Annual Report 2007

07

elexis

vision for automation

elexis at a glance

€ million	2007	2006*
Incoming orders	183.1	146.0
Sales (net) *of which international in %*	161.2 *62.7*	138.2 *61.1*
Gross profit	62.9	55.4
EBITDA	27.9	23.8
EBIT *EBIT margin (in %)*	24.6 *15.3*	20.7 *15.0*
EBT	23.1	19.2
Net income	15.1	12.8
Earnings per share in € (DVFA/SG)	1.64	1.39
Number of shares in circulation (in million)	9.2	9.2
Cash flow from operating activities	21.8	18.7
Investments	7.9	3.8
Key data as at 31.12.		
Working Capital	5.3	5.1
Long term liabilities to banks	7.4	8.5
Net liquidity	24.7	23.3
Shareholders' equity	62.9	50.0
Balance sheet total *Equity ratio (in %)*	132.5 *47.5*	117.3 *42.6*
Employees (as at balance sheet date. excluding apprentices)	763	718
Profitability data		
Return on shareholders' equity after tax (in %)	*24.7*	*26.2*
Return on capital employed (ROCE in %)	*45.4*	*40.5*

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

Annual Report 2007

Letter to the Shareholders

Dear Shareholders,

2007 was an eventful and above all a successful fiscal year. For the fifth time in a row the elexis Group succeeded in increasing its earnings further. During the past fiscal year we achieved the best result in the existence of the Company. Already the key data for the first nine months 2007 were marked by strong rates of growth. These could again be exceeded in the 4th quarter. A contribution to this was made by all the six strategic business units, which are combined in the Factory Automation, Steel and Printing as well as in the Factory Automation, Plastics divisions. The success of the individual strategic business divisions and of the Group is based on our corporate culture, which promotes the commitment of our employees as well as our factual closeness to the customers. A high innovation strength, strict cost discipline and global presence are the key elements of our daily actions.

Product innovations support the business

All strategic business units presented new and innovative products during the past year. The eMASS quality control system was one of the highlights in the steel sector. Following a three year development and test phase this system for strip stabilisation went into serial production. eMASS enables the application of the zinc coating for corrosion protection of steel sheet in a more homogeneous and thinner manner than is possible with traditional processes. As a result of this the quality of the steel increases. The savings in zinc also lead simultaneously to lower costs. Several leading international steel groups have already ordered eMASS systems prior to the start of serial production.

In the printing sector we equipped the PREMIUS digital with 3 chip camera technology with an important additional function, the so-called ink desk presetting (IDP). Moreover, we developed from this with the PREMIUS digital LEX a version of this print management system, with which also narrow material webs can be monitored. For example, the printing of labels for pharmaceuticals demands the highest precision and quality.

In the past the Factory Automation, Plastics division developed jointly with a customer new production equipment for the manufacture of contact lenses. As a result of these prior efforts we acquired in 2007 the largest order in the corporate history of the elexis Group. With customers from the packaging industry we developed new types of packaging for food, which are produced on innovative automatic equipment from elexis. The feed-back on the end products on the test markets was outstanding.

eMASS, PREMIUS digital with IDP and the new types of production lines in the plastics sector are only some of the many product innovations, which we brought to the market in 2007. During the fiscal year 2007 more than 40% of the orders acquired were attributable to products, which are less than four years old and are thus considered to be among the innovations. From a commercial point of view the new products were marked by fast growing sales and earnings contributions.

Cost discipline guarantees high degree of competition

A consistent cost discipline enables us to offer our technically leading products also at competitive prices to the market. We achieve favourable purchasing prices through worldwide purchasing activities. As a result of the 11% loss in value of the US dollar in 2007 the dollar area offered in particular inexpensive purchasing possibilities. In 2007 we also procured more preliminary products from Eastern Europe and China than in the years before. Overall, the increase of the raw material costs could be compensated to a large extent.

With regard to the engineering of our products we always pay attention to possible simplifications, in order to save costs. We always check the individual parts and components again and again to determine whether it is more favourable to manufacture these ourselves or to purchase them.

During the year 2007 the added value per employee increased by almost 8%. This therefore made a major contribution to our being able to calculate competitive sales prices.

The high working time flexibility of our personnel also saves costs. Our employees adjust their working time independently to the order situation. We do not register any idle time.

International presence on the most important purchasing and sales markets

In addition to the purchasing our sales activities are above all structured internationally. In the meantime we have five production and twelve sales and service companies abroad. The two most recent foreign companies are EMG Automation (Beijing) Ltd. and BST International Shanghai Co. Ltd. Thanks to them our presence in the growth market of China is greatly enhanced. Since approximately two years EMG Automation (Beijing) Ltd. has undertaken its business so successfully that we have included it in the scope of consolidation retroactively for the fiscal years 2006 and 2007. The key data for both years thus relate to the elexis Group including EMG Automation (Beijing) Ltd.

Numerous contacts with customers also took place at the more than two dozen international trade fairs, at which the elexis Group presented its products during the past year.

Through our closely meshed sales network we are present with experts on site in all the important sales markets of the world. More than one quarter of our employees work abroad. We have more than 6,000 customers in 80 countries. Approximately 80% of sales were achieved in 2007 either directly or indirectly abroad. Our own employees are supported by roughly 100 sales representatives with whom we cooperate.

Closeness to the customers worldwide

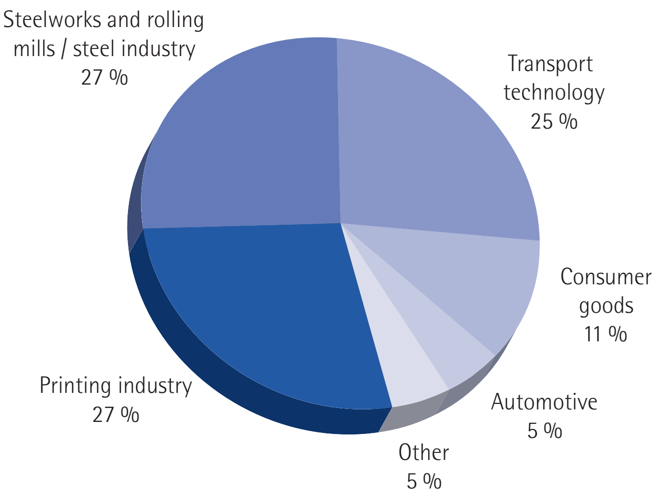
It is essential for us to be close to the customer. We have developed many product innovations jointly with our customers. The most recent examples of this include the eMASS from Factory Automation, Steel and Printing and also the equipment for the manufacture of contact lenses from the plastics sector. As a result of this close cooperation it is possible to tailor the products exactly to the requirements of the customers.

Our service is present worldwide. Our customers meet everywhere experienced and competent contact partners from elexis, who normally speak the national language. The regional closeness is often the key reason for their decisions to purchase. This fact was also proven in 2007 by the sales successes of the two most recent production, sales and service companies in China.

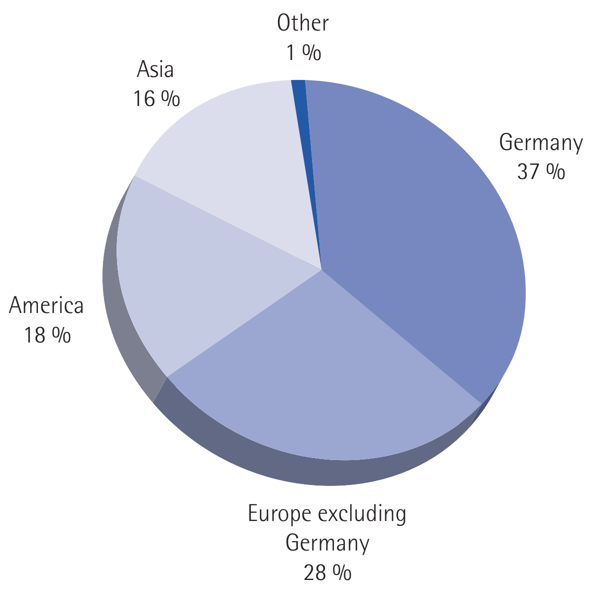
elexis less exposed to economic fluctuations

The structuring of elexis into the Factory Automation, Steel and Printing and Factory Automation, Plastics divisions has the advantage that elexis is not dependent on the development of any specific branch of the economy.

Branch structure 2007*



Regional structure 2007*



*basis: consolidated sales 2007 of € 161.2 million

With the broad regional structure as well as the international customer base elexis is less exposed to economic fluctuations.

Earnings and profitability at record level

Both the earnings as well as the profitability rose to a new record level during the period under report. Earnings before interest and taxes (EBIT) increased by almost 19% from € 20.7 million to € 24.6 million. The EBIT margin rose from 15.0% in 2006 to 15.3% in 2007. Earnings after interest and taxes (net income) grew from € 12.8 million to € 15.1 million. This represents an increase of 18%. Earnings per share amounted in 2007 to € 1.64 versus € 1.39 in the prior year. The number of 9.2 million shares in circulation remained unchanged.

Strong growth in incoming orders and sales

Both the Factory Automation, Steel and Printing division as well as the Factory Automation, Plastics division acquired substantially more orders than in the prior year. In the elexis Group incoming orders rose in total by 25% from € 146.0 million to € 183.1 million. At the same time sales grew from € 138.2 million in 2006 to € 161.2 million in 2007. This corresponded to an increase of 17%. Incoming orders exceeded sales in the period under report by almost 14%.

Other key data

The cash flow from operating activities rose from € 18.7 million (2006) to € 21.8 million (2007) due to the considerable increase in the result, even though the tax payments increased significantly from € 4.0 million to € 7.7 million. The outflow of funds from investing activities amounted to € 6.7 million. The investments were attributable above all to the comprehensive capacity extensions. In spite of taking down an additional loan of € 1.8 million for the financing of investments, the balance of the bank loans decreased from € 8.5 million as at December 31, 2006 to € 7.4 million as at December 31, 2007. The dividend payment for the fiscal year 2006 led to an outflow of funds of € 4.1 million. Furthermore, there was an outflow of funds into the elexis-Pension-Trust e.V. in the amount of € 4.0 million. This trust was founded in order to spin off a part of the pension obligations from the balance sheet and to serve in part future pension claims. The outflow of funds was set off by a corresponding decline in the provisions for pensions. On balance, the net liquidity increased by 6% from € 23.3 million to € 24.7 million.

The return on capital employed (ROCE) increased by 4.9 percentage points from 40.5% to 45.4%. During the period under report the return on equity amounting to 24.7% was also at a very positive level.

Continuation of profitable growth expected

In spite of the most recent turbulences on the international financial markets and their effects on the industrial economy, we are positive about the further business development.

We are of the opinion that the worldwide demand for qualitatively high value steel sheet will increase well beyond the year 2008. The strategic business unit, Factory Automation, Steel with its strip guiding systems will benefit from this. We expect a clear spurt in growth from the quality control systems from the steel sector. The IMPOC, SORM 3plus and eMASS products are only at the beginning of their product life cycle and can in particular also be retrofitted to existing plant and equipment.

World trade has almost doubled during the past six years. At the same time the demand for raw materials has increased enormously. Both the international ports as well as the mining groups are enlarging their capacities. This leads to increased demand for heavy crane and conveyor equipment. The electro-hydraulic brake thrusters are used for this equipment as a leading security technology. We also expect a further increase in orders in this respect.

The special trade fair, Drupa, constitutes a particular highlight in 2008 for the strategic business units of printing, foils, paper and quality control systems for the printing industry. In the past the volume of orders from the manufacturers of printing machinery increased by 10% and more in the years in which the worldwide largest special trade fair of its type took place. We expect a clear growth in orders from the Drupa.

There are also positive indications for the development of the business in the Factory Automation, Plastics division. During the period under report incoming orders exceeded sales by 40%. The largest portion of the production equipment ordered will be manufactured and delivered in the new fiscal year. Furthermore, we expect in addition high levels of incoming orders from further joint development projects with customers.

Substantial expansion of the capacities took place at the right time at all business units. As a result the elexis Group is in the position to continue successfully the course of expansion, which has been introduced.

Our thanks to customers, employees and shareholders

We wish to thank our customers for the positive, trusting and fair cooperation during the past year. The intensive exchange with our customers enables us to tailor, develop and bring to the market new products corresponding exactly to their requirements. Only the employees of the elexis Group have made the successes of the past years possible thanks to their competence, willingness to innovate and their commitment. We should like to express our thanks to them. We also wish to thank our shareholders for the numerous discussions and their suggestions. We are strongly convinced of the continued positive future of the Company. We would be very happy if you as a shareholder will continue to accompany the development of the elexis Group also in the future.

The Management Board

Siegfried Koepp

Edgar Michael Schäfer

Report of the Supervisory Board

on the fiscal year 2007

During the fiscal year 2007 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. In particular, this information included 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 between the Chairman of the Supervisory Board and 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, compliance and matters concerning the audit. In this respect the emphases of the audit were discussed and determined with the auditors.

The term of office of the members of the Supervisory Board ended following the ordinary general meeting of shareholders on May 16, 2007. With the exception of Mr. Heinzpeter Greven, who was no longer available for re-election, the representatives of the shareholders in office up to that date were elected by the general meeting of shareholders by means of individual election as members of the Supervisory Board for a new period of office. Mr. Klaus Schulze was elected to the Supervisory Board as a replacement for Mr. Greven. The Supervisory Board wishes to thank Mr. Greven for his constructive and trusting cooperation. Following the general meeting of shareholders on May 16, 2007 the Supervisory Board re-elected from its members at its constituting meeting Dr. Dirk Wolfertz as Chairman of the Supervisory Board and Mr. Georg Keppeler as his deputy. Thereafter, the members of the committees of the Supervisory Board and their Chairmen were elected.

In four regular meetings, at two meetings of the Presidium and at one 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 companies 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 resolved in meetings of the Supervisory Board and its Committees.

The main emphases of these meetings were on the strategic direction of the elexis Group, the business development, the dividend policy, the approval of the budgeted investments and the use of funds, in particular for the expansion of the manufacturing and development capacities in the divisions as well as measures for increasing the growth. The Management Board always consulted in this respect with the Supervisory Board and gave information regularly, promptly and comprehensively on the implementation of the above-mentioned measures, the strategy and also the property, plant and equipment and the financial assets.

For example, in order to fulfil the task for which it is also competent of efficiently monitoring the use of investment funds for manufacturing and projecting capacities within the Group, the Supervisory Board arranged for and held three of the four regular meetings each at the site of the management companies of the divisions in Wenden (EMG Automation GmbH), Bielefeld (BST International GmbH) and Eching (HEKUMA GmbH). In this respect the members of the Supervisory Board were able to obtain also visually a qualified picture of the planning and implementation of the investment measures of the Management Board and the management of the Group companies.

In the middle of 2007 the Supervisory Board resolved in connection with the growth concept to examine the granting of a special bonus to the members of the Management Board and the senior management in the event of a significant increase in the share price during the next three years.

The remuneration of the members of the Management Board consists of fixed (fixed) salary and variable compensation (bonus). The variable remuneration is dependent on an agreement on the objectives which are determined jointly by the Management Board and the Supervisory Board. During the past fiscal year 2007 the remuneration of the Management Board amounted to € 774,000 (prior year: € 728,000). Of this, € 500,000 was attributable to fixed salary and € 274,000 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 € 82,000, 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. These are based on the contractual rights of the members of the Management Board and vary according to the personal situation of the members 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 Management Board of elexis AG as well as their activities in the general management of the subsidiaries. There are no other remuneration agreements. 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 € 270,000 as at December 31, 2007 (prior year: € 286,000). 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 on June 25, 2004 and is included in Section 15 of the articles of association of elexis AG. For the fiscal year 2007 the fixed compensation amounted to € 15,000 for each member of the Supervisory Board, the Chairman received € 30,000 and his deputy € 23,000. A total of € 53,000 was paid for activities in the Audit Committee and the Presidium, whereby amounts of between € 5,000 and € 15,000 were paid to individual members of these bodies. The basic remuneration of the Supervisory Board therefore amounted to € 211,000 during the fiscal year 2007. 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 the net income. For the fiscal year 2007 an amount of € 161,000 was disbursed for variable compensation. In total, the remuneration for the Supervisory Board during the fiscal year 2007 amounted to € 372,000 (prior year: € 344,000).

Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, as auditors, has audited 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, 2007. Within the context of its audit the auditors also had to assess whether the Management Board had initiated all legally required measures with regard to the early identification of risks.

The auditors have confirmed in their audit report the compliance with all legal regulations in respect of the accounting principles 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 system for the early identification of risks, the Auditors have declared that the Management Board has initiated the measures and in particular a risk monitoring system, as required by Section 91, Paragraph 2 of the German Stock Corporation Act (AktG) and Section 289 of the German Commercial Code (HGB) and that these are appropriate for recognising at an early stage developments which might endanger the continuation of the Company and the Group.

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 income for the year at its meeting held on March 18, 2008. 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 19, 2008 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, 2007 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 am Main, March 19, 2008

The Supervisory Board

Dr. Dirk Wolfertz
Chairman

1 The elexis share

Following four years of constant increase the price of the elexis share (ISIN: DE 000 508 500 5) ended the fiscal year for the first time at a lower level than at the beginning of the year. The decline in the price of the share cannot be explained by the development of the operating business of the elexis Group. In our opinion the reason for the price decline was the uncertainty on the international financial markets which was caused by the US mortgage crisis. As from the middle of 2007 this crisis put in particular the small caps under pressure, which had since 2003 risen much more strongly than the blue chips. Numerous equity funds, which invested in small caps, suffered from substantial outflow of funds. As a result they were forced to sell also valuable investments.

The low was reached by the share on December 19, 2007 at a price of € 18.79. The highest price of the share of € 26.76 was reached on May 16, 2007, the day of the general meeting of shareholders. This price constituted to date also the all-time high of the share. In addition, the investors received a dividend payment of € 0.45 per share. elexis thus distributed a total of € 4.1 million to its shareholders. Based on the net income of the elexis Group the distribution ratio amounted to 32%.

Summary of the elexis share

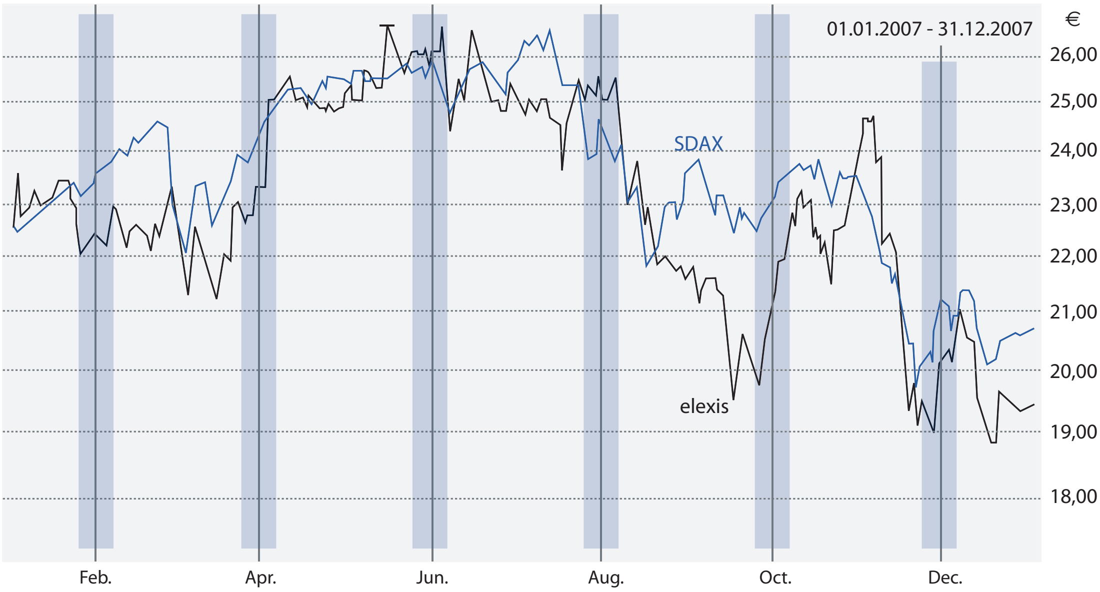
Stock market price (XETRA closing price) in €	2007	2006
High	26.67	24.99
Low	18.79	15.67
Beginning of year	22.50	18.20
End of year	19.30	21.75
Number of shares (in million)	9.2	9.2
Market capitalisation as at 31.12. (€ million)	177.6	200.1

The Management Board places major importance on an open and transparent communication with investors and analysts. Current and potential investors were informed during several road shows both in Germany and abroad about the business model of the elexis Group. Within the context of the announcement of the results for the fiscal year 2006 a financial telephone conference was held. This was followed in November by an investors' and analysts' conference in Frankfurt am Main. Furthermore, the Management Board answered the questions of the shareholders at the general meeting of shareholders in Wenden in May.

During 2007 the Management Board was also regularly in contact directly with the analysts. The research teams of Berenberg Bank BHF-Bank, HSBC Trinkaus & Burkhardt, Landesbank Baden-Württemberg and Bankhaus Lampe regularly analyse the share of elexis. All analysts have most recently issued buy recommendations for the elexis share. The price targets lay between € 24.00 and € 30.50. The media also showed a high degree of interest in the development of the elexis Group. Comprehensive articles appear inter alia in the Financial Times Deutschland and the Frankfurter Allgemeinen Sonntagszeitung.

According to the definition of Deutsche Börse AG 100% of the elexis shares are in the free float. Shareholders subject to disclosure reported as at December 31, 2007 Mr. Tito Tettamanti, Baden-Württembergische Investmentgesellschaft mbH and Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte. The number of 9.2 million shares in circulation remained unchanged. The security is listed on the Prime Standard, which is the most strictly regulated market of Deutsche Börse AG. Moreover, the shares form part of the SDAX.

elexis share vs. SDAX (Perf.)



2 Management report

2.1 The economic environment

The business of the elexis Group developed during the period under report in an overall positive environment. High growth was registered in particular by developing countries such as Brazil, Russia, India and China. This growth lay between 4% and 11% in 2007. The economy was also comparatively robust in Europe. Even in the United States of America, where there are currently the greatest economic worries, the economy only grew at a significantly lower pace towards the end of the year. The development of the economy abroad is of particular significance for elexis, since approximately 80% of the products are sold either directly or indirectly outside Germany.

The development of the exchange rates was less positive. The US dollar lost 11% in value against the euro during the period under report. During the past two years the US currency has declined by even 23%. The Japanese yen devalued by 5% against the euro in 2007 following major fluctuations. This development increased substantially the price pressure from competitors from the dollar area and from Japan. However, at the same time supplier components from the dollar area became cheaper, and this was exploited by the elexis Group through more intensive purchasing activities from this currency area. We also increased our purchasing activities in China and Eastern Europe.

The price increases in raw materials, which are to a large extent settled in US dollars, were mitigated by the development of the exchange rates. Nevertheless, energy prices rose significantly. In the case of the domestic companies the wage tariff increases which were agreed also led to a significant rise in costs of more than 4%.

2.2 The individual divisions

The **Factory Automation, Steel and Printing** division succeeded in continuing the high rate of growth of the prior years. At the same time the **Factory Automation, Plastics** division returned successfully to its expansion path.

Factory Automation, Steel and Printing

The quality control systems have attained an outstanding importance in the steel sector. The products from elexis have numerous unique characteristics. As a result the price pressure of the competition is declining. The quality control systems are marked by the fact that they operate contact-free and online. The steel band is not damaged as in the case of traditional processes. Furthermore, the measurement of the relevant parameters takes place during the course of the production process.

The mechanical material qualities of tear resistance and elastic limit are measured by the IMPOC quality control system. The contact-free measurement makes destructive testing operations such as tear resistance tests unnecessary. As a result the manufacturing costs decline. Simultaneously, IMPOC increases the manufacturing quality and serves to avoid waste.

The SORM 3plus quality control system measures the roughness of cold rolled steel sheet. The measurement data obtained lead directly to correction measures in the event of undesired deviations in quality. SORM 3plus makes it possible to increase on a sustained basis the degree of automation of the production lines. The steel band of the total coil thus has a constant high material quality.

eMASS is an electro-magnetic stabilisation system, which reduces substantially the oscillations of steel bands. This system is used above all for hot galvanising lines. Through eMASS it is possible to apply the zinc coating for corrosion protection more evenly and thinner. The use of zinc is reduced and this leads to considerable savings. The depreciation period of an eMASS system is substantially less than twelve months. Frequently the production speed can at the same time be increased whilst the same high quality is maintained. The serial production of eMASS started in the middle of 2007. This is the most recent product of the quality control systems for steel.

In total, the quality control systems for steel achieved high double-digit percentage growth rates with regard to incoming orders as well as to sales.

The subsidiary, EMG Automation GmbH, which includes Factory Automation, Steel was awarded at the end of the year the highly regarded Innovation Prize of North Rhine Westphalia.

The basic business of Factory Automation, Steel, i.e. the strip guidance systems, also developed positively. Above all abroad the branches of steel as well as steelworks and rolling mill equipment registered high rates of growth. We are participating decisively in this development on the basis of a very competitive product portfolio and a good market position. elexis is the world market leader with this strategic unit. The strip guidance systems and the quality control systems are registering the highest rates of growth in the Asian markets. The business also developed positively in Germany and in other Western European states.

The electro-hydraulic brake thruster systems exceeded again in 2007 the record result of the prior year. In this respect we benefited from the expansion investments of the mining groups and the maritime ports. Together with modern drum and disc brakes the security technology of elexis ensures safe braking operations for heavy cranes and conveyor equipment. We are leaders worldwide in this niche market with our ELDRO® and ELHY® product series.

Above all the quality control systems are also supporting the growth in the printing sector. The PREMIUS digital with 3 chip camera technology again proved to be the bestseller. For the first time we equipped this high-performance print management system with ink desk presetting. According to the reactions of our customers the PREMIUS digital with this software addition is technologically superior to the products of the competitors. Furthermore, we developed with the PREMIUS digital LEX a version for narrow material webs. It is possible for the first time with the SHARK 100% fault detection system to search the complete product for printing errors. The sales of quality control systems, printing developed particularly positively in Western Europe and Asia. The business with quality control systems for the tyre industry was supported by high demand from China and South Korea.

Contrary to the general branch trend in the printing industry the business of web guidance systems increased. This strategic unit registered high growth in the German and in the Chinese markets. Nevertheless, the exchange rate problems have a negative influence in part on the margins.

The overall Factory Automation, Steel and Printing division increased incoming orders by 11% to € 135.4 million. Sales rose by 13% to € 127.2 million. Earnings before interest and taxes (EBIT) reached the record level of € 22.3 million. The division thus exceeded the prior year earnings by 19%. As a result of the productivity increases the high growth was achieved with only a slight increase in personnel. The number of employees (excluding apprentices) rose as at December 31, 2007 by 5% to 604.

Summary of Factory Automation, Steel and Printing

€ million	2007	2006*	Change
Incoming orders	135.4	122.0	+ 11 %
Sales (net)	127.2	112.8	+ 13 %
EBITDA	24.7	21.0	+ 18 %
EBIT *EBIT margin (in %)*	22.3 *17.5*	18.7 *16.6*	+ 19 %
Employees**	604	577	+ 5 %

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China
** Balance sheet date December 31, excluding apprentices

Further outlook of Factory Automation, Steel and Printing

In the Factory Automation, Steel and Printing division we are expecting an expansion of the business also in 2008 and 2009. During the 3rd quarter 2007 we decided on a comprehensive growth concept for the quality control systems, steel. Additional fields of application should be developed for IMPOC, SORM 3plus and eMASS. Furthermore, the development of additional quality control products are planned. Since the middle of last year we already offer a high speed version of the IMPOC quality control system. With this it is possible to measure the tear resistance and the elastic limit of steel bands even at production speeds of up to 900 metres per minute. The growth concept also includes the hiring of new personnel, comprehensive investments and numerous organisational measures.

In 2007 we obtained for the first time a customer from outside the steel industry for IMPOC and SORM 3plus. This customer from the automotive branch controls the quality of the steel sheet delivered with the two systems, before processing this further into vehicle bodies. The broadening of the customer base promises enormous growth potential.

We concluded a general agreement with ArcelorMittal for the delivery of eMASS systems. During a two year period the largest steel group in the world will source its systems for sheet stabilisation from elexis. Already earlier eMASS systems had been ordered by the internationally leading steel producers, ThyssenKrupp Steel, Dongbu Steel and Baoshan Iron and Steel. The gain of these important reference customers will contribute towards acquiring additional customers for eMASS. We are expecting a substantial increase in eMASS orders in 2008.

With regard to strip guidance systems we expect a continuation of the development of the business at a high level. We foresee particular impulses from the modernisation of the Chinese steel industry. The People's Republic is by far the largest steel producer in the world. In addition we are extending the product portfolio with new solutions also in this strategic business unit.

In order to be able to handle the growth in the steel sector, the construction of a new manufacturing hall was already started in 2007 at the Wenden site. At the same time a new office building is being constructed. The building measures are expected to be concluded during the 3rd quarter 2008.

In the strategic business unit of transmission technology we have already enlarged the manufacturing capacities through the construction of an additional assembly hall in Oschersleben. The long term plans for the capacity expansion of the maritime ports and the mining companies are resulting in further increasing orders for electro-hydraulic brake thruster systems.

With regard to the PREMIUS digital with 3 chip camera technology the new IDP software application and the additional version for the narrow material webs indicate that higher sales figures can be expected. We also see substantial growth potential in the SHARK fault detection system. We shall open up this potential with further product development in respect of SHARK 4000. With PROScan 4000 and SUPER HANDYScan 4000 we have additional new products, which obtain outstanding feed-back from the market.

With regard to the web guidance systems for the printing industry we have many promising further developments in our product portfolio with the CompactGuide web guidance system and the compact controller ekr 500. Both components are being evaluated very positively by our customers.

Russia and the Asian countries are becoming increasingly important as sales markets for the printing sector. We are expecting an even more intensive development of the market by the production, sales and service company, BST International Shanghai Co. Ltd., which was established in 2007.

We are expanding the capacities for Factory Automation, Printing at the Bielefeld site with the construction of an office wing and in 2008 with a two storey assembly hall.

The Factory Automation, Steel and Printing division has started the year 2008 with a technologically strong and further developed product portfolio. Additional new products will be presented during the course of the year, for example, at the international printing trade fair, Drupa, in Düsseldorf. The sales activities have also been intensified simultaneously. In view of this we are confident that we shall be able to maintain and further expand our leading position in market niches both in the new fiscal year and beyond.

Factory Automation, Plastics

Factory Automation, Plastics acquired a substantial volume of new orders above all during the last three months of 2007. The major portion of the orders came from abroad. At 85% the share of exports still remained at a high level. The most important customers came from the consumer, healthcare and automotive branches. In October 2007 Factory Automation, Plastics announced the largest order in the corporate history of the elexis Group. The customer ordered manufacturing lines in an amount of € 17.0 million for the production of contact lenses. For several years there has been a close and trusting cooperation with this customer. Due to the longer set-up times for special machinery construction this large order resulted in corresponding sales only to a small extent. By far the larger part of this order will have a positive effect in 2008 on sales and earnings.

Since the management had expected a substantial expansion of the organic business, comprehensive capacity extensions already took place during the period under report. A second assembly hall was rented and by the middle of this year will be equipped correspondingly to meet the technical requirements. The office space existing in the new hall is being used in particular by employees from the areas of engineering and software development.

During the period under report incoming orders almost doubled from € 24.0 million to € 47.7 million. Apart from the above-mentioned large order a contribution to this was also made by increased demand from the automotive sector. Furthermore, customers from new fields of business ordered their first production lines. Sales grew by 34% to € 34.0 million. A substantial increase could also be achieved with regard to earnings, even though extensive preliminary work in connection with the acquisition of new orders and the capacity expansion had been charged to the result. Earnings before interest and taxes (EBIT) increased by 17% to € 4.1 million. The number of employees rose from 138 to 156.

Summary of Factory Automation, Plastics

€ million	2007	2006	Change
Incoming orders	47.7	24.0	+ 99 %
Sales (net)	34.0	25.4	+ 34 %
EBITDA	4.9	4.4	+ 11 %
EBIT	4.1	3.5	+ 17 %
EBIT margin (in %)	*12.0*	*13.8*	
Employees**	156	138	+ 13 %

* Balance sheet date December 31, excluding apprentices

Further outlook for Factory Automation, Plastics

At the beginning of the fiscal year 2008 the Factory Automation, Plastics division had a high level of orders on hand. Additional large orders are expected for 2008 and 2009. The customer from the healthcare branch has thus already announced the order for additional equipment for the manufacture of contact lenses. We are also expecting larger orders from two companies from the packaging sector. Complex insertion and extraction automation is regularly ordered by customers from the automotive sector. Components for anti-blocking systems (ABS), anti-skid controls (ASC), electronic stability programmes (ESP) as well as electronic gear controls are also inter alia produced on equipment manufactured by elexis. In the USA all new automobiles must in future be equipped with ABS and ESP systems. In general the electronic share of components is increasing in trucks and automobiles. We see significant market opportunities also with regard to equipment for the manufacture of transparent packaging (so-called blister pack). With regard to the quality and the manufacturing costs of the blister pack, the production equipment developed by elexis is clearly superior to the other traditional processes.

A large portion of the orders on hand for 2008 are attributable to equipment, which we have already constructed several times. This has a positive effect on the quality of the result.

The sales activities are being intensified in India and in the People's Republic of China. We are expecting additional demand impulses from these markets, where to date there has been little penetration by Factory Automation, Plastics.

The equipment of Factory Automation, Plastics enjoy a very good reputation due to their high availability and the good quality of the products manufactured by it. All orders are processed in euro.

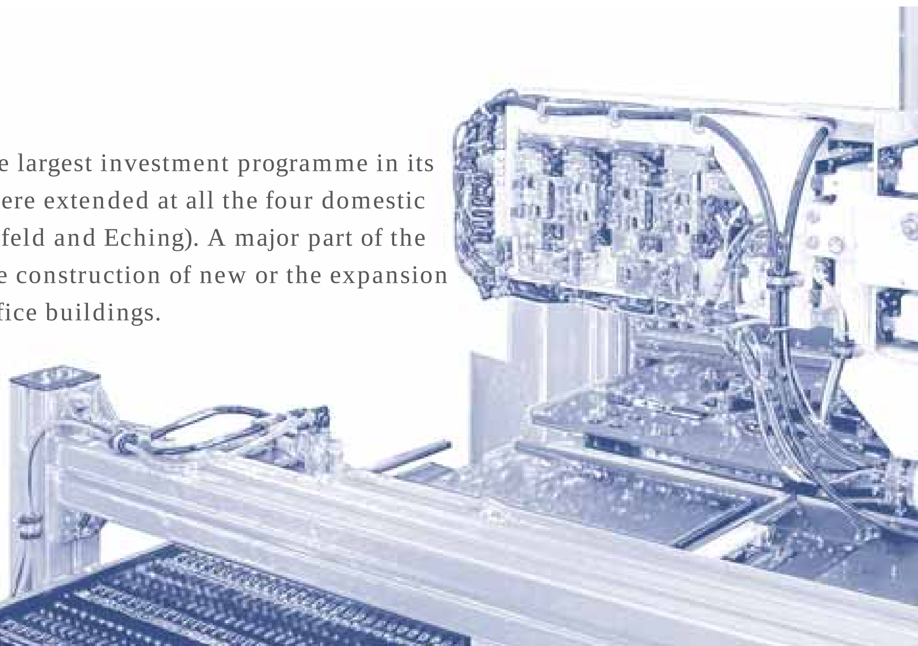
The high level of orders and a comprehensive project list permit us to expect also in the future a sharp increase in sales. We are well prepared for this in view of the capacity expansions undertaken in 2007.

elexis AG

Administrative expenses at the holding company were at the level of the prior year. EBIT before the result from participations amounted to € -1.7 million versus € -1.5 million in the prior year.

2.3 Investments

In 2007 the elexis Group started the largest investment programme in its corporate history. The capacities were extended at all the four domestic sites (Wenden, Oschersleben, Bielefeld and Eching). A major part of the investments was attributable to the construction of new or the expansion of existing production halls and office buildings.



Furthermore, the elexis Group also undertook extensive renewal and expansion investments with regard to machinery and technical equipment. Investments were also made in hardware and software. In total the investments of the elexis Group in 2007 amounted to € 7.9 million (of which € 1.0 million through financial leasing). One year earlier the investments had amounted to € 3.8 million (of which € 0.5 million through financial leasing). Moreover, in the prior year 2006 leasing agreements in respect of assets were concluded in the amount of € 0.3 million, which in accordance with IAS 17 must be capitalised by the lessor (operating leases). The expenses for investments in long term fixed assets exceeded depreciation by 141% (CAPEX 2007 = 241.0 %, CAPEX 2006 = 116.0 %).

2.4 Research and development

Our research and development activities are structured to create technologically leading products, which are competitive with regard to price. In this respect we place major emphasis on the requirements of our customers. Numerous product innovations have taken place in fact in direct cooperation with customers of the elexis Group. During the fiscal year 2007 the expenses for research and development (R&D) increased by 11% from € 7.4 million to € 8.2 million. As a result of the stronger increase in sales the innovation ratio (R&D expenses in relation to sales) declined slightly from 5.4% (2006) to 5.1% (2007). New products which were introduced during the past year were at the centre of our research and development activities (see 2.2_The individual divisions). All R&D items were booked as expense and were not capitalised in the balance sheet.

2.5 Personnel

The training of new employees has traditionally been given high priority at the elexis Group. Since many years we have been training young people in commercial and technical professions well beyond our own requirements. As at December 31, 2007 we employed 763 people (without apprentices). This represented a growth of 6% versus the number in the prior year. Furthermore, 70 apprentices learned and worked at the various subsidiaries. The apprenticeship ratio amounted to over 8% and was thus roughly two percentage points in excess of the average in the Federal Republic. It is thanks to our training policy that we could cover our requirements for specialists to a large extent from our own ranks. The general lack of specialised workers did hardly affect us.

Numerous employees participated in the various offers for further training. They developed further their knowledge and their capabilities in various seminars, training sessions and workshops.

The continuous improvement process (CIP) was undertaken primarily at the German production facilities. It was possible to increase the process and service quality through many detailed improvements.

The successes of the further training and CIP measures can be shown by the increase in productivity. The added value per employee increased at the elexis Group thus, for example, by 8% in 2007.

Since 2004 the elexis Group grants its employees a participation in the economic success, if agreed targets are achieved or exceeded. Thereby the employees can achieve a partial compensation for the agreed extension of the working time. On the basis of the results achieved in 2007 the employees shall receive fully the success-related wage components for the past fiscal year.

2.6 Remuneration report

For the purpose of the annual report the remuneration report is presented as an integral part of the Corporate Governance report.

2.7 Environmental protection

We understand environmental protection as being part of our social responsibility. At all production sites we pay attention in particular by the manufacturing processes to a high degree of security. Through the avoidance of disruptions and accidents we protect the health of our employees and the environment. Already in research and development we are aiming to structure new products and production processes in such a way that they are as environmentally compatible as possible. The regulations of environmental protection are strictly complied with also with regard to purchasing and waste disposal. The environmental management system of the elexis Group ensures that all legal requirements are either maintained or exceeded. We consider legal standards as being the minimal requirements. The individual strategic business units are organised to be self-responsible. They ensure independently that the laws and regulations are immediately implemented. The corresponding managers of strategic quality management are responsible for this task.

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 ensures a specific target-related 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 share capital of elexis AG amounted as at December 31, 2007 to € 23,552,000 and was divided into 9,200,000 no par value bearer shares. A proportional share of € 2.56 in the share capital is attributable to each no par value share. Through a resolution of the general meeting of shareholders of May 16, 2007 the Management Board of elexis AG was authorised to acquire up to November 15, 2008 treasury shares up to a total amount of 10% of the current share capital. Simultaneously, the same authorisation from the prior year was cancelled. Furthermore, the authorities of the Management Board depend on the legal stipulations as well as on the internal regulations issued by the Supervisory Board. 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 million (authorised capital). The authorisation is subject to the approval of the Supervisory Board and is valid until June 23, 2010. Sections 84, 85 AktG as well as Section 31 of the Employees' Participation Law (MitbestG) is applicable with regard to the appointment and dismissal of the Management Board. Sections 33, 179 AktG are applicable to changes in the articles of association. There are no holders of shares with special rights, which grant authority of control. Many employees participate directly in elexis AG as shareholders. There are no restrictions for exercising controlling rights in respect of these shares.

Above all the net income achieved in 2007 of € 15.1 million resulted in the increase of the shareholders' equity to € 62.9 million as at December 31, 2007. One year previously the shareholders' equity had amounted to € 50.0 million. The equity ratio rose from 42.6% (2006) to 47.5% (2007). The liabilities to banks declined from € 8.5 million to € 7.4 million. The investments (excluding leasing) exceeded depreciation during the period under report by 179.7% (investment ratio = 279.7%). Investments were undertaken primarily for the construction of capacity expansions and for the renewal and expansion of the machinery. The fixed asset coverage amounted as at December 31, 2007 to 172.7%. Property, plant and equipment and financial assets as well as goodwill and other intangible assets were thus financed in the long term. In order to compensate for delivery difficulties on the part of suppliers, the level of inventories was expanded. At the same time the sharp increase in business volume made a more extensive level of inventories necessary. The ratio of days inventory could, however, be reduced. The working capital increased from € 5.1 million (2006) to € 5.3 million (2007). The ratio of days accounts receivable increased from 46 to 55 days. The reason for this was above all the increase in the export ratio.

€ million	2007	2006*
Balance sheet total	132.5	117.3
Equity ratio (in %)	47.5	42.6
Investments including financial leasing	7.9	3.8
Investment ratio (in %)	279.7	144.3
Fixed asset coverage (in %)	172.7	178.2
Working capital	5.3	5.1
Inventories (in days)	47	50
Accounts receivable (in days)	55	46

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR ChinaFinanzlage des Konzerns

2.10 Financial situation of the Group

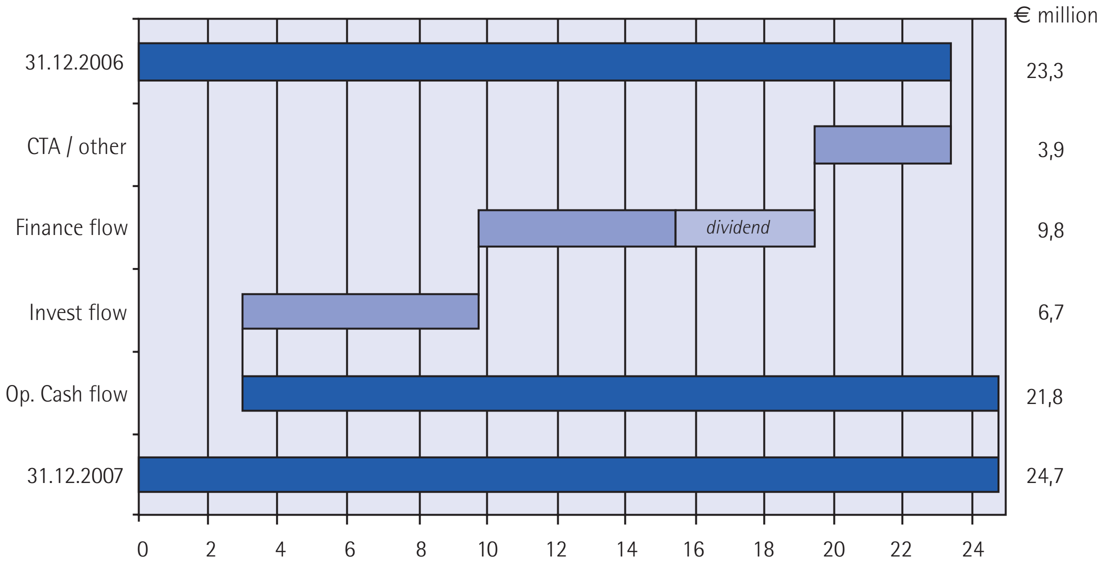
The management of the funds flow serves the objective of financing the planned organic growth as well as the investments required for this. This objective was achieved in 2007 with an inflow of funds from operating activities in the amount of € 21.8 million. The income and trade tax paid increased significantly from € 3.7 million (2006) to € 7.7 million. This is attributable to the increase of the earnings before taxes by 20% as well as the termination of claims which can be made from tax loss carry-forwards at elexis AG.

€ million	2007	2006*
Cash flow from operating activities	21.8	18.7
Bank loans	7.4	8.5
Net liquidity	24.7	23.3

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

During the period under report the elexis-Pension-Trust e.V. was founded, which will in part serve the pension claims of our employees. This trust was financed with funds in the amount of € 4.0 million. In May 2007 a dividend in the amount of a total of € 4.1 million was also distributed to the shareholders. The outflow of funds for investments amounted to € 6.7 million. The liquid funds less overdraft liabilities increased by € 1.4 million to € 24.7 million as at December 31, 2007.

Development of net liquidity



2.11 Earnings situation of the Group

The substantial increase in sales led to a growth in the gross margin from € 55.4 million in 2006 to € 62.9 million in 2007. Higher raw material costs and personnel expenses, a change in the product mix as well as the unfavourable development of the exchange rates resulted in a slight reduction of the gross margin from 40.1% in 2006 to 39.0% in 2007. The selling and administrative expenses rose at a lower rate in relation to sales. Earnings before interest and taxes (EBIT) increased by 19% from € 20.7 million to € 24.6 million. As a result of the lower level of financial debt the current interest charge declined from € 1.5 million to € 1.1 million. In addition, the financial result includes the interest prepayment in the amount of € 0.4 million, which was made pro rata as per the contract. Income from the release of financial liabilities from the cancellation of an option contract as well as expenses from the allocation to provisions for restructuring and litigation have been almost completely rescinded and thus have no significant effect on the income situation. The tax charge increased from € 5.4 million to € 7.0 million. The consolidation of EMG Automation (Beijing) Ltd. as well as the sharp increase in earnings of the Brazilian subsidiary EMH Ltda. (Belo Horizonte) resulted in the minority interests in the profit rising from € 0.3 million to € 1.0 million. The net income of the elexis Group increased by 18% from € 12.8 million to € 15.1 million. Earnings per share rose from € 1.39 to € 1.64.

€ million	2007	2006*
Incoming orders	183,1	146,0
Sales (net)	161,2	138,2
Gross profit	62,9	55,4
EBITDA	27,9	23,8
EBIT	24,6	20,7
Financial result	- 1,5	- 1,5
EBT	23,1	19,2
Net income	15,1	12,8
Earnings per share (in €, DVFA/SG)	1,64	1,39
Selling expense ratio (in % of sales)	19,2	20,5
Administrative expense ratio (in % of sales)	5,2	5,7
Material ratio (in % of sales)	35,2	34,5
Personnel ratio (in % of sales)	29,3	31,8

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

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. The risk management system, which has been implemented in accordance with Section 91 Paragraph 2 of the German Stock Corporation Law (AktG) puts us in a position where we can identify, analyse and evaluate risks at an early stage and initiate suitable counter-measures. 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 subsidiaries each report regularly every quarter on the existing and foreseeable risks. The identification of the risks takes place through systematic queries at the corporate and specialised department level.

With regard to the identification of risks primarily risks attributable to price changes, losses and liquid funds are included as well as risks relating to fluctuations in funds flow. Furthermore, risks are evaluated with regard to the amount and the likelihood of their occurrence. The evaluation of the risks includes both qualitative as well as quantitative factors. The likelihood of occurrence of existing and foreseeable risks is evaluated on an individual basis. The identification and evaluation of the risks is complemented by a continuous schedule and allocated responsibilities. Special action plans include the counter-measures resolved and also allocate the responsibilities clearly.

The risk monitoring system includes in particular the planning, the implementation and the control of the success of suitable counter-measures. Extraordinary events of a large scope are announced directly and immediately to the holding company. The risk management system of the elexis Group is designed to identify potential and existing risks as early as possible and calculate them through an evaluation. This process takes place continuously, systematically and completely in all strategic business units. This is also the case for the monitoring of the allocated counter-measures. The risk management system consists of specifically defined processes and is closely linked to the controlling system and to the strategic planning function.

Overall economic opportunities and risks

Viewed globally. the forecasts for the world economy include numerous uncertainties. A decline in the economic growth in the USA can be expected. Furthermore, experts do not even exclude the possibility of a recession in the world's largest economy. The consequences for the world economy are subject to various prognoses. What is questionable is how far the developing countries like India and above all the People's Republic of China can avoid the effects of a downturn in the USA. A high rate of expansion of the economy is still being forecasted for these countries in 2008. A significant economic growth is also expected for Russia and the oil exporting states from the Middle East. For Europe a weaker but at least continuing positive development of the economy is forecasted. In total, a cooling down of the world economy appears likely. On the other hand a global recession currently appears to be improbable, but cannot be completely excluded.

During the past year the US dollar continued to lose value. Following a loss of 12% versus the euro in 2006 it lost a further 11% in 2007. The danger of recession in the USA as well as possible further interest rate reductions of the US Federal Bank could permit the dollar to decline further. Since the elexis Group sells 80% of its products and services either directly or indirectly abroad, this could have a negative effect on its competitive position. On the other hand a weakness of the US currency has a positive effect with regard to raw materials and components supplied, which are invoiced in US dollars. However, overall the effects of a devaluation of the US dollar would have a negative effect.

Opportunities and risks of the relevant branches

The Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA) expects for 2008 an increase in incoming orders for machinery construction in the amount of 5%. The development of the individual branches, which are relevant for the elexis Group, are subject to varying opinions. The forecast for steelworks and rolling mill equipment with an estimated growth of 25% is again extremely high. However, also the forecasts for the branches of steel (+4%), printing machinery (+2%), conveyor technology (+8%) as well as for robotics and automation (+8%) leads us to expect an overall positive environment.

The strategic business units of the elexis Group are concentrating on distancing themselves from price competition through new further developed products. The market leadership in individual niche markets also reduces the pressure on prices by the competition. The expansion of the sales activities should also enable further organic growth on the basis of the innovative product range. The elexis Group has prepared itself with substantial capacity expansions. We expect a positive development of sales and earnings in all strategic business units. Risks in general from the world economy cannot be excluded from this forecast. In particular, large special equipment, which is manufactured in the Factory Automation, Plastics division, is subject to greater fluctuations in demand. These circumstances can also lead to declines which are limited with regard to time.

Opportunities and risks of purchasing

During the current year cost increases must be expected with regard to raw materials. In particular, the high demand from the developing countries and a possible revaluation of the US dollar could lead to an increase in prices. We are trying to compensate for this development through improvements and simplifications in the engineering of the elexis products. This purpose is also served by the increased purchasing activities in the dollar area as well as in the Eastern European countries and in China. A cooling down of the world economy as well as a continued loss in the value of the US dollar could, however, also lead to declining raw material prices. This would then again have a positive effect on the margins of the elexis products.

Personnel risks

The tariff agreement concluded in the past year will lead to a considerable increase in personnel costs at the domestic companies. We are attempting to compensate for this cost increase in part through the increase in productivity. The elexis Group is training people beyond its own requirements. Through this and also through comprehensive further training measures we are counteracting the increasing lack of specialised workers. Together with several universities we are offering dual studies, which combine with each other the theoretical and the practical training. Within the framework of this cooperation several subjects are given each year for diplomas. As a result of the cooperation with universities it was possible in particular to maintain future engineers for us at an early stage. We are counteracting the possible fluctuation of employees with performance-related remuneration, measures for employee development and through modern personnel management.

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, Eching and BST PRO MARK Inc., Elmhurst, USA. 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, 2007. 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 2008 and the medium-term planning for the fiscal years 2009 and 2010, 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 positive result in 2007. The planning for the years 2008 to 2010 is also based on a continuation of this positive development.

The continuing valuation 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 corporation taxes applicable as from 2008 we have undertaken a new evaluation of the deferred taxes stated as assets and liabilities.

Legal risks

In 2005 the receiver of Elotherm GmbH, a former subsidiary, started proceedings against elexis AG as the still formal Group parent company for the return of an alleged payment from the capital stock in the amount of up to € 4.6 million plus the legal interest as from the date of the proceedings becoming sub judice.

The accusation is based on the assertion that the value of the former subsidiary of Elotherm GmbH in the USA, Robotron Inc., Detroit 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 up to the maximum specified in the action due to the lower effective value of the capital stock.

elexis AG rejected the claims made against it. After examining the arguments presented, this case is in our opinion 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 and 2000 by the auditors, PricewaterhouseCoopers. elexis AG has therefore defended itself against the unfounded charge. In December 2006 the accusation was fully rejected in the first proceedings at the district court of Wuppertal. The plaintiff has in the meantime appealed to the upper district court in Düsseldorf. An expert opinion of Ernst & Young Wirtschaftsprüfungsgesellschaft obtained by elexis comes to the result that at Elotherm GmbH there was no relevant requirement for downward revaluation for the fiscal year 1999. The profit distribution to elexis AG thus took place in accordance with the law. The expert to be named by the upper district court in Düsseldorf could, however, come to a different conclusion. Following the recommendations of our lawyers and our legal advisor we have set up a corresponding provision in order to cover any possible court case risks as well as the legal and court expenses.

We expect that no charge will be made against the net income 2008 or in the following years.

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 estimate of the likelihood of their occurrence and the analyses of the effectiveness of the counter-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.

Technical information risks

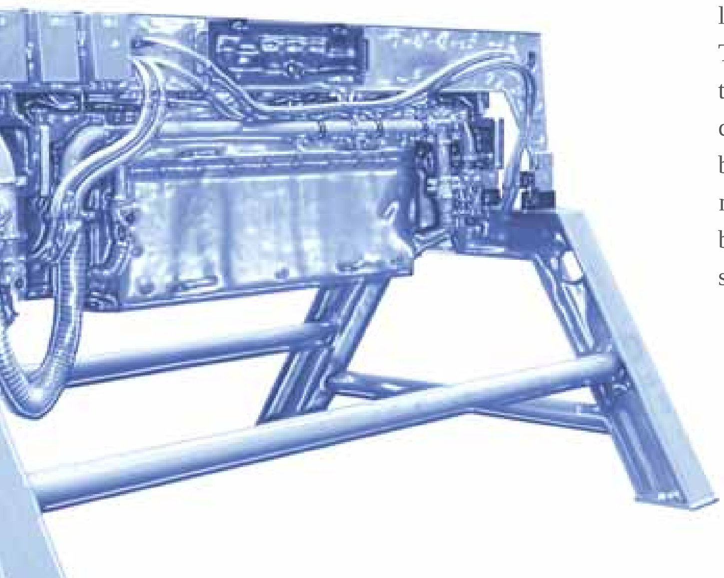
Technical information risks exist as a result of the increasing networking of our in part complex IT systems. We are counteracting these risks through regular reviews as well as through investments in hardware and software.

2.13 Outlook

For an export-orientated company like the elexis Group the worldwide development of the economy and of trade plays a decisive role. Overall, the outlook may have dimmed, but the markets important for elexis are continuing to expand at in part high rates of growth. As a result it should also be possible in the future to compensate for economic weakness such as, for example, in the USA or other markets. The earnings of the elexis Group are achieved primarily in Germany and are thus subject to German taxation. We shall therefore benefit accordingly from the reform of the corporation taxes.

As a result of the strong market position of all strategic business units we consider that the future development of the Company will overall be positive.

The IMPOC, SORM 3plus and eMASS quality control systems put our customers in the position of being able to accelerate their production processes, to improve the quality of their products and to avoid waste. Of the 3,500 steel sheet production lines in operation worldwide more than 500 are suitable for being equipped with elexis technology.



For the moment only a fraction of these production lines have been fitted with quality control systems. This is thus a market with enormous growth opportunities. The products of elexis have various unique characteristics. In view of this we are confident of being able to gain a significant share of this growth market. In our opinion the sales and earnings contribution of the quality control systems will increase strongly during the next few years.

We are also confident with regard to the strip guidance systems from the steel sector. Here we are by far the world market leader. China will continue the modernisation of its industry. We are strongly positioned in this growth market with EMG Automation (Beijing) Ltd., PR China. We have already been involved in India since 1993 with a subsidiary (production, sales and service). We are also expecting a significant enlargement of the business volume in this market during the next few years.

The electro-hydraulic brake thruster systems include a large share in software. Furthermore, in this niche market we have a leading market position. It would thus be very difficult for competitors to attack us. This position will also enable the achievement of high rates of growth in the foreseeable future.

We also expect the largest growth dynamics in the printing sector to come from the quality control systems. We have high expectations of the PREMIUS digital with 3 chip camera technology as well as the SHARK systems. From May 29 to June 11, 2008 more than 1,800 companies from the printing sector will present their newest products at the Drupa trade fair. Based on our experience the whole of the Factory Automation, Printing division benefits from the worldwide largest specialised trade fair of its type. Drupa takes place every four years.

The order books of Factory Automation, Plastics are well filled. In addition, important customers have advised us of further large orders for 2008. The main task during the next few quarters will be how to handle the strong growth in production volume. Since these are mainly repeat orders and the capacities have already been substantially expanded in 2007, we are very optimistic with regard to the development of the business in this area.

Future growth is not possible without a strong sales organisation. The development of the market will also be intensified in the current year by our twelve own service and sales companies abroad. Numerous customer contacts will again take place in 2008 at trade fairs. The subsidiaries are expected to present the product portfolio in 2008 at 30 international exhibitions. Moreover, the trade fairs will be complemented by our own events. During the past year the strategic business unit, quality systems, steel invited interested parties to the so-called Innovation Talks und Quality Days. The quality systems, steel were presented in detail to a large number of customers at these information events in Germany, Russia and China. The feed-back was exceptionally positive. A continuation and expansion of this series of events is definitely planned for 2008.

The elexis Group has new and technologically leading products, a sales organisation which is well structured worldwide as well as a strong position in its relevant markets. On this basis we intend to continue the profitable, organic growth also in 2008. The financial basis for this is the existence of liquid funds and the major inflows of funds. The potential of the niche markets in which we are active is far from being exploited. We are therefore confident that we shall also expand in 2009 the planned level of incoming orders and sales as well as the expected result by our own means.

The Management Board and the Supervisory Board intend to propose the distribution of a dividend for the past fiscal year at the general meeting of shareholders on May 21, 2008.

The companies of the elexis Group are in regular business relationships also with the non-consolidated participation companies. No significant business was transacted during the period under report with any other parties related to the elexis Group.

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

Please note that through the use of rounded amounts and percentages, differences could arise in the tables and summaries presented as a result of such rounding.

2.14 Definition of key data used (selection)

Accounts receivables (in days)	Trade receivables / sales x 360
Administrative 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 (net income and shareholders' equity after deduction of minority interests)
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 structure

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. The tasks of the Supervisory Board include, furthermore, the supervision of the compliance with the legal requirements, regulations of the authorities as well as the internal company guidelines. In accordance with Section 84 of the German Stock Cooperation Law (AktG) the tasks of the Supervisory Board include the appointment and dismissal of the members of the Management Board as well as the determination of their responsibilities. The Supervisory Board has formed a Presidium as well as an Audit Committee. The Supervisory Board has not resolved to appoint an Appointments 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. Furthermore, the Management Board must ensure compliance with the legal requirements, regulations of the authorities as well as the internal company guidelines and shall assure that these are also complied with at the level of the Group companies. The areas of responsibility and cooperation within the Management Board are determined by the internal 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 (6,239 shares) and the Supervisory Board (131,096 shares) amounts to 1.5 % 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 shareholders 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 Paragraph 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 16, 2007 in Wenden 52% of the share capital with voting rights was represented. All the proposals 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 Paragraph 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 is undertaken by the general meeting of shareholders. The Supervisory Board examines the independence of the auditors, issues the audit order, determines the main emphases of the audit and fixes the audit fee. For the fiscal year 2007 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 14, 2007 the Code represents the key legal regulations for the management and the monitoring of German stock market listed companies and includes internationally and nationally recognised standards of appropriate and responsible management.

The monitoring 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 and shall comply with the recommendations of the "Government Commission for the German Corporate Governance Code" in its version of June 12, 2006 as well as in its version of June 14, 2007 with the exceptions listed below:

No. 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.

No. 3.10
The company makes only the corresponding current version of the declaration of compliance available on its internet page.

No. 5.3.3
The Supervisory Board has not formed any Appointments Committee.

No. 5.4.1
The Supervisory Board has not fixed any determined age limit for its members.

No. 5.4.7
The chairmanship in one of the committees of the Supervisory Board will not be taken into consideration separately with regard to remuneration.

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

Wenden, January 2008

For the Supervisory Board

Dr. Dirk Wolfertz

For the Management Board

Siegfried Koepp

Edgar M. Schäfer

Remuneration report

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

Remuneration of the Management Board

The remuneration of the members of the Management Board consists of fixed (fixed) and variable (bonus) compensation. The variable compensation is based on a target agreement determined between the Management Board and the Supervisory Board (EBIT and cash flow). During the past fiscal year 2007 the remuneration of the Management Board amounted to € 774,000 (prior year € 728,000). Of this € 500,000 (prior year: € 481,000) was attributable to fixed compensation and € 274,000 (prior year: € 247,000) to variable elements of compensation. In accordance with the remuneration agreement the variable elements are limited to € 285,000 (prior year: € 256,000). The total amount of the remuneration also includes compensation in kind and other emoluments in the amount of € 82,000 (prior year: € 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 contributions. These are based on contractual rights 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 the members of the Management Board of elexis AG as well as their activities in the management of subsidiaries. Further remuneration agreements do not exist.. The contracts of the members of the Management Board, which came into force as from the middle of 2006 have a duration of 4 years. 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. 2007 to € 270,000 (prior year: € 286,000). 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 2007 the fixed compensation for each member of the Supervisory Board amounted to € 15,000 (prior year: € 15,000); the Chairman receives € 30,000 (prior year: € 30,000) and the Deputy Chairman € 23,000 (prior year: € 23,000). A total of € 53,000 (prior year: € 49,000) was paid for activities in the Audit Committee or the Presidium. Amounts of between € 5,000 (prior year: € 8,000) and € 15,000 (prior year: € 18,000) were paid whereby to individual members of these bodies. As a result an amount of € 211,000 (prior year: € 193,000) was spent for the basic compensation of the Supervisory Board during the fiscal year 2007. 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 2007 € 161,000 (prior year: € 151,000) was spent for variable compensation. In total, the compensation paid to the Supervisory Board during the fiscal year 2007 amounted to € 372,000 (prior year: € 344,000).

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 the EU, and to the commercial regulations applicable in accordance with Section 315a Paragraph 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 19, 2008

elexis AG, The Management Board

Siegfried Koepp Edgar M. Schäfer

3 Consolidated financial statements as at December 31, 2007

3.1 Consolidated profit and loss account

	2007		2006*		
	€ 000	%	€ 000	%	Notes
Sales	161,237	100.0	138,162	100.0	(1)
Cost of sales	-98,357	-61.0	-82,806	-59.9	(2)
Gross profit	62,880	39.0	55,356	40.1	
Selling expenses	-30,937	-19.2	-28,305	-20.5	(3)
Administrative expenses	-8,364	-5.2	-7,872	-5.7	(4)
Other operating income	4,639	2.9	3,458	2.5	(5)
Other operating expenses	-3,596	-2.2	-1,936	-1.4	(6)
Operating result (EBIT)	24,622	15.3	20,701	15.0	
Financial expense	-2,212	-1.4	-2,079	-1.5	
Financial income	699	0.4	605	0.4	
Financial result	-1,513	-1.0	-1,474	-1.1	(8)
Result before taxes	23,109	14.3	19,227	13.9	
Taxes	-7,026	-4.3	-5,369	-3.9	(9)
Result after taxes	16,083	10.0	13,858	10.0	
Result after taxes from discontinued operations			-710	-0.5	(10)
Consolidated net income before minority interest	16,083	10.0	13,148	9.5	
Minority interests	-1,030	-0.6	-337	-0.2	(11)
Consolidated net income	15,053	9.4	12,811	9.3	
Earnings per share (€)					
From continuing operations Undiluted	1.64		1.47		
From continuing and discontinued operations Undiluted	1.64		1.39		
Dividend per share (€)			0.45		

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

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.

There are no other diluting effects.

In May 2007 a dividend was distributed for the year 2006 in the amount of € 4,140,000. The dividend distributed in 2006 for the year 2005 amounted to € 3,404,000.

3.2 Consolidated balance sheet

	31.12.2007		31.12.2006*		
ASSETS	€ 000	%	€ 000	%	Notes
Long term assets	54,686	41.3	50,969	43.5	
Goodwill	26,202	19.8	26,202	22.3	(15)
Other intangible assets	1,048	0.8	1,016	0.9	(15)
Property, plant and equipment	17,974	13.6	14,108	12.0	(16)
Financial assets	3,180	2.4	2,645	2.3	(17)
Long term receivables and other assets	1,130	0.8	898	0.8	(18)
Deferred tax claims	5,152	3.9	6,100	5.2	(10)
Short term assets	77,811	58.7	66,303	56.5	
Inventories	21,004	15.9	19,123	16.3	(19)
Receivables from long term construction contracts	3,068	2.3	2,151	1.8	(20)
Trade receivables	24,333	18.4	17,657	15.1	(21)
Other short term receivables and other assets	3,898	2.9	1,571	1.3	(22)
Short term cash deposits	2,000	1.5	2,250	1.9	(23)
Cash and cash equivalents	23,508	17.7	23,551	20.1	(24)
Total assets	132,497	100.0	117,272	100.0	

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

LIABILITIES	31.12.2007 € 000	31.12.2007 %	31.12.2006* € 000	31.12.2006* %	Anhang
Shareholders' equity	62,894	47.5	49,974	42.6	(25)
Share in shareholders' equity attributable to shareholders	60,869	46.0	48,925	41.7	
Subscribed capital	23,552	17.8	23,552	20.1	
Capital reserve	3,555	2.7	3,555	3.0	
Retained earnings	32,284	24.4	21,371	18.2	
Valuation changes included directly in shareholders' equity	156	0.1	-671	-0.6	
Differences arising from currency conversion	1,322	1.0	1,118	1.0	
Minority interests	2,025	1.5	1,049	0.9	
Liabilities	69,603	52.5	67,298	57.4	
Long term liabilities	24,396	18.4	31,137	26.6	
Provisions for pensions and similar obligations	8,464	6.4	13,922	11.9	(26)
Deferred tax liabilities	3,707	2.8	2,744	2.3	(10)
Financial liabilities	12,225	9.2	14,471	12.4	(28)
Current liabilities	45,207	34.1	36,161	30.8	
Other short term provisions	6,611	5.0	4,141	3.5	(27)
Provision for taxes	971	0.7	3,052	2.6	(27)
Financial liabilities	3,105	2.3	6,097	5.2	(28)
Trade liabilities	13,770	10.4	8,711	7.4	(29)
Liabilities from long term construction contracts	5,844	4.4	843	0.7	(20)
Other liabilities	14,906	11.3	13,317	11.4	(30)
Total liabilities and shareholders' equity	132,497	100.0	117,272	100.0	

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

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 shareholders' equity	Minority interests	Consolidated shareholders' equity
Status as at 01.01.2006	23,552	3,555	11,254	-675	944	710	39,340	439	39,779
First consolidation EMG Beijing					-22		-22	300	278
Net income 2006			13,521			-710	12,811		12,811
Minority interests								337	337
Dividend payment			-3,404				-3,404		-3,404
Changes in foreign currency					196		196	-27	169
Other changes not charged to profit and loss account				4			4		4
Changes 2006			*10,117*	*4*	*174*	*-710*	*9,585*	*610*	*10,195*
Status as at 31.12.2006	23,552	3,555	21,371	-671	1,118		48,925	1,049	49,974
Net income 2007			15,053				15,053		15,053
Minority interests								1,030	1,030
Dividend payment			-4,140				-4,140		-4,140
Changes in foreign currency					204		204	-54	150
Other changes not charged to profit and loss account				827			827		827
Changes 2007			*10,913*	*827*	*204*		*11,944*	*976*	*12,920*
Status as at 31.12.2007	23,552	3,555	32,284	156	1,322		60,869	2,025	62,894

3.4 Consolidated statement of cash flow

€ 000	2007	2006*
EBIT	+24,622	+20,701
Amortisation of other intangible assets	+541	+872
Depreciation of property, plant and equipment	+2,737	+2,247
Decrease in long term provisions	-765	-541
Decrease in value adjustments	-485	
Profit on disposal of fixed assets	-69	-48
Other non-cash effective items	-1,971	
Cash earnings	+24,610	+23,231
Increase in inventories	-1,881	-3,699
Increase (2007) / decrease (2006) in short term receivables and other assets	-9,435	+1,202
Increase (2007) / decrease (2006) in short term provisions	+2,470	-1,562
Increase in short term liabilities	+13,620	+3,651
Decrease (2007) / increase (2006) in working capital	+4,774	-408
Decrease (2007) / increase (2006) in long term receivables and other assets	+59	-460
Taxes paid	-7,682	-3,682
Inflow of funds from operating activities	+21,761	+18,681
Outflow of funds for investments in intangible assets	-574	-714
Outflow of funds for investments in property, plant and equipment**	-5,783	-2,283
Outflow of funds for (2007) / inflow of funds from (2006) investments in financial assets	-535	+230
Inflow of funds from the sale of short term securities		+3,001
Funds inflow from the disposal of fixed assets	+187	+76
Outflow of funds (2007) / inflow of funds (2006) from investing activities	-6,705	+310
Take-down of financial liabilities	+1,813	
Repayment of financial liabilities	-6,559	-5,229
Income from participations	+19	+55
Interest income	+680	+604
Interest expenses and other financial expenses	-1,231	-1,085
Interest expense financial leasing	-354	-429
Dividend payment	-4,140	-3,404
Outflow of funds from financing activities	-9,772	-9,488

€ 000	2007	2006*
Outflow of funds to plan assets	-4,004	
Cash effective changes in liquid assets	+1,280	+9,503
Influence of changes in exchange rates	+176	
Changes in liquid assets	+1,456	+9,503
Liquid assets at the beginning of the period	+23,293	+13,790
Liquid assets at the end of the period	+24,749	+23,293
	+1,456	+9,503
The liquid assets at the end of the period are composed as follows:		
Cash and cash equivalents	+23,508	+23,551
Short term financial investments	+2,000	+2,250
Short term liabilities to banks	-759	-2,508
Net liquidity at the end of the period	+24,749	+23,293

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

** Without outflow of funds for financial leasing of € 964,000 in 2007 (prior year: € 490,000)

3.5 Schedule of income and expenses included

€ 000	31.12.2007	31.12.2006*
Effects of foreign exchange rates	204	174
Actuarial profit /(losses) from performance-based plans and similar obligations	1,284	36
Change of the market value of securities held for trading in shareholders' equity	30	-18
Deferred taxes on changes in value set off directly against shareholders equity	-487	-14
Changes in value included directly in shareholders equity	1,031	178
Consolidated net income before minority interest	16,083	13,148
Total result of the period	17,114	13,326
- of which accruing to minorities	*1,030*	*337*
- of which accruing to shareholders of the Group	*16,084*	*12,989*

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

4 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 315a Paragraph 1 HGB as well as the complementary conditions of the articles of association.

The financial statements have been drawn up on the basis of a going concern.

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 has submitted the financial statements on March 11, 2008 to the Supervisory Board for examination. The Supervisory Board resolved on March 19, 2008 to release the financial statements for publication.

Major changes arose during the fiscal year 2007 from the first time application of new standards and interpretations in respect of:

IFRS 7 Financial instruments: information. To date the required information in the notes to the consolidated financial statements in respect of financial instruments was governed by IAS 32 (Financial Instruments: Information and Presentation) as well as in IAS 30 (Information on Transactions with Banks and Similar Financial Institutions). IFRS 7 combines and extends the information obligations of these standards. With the introduction of IFRS 7, IAS 1 has been extended to include information obligations in respect of capital management. From the first time application of IFRS 7 with the extension of IAS 1, additional information is required to be disclosed on the financial instruments. The corresponding data for the year 2006 has been drawn up un accordance with the same methods.

From the first time application of other standards and interpretations there resulted no significant changes in respect of the assets, financial and earnings situation or the cash flow of the Company.

It was decided not to apply the following standards and interpretations, which need not be applied obligatorily:

IFRS 8 Segment reporting. This standard changes the existing regulations concerning the definition of the segments from the so-called “Risk and Reward Approach” to the “Management Approach”. According to this the definition of the segments must be based on the information, which is available to the management for decision-making purposes. This standard must be applied obligatorily for the first time for the fiscal years, which start on or after January 1, 2009. Changes in segment reporting could arise as a result of the application of the standard in the fiscal year 2009.

IAS 1 Presentation of the financial statements (revised 2007). The standard, which was published in September 2007, should improve the possibilities for the users to analyse and compare financial statements. Furthermore, this standard regulates the minimum requirements regarding the content of the financial statements. This standard must be applied obligatorily for the first time for the fiscal years, which start on or after January 1, 2009.

The regulations IFRIC 12, IFRIC 13, IFRIC 14 as well as additions to IAS 23 and IAS 1, which have not yet been approved by the EU, have not been applied.

Change of methods

Due to its very positive development, especially during the last quarter 2007, EMG Automation (Beijing) Ltd., PR China, which was established in 2006, attained a major influence on the elexis Group. Still at the end of the third quarter 2007 it could be assumed that the influence would not be significant and that inclusion of the company in the scope of consolidation would not be necessary. On consideration of the data from the annual financial statements of the company this opinion has changed, which thus leads to an inclusion of the company in the consolidated financial statements.

In accordance with IFRS 3 “Corporate Acquisitions” the inclusion must take place at the date on which the parent company has achieved control of the company. This was the case at the date of the pay-in of the capital (€ 312,000) i.e. as at March 16, 2006. In accordance with IAS 8.19 (b) (Application of Changes in Accounting and Valuation Methods) the change shall take place retroactively. The presentation of the comparative data for the year 2006 thus includes EMG Automation (Beijing) Ltd., PR China.

The inclusion of EMG Automation (Beijing) Ltd., PR China has the following influence on the figures published in the last annual report:

€000	2006 Published	Influence EMG Automation (Beijing) Ltd.	2006 incl. EMG Automation (Beijing) Ltd.
Consolidated profit and loss account			
Operating result (EBIT)	20,326	375	20,701
Result before taxes	18,853	374	19,227
Consolidated net income	12,620	191	12,811
Consolidated balance sheet			
Long term assets	51,004	-35	50,969
Current assets	64,880	1,423	66,303
Shareholders’ equity	49,345	629	49,974
Current liabilities	35,402	759	36,161

Scope of consolidation

The scope of consolidation includes 10 companies (prior year: 10, taking EMG Automation (Beijing) Ltd. into account). The retroactive inclusion of EMG Automation (Beijing) Ltd., PR China with effect as of March 16, 2006 has been explained above. With regard to the subsidiaries included in the scope of consolidation and those which are not consolidated, please refer to the information regarding shareholdings presented in note (32).

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 shares or otherwise. Those subsidiaries whose influence on the asset, financial and earnings situation of the Group is of lesser importance either individually or together are not consolidated. The non-consolidated companies reported together sales of € 3,389,000 and have shareholders' equity of € 3,739,000.

The initial consolidation of the companies first included in the scope of consolidation prior to January 1, 2004 was carried out on the basis of the equity value method in accordance with Section 301, Paragraph 1 No. 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. Goodwill arising was capitalised within the context of the previous accounting principles 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. Mergers taking place after January 1, 2004 take place under application of IFRS 3 (Corporate Acquisitions) in accordance with the acquisition method. In this respect the participation book values of the parent company are set off against the group share in the newly valued shareholders' equity of the subsidiary. The assets and liabilities acquired within the framework of a corporate acquisition as well as additionally identifiable intangible assets are valued at their accounting value. Any differential amount arising on the asset side of the balance sheet following the purchase price allocation shall be capitalised as goodwill. A write-down of goodwill takes place in accordance with IAS 36 (Write-Down of Assets), but only if a corresponding requirement is determined.

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 elexis 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 is 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:

		2007	2006	2007	2006
Currency	ISO code	Average rate 1€		Rate at balance sheet date 1€	
US dollar	USD	1.3703	1.2559	1.4716	1.3170
Brazilian real	BRL	2.6604	2.8852	2.6205	2.8133
Japanese yen	JPY	161.2023	146.0682	165.0000	156.9300
Chinese renmimbi	CNY	10.4424	9.8429	10.74000	10.2915

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.

Accounting and valuation principles

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 cumulative 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 carrying 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, which were based on the utility values, 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 the planning approved by the Supervisory Board. 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 discounted value of the expected cash flow a discount rate of 17% 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 are not capitalised, since they concern mainly further developments of existing products. Due to the high degree of innovation of these developments their future use cannot be reliably valued and capitalised as intangible assets.

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 current 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: Presentation) these include in this respect original financial instruments such as 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 and the separate presentation in the information given in the Notes (31).

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). Since the financial instruments used are not traded on active markets, the market valuations of the financial instruments were established on the basis of valuation methods. The market value corresponds approximately to the book value for short term financial assets and liabilities.

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 at 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 rates 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 appropriate specific individual provisions. 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 of the trade receivables 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) Cash and cash equivalents

Cash and cash equivalents (cash in banks, cash on hand and cash deposits with a maturity of less than 90 days) are stated at their acquisition cost.

e) 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 performance-related 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.

elexis AG makes use of the choice stipulated in IAS 19,93a (Employee Benefits) to state immediately the actuarial profits and losses from performance-related plans. Thereby the actuarial profits and losses 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 performance-related 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.

Segment information

Primary segment reporting

The elexis Group is active in the **Factory Automation, Steel and Printing** and **Factory Automation, Plastics** divisions. 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. No sales were transacted between the segments.

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 the webs (for example, tear resistance, roughness and optimisation of the thickness of the zinc coating of the metal strips);
- Web observation 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 Electromecânica e Hidraulica Ltda., Belo Horizonte, Brazil
- BST Japan Ltd., Osaka, Japan
- EMG Automation (Beijing) Ltd., PR China

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.

Segment information

€ 000	Factory Automation, Steel and Printing 2007	Factory Automation, Steel and Printing 2006*	Factory Automation, Plastics 2007	Factory Automation, Plastics 2006	Non-operating units/consolidation 2007	Non-operating units/consolidation 2006*	elexis Group 2007	elexis Group 2006*
Sales	127,273	112,795	33,964	25,367			161,237	138,162
Segment result (EBIT)								
Operating result (EBIT)	22,301	18,765	4,073	3,472	-1,752	-1,536	24,622	20,701
Return on sales (EBIT)	17.5 %	16.6 %	12.0 %	13.8 %			15.3 %	15.0 %
Depreciation of property, plant and equipment and amortisation of other intangible assets	2,436	2,237	842	882			3,278	3,119
Key non-cash effective expenses					2,617		2,617	
Assets								
Segment assets	87,724	79,785	39,637	32,956	1,956	1,886	129,317	114,627
Other participations	944	409			2,236	2,236	3,180	2,645
Total assets	88,668	80,194	39,637	32,956	4,192	4,122	132,497	117,272
Investments in long term assets	5,974	3,024	1,882	526			7,856	3,550
Liabilities								
Segment liabilities	41,541	42,070	20,772	16,686	7,290	8,542	69,603	67,298
Inter-segment liabilities	14,447	13,566	3,632	2,626	-18,079	-16,192		
Total liabilities	55,988	55,636	24,404	19,312	-10,789	-7,650	69,603	67,298
Employees (balance sheet date excl, apprentices)	604	577	156	138	3	3	763	718

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

Secondary segment reporting

€ 000	elexis Group 2007	elexis Group 2006*
Sales		
Germany	60,184	53,694
Other European countries	45,170	43,170
America	29,792	22,010
Asia / Australia	25,043	18,272
Africa	1,048	1,016
	161,237	138,162
Assets		
Germany	116,929	103,482
America	9,583	9,562
Asia / Australia	5,985	4,228
	132,497	117,272
Investments in long term assets (incl. financial leasing)		
Germany	7,382	3,289
America	467	166
Asia / Australia	7	95
	7,856	3,550

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

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 segment information (see page 50). The sales include revenues from the delivery of goods in the amount of € 129,573,000 (prior year: € 115,027,000) and from long term construction contracts in the amount of € 31,664,000 (prior year: € 23,135,000).

(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 the total expenses for research and development in the amount of € 8,237,000 in 2007 and € 7,381,000 in 2006. Net valuation allowances on inventories in the amount of € 51,000 in 2007 were charged to the profit and loss account. In the fiscal year 2006 net valuation allowances in respect of inventories in the amount of € 48,000 were charged to the profit and loss account.

(3) Selling expenses

€ 000	2007	2006*
Personnel expenses	12,685	11,844
Depreciation and amortisation of fixed assets	373	309
Commissions, freight, advertising and other operating expenses	17,879	16,152
Total	30,937	28,305

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

(4) Administrative expenses

€ 000	2007	2006*
Personnel expenses	4,502	4,420
Depreciation and amortisation on fixed assets	171	376
Other operating expenses	3,691	3,076
Total	8,364	7,872

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

(5) Other operating income

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

€ 000	2007	2006*
Income from the release of financial liabilities	1,971	
Income from the release of provisions not utilised	818	870
Income from the release of value adjustments on receivables	761	898
Capital gains	116	95
Income from the release of deferred additional costs not required	74	607
Other	899	988
Total	4,639	3,458

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The income from the release of financial liabilities results from the cancellation of the option right (option premium) in respect of the Optical Metrology Ltd., Jerusalem, Israel (Optimet).

(6) Other operating expenses

The other operating expenses of the Group include:

€ 000	2007	2006*
Expenses for restructuring and litigation	2,617	116
Additions to other provisions	470	747
Allocations to individual write-downs on receivables and losses on receivables	253	754
Capital losses	120	107
Other	136	212
Total	3,596	1,936

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The expenses for restructuring and litigation concern additions to provisions.

(7) Amortisation of goodwill

The impairment tests undertaken in 2007 confirmed the book values as in the prior year.

(8) Financial result

The financial result is composed as follows:

€ 000	2007	2006*
Result of associated companies		
Income from associated companies	19	55
	19	55
Interest result		
Interest income	680	550
Interest expense on bank loans	-1,225	-1,017
Interest expense for financial leasing	-354	-429
Interest expense for provisions for pensions	-627	-617
Bank and guarantee fees	-6	-16
	-1,532	-1,529
Financial result	-1,513	-1,474

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

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

Interest expenses in the amount of € 1,225,000 (prior year: € 1,017,000) arose in respect of the non-cash effective liabilities valued at book value. These are set off mainly by income in the amount of € 680,000 (prior year: € 550,000) in respect of non-cash effective assets valued at book value.

(9) Taxes

€ 000	2007	2006*
Current taxes		
Domestic	-5,395	-3,896
Abroad	-216	-205
	-5,611	-4,101
Deferred taxes	-1,415	-1,268
Taxes	-7,026	-5,369

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The domestic taxes are calculated on the basis of a rate of approximately 38.72% (2006: 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 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.

During the fiscal year 2007 deferred taxes in the amount of € 487,000 (prior year: € 14,000) from actuarial losses on pensions and the sale of available securities were set off against the shareholders' equity without any effect on the profit and loss account. Deferred tax liabilities in connection with shares in subsidiaries are not included in the balance sheet, since the parent company is in the position of controlling the time period of the reversal of the difference and it is likely that the temporary difference will not be reversed within the foreseeable future.

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

€ 000	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	Deferred taxes included under assets	Deferred taxes included under assets	Deferred taxes included under liabilities	Deferred taxes included under assets
Goodwill			1.185	1.027
Other intangible assets	1	5		
Property, plant and equipment	102	104	16	18
Inventories			652	669
Long term construction contracts			1,343	495
Other receivables and other assets	93	173	118	132
Special tax item			193	278
Provision for pensions and similar obligations	943	1,606	69	
Other provisions	63	120	106	91
Liabilities	364	422	25	34
Tax loss carry forwards	3,586	3,670		
	5,152	6,100	3,707	2,744

Deferred taxes are set up insofar as their realisation can be expected. Deferred taxes on tax loss carry forwards, which are capitalised as assets, are set up only in 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 are set up exclusively for domestic tax loss carry forwards which have an unlimited period. Deferred tax assets were set up for all useful tax loss carry forwards which are unlimited. In the prior year there were tax loss carry forwards in the amount of € 77,800,000 for which no deferred tax assets were capitalised, since these were attributable to pre-affiliation tax loss carry forwards.

As from 2008 new tax rates will be valid in Germany. Due to their effects in the future the deferred taxes are valued on the basis of the tax rate of 30.83% which is expected in the future. The new valuation of the deferred taxes with a lower tax rate led to a reduction of the deferred tax assets in the amount of € 1,297,000 (of which € 1,276,000 is attributable to deferred tax assets set up with an effect on the profit and loss account) and deferred tax liabilities in the amount of € 1,061,000 (of which € 1,041,000 is attributable to deferred tax liabilities set up with an effect on the profit and loss account). As a result the profit and loss account includes an expense of a write-down due to corporation tax of the deferred tax assets and liabilities in the amount of € 235,000 (prior year : € 0).

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

€ 000	2007	2006*
Result before taxes	23,109	19,227
Tax rate of elexis AG	38.72 %	38.72 %
Expected tax expense (-) / -income (+)	-8,948	-7,445
Effect of different tax rates abroad	695	160
Tax effect of non-tax deductible expenses		-126
Tax expense / income from prior periods	143	-139
Change in valuation of capitalised deferred taxes on tax loss carry forwards	747	1,839
Other tax expense / income	572	342
Write-down of the deferred tax assets and liabilities due to the corporation tax reform 2008	-235	
Taxes	-7,026	-5,369
Effective tax rate	30.40 %	27.92 %

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The tax effect of 38.72% for 2007 (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 trade tax of 16.7%. As a result of the above-mentioned effects the effective tax rate amounted to 30.40% (prior year: 27.92%).

(10) Discontinued operations

The result after taxes from the discontinued operations in the prior year resulted from the sale of all shares in AVITEQ Vibrationstechnik GmbH, Hattersheim with effect as from January 1, 2006.

(11) Minority interests

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

(12) Costs of materials

€ 000	2007	2006*
Raw materials, supplies and purchased merchandise	50,282	43,009
Purchased services	6,550	4,634
Total	56,832	47,643

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

(13) Personnel expenses

€ 000	2007	2006*
Wages and salaries	41,294	38,260
Social security and benefit expenses	5,768	5,441
Pension expenses	215	237
Total	47,277	43,938

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

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).

(14) Employees

The average number of personnel employed (excluding apprentices and trainees) in accordance with Section 267 Paragraph 5 HGB was as follows:

Number of employees	2007	2006*
Production / development / engineering	470	441
Sales	176	172
Purchasing / materials procurement	28	27
Administration	74	71
Total	748	711

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

Notes to the consolidated balance sheet

(15) Goodwill and intangible assets

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

€ 000	Goodwill	Patents, licences and other intangible assets	*of which from financial leasing*	Total
Acquisition costs				
Status as at 01.01.2006	36,011	6,319	*378*	42,330
Additions		714		714
Disposals		-214		-214
Changes in foreign currency		-1		-1
Status as at 31.12.2006	36,011	6,818	*378*	42,829
Additions		574		574
Disposals		-24		-24
Changes in foreign currency				
Status as at 31.12.2007	36,011	7,368	*378*	43,379
Accumulated amortisation / value adjustments				
Status as at 01.01.2006	9,809	5,145	*248*	14,954
Additions amortisations		872	*93*	872
Additions write-downs				
Disposals amortisations		-215		-215
Disposals write-downs				
Changes in foreign currency				
Status as at 31.12.2006	9,809	5,802	*341*	15,611
Additions amortisations		541	*31*	541
Additions write-downs				
Disposals amortisations		-23		-23
Disposals write-downs				
Changes in foreign currency				
Status as at 31.12.2007	9,809	6,320	*372*	16,129
Book values				
Status as at 31.12.2006	26,202	1,016	*37*	27,218
Status as at 31.12.2007	26,202	1,048	*6*	27,250

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

€ 000	31.12.2007	31.12.2006
	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.

(16) 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 other equipment	*of which from financial leasing*	Prepayments and plant under construction	Total
Acquisition cost								
Status as at 01.01.2006	19,139	*6,543*	11,344	*170*	10,686	*1,940*		41,169
First consolidation EMG Beijing					252			252
Additions			836		1,725	*490*	249	2,810
Disposals			-727		-1,615	*-7*		-2,342
Changes in foreign currency	-19		-50		-96			-165
Status as at 31.12.2006	19,120	*6,543*	11,403	*170*	10,952	*2,423*	249	41,724
Additions	1,848	*537*	1,856		2,216	*427*	827	6,747
Disposals	-96		-248		-319			-663
Reclassifications	115		33				-148	
Changes in foreign currency	-1		-20		-65			-86
Status as at 31.12.2007	20,986	*7,080*	13,024	*170*	12,784	*2,850*	928	47,722
Accumulative depreciation								
Status as at 01.01.2006	9,028	*1,280*	10,297	*78*	8,488	*665*		27,813
Additions	619	*237*	354	*48*	1,274	*638*		2,247
Disposals			-720		-1,595			-2,315
Changes in foreign currency	-17		-43		-69			-129
Status as at 31.12.2006	9,630	*1,517*	9,888	*126*	8,098	*1,303*		27,616
Additions	653	*266*	392	*24*	1,692	*684*		2,737
Disposals	-96		-230		-220			-546
Changes in foreign currency	-7		-6		-46			-59
Status as at 31.12.2007	10,180	*1,783*	10,044	*150*	9,524	*1,987*		29,748
Book values								
Status as at 31.12.2006	9,490	*5,026*	1,515	*44*	2,854	*1,120*	249	14,108
Status as at 31.12.2007	10,806	*5,297*	2,980	*20*	3,260	*863*	928	17,974

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 agreed interest rates of the leasing contracts amount to between 2.8% and 5.7% (prior year: 2.5% to 7.5%).

As at December 31, 2007 there was an order liability for items of property, plant and equipment in the amount of € 535,000 (prior year: € 558,000).

(17) Financial assets

The financial assets have developed as follows:

€ 000	Associated companies	Total
Acquisition cost		
Status as at 01.01.2006	5,122	5,122
First consolidation EMG Beijing	-312	-312
Additions	337	337
Disposals	-2	-2
Status as at 31.12.2006	5,145	5,145
Additions	535	535
Disposals		
Status as at 31.12.2007	5,680	5,680
Accumulated amortisation		
Status as at 01.01.2006	2,500	2,500
First consolidation EMG Beijing		
Additions		
Disposals		
Status as at 31.12.2006	2,500	2,500
Additions		
Disposals		
Status as at 31.12.2007	2,500	2,500
Book values		
Status as at 31.12.2006	2,645	2,645
Status as at 31.12.2007	3,180	3,180

The financial assets are attributable primarily to elexis beta GmbH, Wenden with a book value of € 2,236,000 (prior year € 2,236,000). The addition of shares in the newly founded EMG Automation (Beijing) Ltd., PR China in the amount of € 312,000, which is shown in the balance sheet in 2006, was reversed as a result of the retroactive first consolidation of the company. The additions during the fiscal year 2007 are attributable to shares in BST International Shanghai Co., Ltd., and a capital increase at BST France S.A.R.L.

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

(18) Long term receivables and other assets

The long term receivables and other assets in the amount of € 1,130,000 (prior year: € 898,000) are attributable to receivables from reinsurances for pension commitments in the amount of € 482,000 (prior year: € 542,000), loans in the amount of € 510,000 (prior year: € 219,000) and other assets in the amount of € 138,000 (prior year: 137,000). No write-downs have been carried out in respect of the loans.

(19) Inventories

The inventories are composed as follows:

€ 000	31.12.2007	31.12.2006*
Raw materials and supplies	11,154	9,484
Work in process	8,549	8,195
Finished goods	1,176	1,401
Prepayments on inventories	125	43
Total	21,004	19,123

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

As at 31.12.2007 inventories with a book value of € 210,000 (prior year: € 459,000) were written down by € 181,000 (prior year: € 232,000). In the prior year inventories with a book value of € 310,000 were placed as collateral for overdraft facilities of the Group (at BST PRO MARK Inc.).

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

(20) Long term construction contracts

Specific customer construction contracts, which are not partially or 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	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	Balance stated as assets	Balance stated as assets	Balance stated as liabilities	Balance stated as liabilities
Costs incurred for long term construction contracts	4,326	2,242	3,069	373
Shares in profit / (loss)	1,495	1,030	3,165	266
Subtotal	5,821	3,272	6,234	639
Less prepayments received	-2,753	-1,121	-12,078	-1,482
Total	3,068	2,151	-5,844	-843

The receivables and liabilities from long term construction contracts stated as at December 31, 2007 have as in the prior year a remaining maturity of less than one year.

(21) Trade receivables

As at December 31, 2007 an amount of € 2,000 (prior year: € 12,000) of the trade receivables had a maturity in excess of one year.

The trade receivables stated are overdue in the following time periods:

Trade receivables	Book value € 000	of which neither written down nor overdue at the date of the financial statements	of which not written down at the date of the financial statements and overdue in the following periods			
			up to 3 months	from 3 to 6 months	from 6 to 12 months	over 12 months
31.12.2007	24,333	21,785	2,464	35	27	22
31.12.2006 *	17,657	14,243	3,220	177	17	

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The write-downs to trade receivables have developed as follows:

€ 000	2007	2006*
Status write-downs as at 01.01.	624	1,135
Exchange differences	-9	
Additions	65	148
Use	-111	-39
Release	-430	-620
Status write-downs as at 31.12.	139	624

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

Expenses in the amount of € 154,000 (prior year: € 699,000) were incurred due to the complete write-down of trade receivables. These were offset by income arising from the collection of written-off receivables in the amount of € 53,000 (prior year: € 0).

All expenses and income from value adjustments and write-offs as well as the collection of receivables, which had been written off, were included in the other operating income and expenses.

(22) Other short term receivables and other assets

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

€ 000	31.12.2007	31.12.2006*
Receivables from associated companies	1,295	334
Tax receivables	1,325	512
Prepaid expenses	163	220
Receivables from employees	32	35
Other	1,083	470
Total	3,898	1,571

* Werte inklusive der erstkonsolidierten EMG Automation (Beijing) Ltd., China

No value adjustments were made in respect of receivables from associated companies (prior year: € 100,000).

(23) Short term cash deposits

The short term cash deposits in the amount of € 2,000,000 (prior year: € 2,250,000) are in respect of fixed time deposits at domestic banks with a maturity of less than 90 days.

(24) Cash and cash equivalents

The cash and cash equivalents include demand deposits at banks as well as cash deposits with a maturity of less than 90 days.

(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, 2007 the share capital of elexis 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 elexis AG undertaken during the fiscal year 1999.

	2007	2006
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 16, 2007 the Management Board of elexis AG was authorised to acquire up to November 15, 2008 treasury 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	31.12.2007	31.12.2006
Actuarial profits / (losses) from defined benefit plans and similar obligations	174	-1,110
Other changes in valuation included directly in the shareholders' equity	30	
Deferred taxes on changes in value booked directly to shareholders' equity	-48	439
Total	156	-671

Additional information on capital management

The elexis Group has a solid capital structure. This financial flexibility enables the achievement of the growth targets. The shareholders' equity belonging to the shareholders of elexis AG increased during the fiscal year 2007 by 24.3%. This increase was attributable primarily to the result less the dividend distribution. In total the equity ratio (excluding minority interests) rose thereby from 41.7% as at December 31, 2006 to 46.0% as at December 31, 2007.

For the elexis Group it is important to retain various financing options and to assure the servicing of the financial liabilities. This is assured through the active management of the defined total capital in the following table:

€ 000	31.12.2007	31.12.2006*
Share in shareholders' equity allocable to the shareholders	60,869	48,925
Share in total capital (in %)	79.9	70.4
- Long term financial liabilities	12,225	14,471
- Short term financial liabilities	3,105	6,097
Financial liabilities	15,330	20,568
Share in total capital (in %)	20.1	29.6
Total capital (shareholders' equity and minority interests + financial liabilities	76,199	69,493

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The share of the shareholders' equity (excluding minority interests) in the total capital increased during the fiscal year 2007 from 70.4% to 79.9%.

elexis AG is not subject to any obligations with regard to the formation of reserves in accordance with the articles of association.

The solid capital structure together with the profitability, the cash flow generation and the competitive position influences the positive rating of the Company. This again secures favourable possibilities for the acquisition of capital.

(26) Provisions for pensions and similar obligations

The elexis Group administers performance-related 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 dependent's 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. Following the approval of the Supervisory Board the elexis Pension Trust e.V., Wenden was established for the foundation of a contractual trust agreement (CTA) on July 4, 2007. The purpose of this trust is the administration by a trustee of the assets for the financing of future pension payment obligations to employees of domestic companies. During the fiscal year 2007 the CTA was provided with cash assets in the amount of € 4,000,000.

The valuation of the performance-related pension plans is undertaken each year by independent experts. The valuation was based on the 2005 G guidelines of Klaus Heubeck.

The discount rate corresponds roughly to the yield of first-class industrial bonds in Germany. The calculation of the obligations from performance-related pension plans is based on the following assumptions:

in % p.a.	2007	2006	2005	2004
Discount rate	5.50	4.60	4.60	4.90
Future pension increases	2.00	1.75	1.75	1.75
Expected yield of the fund assets	5.00	3.00		

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

€ 000	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Cash value of the performance-related obligations	12,523	13,975	13,868	13,445
Market value of the plan assets	-4,059	-53		
Provisions for pensions and similar obligations	8,464	13,922	13,868	13,445
Adjustment based on experience - liabilities - plan assets	276	87	* *	* *

* Amounts not available

The changes in the cash value of the performance related obligations of the current fiscal year are presented as follows:

€ 000	2007	2006
Cash value of the performance-related obligations as at 01.01.	13,975	13,868
Service time	110	108
Service time expense to be subsequently calculated		153
Interest expense	627	617
Total expenses for pensions and similar pension obligations	737	878
Actuarial profits	-1,301	-37
Pensions paid	-888	-734
Change in the cash value of the performance-related obligations	-1,452	107
Cash value of the performance related obligations as at 31.12.	12,523	13,975
of which obligations partially financed through funds	*11,295**	
of which obligations not financed through funds	*1,228*	*13,975*

* The CTA described above was provided with plan assets of € 4,000,000 for the cover of obligations financed through funds.

The changes in the book value of the plan assets during the current fiscal year are presented as follows:

€ 000	2007	2006
Book value of the plan assets as at 01.01.	53	
Expected income of the plan assets	2	
Employers' contributions	4,004	53
Book value of the plan assets as at 31.12.	4,059	53

The plan assets consist almost exclusively of short term cash deposits. The expected yield of the plan assets is derived from the market interest rate. The actual income of the fiscal year corresponded to the expected income.

The current service time expense is set-off within 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 performance-related 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 € 2,559,000 million (2006: € 2,331,000) are attributable primarily to the state administered pension scheme and are included as expense of the current year in the functional areas and thus also 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	01.01.2007	Use	Release	Additions	Change in foreign currency	31.12.2007
Risks from restructuring and litigation	1,439	-130	-497	2,617		3,429
Guarantee obligations	974	-257	-3	563	3	1,280
Rebates, bonuses, third party commissions	770	-549	-8	613	2	828
Others	958	-679	-77	860	12	1,074
Other short term provisions	4,141	-1,615	-585	4,653	17	6,611

The risks from restructuring and 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.

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 € 370,000 (prior year: € 344,000), provisions for archiving costs in the amount of € 303,000 (prior year: € 226,000) and provisions for fees and dues of our foreign subsidiaries in the amount of € 186,000 (prior year: € 158,000).

€ 000	01.01.2007	Use	Release	Additions	Change in foreign currency	31.12.2007
Provision for taxes	3,052	-3,052		971		971

The provision for taxes was concluded on the basis of the net income 2007.

(28) Financial liabilities

As at December 31, 2007 the financial liabilities were composed as follows:

	Remaining maturity			31.12.2007
€ 000	up to 1 year	between 1 and 5 years	more than 5 years	Total
Bank loans	1,599	5,790		7,389
Overdrafts	759			759
Liabilities from financial leasing	747	1,673	4,762	7,182
Total	3,105	7,463	4,762	15,330

Taking into consideration the inclusion of the first consolidation of EMG Automation (Beijing) Ltd., PR China the maturity dates for the financial liabilities as at December 31, 2006 were as follows:

	Remaining maturity			31.12.2006
€ 000	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

Bank loans

The fixed interest rates for the bank loans drawn down range from between 1.7% (Japan) and 8.3% (USA). During the prior year the corresponding interest rates lay between 1.7% and 8.5%. The domestic companies did not take up any loans in foreign currency. Loans of the foreign companies are converted at the currency rate prevailing as at the balance sheet date. A loan with a book value of € 5,275,000 (prior year: € 7,679,000) is valued at acquisition cost in accordance with the effective interest rate method. The discount is distributed over the maturity of the loan. The other loans are stated at their repayment amount. The book values of the loans correspond to their stated value.

The other financial liabilities, stated in the amount of € 2,301,000 in the prior year, have been prematurely repaid.

As at December 31, 2007 credit lines existed in the amount of € 36,213,000 (prior year € 33,082,000) of which € 8,143,000 (prior year: € 10,973,000) were drawn down as loans and overdrafts and € 4,944,000 (prior year: € 4,375,000) used in the form of guarantees.

Collateral

The bank loans are secured as follows:

€ 000	31.12.2007	31.12.2006
Overdraft loans secured through pledge of assets	666	960
Loans secured through pledge of shares to HEKUMA GmbH, Eching	5,275	7,679
Total	5,941	8,639

Receivables with a book value of € 189,000 (prior year: € 650,000) and inventories with a book value of € 0 (prior year: € 310,000) were given as collateral for the securing of loans of a US subsidiary.

The collateral can in the event of default in repayment be used for the servicing of the liabilities.

Financial leasing

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

€ 000	31.12.2007	31.12.2006
Due within 1 year	1,038	1,272
Due within 1 – 5 years	2,565	2,623
Due after 5 years	7,327	8,116
Total of the minimum leasing payments	10,930	12,011
Less interest portion	-3,748	-4,717
Discounted value of the liabilities from financial leasing	7,182	7,294

The interest paid on the liabilities from financial leasing amounted to between 2.8% and 5.7% p.a. (prior year: 2.5% to 7.5% p.a.).

(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	31.12.2007	31.12.2006*
Tax liabilities	854	983
Liabilities from social security	269	340
Other liabilities including prepaid income	13,783	11,994
Total	14,906	13,317

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The other liabilities are all due within one year.

The other liabilities are structured as follows:

€ 000	31.12.2007	31.12.2006*
Liabilities to the personnel	7,526	6,574
Liabilities from commission liabilities	2,448	1,784
Prepayments received	2,158	1,567
Obligations from subsequent cost	756	617
Liabilities to associated companies	200	466
Audit fees	262	257
Interest payable	20	
Other	413	729
Total	13,783	11,994

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

(31) Financial instruments

The book values, valuations and stated values of the financial assets and liabilities are presented as follows:

2007 € 000	Valuation category in accordance with IAS 39*	Book value as at 31.12.2007	Financial instruments valuation at acquisition cost	Financial instruments valuation Fair value without effect on P&L	Financial instruments valuation as per IAS 17 (financial leasing)	No financial instruments as per IAS 32 / 39
Assets						
Financial assets	AfS	3,180	3,180			
Long term receivables and assets	LaR	1,130	1,130			
Trade receivables	LaR	24,333	24,333			
Other short term receivables and assets		3,898				
	LaR		1,526			
	AfS			95		
	n.a.					2,277
Short term cash deposits	LaR	2,000	2,000			
Cash and cash equivalents	LaR	23,508	23,508			
Liabilities						
Liabilities to banks	FLAC	8,148	8,148			
Liabilities from financial leasing	n.a.	7,182			7,182	
Other long term financial liabilities						
Other short term provisions		6,611				
	– FLAC		828			
	– n.a.					5,783
Trade payables	FLAC	13,770	13,770			
Other liabilities	FLAC	14,906	4,062			10,844

2006 € 000	Valuation category in accordance with IAS 39*	Book value as at 31.12.2006**	Financial instruments valuation at acquisition cost	Fair value without effect on P&L	as per IAS 17 (financial leasing)	No financial instruments as per IAS 32 / 39
Assets						
Financial assets	AfS	2,645	2,645			
Long term receivables and assets	LaR	898	898			
Trade receivables	LaR	17,657	17,657			
Other short term receivables and assets	LaR AfS n.a.	1,571	 319			 1,252
Short term cash deposits	LaR	2,250	2,250			
Cash and cash equivalents	LaR	23,551	23,551			
Liabilities						
Liabilities to banks	FLAC	10,973	10,973			
Liabilities from financial leasing	n.a.	7,294			7,294	
Other long term financial liabilities	FLAC	2,301	2,301			
Other short term provisions	 – FLAC – n.a.	4,141	 770			 3,371
Trade payables	FLAC	8,711	8,711			
Other liabilities	FLAC	13,317	3,854			9,463

* Categories of the financial instruments: AfS (available for sale), LaR (loans and receivables), FLAC (financial liabilities measured at amortised cost), n.a. (no financial instruments, valuation carried out in accordance with other regulations)

** Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The book values of the cash and cash equivalents, trade receivables, other receivables, trade payables as well as other liabilities correspond to acquisition cost due to their predominantly short term nature. The longer term financial liabilities are mainly from more recent dates; the book values correspond roughly to the stated values.

The valuation of shares in non-consolidated associated companies is carried out at acquisition cost, since there is no active market for these participations.

The financial instruments of the elexis Group are subject to the risks of losses, interest changes and currency, which could have an influence on the asset, financial and earnings situation. Due to the broad distribution of the sales realised there is no concentration of risk with regard to regions, customers and currencies.

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 a loss of assets therefore occurs. The maximum risk of losses from trade receivables is limited to the excess from the credit insurance in the amount of 30%. In order to minimise the risk of losses we subject our customers to a test of good standing and operate an active debtor management.

In the case of the other financial assets the risk of loss corresponds roughly to the book values.

The Group has issued no guarantees in favour of third parties.

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 longer maturities are, however, of little significance.

According to IFRS 7 interest rate risks are presented by means of a sensitivity analysis. This analysis shows the effects of a change of the market interest rate on interest payments, interest income and expenses a well as other items of profit and possibly also on the shareholders' equity. In this respect it is assumed that a hypothetical change in the interest rate can only have an effect insofar as the valuations of the financial instruments are subject to variable rates of interest. As a result, all financial instruments, which are valued at acquisition cost with fixed rates of interest, are not exposed to the risk of changes in the interest rate in accordance with IFRS 7.

If the interest rate on the balance sheet date of the financial statements had been 0.1% higher or lower the result would have been € 3,000 (prior year: € 0) higher or lower. Sensitivities do not exist in shareholders' equity.

Currency risk

Due to its international activity the elexis Group is exposed to currency risks. The currency risks result from investments and operating activities. These risks are systematically analysed in accordance with a Group-wide guideline. This analysis includes the existing as well as the expected foreign currency exposure during the next twelve months. Cash flow neutral foreign currency risks, which result from the conversion of the financial statements of the foreign companies, are not included in the foreign currency exposure. On the basis of this analysis the hedging requirements are determined with the Management Board. No currency hedging transactions existed, however, at the balance sheet dates.

The individual companies carry out their activities mainly in their corresponding functional currency. For that reason the currency risk of elexis from the current operating business is considered to be low. Some Group companies, however, are exposed to foreign currency risks from deliveries in which settlement has been agreed in a currency which differs from that of the functional (national) currency of the company. These risks are monitored and, if appropriate, hedged.

IFRS 7 requires an analysis of the currency risks arising from monetary financial instruments which are denominated in a currency which differs from the functional currency. Differences from the conversion of financial statements into the Group currency are not taken into consideration in this respect.

The sensitivity analysis therefore takes into account all monetary financial instruments (liquid funds, receivables, interest-bearing securities, interest-bearing debt, liabilities from financial leasing and non-interest bearing liabilities), which are not denominated in the functional currency of the corresponding company. The foreign currency exposure thus determined is used as a basis for the calculation. The volume of financial instruments as at December 31 is assumed to be representative for the full year.

A devaluation/revaluation of the euro versus the US dollar by 1% would have resulted in an increase/decrease in the result of € 18,000 (prior year: € 21,000). Sensitivities do not exist in the balance sheet. A devaluation/revaluation of the euro versus the British pound by 1% would have resulted in an increase/decrease in the result of € 1,000 (prior year: € 1,000). Sensitivities do not exist in the balance sheet.

The following net results arise in respect of the individual valuation categories of the financial instruments:

		From subsequent valuation				Net result	
€ 000	From interest	At fair value	Currency conversion	Value adjustment	From disposal	2007	2006 *
Receivables, loans and cash deposits	680		-4	365	-101	940	311
Financial liabilities valued at acquisition cost	-1,579				1,976	397	-1,436
Total	-899		-4	365	1,875	1,337	-1,125

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

The following table presents the non-discounted interest payments and debt repayment of the original financial instruments:

€ 000	31.12.2007 Loans and financial leasing	31.12.2007 Trade payables	31.12.2007 Other financial liabilities	31.12.2006 Loans and financial leasing	31.12.2006 Trade payables	31.12.2006 Other financial liabilities
Outflow of funds within						
3 months	918	13,681	3,555	4,005	8,673	3,509
- from repayment	724	13,681	3,555	3,659	8,673	3,509
- from interest	194			346		
From 3 to 6 months	931	89	300	1,004	38	80
- from repayment	754	89	300	693	38	80
- from interest	177			311		
From 6 to 12 months	2,318		649	2,774		849
- from repayment	2,000		649	2,200		849
- from interest	318			574		
From 12 to 60 months	9,706		335	9,477		2,447
- from repayment	8,114		335	7,086		2,447
- from interest	1,592			2,391		
More than 60 months	7,403		51	9,561		40
- from repayment	4,837		51	6,184		40
- from interest	2,566			3,377		

Supplementary information

(32) Shareholdings

elexis Group, Wenden

List of the scope of consolidation as at December 31, 2007

	Name, registered office	Share in capital %	Held by	Shareholders' equity (€ 000)	Result (€ 000)
Parent company					
	elexis AG, Wenden				
Consolidated companies					
	Germany				
1.	BST International GmbH, Bielefeld	100	2.		
2.	EMG Automation GmbH, Wenden	100	3. (94 %)		
3.	Elexis Beteiligungsgesellschaft mbH, Wenden	100			
4.	HEKUMA GmbH, Eching	100			
	Other countries				
5.	BST Japan Ltd., Osaka/Japan	98	1. (67 %), 2. (31 %)		
6.	BST PRO MARK Inc., Elmhurst/USA	100	1. (51 %), 8. (49 %)		
7.	EMG Automation (Beijing) Ltd., Beijing/PR China	51	2.		
8.	EMG USA Inc., Warren/USA	100	2.		
9.	EMH Eletromecânica e Hidraulica Ltda., Belo Horizonte/Brazil	52	2.		
Associated companies					
	Germany				
10.	elexis beta GmbH, Wenden	100		2,022	-84
11.	ELOTHERM GmbH, Remscheid (in liquidation)				
	Other countries				
12.	BST France S.A.R.L., Verrieres Le Buisson/France	100	1.	222	5
13.	BST International Shanghai Co., Ltd., Shanghai/PR China	100	1.	255	-74
14.	BST Italia S.r.l., Saronno/Italy	100	1.	115	53
15.	BST Sayona Automations Private Ltd., Mumbai/India	51	1.	1,087	268 1)
16.	EMG AUTOMATION Ltd., Buckinghamshire/United Kingdom	100	2.	38	-1

1) Financial statements as at March 31, 2007

The information on the above participation companies is based on the fiscal year as at December 31, 2007. 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 2007 was structured as follows:

€ 000	Fixed	Bonus	Gross remuneration	Remuneration in kind / other compensation*	Total
Siegfried Koepp	300	172	472	43	515
Edgar Michael Schäfer	200	102	302	39	341
Gesamt	500	274	774	82	856

* Use of company car, insurance contributions

In the prior year the remuneration of the Management Board was 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
Gesamt	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 EUR 270,000 as at December 31, 2007 (prior year: 286,000).

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 remuneration of € 372,000 (prior year: 344,000) consisting of a fixed (€ 211,000, prior year: € 193,000) and a variable (€ 161,000, prior year: € 151,000) portion.

The remuneration of the Supervisory Board is due following the end of the general meeting of shareholders, which has to resolve the appropriation of the net income 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:

	2007 Number	2006 Number
Management Board	6,239	12,676
Supervisory Board	131,096	132,199
Total	137,335	144,875

The shareholdings of the Supervisory Board include 126,319 shares (prior year: 126,319) of Intec Beteiligungsgesellschaft mbH, Bad Homburg, the voting rights of which are attributable to Mr. Dirk Wolfertz, Bad Homburg v.d.H. as the sole shareholder of Intec Beteiligungsgesellschaft.

(35) Contingent liabilities

As at the balance sheet date contingent liabilities existed from guarantees for operating lease obligations and other guarantees in the amount of € 5,722,000 (prior year: 6,220,000). The rental obligations, which are unchanged versus 2006, are stated at their current value.

(36) Other financial obligations

The following payment obligations are due under operating lease contracts:

€ 000	31.12.2007	31.12.2006*
Within one year	1,227	1,203
Between two and five years	1,139	2,006
More than five years	277	
Total	2,643	3,209

* Data including the newly consolidated EMG Automation (Beijing) Ltd., PR China

During the fiscal year 2007 € 1,400,000 (prior year: € 1,308,000) was spent for leasing contracts. The leasing contracts are attributable mainly to contracts for the leasing of other operating and office equipment. Payment obligations existed in the amount of € 124,000 (prior year: € 0) in respect of investment plans which have been started.

(37) Major events following the balance sheet date

There were no significant events following the balance sheet date.

(38) Shareholdings in the share capital of elexis AG

In accordance with Section 21 Paragraph 1 Sentence 1 of the Securities Trading Law (WpHG) the following shareholding thresholds are obliged to be disclosed: 3, 5, 10, 15, 20, 25, 30, 50 and 75 percent. The following announcements were submitted to us during the fiscal year 2007 concerning the attainment or exceeding of or falling below these shareholding thresholds:.

- On January 10, 2007 Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, informed us that its share in the voting rights had exceeded the 5% disclosure threshold and now amounted to 7.598% (699,016 voting rights).

- On February 12, 2007 Landesbank Baden-Württemberg informed us that it had fallen below the 3% disclosure threshold and now held a voting share of 1.71% (157,000 voting rights).

- On February 13, 2007 Union Asset Management Holding AG on behalf of Union Investment Luxembourg S.A., Luxembourg (UIL) informed us that it had exceeded the 3% disclosure threshold and that its voting share now amounted to 4.08% (375,000 voting rights).

- On February 28, 2007 Mr. Tito Tettamanti, London, U.K., informed us that his voting share in elexis AG had exceeded the threshold of 3% on 22.02.2007 and amounted on this day to 3.61% (332,355 voting rights). Of these 3.61% (332,355 voting rights) are attributable to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. The voting rights attributable to him are held by the following companies, which are controlled by him, the share of voting rights of which amounts to either 3% or more in elexis AG: Sterling Strategic Value Ltd., Tortola, BVI. This company informed us for its part on 28.02.2007 in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in elexis AG had exceeded the threshold of 3% on 22.02.2007 and amounted on this day to 3.61% (332,355 voting rights). Of these 0.9% (83,155 voting rights) was attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. International Equity Development S.L., Barcelona, Spain informed us on 28.02.2007 in accordance with Section 21 Paragraph 1 WpHG that its voting share in elexis AG had exceeded the threshold of 3% on 26.02.2007 and amounted on this day to 3.44% (316,355 voting rights). Of these 3.44% (316,355 voting rights) was attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. The voting rights attributable to it are held by the following companies, which are controlled by it, the share of voting rights of which amounts to either 3% or more in elexis AG: IED – International Equity Development GmbH, Frankfurt am Main, Germany. This company informed us on 28.02.2007 in accordance with Section 21 Paragraph 1 WpHG that its voting share in elexis AG had exceeded the threshold of 3% on 26.02.2007 and amounted on this day to 3.44% (316,355 voting rights).

- Mr. Tito Tettamanti, London, U.K., informed us on 07.03.2007 that his share of the voting rights in elexis AG had exceeded the threshold of 5% on 01.03.2007and amounted to 5.91% (543,674 voting rights). Of these 5.91% (543,674 voting rights) are attributable to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. The voting rights attributable to him are held by the following companies, which are controlled by him, the share of voting rights of which amounts to either 3% or more in elexis AG: Sterling Strategic Value Ltd., Tortola, BVI; IED International Equity Development S.L., Barcelona, Spain and IED International Equity Development GmbH, Frankfurt am Main, Germany. Sterling Strategic Value Ltd., Tortola, BVI informed us on 07.03.2007 in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in elexis AG had exceeded the threshold of 5% on 01.03.2007 and amounted on this day to 5.91% (543,674 voting rights). Of these 5.74% (527,674 voting rights) was attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. The voting rights attributable to it are held by the following companies, which are controlled by it, the share of voting rights of which amounts to either 5% or more in elexis AG: IED – International Equity Development S.L., Barcelona, Spain and IED International Equity Development GmbH, Frankfurt am Main, Germany. International Equity Development S.L., Barcelona, Spain informed us on 07.03.2007 in accordance with Section 21 Paragraph 1 WpHG that its voting share in elexis AG had exceeded the threshold of 5% on 01.03.2007 and amounted on this day to 5.74% (527,674 voting shares). Of these 5.74% (527,674 voting rights) was attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. The voting rights attributable to it are held by the following company, which are controlled by it: IED – International Equity Development GmbH, Frankfurt am Main, Germany. For its part this company informed us on 07.03.2007 in accordance with Section 21 Paragraph 1 WpHG that its voting share in elexis AG had exceeded the threshold of 5% on 01.03.2007 and amounted on this day to 5.74% (527,674 voting rights).

- On August 13, 2007 Union Asset Management Holding AG on behalf of Union Investment Luxembourg S.A., Luxembourg (UIL) informed us that its share of voting rights had fallen below the 3% threshold an that their voting rights now amounted to 2.64% (243,000 voting rights).

- On October 18, 2007 DWS Investment GmbH, Frankfurt am Main informed us that its share of voting rights had fallen below the 5% threshold and now amounted to 4.85% (446,026 voting rights).

- On October 31, 2007 we received an announcement from Deutsche Bank, Frankfurt am Main, that DWS Investment GmbH, Frankfurt am Main had fallen below the threshold of 3% and now held a share of 2.95% (271,316 voting rights).

As at the balance sheet date of December 31, 2007 or up to the drawing up of these financial statements the following announcements were made in accordance with the Securities Trading Law (WpHG) concerning shareholdings which must be disclosed in the share capital of elexis AG:

Shareholder	Date of announcement	Shareholding in %
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen	(Announcement of 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 Ltd., Tortola, BVI; International Equity Development S.L., Barcelona, Spain/IED International Equity Development GmbH, Frankfurt am Main, Germany)	(Announcement of 07.03.2007)	5.91

The remaining 77.88% of the shares are in the free float and need not be disclosed.

(39) Management Board

Composition of the Management Board in the year under report:

- Siegfried Koepp (Dipl. Ing.), Mühltal (Chairman)
- Edgar Michael Schäfer (Industrial Manager), Wilnsdorf

(40) Supervisory Board

The Supervisory Board of elexis AG was composed as follows during the fiscal year 2007: :

- Dr. Dirk Wolfertz, Bad Homburg (Chairman) - Managing shareholder of Intec Beteiligungsgesellschaft mbH, Bad Homburg
- Karl Heinz Gorgas, Tettnang - Management consultant
- Heinzpeter Greven, Eschborn (until May 16, 2007) - 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/Belgium - Investment banker
- Dieter Schulze, Pfaffing - Management consultant
- Klaus Schulze, Eschborn (since May 16, 2007) - Portfolio manager
- Prof. Dr. Michael Wackenhuth, Weilheim/Teck - Lawyer

Through a resolution of the general meeting of shareholders on May 16, 2007 the representatives of the shareholders in the Supervisory were re-elected by rotation. Mr. Heinzpeter Greven did not stand for re-election. Mr. Klaus Schulze was newly elected to the Supervisory Board. The other members were confirmed in their office. The term of office of the representatives of the shareholders in the Supervisory Board ends following the general meeting of shareholders, which resolves the discharge of the Supervisory Board for the fiscal year 2011.

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 (AktG):

Member of the Supervisory Board	Other Supervisory Board appointments
Dr. Dirk Wolfertz	Nucletron Electronic AG (Chairman)
Karl Heinz Gorgas	Harms & Wende Beteiligungs GmbH Harms & Wende QST GmbH PROCON PAS Elektronik GmbH
Georg Keppeler	Treuhandverwaltung IGEMET GmbH Member of the Board of Directors of AOK Westfalen Lippe
Dieter Schulze	MS "ER Amsterdam" Schiffahrtsgesellschaft mbH & Co. KG
Prof. Dr. Michael Wackenhuth	MOSOLF GmbH & Co. KG, Internationale Spedition MAI MOSOLF Automotive Industries AG (Chairman)

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

(41) Audit fees

In accordance with IDW HFA 1.006 fees paid to the auditors during the fiscal year 2007 are included in the operating expenses in the amount of € 213,000 (prior year: € 203,000).

€ 000	2007	2006
Fees for audit	185	174
Fees for other services	28	29
Total	213	203

(42) Related party transactions

In accordance IAS 24 (Details on Relationships with Closely Related Companies and Persons) related parties are considered as being members of the Management Board, the Supervisory Board, their close family members as well as non-consolidated companies.

Apart from the remuneration mentioned in point 33, no transactions were carried out with members of the statutory bodies or their relatives.

During the fiscal year 2007 sales in the amount of € 2,578,000 (prior year: € 414,000) were realised with non-consolidated associated companies of the Group. The data for 2006 respectivily as at 31.12.2006 take into consideration the retroactive consolidation of EMG Automation (Beijing) Ltd., PR China. 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:

	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	
€ 000	31.12.2007	31.12.2006	31.12.2007	31.12.2006	2007	2006
elexis beta GmbH	285	68				
BST France S.A.R.L., Frankreich	19	31	67	244	29	24
BST Italia S. r. l., Italien	57	112		79	139	40
BST Sayona Automations Private Ltd., Indien	92	109	133	131	497	349
BST International Shanghai Ltd., PR China	842				1,913	
EMG AUTOMATION Ltd., U. K.				3		1
Total	1,295	320	200	457	2,578	414

5 Responsibility statement

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

Wenden, March 7, 2008

elexis AG, Management Board

Siegfried Koepp   Edgar Michael Schäfer

6 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 and the notes to the consolidated financial statements as well as the Group management report of for the fiscal year from January 1 to December 31, 2007. 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 7, 2008

Deloitte & Touche GmbH	**(Ludwig)**	**(Dr. Froese)**
Wirtschaftsprüfungsgesellschaft	Auditor	Auditor

7 elexis AG financial statements as at December 31, 2007

(drawn up in accordance with HGB)

Profit and loss account of elexis AG for the periods 01.01.2007 to 31.12.2007 and 01.01.2006 to 31.12.2006

€000	2007	2006
1. General administrative expenses	2,256	2,199
2. Other operating income	3,184	865
3. Other operating expenses	2,526	196
4. Income from profit transfer agreements	18,754	16,591
5. Other interest and similar income of which from associated companies: (€ 1,170,000) (prior year: € 870,000)	1,170	879
6. Interest and similar expenses of which from associated companies: (€ 251,000) (prior year: € 0)	295	64
7. Result from operating activities	18,031	15,876
8. Taxes	5,450	3,832
9. Net income (= retained earnings)	12,581	12,044

Balance sheet of elexis AG as at 31.12.2007 and 31.12.2006

Assets	31.12.2007 € 000	31.12.2006 € 000
A. Fixed assets		
I. Financial assets		
Shares in associated companies	38,227	13,227
	38,227	13,227
B. Current assets		
I. Receivables and other assets		
1. Receivables from associated companies	25,683	44,192
2. Other assets	1,119	473
	26,802	44,665
II. Cash on hand and in banks	356	375
	27,158	45,040
C. Prepaid expenses	18	45
	65,403	58,312

Liabilities	31.12.2007 € 000	31.12.2006 € 000
A. Shareholders' equity		
I. Subscribed capital	23.552	23.552
II. Capital reserve	3,555	3,555
III. Other earnings reserves	18,496	10,592
IV. Net income for the fiscal year	12,581	12,044
	58,184	49,743
B. Provisions		
1. Provisions for pensions	202	191
2. Provisions for taxes	971	2,398
3. Other provisions	4,342	2,471
	5,515	5,060
C. Liabilities		
1. Liabilities to banks	440	734
2. Trade payables	204	134
3. Liabilities to associated companies	827	122
4. Other liabilities	233	2,519
	1,704	3,509
	65,403	58,312

Wenden, March 7, 2008 **The Management Board**

The full financial statements of elexis AG (including notes to the financial statements) as well as the management report, which has been given an unqualified opinion by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, will be published in the electronic Bundesanzeiger. elexis AG is deposited at the Commercial Register at the District Court of Siegen under HRB 7549. These financial statements can be requested from elexis AG, Industriestrasse 1, 57482 Wenden.

Please note that through the use of rounded amounts and percentages, differences could arise in the tables and summaries presented as a result of such rounding.

8 Corporate calendar

Interim financial report 1-3/2008	May 2008
General meeting of shareholders	May 21, 2008
Half year financial report 1-6/2008	August 2008
Interim financial report 1-9/2008	November 2008
Analysts' conference	November 10, 2008
Annual report 2008	March 2009

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
mediaService, Siegen

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