# Market leader through international presence

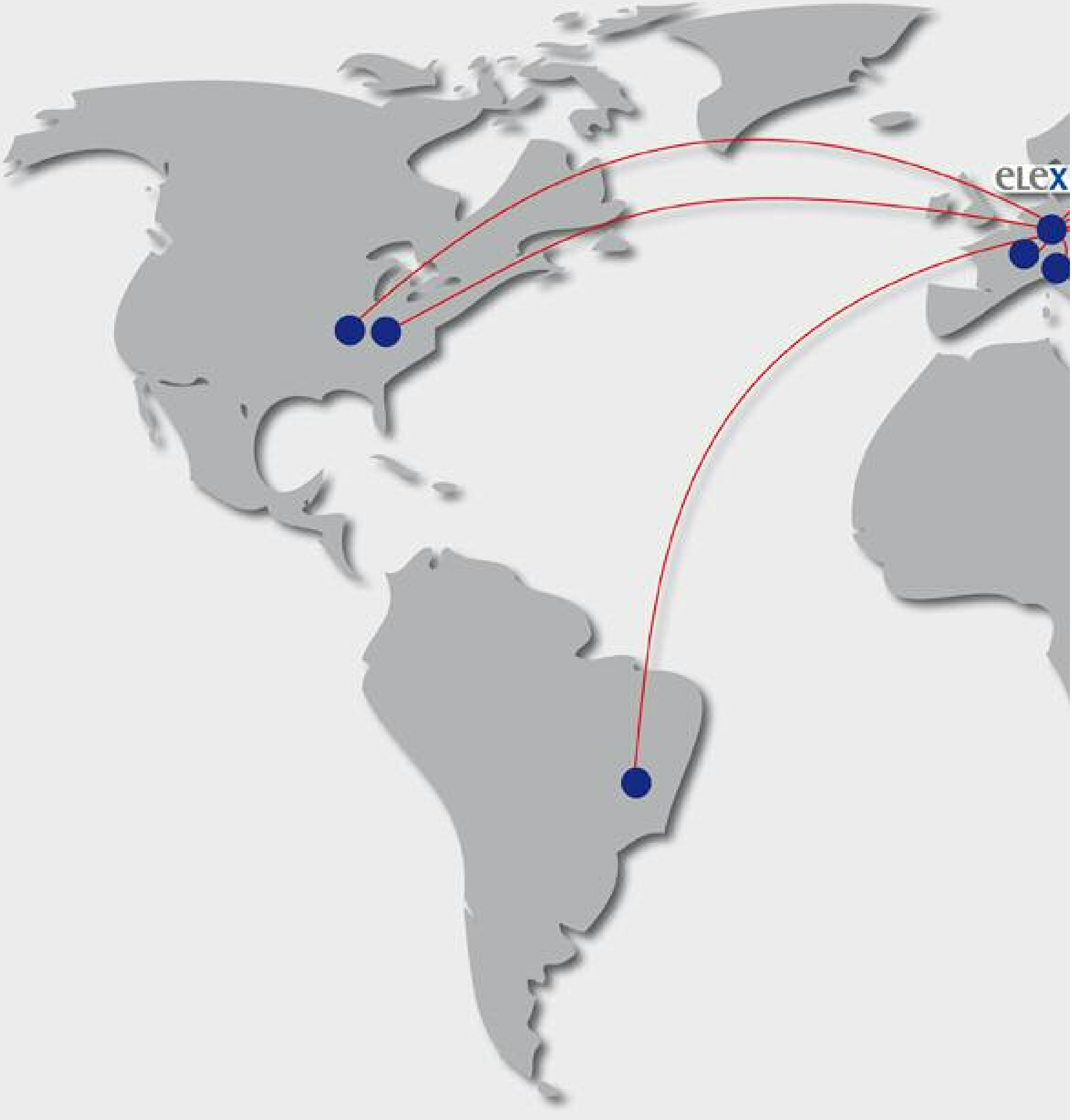
## Annual report 2010

# elexis at a glance

| in €million | **2010** | 2009 |
|---|---|---|
| Incoming orders | 150.7 | 119.2 |
| Sales (net)<br>*of which international in %* | 136.7<br>*58.2* | 127.0<br>*50.9* |
| Gross Profit | 48.1 | 43.3 |
| EBITDA | 14.4 | 9.0 |
| EBIT before Goodwill Impairment<br>*EBIT margin (in %)* | 10.6<br>*7.7* | 5.4<br>*4.2* |
| EBIT after Goodwill Impairment<br>*EBIT margin (in %)* | 4.0<br>*2.9* | 5.4<br>*4.2* |
| EBT | 3.0 | 4.5 |
| Consolidates net income after deduction of minority interests | 2.2 | 1.7 |
| Earnings per share (EPS) in € | 0.24 | 0.19 |
| Number of shares in circulation (in million) | 9.2 | 9.2 |
| Cash flow from operating activities | 14.4 | 5.8 |
| Investments | 4.6 | 2.7 |
| **Key data as at 31.12.** | | |
| Working Capital | 3.5 | 5.7 |
| Long-term liabilities to banks | 2.2 | 5.6 |
| Net liquidity | 19.4 | 12.6 |
| Shareholders´equity | 69.1 | 66.9 |
| Total of statement of financial position<br>*Equity ratio (in %)* | 132.4<br>*52.2* | 129.7<br>*51.6* |
| Employees (reporting date, excl. apprentices) | 785 | 768 |
| **Profitability data** | | |
| *Return on shareholders´equity after tax (in %)* | *3.4* | *2.6* |
| *Return on capital employed (ROCE in %)* | *7.6* | 8.7 |

# Annual Report 2010

# The elex



# xis world

# Annual Report 2010

## Management Board's Letter to Shareholders

*Edgar Michael Schäfer*
*(Member of the Management Board)*

*Siegfried Koepp*
*(CEO)*

**Dear shareholders,**

The 2010 fiscal year was a year of transition during which the pain of the global financial and economic crisis was still clear to be felt.

However, elexis Group's new orders increased from 119.2 billion Euro in the previous year to 150.7 billion Euro by 31 December 2010. This was an increase of approximately 26%. The company's turnover also increased, although gradually, by 8% over the reporting period. At 31 December 2010, elexis Group achieved revenues of 136.7 billion Euro, up from 127.0 billion Euro at 31 December 2009.

In addition to increased revenues, cost savings from 2009 and from the first half-year of 2010 in the value of 14.7 million Euro also had a positive effect. This was the fruit of a clear increase in operating income from one off extraordinary items worth 10.6 million Euro. elexis AG's asset and income situation was affected by an adjustment to the goodwill of HEKUMA GmbH during the 2010 fiscal year. The impairment test on HEKUMA GmbH's goodwill revealed an amortisation requirement of 6.6 million Euro.

HEKUMA GmbH, which was taken over in 2000, forms the company's High Precision Automation division. Despite the implementation, in the previous year, of cost saving measures, product innovations and increased market presence, these efforts were not enough for us to achieve the desired turnaround during the 2010 fiscal year. With an EBIT before goodwill adjustment of minus 3.2 million Euro (minus 9.8 million Euro after extraordinary items) we are clearly behind our target. This is due to a delay in new orders, a poorer product mix and markedly higher investments for the development of new products. Additionally, as a late cyclical business unit, the High Precision Automation unit was further affected by essential clients' reluctance to make investments in the first half of 2010 as an result of the financial and economic crisis. Results turned around in the fourth quarter of 2010, when a positive EBIT of 0.2 million Euro was achieved. We expect results in the first quarter of 2011 to be positive also. Overall, it must be emphasized that we are a good six months behind our original plan in this segment.

Based on current data, we believe that a return to the previous strong profitability (EBIT > 10%) will require a little more time. In addition to this, the results of the impairment calculation are affected by historically low interest rates. In adjusting goodwill, we have been conservative in taking this situation into account commercially. The impairment of goodwill has the following effect on elexis Group's income situation:

After write-offs, elexis Group is reporting earnings before interest and tax (EBIT) of 4.0 million Euro (previous year: 5.4 million Euro). This corresponds to an EBIT margin of 2.9% (previous year: 4.2%). Consequently, on balance sheet day the group's result after minority interests and extraordinary items stood at 2.2 million Euro (1.7 million Euro the previous year). Earnings per share at 31 December 2010 were 0.24 Euro, having been 0.19 Euro the previous year.

The company's operating result (EBIT) before extraordinary items almost doubled to 10.6 million Euro (previous year: 5.4 million Euro). This represents an EBIT margin of 7.7% having stood at 4.2% the previous year. Before goodwill depreciation, the Group's result after minority interests stood at 6.8 million Euro on balance sheet day. In the previous year the annual surplus amounted to 1.7 million Euro.

elexis Group is an international group operating in all global markets. Above all, this is reflected in our direct export ratio of 58.2% (previous year: 50.9%). At elexis Group it is our stated aim to actively shape the ongoing changes in the main areas of demand. In so doing we are guided by our business model based on diversification, cost leadership and the pillars of technological and market leadership: Our core technological competences can be summed up by the motto "Vision for Automation". All of our companies have technological USPs or set a new benchmark in terms of quality, safety, speed and precision. In the future we aim to make these technological competences clear. Thus, the Annual General Meeting in 2010 created the "High Quality Automation" division from the former "Steel and Printing" division. This new division encompasses products that verify the safety and quality of production equipment for flat sheet materials.

Quality assurance, and the associated prevention of rejects, as well as optimising operational processes, is a driving factor behind our product policy. It is against this background that, yet again in fiscal year 2009, we expanded our quality assurance systems product range with the addition of many new products thanks to an innovation offensive. Therefore, in 2010, our priority was research activities in order to adapt our existing technology to new markets and for new uses. By acquiring a 51% stake in P2T Protagon Process Technologies GmbH we gained the technology we needed to enter the converting industry market. Beyond this, there are many areas where we can use Protagon technology to develop new quality assurance systems for our core markets in the steel and packaging industries, and foil and non woven fabric production.

The acquisition of a majority stake in P2T Protagon Process Technologies GmbH underpins our vision to become the market and technological leader in all areas concerning supply and quality assurance for flat sheet materials.

In summary, we can state that the High Quality Automation division was on a profitable growth trend in 2010 based on wide technological and sectoral diversification. The division's EBIT margin increased at the end of the reporting period from 9.7% (31 December 2009) to 13.5%. Thus, after the slump during the crisis of 2009, this division has returned to its prior earning power.

The segment formerly known as Factory Automation Plastics now goes under the name "High Precision Automation". This division was particularly hit by the effects of the financial and economic crisis in 2009 and again in 2010. In this case again our response was to expand our technological competences. This sector's customer structure is heavily focused on the USA and Europe, two regions whose investment levels did not fully recover in 2010. Demand from our existing customer based primarily focused on replacement investments. Large volume orders to equip new production sites did not materialise. We used this market consolidation phase to develop new systems and to exhibit them successfully at numerous trade fairs over the course of 2010.

The highlight of our trade fair activities came at "K 2010" in Düsseldorf, the world's largest event for plastics and rubbers. There, the High Precision Automation division introduced itself with a new world standard for Petri dish production, with a cycle time of less than 3.7 seconds. Thanks to the HeKuCell's robot concept, we were able to lay the foundation for simplified automation technology in our target markets in developing nations. Both of these systems and the pipette tip production equipment were met by resounding approval from fairgoers.

The High Precision Automation GmbH division, composed of HEKUMA GmbH, has the best conditions for profitable growth in new markets and regions over fiscal year 2011 thanks to its technologically sophisticated product portfolio and an simplified balance sheet structure. Its activities focus on strategic partnerships and expanding cooperation and networks. This is creating new opportunities.

Thanks to the measures taken within the Group and our technological leadership and innovation excellence, which was proven again in 2010, elexis Group has a sold basis for future profitable growth.

Because of our consistent alignment to the major trends of the future we are playing an active part in the current shifts in demand. Our products can be categorised as part of the following trend markets: "industrial manufacturing", "health", "mobility", "new consumption and packaging patterns" and "environment and energy". A new middle class is appearing in emerging countries that is not content to lag behind industrialised countries. In developing countries, and in particular in the socalled BRIC nations, the desire for consumption, mobility and prosperity is leading to a separate growth dynamic. With help from elexis products, industrial production in these countries can be secure and process orientated.

One of the pre conditions for a significant market position in the regions of future demand is an independent presence in those countries. In this regard, elexis Group's long international corporate history is a clear advantage.

In 1977 we founded EMH Electromecânica e Hidráulica Ltda. along with a Brazilian partner. In 2009 we acquired our partner's minority stake in the successor company. The Brazilian plant houses the production, sales and services areas of High Quality Automation for South America. In 1993 we founded our production site in India together with our Indian partner. The founding of EMG India in 2008 further strengthened this site. In 2006 and 2007 we took a successful step towards the Chinese market by founding our own companies there, EMG Beijing and BST Shanghai. Both sites offer production opportunities for the domestic market. It is also important to mention here, that we have been represented in Moscow since 2004.

However, elexis Group's international sales and service organisation does not concentrate solely on BRIC states. We have had sales and service sites in Italy and France for more than 30 years. We established local production in Japan around 20 years ago. Our sites in the USA (EMG USA and BST Pro Mark) and in Spain (EMG España) complete our promising portfolio of international companies and offices. Furthermore, we are represented in more than 70 countries.

In general, one thing is clear from our commitment to international sites: German engineering know-how is as highly regarded now around the world as it ever was. In this context, the rating "typically German" is a sign of true respect. As a German company abroad we stand for precision, speed, professionalism and reliability. Our partners rely on German organisation, processes, quality and technology.

These German virtues, however, can only be fully achieved abroad in conjunction with local manpower. "Think global. Act local!" This motto is massively important in being able to act successfully and efficiently at the most widely varying international sites. This success is intricately bound with mutual appreciation, trust and recognition of each other's culture. Our employees abroad are proud to be part of the great elexis family. It is also part of our philosophy that our managers abroad come from the country where they are working. More than a third of our workforce is now based outside of Germany. It is only with their support and effort that we are able to be there for our clients around the globe. As a strong onsite partner, a developer of progressive and forward-looking technologies and a problem solver in any situation.

We are convinced that with our current international orientation and clear technological leadership we have the ideal preconditions to succeed in the coming change in demand priorities. Furthermore, elexis Group has a solid financial footing. With an equity ratio of 52.2%, net liquidity of 19.4 million Euro, positive operating cash flow of 14.4 million Euro and sustainable earning power, we are well-equipped to meet the challenges of the future.

This fiscal year 2011, we have personally set ourselves the target of further expanding our international presence and having the right technology in our portfolio for all of our clients across every region of the world.

Dear shareholders, clients and friends of elexis AG, we would like to thank you for your support and trust over 2010, the year of transition. 2011 will be the year of departure and we would be thrilled for you to accompany us in our activities and challenges.

Yours sincerely

The Management Board

Siegfried Koepp | Edgar Michael Schäfer

# 1. elexis on the capital market

### elexis Shares Rise

On the whole, stock markets around the globe performed well during 2010. The major markets in Europe, America and Asia registered profits. However, at times, the news surrounding the European debt crisis and inflation problems in developing countries led to market instability. In spite of the misgivings regarding indebted European countries, investor sentiment rose continuously from the third quarter. Good company quarterly results gradually brightened prospects. The winners on global stock markets in 2010 included, above all, small Latin American countries, which greatly benefited from the boom in developing counties thanks to their commodity exports, followed by Asian markets.

The leading German index, the DAX, registered a positive result with a total rise of around 16%. In December, the index climbed back over the psychologically important 7,000 points mark for the first time in more than two and a half years. Shortly before the year's end, on 21 December, the market reached a new year high of slightly over 7,087 points, its highest level since June 2008.

In particular, small cap stocks dominated heavyweights on the DAX, Eurostoxx and Dow Jones over 2010. The SDAX, where elexis AG's shares are listed, closed the year with a 12-month increase of 45%. The MDAX, the index of the 50 mid sized listed companies, also ended the year in positive territory, recording a rise of 35%.

elexis AG, listed on the Frankfurt Stock Exchange Prime Standard, also recorded a clear share price increase as a result of positive reporting in 2010. The company's shares started the year with a value of 9.10 Euro. The 52 week high over 2010 was 14.10 Euro on 16 December, and the year low was 8.26 Euro, recorded on 25 January. At the close of the year the company's shares had a value of 13.23 Euro. That represents a share price rise of 45.4% (previous year: over 13%). The average trade volume of elexis shares (Frankfurt XETRA and prime market) over the 256 trading days of 2010 reached 14,776 units per day (previous year: 12,963 units per day). As a result of the positive progress of the company's share price, elexis AG's market capitalisation at the end of 2010 was 121.7 million Euro above the previous year (2009: 83.4 million Euro).

### Overview of elexis shares

| **Market Price (XETRA Closing Price) in €** | **2010** | 2009 |
|---|---|---|
| High | 14.10 | 10.55 |
| Low | 8.26 | 6.12 |
| Beginning of the year | 9.10 | 7.89 |
| Year end | 13.23 | 9.07 |
| Number of shares (in millions) | 9.2 | 9.2 |
| Market Capitalisation 31.12 (in millions €) | 121.7 | 83.4 |

### Dividend Payout and Share Buyback Programme

At the AGM on 20 May 2010 elexis AG's shareholders once again authorised the Board of Directors to buyback shares worth up to 10% of the company's share capital. This authorisation expires on 19 May 2015. This power has not yet been used. Furthermore, authorisation was granted to create more authorised capital by 30 June 2012.

Again on 20 May 2010, elexis AG's shareholders decided to pay a dividend of 0.17 Euro per share for the 2009 fiscal year. Total dividend payments amounted to 1.6 million Euro. Thus, with regard to the closing price of 9.07 Euro on the last trading day of the 2009 fiscal year, this gives a dividend yield of 1.6%. The payout ratio amounted to 100% of the Group annual surplus generated in the 2009 fiscal year (after subtracting minority interests).

### Dividend Proposal for Fiscal Year 2010

Yet again this year, elexis wishes to afford its shareholders fair participation in the company's success. In the past, the company's divided policy provided for a payout ratio of 33% of the Group's annual surplus after subtracting minority interests. The Group annual surplus figure used for dividend payment purposes (after subtracting minority interests) was negatively affected last year. On the one hand, the turnaround at HEKUMA GmbH has been delayed by at least six months and, on the other hand, the result for the period was reduced because of depreciated goodwill. Both the Management Board and the Supervisory Board have recommended paying a dividend that balances out the negative effects on fiscal year 2010. A proposal will therefore be made to the AGM in May 2011 for a dividend to be paid worth 50% of the Group's annual surplus after subtracting minority interests but before depreciation of goodwill. This corresponds to a payment of 3.4 million Euro or 0.37 Euro per share. The dividend yield in terms of the close of year price is 2.8%.

### Solid Shareholder Base

Shares in elexis AG are part of the strictly regulated Prime Standard of the Frankfurt stock exchange and are listed on the SDAX small caps index. 84.9 percent of the 9.2 million shares in circulation are considered as constituting the free float according to the definition of Deutsche Börse AG. There were no changes in the shareholder structure during the fiscal year. The Possehl Foundation, through L. Possehl & Co. mbH, Lübeck, holds 15.1% of the voting rights in elexis AG. The other largest individual investors are Mr. Tito Tettamanti (10.02%), the Baden-Württemberg Pension Fund for Doctors, Dentists and Veterinareans (8.61%), the Baden-Württemberg Investment Company mbH (7.598%) and DWS Investment GmbH (5.46%).

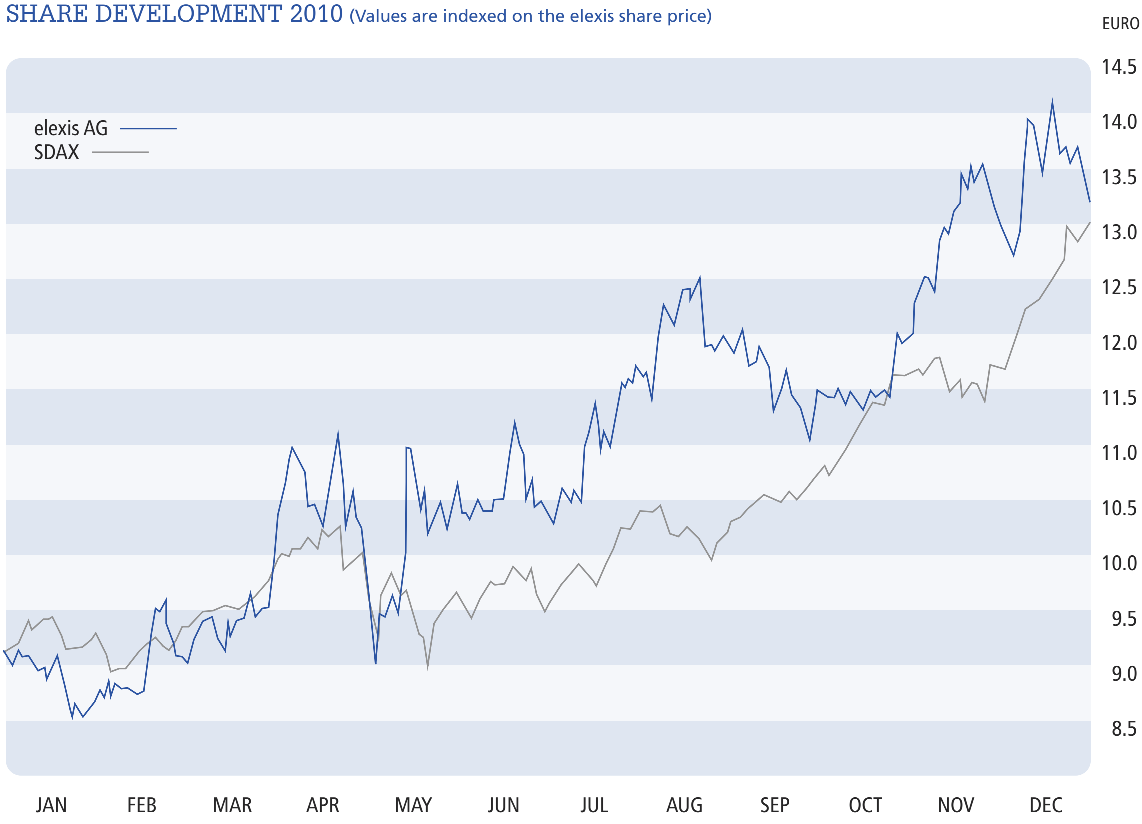
### Investor Relations: Capital Market Communication Expanded

Continuous and open communication with all capital market participants is of pivotal importance for elexis AG's corporate strategy designed to ensure sustainable increases in value. The Group has further expanded its capital market communication and introduced a new product newsletter. In addition to financial news, elexis AG shareholders are also provided with information regarding new product launches and further developments. In addition to the reporting obligations imposed by the law and stock market authorities, elexis AG informs institutional investors and financial analysts about the Group's current business development in individual and group discussions held at conferences and roadshows. In 2010, the Investor Relations department was also in regular contact with elexis Group's private investors.

The Management Board set out the group's operating business and strategic targets at the annual financial press conference and at numerous capital market conferences. The events we visited included the Close Brother Seydler AG Conference, Bankhaus Lampe's Investor Conference, the Small and Mid-Cap Conference held by Baader Bank AG, the Frankfurt Equity Forum and Landesbank Baden-Württemberg's Hightech Engineering Forum. Additionally, over the reporting year, roadshows were held in the international financial centres of Munich, Frankfurt, Zurich, Geneva and Paris.

At the end of fiscal year 2010, the analysts at BHF Bank, Landesbank Baden Württemberg, Close Brothers Seydler Research AG and the research organisation Fairesearch observed and assessed elexis AG. All of these financial analyses recommended purchasing or holding shares in the Group up to a target price of 16.00 Euro.

SHARE DEVELOPMENT 2010 (Values are indexed on the elexis share price)



# 2. Responsibility

## 2.1. Report of the Supervisory Board

During the fiscal year 2010 the Supervisory Board discharged its tasks imposed by the law and the articles of association. We regularly advised the Management Board in running the company and supervised the management's actions. We were involved in taking all decisions of material importance for elexis Group. Written and oral reports from the Management Board to the Supervisory Board formed the basis for this involvement. That reporting covered all essential aspects of the business' development, in particular sales and income development, the risks facing the company and its risk management. As Chairman of the Supervisory Board I was also in continuous contact with the Management Board. Any events of particular importance to elexis Group's position and development were always discussed promptly. All actions taken by the Management Board subject to approval by the Supervisory Board were audited, discussed and decided.

Over the reporting year, the Supervisory Board assembled for four regular meetings. Again in fiscal year 2010, the Board members' attendance was nearly 100%. As is our tradition, we held our Supervisory Board session at all German locations in order to garner our own image of the company's production conditions and product portfolio. Speeches and presentations by the corresponding local general managers, invited to our meetings as guests, completed the overall impression of the staff, economic and financial position of the shareholdings. Furthermore, over the past year, along with the different Supervisory Board members, I held various telephone conferences with the Management Board in order to punctually discuss the sales and invoice position of the High Precision Automation Division.

**Emphasis of Discussions:** With its current technological core competences, rules, controls, checks, measurements and automation, elexis AG is involved in many sectors. The segment names used to date only reflected this diversity to an extent. For that reason, the Management and Supervisory Boards decided to place more focus on the company's technological core competences in its division naming policy. Since the AGM in May 2010, the division previously known as "Factory Automation, Steel and Printing" has been known as "High Quality Automation". The "Factory Automation Plastics" division is now called "High Precision Automation".

One of the central themes of our discussions was the development prospects of HEKUMA GmbH, which constitutes the High Precision Automation division. During the fiscal year it became clear that the basic premises for the 2010 sales and income plan would not be met. Within this context, we discussed the reasons for the deviation from the plan with elexis's and HEKUMA's management, as well as addressing the economic framework conditions, client structure and technological portfolio. The discussions focused on expanding the medical technology business, further modularising the automation cells and an associated entry into new sales regions. In particular, the Supervisory Board also sought information regarding the realisation of individual projects and the status of ongoing process improvements. Individual projects were discussed, advice provided and decided as appropriate in the Supervisory Board based on the current economic conditions and their probability of being realised, in addition to their current state of development based on the mid-term plan.

We also discussed the economic conditions of the High Quality Automation division and their effects on the sales and income situation. The refocusing of economic growth on developing countries plays an essential role in this.

Furthermore, we in the Supervisory Board held comprehensive discussions with the Management Board on the issue of "growth through acquisitions". Over the reporting year, elexis AG ran checks on many companies and completed or initiated several due diligence processes. We were regularly informed of the results and objectives of these processes. One success of this activity was the acquisition of a majority share in P2T Protagon Process Technologies GmbH in June 2010.

The Management Board regularly informed us of the sales and income situation, the status of cost reducing measures and the company's risk management. During the meeting held on 9 December 2010 we approved the budget for 2010 and the plans for 2012 and 2013. The deviations from prior plans and prognoses were clarified for us in detail. In this regard, one of the particular focuses of our advice concerned the economic development of the High Precision Automation division and the possible effects on the Group's income position in the event of a deprecation in goodwill. The Management Board also comprehensively informed us of the balance-sheet effects the BilMoG (German Accounting Law Modernisation Act) will have. The Management Board explained the changes introduced by this law in comparison to the previous law and clarified the impact the BilMoG will have on voting rights as regards individual companies.

**Corporate Governance:** We dealt with the changes to the German Corporate Governance Code during our 3rd and 4th quarter meetings. We have provided separate clarifications for deviations from the Code's recommendations in the Declaration of Confirmation as per § 161 of the AktG (Corporate Governance Code) and in this annual report (chapter 2.2 Corporate Governance), as well as on elexis AG's website (www.elexis.de). At our December meeting, we discussed the agreement on targets for our supervisory board work as required by the Corporate Governance Code. This was included in our internal regulations and clarified in the Corporate Governance chapter. The Supervisory Board also analysed the efficiency of its individual members' work, reviewed these analyses and discussed the results in the group. These efficiency measurements led to no significant objections. The results of this procedure will be included in a continual optimisation process.

**Committees and Audit:** Apart from the Presidium the Supervisory Board has established two committees (an Audit Committee and an Appointments Committee), whose members are listed in the Declaration on Corporate Management. The Declaration on Corporate Management also includes detailed information on the committees' areas of responsibility. The Declaration on Corporate Management can be viewed on the company's website www.elexis.de.

No personnel changes took place in the Supervisory Board over the past fiscal year. Consequently, the Appointments Committee did not meet in 2010. The Audit Committee held active exchanges with the company's directors regarding the quarterly financial reporting. The Audit Committee's proposals and suggestions were also implemented promptly. Furthermore, the Audit Committee was in contact with the financial auditors with regard to the annual audit.

PricewaterhouseCoopers AG, financial auditors, Frankfurt am Main were tasked with auditing elexis AG's financial statement, its consolidated financial statement and elexis AG's combined management report and group management report for the fiscal year up to 31 December 2010. Pricewaterhouse-Coopers was elected as the company's auditor at the AGM on 20 May 2010. In consultation with the financial auditors, the Supervisory Board focused the audit on the following areas: consolidated companies, impairment of goodwill, deferred taxes, development costs and audit of the notes and annual report. In its audit report, the auditor confirmed compliance with all legal regulations and unreservedly certified elexis AG's annual financial statements, the Group's consolidated annual financial statements, elexis AG's and the Group's consolidated management report. Regarding the system for the early identification of risks, the auditors have declared that the Management Board has introduced the measures, and in particular a risk monitoring system, required by § 91 Paragraph 2 of the AktG and § 289 HGB. It further stated that these are appropriate for recognising at an early stage developments which might endanger the continuation of the Company and the Group.

The annual accounting documents, elexis Group's annual report and the audit report for the individual companies were supplied punctually to all of the members of the Supervisory Board. elexis AG's Management Board explained these documents at the meeting of the Audit Committee on 16 March 2011 and at the Supervisory Board's balance sheet meeting on 17 March 2011. The fundamental results of the audit were presented, at both meetings, by the competent auditor. After detailed and intense discussion with the auditors, and after examining the documents itself, the Audit Committee recommended that the Supervisory Board approve the financial statements and the Management Board's appropriation of earnings proposal.

The Supervisory Board also examined elexis AG's annual financial statement, elexis AG's combined management report and Group management report for the fiscal year up to 31 December 2010, and the Management Board's appropriation of earnings proposal and raised no objection. The annual and consolidated financial statements, including the consolidated management report, were approved by the Supervisory Board on 17 March 2011. elexis AG's annual financial statement for fiscal year 2010 is thus approved.

On behalf of the Supervisory Board and our shareholders, I would like to extend thanks to the Management Board, the general managers of the affiliated companies and all managers and employees of the elexis Group for their commitment during the past fiscal year.

Bad Homburg, 18 March 2011

The Supervisory Board

Dr. Dirk Wolfertz
Chairman

## 2.2. Corporate Governance

### Corporate Governance – Guidelines for Business

Corporate governance means managing our company in a responsible manner. The basis for corporate governance at elexis Group is a positive set of values and absolute transparency.

The objective of corporate governance is to sustainably increase the company's value and create value in the interest of shareholders, employees and society. This objective is embedded in framework conditions contained in Corporate Governance Code, among other documents.

The German Federal Government originally adopted the German Corporate Governance Code on February 26, 2002. Generally speaking it is updated on a yearly basis. The Code sets out the essential legal regulations and rules for managing and supervising listed companies in Germany and features nationally and internationally recognised standards for proper and responsible corporate management.

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

We disclose further information on our corporate governance practices on the internet at "www.elexis.de/Investor Relations". At this address you can also find our Declaration of Compliance with the Code, our Articles of Association, the Annual Document, an Overview of the Director's Dealing Transactions and our Compliance Programme.

### Shareholdings and Disclosable Transactions

Apart from the regulations governing securities, achieving the most comprehensive possible transparency in the director's dealing transactions is a fundamental part of corporate governance regulations.

Where any bodies, managers or their close associates/relatives have conducted share transactions during the reporting period, these transactions met the normal market standards. There are no known conflicts of interest.

Over the course of the fiscal year, the following directors dealing transactions were reported and, as per the provisions of the WpHG (German Securities Trading Act), published Europe-wide. According to § 15 of the WpHG, members of the Management board, the Supervisory Board and other persons with insider knowledge, and their close associates/relatives are obliged to disclose any share purchases or disposals in elexis AG where such transactions exceed a total value of Euro 5,000. The Europe-wide publication requirement and all other disclosable transactions are detailed on our website.

| | Date | Transaction Type | Position | Unit Amount | Price | Total Volume |
|---|---|---|---|---|---|---|
| Willi Loose | 18.11.2010 | Purchase | Supervisory Board | 2,000 | € 13.30 | € 26,600.00 |
| Bernhard Rupke | 16.09.2010 | Purchase | General Manager HEKUMA GmbH | 1,000 | € 11.385 | € 11,385.00 |
| Willi Loose | 25.05.2010 | Purchase | Supervisory Board | 1,000 | € 10.22 | € 10,220.00 |
| Willi Loose | 25.05.2010 | Purchase | Supervisory Board | 1,000 | € 10.25 | € 10,250.00 |
| Intec Beteili-gungsgesell-schaft mbH | 01.03.2010 | Purchase | Entity with close relationship to the Supervisory Board (SB Chairman) | 5,000 | € 9.10 | € 45,500.00 |

In total, the Management Board holds (7,999 shares) and the Supervisory Board (155,169 shares), representing a combined total of 1.77% of the company's share capital. Further information is detailed in the consolidated financial statements.

### Supervisory Board Target Setting

The new version of the Corporate Governance Code approved on 26 May 2010 extends the transparency required to the Supervisory Board as regards its targets and work. The Supervisory Board's tasks and responsibilities are summarised in the "Declaration on Corporate Management", as per § 289 a of the HGB. The Declaration on Corporate Management can be found on the elexis website (www.elexis.de) in the group structure section.

Additionally, in accordance with good corporate governance guidelines, elexis AG's Supervisory Board has issued a catalogue of objectives, which is set out in detail below: The primary criteria used when setting targets is to give equal consideration to elexis AG's current pillars, which rest on a set of values, technological leadership and profitability, and to the visions and markets of the future. The Supervisory Board's target setting process is as follows (excerpt from the Supervisory Board's rules of procedure):

- **Honesty:** We support an open and constructive debate culture. We set ourselves the goal of providing elexis AG's management, and in particular the Management Board of elexis AG, with a fair, constructive, honest, expert and target oriented interlocutor. In so doing, preventing conflicts of interest is a prerequisite. In order to promote open and competent dialogue, the following was agreed as regards selecting the Supervisory Board's members:
  - particular knowledge of and experience with applicable national and international reporting principles and internal inspection procedures,
  - technical and business expertise,
  - knowledge of the group of companies and its sectors and markets,
  - experience in corporate management and, in particular, in an international context,
  - the independence of its members.

- **Performance:** We demand the highest motivation from elexis Group's Management Board, the general managers and employees and from ourselves. We set ourselves the goal of always using motivation and engagement as the measuring stick for decisions when appointing members to the Management Board. We also consider the guidelines regarding the appropriateness of the remuneration of the Management Board as a key basis for decisions. With regard to performance, we also consider it important to align our activities with any future changes to legal, economic and social framework conditions, and, on an individual basis, to further our skills and knowledge through training and continuous training. The efficiency with which we complete our tasks will be subject to ongoing, critical assessment.

- **Individuality:** We believe it to be evident that the composition of the Supervisory Board should be decided based on specialist criteria and, at the same time, that it should reflect social and political progress. Our society is composed of a wealth of individual personalities. We set ourselves the goal of paying attention to the individuality of the board's composition and to giving particular consideration to women when making future personnel decisions. Personnel decisions include both appointments to the Management Board and candidates proposed for election as shareholder representatives on the Supervisory Board. The employee representatives on the Supervisory Board also support and welcome this common goal.

  The current Supervisory Board will remain in place until the 2012 AGM. The Appointments Committee will propose suitable candidates for election at the 2012 AGM, taking into consideration the approved targets and profiles.

  Moreover, where vacancies arise in the Management Board or in other management positions within elexis Group, particular consideration will be given to increasing diversity by selecting qualified women.

- **Stability:** Stability in the economic development of a company can only be achieved if corporate management is understood as a proactive and forward-looking task. We set ourselves the goal, together with the elexis AG Management Board, of implementing forward-looking visions and concepts in order to ensure the sustainability of our earning power. To achieve this, we will prioritise international expansion, the internal and external growth of elexis Group and the further development of our technology portfolio, including the addition of new products.

### Declaration in Accordance with §161 AktG:

elexis AG's Management and Supervisory Boards declare to the best of their knowledge that the recommendations of the "Government Commission for the German Corporate Governance Code" in its version of 6 June 2008 were complied with up to 23 March 2011 since the last declaration of compliance on 24 March 2010 and that the recommendations of the version of the Code published on 26 May 2010 have been complied with at 23 March 2011 with the deviations listed and justified below:

#### No. 2.3.3

Because of the legal regulations of the ARUG (Shareholders' Rights Directive), a provision has been included in elexis AG's articles of association providing for postal voting for the AGM. This option has not been used to date. We believe that the shareholders have ample participation possibilities thanks to the option of appointing voting representatives.

#### No. 3.8

There is D&O insurance for the members of the Supervisory Board. In accordance with the new regulations of the Code in its version of 18 June 2009 and 26 May 2010, the deductible should amount to at least 10% of the damage up to at least the amount of one and a half times the fixed annual remuneration of the corresponding member of the Supervisory Board. The existing insurance contracts do not fulfil these regulations for the Supervisory Board. An amendment to the insurance contracts to meet the recommendations of the Corporate Governance Code is foreseen at the time of the renewal of the insurance policies.

### No. 4.1.5

The Management Board will further reinforce its efforts to promote diversity when making appointments to management positions and, in this regard, strive particularly to include women in management roles. elexis AG’s Management Board has implemented measures in the past with the objective of improving the compatibility of work and family life. Further measure will be taken if necessary in order to achieve appropriate levels of female participation in management, in line with the specific situation of the company.

### No. 5.4.1

The Supervisory Board has not set any fixed age limit for its members. The Supervisory Board is of the opinion that with regard to the review of suitable candidates proposed for election to the general meeting of shareholders, the personal qualifications of each shareholders’ representative member should be a prime selection criterion, independent of his or her specific age. Any age-related factors shall be taken into consideration appropriately during the decision for the selection of the members to be proposed for election to the general meeting of shareholders.

The term of the shareholders representatives elected ends upon conclusion of the AGM in fiscal year 2012. The Supervisory Board and its Appointments Committee will strive to make appropriate consideration of women in the group when preparing its selection of candidates (men and women) to be proposed for election to the 2012 AGM.

The corresponding principles also apply to any new appointments to the Management Board. Its current membership will run until 30.04.2015 or 31.05.2015.

### No. 5.4.6

The additional workload generated by the Supervisory Board’s committees will be recognised separately in the members' remuneration. The chairmanship and the deputy chairmanship of one of the committees of the Supervisory Board will not receive separate, additional remuneration. The Supervisory Board believes that differentiating the remuneration between the chairmanship, deputy chairmanship and the work on a committee requires no further, separate remuneration than that already provided for the work conducted on the committee.

Wenden, March 2011

For the Supervisory Board: Dr. Dirk Wolfertz
For the Management Board: Siegfried Koepp, Edgar M. Schäfer

## 2.3. Remuneration Report

The following remuneration report is an integral part of the management report. It also describes the remuneration system for the Management Board.

The Supervisory Board presented the following remuneration system for the Management Board for approval of the ordinary general meeting of shareholders on May 20, 2010. It was approved, receiving 97.61% of the votes.

### Remuneration System for the Management Board of elexis AG

The current remuneration system takes into account that the members of elexis AG's Management Board also manage and take responsibility for the High Quality Automation division. With regard to the appropriateness of the remuneration of the Management Board, the range of tasks of the individual board members, their personal performance, the economic situation, the success and the future outlook of the Company are taken into consideration. Moreover, the remuneration system for the Management Board reflects the salary structures within the Group as well as those of additional companies.

There are no commitments for compensation in the event of a premature termination of activities in the Management Board in the event of a change of control ("change of control" regulation). The contracts of the Management Board include, moreover, no further remuneration components such as, for example: payments from third parties and/or affiliated companies of the Group, assumption of office payments, equity-based compensation models (e.g. share options), pension schemes, pension claims, etc.

In the event of a premature termination of activities in the Management Board, its members will receive indemnification worth no more than two full years' pay and no more than the amount corresponding to the remaining time on their contract.

The remuneration structure consists of a success-dependent (bonus) and a success-independent (fixed remuneration, fringe benefits) portion. The success-dependent component consists of a bonus, which also takes into consideration an assessment basis of several years. There are no other additional performance based variable salary components. The success independent portion of the remuneration system consists of a fixed monthly salary and fringe benefits in the form of payments in kind. The payments in kind are attributable to insurance premiums and the private use of company vehicles. As a portion of the remuneration, these fringe benefits must be declared for tax purposes by the individual members of the Management Board. With regard to the fixed portion and the bonus, the Chairman of the Management Board receives a supplement of approximately 50% compared to his colleagues in the Management Board on achievement of the targets set.

The success-dependent portion of the remuneration also includes the sustainable and long-term development of the Company. Apart from the long-term objectives, the development of the EBIT as well as of net liquidity are part of the basis of measurement. There is thus a balance between long-term orientated corporate success and the control data used in the Group.

Extraordinary positive results are not taken into consideration with regard to the determination of the bonus, insofar as they are not already planned in the budget. On achievement of the targets the agreed bonus of 100% is due. In the event of falling below the target by 30% of more, it is no longer valid. If the target is exceeded, however, the bonus entitlement is limited to 140% of target achievement. There is no right to claim variable remuneration beyond 140%.

There are no pension provisions for the members of the Management Board in office. The provision set up for a former member of the Management Board and his survivors for pensions and rights to pensions amounted as at 31 December 2010 to €339,000 (prior year: €312,000).

The following individual remuneration data for the members of the Management Board of elexis AG include in each case the expenses stated in the statements of comprehensive income. They amounted in the fiscal year 2010 to a total of Euro 815,000 and were broken down as follows:

| Financial Year 2010<br>in €k | Fixed | Bonus | Gross remuneration | Other remuneration in kind * | Total |
|---|---|---|---|---|---|
| Siegfried Koepp | 308 | 120 | 428 | 49 | 477 |
| Edgar Michael Schäfer | 210 | 85 | 295 | 43 | 338 |
| **Total** | **518** | **205** | **723** | **92** | **815** |

** Use of company car, insurance contributions*

In the previous year the remuneration of the members of the Management Board was broken down as follows:

| Financial Year 2009<br>in €k | Fixed | Bonus | Gross remuneration | Other remuneration in kind * | Total |
|---|---|---|---|---|---|
| Siegfried Koepp | 300 | 137 | 437 | 44 | 481 |
| Edgar Michael Schäfer | 200 | 73 | 273 | 40 | 313 |
| **Total** | **500** | **210** | **710** | **84** | **794** |

** Use of company car, insurance contributions*

Moreover, a D&O insurance policy has been concluded for the members of the Management Board, which fulfils the legal requirements as regards deductibles for the members of the Management Board in accordance with the VorstAG.

### Remuneration of the Supervisory Board

The remuneration for the Supervisory Board was determined by the general meeting of shareholders on 25 June 2004 and is specified in §15 of the articles of association of elexis AG. It is based on the responsibility and the scope of activity of the members of the Supervisory Board as well as on the economic situation and the success of the Group.

Apart from the reimbursement of their expenses, the members of the Supervisory Board receive fixed and variable portions of remuneration. For the fiscal year 2010 the fixed remuneration for each member of the Supervisory Board amounted to €15,000 (previous year: €15,000); the Chairman received €30,000 (previous year: €30,000) and his deputy €23,000 (previous year: €23,000). The Chairman of the Supervisory Board therefore receives twice and the Deputy Chairman 1.5 times the fixed remuneration. The chairmen and the members of the committees of the Supervisory Board are remunerated separately in accordance with the German Corporate Governance Code. For activities in the committees individual members received amounts between €8,000 (previous year: €8,000) and €15,000 (previous year: €15,000). This remuneration structure foresees that 0.5 times the annual fixed remuneration portion is paid for membership in the committees. In the event of membership in several committees the additional remuneration is limited to 1 time the annual fixed remuneration. The Chairman and the Deputy Chairman receive no further remuneration for their participation in committees. The payment of the meeting fee is not an integral part of the remuneration of the Supervisory Board.

In addition, the members of the Supervisory Board receive a success-related remuneration each year. The success-related remuneration of the members of the Supervisory Board amounts to 3% for each Euro 1.00 additional amount in excess of the exempt amount (net income Euro 2.5 million or 4% net income available for the year). The variable remuneration components are distributed to the individual members of the Supervisory Board in relation to their fixed remuneration structure and amounts up to a maximum of 1 time the annual fixed remuneration.

After adjusting the goodwill for HEKUMA GmbH and subtracting the minority interests, the consolidated net income fell to 2.2 million Euro (6.8 million Euro before extraordinary items). The net income serves as the measurement basis for the calculation of the Supervisory Board's variable emoluments. After writing-down goodwill, no variable remuneration was due for the last fiscal year.

For the 2010 fiscal year, total remuneration in the amount of Euro 228,800 will be paid out. This is distributed as follows to the members of the Supervisory Board:

| in €k | Fixed | Variable remunaration | Total | Total previous year |
|---|---|---|---|---|
| Dr Dirk Wolfertz | 45.0 | - | 45.0 | 45.0 |
| Karl Heinz Gorgas | 30.0 | - | 30.0 | 30.0 |
| Georg Keppeler | 33.8 | - | 33.8 | 33.8 |
| Stefan Köster | 22.5 | - | 22.5 | 22.5 |
| Klaus Kramer | 15.0 | - | 15.0 | 15.0 |
| Willi B, Loose | 22.5 | - | 22.5 | 22.5 |
| Dieter Schulze | 22.5 | - | 22.5 | 22.5 |
| Klaus Schulze | 22.5 | - | 22.5 | 22.5 |
| Prof Dr Michael Wackenhuth | 15.0 | - | 15.0 | 15.0 |
| **Total** | **228.8** | **-** | **228.8** | **228.8** |

Moreover, the members of the Supervisory Board have received any further remuneration or advantages for services personally provided, such as consulting and intermediary services in particular, neither in the year under report nor in the previous year.

The remuneration of the Supervisory Board is due for payment following the end of the general meeting of shareholders, which has to resolve on the appropriation of the net income available for the last fiscal year.

# 3. Combined Management Report

The elexis AG management report and the Group management report have been drawn up in the following presentation in accordance with §315 Paragraph 3 of the HGB. In addition, due to the existing profit and loss sharing agreements between BST International GmbH and EMG Automation GmbH, no separate management reports or publications of the financial statements for these companies are necessary in accordance with § 264 Paragraph 3 of the HGB. The subsidiaries, EMG Automation GmbH and BST International GmbH, with their respective subsidiaries, constitute the High Quality Automation division, which contributes the greatest portion of sales and earnings. The situation of elexis AG as the management holding company can thus only be evaluated in connection with the situation of the elexis Group, which is influenced primarily by the High Quality Automation division.

## 3.1. Composition and Structure of the Group

### 3.1.1. Group Structure

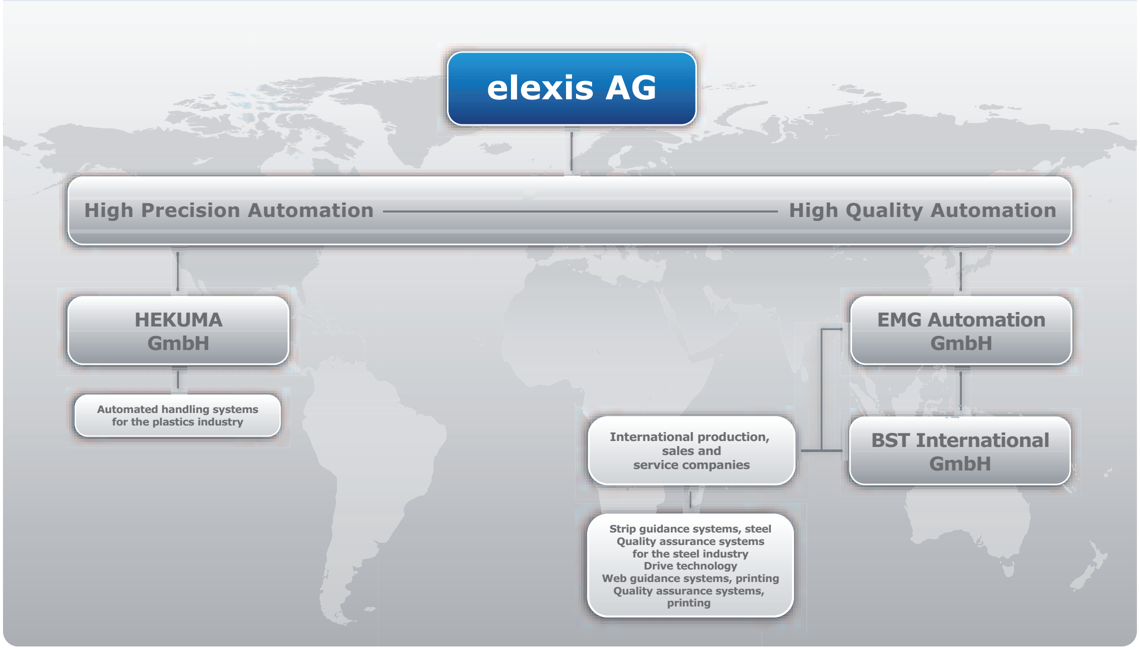
elexis AG functions exclusively as a pure management holding company. The two members of the Management Board are personally also the general managers of the companies of the High Quality Automation division. The holding company has an employee for investor relations and M&A as well as a controller. The operating business is managed exclusively by the corresponding direct and indirect subsidiaries.

EMG Automation GmbH, Wenden, and BST International GmbH, Bielefeld, with their respective subsidiaries, constitute the **High Quality Automation** division. The product range consists of control technology, quality assurance systems and drive technology. These serve a wide range of different markets relating to steel sheets and port technology and mining. HEKUMA GmbH, Eching, manufactures technologically sophisticated automation solutions for plastics processing and forms the **High Precision Automation** division. The corporate names of BST, EMG and HEKUMA have firmly established themselves with our customers as brand names for quality, precision, durability and innovation.

The scope of consolidation also includes elexis Beteiligungsgesellschaft mbH, Wenden, as well as P2T Protagon Process Technologie GmbH in Rengsdorf, which was acquired in fiscal year 2010. A further six foreign participation companies, mainly focused on sales and services, but which also carry out production and assembly activities, are also included in the scope of consolidation.

Over fiscal year 2010, P2T Protagon Process Technologies GmbH (from 01 July 2010), a 51% stake in which is held by EMG Automation GmbH, and BST Shanghai Ltd (from 01 January 2010) were included in the scope of consolidation for the first time.

GROUP STRUCTURE

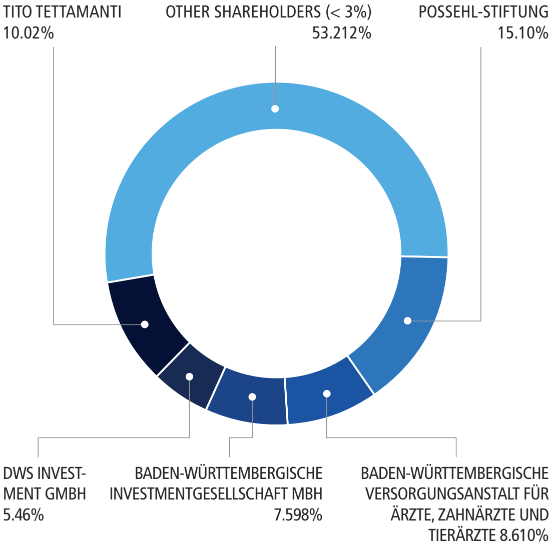



Apart from the consolidated subsidiaries further immaterial, non-consolidated companies also belong to the elexis Group.

## 3.1.2. Capital structure and control in accordance with § 289 Paragraphs 4 and § 315 Paragraph. 4 of the HGB and the Management Board's report in accordance with § 176 Paragraph 1 Sentence 1 of the AktG

The share capital of elexis AG amounted to €23,552,000 at 31 December 2010 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. The shareholdings were as follows at 31 December 2010:

STRUCTURE OF SHAREHOLDERS 12/2010
(in percent)




There were no changes to the reportability of the share structure over fiscal year 2010. The holdings in the company's share capital are presented in detail in the Notes under No. 38.

With the resolution of the general meeting of shareholders of 20 May 2010 the Management Board of elexis AG was authorised to acquire own shares to a total of up to 10% of the current share capital up to 19 May 2015. Simultaneously, the same authorisation from the prior year was cancelled. Furthermore, the authorisation of the Management Board depends 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 20 May 2010 the Management Board was also authorised to increase the share capital through the issue of new no-par value bearer shares against contribution in cash or in kind on one or several occasions up to a maximum, however, of €11,776,000.00 (authorised capital). The authorisation is subject to the approval of the Supervisory Board and is valid until 30 June 2012. The same authorisation valid until 23 June 2010 was cancelled by this decision.

§84 and § 85 of the AktG as well as §31 of the Employees' Participation Law (MitbestG) are applicable with regard to the appointment and dismissal of the Management Board. §133 and § 179 AktG are applicable for 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 directly in respect of these shares.

There are no parent company agreements as regards the conditions of a change of control as a result of a take-over offer. There are also no parent company agreements as regards compensation for the members of the Management Board or the employees in the event of an acquisition offer.

## 3.2. Business Development and General Conditions

### 3.2.1. Overall Economic Development, Relevant Markets, Sectors

**Varied economic development across the world economy**

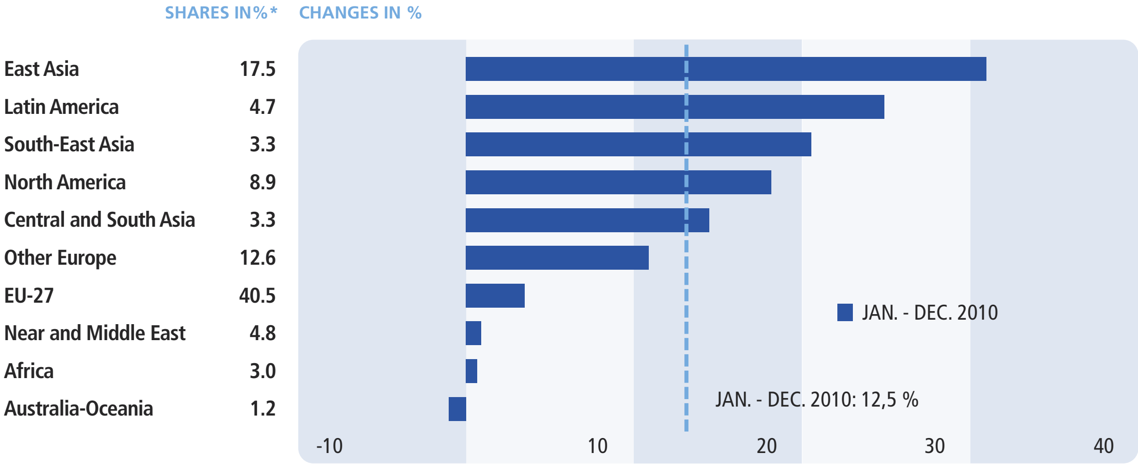
2010 can be considered the first year after the global financial and economic crisis. However, recovery has been uneven across the different countries and economic regions of the world, with the corresponding consequences. Above all, industrialised countries are struggling against the effects of the crisis. For many decades they have dominated the global economic scene because of their technological advantage and with the help of strong and stable financial markets.

The looming collapse of the financial markets and the resulting instability in the financial sector continued to shake industrialised countries deep into 2010. This is because, in addition to forward looking technology, in the past, solid financial markets were the main engine of global growth and a driver of world trade. Despite massive support from the central banks and governments, continued misgivings weighed upon the financial markets throughout the first half of 2010.

Currency speculation in the first quarter of 2010 plunged the Euro into a deep crisis. As a result, significant international support measures had to be put in place for EU member states. The new trouble spots led to additional massive debts being incurred and, consequently, to drastic austerity plans in many industrialised countries. Thus, the financial framework conditions of fiscal year 2010 remained especially difficult for industrialised countries, and reached another low with the downgrading of Spain's and Portugal's credit ratings and the Irish bailout.

By contrast, developing countries continued to be unaffected by the financial factors set out above. Emerging markets' economic strength is founded on strong growth in internal demand and a pent up demand as well as stability in regional financing systems. International financial uncertainties had only a limited impact on their economic recovery. The increasingly strong desire for prosperity and consumption will remain the driving force behind another decade of growth in BRIC countries. This was one of the factors that led to higher German exports in fiscal year 2010.

## GERMAN MACHINERY EXPORTS BY REGION




*) Shares in total machinery exports

Source: Federal Statistical Office Germany, VDMA

According to the IfW's forecasts (Institutes für Weltwirtschaft), Germany led among industrialised nations in 2010 with GDP growth of 3.7%. Only Slovakia (GDP +4.1%) and Sweden (GDP +4.7%) achieved better results. In these countries, economic growth was mainly thanks to stable internal demand. Germany's growth dynamic, on the other hand, was based on a sustained recovery in demand for exports. After a fall in German machinery exports of 23.4% in 2009, this same category achieved growth of 12.5% last year compared to the year before.

Economies where neither national nor export demand materialised as a driver for growth recovered only moderately. This was the case of the USA, where unemployment numbers continued to rise and the slump in the realestate market continued to have a negative impact. Over the year, the USA only achieved GDP growth of 2.8%. Some countries in the Euro zone also struggled, to a considerable extend, with the effectives of the financial and economic crisis in 2010, in particular Greece, Spain, Portugal and Ireland. In December 2010 Ireland became the first EU member state to apply for state aid from the EU bailout fund. Euro zone GDP growth in fiscal year 2010 was a disappointing 1.7%.

As a whole the world economy recorded growth of 4.8% in 2010. In that context, the main impetus for growth came from the BRIC nations, Brazil, Russia, India and China.

### BRIC Countries – Engines of the Global Economy

German machinery and equipment exports increased by 12.5% compared to the previous year according to the VDMA's estimates. Here again, orders from the BRIC nations were the driving factor behind export growth. Around 21% of exports went to BRIC countries. These countries economic potential was as follows in 2010:

| | Proportion of German machinery exports 2010 | GDP growth forecast 2010 | GDP growth forecast 2011 |
|---|---|---|---|
| Brazil | 2.0% | 7.5% | 4.5% |
| Russia | 4.5% | 3.8% | 4.0% |
| India | 2.5% | 9.5% | 7.1% |
| China | 12.3% | 10.7% | 8.1% |

*Source: VDMA; IfW: "Weltkonjunktur im Winter 2010" (published 15 December 2010)*

### Brazil

Brazil began 2010 with unusually high economic growth, which, however, weakened slightly in the second half of the year. Over 2010 as a whole its GDP grew by 7.5%. Brazil is an important economic partner because of its significant raw material resources. The country is particularly benefiting from the exceedingly strong demand for commodities from Asia and the associated increasing prices of industrial raw materials. Consequently, Brazil's economic growth is tightly bound to the raw material demand cycles.

### Russia

After a clear economic slump caused by the financial and economic crisis, this country's economy improved noticeably in 2010 with GDP growth of 3.8%. The recovery moved forward at considerable speed initially, however, the economy became less dynamic toward the end of the year. As a result, after spring, Russia's industrial production hardly grew. Because of the significant appreciation of the Rouble, domestic manufacturing once again lost international competitiveness and demand was increasingly met by imports. Economic activity was also hindered in the third quarter by the massive forest and wild files in the European part of the country. Unemployment remains high and the country's total economic capacity remains under utilised.

### India

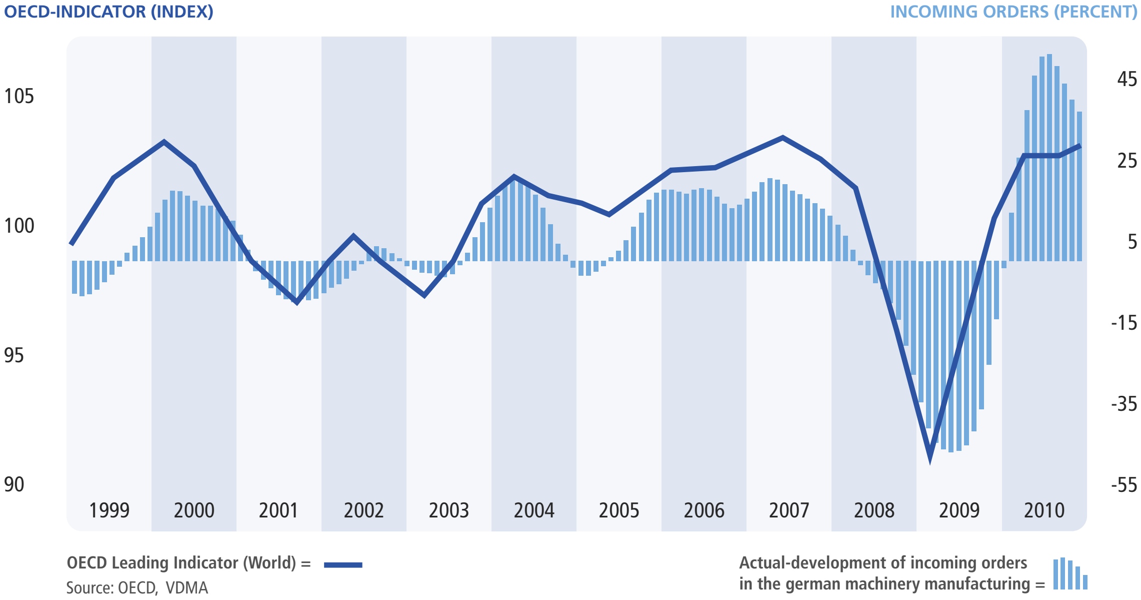
In 2010 India's total economic output recorded respectable growth. Although the pace seen at the end of 2009 eased off initially, in the end GDP increased at an annualised rate of more than 11% over 2010. Over the year as a whole India's GDP grew by 9.5%. The main driving forces behind growth were government spending and private consumption. By contrast, foreign trade was barely worth mentioning as a source of GDP growth and investment even fell. According the IfW's calculations, India's rapid economic expansion should continue for the time being.

### China

China's economic growth has been high up to now. However, the GDP growth rate cooled off slightly in the second half of 2010 im comparison to the previous year. Nevertheless, Chinese economic growth dominated the world scene. This economic performance was supported by an expansionist redit policy and regional government investment spending. China's economic growth has been notching up records for many years. Last year again saw GDP growth of over 10%. It stood at 10.7% to be precise. China is on the threshold of a transformation from a developing country to an industrial region. Consequently, the impact of a shortage of qualified labour and climbing wage and raw material costs are becoming evident. China will remain the engine of the global economy going forward.

The economic development of elexis Group is decisively dependant on the economic situation of the machinery production sector, in addition to on aspects relating to global demand.

OECD LEADING INDICATOR (WORLD) INCOMING ORDERS IN GERMAN MACHINERY MANUFACTURING 2010




Source: OECD, VDMA

### Machinery production mirrors the development of the wider economy.

After overcoming the low of the global financial and economic crisis in mid 2009, the World Economic Climate index made clear gains. By the end of 2010, the OECD index had registered an increase of around 15%. Demand in the first half of 2010 was marked, above all, by stock effects. This extraordinary effect came to an end in mid 2010, leading the positive mood of recovery to also flatten out in the second half of the year. The OECD index gathered a little steam again at the end of the year, conditioned by the continued optimistic economic forecasts from developing countries. The willingness on the part of the German machinery production sector to make investments carries a delay of about six months as regards trends in the global economy.

The Baltic Dry Index, which measure global freight shipments and, thus, is used to assess global trade, mirrored the trends seen in the OECD index. After climbing in the first half of 2010 it was unable to maintain that level in the second half of the year. The index began the year on 3,671 points and ended, on 31 December 2010, on 1,773 points.

The above average increase in new orders in the machinery and equipment production sector during the first quarter of 2010 was essentially based on a catch up and stock effect. Once the first signs of economic recovery abated, new orders settled down to a slightly lower, but stable level at the end of the fourth quarter of 2010.

All in all, by the end of 2010 the German machinery production sector had notched up new order growth of 36% according to the VDMA's estimates. Given the slump of up to 62% recorded in the previous year, this last year's growth in new orders was not enough to recapture 2008's high water mark. According to the estimates of the Federal Department of Statistics, industrial production still remains around 18% below the levels seen in 2008, a boom year. The German machinery and equipment production sector is currently at the sales levels of 2005.

## 3.2.2. Products, Product Range, Product Policy and Sales Markets

**Industrial Manufacturing, the driving force being product policy**

When the term “Industrial manufacturing” is mentioned people instantly think of the standardisation and automation of production processes. Industrial production has above all one aim: to increase productivity. This has always been the driving factor for the development of new technologies and processes.

But technical progress is not solely responsible for the development of elexis AG. The great issues of our time also have a bearing on the company’s strategy and orientation: health, mobility and energy. People's increased awareness of environmental issues and demographic change place terms such as quality and security in a new light.

Against this backdrop, elexis AG assumes the responsibility of setting a new direction for technical development: products must be examined under the lens of sustainability and responsibility to future generations. In the end, it is not our developments that will be the key to new, environmentally friendly products and processes. They are the connecting link between the “major trends of the future” and “industrial manufacturing”.

The clearer this trend becomes around the world, the easier we recognise regional differences. Developing countries are currently building up their industrial manufacturing capacities in order to reach the current technological standard of industrialised nations. In comparison, industrialised nations are increasingly focusing on targeted progress and further development of technologies and production processes.

To a great extent, elexis Group’s products are used in the optimisation, automation and standardisation of production processes in “continuous strip” processes and “injection moulding”. The degree of automation within “industrial manufacturing” varies widely between sectors and markets. For elexis AG, this means that continued assured and solid growth potential remains, even on the basis of traditional, proven technology. Furthermore, technical progress in industrial manufacturing lays the foundation for future developments.

Being connected to “industrial manufacturing” promises to make elexis products stronger and future proof. “Industrial manufacturing” stands for indispensable necessity, optimising production processes, preventing rejections, optimising energy and material consumption and, thus, maximising cost effectiveness. As the driving force behind technological progress, these elements open extensive areas of operation to elexis products as well as additional development possibilities in the following sales markets:

*Health:*

The world’s population is growing steadily and ageing. This development has consequences. Above all else, an ageing society leads to growing demand for medical services and consumable goods and commodities.

elexis Group’s products can be used in many ways in the health sector. For example, we offer indispensable control technology and quality assurance systems for the production of medication packaging and film packaging. elexis's product portfolio also includes integrated clean room automation solutions for medical consumer goods, such as Petri dishes, pipettes and cuvettes.

Life expectancy is continuously increasing worldwide. This is leading to massive growth in the hygiene product sectors.  Sales of machines used to produce nappies for babies and incontinence pants for adults have increased.  As one of the leading suppliers of the web guidance systems used in this area, BST also supplies systems for quality assurance reducing material consumption.

*Mobility:*
Without mobility there would be no economic growth and no prosperity. Around the globe, people are shipping goods over ever greater distances. Global trade is flourishing and setting ever greater challenges for logistics and distribution. Mobility has become a basic human necessity. elexis Group makes its contribution to mobility in different sectors.

Our activities' focus is on automation and quality assurance in metal production – particularly in the automobile manufacturing sector. More than 20 different types of steel can be used to manufacture a vehicle. Our products are vital to processing these different types of steel, as are our quality control and control technologies. Electrical plug connections and ABS and ESP casings are also produced on elexis machinery.

Mobility also means increasing globalisation and leads to a broader scope of activities for elexis AG: elexis drive technology can be found in all of the largest container ports around the world. Eight out of ten container ports use only elexis technology, meaning they are committed to 100% assured security in their port clearance logistics procedures.

*Environment and Energy:*
As the world's population grows and people's lifestyles change, energy demand and environmental awareness are also growing. The need to use available resources more efficiently is increasingly being taken into account when conceiving products and manufacturing processes. Resource conservation does not only involve the energy sector, but also the materials sector. It is worth handling stocks sensitively if they are not endless or renewable. This is an obligation we all share.

elexis drive technology has set the global standard in the energy sector. Brake lifting devices and actuators are considered certified security measures in mining (coal) and the power and nuclear power industries.

The systems already established by BST for web guidance and quality assurance in the Converting and Printing divisions also have growing numbers of users in the battery production sector. Furthermore, it has become clear that these continuously evolving sectors are especially motivated by BST's experience and skill in the web guidance, material optimisation and quality assurance areas.

Prevention of rejects and more efficient raw material consumption are consistently pivotal issues on industrial production lines. These are the core elements of elexis AG's quality assurance systems. With these markings many return on investment scenarios of less than a year can be calculated using elexis products.

*New Consumption and Packaging Pattern:*
Global society is changing. Prosperity is increasing in every region of the world and so too is consumption. Developing countries are continuously aiming at the prosperity levels enjoyed by industrialised nations. "Consuming on a high level" has become seen as an expression of quality of life. The logical consequence of this change is the increasing importance of packaging solutions. Innovative and creative packaging configurations should help to meet consumers' demands.

The key technologies for the packaging printing and converting sector are to be found in control technology and in the quality assurance systems sector. These are both areas where elexis Group has had marked success for many decades. Furthermore, the company's own technological know how has been expanded with the acquisition of a majority stake in P2T Protagon Process Technologies GmbH. This has resulted in significant gains, especially as regards manufacturing processes to the converting sector.

Innovative packaging solutions, such as packaging using the inmould labelling procedure, are also produced on elexis equipment. Nor should we forget the convenience packaging for food stuffs, the simple manageability and maximised shelf life ensured by different sorts of film, with and without barrier layers.

The variety of areas where elexis products can be used is clear to see in just the few sales markets listed above. To complement this, below we set out 2010's key products:

**High Quality Automation Division – Quality during continuous strip processing**
The High Quality Automation division includes the product groups of control technology, quality assurance systems and drive technology.

*Control Technology*
In the area of control technology, elexis AG has developed solutions for "continuous strip processes". Material strips and webs guided by rollers have the tendency to move sideways off the correct track. This leads to disruptions in the winding and unwinding of the track in question. The control technology of the elexis Group, i.e. so-called strip and web guidance systems, ensure that the relative material strips and webs run in a straight manner through the production process at high speed. Behind this is a system composed of different components – control frames, sensors, control electronics and actuators.

A prerequisite for the entire production facility to work properly is that he control components work without errors. Beyond the steel and printing industries, this technological principle can be applied to all processes concerning "continuous strip processes of flat materials". For that reason, elexis control technology can be found in the steel and aluminium industry as well as in the packaging industry, the converting sector, the production of non-woven fabric products, the rubber and tire manufacturing industries and in film production. This is a fully developed product that is established and remains on the market. Ongoing value analyses continuously lead to improvements in established product ranges.

Over the last fiscal year, EMG Automation GmbH reworked many of its patented technologies, including inductive coil reel measurement. The result of this work is a new generation of inductive strip capturing "SMI" (**S**trip **M**easurement **I**nductive) with improved measurement accuracy.

With this next generation of motor driven actuators EMS 23, BST International GmbH delivers more power for slitter winders and winders for the plastic, paper and rubber industries. The EMS 23 was also displayed at the "K 2010" trade fair. In combination with the tried and trusted control technology and actuators manufactured by BST International GmbH, this actuator ensures the correct positioning of the webs even where heavy loads are carried.

A further innovation with regards to web adjustment is the further development of the extruder pivoting frame guide for all blown and flat film extruder applications and the next generation of CLS Pro 600 (Contrast Line Sensor) which, together with the web adjustment controls the web's cutting process.

*Quality Assurance Systems*

With the combination of control technology and quality assurance systems (QA systems), elexis AG's companies can provide premium technological competence from a single supplier. With this product policy, elexis guarantees itself USPs and clear competitive advantages. The expansion of the QA systems is one of elexis Group's clear strategic goals. Against this backdrop, EMG Automation GmbH, an elexis AG subsidiary, acquired a majority stake in P2T Protagon Process Technologies GmbH thus further developing itself into a "Full Line Supplier" for its clients.

EMG Automation GmbH's quality assurance systems' production range mainly focuses on verifying physical characteristics. The contact free measurement of tensile strength and the yield strength of ferromagnetic materials (IMPOCPro) and roughness parameters (SORM 3plus) as well as the magnetic strip stabilisation (eMASS) are the technological basis of the product portfolio. They are continuously being expanded and further developed.

In fiscal year 2010, the next generation of eMas 2.0 was put on the market. In 2010 elexis also developed further software options. An example of this would be the extension of regression analysis for the tensile strength of steel varieties. In this case, the group set itself the goal of supplying clients with a complete risk and quality controls.

Since 2010, a micro-hole detection system completes our steel industry product portfolio. This is principally used in tin plate production. Tin plates are used to manufacture beverage cans and tin cans for the food industry. They are required to meet particularly high quality standards.

By acquiring a majority stake in P2T Protagon Process Technologies GmbH, we complemented our know-how in surface weight and layer thickness measurement as well as in moisture sensors. This employs infrared, X-ray, beta-wave transmitters and micro-wave resonance sensors. This products are predominantly used in the converting sector, e.g. in the paper and plastics industries.

"From the optical search for defects to 100% control of the material web with camera and video solutions" – that encapsulates BST International GmbH's product focus. These product solutions are mainly used in consumer oriented markets. Continuous optimisation and further development pressure exists in these markets. Consequently, BST International GmbH reassessed its existing product portfolio in 2010 in the light of clients' and specific needs with the clear goal of developing its products towards being a full quality management range.

BST's production portfolio includes, among others, the colour density measurement system IDM 4000, the register controller AR 4000, and many software options for defect recognition around the Premius Digital web supervision system, the Super Handy Scan 4000 web observation system, and the 100% control solution SHARK 4000. These products are used both in the narrow and broad web areas. A new inline web width measurement to determining up to two material widths marks a further addition to the product portfolio for the High Quality Automation division.

elexis Group's main product policy focus is on the forward looking and systematic expansion of its product portfolio by adding quality assurance systems. The whole approach of the Company, i.e. the combination of technological competence and applications knowledge, makes elexis an important strategic partner of its customers. This is the ideal basis in order to increase the efficiency in the production process and to realise also a short term return on investment with a sustainable process optimisation.

*Drive Technology*

Since the year 1931 we have been setting the technological standard in the brake business with the ELDRO® air brake brand in the area of drive technology. In spite of the predominance of electrical or electronic components in modern equipment, the mechanical safety brake with the electro hydraulic air brake device still fulfils the most important task today. It guarantees the last link for the safety of people and equipment in the event of a power outage.

Numerous innovative special solutions are now complementing our product range: the hydraulic compact drive (HKA) or the development of an electro-mechanical linear drive (ELA) are to be mentioned, for example, in this connection.

In fiscal year 2010, the hydraulic compact drive was used for the first time in conveyor belt controls in open cast mining. The result is increased conveyor belt stability and reduced vibrations, wear and rejections. Field trials are currently underway with at a large Brazilian client.

Our electro-mechanical actuator (ELA) is also in use in the field, designed as a durable solution for hydraulic processes using electromechanics. Beyond purely replacing hydraulics, we expect this product to offer other advantages thanks to its energy recovery possibilities.

*Product Policy of the High Quality Automation Division*

The basic technology in the area of controls and drive technology is indispensable for the safety of production processes. With the quality assurance systems the first step was initiated for a comprehensive quality and risk management for our customers.

elexis has secured for itself an important market position in attractive niche markets and sectors with its technological competence and its high degree of innovation. Simultaneously the product range is directed at the major trends of demand. The product policy of the Company pursues the strategy of serving the future emphases of demand with a continuation of the high degree of innovation and to thereby secure also new markets and branches. The overriding priority is to expand our quality assurance systems.

**High Precision Automation Division – "Fast Productions Learn to Sprint"**

The High Precision Automation division is involved in the development, engineering, processing, assembly, programming and commissioning of complex automation equipment for the processing of plastics including fast horizontal extraction robots. These include the systems integration of injection moulding machines, injection moulding tools as well as peripheral systems for quality assurance.

The automation target in this division is to develop as cost effective production equipment as possible for clients. Characteristics such as reliability, precision, speed, a high number of cavities and durability are essential guidelines when conceiving such a system.

Guided by these capacity characteristics, over the reporting period the High Precision Automation division developed a concept plant with innovative solutions for improving quality and productivity. The plant was presented for the first time at the "K 2010" trade fair. The automation system impressively demonstrates the new possibilities for increasing productivity with free-falling moulded parts and therefore offers customers decisive improvements to productivity and a competitive advantage.

Over fiscal year 2010 we were also able to refine the concept of modular and standardised construction. The HekuCell plant is the result of this product development process. With a 6 axis rotary arm robot, the HekuCell is now designed for sideways partial withdrawal from injection moulding machines. It provides flexible, precise and rapid handling in the smallest of spaces.

In the medical technology area, elexis AG has established a new global standard with a HEKUMA Petri dish machine. Its performance is convincing, with cycle times lower than 3.7 seconds for removing Petri dishes from the injection moulding machine and feeding them into the next stage of the production process.

HEKUMA GmbH works closely and intensively with end customers. Because of its customer orientation, product developments have proven to be very focused on applicability and usability. Over the last more than 30 years that has created an impressive tradition of innovation with a wealth of new, creative solutions.

elexis AG has now been involved in medical technology with automation solutions for more than 20 years. Furthermore, our product range also includes systems for innovative packaging solutions, machines that produce contact lenses and razors, as well as packaging solutions with in mould labelling procedures during injection moulding and thermoforming. In the automotive area, complex parts such as ABS and ESP sensor casing are produced on HEKUM automation equipment.

*Product Policy of the High Precision Automation Division*

The High Precision Automation division's product policy focuses on technological competence and application knowledge. Based on the available key technology, primarily automation stages of complex inserts, continuous know how transfers via all sectors is possible. In this regard, expansion in the medical technology division and further product modularisation are a particular focus. Product modularisation, and the associated technological simplification, presents the essential conditions for entering the markets of the BRIC countries.

### 3.2.3. Procurement and Procurement Policy

Fiscal year 2010 was mainly marked by a clear aggravation of the procurement situation because of rising prices.

**Raw Material Development**

The companies in the elexis Group were only indirectly affected by raw material development. To the extend that raw materials were affected, they are fundamentally depending on fuel prices. Over the course of 2010 not all raw materials developed in the same way. After a sharp rise in the first quarter of 2010, mid 2010 saw raw material prices moderate slightly before picking up steam again at the end of the year. Strategic purchases insured long term purchased contracts based on international price negotiations. Price changes to industrial materials has only a marginal effect on elexis Group's purchasing policy.

### Component Shortage

As a result of the financial and economic crisis, elexis Group's suppliers had to considerably reduce their production capacity in 2009. Because of these reductions, the recovery in demand led, in part, to significantly longer delivery times from some suppliers over the first half of 2010. elexis AG has a second supply source for all critical parties and, in order to ensure that delivery dates are met, the company stocks up on critical components.

### Developments in Supplier Solvency

Once again in fiscal year 2010, we examined our suppliers' solvency situation on an ongoing basis. After many companies were faced with challenges in 2009 as a result of the dramatic drops in sales, the significant increase in production in 2010 meant that some of our suppliers required greater financial resources for their businesses. Against this backdrop, we had to face insolvency among our suppliers. This hit one of our long standing electronic component suppliers. During negotiations with the receiver, it was agreed that the business under the receiver's management would continue operation, ensuring that elexis AG was affected by only very short delivery delays, which could be cushioned from additional supply sources.

## 3.2.4. Production

Along with the Team TOP.FIT, in 2005 elexis called for the Continuous Improvement Process (CIP) to be actively developed. TOP.FIT (Transparent Optimised Processes Flexible Intelligent Punctual in German) – that was the motto used for these activities. Two CIP employees are responsible for these activities. It is their task to identify waste and to create continuously waste-free processes and standards. The following basic principles are applied:

- Reductions to processing times,
- Improved productivity and efficiency across all value creation levels,
- Process standardisation,
- Minimising inventory,
- Employee flexibility,
- Simplified logistics procedures,
- Encourage personal responsibility among employees,
- Cleanliness and tidiness as part of the company's self image.

elexis AG is continuing with the Continuous Improvement Process (CIP) across all value creation levels at all of its German sites. This concerned also the office facilities. The Human Resource and Project Management areas in EMG Automation GmbH were analysed and marked process improvements achieved. In fiscal year 2011 the CIP team will tackle process improvements at our subsidiaries in Japan and Brazil.

### High Quality Automation Division

The High Quality Automation division also saw widely varying development over 2010. This is a consequence of delays in the value creation cycles affecting its products.

By the end of the fourth quarter of 2009 it had become clear that BST International GmbH would make early gains thanks to the upturn. This trend continued in fiscal year 2010. Against the backdrop of a clear acceleration in demand, BST International GmbH was once again running at full capacity last year. Furthermore internal process optimisation from 2009 led to clear productivity gains over 2010, meaning that despite increasing sales almost no increase in capacity has be required so far.

By contrast, EMG Automation GmbH felt the delayed effects of the financial and economic crisis. While a full order book from 2008 insured it was running at full capacity until the end of the third quarter of 2009, the company began fiscal year 2010 on reduced working hours. Furthermore, it was necessary to make a total of 40 employees and temporary workers redundant. Thanks to increasing new orders, full working hours was resumed in mid 2010 and the company returned to working at full capacity in the second half of the year.

Furthermore, production in all of the Group's companies is managed using flexitime and work-life accounts. This enables us to react individually in the face of fluctuations in our order book.

**High Precision Automation Division**
Again in 2010, the High Precision Automation division recorded fluctuating productivity ratios. Variations in production capacity were absorbed using flexible working hours.

This is a consequence of the long project cycles in this division which can be up to 12 months long. Depending on the degree of processing for each order, these project cycles can lead to different capacity use in the individual areas. Here it should be remembered that capacity was very low over the first six months of the fiscal year. It was only in the second half of the year that new orders picked up.

The improved new orders situation initially occupied the Project Management and Construction area. After being awarded a new order, the Project Management and Construction area drew up a customer specific schedule and implementation schedule. As the project moves forward the Purchasing, Production and Assembly areas will also be occupied.

Variations in the award of contracts and a varying product mix led to different capacity use levels in the different value creation levels.

### 3.2.5. Investments

In fiscal year 2010 elexis Group returned to its previous investment strategy of capital expenditure roughly equal to amortisation. Investment decisions were made according to the criteria of cost effectiveness, costs and the assurance of production. Investment expenditure during 2010 was primarily focused on replacement investments and on renewing and modernising the storage system at the site in Wenden.

During the fiscal year 2010 the total investments amounted to 4.6 million Euro (previous year: 2.7 million Euro). The increase in total investments is partially due to acquiring a controlling share in P2T Protagon Process Technologies. This also led to an increase in the investment ratio to 120%, calculated as investments compared to equity at 31 December 2010 before extraordinary effects. This was up from 90.0% the previous year. Taking into consideration the amortisation in the goodwill of HEKUMA GmbH, the investment ratio stood at 43.3%. elexis Group mainly financed its 2010 investments from current cash flow. In fiscal year 2010, the company recorded capital expenditure (capex) before adjustment of goodwill, of 118.7% (previous year: 75%).

### 3.2.6. Research and Development

During fiscal year 2010 the costs for research and development amounted to Euro 9.4 million (previous year: 6.6 million Euro). In total, development projects in an amount of Euro 2.1 million (previous year: Euro 0.7 million) were capitalised. The R&D costs as at 31 December 2010 corresponded to a

R&D ratio (R&D costs in relation to sales) of 6.9% percent following 5.2% in the previous year. The increase in active development projects can partially be attributed to the purchase of technology as part of taking a majority stake in P2T Protagon Process Technologies.

High value is placed on technological innovations at the elexis Group. It is the foundation which allows us to become technological leaders in attractive market niches and, thus, to ensure long term success of the Group.

The basis of successful research and development work is a trusting cooperation with our customers and partners, which include apart from development cooperation agreements also research institutes and universities. Together with them, we are succeeding in developing promising future projects at an early stage and structuring the market actively.

The tasks in research and development are directed in principle at the following cornerstones:
- Establishing a fully developed and extensively tested technology
- Improvement of the reliability and availability of the production equipment of our customer
- Optimising processes and increasing customer benefits through innovation
- Developing new technological standards
- Integration of scientific and technological knowledge and processes
- optimally adapted solutions taking account of regional markets
- Insurance of a short term return on investment for our customers

After successfully placing many new developments, or further developments, on the market in fiscal year 2009, in 2010 elexis Group mainly concentrated on investment in research activities in 2010.

Application knowledge transfers from the steel industry to the High Quality Automation division were a priority. The main focus of research activities was the transferability of current technological solutions used to check physical characteristics for other applications in the steel industry, such as warm roller strip checks. Initial tests and laboratory applications in collaboration with our clients are currently underway.

Further activities concentrated on expanding our quality assurance system in the converting and non woven fabric areas and in battery production. The basic technology for these applications is moisture and film thickness measurement systems. These technologies were attained from the acquisition of P2T Protagon Process Technologies GmbH by elexis Group and are under further development.

The High Precisions Automation division is focusing its development on modularising current systems and expanding its competence in the medical technology area. The result of these activities was the development of compact automation equipment (HeKuCell) and new, modular Petri dish and pipette tip systems, which were presented at the worlds largest plastics fair, “K 2010” in Düsseldorf.

The High Precision Automation division again significantly strengthened its trade fair activities in terms of medical technology in 2010. Medical technology systems were also exhibited at Pharmapack 2010, France, MD & M West 2010, USA, MedTech 2010, Germany, Chinaplas, China and K 2010 in Germany.

Moreover, the existing product portfolios at all elexis Group companies are continuously being further developed and optimised.

Details on the most important product innovations during the fiscal year 2010 can be found in the section “3.2.2 Products, Product Range, Product Policy and Sales Markets”.

### 3.2.7. Financing

On balance sheet day, elexis Group recorded considerably higher positive cash flow (31 December 2010: 19.4 million Euro; 31 December 2009: 12.6 million Euro), a clearly positive operating cash flow (31 December 2010: 14.4 million Euro; 31 December 2009: 5,8 million Euro) and an unchanged high level of own funds. Additionally, all of the companies in the elexis Group had sufficient credit lines in fiscal year 2010. Corresponding, elexis Group's ongoing financing was ensured at all times over the fiscal year.

The company's earnings position in the last fiscal year was, above all else, affected by the extraordinary effect of the partial HEKUMA GmbH goodwill amortisation worth 6.6 million Euro, which, however, is not cash effective.

After writing down a part of HEKUMA's goodwill and taken consideration of contrasting extraordinary tax effects, the Group annual surplus on 31 December 2010 after subtracting minorities interests was 2.2 million Euro (prevision year: 1.7 million Euro). Even taking consideration of the amortisation and the dividend payments made, own funds increased from 66.9 million Euro to 69.1 million Euro. Due to a simultaneous increase in balance sheet totals, the equity ratio increase from 51.6% the previous year to 52.2% at the end of the reporting period.

On balance sheet day, a Group annual surplus before extraordinary effects and after subtracting minority interests of 6.8 million Euro was recorded (previous year: 1.7 million Euro). After dividend payments of 1.6 million Euro, own funds before amortisation stood at 73.7 million Euro (previous year: 66,9 million Euro). This corresponded to capital ratio of 53.0% against 51.6% at the end of 2009.

Bank loans (without financial leasing) decreased from 5.6 million Euro (31 December 2009) to 2.2. million Euro at the end of the 2010 reporting period. The bank loans include the financing for the acquisition of the stake in P2T Protagon Process Technologies GmbH. At 29 October 2010, the existing residual loan in the amount of 2.9 million Euro from the acquisition financing of HEKUMA GmbH was repaid. By comparison, the financing banks released the collateral they held (pledge of shares). In order to pay this loan, elexis AG took out a corporate loan of the same value through HEKUMA GmbH. Furthermore, elexis AG took over a liability statement for HEKUMA GmbH's overdraft credit ines and issued a valid internal letter of comfort.

The liquid funds, partially unused overdraft credit lines and a low outside capital ratio in conjunction with the high level of shareholders’ equity continue to guarantee the elexis Group a stable financial position.

### 3.2.8. Personnel

elexis Group carried out a cost reduction programme in 2009. As a result of cost saving measures, elexis AG shed 147 employees in 2009 and a further 40 employees and temporary works in 2010. In addition, reduced hours were implemented at the sites in Wenden and Oschersleben in the first half of 2010. Reduced working hours have been suspended since the third quarter of 2010.

The personnel measures within the elexis Group started in 2009 were continued in the fiscal year 2010: extension of terms for temporary work contracts, reduction in regular working hours and suspension of overtime pay, reduction of working lifetime, flexitime and holiday accounts. This mainly allowed us to tackle capacity fluctuations in the High Precision Automation division and at EMG Automation GmbH.

By acquiring P2T Protagon Process Technologies GmbH, the elexis Group welcomed 17 new employees. Out total employee numbers also increased by 37 as a result of the initial consolidation of BST Shanghai. As a result the elexis Group had as at 31 December 2010 785 employees following 768 in the previous year. That is a 2% change. We had a total of 66 trainees (previous year: 75). This is a training ratio of almost 10%. As a result the elexis Group was once again above the average for the Federal Republic in the machinery and equipment engineering sector.

In order to also be able to recruit specialised and management personnel from our own ranks in the future the elexis Group is represented at many job and training fairs. In this respect, the further training opportunities offered by elexis Group are a major advantage. At the centre are the promotion of the dual training system, work possibilities in different Group companies as well as attractive offers for further training. This category also includes providing student work experience placements and supervising dissertations/end of degree projects. Personal development perspectives and further training measures are determined individually within the context of annual discussions with the employees. Organisationally, these projects are run under the new "elexis Academy" project. A performance-related remuneration system and progressive social contributions are also an integral part of the personnel policy.

The growing challenges of globalisation, competition and innovation require qualified and motivated employees. elexis is convinced that employee motivation increases through the recognition of personal commitment as well as a work environment in which individual performance and the development of new ideas is promoted and honoured. elexis Group expressly promotes commitment. Thus the "idea oven" has already been an integral part of our corporate culture since many years. During the fiscal year a total of 191 improvement proposals were submitted in the elexis Group (previous year: 184 proposals).

In the fiscal year 2009 elexis started the "TOP.JOB" project in order to strengthen further the support and the loyalty of the employees. The "TOP.JOB" project's objective is make elexis an even more attractive employer for potential new employees and to increase job satisfaction among existing staff. Among other things, this means:

- Awaking an interest in technology from kindergarten on,
- Creating an attractive working world,
- Enthusing the "best talent" in all age groups,
- Long term employee loyalty,
- Target oriented cross department and cross position extension of expert and business skills
- Maintaining existing knowledge and know how.

This is backed by a recently restructured induction phase for new employees, a new further training concept for all staff, and possibilities under the so called "55+Fitness Programme" to remain an efficient worker right up to the legal retirement age.

### 3.2.9. Environmental Protection

Protecting the natural environment and handling resources in a sustainable manner represents an essential challenge for elexis Group. We are committed to complying with legal regulations and local laws. Additionally, all of our economically viable possibilities are analysed in terms of their impact on the environment. At all elexis Group sites, observing and supervising the legal environmental regulations are the responsibility of the manager of strategic quality management. We consider legal regulations to be minimal requirements.

One of the important goals of our product policy is to protect natural resources and to use required energy as efficiency as possible. Our quality assurance systems make a significant contribution to cost effective environmental protection by reducing our clients' emissions. This effect leads to reduced material consumption and thus indirectly lowers total $CO_2$. Our drive technology products also products from the High Precision Automation division also contribute towards protecting the environment. Drive technology products are increasingly being used in renewable energy design. The High Precision automation division is decisive involved in the development and manufacturing of plastic parts used in the design of energy efficient vehicles.

## 3.3. Analysis of Business Development Based on Key Data

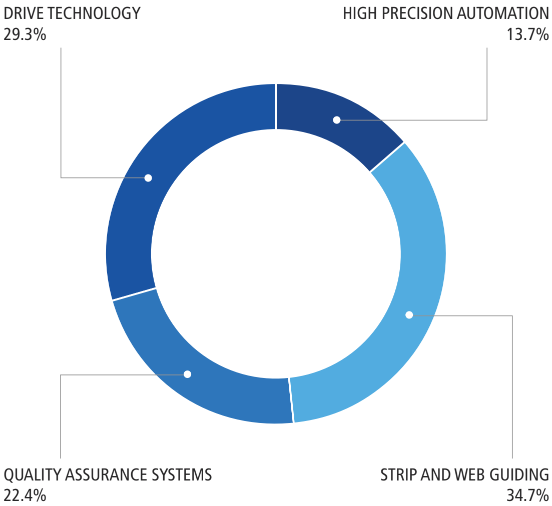
Technological and market leadership represent essential foundations for elexis Group's success. Success in these areas is attributable, on the one hand, to a balanced technology portfolio, and on the other, to international sales and production structures.

elexis Group has extensive technological knowledge, ranging from existing basic technology in drive technology and key technologies (control technology and High Precision Automation) to pioneering technologies in the quality assurance systems area. Growth is only possible thanks to this balanced technology portfolio.

Another pillar of our success if the Group's international sites in Europe, North America, Latina America and Asia. Thanks to this broad international presence of sales and production sites, new orders increased by approximately 26% compared to the previous year. New orders at elexis Group climbed to 150.7 million Euro at 31 December 2010 compared to 119.2 million Euro in the previous year.

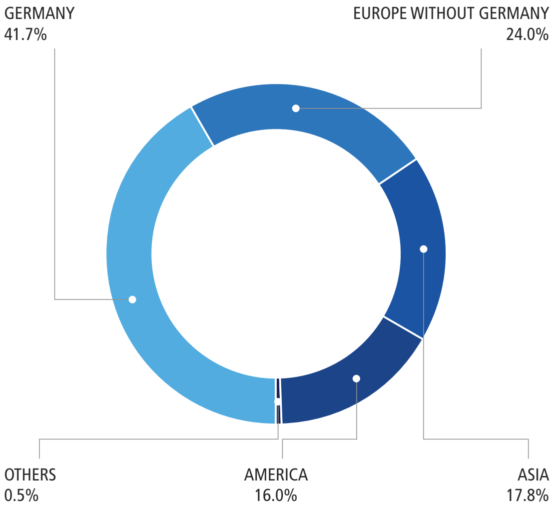
The distribution of our current technology portfolio and regulation structure in terms of sales revenue developed as follows at 31 December 2010:

## TECHNOLOGY PORTFOLIO 2010 (in percent)




BASIS: CONSOLIDATED SALES (NET) 2010 OF EURO 136.7 MILLION

## REGIONAL DISTRIBUTION 2010 (in percent)




BASIS: CONSOLIDATED SALES (NET) 2010 OF EURO 136.7 MILLION

Our sales at 31 December 2010 increased by 8% compared to the previous year, reaching 136.7 million Euro (previous year: 127.0 million Euro). Because of sometimes long project cycles, sales lag new orders by an average of six months. Ongoing internal process optimisation in production also led to improved results figures.

Before extraordinary effects, the ROCE (Return on Capital Employed) reached 14.8% (previous year: 8.7%) and return on equity after taxes 9.0% (previous year: 2.6%). After depreciation, the return on capital employed (ROCE) was slightly below the previous year's rate at 7.6% (previous year: 8.7%). Return on equity after taxes and extraordinary effects, in contrast, increased slightly from 2.6% in 2009 to 3.4% at 31 December 2010.

In fiscal year 2010 working capital management was facing major challenges yet again. As a result of the recession, supplier and client insolvency could not be ruled out. To guarantee our supplies, stocks of critical components were increased. Consequently, on balance sheet day, our stocks had increase and stood at 23.1 million Euro (previous year: 19.7 million Euro) or 17.1% of the total balance. Days of inventories rose from 56 days to 61 days. The opposite effect can be seen in the development of amounts due. Amounts due for deliveries and supplies decreased by 2.5 million Euro to 21.0 million Euro. A days of sales outstanding of 55 days (previous year: 67 days) was the result of intensive amounts due management. Major bad debt losses were also avoided.

On balance sheet day, elexis Group had almost doubled its operating profits (EBIT) before extraordinary effects to 10.6 million Euro (previous year: 5.4 million Euro). After amortisation a part of the goodwill of HEKUMA GmbH in the amount of 6.6 million Euro, EBIT stood at 4.0 million Euro. Net income after deduction of minority interests and before extraordinary effects amount to 6.8 million. After depreciation and consideration of contrasting tax effectsi, a consolidated net income of 2.2 million Euro was recorded, compared to 1.7 million Euro in the previous year. Profit per share at 31 December 2010 stood at 0.24 Euro (previous year: 0.19 Euro).

## High Quality Automation

### Overview of the High Quality Automation division:

| € million | **2010** | 2009 | Change |
|---|---|---|---|
| Incoming Orders | 125.9 | 105.5 | 19% |
| Sales (net) | 118.0 | 113.6 | 4% |
| EBITDA | 19.7 | 14.0 | 41% |
| EBIT | 16.0 | 11.0 | 45% |
| *EBIT margin (in %)* | *13.5* | *9.7* | |
| Employees (reporting date, excl. apprentices) | 653 | 637 | 3% |

** 2010 includes 17 employees from P2T Protagon Process Technologies GmbH and 37 employees from BST Shanghai*

New orders in the High Quality Automation division increased by 19% to 125.9 million Euro at 31 December 2010. New orders in the previous year reached 105.5 million Euro. This is a result of this division's high level of internationalisation. In addition to sales offices and partners in more than 70 countries, this division also has its own production sites for the local markets in Asia, North America and Brazil. These were good conditions to meet the growing demand in developing countries, above all in China and Brazil. Sales lagged new orders by also increased on balance sheet day by 4%. At 31 December 2010 sales stood at 118.0 million Euro compared to 113.6 million in the previous year.

The time lag between new orders and sales is due to different value creation cycles in the individual product groups and sectors, among other factors. While, in the crisis year 2009, EMG Automation GmbH continued to enjoy high orders from 2008 for many months, this picture changed in 2010. EMG Automation GmbH started the last fiscal year with a far thinner orders book and the situation did not bottom out until mid 2010. This development was tackled using reduced working hours and personnel adjustments. Our personnel returned to working a full working day in the second half of 2010.

The early cycle BST International GmbH saw demand clearly recover from the last quarter of 2009, a situation which continued in early 2010. This development has mainly emerged from our product portfolio, which essentially concentrates on production processes and consumer and packaging industry goods. Following a high point in the first half of 2010, demand moderated slightly. Nevertheless, it stabilised at an above average level in the second half of 2010.

The drive technology area achieved its target. As the world economic recovery gathered pace, global shipping activities also increased. This led to stable demand from the “port” customer area. Unchanged, solid demand was experienced from the Energy and Mining area.

In total, the High Quality Automation division contributed 86% of sales to the elexis Group total, making it once again the supporting pillar of the Group as a whole. This division achieved a result before interest and tax (EBIT) of 13.5% (previous year: 9.7%) or 16.0 million Euro (previous year: 11 million Euro).

## High Precision Automation

### Overview of the High Precision Automation division:

| € million | **2010** | 2009 | Change |
|---|---|---|---|
| Incoming Orders | 24.8 | 13.7 | 81% |
| Sales (net) | 18.7 | 13.4 | 40% |
| EBITDA | -2.8 | -3,4 | |
| EBIT before Goodwill Impairment<br>*EBIT margin (in %)* | -3.2<br>*-17.1* | -4.0<br>*-29.9* | |
| EBIT<br>*EBIT margin (in %)* | -9.8<br>*-52.4* | -4.0<br>*-29.9* | |
| Employees (reporting date, excl. apprentices) | 128 | 127 | 1% |

New orders in the High Precision Automation division increased by 81% to 24,8 million Euro at 31 December 2010. In the previous year new orders amounted to 13.7 million Euro. This significant increase is due to intensive sales work in the division. Nevertheless, it failed to live up to expectations.

The sales work conducted in 2009 and 2010 was accompanied by personnel and organisational changes. Additionally, internal working processes are continuously reassessed and improved. Furthermore, an essential part of the restructuring was a reworking of the product portfolio with the objective of further standardising products to set new technological standards in medical technology. These standards serve as the foundation for greater market success.

This series of measures afforded us a positive start in fiscal year 2010. However, demand from our existing customers fell again in the second quarter of 2010. The prior increase in demand was mainly due to orders for replacement investment and stock effects. Investments in capacity expansion did not materialise in fiscal year 2010 among our existing customers, who are mainly based in Europe and the USA. A major order from the packaging industry was also affected. This development is explained, among other factors, by the current economic climate in the USA.

In contrast, the improved economic outlook for the car industry, again in the High Precision Automation division, led to considerably increased demand for equipment in the automotive area. As regards to new orders at 31 December 2010, automotive orders stood at around 48%. Automotive equipment is essentially client specific made to measure parts which are only rarely repeated. The shift in the product mix towards automotive equipment also contributed towards the deterioration in the High Precision Automation division's margin.

The main cost drivers in the construction of automotive equipment is the required technological individual construction for insert moulding for plugs and casings. These components are essential to safety in vehicle manufacturing. The application knowledge generated in this division is an essential pre condition to successful market expansion in medical technology. Over the last fiscal year new medical technology equipment was designed based on the application knowledge of handling automation of insert moulding. One of the results of this was a new design for Petri dish automation with a cycle time of less than 3.7 seconds. This enabled us to set a new global standard.

The new medical technology equipment as heavily marketed from the fourth quarter of 2010. Our plan to expand in medical technology will be accompanied by a push in international sales markets. Our existing customers are concentrated in Europe and the USA.

A high level of automation technology is an essential part of production in the so called industrialised countries. Developing countries, which are at the beginning of extensive industrial production, have a clear need to catch up in this area. Automation is playing an increasing role in production in Asia where absolute quality and hygiene are key. The new medical technology equipment developed by the High Precision Automation division will, in the future, also be available in these markets. Development activities in the medical technology area generated expenses of 0.8 million Euro in the last fiscal year.

In 2010 the High Precision Automation division's sales stood at 18.7 million Euro (previous year: 13.4 million Euro). This is an increase of 40%. Because of a deterioration in the product mix, the time lag in new orders and future investments in new machine design, the break-even threshold was not attained. EBIT stood at minus 3.2 million Euro before extraordinary effects at 31 December 2010 (previous year: minus 4.0 million Euro). After depreciation of goodwill the result before interest and tax was minus 9.8 million Euro. However, over the course of 2010, quarterly development displayed signs of a positive trend. After an EBIT of minus 1.4 million Euro in the first quarter, this loss fell to minus 0.9 million Euro in the second quarter. After paying one off trade fair and development costs of 0.8 million Euro in the third quarter, the EBIT stood at minus 1.1. million Euro. The fourth quarter of 2010 ended with a profit of 0.2 million Euro.

Further cost savings above the measures introduced in 2009 did not occur in the fiscal year. HEKUMA GmbH's cost and personnel structure sits at a turnover level of about 25 million Euro. The break even threshold was not attained in fiscal year 2010. In order to not jeopardise the company's ability to restart when new orders increase no further personnel adjustments were made. elexis AG issued a letter of conformity in favour of HEKUMA GmbH in order to ensure its capacity to act. We do not expect use to be made of this formal obligation.

### elexis AG

At the holding company the EBIT before result of participations amounted to minus 2.2 million Euro in the fiscal year 2010 (previous year: minus 1.6 million Euro). There were no essential changes to the cost structure. However, funds were set aside in the existing provision for litigation because of the expected decision from the Upper District Court of Düsseldorf regarding pending Elotherm lawsuit.

## 3.4. Situation of the Group

### 3.4.1 Net asset position

| € million | **2010** | 2009 |
|---|---|---|
| Balance sheet total | 132.4 | 129.7 |
| Equity ratio (in %) | 52.2 | 51.6 |
| Investments incl. financial leasing | 4.6 | 2.7 |
| Investment ratio (in %) | 43.3 | 90.0 |
| Fixed asset coverage (in %) | 194.4 | 174.5 |
| Working Capital | 3.5 | 5.7 |
| Inventory turnover (in days) | 61 | 56 |
| Debtor days | 55 | 67 |

The asset situation is impacted primarily by the goodwill as well as the short term current assets in the form of inventories and trade accounts receivable.

All goodwill is subjected to an impairment test at regular intervals. The basis for the evaluation of the goodwill values is the fundamental revenue planning for the next three years.

On the balance sheet date the goodwill was distributed across the High Quality Automation division, with a value of 3.3 million Euro (previous year: 3.2 million Euro) and relates to BST PRO MARK Inc, EMH Electromecânica e Hidráulica Ltda and P2T Protagon Process Technologies GmbH. Due to the majority acquisition of shares in P2T Protagon Process Technologies GmbH this item only witnessed a slight increase. The remaining goodwill was unchanged in comparison to the previous year. In contrast the other intangible assets increased due to the share acquisition in P2T Protagon Process Technologies totalling 1.2 million Euro. The intangible asset items, which resulted from the acquisition of the majority shareholding, relate primarily to capitalisation of ongoing development plans.

The goodwill value in the High Precision Automation segment was 16,4 million Euro on 31 December 2010, following on from 22,9 million Euro in the previous year. It is presently assumed that the return to previous levels of earning power witnessed up to 2008 (EBIT > 10%) will take some time yet. In addition, the results of the impairment calculation were affected by the historically low interest rate. With the adjustment of the going-concern value, elexis has conservatively commercially accounted for this circumstance. In light of this, depreciation of the goodwill value of 6.6 million Euro has been implemented.

The short-term assets increased in value by 4,2 million Euro to 79,0 million Euro (previous year: 74.8 million Euro). This can be primarily attributed to the increase in the stock from 19,7 million Euro (31 December 2009) to 23,1 million Euro on 31 December 2010. The inventory turnover increases accordingly from 56 days to 61 days on the balance sheet date. In order to ensure delivery capability critical assemblies are being increasingly stocked.

Due to the intensive management of receivables the inventory of receivables arising from goods and services fell by 2,5 million Euro to 21,0 million Euro (previous year: 23,5 million Euro). In the results this led to a significant reduction in the period of outstanding receivables from 67 days in the previous year period to just 55 days on 31 December 2010. The liquid assets increased to 31,7 million Euro (previous year: 26,3 million Euro).

The investments including financial leasing in fixed assets amounted to 4,6 million Euro (prior year: 2,7 million Euro). The investment ratio increased following the majority acquisition of the shares in P2T Protagon Process Technologies GmbH although before exceptional items from 90,0% on December 31, 2009 to 120.0% at the end of the reporting period. Following depreciation of part of the goodwill value of HEKUMA GmbH the investment ratio stood at just 43.3%.

Following depreciation of part of the goodwill value the change in the net asset position led to a slight increase in the balance sheet total, taking it to 132,4 million Euro on 31 December 2010 in comparison to 129,7 million Euro in the previous year. As a group with a high level of shareholders' equity, the financing of the assets is undertaken through the high share of equity. Following on from fixed asset coverage of 174,5% in the previous year, this figure rose to 194,4% by 31 December 2010.

The equity ratio is influenced by exceptional items and by the dividend payment made (1.6 million Euro). After adjustment of the goodwill value the equity ratio stood at 52,2%, following on from 51,6% in the previous year. This equates to an equity ratio of 69,1 million Euro (previous year: 66,9 million Euro).

### 3.4.2. Financial situation

The German companies of the elexis Group are predominantely self-financed. Our foreign subsidiary companies also primarily possess their own credit lines. Where necessary elexis AG issues the necessary guarantee and joint liability declarations in order to secure the provision of credit lines.

As visible from the following table, operative activities are the most important source of finance of the elexis Group.

| € million | **2010** | 2009 |
|---|---|---|
| Cash flow from operating activities | 14.4 | 5.8 |
| Long-term liabilities to banks | 2.2 | 5.6 |
| Net liquidity | 19.4 | 12.6 |

The cashflow from operating activities has more than doubled in comparison to the previous year. It stood at 14,4 million Euro on 31 December 2010. In the previous year the operative cashflow figure was 5,8 million Euro. The fundamental influential factors on the cashflow development changed during the reporting period as follows:

Due to the change in short-term assets, which were composed of the items stocks and recievables as well as the change in the short-term provisions and liabilities, there was an inflow of funds amounting to 6.2 million Euro during the financial year 2010. During the previous year the inflow of funds resulting from these items stood at 1.9 million Euro.

The long-term bank loans fell in accordance with the scheduled repayments and following the premature repayment of the remaining loan from the acquisition financing of HEKUMA by 3,4 million Euro to 2,2 million Euro (previous year: 5,6 million Euro).

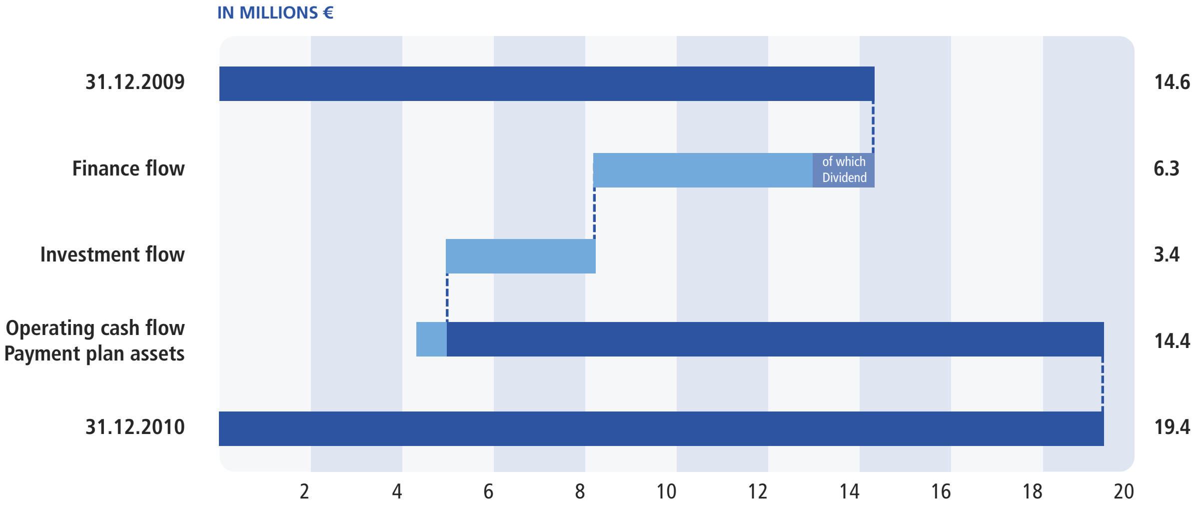
The figures for the income taxes were subject during the reporting period to the outflow of funds amounting to 4,8 million Euro. During the previous year these items stood at 4,5 million Euro.

The flows of funds for investment activities, amounting to 1,4 million Euro (previous year: 6,0 million Euro) include changes to cash deposits for more than three months. In the previous year 2.0 million Euro was deposited in the form of cash deposits with a period of more than 3 months, with this period expiring during the financial year 2010 and these being once again considered as payments in the cash flow statement. The majority acquisition of shares in P2T Protagon Process Technologies GmbH was also booked via Investflow.

0,7 million Euro was paid into the existing plan assets of the elexis Group, following on from 0,5 million Euro in the previous year.

The net liquidity on 31 December 2010 stood at 19,4 million Euro in comparison to 12,6 million Euro in the previous year, and was composed as follows:

### DEVELOPMENT OF EXPANDED NET LIQUIDITY




Furthermore, in individual cases we also use leasing agreements in order to finance certain projects.

We only use other cash and capital market instruments to a limited degree.

## 3.4.3. Earnings situation

| € million | **2010** | 2009 |
|---|---|---|
| Incoming orders | 150.7 | 119.2 |
| Sales (net) | 136.7 | 127.0 |
| Gross profit | 48.1 | 43.3 |
| EBITDA | 21.0 | 9.0 |
| EBIT before Goodwill Impairment | 10.6 | 5.4 |
| EBIT | 4.0 | 5.4 |
| Financial result | -1.0 | -0.9 |
| EBT | 3.0 | 4.5 |
| Consolidated net income after deduction of minority interests | 2.2 | 1.7 |
| Earnings per share (in €, EPS) | 0.24 | 0.19 |
| Cost of sales ratio (in % of sales) | 20.9 | 23.1 |
| Administrative expense ratio (in % of sales) | 6.7 | 6.5 |
| Material ratio (in % of sales) | 36.6 | 36.4 |
| Personnel ratio (in % of sales) | 34.5 | 36.3 |

During the reporting period the incoming orders to the elexis Group increased by 26% to 150,7 million Euro (previous year: 119,2 million Euro). The sales followed at a later date and increased from 127,0 million Euro in the previous year to 136,7 million Euro in the financial year. During the period under review, the direct export quota was 58,2% (previous year: 50,9%) and reinforced the high international presence. BRIC states in particular were the main driving force behind this growth.

The cost structure remained almost unchanged. Despite volatile procurement markets and the shortage and resulting increased cost of individual assemblies, the materials ratio only changed slightly from 36,4% in the previous year to 36,6% on the 31 December 2010. The personnel expense ratio was influenced by the initial consolidation of BST Shanghai and P2T Protagon Process Technologies GmbH. This led to a nominal increase in personnel costs. In relation to sales, the ratio did however increase from 36,3% in the previous year to 34,5% on the balance sheet date. The selling expenses in relation to sales fell from 23,1% to 20,9% on 31 December 2010. The cause of this is the decrease in commission payments and in sales personnel. In the field of administrative expenses a minor nominal and actual increase applied. The administrative expense ratio on 31 December 2010 stood at 6,7% in comparison to 6,5% in the previous year.

With an overall stable gross margin and an almost constant cost structure, the operating result (EBIT) prior to adjustment of part of the going-concern value on 31 December 2010 was 10.6 million Euro (previous year: 5,4 million Euro). This corresponds to an EBIT margin of 7.7% compared to 4.2% in the previous year. After depreciation we show an EBIT amounting to 4.0 million Euro or 2.9%.

The tax ratio was reduced in comparison to the previous year, due to the planned restructuring per commercial law within the elexis Group. This restructuring is explained in detail in "Chapter 3.4.4. Asset, financial and earnings situation of elexis AG (reporting in accordance with the German Commercial Code ( HGB))". Prior to depreciation of part of the goodwill value of HEKUMA the Group's net income after the deduction of minority interests stood at 6.8 million Euro on 31 December 2010, following on from 1,7 million Euro in the previous year. The Group's net income adjusted for exceptional items stood at 2,2 million Euro.

### 3.4.4. Asset, financial and earnings situation of elexis AG (reporting in accordance with the German Commercial Code ( HGB))

As a holding company elexis AG is responsible exclusively for the control and the strategic direction of the elexis Group and does not exercise any operating business. During the financial year 2010 optimisation of the participation structures within the Group association commenced, during which one focus was placed on utilising synergy effects in relation to tax. On the other hand these measures also separated the operational business of Hekuma and this enabled the company to concentrate on its core activities.

With this company restructuring process we also underline the clear link and strategic significance of HEKUMA GmbH to elexis AG. It also underpins the liabilities – newly accepted during the financial year 2010 in relation to the liabilities of HEKUMA GmbH by elexis AG – as well as the guaranteeing of a short and mid-term company loan.

Overall, we are planning to outsource the operative business of Hekuma into a new company and thereby to merge the subsidary company Elexis Beteiligungsgesellschaft mbH (Elexis BG), which previously functioned as an intermediate holding, together with Hekuma. After completion of the activities the operative part of Hekuma will be able to function once again on the market under the old name within the new company. Furthermore, in 2011 we shall terminate the profit and loss transfer agreement previously agreed between elexis AG and Elexis Beteiligunsgesellschaft mbH. As a consequence Elexis BG will be the most senior parent company within the Group. This collection of measures in conjunction with the profitability of the remaining operating companies shall lead to us fully utilising the tax losses carried forward by HEKUMA GmbH and to our being able to generate a full scope of tax advantages with positive effects on future profit and the liquidity situation.

During the financial year 2010 elexis AG amended its annual financial statements in line with the changes to the accounting and valuation guidelines issued in the HGB. The resultant adjustment effects are positive overall, although with consideration to the balance sheet total and the results of nomal commercial activities these are almost negligible and when offset amount to just T€ 272.

The assets, financial and earnings situation of elexis AG changed in the financial year 2010 as follows:

The assets situation is dominated by the financial assets and the receivables owing from associated companies. This includes the incoming funds from the shareholder loan to the benefit of HEKUMA GmbH. In total, the financial assets increased from 57.4 million Euro to 62.1 million Euro on 31 December 2010. The receivables from associated companies increased only slightly to 18.2 million Euro on 31 December 2010, following on from 17.3 million Euro in the previous year.

With the earnings position of the holding company considerably influenced by the contribution to earnings of the divisions and the profit and loss sharing agreements concluded, we explain their development as follows:

### High Quality Automation

The incoming orders in the division High Quality Automation increased by 19% to 125.9 million Euro during the financial year. During the previous year the incoming orders stood at 105.5 million Euro. The sales take place after time and increased from 113.6 million Euro to 118.0 million Euro. The operating results before interest and tax (EBIT) on the basis of HGB stood at 15.2 million Euro or 12.9%.

### High Precision Automation

The incoming orders in the division High Precision Automation increased by 81% to 24.8 million Euro during the financial year. During the previous year the incoming orders figure was 13.7 million Euro. On the basis of HGB sales during the financial year 2010 fell slightly from 16.0 million Euro (previous year) to 15.0 million Euro. With the level reduced sales on 31 December 2010, an operating loss (EBIT) was recorded of minus 5.2 million Euro (previous year: minus 5.1 million Euro). The fair value of the shareholding on the balance sheet date stood below the book value. However, due to the future prognosis with consideration to the merger this write-down is not a long-term figure. We have therefore avoided a devaluation of the investment book value.

The financing of the assets of elexis AG took place almost exclusively through shareholder equity funds. At the end of the reporting period the equity ratio stood at 92.1%, following on from 92.4% in the previous year. In order to safeguard the financial strength of HEKUMA GmbH, elexis AG has drawn up joint liability declarations to the benefit of HEKUMA GmbH. Furthermore, on 31 December 2010 an additional 0.6 million Euro was added to the provisions, due to the anticipated decision of a pending legal action. This also had associated effects on the profit situation of elexis AG.

The profit situation of elexis AG is essentially characterised by the income from investments, which stood at 10.5 million Euro, which was an increase of 0.8 million Euro in comparison to the previous year.

There were no fundamental changes in the operating expenses. The administration expenses and the interest result remained almost constant.

The increase in other operating expenses primarily resulted from the funds for a provision for process costs. The extraordinary profit, amounting to plus 0.3 million Euro, arose due to the effects of the Accounting Law Modernisation Act ("BilMoG").

The tax expenses, which rose considerably in comparison to the previous year, were predominantly attributable to the utilisation by Elexis BG in the previous year of substantial tax losses carried forward. During the financial year 2010 no such effects were utilised.

## 3.5. Significant Events after the reporting period

On the 27th January 2011 elexis AG submitted a letter of comfort to the benefit of HEKUMA GmbH, unlimited in terms of value but restricted with respect to time and expiring on 31 December 2012.

No further events occurred that are of material importance for the elexis Group and could result in a change in opinion of the company's position.

## 3.6. Key opportunities and risks of future development, outlook

### 3.6.1. Report on the internal controlling and risk management system: Details per paragraph 315 section 2 no. 5 and paragraph 289 section 5 HGB (German Commercial Code)

The internal control and risk management system serves to identify possible sources of error within the framework of our financial reporting and to limit any risks resulting therefrom. Our internal control and risk system extends to the whole elexis Group. On the basis of this procedure we can guarantee with a large measure of safety that financial statements and consolidated financial statements can be drawn up which correspond to the legal regulations. Below we explain the organisational structure as well as the guidelines of the internal control and accounting process.

**Key characteristics of the internal control system and the risk management**

There is a clear management and corporate structure which foresees that key functions covering various departments are controlled centrally through elexis AG. One of the main functions of this process is the control of the overall Group and its operating units. In this respect the starting point is the targets set by the Management Board of elexis AG. From these and the expectations regarding the operating development a medium term plan is drawn up once a year together with the general managers and profit centre managers of the operating units. This includes budget amounts for the next year and plan numbers for the following years. For current fiscal years we set up forecasts, which are linked to the medium term planning. Within the context of quarterly forecast discussions the members of the Management Board of elexis AG, the general managers as well as the managers of the profit centres of the operating units meet and analyse the relative quarterly financial statements and bring the existing forecasts up to date. The accounting process concerns the departments of "accounting", "controlling" and "Risk Monitoring and Compliance". The areas of responsibility are clearly allocated from a personnel point of view and are managed in separate organisational areas.

The bookkeeping is carried out in a decentralised manner or is undertaken by EMG Automation GmbH as a service provider for its subsidiaries. Our employees in accounting and in controlling are regularly trained with regard to the legal changes of the national and international accounting regulations as well as in tax law. We guarantee the maintenance of the corresponding regulations in combination with the strict principle of privacy in these areas. All individual financial statements of the Group companies, which are included in the Group consolidation, are subject at least once per annum to an audit by an auditor.

The basis of the accounting is current Group reporting. This is drawn up through the accounting department and the controlling department and is presented punctually to the Management Board as well as to the management for corporate control. Actual and plan deviations within the year are thus recognised and the possibility is provided to react immediately.

In its function as a holding company elexis AG undertakes the central tasks in the area of international accounting as well as the external reporting. The consolidation of the Group reporting within the year takes place monthly in accordance with IFRS including the reconciliation with the inter-Group clearing transactions in accordance with the regulations of HGB, AktG and WpHG. We prepare our financial statements with the help of a standard Group reporting system, which we also use for the drawing up of the budget and the forecasts. All fully consolidated companies make use of this system.

Special analyses and special subjects are also handled in the controlling department at the holding level. In the case of individual specific tasks further support is given by the commercial departments of the subsidiaries. Depending on the complexity and the order of magnitude, external consultants such as auditors or tax consultants are called upon for the examination of specific accounting questions.

### Explanations on the key characteristic of the internal control system and the risk management system with regard to the accounting process

Our internal control and risk management system in respect of the accounting process ensures that business events are stated correctly, prepared and confirmed and are included in the accounting. Suitable personnel available, the use of adequate software as well as clear legal and internal corporate instructions represent the basis for an orderly, standardised and continuous accounting process. The clear differentiation of areas of responsibilities as well as the various control and monitoring mechanisms ensure correct and responsible accounting. In this way it is achieved that business events are drawn up, processed an documented in agreement with the legal regulations, the articles of association as well as the internal guidelines. With this procedure we ensure that assets and liabilities in the financial statements and the consolidated financial statements are stated and reported in the correct manner. Corporate controlling is guaranteed through a punctual and complete Group reporting.

### Declaration on management in accordance with Section 289a HGB

The Management Board of elexis AG issued a declaration on management on March 14, 2010 in accordance with Section 289a HGB and made this generally available on the internet page of elexis under www.elexis.de/Das Unternehmen/Konzernstruktur.

## 3.6.2 Forecast
### 3.6.2.1 Opportunity and risk management

Risk management within the elexis Group ensures responsible handling of all events and potential developments inside and outside of the company, where these many have a negative effect on attainment of the company goals. Risks are always associated with corporate actions and in the opinion of the management most risks simultaneously include opportunities, which can be used to the advantage of the Company.

The forward-looking and constant management of opportunities and risks serves to enable the attainment of goals through the consistent utilisation of opportunities, without the associated risks going unheeded. At the elexis Group a comprehensive corporate risk management system ensures that the risks are recognised at an early stage, stated in a standardised manner, evaluated, controlled and monitored. At the same time, however, opportunities are also identified as well as the related potential for the business development.

**Organisation of risk management**

The risk management system of the elexis Group lies under responsibility of the board. It sets rules and minimum standards, which guarantee a group-wide risk management. In this activity the Management Board is supported by a person responsible for risk management, who at the same time acts in the function of chief compliance officer. The tasks of the person responsible for risk management include the elaboration of group-wide instructions for methods and processes, the regular reporting as well as the supervision of all risks. Under the specialised leadership of the person responsible for risk management our Group companies ensure a standardised implementation of the group-wide risk management guidelines.

Moreover, all risks items are observed and monitored in the risk committee. The risk committee consists of the member of the Management Board of elexis AG in charge of finance as well as the person responsible for risk management. With regard to the identification of risks, in particular procurement, price change, loss, foreign exchange and liquidity risks as well as risks from fluctuations in cash flow are taken into account. The testing of goodwill in the form of impairment tests is also an integral part of risk management. Furthermore, the development of the current economic situation and the resulting branch and competitive risks are under particular observation. The risks are evaluated with regard to their amount ant their probability of occurrence. The analysis of individual risks includes both qualitative and well as quantitative factors. The probability of occurrence of existing or foreseeable risks is weighted individually. The identification and analysis of the risks are complemented by a continuous schedule plan and allocated responsibilities. Special action plans include the counter-measures and allocate clearly the responsibilities. The reporting to the management and Supervisory Board takes place each quarter in standardised form.

The risk monitoring includes in particular the planning, implementation and the control of the success of suitable counter-measures. The risk management system of the elexis Group is designed to recognise potential and existing risks at the earliest stage possible and to make them calculable by means of an evaluation. The risk management system is investigated at least once yearly with regard to its effectiveness and its up-to-datedness. As a result of the ongoing appraisal as well as the current Iran embargo rules of the EU, trade relations with Iran for example are entirely prohibited.

Both the following list of risks and those risks that are presently unknown to us may have effects on the elexis Group.

### Opportunities and risks of securing liquidity

The feared rejections from the finance sector did not make an appearance in 2010. The intensifying of equity deposit requirements for banks per Basel III will however affect credit granted to medium-sized companies in the mid-term. Even today there are signs that large-scale investments are only taking place with intensified credit conditions and prerequisites. Of considerable significance to credit decisions here are the capital resources and profitability of the company.

In 2009 the financial and economic crisis led to many companies recording significant losses and thereby to a considerable increase in insufficient equity cover. As a result, significantly harsher conditions will exist in the coming years in relation to the fiancing requirements of medium-sized companies. In some industries the demand is already increasing again disproportionately. An increased demand for working capital financing and rising demands for prefinance are the logical consequences of the upswing in demand. We assume that customers and suppliers will be unable to meet with these challenges in increasing numbers. We control these risks through intensive management of receivables and the ongoing credit-checking of customers and suppliers. However, we do reckon with a trend towards increasing insolvency in the customer and supplier areas.

Within the framework of securing liquidity particular importance is placed on the insurance of credit. Possible changes in the credit-worthiness of our customers and suppliers may also result in a change of the credit insurance lines and conditions.

Since the financial and economic crisis some of our competitors have exhibited lower equity ratios and more difficult finance structures. The potential financing problems of our competitors offer elexis AG acquisition opportunities.

During the financial year 2010 the elexis Group possessed sufficient overdraft credit lines at all times. The basic policy of the elexis Group is not to conclude credit agreements initially with covenant agreements. The remaining loan for the acquisition financing of HEKUMA GmbH was however based on a covenant agreement, which could not be adhered to per 31 December 2009. Since 2005 repayments amounting to 9.7 million Euro have been made in relation to the acquisition financing of HEKUMA. The outstanding loan recently stood at 2.9 million Euro. Due to the minimal size and in order to improve the finance conditions, and to avoid a renewed breaking of the covenant agreement, the HEKUMA GmbH loan was fully returned on October 29, 2010. In return all securities were released. In relation to further liabilities of HEKUMA GmbH, elexis AG has drawn up guarantee and joint liability declarations and also issued a letter of comfort, which is unlimited in terms of value. The letter of comfort will expire on 31.12.2012. We do not anticipate any utilisation during its period of validity.

### Opportunities and risks of purchasing

The credit-checking of suppliers is increasingly gaining in importance. The considerable increase in demand can result in some companies coming into financial difficulties. It is fundamentally impossible to rule out insolvency. In order to guarantee the planned production and the delivery capability of the elexis Group, the avoidance of dependence as well as the continuous observation of the suppliers is our first priority. In the case of critical supplier parts two sources of supply always exist.

During the previous financial year the procurement of electronic parts was particularly critical. Additionally, due to insolvency an important supplier went into administration, resulting in a delivery bottleneck, which it was possible to partially overcome through the establishement of further supplier sources. It is fundamentally impossible to rule out product liability risks arising from the supply of electronic parts. With constant checks in place strategic quality management actively steers against potential product liability risks.

Opportunities and risks lie equally in the implementation of "make-or-buy" decisions, which can affect the entire added value process and the purchasing procedure.

### Personnel risks

The competition for highly qualified personnel has intensified in those industries in which our company divisions are active. In order to secure and strengthen the appeal of elexis as an employer we are emphasising this through our personnel management activities and we are also striving to maintain specialised and management staff with the Group in the long term. Apart from performance based remuneration and progressive social contributions, we underline the attractive prospects within the elexis Group to our employees. These include the promotion of the dual training system, work possibilities in different Group companies as well as offers for further training.

Personnel changes may be unavoidable within the framework of “make-or-buy” decisions as well as necessary personnel adjustments within the context of cost programmes. Through an open and punctual information policy we involve the employees in the elexis Group with the strategic personnel decisions, in order to act against possible uncertainties on the part of the staff.

We limit risks of personnel fluctuation through appropriate appointments of deputies and early stage succession planning.

### 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. During the financial year 2010 the majority shareholding in P2T Protagon Process Technologies GmbH was also acquired. The remaining goodwill resulting from these acquisitions amounted to 19,7 millionen Euro in the consolidated financial statements as at 31 December 2010 (previous year: 26.2 million Euro).

Depreciation amounting to 6.6 million Euro was applied to the going-concern value of HEKUMA GmbH (22,9 million Euro) on 31 December 2010. HEKUMA GmbH constitutes the division High Precision Automation, the economic development during the financial year 2010 of which is described in the chapter “3.3 Analysis of business development based on key indicators”.

Analysis of business development based on key indicators”. Further details on the writing down of the going-concern value can also be found in chapter “3.4.1 Net asset position”.

Other valuation risks, e.g. from the capitalisation of own assets produced, do not currently exist.

### Legal risks
In 2005 the receiver of Elotherm GmbH, a former subsidiary, started proceedings against elexis AG as the still formal Group parent company in the amount of up to 4.6 million Euro 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 specified in the action due to the lower effective value of the share capital.

elexis AG rejected the claims made against it. After examining the arguments presented and on the basis of an external legal opinion, this case is devoid of any basis. Moreover, the financial statements of Elotherm GmbH and Robotron Inc., USA were each given an unqualified opinion for the years 1999 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 retained by elexis comes to the conclusion 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. An expert opinion in the form of a resolution of proof commissioned by the upper district court in Düsseldorf indicates in part a requirement for downward revaluation, which in the event of a loss would have to be reimbursed by elexis. In the meantime, the expert was requested by the upper district court in Düsseldorf to clarify key complementary questions, which could reduce the result of his conclusion and the amount of the sum being investigated. An expert opinion in relation to the preceding complementary questions came to the conclusion that a partial requirement for downward revaluation may well exist. The expert's basis for this was founded on substantial statements on the market and financial prospects of the automotive and adhesives sectors. These statements were refuted by elexis AG with publically available source. The upper district court in Düsseldorf acknowledged the objections of elexis AG, resulting in a verbal negotiation for the hearing of evidence on 14 December 2010 at which time the expert was required to provide a position on these statements. At this court appointment the court's appointed expert determined a partial requirement for downward revaluation of 1,666,258.00 plus the legal interest per lis pendens. The pronouncement of judgement is set for 20 April 2011.

Following the recommendations of our external lawyers and our legal counsel, we have set up a corresponding provision to cover possible court case risks including the costs of lawyers, court expenses as well as the cost of the opinion. We assume that the provisions made will provide sufficient cover.

Further legal dispute of any significance do not presently exist.

### Risks of losses, interest changes and currency
With regard to the risks of losses, interest changes and currency in the elexis Group please refer to our comments in the notes to the consolidated financial statements.

### Tax risks

The increasing internationalisation of the elexis Group leads to the situation where changes in the general legal tax conditions in particular abroad can have more and more influence on the development of the tax ratio. Changes in tax assessment bases cannot be influenced by us. We counteract the risks related thereto by maintaining close contact with the regional tax advisors and tax authorities. The continuous observation of the legal tax developments is integrated into the international controlling of participations of the elexis Group.

Furthermore, dependent on the financial situation the evaluation and activation of deferred tax assets on tax losses carried forward may have an increasing effect on the tax ratio of the Group and, thus, a negative effect on earnings. With the planned legal restructuring of the company we are actively steering against these risks.

### Technical information risks

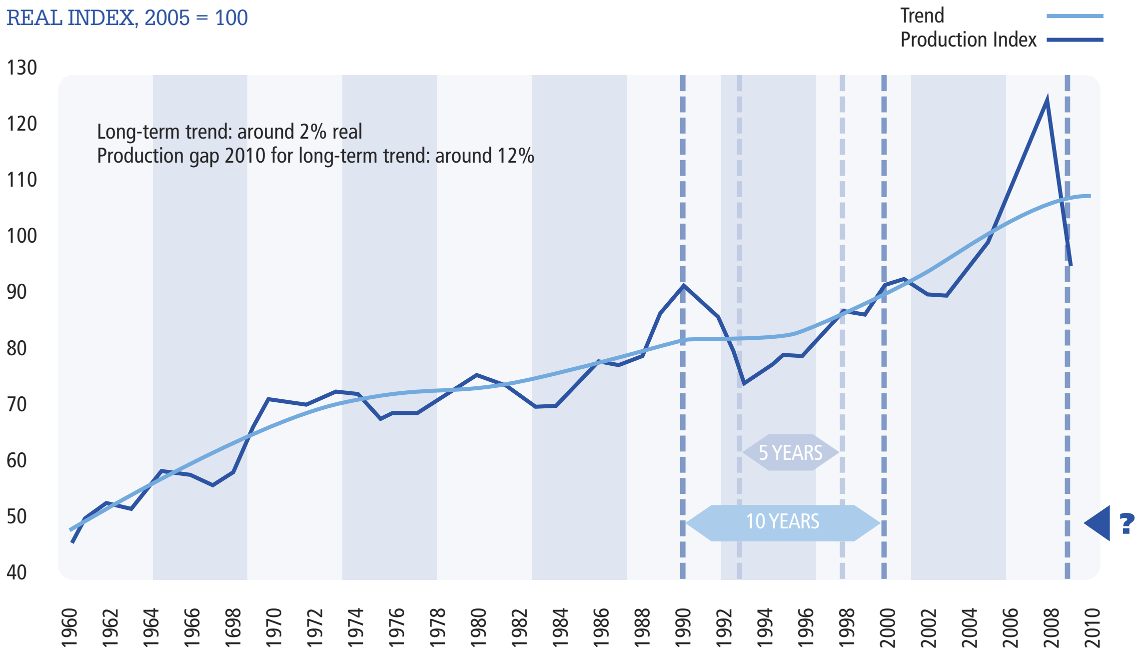
Technical information risks exist as a result of the increasing networking of our in part complex IT systems. We are counteracting these risks through regular reviews as well as through investments in hardware and software. As a result of this review process the introdiction of a new ERP system will be considered during the financial year 2011, through which a considerable reduction in the interfaces will be possible. However, the introduction of a new IT system may bring with it risks in relation to effects on commercial processes or the orderly processing of data.

### Opportunities and risks of overall development

Following the global recession in 2009, the financial year 2010 began with positive expectations. As a consequence of the financial and economic crises there was however an indication towards a sustained shift in the focuses of demand. Already in 2010 the emergent nations were dominating the economic situation. These countries profit from healthy domestic demand, which is based on a desire for consumption and prosperity. Furthermore, in recent years countries such as China and Brazil have presented themselves as important partners and are now standing on the threshold of industrialised nations.

This development offers strongly export-orientated companies in particular – such as the elexis Group – the opportunity to participate in the shift in the focuses of demand, and to actively co-shape the decade of coming economic growth. However, the rapid process of growth and change in the emergent nations also brings with it risks, which will only come into effect with increasing industrialisation and greater prosperity. Thus, economists speak of the possibility of a property crisis in China and an overheating of the financial system right through to inflationary trends.

The financial crisis was also a decisive turning point for the elexis Group. The sales level in 2010 stood at the level witnessed in 2005. This equates to a decline in sales of around 20% in comparison to the boom year of 2008 for elexis. According to evaluations by the VDMA German machinery and plant construction lies around 18% below the sales levels in 2008. It remains questionable as to whether the economic push of the BRIC states will be sufficient to reestablish the sales levels prior to the financial and economic crisis in the short-term. The analysis of past crisis courses shows that ten years pass on average between the start of the crises and the point of rejoining the long-term growth trend once more. With the drop witnessed in 2009 taking place at a speed never seen before this cycle will be shorter than those preceding it, however a return to the sales levels of 2008 will still take time.




Source: Statistisches Bundesamt, VDMA Berechnungen

The current economic mood also indicates increasing growth rates in 2011 and the current economic development therefore brings with it opportunities for commercial development for the elexis Group. The elexis Group, with its international premises in countries including Brazil, India, China, Japan and the USA, has excellent preconditions through which to actively co-shape the shift in the focuses of demand. In order to strengthen the positioning of the elexis Group – above all in Asia – a Business Centre will be opened in Shanghai in 2011, in which all Chinese activities of the elexis Group will be consolidated. In addition to showroom space, sales and distribution to the People's Republic of China will also be housed here. The product division for drive technology, the High Precision Automation division and the newly created P2T Protagon Process Technologies GmbH will be represented here for the first time in China, with a dedicated sales team. Our existing production and service sites in Shanghai and Beijing will remain unaffected by these plans. These measures are a fundamental prerequisite for the participation in future growth markets and for considerably shortening the cycle times following on from a recession phase.

## Overall assessment of the opportunity and risk situation

Due to the inventory of risks, the assessment of their likelihood of occurring and the appraisal of the effectiveness of the measures introduced, the company management is of the opinion that risks that could threaten the continuity of the company are non-existant from the current perspective.

### 3.6.2.2 Forecast industry development

The elexis Group is active in numerous industries. The industry diversification is a fundamental component of the business model, in order to balance economic fluctuations. elexis AG has taken on the challenges of the financial and economic crises and has implemented not only operative measures but also a strategic concentration on the technological core competences. Associated with this was also an opening up of the industry domains. Whilst the elexis Group was aligned with development in the steel, printing and plastics sectors in the past, today the end markets of health, mobility, energy and new consumer and packaging samples are focal.

The mega trend towards **health** in particular offers opportunities within increasingly industrialised Asian. Technical progress and rising quality demands, for example in the form of clean room technology, permit no further manual working process in industrial production in the future. This trend offers an opportunity – in the High Precision Automation division in particular – for increasing internationalisation of the business. Today, this business division already sets the technological standard in medical energineering in relation to quality, speed and reliability.

At the present time it is not possible to fully assess the timeframe and the speed with which the industrialisation of medical engineering will take place in Asia. Herein lie risks for the elexis Group and in particular for the High Precision Automation division, insofar as this would lead to a product sales delay.

**Mobility** stands on the one hand for increasing globalisation of world commerce and on the other for the personal desire for faster movement. The global market leadership of the elexis Group in the product groups quality assurance systems, control technology steel and drive technology brings with it opportunity, in that no mobility-related market trend passess the elexis Group by.

Risks lie in the fact that quality, process assurance and plant safety in the future may have less importance for the buyer in the future, and that a shift in demand could therefore arise to the detriment of elexis products.

The desire for resource conservation and the frugal use of **energy** is a fundamental constituent of our commercial obligations. The elexis Group saves on energy costs through the avoidance of waste within the framework of improved quality controls of the production process. elexis products are also utilisable in the generation of green energy. Furthermore, numerous new products are also under development, which focus on replacing hydraulics and generating additional energy by means of energy recovery. These development activities are the prerequisite for the opportunity to co-shape the energy concepts of the future.

Risks lie in the development process, in the market introduction and in pricing of future products.

**New consumer and packaging samples** shape the image of global consumer behaviour. Whilst creative packaging solutions are standard in industrialised nations, consumer behaviour in the emergent countries is led by the desire to stand at eye-level with the industrialised nations. Control engineering and quality assurance systems are indispensible for both consumer groups. For elexis AG, this provides an opportunity to co-shape the increasing packaging solutions on a global basis. A fundamental prerequisite for this is the existing international sales and service organisation.

Risks lie in a possible price drop for the systems. These risks are being countered through the ongoing value optimisation of elexis products.

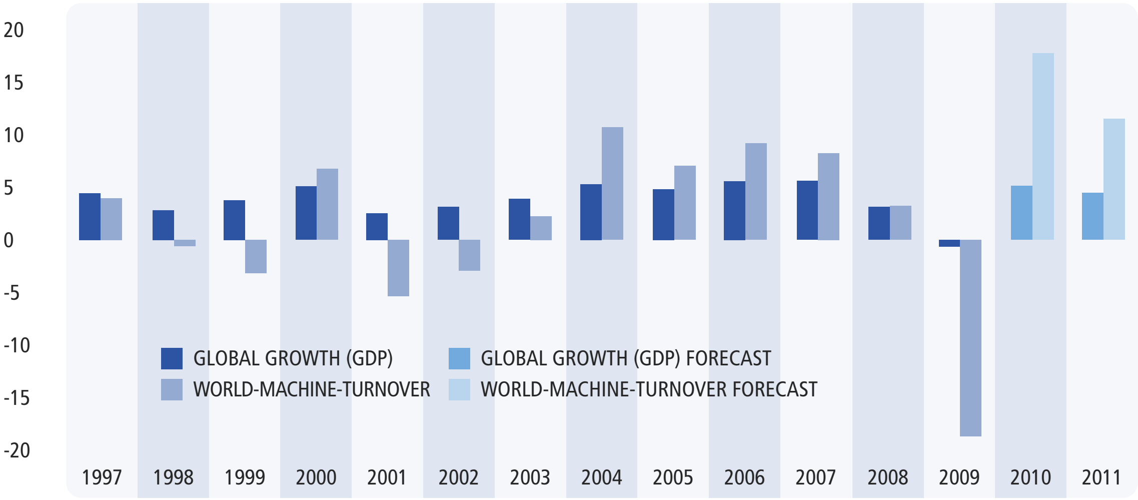
All sales markets have a mutual requirement for improved and optimised industrialised production processes. This is also defined as the mega trend towards **industrial production**. It is the basis for the competence of Germany machinery and plant construction. The machinery construction cycle has been thrown back to the sales levels witnessed in 2005 by the financial and economic crisis. Fundamental to future growth rates is the independent growth dynamic of the emergent nations and the associated demand for goods bearing the seal “Made in Germany”.

Industrial production is the engine for global machinery construction. In the past it has become evident that the growth rates of the global gross domestic product (GDP) and global machinery sales are directly linked. Years of solid global economic growth lead to a requirement for expansions in capacities and thereby to an increase in the global sales of machinery. In contrast, during weak economic years the pressure for cost optimisation dominates, at times even forcing a complete halt to investment. It was in this way that global machinery sales came to an abrupt and dramatic stop in 2009.

Irrespective of the associations within the various industries, the machinery construction cycle develops in the same way as the global economic trend. The forecasts of economists also anticipate growth rates in the financial year 2011, although at a lower level than those witnessed in 2010. Global machinery construction sales will also follow this trend. The prognosis of the VDMA assumes that global machinery sales in 2011 are set to grow by more than 10%. In 2010 growth was reported to have exceeded 15%.

## GLOBAL GDP GROWTH AND WORLD-MACHINE-TURNOVER

**CHANGE RATE COMPARED TO PREVIOUS YEAR, REAL (PERCENT)**




Source: VDMA, IWF Oct. 2010

Economics experts also forecast a continuation of the positive trend throughout the current year. These cycle expectations offer elexis diverse opportunities. Opportunities lie in clear focussing on the markets of "health", "mobility", "new consumption and packaging samples", and "energy". Furthermore, the clear technological positioning and associated short return-on-investment times offer the elexis Group advantages with the presiding market recovery. The anticipated cyclical development also offers the opportunity of actively consolidating the market. This can take place through the existing clear technical positioning, in conjunction with service and international competence. Stable financial equipment is a basic prerequisite here.

Our competitors will also seek the opportunity to undertake market consolidation. Risks exist in this leading to a situation where competitors are trying to influence market shares increasingly through pricing.

### 3.6.2.3 Business strategy and economic outlook

The opportunities and risks of elexis AG can be directly derived from the expectations for the financial development of the respective industries and the existing history of innovation.

**Overall economic and industry development**

In 2011 the heterogenous progress of the global economic cycle is set to continue, although growth in the global economy will weaken again somewhat. As such the Institute for World Economy (IfW) is forecasting that, following on from the phase of recovery from the major recession, a phase of moderate expansion will follow. In 2011 an increase in global production of 3.6% is anticipated, following on from 4.8% in 2010. Industrialised nations are predicted to make a contribution to this with 1.9% growth. With GDP forecasts of +2.3%, Germany will once again occupy a significant economic position.

The BRIC states also remain at the spearhead of the global cycle in the coming year – above all with China and India leading the way. Estimations indicate that China will witness groth of +8.1% in 2011. In India, GDP is set to increase by 7.1%. However, the economic growth will also fall slightly in the emergent nations, although it will continue to be very high despite this. The IfW forecasts economic growth in the emergent nations of around 5.6% in 2011, following on from 8.1% in the previous year.

As a consequence of these economic expectations the VDMA also predicts a reduced rise in incoming orders and therefore also in production within the Germany machinery and plant construction sector during 2011. According to the association's figures, growth should lie at around 10% in comparison to 8.8% in 2010. According to the VDMA, the increase in the predicted growth can be attributed to a back-log of incoming orders from 2010, whilst the financial year 2010 was only able to build upon low order inventories from the previous year. Fundamentally true of the German machinery and plant construction sector is that the production curve at the year end 2010/2011 was already well above the average level for 2010 and that the proportional increases in 2011 will only be moderately apparent.

**Overview of the forecasts for the relevant sectors and regions during the current year 2011:**

| | VDMA | Global economy | Industrialised nations | Germany | Brazil | Russia | India | China |
|---|---|---|---|---|---|---|---|---|
| Increase in GDP | | +3.6% | +1.9% | +2.3% | +4.5% | +4.0% | +7.1% | +8.1% |
| Increase in production | +10% | | | | | | | |

*Source: VDMA; IfW*

### Future company development

The expectations of German machinery and plant constructors in relation to the forecast production growth are based on the considerable increase in order inventories at the end of 2010 in comparison to the previous year. This trend can be seen in various guises in all specialist areas of machinery and plant construction and also applies to the industries and segments of the elexis Group. Depending on the cyclicality of the respective products, the companies of the elexis Group follow the industry developments of the VDMA.

The business division **High Quality Automation** has the greatest significance for the elexis Group. During the financial year 2010 this division made an 86% contribution to the Group sales. The products are impressive due to the customer benefits:

- elexis sees itself as a problem solver for the customer.
- The products in the High Quality Automation division stand for efficiency, quality and innovation.
- Sustainable process assurance reduces production downtimes for our customers.
- Innovations bring customer benefits through improved process sequences.
- Constant monitoring and comprehensive documentation of product quality accompany the complete production process.
- Ongoing production controls reduce waste and contribute to resource and environmental conservation.
- Control engineering and drive technology are indispensible for the safety of personnel and machinery.

During the financial year 2010 a start was made on transferring the existing application knowledge to new markets and industries. A fundamental contribution was made here through the acquisition of a majority shareholding in P2T Protagon Process Technologies GmbH. This was the first step towards the market entry into the converting industry. Further developments for quality testing in the markets of battery production and non-wovens manufacturing, in addition to the existing elexis product portfolio, are presently in work on the basis of Protagon technology. Furthermore, developments right along the production process added value chain of the existing core market – steel manufacturing – are also being intensified and pushed forward. Development risks naturally exist on a constant basis with such highly intense development and with the entry into new markets. It is also impossible to rule out time delays.

The companies in the High Quality Automation division occupy a vital market position or are market leaders in the respective niche markets. This is the result of a high degree of internationality, e.g. through internal sales, production and service premises in Brazil, India, China and Japan.

The aims of the High Quality Automation for 2011 division are the continuation of technological competence and innovative force, the transferral of application knowledge into new markets and an increasingly internationalisation. The establishment of an elexis Business Centre in Shanghai is a fundamental step towards significantly increasing the market presence in Asia. This is the prerequisite for the ongoing profitable growth and stability of the existing financial situation.

In the financial year 2011 we assume that business development will also adhere to the forecasts of the VDMA. In this light we anticipate that the incoming orders and sales will grow and the EBIT margin will remain at the present level as a minimum. We also anticipate a rise in incoming orders and sales in-comes in 2012, with a similarly improved profit situation.

The **High Precision Automation** division stands for the following competences:

- The business division is impressive due to its high precision, speed, reliability and processing of high cavitation counts.
- High precision handling automation has made production processes considerably more efficient and increased quality.
- High precision systems can be used in clean room environments, in order to satisfy the greatest production demands.
- Automation experience is setting new technological standards, from which customers profit with the new introduction of products.

These attributes are the prerequisites for the future success of this business division. However, the focuses of demand for high precision automation technology have thus far primarily originated from the most technically demanding industrialised nations. The emergent countries are exhibiting a certain backlog demand. This predominantly applies to countries such as China, which stands on the threshold of constructing industrial production capacities at an international level. In order to be able to determine the automation standard of emergent countries in the future, the High Precision Automation division utilised the transitional year 2010 in order to develop new modular automation cells for the Chinese market. The High Precision Automation division shall also be represented in the new elexis Group Business Centre in Shanghai and will therefore have its own sales representatives in Asia for the first time.

Furthermore, the market entry into the medical engineering sector is being further pushed. A new system for the automation of petri dishes was already presented at the world's largest plastics trade fair "K 2010" in Düsseldorf. The system has a cycle time of less than 3.7 seconds and as such sets a new global standard. Systems such as this one form the basis for combatting the crowding out in the medical technology sector. High technological competence at a marketable price is inevitable on the market.

The innovative intensity in the field of High Precision Automation is not lost here. Working together with existing core customers, new innovative products continue to be developed and introduced.

In summary it is possible to ascertain that the opportunities of the High Precision Automation division with the new modular product concepts are favourable, given increasing internationalisation. In conjunction with close ties with core customers and an intensified market entry into medical engineering, this provides the best pre conditions for the planned turnaround.

With the measures mentioned above the path has been set for the High Precision Automation division for a profitable year in 2011. Income fluctuations may occur due to the delay in investment decisions. In order to counter possible liquidity risks the liquidity situation of the High Precision Automation division is controlled by elexis AG. The incoming order level attained in 2010, amounting to 24,8 million Euro, constitutes the basis for a profitable first half year in 2011.

We assume that sales figures will moderately exceed the break-even level and that a positive EBIT will result. During the financial year 2012 we anticipate that sales activities in the medical engineering sector and in China will lead to a considerable increase in sales and income.

**Service activities** are a component of the elementary range on offer from elexis AG. In almost all projects the company sees itself not only as a developer and a supplier but also a solver of problems and places the highest priority on the use to the customer. The customers will also in future benefit from the fact that they will be provided comprehensive customer training and technical support services in addition to the process analysis, the commissioning and the delivery of turnkey equipment.

Currently it is thus expected that the service activities for the maintenance and repair of existing equipment will continue to grow. Our service activities are naturally on offer both internationally and in the native language. In this way we differentiate from our competitors.

**elexis AG** has occupied an international position for many years and this is a distinct competitive advantage. In light of this situation the current shift in the focuses of demand bring no new challenge to the companies of the elexis Group. elexis is able to trust in product competence and innovative force and also offers the appropriate product for the upcoming demand on a national basis. Industrial production is the trend that is set to last. With the development of a new Business Centre in Shanghai, the elexis Group will position itself as a company Group in Asia for the future.

### Consolidated statement on the forecast development of the elexis Group *

| Figures in million € | High Quality Automation | High Precision Automation | elexis Group |
|---|---|---|---|
| Incoming orders 2010 | 125.9 | 24.8 | 150.7 |
| Incoming orders 2011 | ++ | + | ++ |
| Incoming orders 2012 | + | ++ | ++ |
| Sales 2010 | 118.0 | 18.7 | 136.7 |
| Sales 2011 | ++ | ++ | ++ |
| Sales 2012 | + | ++ | + |
| EBIT margin 2010 in % | 13.5 | -52.4 | 2.9 |
| EBIT margin 2011 | + | ++ | > 10% |
| EBIT margin 2012 | + | + | + |

** Tendency or anticipated trend in comparison to respective previous year: -/+ light to moderate; --/++ perceptible; ---/+++ clear*

Our prognosis regarding the predicted development of the elexis Group is based on the following assumptions:

**Employee figures: Moderate increase planned.** Due to the planned growth the number of personnel will increase moderately in the next two years. New positions will be created in all company divisions. Particular focus here will be placed on strengthening our international locations.

**Material investments at the level of depreciation.** With respect to the existing investment strategy no changes or large investment plans are scheduled during the next two financial years. In this regard we refer to our statements on investment policy as detailed under chapter 3.2.5.

**Procurement markets in transition.** In the future we also anticipate mixed and volatile movements in the procurement markets relevant to us. Our strategic purchasing is active on the international procurement markets. In this light we do not expect any substantial changes to our purchasing policy.

**Sound balance sheet ratios and assured liquidity.** Financing and liquidity also have a solid basis in the coming financial years. Increases in growth and efficiency will have positive effects on our cashflow. All investment plans currently scheduled can be assured by means of existing funds. In the event of possible acquisitions we shall select a balanced financing structure comprising equity and borrowed funds, based on the individual case. The ongoing requirement for funds is sufficiently covered by the existing net liquidity and free credit lines.

**Tax ratio remains constant.** The legal corporate restructuring within the elexis Group will lead to latent tax demands being utilisable for the entire elexis Group in the future. To date these demands were limited to the development of the earnings situation in the High Precision Automation division. Positive tax effects were accounted for on a one-off basis in the financial year 2010. In the financial years 2011 and 2012 we are planning a constant tax ratio of around 30%.

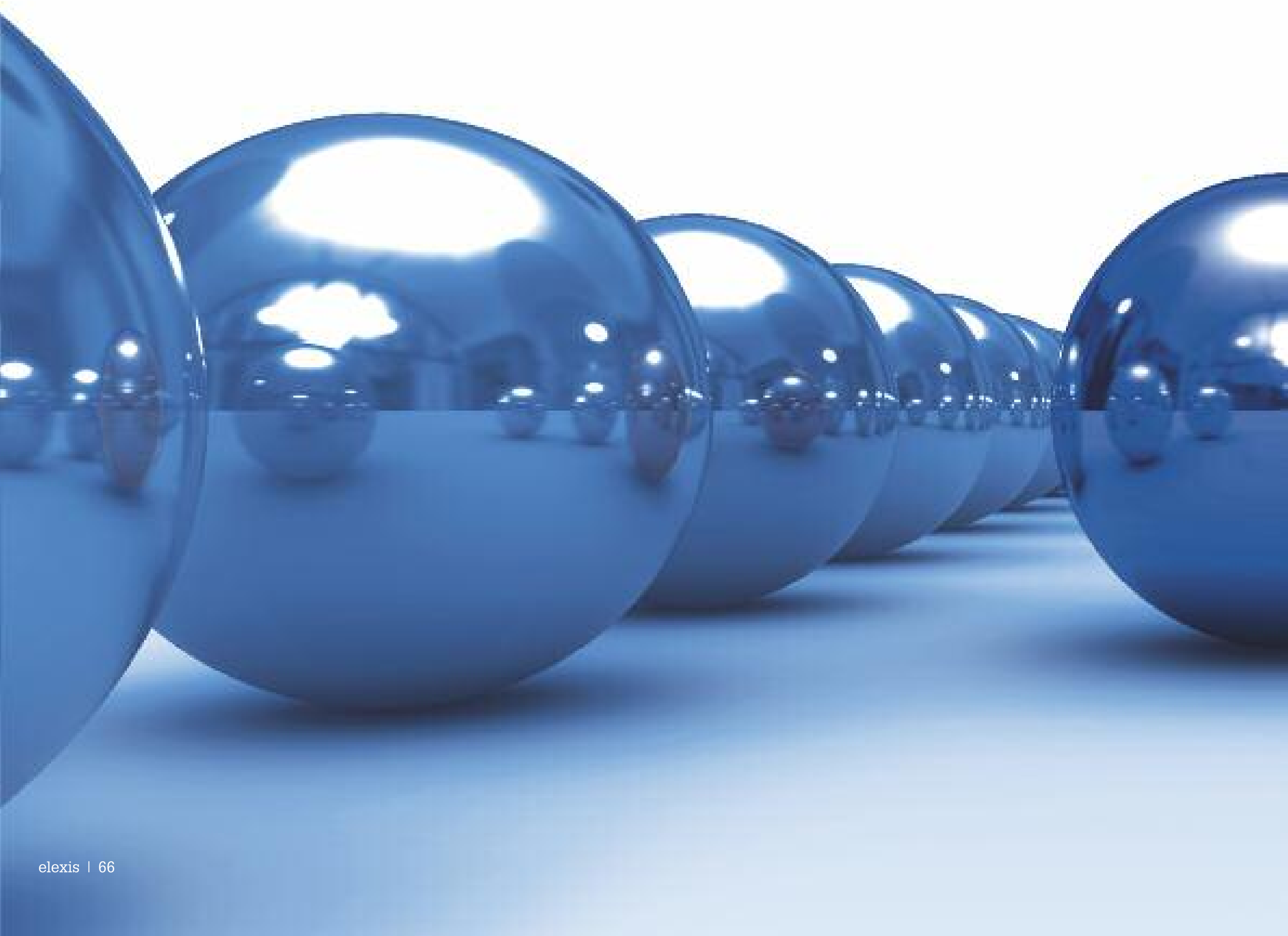
**Appropriate Dividends.** The dividend payment is primarily aligned with the operative development of the elexis Group. During the financial year 2010 one-off, non-operative exceptional items influenced the measurement foundations. The board and supervisory board recommend to the shareholder's meeting that these exceptional items be balanced by voting on a payout ratio of 50% related to the Group's annual surplus after the deduction of minority interests but before the exceptional items.

The prognosis takes into consideration all results known at the time of the balance sheet, which may influence the commercial development of the elexis Group.

*Note that differences may appear in the tables and summaries provided in the management report due to commercial rounding and percentages.*

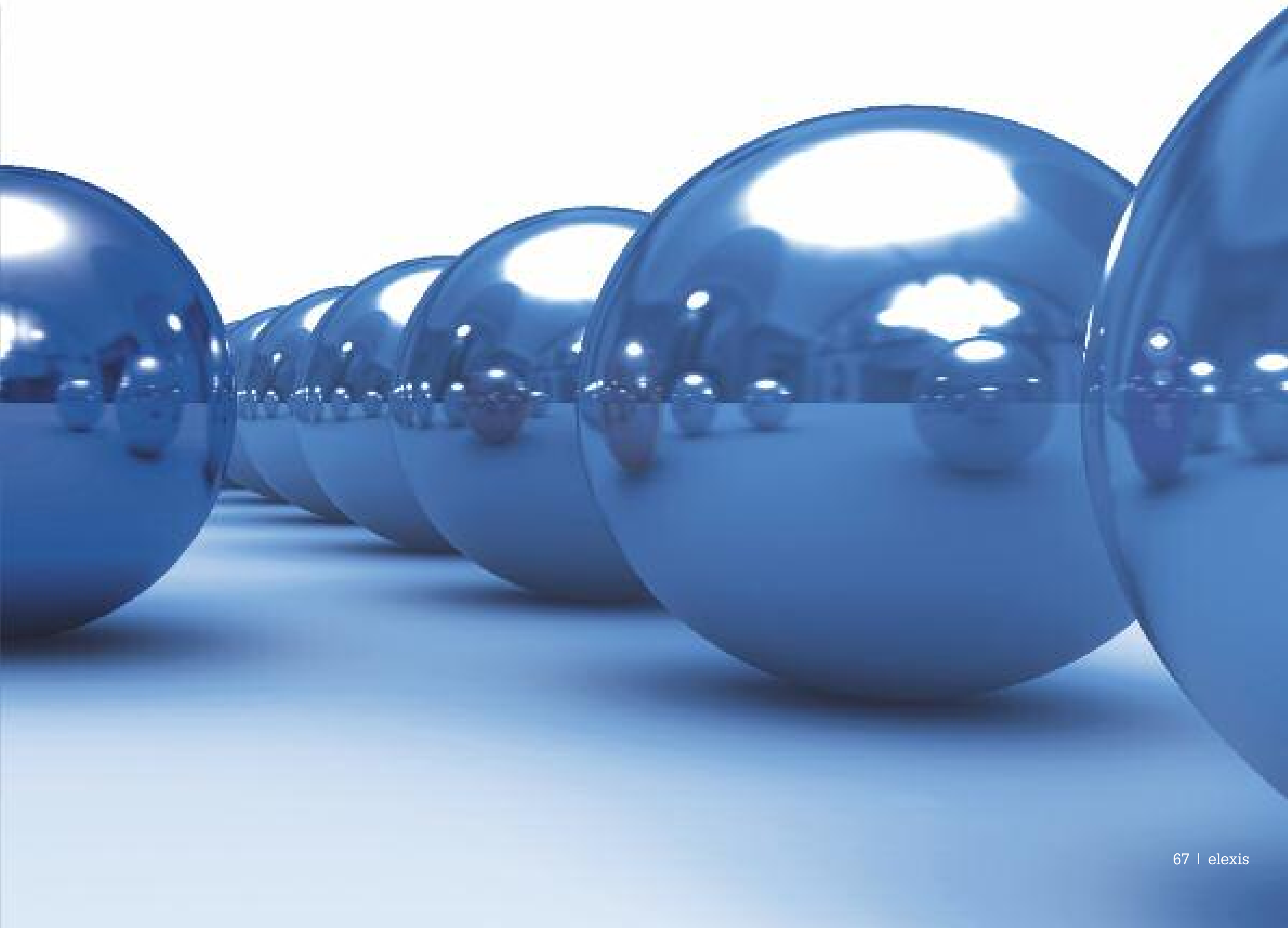
# World leaders in technology with an international presence.

Taking the lead globally - through local expertise.



elexis is a world leader in factory automation, drive technology and quality control.

The reasons for this success are in our sensitive approach to regional market conditions and the individual expertise of our local subsidiaries / partner companies and managers.



# Decentralized leadership drives global success.

# Interview with the Management Board

The financial market crisis presents a turning point for global economic development. Following on from national governments, note-issuing banks and companies themselves – by means of logical packages of measures – succeeding in somewhat softening the crisis in 2009, it is clearly apparent in 2010 that: The crisis has led to a definitive shift in the focuses of demand.

Economists also speak of the emergent nations and above all the BRIC states becoming the engine of the global economy in the future. The way in which elexis AG is dealing with these challenges is explained by the board members Siegfried Koepp and Edgar Michael Schäfer in an interview.

**Mr Koepp, in the media the BRIC states are constantly being described as the future drivers of global economic growth. To what do you personally attribute this appraisal?**

In order to answer this question it is first necessary to consider the global economy. In the past the industrialised nations shaped the global economy through constant technological progress accompanied by a stable financial market. The globalisation of the markets led to a further growth spurt. The financial and economic crisis interrupted this development and the industrialised nations have not been able to link back up with the climate preceding the crisis. The reasons for this are numerous. Fundamental aspects here certainly include a certain degree of consumer stagnation – triggered by the persistant uncertainty of the financial markets – as well as high unemployment in some areas across the various countries. In contrast to this, the emergent nations paint a very different picture. Above all the BRIC states exhibit healthy domestic demand, regionally independent financing systems and often high raw materials reserves. The BRIC states are growing to become increasingly attractive commercial partners. At the same time their desire for consumption and prosperity is growing. Finally, the domestic market size results in a considerable backlog in consumption and the emergent nations are therefore becoming the drivers of future economic growth. However, one must naturally not underestimate the development of industrialised nations. Current themes such as resource preservation, energy conservation and new challenges in the health industry will demand new technological solutions in the future. However, the growth imputeses will not be able to come from these sectors in the short term.

**What significance do the emergent nations have for the elexis Group?**

The BRIC states are highly relevant to us. We have been active in Brazil since 1977 with EMH, and in 2009 we acquired the minority shareholding from our co-partner within the framework of succession planning. In 1993 we established our first site in India with BST Sayona. This was followed in 2009 by

EMG India. 2004 brought with it the opening of our representative office in Moscow. During 2006 and 2007 we were able to expand our commitment to the Asian region with BST Shanghai and EMG Beijing in China. Our international structure makes a fundamental contribution to our success. We currently generate around 30 percent of our direct and indirect sales through the BRIC countries.

**You state that you have been active on the international global markets since 1977. What challenges have you faced on the path to internationalisation?**

Above all, it demands staying power. It is not the case that the establishment of a foreign company brings with it success as a matter of course. This is often preceded by intense development and sales work. I will give you an example. We started with EMH in 1977 with an annual turnover of 298 T€. At that time this was a great success to us. Today we are looking at a turnover of 8.4 million Euro. In 2008 we invested in the expansion of our production halls. Today we are already bursting at the seams again. Why is this the case? It's obvious: Because we are perceived in Brazil as being a Brazilian company and not as the "Germans". Incidentally, this applies to all of our foreign premises. A decentralised management principle through national management is one of our fundamental factors for success in internationalisation.

**So participation controlling and cultural understanding play a fundamental role in dealing with foreign subsidiary companies. Mr Schäfer, how do you steer such participation controlling through your position as finance director?**

Controlling always depends primarily on fair and open communication. It is naturally the case that some controlling instruments, that we in Germany consider to be a matter of course, are difficult to put into practice abroad. Something that helps tremendously here is the uniform standard that applies across the whole company Group, as well as the transparent and comprehensible processes. Furthermore, in our opinion controlling always has a personal tone. It is important to us that the participating persons know one another. As such my employees in participation controlling regularly utilise the opportunity to be on location abroad. Mr Koepp and I visit our subsidiaries on location at least once yearly. This is also everyday intercultural competence.

**Please explain from your own perspective how you deal with the cultural differences between the individual countries when acting internationally.**

This question cannot be answered in general terms. Every country has its peculiarities and cultural differences therefore play a decisive role. We are able to experience just how important authenticity and respect are on both sides. These attitudes build bridges, through which to overcome any points of cultural conflict that may arise. It is also interesting in this context to discover how we are perceived by our subsidiary companies. We are forced in this regard to ascertain that we are indeed typically German: Organisation, processes, quality and technology are the terms that we often hear spoken. The different handling of technology catches the eye in particular. We continue to produce technology "Made in Germany" and the conditions and processes of foriegn countries do sometimes fall short of our standards. In Brazil for example we still have processing lines in use in production, whilst autonomous production has been the manufacturing standard here in Germany for 6 years now. That will be one of our upcoming projects: To establish our continuous improvement process abroad too.

**Mr Koepp, I would like to touch once more on a statement made by Mr Schäfer – that the technological standard sometimes falls short of conventional requirements. Do you think that the elexis Group has the right technologies and products in its portfolios for the target emerging markets?**

I explained at the start of our discussion why the emergent nations are growing in economic significance in our opinion. When it comes to the increasing industrialisation of production and the desire for greater consumption and prosperity, the products of the elexis Group are indispensible. In the emerging markets too, there is a desire to use babies nappies nationwide for example. Without elexis control technology and quality assurance these consumers cannot be satisfied. In other words a clear "Yes", we do have the right products in our portfolio. This is the result of our long-term strategic alignment with the global mega trends, in conjunction with the question as to where the consul do however concede: We must get new challenges into perspective. On the one hand these are the different pricing levels in the emergent nations and on the other naturally the product expansion into new markets and industries. In the past we have expanded our industry focus in light of this situation. Furthermore, regionally specific product developments with the associated local added value are also close to market introduction. We consider ourselves currently as a leading automation specialist across the spectrum of running conveyor belts, i.e. for all production lines with flat materials. Our product spectrum also encompasses handling automation for the injection moulding sector.

**Can the acquisition of a majority shareholding in P2T Protagon Process Technologies GmbH also be categorised here? Which new target markets do you have your eye on with the acquired technologies and to what extent has integration taken place thus far?**

That is correct. With the acquisition of the majority shareholding in Protagon GmbH we acquired technological competence that will enable us to access new markets. Protagon has products including sensors for measuring weight per unit area, layer thickness, moisture and glossiness. In some cases infrared and x-ray sensors are used for this. We see valuable synergies in this technology, in the development of new products for our core markets. Furthermore, this sensor technology enables us to access the refinement market, the so-called converting industry. In general terms Protagon also has its own product portfolio, which has not yet been internationally marketed. We have integrated Protagon products into our international sales network and began with sales work in the second half of 2010. At the present time I would say that the integration has started much vigour and pleasure, and that it can thus far be seen as truly successful.

**Protagon technology is set to be marketed on an international basis by the elexis Group. Are you planning special activities in this context in the BRIC states in 2011?**

It is not only Protagon technologies that will be given additional international impetus. We are also set to considerably intensify our activities in the drive technology and High Precision Automation divisions in China during 2011. We all known that China is presently undergoing rapid development from an emergent nation into an industrialised region. Already today we recognise the increasing importance of plant construction in China. We are reckoning with a relocation of the structure of OEMs currently located in Europe to China. A greater degree of automation will automatically accompany this development. We therefore open up entirely new market prospects for ourselves in the field of High Precision Automation because we are actively embarking on an innovation offensive in China at the start of 2011.

**Are organisational alignments planned within your foreign companies in this regard?**

We are not planning organisational changes to our foreign sites. However, we do wish to strengthen our presence in China as a Group. For this purpose we will build a Business Centre in Shanghai, which consolidates all the sales and service activities of our Group. For the first time in elexis history our customers will receive all elexis products at a glance in one showroom.

**Mr Schäfer, the development of the elexis Business Centre in Shanghai will require further qualified personnel in China. How will you go about seeking these personnel?**

As Mr Koepp previously explained, we place all of our faith abroad in local personnel. In China in particular we already have a well practiced, excellent management team at EMG Beijing and BST Shanghai. When it comes to the searching process we have enjoyed good experiences with a number of recruitment companies. We naturally only decide on the appointment of personnel in agreement with our local team. This means that the managers of the respective organisations will be closely involved in the search for new personnel. The technical requirements naturally come from the respective board. Before a final decision is made, Mr Koepp and I gain a personal picture from the key individuals. This process has proven itself over many years.

**We have spoken much of the opportunities of foreign business. Now let us come to the risks that are associated with intensifying activities of the elexis Group in the BRIC states.**

The development of an international structure is always also associated with risks. However, we enjoy a decisive advantage: We have experience in the purchase, establishment and possible sale of companies abroad. Furthermore, we have a broad network of partners that we are able to draw upon in the event of specific questions. However, it is fundamentally clear that the framework conditions for planning are far more difficult than they are in Germany. For example, in China there is the opportunity to establish companies in a tax-exemption zone. However, in 2009 we were forced to acknowledge just how fast such tax exemption can be lost. Legal uncertainty that does not exist in Germany. And that is just one example of the financial risk that is now an inherent part of our operative business and that we have firmly under control. We place particular importance on keeping our core knowledge on the products – above in the emergent nations – confidential. We cannot prevent our products from being dismantled in Asia and copied illegally, but we can ensure that none of the key technologies are available in Asia. However, the risk of copying can never be entirely avoided.

**If you continue to produce the key technologies in Germany then can one see this as a clear statement with regards to the site in Germany?**

Absolutely! Our products are "Made in Germany". This will remain the case in the future. A prerequisite for this is of course that production comes at competitive prices. In order to guarantee this we constantly question our production processes, seek optimisation potentials and depend on flexibility when steering our capacities. Furthermore, forward-looking development is a component of the success factors at the German site. I am fully convinced that we are on the right path here.

**In concluding our discussion: Mr Koepp, if you glance at the upcoming year and beyond it: Where do you see your greatest competitive advantage? How does elexis wish to position itself in the future?**

We are an indispensible and competent partner for our customers. This is our decisive competitive advantage. Our customers are never alone with their challenges and problems. We develop products in close cooperation with our customers, in line with their needs. Furthermore, we can be reached by our customers with service questions around the globe. Partnership is underlined by us. We will continue on this mutual path in the future. The existing internationality of the elexis Group aids an active co-shaping of the shift in demand focuses. We also wish to position ourselves in the future as a market leader within our niche markets. For this reason innovation and technological leadership are indispensible. "Vision for Automation" is our motto and it is through this that we will overcome future technological challenges.

Mr Koepp, Mr Schäfer, I would like to thank you for the detailed discussion.

The interview was conducted by Susan Hoffmeister of Crossalliance.


EMH
1977
CAPACIDADE

„The continuous pursuit of identifying new products and opportunities is certainly a great challenge. In this direct, a growing market such as Brazil, presents interesting possibilities. In Brazil, historically, the mass production of certain commodities was the basis for economic activities and, in particular, iron mining has been outstanding in recent years.

The production of iron ore is characterised by the need for a great movement of solid bulk, which is achieved with the use of conveyor belts. In terms of volume and working speed, the "belt" is very significant for costs in mining processes. Therefore, the control of the alignment of these belts in the conveyors is directly related to their useful lives making them extremely desirable.

During this period, EMH is in the process of developing and releasing "Intelligent Aligners for Conveyor Belts", with technological support from EMG."

EMH, Nilo Correa

"German engineering sets international standards and is truly admirable. Germans adhere to very structured business processes which therefore reduce the scope of flexibility from standard operating procedures. The business environment in India is more dynamic and less structured. Customer prirorities keep changing and therefore we need to adapt accordingly. However, over a period of time marked adjustments from our counterparts in Germany have been observed, which are well suited to the Indian style of working. Ultimately, both cultures have complemented each other for common business success."

EMG India, Bikash Kumar

„Our experience about operating culture within the elexis group has been wonderful and highly satisfying. We have cherished the professional interactions with the management team of EMG & BST since past 16yrs.  We look forward to make this bonding stronger in coming years."

BST Sayona, Tapan Patel


BST
Shanghai
比勒(上海)自动化技术有限公司
中国区总部

„In Germany the decision-making process can be somewhat long, but once the decision is taken, implementation is almost immediate. In China, the process is reversed - quick decisions, but lengthy implementation."

BST Shanghai, Jeff Xia

„German people are very efficient in their work. Whatever they do, they always make a plan ahead of time. Every task could always be arranged in perfect order from start to finish. In the past the working efficiency of Chinese people has been lower compared to the time spent. This is because there are many uncertain factors in their actual implementation even when a strict plan is available. This has really impressed me.
But now it is getting better than before. China is developing rapidly and we need to learn more from Germany in many aspects."

EMG Beijing, Qin Bao


EMG

„The companies complement each other enormously while investing in, relying on and making best use of human differences: on a daily basis we use merge our Italian fantasy and flexibility (the "pizza and mandolino") with our German colleagues' high know how and strong method (the "processes") ... once again the result here as proof - a supplier's best solution for customers or users."

BST Italia, Paolo Tamburrini

„Working with a German company is a guarantee of being able to offer innovative and high-quality products and services to the market. Naturally, the opinions and methods differ between French and German cultures, but elexis AG has full confidence in the local subsidiaries and does not try to impress the German pattern of action on foreign customers and partners. The guiding principle of the elexis board "to respect differences" is embodied in our day-to-day business."

Martin Betting, BST France

„We have a positive reputation for supplying quality products that work. We are also seen as a valuable partner in applications and helping our customers solve problems and save money. Our companies will design and help the customer implement a solution, which is far superior to just selling a product.

There is quite a bit of global collaboration, with sales meetings, service and technical trainings and regular contact by phone and email. Many of our customers are global as well, so we are constantly sharing information among the subsidiaries."

BST Pro Mark, Robert MacKay


CERTIFICATE
EMC

„My initial impression of EMG from my first meeting back in 1999, as then a competitor, has not changed. I was very impressed with what I would summarize with one word as, QUALITY. EMG not only produced the highest quality products, but also had a very high level quality organization to support their products. This eventually convinced me to become part of the EMG team. A common English slang verse known here in USA states, "If you can't beat them, then join them", and that was what I did in year 2001."

EMG USA, Steve Devorich

„My impressions about typical German companies are well organized, detail oriented, innovative and technologically advanced. And, German workers are devoted to their jobs and strict sometimes, but also very friendly, polite and kind. I do feel that our group of companies in the different regions respect each other's cultures well, and cooperate and support each other."

BST Japan, Kaz Ueda

# 4. Consolidated financial statements as at 31 December 2010

## 4.1. Consolidated statement of comprehensive income

| | 2010 | | 2009 | | |
|---|---|---|---|---|---|
| | in €k | % | in €k | % | Notes |
| **Sales** | **136,725** | **100.0** | **126,982** | **100.0** | (1) |
| Cost of goods sold | -88,651 | -64.8 | -83,720 | -65.9 | (2) |
| **Gross profit** | **48,074** | **35.2** | **43,262** | **34.1** | |
| Selling expenses | -28,510 | -20.9 | -29,348 | -23.1 | (3) |
| Administrative expenses | -9,119 | -6.7 | -8,201 | -6.5 | (4) |
| Other operating income | 3,250 | 2.4 | 2,826 | 2.2 | (5) |
| Other operating expenses | -3,139 | -2.3 | -3,155 | -2.5 | (6) |
| **Operating result before Goodwill Impairment** | **10,556** | **7.7** | **5,384** | **4.2** | |
| Goodwill Impairment | -6,550 | -4.8 | - | - | (14) |
| **Operating result (EBIT)** | **4,006** | **2.9** | **5,384** | **4.2** | |
| Financial expenses | -1,862 | -1.4 | -1,696 | -1.3 | |
| Financial income | 859 | 0.6 | 845 | 0.7 | |
| **Financial result** | **-1,003** | **-0.7** | **-851** | **-0.7** | (7) |
| **Result before taxes** | **3,003** | **2.2** | **4,533** | **3.6** | |
| Taxes on income | 25 | 0.0 | -2,474 | -1.9 | (8) |
| **Consolidates net income** | **3,028** | **2.2** | **2,059** | **1.6** | |
| Foreign exchange differences stated in shareholders´equity | 789 | 0.6 | 316 | 0.2 | (25) |
| Changes from hedging transactions stated in shareholders´equity | - | - | 75 | 0.1 | (25) |
| Actuarial profits / (losses) from performance-based benefit plans and similar obligations | -514 | -0.4 | -817 | -0.6 | (25) |
| Deferred taxes on valuation changes set-off directly with shareholders´equity | 155 | 0.1 | 244 | 0.2 | (25) |
| **Valuation changes stated directly in shareholders´equity** | **430** | **0.3** | **-182** | **-0.1** | |
| **Total result for the period** | **3,458** | **2.5** | **1,877** | **1.5** | |
| **Share in consolidates net income** | | | | | |
| **- of the shareholders of elexis AG** | **2,237** | **1.6** | **1,710** | **1.3** | |
| - of the minority interests | 791 | 0.6 | 349 | 0.3 | (9) |
| **Share in total result for the period** | | | | | |
| **- of the shareholders of elexis AG** | 2,483 | 1.8 | 1,578 | 1.2 | |
| - of the minority interests | 975 | 0.7 | 299 | 0.2 | (9) |
| **Earnings per share (€)** | | | | | (13) |
| From continuing operations undiluted / diluted | 0.24 | | 0.19 | | |
| Dividend per share (€) [2010 proposal / 2009 – paid] | 0.37 | | 0.17 | | |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

## 4.2. Consolidated statement of financial positions

| ASSETS | 31.12.2010 | | 31.12.2009 | | |
|---|---|---|---|---|---|
| | in €k | % | in €k | % | Notes |
| **Long-term assets** | **53,430** | **40.4** | **54,738** | **42.3** | |
| Goodwill | 19,669 | 14.9 | 26,202 | 20.2 | (14) |
| Other intangible assets | 4,420 | 3.3 | 2,981 | 2.3 | (14) |
| Property, plant and equipment | 18,137 | 13.7 | 18,809 | 14.6 | (15) |
| Financial participations | 2,783 | 2.1 | 2,783 | 2.1 | (16) |
| Long-term receivables and other assets | 1,654 | 1.3 | 1,640 | 1.3 | (17) |
| Deferred taxes | 6,767 | 5.1 | 2,323 | 1.8 | (8) |
| **Current assets** | **79,007** | **59.6** | **74,830** | **57.6** | |
| Inventories | 23,102 | 17.4 | 19,733 | 15.2 | (18) |
| Receivables from long-term construction contracts | 1,741 | 1.3 | 824 | 0.6 | (19) |
| Trade receivables | 20,999 | 15.9 | 23,470 | 18.1 | (20) |
| Receivables from taxes on income | 247 | 0.2 | 936 | 0.7 | (21) |
| Other short-term receivables and other assets | 1,224 | 0.9 | 1,594 | 1.2 | (22) |
| Short-term investments | - | - | 2,000 | 1.5 | (23) |
| Cash and cash equivalents | 31,694 | 23.9 | 26,273 | 20.3 | (24) |
| **Long-term assets held for sale** | **-** | **-** | **87** | **0.1** | (15) |
| **Total assets** | **132,437** | **100.0** | **129,655** | **100.0** | |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

| LIABILITIES | 31.12.2010 | | 31.12.2009 | | |
|---|---|---|---|---|---|
| | in €k | % | in €k | % | Notes |
| **Shareholders´equity** | **69,088** | **52.2** | **66,874** | **51.6** | |
| **Share in shareholder´s equity allocable to the shareholders** | **66,205** | **50.0** | **65,286** | **50.4** | |
| Capital subscribed | 23,552 | 17.8 | 23,552 | 18.2 | (25) |
| Capital reserve | 3,555 | 2.7 | 3,555 | 2.7 | (25) |
| Retained earnings | 37,183 | 28.1 | 36,869 | 28.5 | (25) |
| Other reserves | 1,915 | 1.4 | 1,310 | 1.0 | (25) |
| **Minority interests** | **2,883** | **2.2** | **1,588** | **1.2** | (25) |
| **Liabilities** | **63,349** | **47.8** | **62,781** | **48.4** | |
| **Long-term liabilities** | **19,569** | **14.8** | **21,964** | **16.9** | |
| Provisions for pensions and similar obligations | 8,558 | 6.5 | 8,359 | 6.4 | (26) |
| Other long-term provisions | 2,880 | 2.2 | 3,522 | 2.7 | (27) |
| Deferred taxes | 1,156 | 0.9 | 246 | 0.2 | (8) |
| Financial liabilities | 6,920 | 5.2 | 9,749 | 7.5 | (28) |
| Other liabilities | 55 | - | 88 | 0.1 | (30) |
| **Current liabilities** | **43,780** | **33.0** | **40,817** | **31.5** | |
| Other short-term provisions | 4,411 | 3.3 | 3,230 | 2.5 | (27) |
| Tax liabilities | 135 | 0.1 | 1,848 | 1.4 | (27) |
| Financial liabilities | 13,771 | 10.4 | 16,158 | 12.5 | (28) |
| Trade payables | 9,798 | 7.4 | 7,797 | 6.0 | (29) |
| Liabilities from lang-term construction contracts | 1,179 | 0.9 | 118 | 0.1 | (19) |
| Other liabilities | 14,486 | 10.9 | 11,666 | 9.0 | (30) |
| **Total liabilities** | **132,437** | **100.0** | **129,655** | **100.0** | |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

## 4.3. Consolidated statement of changes in equity

| in T€ | Capital subscribed | Capital reserve | Retained earnings | Other reserves: Differences arising from currency conversion | Other reserves: Cashflow Hedges | Share of shareholders' equity allocable to shareholders | Minority interests | Consolidated shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| **As at 01.01.2009 reported** | **23,552** | **3,555** | **41,245** | **951** | **- 75** | **69,228** | **2,401** | **71,629** |
| **Initial consolidation of BST Shanghai** | **-** | **-** | **120** | **-** | **-** | **120** | **-** | **120** |
| **As at 01.01.2009 restated** | **23,552** | **3,555** | **41,365** | **951** | **- 75** | **69,348** | **2,401** | **71,749** |
| **Consolidated net income** | **-** | **-** | **1,710** | **-** | **-** | **1,710** | **349** | **2,059** |
| ***Valuation changes stated directly in shareholders' equity*** | | | | | | | | |
| Foreign currency differences | - | - | 7 | 359 | - | 366 | -50 | 316 |
| Hedging transactions | - | - | - | - | 75 | 75 | - | 75 |
| Actuarial profits / (losses) from performance-based benefit plans and similar obligations | - | - | -573 | - | - | -573 | - | -573 |
| **Total of valuation changes stated directly in shareholders' equity** | **-** | **-** | **-566** | **359** | **75** | **-132** | **-50** | **-182** |
| ***Transactions with shareholders*** | | | | | | | | |
| Acquistion of shares in EMH | - | - | -1,224 | - | - | -1,224 | -546 | -1,770 |
| Dividend distributions | - | - | -4,416 | - | - | -4,416 | - | -4,416 |
| Distributions to minorities | - | - | - | - | - | - | -566 | -566 |
| **Total transactions with shareholders** | **-** | **-** | **-5,640** | **-** | **-** | **-5,640** | **-1,112** | **-6,752** |
| ***Change 2009*** | ***-*** | ***-*** | ***-4,496*** | ***359*** | ***75*** | ***-4,062*** | ***-813*** | ***-4,875*** |
| **As at 01.01.2010 reported** | **23,552** | **3,555** | **36,620** | **1,322** | **-** | **65,049** | **1,588** | **66,637** |
| **consolidation of BST Shanghai** | **-** | **-** | **249** | **-12** | **-** | **237** | **-** | **237** |
| **As at 01.01.2010 restated** | **23,552** | **3,555** | **36,869** | **1,310** | **-** | **65,286** | **1,588** | **66,874** |
| **Initial consolidated net income** | **-** | **-** | **2,237** | **-** | **-** | **2,237** | **791** | **3,028** |
| ***Valuation changes stated directly in shareholders' equity*** | | | | | | | | |
| Foreign currency differences | - | - | - | 605 | - | 605 | 184 | 789 |
| Hedging transactions | - | - | - | - | - | - | - | - |
| Actuarial profits / (losses) from performance-based benefit plans and similar obligations | - | - | -359 | - | - | -359 | - | -359 |
| **Total of valuation changes stated directly in shareholders' equity** | - | - | - 359 | 605 | - | 246 | 184 | 430 |
| ***Transactions with shareholders*** | | | | | | | | |
| Purchase Protagon | - | - | - | - | - | - | 639 | 639 |
| Dividend distributions | - | - | -1,564 | - | - | -1,564 | - | -1,564 |
| Distributions to minorities | - | - | - | - | - | - | -319 | -319 |
| **Total transactions with shareholders** | **-** | **-** | **-1,564** | **-** | **-** | **-1,564** | **320** | **-1,244** |
| ***Change 2010*** | ***-*** | ***-*** | ***314*** | ***605*** | ***-*** | ***919*** | ***1,295*** | ***2,214*** |
| **As at 31.12.2010** | **23,552** | **3,555** | **37,183** | **1,915** | **-** | **66,205** | **2,883** | **69,088** |

## 4.4. Consolidated cash flow statement

| | 2010 | 2009 | |
|---|---|---|---|
| | in €k | in €k | Notes |
| **EBIT** | **+4,006** | **+5,384** | |
| Amortisation of other intangible assets | +7,810 | +885 | |
| Depreciation of property, plant and equipment | +2,593 | +2,757 | |
| Decrease (2010) / Increase (2009) in long-term provisions | -682 | +224 | |
| Increase (2010) / Decrease (2009) in value adjustments | +177 | -170 | |
| Profit from disposal of fixed assets | -20 | -85 | |
| Other non-cash effects | -172 | -71 | (31) |
| **Cash Earnings** | **+13,712** | **+8,924** | |
| Increase (2010) / Decrease (2009) in inventories | -2,781 | +5,768 | |
| Decrease (2010) / Decrease (2009) in receivables and other assets | +3,299 | +4,491 | |
| Increase (2010) / Decrease (2009) of short-term provisions | +1,435 | -2,266 | |
| Increase (2010) / Decrease (2009) short-term liablities | +4,242 | -6,057 | |
| Taxes on income paid | -4,778 | -4,542 | |
| Payments to plan assets (long time working entitlements / pensions) | -708 | -503 | |
| **Inflow of funds from operating activities** | **+14,421** | **+5,815** | |
| Outflow for acquisition of Protagon | - 336 | - | |
| Outflow of funds for investments in intangible assets | -1,457 | -1,021 | |
| Outflow of funds for investments in property, plant and equipment | -1,752 | -1,634 | |
| Outflow of funds for investments in financial assets | - | -4 | |
| Outflow of funds for acquisition of shares in minority interests | - | -1,770 | |
| Outflow of funds for acquisition of short-term cash deposits (>3 months) | - | -2,000 | |
| Inflow of funds from sale of short-term cash deposits | +2,000 | - | |
| Inflow of funds from sale of financial participation | - | +400 | |
| Inflow of funds from disposal of fixed assets | +98 | +40 | |
| **Outflow of funds from investing activities** | **-1,447** | **-5,989** | |
| Issuance of financial liabilities | +941 | +7 | |
| Repayment of financial liabilities | -4,772 | -2,454 | |
| Income from participations | - | +22 | |
| Interest income | +859 | +529 | |
| Interest expenses and other financial expenses | -1,198 | -1,021 | |
| Interest expense on financial leasing | -231 | -249 | |
| Dividend payment | -1,564 | -4,416 | |
| Distributions to minority interests | -320 | -589 | |
| **Outflow of funds from financing activities** | **-6,285** | **-8,171** | |
| **Changes in liquid assets** | **+6,689** | **-8,345** | |
| Liquid assets at the beginning of the period | +12,559 | +20,882 | |
| Initial consolidation of BST Shanghai | - | +26 | |
| Changes in liquid assets due to foreign currency | +159 | +22 | |
| Liquid assets at the end of the period | +19,407 | +12,559 | |
| | +6,689 | -8,345 | |
| The liquid assets at the end of the period are composed as follows: | | | |
| Cash and cash equivalentes | +31,694 | +26,273 | |
| Liabilities from overdraft | -12,287 | -13,714 | |
| **Liquid assets at the end of the period** | **+19,407** | **+12,559** | |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

# 4.5 Notes

# 4.5. Notes

## General explanations

The elexis Group, with headquarters in Germany, is an internationally based group of mechanical engineering companies, which are active in the High Quality Automation as well as the High Precision Automation divisions. The registered office of the parent company, elexis AG, is Wenden.

### Accounting

The consolidated financial statements of elexis AG including the prior year data are drawn up in accordance with the standards and interpretations published by the International Accounting Standards Board (IASB) as they are to be applied in the European Union (EU). All mandatory standards and interpretations of the IASB applicable to 31.12.10 will be taken into account. In addition, the commercial regulations applicable per paragraph 315 a section 1 HGB (German Commercial Code) are taken into consideration as well as the complementary conditions of the articles of association.

The consolidated financial statements are drawn up on the basis of the historical cost method with the exception of some valuations at market value in accordance with the International Financial Reporting Standards (IFRS). The prior year data have been drawn up in accordance with the same principles.

The consolidated financial statements are drawn up in Euros. Insofar as not otherwise indicated all data is presented in thousands of Euros (T€). For reasons of calculation rounding differences can occur in the amount of +/- one unit (T€, % etc.).

The financial statements of the companies included in the consolidated financial statements were drawn up on the basis of standard accounting and valuation principles in accordance with IAS 27 (International Accounting Standards). The fiscal year corresponds to the calendar year. The statement of comprehensive income is drawn up on the basis of the cost of sales method. The financial statements have been drawn up in principle on a going concern basis.

The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main as well as other local auditing companies involved have audited the financial statements of the companies included in the consolidated financial statements or subjected them to an audit review.

The Management Board of elexis AG submitted the financial statements on March 08, 2011 to the Supervisory Board for examination. The Supervisory Board approved the financial statements on March 17, 2011.

## Summary of significant accounting and valuation methods

### Standards, changes and interpretations to be applied obligatorily in the year under report 2010

The mandatory application of new standards and interpretations for financial years commencing on or after 1 January 2010 has the following effect on the asset, financial and earnings position of the elexis Group.

IFRS 3R and IAS 27R make significant changes to current accounting practices in relation to business combinations and the sale of shares as well as to the acquisition of minority shares.

The changes to IFRS 3 particularly concern the calculation of acquisition costs (directly attributable ancillary costs of acquisition are generally immediately shown as expenditure), the accounting of the residual value of “Goodwill” (option for the application of the so-called “full goodwill model” or the current “partial goodwill model”), the representation of successive company acquisitions (revaluation of “old” tranches shown as income) and in some areas the approach and valuation of identifiable assets and liabilities. The changes of IAS 27 lead in particular to changes with regard to transactions with minority interests (obligatory application of the “economic entity approach” i.e. portrayal as shareholders’ equity transaction with effect on income and expense) as well as the losses allocable to the minority interests in the consolidated financial statements. Furthermore, in future retained shares of transitional consolidations are in principle to be revalued at fair market value with effect on income and expense. The business combination occurring in the year under report was implemented under the new regulations; in doing so the option with regards the goodwill was exercised with the effect that the goodwill was disclosed on minority interests.

Within the framework of the annual improvement project 2009 the second collective standard was published for the implementation of smaller changes to IFRS. The changes of the second collective standard of April 2009 concern the IFRS and two interpretations as well as the corresponding bases for conclusions. The application of changes had no material effects on the asset, financial and earnings position of the elexis Group.

### Standards, changes and interpretations of existing standards, which are not yet to be applied and which are not to be applied prematurely by elexis

The change to IFRS 2 “Share-based Payment” was adopted based on statements to the IASB regarding cases in which the accounting company had received goods or services for which the parent company or another Group company rather than the receiving company itself had an obligation to make payment. As part of the change to IFRS 2, the provisions of IFRIC 8 “Scope of IFRS 2” and IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions” have been incorporated into the standard. As a result, the IASB withdrew both interpretations. Since the Group currently uses no share-based remuneration, these regulations are not relevant.

In the amendments to IAS 39 “Accounting and valuation – permissible basis transactions within the framework of hedging relationships” it is explained for clarification that inflation risks within the framework of hedging transactions can only be hedged if payments are linked directly to an inflation index. It also states that an effective hedge of a unilateral risk is not generally possible through an option. The hedging transactions occurring at elexis do not include such instruments – consequently, this provision is not relevant for the Group.

IFRIC 12 "Service Concession Arrangements" relates to the accounting the valuation of obligations and rights of the franchisee resulting from so-called service concessions. As no transactions of this type have been conducted and are not planned, this provision is not relevant for the elexis Group.

IFRIC 15 governs the realisation of income for real estate sold prior to completion. As elexis is not involved in real estate, this provision is not relevant to the Group.

IFRIC 16 ”Hedging of net investments in a foreign business operation” stipulates the accounting treatment of the so-called net investment hedge accounting. The interpretation is not relevant for the elexis Group at this time.

IFRIC 17 “Distributions of Non-cash Assets to Owners” governs the accounting treatment of non-cash distributions to parties outside of the Group. As no transactions of this type have been conducted and are not planned, this provision is not relevant for the elexis Group.

IFRIC 18 “Transfers of Assets from Customers” is particularly relevant to the supply sector. The interpretation governs the balance-sheet representation of agreements in which a company receives an item of fixed assets from a customer, which the company must then either utilise in order to connect the customer to a network or in order to ensure the customer with permanent access to the supply of goods or services. The interpretation is not relevant to the elexis Group.

In July 2009 the IASB published IFRS 1 (rev. November 2008) and an amendment to IFRS 1 in January 2010. Because elexis already applied the IFRS, the standard is not applicable to the Group.

### Premature application of standards, changes and interpretations, which are not yet applicable

No use was made of the right of choice in respect of the voluntary application of individual disclosures.

### Standards, changes and interpretations of existing standards, which are not yet to be applied and which are not expected to have any relevance for elexis

In November 2009 the standard IFRS 9 was published for the categorisation of financial assets. In accordance with IFRS 9 a new and less complex statement will regulate the categorisation and valuation of financial assets. Thus there are now only two instead of four valuation categories for financial instruments stated as assets. The categorisation is based on the one hand on the business model of the company and on the other hand on characteristic qualities of the contractual cash flows of the corresponding financial assets. This notwithstanding, the existing so-called mixed valuation model still remains a part of IFRS 9. The field of application of IFRS 9 is limited to financial assets. Due to the financial assets currently stated in the statement of financial position no significant effects are expected for the asset, financial and earnings situation of the elexis Group.

For the handling of financial liabilities the IASB published an update to IFRS 9 in October 2010. The regulations for the accounting and valuation of financial liabilities from IAS 39 remain largely unaffected. The only exceptions are the liabilities that were designed “valued at market value with effect on income and expenses” at the first accounting (so-called “Fair Value Option”). Because the elexis Group does not utilise the Fair Value Option, the amendment to IFRS 9 has no effect on the asset, financial and earnings situation. The first application of IFRS 9 must be carried out obligatorily as of January 1, 2013. A premature voluntary application is already permissible for fiscal years which end in 2009 or thereafter. Recognition by the EU is still pending.

Within the framework of the annual improvement project 2010 the third collective standard was published for the implementation of smaller changes to IFRS. The changes from May 2010 concern six IFRS and one interpretation as well as the corresponding bases for conclusions. The majority of the changes are initially applicable with retroactive effect for financial years commencing on or after January 1, 2011. This was recognised by the EU on February 18, 2011. For the most part the changes have no effects on the asset, financial and earnings situation of the elexis Group, because they concern changes to account presentation or declarations (IFRS 7, IAS 1, IAS 27 and IAS 34). The IFRS 1 changes have no effect because elexis is not an IFRS first-time user. Likewise the IFRIC 13 changes do not apply to elexis. The amended IFRS 3 contains an adaptation of the transitional regulations for conditional purchase price payments, a clarification of the evaluation of non-controlling shares as well as the balancing of non-replaced or voluntarily replaced shares-based compensation premiums. The effect on the asset, financial and earnings situation due to the application of these changes cannot be assessed at this time but will however most likely have no significant impact.

Furthermore, a supplement to IFRS 7 with regard to the transfer of financial assets was published. The information required should increase the transparency of transfers and facilitate a better risk assessment for the transfer of financial assets as well as an improved evaluation regarding the influence of these risks on the financial situation of the company. The change is to be applied from July 1, 2011 although acceptance by the EU has not yet occurred. Because IFRS 7 is based on the illustration in the annex there will be no effects on the asset, financial and earnings situation for elexis.

### Standards, changes and interpretations of existing standards, which are not yet to be applied and which are not expected to have any relevance for elexis

In November 2009 the changes of IFRIC 14 "Prepayments of minimum allocation obligations" were adopted. The change is of relevance if minimum allocation obligations exist in connection with existing pension plans and if prepayments are to be disbursed for these. The change in the interpretations enables the statement of the use of these prepayments as an asset should the requirements be met. The change to IFRIC 14 is applied obligatorily for financial years commencing on or after January 1, 2011. This was recognised by the EU on July 19, 2010. It is expected that IFRIC 14 and thus also this change will not be applicable for the Group during the next few fiscal years, since there are no plans for an "asset ceiling".

IFRIC 19, "Repayment of financial liabilities with shareholders' equity instruments" clarifies the requirements of the IFRS when a company renegotiates the conditions of a financial liability with the creditor and the creditor in this respect accepts shares or other shareholders' equity instruments of the company for the full or partial repayment of the financial liability. This was recognised by the EU on July 23, 2010. The interpretation comes into force for fiscal years which begin on or after July 1, 2010. At present there are no effects anticipated on the asset, financial and earnings situation of the elexis Group.

In October 2009 a change to IAS 32 was carried out under the title "Classification of subscription rights". With this change to IAS 32 it is made clear how certain subscription rights are to be stated in the accounts, if the instruments issued are not denominated in the functional currency of the issuer. If such instruments are offered at a fixed amount to the current owners in proportion to their shareholdings, then they should be classified as shareholders' equity instruments, if their subscription right price is denominated in a currency other than the functional currency of the issuer. The change must be applied at the latest at the beginning of the first fiscal year starting after January 31, 2010. This interpretation was integrated into European law in December 2009. It is not expected that this change will have any effects on the asset, financial and earnings situation of the elexis Group.

In November 2009 the IASB adopted a new version of IAS 24 "Relationships with closely related companies and persons". Inter alia, the definition of a "related party" is standardised through the specification of the information purpose of the notes. The basic principle of the report in respect of closely related companies and people remains overall unchanged. The new IAS 24 is applied obligatorily for financial years commencing on or after January 1, 2011. The EU recognised the new version of IAS 24 on July 19, 2010. The purely extended details in the annex will have no effect on the asset, financial and earnings situation of the elexis Group.

The changes to IAS 12 likewise lead to changes in the field of application of the SIC-21 income tax – realisation of newly valued, intangible assets that cannot be amortised. The change contains partial clarification for the handling of temporary taxable differences in conjunction with property held as financial investments, to be evaluated at Fair Value. Because it is often difficult to assess whether to invert existing differences within the framework of ongoing use or in the course of disposal, the change provides that in principle in future inversion through disposal will always be assumed. It is planned that implementation will be mandatory for financial years commencing on or after January 1, 2012. Adoption into European law has not occurred so far. Because elexis has no property held as financial investments the change is not applicable for the elexis Group.

The IFRS 1 change "Limited exemption for first-time users of comparison information per IFRS 7" was adopted by the EU on June 30, 2010 and is thus mandatory for financial years from July 1, 2010. A further change to IFRS 1 "Severe high inflation and rectification of fixed data" shall be applied obligatorily from July 1, 2011. Adoption into European law has not occurred so far. Because elexis already uses IFRS, the IFRS 1 changes are not relevant to elexis.

The elexis Group does not plan to apply any of the abovementioned regulations prematurely.

### Initial Consolidation of BST International (Shanghai) Co. Ltd

The positive development of BST International (Shanghai) Co. Ltd., founded in financial year 2007, has resulted in the company having a significant influence on the elexis Group. The current planning for the company confirms the sustainability of this development. The overall picture from the data from the annual financial statements and the anticipated further development of the company requires a new assessment with respect to the integration of the company into the scope of consolidation.

The first consolidation is retrospective to the time when the parent company acquired the company. This was the point in time at which the company was founded in the financial year 2007. The illustration is implemented as if the company was always fully integrated.

The integration of BST International (Shanghai) Co. Ltd. has the following impact on the previous year's published information:

| in €k | **2009 restated** | 2009 published |
|---|---|---|
| **Sales** | **126,982** | **126,006** |
| Cost of goods sold | -83,720 | -83,596 |
| **Gross profit** | **43,262** | **42,410** |
| Selling expenses | -29,348 | -28,887 |
| Administrative expenses | -8,201 | -7,936 |
| Other operating income | 2,826 | 2,648 |
| Other operating expenses | -3,155 | -2,993 |
| **Operating result (EBIT)** | **5,384** | **5,242** |
| Financial expenses | -1,696 | -1,691 |
| Financial income | 845 | 844 |
| **Financial result** | **-851** | **-847** |
| | | |
| **Result before taxes** | **4,533** | **4,395** |
| Taxes on income | -2,474 | -2,465 |
| | | |
| **Consolidates net income** | **2,059** | **1,930** |
| | | |
| Foreign exchange differences stated in shareholders´equity | 316 | 328 |
| Other valuation changes stated in shareholders´equity | 75 | 75 |
| Actuarial profits / (losses) from performance-based benefit plans and similar obligations | -817 | -817 |
| Deferred taxes on valuation changes set-off directly with shareholders´equity | 244 | 244 |
| | | |
| **Valuation changes stated directly in shareholders´equity** | **-182** | **-170** |
| | | |
| **Total result for the period** | **1,877** | **1,760** |
| **Share in consolidates net income** | | |
| **- of the shareholders of elexis AG** | **1,710** | **1,581** |
| - of the minority interests | 349 | 349 |
| **Share in total result for the period** | | |
| **- of the shareholders of elexis AG** | **1,578** | **1,461** |
| - of the minority interests | 299 | 299 |
| Earnings per share (€) From continuing operations Undiluted / diluted | 0.19 | 0.17 |

| ASSETS<br>in €k | 2009<br>restated | 2009<br>published |
|---|---|---|
| **Long-term assets** | **54,738** | **54,967** |
| Goodwill | 26,202 | 26,202 |
| Other intangible assets | 2,981 | 2,981 |
| Property, plant and equipment | 18,809 | 18,703 |
| Financial participations | 2,783 | 3,118 |
| Long-term receivables and other assets | 1,640 | 1,640 |
| Deferred taxes | 2,323 | 2,323 |
| **Current assets** | **74,830** | **73,874** |
| Inventories | 19,733 | 18,681 |
| Receivables from long-term construction contracts | 824 | 824 |
| Trade receivables | 23,470 | 22,945 |
| Receivables from taxes on income | 936 | 936 |
| Other short-term receivables and other assets | 1,594 | 2,405 |
| Short-term investments | 2,000 | 2,000 |
| Cash and cash equivalents | 26,273 | 26,083 |
| **Long-term assets held for sale** | **87** | **87** |
| **Total assets** | **129,655** | **128,928** |

| LIABILITIES<br>in €k | 2009<br>restated | 2009<br>published |
|---|---|---|
| **Shareholders´equity** | **66,874** | **66,637** |
| **Share in shareholder´s equity allocable to the shareholders** | **65,286** | **65,049** |
| Capital subscribed | 23,552 | 23,552 |
| Capital reserve | 3,555 | 3,555 |
| Retained earnings | 36,869 | 36,620 |
| Other reserves | 1,310 | 1,322 |
| **Minority interests** | **1,588** | **1,588** |
| **Liabilities** | **62,781** | **62,291** |
| **Long-term liabilities** | **21,964** | **21,964** |
| Provisions for pensions and similar obligations | 8,359 | 8,359 |
| Other long-term provisions | 3,522 | 3,522 |
| Deferred taxes | 246 | 246 |
| Financial liabilities | 9,749 | 9,749 |
| Other liabilities | 88 | 88 |
| **Current liabilities** | **40,817** | **40,327** |
| Other short-term provisions | 3,230 | 3,230 |
| Tax liabilities | 1,848 | 1,848 |
| Financial liabilities | 16,158 | 16,158 |
| Trade payables | 7,797 | 7,731 |
| Liabilities from lang-term construction contracts | 118 | 118 |
| Other liabilities | 11,666 | 11,242 |
| **Total liabilities** | **129,655** | **128,928** |

Due to the initial consolidation of BST International (Shanghai) Co. Ltd. the fixed assets of the Group changed from January 1, 2009 by T€ 114. The short-term receivables and other assets increased by T€ 1,333, of which T€ 811 came from stock. The changes in debts brought about by the consolidation amounted to T€ 868 to January 1, 2009.

## Scope of consolidation

The scope of consolidation includes 12 (prior year: 11, considering BST International (Shanghai) Co. Ltd.) companies. Alongside the integration of BST International (Shanghai) Co. Ltd. into the scope of consolidation as already explained, the changes in the scope of integration result from the acquisition of 51% of the shares in P2T Protagon Process Technologies GmbH, Rengsdorf on June 30, 2010 and the associated first consolidation of the company.

The acquisition costs of the share acquisition of 51% of the shares amounted to T€ 842. At the time of acquisition the company possessed T€ 542 in cash funds. After consideration of the current account debts of T€ 36 this equates to a cash outflow of T€ 336. Based on the purchase price allocation this gives a derived goodwill value of T€ 16. In principle this goodwill value fundamentally represents the engineering knowledge of the personnel as a residual component.

The fair values of the assets, liabilities and contingent liabilities of P2T Protagon Process Technologies GmbH taken over and applied at the time of acquisition are shown immediately before consolidation in the following tables:

| in €k | Fair value at acquisition date |
|---|---|
| **Return** | **842** |
| Purchase price | 842 |
| **Acquired assets and liabilities** | |
| **Non-current assets** | **1,351** |
| Business values | - |
| Other intangible assets | 1,266 |
| Fixed assets | 85 |
| Financial investments | - |
| **Current assets** | **1,444** |
| Inventories | 89 |
| Trade accounts receivable | 571 |
| Other current receivables and assets | 242 |
| Cash and cash value equivalent | 542 |
| **Total assets** | **2,795** |
| **Long-term debt** | **366** |
| Deferred tax liabilities | 366 |
| **Short-term debt** | **963** |
| Other short-term provisions | 99 |
| Tax liabilities | 45 |
| Current account overdrafts | 36 |
| Liabilities for goods and service | 125 |
| Liabilities from long-term contracts | - |
| Other liabilities | 658 |
| **Total liabilities** | **1,329** |
| **Net assets** | **1,466** |
| Minority interest | -640 |
| Business value | 16 |
| **Fair value of consideration** | **842** |

The assets and liabilities are assigned to the High Quality Automation segment. The acquisition is reported on the profit and loss account since 30 June 2010 with €225 (before deducting minority interests). If the business combination had occurred before January 1 2010, Group sales would have been €1.2 million higher at €137.9 million. The amount carried forward for the period before deducting minority interests would be unchanged at €3,0 million if the business combination had occurred before January 1 2010.

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 (36).

## 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 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 paragraph 301, section 1 no. 1 of the HGB. In this respect the Group's share in the shareholders' equity of the consolidated subsidiaries was offset 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 offset 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 statement of financial position following the purchase price allocation shall be capitalised as goodwill. Should the acquisition costs be lower than the net assets valued at the underlying market value of the subsidiary acquired, the differential amount after a new assessment of the valuation is stated directly in the statement of comprehensive income. 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 items from the statement of financial position 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 statement of financial position sheet and the statement of comprehensive income are booked to shareholders' equity without any effect on income and expense.

Goodwill concerning foreign companies are in respect of subsidiaries, which were acquired and included in the scope of consolidation prior to January 1, 2004. The Company makes use of the exception regulation of IAS 21.59 (effects of changes in foreign exchange rates) and presents goodwill in Euros for accounting purposes.

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 liabilities, the value of which is indicated in a foreign currency, are valued as at the date of the statement of financial position. Capital gains and losses are booked to the statement of comprehensive income.

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

| | | **2010** | 2009 | **2010** | 2009 |
|---|---|---|---|---|---|
| Currency | ISO-Code | Average rate euro 1 | | Date of statement of financial position euro 1 | |
| US dollar | USD | 1.3257 | 1.3945 | 1.3362 | 1.4326 |
| Brazilien real | BRL | 2.3314 | 2.7674 | 2.2177 | 2.5113 |
| Japanese yen | JPY | 116.2386 | 130.2990 | 108.6500 | 132.1600 |
| Chinese renmimbi | CNY | 8.9712 | 9.5296 | 8.8220 | 9.7830 |

### Liabilities, expense and income as well as consolidated inter-Group profit

Receivables and liabilities between the consolidated companies as well as inter-Group sales, income and expenses and inter-Group profits are in principle eliminated, unless the amounts are insignificant for the consolidated financial statements. In this respect the internal Group sales are offset against the manufacturing costs of the work provided for the achievement of the sales.

### Transactions with minority interests

Transactions with the owners of minority interests in Group companies are presented as transactions with owners of the consolidated shareholders' equity. In the case of the acquisition of existing minority interests, the difference between the purchase price of the shares and the proportional net assets (net liabilities) in the company acquired are stated directly in shareholders' equity. Profits and losses from the sale of shares to minority interests (sales without loss of control) are also stated directly in shareholders' equity.

## Accounting and valuation principles

### Recognition of income and expenses

Sales and other operating income are in general recognised when the delivery has been made or the service has been rendered, the risk is transferred to the customer, the amount of the income can be measured reliably and when the economic use will probably accrue to the Group. Sales are stated in principle net of value added tax, returns, rebates and price deductions and after elimination of inter-group sales. Operating expenses are charged to the statement of comprehensive income at the point at which the service is used or the delivery received or at the date of their cause. Sales and expenses from long term construction contracts are recognised in relation to their degree of completion (percentage of completion method) in accordance with IAS 11, 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 measured reliably.

Success-based contributions from the public authorities are stated under personnel expenses within the corresponding main item as income in accordance with IAS 20.29 (net statement). The note on the amount of contributions is shown in the notes to the consolidated statements.

Interest income is stated in accordance with the contractual agreements.

Payments for the transfer of usufruct rights are stated in accordance with the contractual agreements for the periods in question.

Dividend payments are stated at the date at which the right to receive payment arises.

### Goodwill and other intangible assets

Goodwill is stated at its original acquisition cost less cumulative reductions of value. The carrying value of the goodwill is examined by an impairment test at least once a year and during the year if there are indications of a reduction in value.

Intangible assets acquired through purchase with a limited economic life are stated at acquisition cost less accumulated amortisation and cumulative reductions of value. Amortisation is charged on the straight line method over the estimated economic life. Intangible assets with an unlimited economic life (excluding goodwill) do not exist in the Group.

The amortisation of intangible assets (with the exception of goodwill) is allocated to the individual items of the statement of comprehensive income in accordance with the use of such assets.

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

| | Economic life (years) | Amortisation rate ( in %) |
|---|---|---|
| Software | 5.0 | 20.0 |
| Patents, rights (according to contractual maturity) | 8.0 | 12.5 |

The carrying value, the economic life and the amortisation methods of intangible assets with a fixed economic life are examined at the end of each year as a minimum. Insofar as expectations may deviate from earlier estimates, changes are effected in accordance with IAS 8 as a change of accounting estimates.

In the Group development costs, as internally generated intangible assets, are capitalised as production costs under the provisions of IAS 38, insofar as the technical feasibility of the asset for use or sale is assured, the future economic benefits from the use of the asset is probable and the expenses can be reliably determined during development. Production costs include all costs directly and indirectly attributable to the development process as well as necessary parts of the overhead costs relating to the development. The intangible assets arising from the development are, after completion, subject to straight line amortisation over the expected product life cycle. Research costs on the other hand are charged to the statement of comprehensive income and are not capitalised.

## Property, plant and equipment

Property, plant and equipment are valued at acquisition or manufacturing cost less scheduled and unscheduled depreciation. Acquisition costs include the acquisition prices plus the ancillary acquisition expenses less reductions on the acquisition price. Alongside individual specific costs, manufacturing costs include an appropriate share of the allocable material and production overheads. Third party capital costs are not included in manufacturing costs with the exception of qualifying assets. Scheduled depreciation is charged in principle in accordance with the straight line method. Depreciation begins when the asset is in an operational condition. Items of minor significance (< 150 euro) (previous year: < 150 euro) are depreciated fully in the year of acquisition. As from 2008, assets with an acquisition value of 151 euro to 1,000 euro are combined in a joint item and are depreciated over five years. Property, plant and equipment are subject to unscheduled depreciation if 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 item of property, plant and equipment are shown in the following table:

| | Economic life (years) | Amortisation rate ( in %) |
|---|---|---|
| Buildings | 25.0 - 33.3 | 4.0 - 3.0 |
| Buildings installations | 20.0 | 5.0 |
| Manufacturing machinery | 3.0 - 10.0 | 33.3 - 10.0 |
| Other machinery and installations | 3.0 - 10.0 | 33.3 - 10.0 |
| Tools, devices, models | 3.0 - 5.0 | 33.3 - 20.0 |
| Test and measurement equipment | 2.0 | 50.0 |
| Vehicles | 4.0 | 25.0 |
| Operating and office equipment | 3.0 - 10.0 | 33.3 - 10.0 |
| EDP equipment | 4.0 - 6.0 | 16.7 - 25.0 |
| Assets of low value (151 € – 1.000 €) | 5.0 | 20.0 |

Residual book values, economic life and the depreciation method are examined at the end of every business year as a minimum. Insofar as expectations may deviate from earlier estimates, the changes are effected in accordance with IAS 8 as a change of accounting estimates. During the 2009 accounting year, the standard Group economic lives were examined and the depreciation period for buildings was changed partially to 33 1/3 years. In comparison with the original economic lives, this resulted in an effect on the result of T27 euro in 2009. During the 2010 accounting year, no adjustments to useful economic lives were made.

## Impairment

Intangible and tangible assets that are subject to scheduled amortisation and depreciation are tested for impairment if relevant events or changes of circumstances indicate that the book value may no longer be realisable. A comparison is then made between the book value and the achievable value. The achievable value is the higher of fair value of the asset less disposal cost and the utility value. An impairment test generally takes place for the individual asset. Insofar as no separate cash inflow is allocable to the asset, the impairment test takes place at a higher level of the cash generating unit for which the cash inflows can be separately identified. As a general rule, the legal entity constitutes the cash generating unit for the purposes of the impairment test of the abovementioned assets. In the case of intangible and tangible assets that are subject to scheduled amortisation and deprecation, a revaluation up to a maximum of amortised cost takes place if the reasons for impairment effected in previous years ceases to exist.

Goodwill is also tested for impairment once per annum and, if appropriate, during the year in accordance with IAS 36 and where necessary is amortised to the lower achievable value. A revaluation of goodwill is not effected if the reasons for impairment carried out in previous years cease to exist. Within the framework of the impairment test the book value of the cash generating unit including allocable goodwill is netted against the achievable value. The definition of the cash generating unit is based on the lowest level at which the goodwill is monitored for internal management purposes. This level is constituted by the strategic business units (SBUs).

## Leasing

Leasing contracts, which are considered economically to be purchases of equipment with long term financing (financial leasing), are stated in accordance with IAS 17 at the date of addition in the amount of the fair value or the discounted cash value of the minimum leasing instalments if lower. Scheduled depreciation is charged using the straight line method over the expected economic life or the contract period if shorter if the transfer of ownership at the end of the period of the leasing relationship is not sufficiently clear. The depreciation methods and the economic lives correspond to those of similar acquired assets. The capitalised items leased include software, real estate, machinery and operating and office equipment.

Payment obligations resulting from future leasing instalments are stated as liabilities under financial liabilities. Leasing payments are separated into an interest and a repayment portion so that a constant interest rate is applied to the remaining balance over the leasing period.

Leasing transactions relate solely to transactions in which the elexis Group is the lessee.

## Financial instruments

A financial instrument is a contractual agreement between two contractual partners resulting in a financial asset with one company and, at the same time, in a financial liability or an equity instrument with the other company.

These include non-derivative financial instruments such as trade receivables and trade payables and financial receivables and financial liabilities as well as derivative financial instruments.

The amounts of the non-derivative and derivative financial instruments are reported in the statement of financial position and in the separate presentation in Note (32). The risks of the financial instruments are also explained in detail in Note (32).

Financial instruments on the asset side are recognised in accordance with IAS 39 in the categories 'Financial assets at fair value through profit or loss' (with the sub-categories 'Designated' or 'Held for trading'), 'Held-to-maturity financial investments', 'Loans and receivables' and 'Available-for-sale financial assets' and are capitalised according to this categorisation at amortised cost or market value.

The category 'Financial assets at fair value through profit or loss' does not exist at the elexis Group and therefore no use is made of the fair value option. In the elexis Group there is only a small number of derivative financial instruments in the category 'Held-for-trading'. Similarly, there are no financial instruments in the category 'Held-to-maturity' in the Group. Hedge accounting is used to a very limited extent in one foreign subsidiary.

In principle, financial assets are initially recognised at fair value. In the case of a financial asset which is not valued at fair value through profit and loss, the transaction costs directly allocable to the acquisition of the financial assets are included in the valuation. In the case of financial assets of the category 'Financial assets at fair value through profit or loss' the allocable transaction costs are charged to the statement of comprehensive income. Financial instruments in all categories are included on the settlement date.

The subsequent valuation is dependent on the classification of the financial assets in the following categories:

- 'Financial assets valued at fair value through profit or loss' include financial assets held for trading purposes. Changes in the fair value of financial assets of this category are recognised as affecting profit or loss on the date of the increase or decline in value.
- 'Held-to-maturity financial assets' are non-derivative financial assets with fixed or determinable payments and a fixed period over which they are held. Financial instruments of this category are recorded at amortised cost in accordance with the effective interest method.
- 'Loans and receivables' are non-derivative financial instruments that are not listed in an active market. Financial assets of this category are recorded at net book value. Interest income from items of this category is determined through application of the effective interest method insofar as these are not short term items and the effect of the accrued interest is immaterial.
- 'Available-for-sale financial assets' include all non-derivative financial assets that are not allocable to any of the above-mentioned categories. Changes in the fair value of available-for-sale financial assets are reflected in shareholders' equity with no effect on profit or loss taking deferred taxation into consideration and are included in the statement of comprehensive income only when sold or impaired. In cases in which the market value of financial assets can be determined, this is stated as fair value. If there is no listed market price and if no reliable estimate can be made of the fair value, these financial assets are stated at acquisition cost less impairment expense.

## Derecognition of financial assets

Financial assets are derecognised when the contractual rights to payment from the assets no longer exist or the financial assets are transferred with substantially all the risks and rewards.

### Impairment of financial assets

At the end of the reporting period it is determined whether objective evidence of impairment of a financial asset exists. A requirement for impairment exists if the carrying amount of the financial asset exceeds the amount expected to be achieved in the future. Impairment leads to a direct reduction of the carrying amount of all affected financial assets with the exception of trade receivables, the carrying amount of which is reduced through an allowance account. On elimination of the reasons for impairment, revaluation is stated in the statement of comprehensive income, and this is also the case for impairment of external financial instruments. Impairment losses on equity instruments (e.g. GmbH shares) are not recorded with retroactive effect on profit or loss.

#### a) Shareholdings

Shareholdings are shares in associated companies which as a result of their secondary importance for the asset, financial and earnings situation were not included in the scope of consolidation. They were allocated to the category 'Available-for-sale financial assets'. The initial valuation of these financial assets is at market value. At the date of the acquisition the market value generally corresponds to the cost of acquisition. Insofar as there is no listed price on an active market and the fair value cannot be reliably determined these shareholdings are valued at amortised cost.

Shareholdings are subject to an impairment test at the end of the reporting period. If there is evidence of impairment the asset is examined for its intrinsic value. Insofar as the carrying amount exceeds the achievable value, it will be written down to its achievable value. The achievable value is defined as the discounted cash value of the expected future cash flow. The impairment is reflected in the statement of comprehensive income, taking into consideration possible changes in value included in shareholders' equity. Losses from equity instruments, once included, are not written back.

#### b) Long-term receivables and other assets

The long-term receivables and assets listed as financial assets are allocated to the category 'Loans and receivables'. On initial recognition, long-term receivables and other assets are stated at fair value. As a general rule this corresponds to cost of acquisition. Financial assets in this item are composed mainly of the long term portion of loans and receivables in connection with pension plan reinsurance. Subsequent valuation of the other financial receivables and assets takes place according to the categorisation at amortised cost in accordance with the effective interest method. Appropriate specific provisions are undertaken if there is objective evidence that the receivable is not fully recoverable. Write-off expense or income from revaluation is stated in other operating expense and income.

#### c) Trade receivables

Trade receivables are allocated to the category 'Loans and receivables' and form part of current assets. Trade receivables are initially recognised at their market value. As a general rule this corresponds to the cost of acquisition. Subsequent valuation takes place according to categorisation at amortised cost in accordance with the effective interest method.

If there is doubt about the recoverability of receivables these will then be stated at nominal value less appropriate individual value adjustments. If a receivable is classified as unrecoverable this is taken into account in the allowance account. Subsequent collections of amounts for which provisions have been made are also booked to the allowance account. The creation and release of provisions is reported under other operating expenses and income. Trade receivables include invoiced deliveries and services to customers.

#### d) Other short term financial receivables and assets

Financial instruments included under other receivables and assets are designated mainly as 'Loans and receivables'. Other receivables and assets are stated at fair value on initial recognition. As a general rule this corresponds to cost of acquisition. Financial assets under this item are composed primarily of receivables from invested-in companies as well as the short term portion of loans. Subsequent valuation of other financial receivables and assets takes place according to their designation at amortised cost in accordance with the effective interest method. Appropriate specific provisions are undertaken if there is objective evidence that the receivable is not fully recoverable. Write-off expense or income from revaluation is reported under other operating expense and income.

#### e) Short term cash deposits

Short term cash deposits consist of short term cash deposits at banks. They are designated as 'Loans and receivables' and valued at amortised cost.

#### f) Cash and cash equivalents

Cash and cash equivalents (cash at banks, cash on hand and cash deposits with a maturity of less than 90 days) are designated as 'Loans and receivables' and valued at amortised cost.

#### g) Derivatives

Derivatives that are not part of hedge accounting are allocated to the sub-category 'Held-for-trading' under financial assets and reported at fair value with effect on profit or loss. They are initially recognised at fair value. Corresponding transaction costs are booked to expenses.

Subsequent valuation is also based on fair value. Gains and losses from financial assets valued at fair value with effect on profit or loss are recognised in the period in which they occur under other operating expenses and income. This category includes derivatives with a positive market value. Short term derivatives are included in the statement of financial position under the item 'Other short term receivables and assets'.

### Financial liabilities and other financial liabilities

Financial liabilities can be designated in accordance with IAS 39 as 'Financial liabilities at fair value through profit or loss' (with the sub-categories 'Designated' or 'Held for trading') or to the category 'Other financial liabilities.

The category 'Financial liabilities at fair value through profit or loss' does not exist in the Group and thus no use is made of the fair value option. Derivatives allocable to the category 'Held for trading', only exist to a small extent in the elexis Group. All other financial liabilities are therefore designated 'Other financial liabilities'.

'Other financial liabilities' are initially measured at fair value with the inclusion of transaction costs that are directly allocable to the issue of the financial liabilities. Subsequent measurement is at amortised cost using the effective interest method. Any difference between the paid-out amount and the redemption amount is included in the statement of comprehensive income over the term of the debt using the effective interest method.

Liabilities to banks and credit institutions, trade payables and other financial liabilities are correspondingly recognised at amortised cost using the effective interest method.

Financial liabilities are removed from the balance sheet when the contractual obligations are discharged or cancelled or have expired.

### Derivatives

Derivatives designated as 'held-for-trading' that are not included in hedge accounting are initially recognised at fair value. Corresponding transaction costs are booked to expenses. Subsequent measurement of this category is also at fair value. Gains and losses from financial liabilities, measured at fair value through profit or loss are reflected in the statement of comprehensive income in the period when they occur under other operating income/ expenses. This category includes derivatives with a negative market value. Short term derivatives are included in the statement of financial position under the item 'Other liabilities'.

### Other receivables and assets

Non-financial other receivables and assets included in the item 'Other receivables and assets' are valued at amortised cost.

### Other provisions and other liabilities

Non-financial other provisions and other liabilities are stated at the value of their underlying obligation.

### Taxes

Current taxes on income are determined on the basis of the valid tax regulations at the end of the reporting period. Tax regulations are applied according to the countries in which the taxable income arises. The current taxes are stated in the amount in which they are expected to be paid. Accounts payable are set up for amounts not yet paid.

Deferred tax is recognised in accordance with IAS 12 by applying the liability method based on the statement of financial position with regard to temporary differences that may occur from the differing amounts between the book value of the assets and liabilities in the consolidated financial statements and the calculation of the corresponding tax value to be used for the taxable result. In general deferred tax liabilities are set up for all temporary tax differences and deferred tax assets (for temporary differences and tax loss carry forwards), insofar as their realisation/use is expected. If a temporary difference arises from goodwill or the initial recognition (apart from business combinations) of other assets and liabilities which are based on events which affect neither the taxable nor the accounting profit, no deferred taxes are recognised. Deferred taxes are taken into consideration both at the level of the individual companies as well as through consolidations. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply at the time of realisation or settlement. Deferred tax assets and liabilities are not discounted. The book values of deferred tax assets are tested and adjusted at the end of each reporting period.

Deferred tax assets and liabilities are offset on the balance sheet if the entity has a legal right to settle on a net basis and they are levied on the same tax entity and by the same tax authority.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries unless the parent company can control the reversal of the temporary differences and the temporary differences are not expected to reverse in the foreseeable future.

Deferred tax claims for tax loss carry forwards are only stated on the amount of the tax loss carry forwards for which it is expected that in the future there will be a taxable profit available for their utilisation.

Deferred taxes which are attributable to items included directly in shareholders' equity, are charged to shareholders' equity and not in the statement of comprehensive income.

### Inventories
In principle, inventories are valued at the lower of acquisition or manufacturing cost and net residual value. The net residual 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 acquisition costs. 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
Receivables and liabilities from long term construction contracts are determined in accordance with the percentage of completion method.

The stage of completion is determined by the work performed at the end of the reporting period and is measured with regard to the costs incurred up to the end of the reporting period in relation to the expected total costs. Insofar as the cumulative performance (incurred contract costs and proportional profits) exceed the prepayments received on an individual case basis, the positive balance between the cumulative performance and the prepayments received is recognised under receivables from long term construction contracts. If there is a negative balance after deduction of payments received for a construction contract, this amount is included under liabilities from long term construction contracts. Losses on contracts are taken into consideration with regard to the valuation of long term construction contracts.

### Pensions and similar obligations
The measurement of pension reserves is according to the projected unit credit method under IAS 19 for performance-based pension plans. The benefits to be paid after the start of the benefits period are distributed over the service time of the employees as part of the dynamic approach. 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. Furthermore, these calculations are based mainly on assumptions relating to the discount rate as well as the expected income from the plan assets. The valuation of these obligations is undertaken by independent experts..

The expected future outflow of funds is discounted in order to state the pension obligations and similar obligations at their discounted cash value as at the end of the reporting period. The discount rate which is used for the discounting of pension obligations is based on the rates as at the balance sheet date of triple A fixed interest industrial bonds with a remaining maturity that corresponds approximately to the duration of the obligation.

The amount recognised in the balance sheet is the present value of the service-oriented obligation reduced by the fair value of plan assets and taking into consideration unrecognised past service cost. elexis AG utilises the option under IAS 19.93a (employee benefits) of recognising actuarial gains and losses arising from service-oriented pension obligations immediately. Under this method actuarial gains and losses are not amortised gradually and charged to the statement of comprehensive income in accordance with the so-called corridor method, but charged fully against the shareholders' equity. No amortisation of the actuarial profits and losses is included in the result. Deferred taxes are calculated on the changes in the value of the provision for pensions and the fair value of the plan assets recognised in shareholders' equity, which are also charged against the corresponding item of shareholders' equity. Past service costs are normally charged to the statement of comprehensive income insofar as the benefits are vested immediately after the introduction or the change. Otherwise amortisation is on a straight line basis over the average period until the benefits become vested.

Insofar as contribution-based plans exist, the amounts to be paid in exchange for service are recognised in the period in which the relevant service was rendered (IAS 19.44).

Apart from plan assets, reinsurance has also been provided to cover the pension obligations. This is stated, insofar as it is not pledged to the plan beneficiary, as an asset under other long term assets. Measurement is by current value of the policy.

### Other provisions
Other provisions are 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 measured. These represent uncertain obligations, which are recognised at the best estimate of the expenditure. Provisions with a maturity of more than one year are recognised at their discounted value, if the interest effect is significant.

### Assumptions and estimates and exercise of judgement
The drawing up of the consolidated financial statements in accordance with IFRS requires in the case of some items that assumptions and estimates be made, that 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. Actual values may deviate from these assumptions and estimates.

The exercise of judgement at the end of the reporting period relates in particular to:

a) Impairment of goodwill
The elexis Group reviews the carrying amount of goodwill at least once annually. This review requires the calculation of the value in use of the cash generating units to which the goodwill is allocated. For this the expected future cash flows of the cash generating unit must be estimated and appropriate discount rates selected for the determination of the discounted cash value. As at 31 December 2010 goodwill amounted to T19,669 euro (previous year: T26,202 euro). For further information please refer to Note (14).

b) Pensions and similar obligations
The amount of the provisions for pensions depends on many actuarial assumptions. The assumptions concern the discount rates, the expected income of the plan assets, the future development of wages and salaries, mortality and future increases in pensions. Due to the long-term nature of these provisions such assumptions are subject to significant uncertainties. As at 31 December 2010 the provision for pension obligations amounted to T8,558 euro (previous year: T8,359 euro). For further information please refer to Note (26).

c) Tax
The elexis Group is subject to tax in various legal spheres. Determination of taxable profit is based on the analysis of facts in accordance with current legislation and interpretations. The amounts stated in respect of tax expense, tax liabilities and tax receivables are based on the assumptions made. In particular the capitalisation of deferred tax claims for tax loss carry forwards requires estimates of the profit available for offsetting these tax loss carry forwards in the future. Differences arising at a later date with regard to estimates and assumptions made are included in the period in which they occur. Expenses and income from such differences are included in the period in which the Company learns about them. As at 31 December 2010 the total tax claims amounted to T7,014 euro (previous year: T3,259 euro) and tax liabilities were T1,291 euro (previous year: T2,094 euro).

d) Development costs
Estimates are necessary in order to determine whether individual development projects should be capitalised, to what extent the Group will benefit from the projects and whether the projects can be realised. As at 31 December 2010 the book value of capitalised development costs was T2,990 euro (previous year: T1,456 euro).

e) Long-term construction contracts
The elexis Group capitalises long-term construction contracts on the basis of the percentage of completion method. This method depends in particular of the careful assessment of the stage of completion. The major relevant factors to be estimated in this respect are total contract costs, the costs to be incurred up to completion, the total revenue from the contract and the contract risks. Receivables from long term construction contracts on 31 December 2010 were T1,741 euro (previous year: T824 euro). Liabilities from long term construction contracts on 31 December 2010 were T1,179 euro (previous year: T118 euro). For further information please refer to Note (19).

f) Other provisions
Provisions are liabilities where there is an uncertainty in respect of the amount or date of occurrence. The inclusion of provisions in the statement of financial position requires an estimate of the amount of the liability and the probability of it occurring as well as the date of occurrence. The result of the estimate determines the inclusion of the liability in the statement of financial position or its presentation as a contingent liability. If the uncertainty concerns the amount of the liability, an estimate of the future outflow of funds is necessary. In particular, provisions for risks from restructuring and litigation are subject to such uncertainties. As at 31 December 2010 there were other long and short-term provisions in the amount of T9,136 euro (previous year: T7,806 euro) which were recognised as liabilities, of which T4,050 euro (previous year: T3,190 euro) were in respect of restructuring and legal proceedings. Obligations towards employees from long service accounts and semi-retirement benefits amounted to T3,106 euro (previous year: T2,988 euro). In order to cover these obligations there were plan assets in the amount of T1,845 euro (previous year: T1,054 euro). At the end of the reporting period there were contingent liabilities in the amount of T5,363 euro (previous year: T5,034 euro).

Alongside the exercise of judgement, assumptions and estimates are necessary with regard to the recognition and measurement of bad debts, the determination of economic lives of property, plant and equipment and the measurement of contingent liabilities and provisions.

### Segment information

The elexis Group is active in the **High Quality Automation** and **High Precision Automation** business areas. The business areas are structured in such a way that they correspond to the internal organisation and management structure of the elexis Group. Business divisions are based in particular on the internal reporting structure and responsibility for results as linked to the different product areas and business models within the Group. Internal reporting is as specified by external accounting in compliance with IFRS.

Transactions between business areas are undertaken under market conditions. Inter-segment sales take place only to a limited extent.

### High Quality Automation

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

- complete web and strip guiding systems which automatically control the exact strip and web processing of fast moving materials (metal, paper, foil, rubber);
- systems testing the material quality of the strips and webs (for example, tear resistance, roughness and optimisation of the thickness of the zinc coating of the metal strips);
- web observation systems and image processing systems for detecting defects and active defect control of printed webs;
- electro-hydraulic air brake thruster equipment for hoisting and conveyor technology (thruster technology).

The consolidated subsidiaries operating in this area are:

| |
|---|
| EMG Automation GmbH, Wenden |
| BST International GmbH, Bielefeld |
| P2T Protagon Process Technologies GmbH, Rengsdorf |
| BST PRO MARK Inc,, Elmhurst, USA |
| EMG USA Inc., Warren, USA |
| EMH Electromecânica e Hidraulica Ltda, Belo Horizonte, Brazil |
| BST Japan Ltd., Osaka, Japan |
| BST International Shanghai Ltd., PR China |
| EMG Automation (Beijing) Ltd,. VR China |

### High Precision Automation

HEKUMA GmbH, Eching is active in this division. Here, automated handling systems are produced for fast moving production processes with very short production cycles to ensure the materials flow of injection moulded plastic components. Moreover, these can be integrated into further automated production steps.

### Central areas/consolidation

Central areas comprise of the non-operating, cross-segment activities of the holding company (elexis AG, Wenden and Elexis Beteiligungsgesellschaft mbH, Wenden). The elimination of the internal group relationships between the segments is shown under ‘Consolidation’).

Sales and preliminary work and services between the segments are carried out on an arm’s length basis.

During the fiscal year 2010 and in the previous year no more than 10% of the sales of the elexis Group were attributable to any one customer.

## Segment information

| | High Quality Automation | | High Precision Automation | | Central departments | | Consolidation | | elexis Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| in €k | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Total sales | 118,042 | 113,652 | 18,747 | 13,437 | - | - | -64 | -107 | 136,725 | 126,982 |
| Inter-group sales | - | - | -64 | -107 | - | - | 64 | 107 | - | - |
| **Sales** | **118,042** | **113,652** | **18,683** | **13,330** | **-** | **-** | **-** | **-** | **136,725** | **126,982** |
| **Segment result (EBIT)** | | | | | | | | | | |
| Operating result (EBIT) | 16,030 | 11,014 | -3,244 | -4,044 | -2,230 | -1,586 | - | - | 10,556 | 5,384 |
| Goodwill Impairment | - | - | 6,550 | - | - | - | - | - | 6,550 | - |
| EBIT after Goodwill Impairment | 16,030 | 11,014 | - 9,794 | - 4,044 | - 2,230 | - 1,586 | - | - | 4,006 | 5,384 |
| Return on sales (EBIT) | 13.5% | 9.7% | -52.4% | -30.3% | | | | | 2.9% | 4.2% |
| Interest income | 843 | 684 | 7 | 20 | 293 | 344 | -284 | -519 | 859 | 529 |
| Interest expenditure | 1,069 | 1,425 | 948 | 751 | 111 | 34 | -284 | -519 | 1,844 | 1,691 |
| Depreciation of property, plant and equipment and amortisation of other intagible assets | 3,648 | 2,962 | 436 | 679 | - | - | - 231 | - | 3,853 | 3,641 |
| Taxes on income | 4,022 | 3,154 | -3,874 | -651 | -173 | -29 | - | - | -25 | 2,474 |
| **Assets** | | | | | | | | | | |
| Segment assets | 98,967 | 94,241 | 29,232 | 31,085 | 17,658 | 14,364 | -16,203 | -12,818 | 129,654 | 126,872 |
| Other participations | 546 | 546 | - | - | 71,387 | 67,062 | -69,150 | -64,825 | 2,783 | 2,783 |
| Total assets | 99,513 | 94,787 | 29,232 | 31,085 | 89,045 | 81,426 | -85,353 | -77,643 | 132,437 | 129,655 |
| Investments in long-term assets | 4,054 | 2,442 | 523 | 283 | - | - | - | - | 4,577 | 2,725 |
| **Liabilities** | | | | | | | | | | |
| Segment liabilities | 40,382 | 41,925 | 16,514 | 15,011 | 6,453 | 5,845 | - | - | 63,349 | 62,781 |
| Inter-segment liabilities | 12,383 | 12,848 | 3,837 | 2,101 | 27 | 6 | -16,247 | -14,955 | - | - |
| Total liabilities | 52,765 | 54,773 | 20,351 | 17,112 | 6,480 | 5,851 | -16,247 | -14,955 | 63,349 | 62,781 |
| **employees** (reporting date, excl. apprentices) | 653 | 637 | 128 | 127 | 4 | 4 | - | - | 785 | 768 |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

The breakdown of external sales, assets and investments by regions is as follows:

| in €k | **2010** | 2009 |
|---|---|---|
| **Sales** | | |
| Germany | 57,209 | 62,342 |
| Other European countries | 32,862 | 31,849 |
| America | 21,493 | 15,132 |
| Asia / Australia | 24,552 | 17,194 |
| Africa | 609 | 465 |
| | **136,725** | **126,982** |
| **Assets** | | |
| Germany | 108,941 | 112,324 |
| America | 11,299 | 8,618 |
| Asia / Australia | 12,197 | 8,713 |
| | **132,437** | **129,655** |
| **Investments in long-term assets (incl. financial leasing)** | | |
| Germany | 4,321 | 2,438 |
| America | 206 | 205 |
| Asia / Australia | 50 | 82 |
| | **4,577** | **2,725** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

## Notes to the consolidated financial statements

Previous year figures include first-time consolidation of BST International (Shanghai) Co., Ltd (see note 4.5)

### (1) Sales

For information on sales by division and geographical region, please refer to the segment breakdowns. Sales include revenues from the delivery of goods in the amount of T126,588 euro (previous year: T117,973 euro), from services in the amount of T6,103 euro (previous year: T6,481 euro) and from long term construction contracts in the amount of T4,034 euro (previous year: T2,528 euro).

### (2) Cost of goods sold

The cost of goods sold includes the costs of the products and services sold as well as purchase costs of merchandise sold. This includes directly allocable material and personnel expenses as well as the respective portion of material and manufacturing overheads. Cost of goods sold includes total expenses for research and development in the amount of T7,266 euro in 2010 and T5,890 euro in 2009. Valuation allowances on inventories in the amount of T65 euro in 2010 were charged to the statement of comprehensive income (previous year: T175 euro).

### (3) Selling expenses

Selling expenses are composed of the following:

| in €k | **2010** | 2009 |
|---|---|---|
| Personnel expenses | 13,277 | 12,834 |
| Commissions | 5,521 | 6,895 |
| Travel expenses | 1,675 | 1,488 |
| Freight dispatches | 1,128 | 993 |
| Advertising | 984 | 938 |
| Depreciation of fixed assets | 617 | 391 |
| Other operating expenses | 5,308 | 5,809 |
| **Total** | **28,510** | **29,348** |

### (4) Administrative expenses

Administrative expenses are composed of the following:

| in €k | **2010** | 2009 |
|---|---|---|
| Personnel expenses | 4,978 | 4,563 |
| Third-party services | 1,240 | 1,082 |
| Legal and consulting expenses | 843 | 1,007 |
| Insurance | 673 | 703 |
| Travel expenses | 354 | 260 |
| Depreciation of fixed assets | 197 | 204 |
| Rents and leases | 245 | 234 |
| Other operating expenses | 589 | 148 |
| **Total** | **9,119** | **8,201** |

### (5) Other operating income

Other operating income of the Group was composed of the following:

| in €k | **2010** | 2009 |
|---|---|---|
| Income from release of provisions not utilised | 371 | 658 |
| Income from the release of liabilities | - | 283 |
| Capital gains | 650 | 384 |
| Income from release of provisions on receivables | 275 | 200 |
| Cost rebates, transfer of costs | 637 | 140 |
| Income from release of follow-up provisions not utilised | 136 | 18 |
| Other | 1,181 | 1,143 |
| **Total** | **3,250** | **2,826** |

### (6) Other operating expenses

Other operating expenses of the Group include:

| in €k | 2010 | 2009 |
|---|---|---|
| Allocation to other provisions | 339 | 1,194 |
| Expenses for restructuring and litigation | 1,656 | 995 |
| Allocations to individual write-downs on receivables and losses on receivables | 485 | 370 |
| Capital losses | 435 | 488 |
| Other | 224 | 108 |
| **Total** | **3,139** | **3,155** |

Expenses for restructuring and legal proceedings relate to costs for personnel and structural measures as well as allocation to reserves. In the previous year these expenses related to personnel and restructuring measures.

### (7) Financial result

The financial result is composed of the following:

| in €k | 2010 | 2009 |
|---|---|---|
| **Result of participations** | | |
| Income from participations | - | 22 |
| Result of sale of financial participation | - | 294 |
| | **-** | **316** |
| **Interest result** | | |
| Interest income | 859 | 529 |
| Interest expense on bank loans | -1,180 | - 1,016 |
| Interest expense on financial leasing | -231 | - 249 |
| Interest expense on pension provisions | -433 | - 426 |
| Bank and guarantee fees | -18 | - 5 |
| | **- 1,003** | **- 1,167** |
| **Financial result** | **- 1,003** | **- 851** |

Income from shares in the previous year were dividends from companies not included within the scope of consolidation in the amount of T22 euro. The previous year's result from the sale of shares relates to the disposal of shares in BST Sayona Automations Private Ltd, Mumbai/India to elexis beta GmbH, Wenden.

### (8) Taxes on incomeg

| in €k | 2010 | 2009 |
|---|---|---|
| **Current taxes** | | |
| Domestic | -3,023 | -2,334 |
| Abroad | -965 | -275 |
| Taxes on income not relating to the period | 282 | -78 |
| | **-3,706** | **-2,687** |
| **Deferred taxes** | **3,731** | **213** |
| **Taxes on income** | **25** | **-2,474** |

Domestic taxes on income were calculated at 29.83% (2009: 29.83%) of the estimated taxable profit. Taxation abroad was calculated at the relevant applicable tax rates (USA: 41.30 % (previous year: 41.3%), Brazil: 27.71 % (previous year: 31.3%), Japan: 30.00 % (previous year: 30.00 %); China 25.0% (previous year: 25.0%) 25.00 %). Taxes on income in 2010 not relating to the period concern mainly the reimbursement of prepayments of income tax. Taxes on income in the previous year not relating to the period arose from the retrospective cancellation of tax exemption in China (expense of T340 euro) which were counteracted by tax revenue not relating to the period of T145 euro.

The distinct change in deferred taxes and the associated positive effect on profit is mainly due to the capitalisation of further corporation and local business tax loss carry forwards. As at 31 December 2010 the Group had corporate tax loss carry forwards in the amount of T23,614 euro (previous year: T17,350 euro) and local business tax loss carry forwards in the amount of T17,010 euro (previous year: T10,751 euro) which are mainly due to the accumulated losses of HEKUMA. The Group also has tax loss carry forwards in Japan in the amount of T353 euro (previous year: T181 euro).

Foreseeable utilisable tax loss carry forwards and associated tax reductions are derived from the individual company plans or tax plans for a five year period. Corporate planning in this regard is expressly based on the tax structuring measures of the parent company of the Group. The plan is for the Group shareholding structure to be altered in 2011. As a result of the new company structure, extensive profit transfers will considerably increase the taxable income of HEKUMA. This will enable complete utilisation of the accrued tax loss carry forwards in the five year planning period, whereas last year there were tax loss carry forwards in the amount of T4,904 euro that could not be utilised in the planning period.

A tax income of T2,799 euro resulted from the use of deferred tax claims for tax loss carry forwards in the 2010 accounting year (previous year: T538 euro). Deferred tax liabilities on goodwill result from the amortisation for tax purposes of the capitalised goodwill of HEKUMA GmbH. In accordance with the impairment-only approach under IFRS 3 (corporate mergers)/IAS 36 (impairment of assets) there is no current impairment of the goodwill in contrast with the tax provisions. Deferred tax liabilities were set up on the difference arising between the tax balance sheet and IFRS valuation. Due to the impairment of goodwill in 2010 of T6,550 euro relating to HEKUMA, these temporary differences were reduced, leading to a reduction of deferred tax liabilities of T1,475 euro.

From the reversal of other temporary differences there resulted income from deferred taxes in the amount of T932 euro (previous year: expense of T325 euro).

The combined effects resulted in an income from deferred taxes of T3,731 euro (previous year: T213 euro).

During the fiscal year 2010 deferred taxes in the amount of T155 euro (previous year: T244 euro) from actuarial profits and losses in respect of pensions, hedging and currency conversion were set off in shareholders' equity without any effect on profit or loss. As at 31 December 2010 a deferred tax claim in the amount of T217 euro (previous year: T62 euro) existed as a result of deferred taxes without effect on profit or loss.

No deferred taxes were set up for the difference between the net assets and the tax book value of subsidiaries (so-called "outside basis differences"). As at the balance sheet date temporary differences were T732 euro (previous year: T581 euro). Deferred tax liabilities for subsidiaries are not set up, except if the company could influence the reversal effect and insofar as it is likely that the temporary difference will not reverse in the foreseeable future.

Tax deferrals result from the following items of the statement of financial position and tax loss carry forwards:

| in €k | **31.12.2010** Deferred tax assets | 31.12.2009 Deferred tax assets | **31.12.2010** Deferred tax liabilities | 31.12.2009 Deferred tax liabilities |
|---|---|---|---|---|
| Goodwill | - | - | 504 | 1,979 |
| Other intangible assets | 2 | - | 888 | 440 |
| Property, plant and equipment | 111 | 135 | 135 | 153 |
| Inventories | 12 | - | 322 | 264 |
| Long-term construction contracts | - | - | 294 | 47 |
| Other receivables and other assetse | 146 | 126 | 66 | 51 |
| Provisions for pensions and similar obligations | 1,265 | 916 | - | - |
| Other provisions | 10 | 76 | 257 | 82 |
| Liabilities | 316 | 418 | - | - |
| Tax loss carry forwards | 6,215 | 3,422 | - | - |
| | **8,077** | **5,093** | **2,466** | **3,016** |
| Netting | - 1,310 | - 2,770 | - 1,310 | - 2,770 |
| **Total** | **6,767** | **2,323** | **1,156** | **246** |
| Of which utilisable after 12 months | 6,745 | 2,318 | 363 | - |
| Of which utilisable within 12 months | 22 | 5 | 793 | 246 |

Deferred taxes were netted insofar as the prerequisites for netting of IAS 12 existed.

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

| in €k | **2010** | 2009 |
|---|---|---|
| Result before taxes on income | 3,003 | 4,533 |
| Income tax rate of elexis AG | 29.83% | 29.83% |
| **Expected tax expense (-) / income (+)** | **-896** | **-1,352** |
| Effect of different tax rates abroad | 301 | 5 |
| Tax effect of non tax-deductible expenses / tax-free income | -363 | -216 |
| Tax expense / income from previous periods | 282 | -195 |
| Change in valuation of deferred tax assets for tax loss carry forwards | 665 | -871 |
| Other tax expense / income | 36 | 155 |
| **Taxes on income** | **25** | **-2,474** |
| **Effective tax rate** | **-0.83%** | **54.58%** |

The income tax rate of 29.83% for 2010 (previous year: 29.83%) is based on the German corporation tax rate of 15.0%, the solidarity surcharge relating thereto in the amount of 5.5% and an average local trade tax of 14.45%. As a result of the above-mentioned effects the effective tax rate amounted to -0.83 % (previous year: 54,58 %).

## (9) Minority interests

These are dividends accruing to other shareholders from the subsidiary EMG Automation (Beijing) Ltd., Beijing/PR China and P2T Protagon Process Technologies GmbH, Rengsdorf.

## (10) Cost of materials

The cost of materials is composed as follows:

| in €k | **2010** | 2009 |
|---|---|---|
| Expenses for raw materials, supplies and merchandise | 45,152 | 41,923 |
| Purchased services | 4,840 | 4,300 |
| **Gesamt** | **49,992** | **46,223** |

## (11) Personnel expenses

Personnel expenses are composed as follows:

| in €k | **2010** | 2009 |
|---|---|---|
| Wages and salaries | 40,977 | 39,870 |
| Social security and benefit expenses | 6,056 | 6,027 |
| Pension expenses | 183 | 163 |
| **Total** | **47,216** | **46,060** |

Expenses for performance-based benefit plans are included in the pension expenses. Financial items shown in the financial result are not included (interest expense for pension provisions).

Personnel expenses in 2010 were, as in the previous year, reduced by refunds from the Federal Employment Agency. Refunds from the employer's contribution paid by the Company for social security in the amount of T196 euro (previous year T291 euro) were set off against personnel expenses in accordance with IAS 20.29. Of this T120 euro (previous year: T208 euro) was attributable to manufacturing and T55 euro (previous year: T64 euro) to sales and T21 euro (previous year: T19 euro) to administration.

The payment of temporary wages on the other hand constitutes a transitory item for the Company, since payments are transferred to the employees. They therefore have no effect on the statement of comprehensive income.

## (12) Employees

The average number of employees (excluding apprentices and trainees) in accordance with Section 267 subsection 5 of the HGB (German Commercial Code) amounted to:

| Number of employees | **2010** | 2009 |
|---|---|---|
| Production / development / engineering | 476 | 474 |
| Sales | 192 | 196 |
| Purchasing / materials procurement | 24 | 25 |
| Administration | 84 | 88 |
| **Total** | **776** | **783** |

## (13) Earnings per share

Undiluted earnings per share are calculated by dividing the net income for the period allocable to the shareholders, in the amount of T2,237 (previous year: T1,710 euro) by the weighted average number of shares for the period under review. elexis AG had 9,200,000 shares during the period. This results in earnings per share of 0.24 euro (= T2,237 / 9,200,000 shares) [previous year: € 0,19 (= T1,710/ 9,200.000 shares)].

There are no dilution effects.

A proposal will be made to the Annual General Meeting in May 2011 to pay a dividend of T€ 3.404 (corresponding to € 0.37/ share) for the 2010 fiscal year.

A dividend for the 2009 reporting period of T1,564 euro (0.17 euro per share) was paid in May 2010. The dividend for 2008 was T4,416 euro (0.48 euro/share).

## Notes to the consolidated statement of financial position

### (14) Goodwill and other intangible assets

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

| in €k | Goodwill | Capitalised development expenses | Patents, licences and other intangible assets | Of which from financial leasing | Total |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| **As at 01.01.2009** | **36,011** | **784** | **9,126** | **378** | **45,921** |
| Additions | - | 720 | 301 | - | 1,021 |
| Disposals | - | - | - 135 | - | - 135 |
| Monetary movements | - | - | - 4 | - | - 4 |
| **As at 31.12.2009** | **36,011** | **1,504** | **9,288** | **378** | **46,803** |
| Additions | 17 | 2,102 | 621 | - | 2,740 |
| Disposals | - | - | - 240 | - | - 240 |
| Monetary movements | - | - | - 12 | - | - 12 |
| **As at 31.12.2010** | **36,028** | **3,606** | **9,657** | **378** | **49,291** |
| **Accumulated amortisation / write-downs** | | | | | |
| **Stand 01.01.2009** | **9,809** | **2** | **7,048** | **378** | **16,859** |
| Amortisation additions | - | 46 | 835 | - | 881 |
| Amortisation disposals | - | - | - 124 | - | -124 |
| Monetary movements | - | - | 4 | - | 4 |
| **As at 31.12.2009** | **9,809** | **48** | **7,763** | **378** | **17,620** |
| Amortisation additions | - | 568 | 692 | - | 1,260 |
| Write-downs additions | 6,550 | - | - | - | 6,550 |
| Amortisation disposalsn | - | - | - 206 | - | - 206 |
| Monetary movements | - | - | - 22 | - | - 22 |
| **As at 31.12.2010** | **16,359** | **616** | **8,227** | **378** | **25,202** |
| **Book values** | | | | | |
| **As at 31.12.2009** | **26,202** | **1,456** | **1,525** | **-** | **29,183** |
| **As at 31.12.2010** | **19,669** | **2,990** | **1,430** | **-** | **24,089** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

Goodwill is allocated to the following cash generating units (legal entities) or groups of cash generating units as follows:

| in €k | **2010** | 2009 |
|---|---|---|
| Business unit High Precision Automation | 16,391 | 22,941 |
| Business unit High Quality Automation (Non-metal) | 2,885 | 2,885 |
| EMH Brazil as part of strategic business unit High Quality Automation | 393 | 376 |
| **Total** | **19,669** | **26,202** |

The fair value less disposal costs and the utility value are determined on the basis of a discounted cash flow model, whereby fair value is determined from an external and utility value from an internal company point of view. elexis primarily determines the utility value. Market transactions or valuations by third parties for similar assets were, if available, taken into consideration for the determination of fair value less disposal costs.

The determination of fair value and utility value is based on cash flow plans, which in turn are based on the planning for a period of three years as approved by the Management Board and the Supervisory Board and which were valid at the date of the implementation of the impairment test. These plans include experience as well as expectations regarding future market development. Various scenarios are reviewed during the course of the determination process. Growth rates are determined for the cash flow assumptions going beyond the planning period on the basis of analyses of past events and prognoses for the future. The growth rate applied in the impairment test amounts to 0.5% (previous year: 0.5 %). The rate used does not exceed the long term average growth rate for the markets in which the individual entities are active.

The capital costs used for discounting are calculated at elexis as the weighted average of equity and third party capital costs, whereby the underlying capital structure is determined on the basis of comparable companies from the same sector (peer groups). Both components are derived from available capital market information. In order to take into consideration the various return/risk profiles of the strategic business units of the elexis Group, individual capital costs are measured. Pre-tax interest rates applied for the discounting amount were, for the strategic business area High Precision Automation 11.5% (previous year: 11.8 %), for the business area High Quality Automation / 'Non-metal' 12.3 % (previous year: 12.2 %), in the business unit High Quality Automation / 'Metal' 15.2 % (previous year: 17.0 %).

The impairment test implemented for the High Quality Automation/'non-metal' and 'metal' business units confirmed the stated book values. Planning is carried out in the business area taking into consideration current management estimates and future cash flows adjusted downwards. The impairment test carried out in the High Precision Automation business area led to a write-down of T6,550 euro. Within the framework of a sensitivity analysis, possible effects are studied with regard to changes in the growth rate and capital costs. Analyses are carried out with regard to realistic changes. With a 0.5% lower growth rate, the achievable amount in the High Quality Automation/'non-metal' and 'metal' business areas would be in excess of the book value and there would be no requirement for impairment. If average weighted capital costs as used in the framework of an impairment test increase by one percentage point, the achievable amount in the High Quality Automation/'non-metal' and High Quality Automation/'metal' business areas would be significantly above the book value and no impairment would result. Even if both growth rate and capital costs parameters as described above were to change, there would no impairment requirement in either business area.

Impairment of T6,550 euro was identified on the basis of updated planning in the High Precision Automation business area. For a 0.5 percent higher growth rate, impairment would have been T986 euro lower. A decrease in capital costs used by one percent would have reduced the impairment requirement by T2,781 euro. For a simultaneous change in growth rate and capital costs, the impairment requirement in the High Precision Automation business area would have been T2,438 euro. With a 0.5 percent lower growth rate, impairment would have been T874 euro higher. An increase in capital costs used by one percent would have increased the impairment requirement by T2,181 euro. For a simultaneous decrease in growth rate and increase in capital costs, the impairment requirement in the High Precision Automation business area would have been T9,409 euro.

In the case of a marginal capital cost rate of 18.8 % after taxes the achievable amount would, subject to a reduction of the growth rate by 0.5%, correspond to the book value of the strategic business area Quality Automation/'Non-metal'. For the High Quality Automation/'Metal' business area a marginal capital cost rate of 15.3 % after taxes was determined on the same basis.

Intangible assets arising from development projects are attributable in particular to the development of new products as well as specific software solutions. As at 31 December 2010 intangible assets resulting from development projects were capitalised in the amount of T2,990 euro (previous year: T1,456 euro). An increase in intangible assets of T1,266 euro resulted from the acquisition of P2T Protagon Process Technologies GmbH, Rengsdorf at the time of the acquisition. During the year under review expenses from current research and development projects amounted to T7,266 euro (previous year: T5,890 euro), which were reflected directly in the statement of comprehensive income under cost of goods sold.

## (15) Property, plant and equipment

Property, plant and equipment developed as follows:

| in €k | 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 costs** | | | | | | | | |
| **As at 01.01.2009** | **24,207** | **7,772** | **13,395** | **170** | **14,347** | **2,935** | **324** | **52,273** |
| Additions | 231 | - | 456 | - | 727 | 7 | 290 | 1,704 |
| Disposials | - 45 | - | - 310 | - | - 660 | - 5 | -2 | -1,017 |
| Reclassifications | 53 | - | 172 | - | 192 | - | -417 | - |
| Reclassification into asset held for sale | - | - | - 316 | - | - 211 | - | - | - 527 |
| Monetary movements | 64 | - | 122 | - | 41 | - | - | 227 |
| **As at 31.12.2009** | **24,510** | **7,772** | **13,519** | **170** | **14,436** | **2,937** | **195** | **52,660** |
| Additions | 66 | - | 205 | - | 1,247 | 141 | 319 | 1,837 |
| Disposials | - | - | - 92 | - | - | - | -11 | - 103 |
| Reclassifications | 1 | - | 29 | - | 301 | - | -331 | - |
| Monetary movements | 87 | - | 156 | - | 198 | - | - | 441 |
| **As at 31.12.2010** | **24,664** | **7,772** | **13,817** | **170** | **16,182** | **3,078** | **172** | **54,835** |
| **Accumulated amortisation** | | | | | | | | |
| **As at 01.01.2009** | **10,956** | **2,098** | **10,130** | **168** | **11,298** | **2,423** | **-** | **32,384** |
| Additions | 884 | 365 | 568 | 2 | 1,303 | 248 | - | 2,755 |
| Disposials | - 44 | - | - 310 | - | - 631 | - | - | - 985 |
| Reclassification into asset held for sale | - | - | - 264 | - | - 176 | - | - | - 440 |
| Monetary movements | 26 | - | 81 | - | 30 | - | - | 137 |
| **As at 31.12.2009** | **11,822** | **2,463** | **10,205** | **170** | **11,824** | **2,671** | **-** | **33,851** |
| Additions | 872 | 365 | 584 | - | 1,137 | 157 | - | 2,593 |
| Disposials | - | - | - 59 | - | - | - | - | - 59 |
| Monetary movements | 52 | - | 110 | - | 151 | - | - | 313 |
| **As at 31.12.2010** | **12,746** | **2,828** | **10,840** | **170** | **13,112** | **2,828** | **-** | **36,698** |
| **Book values** | | | | | | | | |
| **As at 31.12.2009** | **12,688** | **5,309** | **3,314** | **-** | **2,612** | **266** | **195** | **18,809** |
| **As at 31.12.2010** | **11,918** | **4,944** | **2,977** | **-** | **3,070** | **250** | **172** | **18,137** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

The financial leasing contract for land and buildings relates to the factory premises of BST International GmbH, Bielefeld; the contract expires in 2020. A purchase option for the building at the end of the con-tractual period was agreed. In addition EMG Automation GmbH has issued a rental commitment for this. 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 one and three years. A premature cancellation of these contracts is in principle not possible. The agreed interest rates of the leasing contracts are between 3.7% and 6.0% (previous year: 3.7 percent to 6.0 percent p.a.).

There were no projects to produce qualified assets.

As at 31 December 2010 there were purchase commitments for items of property, plant and equipment in the amount of T1,107 euro (previous year: T982 euro).

## (16) Financial holdings

Financial holdings developed as follows:

| in €k | Participations | Total |
|---|---|---|
| **Acquisitions costs** | | |
| **As at 01.01.2009** | **5,396** | **5,396** |
| Additions | - | - |
| Disposals | -113 | - 113 |
| **As at 31.12.2009** | **5,283** | **5,283** |
| Additions | - | - |
| Disposals | - | - |
| **As at 31.12.2010** | **5,283** | **5,283** |
| **Accumulated amortisation** | | |
| **As at 01.01.2009** | **2,500** | **2,500** |
| Additions | - | - |
| Disposals | - | - |
| **As at 31.12.2009** | **2,500** | **2,500** |
| Additions | - | - |
| Disposals | - | - |
| **As at 31.12.2010** | **2,500** | **2,500** |
| **Book values** | | |
| **As at 31.12.2009** | **2,783** | **2,783** |
| **As at 31.12.2010** | **2,783** | **2,783** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

Financial assets are attributable primarily to elexis beta GmbH, Wenden with a book value of T2,236 euro (previous year T2,236 euro). Disposals relate to the sale of the shares in BST Sayona Automations Private Ltd, Mumbai/India by BST International GmbH, Bielefeld to elexis beta GmbH, Wenden.

The value correction shown under cumulative amortisation results from the amortisation of the book value of the holding in elexis beta GmbH in 2002.

## (17) ) Long-term receivables and other assets

Long-term receivables and other assets in the amount of T1,654 euro (previous year: T1,640 euro) relate to receivables from reinsurance for pension commitments in the amount of T343 euro (previous year: T217 euro), loans in the amount of T1,142 euro (previous year: T1,210 euro) and other assets in the amount of T169 euro (previous year: T213 euro). Of the loans T40 euro (previous year: T38 euro) reach maturity within 12 months, T294 euro (previous year: T344 euro) between 13 and 60 months and T808 euro (previous year: T828 euro) after 60 months.

Long-term financial assets included in this item are neither impaired nor overdue.

## (18) Inventories

Inventories are broken down as follows:

| in €k | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Raw materials and supplies | 11,251 | 9,253 |
| Work in progress | 10,540 | 9,007 |
| Finished goods | 1,182 | 1,418 |
| Prepayments on inventories | 129 | 55 |
| **Total** | **23,102** | **19,733** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

As at 31 December 2010 inventories had a book value of T3,510 euro (previous year: T1,146 euro) and T1,089 euro (previous year: T570 euro). Due to increasing production volumes and some long delivery periods, inventories have risen over the period despite inventory management.

## (19) Long-term construction contracts

Specific customer construction contracts that have not been partially or finally invoiced are taken into consideration with effect on the profit and loss using the percentage of completion method in accordance with IAS 11.

| in €k | **31.12.2010 Balance stated as assets** | 31.12.2009 Balance stated as assets | **31.12.2010 Balance stated as liabilities** | 31.12.2009 Balance stated as liabilities |
|---|---|---|---|---|
| Costs incurred for long-term construction contracts | 4,514 | 1,136 | 856 | 40 |
| Shares in profit /( loss) | 253 | 144 | 297 | 17 |
| **Subtotal** | **4,767** | **1,280** | **1,153** | **57** |
| Less prepayments received | -3,026 | -456 | -2,332 | -175 |
| **Total** | **1,741** | **824** | **-1,179** | **-118** |

As in 2009, receivables and liabilities from long-term construction contracts at 31 December 2010 had a remaining maturity of less than one year.

## (20) Trade receivables

As at 31 December 2010 there were trade receivables of T530 euro (previous year: T615 euro) with a maturity in excess of one year.

Trade receivables are broken down in the following time periods:

| Trade receivables | Book value in €k | Of which neither written down nor overdue at date of financial statements | Of which not written down at date of 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 |
| 31.12.2010 | 20,999 | 14,872 | 2,371 | 1,066 | 1,947 | 743 |
| 31.12.2009 | 23,470 | 18,003 | 4,888 | 362 | 94 | 123 |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

Write-down of trade receivables was as follows:

| in €k | **2010** | 2009 |
|---|---|---|
| **Write-downs as at 01.01.** | **469** | **518** |
| Exchange differences | -21 | 8 |
| Additions | 460 | 189 |
| Consumption | -33 | -47 |
| Reversal | -275 | -199 |
| **Write-downs as at 31.12.** | **600** | **469** |

Expenses in the amount of T25 euro (previous year: T236 euro) were incurred due to the full write-down of trade receivables. These were offset by income arising from the collection of written-off receivables in the amount of T2 euro (previous year: T3 euro).

All expenses and income from value adjustments and write-offs as well as the collection of receivables previously written off were recognised in other operating income and expenses.

## (21) Receivables from taxes on income

Receivables from taxes on income at 31 December 2010 were T247 euro (previous year: T936 euro).

## (22) Other short-term receivables and assets

Other short-term receivables and assets are as follows:

| in €k | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Receivables from associated companies | 554 | 331 |
| Prepaid expenses | 214 | 356 |
| Receivables from counter-insurance | - | 242 |
| Receivables from taxes | 18 | 119 |
| Receivables from employees | 27 | 38 |
| Other | 411 | 508 |
| **Total** | **1,224** | **1,594** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

No value adjustments were made in respect of receivables from invested-in companies (previous year: T0 euro). None of the financial or other receivables and assets in this item are overdue.

## (23) Short-term cash deposits

As at 31 December 2010 there were no short term cash deposits. (previous year T2,000 euro). In the previous year, there was a fixed term deposit with a maturity of more than three months.

## (24) Cash and cash equivalents

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

The development of shareholders' equity is shown in the schedule of changes in shareholders' equity under 4.3.

As at 31 December 2010 the share capital of elexis AG amounted to 23,552,000 euro divided into 9,200,000 no par value bearer shares. Each no par value share has a proportional share in the share capital of 2.56 euro.

| | **2010** | 2009 |
|---|---|---|
| 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 |

The Annual General Meeting of shareholders on 20 May 2010 passed a resolution authorising the Management Board of elexis AG to acquire a total of treasury shares up to ten percent of the current share capital before 19 November 2015. At the same time the similar authorisation of the previous year was cancelled.

Through the resolution of the Annual General Meeting of shareholders on 20 May 2010 the Management Board of elexis AG 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 11,776,000.00 euro (authorised capital). The authorisation is subject to the approval of the Supervisory Board and is valid until 30 June 2012. This replaces the authorisation agreed on 24 June 2005 and expiring on 23 June 2010.

Capital reserves of T3,555 euro are attributable to the premium from the capital increase of elexis AG implemented during the 1999 accounting year.

The item 'Cumulative results' includes retained earnings, profit carry forward, the result of the current year and actuarial profits and losses stated directly in shareholders' equity without any effect on profit or loss in connection with the valuation of the provisions for pensions and of the corresponding plan assets. These are stated directly in the item 'Cumulative results' after deduction of the corresponding deferred taxation (please refer to the explanation in Note (26) 'Provisions for pensions and similar obligations').

Other reserves include adjustments from currency conversion as well as a reserve for the settlement of hedging transactions.

The cumulative amounts of the shareholders' equity items 'Other reserves' and 'Cumulative results' are recognised without effect on profit or loss and are composed as follows:

| in €k | Actuarial profits / (losses) from performance based benefit plans and similar obligations | Other reserves | | | Total items stated in shareholders' equity without effect on statement of recognised income and expense |
|---|---|---|---|---|---|
| | | *Adjustment item for foreign currency conversion* | *Cash flow hedges* | Total | |
| **As at 01.01.2009** | **440** | **951** | **- 75** | **876** | **1,316** |
| Additions | - 817 | 359 | - | 359 | **- 458** |
| Disposals | - | - | - | - | **-** |
| Deferred taxes | 244 | - | - | - | **244** |
| Reclassification in the statement of comprehensive income with an effect on income | - | - | 75 | 75 | **75** |
| **As at 31.12.2009** | **- 133** | **1,310** | **-** | **1,310** | **1,177** |
| Additions | - 514 | 605 | - | 605 | **91** |
| Disposals | - | - | - | - | **-** |
| Deferred taxes | 155 | - | - | - | **155** |
| Reclassification in the statement of comprehensive income with an effect on income | - | - | - | - | **-** |
| **As at 31.12.2010** | **- 492** | **1,915** | **-** | **1,915** | **1,423** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

Changes from T371 euro to T359 euro in adjustments for currency conversion were made due to the incorporation with retroactive effect of BST International (Shanghai) Co., Ltd. for the business year 2009.

Up to 31 December 2010 actuarial losses in the amount of T709 euro (previous year: T195 euro) were stated in shareholders' equity.

Deferred taxes attributable to the changes in value in shareholders' equity are shown in the following table:

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| in €k | Before taxes | Taxes | After Taxes | Before taxes | Taxes | After Taxes |
| Foreign currency differences | 789 | - | 789 | 328 | - | 328 |
| Other changes in shareholders' equity | - | - | - | - | - | - |
| Actuarial profits / (losses) from performance-based benefit plans and similar obligations | -514 | 155 | - 359 | - 817 | 244 | - 573 |
| **Valuation changes stated directly in shareholders' equity** | **275** | **155** | **430** | **- 489** | **244** | **- 245** |

Transactions with owners under the equity adjustment account include dividends and profit disposal to minority shareholders. In the previous year the acquisition of 48 percent of the shares in EMH Eletromecânica e Hidraulica Ltda., Belo Horizonte/Brazil was also included under this item.

## Additional information on capital management

The elexis Group has a solid capital structure. Financial flexibility enables the achievement of growth targets. The shareholders' equity allocable to the shareholders of elexis AG rose during 2010 by 1.4%. The increase results from the current results of the Group. The increase counterbalances the payment of dividends for the 2009 year. Overall, the equity ratio (without minority interest) fell from 50.4% on 31 December 2009 to 50.0% on 31 December 2010.

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

| in €k | **31.12.2010** | 31.12.2009 |
|---|---|---|
| **Share in shareholders' equity allocable to the shareholders** | **66,205** | **65,286** |
| Share in total capital (in %) | 76.2 | 71.6 |
| - Long-term liabilities to banks | 6,920 | 9,749 |
| - Short-term liabilities to banks | 13,771 | 16,158 |
| **Financial liabilities** | **20,691** | **25,907** |
| Share in total capital (in %) | 23.8 | 28.4 |
| **Total capital (shareholders' equity excl. minority interests + liabilities to banks)** | **86,896** | **91,193** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

The portion of shareholders' equity (excluding minority interests) in the total capital increased during the 2010 accounting year from 71.6% to 76.2%.

elexis AG is not subject to obligations under the Articles of Association with regard to the formation of capital reserves.

## (26) Provisions for pensions and similar obligations

The elexis Group administers performance-based benefit plans for entitled employees of their subsidiaries located in Germany. According to these plans the employees have a claim to benefits on becoming qualified for a social security pension. There are also claims for benefits in the event of invalidity or as a surviving dependant's pension.

Provisions for pensions and other obligations are calculated in accordance with the projected unit credit method. Future pension trends are also included in this method. The pension plan includes a reinsurance policy which is pledged to the entitled person. With the approval of the Supervisory Board, elexis Pension Trust e.V., Wenden was founded for the establishment of a contractual trust agreement (CTA) on 4 July 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 certain domestic companies. During the fiscal year 2007 the CTA was provided with cash assets in the amount of T4,000 euro. All other pension plans are not directly covered. The existing pension plan has been closed for newly hired employees since 1997. The beneficiary status has been frozen since 1999 for the beneficiaries of the pension plan.

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

The calculation of the obligations from performance-related pension plans is based on the following assumptions:

| in % | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Discount rate | 5.05 | 5.25 | 5.75 | 5.50 | 4.60 |
| Future increases in pensions | 2.00 | 2.00 | 2.00 | 2.00 | 1.75 |
| Expected yield of fund assets | 5.00 | 5.00 | 5.00 | 5.00 | 3.00 |

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

| in €k | **31.12.2010** | 31.12.2009 | 31.12.2008 | 31.12.2007 | 31.12.2006 |
|---|---|---|---|---|---|
| Discounted cash value of the performance based obligation | 13,121 | 12,770 | 12,112 | 12,523 | 13,975 |
| Underlying market value of the plan assets | -4,563 | -4,411 | -4,309 | -4,059 | -53 |
| **Provisions for pensions and similar obligations** | **8,558** | **8,359** | **7,803** | **8,464** | **13,922** |
| Adjustment based on experience | | | | | |
| - Liability (pension obligation) | 147 | 1 | -69 | 276 | 87 |
| - Plan assets (assets for coverage of pension obligations) | 87 | 152 | -46 | - | - |

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

| in €k | **2010** | 2009 |
|---|---|---|
| **Discounted cash value of performance-based obligations as at 01.01** | **12,770** | **12,112** |
| Service time expense | 86 | 86 |
| Interest expense | 652 | 677 |
| **Total expenses for pensions and obligations similar to pensions** | **738** | **763** |
| Actuarial (gains) and losses | 427 | 666 |
| Benefits paid | -814 | -771 |
| **Change of discounted cash value of the performance-based obligations** | **351** | **658** |
| **Discounted value of performance-based benefit obligations as at 31.12.** | **13,121** | **12,770** |
| *Of which obligations financed partially through funds* | *11,547* | *11,352* |
| *Of which obligations not financed through funds* | *1,574* | *1,418* |

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

| in €k | **2010** | 2009 |
|---|---|---|
| **Fair value of plan assets as at 01.01.** | **4,411** | **4,309** |
| Expected income of plan assets | 236 | 250 |
| Actuarial gains / (losses) | -87 | -151 |
| Employer contributions | 3 | 3 |
| **Fair value of plan assets as at 31.12.** | **4,563** | **4,411** |

The actuarial income of the plan assets amounted to T149 (previous year: T119 euro).

Total expenses for pensions in 2010 amounted to T502 euro (previous year: T513 euro).

The current service time expense is set off within the operating result. Interest expenses as well as income from the plan assets are included in the financial result. Actuarial profit and loss is recognised directly under equity under the item 'Cumulative result'. Estimated profit from plan assets is based on the analysis of historical and expected profit and volatilities of the individual components of the plan asset portfolio. The plan assets consist of 6% fixed interest securities funds and 94% securities held.

For the accounting year 2011 no contributions are expected to the plan assets for pensions.

Apart from 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 T3,267 euro (previous year: T2,699 euro) are attributable primarily to the state-administered pension scheme and are included as a current year expense in the functional areas and thus also in operating profit.

A change in the discount rate used for the calculation by +0.25% / -0.25% leads to a change in the obligation value of T-349 euro / T+367 euro (previous year: T-337 euro / T+357 euro). Changes in the expected return of the fund assets of +/- 1% lead to a change in the fair value of T46 euro (previous year: T44 euro).

## (27) Other provisions/tax liabilities

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

| in €k | 01.01.2010 | Con-sumption | Release | Additions | Reclassi-fication | Monetary movements | 31.12.2010 |
|---|---|---|---|---|---|---|---|
| **Long-term provisions** | | | | | | | |
| Provisions from obligations to employees | 2,988 | - 278 | - | 396 | - | - | 3,106 |
| Netting with plan assets | - 1,054 | | | | | | - 1,845 |
| Netted obligation to employees | 1,934 | | | | | | 1,261 |
| Provision for archiving expenses | 288 | - | - 40 | 1 | - | - | 249 |
| Risks from restructuring and litigation | 1,300 | - 19 | - | 89 | - | - | 1,370 |
| | **3,522** | **- 297** | **- 40** | **486** | **-** | **-** | **2,880** |
| **Short-term provisions** | | | | | | | |
| Risks from restructuring and litigation | 1,890 | - 160 | - | 950 | - | - | 2,680 |
| Guarantee obligations | 796 | - 402 | - 292 | 1,019 | - | 9 | 1,130 |
| Rebates, bonuses, third-party commissions | 58 | - 16 | - | - | - | - 8 | 34 |
| Other | 486 | - 380 | - 39 | 489 | - | 11 | 567 |
| | **3,230** | **- 958** | **- 331** | **2,458** | **-** | **12** | **4,411** |
| **Other provisions** | **6,752** | **- 1,255** | **- 371** | **2,944** | **-** | **12** | **7,291** |

The obligations to employees included under long term provisions relate to long service work entitlements and pension obligations. Obligations of T3,106 euro (previous year: T2,988 euro) were offset by T1,845 euro (previous year: T1,054 euro) relating to plan assets at elexis-Pension-Trust e. V., Wenden. For obligations from pension obligations we expect an outflow of funds in the amount of T1,345 euro (previous year: T1,096 euro) beginning in 2012. It is not possible to give a definite prognosis on the outflow of funds relating to long service account obligations of T1,761 euro (previous year: T1,892). We expect that utilisation will take place within a period of 5 to 10 years.

The plan assets for covering the obligations towards employees developed as follows:

| in €k | 2010 | 2009 |
|---|---|---|
| **Fair value of plan assets for partial retirement benefits and long worktime accounts as at 01.01.** | **1,054** | **500** |
| Payments to plan assets | 705 | 500 |
| Income from plan assets | 86 | 54 |
| **Fair value of plan assets for partial retirement benefits and long worktime accounts as at 31.12.** | **1,845** | **1,054** |

Provisions for risks from restructuring and legal proceedings have been set up in particular to cover future costs from pending legal proceedings, particularly in connection with previously divested business units. They cover 50% of the maximum risk. The consequences of pending or future court cases cannot be foreseen with certainty. Provisions for guarantee liabilities were set up to cover recognisable individual risks.

Other provisions relate mainly to the remuneration for the Supervisory Board in the amount of T229 euro (previous year: T229 euro), and provisions for fees and duties of our foreign companies in the amount of T124 euro (previous year: T102 euro).

Expenses could be incurred as a result of decisions by the court or the authorities or from settlement agreements. Such expenses could have substantial effects on the business of the elexis Group. The provisions classified as short term will probably be used within the following business year.

| in €k | **01.01.2010** | Con-sumption | Release | Additions | Monetary movements | **31.12.2010** |
|---|---|---|---|---|---|---|
| Tax liabilities from taxes on income | 1,848 | -1,724 | -124 | 135 | - | 135 |

## (28) Financial liabilities

As at 31 December 2010, financial liabilities were composed as follows:

| | Maturity | | | **31.12.2010** |
|---|---|---|---|---|
| in €k | Up to 1 year | From 1 to 5 years | More than 5 years | Total |
| Long-term liabilities to banks | 1,042 | 1,018 | 173 | 2,233 |
| Current overdraft accounts | 12,240 | - | - | 12,240 |
| Liabilities from financial leasing | 489 | 1,797 | 3,932 | 6,218 |
| **Total** | **13,771** | **2,815** | **4,105** | **20,691** |

The maturities of financial liabilities as at 31 December 2009 were as follows:

| | Maturity | | | 31.12.2009 |
|---|---|---|---|---|
| in €k | Up to 1 year | From 1 to 5 years | More than 5 years | Total |
| Long-term liabilities to banks | 1,931 | 3,662 | - | 5,593 |
| Current overdraft accounts | 13,714 | - | - | 13,714 |
| Liabilities from financial leasing | 513 | 1,717 | 4,370 | 6,600 |
| **Total** | **16,158** | **5,379** | **4,370** | **25,907** |

### Bank loans

For its domestic companies, the Group draws mainly on loans in euro. The agreed interest rates are between 4.5% p.a. and 5.7% p.a. (previous year: 4.5% and 6.3% p.a.). Fixed interest rates between 1.6% (Japan) and 2.1 % USA were agreed for a small number of foreign currency loans for foreign subsidiaries. Corresponding interest rates last year were between 1.6% and 4.5%. Domestic subsidiaries did not take up any foreign currency loans. Foreign companies' loans are converted using the exchange rate at the end of the reporting period.

A loan with a book value of T3,407 at 31 December 2009 was settled prematurely in 2010. Other loans are stated at the repayment amount. As at 31 December 2010 there were credit lines in the amount of T38,804 euro (previous year: T40,809 euro) of which T14,473 euro (previous year: T19,307 euro) were loans and current account overdraft loans and T8,261 euro (previous year: T5,387 euro) were guarantees/sureties.

### Collateral

Liabilities to banks were secured as follows:

| in €k | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Overdraft loans secured through pledge of assets (of which financial instruments T euro (previous year: T323 euro)) | - | 466 |
| Loans secured through pledge of shares in HEKUMA GmbH, Eching | - | 3,407 |
| **Total** | **-** | **3,873** |

The securities were released following loan repayments and reformulation of credit agreements. Elexis AG has also provided a declaration of liability with regard to the current account overdraft of HEKUMA GmbH which is recognised under liabilities in the Group statement of financial position. It has also issued an internal letter of intent.

### Financial leasing

In the future the following minimum leasing payments will be due in connection with financial leasing contracts:

| in €k | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Due within 1 year | 694 | 742 |
| Due within 1 to 5 years | 2,458 | 2,444 |
| Due after 5 years | 6,003 | 6,581 |
| **Total of minimum lease payments** | **9,155** | **9,767** |
| Less interest portion | -2,938 | -3,167 |
| **Discounted cash value of liabilities from financial leasing** | **6,217** | **6,600** |

The interest paid on the liabilities from financial leasing amounted to between 3.7% and 6.0% p.a. (previous year: 3.7 % and 6.0% p.a.).

### (29) Trade payables

This item includes liabilities to third parties for goods and deliveries. Of trade payables, T26 euro (previous year: T231 euro) are due after one year.

### (30) Other liabilities

Other liabilities are composed as follows:

| in €k | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Liabilities from PSV (German pension insurance association) contribution | 55 | 88 |
| **Other liabilities – long-term** | **55** | **88** |
| Liabilities to personnel | 4,208 | 3,786 |
| Liabilities from commission obligations | 1,826 | 3,002 |
| Prepayments received | 4,457 | 2,494 |
| Liabilities from taxes | 2,077 | 755 |
| Liabilities to associated companies | 663 | 648 |
| Obligations from unpaid invoices and commissioning services | 388 | 430 |
| Liabilities in connection with social security | 306 | 287 |
| Audit fees | 168 | 166 |
| Other | 393 | 98 |
| **Other liabilities – short-term** | **14,486** | **11,666** |
| **Total** | **14,541** | **11,754** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

All other short term liabilities are due within one year.

## Notes to the consolidated statement of cash flows

### (31) Other non-cash effective effects

Other non-cash effective effects in the amount of T371 euro are attributable primarily to income from the release of provisions.

The consolidation of BST International (Shanghai) Co., Ltd. with retroactive effect led to an adjustment of the Group statement of cash flows for the 2009 business year. Cash flows from operating activities rose by T228 euro to T5,815 euro. Cash flow from investing activities rose by T58 euro to T5,989 euro, whilst cash flow from financing activities rose by T5 euro to T8,171 euro. The measure had an overall positive effect of T165 euro on the fiscal year's net cash flow.

Liquid assets includes only short term cash and cash equivalents, which as liquid financial investments can be transformed at any time into definite cash amounts and are subject to minor fluctuation risks only.

### (32) Financial instruments

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

| **2010** in €k | Valuation category-in accordance with IAS 39 *) | Book value 31.12.2010 | Financial instruments valuation: At acquisition cost | Financial instruments valuation: Fair value without effect on profit and loss | Financial instruments valuation: As per IAS 17 (financial leasing) / hedging as own category | No financial instruments within meaning of IAS 32/39 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Financial participations | AfS | 2,783 | 2,783 | - | - | - |
| Long-term receivables and other assets | LaR | 1,654 | 1,654 | - | - | - |
| Receivables from long-term construction contracts | LaR | 1,741 | 1,741 | - | - | - |
| Trade receivables | LaR | 20,999 | 20,999 | - | - | - |
| Other short-term receivables and other assets | | 1,224 | - | - | - | - |
| | - LaR | - | 895 | - | - | - |
| | - HfT | - | - | 70 | - | - |
| | - n. a. | - | - | - | - | 259 |
| - of which derivative financial instruments | | - | - | - | - | - |
| Short-term investments | LaR | - | - | - | - | - |
| Cash and cash equivalents | LaR | 31,694 | 31,694 | - | - | - |
| | | **60,095** | **59,766** | **70** | **-** | **259** |
| **Liabilities** | | | | | | |
| Financial liabilities (banks) | FLAC | 14,473 | 14,473 | - | - | - |
| Financial liabilities (financial leasing) | n. a. | 6,218 | - | - | 6,218 | - |
| Verbindlichkeiten aus langfristigen Fertigungsaufträgen | FLAC | 1,179 | 1,179 | - | - | - |
| Liabilities from long-term construction contracts | FLAC | 9,798 | 9,798 | - | - | - |
| | | 14,486 | - | - | - | - |
| | - FLAC | - | 3,744 | - | - | - |
| | - n. a. | - | - | - | | - |
| | - n. a. | - | - | - | - | 10,742 |
| | | **46,154** | **29,194** | **-** | **6,218** | **10,742** |

**) Categories of financial instruments: AFS (available for sale), LAR (loans and receivables), FLAC (financial liabilities measured at amortised cost), HFT (held for trading), N.A. (not financial instruments, valuation carried out in accordance with other regulations)*

| 2009<br>in €k | Valuation category-<br>in accordance<br>with IAS 39 *) | Book value<br>31.12.20109 | Financial instruments valuation<br>At<br>acquisition cost | Fair value<br>without effect<br>on profit and loss | As per IAS 17<br>(financial leasing) /<br>hedging as<br>own category | No financial<br>instruments<br>within meaning<br>of IAS 32/39 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Financial participations | AfS | 2,783 | 2,783 | - | - | - |
| Long-term receivables and other assets | LaR | 1,640 | 1,640 | - | - | - |
| Receivables from long-term construction contracts | LaR | 824 | 824 | - | - | - |
| Trade receivables | LaR | 23,470 | 23,470 | - | - | - |
| Other short-term receivables and other assets | | 1,594 | - | - | - | - |
| | - LaR | - | 1,078 | - | - | - |
| | - n. a. | - | - | - | - | - |
| | - n. a. | - | - | 3 | - | 513 |
| Short-term investments | LaR | 2,000 | 2,000 | - | - | - |
| Short-term investments | LaR | 26,273 | 26,273 | - | - | - |
| | | **58,584** | **58,068** | **3** | **-** | **513** |
| **Liabilities** | | | | | | |
| Financial liabilities (banks) | FLAC | 19,307 | 19,307 | - | - | - |
| Financial liabilities (financial leasing) | n. a. | 6,600 | - | - | 6,600 | - |
| Liabilities from long-term construction contracts | FLAC | 118 | 118 | - | - | - |
| Trade payables | FLAC | 7,797 | 7,797 | - | - | - |
| Other liabilities | | 11,666 | - | - | - | - |
| | - FLAC | - | 4,631 | - | - | - |
| | - n. a. | - | - | - | | - |
| | - n. a, | - | - | - | - | 7,035 |
| | | **45,488** | **31,853** | **-** | **6,600** | **7,035** |

*Figures for the accounting year 2009 include first-time consolidation of BST International (Shanghai) Co., Ltd (see notes 4.5)*

**) Categories of financial instruments: AFS (available for sale), LAR (loans and receivables), FLAC (financial liabilities measured at amortised cost), HFT (held for trading), N.A. (not financial instruments, valuation carried out in accordance with other regulations)*

The book values of cash and cash equivalents, trade receivables, receivables and liabilities from long term construction contracts, other receivables, trade payables as well as other liabilities correspond to their stated values due to their predominantly short term nature. The market values of debt to banks as at 31 December 2010 amounted to T14,556 euro (previous year: T19,783 euro). As at 31 December 2010 the market value of financial liabilities from financial leasing contracts was T6,036 euro (previous year: T5,920 euro). Market values were determined as the discounted cash value of the future outflow of funds, discounted at a current interest rate at the balance sheet date taking into account the corresponding remaining maturity of the liability and the rating of elexis AG.

The following net results are attributable to the individual valuation categories of the financial instruments:

| **2010**<br>in €k | **From interest** | **Income from parti-cipations** | **From subsequent valuation**<br>At fair Value | Currency conversion | Valuation adjustments | **From disposal** | **Net result 2010** |
|---|---|---|---|---|---|---|---|
| Loans and receivables | 859 | - | - | 215 | - 185 | - 23 | 866 |
| Assets held for sale | - | - | - | - | - | - | - |
| Financial liabilities valued at acquisition cost | -1,180 | - | - | - | - | - | - 1,180 |
| Result from hedging | - | - | - | - | - | - | - |
| Financial receivables / liabilities valued at fair value with an effect on income | - | - | - 82 | - | - | - | - 82 |
| **Total** | **- 321** | **-** | **- 82** | **215** | **- 185** | **- 23** | **- 396** |

| 2009<br>in €k | **From interest** | **Income from parti-cipations** | **From subsequent valuation**<br>At fair Value | Currency conversion | Valuation adjustments | **From disposal** | **Net result 2009** |
|---|---|---|---|---|---|---|---|
| Loans and receivables | 529 | - | - | -104 | 10 | 50 | 485 |
| Assets held for sale | - | 22 | - | - | - | 294 | 316 |
| Financial liabilities valued at acquisition cost | -1,016 | - | - | - | - | - | - 1,016 |
| Result from hedging | - | - | - | - | - | - 75 | - 75 |
| Financial receivables / liabilities valued at fair value with an effect on income | - | - | 3 | - | - | - | 3 |
| **Total** | **- 487** | **22** | **3** | **- 104** | **10** | **269** | **- 287** |

The income from shareholdings relates to dividends from companies not included in the scope of consolidation. They are recognised as available-for-sale financial assets. No such income was received in the period under review.

Financial liabilities under ‘Other financial liabilities’ incurred interest expense in the amount of T-1,180 euro (previous year: T-1,106 euro). These are counterbalanced by income from financial assets under ‘Loans and receivables’ in the amount of T859 euro (previous year: T529 euro). Income in the amount of T82 euro (previous year: T3 euro) was earned from derivative financial instruments under the ‘held-for-trading’ category. These expenses (previous year: income) was recognised under other operating expenses (previous year: other operating income).

The valuation of the shares in non-consolidated subsidiaries takes place at amortised cost, since there is no active market for these shares.

The financial instruments of the elexis Group are subject to non-payment risks, interest change and currency risks, which could influence the asset, financial and earnings situation. Due to the broad distribution of sales over regions, customers and currencies, there is no concentration of risk.

### Non-payment risk

There is a risk relating to credit rating and non-payment if business partners do not meet their obligations in connection with financial instruments, thereby incurring loss of assets. The maximum risk of loss with regard to trade receivables is limited to the credit insurance excess which is 30%. In order to minimise the non-payment risk we subject our customers to a credit rating test and operate active debtor management.

For other financial assets the non-payment risk corresponds roughly to book values.

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

### Interest rate risk

In principle, interest risks do not exist for long term liabilities to banks, since these have been agreed at fixed interest rates. Only bank overdrafts are subject to variable interest.

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

According to IFRS 7 interest rate risks are measured 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, where relevant, shareholders' equity. In this respect it is assumed that a hypothetical change in the interest rate effects only financial instruments subject to variable rates of interest. No financial instruments valued at amortised cost with fixed rates of interest are exposed to the risk of changes in the interest rate in accordance with IFRS 7.

If the interest rate at the end of the reporting period had been one percent higher or lower, the result would have differed by T55 euro in either direction (previous year: T60 euro). The sensitivity analysis does not apply to shareholders' equity.

### Currency risk

Owing to its international activities, the elexis Group is exposed to currency risks with regard to investments and operating activities. These risks are systematically analysed in accordance with Group-wide guidelines. The analysis includes existing as well as expected foreign currency exposure over the next 12 months. Cash flow-neutral foreign currency risks resulting from the conversion of the financial statements of foreign subsidiaries are not included in foreign currency exposure. Hedging requirements are determined with the agreement of the Management Board on the basis of this analysis.

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

### Use of forward exchange transactions

The Group uses financial derivatives to a very small extent in order to minimise the effects of exchange rate fluctuations on payment streams. Price changes in connection with these transactions have effects on the result of the elexis Group and on the fair value of these derivative financial instruments. In the event that the transaction partner does not fulfil his obligations from these financial instruments, the elexis Group bears the replacement risk. All financial derivatives are limited to the economic hedging of the operating business. They are subject to constant monitoring as specified in the Management Board guidelines.

At the end of the year there was a currency hedge transaction with a volume of T70 euro. This is included in the statement of financial position under other short term assets.

### Hedge Accounting

IFRS 7 requires an analysis of currency risks with regard to financial instruments of a monetary nature whose denomination is not the functional currency. Differences from the conversion of financial statements into the Group currency are not taken into account.

All monetary instruments (liquid assets, receivables, interest-bearing certificates, interest-bearing debts, liabilities from financial leasing, non-interest-bearing liabilities) in currencies other than the functional currency of the company concerned are thus taken into account in the sensitivity analysis. The foreign currency exposure thus determined is the basis for calculations. The extent of financial instruments as at 31 December is assumed to be representative of the full year.

A devaluation/revaluation of the euro versus the US dollar by 10% would have resulted in an increase/decrease of the result by T240 euro (previous year: T250 euro).

### Maturity analysis

The liquidity risk to which the Group is exposed through financial instruments is composed of obligations from future interest and redemption payments for financial liabilities and the liquidity risk from derivative financial instruments. The liquidity risk is controlled and monitored by the management. Apart from monthly cash flow reporting, a cash flow plan is regularly drawn up, complemented by monthly liquidity plans.

The following table presents the undiscounted interest and redemption payments of the original financial liabilities as well as the derivative financial liabilities:

| in €k | 31.12.2010 Financial liabilities | 31.12.2010 Trade payables / liablities from long-term construction contracts | 31.12.2010 Other financial liabilities | 31.12.2009 Financial liabilities | 31.12.2009 Trade payables / liablities from long-term construction contracts | 31.12.2009 Other financial liabilities |
|---|---|---|---|---|---|---|
| **Outflow of funds within** | | | | | | |
| **3 months** | **9,269** | **10,729** | **3,385** | **13,107** | **7,303** | **4,173** |
| - from repayment | 9,134 | 10,729 | 3,385 | 12,966 | 7,303 | 4,173 |
| - from interest | 135 | - | - | 141 | - | - |
| **More than 3 but less than 6 months** | **3,561** | **134** | **207** | **1,803** | **279** | **257** |
| - from repayment | 3,413 | 134 | 207 | 1,678 | 279 | 257 |
| - from interest | 148 | - | - | 125 | - | - |
| **More than 6 but less than 12 months** | **1,306** | **95** | **119** | **2,058** | **252** | **148** |
| - from repayment | 1,149 | 95 | 119 | 1,820 | 252 | 148 |
| - from interest | 157 | - | - | 238 | - | - |
| **More than 12 but less than 60 months** | **3,674** | **19** | **33** | **6,503** | **81** | **53** |
| - from repayment | 2,890 | 19 | 33 | 5,520 | 81 | 53 |
| - from interest | 784 | - | - | 983 | - | - |
| **More than 60 months** | **6,183** | **-** | **-** | **6,581** | **-** | **-** |
| - from repayment | 4,105 | - | - | 4,370 | - | - |
| - from interest | 2,078 | - | - | 2,211 | - | - |
| **Total** | **23,993** | **10,977** | **3,744** | **30,052** | **7,915** | **4,631** |
| - from repayment | 20,691 | 10,977 | 3,744 | 26,354 | 7,915 | 4,631 |
| - from interest | 3,302 | - | - | 3,698 | - | - |

The amount stated under outflow of funds from the redemption of financial liabilities within three months also includes the theoretical outflow of overdraft liabilities with immediate maturity, for which however no immediate outflow is expected.

## (33) Related party transactions

In accordance with IAS 24 (information 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 and non-consolidated subsidiaries. In addition elexis-Pension-Trust e. V., Wenden is considered as a related party. Its purpose is to act as the trustee administrator of assets for the financing of obligations relating to pension payments, benefits and long service working entitlements to employees of certain domestic subsidiaries. With regard to transactions undertaken during the accounting year, please refer to Note (26) 'Provisions for pensions and similar obligations'.

No transactions were carried out with members of the statutory bodies or their relatives apart from regular payments for activities performed as mentioned.

During the accounting year 2010, sales in the amount of T1,092 euro (previous year: T593 euro) were realised with non-consolidated subsidiaries of the Group. These transactions were carried out on an arm's length basis. The subsidiaries are mainly engaged in sales and service activities and are paid in part through commission payments.

Within the framework of restructuring measures in the area of the non-consolidated holdings, shares in BST Sayona Automations Private Ltd., Mumbai/India were sold last year by BST International GmbH, Bielefeld to elexis beta GmbH, Wenden. Income of T294 euro realised from this transaction is stated in the financial result.

The relationship of the elexis Group to non-consolidated subsidiaries is summarised as follows:

| | Receivables of the Group from participation companies as at | | Liabilities of the group to participation companies as at | | Sales of the Group with participation companies | |
|---|---|---|---|---|---|---|
| in €k | **31.12.2010** | 31.12.2009 | **31.12.2010** | 31.12.2009 | **31.12.2010** | 31.12.2009 |
| elexis beta GmbH | 16 | - | 18 | 21 | - | - |
| BST France S.A.R.L., France | 30 | 32 | 215 | 217 | 56 | 51 |
| BST Italia S. r. l., Italy | 116 | 68 | 369 | 357 | 199 | 164 |
| BST Sayona Automations Private Ltd., India | 352 | 225 | 15 | 18 | 776 | 362 |
| EMG Automation India Private Ltd., India | 40 | 6 | 46 | 35 | 61 | 16 |
| **Total** | **554** | **331** | **663** | **648** | **1,092** | **593** |

## Remuneration of the Management Board and the Supervisory Board

The remuneration of the members of the Management Board and the Supervisory Board in the 2010 accounting year is as follows:

| in €k | Fixed | Bonus | Gross remuneration | Other remuneration in kind * | Total |
|---|---|---|---|---|---|
| 2010 | 518 | 205 | 723 | 92 | 815 |
| 2009 | 500 | 210 | 710 | 84 | 794 |

**) Use of company car, insurance contributions*

The amounts indicated represent compensation for activity as members of the Management Board of elexis AG and activities in the general management of the subsidiaries.

Management Board contracts do not include further remuneration components such as: pension schemes, pension claims, payments from third parties and affiliated companies, appearance fees, share-based remuneration (e.g., options) change of control clauses, other payments in kind, etc. If membership of the Board is prematurely terminated by the Supervisory Board, members of the Board receive a payment that is limited to two years' compensation and does not exceed the remaining portion of the service contract.

The provision set up for a former member of the Management Board and his survivors for pensions and rights to pensions amounted as at 31 December 2010 to T339 euro (previous year: T312 euro).

Compensation of the Supervisory Board was determined at the Annual General Meeting of shareholders and is defined under Section 15 of the Articles of Association of elexis AG. In accordance with this regulation the Supervisory Board was paid a total remuneration of T229 euro (previous year: T229 euro). Of this T229 euro (previous year: T229) was attributable to the fixed portion and T0 euro (previous year: T0 euro) to the variable portion.

The remuneration of the Supervisory Board is due after the Annual General Meeting of shareholders, which resolves on the appropriation of net income for the respective accounting year.

An explanation of the remuneration system and specific payments is given in the remuneration report as part of the Corporate Governance report. The remuneration report is an integral part of the management report.

## (34) Other financial obligations/contingent liabilities

Payment obligations result from operating lease contracts with the following maturities:

| in €k | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Within one year | 1,203 | 1,298 |
| Between two and five years | 500 | 645 |
| After five years | - | - |
| **Total** | **1,703** | **1,943** |

During the accounting year 2010 T1,409 euro (previous year: T1,423 euro) was spent on leasing contracts. Leasing contracts relate mainly to the leasing of operating and office equipment. There were no payment obligations in respect of investment plans commenced (previous year: T0 euro).

Moreover, sureties and a guarantee for ground rent payments in the amount of T8,267 euro (previous year: T8,321 euro) were issued by the Group.

### (35) Significant events after the end of the reporting period

Was regards essential events after balance sheet day, please refer to the statements in the combined management report.

## Supplementary information according to regulations of the HGB and the AktG as well as voluntary information

### (36) Shareholdings

elexis AG, Wenden

Presentation of the shareholdings in accordance with Section 313 Paragraph 2 HGB as at December 31, 2010

elexis Group, Wenden
Presentation of scope of consolidation as at December 31, 2010
(IFRS values)

| Name, registered office | Share in capital % | Held by | Shareholders' equity (€k) | Result (€k) [1] |
|---|---|---|---|---|
| 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 | | | |
| 5. P2T Protagon Process Technologies GmbH, Rengsdorf | 51 | 2. | | |
| **International** | | | | |
| 6. BST International Shanghai Co., Ltd., Shanghai/PR China | 100 | 1. | | |
| 7. BST Japan Ltd., Osaka/Japan | 100 | 1. (67 %), 2. (33 %) | | |
| 8. BST PRO MARK Inc., Elmhurst/USA | 100 | 1. (51 %), 10. (49 %) | | |
| 9. EMG Automation (Beijing) Ltd., Beijing/PR China | 51 | 2. | | |
| 10. EMG USA Inc., Warren/USA | 100 | 2. | | |
| 11. EMH Eletromecânica e Hidraulica Ltda., Belo Horizonte/Brazil | 100 | 2. | | |
| **Participations** | | | | |
| **Germany** | | | | |
| 12. elexis beta GmbH, Wenden | 100 | | 422 | 4 |
| 13. ELOTHERM GmbH, Remscheid (in liquidation) | | | | |
| **International** | | | | |
| 14. BST France S.A.R.L., Verrieres Le Buisson/France | 100 | 1. | 69 | -56 |
| 15. BST Italia S.r.l., Saronno/Italy | 100 | 1. | 115 | -22 |
| 16. BST Sayona Automations Private Ltd., Mumbai/India [2] | 51 | 12. (indirect) | 1,381 | 104 |
| 17. EMG Automation India Private Ltd., Mumbai/India [2] | 76 | 2. (51 %), 16. (49 %) | 144 | 67 |

*1) Before profit and loss transfer*

*2) Financial statements as at 31 March 2010*

Data for the affiliated companies relates to the accounting year ending on 31 December 2010. Figures relating to foreign subsidiaries are converted to euro at the rate on the balance sheet date (for shareholders' equity) and at the annual average rate (for the result).

### Application of Section 264 subsection 3 of the German Commercial Code (HGB)

EMG Automation GmbH, Wenden, and BST International GmbH, Bielefeld are exempted from disclosure of their financial statements in accordance with Section 264 subsection 3 of the German Commercial Code (HGB) and from publication in accordance with Section 325 of the German Commercial Code.

### (37) Shareholdings of the Management Board and the Supervisory Board

Shares held by the members of the Management Board and the Supervisory Board as at 31 December were:

| | **2010 Number** | 2009 Number |
|---|---|---|
| Management Board | 7,999 | 7,999 |
| Supervisory Board | 155,196 | 151,196 |
| **Total** | **163,195** | **159,195** |

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

### (38) Shareholdings in the share capital of elexis AG

In accordance with Section 21 subsection 1 paragraph 1 of the Securities Trading Law (WpHG) the following shareholding thresholds must be disclosed: 3, 5, 10, 15, 20, 25, 30, 50 and 75 percent. We received the following information in 2010 with regard to attaining, exceeding or falling below these thresholds. The information relates to amendments of previously published information. There was no overall change in the shareholdings in elexis AG, however regrouping of investments took place as follows:

- International Equity Development S.L., Barcelona, Spain, informed us on 2 September 2010 in accordance with Section 21 subsection 1 of the Securities Trading Law that its 10.02% share in the voting rights of elexis AG fell below the 10%, 5% and 3% threshold and now amounted to 0% and no voting rights.
- IED Beteiligungs GmbH, Frankfurt am Main, Germany informed us on 2 September 2010 in accordance with Section 21 subsection 1 of the Securities Trading Law that its 10.02% share in the voting rights of elexis AG fell below the 10%, 5% and 3% threshold and now amounted to 0% and no voting rights.
- IED International Equity Development GmbH & Co. KG, Frankfurt am Main, Germany informed us on 2 September 2010 in accordance with Section 21 subsection 1 of the Securities Trading Law that its 10.02% share in the voting rights of elexis AG fell below the 10%, 5% and 3% threshold and now amounted to 0% and no voting rights.
- Serlick S.A., Montevideo, Uruguay, informed us on 2 September 2010 in accordance with Section 21 subsection 1 of the Securities Trading Law that its 10.02% share in the voting rights of elexis AG fell below the 10%, 5% and 3% threshold and now amounted to 0% and no voting rights.

The individual details of the announcements of the above-mentioned shareholders and/or the companies controlled by them, with additional announcements on allocation levels of voting rights in elexis AG are published in the corporate register and may be inspected there in accordance with the Securities Trading law (WpHG).

At the end of the reporting period on 31 December 2010 or up to the drawing up of these financial statements the following announcements were made in accordance with the Securities Trading Law (WpHG) concerning reportable shareholdings in the share capital of elexis AG:

| **Investor** | Shareholding at date of announcement: | Announcement of: |
|---|---|---|
| Possehl-Stiftung, Lübeck, Germany (through L. Possehl & Co. mbH, Lübeck) | 15.10 | 1.,07.2009 |
| DWS Investment GmbH. Frankfurt am Main | 5.46 | 30.10./ 04.11.2008 |
| Tito Tettamanti, CH (through Sterling Strategic Value Limited, Tortola, BVI) | 10.02 | 18.03.2008/ 07.09.2010 |
| Baden-Württembergische Investmentgesellschaft mbH | 7.598 | 10.01.2007 |
| Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen | 8.61 | 08.05.2002 |

## (39) Management Board

Composition of the Management Board in the year under review:

- 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 2010 accounting year:

| | |
|---|---|
| • Dr. Dirk Wolfertz, Bad Homburg (Chairman) | Managing shareholder of Intec Beteiligungsgesellschaft mbH, Bad Homburg |
| • Karl Heinz Gorgas, Mammern / Switzerland | Management consultant |
| • Georg Keppeler, Olpe (Deputy Chairman) Chairman | Trade union secretary (employee representative) |
| • Stefan Köster, Olpe | Chairman of the Employees' Council (employee representative) |
| • Klaus Kramer, Bielefeld | Foreman, Electrotechnology (employee representative) |
| • Willi B. Loose, Tervuren/Belgium | Investment banker |
| • Dieter Schulze, Pfaffing | Management consultant |
| • Klaus Schulze, Eschborn | Portfolio manager |
| • Prof. Dr. Michael Wackenhuth, Weilheim/Teck | Lawyer |

The following members of the Supervisory Board of elexis AG are also members of the Supervisory Boards or other supervisory bodies of the following companies:

| Member of the Supervisory Board | Other supervisory board appointments |
|---|---|
| • Dr. Dirk Wolfertz | Nucletron Electronic AG (Chairman) |
| • Karl Heinz Gorgas | Harms & Wende Beteiligungs-GmbH<br>Harms & Wende QST GmbH<br>PROCON PAS Elektronik GmbH |
| • Georg Keppeler | Treuhandverwaltung IGEMET GmbH<br>Member of the Board of Directors of AOK Westfalen Lippe (to 30 September 2010)<br>Member of the Board of Directors of AOK Westfalen Lippe (from 1 October 2010)<br>Member of the Supervisory Board of AOK Bundesverbandes GbR |
| • Willi B. Loose | Icafin SA, Brussels/Belgium |
| • Dieter Schulze | MS "E. R. Amsterdam" Schiffahrtsgesellschaft mbH & Co. KG |
| • Prof. Dr. Michael Wackenhuth | Horst Mosolf GmbH & Co. KG, Internationale Spedition<br>MAI MOSOLF Automotive Industries AG (Chairman) |

## (41) Declaration in accordance with Section 161 AktG (German Companies Act)

The required declarations of compliance with the Corporate Governance Code for elexis AG have been given in accordance with Section 161 of the AktG and have been made available to the shareholders on the internet pages of elexis AG.

## (42) Audit fees

In accordance with the German Institute of Auditors' regulations HFA 1.006, fees paid to auditors during the 2010 accounting period are recognised in operating expenses in the amount of T197 euro (previous year: T272 euro). Other fees relate to support during accounting reclassification and other consultancy services. During 2009, other fees related to support given during the audit of the 2008 financial statements by the German Audit Office for Accounting.

| in T€k | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Audit fees | 169 | 165 |
| Fees for other services | 28 | 107 |
| **Total** | **197** | **272** |

Wenden, 15 March, 2011

elexis AG, The Management Board

Siegfried Koepp

Edgar M. Schäfer

## 5. Legal representatives' statement of responsibility

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 statement of comprehensive income of the Group, and the Group management report represents a fair view 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, 15 March, 2011

elexis AG, The Management Board

Siegfried Koepp

Edgar M. Schäfer

## 6. Auditor's report

We have audited the consolidated financial statements prepared by elexis AG, comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the elexis AG, Wenden for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRS as adopted by the EU, and the additional requirements of the German Commercial Code under Section 315a subsection 1 and the supplementary conditions of the Articles of Association are the responsibility of the parent Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a subsection 1 of the German Commercial Code and the supplementary conditions of the Articles of Association and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides an appropriate view of the Group's position and suitably presents the opportunities and risks of future development.

Siegen, 16 March 2011

PricewaterhouseCoopers
Aktiengesellschaft
Auditors

Markus Dittmann
Wirtschaftsprüfer (German Public Auditor)

Maic Kunz
Wirtschaftsprüfer (German Public Auditor)

## 7. elexis AG: Financial statements as at 31 December 2010 (drawn up in accordance with the German Commercial Code (HGB)

Income statement of elexis AG for the periods 1 January 2010 to 31 December 2010 and 1 January 2009 to 31 December 2009

| in €k | **2010** | 2009 |
|---|---|---|
| 1. General administrative expenses | 2,293 | 2,384 |
| 2. Other operating income | 927 | 920 |
| 3. Other operating expenses | 809 | 480 |
| 4. Income from profit and loss transfer agreements | 10,474 | 9,659 |
| 5. Other interest and similar income of which from associated companies: (T€ 676) (previous year: T€ 728) | 679 | 728 |
| 6. Interest and other expenses of which from associated companies: (T€ 5) (previous year: T€ 78) | 115 | 95 |
| **7. Result from operating activities** | **8,863** | **8,348** |
| 8. Extraordinary Income | 396 | - |
| 9. Extraordinary expenses | 124 | - |
| **10. Extraordinary profit** | **272** | **-** |
| 11. Income tax expenses of which from deferred taxes (T€ 351) (previous year: T€ 0) | 3,139 | 1,967 |
| **12. Net income** | **5,996** | **6,381** |

Exceptional items in the 2010 accounting year are affected by the transitional provisions of the Act on the modernisation of accounting standards. Exceptional items relate to active deferred tax. Exceptional expense relates to passive deferred tax in the amount of T39 euro and expenses in relation to the reassessment of pension provisions in the amount of T85 euro.

## Statement of financial position of elexis AG as at 31 December 2010 and 31 December 2009

| **Assets** | **31.12.2010** €k | 31.12.2009 €k |
|---|---|---|
| **A. Fixed assets** | **62,134** | **57,427** |
| I. Financial assets | | |
| 1. Shares in associated companies | 59,301 | 57,427 |
| 2. Loans to associated companies | 2,833 | - |
| **B. Current assets** | **18,809** | **18,510** |
| I. Receivables and other assets | 18,574 | 17,720 |
| 1. Receivables from associated companies | 18,152 | 17,268 |
| 2. Other assets | 422 | 452 |
| II. Cash on hand and at banks | 235 | 790 |
| **C. Prepaid expenses** | **2** | **20** |
| **D. Deferred Tax Assets** | **28** | **-** |
| **Total assets** | **80,973** | **75,957** |

| **Liabilities** | **31.12.2010** €k | 31.12.2009 €k |
|---|---|---|
| **A. Shareholders' equity** | **74,650** | **70,222** |
| I. Capital subscribed | 23,552 | 23,552 |
| II. Capital reserve | 3,555 | 3,555 |
| III. Other earnings reserves | 41,547 | 36,734 |
| IV. Net income for the financial year | 5,996 | 6,381 |
| **B. Provisions** | **4,996** | **5,594** |
| 1. Provisions for pensions | 334 | 227 |
| 2. Provisions for taxes | 115 | 1,406 |
| 3. Other provisions | 4,547 | 3,961 |
| **C. Liabilities** | **1,325** | **141** |
| 1. Trade payables | 133 | 52 |
| 2. Liabilities to associated companies | 324 | 3 |
| 3. Other liabilities | 868 | 86 |
| **D. Deferred Tax Assets** | **2** | **-** |
| **Total liabilities** | **80,973** | **75,957** |

Wenden, 15 March 2011

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 PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, is published in the electronic Bundesanzeiger. Elexis AG is included in the Commercial Register at the District Court of Siegen under HRB 7549. The financial statements can be requested from elexis AG, Industriestraße 1, D-57482 Wenden.

Please note that due to rounded amounts and percentages, differences could arise in the tables and summaries shown.

## 8. Definition of indicators used / Financial glossary

| | |
|---|---|
| Ratio of equity to fixed assets | (Shareholders' equity + long-term liabilities without deferred taxes)/ Fixed assets |
| Gross margin | Gross profit/Sales |
| CAPEX (Capital expenditure) | Expenditures for investments including financial leasing/depreciation and amortisation of tangible and intangible assets |
| Debtor days | Trade receivables/Sales x 360 |
| Average capital invested | (Fixed assets + working capital at beginning of year + fixed assets + working capital at end of year)/2 |
| Equity ratio | Equity/Balance sheet total |
| Return on equity | Net income/Shareholders' equity<br>(Net income and shareholders' equity after deduction of minority interests) |
| Investment ratio | Investments without leasing/Depreciation and amortisation of assets |
| Net liquidity (cash and cash equivalents) | Cash and cash equivalents + Securities – Overdraft liabilities |
| Material ratio | Cost of materials/Sales |
| Personnel ratio | Personnel expense/Sales x 360 |
| Days of inventories | Inventories/Sales x 360 |
| Cost of sales ratio | Selling costs/Sales |
| Administrative expense ratio | Administrative costs/Sales |
| ROCE | EBIT/Average invested capital<br>Return on capital employed (ROCE in %) |
| Working capital | Current assets (without cash) – short term debt |
| BST | BST International GmbH, High Quality Automation business area |
| EMG | EMG Automation GmbH, High Quality Automation business area |
| HEKUMA | HEKUMA GmbH, High Precision Automation business area |
| Protagon | P2T Protagon Process Technologies GmbH,<br>High Quality Automation business area |

## 9. Company calendar

| | |
|---|---|
| CloseBrotherSeydlerBank AG Small and Mid Cap Conference | February 02, 2011 |
| Publication of Annual Report and audio conference | March 23, 2011 |
| Capital market conference Baden-Baden | March 31, 2011 |
| Interim financial report 1-3/2011 | May 2011 |
| Annual General Meeting | May 19, 2011 |
| Half-year report 1-6/2011 | August 2011 |
| Interim financial report 1-9/2011 | November 2011 |
| Equity forum | November 2011 |
| Annual Report 2011 | March 2012 |

## Imprint

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

Text, design, layout and composition: CROSSALLIANCE communication GmbH. Gräfelfing

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