Balda AG

Annual Report 2006

Transformation to High-tech Company

Profile and Vision of Balda AG

From a regional systems supplier to a global high-tech company.

The Balda Group has taken a giant step in its almost 100-year company history with a single-minded implementation of technological diversification. After entering the mobile telephone business in 1998, the joint venture with TPK, a manufacturer of innovative touch screen solutions, is again a significant development in the equity story and company profile of Balda AG. The Group is broadening its identity and performance portfolio.

With the manufacture of touch screen products, the Group is developing in a new dimension – In 2006 the company successfully began the move from a regional systems supplier of precision components manufactured from high-performance plastics to a global high-tech Group company. If the manufacturing process for plastic mainly had a high-tech character, both the production of touch screen sensors as well as products have a high-tech character. Balda has achieved a new standard:

> **The Balda Group develops and produces with high production depth complete assembly groups from plastic, metal and electronic components such as those for touch sensors, which meet the demands of technological vertical integration.**

Customers of the Balda Group are internationally well-known companies in the mobile communications industry as well as from various related markets. With the diversification of technologies and its product portfolio, the company has created a new platform for future growth. The integration of plastic and touch screen technologies creates entirely new customer value. The Balda Group is currently the only company worldwide, which offers products of both technologies from a single source. Balda will open new markets with new products, expand its business with existing customers as well as gain new ones. The Group is strongly positioned in the important emerging markets, China and India, with four of its own production plants. Five more factories in Malaysia, Brazil, Germany and Hungary underscore the Group's global competitive capacity.

Balda has a clear vision: the company aims to achieve revenues of 1 billion euro by the end of 2010 with profitable growth. The goals are both organic growth from the plastics business and a strong increase in revenues from new technologies. The Group seeks to secure its high level of competitive capacity by positioning itself as a technological leader and having the best employees among its ranks in all areas of the Group worldwide. This strategy will lead to a steady increase in added value.

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Financial Calendar 2007

28 March 2007	**Publication of Annual Results 2006** Discussion of Annual Financial Statements, Frankfurt am Main DVFA Analyst Conference, Frankfurt am Main Press Statement
2 May 2007	**Interim Report** 1st Quarter 2007 (1 January – 31 March) Press Statement Conference Call with analysts and reporters
2 August 2007	**Interim Report** 2nd Quarter 2007 (1 April – 30 June) Press Statement Conference Call with analysts and reporters
9 August 2007	**Annual General Meeting** 11.00 a.m., Stadthalle Bielefeld
31 October 2007	**Interim Report** 3rd Quarter 2007 (1 July – 30 September) Press Statement Conference Call with analysts and reporters

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Key Figures

in mio. euros	**2006**	2005	Changes from 2005 in %	2004	2003	2002
Revenues	370.9	397.2	- 6.6	377.7	272.9	198.4
Total operating performance	377.5	422.0	- 10.5	383.3	287.0	207.3
Material expenses ratio (in %) [1]	45.4	39.9	+ 13.8	38.2	38.9	40.2
Personnel expenses ratio (in %) [1]	31.7	27.6	+ 14.8	25.8	27.8	29.1
EBITDA	7.5	71.8	- 89.6	79.8	54.3	33.3
EBIT	- 43.3	53.9	- 180.3	51.9	28.9	14.6
EBIT margin (in %) [1]	- 11.5	12.8	- 189.8	13.5	10.1	7.1
EBT	- 49.5	49.7	- 199.6	47.7	22.8	9.5
Net loss/income	- 42.0	33.4	- 225.7	28.0	11.6	4.6
Sales yield after interest and taxes (in %)	- 10.8	8.4	- 228.6	7.4	4.2	2.3
Cash flow	28.1	31.3	- 10.2	48.0	45.4	12.4
Investments	38.4	33.9	+ 13.2	17.7	18.8	16.3
Shareholders' equity	169.9	184.9	- 8.1	137.7	104.4	73.3
Equity ratio (in %) [2]	38.3	53.0	- 27.7	51.6	43.8	35.6
Balance sheet total	443.4	348.6	+ 27.2	266.7	238.1	206.1
Employees (per 31.12.)	8,315	8,044	+ 3.4	5,532	3,599	2,919
Earnings per share (in euros) [3]	- 1.043	0.832	- 225.4	0.705	0.308	0.137
End-of-year closing price (in euros)	7.12	11.0	- 35.6	8.47	6.18	3.51
Dividend distribution (in mio. euros)	–	12.0	- 100	8.0	3.8	1.7
Dividend per share (in euros)	–	0.30	- 100	0.20	0.10	0.05

1) in percent of total performance
2) in percent of balance sheet total
3) related to cut-off date

Joachim Gut
CEO

Dear Sir/Madam,

Balda experienced a difficult financial year in 2006. The Group had to deal with a series of unexpected as well as burdensome special circumstances, particularly in the second half of the financial year. Balda was unable to realise the organic growth planned especially in the core business ICT. The resulting influences put a burden on the Group's development of earnings and lead to negative results in all levels of performance. Despite a noticeable recovery in the last weeks of trading for the year, Balda shares at the end of 2006 were trading at 7.12 euros, below the value at the beginning of the year.

The production output in the 2nd quarter of 2006 of our customer BenQ already turned out to be worse than forecast. This development had negative consequences for the workload capacity of the production plants in Europe, China and South America. BenQ was unable to recover from this low in the course of the year. On the contrary – in a quite surprising move the German factories of the Taiwan-based manufacturer filed for bankruptcy, which as a result had adverse effects on all areas of the Balda Group. BenQ's production was virtually abandoned by the end of the year.

Further, the relocation and concentration of production for mobile telephones to Asia is continuing at an accelerated pace. This trend has taken its toll on Balda's production plants in Germany and Hungary. Moreover, the Group was exposed to considerable price competition particularly in Europe. Balda had to accept a decline in revenues in Brazil where the macroeconomic climate changed for the worse. In addition to BenQ's collapse and its effects, Nokia shifted production from Brazil to Mexico. As a result, Balda AG was unable to reach its goals planned for 2006.

As of September, speculation and rumours of a takeover of the Balda Group by the hedge fund Audley Capital created uneasy sentiments in the market. Balda AG, however, never received a takeover bid at any time. Furthermore, the Board of Directors considered the range of 7 to 8 euros quoted repeatedly in the media as too low for a takeover and not in the interest of all shareholders.

The management team reacted to the difficult situation in the fourth quarter of 2006 and the first few months of the current financial year by making quick decisions. Apart from the resolution passed to sell Group companies such as Albea, Balda Surface, Balda-Heinze, HeRo and SMK, the Board of Directors also decided to cut an additional 250 jobs at the Bad Oeynhausen site. Taking into account the sale of companies, the staff reduction measures and the discontinued employment of temporary workers, Balda AG reduced its workforce in Germany by approximately 1,500. We regret this necessary yet unavoidable step. A positive aspect, about 750 employees will keep their working place due to the sale of the companies. These measures will lead to a capacity reduction in Germany by around 50 percent.

Dear Sir/Madam, in 2006 Balda pressed ahead with its reorganisation from a supplier of plastics to a global technology venture. In line with the formulated strategy of technological diversification, the Group invested significantly for the acquisition of a further 50 percent in Balda-Thong Fook in Malaysia, the launch of a joint venture with Motherson in India and in particular, the buyback of a 25 percent holding of Everskill by Balda Investments Singapore and via a 50 percent investment in TPK Holding.

With this, Balda AG has created the preconditions for profitable future growth and developed the company from solely a plastics supplier to a global technology venture. In particular, the manufacture of touch displays will bring about substantial synergies in those markets in which Balda operates. The new technologies also offer chances to open new markets and gain new customers.

With the construction of the factories in Beijing and Chennai in India, the Balda Group has positioned itself very well for the future in the ICT business in particular in the emerging markets of Asia. Balda Medical has also developed quite positively. After overcoming significant obstacles for entrance into the medical technology market, business is now running according to schedule. Balda Medical was able to achieve positive results for the first time in 2006. We estimate 25 million euros in revenues for 2007. Over the next four years, we see a potential in revenues of 60 million euros to 70 million euros. This trend will especially have positive effects on production plants in Germany. Moreover, we see an opportunity to globalize medical technology as well in the future, based on customer feedback.

Dear Sir/Madam, let us look ahead. After the turbulence of 2006, your company is now well positioned for the future and will again operate on a profitable level in 2007. We anticipate 600 million euros to 650 million euros in revenues for the current financial year and a pretax profit (EBT) of 50 million euros to 55 million euros. The earnings per share should settle at more than 0.90 euros.

The Board of Directors of Balda AG will propose to the annual general meeting that a dividend not be paid as a result of the extraordinary situation. We will, however, in the future adhere to the policy of paying shareholders up to one-third of the profits.

The previous financial year was difficult. Balda AG did however react quickly and single-mindedly to the market situation and has laid the foundations for the future. In every crisis lies an opportunity and we have seized this opportunity. I would be delighted if you continue to place your trust in us in 2007.

Kind regards,

Yours

Joachim Gut

CEO

THE BOARD OF DIRECTORS

Ralf Ackermann, CTO
Managing Director of Technnology

Joachim Gut, CEO
Chairman of the Board of Directors

Volker Brinkmann, CFO
Managing Director of Finance

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,
The Supervisory Board concerned itself with the situation and development of the Balda Group in-depth and extensively. It discharged the duties and supervision incumbent upon it by law and according to the Articles of Association. The Board advised the Board of Directors on matters related to company management and dealt with all decisions of strategic importance.

The basis for their work was the meetings of the Supervisory Board as well as the verbal and written reports of the Board of Directors. The operational management body regularly informed the Supervisory Board in a timely and comprehensive manner on the status of the implementation of strategies authorised by the Board for the period 2006 to 2010, all issues concerning corporate planning and on business development on a quarterly basis, as well as the changing situation of risks.

The Chairman of the Supervisory Board also had regular personal contact with the Board of Directors in addition to Board meetings and was continuously briefed on the current situation of the company. The Supervisory Board held nine regular meetings and two telephone conferences in the 2006 financial year. Each member of the Supervisory Board was present at more than half of the meetings. The Board finalised eight decisions by way of circulation. Supervisory Board committees (the Audit and Personnel committees) held an additional six meetings either in person or via telephone.

The Board experienced changes in personnel. On 2 January 2006, the body elected Richard Roy to Chairman of the Supervisory Board. On 10 January 2006, Mark C. J. Twaalfhoven was appointed to the Supervisory Board.

The Supervisory Board focussed on the central issues such as the new regional organisational structure of the Group, purchase and sales transactions, financial questions as well as capital measures, the reorganisation programme for the Europe region, investor relations questions and considerations publicly made by a shareholder with respect to a possible take-over bid. The Board was always unanimous throughout the process in all respects regarding the resolutions under consideration.

In the course of establishing a new, regional organisational structure in the Group, the composition of the Board of Directors changed. On 20 July an agreement was therefore reached with Rainer Frilling, Member of the Board of Directors, responsible for sales, on the rescission of his contract. The Supervisory Board extends its thanks to Mr Frilling for his work especially in the first steps in the mobile telephone business and the establishment of customer relations.

A particularly important matter in the financial year was the technological diversification with its growth options. The Supervisory Board was reviewing the decision to invest in TPK Holding with the utmost thoroughness. At the meeting specially called on 10 July on location in Xiamen, China, the Board received a detailed picture of the business. This expert opinion comprised the technologies of TPK, among other things, the market prospects for these technologies as well as the persons involved. Alongside this, the Supervisory Board closely examined the results of due diligence in detail. The result was the mandate to the Board of Directors to continue negotiations within a fixed framework. With this as a basis, the Board approved the investment in TPK Holding as well as the issuing of optional bonds to finance the transaction on 14 July.

The Supervisory Board also concerned itself just as in-depth with changes in the corporate structure of Balda Investments Singapore. In July, the Board dealt with the decision to exercise the call option vis-à-vis Everskill and the entry of the Michael Chiang family.

The increase of shares in Balda Investments Singapore to 95 percent by Balda AG in November was discussed just as in detail by the Supervisory Board as the capital increase by 15 percent of Balda AG against a non-cash contribution from the Michael Chiang family. This discussion entailed among other things the anticipated changes in the balance sheet. The effects on the reports and results were further examined, especially those for the earnings per share (EPS). The Board also concerned itself with the corresponding question of valuation before the final resolutions were passed.

The Supervisory Board audited the transactions of the takeover of the second half of the holdings in Balda-Thong Fook Malaysia, the joint venture with the Indian-based Motherson Sumi and the joint venture with metal manufacturer AVY. The Board also dealt with the sale of Albea in detail as well as other sales negotiations concerning holdings in Europe. In October the Supervisory Board approved the founding of Balda Solutions Xiamen as a 100-percent subsidiary of Balda Investments Singapore.

During the phase of the alleged take-over bid by Audley Capital and the reverberations in the press, the Supervisory Board worked in close coordination with the Board of Directors. Over the course of the year under review as a whole, the Supervisory Board followed and supervised the development of the company's business based on the budget with respect to actual versus target comparisons. In addition, the Board also used the early warning system (Risk Management System) and tracked the progress of identified risks, and it was informed about the respective status of liquidity and finances.

In March of the year under review, the Supervisory Board formed two committees and appointed the members to the Audit and Personnel committees. In a meeting on 24 March 2006, the Supervisory Board addressed the motion by a shareholder to not publish directors' salaries individually. The Board placed the motion on the agenda of the shareholders' meeting. The Supervisory Board reviewed the status of Balda's corporate governance based on the Code from 12 June 2006. Both the Supervisory Board and the Board of Directors did not see cause to release a compliance statement beyond the one from 17 March 2006, despite the newly introduced resolutions, which fulfil the Corporate Governance Code.

At the year-end meeting on 8 December, the Board extended Joachim Gut's contract as CEO until the end of 2012. For the year under review, the Board approved the stock options programme for directors, managers and employees, resulting in the distribution of 500,000 options in total for the year under review.

The Supervisory Board also passed the budget for 2007 at the year-end meeting on 8 December 2006. After being selected during the shareholders' meeting in 2006, PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG audited the annual financial statements for 2006 prepared by the Board of Directors, the consolidated group financial statements for 2006, the Management Report of Balda AG for the first time, including the accounts and the early detection risk system, and issued an unqualified auditor's opinion.

At its meeting held on 23 March 2007, the Supervisory Board discussed in detail the annual financial statements and audit reports submitted on time to its members. The auditors were present at the discussion. They reported on the essential results of the audits and were at the Supervisory Board's disposal to provide any supplementary information required. The Supervisory Board endorsed the result of the audit by the auditors based on its own audit of the annual financial statements, the consolidated financial statements, the annual report and the consolidated Management Report. The Board approved the annual financial statements and the consolidated financial statements, thereby endorsing the annual financial statements. The Supervisory Board endorses the proposal by the Board of Directors with respect to the net loss for the year and the dividend payment waiver to shareholders.

The Supervisory Board would like to say a special thank you to the Board of Directors and all employees as well as the works council for their committed performance and responsible work in a difficult market environment during the year under review. The Board would like to thank the shareholders for the trust they have placed in the company.

Bad Oeynhausen, 23 March 2007

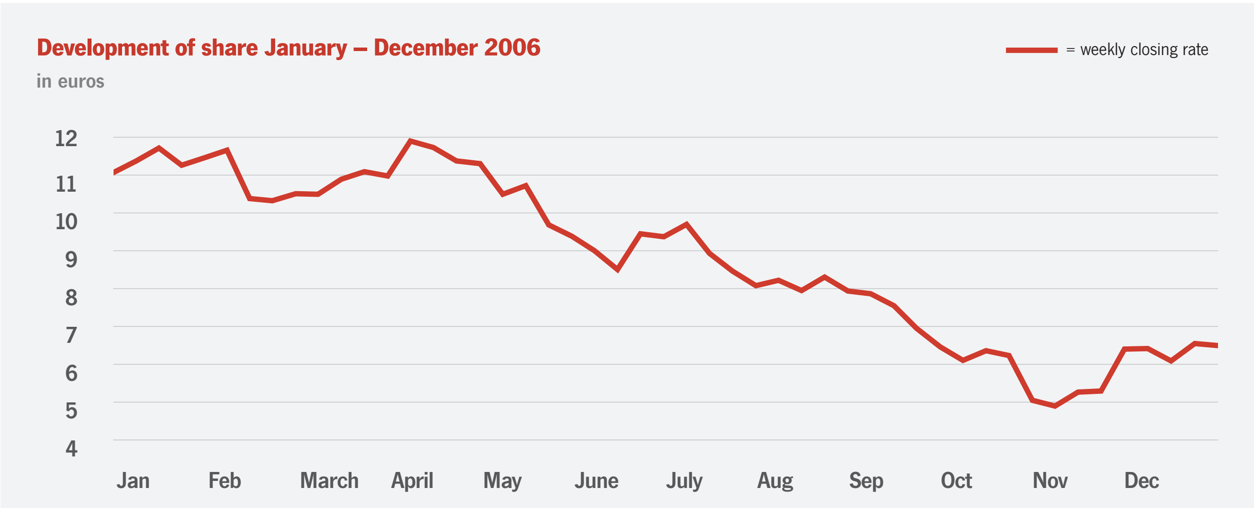
For the Supervisory Board

Richard Roy

Balda Quotation at Year End with Upward Trend

High increase in new issues, stock exchanges chasing records. Europe and USA surprise with positive figures. New major shareholder with 15 percent.

Global share markets were shaped by predominantly lively momentum over the course of 2006. Quotations increased again dramatically in most regions. For the fourth year in a row, the MSCI World Index succeeded in achieving an extremely positive result. The majority of share markets initially continued with the favourable course of the previous year. May and June saw lengthy stretches of volatility and sharp setbacks. In the second half of the year, the markets recovered again. Economic strength in regions such as China and India cushioned against the somewhat declining growth in the US, which drove the Dow Jones to a record high, improving by 16.5 percent for the period under review. Japan, on the other hand, disappointed as the Nikkei225 climbed by only 5.6 percent in 2006.



DAX at record levels

The German leading index DAX developed very favourably as in the year 2005. It was quoted at the highest level since February 2001 at the change of the fiscal year. In 2006 it climbed by around 22 percent (previous year: 27 percent) to a year-end closing rate of 6596.92 points. The index reached its highest level of the year on 28 December with 6629.33 points. Compared with other European exchanges, Frankfurt was thus ranked in the leading position. In Paris, the leading index CAC40 improved by 17.0 percent. The British-based FTSE100 rose by 10.3 percent in 2006.

High stock exchange turnover

Securities turnover on all German stock exchange exceeded with 5 trillion euros the previous year's value of 3.8 trillion euros by 32 percent. A great rush of new company listings on the stock exchange existied during the financial year 2006. The Prime Standard of the German stock exchange registered 40 new issues (previous year: 17 new issues). In total there were 210 IPO's during 2006. New additions exhibited a market capitalisation of around 32.4 billion euros (previous year: 12.8 billion euros). Alone 25 billion euros was accounted for on the Prime Standard.

In 2006, the total issuing volume for all segments was around 7.9 billion euros. According to Thomson Financial this figure was at 103 billion US dollars in the Euro zone. Worldwide IPO volume rose by 56 percent to a record level of 257.1 billion US dollars. Leading investment banks anticipate continued growth and greater new issues for 2007.

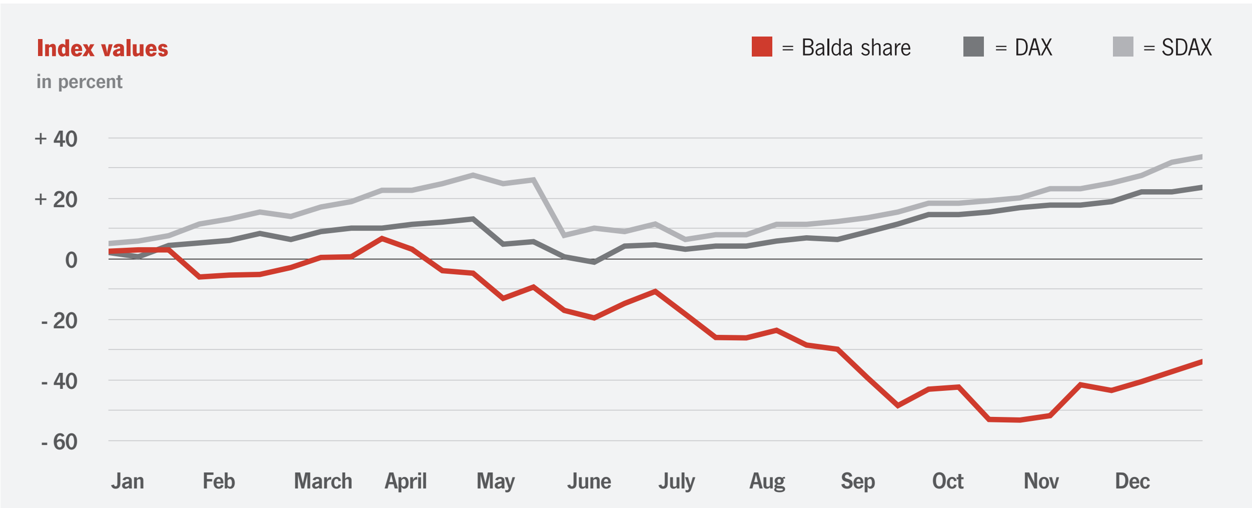
Turning point for Balda shares

Balda shares opened the financial year for 2006 on 2 January with a price of 11.00 euros. The high for the 52 weeks was 11.95 euros reached on 7 April. In the course of the year the share successively lost value. Balda shares came increasingly under pressure, in particular as of the middle of the 3rd quarter, and fell to a year's low rate of 4.53 euros. The shares resisted this downward trend successfully and reached a rate of 7.12 euros on the 29 December 2006. This turning point received wide-reaching support through analysts' reports, which rated Balda's investment in the touch screen manufacturer TPK positively. Balda shares recorded a loss of 3.88 euros (previous year: gain of 2.43 euros) or -35.6 percent (previous year: +28.35 percent).

Balda shares thus noticeably fell behind the general market development and the German leading index DAX, which reached record levels. Even the benchmark for small capital companies SDAX closed for the year considerably higher. It ended the financial year

The average trading volume of Balda shares over the 255 trading days of 2006 (XETRA and Frankfurt) amounted to 310,137 shares per day. September was the month with the highest volume registering a daily average of 732,582 stocks traded. For the entire year, the figure was at 79,084,837 shares. This corresponds to a value of 620.4 million euros (previous year: 458.4 million euros) and means an increase of approximately 26 percent (previous year: 137 percent)

The period under review experienced a change in shareholder structure. The Michael Chiang family received 7.1 million new shares as an equivalent to BIS shares in the amount of 42.6 million euros. The issue price was 6 euros per share. After the capital increase, the nominal capital of Balda AG amounts to 47.4 million euros. As at 31 December 2006, the capital increase had not yet been recorded in the German Commercial Registry. The new shares are subject to a market protection agreement and are entitled to dividends from 1 January 2007. Based on 40.28 million shares, a negative result per share of 1.043 euros for the financial year 2006 has been calculated from the net loss for the year of 42.0 million euros. Against the previous year's value of 0.832 euros (at 40.16 million shares), this means a decrease of 225.4 percent.



with a closing rate of 5567.63 points, resulting in a 31.0 percent rise (previous year: 35.2 percent). The quarterly results at mid-year, which were below forecast, the results of the 3rd quarter as well as the profit warning in October all had a particularly negative influence on the development in prices of the Balda quotation. The widely discussed speculations in the media about the interest shown by the hedge fund Audley Capital also had an impact on Balda's share price development.

Dividend in 2005 of 0.30 euros

The 7th proper shareholders' meeting of Balda AG on 1 June 2006 in Bielefeld was the key event for shareholders in the financial year 2006. Around 800 shareholders voted for a dividend of 0.30 euros per share with the distribution sum of 12.0 million euros (previous year: 8.0 million euros). The shareholders represented 24.775 percent of the capital with voting rights. They adopted the motions of the Board of Directors virtually unanimously.

The authorisation to sell company shares was the only point that failed to receive the necessary three-fourths majority.

Dividend waiver for 2006

The Board of Directors and Supervisory Board will propose a dividend payment waiver at the shareholders' meeting on 9 August 2007. The dividend yield for the 2005 financial year was 2.7 percent.

Table of share issue figures

	2006	2005	2004	2003	2002
Share capital (31.12.)	40,279,025	40,162,958	39,755,092	37,530,000	33,720,000
Highest price in the year [1]	11.95	12.20	8.80	7.99	9.55
Lowest price in the year [1]	4.53	6.62	6.20	3.04	2.65
End-of-year closing price [1]	7.12	11.00	8.47	6.18	3.51
Average trading volume [2] (in millions of items)	79.08	48.2	25.9	14.1	13.1
Dividends	–	0.30	0.20	0.10	0.05
Dividend yields	–	12,048,867	7,951,018	3,753,000	1,686,000
Market capitalisation (31.12.)	286,793,000	441,800,000	336,700,000	231,935,400	118,357,200
Earnings per share	- 1.043	0.832	0.705	0.308	0.137
PER [3]	- 6.8	13.0	12.0	20.06	25.62

1) Closing XETRA-prices, after splits
2) Since IPO on 23 November 1999
3) Price-earnings-ratio (Basis: End-of-year closing price)

Investor relations

The Balda Group also had timely and open communication with participants in the financial market for the 2006 financial year. Investor relations are assigned to the CFO. This organisational allocation emphasizes its significance in the Group. The Board of Directors actively sought a dialogue with the financial and business media. Many individual interviews with news agencies and nationally published media as well as with online media took place.

The Group informed financial analysts, fund managers and financial journalists in detail at press and analyst conferences in Frankfurt on the occasion of the publication of the year-end closing for 2005 and the quarterly figures at midyear, as well as the end of the 3rd quarter for 2006. The Group also continued to maintain dialogue with institutional investors. In addition to 14 meetings at the Group's headquarters in Bad Oeynhausen, the company held 40 meetings with professional investors and financial market experts in the financial centres of London, Frankfurt, Zurich, Amsterdam and Munich.

The Board of Directors also conducted individual interviews with investors. Balda organised a Technology Day for investors at the site of the joint venture with TPK in Xiamen, China. The Investor Relations division answered numerous enquiries from private investors.

Good image

For the year under review, 16 analysts and specialised media submitted a total of 54 ratings on Balda shares. 36 buying signals stood against eleven hold recommendations and seven sell recommendations.

Balda's annual report 2005 performed well in comparison to its competitors. "manager magazin" placed Balda 7th in its ranking of the best reports of SDAX companies. The report held 6th place in the "Handelsblatt" (previous year: 9th place) out of 130 companies researched in the DAX, MDAX, TexDAX and SDAX indices and was thus the best report in the second-tier index. According to a study by Capital Communication on the topic Online Investor Relations, the website of the Balda Group received the best rating among SDAX companies out of 190 listed companies on the Frankfurt Stock Exchange.

Today, **multimedia mobile phones** are a small technological wonder. They integrate digital cameras, email, internet and MP3 player. In addition to contributing to attractive designs, Balda supplies up to 25 different precision components made of high-performance plastics to mobile telephones.

This double page is not part of the Management Report.

EVERYTHING on BOARD

Who is not familiar with lengthy waits or travelling times? Good for those who have everything on board: email, internet, music, photos, and even movies in a mobile phone. Good entertainment instead of sheer boredom.

Global Economy on Stable Growth Path in 2006

Sustainable upswing in Germany and Europe – Asia continues to boom while US economy shows weaknesses.

The upturn in the global economy continued in the year under review with a plus of 5.1 percent (previous year: 4.4 percent). The momentum slowed up at mid-year in particular due to reduced capacity utilisation in the US. The high growth rates in Asia and the European national economies, which have become more robust, were able to more than compensate for weaknesses in the US. Germany was once again number one in exports in 2006.

Euro zone

At the beginning of the year under review, the upsurge gathered momentum in the Euro zone. Real gross domestic product rose by 2.7 percent (previous year: 1.3 percent) in 2006. Exports from the Euro zone increased considerably by around 11 percent (previous year: 7.0 percent) to 1.381 billion euros. At 1.9 percent, the inflation rate was lower than the previous year's figure of 2.2 percent. Unemployment in the Euro zone sank in December to 7.5 percent (previous year: 8.4 percent).

Germany

The gross domestic product in Germany grew in the period under review by 2.7 percent (previous year: 0.9 percent). Foreign trade in particular boosted the German economy. Exports rose by 13.7 percent (previous year: 7.5 percent). Domestic demand also gained considerable momentum. The spending for private consumption climbed by 2.1 percent (previous year: 1.3 percent).

An important factor for the momentum in the domestic market was the creation of new jobs. The unemployment rate fell to 10.2 percent (previous year: 12.1 percent) in January. The national deficit sank to 2.3 percent (previous year: 3.3 percent) in 2006. Germany was thus a positive exception in the development of debt among the big national economies in the European Union.

USA

Economic growth in the US slowed considerably in the second half of the year. The rise in gross domestic product to 3.4 percent (previous year: 3.5 percent) was under last year's figure. A strong gain in imports as well as a rapid drop in investments in the property market and automotive industry led to a cooling off in US business activity. The decline in price in the oil market brought with it considerable cost cutting in energy consumption and countered weak growth. The current account deficit is expected to have reached around 900 billion US dollars (previous year: 791.5 billion US dollars) by the end of 2006.

China

China was a locomotive for growth among the Asian national economies in 2006. Business activity in the most populated country in the world continued to develop rapidly and effectively, with stability and low inflation. Gross domestic product reached a figure of 2.1 trillion euros, a growth rate of 10.7 percent (previous year: 9.9 percent) in the year under review. China thus overtook both France and the UK, positioning it in fourth place among leading economic countries worldwide.

The engines of Chinese economic growth are the rapid rise in exports and investments. Foreign direct investments rose last year by 5 percent to 63 billion US dollars. No other country in the world drew in more foreign investments. In 2006 China generated a trade balance surplus of over 177 billion US dollars (previous year: 102.0 billion US dollars), thus marking a record growth of 74 percent. The foreign currency reserves of the Chinese National Bank increased to an all time high of around 1.066 trillion US dollars at the end of 2006, recording a growth rate of nearly 30 percent against the previous year. Per capita income in China came to around 1,700 US dollars last year.

India

As one of the largest national economies in the world, India is currently showing the second highest growth in Asia, surpassed only by China. For the year under review, economic growth stood at around 9 percent (previous year: 8.4 percent). Economists anticipate an average growth rate of around 6 percent per year over the next two decades. They view inflation as a risk. For the period under review the annual rate resulted in 5.5 percent. The rating agency Moody's continues to rate India as stable.

Brazil

Brazil continued to lose ground against the other aspiring emerging markets. Growth in gross domestic product for the tenth largest national economy was at around 3 percent (previous year: 2.2 percent) for the period under review. Last year, exports exceeded imports by a record amount of 46.1 billion US dollars, resulting in a foreign trade surplus, which was 3.1 percent higher than in 2005.

The inflation rate for the period under review stood at 3.1 percent. According to figures from the National Institute of Statistics of Brazil (Instituto Brasileño de Geografía y Estadística, IBGE), Brazil had the lowest inflation rate in eight years with a level of 3.1 percent (previous year: 5.7 percent) in 2006.

The Future of the Mobile Phone Business Lies in the Emerging Markets

Global increase in sales of 21 percent. Continued strong growth in Asia.
Demand for multimedia mobile phones in heavily saturated markets at high level.

Mobile phone sales worldwide fell just short of the one billion mark with more than 990 million (previous year: 816 million) devices sold in 2006, as reported by the market research institute Gartner. In 2006, the global mobile phone market reached a growth rate of 21 percent (previous year: 21 percent).

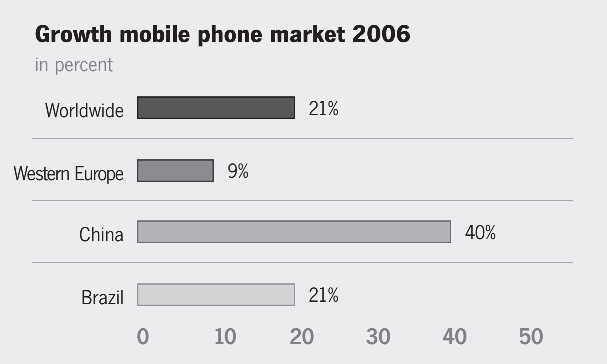
The global market exhibits regional differences. In contrast to the growth in Asia, the demand for mobile phone devices in Europe has eased. Analysts from IDC report growth of around 9 percent for saturated markets in Western Europe, which is considerably lower than the international average. In total, companies in the region were able to sell 185 million mobile phones. Meanwhile in Germany, there are more mobile phone connections than inhabitants. Viewed statistically, each of the approximately 80 million citizens in Germany has had at least one contract with a mobile phone service provider since summer 2006. In Italy, the market penetration actually amounted to 120 percent.

Emerging markets are gaining ground

More and more mobile phone manufacturers are strategically concentrating on emerging markets. The market researchers from Ovum anticipate an increase in significance of the emerging markets compared with the industrial nations in the west. Already by 2008 they should reach a 75 percent market share of the global mobile communications market. Asia remained by far the most dynamic region globally. The Asian mobile phone market has gained significantly according to Gfk Asia. Sales volume for mobile phones grew in 2006 by 38 percent to more than 169 million units.

China and India were especially on the course of expansion in 2006. With 461 million mobile phone users, the People's Republic is the largest mobile phone market worldwide (previous year: 393 million). Last year, sales of mobile phones in China rose by 40 percent to 120 million. The national association for mobile communications in China expects further growth this year of 25 percent to 150 million devices sold in the largest mobile communications market in the world. Production of mobile phones in China amounted to 450 million units in 2006. Since the deregulation of mobile telecommunications tariffs, India has recorded a monthly growth rate of 6.6 million new mobile phone users (previous year: 5.9 million). Roughly 5 percent of the inhabitants now own a mobile phone.

The Brazilian mobile phone market was able to increase sales in 2006. With 37.1 million devices sold, growth was listed at about 21 percent compared to the previous year.



Booming multimedia mobile phone market

Western Europe, in contrast, holds the leading position for sales of mobile multimedia devices with additional functions. For the financial year 2006, sales came to 90 million units worldwide. Growth engines are UMTS mobile phones with music players and high quality digital camera functions with increasing momentum. More than 50 percent of the mobile telecommunication devices sold worldwide are now equipped with built-in cameras. By 2010, the number of mobile phones with camera capability should exceed the 80 percent mark with Asia in the leading position in the sales market. Manufacturers sold almost 70 million smart phones in 2006. By 2010 this figure should grow by 20 percent annually according to market researchers from IDC.

According to an analysis by the consulting firm Frost & Sullivan, revenues will increase from 122.6 billion US dollars to 164.3 billion US dollars worldwide from 2006 to 2012. According to Soreon Research, revenues for mobile services will climb to 11 billion euros in Germany alone by 2007. This equates to three times the volume of revenues in 2004.

Medical industry

According to the latest forecast, the medical technology industry continued its road to success in 2006. Industry experts anticipate a surplus in turnover of around 11 percent (previous year: 8.5 percent) to 16.3 billion euros (previous year: 14.7 billion euros) for the year under review. This positive estimate results primarily from the development in turnover abroad. Foreign turnover is estimated to grow by about 16 percent to 10.6 billion euros (previous year: 9.2 billion euros). In terms of domestic trading, market watchers predict a slight gain of around 3 percent to 5.7 billion euros (previous year: 5.5 billion euros). The export quota should amount to around 65 percent. The number of persons employed is likely to be at about the same level as the previous year with 87,300 employees.

Negative Side Effects from Customers

Surprising sales slump and a customer's insolvency as well as relocation of production from Europe to China weigh down the Group.

The operational business trend of the Balda Group came under various negative influences in the 2006 financial year, especially in the second half of the year, which were primarily due to customer-specific developments. The order output of one customer, which was far lower than planned, led to a considerably lower volume of orders and turnover at locations in Europe, China and America. This decrease in turnover had a negative effect on results, especially in China, as the opening of the production plant in Beijing led to an increase in capacity, which in turn led to an increase in base fixed costs. Furthermore, project delays by another customer had an impact on the capacity utilisation of both production plants in China, as well as the production start of a new location in India.

The plant in Manaus found itself in a difficult situation due to changes in monetary parity. Mobile phone manufacturers partly pulled their production out of Brazil, as revaluation of the Brazilian currency created an unfavourable expense situation. Moreover, the squeeze on margins experienced by Balda due to a tightened competitive environment in the global sales market for mobile telephones and among mobile phone suppliers increased dramatically.

Loss of turnover

Finally, the situation became more critical due to the insolvency of our customer BenQ in Germany. As a result of this setback and the accelerated migration of Infocom production volume to Asia, significant turnover was lost. This led to lost time for Balda, to replace alternatives for operating the locations for Balda-Heinze, SMK and Albea at full capacity, which had been in place up to this point, with other manufacturers. For this reason, the Board of Directors at Balda AG in October 2006 decided to sell these plants at a book loss, if necessary. The sale of the Albea location was realised by 31 December 2006. By 28 February 2007, the Balda Group sold Balda-Heinze including HeRo and SMK. In total the company thus reduced production area in Germany by a good 50 percent to 18,200 square metres. With this sale, approximately 750 full-time staff and 200 temporary workers left the Group.

Social plan passed

Although Balda Medical developed according to plan, the Group had to cut additional staff at the headquarters in Bad Oeynhausen. Approximately 250 employees and around 250 temporary workers were affected. The Board of Directors still entered into talks with labour representatives in October 2006. These negotiations had not been concluded by the end of the year under review. On 6 March 2007, the Board of Directors accepted the social plan passed by the arbitration board. The transition of those employees affected to a job creation and re-training company will go into effect on 1 April 2007. Temporary employees were completely retrenched by 31 December 2006.

As at year end 2006, it had to be assumed that the crisis with BenQ in Germany would have negative consequences for the other BenQ sites, which are also customers of Balda. Even from today's standpoint, these concerns still have not subsided. This development has led to additional valuation adjustments in inventories and receivables. Furthermore, goodwill for the sites in Brazil had to be depreciated due to receding prospects.

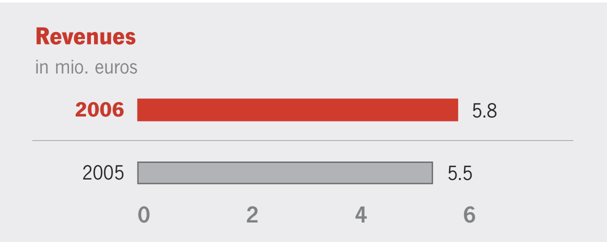
AG Affected by Reorganisation of Group

Depreciation on financial assets and loss assumption due to special circumstances.

Balda AG acts as a management holding in the Balda Group. The operating business in the Group lies with the subsidiaries, which are managed by regional lead offices.

Revenues virtually unchanged

The revenues of Balda AG were generated from rents and management fees of subsidiaries. They represent the core business of the AG. In the year under review, revenues rose slightly by 5.4 percent from 5.5 million euros to 5.8 million euros. Other operating expenses increased from 9.7 million euros in the previous year to 10.4 million euros. This represents an increase of 7.4 percent. The main items for the financial year are incomes in connection with book profit from fixed asset retirements. In addition, debiting of disbursed costs, such as consulting expenses, was incurred. Specific IT systems are still being held available for the Group at the holding. The costs accrued are therefore passed onto the subsidiaries.



Revenues and other income make up the total operating performance of the AG. At 16.2 million euros, they were 6.6 percent above the previous year's figure of 15.2 million euros.

At 5.5 million euros, personnel expenses increased by 17.8 percent compared to the previous year's figure of 4.7 million euros. In relation to total operating performance, personnel intensity at 34.0 percent increased considerably (previous year: 30.8 percent). Herein the concentration of Balda AG on its holding role becomes clear.

Due to sales or, as the case may be, transfers of fixed assets in the previous year, depreciation of intangible and tangible assets fell drastically. It amounted to a mere 0.5 million euros against 2.2 million euros in the previous year.

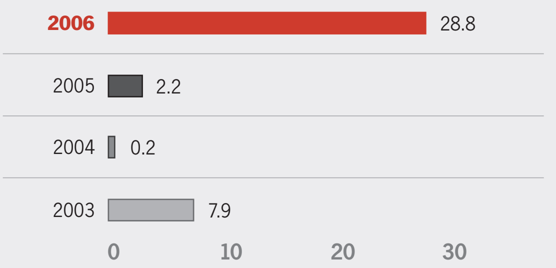
Other operating expenses rose from 11.1 million euros in the previous year to 15.5 million euros for the year under review. This is an increase of 39.8 percent. The biggest single item was legal fees and consulting fees as well as valuation adjustments in receivables *(see "Notes on the Group")*.

Declining results

Income from participating interests shrank minimally. It amounted to 14.2 million euros in 2006 against 15.2 million euros in the previous year. Main items were dividend payouts of over 10.6 million euros to Balda Investment Singapore. Moreover, profits from partnerships as well as dividend payouts from the profit carried forward are included. Due to profit and loss transfer agreements of Balda AG, assignable income resulting from subsidiaries fell drastically. The reason lies in the effects mentioned. Only SMK GmbH paid 0.1 million euros, a loss of 99.5 percent against the previous year's figure of 13.4 million euros. Interest and other income rose again slightly in the year under review by 11.2 percent, increasing from 2.4 million in the previous year to 2.6 million. Depreciation on financial assets and on securities in the current assets increased dramatically. They amounted to 28.8 million euros against 2.2 million euros last year. Due to the circumstances and market changes explained above, future prospects for the subsidiaries of Balda AG in Germany and Brazil have shrunk.

Additionally, an allowance was made for anticipated income from planned sales. The Balda AG thus wrote down the valuation of investments. Expenses from the transfer of losses increased in the year under review to 11.7 million euros (previous year: 6.3 million euros), affecting Albea, Balda Solutions Deutschland and Balda Werkzeugbau. The reasons for the negative results have been set forth in the circumstances explained above.

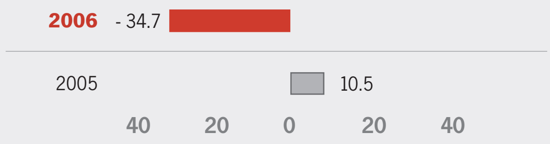
Depreciations 2003 to 2006
in mio. euros



The item interest and other expenses rose by 51.8 percent to 6.6 million euros over 4.3 million euros in the previous year. This is reflected in the increased financing needs due to acquisitions in the year under review.

The pre-tax result led to a loss of 35.6 million euros for the year under review against a gain of 15.6 million euros in the previous year. Taxes on income and earnings developed in the opposite direction. After expenses of 5.0 million euros in the previous year, the 2006 financial year brought with it a tax refund claim of 0.9 million euros.

Net loss/income
in mio. euros



In contrast to the net loss for the year of 34.7 million euros is the surplus of 10.5 million euros from the previous year. With a profit carried forward from the previous year of 29.8 million euros minus the dividend payout of 12.0 million euros, a net loss of approximately 17.0 million euros is yielded for the AG, this after retained earnings of 29.8 million euros in the previous year.

Sizeable Changes to the Consolidated Group

Group strengthens its market presence in the Asia region and India, and tightens activities in the Europe region.

The consolidated Group changed during the year under review. The company agreed on the founding of a joint venture company, Balda Motherson Solution India, with its partner from India, Motherson Sumi Systems Ltd. Balda holds 60 percent of this company through Balda Investments Mauritius. taking effects as of 1 April 2006, Balda took over 50 percent of the shares of the joint venture Balda-Thong Fook Solutions (today: Balda Solutions Malaysia, or BSM) owned by its partner Thong Fook Electronics through Balda Investments Singapore (BIS). The results of this site are being consolidated to 100 percent from this point in time. In July 2006, Balda AG also invested 50 percent in TPK Holding through the intermediate holding Balda Investments Singapore *(see other notes throughout Management Report)*. This joint venture is being consolidated proportionally since 15 August 2006.

Below, selected key data are also quoted on a pro forma basis, which assume a continued proportional consolidation of Balda Solutions Malaysia and eliminate influences from the joint venture TPK. They should prove to be a better comparison of the business trends.

The revenues and results from the companies sold or held for sale, i.e. Albea, Balda Surface, Balda-Heinze, HeRo and SMK, as of the balance sheet date, are hereinafter defined as discontinued operations. They only affect the Europe region.

Slow-down in revenues

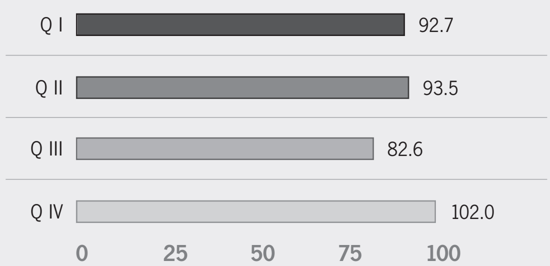
At 370.9 million euros, revenues for the Balda Group were 26.3 million euros or 6.6 percent below the previous year's figure of 397.2 million euros. The discontinued operations were even able to achieve an increase from 40.6 million euros by 2.6 million euros or 6.5 percent to 43.3 million euros. This rise could not by any means compensate for the decrease from 28.9 million euros or 8.1 percent to 327.6 million euros in the rest of the business (previous year: 356.5 million euros). The consolidation of the additional 50 percent stake in BSM had a positive impact on revenues with 18.7 million euros. TPK contributed to revenues for the first time with 4.3 million euros.

Infocom with 84 percent share turnover

The effects mentioned above can account for the decline in sales. At the same time, the consequences from the collapse of BenQ could already be seen in the 2nd quarter with their strongest impact in the 4th quarter. For this reason, revenues, which are normally strongest in this quarter, were at 102.0 million euros, 11.9 percent below last year's figure of 115.7 million euros.

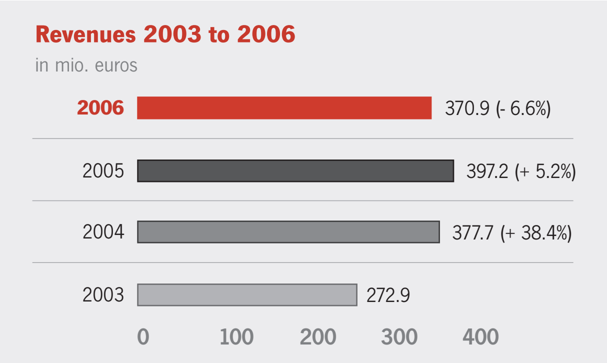
Revenues Q I to Q IV 2006

in mio. euros



The 4th quarter remained the best quarter of the reporting period, following 92.7 million euros in the 1st quarter (previous year: 80.8 million euros), 93.5 million euros in the 2nd quarter (previous year: 97.6 million euros) and 82.6 million euros in the 3rd quarter (previous year: 103.1 million euros). The core business in the ICT sector contributed around 84.0 percent of total Group sales in the 2006 financial year. Balda Medical reached its announced target with around 15.0 million euros in revenues for the 2006 financial year, contributing 4 percent to Group sales.

Due to the circumstances surrounding customers as mentioned above, all areas of the Group registered a decline in sales for the 2006 business year. In Europe, the decrease was 11.4 percent to 230.2 million euros (previous year: 259.8 million euros). As already discussed, the increase in revenues from discontinued operations could not absorb the losses in the ICT business. Although the Asian region showed an increase in revenues of 6.6 percent



with 128.2 million euros, against the previous year's figure of 120.3 million euros, the consolidation effects mentioned above need to be taken into consideration. For this reason, a decline in sales had to be recorded operationally. Brazil also had to register a drop in revenues of 18.9 percent to 15.3 million euros in the year under review.

Europe is the strongest mainstay of turnover

Despite the sharp downturn Europe still contributed 61.7 percent to Group sales. The Asian production plants in China and Malaysia made a contribution to Group earnings of 34.2 percent. America's share of total Group sales of the company was 4.1 percent. India has not yet recorded results relevant to turnover.

Other operating income rose by 14.4 percent to 10.3 million euros compared to the previous year's figure of 9.0 million euros. 2.0 million euros relate to book gains from the sale of participating interests. This figure is partly pitted against expenses, which due to accounting purposes are to be recorded under other operating expenses. As a result of changes in market conditions, valuation adjustments carried out in previous years on land had to be cancelled. Furthermore, valuation adjustments for receivables have not been defined by cancellations or corrections to sales. By cancelling the valuation adjustments, the Group achieved revenues of 1.9 million euros. By reversing provisions and other current liabilities, income amounting to 1.1 million euros were achieved. Moreover, income from carried over costs and sales of material, income from rent, currency gains and compensations from insurance, among other things, are recorded under this item.

Receding total operating performance

A considerable decline in changes in inventory of finished and unfinished goods was recorded for the reporting period. After an increase of 15.0 million euros in the previous year, a loss of 4.2 million euros was recorded in 2006. This is a drop of 19.1 million euros or 128.3 percent. For the increase in 2005, one-time effects from the first-time construction of consignment warehouses for customers in Hungary and China need to be taken in consideration. Valuation adjustments reflected negatively on the value of BenQ stocks. Other own work capitalised dropped back slightly from 0.9 to 0.5 million euros. Hence, the Group recorded a decline in total operating performance of 44.5 million euros or 10.5 percent to 377.5 million euros (previous year: 422.0 million euros). Of the total operating performance, 45.5 million euros is accounted for in discontinued operations in contrast to 44.4 million euros in the previous year (*notes to material expenses can be found in the section "Purchasing and Supply Chain Management"; the section "Personnel" explains personnel costs)*

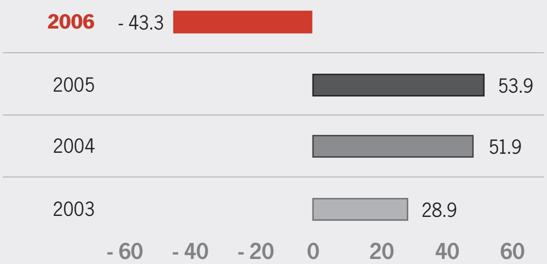
Rise in other operating expenses

Other operating expenses increased at a considerable rate of 20.0 percent or 13.1 million euros from the previous year's figure of 65.6 million euros to 78.8 million euros for the reporting period. The ratio of other operating expenses to total operating performance also improved by 15.6 percent in the previous year, to 20.9 percent for the year under review. Expenses recognized under other operating income affected this item, which was seen alongside book gains. In addition, valuation adjustments to BenQ receivables had a negative impact as well as allocations to provisions in connection with job cuts at the headquarters in Bad Oeynhausen. In total, reorganisation expenses amounted to more than 7.0 million euros. The biggest single item is premises, maintenance and operating costs, although they fell from 15.0 million euros to 12.7 million euros. The noticeable increase in energy costs worldwide led to an increase in this item from 6.3 million euros in the previous year to 8.5 million euros for the reporting period. Legal and consultancy costs fell to 5.5 million euros from 6.9 million euros in the previous year due to special circumstances. Included are consultancy expenses for the sale of Albea and Balda Surface. The rise in travel/vehicle/advertising costs as well as the cost of investor relations to 7.5 million euros can largely be traced to increased travel expenditure resulting from the growing globalisation of the Group.

As a consequence in particular of the factors affecting turnover mentioned above, earnings before interest, taxes, depreciation and amortisation (EBITDA) fell in the year under review from 71.8 million euros in the previous year to 7.5 million euros. This represents a decrease of 64.4 million euros or 89.6 percent. The EBITDA margin thus decreased from 17.0 percent to 2.0 percent in relation to the total operating performance. Whereas the discontinued operations contributed to a negative EBITDA of 3.6 million euros, the continued segments achieved a positive value of 11.1 million euros. The consolidation effects from BSM and TPK raised the EBITDA by 2.7 million euros. India contributed a negative EBITDA of 0.6 million euros.

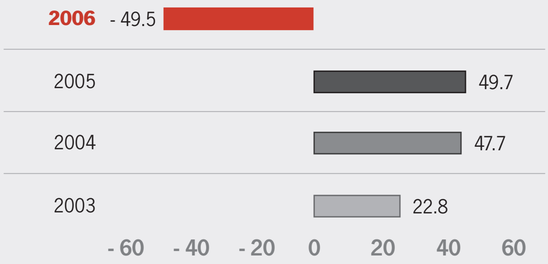
Increased depreciations due to special circumstances
Reorganisation measures and special circumstances mentioned above affected depreciations considerably. Fixed assets of companies pending sale were written off for the estimated attainable value. The receding future prospects in Brazil had to be included in the appraisal of the machinery. In total, depreciation and amortisation of tangible and intangible assets rose from 17.6 million euros in the previous year to 30.4 million euros as a result, for the year under review. Moreover, amortization of goodwill and financial assets totalling 20.3 million euros were required compared to 0.3 million euros in the previous year. Altogether depreciation accrued amounted to 50.7 million euros (previous year: 17.9 million euros).

EBIT 2003 to 2006
in mio. euros



As regards consolidated operating income (EBIT), the Group suffered a loss of 43.3 million euros (previous year: 53.9 million euros operating profit) in the reporting period due to the effects outlined above. Operating income for Europe was thus negative 34.5 million euros (previous year: plus 26.5 million euros). The earnings contribution for Asia fell from 27.0 million euros in the previous year to 7.6 million euros for the reporting period. Brazil showed an operating loss of 15.8 million euros (previous year: plus 0.4 million euros). India contributed with a negative EBIT of 0.7 million euros. Operating losses of continued segments stood at 21.9 million euros practically the same level as discontinued operations with 21.3 million euros. The consolidation effects from BSM and TPK brought a positive EBIT of 1.9 million euros.

EBT 2003 to 2006
in mio. euros



The pre-tax result (EBT) for the Group displayed a loss of 49.5 million euros (previous year 49.7 million euros pre-tax profit). Financing costs increased from 4.3 million euros in the previous year due to shares from external financing for acquisitions to 6.3 million euros for the year under review.

Negative net income
Taxes on profits within the Group changed dramatically as a result of the loss situation. After tax expenditure in the previous year of 10.2 million euros, the Group showed a refund claim of 9.5 million euros, 8.8 million euros of which were accounted for in claims from continued segments and 0.7 million euros to discontinued operations.

Minority interests for the reporting period stood at 2.0 million euros against 6.0 million euros in the previous year. The Group accounted for a net loss for the year of 42.0 million euros. In the previous year, the Group's share of annual net profit was 33.4 million euros. This is a decrease of 75.4 million euros or 225.7 percent. Added to the profit carried forward, amounting to 72.7 million euros, and minus the dividend payout in 2006, the retained earnings amounted to 18.6 million euros. Calculated on the basis of 40.28 million shares at the closing date entered in the Commercial Registry, the annual net loss results in earnings per share of negative 1.043 euros. In the previous year the figure stood at plus 0.832 euros at 40.16 million shares. The legal basis for a possible dividend payout is determined in the annual report of Balda AG, in which the net loss for the year is recorded as 34.7 million euros. The Board of Directors and the Supervisory Board propose to the Annual general meeting that no dividend be paid due to the loss situation. The annual net loss is to be carried forward.

Operational Cash Flow Virtually at Previous Year's Level

Significant increase in outflow of funds from investment activity impacts cash flow.

The cash flow statement has a support function for assessing the financial situation by showing all payment flows for the reporting year. The inclusion of inflows and outflows of cash and cash equivalents is divided into operating, investing and financing activities. Cash flows from investing activities and cash flows from financing activities are determined solely on the basis of payment. Cash flow from current operating activities on the other hand is based on results obtained indirectly after adjustment for non-cash items.

Balda AG

The cash flow statement of Balda AG for the 2006 financial year is affected by payment flows in connection with the acquisitions, resulting on one hand in the accrual of payments for capital invested in Balda Investments Singapore (BIS) and Balda Investments Mauritius. On the other hand, payments for purchase steps in connection with the stake in TPK and the subsequent increase in holdings in BIS of the current figure of 95 percent were to be remitted. This investment activity was financed largely through optional bonds issued in July and from existing capital resources.

The Balda Group

Payment flows significant to the holding also influenced the Balda Group's cash flow to a considerable degree. In addition, payments for sales transactions and tangible assets arose.

The cash inflow from current operating activities decreased slightly in the year under review from 31.3 million euros by 3.2 million euros to 28.1 million euros. With a loss of 43.3 million euros, the operative results stood drastically below the previous year's gain of 53.9 million euros. Higher interest payments were more than compensated for by lower tax payments.

Expenses not affecting payments for write-offs increased by about 32.8 million euros to 50.7 million euros. This rise made up a good third of the difference between the previous year's gains and the loss in the year under review. Alongside the figures for expenses not affecting payments of 3.5 million euros, outflows due to changes in taxes refunds and/or tax liabilities shrank.

Inflows from the ABS programme

The decrease of 4.4 million euros was however partially eroded by an outflow for reducing provisions. In the previous year, the Group recorded an inflow from extension of provisions. As expected, the greatest influence in the reporting year came from the reduction of inventories and receivables. Here, the Group was impacted by the inflow from the ABS Programme. In total the Group received cash expenditures of 26.0 million euros, after an outflow of 42.4 million euros in the previous year. The Group used 3.2 million euros to reduce trade accounts payable as well as other liabilities. In the previous year, 19.8 million euros flowed into the Group from the expansion of this item *(see also notes to the Balance Sheet of the Balda Group).*

The cash outflow for investing activities increased fourfold with a figure of 146.6 million euros against the previous year's figure of 32.4 million euros. Higher payments accrued for investments in fixed assets resulted in 34.7 million euros, an increase of only 2.3 million euros. Concerning the acquisition and sale of subsidiaries and holdings already mentioned, the Group spent an additional 112.2 million euros. In the previous year no cash outflows for this purpose occurred *(see the section "Investments" for more details).*

Cash inflow from financing activities rose markedly in the reporting period, amounting to 94.3 million euros compared to 14.9 million euros in the previous year. For the distribution of dividends, 12.0 million euros was due compared to 8.0 million euros in the previous year. 25.6 million euros flowed into the Group from bank loans. In the previous year, Balda spent 17.0 million euros on the repayment of such liabilities. Further, 78.0 million euros accrued from optional bonds issued in July. In the previous year, Balda registered an inflow of 39.5 million euros by taking out a promissory note loan. The Group received 0.6 million euros from payments in the framework of the conversion of tranche B in the change from convertible bonds. Changes in capital leases and the participation of external parties led together to yield an inflow of 2.3 million euros.

Cash funds practically unchanged

In total, the relevant changes in the cash funds amounted to an outflow of 24.1 million euros, after an inflow of 13.8 million euros in the previous year. Financial resources increased by 22.3 million euros on the reporting date due to changes in the consolidated Group.

In total, cash fund as at 31 December 2006 amounted to 40.5 million euros against 42.3 million euros in the previous year. For discontinued operations 2.2 million euros were reorganised under assets classified as held for sale. The remaining cash fund at the end of the period of 38.3 million euros included cash in hand, immediately disposable investments, deposits at commercial banks as well as checks, and is therefore identical to the balance sheet item "cash and cash equivalents".

Internal financing resources (self-generated financial capacity), defined as the quotient of cash inflow from current operating activities to cash outflow from investing activities, fell considerably due to intensive investment and acquisition activities during the reporting period from 1.0 in the previous year to a current figure of 0.2. Dynamic exposure also changed significantly and is now about 5.1 years compared to 1.0 year in the 2005 financial year. It indicates in which time period the net financial liabilities (including bonds) could be repaid from the cash flow from current operating activities. This value will also markedly rise in the current year as a result of the announced result improvement.

Investments Boost Long-term Assets

Expansion of production plants and
new holdings shape investment activities.

Balda AG

Investment activities of Balda AG as the Group holding company were marked by acquisitions in the 2006 financial year. These investments affected the acquisition of the remaining 50 percent in Balda Solutions Malaysia as well as the 50 percent share in TPK. Both transactions were conducted through the intermediate holding Balda Investments Singapore.

The Balda Group

The new and/or increase in shares also had an impact on investment activities in the Group, which additionally invested in the expansion of the new site in India and in the manufacturing plant in Beijing, above all on a pro rata basis in the expansion of the production line of TPK in Xiamen.

Investments in fixed assets amounting to 35.1 million euros (previous year: 32.0 million euros) can be broken down as follows:

- Land and buildings: 1.8 million euros (previous year: 2.5 million euros)
- Technical equipment and machinery: 9.2 million euros (previous year: 14.4 million euros)
- Factory and office equipment: 4.6 million euros (previous year: 4.3 million euros)
- Advance payments and construction in progress: 19.4 million euros (previous year: 10.8 million euros)

Investments in intangible assets came to 3.3 million euros in 2006 (previous year: 1.9 million euros). They were almost exclusively allotted to the expansion and optimisation of software.

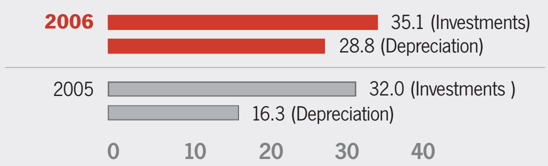
In addition, long-term assets increased due to first consolidations as a result of the acquisitions and shares previously mentioned. Of these, 15.0 million euros (previous year: 0) were allotted to fixed assets, which can be broken down as follows:

- Land and buildings: 1.2 million euros
- Technical equipment and machinery: 5.1 million euros
- Factory and office equipment: 1.4 million euros
- Advance payments and construction in progress: 7.3 million euros

The increase from first consolidation stood at 67.9 million euros for intangible assets. This growth affected almost exclusively the assessment of customer relations of BSM and TPK in accordance with IFRS 3.

Investments in tangible assets/depreciation

in mio. euros



Investments in tangible and intangible assets, including first consolidations, were almost balanced by depreciation of these items, which totalled 30.4 million euros (previous year: 17.9 million euros).

Disinvestments of tangible and intangible assets reached 6.1 million euros in 2006 and exceeded the previous year's figure of 1.1 million euros by 446.4 percent, affecting almost exclusively tangible assets.

In addition to disinvestments, deconsolidations from the sale of companies minimised long-term assets. A total of 8.9 million euros was deducted from tangible and intangible assets. A further 8.1 million euros were reclassified to short-term assets. These values come under assets classified as held for sale.

Net investments (investments minus disinvestments) stood at 32.3 million euros against 32.8 million euros in the previous year. This value increased to 98.3 million euros taking into account first consolidation and deconsolidation as well as reorganisation.

Significant increase in intangible asset figures

Tangible assets of the Balda Group fell in the year under review by 5.9 million euros or 5.2 percent from 108.4 million euros to 114.3 million euros in the previous year. The inventory of intangible assets such as patents and software as well as customer relations rose from 2.4 million euros in the previous year to 71.9 million euros.

The financial assets of the Balda Group decreased from 4.9 million euros in the previous year to 3.3 million euros in 2006.

Finally, goodwill also increased through acquisitions. In addition to the 32.3 million euros from first consolidation, this item gained ground by a further 35.2 million euros through additions. Based on impairment tests, 19.6 million euros were depreciated. Currency differences had a negative affect with 4.7 million euros. As at the closing date, this value stood at 77.2 million euros compared to 34.1 million euros in the previous year.

Balance Sheet Total Gains Considerable Ground

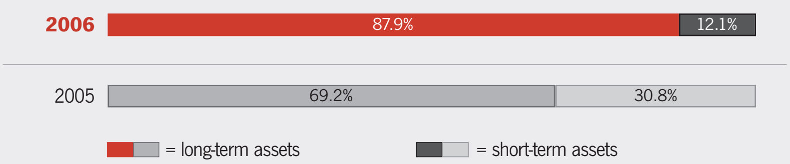
Modified balance sheets ratios: fixed assets rise significantly, current assets fall, liabilities rise.

The balance sheet total of the AG increased in the year under review by 26.1 percent from 227.3 million euros to 286.6 million euros, while the rise in fixed assets more than compensated for the fall in current assets.

Fixed assets on the rise

Fixed assets increased by 60.1 percent to 251.8 million euros from 157.3 million euros in the previous year as at balance sheet date. Advanced payments for new software modules had a positive impact on inventories of intangible assets totalling 2.7 million euros (previous year: 0.7 million euros). This is an improvement of 271.6 percent. Tangible assets remained virtually unchanged at 2.7 million euros against 2.5 million euros in the previous year.

Structure of assets
in percent



Financial assets gained significant ground. This is reflected in the increase by 60.0 percent or 92.4 million euros, giving a total of 246.4 million euros (previous year: 154.0 million euros).

The increase of investments in Balda Investments Singapore (BIS) had the greatest effect. In the course of its investment in the touch screen manufacturer TPK in July of the year under review, Balda AG experienced a cash inflow from capital increase in the amount of 46.8 million euros. In November 2006 an increase in shares to 95 percent was experienced. In total, the AG now shows a balance sheet value of 166.9 million euros (previous year: 25.3 million euros). The founding of Balda Investments Mauritius (BIM) had a positive impact on financial assets. Balda AG holds the share in India through the BIM. Moreover, Balda AG paid out loans to subsidiaries within the framework of group financing operations, which are more of a long-term nature. The depreciation explained above reduced the investments as shown in the balance sheet. Additionally, the sale of Albea and Balda Surface reduced the stake in affiliated companies. Finally, in the scope of the liquidation of Balda Beteiligungs AG, the shareholding valuation equalling 37.6 million euros was set off against intra-group liabilities. The report now displays a figure of 0.4 million euros as at balance sheet date.

(see notes to the Income Statement of Balda AG as well as notes on the "Organisation and Legal Structure of the Group" for more information)

Current assets declining

The current assets fell back 50.5 percent to 34.4 million euros. On the one hand, the receivables and other current assets eased significantly. On the other hand, the AG used cash and cash equivalents and securities for acquisitions previously mentioned. The balance amounted to 0.5 million euros on the balance sheet date against 21.0 million euros in the previous year.

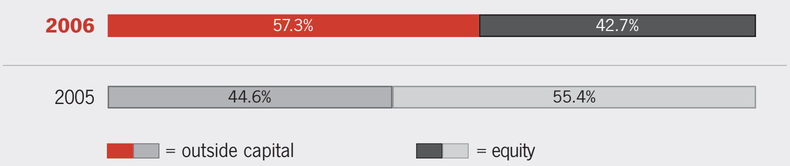
Receivables and other current assets decreased by 30.0 percent to 34.0 million euros. The accounts receivable from affiliated companies fell from 48.0 million euros to 17.5 million euros. This decline occured during group financing operations. Other current assets increased to 16.3 million euros (previous year: 0.4 million euros) due to receivables from the sale of companies. The shareholders' equity of the AG changed slightly in the year under review. The report shows a decrease of 2.8 percent from 125.9 million euros in the previous year to 122.4 million euros.

Shareholders' equity at previous year's level

A special report was carried out for the capital increase passed in November of the year under review. Although this increase had already been performed due to the transfer of shares in BIS to Balda AG through the Michael Chiang family, the entry of this capital increase in the Commercial Registry did not take place until 9 February 2007. Additional capital together with the capital reserves, which slightly increased, could not entirely make up for the decrease in the balance sheet result. After displaying a balance sheet result of 29.8 million euros in the previous year, the AG showed an annual net loss of 17.0 million euros. The shareholders' equity ratio fell slightly from 55.4 percent to 42.7 percent due to the sharp increase in the balance sheet result.

Structure of liabilities

in percent



Provisions dropped considerably from 5.6 million euros to 2.1 million euros as at the balance sheet date. The decrease affected reserves from taxes almost entirely.

Liabilities considerably higher

The AG picked up in liabilities, increasing from 95.8 million euros to 162.1 million euros. The addition can be attributed, on the one hand to the optional bonds issued in July totalling 80.0 million euros, which included options for conversion amounting to 4.0 million shares at a conversion price of 9.85 euros. On the other hand, liabilities to previous banks increased from 49.1 million euros to 64.7 million euros.

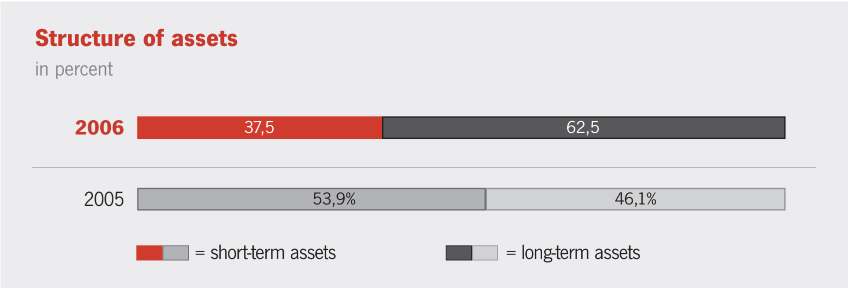
Trade accounts payable trade and other liabilities have changed marginally compared to the previous year. In contrast, accounts payable to affiliated companies fell by 75.5 percent from 37.5 million euros to 9.2 million euros. The decline was essentially a result of the set-off in the course of the liquidation of Balda Beteiligungs AG.

The net financial liabilities increased from 28.1 million euros to 64.3 million euros as at the balance sheet date due to acquisitions. They include all bank liabilities of the AG balanced against cash and cash equivalents and securities. The ratio to the balance sheet total in 2006 stood at 22.4 percent (previous year: 12.4 percent). If options are included, the figure rises from 14.6 percent to 52.1 percent. The amount thus increased from 33.1 million euros to 149.3 million euros.

Solid Balance Sheet Structure despite Annual Net Loss

Significant increase in total assets and and slight decrease total shareholders' equity.

The total assets of the Balda Group in the balance sheet increased in fiscal year 2006 by 94.8 million euros or 27.2 percent, from 348.6 million euros in the previous year to 443.4 million euros. Current assets fell by 21.6 million euros or 11.5 percent to 166.3 million euros (previous year: 188.0 million euros). Long-term assets, on the other hand, increased significantly by 116.4 million euros or 72.4 percent to 277.1 million euros (previous year: 160.7 million euros).



The influencing factors from the first consolidation stemming from the acquisition of the second 50 percent of the shares in BSM, as well as the 50 percent stake in TPK, will be discussed in individual items hereafter. Both the disposal from the sale of Albea and Balda Surface and the reassignment of the figures for Balda-Heinze, HeRo and SMK under the item "held for sale" will be explained as discontinued operations. The effects from consolidation had a positive impact on total assets reaching a figure of 146.2 million euros. Discontinued operations reduced the balance sheet total by 25.2 million euros.

Decreasing short-term assets

The decrease in short-term assets of 24.1 million euros included a positive impact of consolidation effects. In contrast, discontinued operations brought down this figure by 4.2 million euros.

Cash and cash equivalents slightly lower

As at balance sheet date in 2006, cash and cash equivalents fell slightly by 4.0 million euros or 9.4 percent, to 38.4 million euros from 42.3 million euros in the previous year, whereas consolidation effects had a positive affect with 14.1 million euros. Concerning discontinued operations, 2.2 million euros had been deducted as at balance sheet date. The relative share of cash and cash equivalents in the balance sheet total stood at 8.6 percent compared to 12.1 percent in the previous year.

The trade accounts receivables had fallen by 45.0 million euros or 52.8 percent to 40.3 million euros (previous year: 85.3 million euros) as at 31 December 2006. On the one hand this was affected by the decrease in revenues as previously mentioned. On the other hand it is reflected by the launch of the ABS programme in the 2nd quarter of the report year. With this, the Balda Group securitised its accounts receivables in Europe. The maximum limit of the new agreement is 60 million euros. The regulations agreed upon thus comply with IFRS for a complete disposal of sold receivables in the balance sheet. With this transaction, the Group increased the volume of receivables sold by 17.0 million euros compared to last year. Accordingly, the entry for trade accounts receivables was reduced. The disposal of discontinued operations reduced a further 8.1 million euros. In contrast, 4.6 million euros from consolidation effects increased the entry for this item.

Inventories registered a decrease of 5.1 million euros or 11.0 percent to 41.3 million euros. The previous year's figure stood at 46.5 million euros. In particular, work in progress and finished goods and merchandise decreased by 6.3 million euros or 20.5 percent to 24.7 million euros (previous year: 31.0 million euros). Devaluations, due to the situation with BenQ, are reflected in this item particularly, as well as in raw materials and consumables. Increases in inventories from consolidation effects amounting to 4.1 million euros were balanced out against disposals from discontinued operations totalling 7.3 million euros. The proportion of inventories in the balance sheet total was 9.3 percent on the reporting date for 2006 compared to 13.3 percent in the previous year. The turnover ratio (ratio of total production to inventories) decreased in the reporting period due to the above-mentioned reasons from 9.1 to 8.0. Only the overall performance of the continued segments went into this calculation.

Other short-term assets on the rise

The Group's tax refund claims sank by 3.4 million euros or 43.9 percent to 4.3 million euros (previous year: 7.7 million euros). The discontinued operations contributed 0.5 million euros to the decrease. Other short-term assets and prepaid expenses increased sharply by 16.6 million euros or 271.7 percent to 22.7 million euros (previous year: 6.1 million euros). For the first time, unpaid security deposits from the ABS transaction in the amount of 5.0 million euros are recorded in this item. In addition, 7.8 million euros in short-term shares from the sale price of Albea and Balda Surface were registered under this item.
Furthermore, other receivables greatly affected tax refund claims and other advanced payments. Consolidation effects have increased the figure by 1.4 million euros, balanced out by a disposal from discontinued operations in the amount of 4.5 million euros.

New balance sheet item

The Group has taken up a new item in the balance sheet section of short-term assets, "assets classified as held for sale". This represents assets for which a sale in the next twelve months is likely to occur. The assets of Balda-Heinze, HeRo and SMK are listed here. The balance sheet item amounted to 19.3 million euros.

The increase in long-term assets resulted primarily from consolidation effects, which amounted to 122.1 million euros. A figure of 21.0 million euros was deducted from discontinued operations.

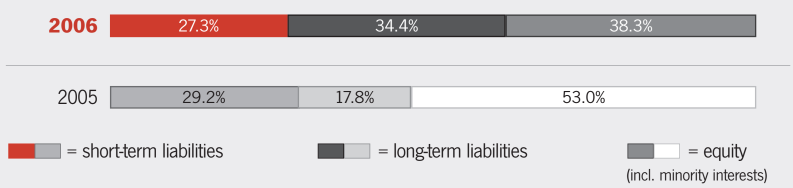
The tangible assets decreased by 5.9 million euros or 5.2 percent to 108.4 million euros (previous year: 114.3 million euros), resulting in additions totalling 21.4 million euros from consolidations and disposals of 18.5 million euros from discontinued operations. In particular, there was a surplus of discontinued operations stemming from consolidation effects under the item “land and buildings”. The item decreased by 7.2 million euros or 15.3 percent to 40.2 million euros (previous year: 47.4 million euros). In contrast advance payments and construction in progress rose by 6.5 million euros or 68.8 percent to 16.1 million euros (previous year: 9.5 million euros) as at the closing date. The investments in the new plant in Xiamen have been accounted for in this item.

Intangible assets significantly higher

Intangible assets registered the greatest increase. They grew by 69.5 million euros to 71.9 million euros (previous year: 2.4 million euros). Of this, 66.9 million euros are attributed to customer relations. These figures were identified within the scope of purchase price allocations. The financial assets eased by 1.6 million euros or 32.3 percent to 3.3 million euros (previous year: 4.9 million euros). Discontinued operations contributed 2.0 million euros to disposals.

Goodwill rose by 43.1 million euros or 126.6 percent to 77.2 million euros (previous year: 34.1 million euros). Consolidation effects contributed to the increase with 31.5 million euros, balanced out

Structure of liabilities
in percent



by depreciation of goodwill, which was 19.6 million euros *(see notes to Income Statement)*. The remaining increase resulted from changes to the minority interest in Balda Investments Singapore. Deferred taxes rose by 9.7 million euros or 191.3 percent to 14.7 million euros (previous year: 5.1 million euros). Investment intensity (share of fixed assets in the balance sheet total) increased sharply to 59.2 percent (previous year: 44.6 percent) for the reporting period due to acquisitions. The proportion of current assets, in contrast, sank to 37.5 percent (previous year: 53.9 percent).

On the liabilities side, current liabilities rose by 19.4 million euros or 19.1 percent to 121.2 million euros. Consolidation effects contributed 10.2 million euros. Regarding the discontinued operations, 12.7 million euros was deducted. Credit liabilities increased by 29.0 million euros or 142.4 percent to 49.4 million euros (previous year: 20.4 million euros). Consolidation effects and discontinued operations compensated for led to an increase of 1.8 million euros. Trade accounts payable dropped from 48.9 to 36.2 million euros. The decrease totalled 12.7 million euros or 26.0 percent. Additions from consolidations amounting to 6.1 million euros balanced out disposals from discontinued operations, which were 13.6 million euros. Provisions increased by 3.5 million euros or 150.5 percent to 5,9 million euros (previous year: 2.4 million euros). This increase was largely due to provisions for staff cuts at the headquarters in Bad Oeynhausen. Disposals from discontinued operations exceeded consolidation effects by 0.5 million euros. Tax liabilities decreased from 4.9 million euros to 1.6 million euros at the balance sheet date, representing a decline of 3.3 million euros or 67.5 percent. The negative development of business results of the German companies is reflected in this change.

Other short-term liabilities fell from 22.4 million euros to 18.3 million euros. This represents a decrease of 4.1 million euros or 18.2 percent. The decrease in liabilities regarding remaining employee holidays, as well as bonuses and profit sharing had a key impact. Additions from consolidations totalling 1.3 million euros balanced out disposals from discontinued operations equalling 4.7 million euros. The new position taken up of "liabilities classified as held for sale" lists a figure of 7.0 million euros.

Strong growth of long-term liabilities

Long-term liabilities registered a growth of 90.4 million euros or 146.1 percent to 152.3 million euros (previous year: 61.9 million euros), of which 20.7 million euros resulted from consolidation effects. The discontinued operations amounted to 5.3 million euros. The greatest increase was found in the item “long-term debt”, which increased by 76.2 million euros or 149.1 percent to 127.4 million euros (previous year: 51.1 million euros). The optional bonds placed in connection with the investment in TPK increased the entry for borrowings to 79.3 million euros (previous year: 5.0 million euros). Bank loans raised from 6,8 million euros to 8.6 million euros, impacted by 5.9 million euros from consolidation effects. These were balanced out by discontinued operations amounting to 2.6 million euros. Deferred taxes increased from 3.3 million euros to 18.4 million euros. The increase is almost completely attributable to consolidation effects. Thereof, 13.5 million euros affected deferred taxes in connection with identified assets within the framework of the purchase price allocation for TPK and BSM.

Long-term provisions and pension accruals decreased by 48.1 percent or from 3.1 million euros to 3.3 million euros. Discontinued operations contributed to this decline with 2.4 million euros. The increase in other long-term liabilities to 2.5 million euros (previous year: 0.2 million euros) stood at 2.3 million euros, which was largely in part a result of a loan of the joint venture partners Motherson to Balda Motherson Solution India.

Rise in net gearing

The net financial liabilities of the Balda Group increased from 30.5 million euros in the previous year to 142.3 million euros as at balance sheet date. They include all bank liabilities of the Balda Group – including borrowings and loans of the joint venture partner – balanced against cash and cash equivalents. The strong rise resulted from the sizeable acquisitions in the year under review. In relation to the balance sheet total, the net financial liabilities stood at 32.1 percent at the end of the 2006 financial year (previous year: 8.7 percent). Net gearing, the ratio of net financial liabilities to Group shareholders' equity, rose considerably in the reporting period to 89.5 percent (previous year: 17.8 percent). This figure lies in the target range of the Board of Directors of Balda AG. Equity gearing for the Balda Group (the ratio of debenture to total shareholders’ equity) rose from 0.89 at the end of 2005 to 1.61 as at balance sheet date.

Minority interests declining

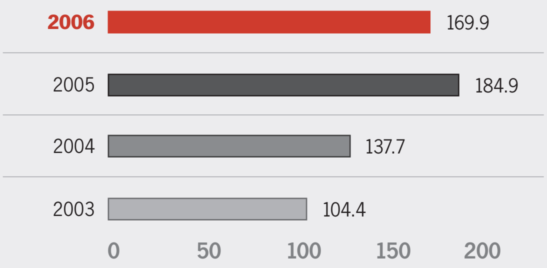
The entry for shareholders' equity has changed compared with the previous year. According to regulations as laid out in IAS 27.3 in connection with IAS 1.68 (o), minority interests are henceforth to be recorded under shareholders' equity as a special item. Accordingly, Balda lists a Group shareholders' equity subtotal and a total shareholders' equity.

The shareholders' equity ratio for the Balda Group in consideration of minority interests decreased considerably in the reporting period, due to the strong increase in the balance sheet total and the annual net loss. It fell from 53.0 percent in the previous year to 38.3 percent at the end of 2006. In absolute figures, shareholders' equity decreased to 169.9 million euros against 184.9 million euros in the previous year. This means a drop of 15.1 million euros or 8.1 percent. Group shareholders' equity according to an older definition went down from 171.0 million euros in the previous year by 12.1 million euros or 7.1 percent to 159.0 million euros. The capital increase agreed in November totalling 42.6 million euros for the year under review was listed under a special entry *(see notes to Balance Sheet Structure of Balda AG).*

Reserves eased up as a whole, capital reserves grew due to the conversion of the remaining 116,067 shares from the convertible bond in 2003. On the other hand, the components of shareholders' equity of the optional bond placed in the year under review had a positive effect. This increase, together with the revaluation reserves from consolidation effects, compensated for the drop in currency reserves only partially. The retained earnings especially developed negatively. In addition to the distribution of dividends in the amount of 12.0 million euros, the net loss of the year had a major impact. In the previous year, net income of 33.4 million euros still contributed to strengthening retained earnings and with that, shareholders' equity. For the year under review, however, an annual net loss of 42.0 million euros had to be absorbed.

Shareholders' equity 2003 to 2006

in mio. euros (figures rounded)



Minority interests declined from 13.9 million euros in the previous year to 10.9 million euros. This item represents the participation of third parties in company assets, which the Balda Group includes at their full amount in the consolidated Group. This item was influenced by four changes in the reporting period. Firstly, with effect from 1 June 2006, Balda repurchased the stake of former partner Everskill in the Balda Investments Singapore (BIS). Secondly, the family Michael Chiang has taken over 40 percent of BIS with effect from 15 August of the year under review. Thirdly, Balda AG repurchased 35 percentage points of BIS as laid out in the contract from 19 November 2006. Finally, minority shares rose due to the foundation of Balda Motherson Solution India. The joint venture partner Motherson has a 40 percent stake in this company. In addition, the proportion of minority shareholders in Group earnings has risen by 2.0 million euros.

Despite the drop in total shareholders' equity, the Balda Group still records a healthy financial structure. With the return to positive results planned for 2007, this will be improved continuously.

The joint venture Balda-TPK develops and manufactures all commercially available **touch screen solutions** – as the only company worldwide from a single source. The company has a hold on the weakness of touch sensitive screens, which were prevalent up to now, using innovative technologies.

CHILD'S play

Even little children feel their way through their limited world with their index finger. The touch screen sensor of a mobile telephone opens up a boundless virtual world to an adult's index finger.

This double page is not part of the Management Report.

Capital Structure, Board of Directors and Change in Control

In accordance with regulations laid out in Section 315, paragraph 4, of the German Commercial Code, Balda AG is required to provide the following information in the Group Management Report:

Composition of subscribed capital
The capital stock of the company was 40,279,025 euros as at 31 December 2006, and was divided into 40,279,025 individual share certificates with a partial amount of capital stock of 1.00 euro per share. The 40,279,025 old shares are entitled to dividends from 1 January 2006.

From 9 February 2007, with the entry in the German Commercial Code, a capital increase of 7,108,063.00 euros to 47,387,088.00 euros was carried out through the issue of 7,108,063 of new individual share certificates, with a partial amount of capital stock of 1.00 euro per share. These new shares are entitled to dividends from 1 January 2007.

Each individual share guarantees a vote in the company's shareholders' meeting.

Restrictions on voting rights or transfer of shares
All shares of the company are freely transferable in accordance with the articles of association.

However, of the 7,108,063 individual share certificates from the above-mentioned capital increase, only 2,416,742 individual share certificates were admitted to trading on the stock exchange. As regards the remaining 4,691,321 individual share certificates, the company, Max Gain Management Ltd., owned by the Michael Chiang family submitted to a lock up agreement with Balda AG until 31 March 2008.

The Board of Directors of the company is not aware of any other restrictions concerning other rights or transfers of shares.

Shares exceed ten percent of capital
On 31 December 2006, the following shareholders held stake directly or indirectly in the capital stock of the company, which guaranteed more than 10 percent of the voting rights:

- Sapinda International Ltd. London, England:
  10.04 percent of capital and voting rights directly.
- Cycladic Catalyst Master Fund, London, England:
  10.08 percent of capital and voting rights directly.
- Cycladic Capital LLP, London, England:
  10.69 percent of capital and voting rights directly.

Pursuant to the capital increase carried out on 9 February 2007, the stake of the last two companies fell below 10 percent of the capital and voting rights. Since this date, the shareholder Max Gain Management Ltd., Samoa, has a direct interest of 15.0 percent in capital and voting rights in the company.

Holders of shares with special rights
Shares with special rights, which grant authority to control, do not exist.

Special voting control for personnel
Employees of the company or of the Balda Group do not hold stake in capital such that they do not exercise their right of control.

Appointment and withdrawal of the Board of Directors and alteration of the articles of association
Appointment and withdrawal of the Board of Directors
The appointment and withdrawal of members of the Board of Directors of the company comply with the provisions of Sections 84 and 85 of the German Company Law, AktG., pursuant to which the Supervisory Board appoints members of the Board of Directors for a maximum term of five years. A subsequent appointment or extension of term of office for a maximum of five years at any one time is permissible. This requires a further resolution by the Supervisory Board, which may be made at earliest one year before the expiry of the present term of office. Only in the case of an appointment for less than five years, may an extension of the period of office be designated without the need of a further resolution by the Supervisory Board, provided the total period of office does not exceed more than five years as a result. This appointment for less than five years is permissible according to the articles of association of Balda AG as laid out in Section 6, paragraph 2.

Should an essential member of the Board of Directors be absent, the court of jurisdiction is obliged through motion of a party involved to appoint the member. The office of the member of the appointed Board of Director ends, once the shortage ceases to exist.

In other respects, the end of the period of office for members of the Board of Directors is different to the expiry of a period of office, if in the former the Supervisory Board withdraws the appointment due to just cause. Just cause is deemed existent if a member of the Board of Directors is found to be in breach of his duties, incompetent of proper management or if the company withdraws its confidence from him through the annual general meeting, unless this confidence has been withdrawn due to obvious irrelevant reasons. When in doubt, the withdrawal of the appointment is effective until its ineffectiveness has been declared final and absolute.

Alterations to the articles of association

Resolutions concerning alterations to the articles of association, which involve the object of the company, continuance of the company, a capital increase (including the generation of contingent capital increase or authorised capital and excluding regular capital increases by which subscription rights of the shareholders are not excluded and by which preferred shares are issued without voting rights, and furthermore, excluding capital increases from the company's financial resources) or a regular capital reduction, require a majority of at least three-fourths of the represented capital in the annual general meeting and the bare majority of the votes cast at the annual general meeting during the vote on the resolution.

In other respects, resolutions on altering the articles of association, which deviate from statutory models including the resolution on a simplified capital reduction in accordance with the articles of association, only require the bare majority of the represented capital in the annual general meeting and the bare majority of the votes cast at the annual general meeting during the vote on the resolution.

Section 22 of the Articles of Association of Balda AG authorise the Supervisory Board to pass alterations to the articles of association, which only affect their wording, also in particular alterations of data on capital stock concerning the respective extent of the capital increase from contingent capital and authorised capital or capital reduction due to the recall of shares.

Authority of the Board of Directors

Authorised capital:

As of 31 December 2006, the Board of Directors was authorised, with consent of the Supervisory Board, to increase the capital stock in the time period until 28 April 2009 through the issuance of new individual share certificates made out to the holders once or on several occasions, in total by a maximum of 18,975,000 euros against cash assets or tangible assets (authorised capital 2004).

At the same time, the Board of Directors was authorised with consent of the Supervisory Board to suspend the subscription rights of shareholders,

- to exclude fractional amounts from subscription rights,
- where necessary, to guarantee holders of convertible bonds and optional bonds as well as holders of profit-sharing rights with conversion options and subscription rights, which were issued by the company or affiliates of the company in company shares, as would be entitled to them after exercising their conversion options or subscription rights or after fulfilling a possible conversion obligation, or
- if the share amount of capital stock apportionable to the new shares does not exceed 10 percent of the existing capital, stemming from this entitlement, which has taken effect, and the adoption of a resolution on the exercising of this entitlement, and the selling price is not considerably lower than market price. On the amount of 10 percent of capital stock, an amount apportionable to shares is chargeable, which are sold or issued due to a respective entitlement to the exclusion of subscription rights in immediate application or application mutatis mutandis of Section 186, Paragraph 3, Clause 4 of the German Company Law, AktG. In terms of this entitlement, the "selling price", upon transfer of the new shares through an issuing broker and an obligation of the issuing broker to offer one or more third parties specified by the company, the new shares for purchase, is equivalent to the amount to be paid by the third party or third parties. In other respects, the selling price is equivalent to the issue amount.

Furthermore, the Board of Directors has the authority with the consent of the Supervisory Board to exclude subscription rights by capital increases from tangible assets if the acquisition of the object of non-cash payment lies in the vast interest of the company, and the value of the non-cash payment does not considerably fall below market price.

Upon execution of the capital increase on 9 February 2007, the entitlement described above amounted to just 11,866,937 euros. As soon as the expansion of the entitlement described above, which was decided at the regular annual general meeting on 1 June 2006, is entered in the Commercial Registry of the Group, the entitlement, ceteris paribus unchanged conditions and in consideration of capital increase from 9 February 2007, will be extended to the increase of capital stock by up to 12,973,416 euros through the issuing of up to 12,973,416 shares.

Contingent capital:
In accordance with Section 192 Paragraph 2 Clause 1 of the German Company Law, AktG, the capital stock of the company has been contingently increased by up to 16,449,725.00 euros through the issuing of up to 16,449,725 new individual bearer shares with entitlement to profits from the beginning of the financial year in which they are issued (contingent capital 2004).

Contingent capital increase serves
- the guarantee of shares to the bearer from conversion bonds sold by the company from 26 April 2001 to 28 April 2004, as a result of the resolution passed on entitlements under agenda item 5 of the annual general meeting,
- the guarantee of shares to the bearer from conversion bonds and optional bonds, which are to be sold by the company or one of its subordinate affiliates from 29 April 2004 to 28 April 2009 as a result of the resolution passed on entitlements under agenda item 7 of the annual general meeting, as well as
- the guarantee of shares to the bearer from profit-sharing rights with conversion bonds and optional bonds, which are to be sold by the company or one of its subordinate affiliates from 30 April 2003 to 29 April 2008 as a result of the resolution passed on entitlements under agenda item 7 of the annual general meeting.

With the recording of the respective resolution from the annual general meeting on 1 June 2006, the contingent capital will amount to 16,065,184.00 euros.

Furthermore, the annual general meeting on 1 June 2006 decided to increase the contingent capital stock through the issuing of up to 4,016,295 new shares with an entitlement to profits from the beginning of the fiscal year, for which the annual general meeting at the time of the share issue still had not passed a resolution on profit appropriation (contingent capital 2006). The contingent capital increase should serve to guarantee shares to the bearer from subscription rights (share options), issued by the company from 1 June 2006 to 30 June 2009, as a result of the resolution passed on entitlements under agenda item 9 of the annual general meeting on 1 June 2006. This contingent capital increase has also not yet been entered in the Commercial Registry.

Entitlement to acquire own shares
and to recall such acquired shares:
The Board of Directors, in accordance with Section 71 Paragraph 1 Clause 8 of the German Company Law, AktG, is authorised up to 30 November 2007 to purchase its own shares either singularly or repeatedly. The deadline only applies to the purchase not for the holding of shares. At no time may more than ten of one hundred of the capital stock together with other own shares be apportionable to the acquired shares, which are in possession of or allotted to the company pursuant to Section 71a ff. of the German Company Law, AktG. Acquiring own shares for the purpose of trading in own shares is excluded.

If the purchase takes place on the basis of a public offer to all shareholders of the company, the offered purchase price or the marginal value of the purchase price spread offered per share (each excluding other purchase fees) may not be lower than nor exceed the market price of the shares on the closing auction in XETRA trading or instead of a XETRA system, a functionally comparable successor system (the "XETRA closing price") on the last day of trading before the day of the publication of the public offer, by no more than ten of one hundred. In all other cases, the counter value (excluding purchase fees) paid by the company per share may be lower than or exceed the XETRA closing price by no more than ten from one hundred on the last trading day before the day of purchase.

The Board of Directors is authorised to recall own shares of the company without a further resolution by the annual general meeting. A sale is only permissible with due regard to the equality principle pursuant to Section 53a of the German Company Law, AktG.

Substantial agreements in the case of a change in control
At the level of Balda AG, and also among Group affiliates, there exist different agreements, which are based on the condition of a change in control, following a takeover bid. As the exact specification of these agreements is capable of putting Balda AG at a material disadvantage, a specification shall be abstained from.

Compensation agreements in the case of a take-over bid
No compensation agreements exist for members of the Board of Directors or employees in the case of a take-over bid.

Expansion of Global-regional Structure

Consignment process for suppliers designed for first time, new APS system installed in Europe, 2007 worldwide implementation.

Purchasing and Supply Chain Management (SCM) make key contributions to smooth and thus cost-efficient processes. It also has considerable influence on customer satisfaction. That is why they are given strategic significance at Balda. In 2006, the company continued to press ahead with the development of the global-regional structure of purchasing. Supply Chain Management expanded the development of a global IT structure and the standardisation of logistic processes.

Purchasing with worldwide unified standards

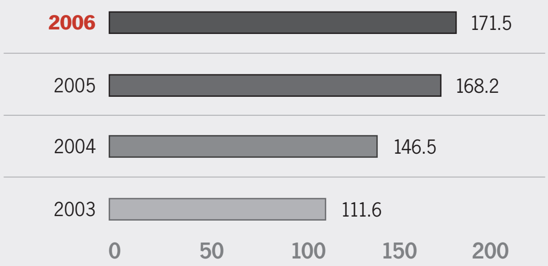
The central task of Purchasing for the year under review was the implementation of a global-regional purchasing strategy. This involved defining and manning with persons responsible in Purchasing at all sites of the regions for the four classes of goods defined by Balda. The global responsibilities in Bad Oeynhausen have been established. A further project was the planning and expansion of IT. This division created the preconditions necessary for introducing new software with a data warehouse module within the existing ERP system. Using this as a basis, Purchasing also created unified global reporting standards. Moreover, Balda homogenised contracts with global suppliers. Since 2006, Purchasing is also responsible for the coordination of tool purchasing worldwide.

In the year under review, Purchasing systematically increased the transparency of its suppliers through a matrix with a total of 68 key suppliers. The matrix organises the suppliers according to volume in three categories and records the business as well as turnover volume of each supplier. In addition, the overview displays the 16 product segments. Product diversity, internationality and business relations with Balda customers together with special ratings top off the data bank. Balda also continued with the certification of suppliers in 2006. Based on clear guidelines and profiles, Balda defined the quality required of suppliers. The company continues to work closely together with its suppliers on developing quality even further.

Purchasing developed a consignment process including the accompanying software solutions in a pilot project in 2006. In future, suppliers will be able to see data on supplies and inventories for each of the purchase items in real time using the software, which is based on an Internet platform. The delivery of goods is processed in a consignment warehouse of Balda. The Group pays for the goods upon retrieval.

Material expenses (absolute figures) 2003 to 2006

in mio. euros



Expenses for materials and purchased services of the Balda Group amounted to 171.5 million euros in the year under review against 168.2 million euros the year before. Material expenses therefore increased by 3.3 million euros or 2.0 percent, although the total operating performance of the Group decreased. The pricing pressure mentioned above explains this offsetting trend. Expenses for raw materials and supplies contributed 157.7 million euros (previous year: 153.5 million euros). The rise in 4.2 million euros or 2.8 percent is thus slightly disproportional. Purchased services eased up by 0.9 million euros or 6.3 percent to 13.8 million euros (previous year: 14.7 million euros). Due to decreasing capacity, fewer services were purchased externally. The proportion of material expenses in relation to total operating performance of the Group increased, as already explained, from 39.9 percent in the previous year to 45.4 percent. After deduction of the effect of acquisitions and dispositions of BSM and TPK the material expenses are 44.8 percent. India has not yet contributed material expenses. This decrease in pro forma comparison shows, as does reporting by market segment, that the proportion for material in Asia (57.8 percent) is significantly higher than in Europe (38.2 percent). This is reflected in the higher share of purchased electronics components. In America, the proportion for material was 51.7 percent. The "discontinued operations" in Germany amounted to 15.2 million euros against 11.6 million euros in the previous year. With this increase, of 31.5 percent, the relation to total operating performance for this segment increased from 26.0 percent to 33.4 percent.

Supply Chain Management

Customer-related consignment warehouses are available in all key customer production sites, which are supplied by Balda: Germany – Bochum, Hungary – Komarom, Finland – Salo, Brazil – Manaus, China – Beijing and Shanghai.

Supply Chain Management (SCM) represents all essential activities group-wide required to plan, produce and deliver a product to a customer. SCM integrates all partners involved in an unified logistic process chain to fulfil this complex task, which encompasses the purchasing of greenware and raw materials right through to despatch of finished products to end customers.

The main task of SCM for the year under review was the adaptation and expansion of the logistics organisations and structures to the new global-regional strategy of the Balda Group introduced in 2006.

New APS system

An important instrument for the standardisation of group-wide SCM structures is an unified software tool for planning. Instead of manually transferring capacities of the individual locations, which are calculated by the ERP systems (Enterprise Resource Planning), quick automatic integration should take place via computer.

The use of the APS software tool (Advanced Planning and Scheduling) has positive effects on orders from suppliers and deliveries to customers. It allows, among other things, for short-term scenarios concerning capacities of the individual locations. Balda has already successfully implemented the new APS software, which spans all locations, at two locations in the Europe region (Balda Solutions Deutschland and Balda Solutions Hungary) in the year under review. A comparison between injection moulding and paint capacities between the Bad Oeynhausen and Veszprém locations is now possible in real time.

Preconditions for this advance was the integration of the ERP systems into the APS system of both locations. Both plants can now work together as in a virtual factory. Planning of capacities is now possible in real time, as for example, injection moulding and paint capacities, as well as the simulation of situations, for instance, a change in requirements and its effects on subsequent processes. Even the tracking and controlling of the daily business now takes place in real time. The completion of the worldwide integration of the APS software tool is budgeted for 2007.

Balda also implemented the global interface "Synchro" to its customer Nokia in the year under review, which exchanges forecast data and confirms the transfer. The Group was able to realise this global solution in a very short time. Balda can now inform customers about despatch capabilities in a flash.

China

The Group installed planning processes compatible with European ones in Balda Solutions' new plant in Beijing. With this, the Group has now implemented the same processes as in Suzhou and thus created a basis for the installation of the APS systems in the Asia region in 2007. Balda thereby anticipates saving on capacities, reducing capital commitment in stocks, a reduction in risks as well as a higher degree of accuracy in forecasts for customers.

India

An independent purchasing department at the Indian location in Chennai steers the purchasing and delivery of resin and bought-in parts. During the process of purchasing industrial goods, the coordination takes place centrally in Germany with the help of the global supplier contracts. Deliveries go directly to India. Depending on the project, the location processes the delivery directly to the customer or to a consignment warehouse. No projects have started running as of yet in Chennai for the 2006 fiscal year. As a result, there haven't been any consignment warehouses there. In addition to training the Indian employees on manufacturing at the new plant in Chennai, there was also comprehensive training on all other processes. This also included Supply Chain Management. Balda employees from Germany, Hungary and Malaysia conducted the training sessions. Supply Chain Management is well primed group-wide for 2007.

Manufacturing Centres in the Important Growth Markets

New technological concepts and implementations face burdensome market influences.

In the fiscal year 2006 Balda achieved decisive progress in the internationalisation of production. The commissioning of the factory in Beijing and the development of the new production locations in Chennai in India as well as in Xiamen in China further strengthened global competitiveness. Nokia named the company for the first time as a worldwide supplier.

In the year under review Balda adapted the structures of its organisation in production in a targeted manner to the global-regional strategy decided on last year. On this joint basis the Balda Group successfully pushed ahead with technological exchange. Regional differences with regard to people, culture and management were deliberately integrated in the Balda concept. Apart from technology, the same standard items for worldwide project management ensure mutual understanding within the Group and the same high standards everywhere. Worldwide, the Balda Group had over 450 injection moulding machines and the latest equipment for surface finishing. The Balda Technology Days organised in 2006 in Hungary and the Netherlands with the participation of leading employees from the entire Group deepened personal and specialist cooperation. As a production association, the Balda Group in the year under review became even more closely and effectively interconnected, for example in global projects.

Infocom

The demands of customers from the mobile phone market changed massively during the year under review. The worldwide intensifying competition among mobile phone manufacturers drastically increased the pressure on product prices. One solution from the mobile phone producers was to relocate production capacities from Europe to China with its lower costs. The BenQ mobile phone division had to declare its bankruptcy in the face of the competitive pressure. The subcontractors of mobile phone manufacturers were subjected to growing pressure on prices and margins. Balda had to absorb price reductions well into the double digit range.

The performance portfolio of Balda in the manufacture of plastic components covers the entire added value chain involved. The spectrum ranges from the development of new products, production technologies and concepts, the manufacture of tools and manufacturing systems to injection moulding, common surface technologies and assembly. In assembly, the production units of the Group put together both self-made components as well as bought-in parts to create complex units. The production processes of Balda are consistently oriented to the methods of "continuous improvement" and "Six Sigma". The manufacturing targets are smooth production start-ups, high flexibility, early identification of opportunities for optimisation, constant product quality and high cost effectiveness.

Burdensome market influences

The order book of the locations in Europe declined, due to the declining requests for deliveries from BenQ and another customer. The locations in Suzhou and Malaysia were likewise affected by the volume decline at BenQ. Nokia relocated parts of production from Brazil to Mexico. In the short-term, the Group was unable to make up for these volumes. Balda was able to offset the difficult market situation occasioned by price pressure in the year under review only partially with technological innovations in tool building, manufacturing processes and in close cooperation with its customers.

Technological innovations

The "early supplier involvement", the early and close cooperation in the development process with the customer, proved its value in 2006 by way of "simultaneous engineering", especially in product design. The result was material and cost savings thanks to thinner wall thicknesses with identical product rigidity.

The use of graphite electrodes accelerated throughput times in tool building by up to 30 percent. In 2006, the Group supplied its customers in the form of the newly developed "Balda Modular Executive System" for the first time with small series tools in a construction time of two weeks and with a capacity of up to 300,000 parts. Earlier prototype tools only had an output of 3000 parts. With the new tool type the customer can save costs while carrying out important market tests with new products.

In addition, the Group introduced a new modular tool building system with "Balda Global Tooling". It is a lean and faster tool building strategy for high volumes of series tools. The concept is applied worldwide in the Balda Group. It is equally suitable for the infocom area as well as for medical technology. These innovative strategies consistently fulfilled demands of customers and heightened the international competitiveness of Balda.

Thanks to once again clearly reduced cycle times in injection moulding, manufacturing processes underwent further optimisation, including in terms of costs.

New surface technologies

In the year under review the Balda Group again possessed the complete portfolio of surface techniques demanded by customers. Surface technology is of decisive importance for mobile telephones in particular. It is here that the integration of decorative small elements, if necessary with a metal coating, plays a role. Lustre and abrasion resistance are called for. Easiness to clean, scratch resistance, transparency and anti-reflective characteristics are demanding requirements when it comes to the mobile telephone windows. They propel new technological developments. Here Balda has achieved results with IMD and IML film technology combined with lacquering or so-called hard coating that put it at the forefront of global competition. In 2007, the Group will replace the PVD technology sold with Balda Surface in 2006 with a new sputtering process. Early in 2007 the Group will introduce a revolutionary new technology for surface finishing of mobile phone windows and shells.

Another innovation is individual pad printing of provider logos. The very high precision printing of six-colour logos is extremely competitive both technologically and financially.

In 2006, Balda developed additional innovations in in-mould decoration. In-mould decoration of glass by injecting around the frame eliminates the previously troublesome transitions between the two materials glass and plastic. A new process on top of this is the integration of scents, such as fruit scents, in plastic.

Quality

In the year under review Balda constantly improved its supply performance. Almost 100 percent of the products supplied were of the quality demanded by the customer. This is also testimony to the Group's high level quality management system. Balda summarises the different respective demands of the customers in a quality management matrix. In this way the Group coordinates and controls the worldwide mutually differing expressions of quality management at its various locations.

All Group production locations possess a certified quality management system according to ISO 9000, worldwide uniform environmental standards and a specific audit by their respective customers. The new factory in Chennai, India was audited by the customer in the fifth calendar week of the current fiscal year.

Europe region

The Europe region had injection moulding capacities of 220 machines in Germany at the locations Bad Oeynhausen, Seelbach and Herford. On 31 December 2006 Albea was sold *(see also chapter "Organisation and corporate legal structure")*. On top of this there were various systems for surface finishing. The collapse of BenQ and the Nokia production outsourcing from Europe to China reduced the order volume in Veszprém in Hungary as well. Balda will adapt the personnel capacities there to demand. The factory transferred one of its two lacquering systems to the new production location in India in an investment-friendly manner.

Asia region

The new production location in Beijing operates on a high quality level in injection moulding, surface finishing and assembly. The new manufacturing factory in Xiamen that is to go into operation in 2007 was under construction. The innovative stamped injection moulding technology was already available there at the end of 2006. Among other things, it is intended to manufacture plastic components for the touch screen production of TPK. The factory in Suzhou passed the 2006 Nokia audit and was nominated by Nokia initially for two projects in 2007. Their production is to begin at the end of the 2nd quarter of the current fiscal year. As a result of the decline in delivery requests from BenQ, Suzhou will register a lower capacity utilisation in the first half of 2007. Currently Suzhou is Balda's largest production location in Asia with its injection moulding machines, two lacquering systems and extensive assembly capacities.

Malaysia

Balda Solutions Malaysia in Ipoh, which became a 100 percent Balda subsidiary at the beginning of the year, also manufactured plastic components for mobile telephones, Bluetooth headsets and hands-free devices for cars in the year under review. Apart from injection moulding machines and a lacquering system, the company possessed the technology for equipping printed circuit boards with electronic components and all the resources to develop and test the acoustics. In view of its extensive research and development activities, the company was exempted from corporation tax for ten years in 2006.

America region

The Brazilian production locations possessed manufacturing capacities with a total of 40 injection moulding machines and a lacquering machine. After the departure of BenQ and the partial Nokia production transfer to Mexico, overcapacities dominated the market for subcontractors for plastic mobile phone components in Manaus. At the moment, Balda has a declining order book. The prospects of the Sao Paulo location are by contrast promising. It expects clear order growth and a significant sales increase.

India region

India will probably take up production at the end of the first quarter of 2007. 21 injection moulding machines and the lacquering machines were installed. Training of the processes and maintenance of the machine park was completed in the technology park in Bad Oeynhausen, among other places in Germany. India already possesses the highly innovative hybrid technology in injection moulding machines and consequently the highest standard. The quality management has been established. Manufacturing in Chennai can go into operation with the start signal from the customer for the production start-up.

Medical technology

Balda Medical occupies a leading position as an OEM supplier for complex plastic products, systems and solutions for healthcare market segments that demonstrably generate added value for customers. The company possesses the entire portfolio for the development and manufacture of complex systems. In addition to services, the company provides injection moulding, the latest surface finishing, assembly, additional processes and in particular clean room processes. In 2007, the order volume will increase from 15 million euros to around 25 million euros. The company made additional investments because of existing new orders in the future, and in 2007 it will enlarge its clean room capacities by 200 percent or 2000 square metres in the areas becoming available in the technology park in Bad Oeynhausen to 3000 square metres. In the worldwide growing market of medical technology, Balda Medical will continue to have brilliant opportunities in the future for above average growth rates.

Through its joint venture with the Taiwanese company AVY, Balda has logically supplemented its portfolio for the manufacture of housing components with metal stamping and aluminium/magnesium die casting parts. AVY is part of the Taiwan-based ABICO Group. The company already produces metal housings for digital cameras at the locations Suzhou and Dongguan. The agreement concluded secures Balda 60 percent of the shares in the joint venture with a nominal capital of 100,000 US dollars. Investments in systems of its own for the joint venture are only planned for when the production volume of AVY is fully utilised. Balda expects manufacturing to begin in 2007.

On the Way to a Global High-tech Company

The joint venture with the TPK Holding in Xiamen in China opens up access to innovative touch screen technology.

With its entry into touch screen manufacture in Xiamen in China, Balda has consistently implemented its announced strategy of technological diversification. The Group has created a promising new platform for further growth.

The share in the TPK Holding has provided Balda with access to an advanced technology in a rapidly growing market with a wide application spectrum. As a result, the Group is on the way from being a regional supplier of high precision plastic and metal components to a global high-tech company. Balda expects synergies from the touchscreen business. The Group counts on a rapid growth of integration of touch screens in mobile telephones. Consequently, touch screens will noticeably increase the added value of the Balda Group in its former core business. In addition, Balda is entering new markets. The Balda Group has strengthened its future competitive position with this step.

All technologies from one source

Touch screen technology will be used in devices with a high integration of functions, such as in medical technology, mobile telephones, handheld devices or navigation systems. TPK concentrates on small format solutions with 2.5 to 8 inches, but it is also capable of producing solutions up to 42 inches. The company offers its customers complete vertical integration of all technologies from one source. Thanks to this, the joint venture has a significant time lead over potential competitors. Through the use of touch displays in mobile telephones, a market with large project volumes per model has opened up for the first time. TPK has invested in corresponding production capacities and as a result secured itself a further time advantage. By its own estimates, competitors will need up to two years to build up comparable capacities.

The newly built factory will achieve an annual capacity of up to 35 million touch displays by the end of 2007. Series production will begin after test runs and smaller production batches in 2006 at the end of the 1st quarter of 2007. At the end of 2006, TPK had around 800 employees.

New touch screen dimension

The innovative solutions developed by TPK eliminate or minimise the typical weak points of conventional touch sensors with new technologies:

- Various innovative surface coatings reduce the reflection and increase the scratch resistance from previously around 4 H up to 9 H. Furthermore, the display can be protected against fingerprints and can, for example, also be treated with an anti-bacterial coating for medical applications.
- The use of new production technologies in glass processing has produced an appreciable increase in fracture resistance compared to the previous solutions used.
- Thanks to the lamination of the LCD display with the touch sensor, extremely flat overall heights can be realised, which support the trend to slim phones.
- TPK produces all the conventional market technologies of touch sensors, including resistive, capacitive touch sensors.
- The manufacturing of a touch sensor occurs in complex process steps. They range from the precise cutting of the film, surface finishing and lamination of the glass to high precision testing processes under clean room conditions.

The glass used is refined in a comprehensive process with 14 working steps. The 100 percent TPK subsidiary G&P, likewise based in Xiamen, is specialised in the processing of surfaces made of different kinds of glass, acrylic (PMMA) and injection moulded glass. It also supplies third party companies with protective windows, including manufacturers of mobile telephones and PDAs.

From Precision Components Made of High Performance Plastics to High-tech Touch Sensors

Balda expands its portfolio with metal stamped parts, new medical equipment parts and touch screen products.

The implementation of technological diversification led to a breakthrough in the product portfolio of Balda in the year under review. The share in the TPK Holding provided the entry into touch screen technology. TPK made and delivered its first touch screen sensors in 2006. With this step and the joint venture with AVY for stamping of metal parts, the Group achieved a forward-looking diversification and expansion of its original portfolio of precision high performance plastic parts for the mobile phone and medical equipment market.

In the year under review the core business of Balda was also in the area of Infocom. In this market segment the company develops and manufactures all plastic components required for mobile telephones, mobile fixed line telephones and base stations. In

Product portfolio

2006, customers included Motorola, Nokia, Sagem, Sony Ericsson, TCL Alcatel, ZTE and BenQ-Siemens, which got into serious difficulties. Balda's product range of plastic components and systems includes all standard market types and designs of mobile telephones. It ranges from simple mobile phones, lifestyle and business models to smart phones.

In addition to plastic parts for mobile phones, Balda Solutions in Malaysia also produces high-tech components for the periphery, such as Bluetooth headsets and Bluetooth hands-free devices for cars. Thanks to the joint venture with the metal stamping company AVY, Balda will in future offer metal housings and parts for mobile telephones, too. Increasing numbers of high quality and expensive mobile phones possess metal housings or components.

High-tech proportion growing

Balda also assembles all plastic parts and modules into complete systems. Furthermore, the company integrates electronic components sourced from suppliers in mobile telephone systems. Apart from aerials, this includes keyboard printed circuit boards, speakers and microphones.

Balda now also provides touch screen solutions via the holding in TPK. Depending on the customer requirement, the joint venture offers a multitude of different versions. On top of this, TPK has allocated all technologies required for the manufacture to its location in Xiamen.

Medical equipment products

Balda Medical manufactures and develops medical equipment products and pharmaceutical primary packaging. In the year under review the company produced various designs of lancing devices for Roche Diagnostics. Diabetics employ the product for regular and independent checks of their blood sugar level. The company continued the production of the dry powder inhaler for asthmatics. In addition, production was continued of a primary packaging tube for an animal medicine for the customer Bayer Healthcare. In 2006, preparations for the series production of more products also began. These include various consumer products for diagnostics and for housings for measuring devices.

Targeted Conversion and Extension of the Portfolio

Introduction of the global-regional organisation structure largely completed. Technological diversification with entry into TPK Holding successfully implemented.

In the year under review the Balda Group logically continued with the restructuring of the company organisation decided in 2005. The introduction of the regional organisation structure is at an advanced stage. The Balda AG now runs four lead offices in the regions Europe, Asia, America and India. They have assumed the operative management and responsibility for results.

The positions of the regional chief executive officers in Europe, Asia and India have been filled. In the America region the chief operating officer together with the chief sales officer managed the business until the end of the year under review. Since 1 February 2007 a CEO has also taken on the management in America, too.

Noticeably enhanced customer closeness

The expansion of the structures and responsibilities in the regions has noticeably enhanced the closeness to Balda's customers. The globally operating customers have also transferred responsibilities to their production locations. Consequently, the Balda sales organisation on the spot maintains contact with customers in the region. If necessary, the worldwide sales management of the Holding coordinates activities. For example, this is worth consideration in the case of a worldwide mobile phone project. The project management for the development of new products likewise always occurs in the Balda factory where the customer makes his inquiry. This principle of closeness to the customer applies in general to production, too. Supply chain and purchasing in the Holding are above all responsible for the coordination of worldwide agreements and grouping of uniform volumes. Activities outside of this global area of responsibility are handled independently by the regions. The Technology division in Bad Oeynhausen continues to coordinate the technical basis in all production sites and ensures know-how transfer *(see also chapter "Technology")*. The strategic management of the Group is, as before, in the hands of the Holding. It manages the regions primarily through predetermined, measurable parameters and qualitative goals.

The Group will continue to develop its global-regional structure in a targeted manner. The interlinking of competences in the Group is to become even denser. The cooperation of the information, decision and management structures between the Holding, regional lead offices and companies in the individual production locations will function even more flexibly and effectively on the basis of global meetings, subject-oriented, personal meetings and further developed reporting and IT potential.

New responsibilities of the Board of Directors

The responsibilities of the Board of Directors of the Balda AG have changed in the past financial year. The responsibilities for the individual divisions were rearranged after the retirement of the sales director Rainer Frilling in July of the year under review. The chairman of the Board of Directors Joachim Gut remains responsible for strategy and development, acquisitions and holdings as well as for personnel and auditing. Investor relations went to the finance division. In return, Joachim Gut took over public relations and responsibility for global sales. Finance director Volker Brinkmann is responsible in addition to the newly added investor relations as before for finances, law, controlling, taxes, treasury and global information technology. Ralf Ackermann was responsible in the year under review for the divisions production, technology, global purchasing, supply chain management, quality and global project management.

The Supervisory Board of the Balda AG renewed the contract of the Chairman of the Board of Directors Joachim Gut in December 2006 for another five years until 31 December 2012. Joachim Gut has been a member of the Board of Directors of the Balda AG since 1 June 2003.

With the holding in the touch screen business of the TPK Holding, the weights of the company divisions in the Group are likely to shift. In the year under review the Infocom division was still the core business of the Group. In the current financial year the touch screen division will be added as a second strong pillar. The medical equipment division has greatly improved its position in the Group with further growth. Balda gave up the automotive division of Balda-Heinze with the subsidiaries HeRo and SMK in the current financial year.

New businesses

With Balda Solutions USA, the Balda Group opened a development and design office in Raleigh, North Carolina, in the financial year 2006. This new representation in the USA is based close to an important global customer. It is involved at an early stage in the development processes of mobile telephones. A further start-up in the financial year 2006 at the end of the year was Balda Solutions in Xiamen, the location of TPK Optical Solutions. The new company is to manufacture housings and other plastic components for devices operated by touchscreen making use of synergies with TPK.

Successful technological diversification

In May of the year under review Balda made use of the call option from the joint venture agreement and acquired from its partner Everskill its 25 percent holding in Balda Investments Singapore. At this time the Michael Chiang family declared its willingness to acquire a holding in Balda Investments Singapore.

The most important innovation in the group structure of Balda in 2006 was the acquisition of the holding in the touchscreen company TPK Holding in Xiamen. The first step to the holding in the TPK Holding occurred in July of the year under review. Balda acquired 50 percent of the company shares in TPK Holding through its holding Balda Investments Singapore, which manages its Asian activities. 40 million euros from the purchase price went into a capital increase of TPK Holding. In the course of this transaction the company Max Gain, founded by the Michael Chiang family, acquired a 40 percent interest in Balda Investments Singapore. In December of the year under review Balda increased its holding in Balda Investments Singapore to 95 percent by the acquisition of 35 percent of the shares of Max Gain. The transaction involved a value totalling 82.6 million euros. Of these, 40.0 million euros went directly in cash to the company Max Gain. Balda financed the additional 42.6 million euros through a capital increase of around 7.1 million shares of the company, at an issue price of 6 euros per share. With the acquisition of this share package, the TPK founder family Michael Chiang became the largest private shareholder of the Balda AG with 15 percent. The share value was calculated on the basis of the average price of the last 21 days of trading before the resolution on the capital increase. The mark-up vis-à-vis the then current share price was 14.1 percent. The new shares are subject to a market protection agreement. Thanks to the higher holding of the Balda AG in Balda Investments Singapore and thereby in the TPK Holding, the profit per share of the company will probably be 30 percent higher than originally expected.

New holdings and joint ventures

In January 2006 Balda acquired the remaining 50 percent of the shares of Balda Thong Fook Solutions in Ipoh. As a result, Balda Investments Singapore is the sole shareholder of the company renamed Balda Solutions Malaysia. In February 2006, the Malaysian finance ministry classified Balda Solutions Malaysia as a high-tech company and exempted it from corporate tax for the next ten years.

In February Balda also agreed a joint venture with its new Indian partner Motherson Sumi Systems for a jointly operated production location in Chennai in South India. By the end of 2006, the Balda Motherson Solution factory was ready for operation. Production is to begin in the course of the 1st quarter of 2007. Balda will keep its holding in Balda Motherson Solution through the intermediate holding Balda Invest Mauritius.

In August of the year under review Balda agreed a joint venture with the Taiwanese company AVY Precision Technology via Balda Investments Singapore. The company, which is part of the ABICO Group, produces metal housings for digital cameras at the Chinese locations Suzhou and Dongguan. At 31 December 2006 the joint venture had not yet been officially registered. With the joint venture Balda has created its own resources for creating metal mobile phone components. The company willl hold 60 percent of the shares in the joint venture with a capital stock of 100,000 US dollars through its subsidiary Balda Investments Singapore.

Sale of companies

In February 2006 the Group sold the assets and business of its former tool building company IPH based in Löhne to the purchaser Leimbacher Werkzeugbauten. In December of the year under review the Group sold the no longer needed company Balda Surface, which is specialised in the metallic coating of plastic surfaces in a high pressure process, to the Systec Group. Balda likewise sold Albea Kunststofftechnik based in Seelbach in Baden Württemberg in December. The purchaser was a group of investors supervised by INKAP Industriekapital. The purchase agreement safeguarded the further employment of the 290 employees.

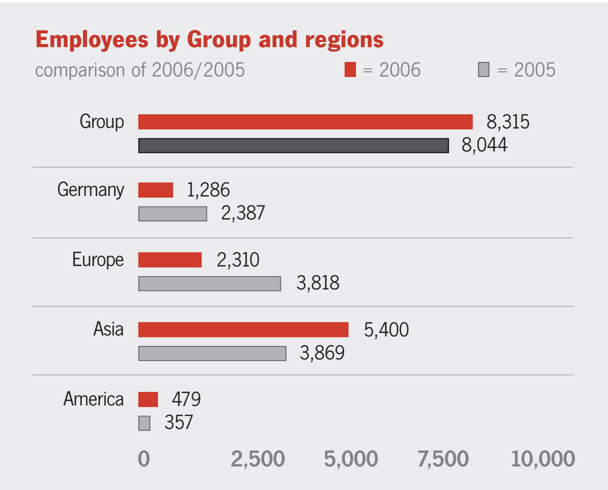
With the transactions associated with TPK Holding and AVY, the Balda Group has implemented the strategically intended technological diversification according to plan. Furthermore, with the increase in holdings, startups and the sale of companies the Group has reorganised its portfolio and adapted it in a targeted manner to the requirements of the market.

Employee Numbers Grow Worldwide – Reduction in Europe

Personnel expenses rise slightly – personnel expenses ratio increases. Measures for restructuring in Europe completed.

Personnel management and personnel development in 2006 was concentrated throughout the Group on the adaptations necessary to the new global-regional organisational structure of the Group. Business developments in the Europe region made further personnel adjustments necessary. The BenQ bankruptcy in Germany and the production transfer of a major customer from Europe to China induced Balda to sell subsidiaries and part with 250 employees at the Bad Oeynhausen location.

Compared to the close of the previous year, the number of employees in the Group increased slightly. The Group had 8,315 employees (previous year: 8,044 employees), including temporary workers and trainees. These were 271 employees or 3.4 percent more employees than in the previous year. These numbers no longer include the 421 employees of the companies Albea Kunststofftechnik and Balda Surface sold on 31 December 2006. On the balance sheet date the Balda Group employed 1,398 salaried employees, 3,580 industrial workers and 3,258 temporary workers. As an annual average there were 8,345 employees including temporary workers throughout the Group (previous year: 6,937 employees) working for Balda. Compared to the 2005 financial year, this is an increase of 1,408 employees or 20.3 percent. These average figures also include 443 employees of Albea and Balda Surface. The increase in the Group workforce is due to the expansion of the personnel in the Asia region.



Europe region

At the end of the year, there were 2,310 employees working for Balda in the Europe region (previous year: 3,818 employees). This was a decrease of 39.5 percent compared to 2005. The background to this decline are the effects presented in the section "Business development". As an average, the number of employees in Europe in 2006 was 3,143 employees.

Germany

The number of employees in German locations at the end of the year under review was 1,286 employees (previous year: 2,387 employees). This was a reduction of 1,101 employees or 46.1 percent. The reduction of the German workforce was essentially due to the sale of the Group subsidiary Albea Kunststofftechnik and Balda Surface and the decline in temporary workers. On 31 December 2006 there were around 500 employees working in the two companies. At the end of the financial year there were 24 temporary workers employed (previous year: 741 temporary workers) by the Balda Group. Their proportion was 1.9 percent (previous year: 31.0 percent) of the total workforce in Germany.

Hungary

The number of employees in the Hungarian factory in Veszprém at the end of the year fell to 1,025 employees (previous year: 1,432 employees). This was a reduction of 407 employees or 28.4 percent. Balda Solutions Hungaria reduced the number of temporary workers from 1,416 to 930, a reduction of 34.3 percent.

On the reporting date 31 December 2006 the Group employed a total of 6,005 employees outside Europe (previous year: 4,226 employees). This was a growth of 1,779 employees or 42.1 percent.

Asia region

The Asia region with the Chinese locations in Suzhou, Beijing and TPK in Xiamen and a factory in Malaysia increased their workforces by 39.6 percent or 1,531 employees to 5,400 employees (previous year: 3,869 employees). The increase arose as a result of consolidation through a rise of 113.6 percent to 1,472 employees (previous year: 689 employees). In Malaysia, only 50 percent of employees were attributed to the Balda Group in the previous year. In Beijing the workforce rose by 784.9 percent to 761 employees (previous year: 86 employees), while in the location in Suzhou in China the number of employees declined. In the new joint venture TPK in Xiamen Balda employed a quota of 471 employees on 31 December 2006. As an annual average, 4,782 employees worked for Balda in Asia in the previous financial year.

India region

There were 126 employees in the 2006 newly established subsidiary Balda Motherson Solution in the India region at the end of the financial year. The annual average was 40 employees.

America region

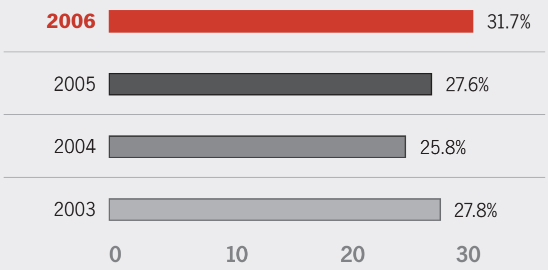
At the end of the year the two Brazilian locations Manaus and Sao Paulo as well as Balda USA employed 479 employees. After 357 employees on 31 December 2005, this is an increase of 34.2 percent. In the America region, 381 employees on average worked for the Balda Group in 2006.

Personnel expenses

Due to the increased number of employees, the Balda Group's personnel expenses in the financial year 2006 rose by 2.9 percent to 119.7 million euros (previous year: 116.3 million euros). This includes expenditure for temporary workers of 30.0 million euros (previous year: 33.0 million euros). Discontinued operations accounted for personnel expenses of 25.3 million euros after 20.6 million euros in the previous year. Balda set aside the expenses for the employee reduction at the Bad Oeynhausen location under other operating expenses.

Personnel intensity 2003 to 2006

in percent



The personnel expenses ratio in relation to the total operating performance was 31.7 percent in the year under review (previous year: 27.6 percent). The increase in the personnel expenses ratio by 4.1 percent can be attributed among other things to the increased pressure on margins. In addition, the build-up of the workforce in India and at TPK raised costs that were not yet compensated for by any revenues.

In 2006 the Balda Group employed 83 trainees. They were able to obtain qualification in twelve different professions. The largest group were process mechanics (20) ahead of industrial clerks (15), mechatronics and tool mechanics (twelve each).

Cooperation with universities

In the period under review eight university diploma candidates completed their dissertations at Balda. Overall in 2006, the Group cooperated with nine domestic and two foreign universities and research institutes. In 2006 the Group offered seven international internships, five of these in China. Balda will continue to cooperate with universities and other institutions and their graduates in future. These activities are an important constituent of the Group's recruitment program.

Personnel development

In 2006 further education also played an important strategic role in the personnel development of the Group. Balda continued to follow the concept of the learning organisation in a targeted manner. In the regions, training of the employees responsible for quality assurance was on the agenda. The regional focus of training in Europe was on the subjects of technology and techniques, quality and language skills.

In the Asia region personnel development involved in particular management and leadership competence, technology and quality. In addition, various training courses on knowledge transfer and language training took place with external partners in China. The entire management of the India region took part in an internal training at the head office in Bad Oeynhausen.

Overall, the further training and personnel development expenses in the Europe region amounted to 0.5 million euros (previous year: 0.6 million euros). The expenses for further training in the Asia region amounted to 0.1 million euros (previous year: 0.5 million euros).

The Board of Directors thanks all employees for their outstanding performance and motivation in the 2006 financial year.

In Harmony with the Environment throughout the Group

Environmental protection in the Balda Group involves every employee.
The environmental management system has been certified almost group-wide.

The aim of the environmental policy in force at all production locations is above all effective handling of resources and the reduction of emissions. The avoidance and recycling of waste products saves materials, as does the purposeful economical handling of raw materials.

The responsibility for environmental policy and the implementation of the environmental programs is in the hands of the regional CEOs or the managing directors of the respective Balda companies. Environmental protection has a high status throughout the entire Group. Within the environmental program of the Balda Group companies the consistent observation of respective state environmental laws and regulation is a matter of course.

Apart from the factory put into operation in Beijing in 2006 and the recently completed production location in Chennai in India, all Group companies in which Balda directly or indirectly holds a majority interest have a certified environmental management system. In the year under review Balda Solutions, Balda Werkzeug- und Vorrichtungsbau and Balda Medical renewed their environmental systems. Balda Solutions in Veszprém in Hungary, Balda Solutions in Malaysia and Balda Solutions in Suzhou had their environmental management systems successfully certified for the first time.

For all Balda production locations targets continuously monitored by those responsible apply for minimising the handling of all raw materials and energy. Clear guidelines also regulate the avoidance, reduction or recycling of waste products. Recommended values apply to emissions in the air, by noise or odours as do binding instructions for handling hazardous substances. The managing directors are personally responsible for fulfilling the goals and guidelines of the environmental protection program. They must also check whether and to what extent the measures carried out are expedient and appropriate. The introduction, implementation and test-

Certificates for environmental management system

(ISO 14001: 2004 UM-System / Environmental Management System)

Balda Solutions Deutschland Bad Oeynhausen	**Balda-Heinze (HeRo /SMK)** Herford / Oberlungwitz
Balda Werkzeug- und Vorrichtungsbau Bad Oeynhausen	**Balda Solutions** Manaus, Sao Paulo / Brazil
Balda Medical Bad Oeynhausen	**Balda Solutions** Ipoh / Malaysia
Balda Solutions Veszprém / Hungary	**Balda Solutions Suzhou** Suzhou / China

ing of all environmental protection measures are in the hands of the employee entrusted with the management of the environmental management system. The documentation of the measures carried out and their effect is a duty throughout the Group. The management system for environmental protection in addition requires continual improvement in the programs run. The environmental protection officer is also responsible for the targeted training of the employees in the subject area environmental protection and environmental concerns. In selected training courses employees learn to integrate the requirements of environmental protection in their personal area of activity and to practice them actively there.

The marked worldwide rise in energy prices sensitised the Group at all production locations with regard to a specially economical handling of the energy sources involved. The Balda concept for energy supply in the technology park in Bad Oeynhausen continues to be regarded as exemplary. It makes purposeful use of every opportunity to reuse energy already produced.

Technology Interconnects Worldwide

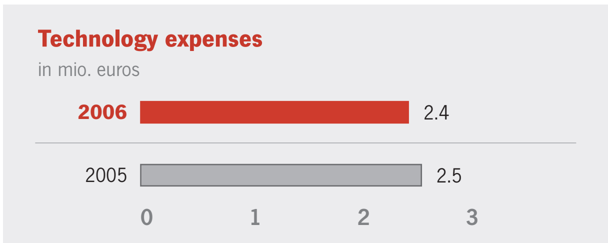
With innovations and new technologies
to higher productivity and a diversified product portfolio.

The Technology division developed its organisational structure consistently along the predetermined global-regional Group strategy. One task in 2006 was the establishment of homogeneous personnel infrastructures and responsibilities in the technology divisions of the Group regions. The exclusively application-related developments for internal projects are oriented strictly to the requirements of customers. Balda only conducts basic research with partners in exceptional cases.

The Balda Group does not operate any leading global competence centre for technology. On the basis of the traditionally highly advanced engineering in Germany and the likewise highly developed mechanical and industrial engineering technology, the original technological division in Bad Oeynhausen holds the leading position in the Group. However, the Balda Group has logically distributed its competence in technology worldwide among its Group regions. The Group companies also conduct an intensive technology transfer among each other.

New Technical Office Centre

In the year under review the development division moved into new premises in the technology centre in Bad Oeynhausen. The so-called Technical Office Centre (TOC) unites all employees involved in project development in one spatial unit. In addition to the employees from the Technology division, those responsible from purchasing and quality forward planning also work in the new centre in project management to develop new products. The other Balda locations pursue similar concepts. The new premises have led to noticeably improved communication among the employees involved in project management and promote team work and team spirit. The integration in the practical working time in the event of visits by colleagues from other Group regions works flawlessly, too.



In the year under review the expenses for technology throughout the Group came to 2.4 million euros (previous year: 2.5 million euros). This is a decrease in expenses compared to the previous year of 4.0 percent.

Worldwide identical standards

The exchange regarding technological questions and knowledge at Balda occurs between departments and partners with equal rights. The distance in the communication between continents and time zones does not hinder this. This was shown clearly in the daily business of project development for new products in the year under review. A joint basis in the form of identical standards in projecting and implementing at all locations is decisive for success. The quality requirements in the departments of all Balda factories are identical too. The regional management in each case assumes the responsibility for the fulfilment of the customer requirements. At the same time regionally differing methods of manufacturing the final product are the rule. The region commissioned by the customer checks every manual, semi-automatic or fully automatic alternative. In this way the most cost-effective option for production and the location involved for the respective project is identified.

Revolution in manufacturing technology

For advanced technology, the department responsible for basic innovations and new manufacturing technologies, the strategy of "in-line processes" in production was the focus of attention. In close cooperation with the equipment manufacturer Singulus Technologies, Balda developed a concept for the fully automatic integration of the process steps from the injection moulding machine to the application of surface techniques made of metal and lacquer. The aim was the removal of the ready moulded plastic parts from the injection moulding machine and the transfer to the second module of the system for the application of the relevant surface decoration. This may involve a metallic coating, lacquer or the application of scratch protection. The progression of process steps occurs fully automatically. After conclusion of the test runs at the end of the year under review, the first completely integrated production run of this kind succeeded. The process permits the rational manufacture of even the smallest production batches.

Conventional manufacturing methods for vacuum coating or lacquering had previously only been possible in sequential execution of individual operations. The new, revolutionary technology of this system with its integrated pre- and secondary treatment produces enormous savings in time and costs in production as well as in logistics. Compared to galvanisation, the high expenses for the management of environmental risks fall away. The completely new production line is to go into operation in April of the current financial year in the technology park in Bad Oeynhausen. Balda and its development partner Singulus have agreed a limited term exclusivity for the use of this new technology.

Medical technology

In the year under review Balda Medical completed the development of various products. Currently, the industrialisation is underway in the form of the preparation of series production *(see also "Products and Services")*. For reasons of confidentiality no specific statements on products, development activity and customers may be made. It is worth emphasising, however, that Balda Medical could win new projects in promising areas:

- individualised diagnosis and therapy processes
- drug delivery (medicine dosing/administration)
- bio- and genetic engineering and
- housings for handheld measurement devices – here Balda Medical profits from synergies with the Infocom division and its years of expertise

In future the Technology division also wishes to include the linking of the up- and downstream processes more strongly in the planning of the manufacturing concepts. Thinking and acting in these increasingly closer interlinked structures is a central challenge for companies and employees in future. In the year under review the Technology division managed the balancing act between vision and innovation on the one hand and the demands of daily project management on the other very well. Technology will in future also identify chances for innovation at an early stage.

Touch screen technology

The Balda holding TPK in Xiamen in China with its 100 percent research and development subsidiary in Taiwan spent around two years on elaborate development work with a large team of experts for touch sensor technology.

Cooperations

In the Europe region Balda worked in the year under review on projects with the Bielefeld polytechnic college, the Institute for Plastic Processing (IKV) in Aachen and the Plastic Institute in Lüdenscheid. In the Asia region the Technology division of Suzhou and Balda Solutions Malaysia engaged in close cooperation with the locally based universities and research institutes.

Starting the New Financial Year on Course

European restructuring measures completed.
Worldwide test phase for new production technologies successful.

Balda AG started the 2007 financial year according to plan. In this context it is worth noting that in the 1st quarter Infocom usually shows weak sales, which is typical for this time of year. At TPK mass production will start at the end of the 1st quarter only. A large surge in revenues will thus take place in the 2nd quarter.

Starting with an opening price of 7.10 euros on the first trading day of 2007, Balda's share price has shown a strong upward movement for the first two months of the current financial year. Shares gained, at a medium-term peak of 10.65 euros (on 21 February) 41.5 percent in value, closing at 10.05 euros per share at the end of February. Market watchers tend to attribute the share's upward growth to positive forecasts for its touch screen business.

Fully-automated production process steps

At the end of January Balda and Singulus Technologies AG successfully completed the test phase of the jointly developed, completely innovative production line for the finishing and refining of plastic components. The collaborative efforts resulted in the fully automated integration of the process steps between a plastic injection-moulding machine and surface technologies. Singulus will provide the first production line to Balda in April.

Negotiations between the Group's management and employee representatives with regard to the social security plan and job losses in Bad Oeynhausen were concluded by a decision from the arbitration panel. On 6 March 2007 the Board of Directors accepted this decision. The transfer of the 100 affected employees to an employment and qualification company will take place as of 1 April 2007. Some 150 employees have already left the company voluntarily or will leave due to the expiry of their temporary employment contracts, which were concluded for a limited time only.

New largest single shareholder

Registration of the shares held by the family of Michael Chiang in the commercial register took place on 9 February 2007. The shareholders' equity was thereby increased by another 7,208,063 euros. The general shareholders' meeting of 29 April 2004 provided a corresponding power of attorney. The Supervisory Board resolved, on 4 January 2007, to amend § 3 (shareholders' equity) and § 4 (Authorized Capital) of the articles of incorporation. Upon being registered, the family of Michael Chiang has become the largest single shareholder of Balda AG. It holds 15 percent of the voting rights.

As per its agreement dated 26 February 2007, the Balda Group sold Balda-Heinze and HeRo, both with their registered domicile in Herford (North-Rhine Westphalia), as well as SMK in Oberlungwitz (Saxony). The purchaser was ITM Hanse Industriekapital-Beteiligungs-GmbH (HanseIK). According to the company's management, all 408 employees shall be able to keep their jobs. By means of a long-term cooperation agreement, Balda has ensured that it will continue to be able to fall back on the sold production capacity. At 7.5 million euros, the price obtained for the factories was within expectations. An additional 4.0 million euros will be obtained by Balda from the discharge of Group liabilities by the purchaser.

FREEDOM in LIFE

People with diabetes are often forced to accept limitations with regard to their freedom of movement. The ability, at any time and place, to precisely measure their blood-sugar levels and the exact dose of medication required, gives them some freedom.

The **blood sampling device** for diabetics, developed by Balda Medical, is a complex technical instrument. 15 precision plastic components, supplied by Balda, as well as six metal components combine to produce a reliable high-tech instrument. It is good for at least 6,000 injection cycles.

The Global Economy Set to Continue Expanding

US faces a dent in its economic cycle. Germany carrying the Euro zone's growth. Asia, India and Africa as the engines of growth in the mobile communications market.

Global economy

According to the best estimates of the leading central banks, the global economy will continue, for the fifth consecutive year, to notch up healthy growth rates in 2007, despite facing a number of risks to this upward momentum. However inflation is also becoming a risk worldwide. The bankers' estimates coincide with those of the International Monetary Fund (IMF). The Fund predicts growth in global output of between 4.9 and 5.1 percent in 2007, as it did for the previous year. The German Federal Industry Association (BDI) is expecting about 4.5 percent growth in the global economy for 2007. For world trade, the Association predicts growth in the vicinity of 7 percent (previous year 9.5 percent).

Euro zone

The Euro zone has so far demonstrated robust performance during the current financial year. The European Commission has revised its GDP growth forecast upwards. It estimates for the first three months of 2007 a growth rate of between 0.4 percent and 0.8 percent. For the year as a whole, the Eurozone economy should slow somewhat, according to Brussels, to 2.4 percent (previous year 2.7 percent). The Organization for Economic Cooperation and Development (OECD) estimates growth for the current financial year at 2.2 percent (2008: 2.3 percent). Considered to constitute risks are a stronger than expected slowdown in the US economy, the rise in commodities and energy prices as well as a significant rise in the strength of the Euro. Currency traders are expecting that 2007 will see the Euro climb above the 1.40 US dollars mark. Some experts are predicting that oil prices will again climb to above 70 US dollars a barrel. At 2.1 percent, inflation is expected to be slightly higher than the ECB's target. In an opinion survey carried out by the Reuters news agency, a majority of respondents expected the ECB to raise interest rates by autumn 2007 to 4 percent. The ifo-Institute on the other hand, does not expect any interest rate rise from the current 3.5 percent.

Germany

Confidence in Germany's economic performance has improved considerably during the current financial year. Despite an increase in VAT, the general assumption seems to be that the economy will remain dynamic on the back of investment and export. In addition, the picture on the labor market seems to be improving. This trend should result in stable household consumption despite the VAT increase. Bank economists and economic researchers are predicting, according to the Center for European Economic Research (ZEW), that Germany will experience average economic growth of 1.5 percent (previous year: 2.7 percent). The Kiel Institute for World Economy (ifW) is even predicting economic growth of 2.8 percent. After experiencing a record year in 2006, and in light of the strong Euro and the weakening state of the global economy, German exporters are predicting export growth in the vicinity of 6 percent (previous year 13 percent). Early indicators point to the German economy being the main engine of growth at present in the Euro zone.

The stock market is expected to develop positvely in 2007. According to a survey conducted by the German "Börsen-Zeitung", the leading institutes in Germany are predicting that the DAX will reach, on average, about 7,000 points by the end of the year (previous year 6596.92 points). This would represent a gain of 6.1 percent.

USA

The overwhelming majority of bank economists are predicting, in the US forecasts, that economic performance will weaken somewhat. However, they exclude the possibility of a recession. Economists predict that 2007 will see growth in the US slow to 2.3 percent (previous year: 3.4 percent). Analysts expect US consumers to increase spending in 2007 by an estimated 2 percent (previous year: 3 percent). They should thus constitute a significant break on growth for the US economy. Rising oil prices, in combination with conservative monetary polices on the part of the US Federal Reserve, could prove to be disadvantages.

China and India

China and India are expected to remain the regional economic powerhouses over the next year. Economic growth forecasts in Asia are in the area of 7 percent. China's economic output could, according to leading economic analysts, again grow by around 10 percent (previous year 10.7 percent). The forecast of the Beijing office of the Asian Development Bank seems to be somewhat more conservative at 9.5 to 9.6 percent. The reasons for such positive estimates are, inter alia, the high capital reserves and stable framework conditions, which prevail in China. The Country's trade surplus spiked last year at around 74 percent. It set a new record of 177 billion US dollars. Expectations as to Indian growth are hovering between 7.3 and 10.3 percent (previous year: 9 percent). By 2013, economic analysts are predicting average economic growth of over 6 percent for the subcontinent.

Brazil

The overall economic performance of Latin America should remain positive for 2007. The United Nations Economic Commission for Latin America (Cepal) expects a slight weakening in economic growth to 4.7 percent (previous year: 5.3 percent). The Swiss Bank UBS is expecting an increase of about 4 percent. In Brazil, the largest economy in the region, a slight upswing in economic performance is being forecasted. The big risks for the continuation of the recovery are to be found at an international level.

According to Goldman Sachs, the four biggest growth markets, Brazil, Russia, India and China (BRIC), when combined represent only around 10 percent of the economic strength of the USA. By 2050, they should all be members of the G8.

Situation of the Infocom sector

In the last financial year, mobile phone manufacturers sold some 990 million phones worldwide (previous year: 816 million phones Gartner, or 825.5 million IDC). This represents an increase of 21 percent (previous year: 21 percent Gartner or 16.7 percent IDC). The development of the worldwide market for mobile communications devices will, according to research institutes, be characterized by increasing market growth in the face of declining sales. Analysts at the Landesbank Baden-Württemberg (LBBW) are predicting growth of 10 percent in 2007 and sales of 1073 billion mobile phones. For 2008, they predict market growth of 8 percent and sales volumes of 1.158 billion units. Market researchers at Strategy Analytics are predicting 1.1 billion mobile phones sold over the current financial year. This corresponds to a growth of 12 percent. Asia, with China and India, as well as the African continent, will continue to be the engines behind this expansion. In the Western industrialized countries, average penetration rates are already at 100 percent in most cases. In emerging markets on the other hand, complete market penetration has not yet been achieved. In China, 449 million of the approximately 1.3 billion inhabitants own a mobile phone. By the end of 2007, the number of users is expected to exceed 500 million. Another 160 million new customers are expected to follow by 2010. Even stronger customer growth is expected by market researchers in India, where at present only about 5 percent of the population own a mobile phone. According to expert opinions, the number of mobile phone users in Asia is expected to reach 1.8 billion by 2011.

The growth engines in the saturated markets are increasingly the high-end devices such as GSM and UMTS mobile phones with music players and high resolution digital camera functions. The 2007 financial year should see sector-wide sales of mobile multimedia telephones in the area of 250 million units. Market researchers at Gartner estimate that by 2010, camera phones will take up approximately 80 percent of the global mobile phone market. For emerging markets the analysts predict high demand for phones from the lower price segment.

The field of applications for touch screen technologies is expected to experience rapid growth. Market watchers at Strategy Analytics are estimating the number of sold touch screen mobile phones to reach 115 million by 2008. In 2012, 40 percent of all mobile phones worldwide are expected to have a touch screen display. According to figures released by British analysts, this figure is currently 3 percent. But also TV remote controls, MP3 players and navigation devices, as well as any other form of consumer electronic products are possible and promising applications for touch screens in the future.

Situation of the medical sector

Medical technology represents an expanding future market. It continues to represent one of the most interesting fields of the life sciences sector. Positive factors are the rapidly growing world population, the increasing professionalization and commercialization of health and medical care services, as well as increasing spending on health care. Estimates up to 2010 predict long-term annual growth for the global medical technology market of between 4 to 5 percent. A study of the Federal Ministry for Research and Education predicts, for the same period, growth of 4.1 percent per annum in Germany. The core European countries are at 5.4 percent, whereas the USA is at 6.6 percent.

Future corporate situation of Balda AG

In its capacity as the holding company for the Balda Group, Balda AG accumulates the results of the subsidiaries. This task is carried out by means of profit and loss transfer agreements or dividends. In addition, Balda AG spreads the costs it incurs amongst the Group companies. The Board of Directors therefore assumes that Balda AG will pay a dividend again next year.

Future corporate situation of the Balda Group

Balda expects to see a significant jump in sales for the 2007 financial year. Considering the divisions sold, organic growth is expected to comprise between 83 to 98 percent and reach 600 to 650 million euros. Earnings before tax (EBT) is expected to reach between 50 and 55 million euros. Earnings per share should reach more than 90 eurocents.

The share of Group revenues earned by the overseas production sites is expected to rise to 80 percent. The Infocom division and touch screen finishing by TPK should each contribute about 50 percent of Group revenues. TPK will thus be an engine of growth for the Group in the 2007 financial year.

For 2007, the Balda Group is planning investments in the amount of 40 to 45 million euros. They concern primarily a proportional expansion of capacities at TPK.

Solid financial situation

The Balda Group continues to enjoy a solid financial situation during the 2007 financial year. The liquidity reserves at the end of 2006 and the inflows from business operations represent a secure basis on which to implement the projects as planned. In addition, the company has unused credit lines at its disposal.

The Group is holding on to its medium to long-term planning of December 2005 and intends to achieve revenues of 1 billion euro by the end of the 2010 financial year.

Prudent Early Recognition System Increasingly Important

The careful assessment of opportunities and risks and their eventual prudent management continue to gain in importance.

The 2006 Financial Report describes, at various points, entrepreneurial opportunities for the Balda Group. Appreciating these opportunities, while simultaneously managing the corresponding risks is one of the primary tasks of Balda's management. The Group's risk management identifies, appraises and systematically monitors the development of relevant risks.

As a globally-active company, the Balda Group is exposed to various kinds of risk. The origins of observable risks can be found both from within the company as well as from without, and can result from both its active undertakings and omissions. These can be the source of dangers for the company's success as well as its continued existence.

Balda has set up measures for the early recognition, monitoring and management of risks and consolidated them into a risk management system. Identifying, knowing the course of, monitoring and eventually managing risks is of the highest priority for the company's Board of Directors. The Group Audit department is responsible for the regular review of the risk management system. It reports its findings to the Board of Directors on a regular basis. In the operational business the respective managing directors of the Group companies are responsible for risk management. They impart sensitivity and awareness of the relevant risks to their employees. The Balda Group's principle of regional management also applies with regard to dealings with the risk management system. Throughout this organization, the companies and management staff within the Group's regions are actively integrated into the pursuit and appraisal of relevant risks. In the context of planning, management and feedback processes within the Balda Group of Companies, reporting is carried out on a monthly basis. This reporting process analyses, inter alia, discrepancies between the budget and any previous estimates made. Probability calculations for the imminence of impending risks and the possibility of influencing them by means of appropriate measures are also a part of the reporting procedures.

Risks for future development

The internal and external risks set out below could be in a position to undermine the future development as well as the financial and earnings situation of the Balda Group.

Risks for future development

General economic risks	Foreign currency risks
Political climate	Employee risks
Market risks	IT risks
Supplier and procurement risks	Organizational risks
Technology risks	Legal and other risks
Capacity utilization risks	Litigation
Risks from foreign activities	Environmental risks
Capital market and financing risks	Overall risks

General economic risks

Global economic trends could generate risks for Balda. As was the case in the previous year, another rise in oil prices could negatively affect Balda's business. Oil prices increase the costs of companies and reduce the spending power of private households. A reduction in consumer spending can result in reduced sales of mobile phones. The probability of this risk actually materializing is, however, minimal. Worldwide, experts are predicting growth of the global economy of between 4.5 and 5.0 percent.

In addition, further factors could have a negative effect on consumer spending. This would include the possibility of a worldwide pandemic. Contrary to the previous year, Balda considers the incidence of a pandemic in the form of avian flu or mad cow disease to be unlikely. Despite various incidents involving avian flue in Asia throughout 2006, local authorities and the United Nations have succeeded until now in stamping out any epidemics and effectively combating them.

Monetary policy

Global economic policies, however, conceal certain risks. On the one hand, further increases to base rates could have negative effects on the US dollar, the Euro, for the economic cycle and for the liquidity of international liquidity markets, in particular for developments on the stock market. On the other hand, a rise in the Euro, as many experts are anticipating, could have a negative impact on European exports. Currency experts consider an exchange rate of 1.4 US dollars to the Euro as possible for 2007. A positive factor would be the stabilizing effect, which would accompany a higher base rate.

Military conflicts, such as in Afghanistan, Iraq, or Sudan are also flashpoints, which could create risks, much like the difference brewing over nuclear proliferation in the context of North Korea and Iran. The terrorism of Islamic groups, which primarily threatens Western Europe, the USA and Turkey also represents a source of danger, which is difficult to estimate. The Balda Group is admittedly not in a position to influence these risk factors, but it is able to prepare itself for any eventual consequences. In addition to the worldwide restrictions on travel, the negative effects to stock markets and access to capital are also worth mentioning in this context. A deterioration in sales for mobile telephones is also a possibility.

Otherwise, demand in worldwide consumer and durable goods markets for mobile telephones is likely to be positive in 2007. Experts predict growth of around 10 percent to approximately 1.1 billion mobile phones sold. In the previous two years the effective growth rate for the mobile communications market has consistently exceeded the research institutes' forecasts. With its three finishing factories in China and one production site in both Malaysia and India, the Balda Group is well positioned in those markets experiencing above average growth.

Political climate

- Higher charges
- Taxes or additional wage costs
- More restrictive legislation

At every Balda production site worldwide, the possibility of higher costs such as taxes, rising wages or wage costs, as well as more restrictive legislation represents a risk. Such higher costs do not just affect the Balda Group of companies but also its competitors. The company is monitoring these risks very carefully. Any eventual cost increases are calculated and factored into the budget in accordance with the likeliness of them materializing. Negative risk factors of this kind do not, however, represent a danger to Balda's continued existence.

Market risks

- Development of the mobile communication market
- Market success and customer acceptance of Balda products
- Competition amongst customers
- Competition amongst component makers
- Competition and price pressure
- Market saturation
- Entry of new competitors on the market
- Consequences of technical problems in the Medical division

In the 2006 financial year, Balda continued to generate 90 percent of its sales revenues in the Infocom sector. This concentration of demand on the mobile communications market represents a risk for Balda, which has always been an issue on which risk management has focused. The development of this market in 2006 has seen risks materialize, which were previously categorized as unlikely.

In this context the negative course followed by Siemens BenQ is worth noting. Balda did notice, in its Chinese production site in Suzhou, as well as in Manaus in Brazil and in Bad Oeynhausen in Germany, the negative impact from the order cancellations of Siemens BenQ in the 2nd and 3rd quarters. There were, however, no indications pointing to the bankruptcy of the German BenQ company at the start of October 2006. The worldwide decline of BenQ resulted in no sales revenues from the Taiwanese manufacturer being budgeted in the Balda Group's planning for 2007.

Equally surprising was the accelerated relocation of a major customers' production to Asia. The very systematic implementation of this relocation was completely unforeseen, even up to the middle of 2006, despite constant and regular contact with the customer. In reaction to the reduced capacity utilization these two factors resulted in for the German factories, the Board of Directors of Balda set a restructuring plan in motion. By selling the factories, production capacity in Germany was reduced by roughly 50 percent. The sales of these two factories and job cuts resulted in a reduction in the number of employees from more than 2,000 to some 600 employees. This restructuring and the drop in revenues caused by Siemens-BenQ had a negative effect on the Balda Group's earnings situation for the 2006 financial year.

The investment in the touch screen manufacturer TPK has greatly reduced the Balda Group's dependence on the mobile communications market as defined narrowly. On the other hand, this line of business creates new market risks. Involvement with TPK represents diversification. The manufacture of a new product for new markets and also, to a certain extent, new customers, will always be considered risky. In addition to the production risks *(see also technology risks)*, entering into a new market is always linked to the risk of acquiring new customers. In the case of TPK, this danger is, nevertheless, to be considered as minimal. Already by the end of the 2006 financial year, TPK has concluded supply agreements with 15 different customers. Negotiations are on-going with other customers for the 2007 financial year. In this way, TPK has further minimized the sales risk.

Market success of Balda products

An additional risk is the degree of market success of the products finished by Balda, together with mobile telephone manufacturers in the consumer markets. The failure of a product, which Balda helped produce can have an influence on the Group's orders and revenue situations, and thereby affect results. Balda's customers are the leading mobile phone manufacturers on the global market, as well as regionally. Prior to being introduced onto the market, their products go through so-called product clinics and extensive testing by consumers. This process alone reduces many sales risks. In addition hereto, experience shows that collaboration with global market leaders itself helps to spread these risks. Different levels of success in sales between the various mobile phone models tend, as a rule, to balance one another out. However, where sales of an entire line of mobile phones collapses, as happened with Siemens BenQ, the negative effects cannot be completely mitigated. Another mitigating factor is the worldwide presence of Balda's production facilities. The high growth being experienced in the markets of Asia and India helps to compensate for lower levels of growth in Europe.

Growing price pressure

In the 2006 financial year, competition among mobile telephone manufacturers increased significantly worldwide. In addition to the global market leaders, local competitors have also successfully established themselves in Asia, particularly in China. The product life cycle of mobile phones is becoming increasingly shorter. The time to market has already fallen under the six-month mark. It was BenQ taht specifically had difficulties with the increasing speed at which new models were being introduced to the market.

The intensity of price competition has also increased substantially. Price and time pressures also represent a risk factor for Balda.

In the 2006 financial year, Balda set new records when it came to the development and production of tools. The cycle times for moulding have been further shortened and processes optimized. With these measures, the company was able to go a long way in countering the drops in prices, some of which were in excess of ten percent. On the whole, price pressure will continue to represent a risk factor for Balda's earnings situation.

Competition amongst the suppliers of mobile telephone manufacturers has also intensified. Capacities in the suppliers' sector, in the area of plastic components, has increased further in 2006. As a result of this situation, customers are demanding increased flexibility when it comes to pricing. Balda remains optimistic that it can stay on top of such price pressures, thanks to continued technological innovations.

Saturation of the worldwide mobile communications markets could represent a risk to Balda. In any event, the market penetration situation in the individual global regions is very divergent. Europe has the highest penetration in terms of the number of existing mobile phones per capita. On the other hand, the demand for replacement phones in the old world remains consistently high. Models, which offer an innovative range of capabilities are in strong demand. In Europe, mobile phones have become fashion accessories. On the other hand, in China, India, numerous markets in Latin America, as well as Africa and Eastern Europe, double-digit growth is expected throughout 2007. Here, basic mobile phones are in strong demand.

In addition to the growth potential of the individual market regions, the services portfolios of suppliers also play a decisive role on the mobile communications market. Companies such as Foxconn and Jabil are building, in the capacity of a comprehensive supplier, complete mobile phones, including plastic components. Companies of this size represent a risk factor for Balda.

Strong market position with touch screen technology

In order to strengthen its market position and its technology portfolio, Balda has met this challenge with a decision to enter the touch screen production. Touch screen technology is predominantly considered as a new feature with a high degree of user comfort. There is consent among experts as to the high growth potential of touch screens in mobile telephones. In one stroke, the sale of this finishing technology, together with the expertise in the processing of plastics, will achieve synergies in the acquisition of customers, in development and in production technologies. Balda's entry into the touch screen business generates manageable operational risks, but could enable it to overcome strategic risks.

In the area of medical technology, additional risk factors exist. Some Balda Medical products are for consumer use. The power inhaler serves as an example of this. Technical problems with this product could, under certain circumstances, lead to the user sustaining injuries. In addition to the liability risks for the Balda Group, this can also result in negative consequences in terms of market acceptance of the Group's products. Balda seeks to prevent such problems by means of careful development in the context of a pre-prescribed step-by-step process. In addition to this, such products are subject to regulatory approval. Ultimately, close production oversight stands to minimize risks.

Supplier and procurement risks

- Dependency on suppliers
- Compliance with shorter delivery times
- Supply Chain Management
- Global projects
- Storage risk
- Global distribution of finished goods
- Costs or price fluctuations
- Expensive components
- Touch screens
- Consignment warehouses

Dependency on suppliers for raw materials, does not apply as a rule with Balda. The company pursues a so-called "Dual Source" strategy with two partners for one product. The quality of goods delivered can pose certain risks for Balda.

These potential dangers are countered by the Group by means of carefully auditing its most important suppliers. These procedures focus on both the quality of the products supplied as well as their punctual delivery. Since 2006, important suppliers have maintained consignment warehouses with Balda. Here, raw materials are kept in reserve. Balda pays only once it removes the goods. The Group's supply chain management has also consistently adapted to customers' logistical requirements. The establishment of consignment warehouses in close proximity to customers' production sites reduces the storage risks and ensures on-time delivery. The introduction of new IT systems records inventory levels in the consignment warehouses of both suppliers and customers. Any eventual price volatility with regard to procurement items is mitigated by means of agreements between Balda and its customers. Any eventual inflationary pressures on raw materials are borne by the customer for many products. Even against the heightened storage risks for particularly valuable components, particularly electronic components, such as e.g. LCD displays used in the manufacture of touch screens, Balda is well positioned. The increasing supply and procurement risks, which accompany the growing number of production sites have been mastered by Balda in the new regional organizational structures for 2006, by transferring responsibility to the regions.

Technology risks

- Entry into touch screen finishing
- Technological change
- Non customer-related technological development

The start of touch screen finishing at TPK with planned sales revenues of 600 to 700 million euros in the 2007 financial year also involves certain technological risks. The finishing of a high-technology product at a new production site with a new production line and the goal of doubling production within a few months is of a risky nature. However, the situation at TPK does not have the typical start-up character that one might think at first glance. A large number of TPK's management have over 15 years of expertise in the finishing of large-format touch screens. The production of small-format touch screens at TPK has been preceded by more than a year of product development. TPK's research and development center in Taiwan also has many years of experience in touch screen products. The project partner Optera, which operates in TPK's production halls, is a company of the Magna-Group, and is considered a market leader in this sector. In this way, know-how and expertise in the finishing of touch screen products is available. Eventual risks in the manufacture are therefore much smaller than would be in the case of a real newcomer.

In the supplier's market for mobile telephone manufacturers, technological change is continuing at a rapid pace. Nevertheless, Balda does not need to fear any significant delay in the exploitation of an innovative production technology. In the past, the Group was often the sector's pace setter in the development of new production technologies. Balda's latest development in the automation of spray-moulding processes in connection with surface finishing will further underscore the Group's technological pole position. In addition to this, Balda is actively integrated into the future developments of its customers. The requirements of users are thus known to it at an early stage. In development, Balda is focused almost exclusively on customer-related projects. Escalating costs are thus out of the question. Research projects and collaborative efforts with universities and external partners are carried out by the company already in the context of careful value benefit analyses.

Capacity utilization risks

- Capital-intensive production plants
- Seasonal fluctuations in demand
- Volume transfer by customs

Having qualified employees on hand and maintaining production capacities at eleven sites is highly capital intensive, due to education and training costs, as well as investments and high fix costs. Being focused on profits and covering costs require a defined level of utilization. These requirements represent a classical risk for the Balda Group. The company limits the capacities of the machinery by delegating peak order volumes to external subcontractors. Seasonal fluctuations in demand are managed by the Group by using temporary staff. On the whole, Balda pursues the highly-flexible "breathing factory" concept. However, in the 2006 financial year, the Balda Group was not able to use such measures to completely mitigate the consequences of the bankruptcy of its customer Siemens BenQ and the relocation of the production capacity of another customer to China. The sale of the Group subsidiaries Albea and Balda Surface at the end of 2006, as well as sale of the Group companies Balda-Heinz, HeRo and SMK on 28 February 2007, are the consequences of this drastic upheaval. In addition to this, employees at the production sites in Bad Oeynhausen and in Veszprém in Hungary, had to be dismissed. Happily, Balda Medical was able to take on some of the affected employees. The risk of customer activities relocating abroad has always been identified by Balda. Nevertheless, the extent of orders lost in the 4th quarter of the 2006 financial year could not have been foreseen.

Risks from foreign activities

- Diverging business goals
- Legal security

Cooperation at international production sites with partners with equal rights, in the context of joint ventures, can be a source of risks. Business goals, strategies or specific individual interests can come to diverge over time. The result of such differences in opinion could cause a pecuniary loss to the company in question. Up to now, the Balda Group has managed this risk by means of regular, open and intensive dialogues with the partners in the foreign companies. In addition to this, the agreements concluded with its partners are prepared with the advice of experienced lawyers. Moreover, the joint venture partner of TPK is the Michael Chiang family, which also owns a stake in the intermediary holding company Balda Investments Singapore, and, with 15 percent, is the largest single shareholder of Balda AG. This investment structure, over three levels, results in a convergence of interests.

Capital markets and financing risks

As was the case in the 2006 financial year, Balda does not see any risks for 2007 from the capital markets. Fluctuating share prices are considered a common valuation risk. Despite the new capital intensive investments in the 2006 financial year, the company's equity position continues to be solid. The Group does not see any impediments to the financing of the investments planned in 2007 and the necessary working capital. Liquidity is assured along the budget and by the Group's planning in the medium-term. The same applies for the quickly growing business at TPK. The credit lines are sufficient, based on current conditions in all regions.

In the context of the budgetary processes and its medium-term planning, the Group also has to deal with the risks of possible change in interest rates. Financing instruments are planned in such a way as to minimize these risks. In addition to this, it regularly monitors developments in liquidity and interest rates, so as to be able to take appropriate hedging measures in due time. At present, the Group is not using any derivative instruments for this purpose. In order to manage these measures, Balda has again reinforced the Treasury division in terms of both personnel and its systems. At the first level, a summary of the liquidity and financial management in the various regions takes place. Treasury supports and assumes coordination at a global level.

Foreign currency risks

As a Group, which is active globally, Balda is exposed to currency risks. The Group has established, via the Treasury division, a monitoring system to oversee the relevant market developments. These risks are contained by consolidating the foreign currency payment flows. In addition, the Group protects itself, with regard to the underlying transactions, by means of long and forward foreign exchange transaction. These transactions are based on the incoming or outgoing invoice in question. At present, these hedging arrangements apply to China and Malaysia and concern the US dollar. As a rule, the Group uses these measures to protect itself against unfavorable developments in currency parities. On the other hand, this involves the associated risk that, in the event of positive developments, Balda will not be in a position to exploit these. These hedging measures are regularly consulted on with the relevant committees. The repatriation of profits from abroad is ensured.

Employee risks

- Competition for qualified specialists and managers
- Recruitment
- Selection risks

The growth, which Balda plans to achieve, particularly abroad, requires new and internationally orientated managers. This also applies in particular to the international sites. The "race to recruit the best" is thus becoming increasingly intense across the globe. Highly-qualified experts and managers with technical or sector-specific know-how are in worldwide demand. Good engineers are in short demand almost everywhere. The Balda Group recruits academically educated employees, inter alia, by cooperating with universities and polytechnics. The Group also regularly takes part in an active capacity in job fairs. Balda also selectively uses its nationwide reputation as an attractive employer. For the next generation of employees, the career opportunities both at home and abroad are very attractive. In this sense, Balda views neither competition nor the recruitment of qualified employees as a risk at present. The risk of losing important employees is met by the Group by systematically practicing the principle of appointing deputies.

IT risks

Using indispensable information technology equipment can also represent certain risks. The necessary high availability of computer systems and networks can create risks through technical failures, or through unauthorized internal and external access to IT systems. The Group has prevented the failure of its systems by outsourcing parts of the IT infrastructure to an internationally active computer center. Permanent access to these computers from all parts of the globe has been assured. The underlying concept was subject to review at the end of 2006 on the basis of experience. Due to damage caused to undersea cables in the wake of an underwater earthquake off the coast of Taiwan, problems surfaced in cable speeds. These problems affected the worldwide internet as a whole. Security systems and firewalls protect the Group's IT systems from unauthorized access by third parties. The compatibility of the systems within the Balda Group has been ensured through the introduction of a standard ERP system across the board or through existing concepts for the integration of other ERP systems.

Organizational risks

- Reorientation of the organization
- Managability of growth

The Balda Group has largely completed the realignment of the organization from the divisional to the regional principle, during the 2006 financial year. Under the umbrella of Balda AG, four so-called Lead Offices have now been established in the Group regions Europe, Asia, America, and India. The Lead Offices have taken over the operational management and responsibility for results. The positions for Chief Executive Officers for Europe, Asia and India were already filled in 2006. As of 1 February 2007, a Chief Executive Officer was appointed and has taken charge of the America region. Expanding structures and responsibilities in the regions has strengthened Balda's proximity to its customers. With the regional organizational principle, the Group is systematically following its customers, who have also transferred essential responsibilities to the regions. In the newly established organizational structures, no risks are apparent at present.

A risk could emerge from the planned rapid growth in touch screen production at TPK. One potential source of danger is the disproportionally rapid increase in production capacities to the level of mass production. This might be true if the employees from TPK had been a completely new team without any practical experience in the manufacture of touch screen products. In effect, production has already been on-going at TPK since the 3rd quarter of 2006. A majority of the team has many years of experience in the mass production of touch screen products. The team has already proven their aptitude in working with touch screen technology over the last few weeks by delivering completely flawless products. To this extent, the manageability of the Group's planned growth represents a risk, which is both manageable and controllable.

Legal risks

The differences between the national legal systems in the four Group regions are met by Balda with internationally active legal counsel. In addition, Balda has appointed its own attorneys in Europe and China. They are concerned with contracts, industrial matters or regulatory issues. Risks from liability, particularly from product liability, from product recalls or from loss of receivables are managed by the Group by means of taking out appropriate insurance.

The litigation, which has been on-going since 2005 concerning powder inhalers had not yet been decided by the end of 2006. The reserves already created in the previous year due to this legal dispute are sufficient for any amounts not already covered by the insurance. Apart from a few disputes with former employees, the Group is not involved in litigation of any note. Any eventual negative consequences of these procedures would not dramatically affect the earnings situation or the continued existence of the Balda Group.

Environmental risks

The risks from the electroplating enterprises SMK and HeRO will no longer affect the Group in the future, following the sale of these two companies. The DIN EN ISO 14001 environment management system adopted by almost all the companies of the Group ensures that no notable environmental risks arise.

Overall risk

Like every internationally active company, Balda is required to deal with numerous opportunities and risks. The entry into the growth plans of the touch screen manufacturer TPK could be categorized as a risk factor for the 2007 financial year. Looking at things from a "worst-case scenario" perspective, the positive earnings situation of the Balda Group stands and falls with the success of TPK. A "best-case scenario" perspective, based on confidence in the TPK team's expertise regarding mass production and the possibility of securing additional orders, could result in the contribution of the TPK Holding to the Balda Group's earnings results exceeding current forecasts. Another risk could come from the Infocom division. Should the agreed orders for the factory in Suzhou only begin after a certain delay, or lead to other difficulties, the share in earnings expected from Infocom might not be achieved.

In sum, it is clear that the fall in earnings, which took place in the 2006 financial year was not caused by a failure in the Group's risk management system.

The collapse of Siemens-BenQ and the extremely rapid relocation of production capacities of customers to China were not foreseeable. Above and beyond this, the risk management system has also proven itself in 2006. The risk of customer dependency in the mobile phone sector has been significantly reduced by the Group's entry into TPK. On the whole, the Group is well aware of the fact that the planned expansion, particularly the technological diversification into the touch screen business represents both opportunities and risks. In the past, the internal operating tasks and processes have shown themselves to be the source of only minor risks. Balda has taken sufficient precautions in order to counter the usual commercial risks and their negative effects for the Group's development.

Based on the information and findings available at present, no significant events apart from the aforementioned risks are apparent, which might represent a continued substantial risk for the Group's planned development or its continued existence.

Corporate Governance Report

The commitment to transparent and responsible corporate management has long been an integral part of Balda's corporate culture. On 17 March 2006 the Board of Directors and the Supervisory Board renewed the declaration of conformity according to Section 161 of the German Public Companies Act and made it permanently available, along with earlier and now outdated compliance statements, to both shareholders and the public on the Balda website.

The company adheres to the standards set out in the latest version of the Code of 12 June 2006, subject to two exceptions: For the members of the Board of Directors and the Supervisory Board, there is a directors and officers liability insurance policy without deductible (Section 3.8 of the Code). This is a group insurance policy for a large number of employees at home and abroad. A higher deductible is, however, not common practice abroad. Therefore, it does not seem appropriate to differentiate between officers and employees.

At the end of February 2006, Balda received a motion from a major shareholder for the shareholders' meeting scheduled for 1 June 2006. At this meeting, a resolution was to be passed to dispense with the individualized specification of directors' salaries for the next five years in application of the exception set out in Section 286, Sub-Section 5 and Section 314 Sub-Section 2 Paragraph 2 of the German Commercial Code (HGB). The general shareholders´ meeting of Balda AG on 1 June 2006 adopted this resolution with the required majority of three-quarters of the represented share capital. The Board of Directors and the Supervisory Board took the opinion manifested in this motion and the arguments put forward by the major shareholder seriously and respected them. For this reason, both bodies have jointly agreed, already for the annual report for the 2005 financial year, to dispense with the individualized specification of directors' salaries, contrary to the regulations of the Code and to previous practice (Section 4.2.4 of the Code). In order to create the same conditions for members of both the Board of Directors and the Supervisory Boards, Balda has also dispensed with, in contrary to previous practices, the individualized specification of the salaries of members of the Supervisory Board (Section 5.5.7 of the Code). Balda AG shall continue with this practice as adopted by the general shareholders' meetings.

Supervisory Board

On 2 January 2006, the Board appointed Richard Roy to the position of chairman of the Supervisory Board. On 18 January, Mark C.J. Twaalhofen was appointed to the Supervisory Board.

In its meeting of 24 March 2006, two committees were established and the members of these committees were determined. The so-called Audit Committee was set up to review the company's accounts and budget. The Personnel committee was set up to prepare the selection, appointment and dismissal of members of the Supervisory Board as well as to attend to the corresponding contractual modalities. The Supervisory Board appointed Richard Roy to head the Personnel Committee and Othmar T. Vock to head up the Audit Committee. Othmar T. Vock has the required special expertise and experience in the application of accounting principles and internal control procedures.

The general shareholders' meeting of 1 June 2006 approved all of the newly appointed members of the Supervisory Board in the 4th quarter of 2005 and the 1st quarter of 2006 by means of individual resolutions.

The members of the Supervisory Board obtained the following remuneration for the 2006 commercial year:

- Fixed remuneration of 162.000 euros
- No variable remuneration

The fixed remuneration for the Supervisory Board also contains remuneration for their activities in the committees. The variable remuneration depends on developments to the Balda share price compared to the SDAX. The Balda share price was more than ten percentage points worse than the index during the reporting period. As a result, there was no variable remuneration. In the period under review the members of the Supervisory Board were not given any consulting or mediation contracts. Thus Balda did not pay out any special remuneration (Section 5.4.7 of the Code).

There were no conflicts of interest during the reporting period.

In the year under review, the Supervisory Board reviewed the efficiency of its work in accordance with the provisions of the Code (Section 5.6 of the Code).

The Chairman of the Supervisory Board, Richard Roy, acquired on 27 July and 26 September of the reporting period 4,000 shares of Balda AG at a price per share of 7.75 and 5.48 euros.

Board of Directors and remuneration report

The composition of the Board of Directors of Balda AG changed in 2006. The member in charge of sales Rainer Frilling left the Board in July of the reporting period. Thereafter, the Board of Directors was composed of Joachim Gut (CEO), Ralf Ackermann (CTO) and Volker Brinkmann (CFO). Joachim Gut assumed responsibility for the remaining sales responsibilities after introduction of the new organizational structure.

The remuneration of the members of the Board of Directors during the reporting period was as follows (Remuneration Report – Section 4.2.5 of the Code): Remuneration of the Members of Board of Directors includes monetary remuneration components and ancillary benefits. No pension promises were accorded. Nor were Board of Directors members the recipients of any benefits from third parties, which were promised to them in relation to their professional activities or which were accorded to them in the 2006 financial year (Section 4.2.3 of the Code). The monetary remuneration components comprised both fixed and variable components for all Members of the Board of Directors (Section 4.2.3 of the Code). The Members of the Board of Directors received the following remuneration for the 2006 financial year:

- Fixed remuneration of 2,172,000 euros
- There was no performance-based remuneration
- Remuneration with long-term incentive effects 18,000 euros

The fixed remuneration for the members of the Board of Directors also contained settlement payments for the 2006 financial year. As a rule, the variable remuneration of the Board of Directors contains both components, which are linked to the commercial success of the Group as well as components with long-term incentive effects. The components linked to the commercial success of the Group are calculated on Balda's earnings before tax (EBT). Given that the period under review was characterized by a net loss, this remuneration component was not available to the Board of Directors.

As a variable remuneration component with long-term incentive effect, the Supervisory Board accorded the members of the Board of Directors, for the period under review, a total of 500,000 options on the basis of the stock option program adopted by the general shareholders' meeting on 1 June 2006. According to the resolutions of the general shareholders' meeting, the program includes approximately 4.016 million options. These can be issued to the Board of Directors at 50 percent, at 30 percent to the management of the Group companies, and at 20 percent for employees of the Balda Group. They can be issued up until 30 June 2009 in up to three tranches. The term of these options shall be for five years from the corresponding issue date, with a retention period of two years.

Prior to exercising the options, the closing XETRA price of Balda shares must at least have reached at least 120 percent of the issue price during the retention period. Other obstacles to exercising the options can be stipulated on an individual basis. The issue price of the options corresponds to the average closing XETRA price for the last ten trading days before the option was issued. The weighted exercise price of all of the options issued to the members of the Board of Directors in the period under review totalled 6.38 euros. The value of all options, which the members of the Board of Directors have been accorded during the period under review, totalled 594,000 euros on 31 December of the reporting period. For exceptional, unforeseen developments, the Supervisory Board and the Board of Directors have set out the possibility of limiting the gains, when exercising the options (Section 4.2.3 of the Code). Exclusion periods exist with regard to both the allocation as well as the exercising of the options.

As an ancillary benefit, every member of the Board of Directors obtains a company car. In addition to this, payments are made for direct insurance and for a group accident insurance policy.

On 8 February 2006, the Chairman of the Board of Directors, Joachim Gut, purchased a total of 5000 Balda AG shares at 10.55 euros per share. In addition, on 27 July 2006, he purchased a total of 40,000 shares at 7.77 euros per share and now holds some 50,000 shares of Balda AG. The Chief Financial Officer Volker Brinkmann has 410 shares and the Member of the Board of Directors in charge of Development and Production, Rolf Ackermann, holds 2,800 shares.

Rendering of accounts and audit of financial statements

The Balda Group again prepared its consolidated financial statements and interim reports for the 2006 financial year according to the International Financial Reporting Standards (IFRS). The annual financial statements of Balda AG were prepared in accordance with the provisions of the German Commercial Code (HGB). The standards of the IFRS create a high level of transparency and comparability in terms of the company's development (Section 7.1 of the Code). In 2006 Balda again published its quarterly reports at the latest four weeks after the close of the quarter. In doing so, it was well within the recommended target set by the Corporate Governance Code of a maximum of 45 days (Section 7.1.2 of the Codex).

The 2006 financial report, together with the annual financial statement, the Group consolidated accounts and the summarized annual report will also be made publicly available in the current year, within 90 days of the end of the financial year.

Auditor

For the reporting year, the general shareholders' meeting for the first time appointed PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG to be the auditor, after the Supervisory Board had obtained the required declaration of independence of the aforementioned auditor (Section 7.2.1 of the Codex). Pursuant to an agreement between the auditor and the Supervisory Board, the auditor is required to immediately inform the chairman of the Supervisory Board and the Audit Committee as to any and all important issues arising from the audit report relevant to the tasks of the controlling committee (Section 7.2.1 and 7.2.3 of the Codex).

As an internationally active company, the Balda Group works in accordance with the respective national standards and internationally recognized best practices. The Board of Directors and the Supervisory Board have carefully reviewed Balda AG's compliance with the Corporate Governance Code. Even in light of the changes made to the Code on 12 June 2006 there were no discrepancies and a statement of compliance was not necessary in excess of that provided on 17 March 2006.

Bad Oeynhausen, 21 March 2007

Balda AG

The Board of Directors   The Supervisory Board

Auditor's Statement – Group

We have audited the consolidated financial statements prepared by Balda AG, Bad Oeynhausen, for the financial year spanning 1 January until 31 December 2006, consisting of the consolidated balance sheet, the consolidated income statement, the changes to equity, the cash flow statement and the consolidated notes as well as the Group annual report of Balda AG, which is summarized together with the company's annual report. The preparation of the consolidated financial statements and summarized annual report in accordance with the applicable rules of the IFRS and the EU and the supplementary provisions contained in Section 315a of the German Commercial Code (HGB), is subject to the responsibility of the company's Supervisory Board. It is our responsibility, on the basis of the audit conducted by us, to present our evaluation of the consolidated financial statements and the summarized annual report. In addition hereto, we were also contracted to determine whether the consolidated financial statements comply with the IFRS as a whole.

We conducted our consolidated annual audit in accordance with Section 317 HGB and the principles laid down by the German Institute of Auditors (IDW) for proper auditing. These set out that the audit is to be planned and carried out in such a way that any inaccuracies or infringements that have a significant effect on the true presentation of the company's assets, financial position and earnings by means of the consolidated financial statements and by means of the combined annual report, taking into account the applicable statutory accounting requirements, are detected with sufficient certainty. In determining the actions to be taken in the course of the audit, knowledge about the business activities and the commercial and legal environment of the Group is taken into consideration, as are any expectations relating to possible errors. In the context of the audit, the effectiveness of the internal financial accounting monitoring system and evidence of the accuracy of the details in the consolidated financial statements and combined annual report are predominantly assessed on the basis of random samples. The audit includes an evaluation of the annual financial statements of the companies included in the consolidated financial statements, the differentiation of all the companies to be consolidated, the accounting and consolidation principles applied and the key projections of the Board of Directos as well as an appraisal of the overall presentation of the consolidated financial statements and the combined annual report. We are of the opinion that our audit provides an adequate and secure basis for our appraisal.

Our audit identified no cause for objection.

In our opinion, based on the knowledge gained during the audit, the consolidated financial statements conform to the IFRS, as they apply in the European Union, and German commercial law additionally applicable under Section 315a [1] HGB as well as IFRS as a whole, and give an accurate view of the assets, the financial position and the profit situation of the Group. The summarized annual report conforms to the consolidated financial statements and, as a whole, gives an accurate view of the assets, the financial and profit situation of the Group, stating opportunities and potential future risks in an appropriate manner.

Hannover, 22 March 2007
PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft

Stieve	ppa Schürmann
Auditor	Auditor

Auditor's Statement – AG

We have audited the financial statements – consisting of the consolidated balance sheet, the income statement and the notes – including the accounts and the annual report, which is combined with the consolidated annual report of the Balda AG, Bad Oeynhausen, for the financial year from 1 January to 31 December 2006. In accordance with German commercial law, the accounts and the preparation of financial statements and the combined annual report are the responsibility of the company's Board of Directors. It is our responsibility, on the basis of the audit conducted by us, to present our evaluation of the financial statement, including the accounts and the combined annual report.

We conducted our consolidated annual audit in accordance with Section 317 HGB and the principles set out by the German Institute of Auditors (IDW) for proper auditing. These set out that the audit is to be planned and carried out in such a way that any inaccuracies or infringements that have a significant effect on the true presentation of the company's assets, financial position and earnings by means of the consolidated financial statements and by means of the combined annual report, taking into account the applicable statutory accounting requirements, are detected with sufficient certainty. In determining the actions to be taken in the course of the audit, knowledge about the business activities and the commercial and legal environment of the company is taken into consideration, as are any expectations relating to possible errors. In the context of the audit, the effectiveness of the billing-related internal monitoring system and evidence of the accuracy of the details in the consolidated financial statements and combined annual report are predominantly assessed on the basis of random samples. The audit includes an evaluation of the principles of accounting applied and key projections of the Board of Directors as well as an appraisal of the overall presentation of the financial statements and the combined annual report. We are of the opinion that our audit provides an adequate and secure basis for our appraisal.

Our audit identified no cause for objection.

In our opinion, based on the knowledge gained during the audit, the consolidated financial statements comply with the law and give, in compliance with the principles of proper accounting, a true and fair view of the assets, the financial position and the profit situation of the company. The summarized annual report conforms to the consolidated financial statements and, as a whole, gives an accurate view of the assets, the financial and profit situation of the Group, stating opportunities and potential future risks in an appropriate manner.

Hannover, 22 March 2007
PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft

Stieve	ppa Schürmann
Auditor	Auditor

SAFE drive

Thousands of engineers world-wide ensure the security of automobiles. A central safety factor remains the attention of the driver. A headset for a mobile phone keeps the drivers hands on the steering wheel and concentration on the road.

This double page is not part of the Management Report.

Wireless, bluetooth connected **headsets** are sought-after mobile phone accessories. Balda designs, develops and manufactures complete headsets. On top of this, Balda performs technological high complex acoustic tests. Customers of headsets are international brands.

NOTES TO THE ACCOUNTS
for the Group Financial Statement
as of 31 December 2006

I. General explanatory notes

1. General details on Balda AG

The Balda Aktiengesellschaft's registered office is located in Bad Oeynhausen, Germany.

The business activities of the Balda Group range from materials development, engineering, mould making, manufacturing hardware components and surface engineering to the manufacture of touch screens. Above all, the company supplies the infocom and medical engineering sectors and related industries.

2. Details of the Balda AG consolidated financial statement

The consolidated financial statement was prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable within the European Union. The financial reporting methods applied comply with the European Union directives on financial reporting for consolidated financial statements.

Unless otherwise stated, all figures are stated in thousands of euros (TEUR).

Pursuant to IAS 1, we have made use of the option and prepared the consolidated financial statement according to the maturities, starting with the short-term due dates. All asset and debt items with a residual period of less than one year are classified as short-term. In preparing the consolidated financial statement, the Balda AG has therefore met the Deutsche Börse AG requirements as regards structured quarterly statements.

The financial statements of the companies included in the consolidated financial statement are based on uniform financial reporting and evaluation principles that conform to the IFRS.

3. Details on consolidation

a. Scope of consolidation

The consolidated financial statement includes the financial statements of Balda AG and the companies in which it holds a majority stake (its subsidiaries) up until 31 December of each year. Majority stakes are deemed to exist if the company can determine the financial and business policy of a subsidiary in order to gain economic benefit.

Apart from the Balda AG, the consolidated financial statement includes 10 domestic and 8 foreign subsidiaries on the way to full consolidation. Furthermore, 13 foreign and 2 domestic subsidiaries are included on a pro rata basis. One associated company is reported using the equity method.

On 31 March 2006 the Balda AG reacquired the 25 % minority interests of Balda Investments Singapore Ltd, Singapore, from the former Asian joint venture partner Everskill. As part of the acquisition of the TPK shares, a total of 40 % of the shares in this Asian intermediate holding were transferred on 15 August 2006 in two steps to Max Gain. With effect from 21 December 2006 Balda AG reacquired 35 % of Balda Investments Singapore Ltd, Singapore, from Max Gain.

The following subsidiaries were included in the consolidated financial statement for the first time as part of the full consolidation:
- Balda Motherson Solution India Ltd.
- Balda Investments Mauritius Ltd.
- Balda Solutions USA Ltd.

On 20 March 2006 the remaining 50 % of shares of Balda Solutions Malaysia Sdn. Bhd. (previously: Balda-Thong Fook Solutions Sdn. Bhd.) were acquired. From this time the company was fully consolidated (up to 20 March 2006 pro rata consolidated).

With effect from 15 August 2006 the TPK Holding, in addition to its subsidiaries [1], was included as part of the pro rata consolidation in the consolidated financial statement for the first time.

The acquisition of subsidiaries and joint ventures affected the assets and liabilities at the time of acquisition involved as follows:

in TEUR	2006 Balda Solutions Malaysia Sdn. Bhd.	2006 TPK Holding Co. Ltd.	2006 Total
Payment made	12,799	59,250	72,049
Shares issued, valued at attributable value	0	45,150	45,150
Costs directly attributable to acquisition	217	1,804	2,021
Total purchase price	**13,016**	**106,204**	**119,220**
Short-term assets	6,537	24,770	31,307
Long-term assets	6,940	14,470	21,410
Customer relationships acquired	2,349	62,630	64,979
Short-term liabilities	4,551	5,612	10,163
Long-term liabilities	2,332	4,607	6,939
Deferred taxes	470	12,525	12,995
Net assets acquired	**8,473**	**79,126**	**87,599**
Goodwill	4,543	27,078	31,621

The book values before the consolidation corresponded to the market values attributable at the time of acquisition.

The price supplement to the net assets was paid for the existing technologies as well as the synergy effects with the existing infocom market.

Due to the restructuring in Germany, the following companies left the scope of consolidation of the Balda AG on 31 December 2006:
- Balda Surface GmbH
- Albea Kunststofftechnik GmbH
- Albea Grundstücksverwaltungs GmbH

1) Details on the associated subsidiaries can be taken from the overview on page 91.

The assets and debts as well as the revenues and costs of the discontinued operations are as follows:

in TEUR	Consolidation scope disposals from sales	Consolidation scope disposals from other discontinued operations
Short-term assets	13,746	8,868
Long-term assets	16,710	16,655
Short-term liabilities	15,042	4,713
Long-term liabilities	2,932	2,291
Revenues	21,539	21,734
Total operating performance	22,216	23,277
Material expenses	8,133	7,064
Personnel expenses	11,966	13,328
Other operating expenses	3,754	4,897
Expenses for scheduled depreciation	1,520	1,137
Impairement losses	7,797	7,220
Financial result	-308	66
Tax expense	119	-858
Net loss	**-11,381**	**-9,445**

The basis of consolidation of disposals from sales shows the balance sheet and earnings effects of the disposals of the Albea Kunststofftechnik GmbH, the Albea Grundstücksverwaltungs GmbH and Balda Surface GmbH companies.

The disposals from other discontinued operations include the values of the automotive companies Balda-Heinze GmbH & Co. KG, HeRo Galvanotechnik GmbH and the Sächsische Metall- und Kunststoffveredelungs GmbH.

The consolidation is based on the balance sheets of the fully- and pro rata consolidated Group companies on 31 December 2006. The Indian company Balda Motherson Solution India Ltd. has a divergent financial year to 31 March. The interim balance sheet compiled up to 31 December 2006 has been audited.

b. Consolidation method

The capital was consolidated according to the acquisition method. In the case of the acquisition of a company, the assets and debts of the respective subsidiaries are valued at their attributable market value at the time of acquisition. If the cost of acquiring a company exceeds the attributable current market value of the acquired identifiable assets and debts, the difference is shown as goodwill. The interests of minority stakeholders are reported as the part of the attributable current values of the stated assets and debts that correspond to the minority interest.

The earnings of the subsidiaries acquired or sold during the course of the year are incorporated in the Group income statement according to the actual time of acquisition or up until the actual time of disposal.

Receivables and corresponding liabilities or provisions between the Group companies are mutually offset.

Revenues resulting from inter-company deliveries and other intra-group income are set off against the corresponding expenses. Interim profits resulting from intra-group trading are eliminated.

Interests in jointly-managed companies are given in the balance sheet by means of pro rata consolidation. The Group aggregates per item the pro rata share of their income, expenses, assets and debts as well as cash flows with similar Group items.

The earnings as well as assets and debts of associated companies are incorporated in this Group financial statement by application of the equity method. Interests in associated companies are given in the balance sheet at acquisition cost, adjusted by the changes in the Group's share of the net profit following the time of acquisition and losses due to depreciation. Losses that exceed the Group's share in associated companies are not reported.

c. Currency conversion

All foreign companies of the Balda AG administer the financial, economic and organisational aspects of their business independently. The incorporated financial statements have been prepared in the respective national currencies.

The assets and debts of the Group's foreign companies are converted at the market price on reporting date as part of the consolidation. The amounts that differ from the market price on the reporting date are stated separately in the currency reserves without affecting profits.

Currency differences resulting from consolidation of debts and expenses/earnings are set off as income.

The goodwill values resulting from the acquisition of foreign subsidiaries are treated as assets and debts of the financially independent subsidiary and converted at the market price on reporting date (IAS 21.47). The resulting currency differences are stated in the currency reserves.

d. Existing joint ventures

Through its Asian intermediate holding Balda Investments Singapore Ltd, Balda AG has an indirect share of 50 % in the TPK Holding Co. Ltd, a jointly managed group based in Asia, specialised in the manufacture of touch screens.

In addition, Balda AG has 50 % of the shares in Balda Lumberg Deutschland GmbH & Co. KG, an intermediate holding based in Germany for the Brazilian companies pro rata consolidated in the Balda Group, which are principally specialised in the manufacture of high quality components for the mobile telecommunications industry and related areas.

The share of assets, debts, earnings and expenses of the jointly managed companies attributable to the Group on 31 December 2006 and on 31 December 2005 is as follows:

	Balda Lumberg Deutschland GmbH & Co. KG		TPK Holding Co. Ltd.	
in TEUR	**2006**	2005	**2006**	2005
Short-term assets	7,400	7,114	18,129	0
Long-term assets	5,296	7,324	21,323	0
Short-term debts	3,354	1,825	6,008	0
Long-term debts	2,511	3,510	5,010	0
Revenues	15,327	18,904	4,305	0
Material expenses	8,817	13,305	3,065	0
Personnel expenses	4,081	3,330	1,251	0
Other operating expenses	5,452	2,848	1,212	0

II. Details on the consolidated financial statement of the Balda AG

1. Details on the new and amended standards and interpretations

New and amended standards and new interpretations that apply to periods under review beginning on or after 1 January 2006:

Standard or interpretation	**Title (time of entry into force)** - application to financial years beginning at the time of the entry into force or later -
IAS 1 / IAS 19	Amendment – actuarial gains and losses, Group plans and details (1 January 2006)
IAS 21	Amendment – effects of changes in exchange rates (1 January 2006)
IAS 39	Amendment – Cash flow Hedge Accounting of Forecast Intragroup Transactions (1 January 2006)
IAS 39	Amendment – The fair value option (1 January 2006)
IAS 39 / IFRS 4	Amendment – Financial Guarantee Contracts (1 January 2006)
IFRS 6	Exploration for Evaluation of Mineral Resources (1 January 2006)
IFRIC 4	Determining whether an Arrangement contains a lease (1 January 2006)
IFRIC 5	Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (1 January 2006)
IFRIC 6	Liabilities arising from Participating in a specific Market – Waste Electronical and Electronic Equipment (1 December 2005)

The amendments of IAS 19, IAS 21, IAS 39, IFRS 4 and IFRS 6 as well as the interpretations of IFRIC 4; IFRIC 5 and IFRIC 6 currently have no relevance in the Balda Group.

New and amended standards as well as newly published interpretations that have not yet come into force, but which could already be applied by companies at an earlier date.

Standard or interpretation	**Title (time of entry into force)** - application to financial years beginning at the time of the entry into force or later -
IFRS 7 (IAS 32 / IAS 30)	Financial instruments: disclosures (1 January 2007)
IAS 1	Amendment – Capital disclosures (1 January 2007)
IFRS 8	Operating segments (1 January 2009)
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics (1 March 2006)
IFRIC 8	Scope of IFRS 2 (1 May 2006)
IFRIC 9	Reassessment of Embedded Derivatives (1 June 2006)
IFRIC 10	Interim financial reporting and impairment (1 November 2006)
IFRIC 11	IFRS 2 – Group and treasury share transactions (1 March 2007)
IFRIC 12	Service concession arrangements (1 January 2007)

With regard to the use of the IFRS 7 standard for the first time and the corresponding amendment of the IAS 1 and IFRS 8, there were no significant effects on the asset-, financial- and earnings situation expected as at the time the standards came into force. The interpretations IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11 and IFRIC 12 currently have no practical relevance within the Balda Group.

2. Financial reporting and evaluation principles

The fundamental financial reporting and evaluation methods used to prepare this Group financial statement are set out in the following sections. The financial reporting methods – with the exception of the two following issues – have in general not been changed compared to the previous year.

Pursuant to IAS 27 in connection with IAS 1, the minority interests in shareholders' equity were shown as a separate constituent within the shareholders' equity for the first time. The previous year's details have been correspondingly adapted.

In the development of the long-term assets, the historic depreciation of goodwill pursuant to IAS 3.79 was offset against the corresponding acquisition and manufacturing costs at the beginning of the financial year.

All estimates and assessments are continuously re-evaluated and are based on historic experience and other factors, including expectations regarding future events that appear reasonable in the given circumstances.

The valuation options were exercised uniformly within the Group and were retained, in contrast to the previous year.

Interest expenditure related to the procurement of long-term assets are shown with an effect on income in the profit and loss statement.

Receivables and other assets are stated at nominal value. Sufficient allowance was made with regard to estimated irrecoverable amounts for all risks discernible at the time the balance sheet was drawn up through the application of value adjustments. Short-term foreign currency liabilities were converted at the market price on the reporting date.

The inventories were valued at acquisition or manufacturing cost or at the expected lower net sales proceeds. Acquisition and manufacturing costs are calculated using the weighted average method or first-in-first-out principle.

In addition to the material and prime costs, manufacturing costs include manufacturing overhead surcharges and depreciation. The tool orders are valued using the completed contract method.

The tangible and intangible assets are valued at acquisition and manufacturing cost less scheduled, straight-line, depreciation and, where applicable, less depreciation charges. As a general rule, depreciation is based on the following operating life expectancies:

	Years
Buildings	33 to 50
Technical equipment and machinery	3 to 10
Other plant, factory and office equipment	3 to 10
Intangible assets	3 to 8

Depreciation begins once the asset has been completed or once the operating condition has been achieved.

The manufacturing costs account for all manufacturing-related expenses.

The Group leases certain fixed assets (leasing objects). Leasing agreements for fixed assets where the Group bears the main risks and advantages of ownership of the leasing object are classified as financial leasing. Assets from financing leasing are capitalised at the beginning of the term of the lease with the lower value of the attributable market value of the leasing object and the present value of the minimum leasing payments. A leasing liability is carried as a liability to the same amount under the long-term liabilities. Each lease instalment is divided into an interest and repayment portion so that the leasing liability pays interest constantly. The interest portion of the leasing instalment is shown in the profit and loss statement with an effect on costs. Fixed assets held under financial leasing are depreciated over the shorter of the two following periods: the useful life of the asset or the term of the lease.

The useful lives of all intangible assets are limited. The development costs and company-manufactured intangible assets are capitalised if the reporting conditions pursuant to IAS 38 are met. In the case of the initial evaluation of the customer relationship, the future payments are discounted by the present value at the current market interest rate.

The tangible and intangible assets were depreciated by the lower recoverable amount where applicable, pursuant to IAS 36.

On each balance sheet date the Group reviews the book values of its tangible and intangible assets to determine whether these assets should be depreciated. If they are to be depreciated, the recoverable amount is estimated to determine the scope of the possible depreciation expenses. If the recoverable amount for an individual asset cannot be estimated, the recoverable amount of the cash generated by this asset is estimated.

The recoverable amount is the higher value taken from the fair value less costs of selling and the value in use. In the case of determining the value in use, the estimated future payments are discounted by the present value at the current market input pre-tax interest rate that reflects the specific asset risks, which are not taken into consideration in the payments.

If the estimated recoverable amount of an asset (or a cash generating unit) falls below the book value, the book value of the asset (or the cash generating unit) is reduced by the recoverable amount. The depreciation is stated immediately as income.

In the case of the subsequent reversal of the depreciation, the book value of the asset (cash generating unit) is increased by the newly-estimated recoverable amount. In this respect the increase in the book value is restricted to the value that would have been determined if no depreciation expenses had been reported for the asset (cash generating unit) in previous years. A reversal of the depreciation expenses is stated immediately as income.

The initial evaluation of properties kept as financial investments is made at acquisition or manufacturing costs including incidental costs. Thereafter the properties held as financial investments are stated at their attributable market value. The attributable market value corresponds to market conditions on the balance sheet date. Profits or losses from changes in the attributable market values are stated in the profit and loss statement in the year they occur. Properties held as financial investments are removed from the accounts when they are sold or if they cease to be used permanently and no further future financial benefit can be expected from their sale. Profits or losses from shutdown or sale are simultaneously stated as income in the same year. Should a property be re-allocted to the properties held as financial investments,, this property is stated in the balance sheet up to the time of the change in use according to the financial reporting and evaluation principles stated under tangible assets. Any difference arising between the book value and the attributable market value at the time of the change in use is stated in the result.

The interests stated in the financial assets are reported in the balance sheet at acquisition cost. The interests do not exert any significant influence. The interests from associated companies are valued at equity. The loans and other financial assets are reported at their nominal value or at the lower recoverable amount.

The goodwill represents the surplus of the acquisition costs of the company acquisition over the attributable market value of the shares of the Group in the net assets of the company acquired at the time of acquisition unless differences could not be distributed among the individual assets. The goodwill shown in the balance sheet is subjected to an annual impairment test and is valued at its original acquisition costs minus accumulated loss in value. Subsequent increased valuations are not permissible. Profits and losses from the sale of a company include the book value of the goodwill attributed to the company sold. The goodwill is distributed between revenue generating units for the purpose of the impairment test. The distribution occurs among those payment generating units or groups of payment generating units, which it can be expected to derive benefit from the merger that created the goodwill.

Long-term assets (or groups of assets and debts) are classified as held for sale and valued at the lower value of book value or attributable market value minus sales costs if their book value is essentially realised by sale instead of by continued company use.

Deferred taxes are the expected tax burdens or relief from the differences of the book values of assets and debts in the Group financial statement and the value amount stated in the tax balance sheet. In this respect, use is made of the balance sheet oriented liability method. Deferred tax liabilities and deferred tax assets are reported for all taxable temporary differences insofar as it is likely that taxable profits, for which the deductible temporary differences can be used, are available. Deferred taxes on temporary differences from goodwill are not stated.

The book value of the deferred tax assets is reviewed each year on the reporting date and reduced if it is no longer likely that sufficient taxable income is available to realise the claim fully or partially.

The expected income tax burden at the time of realising the differences is taken as a basis for the temporary differences pursuant to IAS 12 in respect of valuing the deferred taxes. Deferred taxes are generally reported as income, apart from items that are directly booked in the shareholders' equity.

All current liabilities are reported at their repayment amount. Short-term foreign currency liabilities are converted on the reporting date.

Provisions are set up for legal or effective commitments, which originated in the past if it is likely that honouring the commitment will give rise to an outflow of Group resources and the amount of commitment can be reliably estimated.

The provision is reported at present value if a significant compound interest effect results from the time at which the commitment is honoured.

Provisions for warranties are reported at the time at which the respective product is sold. The amount is based on the best estimate of the expenses by the management, which is obliged to honour the Group obligation.

The expense and obligations from performance related pension plans and semi-retirement are determined using the projected unit credit method on the basis of external actuarial opinions. The assessment is made on the basis of assumptions regarding discounting rates, expected earnings from plan assets, salary and pension trends and mortality rates. In accordance with the long-term structure of these obligations, these estimates are subject to the normal uncertainties.

Due to the amendment of IAS 19 issued by the IASB (employee benefits) in December 2004, an additional option has been created, which permits taking immediate account of actuarial profits and losses from performance related pension obligations and as well as reduced contributions from the upper limit of the assets without affecting profits. The Board of Directors of the Balda Group decided to state actuarial profits and losses directly and completely in the profit and loss statement analogously to IAS 19.93, due to their minor dimensions. The debt shown resulting from the performance-oriented obligation arises to the same amount as the actual obligation.

In the Balda consolidated financial statement all expenses and earnings are stated in the performance-related pension plans.

Pursuant to IAS 39, financial liabilities were reported at the time of acquisition at acquisition cost. Costs that can be directly allocated to the acquisition (transaction costs) have been taken into consideration. In the following period, compounding is applied in accordance with the effective interest method such that the repayment amount arises at the end time.

The Group has set up a share-based payment plan, which can be settled by the issue of shares or a cash payment. The attributable market value of the work performed by the employees in return for the grant of options is stated as an expense. The entire expense to be recorded over the period until the non-forfeitability of the options is determined from the attributable market value of the options granted.

In the case of the Balda Group companies, the revenues are only realised once the service is rendered in full (completed contract method). Insofar as the service has not been rendered in full, the service that is valued at manufacturing costs is capitalised in the inventories.

3. Segment reporting

In the Balda Group, primary segment reporting is organized by geographical region and is unchanged from the previous year. India is included for the first time in 2006. The make-up of the primary segment is shown in a separate appendix to the annual report "Group Segment Reporting for Financial Year 2006".

The primary segment in the Balda Group is divided by region into Europe, Asia, America and India. In each segment, the location of the segment assets corresponds primarily with the revenues received from third parties in that segment.

The values for discontinued business operations listed in our notes under 3.a. refer on the whole to the Europe region and are included in the segment reports.

Depreciation expenses in the amount of TEUR 4,402 in Europe and TEUR 5,177 in America accrued in the financial year 2006 due to impairment tests for tangible assets. Impairment losses on goodwill of TEUR 10,615 was reported for the Europe region and TEUR 9,023 for the America region.

The income from affiliated companies (TEUR 71) reported according to EBIT in the income statement is allocated to the European region. The investment valuation in this case amounted to TEUR 502 as of the balance sheet date.

The secondary segment reporting is organized by business area and is subdivided into the business areas "Development, engineering and mould making", "Plastics processing and surface treatment", and "Touch screens", the latter just acquired in 2006.

Secondary segments	**BA 1** Plastics processing and surface finishing		**BA 2** Development, engineering and mould construction		**BA 3** Touch screens		Reconciliation		Group	
in TEUR	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Revenues	334,151	356,891	32,401	40,288	4,306	0	0	0	370,858	397,179
Changes compared to previous year	-6.4 %	14.2 %	-19.6 %	-38.3 %	100.0 %				-6.6 %	5.2 %
Investments [1]	28,328	27,384	2,205	6,589	7,862	0	0	0	38,395	33,973
Segment assets [2]	201,946	264,456	23,598	24,161	133,136	0	8,040	0	366,720	288,617

(1) Investments = Investments in tangible and intangible assets
(2) Segment assets = short- and long-term assets not including interest-bearing assets, active deferred taxes and tax refund claims

The receivables, primarily those from the sale of Albea Kunststofftechnik GmbH, Albea Grundstücksverwaltungs GmbH, and Balda Surface GmbH are listed under the reconciliation item – according to the segment assets.

4. Cash flow statement

The cash flow statement has been prepared in accordance with IAS 7 Cash Flow Statements. Cash flows are classified according to whether they arise from operating investing, or financing activities.

The development and composition of the cash flows are included in the consolidated financial statement as a separate component in a cash flow statement.

The individual cash flow statement items are as follows:

a. Cash flow from current business activity

The cash flow from current business activity was reduced by TEUR 3,223 to TEUR 28,124. The significantly lower year-end results were set off against increased depreciation and other non-cash affecting expenses. Primarily as a result of the reduction of trade accounts receivable from the ABS program set up in 2006, the Group received considerable cash and cash equivalents, whereas an outflow of funds was recorded in the previous year.

b. Cash flow from investment activity

In the financial year 2006, the Group acquired tangible and intangible assets amounting to TEUR 38,395. Payments of TEUR 38,050 were made for the acquisition of tangible and intangible assets. Received payments from sales of TEUR 3,364 were offset.

The Group received TEUR 341 from the disposal of financial assets.

The payments for the acquisition of shares in Group companies were offset by acquired cash and cash equivalents amounting to TEUR 22,317.

c. Cash flow from financing activity

The changes in liabilities to banks affecting payments are fully attributable to loan repayments and repayments of current account liabilities. These outflows were offset by an inflow of funds from loans amounting to TEUR 533.

The Group received cash funds amounting to TEUR 77,973, after deduction of transaction costs, from the issue of option bonds.

The Group received payments of TEUR 550 in connection with the conversion of convertible bonds from 2003.

In the year under review, no new leasing contracts that met the criteria of financial leasing were made. These liabilities of TEUR 609 were repaid.

d. Changes to cash and cash equivalents affecting payments

Overall, financial resources fell about TEUR 24,143. If the liquid assets acquired are taken into account, financial resources as at the balance sheet date amounted to TEUR 40,486. Included in this figure are the liquid assets of the discontinued business operations amounting to TEUR 2,151.

5. Notes on individual consolidated financial statement items

Current assets

a. Cash and cash equivalents

Cash and cash equivalents include cash on hand, capital investments saleable at any time, bank balances and cheques.

b. Trade accounts receivable

The trade accounts receivable amounted to TEUR 40,308 as at the balance sheet date. The decrease of TEUR 45,000 resulted from the sale of receivables in connection with the "Asset Backed Securities" (ABS) program in Europe and from a decline in total revenues in 2006.

Receivables due from associated companies for services performed amounted to TEUR 39 (previous year: TEUR 30).

The value adjustements for receivables as at the balance sheet date amounted to TEUR 2,961 (previous year: TEUR 1,858).

All receivables have a remaining term of less than one year.

c. Inventories

The inventories on the balance sheet date were depreciated by TEUR 9,866 (previous year: TEUR 5,038) at the lower net sale price. The cause for this was primarily the situation of the customer BenQ.

d. Tax refunds

The tax refunds are exclusively for income taxes pursuant to IAS 12.

e. Prepaid expenses and other current assets

The other current assets include, among other things, refund claims for value added taxes amounting to TEUR 6,316 (previous year: TEUR 3.228). Also included are the current portion of the receivables from the sale of Albea Kunststofftechnik GmbH and Balda Surface GmbH (TEUR 7,862) and the amounts retained as security from Weinberg Funding Ltd. (TEUR 5,034) resulting from factoring in connection with the ABS program.

The forward foreign exchange transactions are stated at the fair value of TEUR 72.

f. Assets classified as held for sale

This item includes the assets of the discontinued business units, that is to say of Balda-Heinze GmbH & Co. KG, HeRo Galvanotechnik GmbH, and Sächsische Metall- und Kunststoffveredelungs GmbH (for further information see Note 3.a.). Also included is the sum of TEUR 950 for a parcel of land and buildings that were sold effective as of 1 January 2007 (contract dated from 21 December 2006).

Long-term assets

For information regarding the changes in the individual long-term asset areas (without deferred taxes), we refer to our statement on the development of long-term assets, which we have included as an annex to the Notes.

g. Tangible assets

The balance sheet values in the Group financial statement correspond to fair value at the time of the initial consolidation or acquisition or to manufacturing costs at the time of the initial balancing, less scheduled and non-scheduled depreciation.

Impairment losses amounting to TEUR 5,278 (previous year: TEUR 99) for tangible assets accrued during the financial year.

Insofar as the companies of the Balda Group are responsible for the opportunities and risks associated with leased assets (finance leasing), these are reported pursuant to IAS 17 at the acquisition costs that would have applied in the event of acquisition.

The book values of the leased assets – stated in "land and buildings" and in "technical equipment and machinery" – are made up as follows:

in TEUR	**31.12.2006**	31.12.2005
Land and buildings		
Acquisition costs	1,494	0
Cumulative depreciation	101	0
Net book value	**1,393**	**0**
Machinery and equipment		
Acquisition costs	3,274	1,602
Cumulative depreciation	907	366
Net book value	**2,367**	**1,235**

h. Investment property

Due to a change in use during the financial year 2006, a property with a fair value of TEUR 1,537 is recorded under real property held as financial investments. In an appraisal of net income value based on existing leases, the fair value was determined by discounting the expected cash flows. A discount rate of 4.0 % was used as a basis. Rental income amounting to TEUR 99 was received during the financial year.

i. Intangible assets

The intangible assets are primarily capitalised customer relationships and software acquired against payment. The capitalised customer relationships were valued by applying the discounted cash flow method. The expected inflows of funds from the expected results were discounted using a discount rate of 12 %.

The development costs and intangible assets generated by the company itself can be capitalised pursuant to IAS 38 under the conditions stated therein. The total research and development costs in financial year 2006 amounted to approximately TEUR 2,400 (previous year: about TEUR 2,500). The development costs accounted for the bulk of these costs. The development costs were not capitalised for lack of a reliable means of defining and allocating manufacturing costs pursuant to IAS 38.51. The customer relationships identified pursuant to IFRS 3 in a valuation of the acquistion of the 50 % interest in TPK Holding Co. Ltd. and in Balda Solutions Malaysia Sdn. Bhd amount to a total of TEUR 67,328 and will be depreciated over a period of 7 or 8 years.

j. Financial assets

Goodwill resulting from the acquisition of an associated company is included in the book value of investments in associated companies. The investments were held as "available for sale"; all of the other financial assets are loans (loans and receivables originated by enterprise).

The investment in associated companies is the investment, shown at equity in the balance sheet, in aimtec GmbH. Pro-rata income from affiliates was TEUR 71 (previous year: TEUR 46). In response to increased competition in the IT market, an impairment test of the investment value had been carried out by the balance sheet date. The valuation of the investment based on discounted cash flow expectations (discount rate before taxes: 17.2 %) led to an impairment loss of TEUR 666.

The loan of TEUR 2,019 reported in 2005 under "loans to subsidiaries and affiliates" was, in connection with the discontinued operations, reclassified under the item "assets classified as held for for sale".

The long-term portion of the purchase price claim from the sale of Albea Kunststofftechnik GmbH (TEUR 2,708) is included in other financial assets.

When the companies belonging to the joint venture Balda Lumberg were acquired, a portion of the purchase price was deposited with a notary in a trust account. This was used to cover threatened risks, that at the time of acquisition, were included in the balance sheet at market value. These contingent claims have been reversed due to mitigation of the risks and agreements with the seller.

k. Goodwill

The company's value as a going concern was determined using the discounted cash flow expectations of the individual operating companies. The discount rates used as a basis were between 17.2 % and 26.0 % before taxes (previous year: between 14.5 % and 18.5 %). The value in use determined in this way only partially exceeded the book values as of 31 December 2006. In accordance with IAS 36, this resulted in depreciation expenses, reported on the income statement with an effect on net income, amounting to TEUR 9,023 (previous year: TEUR 0) for continued business operations in the financial year. No other depreciation amounts would have resulted even if future cash flows were to vary by 10 %. In addition, the expected sale proceeds less costs to sell, were considered in determining the value of the discontinued business units. Impairment losses of TEUR 10,615 resulted accordingly.

l. Deferred taxes

Under deferred taxes on the asset side, the following amounts for temporary differences are reported for the 2006 financial year:

in TEUR	31.12.2006	31.12.2005
Tax relief claims and realisable loss carry-forwards	14,074	3,059
Consolidation effects	250	730
Evaluation corrections in accordance with IFRS	404	1,266
Total amount	**14,728**	**5,055**

Deferred tax assets for tax loss carry-forwards are shown only to the extent that future taxable profits were considered likely as at the balance sheet date. The valuation approach is based on projected tax results. The Group did not record deferred tax assets amounting to TEUR 945 (previous year: TEUR 0). TEUR 4,478 of the underlying losses can, however, be offset by future profits.

The tax rate is based on the particular circumstances in individual Group companies. Calculation of the deferred corporation tax for the domestic companies limited by shares is based on the 25.0 % tax rate currently in effect (previous year: 25.0 %).

The deferred tax asset was reduced by TEUR 310 through the deconsolidation of the discontinued business operation.

Current liabilities

m. Current portion of finance lease obligation

The current liabilities from leasing contracts as at the balance sheet date amounted to TEUR 561 (previous year: TEUR 391) and pertain to the amounts due within one year under the finance lease.

n. Short-term debts and current portion of long-term debts

The current liabilities to banks increased by TEUR 29,030 as the result of the use of existing lines of credit.

The current portion of long-term debts pertains to the repayment rates due within the next 12 months for medium- and long-term loans. All amounts are therefore due within one year.

o. Trade accounts payable

These liabilities resulted primarily from the supply of materials and from services and decreased by TEUR 12,703 from the previous year.

There are liabilities amounting to TEUR 198 to associated companies (previous year: TEUR 412).

p. Advance payments received

The advance payments received pertain primarily to payments received for orders for assembly systems and tools already in production and are, allowing for the discontinued business operations, virtually unchanged from the previous year.

q. Short-term provisions

The short-term provisions are as follows:

in TEUR	Balance on 1.1.2006	Currency differences	Utilisation	Reversal	Disposal of consolidated companies	Accruals	Balance on 31.12.2006
Short-term provisions	2,354	0	306	26	670	4,544	5,896

The provisions include, among other things, provisions for compensatory damages. They are based on the most likely value for defective products as estimated on the basis of past experience.

TEUR 4,130 was reserved in the financial year for restructuring expenses. This relates to the pending workforce reduction at the Bad Oeynhausen location in 2007.

r. Tax liabilities

The tax liabilities pertain exclusively to income tax obligations as per IAS 12.

s. Other current liabilities

The other current liabilities include mainly the following:

in TEUR	**2006**	2005
Wages and salaries incl. social insurance	4,031	5,906
Other personnel costs (holiday pay, profit-shares/bonuses, etc.)	2,364	5,494
VAT, payroll tax and church tax	1,482	3,714
Outstanding credit owed to customers	1,263	1,879
Other outstanding accounts	9,140	5,362
Total amount	**18,280**	**22,355**

t. Liabilities classified as held for sale

Liabilities directly connected with assets classified as held for sale are reported here (cf. Notes 5.f and 3.a).

Long-term liabilities

u. Long-term debts

The due dates for the repayment obligations in connection with loans are as follows:

in TEUR	Variable interest rates 3.6 % to 7.5 % p.a.	Fixed interest rates 3.7 % to 6.5 % p.a.	Total amount
2008 - 2011	2,070	125,090	127,160
Post 2011	0	200	200
Total amount	**2,070**	**125,290**	**127,360**

The loans are secured by charges and assignments for security, among other things.

An option bond with a face value of TEUR 80,000 was issued on 28 July 2006 at a fixed interest rate of 5.12 % per annum and with a final maturity of 30 June 2011.

The fair value of the liability component and of the shareholders' equity conversion components was determined for the date on which the option bond was issued. To determine the fair value of the liability component, a market interest rate (6.54 %) was calculated that is comparable to similar non-convertible debentures. Discounting the cash flows at the market rate of interest resulted in a residual value that represents the option right. This value (TEUR 2,518) was, with allowance for deferred taxes, included in the capital reserves. Using the effective interest rate method with an interest rate of 7.17 %, compounding was applied to the liability component over the life of the bond. Interest expenditures amounting to TEUR 456 accrued in the year under review.

A bonded loan (TEUR 40,000) with a fixed interest rate of 3.8 % and a final maturity in February 2010 was issued in February 2005. The effective rate of interest for the loan is 4.2 %. Interest expenditures amounting to TEUR 151 are taken into account in the year under review.

v. Long-term finance lease obligations

The long-term capital lease liabilities of TEUR 745 (previous year: TEUR 856) pertain to the repayment amounts for the liabilities under the "finance lease". All liabilities fall due after one year but before five years.

w. Deferred taxes

in TEUR	2006	2005
Consolidation effects	0	398
Evaluation corrections according to IFRS	3,405	1,824
Customer relationships from initial consolidation	12,995	0
Amount recorded directly in shareholders’ equity	2,005	1,132
Total amount	**18,405**	**3,354**

The customer relationships identified in connection with the initial consolidation for concerned deferred taxes of TEUR 12,995. A deferred tax liability (TEUR 1,652) was created, without an effect on income, for the shareholders' equity component of the option bond placed in the year under review. It was reduced by TEUR 117 through application of compounding to the bond in 2006.

The tax rate is based on the particular circumstances in individual Group companies. Calculation of the deferred corporation tax for the domestic companies limited by shares is based on the 25.0 % tax rate currently in effect (previous year: 25.0 %).

The deferred taxes were reduced by TEUR 90 through the deconsolidation of the discontinued operations.

x. Long-term provisions/pension accruals

Changes in provisions were as follows:

in TEUR	Balance on 1.1.2006	Differences in rate of exchange	Additions to consolidated companies	Utilisation	Reversal	Disposal of consolidated companies	Accruals	Balance on 31.12.2006
Long-term provisions/pension provisions	6,344	-70	154	95	922	2,403	283	3,291

The long-term provisions include pension obligations amounting to TEUR 154 (previous year: TEUR 1,539). In the year under review, the contingent liabilities reported pursuant to IFRS 3 in connection with the acquisition of the subsidiaries of the joint venture Balda Lumberg were reduced by TEUR 922 to TEUR 2,511.

With respect to the European region, the following information refers in part to the discontinued operations. The obligations and expenditures under pension plans in the European region apply in full to the discontinued operations, while obligations and expenditures for partial retirement ("Altersteilzeit") account for the sum of TEUR 560. These figures are included in the item "liabilities classified as held for sale".

In Germany the Group has pension obligations under two defined benefit pension plans to consider. Both plans contain fixed-sum commitments exclusively.

In Asia there are further obligations under a defined benefit pension plan.

In addition, the Balda Group has obligations under partial retirement agreements in Germany.

Due to the initial consolidation of the obligations in the Asian region, expenditures for employee benefits and the actual earnings from plan assets in 2005 and 2006 are stated as EUR 0 as of 31 December 2006. For the Asian region, expenditures for the allocation to provisions are represented on a non-recurring basis under current service costs.

The following tables list the constituent parts of the sums for each of the plans shown in the Group's balance sheet/income statement.

The expenses accruing from partial retirement are listed in their entirety under the entry "current service costs". Any adjustments to be made due to commitments resulting from partial retirement are accounted for in their entirety in the income statement for the year of their origination.

Costs of social security payments included in the total costs are as follwos:

	Pension plans Europe		Pension plans Asia		Partial retirement Europe	
in TEUR	**2006**	2005	**2006**	2005	**2006**	2005
Current service costs	13	0	162	0	272	79
Interest expenses	71	0	0	0	0	0
Recorded actuarial gains (-)/losses (+)	-20	0	0	0	0	0
Costs for social insurance	**64**	**0**	**162**	**0**	**272**	**79**
Actual income from plan assets	0	0	0	0	0	0
Assets/liabilities from defined benefit obligations						
Defined benefit obligations	1,600	1,615	162	0	662	390
Fair value of the plan assets	0	0	0	0	0	0
Defined benefit obligations	**1,600**	**1,615**	**153**	**0**	**662**	**390**

The following table lists the development of the cash value of the obligations:

in TEUR	Pension plans Europe	Pension plans Asia	Partial retirement Europe
Defined benefit obligations on 1 January 2005	1,462	0	311
Interest expenses	71	0	0
Current service costs	13	0	79
Benefits paid out	-77	0	0
Actuarial gains (-)/losses (+)	146	0	0
Defined benefit obligations on 31 December 2005	**1,615**	**0**	**390**
Interest expenses	71	0	0
Current service costs	13	162	272
Benefits paid out	-79	0	0
Actuarial gains (-)/losses (+)	-20	0	0
Defined benefit obligations on 31 December 2006	**1,600**	**162**	**662**

The changes in the fair value of the plan assets are also exclusively derived from the first consolidation in the Asian area and amounted to TEUR 9 in 2006.

Due to the disposal of the European obligations, the Group expects the payments into defined benefit pension plans to total TEUR 5 for the fiscal year 2007.

The following table shows the assumptions on which the pension plan obligations were determined:

	Pension plans Europe		Pension plans Asia		Partial retirement Europe	
in percent	**2006**	2005	**2006**	2005	**2006**	2005
Discount rate	4.50	4.50	3.00	3.00	4.25	5.50
Expected income from plan assets	-	-	3.00	3.00	-	-
Future salary increases	-	-	3.00	3.00	1.75	1.75
Pension trend	1.75	1.75	-	-	-	-

y. Other long-term liabilities

The increase in other long-term liabilities is due to the loan given to the joint venture company Balda Motherson Solution India Ltd. of the minority shareholder (TEUR 2,511). The loan carries an interest of 7 %.

z. Shareholders' equity

The development of the shareholders' equity of the Balda Group can be found in the change in shareholders' equity calculations, which has been added as an annex to the Group's financial statements.

The equity capital on the cut-off date for the financial statement is TEUR 40,279. It is divided into 40,279,025 bearer shares that have full dividend entitlement.

Due to the shares that were converted in the reporting year, the subscribed share capital increased by TEUR 116 and the capital reserves increased by TEUR 458.

At the annual general meeting on 1 June 2006 it was decided that the Board of Directors, with the approval of the supervisory board, may increase the shareholders' equity by a further TEUR 20,081 without further approval of the shareholders' meeting (approved capital/contingent capital).

Of the approved capital, the Board of directors used 7,108,063 shares for the repurchase of shares in Balda Investments Singapore Pte. Ltd. The increase in equity capital, which was decided on 18 November 2006 at a price of 6.00 euros per issued share, was entered in the commercial register of Bad Oeynhausen on 9 February 2007. The valuation of TEUR 42,648 can be found under "deposit for execution of agreed capital increase".

Within the framework of the successive purchase of shares of Balda Solutions Malaysia Sdn. Bhd the Group capitalized the customer relationships. The first 50 % share has been included, without any effect on earnings and less deferred taxes, in the revaluation reserve.

The different amounts resulting from the currency conversions of the income statements of the foreign companies published in their local currency are included in the currency reserves, without any effect on income, as required by IAS 21.

In the fiscal year, share options were given to the Board of Directors. The preferential price for these options was determined by the average price of the 10 days preceding the granting of the option. The option can be exercised 2 years (retention period) after the option has been granted. The Group can serve the option rights in the form of shares or cash. The options rights shall be valid for a period not exceeding 5 years starting from the date of issue. Pre-requisite for the exercise of the options rights is that the Xetra closing rate exceeds the issuing price by 20 % within the period of validity. Of the 500,000 options issued in 2006, not a single one has been exercised by the closing date for this report. The current market value – determined according to the Black-Scholes evaluation model – was estimated at TEUR 594. Further important parameters of the evaluation model are, in addition to those already mentioned:

share price at the time these were granted	EUR 6.09
preferential price	EUR 6.38
risk-free interest rate p.a.	3.69 %
volatility of the share prices in the last 3 years	34 %
expected dividend rate	3 %

As consideration for the services rendered personnel costs totalling TEUR 18 have been noted.

For this fiscal year dividends totalling TEUR 12,049 (EUR 0.30 per share) were paid out.

For the first time this year the development of the minority shares is shown within the framework of the shareholders' equity change accounting. The following explanations relate to this position.

In the reporting year a dividend totalling TEUR 1,875 was paid out to the minority shareholders.

There are currency differences of TEUR 2,447 due to the conversion of the currency values of the assets and liabilities at the rates, which applied on the cut-off date. These have been taken into account on a proportional basis.

The accruals through the sale of shares result from the 40 % share in Balda Investments Singapore Pte. Ltd. that were given out in the course of the purchase of TPK and the repurchasing of 35 % of the intermediate Asian holding.

The disposal of minority shares obtained through share purchases include the repurchasing of the 25 % share of Balda Investments Singapore Pte. Ltd. from the former partner Everskill as well as the purchase of the remaining 50 % share of Balda Solutions Malaysia Sdn. Bhd.

The proportional payments of the minority shareholder from the Balda Motherson Solution India Ltd. Joint Venture totalled TEUR 3,957 on the cut-off date.

6. Explanations of the Items in the Income Statement of the Balda Group

a. Revenues

The revenues of the Balda Group in this fiscal year are made up of TEUR 76,806 (previous year: TEUR 125,477) from domestic sources and TEUR 294,052 (previous year: TEUR 271,702) from international sources.

b. Other operating income

The other operating income listed in the Group's income statement is made up of the following:

in TEUR	2006	2005
Earnings from the release of value adjustments on claims	1,130	2,091
Earnings from the sale of material goods	777	788
Book gains from the disposal of assets	2,044	73
Earnings from the release of short-term liabilities	453	2,255
Other	5,914	3,816
Total	**10,318**	**9,023**

c. Changes in inventories of finished goods and work in progress

This item relates largely to the change in inventories of products produced by the Group and in particular manufacturing facilities, tools and injection mould products.

d. Own work capitalized

This item shows the services provided by the Group for assets listed in the tangible fixed assets.

e. Material expenses

The material expenses of Balda Group increased in comparison to the previous year by TEUR 3,312 to TEUR 171,530. The material cost ratio as the ratio of material costs to total operating performance was 45.4 % in the fiscal year 2006 (previous year: 39.9 %).

f. Personnel expenses

Personnel expenses in the group rose by TEUR 3,390 from TEUR 116,326 to TEUR 119,716.

g. Depreciation

Depreciation was up by TEUR 32,796 on the previous year to a total of TEUR 50,730. Due to impairment tests the fiscal year report saw impairment losses according to IAS 36 amounting to TEUR 19,638 on goodwill and amounting to TEUR 9,579 on tangible and intangible assets.

h. Other operating expenses

The other operating expenses are for the most part:

in TEUR	2006	2005
Premises, maintenance and overhead	12,673	14,954
Rental and leasing costs	5,749	5,925
Outward freight and storage costs	6,735	6,637
Legal and consulting fees	5,552	6,941
Energy costs	8,501	6,239
Travel, car, marketing expenses and Investor Relations	7,471	5,416
IT costs	3,654	3,909
Training/employee benefit costs	8,371	3,092
Administration costs	2,946	2,358
Insurance	1,368	2,318
Research and development	1,073	1,660
Other	14,682	6,192
Total	**78,775**	**65,641**

i. Financing costs

The financing costs consist of the following:

in TEUR	2006	2005
Interest expenses	7,711	5,818
Interest income	1,363	1,539
Total	**6,348**	**4,279**

j. Taxes on income and earnings

Within taxes on income and earnings, latent taxes amounting to TEUR 383 have been taken into account in the income statement.

The tax on the Group's earnings before taxes deviates from the theoretical amount, an amount that results from applying the theoretical income tax rate of 38.6 % (previous year: 38.6 %) on the income before taxes, as follows:

in TEUR	2006	2005
Earnings before taxes	-49,535	49,660
Theoretical income tax rate 2006 38.6 % (previous year: 38.6 %)	-19,120	19,169
Difference in tax rate	-602	-7,466
Non-tax-deductible expenses and income	7,045	-1,750
Realisation of tax loss carry forwards	-437	0
Tax losses, for which no deferred taxes were activated	1,361	0
Taxes for previous year	2,246	261
Actual tax expenditure	**-9,507**	**10,214**

k. Net loss/income

The net loss after taxes for the year is TEUR -41,995, after taking the shares of shareholders from outside the Group with TEUR 1,967 into account.

l. Earnings per share – undiluted

The undiluted earnings per share are as follows:

	2006	2005
Group share of net income according to profit and loss statement (in TEUR)	-41,995	33,416
Weighted average of the shares issued (in thousands)	40,414	39,897
Net earning per share according to IAS 33 (EUR)	-1.039	0.838

m. Earnings per share – diluted

Diluted earnings

in TEUR	2006	2005
Group share of earnings after taxes according to profit and loss statement	-41,995	33,416
Interest earnings of potential shares from the emission of the convertible shares less the latent taxes	0	126
Diluted earnings	**-41,995**	**33,542**

Diluted number of shares (in thousands)

	2006	2005
Weighted average of the issued shares – undiluted	40,414	39,897
Weighted average of potential shares from the emission of the convertible shares	0	382
Weighted average of the shares – diluted	**40,414**	**40,279**

The diluted earnings per share according to IAS 33 is EUR -1.039 euros (previous year: EUR 0.833).

Potential shares from the shares option program (500,000 shares), as prescribed by IAS 33, have not been taken into account as this would have resulted in an improved result per share.

In addition there are further potential shares from the option bond issue (4,000,000 shares), that were not included in the calculation of the dilution because the option value per share was more than the average value of the share in the reporting period.

III. Additional information

a. Average number of employees

The following figures apply to Balda Group employees including temporary employees, trainees and apprentices:

	2006	2005
Board of Management	3	4
Administrative staff	1,158	769
Technical and commercial staff	3,609	2,706
Temporary employees	3,416	3,284
	8,186	6,763
Temporary staff, trainees	162	177
Total	**8,348**	**6,940**

For further information on our employees, please consult the annual report.

b. Contingent liabilities

The Group's contingent liabilities are as follows:

in TEUR	**2006**	2005
From surety bonds	511	511
From guarantee obligations	0	27
Total	**511**	**538**

c. Other financial obligations

in TEUR	**2006**	2005
2007	9,768	5,187
2008 - 2011	9,108	8,262
After 2011	7,190	7,081
Total	**26,067**	**20,530**

Other financial obligations in the Group are purchase commitments totalling TEUR 4,762 for investments, which will be paid out in 2007. Financial obligations resulting from the Group's rental and leasing contracts total TEUR 21,304. One of the Group's major items at TEUR 9,844 is an obligation resulting from a real estate leasing contract with a residual term of 15 years.

The Group's obligations resulting from rental and leasing contracts all stem from operating leases (as defined by the IFRS) held by the Group companies. Operating leases with a residual term of up to one year make up TEUR 5,006, with a residual term of one to five years TEUR 9,108 and with a residual term exceeding five years TEUR 7,190.

The discontinued operations still have purchasing commitments totalling TEUR 102 and other long term obligations resulting from rental and leasing agreements totalling TEUR 10,425.

d. Consolidated companies and share holdings

The following table shows the consolidated companies of the Balda Group on 31 December 2006:

Company	Registered office	Holding	Share	Shareholders' equity TEUR	Earnings before interest TEUR
Balda AG	Bad Oeynhausen	direct	100.00 %	122,379	-34,661
Balda-Heinze Verwaltungsgesellschaft mbH	Herford	direct	100.00 %	31	1
Balda-Heinze GmbH & Co. KG	Herford	direct	100.00 %	3,327	-3,696
HeRo Galvanotechnik GmbH via Balda Heinze GmbH & Co. KG	Herford	indirect	100.00 %	246	0
Balda Grundstücks-Vermietungs GmbH & Co. KG	Bad Oeynhausen	direct	100.00 %	30,379	0
Balda Grundstücks-Verwaltungs GmbH	Bad Oeynhausen	direct	100.00 %	23	0
Balda Solutions Deutschland GmbH	Bad Oeynhausen	direct	100.00 %	20,926	0
Balda Solution Hungaria Kft, via Balda Solutions Deutschland GmbH	Veszprém (Hungary)	direct indirect	73.47 % 26.53 %	5,171	-974
Sächsische Metall- und Kunststoffveredelungs GmbH	Oberlungwitz	direct	100.00 %	4,238	0
Balda Medical Verwaltungsgesellschaft mbH	Bad Oeynhausen	direct	100.00 %	16	-1
Balda Medical GmbH & Co. KG	Bad Oeynhausen	direct	100.00 %	126	0
Balda Werkzeug- und Vorrichtungsbau GmbH	Bad Oeynhausen	direct	100.00 %	2,081	0
Balda Solutions USA, Inc.	Raleigh (N.C./USA)	direct	100.00 %	-38	-38
Balda Investments Mauritius Ltd.	Mauritius	direct	100.00 %	5,888	-12
Balda Motherson Solution India Ltd. via Balda Investments Mauritius Ltd.	New Delhi (India)	indirect	60.00 %	9,433	-449
Balda Investments Singapore Pte. Ltd.	Singapore	direct	95.00 %	134,358	21,489
Balda Solutions (Suzhou) Ltd. via Balda Investments Singapore Pte. Ltd.	Suzhou (China)	indirect	100.00 %	18,875	1,908

Company	Registered office	Holding	Share	Shareholders' equity TEUR	Earnings before interest TEUR
Balda Solutions (Beijing) Ltd. via Balda Investments Singapore Pte. Ltd.	Beijing (China)	indirect	100.00 %	5,732	-892
Balda Solutions Malaysia Sdn. Bhd. via Balda Investments Singapore Pte. Ltd.	Ipoh (Malaysia)	indirect	100.00 %	16,716	4,528
Proportionally consolidated companies					
Balda Lumberg Deutschland GmbH & Co, KG	Bad Oeynhausen	direct	50.00 %	29,372	-145
Balda Lumberg Technologies Plasticos da Amazonia Industria e Comercio Ltda. via Balda Lumberg Deutschland GmbH & Co. KG	Manaus (Brazil)	direct indirect	0.10 % 99.90 %	19,849	-21,510
Balda Lumberg Technologies Industria e Comercio Ltda, via Balda Lumberg Deutschland GmbH & Co. KG	Sao Paulo (Brazil)	indirect	50.00 %	-802	-81
Balda Lumberg Verwaltungsge-sellschaft mbH via Balda Lumberg Deutschland GmbH & Co. KG	Bad Oeynhausen	indirect	50.00 %	26	1
TPK Holding Co. Ltd. via Balda Investments Singapore Pte. Ltd.	George Town (Cayman Islands)	indirect	50.00 %	56,641	-1,084
Improve Idea Investments Ltd, via TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Apia (Samoa)	indirect	100.00 %	11,816	458
TPK Optical Solutions Corp. via Improve Idea Investments Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd..	Taipeh (Taiwan)	indirect	94.40 %	963	489
New Strategy Investment Ltd. via TPK Optical Solutions Corp., Improve Idea Investments Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Apia (Samoa)	indirect	100.00 %	152	0
IdealTEK Corp. via TPK Optical Solutions Corp., Improve Idea Investments Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Taipeh (Taiwan)	indirect	51.00 %	348	164
Upper Year Holdings Ltd. via TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Apia (Samoa)	indirect	99.00 %	2,216	-3,044

Company	Registered office	Holding	Share	Shareholders' equity TEUR	Earnings before interest TEUR
TPK Optical Solutions (Xiamen) Inc. via Upper Year Holdings Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Xiamen (China)	indirect	100.00 %	21,702	-2,468
G&P Optical Solutions Inc. via Upper Year Holdings Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Xiamen (China)	indirect	100.00 %	2,767	-314
Optera TPK Holding Pte. Ltd. via TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Singapore	indirect	50.00 %	5,378	-781
Optera Technology (Xiamen) Co. Ltd. via Optera TPK Holding Pte. Ltd. TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Xiamen (China)	indirect	100.00 %	3,783	-799
Associated companies (consolidation at equity)					
aimtec GmbH	Bad Oeynhausen	direct	50.00 %	1,577	142

e. Executive bodies

Balda AG Supervisory Board

- Mr Richard Roy, Dreieich (Chairman)
  Management consultant
- Mr Bernd Fennel, Löhne (Deputy Chairman)
  Managing Director Fennel Systems GmbH and Fennel GmbH & Co. KG
- Mr Paul A. Stodden, Munich
  CEO debitel AG (until 30 June 2006)
  Chairman of the Management Board of Orion Cable GmbH (since 30 January 2007)
- Mr Othmar Vock, Itlingen/Switzerland
  Management consultant
- Mr Lutz Völker, Rheinbreitbach
  Managing Director aspect corporate advisors GmbH
- Mr Mark C. Joseph Twaalfhoven
  CEO Teleplan International N.V.

On 2 January 2006, Mr Richard Roy was appointed Chairman of the Supervisory Board.

On 10 January 2006, Mr Mark C. Joseph Twaalfhoven was appointed to the Supervisory Board.

The following members of Balda AG's Supervisory Board also hold positions on bodies at the companies specified:

- Mr Richard Roy also holds the following Supervisory Board and Managing Board positions:
  Swisscom AG, Bern/Switzerland (Vice President Board of Directors, since 25 April 2006)
  Update Software AG, Vienna/Austria (Member of the Supervisory Board)
  Premiere AG, Munich (Deputy Chairman of the Supervisory Board)
  Realtech AG, Walldorf (Deputy Chairman of the Supervisory Board)

- Mr Bernd Fennel also holds the following Supervisory Board and Advisory Board positions:
  Fennel Stiftung, Löhne (Chairman of the Board of Trustees)
  Fennel Cosmed GmbH & Co. KG, Bad Oeynhausen (Chairman of the Advisory Board)

- Mr Paul A. Stodden also holds the following Supervisory Board positions:
  Midray GmbH, Köln (Chairman of the Supervisory Board, until 30 June 2006)
  debitel Danmark A/S, Albertslund/ Denmark (Chairman of the Supervisory Board, until 30 June 2006)
  debitel France S.A., Chaville/France (Chairman of the Supervisory Board, until 30 June 2006)
  debitel Nederland B.V., Hoofddorp/The Netherlands (Chairman of the Supervisory Board, until 30 June 2006)
  debitel Telekomunikacije d.d., Ljubljana/Slovenia (Chairman of the Supervisory Board, until 30 June 2006)

- Mr Othmar Vock also holds the following Board of Directors positions:
  Swisscom AG, Bern/Switzerland (Member of the Board of Directors)
  Ivoclar-Vivadent, Schaan/Liechtenstein (Member of the Board of Directors)
  SWX Swiss Exchange (Member of the Admission Office)
  Cytos AG, Schlieren/Switzerland (Member of the Board of Directors, since 27 April 2006)

- Mr Mark Twaalfhoven also holds the following positions:
  China Yachting Business Partnership Ltd. (President)

Balda AG Board of Directors

- Mr Joachim Gut, Schermbeck (Chairman of the Board of Directors)
  Human Resources, Public Relations, Internal Audit, Strategy, Sales and Marketing (since 1 August 2006)

- Mr Rainer Frilling, Bad Oeynhausen (until 31 July 2006)
  Sales, Marketing

- Mr Ralf Ackermann, Bad Oeynhausen
  Technology, Purchasing

- Mr Volker Brinkmann, Bad Oeynhausen
  Finances, Controlling, IT, Legal/Insurance/Tax, Investor Relations

Mr Gut also holds the following positions:

- Chairman of the Board of Directors, Balda Beteiligungs AG, Zug/ Switzerland
- Chairman of the Board of Directors of
  Balda Investments Singapore Pte. Ltd., Singapore/Singapore,
  Balda Solutions (Suzhou) Ltd., Suzhou/China
  Balda Solutions (Beijing) Ltd., Beijing/China
  Balda Solutions Malaysia Sdn. Bhd., Ipoh/Malaysia (since 31 March 2006)
- Deputy Chairman of the Board of Directors, Balda Motherson Solution India Ltd. Chennai/India (since 26 June 2006)

- Member of the Board of Directors of
  Balda Investments Mauritius Ltd., Mauritius (since 31 May 2006)
  Balda Solutions Xiamen Ltd., Xiamen/China (since 22 December 2006)
  TPK Holding Co. Ltd., Cayman Islands/Cayman Islands (since 20 October 2006)
  Improve Ideal Investments Ltd., Samoa/Samoa (since 20 October 2006)
  Upper Year Holdings Ltd., Samoa/Samoa (since 20 October 2006)
  New Strategy Investment Ltd., Samoa/Samoa (since 20 October 2006)

Until retiring from his position on Balda AG's Board of Directors, Mr Frilling was also
- Deputy Chairman of the Board of Directors, Balda Beteiligungs AG, Zug/Switzerland
- Member of the Board of Directors of Balda Solutions Malaysia Sdn., Ipoh/Malaysia

Mr Ackermann also holds the following positions:
- Member of the Board of Directors of
  Balda Solutions (Suzhou) Ltd., Suzhou/China
  Balda Solutions (Beijing) Ltd., Beijing/China
  Balda Solutions Xiamen Ltd., Xiamen/China (since 22 December 2006)
  TPK Holding Co. Ltd., Cayman Islands/Cayman Islands (since 20 October 2006)
  Balda Motherson Solution India Ltd. Chennai/India (since 26 June 2006)

Mr Brinkmann also holds the following positions:
- Member of the Board of Directors, Balda Beteiligungs AG, Zug/Switzerland,
- Member of the Board of Directors of
  Balda Investments Singapore Pte. Ltd., Singapore/Singapore,
  Balda Solutions (Suzhou) Ltd., Suzhou/China
  Balda Solutions (Beijing) Ltd., Beijing/China
  Balda Solutions Malaysia Sdn. Bhd., Ipoh/Malaysia
  Balda Investments Mauritius Ltd., Mauritius (since 31 May 2006)
  Balda Solutions Xiamen Ltd., Xiamen/China (since 22 December 2006)
  TPK Holding Co. Ltd., Cayman Islands/Cayman Islands (since 20 October 2006)
  Balda Solutions USA Inc., Raleigh/USA (since 3 July 2006)
  Balda Motherson Solution India Ltd. Chennai/India (since 26 June 2006)

Remuneration of the Board of Directors and the Supervisory Board

For Board of Directors and Supervisory Board emoluments, please refer to the Compensation Report in the annual report (see page 61).

Executive body shareholdings

	31.12.2006	31.12.2005	Changes
J. Gut	50,000	5,000	45,000
V. Brinkmann	410	410	0
R. Frilling	NS	10,000	-10,000
R. Ackermann	2,800	800	2,000
Board of Directors total	**53,210**	**16,210**	**37,000**
B. Fennel	0	0	0
R. Roy	8,000	0	8,000
P. Stodden	0	0	0
M. Twaalfhoven	0	0	0
L. Völker	0	0	0
O. Vock	0	0	0
Supervisory Board total	**8,000**	**0**	**8,000**

Further significant purchases or sales by the bodies were not carried out in 2006.

f. Relations to affiliated companies and persons

Relations to members of the management in key positions

In addition to those Group companies that were included in the annual report, there were, through Bernd Fennel's membership in the Supervisory Board, further companies that were closely associated with the Balda Group as defined by IAS 24, to which the Group had the following business relations in the year 2006:

Goods and Services purchased by the Balda Group:

Beckmann GmbH & Co. KG built new tools and carried out changes as well as repairing tools for a total value of TEUR 1,411.

For the realisation of transportation services, the Balda Group used the services of Stratos GmbH for a total of TEUR 150. In connection with these services, skeleton transport boxes worth a total of TEUR 314 were purchased.

Due to storage capacity problems of Balda Solutions Deutschland GmbH, a few products and some tools that were not needed were stored by Stratos GmbH until they were shipped. This resulted in a charge for storage and handling totalling TEUR 1,878.

The Balda Group borrowed personnel from the Fennel Group. The costs amounted to TEUR 39.

Furthermore, the following goods and services were purchased from Fennel GmbH & Co. KG up until 31 December 2006:

in TEUR	
Plastic components	2,379
Personnel/Services	187
Electricity/Water	18
Rent/Leasing	13

Fennel GmbH & Co. KG produced components and plastic devices for various client projects for Balda Solutions Deutschland GmbH due to capacity bottle-necks.

Personnel costs for the hours worked were calculated at the Fennel GmbH & Co. KG cost price .

For the use of certain machines, Fennel GmbH & Co. KG charged the Balda Group the leasing costs without any premium. Fennel remains the leaser of the machines.

Fennel GmbH & Co. KG, up until the time when it purchased the paint finishing system from Balda AG on 31 March 2006, charged the Balda Group for the electricity and the water used by the system at cost.

Further costs totalling TEUR 237 include our proportion of the maintenance costs for the software licences of Fennel Systems GmbH, courier services, services of Wittekindsquelle, FIS GmbH and the Fennel Innovation Centre as well as various costs, which were passed on.

Goods and Services delivered by Balda Group:

The sale of plastic and zinc die-cast components totalling TEUR 82 to Fennel GmbH & Co. KG refers to galvanisation, which was carried out. The delivery of resin totalling TEUR 216 euros to Fennel GmbH & Co. KG was calculated at market prices.

The charges for repairs carried out by the Balda Group did not include a premium: TEUR 62 was charged to Fennel GmbH & Co. KG and TEUR 7 to Beckmann GmbH & Co. KG.

The Balda Group sold investment goods at market conditions and prices worth TEUR 103 to Fennel GmbH & Co. KG. Furthermore, a purchase contract was signed on 21 December 2006 with BeckImm Grundstücks GmbH & Co. KG for the property in Bad Salzuflen that will enter into the possession of the new owner on 1 January 2007. The price was TEUR 950.

Other expenses totalling TEUR 56 were charged without a premium to the Fennel Group.

The delivery and services program consisted mainly of the following receivables and liabilities as of 31 December 2006 with respect to the following companies:

Receivables	TEUR
2H Jara Profile GmbH & Co. KG	91
Beckmann GmbH & Co. KG	101
BeckImm Grundstücks GmbH & Co. KG	950
Bohemia Kovy e Plasty SRL	33
Fennel GmbH & Co. KG	322
Fennel Systems GmbH	10
Fennel UK Ltd.	10
KTF GmbH Co. & KG	91
Stratos GmbH	171
Other	10

Liabilities	TEUR
Beckmann GmbH & Co. KG	103
Fennel GmbH & Co. KG	193
Stratos GmbH	38
Other	16

The following proportional transactions were carried out in 2006 with management members in key positions abroad and the companies controlled by these members:

	TEUR
Sale of goods	5,177
Purchase of services	384
Purchase of material	419

On 31 December 2006 there were receivables totalling TEUR 2,757 and liabilities TEUR 909.

Relationships to associated companies

Balda AG has 50 % of the shares of aimtec GmbH, which, as an associated subsidiary company, becomes part of the Group. 45 % of the shares are held by Fennel Systems GmbH.

aimtec GmbH billed the Group for a total of TEUR 2,298 for its IT services. The Balda Group purchased assets from aimtec GmbH totalling TEUR 1,232. The Balda Group was billed TEUR 23 for other services.

aimtec GmbH billed the Fennel Group for IT services totalling TEUR 1,205.

In 2006, aimtec used personnel and consulting services of the Fennel Group at a cost of TEUR 80 at market conditions.

Fennel GmbH & Co. KG paid aimtec GmbH a total of TEUR 26 in rent for the use of office space.

aimtec GmbH uses the Fennel GmbH & Co. KG telephone system. The costs, totalling TEUR 12 are passed on directly without any premium being charged.

Furthermore aimtec GmbH was billed for TEUR 21 for further costs and expenses.

At the end of the year the accounts receivable with respect to aimtec GmbH totalled TEUR 282 and the liabilities totalled TEUR 198.

Relationships to Joint Ventures, where companies of the Balda Group are the Partners

The following information corresponds to that stated in the annual report.

In the first quarter, Balda Solutions Malaysia Sdn. Bhd. (Malaysia) paid out a total of TEUR 55 to Thong Fook Corporation Sdn. Bhd. for management consulting and travel expenses. The former co-partner of Balda Solutions Malaysia Sdn. Bhd. had a 50% interest in this company. There were no accounts receivables or liabilities at the end of the year.

Balda Lumberg Technologies Plásticos da Amazônia Indústria e Comércio Ltda. (Brazil) purchased materials from Lumberg Connect GmbH & Co. KG in Schalksmühle for a total value of TEUR 101 as well as assets totalling TEUR 157.

As of 31 December 2006 there were accounts receivable totalling TEUR 6 and liabilities totalling TEUR 12 with respect to Lumberg Connect GmbH & Co. KG in Schalksmühle.

Balda Motherson Solution India Ltd. (India) rents commercial space from the Joint-Venture-Partner Motherson Sumi Systems Ltd. In 2006 the rent costs TEUR 112. Balda Motherson Solution India Ltd. paid interest totalling TEUR 81 on a loan.

At the end of the year there were liabilities with respect to Motherson Sumi Systems Ltd. of TEUR 2,587 as well as accounts receivable worth TEUR 164 as a deposit for the rental contract.

Business relations of Group companies to the non-consolidated joint ventures shares are as follows:

Balda Lumberg Technologies Plásticos da Amazônia Indústria e Comércio Ltda. (Brazil) purchased a share of materials from the Balda Group totalling TEUR 394. Furthermore, a share of the travel expenses for trips to Brazil worth a total of TEUR 12 were billed.

From this it follows that as of 31 December 2006 there were liabilities totalling TEUR 144.

g. Information after the balance-sheet date

With the transfer of rights and duties on 1 January 2007, Balda AG sold properties and buildings of real estate in its possession in Bad Salzuflen. On the balance-sheet date these assets were listed under assets to be sold.

As of 28 February 2007, Balda AG sold its shares of Balda-Heinze GmbH & Co. KG, HeRo Galvanotechnik GmbH and Sächsischen Metall- und Kunststoffveredelungs GmbH. The assets sold and the debts are registered in the annual reports of the relinquished businesses.

h. Auditor's Fee

The following auditor's fee has been duly registered in the annual report:

TEUR	
for the audit	275
for other services	89
Total	**364**

i. Application of statutory exemption provisions as determined by Sec. 264 par. 3 and Sec. 264 b HGB (German Commercial Code)

The following companies have, in part, made use of the statutory exemption provisions as determined by Sec. 264 par. 3 and Sec. 264 b HGB (German Commercial Code).

- Albea Kunststofftechnik GmbH, Seelbach
- Balda Solutions Deutschland GmbH, Bad Oeynhausen
- Balda Werkzeug- und Vorrichtungsbau GmbH, Bad Oeynhausen
- HeRo Galvanotechnik GmbH, Herford
- Sächsische Metall- und Kunststoffveredelungs GmbH, Oberlungwitz
- Balda Medical GmbH & Co. KG, Bad Oeynhausen
- Balda-Heinze GmbH & Co. KG, Herford

j. Proposal for the distribution of unappropriated earnings

The proposal will be made to the general meeting that the result should be carried forward.

Bad Oeynhausen, 21 March 2007

The Board of Directors

Joachim Gut Volker Brinkmann Ralf Ackermann

BALDA AKTIENGESELLSCHAFT
NOTES to the accounts for the 2006 financial year

I. General information

Balda Aktiengesellschaft (AG) is a pure holding company with its principal place of business in Bad Oeynhausen, Germany.

The business activities of its subsidiaries extend from the development of materials, engineering, production of touch screens, mould production and the manufacture of hardware components and to surface technology. The Group primarily supplies companies in the infocom sector, automotive and medical technology markets and related industries.

II. Notes to the annual financial statements of Balda AG

With shares issued pursuant to Section 2, para. 1, sent. 1 German Securities Trading Act (WpHG) Balda AG is trading on an organised market within the meaning of Section 2, para. 5 German Securities Trading Act (WpHG) and is thus considered a large corporation pursuant to Section 267, para. 3, sent. 2 German Commercial Code (HGB).

On 31 December 2006, a further position was added to the balance sheet under shareholders' equity 'Deposit for execution of the agreed Capital Increase' (entered in the Commercial Register Bad Oeynhausen on 9 February 2007).

All amounts stated are in 'TEUR' (thousand euros) unless otherwise specified.

1. Methods of accounting and valuation

The annual financial statements of Balda AG were prepared in accordance with Sections 242 to 256 and 264 pp HGB.

Intangible and tangible assets are stated at acquisition or manufacturing cost, less scheduled straight line depreciation. Depreciations are subject to the following projections of expected useful life:

	Years
Software	3 to 5
Buildings, including buildings on third party land	33
Technical equipment and machinery	3 to 10
Other plants, factory and office equipment	4 to 10

Low value assets are completely written off in the year of acquisition.

Financial assets are valued at acquisition costs.

Where the value of fixed assets calculated by the methods outlined above exceeds the value attributed on the balance sheet date, it is taken into account through extraordinary depreciation.

Receivables and other assets are stated at nominal value. Value adjustments were made for identifiable risks. Short-term foreign currency receivables are translated at the lowest exchange rate either at the time they are first entered into the books or at the balance sheet date.

Current assets such as marketable securities are stated at acquisition costs or the lower value on record date.

Provisions take into account all identifiable risks and uncertain obligations.

Liabilities are carried at the repayable amount. The difference between the amount repayable and the payout amount is shown under deferred charges and prepaid expenses. Short-term foreign currency liabilities are translated at the highest exchange rate either at the time they are first entered into the books or at the balance sheet date.

The methods of accounting and valuation remain unchanged from the previous year.

2. Notes on individual items of the balance sheet

a. Fixed assets

For details see table in the appendix on changes in fixed assets.

Tangible assets

Extraordinary write-downs to the lower attributable value were made at TEUR 54 for a developed real estate on the balance sheet date.

Financial assets

The increase of shares in affiliated companies by TEUR 141,597 in 2006 is largely due to an increase in share capital and an increase of the interests in Balda Investments Singapore Pte. Ltd. (BIS), Singapore (formerly: Balda-Everskill Investments Singapore Pte. Ltd., Singapore) from 75 % to 95 %, together with non-cash contributions to Balda AG and issuance of new shares in connection with the 50 % investment of BIS in TPK Holding Co. Ltd., Cayman Islands.

Under the contractual agreement of 22 May 2006, Balda AG established Balda Investment Mauritius Ltd., Port Louis, Mauritius, which in return has a 60 % share in Balda Motherson Solution India Ltd., Chennai India. The carrying amount of TEUR 6,235 is equivalent to the amount of the company's shareholders' equity (TUSD 7,783) plus additional costs at the time of acquisition.

In the course of the liquidation of Balda Beteiligungs AG, Zug, Balda AG's repayment claim (participating interest to date) was set off against liabilities towards BBAG (TEUR 37,241) by way of abbreviated payment.

A downward adjustment at a total of TEUR 20.519 on the lower attributable value was applied to the carrying amounts in Balda Solutions Deutschland GmbH, aimtec GmbH, Löhne, and Balda Lumberg Deutschland GmbH & Co. KG, Bad Oeynhausen, due to a permanent decline in value.

In addition, downward adjustments at a total of TEUR 8,261 on the lower attributable value were applied to the carrying amounts in Sächsische Metall- und Kunststoffveredelung GmbH and Balda-Heinze GmbH & Co. KG, Herford, taking into account anticipated proceeds from the planned sale of the companies.

Under the contractual agreement of 12 December 2006 and with effect from 31 December 2006, shares in Balda Surface GmbH were sold for proceeds of TEUR 1,200. The book loss from the disposal of shares amounted to TEUR 575.

Under the contractual agreement of 22 December 2006, Balda AG sold all shares in Albea Kunststofftechnik GmbH and Albea Grundstücks-Verwaltungsgesellschaft mbH for total returns of TEUR 3,400. On the other hand, expenditure from disposal of financial assets amounted to TEUR 4,159.

Loans to affiliated companies include loans of TEUR 7,075 to Balda Investments Singapore Pte. Ltd. (including 3.72 million US dollars) and to Balda Motherson Solution India Ltd. of TEUR 3,912.

b. Receivables and other current assets

Accounts receivable from affiliated companies (TEUR 17,535; previous year TEUR 48,039) include trade accounts receivables of TEUR 2,166 (previous year TEUR 10,867).

Other assets include receivables from the sale of Albea Kunststofftechnik GmbH (TEUR 9,371) and Balda Surface GmbH (TEUR 1,200) and tax receivables of TEUR 5,350 including receivables of TEUR 2,708 with a remaining term of more than one year due to the payment terms agreed with the buyer.

c. Cash in hand, deposits in bank accounts and cheques

This item includes cash in hand and credit balances in current accounts.

d. Prepaid expenses

Prepaid expenses include, amongst others, a discount of TEUR 253 (previous year: TEUR 333).

e. Shareholders' equity

Changes in the equity capital of Balda AG are as follows:

in TEUR	Share capital	Deposit for execution of the agreed capital increase	Capital reserves	Revenue reserves	Retained earnings
As of 1 January 2006	**40,163**	**0**	**55,949**	**2**	**29,752**
Dividend	0	0	0	0	-12,049
Issuance and conversion of convertibles	116	0	459	0	0
Increase in shareholders' equity	0	42,648	0	0	0
Annual net loss 2006	0	0	0	0	-34,661
As of 31 December 2006	**40,279**	**42,648**	**56,408**	**2**	**-16,958**

On the balance sheet date the share capital amounts to TEUR 40,279. It is divided into 40,279,025 bearer shares without a par value with entitlement to full dividend.

On 1 June 2006, a resolution was passed by the Annual General Meeting that allowed the Board of Management, with the approval of the Supervisory Board, to increase the shareholders' equity up to the amount of TEUR 20,081 (authorized capital) without any further decision of the Annual General Meeting.

Overall, 2006 saw an increase in share capital by 116,067 bearer shares without a par value, due to additional conversions of convertibles. The share premium of TEUR 459 was transferred to capital reserves.

From the capital approved by the Board of Management, 7,108,063 shares were used to repurchase shares in Balda Investments Singapore Pte. Ltd. The capital increase, following on the issue of new shares at a market price of EUR 6.00 per share, was entered in the Commercial Register Bad Oeynhausen on 9 February 2007.

A dividend of TEUR 12,049 was paid out to shareholders, as per the resolution passed by the Annual General Meeting of Shareholders on 1 June 2006.

Retained earnings on the balance sheet date include profits carried forward from the previous financial year after dividend payments (TEUR 12,049) of TEUR 17,703.

f. Provisions

Provisions further include amounts from joint and several liability for warranty obligations under existing contracts (TEUR 1,301), other accounts receivables (TEUR 372) and auditor fees (TEUR 140).

g. Liabilities

Residual terms of liabilities are as follows:

in TEUR	31.12.2006	< 1 year	1 to 5 Years	> 5 Years
Bonds	85,000		85,000	
Liabilities to banks	64,725	23,625	40,900	200
Trade accounts payable	2,001	2,001	0	0
Accounts payable to affiliated companies	9,297	9,297	0	0
Other liabilities	1,209	1,209	0	0
Total liabilities	**162,232**	**36,132**	**125,900**	**200**

Bonds include a bearer bond (TEUR 5,000) and an option bond with a total of 1.600 bond certificates with a nominal value of TEUR 50 each, issued on 28 July 2006. The quarterly interest-rate for these bonds is 5.12 %. Each bond has a vested subscription right per subscription warrant of 2,500 no-par- value bearer shares of Balda AG with a share of the stated share capital of Balda AG of EUR 1.00 per share at the issuing price of EUR 9.85. All subscription warrants thus certify the subscription right of 4,000,000 Balda shares with a total issue price of TEUR 39,400.

The promissory note loan for TEUR 40,000 with an interest rate of 3.75 % p.a., taken out in February 2005, is to be repaid at maturity on 23 February 2010.

Loans totalling TEUR 7,783 were repaid in the financial year 2006.

Included in the accounts payable to affiliated companies (TEUR 9,297 / previous year: TEUR 37,525) are liabilities resulting from the group's financial transactions of TEUR 9,300 (previous year: TEUR 38,109), which is counterbalanced by trade accounts receivables of TEUR 3 (previous year: TEUR 584).

Contingent liabilities und other financial obligations

Contingent liabilities of Balda AG are as follows:

in TEUR	2006	2005
from guarantees	511	511
from warranty commitments	2,896	34,431
Total	**3,407**	**34,942**

Balda AG assumed warranty commitments of TEUR 2,896 (previous year: TEUR 34,404) for its subsidiaries. The decrease of TEUR 30,000 is due to Balda Solutions Deutschland GmbH giving notice on the forfaiting facility in the year under review. There are no obligations from guarantees for subsidiaries on the cut-off date.

Balda AG's other financial obligations from fixed-term contracts are as follows:

in TEUR	2006	2005
< 1 year	835	477
2 to 5 Years	3,118	65
> 5 Years	110	0
Total	**4,063**	**542**

All other financial obligations arise solely from rental and lease obligations and other long-term acceptance obligations.

In addition, there are annual obligations of TEUR 183 from a building lease agreement of unlimited duration with Balda Grundstücks-Vermietungs GmbH & Co. KG.

3. Notes on individual items of the income statement

a. Revenues

Revenues mainly comprise income from services rendered by employees. Due to a homogeneous turnover structure, there is no need for a breakdown according to fields of activity or across geographical markets.

b. Other operating income

Other operating income includes amounts from the sale of 15 % of the shares in Balda Investments Singapore Pte. Ltd. to Max Gain Management Ltd., Samoa (TEUR 4,803) and income from rechargeable costs (TEUR 2,292).

c. Depreciations

Included in the depreciations of TEUR 530 are scheduled depreciations of intangible assets and tangible assets, and unscheduled depreciations of TEUR 54 of the lower attributable value of developed real estate and external facilities of a leased property.

d. Depreciation on financial assets and on securities in current assets

This item includes depreciation at the lower attributable value at the balance sheet date of marketable securities of the current assets of TEUR 25 and depreciation of the carrying amounts at a total of TEUR 28.805.

e. Taxes on income and earnings

The results of Balda AG show a tax credit of TEUR 949 from taxes on income and earnings. Taxes on income and earnings include refunds for previous tax years, mainly arising from corporation income tax loss carryback of TEUR 906.

f. Retained earnings

Taking into account profit carried forward after dividend payout from the previous year in the amount of TEUR 17,703, there is a net loss of TEUR 16,958.

Earnings per share

	2006	2005
Net loss/income for the year (TEUR)	-34,661	10,467
Weighted average of the shares issued (in thousands)	40,237	39,897
Earnings per share (EUR)	**-0,862**	**0,262**

III. Additional information

a. Average number of employees

In the 2006 financial year, Balda AG on average employed 43 people.

b. Executive bodies

Balda AG Supervisory Board

- Mr Richard Roy, Dreieich (Chairman)
  Management consultant
- Mr Bernd Fennel, Löhne (Deputy Chairman)
  Managing Director Fennel Systems GmbH and Fennel GmbH & Co. KG

- Mr Paul A. Stodden, Munich
  CEO debitel AG (until 30 June 2006)
  Chairman of the Management Board of Orion Cable GmbH (since 30 January 2007)
- Mr Othmar Vock, Itlingen/Switzerland
  Management consultant
- Mr Lutz Völker, Rheinbreitbach
  Managing Director aspect corporate advisors GmbH
- Mr Mark C. Joseph Twaalfhoven
  CEO Teleplan International N.V.

On 2 January 2006, Mr Richard Roy was appointed Chairman of the Supervisory Board.

On 10 January 2006, Mr Mark C. Joseph Twaalfhoven was appointed to the Supervisory Board.

The following members of Balda AG's Supervisory Board also hold positions on bodies at the companies specified:

- Mr Richard Roy also holds the following Supervisory Board and Managing Board positions:
  Swisscom AG, Bern/Switzerland (Vice President Board of Directors, since 25 April 2006)
  Update Software AG, Vienna/Austria (Member of the Supervisory Board)
  Premiere AG, Munich (Deputy Chairman of the Supervisory Board)
  Realtech AG, Walldorf (Deputy Chairman of the Supervisory Board)

- Mr Bernd Fennel also holds the following Supervisory Board and Advisory Board positions:
  Fennel Stiftung, Löhne (Chairman of the Board of Trustees)
  Fennel Cosmed GmbH & Co. KG, Bad Oeynhausen (Chairman of the Advisory Board)

- Mr Paul A. Stodden also holds the following Supervisory Board positions:
  Midray GmbH, Köln (Chairman of the Supervisory Board, until 30 June 2006)
  debitel Danmark A/S, Albertslund/ Denmark (Chairman of the Supervisory Board, until 30 June 2006)
  debitel France S.A., Chaville/France (Chairman of the Supervisory Board, until 30 June 2006)
  debitel Nederland B.V., Hoofddorp/The Netherlands (Chairman of the Supervisory Board, until 30 June 2006)
  debitel Telekomunikacije d.d., Ljubljana/Slovenia (Chairman of the Supervisory Board, until 30 June 2006)

- Mr Othmar Vock also holds the following Board of Directors positions:
  Swisscom AG, Bern/Switzerland (Member of the Board of Directors)
  Ivoclar-Vivadent, Schaan/Liechtenstein (Member of the Board of Directors)
  SWX Swiss Exchange (Member of the Admission Office)
  Cytos AG, Schlieren/Switzerland (Member of the Board of Directors, since 27 April 2006)

- Mr Mark Twaalfhoven also holds the following positions:
  China Yachting Business Partnership Ltd. (President)

Balda AG Board of Directors

- Mr Joachim Gut, Schermbeck (Chairman of the Board of Directors)
  Human Resources, Public Relations, Internal Audit, Strategy, Sales and Marketing (since 1 August 2006)

- Mr Rainer Frilling, Bad Oeynhausen (until 31 July 2006)
  Sales, Marketing

- Mr Ralf Ackermann, Bad Oeynhausen
  Technology, Purchasing

- Mr Volker Brinkmann, Bad Oeynhausen
  Finances, Controlling, IT, Legal/Insurance/Tax, Investor Relations

Mr Gut also holds the following positions:
- Chairman of the Board of Directors, Balda Beteiligungs AG, Zug/ Switzerland
- Chairman of the Board of Directors of
  Balda Investments Singapore Pte. Ltd., Singapore/Singapore,
  Balda Solutions (Suzhou) Ltd., Suzhou/China
  Balda Solutions (Beijing) Ltd., Beijing/China
  Balda Solutions Malaysia Sdn. Bhd., Ipoh/Malaysia (since 31 March 2006)
- Deputy Chairman of the Board of Directors, Balda Motherson Solution India Ltd. Chennai/India (since 26 June 2006)
- Member of the Board of Directors of
  Balda Investments Mauritius Ltd., Mauritius (since 31 May 2006)
  Balda Solutions Xiamen Ltd., Xiamen/China (since 22 December 2006)
  TPK Holding Co. Ltd., Cayman Islands/Cayman Islands (since 20 October 2006)
  Improve Ideal Investments Ltd., Samoa/Samoa (since 20 October 2006)
  Upper Year Holdings Ltd., Samoa/Samoa (since 20 October 2006)
  New Strategy Investment Ltd., Samoa/Samoa (since 20 October 2006)

Until retiring from his position on Balda AG's Board of Directors, Mr Frilling was also
- Deputy Chairman of the Board of Directors, Balda Beteiligungs AG, Zug/Switzerland
- Member of the Board of Directors of Balda Solutions Malaysia Sdn. Ipoh/Malaysia

Mr Ackermann also holds the following positions:
- Member of the Board of Directors of
  Balda Solutions (Suzhou) Ltd., Suzhou/China
  Balda Solutions (Beijing) Ltd., Beijing/China
  Balda Solutions Xiamen Ltd., Xiamen/China (since 22 December 2006)
  TPK Holding Co. Ltd., Cayman Islands/Cayman Islands (since 20 October 2006)
  Balda Motherson Solution India Ltd. Chennai/India (since 26 June 2006)

Mr Brinkmann also holds the following positions:
- Member of the Board of Directors, Balda Beteiligungs AG, Zug/ Switzerland,
- Member of the Board of Directors of
  Balda Investments Singapore Pte. Ltd., Singapore/Singapore,
  Balda Solutions (Suzhou) Ltd., Suzhou/China
  Balda Solutions (Beijing) Ltd., Beijing/China
  Balda Solutions Malaysia Sdn. Bhd., Ipoh/Malaysia
  Balda Investments Mauritius Ltd., Mauritius (since 31 May 2006)
  Balda Solutions Xiamen Ltd., Xiamen/China (since 22 December 2006)
  TPK Holding Co. Ltd., Cayman Islands/Cayman Islands (since 20 October 2006)
  Balda Solutions USA Inc., Raleigh/USA (since 3 July 2006)
  Balda Motherson Solution India Ltd. Chennai/India (since 26 June 2006)

c. Remuneration of the Board of Directors and the Supervisory Board

For Board of Directors and Supervisory Board emoluments, please refer to the Compensation Report in the annual report (see page 61).

d. Executive body shareholdings

	31.12.2006	31.12.2005	Changes
J. Gut	50,000	5,000	45,000
V. Brinkmann	410	410	0
R. Frilling	NS	10,000	-10,000
R. Ackermann	2,800	800	2,000
Board of Directors total	**53,210**	**16,210**	**37,000**
B. Fennel	0	0	0
R. Roy	8,000	0	8,000
P. Stodden	0	0	0
M. Twaalfhoven	0	0	0
L. Völker	0	0	0
O. Vock	0	0	0
Supervisory Board total	**8,000**	**0**	**8,000**

No further acquisitions or dispositions were made in 2006 by the bodies.

e. Affiliated companies and holding companies (shareholdings)

Balda AG holds shares in the following subsidiaries as per 31 December 2006:

Company	Registered office	Holding	Share	Shareholders' equity TEUR	Earnings before interest TEUR
Balda-Heinze Verwaltungsgesellschaft mbH	Herford	direct	100.00 %	31	1
Balda-Heinze GmbH & Co. KG	Herford	direct	100.00 %	3,327	-3,696
HeRo Galvanotechnik GmbH via Balda-Heinze GmbH & Co. KG	Herford	indirect	100.00 %	246	0
Balda Grundstücks-Vermietungs GmbH & Co. KG	Bad Oeynhausen	direct	100.00 %	30,379	0
Balda Grundstücks-Verwaltungs GmbH	Bad Oeynhausen	direct	100.00 %	23	0
Balda Solutions Deutschland GmbH	Bad Oeynhausen	direct	100.00 %	20,926	0
Balda Solutions Hungaria Kft. via Balda Solutions Deutschland GmbH	Veszprém (Hungary)	direct indirect	73.47 % 26.53 %	5,171	-974
Sächsische Metall- und Kunststoff-veredelungs GmbH	Oberlungwitz	direct	100.00 %	4,238	0
Balda Medical Verwaltungsgesellschaft mbH	Bad Oeynhausen	direct	100.00 %	16	-1
Balda Medical GmbH & Co. KG	Bad Oeynhausen	direct	100.00 %	126	0

Company	Registered office	Holding	Share	Shareholders' equity TEUR	Earnings before interest TEUR
Balda Werkzeug- und Vorrichtungsbau GmbH	Bad Oeynhausen	direct	100.00 %	2,081	0
Balda Beteiligungs AG Zug	Zug (Schweiz)	direct	100.00 %	*	*
Balda Solutions USA, Inc.	Raleigh (N.C./USA)	direct	100.00 %	-38	-38
Balda Investments Mauritius Ltd,	Mauritius	direct	100.00 %	5,888	-12
Balda Motherson Solution India Ltd. via die Balda Investments Mauritius Ltd.	New Delhi (India)	indirect	60.00 %	9,433	-449
Balda Lumberg Deutschland GmbH & Co. KG	Bad Oeynhausen	direct	50.00 %	29,372	-145
Balda Lumberg Technologies Plasticos da Amazonia Industria e Comercio Ltda. via Balda Lumberg Deutschland GmbH & Co. KG	Manaus (Brazil)	direct indirect	0.10 % 99.90 %	19,849	-21,510
Balda Lumberg Technologies Industria e Comercio Ltda. via Balda Lumberg Technologies Plasticos da Amazonia Industria e Comercio Ltda,. Balda Lumberg Deutschland GmbH & Co. KG	Sao Paulo (Brazil)	indirect	100.00 %	-802	-81
Balda Lumberg Verwaltungsgesellschaft mbH via Balda Lumberg Deutschland GmbH & Co. KG	Bad Oeynhausen	indirect	100.00 %	26	1
Balda Investments Singapore Pte. Ltd.	Singapore	direct	95.00 %	134,358	21,489
Balda Solutions (Suzhou) Ltd. via Balda Investments Singapore Pte. Ltd.	Suzhou (China)	indirect	100.00 %	18,875	1,908
Balda Solutions (Beijing) Ltd. via Balda Investments Singapore Pte. Ltd.	Beijing (China)	indirect	100.00 %	5,732	-892
Balda Solutions Malaysia Sdn. Bhd. via Balda Investments Singapore Pte. Ltd.	Ipoh (Malaysia)	indirect	100.00 %	16,716	4,528
Balda Solutions (Xiamen) Ltd. via Balda Investments Singapore Pte. Ltd.	Beijing (China)	indirect	100.00 %	**	**
TPK Holding Co. Ltd. via Balda Investments Singapore Pte. Ltd.	George Town (Cayman Islands)	indirect	50.00 %	56,641	-1,084
Improve Idea Investments Ltd. via TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Apia (Samoa)	indirect	100.00 %	11,816	458

Company	Registered office	Holding	Share	Shareholders' equity TEUR	Earnings before interest TEUR
TPK Optical Solutions Corp. via Improve Idea Investments Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Taipeh (Taiwan)	indirect	94.40 %	963	489
New Strategy Investment Ltd. via TPK Optical Solutions Corp., Improve Idea Investments Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Apia (Samoa)	indirect	100.00 %	152	0
IdealTEK Corp. via TPK Optical Solutions Corp., Improve Idea Investments Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Taipeh (Taiwan)	indirect	51.00 %	348	164
Upper Year Holdings Ltd. via TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd. via New Strategy Investment Ltd., TrendOn Touch Technology Corp., Improve Idea Investments Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Apia (Samoa)	indirect indirect	99.00 % 1.00 %	2,216	-3,044
TPK Optical Solutions (Xiamen) Inc. via Upper Year Holdings Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Xiamen (China)	indirect	100.00 %	21,702	-2,468
G&P Optical Solutions Inc. via Upper Year Holdings Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Xiamen (China)	indirect	100.00 %	2,767	-314
Optera TPK Holding Pte. Ltd. via TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Singapore	indirect	50.00 %	5,378	-781
Optera Technology (Xiamen) Co. Ltd. via Optera TPK Holding Pte. Ltd., TPK Holding Co. Ltd., Balda Investments Singapore Pte. Ltd.	Xiamen (China)	indirect	100.00 %	3,783	-799
aimtec GmbH	Bad Oeynhausen	direct	50.00 %	1,577	142

*) in liquidation
**) in foundation

f. Disclosure pursuant to Sec. 25 para.1 German Securities Trading Act (WpHG)

Listed below are disclosures pursuant to Sec. 25 para.1 WpHG of voting interests pursuant to Sec. 21 para.1 WpHG.

Balda AG, Bad Oeynhausen
WKN 521510, ISIN DE0005215107
Notice pursuant to Sec. 25 para.1 WpHG

Absolute Capital Management Holdings Limited, Grand Cayman, Cayman Islands, has notified us pursuant to Sec. 21 para.1 WpHG that as of 20 January 2006, its share of voting rights in our company has fallen below the threshold of 10% and now amounts to 7.892%. Thereof, 7.892% of voting rights are attributable to Absolute Capital Management Holdings Limited, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 WpHG.

CSI Asset Management Establishment, Vaduz, Liechtenstein, has notified us pursuant to Sec. 21 para.1 WpHG that as of 20 January 2006, its share of voting rights in our company has fallen below the threshold of 10% and now amounts to 7.892%. Thereof, 7.892% of voting rights are attributable to CSI Asset Management Establishment, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 in connection with sent. 2 WpHG.

Absolute Return Europe Fund Limited, George Town, Grand Cayman, Cayman Islands, has notified us pursuant to Sec. 21 para.1 WpHG that as of 20 January 2006, its share of voting rights in our company has fallen below the threshold of 5% and now amounts to 3.733%.

Bad Oeynhausen, January 2006
Balda AG, Bergkirchener Str. 228, D-32549 Bad Oeynhausen

Balda AG, Bad Oeynhausen
WKN 521510, ISIN DE0005215107
Notice pursuant to Sec. 25 para.1 WpHG

FM Fund Management Limited, George Town, Grand Cayman, Cayman Islands, has notified us on 27 January 2006 pursuant to Sec. 21 para.1 WpHG that as of 9 December 2005 its share of voting rights in our company has fallen below the thresholds of 5% and 10% now amounts to 0%.

Absolute Capital Management Holdings Limited, Grand Cayman, Cayman Islands, has notified us on 27 January 2006 pursuant to Sec. 21 para.1 WpHG, that as of 16 August 2005 its share of voting rights in our company has exceeded the thresholds of 5% and 10 % and now amounts to 14.775%. Thereof, 14.775% of voting rights are attributable to Absolute Capital Management Holdings Limited, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 WpHG.

Bad Oeynhausen, January 2006
Balda AG, Bergkirchener Str. 228, D-32549 Bad Oeynhausen

Balda AG, Bad Oeynhausen
WKN 521510, ISIN DE0005215107
Notice pursuant to Sec. 25 para.1 WpHG

Cycladic Catalyst Master Fund, London, United Kingdom, has notified us pursuant to Sec. 21 para.1 WpHG that as of 24 May 2006, its share of voting rights in our company has exceeded the thresholds of 5% and 10% and now amounts to 10.08%.

Cycladic Capital LLP, London, United Kingdom, has notified us, that as of 3 January 2006 Cycladic Capital LLP, London, United Kingdom was replaced by Cycladic Capital Management Ltd , London, United Kingdom as investor registered on the FSA's register.

Cycladic Capital LLP, London, United Kingdom, has notified us pursuant to Sec. 21 para.1 WpHG that as of 24 May 2006, its share of voting rights in our company has exceeded the thresholds of 5% and 10% and now amounts to 10.69%.

Thereof, 10.69% of voting rights are attributable to Cycladic Capital LLP, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 WpHG.

Bad Oeynhausen, May 2006
Balda AG, Bergkirchener Str. 228, D-32549 Bad Oeynhausen

Balda AG, Bad Oeynhausen
WKN 521510, ISIN DE0005215107
Notice pursuant to Sec. 25 para.1 WpHG

Absolute Capital Management Holdings Limited, Grand Cayman, Cayman Islands, has notified us on 15 May 2006 pursuant to Sec. 21 para.1 WpHG that as of 12 May 2005 its share of voting rights in our company has fallen below the threshold of 5% and now amounts to 4.751%. Thereof, 4.751% of voting rights are attributable to Absolute Capital Management Holdings Limited, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 WpHG.

CSI Asset Management Establishment, Vaduz, Liechtenstein, has notified us on 15 May 2006 pursuant to Sec. 21 para.1 WpHG that as of 12 May 2006 its share of voting rights in our company has fallen below the threshold of 5% and now amounts to 4.751%. Thereof, 4.751% of voting rights are attributable to CSI Asset Management Establishment, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 in connection with sent. 2 WpHG.

Bad Oeynhausen, May 2006
Balda AG, Bergkirchener Str. 228, D-32549 Bad Oeynhausen

Balda AG, Bad Oeynhausen
WKN 521510, ISIN DE0005215107
Notice pursuant to Sec. 25 para.1 WpHG

Audley European Opportunities Master Fund Limited, Guernsey, Channel Islands, has notified us pursuant to Sec. 21 para.1 WpHG that as of 8 June 2006, its share of voting rights in our company has exceeded the threshold of 5% and now amounts to 5.0139%.

Bad Oeynhausen, June 2006
Balda AG, Bergkirchener Str. 228, D-32549 Bad Oeynhausen

Balda AG, Bad Oeynhausen
WKN 521510, ISIN DE0005215107
Notice pursuant to Sec. 25 para.1 WpHG

Cycladic Capital LLP, London, United Kingdom, has notified us on 31 May 2006 with reference to their notification of 25 May 2006 pursuant to Sec. 21 para.1 WpHG that as of 3 January 2006, its share of voting rights in our company has exceeded the threshold of 5% and now amounts to 7.8%. Thereof, 7.8% of voting rights are attributable to Cycladic Capital LLP, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 WpHG.

Cycladic Capital Management Ltd, London, United Kingdom, has notified us on 31 May 2006 with reference to their notification of 25 May 2006 pursuant to Sec. 21 para.1 WpHG that as of 3 January 2006, its share of voting rights in our company has fallen below threshold of 5%. Cycladic Capital Management Ltd. has ceased to have a notifiable interest in Balda AG. The voting rights are attributable to Cycladic Capital LLP, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 WpHG.

Bad Oeynhausen, June 2006
Balda AG, Bergkirchener Str. 228, D-32549 Bad Oeynhausen

Balda AG, Bad Oeynhausen
WKN 521510, ISIN DE0005215107
Notice pursuant to Sec. 25 para.1 WpHG

Absolute Capital Management Holdings Limited, Grand Cayman, Cayman Islands, has notified us on 31 July 2006 pursuant to Sec. 21 para.1 WpHG that as of 28 July 2006 its share of voting rights in our company has exceeded the thresholds of 5% and now amounts to 5.380%. Thereof, 5.380% of voting rights are attributable to Absolute Capital Management Holdings Limited, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 WpHG.

CSI Asset Management Establishment, Vaduz, Liechtenstein, has notified us on 31 July 2006 pursuant to Sec. 21 para.1 WpHG that as of 28 July 2006 its share of voting rights in our company has fallen below the threshold of 5% and now amounts to 5.380%. Thereof, 5.380% of voting rights are attributable to CSI Asset Management Establishment, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 in connection with sent. 2 WpHG.

Bad Oeynhausen, August 2006
Balda AG, Bergkirchener Str. 228, D-32549 Bad Oeynhausen

Balda AG, Bad Oeynhausen
WKN 521510, ISIN DE0005215107
Notice pursuant to Sec. 25 para.1 WpHG

Absolute Capital Management Holdings Limited, Grand Cayman, Cayman Islands, has notified us on 19 September 2006 pursuant to Sec. 21 para.1 WpHG that as of 13 September 2006 its share of voting rights in our company has fallen below the threshold of 5% and now amounts to 4.470%. Thereof, 4.470% of voting rights are attributable to Absolute Capital Management Holdings Limited, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 WpHG.

CSI Asset Management Establishment, Vaduz, Liechtenstein, has notified us on 19 September 2006 pursuant to Sec. 21 para.1 WpHG that as of 13 September 2006 its share of voting rights in our company has fallen below the threshold of 5% and now amounts to 4.470%. Thereof, 4.470% of voting rights are attributable CSI Asset Management Establishment, pursuant to Sec. 22 para.1 sent. 1 and sent. 6 in connection with sent. 2 WpHG.

Bad Oeynhausen, September 2006
Balda AG, Bergkirchener Str. 228, D-32549 Bad Oeynhausen

g. Corporate Governance

In March 2006, the Board of Directors and Supervisory Board issued a statement pursuant to Section 161 AktG (German Stock Corporation Act) on Corporate Governance and made it permanently accessible to the shareholders on Balda AG's website (http:\\www.balda.de).

h. Auditors' fees

The auditors' fees as per Section 319 para 1, sent. 1 and 2 of the German Commercial Code (HGB) comprise the following amounts:

in TEUR	
Audit	95
Other certification or valuation services	89

Bad Oeynhausen, 28 February 2007

The Board of Directors

Joachim Gut Volker Brinkmann Ralf Ackermann

Year-end Tables

Balda Group – Balance Sheet as of 31 December 2006

Balda Group – Balance Sheet as of 31 December 2006 – Assets

	Notes II.	31 December 2006 TEUR	31 December 2005 TEUR
A. CURRENT ASSETS			
I. Cash and cash equivalents	5.a.	38,335	42,312
II. Trade accounts receivable	5.b.	40,308	85,308
III. Inventories	5.c.	41,346	46,468
1. Raw materials and supplies		12,057	14,626
2. Work in progress and finished goods and merchandise		24,688	31,040
3. Advance payments		4,601	802
IV. Tax refund	5.d.	4,343	7,740
V. Prepaid expenses and other current assets	5.e.	22,732	6,116
VI. Assets classified as held for sale	5.f.	19,256	0
Total Current Assets		**166,320**	**187,944**
B. LONG-TERM ASSETS			
I. Tangible assets	5.g.	108,356	114,272
1. Land and buildings		40,185	47,423
2. Machinery and equipment		43,171	47,460
3. Fixtures, furniture and office equipment		8,931	9,867
4. Advance payments and construction in progress		16,069	9,522
II. Investment Property	5.h.	1,537	0
III. Intangible assets	5.i.	71,900	2,365
IV. Financial assets	5.j.	3,318	4,904
1. Investments		1	4
2. Shares in affiliated companies		502	1,097
3. Loans to associated companies		0	2,022
4. Other financial assets		2,815	1,781
V. Goodwill	5.k.	77,223	34,085
VI. Deferred taxes	5.l.	14,728	5,055
Total Long-term Assets		**277,062**	**160,681**
TOTAL ASSETS		**443,382**	**348,625**

Balda Group – Balance Sheet as of 31 December 2006 – Total Liabilities and Shareholders' Equity

	Notes II.	31 December 2006 TEUR	31 December 2005 TEUR
A. CURRENT LIABILITIES			
I. Current portion of finance lease obligation	5.m.	561	391
II. Short-term debts and current portion of long-term debts	5.n.	49,423	20,393
III. Trade accounts payable	5.o.	36,185	48,888
IV. Advance payments received	5.p.	2,258	2,520
V. Short-term provisions	5.q.	5,896	2,354
VI. Tax liabilities	5.r.	1,590	4,891
VII. Other current liabilities	5.s.	18,280	22,355
VIII. Liabilities classified as held for sale	5.t.	7,004	0
Total Current Liabilities		**121,197**	**101,792**
B. LONG-TERM LIABILITIES			
I. Long-term debt	5.u.	127,360	51,132
1. Loans		79,783	5,000
2. Bonded loans		39,474	39,322
3. Bank loans		8,103	6,810
II. Long-term finance lease obligations	5.v.	745	856
III. Deferred taxes	5.w.	18,405	3,354
IV. Long-term provisions/pension accruals	5.x.	3,291	6,344
V. Other long-term liabilities	5.y.	2,517	217
Total Long-term Liabilities		**152,318**	**61,903**
C. SHAREHOLDERS' EQUITY	**5.z.**		
I. Subscribed share capital		40,279	40,163
II. Deposit for execution of agreed capital increase		42,648	0
III. Reserves		57,415	58,220
IV. Retained earnings		18,607	72,651
1. Net loss/income		- 41,995	33,416
2. Profit carried forward		60,602	39,235
Group Shareholders' Equity		**158,949**	**171,034**
Minority Interest		**10,918**	**13,896**
Total Shareholders' Equity		**169,867**	**184,930**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**443,382**	**348,625**

Balda Group – Income statement in total expenditure format for the fiscal year 2006

Balda Group – Income Statement in total expenditure format for the fiscal year 2006

In TEUR	Notes II.	Continued operations 2006
1. Revenues	6.a.	327,585
2. Other operating income	6.b.	7,788
3. Changes in inventories of finished goods and work in progress	6.c.	- 3,907
4. Own work capitalised	6.d.	534
5. Material expenses	6.e.	156,333
6. Personnel expenses	6.f.	94,423
a) Wages and salaries		70,500
b) Expenses for temporary workers		23,923
7. Depreciations	6.g.	33,056
8. Other operating expenses	6.h.	70,123
9. Operating income		**- 21,935**
10. Financing costs	6.i.	- 6,106
11. Earnings from affiliated companies		71
12. Earnings before income taxes (and minority interest)		**- 27,970**
13. Taxes on income and earnings	6.j.	- 8,768
14. Earnings before minority interest		**- 19,202**
15. Minority interest		- 1,967
16. Earnings after taxes	**6.k.**	**- 21,169**
17. Profit carried forward		72,651
18. Dividend		- 12,049
19. Retained earnings		**39,433**
Number of shares – undiluted		40,414
Number of shares – diluted		40,414
Earnings per share – undiluted (EUR)	6.l.	- 0.524
Earnings per share – diluted (EUR)	6.m.	- 0.524

	Discontinued operations 2006	**Group total 2006**	Continued operations 2005	Discontinued operations 2005	Group total 2005
	43,273	370,858	356,530	40,649	397,179
	2,530	10,318	6,108	2,915	9,023
	- 310	- 4,217	14,068	853	14,921
	0	534	889	0	889
	15,197	171,530	156,665	11,553	168,218
	25,293	119,716	95,732	20,594	116,326
	19,228	89,728	69,997	13,347	83,344
	6,065	29,988	25,735	7,247	32,982
	17,674	50,730	15,376	2,558	17,934
	8,652	78,775	59,033	6,608	65,641
	- 21,323	**- 43,258**	**50,789**	**3,104**	**53,893**
	- 242	- 6,348	- 3,987	- 292	- 4,279
	0	71	46	0	46
	- 21,565	**- 49,535**	**46,848**	**2,812**	**49,660**
	- 739	- 9,507	9,569	645	10,214
	- 20,826	**- 40,028**	**37,279**	**2,167**	**39,446**
	0	- 1,967	- 6,030	0	- 6,030
	- 20,826	**- 41,995**	**31,249**	**2,167**	**33,416**
	0	72,651	47,186	0	47,186
	0	- 12,049	- 7,951	0	- 7,951
	- 20,826	**18,607**	**70,484**	**2,167**	**72,651**
	40,414	40,414	39,897	39,897	39,897
	40,414	40,414	40,279	40,279	40,279
	- 0.515	- 1.039	0.783	0.055	0.838
	- 0.515	- 1.039	0.779	0.054	0.833

Balda Group – Cash flow for the fiscal year 2006

Balda Group – Cash flow for the fiscal year 2006

		Notes II.	**2006** TEUR	2005 TEUR
	Net loss/income before income taxes and financing costs		- 43,258	53,939
–	Interest payments		- 4,600	- 2,546
–	Payments on tax on income and earnings		- 393	- 13,038
+ / –	Write-offs/write-ups on long-term assets (excluding deferred taxes)		50,730	17,934
+ / –	Other non-cash affecting expenses and earnings		3,512	0
+ / –	Increase/decrease in tax refund and tax liabilities		- 299	- 4,709
+ / –	Increase/decrease in provisions		- 307	2,311
– / +	Increase/decrease in inventories, trade accounts receivable and other assets not itemised within investment or financing activities		25,960	- 42,366
+ / –	Increase/decrease in accounts payable and other liabilities not itemised within investment or financing activities		- 3,221	19,822
=	**Cash flow from operating activities**	**4.a.**	**28,124**	**31,347**
	thereof discontinued operations		2,963	6,437
	Cash flow from investing activities			
+ / –	Change in fixed assets affecting payment		- 34,686	- 32,421
+ / –	Change in financial assets affecting payment		341	0
+ / –	Change from the acquisition and sale of subsidiaries affecting payment		- 112,225	0
=	**Cash flow from investing activities**	**4.b.**	**- 146,570**	**- 32,421**
	thereof discontinued operations		- 1,192	- 6,324
	Cash flow from financing activities			
–	Payments from dividends		- 12,049	- 7,951
+ / –	Change in liabilities to banks affecting payment		25,575	- 17,025
+	Cash inflow from the issue of loans		77,973	0
+	Cash inflow from the issue of bonded loans		0	39,492
+ / –	Change in shares of external shareholders		2,863	- 738
+	Cash inflow from capital increase		550	1,411
+ / –	Change in finance lease obligations affecting payment		- 609	- 267
=	**Cash flow from financing activities**	**4.c.**	**94,303**	**14,922**
	thereof discontinued operations		- 2,895	959
	Change in cash and cash equivalents affecting payment	**4.d.**	**- 24,143**	**13,848**
+ / –	Change in cash funds from changes in the consolidated group		22,317	0
+	**Cash and cash equivalents at the beginning of the fiscal year including discontinued operations**		**42,312**	**28,464**
=	**Cash and cash equivalents at the beginning of the fiscal year including discontinued operations**		**40,486**	**42,312**
	Cash and cash equivalents at the end of the fiscal year – discontinued operations		**2,151**	**–**
	Cash and cash equivalents at the end of the fiscal year – continued operations		**38,335**	**–**
	Total financial resources at end of the fiscal year			
	Cash funds		38,335	42,312

Balda Group – Segment reporting/primary segment for the fiscal year 2006

Balda Group – Segment reporting/primary segment for the fiscal year 2006

Primary segments	Region Europe		Region Asia		Region Ar
in TEUR	**2006**	2005	**2006**	2005	**2006**
Revenues	230,209	259,785	128,246	120,321	15,327
Change from previous year	*- 11.4%*		*6.6%*		*- 18.9%*
Total operating performance [1]	235,670	278,538	130,669	125,032	17,048
Change from previous year	*- 15.4%*		*4.5%*		*- 16.5%*
Material expenses	90,108	88,375	75,529	68,440	8,817
in % of total operating performance	*38.2%*	*31.7%*	*57.8%*	*54.7%*	*51.7%*
Total Personnel expenses	94,764	99,757	20,766	13,239	4,081
in % of total operating performance	*40.2%*	*35.8%*	*15.9%*	*10.6%*	*23.9%*
Other operating expenses (without expenses for loan workers)	54,752	50,214	21,048	12,641	5,452
in % of total operating performance	*23.2%*	*18.0%*	*16.1%*	*10.1%*	*32.0%*
EBITDA	- 3,954	40,192	13,326	30,712	- 1,302
in % of total operating performance	*- 1.7%*	*14.4%*	*10.2%*	*24.6%*	*- 7.6%*
Depreciations [2]	17,222	13,464	5,263	3,690	5,452
in % of total operating performance	*7.3%*	*4.8%*	*4.0%*	*3.0%*	*32.0%*
EBITA	- 21,176	26,728	8,063	27,022	- 6,754
in % of total operating performance	*- 9.0%*	*9.6%*	*6.2%*	*21.6%*	*- 39.6%*
Surplus depreciations [3]	13,275	260	440	0	9,023
in % of total operating performance	*5.6%*	*0.1%*	*0.3%*	*0.0%*	*52.9%*
EBIT	- 34,451	26,468	7,623	27,022	- 15,777
in % of total operating performance	*- 14.6%*	*9.5%*	*5.8%*	*21.6%*	*- 92.5%*
Investments [4]	10,635	20,991	17,893	11,019	1,440
Segment assets [5/6]	86,109	164,611	266,412	100,481	12,144
EBITDA in % of the segment assets	*- 4.6%*	*24.4%*	*5.0%*	*30.6%*	*- 10.7%*
Segment liablilities [7]	46,513	46,386	27,774	30,962	5,866
Expenses not affecting payments (without write-offs)	3,766	0	250	0	403
Number of employees as of 31.12. [8]	2,310	3,818	5,400	3,869	479

(1) Total operating performance = revenues plus other operational income plus/minus inventory changes plus own work capitalised

(2) Without depreciation on added value (2006: Europe TEUR 2,006 and Asia TEUR 440; previous year: Europe TEUR 260 and America TEUR 65)

(3) Also including depreciations of goodwill

(4) Investments = investments in tangible assets including intangible assets

(5) Segment assets = long-term assets plus current assets without interest-bearing assets, deferred tax and tax refund

(6) Intersegment corrections contain transition shares of interest bearing or tax associated items of TEUR 8,040

(7) Segment liabilities = non-interest-bearing liabilities and provisions without tax liabilities

(8) Number of employees as of 31.12. = including loan workers, temporary workers and apprentices

merica	Region India		Intersegment corrections		Group	
2005	**2006**	2005	**2006**	2005	**2006**	2005
18,904	0	0	- 2,924	- 1,831	370,858 *- 6.6%*	397,179
20,406	0	0	- 5,894	- 1,964	377,493 *- 10.5%*	422,012
13,305 *65.2%*	0	0	- 2,924	- 1,902	171,530 *45.4%*	168,218 *39.9%*
3,330 *16.3%*	105	0	0	0	119,716 *31.7%*	116,326 *27.6%*
2,848 *14.0%*	493	0	- 2,970	- 62	78,775 *20.9%*	65,641 *15.6%*
923 *4.5%*	- 598	0	0	0	7,472 *2.0%*	71,827 *17.0%*
455 *2.2%*	55	0	0	0	27,992 *7.4%*	17,609 *4.2%*
468 *2.3%*	- 653	0	0	0	- 20,520 *- 5.4%*	54,218 *12.8%*
65 *0.3%*	0	0	0	0	22,738 *6.0%*	325 *0.1%*
403 *2.0%*	- 653	0	0	0	- 43,258 *- 11.5%*	53,893 *12.8%*
1,963	8,427	0	0	0	38,395	33,973
23,832 *3.9%*	8,839	0	- 6,784	- 307	366,720 *2.0%*	288,617 *24.9%*
5,392	2,820	0	- 14,546	- 278	68,427	82,462
0		0	0	0	4,419	0
357	126	0	0	0	8,315	8,044

Balda Group – Development of long-term assets (except deferred taxes) in the fiscal year 2006

Balda Group – Development of long-term assets (except deferred taxes) in the fiscal year 2006

				ACQUISITION AND	
In TEUR	01.01.2006	First consolidation	Currency differences	Accruals	D
TANGIBLE ASSETS					
Land and buildings	57,766	1,413	- 562	1,849	
Machinery and equipment	106,735	9,483	- 2,210	9,235	
Fixtures, furniture and office equipment	20,577	2,684	- 404	4,644	
Advanced payments and construction in progress	9,522	7,342	- 522	19,366	
	194,600	**20,922**	**- 3,698**	**35,094**	
Investment Property	**0**	**0**	**0**	**0**	
INTANGIBLE ASSETS	**7,304**	**68,887**	**- 127**	**3,301**	
FINANCIAL ASSETS					
Investments	4	0	0	0	
Shares in affiliated companies	1,097	0	0	71	
Loans to associated companies	2,022	0	0	0	
Other financial assets	1,781	0	0	2,815	
	4,904	**0**	**0**	**2,886**	
GOODWILL	**34,085**	**32,270**	**- 4,736**	**35,242**	
	240,893	**122,079**	**- 8,561**	**76,523**	

MANUFACTURING COSTS

Disposals	Reclassi-fications	Reclassification as current assets	Disconsolidation	31.12.2006	01.01.2006	First consolidation	Currency differences	Accrua
141	2,172	4,814	6,067	51,616	10,343	173	- 121	5,0
7,756	11,570	15,277	12,782	98,998	59,275	4,411	- 701	20,6
1,072	218	2,152	6,051	18,444	10,710	1,307	- 134	3,1
2,838	- 15,595	920	286	16,069	0	0	0	
11,807	**- 1,635**	**23,163**	**25,186**	**185,127**	**80,328**	**5,891**	**- 956**	**28,8**
0	**1,537**	**0**	**0**	**1,537**	**0**	**0**	**0**	
2,011	**98**	**108**	**405**	**76,939**	**4,939**	**993**	**- 174**	**1,6**
0	0	3	0	1	0	0	0	
0	0	0	0	1,168	0	0	0	6
3	0	2,019	0	0	0	0	0	
1,781	0	0	0	2,815	0	0	0	
1,784	**0**	**2,022**	**0**	**3,984**	**0**	**0**	**0**	**6**
7,934	**0**	**0**	**0**	**88,927**	**0**	**0**	**0**	**19,63**
23,536	**0**	**25,293**	**25,591**	**356,514**	**85,267**	**6,884**	**- 1,130**	**50,73**

	DEPRECIATIONS					NET BOOK VALUES	
als	Disposals	Reclassi-fications	Reclassification as current assets	Disconsolidation	31.12.2006	31.12.2006	31.12.2005
67	135	19	937	2,978	11,431	40,185	47,423
39	4,798	0	12,832	10,167	55,827	43,171	47,460
04	803	- 19	1,393	3,259	9,513	8,931	9,867
0	0	0	0	0	0	16,069	9,522
10	**5,736**	**0**	**15,162**	**16,404**	**76,771**	**108,356**	**114,272**
0	**0**	**0**	**0**	**0**	**0**	**1,537**	**0**
16	**2,011**	**0**	**52**	**272**	**5,039**	**71,900**	**2,365**
0	0	0	0	0	0	1	4
66	0	0	0	0	666	502	1,097
0	0	0	0	0	0	0	2,022
0	0	0	0	0	0	2,815	1,781
66	**0**	**0**	**0**	**0**	**666**	**3,318**	**4,904**
38	**7,934**	**0**	**0**	**0**	**11,704**	**77,223**	**34,085**
30	**15,681**	**0**	**15,214**	**16,676**	**94,180**	**262,334**	**155,626**

Balda Group – Changes to shareholders' equity in the fiscal year 2006

Balda Group – Changes to shareholders' equity in the fiscal year 2006

In TEUR	Subscribed share capital	Deposit for execution of agreed capital increase	Capital reserves	Reven reserv
Balance on 01.01.2005	**39,755**	**–**	**53,177**	
Conversion of convertible bonds	408	–	1,561	
Dividend	–	–	–	
Net income 2005	–	–	–	
Currency reserve	–	–	–	
Balance on 31.12.2005	**40,163**	**–**	**54,738**	
Balance on 01.01.2006	**40,163**	**–**	**54,738**	
Conversion of convertible bonds	116	–	458	
Shareholders' equity component of option bond	–	–	2,518	
Dividend	–	–	–	
Net income 2006	–	–	–	
Currency reserve	–	–	–	
Revaluation from acquisitions	–	–	–	
Issue of shares for acquisitions	–	42,648	–	
Accruals of minority interest through acquisitions resp. share sales	–	–	–	
Disposals of minority interest through share sales	–	–	–	
Accruals of minority interest through associations	–	–	–	
Employee stock option plan	–	–	18	
Balance on 31.12.2006	**40,279**	**42,648**	**57,732**	

ue ves	Revaluation reserve	Currency reserves	Retained earnings	Balda AG shareholders	Minority interest	Total share- holders' equity
2		**- 2,464**	**47,186**	**137,656**	**7,803**	**145,459**
–		–	–	1,969	–	1,969
–		–	- 7,951	- 7,951	- 738	- 8,689
–		–	33,416	33,416	6,030	39,446
–		5,944	0	5,944	801	6,745
2	**0**	**3,480**	**72,651**	**171,034**	**13,896**	**184,930**
2	**0**	**3,480**	**72,651**	**171,034**	**13,896**	**184,930**
–		–	–	574	–	574
–		–	–	2,518	–	2,518
–		–	- 12,049	- 12,049	- 1,875	- 13,924
–		–	- 41,995	- 41,995	1,967	- 40,028
–		- 5,678	–	- 5,678	- 2,447	- 8,125
–	1,879	0	–	1,879	–	1,879
–		–	–	42,648	–	42,648
–		–	–	0	9,403	9,403
–		–	–	0	- 13,983	- 13,983
–		–	–	0	3,957	3,957
–		–	–	18	–	18
2	**1,879**	**- 2,198**	**18,607**	**158,949**	**10,918**	**169,867**

Balda AG – Balance Sheet as of 31 December 2006

Balda AG – Balance Sheet as of 31 December 2006 – Assets

	Notes II.	31 December 2006 TEUR	31 December 2005 TEUR
A. FIXED ASSETS	**2.a.**		
I. Intangible assets			
1. Concessions, industrial and property rights and similar rights and values as well as licences to such rights and values		1,316	577
2. Advance payments		1,419	159
		2,735	736
II. Tangible assets			
1. Land, titles to land and buildings including buildings on third-party land		950	1,030
2. Machinery and equipment		29	133
3. Fixtures, furniture and office equipment		498	614
4. Advance payments and construction in progress		1,227	738
		2,704	2,515
III. Financial assets			
1. Shares in affiliated companies		233,989	137,853
2. Loans to affiliated companies		10,988	0
3. Investments		1,406	16,149
		246,383	154,002
		251,822	**157,253**
B. CURRENT ASSETS			
I. Receivables and other current assets	2.b.		
1. Trade accounts receivable		121	49
2. Accounts receivable from affiliated companies		17,487	48,039
3. Receivables from associated companies		24	4
4. Other current assets		16,346	441
		33,978	48,533
II. Securities			
Other securities		0	10,949
III. Cash in hand, deposits in bank accounts and cheques	2.c.	461	10,078
		34,439	**69,560**
C. PREPAID EXPENSES	**2.d.**	**345**	**454**
TOTAL ASSETS		**286,606**	**227,267**

Balda AG – Balance Sheet as of 31 December 2006 – Total liabilities and shareholders' equity

	Notes II.	31 December 2006 TEUR	31 December 2005 TEUR
A. SHAREHOLDERS' EQUITY	**2.e.**		
I. Subscribed share capital		40,279	40,163
II. Deposit for execution of the agreed capital increase		42,648	0
III. Capital reserves		56,407	55,949
IV. Revenue reserves		2	2
V. Retained earnings		- 16,957	29,752
		122,379	**125,866**
B. PROVISIONS	**2.f.**		
1. Tax provisions		0	3,427
2. Other provisions		2,105	2,167
		2,105	**5,594**
C. LIABILITIES	**2.g.**		
1. Bonds		85,000	5,023
- thereof convertible: TEUR 0 (previous year: TEUR 23)			
2. Liabilities to banks		64,725	49,107
3. Trade accounts payable		2,002	943
4. Liabilities to affiliated companies		9,186	37,525
5. Liabilities to associated companies		0	24
6. Other liabilities		1,209	3,185
- thereof from taxes: TEUR 69 (previous year: TEUR 1,481)			
- thereof from social security: TEUR 13 (previous year: TEUR 32)			
		162,122	**95,807**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**286,606**	**227,267**

Balda AG – Income Statement for the fiscal year 2006

Balda AG – Income Statement for the fiscal year 2006

	Notes II.	2006 TEUR	2005 TEUR
1. Revenues	3.a.	5,806	5,509
2. Other operating income	3.b.	10,372	9,661
3. Personnel expenses		- 5,503	- 4,672
a) Wages and salaries		- 5,081	- 4,470
b) Social security contributions, expenses for pensions and support		- 422	- 202
4. Depreciations	3.c.		
a) Depreciation on intangible and tangible assets as well as capitalised expenses for the commencement and expansion of business operations		- 530	- 2,169
5. Other operating expenses		- 15,546	- 11,123
6. Income from participating interests - thereof from affiliated companies: TEUR 14,196 (previous year: TEUR 15,164)		14,196	15,164
7. Income from profit transfer agreements		73	13,397
8. Income from other long-term investments and loans - thereof from affiliated companies: TEUR 0 (previous year: TEUR 136)		36	242
9. Other interest and similar income - thereof from affiliated companies: TEUR 2,038 (previous year: TEUR 1,793)		2,626	2,361
10. Depreciations on financial assets and on securities in current assets	3.d.	- 28,830	- 2,205
11. Expenses from transfer of losses		- 11,726	- 6,261
12. Interest and other expenses - thereof from affiliated companies: TEUR 181 (previous year: TEUR 320)		- 6,560	- 4,323
13. Result of ordinary operations		**- 35,586**	**15,581**
14. Taxes on income and earnings	3.e.	949	- 5,005
15. Other taxes		- 24	- 110
16. Net loss/income for the year		**- 34,661**	**10,466**
17. Profit carried forward from previous fiscal year		29,753	27,237
18. Dividend		- 12,049	- 7,951
19. Retained earnings	3.f.	**- 16,957**	**29,752**

Balda AG – Development of fixed assets in the fiscal year 2006

Balda AG – Development of fixed assets in the fiscal year 2006

In TEUR	01.01.2006	Accruals	Dispos
	ACQUISITION AND MANUFACTUR		
INTANGIBLE ASSETS			
Concessions, industrial and property rights and similar rights and values as well as licences to such rights and values	870	1,000	
Advance payments	159	1,260	
	1,029	**2,260**	
TANGIBLE ASSETS			
Land, titles to land and buildings including buildings on third-party land	2,977	0	[illegible]
Machinery and equipment	3,079	0	3,0
Fixtures, furniture and office equipment	855	110	
Advance payments and buildings under construction	738	593	
	7,649	**703**	**3,3**
FINANCIAL ASSETS			
Shares in affiliated companies	144,070	151,605	41,4
Loans to affiliated companies	0	10,988	
Investments	16,149	0	
	160,219	**162,593**	**41,4**
	168,897	**165,556**	**44,7**

ING COSTS		DEPRECIATIONS				NET BOOK VALUES	
sals	31.12.2006	01.01.2006	Accruals	Disposals	31.12.2006	31.12.2006	31.12.2005
0	1,870	293	261	0	554	1,316	577
0	1,419	0	0	0	0	1,419	159
0	**3,289**	**293**	**261**	**0**	**554**	**2,735**	**736**
135	2,842	1,947	80	135	1,892	950	1,030
040	39	2,946	13	2,949	10	29	133
99	866	241	176	49	368	498	614
104	1,227	0	0	0	0	1,227	738
378	**4,974**	**5,134**	**269**	**3,133**	**2,270**	**2,704**	**2,515**
407	254,268	6,217	14,062	0	20,279	233,989	137,853
0	10,988	0	0	0	0	10,988	0
0	16,149	0	14,743	0	14,743	1,406	16,149
407	**281,405**	**6,217**	**28,805**	**0**	**35,022**	**246,383**	**154,002**
785	**289,668**	**11,644**	**29,335**	**3,133**	**37,846**	**251,822**	**157,253**

Technical Glossary

Certification
Issuing of a certificate after having passed an inspection of a defined capability, mostly on the basis of an audit.

Display
Protective cover made of crystal-clear plastic for a mobile phone's window.

Diversification
Movement by a manufacturer into a wider field of technologies/products. This may be achieved by buying firms already serving the target markets. The aim is to realise growth opportunities and risk spreading.

Dual Source Strategy
In terms of purchasing/materials procurement, a company always cooperates with at least two suppliers, in order to minimise risk.

Early Supplier Involvement
Earliest possible involvement of the development partner in a new project.

Holding
Holding company that manages and controls several companies, in which it owns shares, without providing any goods or services itself.

Hybrid machines
Injection moulding machines for processing plastics, with which the final process can be performed electrically or hydraulically.

IMD (Inmould Decoration)
Inmould decoration (decoration in the mould) is a sophisticated injection moulding process that results from a combination of hot stamping and film insert moulding. During the process, a colour film is guided by an injection-moulding tool. When it hits the plastic cast, the decoration releases itself from the film carrier and is transferred to the mould. IMD is used to produce displays for mobile phones, among other things.

Lead Office
In Balda's organisational structure, each region (Europe, Asia, America, India) is managed by a Lead Office on the basis of the strategy set by the holding company. The Lead Offices have far-reaching powers in terms of decision-making, are solely responsible for their economic and financial results, and are headed by their own management team. They excel in terms of their close proximity to markets and customers.

Market saturation
Market saturation is when the quantity of products in use in the market place is close to or at its maximum. In most markets there is a limit to the number of items, which the market is likely or able to buy. When the saturation point is reached supplying organisations must rely on replacement business where items in use in the market have to be replaced as they get old, perhaps malfunction, or when users want to upgrade to a later version of the item.

Project management
Management method for designing, planning and executing time-limited tasks (especially new project development), while working with a great deal of autonomy on the basis of a defined budget and under the responsibility of a project manager with a chosen team.

Touch screen
Touch screens are displays that are sensitive to touch, with screen areas that simultaneously function as a sensor field. Touching certain places on the surface of the screen can control the menu of a program, for example, or enter data into a computer. These sensor screens are being used in a growing number of technical products. Areas of application are personal portable devices, public information systems and phone systems such as mobile phones, office systems and multimedia applications, as well as consumer electronics.

Value-added chain
Organisation of the strategic activities important for a company's added value, in order to record the added value or compare it with the competition. It is distinguished between primary activities for the provision of services (development/production) and supporting activities.

Financial Glossary

Audit
A systematic review of a business enterprise or a division of the enterprise by independent auditors on the basis of specific criteria.

Auditors' Statement
In the business report printed audit certificate of the chartered accoutants that record keeping and conclusion of the financial report correspond to the laws.

Cash flow
The balance of the flow of cash funds in and out of a business. Cash flow is calculated based on a company's annual financial statements.

Due Diligence
By Due Dilligence (participation test/information disclosure) one understands the careful, systematic and detailed collection, examination and analysis of data of an investment, an assumption or fusion candidate and/or the disclosure of the data by the target object.

Optional bonds
Optional bonds are equipped with auxiliary rights, the option warrants. They are justified to the purchase of a number of shares, specified in the option conditions, in a certain period to a firm option price.

Convertible bonds
Convertible bonds may be converted into the common shares of the issuing company. The bonds may only be issued with shareholder approval. A majority vote is required for approval with a quorum of at least three-fourths of the share capital represented (see Section 221, Stock Corporation Act).

Corporate Governance
The German Corporate Governance Code is designed to increase transparency of the rules governing corporate management and oversight in Germany for both domestic and international investors in order to boost confidence in the management of German business organisations. Companies subscribing to this body of rules incur the obligation of declaring any deviation on their part from the principles of Corporate Governance.

Debt-equity ratio
This figure represents the ratio of outside capital to shareholders' equity.

Declaration of conformity
A declaration by the Board of Directors and Supervisory Board according to Section 161 of the Stock Corporation Act regarding the implementation of the recommendations by the government's commission for the German Corporate Governance Code.

Directors & Officers Insurance
Directors & Officers Liability Insurance (D & O insurance) is a liability insurance policy covering claims for pecuniary damages against agents of legal entities such as corporate executives. Interest in this kind of coverage reflects an increasing desire on the part of business partners, shareholders and creditors to hold corporate managers and supervisory bodies personally liable. Liability claims enforced by companies against its own agents are being seen more and more frequently.

Divestment
This refers to the disposal of assets. The book value of assets divested is reported.

Dynamic debt/equity ratio
Ratio of net financial liabilities to cash from operating activities. This figure indicates the period of time in which operating cash flow will be able to retire net financial liabilities.

EBIT
Operating income (earnings) before interest and taxes. Subtracting taxes and interest from operating income yields net earnings. The advantage of using this figure is that it excludes single-instance effects. EBIT is used internationally as a benchmark for business performance because of the high degree of comparability it offers, since it factors out both debt financing and varying country-specific taxation rates.

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

EBITDA margin
Equals EBITDA divided by total revenue. The higher the figure, the greater the earning power of the company.

EBT
Earnings before taxes.

Equity ratio
A tool for capital structure analysis showing shareholders' equity in relationship to total assets. The higher this figure is, the lower the level of debt.

Equity Story
By the term Equity Story one understands the summarized presentation of relevant facts of a corporation. In particular here the enterprise history, financial indices as well as the strategy of the enterprise are pointed out. The Equity Story addresses private and institutional investors, journalists, analysts as well as banks and other creditors.

Goodwill
Goodwill is created upon initial consolidation following the acquisition of a company or a stake in it, representing the difference between the acquisition price and the value of net assets acquired.

IAS / IFRS
International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are accounting regulations issued by the IASC (International Accounting Standards Committee), an international industry organisation. The objective of these organisations is to provide for transparent and comparable accounting on an international basis. Annual financial statements prepared in accordance with IAS / IFRS provide investors with information about a company's assets and earnings to assist in decision-making. By contrast, the information in annual financial statements according to HGB (German Commercial Code) is geared towards the protection of creditors.

Internal financing capacity
Ratio of cash flow from operating activities to cash flow from investment activities. The higher this figure is, the greater the company's internal financing capability. Internal financing means a company raises the required funds from its own resources, i.e. business operations.

Joint venture
A business partnership between two or more companies. Joint ventures are formed either via agreement between existing corporate structures or by the establishment of a new joint subsidiary or associated company.

Market capitalisation
This is the market value of a company as determined by the current stock price multiplied by the number of shares that have been issued. Alongside trading volume, market capitalisation is a key criterion for inclusion in an equity index.

MSCI index
The MSCI index tracks the price of 1,470 stocks from 20 different countries, representing approximately 60% of these countries' market capitalisation. It appears both as a global index and in the form of regional indices (North America, Europe, Scandinavia, Pacific region and Far East, 20 country indices and 38 industry indices). It is published by Morgan Stanley Capital International on all days when the market is open for trading.

Net gearing ratio
Interest-bearing liabilities less cash and cash equivalents in relation to shareholders' equity. The lower this figure is, the greater the proportion of shareholders' equity to debt.

Risk management
A systematic approach for identifying and evaluating potential risks as well as determining and implementing measures to address these risks.

Roadshow
The roadshow is an Investor Relations tool in which the company goes on the road to make presentations about itself at financial centres or to institutional investors.

SDAX
German index of 50 companies from representative industries just below the MDAX stock index in terms of trading volume and market capitalisation (small-caps). Balda AG is also listed in this index.

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