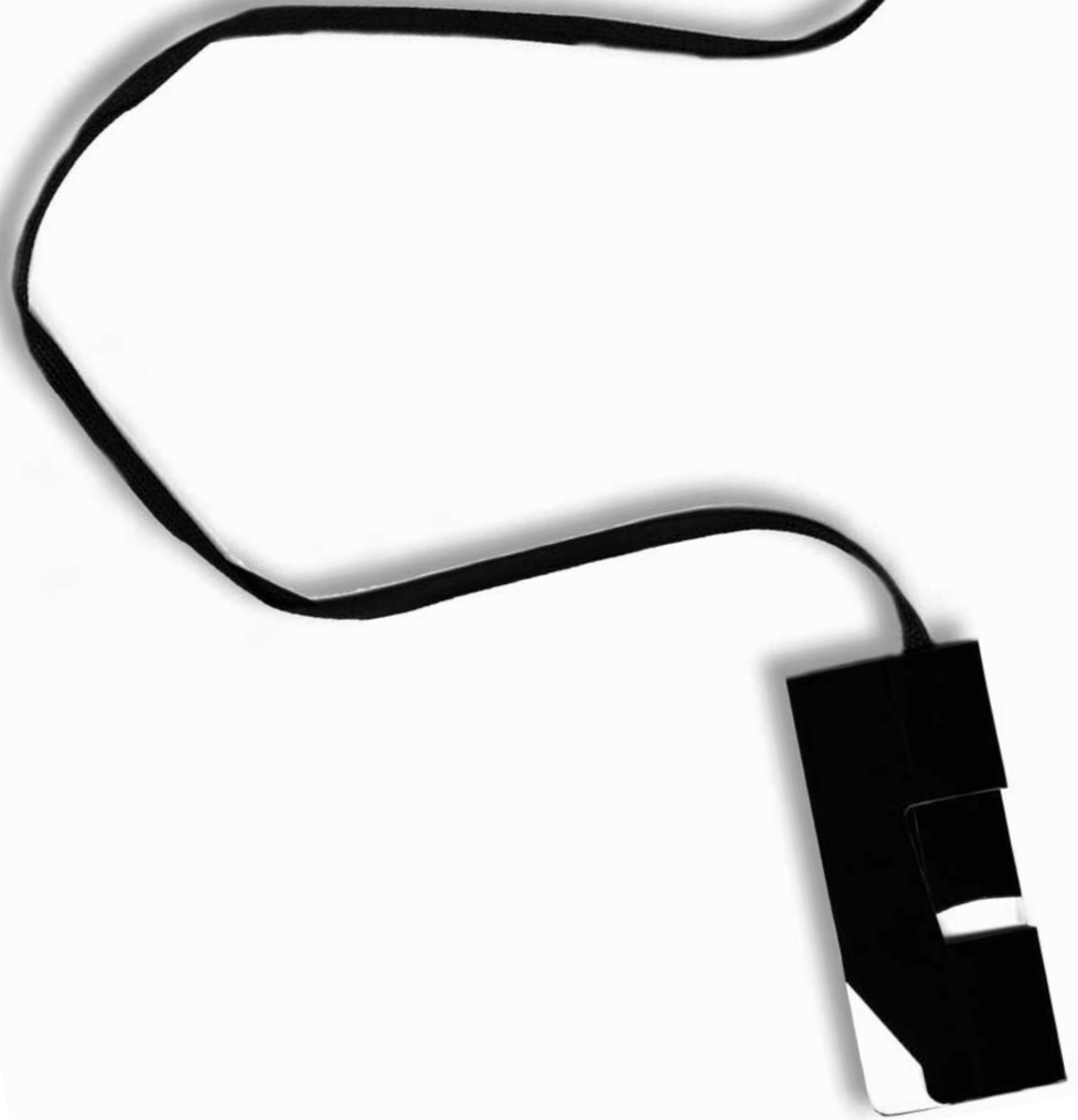
The degree of internationalisation of the Vorwerk group has again risen. The proportion of business volume generated outside Germany amounts to 56 per cent. In terms of the core business, direct sales, even as much as 77 per cent is now achieved abroad.

Vorwerk succeeded in extending its worldwide market leadership for high-valued direct sales products ('high ticket') and managed to stabilise its strong overall position in direct sales.

**A** significant part of the achievement can be attributed to a successful diversification into various products and markets. Vorwerk's entry into the direct sales business for cosmetics as well as facial and body-care products with the acquisition of Jafra Cosmetics in the USA in 2004 has closed the portfolio sales gap on the American continent. Vorwerk has thus become a company that operates around the world. This most recent division for the Vorwerk group is already firmly anchored in the corporate culture and structures at Vorwerk.

Outstanding sources of growth in 2006 were to be found at Jafra Cosmetics with its business in Mexico showing a 15 per cent increase in turnover. Business in China and Italy grew particularly well in the room-care segment 'Kobold' as it did at Lux Asia Pacific in Indonesia. In the case of the kitchen appliance business, growth in Italy, in Germany and in Spain made a particular contribution to the success. The akf banking operation with its financial services, included in the overall consolidated business volume at equity, was outstanding with an increase in new business volumes. The greatest challenge was again presented by the room-care segment in Germany with a less than satisfactory development. Lux Asia Pacific, too, was not able to fully exploit its growth potential.

# *Kick-off*.....



*When the ref blew the whistle signalling the start of the World Cup opening match it was as though he had played the magic flute of economic miracles. It marked not only the beginning of a thrilling football extravaganza but also the dawn of better times for the down-hearted and the kick-off for some long hoped-for economic growth.*

Vorwerk Carpets continued its consolidation course successfully and could gain market share despite difficult circumstances. New carpet collections were introduced to the trade with positive effect. A change in management and strategy was effected at the HECTAS Facility Services business segment and the extension of business activities across Europe achieved.

The very best quality and innovation secures customer satisfaction long-term. Vorwerk products are developed and manufactured by Vorwerk. In the year under review, a new record was achieved in terms of the technical quality of the household appliances as well as at Vorwerk Carpets. The new kitchen appliance Thermomix 31, introduced in 2005, has established itself as an innovative product in all sales markets. A new canister-type vacuum cleaner for the room-care segment has been successfully tested and launched.

A sound financial approach is a decisive fundamental factor behind Vorwerk's growth policy. Vorwerk can act and react independently. The equity ratio has again risen and at 46 per cent is at a reassuringly high level.

**T**he core business at Vorwerk is direct sales in its various forms. It is characterised by a unique level of intensive consultation that cannot be found elsewhere today. As opposed to other business models, direct sales offers customers the opportunity of testing the products at their point of application i.e. in the home. This form of consultation allows the explanation of product advantages which might otherwise remain concealed from the customer. Examples of this are the multi-stage filter system on the Vorwerk Kobold vacuum cleaner, a feature that makes the appliance particularly recommendable for allergy sufferers and where micro dust pick-up is important, the cooking function on the Vorwerk Thermomix as well as the proper application of Jafra Cosmetics facial-care ranges. By having close contact to the customers and a daily presence at the point of application of the products, Vorwerk knows more about the needs and requirements of the market than others. The direct sales advisers also see the benefit of this form of selling: they can determine with their own commitment the level of their earnings whilst enjoying the freedom of working independently without having to make any material investment. Not insignificantly, the female-dominated sales organisations at Vorwerk Thermomix, Vorwerk Feelina and Jafra Cosmetics offer especially women career and advancement prospects as well as independence. Vorwerk thus satisfies the growing demand for occupational opportunities for women.

**V**orwerk's Executive Board has developed a long-term growth strategy with targets reflected in the five pillars of growth:

Firstly, to secure and further penetrate existing markets. Examples of this from the year 2006 are the successes of Vorwerk Kobold and of Vorwerk Thermomix in Italy, Spain, France, Portugal, the Czech Republic and Germany, of Jafra Cosmetics in Mexico, of Lux Asia Pacific in Indonesia, of HECTAS Facility Services in the Netherlands, of Vorwerk Carpets in Germany and its export activities as well as of the akf banking group in Germany.

Secondly, to extend business into new markets. The focus is on the markets of the future: Eastern Europe, Asia and South America. Examples of this in 2006 were the start-up of Vorwerk Kobold and of Jafra Cosmetics in Russia as well as of Vorwerk Thermomix in Taiwan and Mexico. This strategy is further supported by the opening of new activities in Spain at Vorwerk Feelina and the akf group.

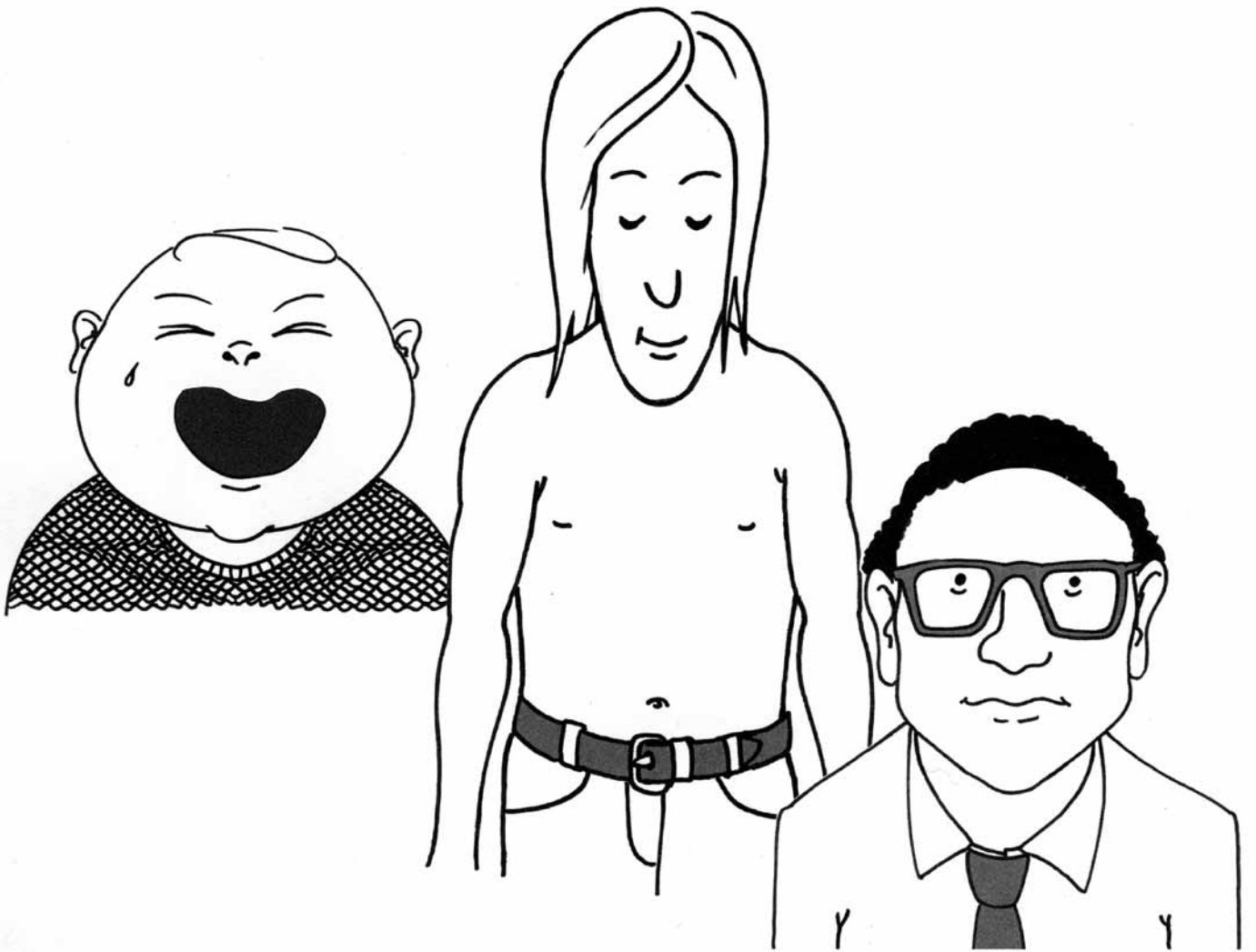
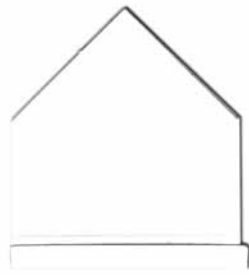
Thirdly, to recruit and develop additional management staff, in particular from the broad base presented by Vorwerk's own organisation. To this end, individual divisions as well as headquarters have created specific management programmes aimed at advancing staff, developed a sophisticated successor planning system and enabled a smooth generation change at the head of various divisions and country companies. The 'Vorwerk Academy' as the supporting organisation for the advanced training measures is becoming increasingly important from a strategic point of view.

Fourthly, to innovate both in terms of products and processes. Concentration on core competencies, high quality and continual innovation assure Vorwerk's outstanding position – even in international terms – and enable consistent growth. Research competence, mainly focused in Wuppertal (Germany) but now in China, too, helps Vorwerk command a leading technological position with its products whilst, at the same time, attaining a very low failure rate. Moreover, in 2006 new developments emerged such as the canister-type vacuum cleaner 'Tiger' for Germany and a corresponding appliance for the Asian market. A new focus of research work, based in Shanghai (China), is water purifiers, a product already sold today by Lux Asia Pacific in Indonesia, Thailand, Vietnam and other Asian countries. Vorwerk is the first direct sales company to have achieved a good, cross-border market position in water purification. Given that some 1.3 billion people now have to get by without any clean drinking water, Vorwerk will be presented with a great challenge in the Asian region over the next few years.

Innovations in weaving, dyeing and printing technologies characterise further development at Vorwerk Carpets. Vorwerk also relies on innovation with regard to its services and business processes: new leasing offers at the akf group, improved quality concepts at HECTAS as well as a highly developed IT landscape for the Vorwerk sales organisations set the scene in the 2006 business year.

The fifth strategic objective consists in an improvement in operational efficiency so as to ensure Vorwerk's 'global fitness'. This is something that was systematically further developed throughout 2006. Intercultural training, manager exchanges between different divisions and countries, international conferences and the drafting of 'best practice' standards in the divisions facilitate global cooperation and strengthen a corporate culture specific to Vorwerk. The number of senior management staff with an international background is increasing consistently and an ever-higher number of managers in the various divisions have experience from other Vorwerk companies or countries.

**T**he new business 'Vorwerk Direct Selling Ventures' allows Vorwerk – as a finance partner to small direct sales companies – to invest for a limited period in new, high-growth, direct sales activities. In this way Vorwerk can participate in successful developments at an early juncture. The investment focus is on young, innovative companies selling their products and services to customers using direct, personal contacts. Vorwerk Ventures thus combines new growth dynamism with the financial strength and the well-founded direct sales know-how of the Vorwerk group.



*How, when, where, what grows – who knows!*

**D**espite its global orientation, Vorwerk has managed to keep its character as a family-owned company. This is all based on awareness for a 123-year old company tradition, a high degree of financial independence and a commitment to a location in Germany, the country where the company has its roots. The legal form of a privately-owned company with personal, unlimited management responsibility for entrepreneurial decisions conforms to the positioning of Vorwerk as a family-owned company.

Vorwerk feels committed to the theme of the 'family' for many different reasons: for products that are close to the family, for a sales force whose workplace is mostly at the home of the family, for a sales organisation which at its best comes very close to the ideal of a family community – where each respects and supports the other, for corporate citizenship – expressed in social and cultural projects and in the 'Family Manager of the Year Award', for the distinct brand commitment towards the family – also conveyed in Vorwerk's commercial TV spot and last but not least for the owner family – providing great support for Vorwerk's management and direct sales activities as a core corporate business.

## Outlook and Thanks

Balanced diversification, a sound financial policy and a distinct growth orientation for each individual division provide the family-owned company Vorwerk with a healthy and secure basis for the future. In the years to come Vorwerk will continue with the long-term growth strategy already introduced. The strategic growth objectives will be pursued resolutely. Vigorous efforts will be made to open up new markets with a focus on Asia, Eastern Europe and South America. Vorwerk considers products that are particularly needed in emerging countries and which seem especially suitable for direct sales activities as having a strong development perspective long-term i.e. technologies for purifying water at home or new room-care systems. Other fields of activity will be analysed systematically and Vorwerk is ready to invest in new business ideas. One key to



success will be to recruit people for Vorwerk who are willing and able to shape and drive forward the future of the company and its divisions. Investment in development of people at all levels – from adviser to senior manager – continues to be highly regarded at Vorwerk.

The success and the positive development of the company would not have been possible without the commitment of employees and advisers from all around the world. The Executive Board would like to thank all those women and men working at Vorwerk in Europe, America, Asia and Australia for their support and dedication.

<b>Turnover according to business segment</b> (incl. sales tax) in million €				
	2003	2004	2005	2006
Direct Sales	1,025.3	1,316.5	1,497.1	1,555.7
Division Kobold incl. Fitted Kitchens	723.5	754.7	758.5	746.9
Division Thermomix	212.1	252.6	261.2	291.1
Division Feelina	2.1	2.4	3.5	3.7
Division Jafra Cosmetics*	–	229.5	399.3	447.2
Division Lux Asia Pacific	87.6	77.3	74.6	66.8
HECTAS Facility Services	176.0	196.2	191.2	187.6
Vorwerk Carpets	69.9	67.8	69.8	74.1
ZEDA**	7.5	0	0	0
Others	8.6	14.0	13.8	18.2
<b>Group turnover</b>	<b>1,287.3</b>	<b>1,594.5</b>	<b>1,771.9</b>	<b>1,835.6</b>
akf group***	348.2	480.0	409.5	507.0
<b>Total business volume</b>	<b>1,635.4</b>	<b>2,074.5</b>	<b>2,181.4</b>	<b>2,342.6</b>

\*Member of the Vorwerk group since June 2004, included pro rata in 2004 \*\*Member of the Vorwerk group until 30 September 2003

\*\*\*akf group included in the consolidated financial statements in accordance with the equity method of accounting (in 2004 with a 15-month financial period)

## Direct Sales, Vorwerk Kobold

Vorwerk has been selling the Kobold vacuum cleaner for 77 years in direct sales activities. In the business year 2006, too, the Kobold Division accounted for the largest individual proportion of sales volume at 747 million euros. However, the development in the various business regions was quite different: great successes in Italy, China, the Czech Republic and Spain had to be balanced against declines in sales in Germany and Austria. Overall, the Kobold Division recorded slightly lower annual sales figures as against previous year.

**T**he most successful country company in the Kobold world in 2006 was again Vorwerk Folletto Italy with more than one million appliances sold and a turnover of 365 million euros (an increase of 4 per cent compared with previous year). Vorwerk is the market leader in Italy, Vorwerk Folletto a well-known brand. The growth in Italy shows that there need be no upper limit to growth and business success even in very developed markets. Direct sales offers the opportunity of acquiring direct information about customer requirements and of then incorporating this into development processes. Even the great influx of cheap and technically simpler appliances has not been damaging for Vorwerk: the quality of the good Vorwerk appliance becomes even more obvious in any comparison with cheap competitor products.

Vorwerk Kobold in China grew most rapidly at 23 per cent. In the large metropolises of Shanghai and Beijing a sophisticated middle-class is developing among the population, one living in modern and stylishly-furnished homes, in need of good vacuum cleaners and able to afford them. The Vorwerk sales organisation there shows great commitment. Consultation and demonstrations at the homes of the customers are becoming more and more accepted, the performance of the Kobold is convincing and induces purchases. In this way the Vorwerk sales organisation in China grows in strength from year to year. Double-digit growth rates are realistic long-term and the sales prospects are extremely good.

Vorwerk Kobold was also rather successful in the Czech Republic with 11 per cent growth and in Spain likewise with 11 per cent. A growth of 6 per cent could be achieved in France, a development that is encouraging for the future.

A major restructuring programme is currently being implemented at Kobold direct sales in Germany. Here, turnover fell by 10 per cent, something quite untypical of the overall development at the Vorwerk group. It has not been possible to date to make up for the deficit of advisers ensuing in the first half of 2006, and to once again achieve improvements in sales figures. However, progress has been made in the analysis of the causes and in the development of concepts for solutions, a fact reflected in the stabilisation of the development of the business since September 2006. But it is too early yet to recognise any conclusive effects. The core issue remains: how to make the profession of an adviser for Vorwerk Kobold in Germany so attractive that motivated women and men with a willingness to achieve once again see a real professional alternative at Vorwerk as against their current occupations or the receipt of state benefits as unemployed persons. After all, direct sales offers a good opportunity of learning the salesperson's profession and of perfecting it. The fact that this is possible is shown by the success in Italy, a country with broadly similar social and income levels. The work on the modernisation of the Kobold direct sales system in Germany will also reveal findings that will be of general significance for the direct sale of high-valued goods in industrial countries. The development in Austria was very similar to that of Germany both in the analysis as well as in the implications. In this country there was a gap of 3 per cent compared with previous year. Vorwerk Fitted Kitchens, a supplement to the German Kobold direct sales activities, suffered from an inadequate number of referral addresses from the Kobold sales organisation and was unable to quite achieve the sales figures and number of incoming orders obtained in the previous year. A definition of alternative concepts to acquire potential customer prospects has priority.

*Minor corrections can make up for lack of growth.*



*The German chancellor Kurt Georg Kiesinger and vice-chancellor Willy Brandt in 1966.*

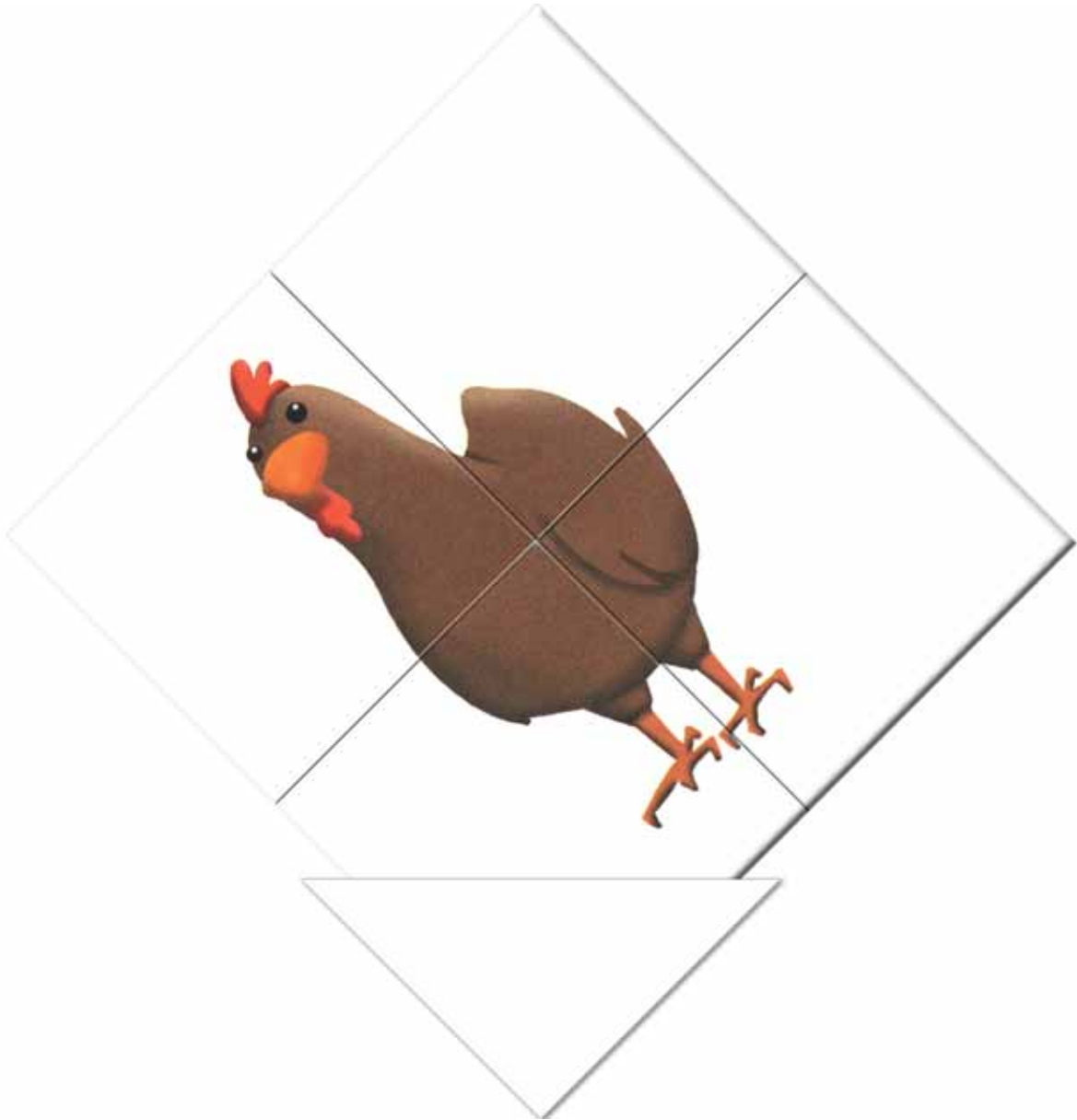
The Kobold upright vacuum cleaner and the Tiger – a canister-type cleaner sold additionally in Germany and Austria – offer an optimum in terms of cleaning performance and convenience. The encapsulated system consisting of an airtight casing, multi-stage filtration and hermetically-sealed filter bag make the Kobold and the Tiger indispensable aids, not only for people suffering from house-dust allergies but for all who attach importance to having a clean home. This system is superior to others, which believe that a filter bag can be dispensed with, because the user no longer comes into contact with the dust once it has been vacuumed away. Even hazardous micro dust in the home or office is tackled successfully and enduringly by the Kobold and Tiger. Moreover, an easy-to-handle complete cleaning system is available when the appliances are combined with the motorised brush nozzle, the attachments for upholstery, mattress and hard-floor cleaning as well as other, diverse accessories. It is very difficult for many households to imagine life without it. Vorwerk is market leader in Italy with its Kobold vacuum cleaner ‘Folletto’ and also in Germany no other vacuum cleaner manufacturer is represented so often in households as Vorwerk.

Vorwerk Kobold will open up the Russian market with its newly-established company in Moscow over the next few years. The first sales teams have already been successful in establishing themselves. In addition, Vorwerk Kobold is studying measures to develop the USA as a distributor country. A correspondingly modified appliance that satisfies the technical preconditions for market entry is in preparation.

#### Direct Sales, Jafra Cosmetics

Direct sales is gaining in significance worldwide and in 2006 achieved a world sales level of well above 100 billion US dollars. In particular, the so-called ‘small ticket’ items contribute over-proportionately to global growth in direct sales. They include products or product families with low individual sales prices which are however sold on a regular basis. Vorwerk has participated in this development since 2004 with the acquisition of Jafra Cosmetics, a direct sales organisation for cosmetics as well as facial and body-care products with strong roots particularly in the USA and Mexico. Jafra has not only developed in the expected, market-trend conform manner but has obviously experienced an additional boost to growth through the integration into

*Inquiry into the origins  
of growth frequently leads  
to metaphysical confusion.*



the Vorwerk group. Management as well as the consultants at Jafra welcome Vorwerk's commitment to direct sales and the character of a family-owned company. They see a good future for Jafra in the Vorwerk family. In addition, there are the high-quality, in house developed and manufactured products that satisfy the needs of the customers. Moreover, the party-plan sales system allows great personal scope for consultants to determine their income – from additional earnings opportunities to satisfy some small desires to quite a respectable entrepreneur's income. Jafra's claim to be "The Best for Women and their Families" is perceived as being convincing in keeping with the Vorwerk motto "Our Best for Your Family" and is lived to the full.

**T**he overall growth of the company at 12 per cent to 447 million euros and the increase in personnel to more than 480,000 consultants was assisted greatly by the company in Mexico which had an increase in sales revenues of 15 per cent to 328 million euros. For many consultants there Jafra direct sales offers an important opportunity for an independent and self-determined life far removed from traditional role models. Good management with successful women leading the organisation also contributes to the success.

The business in the USA also developed positively overall. The sales organisation improved turnover by 8 per cent to a level of 89 million euros. In Europe Jafra continued its efforts to gain a permanent foothold in significant countries; sales volumes reaching an overall total of 29 million euros. Jafra sees distinct opportunities to grow markedly in Europe in the future, too, through the high quality of its products and the intensive consultation of customers in their own homes.

In 2006 Jafra founded a sales company in Russia and started preparations to move into Indonesia. The objective is to verify the global feasibility of this business model and to participate in the strong growth of emerging countries.

## Direct Sales, Vorwerk Thermomix

Vorwerk Thermomix direct sales continued its growth of previous years and achieved a rise in sales of more than 11 per cent to 291 million euros. In important countries such as Italy and Spain and increasingly also in Germany and France the multifunctional Thermomix kitchen appliance – known as ‘Bimby’ in Italy and Portugal – has taken on something of a cult status as an indispensable element of innovative cuisine. In Italy and Spain, both countries with a high degree of cooking culture, far more than 100,000 appliances are sold year after year. The healthy and rapid preparation of food with the Thermomix using fresh ingredients is a tasty alternative to convenience food from the supermarket. Direct sales is also ideally suited here in order to exemplify to customers in their own homes the entire range of application possibilities. To experience a demonstration of the Thermomix is not only a culinary delight but also an exciting event. For the representatives, too, Thermomix direct sales with this unique and convincing appliance offers attractive career and earnings opportunities whilst allowing more or less complete flexibility regarding the time effort involved.

**T**he development of the business has been characterised for many years now by the competition between the two sales organisations in Italy and Spain. Changes in the leadership in Italy resulted in shortfalls regarding the achievement of growth targets for 2005 enabling Spain to just have the edge in that year. By contrast, in 2006 the Italian Thermomix business (Vorwerk Contemporaria) was again the best-achieving business segment after the successful change in management and recorded a growth of 10 per cent to reach sales levels of 102 million euros. The Spanish were very close behind the Italians with a growth rate of 6 per cent to 95 million euros.

It is also very pleasing to see that the mid-sized and smaller Thermomix sales organisations picked up markedly: in Germany by 15 per cent to over 40 million euros, in France by 19 per cent to 25 million euros, in Portugal by more than 70 per cent to some 10 million euros

and in Poland by 31 per cent; growth rates that were much higher than the average across the division. The major restructuring process initiated in Germany is now showing signs of success: the representatives are better managed and supported in the newly-introduced regional-system structure. It has proved to be successful for France, Portugal and Poland that a greater degree of management attention has been focused on them since Thermomix Austria and Thermomix Czech Republic were transformed from 'own branch' to 'distributor' status in those countries. Additionally, in Portugal 'best practice' procedures – centrally developed and steered for the Thermomix Division – were resolutely applied, aspects that now allow for outstanding and sustainable growth.

The launch of Thermomix in Taiwan has been achieved. The versatile kitchen appliance is well suited to Asiatic eating habits. Direct sales is already established in the country as a sales and earnings opportunity. As a result, sales could almost be doubled against previous year. This development would seem to suggest an opening-up of other Asian countries with the Thermomix in the future. In this way Thermomix would be in a position to benefit from the rapid growth being experienced in this region. The commencement of Thermomix activities in Mexico is also extremely promising. Vorwerk has a lot of country-specific, direct-sales know-how from Jafra in this market, and this can be used across all the divisions.

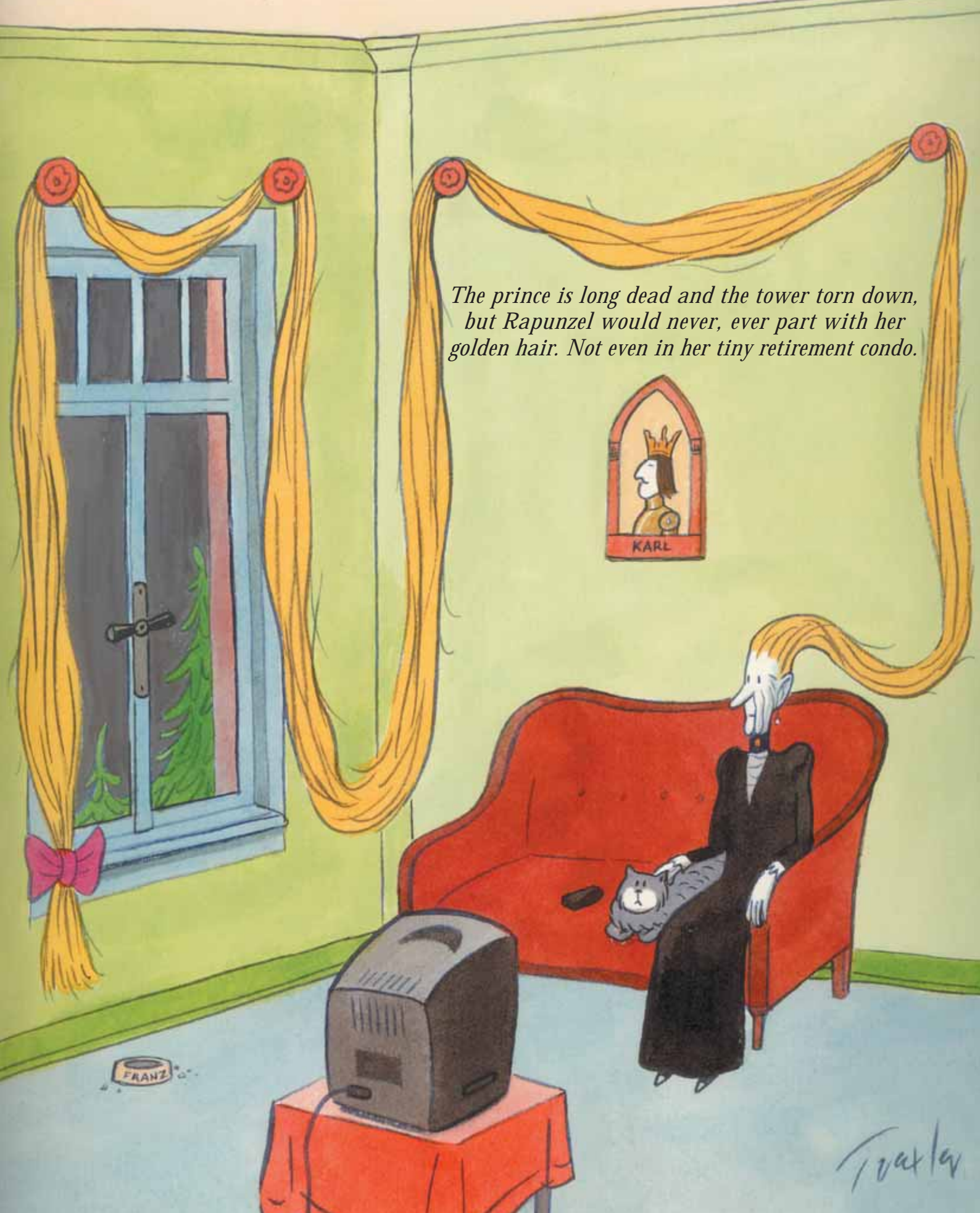
The growth perspectives for the Thermomix Division are absolutely positive when this is taken into consideration. To be able to implement rapid growth, divisional management has a strong focus on people development.

#### Direct Sales, Lux Asia Pacific

Besides the successful Kobold sales organisation in China and the Thermomix activities in Taiwan, Lux Asia Pacific, integrated into the group in 2001, is another pillar for Vorwerk in this most important growth area of the world. However, Lux Asia Pacific suffered a drop in sales revenues in 2006 to 67 million euros, a fact that is to some extent attributable to the effects of currency fluctuations. There were difficulties in Japan regarding the product and sales policy, problems that can now be overcome with the new management. By contrast, sales improved by more than 7 per cent in Indonesia.

Lux Asia Pacific will concentrate more in the future on room-care and water purification and will launch new products within this context. In terms of room-care a Vorwerk-own development will be available for the very first time in 2007, a product that will again enhance

*The prince is long dead and the tower torn down, but Rapunzel would never, ever part with her golden hair. Not even in her tiny retirement condo.*



quality levels and be convincing both for customers as well as the sales force. The water filter produced by Vorwerk was further developed and used in Indonesia and Vietnam with a new sales approach: it is possible to make tailored offers available for customers by mapping water quality in the sales regions. "Pure Water for Life" may be considered a very significant future option since there are 1.3 billion people without clean drinking water, e.g. also in China. Preparations are already underway there to enable market entry.

### Direct Sales, Vorwerk Feelina

After commencement of activities in Spain and in the second year after the sales organisation realignment in Germany with modified leadership elements, Vorwerk Feelina Ironing System could improve sales revenues by 7 per cent to almost 4 million euros. The advantage of Feelina, "Ironing in half the time" on account of innovative technology and good consultancy, is convincing in home demonstrations. However, it remains difficult to find ladies wishing to work as representatives in the direct sales system at Feelina. The new divisional management is therefore focusing on advancing human resources development processes and on encouraging suitable women to take up a career at Feelina. In this respect Feelina is dependent upon acquiring satisfied customers initially as Feelina representatives and then as management staff.

The fascination of the product combined with attractive career opportunities for women is a successful foundation for the further development of the business in Germany and Spain and an interface for future internationalisation into countries with a high Vorwerk awareness level.

### Vorwerk Engineering

Vorwerk's own research and manufacturing operations and their very close proximity to sales ensure that the products have a technological edge and are optimal for direct sales. The demonstration at the homes of customers allows innovative, special features to be incorporated into the products which on account of their newness or uniqueness require explanation and demonstration, aspects which for this very reason could not be conveyed through other sales channels. In this way, for example, the qualitative design and low power consumption of the Kobold as well as its multi-stage filter system, the cooking function on the Thermomix, the scaling-free Feelina iron as well as the colour cosmetics offered by Jafra are most convincing features that can be demonstrated, tested and scrutinised at home.

*over*

*wine*

*apart*

*up*

*old*

*out*

*high*

*stiff*

*grow*

*lonely*

*again*

*together*

*strong*

*wise*

*tall*

*well*

*acute*

The lead plant for Vorwerk household appliances as well as research and development is located in Wuppertal (Germany). Other production facilities for household appliances are to be found in Cloyes (France) for the Thermomix, in Arcore (Italy) for parts of the Kobold and for the Feelina, in Shanghai (China) mainly for assembly of the units for Asia, in Manila (Philippines) for water filters and in Velbert (Germany) for fitted kitchens. Vorwerk fitted carpets are produced in Hamelin (Germany). Jafra's cosmetics come from the plant in Mexico City (Mexico) and research activities are located at Westlake near Los Angeles (USA). The fundamental rule for location strategy is that Vorwerk always wishes to produce in close proximity to customers.

The combining of research, development and manufacturing of the household appliances into the Vorwerk Engineering Division, already implemented in 2005, enhanced yet again the innovative power and performance capability. The method of strategic innovative development can now be applied across the board. The already high quality could be improved still further. The increased prices for raw materials and energy could not be fully compensated for despite further energy savings from environmental management programmes and a global procurement policy.

Overall, 25 million euros were invested in plant and equipment at the Vorwerk group in 2006.

#### HECTAS Facility Services

HECTAS Facility Services continued its development in 2006 to become a highly-professional provider of facility services in Europe. After a poorer year in 2005, HECTAS achieved sales revenues of 188 million euros, which represents a small increase after adjustment from the sale of activia, the staff service agency in Austria. A highly commendable performance in view of a market that continues to be characterised by displacement of competitors and price wars. Management has resolutely attached importance to the quality of service. HECTAS therefore positions itself quite distinctly apart from low price offers in this segment of business. Innovative quality-assurance measures and optimised processes in the rendering of the services

led to improved customer satisfaction and loyalty as well as to higher gross margins. The course selected has therefore been successful. Strategic partnerships with other providers mean that a comprehensive range of services can be offered without losing any focus on Vorwerk's own core competencies.

Business was satisfactory in the year under review in the two most important countries for HECTAS, Germany and the Netherlands. Business in Belgium could be expanded. HECTAS parted with activia and thereby some of its business in Austria since providing and transferring staff was not considered a core business at HECTAS. The development of sales revenues in Austria was therefore atypical in 2006. Particularly good growth rates could be achieved by HECTAS in the Central-Eastern European markets of Poland, the Czech Republic and Hungary. On account of the low wage levels currently prevailing, the somewhat low sales figures are deceiving when it comes to the present and especially future significance of these markets.

The continuing consolidation of the markets in Europe for infrastructural facility management opens up growth opportunities for HECTAS in other countries, too. Other market entries are being prepared. The market position in Belgium has been strengthened by the acquisition of the company Alpin. The inclusion of the facility services segment in the German Posted Workers Act will largely prevent unfair wages being paid and thereby unrealistically low offers being made by individual competitors. This Act will have a positive effect on the development of HECTAS.

#### Vorwerk Carpets

Vorwerk Carpets, historically Vorwerk's first business dating from 1883, has returned to growth and a stable income situation. Sales volume, quantities sold and market share increased for a third consecutive year. The revenue achieved of 74 million euros represents a rise of 6 per cent compared with previous year. This is a remarkable success against the background of a still declining German market. The roll assortment for private homes is convincing on account of its quality and novel design, it is easy to care for and has an enduring attractive appearance. Also

in the contract business Vorwerk carpeting is in demand wherever high-quality textile floor coverings are required: whether it be in German, British, Spanish or French high-speed trains, in office towers in Frankfurt's city centre area, in opera or festival theatres or in individually designed 'red-carpet' applications at gala events.

Besides resolute cost control it was particularly the attractive product and innovation policy that was convincing on the market. The roll programme presented is selling very well. Vorwerk is successful in the contract business with the new line 'Projection', created in cooperation with the internationally renowned textile designer Ulf Moritz. Initial sales successes reflect a high degree of market acceptance.

**V**orwerk carpeting was the only carpeting to receive the seal of recommendation of the German Allergy Sufferers and Asthma Association (DAAB). Carpeting can significantly reduce levels of micro dust in living and office space since it draws in the dust. By contrast, dust particles are whirled up with every step across hard floors. The thesis of a seemingly allergy-sufferer-friendly hard floor has been refuted scientifically by the TÜV-Nord and by the Association for Environmental and Indoor Analysis (GUI). A well-cared-for carpet does not only offer cosiness and warmth, it also provides a healthy living and working ambience. The Vorwerk carpeting equipped with RFID sensors received the 'Future Award 2006', an honour initiated by the Matthias Horx Zukunftsinstitut. The innovation project 'smart carpet', allowing the possibility of using the carpeting as an electronic control, routing and even alarm system, will continue to be developed into a pilot project. New fields of application for carpeting are being developed using new functionalities and product properties.

The approach of technical and design innovation will be resolutely pursued in the future. A further reduction in production lead times and an optimisation of stock levels whilst ensuring at the same time an unrivalled degree of delivery capability help to decrease costs. The improving level of business activity in Germany, the most important market, offers additional opportunities for growth. Priority is to be attached to opening up new markets in the countries of the former CIS, in particular Russia.

*A kind of natural time lapse – spouting forth at up to 42mm an hour, bamboo is the world champion in growth. Not even China’s economy grows faster.*

*Grass does not grow faster if you pull it.*

*African proverb*



akf group

The akf group which is included in the Vorwerk Annual Report at equity specialises in the financing and leasing of mobile business assets. The greatest proportion is accounted for by company cars. Additionally, the akf servicelease offers a full-service package for vehicle fleets. In particular, this represents a significant reduction in administrative and organisational effort for mid-sized companies and business people.

The akf group was able to record a far better increase in new business volume than the trade in general at 24 per cent to 507 million euros, mainly thanks to new business relations with automotive dealers and the extension of existing contacts. This success is all the more remarkable since the sales of new vehicles in Germany only increased by barely 4 per cent in 2006. The offers of the akf group obviously meet the requirements of the market for quick and uncomplicated finance solutions linked with additional services.

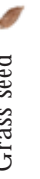
Conform to the internationalisation of all divisions in the Vorwerk group and with the very successful German business model behind them, the akf group expanded into Spain. The registered offices of the company are in Madrid. The first business activities have been quite encouraging. Other steps abroad, such as to Italy or Poland, are being considered.



Seychelles palm



Mammoth tree



Grass seed

*Size has little to do with growth prospects. The gigantic seed of the Seychelles palm weighs up to 22 kg, while that of the mammoth tree a mere 2 g.*

## Human Resources

Growth and rising internationality at Vorwerk require particular efforts in recruiting and advancing staff. Well-qualified staff is a necessary prerequisite for operational success for a company strongly committed to people and where the focus is on direct sales. The Vorwerk group has initiated a series of measures to contribute to meeting the strategic corporate targets.

The management guidelines communicated and discussed internationally in 2006 create a leadership culture specific to Vorwerk that applies worldwide. Building on this, there will be regular staff surveys in all countries and divisions from 2007 onwards. The findings should point out continual improvement potential regarding management culture and leadership skills.

**A**n appreciation for the international dimension of Vorwerk is enhanced through more intensive intercontinental, cross-divisional contacts of senior management. Two CEO conferences every year, annual management congresses at corporate level as well as specific international events at divisional level do not only provide for a better mutual understanding but also open up new perspectives for improved cooperation and for possible exchanges of personnel. The number of non-German management staff, the number of expatriate country managers in the individual country companies and the number of managers with multi-functional backgrounds at Vorwerk has again increased. The number of women in management positions at Vorwerk has increased fourfold over the past eight years.

There are diverse measures for the development of young high-potentials, both at corporate as well as at divisional level. Even career newcomers are solicited with the offer of attractive trainee programmes. In particular, suitable managers are intensively trained for group-wide deployment.

Vorwerk is a family-friendly employer and has had this independently certified in Germany, something which will also be done in other countries, too, in the future. Vorwerk is among the best in the ranking of the 'top employers' in Germany. Additionally, there is a separate report giving information on the personnel situation at Vorwerk: 'Going global'.

In 2006 a total number of 533,697 people were working for Vorwerk, of which 22,840 as employees and 510,857 as self-employed advisers; some 482,384 cosmetics consultants were working alone at Jafra. In Germany 118 apprentices were employed on average throughout the year.

<b>Staff (annual average)</b>	2003	2004	2005	2006
Direct Sales				
Division Kobold	3,909	3,990	4,086	4,413
Division Thermomix	887	901	874	914
Division Feelina	17	22	21	27
Division Lux Asia Pacific	4,105	4,156	4,171	3,701
Division Jafra Cosmetics*	–	1,376	1,411	1,454
HECTAS Facility Services	10,395	12,054	12,130	11,653
Vorwerk Carpets	461	395	343	337
ZEDA**	153	0	0	0
Others	112	117	127	129
<b>Total***</b>	<b>20,039</b>	<b>23,011</b>	<b>23,163</b>	<b>22,628</b>
<b>Self-employed sales advisers (annual average)</b>				
Division Kobold	9,873	10,369	10,709	10,398
Division Thermomix	13,941	15,004	15,097	14,614
Division Feelina	276	318	263	284
Division Lux Asia Pacific	2,896	2,748	2,925	3,177
Self-employed sales advisers "household appliances"	26,986	28,439	28,994	28,473
Self-employed sales advisers Jafra Cosmetics	–	434,697	435,348	482,384
akf group****	193	190	195	212
<b>Total Vorwerk workforce</b>	<b>47,218</b>	<b>486,337</b>	<b>487,700</b>	<b>533,697</b>
of which sales advisers	30,137	466,443	467,626	514,046

\*Member of the Vorwerk group since June 2004 \*\*Member of the Vorwerk group until 30 September 2003 \*\*\* Including employed sales advisers \*\*\*\*akf group included in the consolidated financial statements in accordance with the equity method of accounting

## Assets and Financial Situation

In 2006 Vorwerk's financial situation benefited greatly from developments of the European economies which were far more positive than envisaged in any of the forecasts. An important contribution was made by Germany with greatly enhanced growth. It is true that increased raw material prices and the strong inflationary tendencies associated with this did somewhat cloud the overall positive picture but, despite this, the situation was better than expected in all areas in 2006.

This positive development is also reflected on the capital markets: bullish share price quotations, slightly-increasing capital market interest rates with an extreme flattening-out of the interest rate structure as well as another strengthening of the euro against almost all other currencies were the result.

The financial investment strategy at Vorwerk has proven itself and was not modified even against this background. Vorwerk as a family-owned company and with the objective of remaining economically independent long-term relies on a wide international spread for its capital investments. Besides an overall pleasing financial result, the share portfolio reserves could once again be increased. The financial obligations were reduced markedly and as scheduled, enabling the equity ratio to rise to 46 per cent. The liquid funds rose to 723 million euros and provide an excellent base for future investment in further growth.

It remains Vorwerk's financial investment policy to optimise cash items in operative business, to create the financial preconditions for Vorwerk's growth strategy and to accompany such actively. As in previous years this was achieved well in 2006.

## Vorwerk's Corporate and Brand Culture

The Vorwerk brand has a great tradition in Germany and in numerous other European countries. It is associated with the family-owned company from Wuppertal, the carpet, the Kobold vacuum cleaner and with the classic direct sales activity. Increasingly, the Thermomix is contributing to brand awareness. Since there is no direct advertising for Vorwerk products and they are not available in retail outlets – except for carpeting, Vorwerk pursues other avenues to strengthen brand awareness and popularity. Vorwerk does, however, see a benefit in having the

good image of the Vorwerk trade name – as an umbrella brand – also radiating out over new products and even services. In this context the brand image has to match to the corporate culture and to the corporate values so as to be plausible and equally to have the effect among the staff, the sales force and the general public.

Being a family-owned company with a strong affinity towards the ‘family’ theme, Vorwerk takes up family values. The target is that the brand image is modernised and that Vorwerk is associated even more with the ‘family’ theme. The Vorwerk TV spot in Germany and Italy: “I manage a very successful, small family business!” stands for more recognition of family work in our society, irrespective of whether this is carried out exclusive of or parallel to employment. The campaign ‘Family Manager of the Year’ with the participation of a prominent jury and a grand gala in Berlin as well as the annual ‘Vorwerk Family Study’ in cooperation with the Institut für Demoskopie Allensbach highlight Vorwerk’s aim to make a contribution to changing the public perception of family work.

Since the beginning of the campaign in 2003 both brand awareness and brand popularity values have improved greatly. The expression ‘family manager’ – created by Vorwerk – is increasingly associated exclusively with Vorwerk.

**T**he uniting idea of the family is also a vital supporting element across the continents in the integration of the various corporate entities. Common campaigns initiated by the Executive Board, employees and advisers for the ‘Vorwerk Family Fund’ for the benefit of the SOS Children’s Villages express the responsibility felt by the Vorwerk family towards people who are not so well off. The Vorwerk Family Fund had made nearly 500,000 euros available to the SOS Children’s Villages in Hyderabad (India) and Moin (Costa Rica) by the end of 2006.

The brand activities will be continued in 2007. A large project is planned by the Vorwerk Family Fund for the 125th company jubilee in 2008.

## Opportunities and Risks

The more diversified structure both in terms of business segments as well as countries means that Vorwerk has great opportunities to participate in the positive development of the markets. The core business at Vorwerk, direct sales, is a growing, dynamic sector of the economy worldwide and is one in which Vorwerk has a strong and ever-growing position. At the same time the Vorwerk group is subject to a range of diverse risks. To cope with such risks is an essential

element of executive management at the Vorwerk group. The principles of risk management are determined and approved by the Executive Board of Vorwerk & Co. KG. Effective planning, reporting and monitoring systems have been put in place for the early recognition, assessment and correct handling of existing business risks. Risk management at the Vorwerk group is ensured by a uniform set of guidelines that may be adapted to suit the various segments of the business. Monthly reporting as well as continual monitoring, particularly of production processes, round off this risk management system. It is the objective that the existing risk structure be improved even more. Exchange rate fluctuations are an unavoidable element of global business activities. As a company operating internationally, the Vorwerk group considers and secures risks from its operative business activities that may ensue from exchange rate fluctuations.

Vorwerk is subject to financial risks for portfolio management investments made on international money and capital markets. However, the company also participates in any profit opportunities. The Finance Committee regularly monitors the respective net currency status and modifies it where necessary within the risk strategy parameters. Vorwerk avails itself of derivative financial instruments in some individual cases to limit the financial risk. Only marketable instruments with adequate market liquidity are used. The utilisation of derivative financial instruments is subject to internal Vorwerk guidelines and control mechanisms.

One risk for the future development of Vorwerk consists in the fact that direct sales is dependent upon general legislative conditions which could, in principle, be amended to the disadvantage of the corporation. The share of direct sales in trade overall is still low despite its over-proportionate growth. There is therefore the latent risk of a lack of awareness among legislative bodies at national and European levels. To make decision-makers more aware of the advantages of direct sales and its positive effects on employment, Vorwerk uses public relations campaigns, is a member of the respective national and international business associations and maintains an information bureau at the European Union in Brussels.

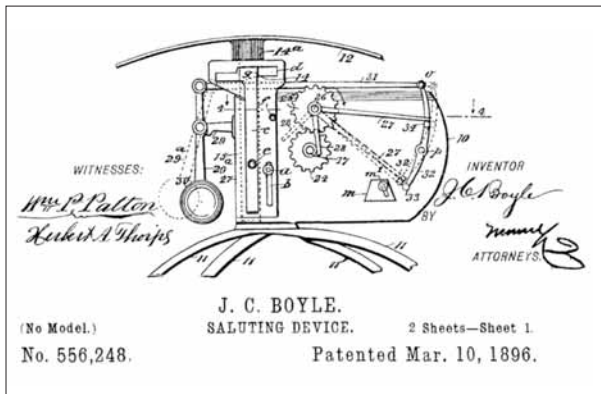
From today's point of view there are no risks that could lead to any impairment to the long-term existence of the Vorwerk group. In recent years the high equity ratio, the improvement in the worldwide strategic position and better operating results have resulted in the creation of high risk-covering volumes. Moreover, Vorwerk is generally well protected against the implications of regional or industry-specific problems for the group on account of its broad base on the global market.

Consolidated Balance Sheet	40
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*Fig: 1.*

*Saluting mechanism*



*Fig: 2.*

*Not all innovations trigger a surge in growth.*



Equity and Liabilities	2006	2005
	€ 000	€ 000
<b>A. Partners' Equity</b>		
1. Capital shares, reserves, capital contributions of silent partners, net profit of parent company	792,002	746,410
2. Minority interests		
in capital and reserves	2,844	2,527
in profits	1,012	659
	<b>3,856</b>	<b>3,186</b>
	<b>795,858</b>	<b>749,596</b>
<b>B. Provisions and Accruals</b>		
1. Provisions for pensions and similar obligations	115,311	113,081
2. Provisions for taxes	24,647	25,515
3. Other provisions and accruals	172,308	180,890
	<b>312,266</b>	<b>319,486</b>
<b>C. Liabilities</b>		
1. Amounts arising from loans;	83,409	114,850
of which due within 1 year:	(0)	(0)
of which due after more than 5 years:	(0)	(114,850)
2. Amounts payable to banks;	158,183	158,183
of which due within 1 year:	(21,441)	(36,328)
of which due after more than 5 years:	(0)	(0)
3. Advance payments received	19,170	14,866
4. Trade accounts payable;	62,358	64,506
of which due within 1 year:	(62,085)	(64,387)
of which due after more than 5 years:	(0)	(56)
5. Notes payable;	41	105
of which due within 1 year:	(41)	(105)
6. Amounts payable to associated companies;	80	386
of which due within 1 year:	(80)	(0)
of which due after more than 5 years:	(0)	(0)
7. Other liabilities;	271,890	251,500
of which due within 1 year:	(268,554)	(246,862)
of which due after more than 5 years:	(678)	(983)
of which taxes;	(54,579)	(57,534)
of which within the scope of social security:	(8,269)	(11,588)
	<b>595,131</b>	<b>604,396</b>
<b>D. Deferred Income</b>	<b>21,821</b>	<b>19,855</b>
	<b>1,725,076</b>	<b>1,693,333</b>
<b>E. Contingent Liabilities arising from</b>		
1. Bills of exchange	149	321
2. Secondary liability for pension obligations transferred to the relief fund	7,592	7,042
3. Liability for sureties	731	474

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Period 1 January to 31 December 2006

	2006	2005
	€ 000	€ 000
1. Gross sales	1,835,611	1,771,929
less sales tax	253,573	246,472
	1,582,038	1,525,457
2. Change in finished goods and work in progress	10,147	332
3. Own work capitalised	1,030	456
	<b>1,593,215</b>	<b>1,526,245</b>
4. Other operating income	53,874	94,840
5. Raw materials and consumables:		
a) Expenditure on materials and purchased merchandise	252,321	232,043
b) Expenditure on purchased services	19,943	19,969
	272,264	252,012
	<b>1,374,825</b>	<b>1,369,073</b>
6. Personnel costs		
a) Wages and salaries	365,960	360,949
b) Social security contributions and pensions;	88,944	86,962
of which for retirement pensions:	(17,183)	(16,775)
	454,904	447,911
7. Depreciation on tangible and intangible assets	41,393	46,604
8. Income from participations in associated companies	-7,542	9,927
9. Income from other securities and long-term loans	114	4,161
10. Interest and similar income	57,414	52,107
11. Write-down of financial assets and marketable securities	3,108	588
12. Interest and similar charges	26,280	27,157
13. Collective heading	899,126	913,008
Other items not shown separately (taxes and net profit for the year, other operating costs)		



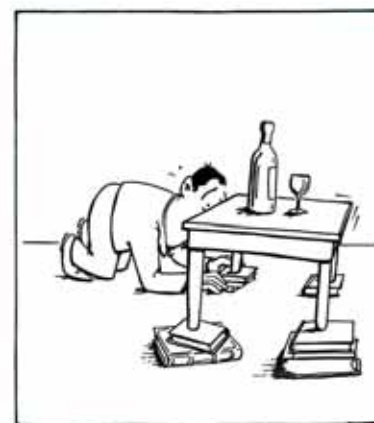
*Blossoming landscapes*

*Grandiose outlook ahead?*

# MOVEMENTS IN FIXED ASSETS

From 1 January to 31 December 2006

	As at 1.1.2006	Exchange rate differences	Gross values		Book transfers	As at 31.12.2006
			Additions	Disposals		
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
<b>I. Intangible Assets</b>						
1. Concessions, patents, trademarks and similar rights as well as licenses thereto	61,088	-5,535	1,025	7,853	—	48,725
2. Goodwill	335,039	—	—	—	—	335,039
3. Payments on account for intangible assets	69	—	15	23	—	61
	<b>396,196</b>	<b>-5,535</b>	<b>1,040</b>	<b>7,876</b>	<b>—</b>	<b>383,825</b>
<b>II. Tangible Assets</b>						
1. Land, land rights and buildings, including buildings on third-party land	107,019	-2,501	1,087	182	-40	105,383
2. Technical plant and machinery	178,440	-1,988	10,933	3,183	2,850	187,052
3. Other fixtures, fittings and office equipment	114,461	-2,076	9,316	6,736	364	115,329
4. Payments on account and assets under construction	5,029	-134	3,736	134	-3,174	5,323
	<b>404,949</b>	<b>-6,699</b>	<b>25,072</b>	<b>10,235</b>	<b>—</b>	<b>413,087</b>
<b>III. Financial Assets</b>						
1. Participations in associated companies	32,561	—	14,508	20,652	—	26,417
2. Other participations	111	—	1,627	—	454	2,192
3. Long-term investments	13,631	-1	9,866	96	-454	22,946
3. Other loans	1,484	—	5	176	—	1,313
	<b>47,787</b>	<b>-1</b>	<b>26,006</b>	<b>20,924</b>	<b>—</b>	<b>52,868</b>
	<b>848,932</b>	<b>-12,235</b>	<b>52,118</b>	<b>39,035</b>	<b>—</b>	<b>849,780</b>



Accumulated depreciation / Write-offs				Net values		
As at	Exchange rate			As at	As at	As at
1.1.2006	differences	Additions	Disposals	31.12.2006	31.12.2006	31.12.2005
€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
33,226	-2,522	3,692	7,722	26,674	22,051	27,862
17,683	—	11,168	—	28,851	306,188	317,356
45	—	—	—	45	16	24
<b>50,954</b>	<b>-2,522</b>	<b>14,860</b>	<b>7,722</b>	<b>55,570</b>	<b>328,255</b>	<b>345,242</b>
58,147	-382	2,711	177	60,299	45,084	48,872
142,660	-872	11,912	3,057	150,643	36,409	35,780
88,258	-1,349	11,910	6,443	92,376	22,953	26,203
—	—	—	—	—	5,323	5,029
<b>289,065</b>	<b>-2,603</b>	<b>26,533</b>	<b>9,677</b>	<b>303,318</b>	<b>109,769</b>	<b>115,884</b>
—	—	—	—	—	26,417	32,561
—	—	—	—	—	2,192	111
44	—	3	2	45	22,901	13,587
449	—	83	16	516	797	1,035
<b>493</b>	<b>—</b>	<b>86</b>	<b>18</b>	<b>561</b>	<b>52,307</b>	<b>47,294</b>
<b>340,512</b>	<b>-5,125</b>	<b>41,479</b>	<b>17,417</b>	<b>359,449</b>	<b>490,331</b>	<b>508,420</b>

*Growth is the result of correctly proportioned and successfully overcome resistance.*



### I. Introductory Remarks

For the financial year 2006, as in the preceding years, Vorwerk & Co. KG is publicly disclosing its worldwide consolidated financial statements, taking into account the rules and regulations contained in the German Publicity and Disclosure Law and the German Commercial Code governing consolidated financial statements and group annual reports. A list of all holdings in affiliated and associated companies giving the direct or indirect holding quotas (§ 313, Par 2 Nos. 1 and 2 of the German Handelsgesetzbuch) (HGB=German Commercial Code) will be made in a separate listing of the investment holdings (§ 313, Par 4 HGB).

### II. Consolidated Group

The parent company is Vorwerk & Co. KG. The companies under its control are active in the following business segments: production and direct sales of high-quality household appliances and cosmetic, facial and body-care products, facility services and carpets. The principal companies in Germany and abroad included in the consolidated financial statements are listed on pages 50 and 51. In the year under review seven companies have been included in the consolidated figures for the first time. Two companies have been removed from the consolidated figures because they were sold or liquidated, two other companies were merged. One company founded in the financial year has not been included pursuant to § 296, Par 2 HGB. The akf companies and the proLog companies in Germany have been included as associated companies in accordance with the equity method of accounting as stipulated in §§ 311

and 312 HGB. Three additional associated companies of inferior significance have not been recorded in the consolidated figures pursuant to § 311, Par 2 HGB. They have been included at acquisition cost.

### III. Accounting and Valuation Methods

The balance sheet and the profit and loss account are laid out in accordance with the format stipulated in §§ 290 ff, 266 and 275 HGB for corporate entities. For disclosure purposes, recourse is made to the facilities provided for under the German Publicity and Disclosure Law (capital, reserves and profit shown as partners' equity). In view of the fact that the contributions of the partners which have subordinate ranking are equivalent to partners' equity, these have also been included in partners' equity. In addition, with respect to § 13, Par 3, Clause 2 of the Publicity and Disclosure Law, information as per § 5, Par 5 of the same Publicity and Disclosure Law is also given in the explanatory notes to the consolidated financial statements. Vorwerk has chosen to go further than the statutory minimum requirements and to disclose the consolidated profit and loss account as a constituent part of these explanatory notes in accordance with § 5, Par 5 of the Publicity and Disclosure Law, and laid out in the form stipulated in § 275, Par 2 HGB (as shown on page 42). In so doing, taxes and profit for the year have been included with other operating costs under the collective heading "Other items not shown separately". Vorwerk & Co. KG's accounting and valuation principles also pertain to the consolidated financial statements. The

financial statements of non-German subsidiaries drawn up in accordance with national rules and regulations at variance with German legal requirements have been adjusted in line with what is known as the Handelsbilanz II (Type II Commercial Balance Sheet). The valuation methods applied can be regarded as uniform valuation in the spirit of § 308, Par 1 HGB and remained unchanged from those applied in the previous year. Intangible assets were valued at their cost on purchase less scheduled straight-line depreciation. In the case of fixed assets subject to wear and tear, the normal rates of depreciation (straight-line or reducing-balance) were deducted from the purchase or manufacturing cost. As a rule, the straight-line method of depreciation was used where this resulted in higher amounts of depreciation. Tax incentives for the depreciation of minor-value assets were claimed. Financial assets were valued at cost or lower attributable value. The developments in fixed assets can be obtained from the table of movements in fixed assets shown on pages 44 and 45. Inventory was valued at cost, being the average purchase or manufacturing cost, or lower market value. Apart from direct costs, the manufacturing costs only include the reasonable proportions of necessary material and manufacturing overheads. Receivables and other assets are shown at nominal value less provisions for bad debts. Marketable securities are assessed at the historical cost or the value at the date of the balance sheet, if lower, plus prorated ancillary acquisition costs. The required reinstatement of original values was effected in accordance with § 280, Par 1 HGB. Reasonable provi-

sions for all identifiable risks and liabilities have been made. The provisions for pensions shown, which relate primarily to Germany, were valued on the basis of the going-concern value for tax purposes in accordance with § 6a of the Income Tax Law, whereby the new guideline tables 2005 G were applied. Liabilities are shown at the amount payable. Deferred income relates primarily to instalment sales contracts.

#### **IV. Foreign Currency Conversion**

For the companies based outside the euro zone which are included in the consolidation, the balance-sheet items shown in the individual financial statements were converted into euros from the currency of the country in question at the mean rate of exchange on the date of the balance sheet. Income and expenditure shown in these profit and loss accounts have, with the exception of depreciation, been converted at the average rate of exchange for the year 2006 (modified closing rate method). The resultant differences after conversion were allocated net with profit effect to other operating costs. The conversion effects resulting from the change in rates between balance sheet dates have led to a € 0.8 million decrease in revenue reserves within the context of the development of partners' equity, having no effect on net income.

#### **V. Consolidation Principles**

The companies included in the consolidated financial statements all have 31 December as their balance sheet date. Consolidation of the balance sheets and profit and loss accounts of the companies included therein was made in accordance with the following principles:

##### **1. Capital Consolidation**

Capital has been consolidated in accordance with the book value method. In so doing, the book values of the holdings have been set against the amount of equity capital of the corresponding subsidiary companies including reserves and the result brought forward at the date of initial consolidation or at the date of acquisition. Debit differences resulting from the first-time consolidation of the Jafra group, have been stated as goodwill after the release of hidden reserves in assets and liabilities. The goodwill of the Jafra group will be written off over a period of 30 years. The remaining debit differences were netted with revenue reserves in previous years. Credit differences resulting in previous years were combined into revenue reserves because they were of reserve character. The participating interests of outside shareholders in the equity capital subject to consolidation and in the results of the subsidiary companies included in the consolidation have been shown in the compensating item for minority interests. The associated companies of akf and proLog, included under the equity method of accounting, have been consolidated in accordance with the same principles. The valuation principles of the associated companies were adopted without change. Since December 2001, Vorwerk has held all shares in the akf group companies. Since Vorwerk exercises no uniform direction over the akf companies, they continue to be included in the financial statements at equity. akf leasing Beteiligungs GmbH prepared consolidated financial statements for the companies of the akf leasing division as of 31 December 2006. In accordance

with § 312, Par 6 HGB, these were taken as the basis for the consolidation. Vorwerk's share of the results for the year under review of the companies consolidated under the equity method of accounting is included in the profit and loss account as the result from participations in associated companies.

##### **2. Consolidation of Debt**

Amounts due as receivables or payables in respect of companies within the consolidated group have been offset against each other for consolidation purposes (§ 303 HGB).

##### **3. Consolidation of Earnings**

Consolidation of the income and expenditure contained in the items shown in the consolidated profit and loss account comply with § 305 HGB. Intercompany sales and the expenditure entailed thereby as well as other normal mutual intercompany income and expenditure from the consolidated companies' profit and loss accounts have been set against each other.

##### **4. Deferred Taxation**

After being netted with deferred taxation credit balances, deferred taxation debit balances amounting to € 10.3 million resulting from the individual financial statements were reported (§ 306, Clause 3 HGB) in accordance with the option provided for in § 274, Par 2 and § 300, Par 2 HGB. € 4.3 million of deferred taxation credit balances resulted from the consolidating entries affecting net income arising from the elimination of unrealised results of intercompany transactions within the group, consolidation of debt and also the consolidation of income

and expenditure. When calculating taxes for consolidating entries affecting net income in accordance with § 306 HGB, the company has proceeded on the basis of an average rate of tax of 30 per cent. The calculation of the deferred taxation for the individual financial statements was done on the basis of tax rates for individual companies.

## VI. Other Statutory Disclosures in Accordance with § 314 HGB and Explanatory Notes to Various Items in the Consolidated Balance Sheet and Consolidated Profit and Loss Account

### 1. Other Financial Commitments

The expenses arising from rental and leasing contracts amounted to € 31.3 million in 2006 (€ 30.5 million in previous year). These expenses are spread over the entire group worldwide and relate to contracts with various terms of duration. Order obligations for investments in tangible fixed assets amounted to € 5.0 million (€ 8.0 million at 31. 12. 2005).

### 2. Profit and Loss Account

Group Sales (including sales tax)		
Breakdown by	2005	2006
Region	€ million	€ million
Germany	545.0	514.1
Europe	762.1	808.4
North America	369.8	416.4
Rest of world	95.0	96.7
<b>Total</b>	<b>1,771.9</b>	<b>1,835.6</b>

Group sales broken down by business segment are shown in the management report.

### 3. Market Value of Derivative Financial Instruments

To provide security against currency risks, the Vorwerk group uses exchange futures and options as well as interest rate swaps both in its operative business activities as well as in the area of foreign currency financing. The market value of a derivative financial instrument is the price at which a party would acquire the rights and/or obligations arising from this financial instrument from another party. The book and market values of the financial instruments of the Vorwerk group are shown as follows:

Derivative Financial Instruments  
in € 000

	31. 12. 06		
	Nominal value	Book value	Market value
a) Currency options	44,973	0	-736
b) Exchange futures	65,676	0	67,112
c) Interest rate swaps	42,982	0	921

The nominal value of the derivative financial instruments is obtained item by item using the closing rate method. The market values of exchange futures are determined according to the closing rate method taking forward discounts and premiums into account. Currency options are valued on the basis of option price models. The market value of interest rate hedging instruments (interest rate swaps) is determined on the basis of discounted, anticipated cash flows, whereby the current market interest rates for the remaining term of the financial instruments is applied.

### 4. Other Information

Average workforce

	2005	2006
Employees*	23,163	22,628
Sales System		
Advisers	464,342	510,857
Kobold	10,709	10,398
Thermomix	15,097	14,614
Feelina	263	284
Jafra Cosmetics	435,348	482,384
Lux Asia Pacific	2,925	3,177

\*Including sales advisers in permanent employment

The executive managers of the parent company Vorwerk & Co. KG are the managing partners Achim Schwanitz of Ratingen, Markus von Blomberg of Wuppertal and Peter Oberegger of Düsseldorf (as of 1 January 2007).

Wuppertal, 13 April 2007



Achim Schwanitz



Markus von Blomberg



Peter Oberegger

The foregoing consolidated balance sheet with its explanatory notes as intended for publication in accordance with § 15, Par 2 of the German Publicity and Disclosure Law (PublG), together with the group management report comply with the legal requirements.

The PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Essen, expressed the following opinion on the complete consolidated financial statements and the group management report:

“We have audited the consolidated financial statements – consisting of balance sheet, profit and loss account and explanatory notes – and the group management report of Vorwerk & Co. KG, Wuppertal for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with German commercial and accounting practice are the responsibility of the managing partners of the company. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with § 317 of the German HGB (German Commercial Code) and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (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 German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and evaluations of 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 audit framework. The audit


includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the managing partners 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 knowledge gained by way of our audit, the consolidated financial statements were prepared in line with legal regulations and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with German principles of proper accounting. The group management report is in line with the consolidated financial statements and overall provides a suitable understanding of the group's position and suitably presents the risks and opportunities of future development.”

Essen, 13 April 2007

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



P. Albrecht  
Wirtschaftsprüfer



Th. Hoffmann  
Wirtschaftsprüfer

# THE MAIN COMPANIES IN THE VORWERK GROUP



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## *Long-term prospects*



*The lofty oak from a small acorn grows*

*Lewis Duncombe*

