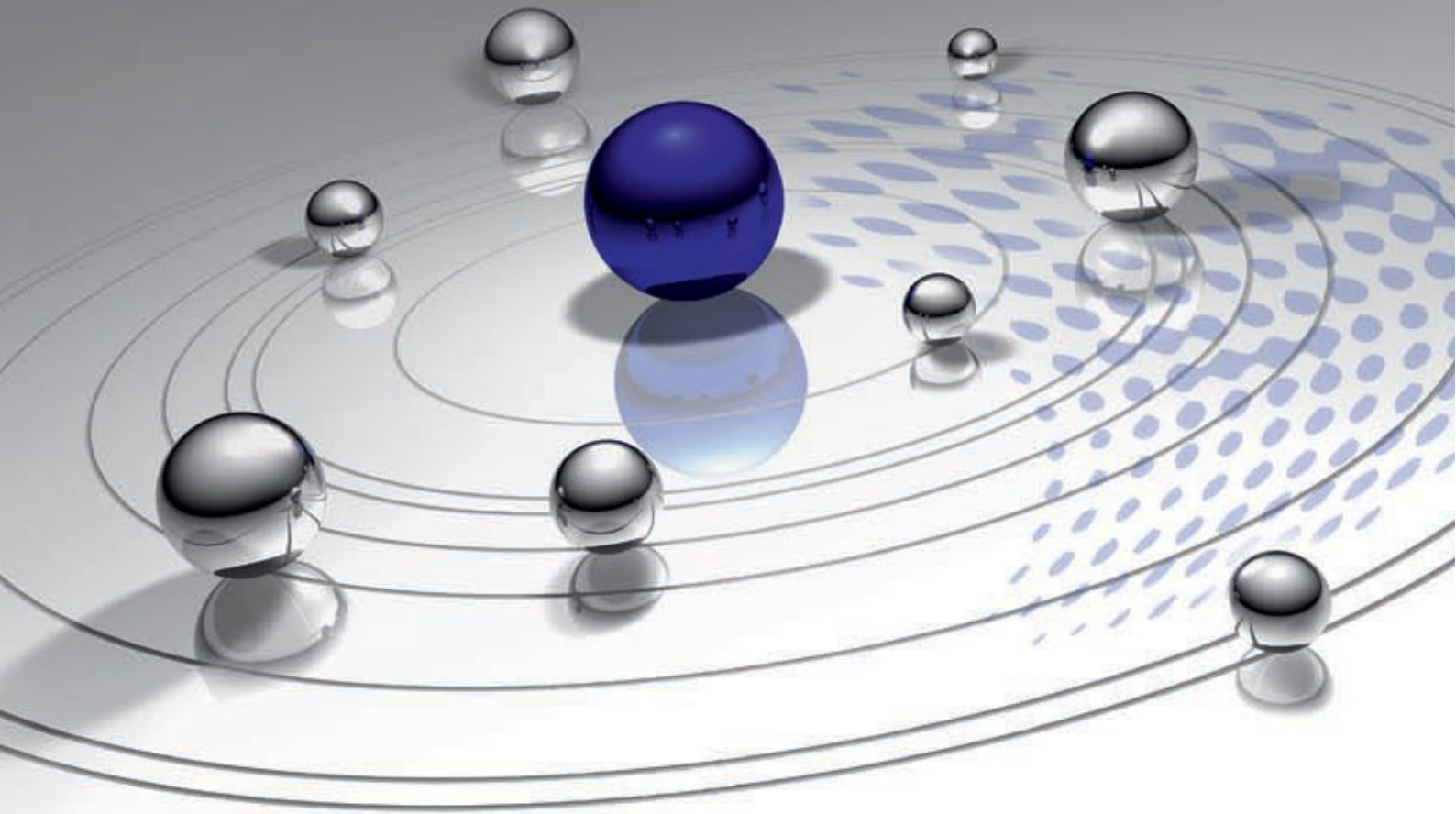


ANNUAL REPORT_ 2006



eLEXIS

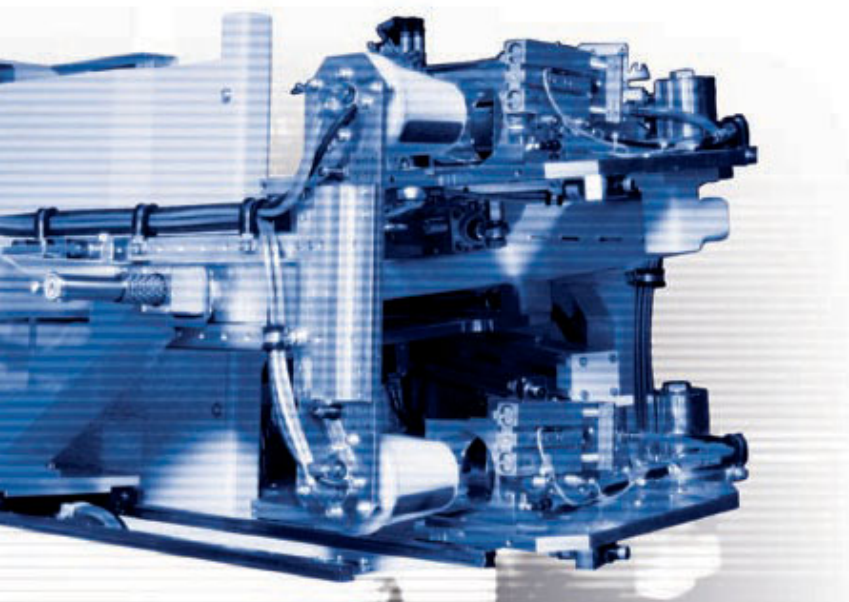
vision for automation



eLEXIS at a glance

	2006	2005*	2005
	€ million	€ million	€ million
Incoming orders	141.2	137.9	152.7
Sales (net)	138.2	136.9	151.7
<i>of which international in %</i>	61.1	68.4	67.3
Gross profit	54.8	51.7	56.8
EBITDA	23.4	21.0	21.8
EBIT	20.3	17.6	18.3
<i>EBIT margin (in %)</i>	14.7	12.9	12.1
EBT	18.9	15.5	16.1
Net income	12.6	10.4	10.6
Earnings per share in € (DVFA/SG)	1.37	1.13	1.14
Number of shares in circulation (in million)	9.2	9.2	9.2
Cash flow from operating activities	17.9	11.1	11.1
Key data as at 31.12.			
Working capital	5.7	6.0	8.8
Bank loans	8.5	12.8	13.0
Net liquidity	22.0	16.8	16.5
Shareholders' equity	49.3	39.1	39.8
Balance sheet total	115.9	110.4	116.9
<i>Equity ratio (in %)</i>	42.6	35.4	34.0
Employees (as at balance sheet date, excluding apprentices)	707	687	763
Profitability data			
Return on shareholders' equity after tax (in %)	25.6	26.6	26.6
Return on capital employed (ROCE)	39.5	34.8	34.1

* Continuing operations



Annual report 2006

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Letter to the Shareholders

Dear Shareholders,

It is a great pleasure for us to be able to inform you once again of a successful fiscal year in this annual report. During 2006 the elexis Group was successful in continuing its high degree of profit growth for the fourth year in a row. At the same time important measures were introduced to enable us to handle the further organic growth expected in 2007 and during the next few years. We are convinced that the Group and its individual subsidiaries are positioned better than ever in their respective markets. This is confirmed more and more by our customers.

Progress in all business units

We were able to achieve significant improvements in almost all business units of our subsidiaries during the fiscal year 2006. The quality of our products was further increased technologically. elexis is considered as a technology leader in the steel, printing and plastics industry. Orders have been obtained already before the start up of serial manufacturing for the new eMASS and High Speed IMPOC quality control systems for the steel sector. In the printing sector the new real time fault detection system, SHARK, was introduced with great success. Factory Automation, Plastics concluded various development contracts to the full satisfaction of our customers. Serial orders have already been given to elexis.

Consistent emphasis on the customers leads to success in key tenders

We were successful with regard to the key tenders. This was attributable both to the technical quality and innovation leadership of our products as well as to the special competence of our sales employees. Our main priority, which we pursue every day, is the emphasis on the customers. In the meantime we are close to our customers on site worldwide with thirteen sales and service companies. At the beginning of 2006 EMG Automation (Beijing) Ltd. started as our branch for the steel sector in China. Already during the first year its success substantially exceeded our expectations.

Following this example BST International Shanghai Co. Ltd. was established in December. Hitherto we were active in the printing sector in China exclusively through a representative office and trading partners. We now intend to be even closer to the customers in that market with our own sales, service and production company. In our projects we often serve the end customer, the equipment manufacturer and its international subsidiaries at the same time. This requires good contacts, powers of conviction and the capability to explain our technology in the corresponding national language.

Continuous improvement process (CIP) and strict working capital management

Apart from the further technical development of our products and the strengthening of sales, additional attention was paid during the past fiscal year to the optimisation of the internal processes. In the steel sector the materials, inventory and accounting systems were standardised and integrated into a joint IT system. This also includes an

information system for sales. Individual solutions were replaced by this. Since the middle of 2006 the new software solutions are running without any faults on a virus-protected IBM platform. Similar measures are planned for the business unit, Factory Automation, Printing in 2007.

The plastics division also invested in IT infrastructure. Rationalisation effects were realised in all business units. This was also based on the use of new machinery. Value added per employee also increased further during 2006. In cooperation with external experts and our CIP team (CIP = continuous improvement process) the employees optimised the work processes in the steel and transport technology business units. This resulted in high positive effects with regard to process times, material flows and inventory levels. The improvements in the processes are permanently sustainable. In 2007 we are proceeding further with this continuous improvement process. The knowledge gained will be transferred to other areas of the elexis Group.

Optimisation in engineering and standardisation of the products have resulted in cost savings. We have continuously asked the question whether individual parts or components of our equipment should be better produced by ourselves or purchased. We have used the weakness of the US dollar for increased purchasing activities in the dollar area. Moreover, various measures of strategic purchasing resulted in substantial contributions to profits, in particular in Factory Automation, Plastics.

These and numerous further individual measures as well as their mutual interaction resulted in a substantial increase in productivity and thus also profitability. This is reflected in the key data for the fiscal year 2006.

Strong growth in earnings and profitability

Earnings before interest and taxes (EBIT) rose by 15 % from € 17.6 million to € 20.3 million. With sales amounting to € 138.2 million this resulted in an EBIT margin of 14.7 %. The elexis Group was thus appreciably in excess of the average for the branch. Earnings after interest and taxes (net income) increased by 21 % from € 10.4 million to € 12.6 million. With 9.2 million shares in circulation, this resulted in earnings per share in the amount of € 1.37.

Cash flow and key profitability figures increase substantially

The high profits and the successful working capital management resulted in a significant increase in cash flow from operating activities of 61 % from € 11.1 million to € 17.9 million. The Group used part of this inflow of funds to reduce the bank loans both on a scheduled and extraordinary basis. These were reduced from € 12.8 million to € 8.5 million as at December 31, 2006. At the same time the loan interest rates could again be reduced and secured for the remaining maturity.

The return on capital employed (ROCE) increased from 34.8 % in 2005 to 39.5 % in 2006. The return on shareholders' equity amounting to approximately 26 % reached the very high level of the prior year. Incoming orders grew by 2.4 % to € 141.2 million. Sales amounted to € 138.2 million and slightly exceeded the amount of the prior year of € 136.9 million. Whilst the Factory Automation, Steel and Printing division achieved



records both with regard to incoming orders as well as to sales, the Factory Automation, Plastics division was confronted with a decline. Nevertheless this division operated very profitably even at a lower sales volume.

The data for 2005 are attributable to the continuing activities. i.e. the elexis Group excluding AVITEQ Vibrationstechnik GmbH, which was divested as at January 1, 2006.

Good prerequisites for further growth

We are convinced that the restrained rate of growth in incoming orders and in sales will again accelerate. The important sales branches for Factory Automation, Steel and Printing will also develop positively in 2007. The Asian steel industry is growing at an unrestricted rate and this is giving impetus to our servo-technical metal business unit. Furthermore, the steel sector has been successful in various key projects with its quality control systems, and this will lead to further orders in 2007. With the eMAAS strip stabilisation system, a further quality control system for the steel branch will be introduced to the market during the 1st half of 2007. The quality control systems are also proving to be the growth drivers in the printing sector. We are able to take market shares from competitors, particularly in the high end sector. The security systems of transport technology are benefiting from the extensive expansion of container harbours. These are becoming necessary in order to be able to handle the increasing transfer volume of freight, which is a consequence of the growth in the global economy and the increase in world trade. In 2006 the steel and printing division achieved growth in sales of 16.4 % to € 112.8 million.

We are convinced that the plastics sector will increase again in 2007. Pilot equipment for the manufacture of new types of packaging was developed successfully with our customers in this sector. If the products are accepted positively by the end customers, and this is indicated by the market tests, we can expect further serial orders. An initial order in the amount of approximately € 3 million could be booked in the 4th quarter 2006.

Basis for further organic expansion

In order to meet the challenge of the growth which is occurring in all business units, the Management Board decided already in 2006 to expand the capacities substantially. This concerned in particular the areas of development, production and sales. The construction of a second manufacturing building was therefore started at our production site in Oschersleben. Electro-hydraulic brake thrusters are produced there. These are used in large cranes and conveyor systems, which are applied in mining and in container ports. At the main factory in Wenden the steel unit is also increasing its manufacturing capacity partly through the new organisation of manufacturing as well as with the acquisition of new machinery. Additional construction measures were introduced. The business unit Factory Automation, Printing also extended its manufacturing capacities above all for development, sales and service. Finally, the plastics unit will put a second manufacturing building into operation as from March 2007. We are preparing ourselves for further organic growth with these construction and personnel measures. This appears to us to be more appropriate and less risky

than to make acquisitions at the current high level of prices. Should there, however, be a purchase opportunity for a company or part of a company at an acceptable price, the elexis Group is equipped to undertake this.

Thanks to our customers, employees and shareholders

The positive and trusting relationship with its customers plays a key role for the elexis Group. During the past few years as well as in 2006, numerous new and additional developments of our products have taken place in close cooperation with our customers, and we would like to thank them for this. The successes during the past fiscal year were made possible above all by our employees. Their commitment, flexibility and creativity require a high degree of recognition. Many of our shareholders supported us during the past fiscal year with numerous constructive discussions and suggestions, and we would also like to express to them our profound appreciation and thanks.



The Management Board

Siegfried Koepp, Chairman

Edgar M. Schäfer



Report of the Supervisory Board for the fiscal year 2006

During the fiscal year 2006 the Supervisory Board discharged its tasks imposed by the law and the articles of association. It was kept informed regularly by the Management Board about the situation and development of the Company and its subsidiaries. This information concerned in particular the asset, financial and earnings situation as well as the development of sales. In addition, the Supervisory Board supported, advised and monitored the Management Board with regard to all decisions, which were of fundamental importance for the elexis Group and its subsidiaries. Moreover, current individual topics were presented and discussed with the Management Board in regular working meetings. Apart from the Presidium, the Supervisory Board has also formed an Audit Committee. The Audit Committee was involved in particular with the requirements of Corporate Governance, risk management and matters concerning the audit. In this respect the emphases of the audit were discussed and determined with the auditors.

The remuneration of the members of the Management Board consist of fixed (fixed salary) and variable compensation (bonus). The variable remuneration is dependent on an agreement on the objectives which are fixed by the Management Board and the Supervisory Board. During the past fiscal year 2006 the remuneration of the Management Board amounted to € 728,000 (prior year: € 676,000). Of this, € 481,000 was attributable to fixed salary and € 247,000 to the variable components of the remuneration. The total sum of the remuneration also includes emoluments in kind and other benefits in the amount of € 78,000, which consist primarily of amounts which must be taken into consideration in accordance with the tax regulations, e.g. for the use of a company car and contributions to insurance. The members of the Management Board have a right to these, which vary according to the personal situation of the member of the Management Board and are individually declared for tax purposes by them. The compensation indicated is in respect of remuneration for their activity as the Board of Management of elexis AG as well as their activities in the general management of the subsidiaries. Other compensation agreements such as, for example, indemnification payments, stock option plans, bridging loans, indemnification in the event of a change in ownership, etc. do not exist. The provision set up for current pensions and rights to future pensions for a prior member of the Management Board and his survivors amounted to € 286,000 as at December 31, 2006 (prior year: € 273,000). The individual compensation is presented under Point 33 in the notes to this annual report.

The remuneration of the Supervisory Board was fixed by the general meeting of shareholders and is included in Section 15 of the articles of association of elexis AG. For the fiscal year 2006 the fixed compensation amounted to € 15,000 for each member of the Supervisory Board, the Chairman received € 30,000 and the Deputy Chairman € 23,000. A total of € 49,000 was paid for activities in the Audit Committee and the Presidium, whereby amounts of between € 8,000 and € 15,000 were paid to individual members of these bodies. The basic remuneration of the Supervisory Board therefore amounted to € 193,000 during the fiscal year 2006. In addition to the basic remuneration the members of the Supervisory Board also have the right to a success-based variable compensation, which is based on net profit. For the fiscal year 2006 the amount of € 151,000 was spent on variable compensation. In total an amount of € 344,000 was set aside in the fiscal year 2006 as remuneration for the Supervisory Board (prior year: € 364,000).

In four regular meetings, at a meeting of the Presidium and at a meeting of the Audit Committee fundamental issues concerning the Company's business, personnel and capital market policy as well as the general economic and strategic position of the Company and the Group were discussed with the Management Board. Transactions subject to the approval of the Supervisory Board for legal reasons or in accordance with the articles of association were assessed, debated and decided in meetings of the Supervisory Board and its Committees.

The main emphases of these meetings were the strategic direction of the elexis Group, the dividend policy as well as measures for the increase of the internal and external growth, which the Management Board determines in agreement with the Supervisory Board, which is regularly informed about its implementation. As a basis for the organic increase in growth of the elexis Group extensive capacity expansion was also approved during the 4th quarter by the Supervisory Board and then introduced by the Board of Management. These include the move into two new production halls, the expansion of a factory building as well as the acquisition of many new machines, which will enable substantial progress in productivity.

Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, has audited as Auditors the financial statements of elexis AG, the consolidated financial statements as well as the management report of elexis AG and the Group management report for the fiscal year as at December 31, 2006. As part of their audit, the Auditors also had to assess whether or not the Management Board had initiated all legally required measures. This included, for example, the establishment and use of a monitoring system for the early recognition of developments, which could endanger the continuation of the Company and the Group.

The Auditors have confirmed in their audit report the observance of all legal regulations and have given an unqualified opinion on the financial statements of elexis AG, the financial statements of the Group, the management report of elexis AG and the Group management report. Regarding the risk management system, the Auditors have declared that the Management Board has initiated the measures and in particular a risk management system, as required by Section 91 Paragraph 2 of the German Stock Corporation Act (Aktiengesetz) and Section 289 of the German Commercial Code (HGB) and that these are appropriate for recognising developments endangering the continuation of the Company and the Group at an early stage.

The Audit Committee of the Supervisory Board has examined the financial statements of elexis AG and of the Group as well as the management report of elexis AG and the Group management report as well as the proposal for the appropriation of net profit for the year at its meeting held on March 20, 2007. The Auditors attended this meeting and reported on the main results of their audit. Following the meeting of the Audit Committee, the Supervisory Board at its meeting held on March 21, 2007 also discussed the documents and on the basis of its own independent assessment accepted the recommendations of the Audit Committee and agreed with the result of the Auditors. At this meeting, which was also attended by the Auditors, the Supervisory Board declared that following the final result of their audit no objections were to be made and that it would approve the financial statements and consolidated financial statements as well as the proposal for the appropriation of the net income for the year as submitted by the Management Board. The annual financial statements for the fiscal year as at December 31, 2006 are thus adopted.

The Supervisory Board extends its thanks to the Management Board, the general managers of the affiliated companies and all the employees of the elexis Group for their commitment during the past fiscal year.

Frankfurt/M., March 21, 2007

The Supervisory Board



Dr. Dirk Wolfertz
Chairman

1.0_ The elexis share

The elexis share was not spared from the turbulences on the international financial markets. After the share marked its all-time high at the end of April with a XETRA closing price of € 24.99, the price declined significantly during the following weeks. Following more than three years of constant price increases a sharp correction of the second-line stocks triggered a wave of profit taking. At the end of June the elexis share also attained its annual low of € 15.67. From an operating point of view there were no fundamental reasons for the price decline. On an overall annual basis the share gained substantially in value with an increase of 18%. The market capitalisation increased during the course of the year from € 170 million to € 200 million. In May 2006 elexis AG paid a dividend in the amount of € 0.37 per share to its shareholders. A result of this distribution the outflow of funds from the Company amounted to € 3.4 million.

Summary of the elexis share

Stock market price (Xetra closing prices) in €	2006	2005
High	24.99	22.20
Low	15.67	7.53
Beginning of year	18.20	8.55
End of year	21.75	18.50
Number of shares (in million)	9.2	9.2
Market capitalisation 31.12. in € million	200.1	170.2

In December last year the analysts of the BHF-Bank also took up the coverage of the elexis share. The analysts of Berenberg Bank, HSBC Trinkaus und Burkhardt, Landesbank Baden-Württemberg and Independent Research also continue to evaluate the share regularly. Four of these institutions recommended the share for purchase in their last publications. The Management Board conducted numerous individual discussions with investors in connection with the publication of these share analyses. Furthermore, At the end of November the management informed the investors at the German Shareholders' Equity Forum in Frankfurt am Main, of the development of the business and the outlook of the elexis Group.

The 9.2 million shares of elexis AG are 100 % in the free float. The institutional investors obliged to disclose their holdings included recently the Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, the Baden-Württembergische Investmentgesellschaft mbH, Mr. Tito Tettamanti, the DWS Investment GmbH and Union Investment Luxembourg S.A.. The shares (ISIN: DE 000 508 5005) are listed in then Prime Standard and are included in the SDAX.



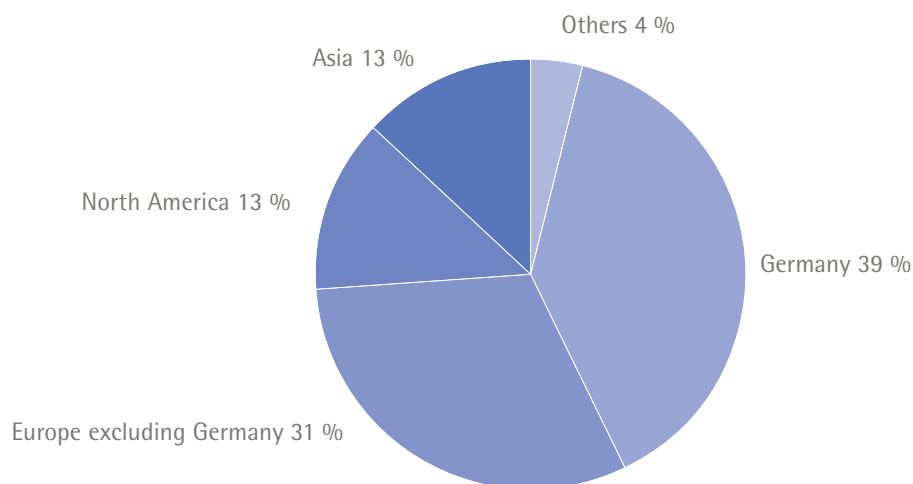
2.0_ Management report

2.1_ The economic environment

During the period under report the euro gained almost 12 % in value versus the US dollar. This resulted in elexis products becoming more expensive in the United States and in the Asian region, where transactions are in part concluded in the American currency. At the same time competitive products from the dollar area which are offered in Europe became cheaper. The elexis Group countered this development through increasing purchasing activities in the dollar area, whereby significant cost savings could be achieved in purchasing. In addition, the robust economic growth worldwide had a noticeable positive effect. In particular, Asia was characterised by continuing high rates of growth averaging 8 %. The gross domestic product of the People's Republic of China even increased by more than 10 %. With an increase of more than 8 % India also was one of the worldwide growth drivers. The US market also increased considerably. Even the domestic economy, which was still languishing in 2005, recovered during the period under report and gave impetus to the economy in Europe. The worldwide economic growth led to high levels of capacity utilisation in companies. The manufacturers of industrial and consumer goods therefore invested heavily in machinery and production equipment, in particular in those which improved the efficiency of the manufacturing processes as well as the quality of the products.

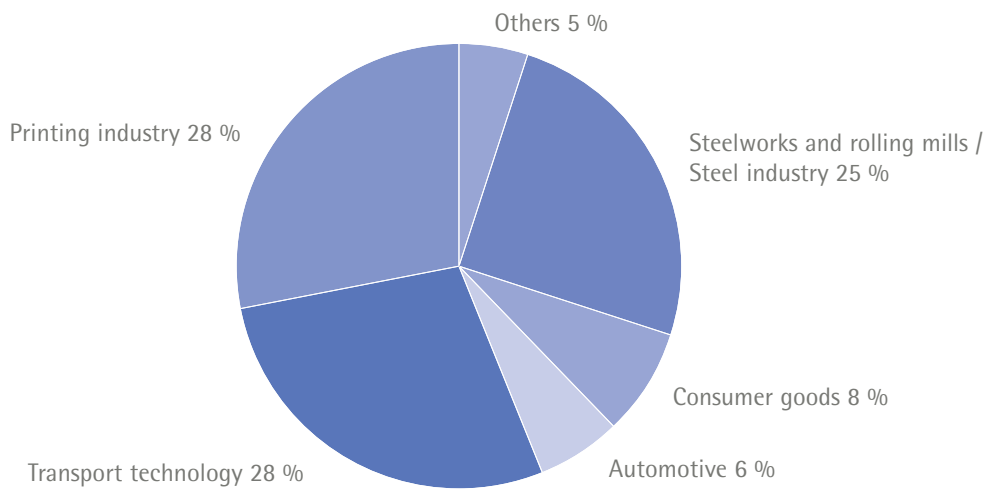
The elexis Group is based internationally on a broadly diversified regional structure.

Customer breakdown by region (2006)



With 31 % and 39 % share of sales respectively Europe excluding Germany and Germany itself represent the key sales markets. Our domestic customers are primarily OEMs, which also export elexis products. Approximately 13 % of the products were sold in the United States of America. In Asia, the region which has had the highest economic growth for some time, elexis also generated 13 % of sales. This international presence compensates to a large extent for different regional developments. A possible weakening of the economy in the USA in 2007 is compensated by good prospects for robust economic growth in Europe and a continuation of the rapid growth in Asia.

Customer breakdown by industrial sector (2006)



Most of the customers of the elexis Group are from the transport technology, printing, steel works and rolling mill constructors as well as the steel industry. Additional large customer groups are attributable to the branches of consumer goods and automotive. This broadly based customer breakdown makes elexis less dependent on the cycles of individual branches. Restrained growth in the printing industry was thus compensated during 2006 by a positive development in the steel industry and in the conveyor technology sector.

2.2_ The individual divisions

Whilst **Factory Automation, Steel and Printing** manufactures products in small series and operates a medium-sized equipment business, **Factory Automation, Plastics** is involved to a very large extent in large projects. For this reason the course of business in the plastics sector is subject to greater fluctuations. The high objectives of the technical quality of the products, the respect of contractual delivery dates, closeness to the customer and the striving for efficiency are common to both divisions.

Factory Automation, Steel and Printing

The Factory Automation, Steel and Printing division achieved record levels with regard to all key data in 2006. The steel unit was unaffected by the negative development of the steel works and rolling mill constructors and achieved substantial growth. Contributions to this were made by new products such as, for example, sensors for the high temperature areas, further product developments and above all the new developments in the area of quality control systems. The servo-technology metal business unit obtained extensive orders above all from the strongly growing steel industry in China. This unit also acquired larger orders in India, South Korea, Japan, Russia and France. Furthermore, it was possible for the first time to gain end customers in Vietnam and Nigeria. We delivered the SORM 3plus and IMPOC quality control systems primarily to our traditional customers in Germany and other European countries as well as to China. The third and newest quality control system, eMASS, passed important field tests successfully with a leading German steel producer.

Customers from more than 90 countries ordered the electro-hydraulic brake thruster systems of the transport technology business unit. This supports our position as world market leader in this niche market. The demand for these safety components was given great impetus above all by the enormous raw material requirements of China. The brake thruster systems are also used in large cranes and transport equipment in mining. At the same time trading products are shipped worldwide to a large extent in containers. For the loading of containers large cranes have to be used. In the largest container ports in the world, from Hong Kong and Singapore and Shanghai to Los Angeles or to Hamburg brake thruster systems from elexis are used in crane equipment. The transport technology business unit thus also benefited from the worldwide expansion of the port capacities.

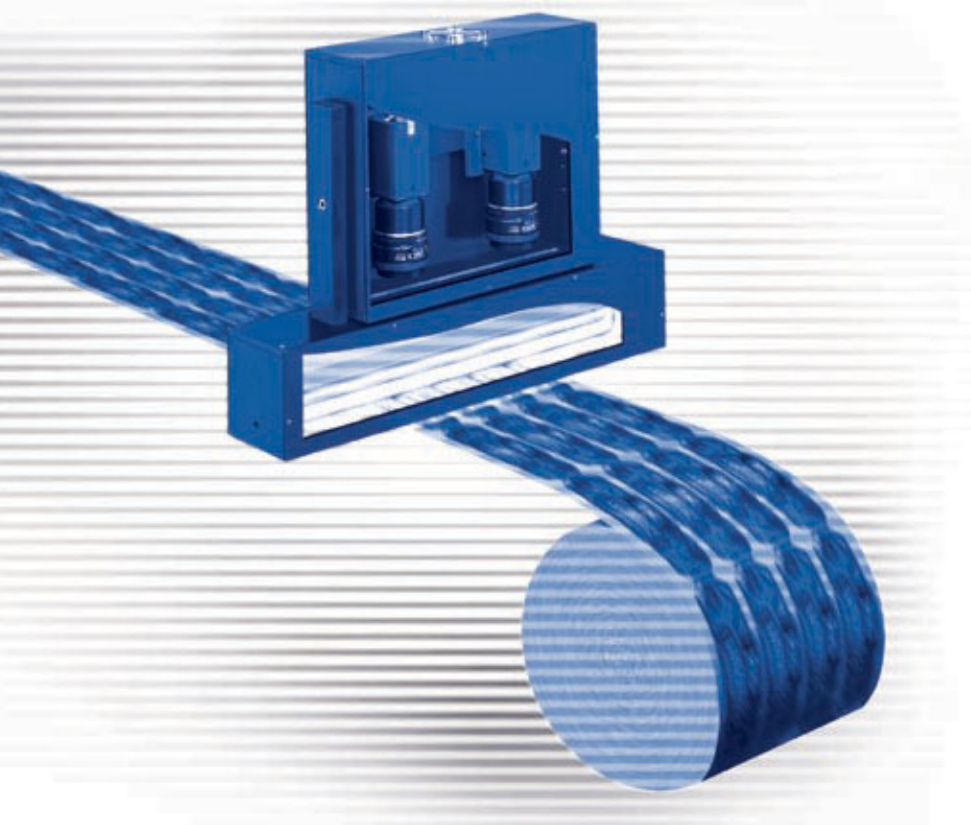


The business unit Factory Automation, Printing was subject in 2006 to high price pressure above all with regard to web guidance systems. In addition, the material costs increased and in particular steel and aluminium became more expensive. The almost 12 % decline in the value of the US dollar led to tough price competition with competitors from the dollar area. Moreover, the printing machinery branch registered a 7 % decline according to information from VDMA (German Association of Machinery and Equipment Engineers). In spite of this it was possible to increase incoming orders and sales against this trend in the Factory Automation, Printing business unit. The growth drivers in the printing sector were above all the quality control systems. The market introduction of the 100% real time fault detection system SHARK was exceptionally successful. To a certain extent it was possible to sell a respectable volume of this high end product spontaneously. There was a slackening of the business with regard to quality control systems for the tyre industry. This was attributable to the unusually high comparative volume in 2005 as well as only moderate demand from Europe and China.

In the total Factory Automation, Steel and Printing division incoming orders increased during the period under report by 15 % to € 117.2 million. The production, service and sales companies in the United States (BST PRO MARK., EMG USA), Brazil (EMH Brazil), Japan (BST Japan) and in China (EMG Automation Beijing) contributed substantially to this success. Sales increased by 16.4 % to € 112.8 million. All production sites were extremely well utilised during 2006. In spite of this it was possible to respect the contractual delivery dates as well as the high quality standards.

Earnings before interest and taxes (EBIT) increased by 43 % to € 18.4 million. The EBIT margin rose again by 3.0 percentage points to 16.3 %.

In total the Factory Automation, Steel and Printing division employed 566 people. This represents an increase of at least 5 % versus the prior year. The largest increase in personnel was in the steel sector and thus corresponded to the development of the business. However, the number of employees in the printing and transport technology business units also increased.



Summary of Factory Automation, Steel and Printing

€ million	2006	2005*	Change
Incoming orders	117.2	101.5	+ 15 %
Sales (net)	112.8	96.9	+ 16 %
EBITDA	20.6	15.6	+ 32 %
EBIT	18.4	12.9	+ 43 %
EBIT margin (in %)	16.3	13.3	
Employees**	566	537	+ 5 %

* Continuing operations

** Balance sheet date December 31, excluding apprentices

Further outlook of Factory Automation, Steel and Printing

During the next few years we expect significant expansion of business with the strong margin quality control systems in the steel sector. Baosteel Corporation from Shanghai purchased for the first time for a Chinese company the eMASS system for strip stabilisation. This system reduced the consumption of zinc substantially during the corrosion protection of steel sheet. As a result of the sharp increase of the zinc price the amortisation period for an eMASS system has been reduced to less than twelve months. Baosteel also plans to equip production lines for the manufacture of steel sheet with the SORM 3plus and IMPOC quality control systems. As market leader in China the company is a valuable reference customer for elexis in the Asian region. Apart from eMASS a high speed version of IMPOC will be introduced to the market in 2007.

With regard to the brake thruster systems a new construction series is in the process of completion. We plan to secure our market leadership in this niche market with this technical novelty. The high growth forecasts for China and the increase in world trade are also promising for a positive business outlook in 2007 with regard to our safety technology for crane and conveyer equipment.

In the printing sector we expect a continuation of the increasing sales figures for the high end SHARK and PREMIUS digital with 3 chip camera technology systems. SHARK will probably be introduced to the Brazilian and Japanese markets during 2007. Furthermore, we will offer this 100% real time fault detection system in combination with the POWERScope web observation system. This combination of equipment is suitable in particular for narrow web printing machinery and is technologically superior to what is offered by the competition. We are developing new software options both for SHARK as well as for PREMIUS digital with 3 chip camera technology, in order to approach further potential customers. As from the middle of 2007 we will also offer a new basic regulator for web guidance systems, which is characterised by its simplicity in handling.

The sales of the business unit, Factory Automation, Printing were further intensified. Following the successful example of EMG Automation (Beijing) Ltd. the printing sector also established its own sales and service company in China: BST International Shanghai Co. Ltd.. Apart from the strengthened marketing activities in China the company will also take over the start-up, service and assembly activities. During the past year, for the first time our sales employees acquired orders from tyre manufacturers in France and in the

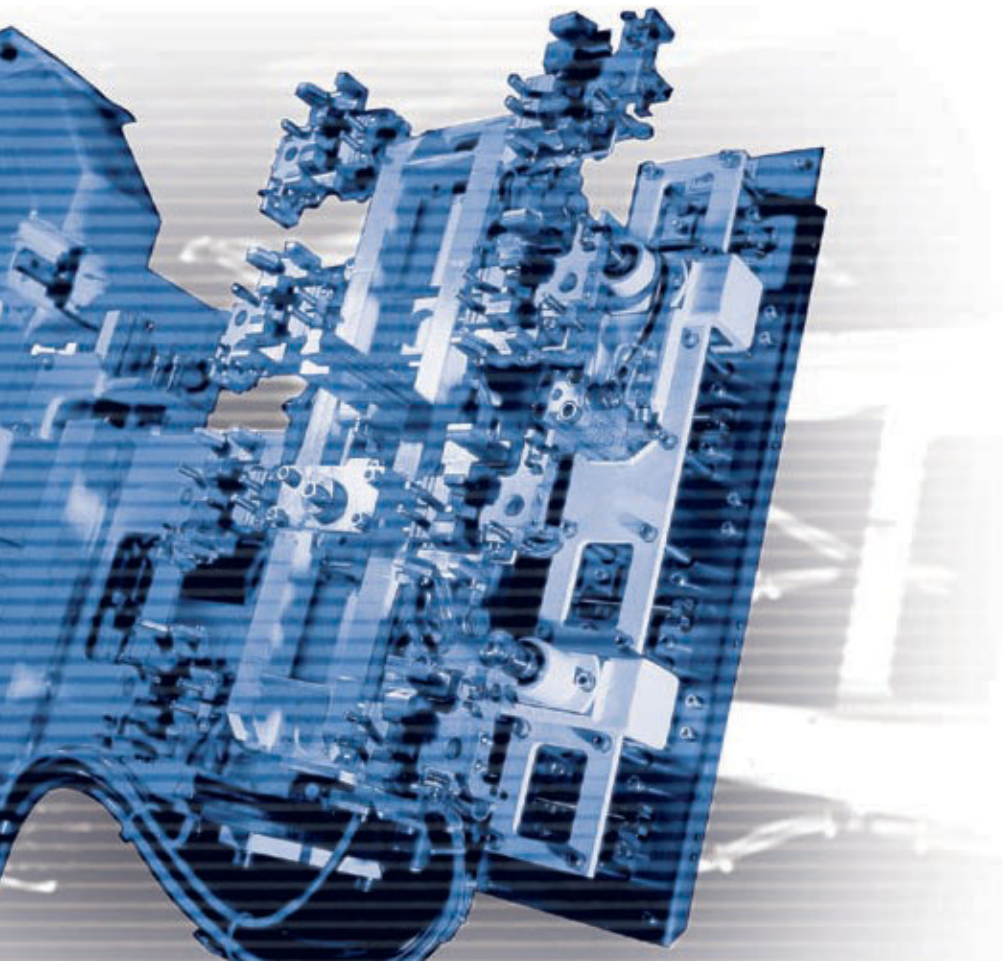


Eastern European countries. In this respect we expect substantial subsequent orders. We also expect rising demand for the tyre business from China and Brazil, in particular due to the factories currently under construction of internationally important tyre manufacturers.

We expect significant impetus from new products and the strengthened sales activities. We also expect rising business volume in all the business units of Factory Automation, Steel and Printing in 2007. In this respect the share of new products and of the quality control systems will increase further in relation to the overall sales. The necessary capacity expansions have been introduced and are being implemented swiftly.

Factory Automation, Plastics

Incoming orders in 2005 were characterised by two large orders from customers of Factory Automation, Plastics of many years' standing. The equipment was delivered on schedule in 2006 and put into operation successfully at the customers' premises. Since generally additional time is required for the validation process and for the full capacity output of the production, the new products will be introduced to the market only in 2007. In order to reduce its dependence on only a few large customers, in 2006 Factory Automation, Plastics concentrated successfully on the development of new manufacturing processes, especially in the packaging industry. Factory Automation, Plastics obtained orders from two large international companies for development projects and the manufacture of prototype equipment; these were completed successfully. During the final quarter 2006 the first order for a regular production line in the amount of approximately € 3.0 million was obtained from one customer. In addition, marketing activities were started in China and in India.



Incoming orders declined during the period under report by 34 % to € 24.0 million. This lower level of incoming orders resulted in a decline in sales. These, amounting to € 25.4 million, were 36 % lower than in the prior year. Nevertheless, earnings before interest and taxes (EBIT) amounted to € 3.5 million following € 5.9 million in the previous year. The EBIT margin amounted to 13.8 %. The division thus operated very profitably even at a lower level of sales. This confirmed the progress in the planning and the implementation of large projects.

Due to the decline in sales we duly adjusted the number of employees from 147 to 138 and also used the possibilities of the flexible working time regulations.

Summary of Factory Automation, Plastics

€ million	2006	2005	Change
Incoming orders	24.0	36.4	- 34 %
Sales (net)	25.4	40.0	- 36 %
EBITDA	4.4	6.7	- 34 %
EBIT	3.5	5.9	- 41 %
<i>EBIT-margin (in %)</i>	<i>13.8</i>	<i>14.8</i>	
Employees*	138	147	- 6 %

* Balance sheet date December 31, excluding apprentices

Further outlook for Factory Automation, Plastics

At the beginning of 2007 the second new customer from the packaging industry also gave an order for production equipment. Since both these new large customers from the packaging sector serve a mass market with a potential of several billion units of packaging per annum, additional subsequent equipment can be expected in all probability. The development expense for this equipment was already charged during 2006.

Parallel to this we expect further growth in the traditional automotive sector, since the share of electronic components in cars and trucks is rising constantly. Factory Automation, Plastics will participate in this trend since all the well-known manufacturers of electronic components in the automotive sector are its customers. Furthermore, the automobile manufacturers in the USA are currently preparing themselves for the legal obligation of equipping all new vehicles in the future with anti blocking systems (ABS) and electronic stability programmes (ESP). We also expect growth impetus from this.

The Factory Automation, Plastics division expects rising figures with regard to incoming orders and sales as well as an acceleration of growth during the second half of 2007. In order to be able to fulfil the pending orders while continuing to respect contractual delivery dates and high product quality, a further assembly hall and additional office space were leased. Furthermore, the various IT systems were further optimised during 2006. The division renewed also its machinery and complemented this with further equipment. In 2007 we are expecting additional efficiency increases from these measures.



elexis AG

The administrative expenses of elexis AG, i.e. the holding company, declined slightly during 2006 in comparison with the prior year. EBIT before results from associated companies amounted in the period under report to € -1.5 million. As the result of the release of provisions for risks from pending litigation etc. this amounted in the prior year to € -1.2 million.

2.3_ Investments

The total Group invested € 3.8 million in intangible assets, property, plant and equipment and financial assets (of which € 0.5 million through financial leasing). In the prior year the investments amounted to € 2.3 million (of which € 1.2 million through financial leasing). This represented an increase of 65 % versus the corresponding prior year period. Moreover, leasing agreements for assets were concluded in the amount of € 0.3 million (prior year: € 0.2 million), which in accordance with IAS 17 must be stated in the accounts of the lessor (rental leasing). The expenditure for investments in fixed assets exceeded depreciation by 23 % (CAPEX 2006 = 122.8 %, CAPEX 2005 = 67.3 %). The main investments were attributable to hardware and software in the IT area and for renewals and additions to machinery.

2.4_ Research and development

In research and development elexis invested in all areas a cumulative amount of € 7.4 million following € 7.2 million in the prior year. As a percentage of sales the R&D expenditure amounted to 5.3 % in 2006. The highest priority in the R&D area was given above all to product innovations such as eMASS, SHARK and the new automation technology for customers from the packaging industry. All development costs incurred during 2006 were fully expensed and were not capitalised in the balance sheet.

2.5_ Personnel

Together with external experts the continuous improvement process (CIP) was extended in our main factory in Wenden, which is part of Factory Automation, Steel and Printing. Through a multitude of detailed improvements it was possible to reduce the working times in production for various manufacturing steps, to improve the materials flow and to optimise the inventory levels. This progress in the value added chain process is reflected in the various key data. Value added per employee in Wenden for example increased substantially by 11 % versus the prior year. In the overall Group value added per employee increased by 4 % versus the prior year. The knowledge gained in Wenden will be transferred as from 2007 to the other locations. This corresponds to a considerable potential for further increases in productivity.

As during the prior years the employees of the elexis Group participated in various continuous and further training measures. The technical, Commercial, linguistic and EDP-technical knowledge and qualifications of the employees from all specialised areas were further improved and extended in the most varied courses, workshops and seminars.

Through the flexibility of our employees regarding times it was possible to concentrate the business processes and the work on customer orders. This increased the competitiveness of the German locations and secured work places. The personal also benefited during the fiscal year 2006 from profit-linked wage components in the economic success of the company.

The number of employees increased by 20 to 707, which corresponds to a growth of 3 %. Moreover, elexis employed 67 apprentices (2005: 66 apprentices). The apprenticeship ratio of more than 9 % was substantially higher than the average of 6 % for the Federal Republic of Germany.

2.6_ Remuneration report

For the purpose of this annual report the remuneration report is printed as an integral part of the Corporate Governance Report.

2.7_ Environmental protection

The highest level of attention possible is always given to compatibility with the environment in research and development for new products and in production. The environmental management system of the elexis Group ensures that all legal requirements are respected or surpassed. The autonomous organisation of the strategic business units assures that new laws and regulations are immediately implemented. The legal standards are considered by us to be minimal requirements. The responsibility for environmental protection at the individual locations is incumbent on the corresponding person responsible for quality management.

2.8_ Management

The management of the elexis Group is orientated towards long term added value. Our controlling system is used in order to achieve this. The system enables a specific controlling and management of the Group. The management variables used reflect the productivity, earnings, and cash flow development as well as the return on capital.

2.9_ Balance sheet situation of the Group

The net income of € 12.6 million strengthened the shareholder's equity and thus also the equity ratio. The share capital of elexis AG amounted as at December 31, 2006 to € 23.552.000 and was divided into 9.200.000 no par value bearer shares. A notional share in the share capital of € 2.56 is attributable to each no-par value share. With a resolution of the general meeting of shareholders of May 24, 2006 the Management Board of elexis AG was authorised to acquire up to November 23, 2007 own shares to a total of up to 10 percent of the current share capital. Simultaneously, the same authorisation from the prior year was cancelled. Through



the resolution of the general meeting of shareholders of June 24, 2005 the Management Board was also authorised to increase the share capital through the issue of new no-par value bearer shares against contribution in cash or in kind on one or several occasions up to a maximum, however, of € 11,776,000.00 (authorised capital). The authorisation is subject to the approval of the Supervisory Board and is valid until June 23, 2010.

The shareholders' equity together with the long term liabilities (excluding deferred taxes) exceeded fixed assets by 77 %. The long term assets were thus fully financed by long term funds. The investments (without leasing) exceeded depreciation by 43 %. These renewal and complementary investments increased the operational preparedness and productivity. In spite of an increase of the inventories it was possible to reduce the working capital by € 0.3 million. The inventory level increased to a certain extent since on the one hand the purchasing times were substantially prolonged and bottlenecks occurred in the electronics area. On the other hand elxis intends to guarantee the highest possible respect for contractual delivery dates. Our customers settled their invoices on average within 46 days and thus much more swiftly than in the prior year.

€ million	2006	2005*
Balance sheet total	115.9	110.4
Equity ratio	42.6	35.4
Investments incl. financial leasing	3.8	2.3
Investment ratio (in %)	143.0	44.7
Fixed asset coverage (in %)	176.7	169.2
Working capital	5.7	6.0
Inventories (in days)	49	41
Accounts receivable (in days)	46	48

* Continuing operations

2.10_ Financial situation of the Group

The high cash flow from operating activities in the amount of € 17.9 million resulted to a large extent from earnings before interest and taxes. In addition the intensive working capital management had a positive effect.

Apart from the scheduled reduction of debts, elxis undertook special redemptions in the amount of € 2.0 million. In this connection improved interest conditions were negotiated, which could be agreed on irrevocably for the remaining maturities of the loans. The reduced loan volume as well as the lower level of interest rates led to a significant reduction in the interest charge. As at December 31, 2006 the bank loans in the Group amounted to € 8.5 million versus € 12.8 million twelve months earlier.

Net liquidity increased by € 5.2 million to € 22.0 million.

€ million	2006	2005*
Cash flow from ordinary activities	17.9	11.1
Long term liabilities to banks	8.5	12.8
Net liquidity	22.0	16.8

* Continuing operations

2.11_ Profitability of the Group

The various earnings data developed very positively during the period under report. Productivity increases of the employees, increased purchasing activities in the dollar area, the increased share of sales of the stronger-margin product innovations as well as the higher software share of various products were responsible for this. The gross profit rose from € 51.7 million to € 54.8 million. The gross margin rose by 1.9 percentage points to 39.7 %. As a result of the more intensive purchasing in the dollar area the material ratio declined from 36.5 % to 34.9 %. Material was also purchased comparatively cheaply in Eastern Europe. In addition, various projects were undertaken successfully to optimise purchasing costs. The selling expense ratio rose slightly. The reasons for this were the expansion of our sales activities and increased commission payments to external sales and trading representatives. Through the redemption of the bank loans the interest charge fell by € 0.6 million. As a result of the higher pre-tax earnings the absolute tax burden increased. The tax ratio on the other hand declined slightly. Earnings after interest and taxes (net income) grew by € 2.2 million to € 12.6 million. The elexis Group earned a profit of € 1.37 per share. This represents an increase of 21 % versus the prior year.

€ million	2006	2005*
Incoming orders	141.2	137.9
Sales (net)	138.2	136.9
Gross profit	54.8	51.7
EBITDA	23.4	21.0
EBIT	20.3	17.6
Financial result	-1.5	-2.1
EBT	18.9	15.5
Net income	12.6	10.4
Earnings per share in € (DVFA/SG)	1.37	1.13
Selling expense ratio (in % of sales)	20.3	18.3
Administrative expense ratio (in % of sales)	5.7	6.4
Material ratio (in % of sales)	34.9	36.5
Personnel ratio (in % of sales)	31.7	30.3

* Continuing operations



2.12_ Key opportunities and risks of future development

Within the framework of their business activities the companies of the elexis Group are exposed to risks, which are inseparably linked to their entrepreneurial activity. Risk management is thus an integral part of our business processes and corporate decisions. Following its obligations in accordance with Section 91 Paragraph 2 of the German Stock Corporation Law, the Management Board has complied with the establishment of a corresponding risk management system. The principles of this are in particular the planning system, the reporting system and a special risk monitoring system in which all major risks, which could endanger the continuation of the Company, are identified and evaluated.

Within the context of the risk management system of the elexis Group the individual associated companies each report in turn on the existing and foreseeable risks. In this respect primarily risks, arising from price changes, losses and liquid funds as well as risks relating to fluctuations in payments are included. Furthermore, risks are evaluated with regard to the likelihood of occurrence and complemented through a continuous schedule and assigned responsibilities. The monitoring of the risks also includes the planning, implementation and the control of the success of appropriate counter-measures. Extraordinary events of more major importance are reported immediately to the holding company outside the normal scheduled periods.

Overall economic and branch risks

Viewed globally, the forecasts for the world economy include numerous uncertainties. Generally a substantial growth of the world economy is expected. Nevertheless experts expect for the United States a weakening of the economic growth. This is contrasted by continuing strong growth in India and above all in China. During the period under report the US dollar lost approximately 12 % in value. For an export orientated company like elexis this means a competitive deterioration with regard to the sale of its products. On the other hand the purchase prices declined in the dollar area. A further depreciation of the American currency can not be excluded.

In its forecast for 2007 VDMA expects growth in engineering of 4 % versus the prior year. In this respect the forecasts for the branches relevant for elexis are fairly different. The highest growth is expected with 23 % for the steel works and rolling mill equipment. The forecasts for printing machinery (+ 5 %), conveyor technology (+ 4 %) as well as robotics and automation (+ 1 %) are on the other hand more restrained.

We are trying to avoid increasing price competition with new products which have unique characteristics. In addition, we are initiating further growth through more intensive marketing by our sales teams. By means of capacity expansion in all sectors we are preparing ourselves for the expected organic expansion. We are expecting in all strategic business units a positive development of sales and earnings. With regard to this forecast, however, we cannot exclude uncertainties above all with regard to economic development. The construction of special equipment and production automation in the Factory Automation, Plastics division is exposed to fluctuations and can thus result in temporary declines.

Purchasing and personnel risks

In 2007 cost increases can be expected in particular with regard to raw materials as well as wages and salaries. We are trying to compensate for this development through constructive changes in our products and increased purchasing activities in the Eastern European countries and in the dollar area. We are trying to recoup a part of the expected personnel expense increase with further measures which will improve productivity. We are trying to bind the employees to the company with performance-linked compensation, employee development measures and modern personnel management, in order to minimise the risks of employee fluctuation.

Valuation risks

In 2000 the elexis Group undertook considerable investments in the acquisition of companies and operations. These included in particular the subsidiaries HEKUMA GmbH and BST PRO MARK Inc.. The remaining book values of the goodwill resulting from these acquisitions amounted to an unchanged amount of € 26.6 million in the consolidated financial statements as at December 31, 2006. The continuing value of this goodwill is subject to an annual impairment test and exists only on the assumption of a going concern basis. This requires that the plans of the above-mentioned companies will be met. According to the budget for the fiscal year 2007 and the medium-term planning for the fiscal years 2008 and 2009, continuing sustainable profits can be expected. The same is also true for the participation of 19.5 % (€ 1.9 million) held by elexis beta GmbH in the Israeli company, Optimet. This company reported a break even result in 2006. The planning for the years 2007 to 2009 is based on a continuation of this positive development.

The value of deferred tax assets in respect of tax loss carry forwards can be negatively affected by changes in the tax rate and also through the future profitability of the corresponding companies. Due to the positive earnings development and the short term utilisation of the tax loss carry forwards, we consider this risk to be low.

Technical information risks

Technical information risks arise due to the increasing networking of our partly complex systems. We counteract these risks by regular investments in hardware and software.

Legal risks

At the beginning of December 2005 the receiver of Elotherm GmbH, a former subsidiary, started proceedings against elexis AG, which was still the former Group parent company, for the return of a payment from the capital stock in the amount of up to € 4.6 million.

The accusation is based on the assertion that the value of the former subsidiary of Elotherm GmbH in the USA, Robotron Inc., was not as high or at least did not correspond to the amount stated during the years 1999 and 2000, as was reported in the balance sheet of Elotherm GmbH. For that reason the net income of Elotherm GmbH for the fiscal year 1999 should not have been distributed to elexis AG specified in the action due to the lower effective value of the capital.



elexis AG has rejected the claims made against it. After examining the arguments presented and on the basis of an external legal opinion, this case is devoid of any basis. Moreover, the financial statements of Elotherm GmbH and Robotron Inc., USA were each given an unqualified opinion for the years 1999, 2000 and 2001 by the auditors, PricewaterhouseCoopers. elexis AG will therefore defend itself fully against this totally unfounded charge. In December 2006 the accusation was fully rejected in the first proceedings at the district court of Wuppertal. The accusing side has in the mean time appealed to the upper district court in Düsseldorf. The lawyers of elexis AG assume that this appeal will fail.

The existing provisions are sufficient for potential litigation risks. For this reason we therefore believe that no charges against the net income of 2007 or of the following years are to be expected.

With regard to the risks of losses, interest rate changes and currency please refer to Note 31.

On the basis of the listing of the risks, the evaluation of the likelihood of their occurrence and the analyses of the effectiveness of the measures, the management is of the opinion that risks do not exist from today's point of view, which could endanger the continuation of the company.

2.13_ Outlook

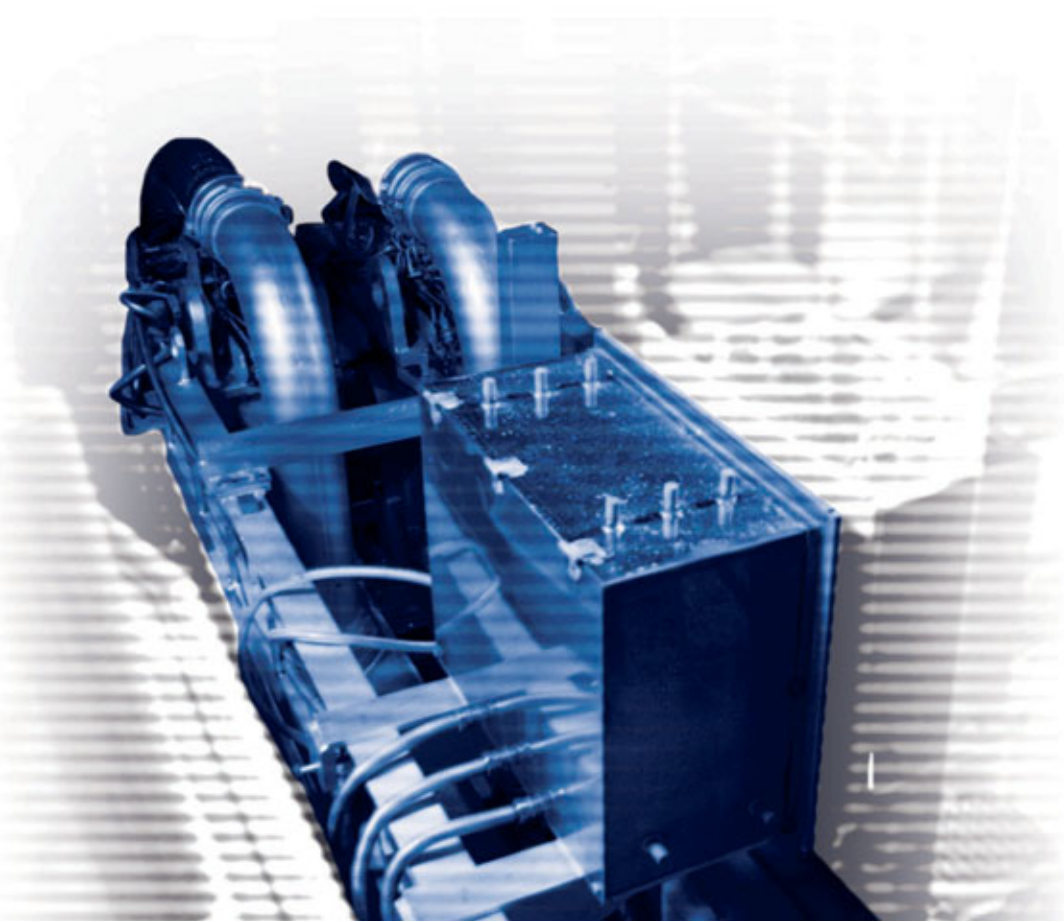
The orders on hand existing at the end of 2006 as well as the extensive existing projects vouch for a strong start into the fiscal year 2007. The economic data for 2007 and the following years are also optimistic. According to experts' estimates world trade will continue to increase further. In this respect China, India and the other Asian developing countries will play an increasingly important role. The progressing globalisation constitutes for the people in this region also increasing prosperity. This will lead to an increasing demand for consumer goods for which qualitatively high value steel sheet will be required for their manufacture. elexis is benefiting from this development with its equipment and components for the production of high value steel sheet. The increasing worldwide requirement for raw materials as well as the growth in world trade lead to extensive investments in mining and in container ports. In the transport technology business unit we thus expect continuing high demand for brake thruster systems. The traffic lights are also at green in the printing sector. For 2007 VDMA expects for the printing machinery branch an increase of 5 %. We intend to participate substantially in this growth in particular with our new products. In the Factory Automation, Plastics division we assume that we have passed the worst. We expect in this respect extensive orders from manufacturers of contact lenses, razors, from the packaging industry and last but not least from automobile suppliers. In addition, we see good opportunities from the expansion of our sales activities in China and in India.

The product range of the elexis Group holds a worldwide leading technological place with its innovations described in the management report. Cooperation agreements with various systems suppliers as well as our own strengthened sales activities will give additional impetus to the business. The elexis Group considers itself to be well prepared for the coming growth as a result of the capacity expansion which has been started. The investments required for this will also be financed from the high cash flow. At the same time the machinery was renewed and expanded in all business units. Further investments are planned for 2007. Additional rationalisation potential in production can thereby be realised. All measures serve the objective of satisfying the rising demand elexis products with an unreduced high quality and respect for contractual delivery dates.

The constantly growing share of software in the various products as well as the increasing share of sales of quality control systems are increasing the margins. We are avoiding the competition of our competitors with the new products which have unique characteristics. The sales and earnings of the total Group should increase further during 2007. This organic growth can possibly be complemented through additional acquisitions. elexis has a high liquidity and a sustainable strong cash flow development. The company can also finance external expansion at any time, subject to attractive opportunities being available.

Together with the Supervisory Board the Management Board intends to propose to the general meeting of shareholders on May 16, 2007 the distribution of a dividend for the past fiscal year.

Up to the conclusion of the reporting no key changes in the legal and economic conditions existed following the balance sheet date.



2.14_ Definition of key data used (selection)

Accounts receivables (in days)	= Trade receivables / sales x 360 days
Administration expense ratio	= Administration expenses / sales
Average invested capital	= (Fixed assets + working capital year beginning + fixed assets + working capital year end) / 2
CAPEX (capital expenditure)	= Expenditure for investments including financial leasing / depreciation and amortisation on property, plant and equipment and intangible assets
Cost of materials ratio	= Cost of materials / sales
Cover of fixed assets	= (Shareholders' equity + long term liabilities excluding deferred taxes) / fixed assets
Equity ratio	= Shareholders' equity / balance sheet total
Gross margin	= Gross profit / sales
Investment ratio	= Investments excluding leasing/ depreciation and amortisation of property, plant and equipment and intangible assets
Inventory turnover	= Inventories / sales x 360
Net liquid assets	= Liquid assets + securities – short term bank debt
Personnel expense ratio	= Personnel expenses / sales
Return on capital employed (ROCE)	= EBIT / average invested capital
Return on equity	= Net income / shareholders' equity
Selling expense ratio	= Selling expenses / sales
Working capital	= Short term assets (excluding liquid funds) - non-interest bearing liabilities

2.15_ Corporate governance report

Management and corporate culture

In accordance with its legal form elexis AG has a dual responsibility structure consisting of the Management Board and the Supervisory Board. The general meeting of shareholders functions as a third statutory body. All three statutory bodies are obliged to act in the interests of the shareholders and the company.

Supervisory Board and Management Board

The Supervisory Board consists of nine members of whom six are elected by the general meeting of shareholders as representatives of the owners and three employee representatives appointed in accordance with the one third participation law. The Supervisory Board monitors and advises the Management Board with regard to the management of the business. The business development, the planning, the strategy and its implementation is discussed regularly by the Supervisory Board. It examines quarterly reports, approves the annual budget, determines the financial statements and approves the consolidated financial statements. In accordance with Section 84 AktG (German Stock Cooperation Law) the tasks of the Supervisory Board include the appointment and termination of the members of the Management Board as well as the fixing of their responsibilities. The Supervisory Board has formed a Presidium as well as an Audit Committee.

The Management Board is the management body of the Group which is linked to the interests of the Company. It manages the business in accordance with the law, the articles of association as well as the business regulations issued by the Supervisory Board. Within the framework of its responsibility the Management Board is responsible for the drawing up of the quarterly, annual and consolidated financial statements as well as for the appointment to key positions within the company. The areas of responsibility and cooperation within the Management Board are determined by the business regulations. Key resolutions of the Management Board require the approval of the Supervisory Board.

Shareholdings and reportable transactions

The ownership of shares of the Management Board (12,676 shares) and the Supervisory Board (132,199 shares) amounts to 1.6 % of the share capital and is explained in the supplementary notes to the consolidated financial statements. The acquisition and sale of shares of the company by members of the Management Board and the Supervisory Board must be reported immediately in accordance with the requirements of the German Securities Law (WpHG) and the German Corporate Governance Code. In the past year reportable transactions which took place were reported immediately to the Federal Office for Financial Services Supervision (BaFin) and published on the corporate website in the internet.

General meeting of shareholders

The statutory body of the equity owners is the general meeting of shareholders. Through the general meeting of shareholders the owners of the company are given the possibility of participating in the fundamental decisions concerning the company. A catalogue of the matters to be decided by the general meeting of shareholders is included in the articles of association and Section 119 AktG. Changes in the articles of association require in particular a decision of the general meeting of shareholders in accordance with Section 119 § 1 no 5 AktG. The ordinary general meeting of shareholders takes place regularly during the first six months of fiscal year. Each share gives the participating shareholders the right to one vote.



At the general meeting of shareholders of elexis AG on May 24, 2006 in Wenden 33.6 % of the share capital with voting rights was represented. All the applications for resolutions of the Management Board and the Supervisory Board were accepted with the required majority.

Accounting and audit

The accounting is carried out in accordance with the International Financial Reporting Standards (IFRS), as they shall be applied in the EU, and in accordance with the commercial regulations to be applied in accordance with Section 315 a § 1 HGB as well as the complementary regulations of the articles of association. The prior year's figures have been established in accordance with the same principles. The Group management report and the individual financial statements of elexis AG are drawn up in accordance with the regulations of the German Commercial Code (HGB). The individual and consolidated financial statements are audited by independent auditors. The appointment of the auditors takes place at the general meeting of shareholders. The Supervisory Board checks the independence of the auditor, issues the audit order, determines the main emphases of the audit and fixes the audit fee. For the fiscal year 2006 the general meeting of shareholders appointed Deloitte & Touche GmbH as the auditors. Deloitte & Touche GmbH has issued a declaration of independence.

Declaration of compliance with the German Corporate Governance code

The German Federal Government issued the German Corporate Governance Code on February 26, 2002.

In its version of June 12, 2006 the Code represents the key legal regulations for the management and monitoring of German stock market listed companies and includes internationally and nationally recognised standards of appropriate and responsible management.

The target of the guidelines issued is to make the regulations which are valid in Germany transparent so that the confidence of the international and national investors, customers, employees and the public is strengthened with regard to the management of German companies.

Declaration in accordance with Section 161 AktG

The Management Board and the Supervisory Board of elexis AG declare that they have complied with the recommendations of the "Government Commission for the German Corporate Governance Code" in its version of June 2, 2005 up to the announcement of the new version on July 24, 2006 with the exceptions listed below.

The Management Board and the Supervisory Board of elexis AG declare that they have and will hereafter comply with recommendation of the "Government Commission for the German Corporate Governance code" in the version of June 12, 2006 which was announced by the Federal Ministry of Justice on July 24, 2006 in the official section of the electronic Bundesanzeiger with the following exceptions listed below:

Nr 2.3.3

During the general meeting of shareholders the Company appoints a representative for voting rights, who can be authorised to exercise voting rights by the participating shareholders in accordance with their instructions.

Nr 3.10

The company makes only the corresponding current version of the declaration of compliance available on its internet page.

Nr 5.4.1

The Supervisory Board has not fixed any determined age limit for its members.

Nr 5.4.3

Elections to the Supervisory Board are submitted to the general meeting of shareholders after the end of a period of office as a proposal for a list vote. The general meeting of shareholders is not obliged to accept the election proposals of the Supervisory Board (Section 101 § 1 page 2 AktG).

Nr 5.4.5

The chairmanship in one of the committees of the Supervisory Board will not be taken into consideration separately with regard to remuneration.

Nr 5.4.7

The remuneration of the members of the Supervisory Board is not disclosed individually in the Corporate Governance report.

Wenden, January 2007

For the Supervisory Board

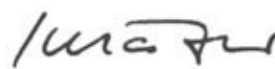


Dr. Dirk Wolfertz

For the Management Board



Siegfried Koepf



Edgar M. Schäfer



Remuneration report

The remuneration report constitutes an integral part of the management report.

Remuneration of Management Board

The remuneration of the members of the Management Board consists of fixed and variable compensation. The variable compensation is based on a target agreement determined between the Management Board and the Supervisory Board. During the past fiscal year 2006 the remuneration of the Management Board amounted to € 728.000 (prior year € 676.000). Of this € 481.000 was attributable to fixed compensation and € 247.000 to variable elements of compensation. The total amount of the remuneration also includes compensation in kind and other emoluments in the amount of € 78.000, which are primarily attributable to amounts to be taken into consideration in accordance with the tax guidelines for, e.g., the use of company cars and insurance premiums. These are a contractual right of the members of the Management Board, but vary according to their personal situation and are declared for tax purposes individually by the members of the Management Board. The remuneration disclosed concerns the compensation for their activity as a member of the Management Board of elexis AG as well as their activities in the management of subsidiaries. There are no other compensation agreements such as, for example, indemnification payments, stock option plans, bridging loans, indemnification in the event of a change of ownership, etc. The provision set up for a previous member of the Management Board and his dependents for current pensions and pending pensions amounted as at December 31, 2006 to € 286.000 (prior year € 273.000). The individual remuneration is shown in the notes to the consolidated financial statements under point 33.

Remuneration of the Supervisory Board

The compensation of the Supervisory Board was fixed by the general meeting of shareholders and is included in Section 15 of the articles of association of elexis AG. For the fiscal year 2006 the fixed compensation for each member of the Supervisory Board amounted to € 15.000; the Chairman receives € 30.000 and the Deputy Chairman € 23.000. A total of € 49.000 was paid for activities in the Audit Committee or the Presidium, whereby amounts of between € 8 and € 15 were paid to individual members of these bodies. As a result an amount of € 193.000 was spent for the basic compensation of the Supervisory Board during the fiscal year 2006. In addition to the basic remuneration the members of the Supervisory Board have a right to variable compensation based on success and the net income. For the fiscal year 2006 € 151.000 was spent for variable compensation. In total, the amount of € 344.000 was set aside as remuneration for the Supervisory Board (prior year: € 364.000).

Declaration of the Management Board

The Management Board is responsible for the drawing up, the completeness and the correctness of the consolidated financial statements and the Group management report of the elexis Group. Reporting is based on the International Financial Reporting Standards (IFRS), as they are applicable in EU, and to the commercial regulations applicable in accordance with Section 315 a § 1 HGB as well the complementary conditions of the articles of association. The prior year's figures shall be drawn up in accordance with the same principles. The Group management report is drawn up in accordance with the regulations of the German commercial code (HGB).

The correctness of the consolidated financial statements and the Group management report is secured through the application of internal controlling systems, Group-wide standard guidelines, as well as measures for the training and further training of employees. The compliance with the legal regulations, the internal Group guidelines as well as the reliability and functionality of the control systems is continuously monitored throughout the Group.

Our risk management system is designed in accordance with the requirements of the German Stock Corporation Law so that the Management Board can determine at an early stage potential risks which could endanger the continuation of the company and be able, if appropriate, to introduce counter-measures.

The consolidated financial statements, the Group management report and the audit report were discussed in detail in the Audit Committee as well as in the balance sheet meeting of the Supervisory Board in the presence of the auditors. The result of the audit is included in the report of the Supervisory Board.

Wenden, March 21, 2007

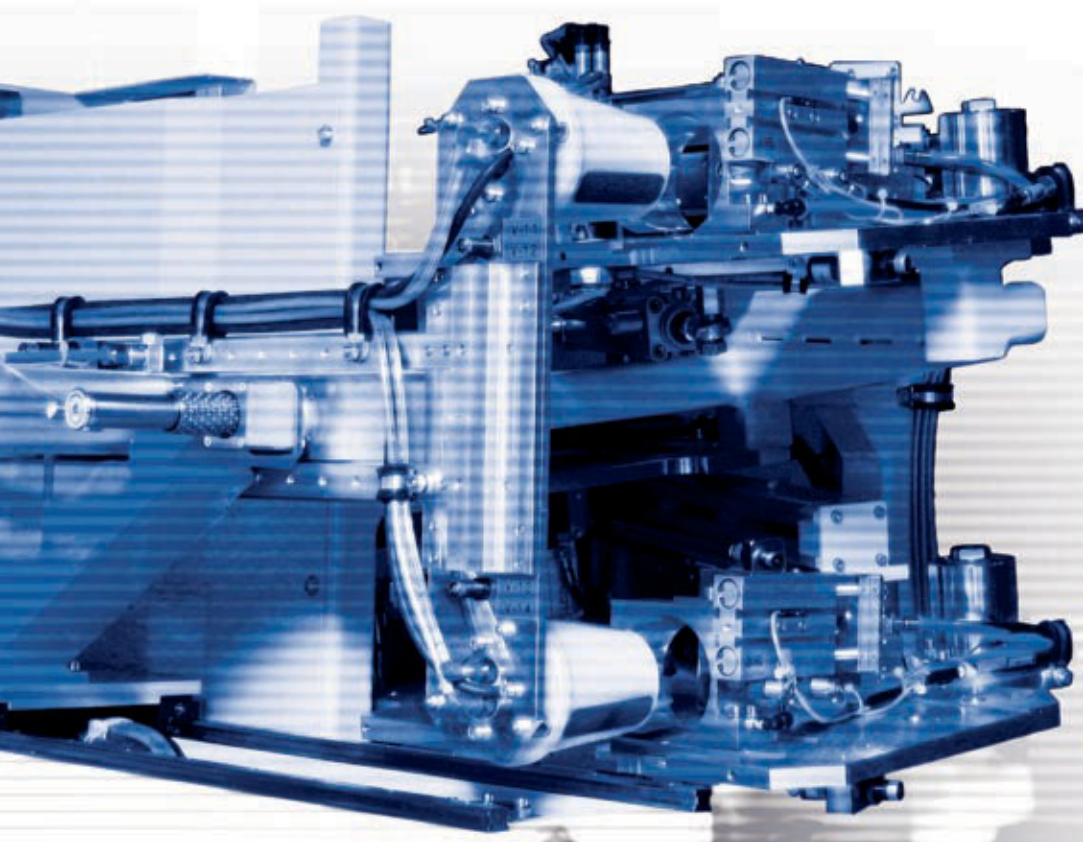
elexis AG, the Management Board



Siegfried Koepf



Edgar M. Schäfer



3.0_ Consolidated financial statements as at December 31, 2006

3.1_ Consolidated profit and loss account

	2006		2005 ¹⁾		2005 Discontinued operations		Notes
	€ 000	%	€ 000	%	€ 000	%	
Sales	138,162	100.0	136,903	100.0	14,785	100.0	(1)
Cost of sales	-83,385	-60.4	-85,191	-62.2	-9,674	-65.4	(2)
Gross profit	54,777	39.6	51,712	37.8	5,111	34.6	
Selling expenses	-28,064	-20.3	-25,109	-18.3	-3,012	-20.3	(3)
Administrative expenses	-7,872	-5.7	-8,772	-6.4	-1,210	-8.2	(4)
Other operating income	3,416	2.5	2,731	2.0	242	1.6	(5)
Other operating expenses	-1,931	-1.4	-2,366	-1.7	-427	-2.9	(6)
	20,326	14.7	18,196	13.4	704	4.8	
Amortisation of goodwill			-600	-0.5			(7), (14)
Operating result (EBIT)	20,326	14.7	17,596	12.9	704	4.8	
Financial expense	-2,078	-1.5	-2,325	-1.7	180	-1.3	
Financial income	605	0.4	262	0.2			
Financial result	-1,473	-1.1	-2,063	-1.5	-180	-1.3	(8)
Result before taxes	18,853	13.6	15,533	11.4	524	3.5	
Taxes	-5,369	-3.9	-4,987	-3.7	-399	-2.7	(9)
Result after taxes	13,484	9.7	10,546	7.7	125	0,8	
Result after taxes from discontinued operations	-710	-0.5	125	0.1			(38)
Consolidated net income before minority interest	12,774	9.2	10,671	7.8	125	0.8	
Minority interests	-154	-0.1	-117	-0.1			(10)
Consolidated net income	12,620	9.1	10,554	7.7	125	0.8	
Earnings per share (€)							
from continuing operations							
undiluted	1,45		1,13				
from continuing and discontinued operations							
undiluted	1,37		1,14		0,01		
Dividend per share (€)			0,37				

¹⁾ Amounts adjusted

Earnings per share

Undiluted earnings per share is calculated by dividing the net income for the period accruing to the Company's shareholders by the average weighted number of shares issued during the period under report. elexis AG has issued 9,200,000 shares.

As at 31.12.2004 there were 17,228 subscription rights which were issued within the framework of a stock option plan in 2000. With the resolution of the general meeting of shareholders of 24.06.2005 the stock option plan was wound up. All participants with subscription rights have renounced their rights from the stock option plan against compensation in cash. There are no diluting effects.

In May 2006 a dividend for the year 2005 was distributed in the amount of € 3,404,000.

3.2_ Consolidated balance sheet

Assets	31.12.2006		31.12.2005 ¹⁾		31.12.2005 Discontinued operations		Notes
	€ 000	%	€ 000	%	€ 000	%	
Long term assets	51,004	44.1	51,020	43.7	1,054	16.3	
Goodwill	26,202	22.6	26,202	22.4	360	5.6	(14)
Other intangible assets	1,016	0.9	1,174	1.0	3	0.0	(14)
Property, plant and equipment	13,831	11.9	13,356	11.4	217	3.4	(15)
Financial assets	2,957	2.6	2,622	2.3			(16)
Long term receivables and other assets	898	0.8	421	0.4			(17)
Deferred tax claims	6,100	5.3	7,245	6.2	474	7.3	(9)
Short term assets	64,880	55.9	59,414	50.8	5,394	83.7	
Inventories	18,632	16.1	15,424	13.2	2,476	38.4	(18)
Receivables from long term construction contracts	2,151	1.8	1,241	1.1			(19)
Trade receivables	17,480	15.1	18,423	15.7	1,516	23.5	(20)
Other short term receivables and other assets	2,086	1.8	2,709	2.3	1,296	20.1	(21)
Short term cash deposits	12,800	11.0	7,469	6.4			(22)
Securities		0.0	3,001	2.6			(23)
Cash on hand and in banks	11,731	10.1	11,147	9.5	106	1.7	(24)
Assets held for sale			6,448	5.5			
Total assets	115,884	100.0	116,882	100.0	6,448	100.0	

¹⁾ Values adjusted

Liabilities

	31.12.2006		31.12.2005 ¹⁾		31.12.2005 Discontinued operations		Notes
	T€	%	T€	%	T€	%	
Shareholders' equity	49,345	42.6	39,779	34.0	710	11.0	(25)
Share in shareholders' equity attributable to shareholders	48,757	42.1	39,340	33.7	710	11.0	
Subscribed capital	23,552	20.3	23,552	20.2	26	0.4	
Capital reserve	3,555	3.1	3,555	3.0	2,332	36.2	
Retained earnings	21,180	18.3	11,254	9.6	-1,505	-23.4	
Valuation changes included directly in shareholders' equity	-671	-0.6	-675	-0.5	-143	-2.2	
Differences arising from currency conversion	1,141	1.0	944	0.8			
Cumulated shareholders' equity of discontinued operations			710	0.6			
Minority interests	588	0.5	439	0.3			
Liabilities	66,539	57.4	71,365	61.1	5,738	89.0	
Long term liabilities	31,137	26.9	36,219	31.0	2,521	39.1	
Provisions for pensions and similar obligations	13,922	12.0	13,868	11.9	2,195	34.0	(26)
Deferred tax liabilities	2,744	2.4	2,637	2.3	203	3.2	(9)
Financial liabilities	14,471	12.5	19,714	16.8	123	1.9	(28)
Current liabilities	35,402	30.5	35,146	30.1	3,217	49.9	(27)
Other short term provisions	4,141	3.6	5,703	4.9	337	5.2	(27)
Provisions for taxes	3,052	2.6	2,616	2.2			(28)
Financial liabilities	6,097	5.2	8,022	6.9	402	6.2	(29)
Trade liabilities	8,684	7.5	5,033	4.3	1,145	17.8	(19)
Liabilities from long term production contracts	843	0.7	511	0.4			
Other liabilities	12,585	10.9	13,261	11.4	1,333	20.7	(30)
Liabilities directly related to the assets held for sale			5,738	4.9			
Total liabilities and shareholders' equity	115,884	100.0	116,882	100.0	6,448	100.0	

¹⁾ Amounts adjusted

3.3_ Development of the consolidated shareholders' equity

€ 000	Subscribed capital	Capital reserve	Retained earnings	Valuation changes included directly in shareholders' equity	Differences arising from currency conversion	Cumulated shareholders' equity of the discontinued operations	Share of the shareholders in equity	Minority interests	Consolidated shareholders' equity
Status as at 01.01.2005	23,552	3,555	825	-442	1,155	690	29,335	238	29,573
Net income 2005			10,429			125	10,554		10,554
Minority interests								117	117
Changes in foreign currency					-211		-211	84	-127
Other changes not charged to profit and loss account				-233		-105	-338		-338
<i>Changes 2005</i>			<i>10,429</i>	<i>-233</i>	<i>-211</i>	<i>20</i>	<i>10,005</i>	<i>201</i>	<i>10,206</i>
Status as at 31.12.2005	23,552	3,555	11,254	-675	944	710	39,340	439	39,779
Net income 2006			13,330			-710	12,620		12,620
Minority interests								154	154
Changes in foreign currency			-3,404				-3,404		-3,404
Other changes not charged to profit and loss account					197		197	-5	192
				4			4		4
<i>Changes 2006</i>			<i>9,926</i>	<i>4</i>	<i>197</i>	<i>-710</i>	<i>9,417</i>	<i>149</i>	<i>9,566</i>
Status as at 31.12.2006	23,552	3,555	21,180	-671	1,141		48,757	588	49,345



3.4_ Consolidated statement of cash flow

	2006	2005 ¹⁾
	€ 000	€ 000
EBIT continuing operations	20,326	17,596
Amortisation (revaluation) of intangible assets	872	950
Depreciation (revaluation) of property, plant and equipment	2,222	1,899
Amortisation (revaluation) of goodwill		600
(Increase) decrease in provisions for pensions	-541	-446
(Profit) loss on disposal of fixed assets	-48	-1
Cash earnings	22,831	20,598
(Increase) decrease in inventories	-3,208	-313
(Increase) decrease in short term receivables and other assets	656	2,192
(Decrease) increase in short term provisions	-1,562	-661
(Decrease) increase in short term liabilities	3,307	-8,417
(Increase) decrease in working capital	-807	-7,199
(Increase) decrease in long term receivables and other assets	-477	-187
Taxes paid	-3,682	-2,230
Inflow (outflow) of funds from discontinued operations		117
Inflow of funds from operating activities	17,865	11,099
Outflow of funds for investments in intangible assets	-714	-416
Outflow of funds for investments in property, plant and equipment	-2,232	-808
Outflow of funds for investments in financial assets	-337	
Inflow (outflow) of funds for the purchase of short term securities	3,001	-3,001
Payments received from disposal of fixed assets	76	35
Inflow (outflow) of funds from discontinued operations		-38
Inflow (outflow) of funds from investing activities	-206	-4,228
Repayment of financial liabilities	-5,167	-3,959
Income from interest and associated companies	659	262
Interest expenses and other financial expenses	-1,085	-1,304
Interest expense from financial leasing	-429	-405
Dividend payment	-3,404	
Inflow (outflow) of funds from discontinued operations		-249
Inflow (outflow) of funds from financing activities	-9,426	-5,655
Cash effective changes in liquid assets	8,233	1,216

¹⁾ Values adjusted

	2006	2005 ¹⁾
	€ 000	€ 000
Changes in liquid assets	8,233	1,216
Liquid assets at the beginning of the period	13,790	12,300
Liquid assets at the end of the period	22,023	13,516
	8,233	1,216
The liquid assets at the end of the period are composed as follows:		
Cash on hand and in banks	11,731	11,253
Short term financial investments	12,800	7,469
Short term liabilities to banks	-2,508	-5,206
	22,023	13,516
Securities		3,001
Net liquidity at the end of the period	22,023	16,517
Total liquid assets at the end of the period		13,516
Liquid funds of the discontinued operations at the end of the period		274
Liquid funds of the continuing operations at the end of the period		13,790

¹⁾ Values adjusted

3.5_ Schedule of income and expenses included

	31.12.2006	31.12.2005 Continuing operations
€ 000		
Effects of foreign exchange rates	197	-211
Actuarial profits (losses) defined benefit plans and similar obligations	36	-423
Change of the market value of securities held for trading in shareholders' equity	-18	18
Other changes in value included directly in shareholders' equity		
Deferred taxes on changes in value set off directly against shareholders equity	-14	172
Changes in value included directly in shareholders equity	201	-444
Consolidated net income before minority interest	12,774	10,546
Total result of the period	12,975	10,102
<i>of which accruing to minorities</i>	<i>154</i>	<i>117</i>
<i>of which accruing to shareholders of the Group</i>	<i>12,821</i>	<i>9,985</i>



3.6_ Consolidated segment reporting

elexis is active in the **Factory Automation, Steel and Printing** division and in the **Factory Automation, Plastics** division. The divisions are structured in such a way that they correspond to the internal organisation and management structure of the elexis Group.

Transactions between the business units take place at market conditions.

Factory Automation Steel and Printing

The business activity of this segment concentrates on the manufacture and the sale of the following strategic products:

- Complete web and strip guiding systems which automatically control automatically the exact strip running of fast moving materials (metal, paper, foil, rubber);
- Systems ensuring the material quality of these webs (for example, tear resistance and roughness of metal strips);
- Video web guiding systems and also machine vision systems for fault detection and active fault control of printed strips;
- Electro-hydraulic brake thrusters for material conveyor systems (transport technology).

The consolidated subsidiaries operating in this segment are:

EMG Automation GmbH, Wenden

BST International GmbH, Bielefeld

BST PRO MARK Inc., Elmhurst, USA

EMG USA Inc., Warren, USA

EMH Eletromecânica e Hidraulica Ltda., Belo Horizonte, Brasilien

BST Japan Ltd., Osaka, Japan

Factory Automation, Plastics

HEKUMA GmbH, Eching, is active in this segment, which produces automated handling systems for fast moving production processes with very short production cycles and which ensures the materials flow of moulded plastic components. Moreover, these can be integrated in further automated production steps.

€ 000	Factory Automation, Steel and Printing			Factory Automation, Plastics		Non-operating units / consolidation			elexis Group		
	2006	2005 Continuing operations	2005 Discontinued operations	2006	2005	2006	2005 Continuing operations	2005 Discontinued operations	2006	2005 Continuing operations	2005 Discontinued operations
Sales	112,795	96,890	14,785	25,367	40,013				138,162	136,903	14,785
Segment result (EBIT)											
Operating result (EBIT)	18,390	12,907	704	3,472	5,915	-1,536	-1,226		20,326	17,596	704
Return on sales (EBIT)	16.3%	13.3%	4.8%	13.8%	14.8%				14.7%	12.9%	4.8%
Depreciation of property, plant and equipment and amortisation of other intangible assets	2,212	2,058	65	882	790				3,094	2,848	65
Amortisation of goodwill		600								600	
Assets											
Segment assets	78,085	69,640	6,448	32,956	34,283	1,886	3,889		112,927	107,812	6,448
Other participations	721	386				2,236	2,236		2,957	2,622	
Total assets	78,806	70,026	6,448	32,956	34,283	4,122	6,125		115,884	110,434	6,448
Investments in long term assets	3,272	1,609	36	526	719				3,798	2,328	36
Liabilities											
Segment liabilities	41,311	40,978	5,738	16,686	21,477	8,542	8,910		66,539	71,365	5,738
Inter-segment liabilities	13,566	8,961	211	2,626	1,232	-16,192	-10,193	-211			
Total liabilities	54,877	49,939	5,949	19,312	22,709	-7,650	-1,283		66,539	71,365	5,738
Employees (balance sheet date excl. apprentices)	566	537	76	138	147	3	3		707	687	76



€ 000	Continuing operations		Discontinued operations		elaxis Group	
	2006	2005	2006	2005	2006	2005
Sales						
Germany	53,694	43,220		6,453	53,694	49,673
Other European countries	43,170	38,971		7,345	43,170	46,316
America	22,010	43,490		70	22,010	43,560
Asia / Australia	18,272	8,883		917	18,272	9,800
Africa	1,016	2,339			1,016	2,339
	138,162	136,903		14,785	138,162	151,688
Assets						
Germany	104,535	98,929		5,224	104,535	104,153
Other European countries				1,224		1,224
America	9,562	9,712			9,562	9,712
Asia / Australia	1,787	1,793			1,787	1,793
	115,884	110,434		6,448	115,884	116,882
Investments in long term assets (incl. financial leasing)						
Germany	3,601	2,261		33	3,601	2,294
Other European countries				16		16
America	166	43			166	43
Asia / Australia	31	2			31	2
	3,798	2,306		49	3,798	2,355

4.0_ Notes to the consolidated financial statements

General explanations

Accounting

The Group accounting of elexis AG is drawn up in accordance with the International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS) which were adopted and published by the International Accounting Standards Board (IASB) as they have been applied in the EU and in accordance with the complementary regulations to be applied from a commercial point of view in accordance with Section 315 a § 1 HGB as well as the complementary conditions of the articles of association. The following standards and interpretations which are not obligatory for application were not applied: IFRS 7, IFRIC 6, IFRIC 7, IFRIC 8, IFRIC 9. The application of these regulations would have no major effect on the financial statements. There were no major effects on the financial statements as a result of the first time obligatory application of the new standards and interpretations. Regulations IFRS 8, IFRIC 10, IFRIC 11 and IFRIC 12, which have not yet been taken over by the EU, were not applied. The financial statements have been drawn up on a going concern basis.

The auditors Deloitte & Touche GmbH as well as other auditing companies involved have audited the financial statements of the companies included in the consolidated financial statements.

The Management Board of elexis AG will submit the financial statements on March 13, 2007 to the Supervisory Board for examination. The Supervisory Board will decide on the release of the financial statements for publication on March 21, 2007.

Scope of consolidation

The scope of consolidation includes 9 (prior year: 11) companies. The change regarding two companies is attributable to the sale of the shares in AVITEQ Vibrationstechnik GmbH, Hattersheim, and its subsidiary Vibrotechnique France S.A.R.L. with effect as at January 1, 2006. With regard to the associated companies included in the scope of consolidation and those which are not consolidated, please refer to the information regarding shareholdings presented in note 32.

The presentation of the comparative figures with 2005 is included in the explanations without the discontinued operations. Insofar as no other comment is made the data in the notes refer to the continuing operations.

Principles of consolidation

Capital consolidation

The financial statements of the company and the companies controlled by it are included in the consolidated financial statements of elexis AG. Control exists if elexis AG has the possibility of determining the financial and business policy of a company either directly or indirectly through a majority of voting chairs or otherwise. Subsidiaries whose influence on the asset, financial and earnings situation of the Group is of lesser importance are not consolidated. The non consolidated companies together reported sales of € 3,162,000 and have shareholders' equity of € 4,010,000.

The initial consolidation of the companies first included prior to January 1, 2004 was carried out on the basis of the equity value method in accordance with Section 301 § 1 Nr 1 of the HGB. In this respect the Group's share in the shareholders' equity of the consolidated subsidiaries was set off against the cost of acquisition/establishment. Additions to goodwill were capitalised within the context of the previous accounting principles in accordance with the HGB and was subject to straight line amortisation over a period of 20 years. The valuation of goodwill, which was previously capitalised in accordance with HGB accounting principles, was carried out for the fiscal years as from 2004 in accordance with the regulations of IAS 36. Goodwill was thus frozen in the amount of its carrying value at the date of transition from HGB to IFRS/IAS as at January 1, 2004 and is amortised only in the event of actual loss of value. Since January 1, 2004 no mergers have taken place; IFRS 3 has therefore not to be applied.



Currency conversion

The conversion of the financial statements, of the subsidiaries which are drawn up in foreign currency, is carried out in accordance with IAS 21 following the concept of the functional currency. In the elaxis Group foreign subsidiaries are considered as economically independent partial units. For this reason the conversion of the balance sheet items takes place in principle at the rates prevailing at the end of the relative period. An exception to this is the shareholders' equity of the subsidiaries included, which are converted at historical rates. Items of expense and income are converted at annual average rates. The conversion differences resulting from the application of different exchange rates for items of the balance sheet and the profit and loss account are booked to shareholders' equity without any effect on the profit and loss account.

In the individual financial statements of the companies transactions in foreign currency are converted at the exchange rates prevailing at the time of the transaction. Monetary assets and debts, the value of which is indicated in a foreign currency, are valued as at the balance sheet date. Capital gains and losses are booked to the profit and loss account.

The following exchange rates were used for the conversion of currencies:

Currency	ISO-Code	2006	2005	2006	2005
		Average rate in €		Rate at balance sheet date in €	
1 US dollar	USD	1.2559	1.2451	1.3170	1.1834
1 Brazilian real	BRL	2.8852	3.0021	2.8133	2.7567
1 Japanese yen	JPY	146.0682	136.9036	156.9300	139.1300

Consolidation of liabilities and income

Receivables and liabilities between the consolidated companies as well as internal Group sales, income and expenses are eliminated. In this respect the internal sales have been set off against the cost of goods sold of the work effected to achieve the sales.

Principles of accounting and valuation

Recognition of income and expense

The recognition of sales and other operating income is carried out in principle when the event occurs, the risk is transferred to the customer, the amount of the income can be established reliably and when the economic use will probably accrue to the Group. Operating expenses are charged to the profit and loss account when the expense occurs or at the date of its cause. Sales and expenses from long term construction contracts are recognised in accordance with IAS 11 in relation to their degree of completion (percentage of completion method) provided that the amount of the income can be reliably measured, and that it is probable that the economic use from the transaction will accrue to the Group, and provided that the costs incurred for the transaction and the costs to be expected up to its full completion can be established reliably. The degree of completion represents the partial performance undertaken up to the balance sheet date and is established in accordance with the expenses incurred up to the balance sheet date in relation to the foreseeable total expense. Insofar as accumulative service (incurred order costs and proportional profits) exceed the prepayments received in the individual case, the capitalised balance between the cumulative performance and the prepayment received is stated under receivables from long term construction contracts. If there is a negative balance after deduction of the prepayments received for a production contract, the amount is stated under liabilities from long term construction contracts. Contract losses to be expected are taken into consideration in the valuation of the long term construction contracts. Interest income is stated in accordance with contractual agreements.



Goodwill and other intangible assets

The value of the goodwill is examined by an impairment test at least once a year or should there be indications of a reduction in value. elexis AG has undertaken impairment tests for all cash generating units. The test takes place by applying the discounted cash flow process on the basis of the cash flow derived from planning. The planning horizon amounts to 3 years. The capital costs are calculated as a weighted average of equity and third party capital cost. For the calculation of the perpetual return a discount rate of 19% is assumed. The book volumes of the cash generating units are compared with the cash value of the expected cash flow and, if appropriate, with its achievable amount.

Purchases of intangible assets are included at their acquisition cost and are amortised according to the straight line method based on their economic life. The amortisation of intangible assets (with the exception of goodwill) is allocated to the individual items of the profit and loss accounts in accordance with the use of such assets.

The amortisation periods of individual types of intangible assets are shown in the following table:

	Period of use (in years)	Amortisation rate (in %)
Software	5.00	20.0
Patents, rights (or in accordance with contractual period)	8.00	12.5

Research and development costs, which are not specific for any customer, are not capitalised since they concern mainly further developments of existing products.

Property, plant and equipment

Property, plant and equipment are valued at acquisition or manufacturing cost less scheduled and unscheduled depreciation. The acquisition costs include the acquisition prices plus the ancillary acquisition expenses less reductions on the acquisition price. Apart from individual specific costs the manufacturing costs include an appropriate share of the allocable material and production overheads. Third party capital costs are not included in the manufacturing costs. Scheduled depreciation is charged in principle in accordance with the straight line method. Items of minor (< € 410) are depreciated fully in the year of acquisition. Property, plant and equipment are subject to unscheduled depreciation in the event that there are indications of a reduction in value and if the realisable market value is lower than the depreciated acquisition or manufacturing cost.

The depreciation periods per type of property, plant and equipment are shown in the following table:

	Economic life (in years)	Depreciation rate (in %)
Buildings	25.00	4.0
Building equipment	20.00	5.0
Production equipment	10.00	10.0
Other machinery and equipment	10.00	10.0
Tools, equipment, models	2.00	50.0
Test and measurement equipment	2.00	50.0
Vehicles	4.00	25.0
Fittings and office equipment	6.67	15.0
EDP equipment	4.00	25.0

Leasing

Leasing contracts, which are considered economically to be purchases of equipment with long term financing (financial leasing), are included in the balance sheet at market value in accordance with IAS 17, insofar as the discounted value of the leasing instalments are not lower. The depreciation methods and the economic lives correspond to those of similar acquired assets. The resulting payment liabilities from future leasing instalments are included under financial liabilities. The capitalised items leased include software, real estate, machinery, fittings and office equipment.

Financial instruments

Financial instruments are contractually based economic transactions which include a claim to funds. In accordance with IAS 32 (financial instruments: disclosure and presentation) these include original financial instruments such as trade receivables and accounts payable or also financial receivables and financial liabilities as well as derivative financial instruments which, however, are not used in the elexis Group.

The amounts of the original financial instruments are stated in the balance sheet. Financial instruments on the asset side are classified and stated according to this classification at acquisition cost or at market values in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) in the categories "held for trading", "held to maturity" and "available for sale". Market value changes of the "instruments available for sale" are stated in shareholders' equity. Impairment losses are charged to the profit and loss account. Financial instruments which represent liabilities are stated at their relative acquisition cost (in accordance with IAS 39.47). The addition of financial instruments is undertaken for all categories as at the fulfilment date.

The market value of a financial instrument is the achievable price on the market between two independent third parties. The risks of the financial instruments are explained in detail under note (31).

a) Financial assets

The financial assets are attributable to the shares of associated companies, which due to the insignificant importance for the assets, financial and earnings situation are not included in the consolidated financial statements. The initial valuation of the financial assets takes place at acquisition cost and the subsequent valuation at the relative acquisition cost, since a listed price on an active market does not exist and the corresponding fair market value cannot be established reliably. The financial assets are tested at each balance sheet date to establish whether there are indications for a reduction in value. Should this be the case the asset is tested for its valuation. Insofar as the book value exceeds the achievable amount, it will be amortised to the profit and loss account to its fair value. The fair value is defined as the cash value of the expected future cash flow. Other loans are valued at acquisition cost. Loans with normal market interest rate are stated at their nominal value.

b) Trade receivables

Trade receivables and other assets are stated at their acquisition cost. If there are doubts with regard to collectibility, these are stated at nominal value less an appropriate specific provision. Deliveries and services charged to the customers are shown under trade receivables. The value of trade receivables thus established corresponds roughly to the stated value due to the short term character of the receivables.



c) Other receivables and other assets

Other receivables and other assets are valued at acquisition cost. Appropriate specific provisions are made if there are objective indications that the receivable may not be fully collectible. The book value of other receivables and other assets corresponds roughly to the real value due to their short term character.

d) Securities

Share units in funds and certificates are included under securities. The initial valuation is affected on the basis of the acquisition cost. Unrealised profits/losses are shown as of the balance sheet date in shareholders' equity under "valuation changes included directly in shareholders' equity". When sold, the profits are booked to the profit and loss account. The securities are allocated to the category "available for sale". If appropriate, reductions in value are charged to the profit and loss account.

e) Cash on hand and in banks

Cash on hand and in banks is valued at relative acquisition cost.

f) Financial liabilities and other liabilities

The initial valuation of financial liabilities is undertaken at the repayment amount (repayment amount less discount and transaction costs). The subsequent valuation takes place at the relative acquisition cost corresponding to the effective interest method.

Liabilities from financial leasing contracts are shown at the discounted value of the leasing instalments or the lower market value of the capitalised leased item. Leasing payments are divided into interest and repayment portions, so that there is a constant interest rate in respect of the remaining amount of the liability throughout its maturity.

Short term liabilities are included at their repayment amount.

Amounts established for the financial liabilities and other liabilities correspond in our opinion roughly to their market values

Deferred taxes

Deferred taxes are accounted for in accordance with IAS 12 by applying the balance sheet based liability method with regard to the temporary differences, which may occur from the differing amounts between the book value of the assets and liabilities in the consolidated financial statements and with regard to the calculation of the corresponding tax value to be used for the taxable result. In general deferred tax liabilities are set up for all taxable temporary differences and deferred tax receivables insofar as the realisation is guaranteed with sufficient security and a high degree of probability. Should there be a temporary difference from goodwill or the first statement (apart from corporate mergers) of other assets and liabilities which are based on events which are related neither to the taxable income nor to the net income, no deferred taxes are stated. Deferred taxes are taken into consideration both at the level of the individual companies as well as through consolidations. The establishment of the deferred taxes is based on the application of the interest rates to be expected at the time of realisation. Deferred tax claims and tax liabilities are not discounted. The book values of deferred tax charges are regularly tested and adjusted.

Deferred taxes which are attributable to items included directly in shareholders' equity are stated in shareholders' equity and not in the profit and loss account.

Inventories

In principle, the inventories are valued at the lower of acquisition or manufacturing cost and net disposal value. The net disposal value represents the estimated sales price less all estimated costs up to completion as well as the costs for marketing, sales and distribution. The average method is applied to determine the acquisition costs. The manufacturing costs include, apart from specific individual costs, appropriate shares of the allocable material and production overheads. General administrative and financing expenses are not included in the manufacturing costs.

Long term construction contracts

The receivables and liabilities from long term construction contracts are determined in accordance with the percentage of completion method.

Pensions and similar obligations

The valuation of provisions for pensions is carried out in accordance with the actuarial projected unit credit method for defined benefit plans as stipulated in IAS 19. In this respect the benefits to be paid after the start of the benefits period are distributed over the service time of the employees from a dynamic point of view. In this respect future income and pension adjustments are also taken into consideration in addition to the pension rights known at the balance sheet date. The valuation of these obligations is undertaken by independent experts.

elaxis AG makes use of the choice stipulated in IAS 19.93a (employee benefits) to state immediately the actuarial profits and losses from defined benefit plans. Thereby the actuarial profits and losses, which have not been realised, are not amortised gradually and charged to the profit and loss account in accordance with the so-called corridor method, but charged fully against the shareholders' equity. No amortisation of the actuarial profits and losses are included in the result. Deferred taxes are calculated on the changes in the value of the provision for pensions included in the shareholders' equity, which are also charged against the corresponding item of shareholders' equity.

Insofar as defined contribution pension plans exist, the amounts to be paid in exchange for work are included in the period in which the relevant work was performed (IAS 19.44).

Other provisions

Other provisions have been set up insofar as an obligation towards a third party resulting from a past event may exist, which might indicate an outflow of assets, which can be reliably established. These represent uncertain obligations, which are stated at the best possible estimated amount. Provisions with a maturity of more than one year are stated at their discounted value, if the interest effect is significant.

Assumptions and estimates

The drawing up of the consolidated financial statements in accordance with IFRS requires in the case of some items that assumptions and estimates are made, which may have effects on the amount and the presentation of assets, liabilities, income and expenses as well as with regard to the disclosure of contingent liabilities. The actual values can deviate from these assumptions and estimates. The estimates may refer to goodwill, financial assets, unscheduled amortisation, inventory valuation, doubtful accounts, pension obligations as well as contingent liabilities.

Notes to the profit and loss account

(1) Sales

With regard to the composition of sales as per division and geographic region please refer to the explanations in the segment report. The sales include sales from the delivery of goods in the amount of € 115,027,000 (prior year: € 98,782,000) and from long term construction contracts in the amount of € 23,135,000 (prior year: € 38,121,000).

(2) Cost of goods sold

The cost of goods sold includes the costs of the products and services sold as well as the purchase costs of the merchandise sold. They include the directly allocable material and personnel expenses as well as their share of the material and manufacturing overhead costs. The cost of goods sold includes expenses for research and development in the amount of € 7,381,000 in 2006 and € 7,174,000 in 2005. Valuation allowances on inventories in the amount of € 48,000 in 2006 and € 90,000 in 2005 were charged to the profit and loss account.

(3) Selling expenses

€ 000	2006	2005 Continuing operations
Personnel expenses	11,759	0,096
Depreciation and amortisation of fixed assets	284	238
Commissions, freight, advertising and other operating expenses	16,021	14,775
Total	28,064	25,109

(4) Administrative expenses

€ 000	2006	2005 Continuing operations
Personnel expenses	4,420	4,187
Depreciation and amortisation on fixed assets	376	331
Other operating expenses	3,076	4,254
Total	7,872	8,772



(5) Other operating income

The other operating income of the Group is composed as follows:

€ 000	2006	2005 Continuing operations
Income from the release of write-down of receivables	898	163
Income from the release of non-utilised provisions	870	1,427
Income from the release of non-utilised subsequent costs	607	111
Capital gains	95	206
Others	946	824
Total	3,416	2,731

(6) Other operating expenses

The other operating expenses of the Group include:

€ 000	2006	2005 Continuing operations
Allocations to individual or general write-downs on receivables and losses on receivables	754	672
Allocations to other provisions	747	586
Restructuring expenses	116	854
Capital losses	102	91
Other	212	163
Total	1,931	2,366

(7) Amortisation of goodwill

The impairment tests undertaken in 2006 confirmed the book values. In 2005 impairment (unscheduled amortisation) in the amount of € 600,000 was applied to the goodwill of BST PRO MARK Inc., USA.

(8) Financial result

The financial result is composed as follows:

€ 000	2006	2005 Continuing operations
Result of associated companies		
Income from associated companies	55	7
	55	7
Interest result		
Interest income	550	255
Interest expense on bank loans	-1,016	-1,297
Bank and guarantee fees	-16	-6
Interest expense for financial leasing	-429	-404
Interest expense for provisions for pensions	-617	-618
	-1,528	-2,070
Financial result	-1,473	-2,063

The income from associated companies is attributable to distributions from companies, which are not included within the scope of consolidation.

(9) Taxes

€ 000	2006	2005 Continuing operations
Current taxes		
Domestic	-3,896	-3,083
Abroad	-205	-161
	-4,101	-3,244
Deferred taxes	-1,268	-1,743
Taxes	-5,369	-4,987

The domestic taxes are calculated on the basis of a rate of approximately 38.72 % (2004: 38.72 %) of the estimated taxable profit for the fiscal year and the prior year. Taxation abroad is calculated on the basis of the applicable tax rates in the corresponding country. The current taxes include a repayment in the amount of € 139,000 in respect of too high prepayments in prior years.

The deferred tax expense of the current fiscal year results primarily from the use of tax loss carry forwards. The temporary differences arise as a result of the different valuation of assets and liabilities in the tax and commercial balance sheet (IFRS), which will be set off over time.



The deferred taxes are attributable to the following balance sheet items and tax loss carry forwards:

€ 000	31.12.2006 Deferred taxes included under assets	31.12.2005 Deferred taxes included under assets	31.12.2006 Deferred taxes included under liabilities	31.12.2005 Continuing operations Deferred taxes included under liabilities
Goodwill			1,027	508
Other intangible assets	5	5		
Property, plant and equipment	104	84	18	582
Inventories			669	611
Long term construction contracts			495	493
Other receivables and other assets	173	93	132	57
Special tax item			278	312
Provision for pensions and similar obligations	1,606	1,616		
Other provisions	120	32	91	74
Liabilities	422	395	34	
Tax loss carry forwards	3,670	5,020		
	6,100	7,245	2,744	2,637

Deferred taxes are set up insofar as their realisation can be expected. Deferred taxes on tax loss carry forwards, which are capitalised as asset, are set up only on the amount of the tax loss carry forwards, for which a set off against positive tax gains can be expected within three years following the balance sheet date. Deferred taxes stated as assets were set up exclusively for domestic tax loss carry forwards which have a non limited period.

During the fiscal year 2006 the deferred taxes stated as assets included € 14,000 from actuarial losses on pensions and were set off against the shareholders' equity, and deferred taxes stated as liabilities in the amount of € 30,000 from currency conversion were set off with no effect on the profit and loss account.



The reconciliation from the expected to the effective tax expense is as follows:

€ 000	2006	2005 Continuing operations
Result before taxes	18,853	15,533
Tax rate of elexis AG	38,72%	38,72%
Expected tax expense (-) / -income (+)	-7,300	-6,014
Effect of different tax rates abroad	15	10
Tax effect of tax-free income		3
Tax effect of non-tax deductible expenses	-126	-136
Tax expense / income from prior periods	-139	-484
Change in valuation of capitalised deferred taxes on tax loss carry forwards	1,839	1,683
Other tax expense / income	342	-49
Taxes	-5,369	-4,987
Effective tax rate	28,48%	32,11%

The tax effect of 38.72 % for 2006 (prior year: 38.72 %) is based on the German corporation tax rate of 25.0 %, the solidarity surcharge relating thereto in the amount of 5.5 % and an average local commercial tax of 16.7 %. As a result of the above-mentioned effects the effective tax rate amounted to 28.48 % (prior year: 32.11 %).

(10)) Minority interests

These are the share in the profits accruing to other shareholders in the subsidiaries in Japan and Brazil.

(11) Cost of materials

€ 000	2006	2005 Continuing operations
Raw materials, supplies and purchased merchandise	43,578	41,974
Purchased services	4,634	7,941
Total	48,212	49,915

The increase in raw materials, supplies and purchased merchandise resulted primarily from a changed product mix. Increases of the raw material costs could be counteracted by purchasing activities in Eastern Europe, China and in the dollar area as well as through constructive changes in our products. The decline in purchased services is attributable to the weakening of sales in the Factory Automation, Plastics division. This resulted in significantly lower expense for third party construction and software development orders.

(12) Personnel expenses

€ 000	2006	2005 Continuing operations
Wages and salaries	38,190	36,367
Social security and benefit expenses	5,427	4,884
Pension expenses	237	261
Total	43,854	41,512

Expenses for defined benefit plans are included in the pension expenses. Financial items, which are shown in the financial result, are not included (interest expense for provisions for pensions).

(13) Employees

The average number of personnel employed (excluding apprentices and trainees) was as follows:

€ 000	2006	2005 Continuing operations
Production / development / construction	441	427
Sales	164	160
Purchasing / materials procurement	26	21
Administration	69	69
Total	700	677

Notes to the consolidated balance sheet

(14) Goodwill and other intangible assets

The development of the goodwill and other intangible assets is presented as follows:

€ 000	Goodwill	Patents, licences and other intan- gible assets	<i>Of which from financial leasing</i>	Total
Acquisition costs				
Status as at 01.01.2005	36,011	5,888	363	41,899
Additions		431	15	431
Disposals				
Changes in foreign currency				
Status as at 31.12.2005	36,011	6,319	378	42,330
Additions		714		714
Disposals		-214		-214
Changes in foreign currency		-1		-1
Stand 31.12.2006	36,011	6,818	378	42,829
Accumulated amortisation / value adjustments				
Status as at 01.01.2005	9,209	4,195	142	13,404
Amortisation, additions		950	106	950
Value adjustments, additions	600			600
Amortisation, disposals				
Value adjustments, disposals				
Changes in foreign currency				
Status as at 31.12.2005	9,809	5,145	248	14,954
Amortisation, additions		872	93	872
Value adjustments, additions				
Amortisation, disposals		-215		-215
Value adjustments, disposals				
Changes in foreign currency				
Status as at 31.12.2006	9,809	5,802	341	15,611
Book values				
Status as at 31.12.2005	26,202	1,174	130	27,376
Status as at 31.12.2006	26,202	1,016	37	27,218



The Individual items of goodwill are attributable to the following funds generating units (companies):

€ 000	31.12.2006	31.12.2005 Continuing operations
	Remaining book value	Remaining book value
HEKUMA GmbH, Eching	22,941	22,941
BST PRO MARK Inc., Elmhurst/USA	2,885	2,885
EMH Eletromecânica e Hidraulica Ltda., Belo Horizonte/Brazil	376	376
Total	26,202	26,202

The impairment test carried out in respect of the goodwill confirmed the book values stated.

(15) Property, plant and equipment

Property, plant and equipment have developed as follows:

€ 000	Land, land rights and buildings	Of which from financial leasing	Technical equipment and machinery	Of which from financial leasing	Other plant, operating and office equipment	Of which from financial leasing	Prepayments and plant under construction	Total
Acquisition cost								
Status as at 01.01.2005	19,076	6,543	11,389	170	9,234	803		39,699
Additions	1		236		1,651	1,137		1,888
Disposals			-417		-309			-726
Changes in foreign currency	62		136		110			308
Status as at 31.12.2005	19,139	6,543	11,344	170	10,686	1,940		41,169
Additions			836		1,662	490	249	2,747
Disposals			-727		-1,615	-7		-2,342
Changes in foreign currency	-19		-50		-82			-151
Status as at 31.12.2006	19,120	6,543	11,403	170	10,651	2,423	249	41,423
Accumulative depreciation								
Status as at 01.01.2005	8,366	1,043	10,250	42	7,742	205		26,358
Additions	621	237	329	36	948	460		1,898
Disposals			-391		-303			-694
Changes in foreign currency	41		109		101			251
Status as at 31.12.2005	9,028	1,280	10,297	78	8,488	665		27,813
Additions	619	237	354	48	1,249	638		2,222
Disposals			-720		-1,595			-2,315
Changes in foreign currency	-17		-43		-68			-128
Status as at 31.12.2006	9,630	1,517	9,888	126	8,074	1,303		27,592
Book values								
Status as at 31.12.2005	10,111	5,263	1,047	92	2,198	1,275		13,356
Status as at 31.12.2006	9,490	5,026	1,515	44	2,577	1,120	249	13,831

The financial leasing contract for land and buildings concerns the factory building of BST International GmbH, Bielefeld; the contract has a remaining maturity until 2020. The financial leasing contracts for technical equipment and machinery as well as for other plant, operating and office equipment have an average remaining maturity of between 2 and 4 years. A premature cancellation of these contracts is in principle not possible, A purchase option for the building at the end of the contractual period has been agreed. The lien on land in the amount of € 607,000 which existed in the prior year as a security .for a loan was given back within the context of an unscheduled redemption. The agreed interest rates of the leasing contracts amount to between 2,5 % and 7,5 %.

As at December 31, 2006 there was an order liability for items of property, plant and equipment in the amount of € 558,000.

(16) Financial assets

The financial assets have developed as follows:

€ 000	Associated companies	Total
Acquisition costs		
Status as at 31.12.2005 / 31.12.2004	5,122	5,122
Additions	337	337
Disposals	-2	-2
Status as at 31.12.2006	5,457	5,457
Accumulated depreciation		
Status as at 31.12.2005 / 31.12.2004	2,500	2,500
Status as at 31.12.2006	2,500	2,500
Book values		
Status as at 31.12.2005	2,622	2,622
Status as at 31.12.2006	2,957	2,957

The financial assets are attributable primarily to elaxis beta GmbH, Wenden with a book value of € 2,236,000 (prior year € 2,236,000). The additions consist of the shares in the newly established EMG Automation (Beijing) Ltd. in the amount of € 312,000 and the remaining shares which were acquired in BST France S.A.R.L. in the amount of T€ 25,000. The disposals are attributable to the divestment of shares in EMG Electromecanica General Iberica S.L..

As in the prior year the book value of the financial assets was confirmed by an impairment test.

(17) Long term receivables and other assets

The long term receivables and other assets in the amount of € 898,000 (prior year: € 421,000) are attributable to receivables from reinsurances for pension commitments € 542,000, loans € 219,000 and other assets € 137,000.



(18) Inventories

The inventories are composed as follows:

€ 000	31.12.2006	31.12.2005 Continuing operations
Raw materials and supplies	9,484	8,456
Work in process	7,704	5,641
Finished goods	1,401	1,271
Prepayments on inventories	43	56
Total	18,632	15,424

Inventories with a book value of € 310,000 (prior year: € 887,000) were pledged as collateral for an overdraft of the group (at BST PRO MARK Inc.). As at December 31, 2006 inventories with a book value of € 459,000 (prior year: € 241,000) were written down by € 232,000 (prior year: € 241,000).

The level of inventories had to be increased due to longer purchasing times and bottlenecks in the delivery of electronics, in order to be able to guarantee a high degree of delivery punctuality for our customers.

(19) Long term construction contracts

Customer specific construction contracts, which are not partially of finally invoiced, are taken into consideration with effect on the profit and loss account in accordance with the percentage of completion method in accordance with IAS 11.

€ 000	31.12.2006 Balance stated as assets	31.12.2005 Balance stated as assets	31.12.2006 Balance stated as liabilities	31.12.2005 Balance stated as liabilities
Costs incurred for long term construction contracts	2,242	1,885	373	313
Shares in profit /(loss)	1,030	1,125	266	184
Subtotal	3,272	3,010	639	497
Less prepayments received	-1,121	-1,769	-1,482	-1,008
Total	2,151	1,241	-843	-511

The receivables and liabilities from long term construction contracts as at December 31, 2006 have a maturity of less than one year as in the prior year.

(20) Trade receivables

As at December 31, 2006 € 12,000 (prior year: € 55,000) of the trade receivables had a maturity in excess of one year. Provisions in the amount of € 697,000 (prior year: 1,117,000) were set up in respect of probable uncollectible receivables.

(21) Other short term receivables and other assets

The other short term receivables and other assets are composed as follows:

€ 000	31.12.2006	31.12.2005 Continuing operations
Receivables from participation companies	615	1,067
Tax receivables	509	399
Prepaid expenses	216	279
Receivables from employees	26	88
Other	720	876
Total	2,086	2,709

(22) Short term cash deposits

The short term cash deposits in the amount of €12,800,000 (prior year: € 7,469,000) are in respect of fixed time deposit at domestic banks.

(23) Securities

The securities were sold during the course of 2006. As at the balance sheet date of 31.12.2006 the group owned no securities (prior year: € 3,001,000).

(24) Cash on hand and in banks

As at December 31, 2005 cash at banks included an amount of € 550,000 which was deposited as collateral and was therefore not available to the company. This deposit no longer existed as at December 31, 2006.

(25) Shareholders' equity

With regard to the presentation of the development of the shareholders' equity please refer to the statement of consolidated shareholders' equity.

As at December 31, 2006 the share capital of elaxis AG amounted to € 23,552,000 and is divided into 9,200,000 no par value bearer shares. Each no par value share has a notional share in the share capital of € 2.56.

The capital reserve of € 3,555,000 results from the premium earned from the capital increase of elaxis AG undertaken during the fiscal year 1999.



	2006	2005
Number of shares as at 01.01.	9,200,000	9,200,000
Number of shares as at 31.12.	9,200,000	9,200,000

With the resolution of the general meeting of shareholders of May 24, 2006 the Management Board of elexis AG was authorised to acquire up to November 23, 2007 own shares totalling up to 10 percent of the current share capital. Simultaneously, the similar authorisation of the prior year was cancelled.

Through the resolution of the general meeting of shareholders of June 24, 2005 the Management Board is authorised to increase the share capital through the issue of new no par value bearer shares against contribution in cash or in kind at one or on several occasions to a maximum of up to € 11,776,000 (authorised capital). The authorisation is subject to the approval of the Supervisory Board and is valid until June 23, 2010.

The changes in value stated directly in shareholders' equity are attributable primarily to the actuarially calculated profits and losses not charged to the profit and loss account in connection with the valuation of the provisions for pensions and similar obligations less the deferred taxes relating thereto (please refer to the corresponding explanations in note (26) "provisions for pensions and similar obligations").

This item is composed of the following:

€ 000	31.12.2006	31.12.2005 Continuing operations
Actuarial profits / (losses) from defined benefit plans and similar obligations	-1,110	-1,146
Change in the relative value to be included of the securities available for sale		18
Other changes included directly in the shareholders' equity		
Deferred taxes on changes in value booked directly to shareholders' equity	439	453
Total	-671	-675

(26) Provisions for pensions and similar obligations

The provisions developed as follows during the period under report:

€ 000	01.01.2006	Use	Release	Additions	Changes in foreign currency	31.12.2006
Provisions for pensions and similar obligations	13,868	-734		788		13,922
	13,868	-734		788		13,922

The elaxis Group administers defined benefit plans for entitled employees of their subsidiaries located in Germany. According to these plans the employees have a claim to the benefits on reaching the retirement age of 65. This is also the case in the event of invalidity or as a dependence pension.

The provisions for pensions and other obligations are calculated in accordance with the projected unit-credit-method. In this process future pension trends are also included. For a pension plan there is a reinsurance policy which is pledged to the entitled person. All other pension plans are not directly covered.

The valuation of defined benefit plans is undertaken annually by independent experts. A valuation is based on the guideline table 2005 G of Klaus Heubeck.

The discount rate corresponds very closely to the yield from first class industrial bonds in Germany. The calculation of the obligations from performance linked benefit plans are based on the following assumptions:

in %	2006	2005	2004
Discount rate	4.60	4.60	4.90
Future pension increases	1.75	1.75	1.75

The provisions for pensions and other obligations are composed as follows:

€ 000	31.12.2006	31.12.2005 Continuing operations	31.12.2004 Continuing operations
Discount value of the performance-linked obligations	13,975	13,868	13,445
Applicable fair value of the plan assets	-53		
Provisions for pensions and similar obligations	13,922	13,868	13,445

Adjustments to the liabilities of the pension plan due to experience are insignificant.

The changes in the discount value of the performance-linked obligations of the current fiscal year are presented as follows:

€ 000	2006	2005 Continuing operations
Service time expense	108	84
Service time expense to be subsequently calculated	153	
Interest expense	617	618
Expected income from plan assets		
Total expenses for pensions and similar obligations	878	702
Actuarial profits and losses	-37	450
Payments made	-734	-729
Change in the discounted value of the performance-linked obligations	107	423



The current service time expense is charged to the operating result. The interest expenses are included in the financial result. The actuarial profit and losses are booked directly to shareholders' equity,

The existing pension plan has been closed since 1997 for newly hired employees. For those covered by the plan the beneficiary status has been frozen since 1999.

Apart from the defined benefit plans there are also defined contribution plans. In this case the company pays contributions on the basis of legal conditions to state administered pension funds as well as contributions to direct insurances within the framework of remuneration conversion. There are no further performance obligations for the company apart from the payment of the contributions. The current payments in the amount of € 2,331,000 million (2005: € 2,572,000) are attributable primarily to the state administered pension scheme and are included as expense of the current year in the functional areas and thus in operating profit.

(27) Other short term provisions / tax provisions

The main items in the other provisions developed as follows during the fiscal year:

€ 000	01.01.2006			Additions	Change in foreign currency	31.12.2006
	Use	Release				
Risks from litigation	1,909	-414	-139	83		1,439
Guarantee obligations	2,091	-507	-616	6		974
Rebates, bonuses, third party commissions	657	-64	-99	276		770
Others	1,046	-935	-16	869	-6	958
Other short term provisions	5,703	-1,920	-870	1,234	-6	4,141

The risks from litigation have been set up to cover future costs from pending cases in particular in connection with the divisions divested in the past. The result of pending or future litigation cannot be clearly estimated at this stage. Expenses could be incurred as a result of decisions by the court or the authorities or from composition agreements. Such expenses could have a substantial on the business of the elexis Group.

The provisions for guarantee obligations were set up to cover recognisable individual risks.

The other provisions are attributable primarily to compensation to the Supervisory Board in the amount of € 344,000 (prior year: € 364,000), provisions for archiving costs in the amount of € 226,000 (prior year: € 0) and provisions for fees and dues of our foreign subsidiaries in the amount of € 158,000 (prior year: € 155,000).

€ 000	01.01.2006			Additions	Change in foreign currency	31.12.2006
	Use	Release				
Provisions for taxes	2,616	-1,651	-243	2,330		3,052

The provision for taxes was concluded on the basis of the net income 2006.

(28) Financial liabilities

As at December 31, 2006 the financial liabilities were composed as follows:

€ 000	Remaining maturity			31.12.2006
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total
Bank loans	2,697	4,501	1,267	8,465
Overdrafts	2,508			2,508
Other financial liabilities		2,301		2,301
Liabilities from financial leasing	892	1,553	4,849	7,294
Total	6,097	8,355	6,116	20,568

The maturities of the financial liabilities were restructured as at December 31, 2005. The maturities are as follows for the continuing operations following the restructuring:

€ 000	Remaining maturity			31.12.2005
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total
Bank loans	2,317	7,380	3,151	12,848
Overdrafts	4,826			4,826
Other financial liabilities		2,301		2,301
Liabilities from financial leasing	879	1,780	5,102	7,761
Total	8,022	11,461	8,253	27,736

Bank loans

The fixed interest rates for the bank loans drawn down range from between 1.7% (Japan) and 8.5% (USA). The domestic consolidated companies have drawn down no foreign currency loans. Loans of the foreign subsidiaries are converted as at the balance sheet date. Within the context of the refinancing of the long term liabilities to banks at HEKUMA GmbH the old loan in the amount of € 9,450,000 was repaid and a new loan with a pay-out amount of € 7,950,000 was drawn down. Against the granting of a discount in the amount of € 1,600,000 the bank has renounced the hitherto existing debtor's warrant. The new loan is valued at acquisition cost in accordance with the effective interest rate method. The discount is amortised over the maturity of the loan. Since the refinancing occurred very close to the balance sheet date, the book value corresponds to the fair carrying value.

As at December 31, 2006 credit lines existed in the amount of € 33,082,000 of which € 10,973,000 were drawn down as loans and overdrafts and € 4,375,000 in the form of guarantees.



Collateral

The bank loans are secured as follows:

€ 000	31.12.2006	31.12.2005 Continuing operations
Loans secured through mortgages		607
Overdrafts secured through pledge of assets	960	1,129
Loans secured through pledge of shares	7,679	10,710
Total	8,639	12,446

Inventories with a book value of € 310,000 (prior year: € 887,000) and receivables with a book value of € 650,000 (prior year: € 0) were given as collateral for the securing of loans of a US subsidiary.

Financial leasing

In future the following minimum leasing payments will be due from the financial leasing contracts:

€ 000	31.12.2006	31.12.2005 Continuing operations
Due within 1 year	1,272	1,307
Due within 1 – 5 years	2,623	2,908
Due after 5 years	8,116	8,630
Total of the minimum leasing payments	12,011	12,845
Less interest portion	- 4,717	- 5,084
Discounted value of the liabilities from financial leasing	7,294	7,761

The interest paid on the liabilities from financial leasing amounted to between 2.5 % and 7.5 % p.a. (prior year: 3.0 % to 7.5 %).

(29) Trade payables

This item includes liabilities for goods and deliveries to third parties. The liabilities are due exclusively within one year.

(30) Other liabilities

The other liabilities are composed as follows:

€ 000	31.12.2006	31.12.2005 Continuing operations
Tax liabilities	983	689
Liabilities from social security	340	1,038
Other liabilities including prepaid income	11,262	11,534
Total	12,585	13,261

The decline in liabilities within the framework of social security is attributable to the payment periods which were changed by the government. As a result of this change the domestic companies of the Group are obliged to pay the contributions to social insurance already prior to the last day of the month. In the prior year these contributions were paid up to the 15th calendar day of the following month.

The other liabilities are all due within one year.

The other liabilities are structured as follows:

€ 000	31.12.2006	31.12.2005 Continuing operations
Liabilities to personnel	6,574	6,045
Liabilities from commission obligations	1,784	1,691
Prepayments received	832	567
Liabilities to associated companies	735	590
Obligations from lack of cost price	617	998
Interest		245
Test fees	257	257
Other	463	1,141
Total	11,262	11,534

(31) Financial instruments

The financial instruments of the Group are subject to the loss, interest rate change and currency risks, which could have an influence on the assets, financial and earnings situation.

Risk of losses

There is a risk of good standing and losses from the danger that business partners do not meet their obligations from a transaction through financial instruments and that loss of assets is therefore caused. Since we do not conclude any general offset agreements with our customers, the total of the amounts stated in the assets corresponds to the maximum risk of loss. In order to minimise the risk of losses we subject our customers to a test of good standing and operate an active debtor management. Furthermore, there is an advance on goods insurance.

Interest rate risk

Interest rate risks exist in principle with regard to long term liabilities to banks, which, however, have been agreed 100 % with fixed interest rates.

An interest risk also exists with regard to other receivables and liabilities with maturities in excess of one year. In the operating sector such long maturities are, however, of little significance.

Currency risk

Due to its international activity the elexis Group is exposed to currency risks. These risks are identified and analysed systematically in accordance with a Group-wide guideline. The analysis concentrates on the existing and on the foreign currency exposure to be expected during the next twelve months, and this risk can if appropriate be hedged subject to the agreement of the Management Board. No currency hedging transactions existed, however, at the balance sheet dates.



Supplementary information

(32) Shareholdings

elexis Group, Wenden

List of the scope of consolidation as at December 31, 2006 (IFRS values)

Name, registered office	Share in capital %	Shareholders' equity € 000	Result € 000	Held by
Parent company				
elexis AG, Wenden				
Consolidated companies				
Germany				
1. BST International GmbH, Bielefeld	100	3,534	3,494 ¹	2.
2. EMG Automation GmbH, Wenden	100	25,968	17,528 ¹	3. (94%)
3. Elexis Beteiligungsgesellschaft mbH, Wenden	100	3,410	16,591 ¹	
4. HEKUMA GmbH, Eching	100	13,586	2,069	
Outside Germany				
5. BST Japan Ltd., Osaka/Japan	98	307	49	1. (67%), 2. (31%)
6. BST PRO MARK Inc., Elmhurst/USA	100	202	-176	1. (51%), 7. (49%)
7. EMG USA Inc., Warren/USA	100	1,018	-13	2.
8. EMH Eletromecânica e Hidraulica Ltda., Belo Horizonte/Brazil	52	1,212	319	2.
Associated companies				
Germany				
9. elexis beta GmbH, Wenden	100	2,106	-5	
10. ELOTHERM GmbH, Remscheid (in liquidation)				
Outside Germany				
11. BST France S.A.R.L., Verrieres Le Buisson/France	100	17	9	1.
12. BST Italia S.r.l., Saronno/Italy	100	62	7	1.
13. BST Sayona Automations Private Ltd., Mumbai/India	51	882	275 ²	1.
14. EMG AUTOMATION Ltd., Buckinghamshire/United Kingdom	100	39	7	2.
15. EMG Automation (Beijing) Ltd., Beijing/China	51	904	320	2.

¹ Before transfer of profit or loss

² Financial statements as at March 31, 2006

The information on the above participation companies is based on the fiscal year as at December 31, 2006. The data on the foreign subsidiaries are converted into euro at the balance sheet date (shareholders' equity) or at the annual average rate (net income).



(33) Remuneration of the Management Board and the Supervisory Board

The remuneration of the members of the Management Board for the fiscal year 2006 is structured as follows:

€ 000	Fixed	Bonus	Gross remuneration	Remuneration in kind / other compensation*	Total
Siegfried Koepp	288	166	454	41	495
Edgar Michael Schäfer	193	81	274	37	311
Total	481	247	728	78	806

* Use of company car, insurance contributions

The amounts indicated are attributable to the compensation for the activity as members of the Management Board of elexis AG as well as their activities in the general management of the subsidiaries.

The provision set up for current pensions and rights to future pensions for a prior member of the Management Board and his survivors amounted to € 286,000 as at December 31, 2006 (prior year: € 273,000).

The compensation of the Supervisory Board was fixed by the general meeting of shareholders and is defined in Section 15 of the articles of association of elexis AG. In accordance with this regulation the Supervisory Board has the right to a total € 344,000 (prior year: 364,000) consisting of fixed (€ 193,000) and variable (€ 151,000) portions.

The remuneration of the Supervisory Board is due following the general meeting of shareholders, which has to resolve the appropriation of profits for the corresponding fiscal year.

An explanation of the compensation system is included in the remuneration report within the Corporate Governance Report (chapter 2.15). This compensation is also an integral part of the management report.

(34) Shareholdings of the Management Board and the Supervisory Board

The number of shares of elexis AG held by members of the Management Board and the Supervisory Board as at December 31 amounted to:

	2006 Number	2005 Number
Management Board	12,676	27,940
Supervisory Board	132,199	157,649
Total	144,875	185,589

The shareholdings of the Supervisory Board include 126,319 shares (prior year: 126,319) of Intec Beteiligungsgesellschaft mbH, Bad Homburg, the votes of which are attributable to Dr. Dirk Wolfertz, Bad Homburg as the sole shareholder of Intec Beteiligungsgesellschaft.

(35) Contingent liabilities

As at the balance sheet date contingent liabilities existed from guarantees for rental leasing obligations and other guarantees in the amount of € 6,220,000 (prior year: € 6 ,967,000)

(36)) Other financial obligations

The following payment obligations are due under operating lease contracts:

€ 000	31.12.2006	31.12.2005 Continuing operations
Within one year	1,203	987
Between two and five years	2,006	2,046
More than five years		
Total	3,209	3,033

During the fiscal year 2006 € 1,308,000 (prior year: € 1,666,000) was spent for leasing contracts. The leasing contracts are attributable mainly to contracts for the leasing of other operating and office equipment.

(37) Major events following the balance sheet date

There were no significant events following the balance sheet date.

(38) Discontinued operations

With effect as at January 01, 2006 elexis AG divested all its shares in AVITEQ Vibrationstechnik GmbH, Hattersheim. AVITEQ Vibrationstechnik GmbH, Hattersheim, is active in the area of conveyor belt technology. With the sale elexis concluded its course towards consistent concentration on factory automation. The purchaser of the shares are the two general managers, Wolfgang Finger and Achim Eicke.



(39) Participations in the share capital of elexis AG

As at the balance sheet date of December 31, 2006 or up to the drawing up of these financial statements the following announcements were made in accordance with the German Securities Trading Law (WpHG) concerning reportable shareholdings in the share capital of elexis AG:

Shareholder	Date of announcement	Shareholding in %
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen	(Announcement of 02.04.2002/08.05.2002)	8.61
Baden-Württembergische Investmentgesellschaft mbH, Stuttgart	(Announcement of 10.01.2007)	7.60
Tito Tettamanti, London, UK (through Sterling Strategic Value Limited, Tortola, BVI; International Equity Development S.L., Barcelona, Spain/IED International Equity Development GmbH, Frankfurt/Main, Germany)	(Announcement of 06.03.2007)	5.91
DWS Investment GmbH, Frankfurt	(Announcement of 09.01.2006)	5.20
Union Asset Management Holding AG (on behalf of Union Investment Luxembourg S.A.), Frankfurt	(Announcement of 13.02.2007)	4.08

The remaining 70.90% of the shares are in the free float and need not be disclosed.

(40) Management Board

Composition of the Management Board in the year under report:

Siegfried Koepf (Dipl. Ing.), Mühlthal (Chairman),
Edgar Michael Schäfer (Industrial manager), Wilnsdorf

(41) Supervisory Board

The Supervisory Board of elexis AG was composed as follows during the fiscal year 2006:

Dr. Dirk Wolfertz, Bad Homburg (Chairman)	Managing shareholder of Intec Beteiligungsgesellschaft mbH, Bad Homburg
Karl Heinz Gorgas, Tettnang	Management consultant
Heinzpeter Greven, Eschborn (since May 24, 2006)	Process engineer
Georg Keppeler, Olpe (Deputy Chairman)	Trade union secretary (employees' representative)
Stefan Köster, Olpe	Chairman of the Employees' Council (employees' representative)
Klaus Kramer, Bielefeld	Electrician (employees' representative)
Willi B. Loose, Tervuren/Belgien	Management consultant
Dieter Schulze, Pfaffing	Management consultant
Prof. Dr. Michael Wackenhuth, Weilheim/Teck	Lawyer

Mr. Heinzpeter Greven was elected to the Supervisory Board through a resolution of the general meeting of shareholders of May 24, 2006. He succeeds Mr. Heribert Rau, who resigned as at December 31, 2005.

The following members of the Supervisory Board are also members of the Supervisory Boards or other supervisory bodies of the following companies within the meaning of Section 125 Paragraph 1 Sentence 3 of the German Stock Corporation Law:

Member of the Supervisory Board

Dr. Dirk Wolfertz

Karl Heinz Gorgas

Heinzpeter Greven

Georg Keppeler

Prof. Dr. Michael Wackenhuth

Other Supervisory Board appointments

Nucletron Electronic AG (Chairman)

Harms & Wende Beteiligungs GmbH

Harms & Wende QST GmbH

PROCON PAS Elektronik GmbH

Peter Greven Fett-Chemie GmbH & Co. KG

Treuhandverwaltung IGEMET GmbH

Member of the board of directors of AOK Westfalen Lippe

MOSOLF GmbH & Co. KG, Internationale Spedition

MOSOLF Automotive Industries AG (Chairman)

Central-Druck Medien AG (Chairman)

According to Section 264 § 3 of the HGB the consolidated financial statements are **liberating financial statements** for the following Group companies:

1. EMG Automation GmbH, Wenden
2. BST International GmbH, Bielefeld
3. Elexis Beteiligungsgesellschaft mbH, Wenden

The declaration of compliance of elexis AG with the German Corporate Governance Code (in accordance with Section 161 of the German Stock Corporation Law) is published in the internet under www.elexis.de and has thus been made available to the shareholders.

(42) Audit fees

In accordance with IDW HFA 1,006 fees paid to the auditors during the fiscal year 2006 are included in the operating expenses in the amount of € 203,000 (prior year: € 217,000).

€ 000	2006	2005 Continuing operations
Fees for audit	174	174
Fees for other services	29	43
Total	203	217

(43) Related Party Transactions

Sales in the amount of € 2,494,000 (prior year: € 1,642,000) were realised during the fiscal year 2006 with the non-consolidated associated companies of the Group. Sales in the amount of € 969,000 were realised up to the date of divestment with EMG Electromecanica General Iberica S.L., Spain, which was sold as at July 31, 2006. The transactions are carried out on an arm's length basis. The associated companies are mainly engaged in sales and service activities and are paid in part through commission payments.

The relationship of the elexis Group with the non-consolidated associated companies is summarised as follows:

€ 000	Receivables of the Group from associated companies as at		Liabilities of the Group to associated companies as at		Sales of the Group with associated companies	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	2006	2005
elexis beta GmbH	68	52				
BST France S.A.R.L., France	31	149	244	417	24	20
BST Italia S. r. l., Italy	112	72	79	113	40	34
BST Sayona Automations Private Ltd., India	109	67	131	57	349	308
EMG Electromecanica General Iberica S.L., Spain		684		1		1,253
EMG AUTOMATION Ltd., U. K.			3		1	27
EMG Automation (Beijing) Ltd., China	281		279		2,080	
Gesamt	601	1,024	736	588	2,494	1,642

Wenden, March 09, 2007

elexis AG, The Management Board



Siegfried Koepf



Edgar M. Schäfer



5.0_ Auditors' report

"We have audited the consolidated financial statements, consisting of the profit and loss account, the balance sheet, the changes in shareholders' equity, the statement of cash flow, the schedule of income and expenses included, the segment report and the notes to the financial statements as well as the Group management report of elexis AG, Wenden for the fiscal year from January 1 to December 31, 2006. The presentation of the consolidated financial statements and the Group management report in accordance with the regulations of the International Financial Reporting Standards (IFRS), as they are to be applied in the EU, as well as the supplementary regulations to be applied in accordance with Section 315 a Paragraph 1 of the HGB and the supplementary conditions of the articles of association are the responsibility of the Management Board of the company. It is our responsibility to issue an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB (German Commercial Code) and the generally accepted standards for the audit of financial statements issued by the Institute of German Auditors. Those standards require that the audit be planned and performed in such a manner, that it can be assessed with reasonable assurance whether the consolidated financial statements, prepared in accordance with the generally accepted accounting principles and the Group management report, are free from errors and misstatements materially affecting the presentation of the assets, financial position and results. Knowledge of the company's business activities and its economic and legal environment, together with an evaluation of the incidence of possible misstatements, are taken into account in the determination of the audit procedures. The scope of the audit includes assessing the effectiveness of the internal control system based on the accounting records and the evidence relevant to the amounts and disclosures in the consolidated financial statements and the Group management report, which are mainly examined on a test basis. The audit includes the assessment of the financial statements of the companies included in the consolidated financial statements, the scope of the consolidation, the adequacy of the consolidation and accounting policies used as well as the significant estimates made by the Management Board, together with assessing the overall adequacy of the presentation of the consolidated financial statements and the Group management report. We believe that our audit provides an adequate basis for reaching our opinion.

Our audit did not result in the necessity for any qualification of our opinion.

In our opinion and on the basis of our knowledge gained during the audit, the consolidated financial statements of elexis AG, Wenden correspond to IFRS, as they are to be applied in the EU, as well as the supplementary regulations to be applied in accordance with Section 315 a Paragraph 1 of the HGB and the supplementary conditions of the articles of association and present within the meaning of these regulations a true and fair view of the assets, financial position and results of the Group. The Group management report corresponds to the consolidated financial statements and gives in total an adequate description of the position of the Group and states suitably the opportunities and risks arising from future developments."

Düsseldorf, March 09, 2007

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Ludwig)
Auditor

(Dr. Froese)
Auditor

6.0_ elexis AG financial statements as at December 31, 2006 (drawn up as per HGB)

Profit and loss account of elexis AG for the period from January 1 to December 31, 2006

	2006 € 000	2005 € 000
1. General administration expenses	2,199	2,298
2. Other operating income	865	1,899
3. Other operating expenses	196	837
4. Income from profit transfer agreements	16,591	11,035
5. Other interest and similar income <i>of which from associated companies: (€ 870,000) (prior year: € 878,000)</i>	879	878
6. Interest and similar expenses	64	78
7. Result from ordinary activities	15,876	10,599
8. Taxes	3,832	2,224
9. Net income (= retained earnings)	12,044	8,375



Notes:

eLEXIS

7.0_ Corporate calendar

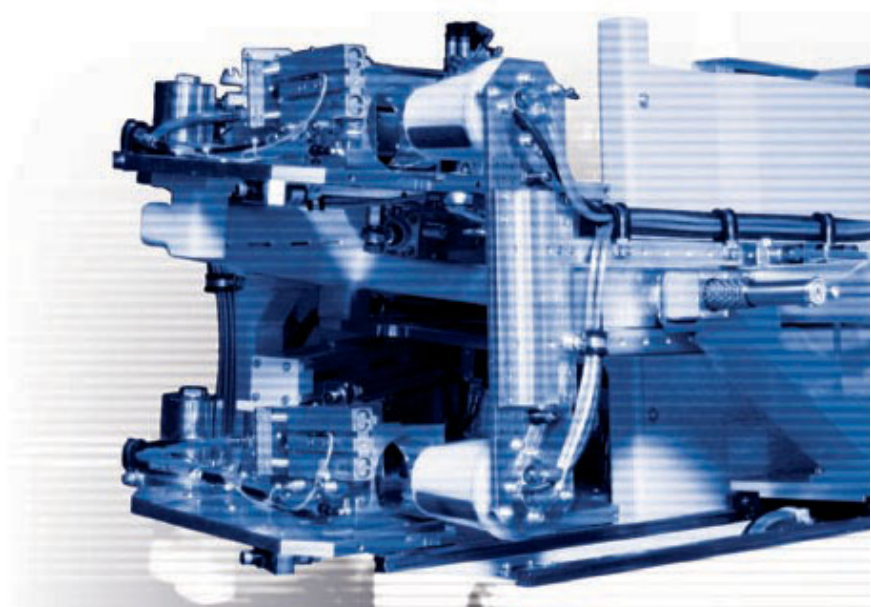
Interim report 1-3/2007	May 2007
General meeting of shareholders	May 16, 2007
Interim report 1-6/2007	August 2007
Interim report 1-9/2007	November 2007
Analysts' conference	November 2007
Annual report 2007	March 2008

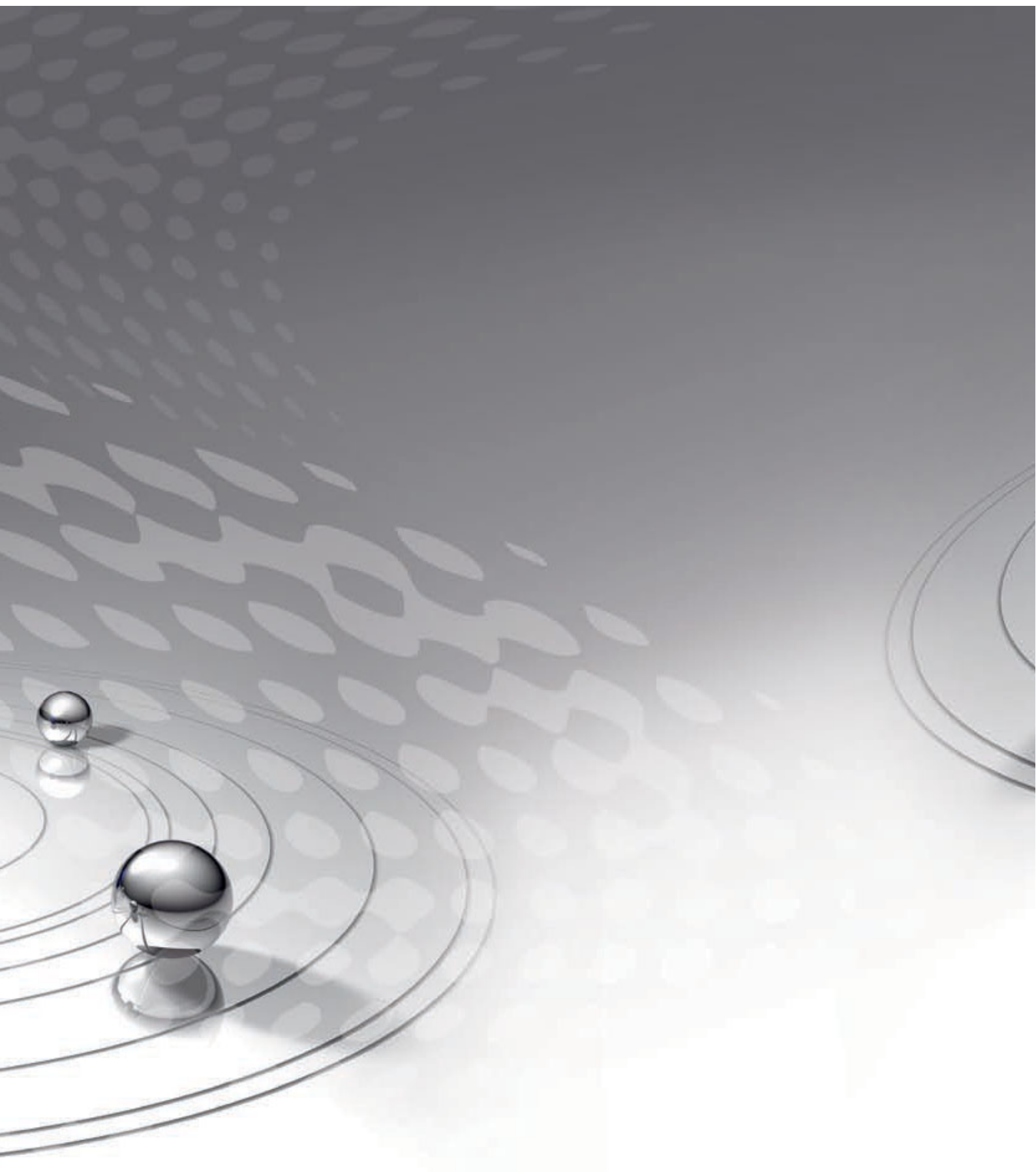
Imprint

Apart from the employees of elexis AG the following have cooperated in the drawing up of this annual report:

Text and concept
BÖHM CONSULT AG, Berlin

Layout and Design
Die Geschmacksverstärker
Kommunikationsagentur GmbH, Berlin





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