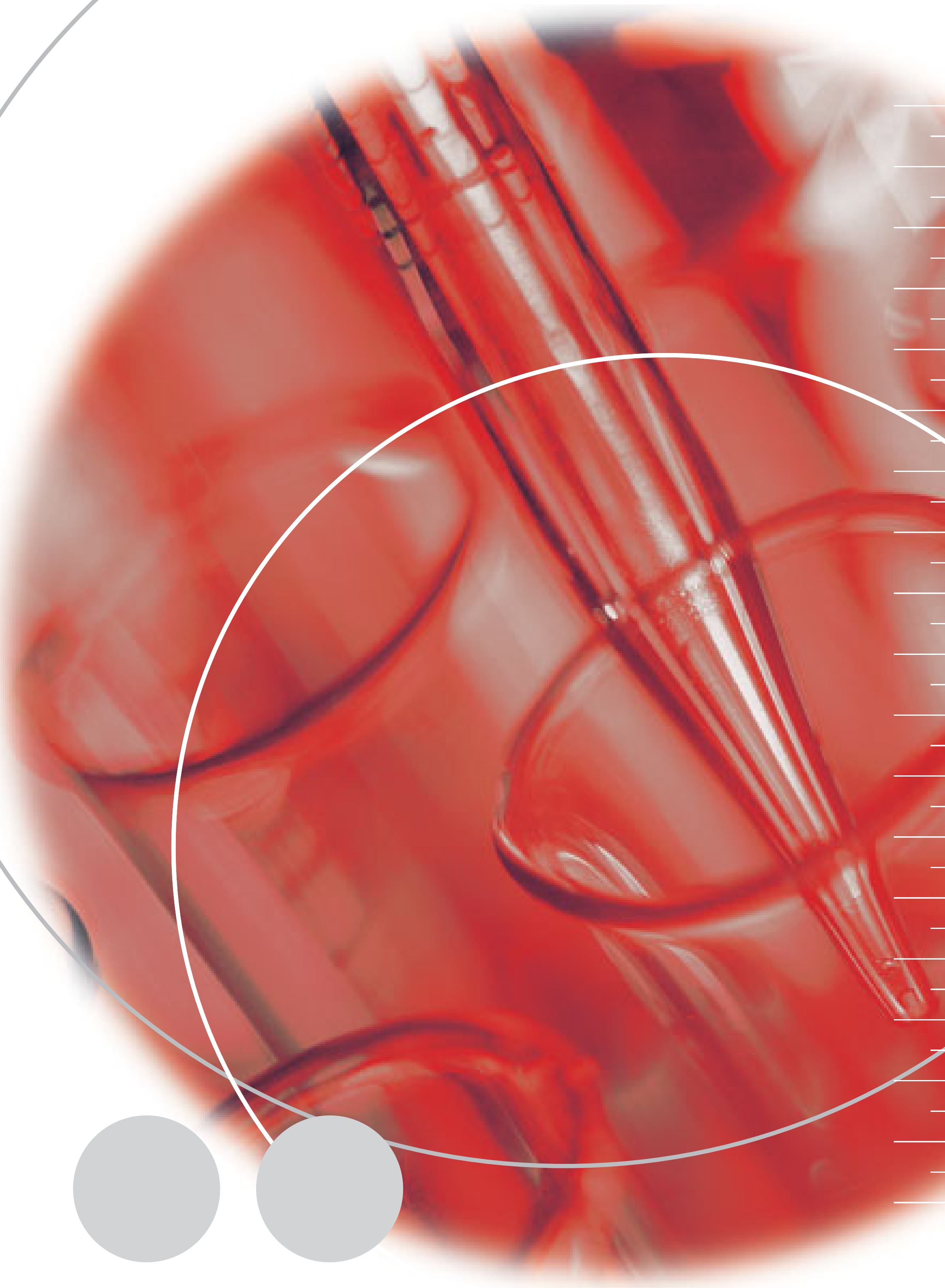
stratec®
biomedical systems



ANNUAL REPORT 2006

Profile of the STRATEC Group

The STRATEC Group focuses on the development and production of complex analyzer systems and laboratory data processing software for global diagnostics players. In the 2006 financial year, the STRATEC Group generated sales of EUR 68.4 million and consolidated net income of EUR 7.7 million.

Since 2000, sales at the STRATEC Group have increased by an average of around 35% per financial year, while its consolidated net income has risen by an average of around 84% per year over the same period.

The STRATEC Group consists of the publicly listed parent company STRATEC Biomedical Systems AG and its subsidiaries STRATEC Biomedical Inc., STRATEC NewGen GmbH, Robion AG and Sanguin International Ltd., as well as its subsidiary Sanguin International Inc.

Including the personnel provided by a temporary employment agency, the STRATEC Group had a total of 246 employees on December 31, 2006. The STRATEC Group had an annual average workforce of 208 employees

Based in Birkenfeld, Germany, STRATEC Biomedical Systems AG designs and manufactures fully automated analyzer systems for its partners in the fields of clinical diagnostics and biotechnology. These partners market such systems, in general together with their own reagents, as system solutions to laboratories and research institutes around the world. A further development unit is located in Überlingen, Germany.

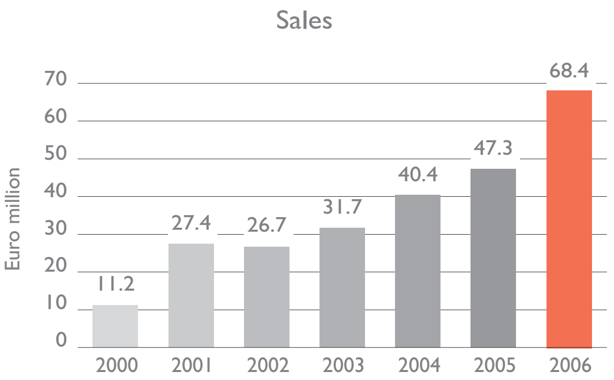
Sanguin International Ltd., which is based in Barton under Needwood, UK, and its subsidiary Sanguin International Inc., based in Hamden, Connecticut, USA, provide FDA-approved software solutions which can be deployed by diagnostics companies around the world. This Anglo-American company, which was acquired in March 2006, ideally complements the product portfolio of the STRATEC Group.

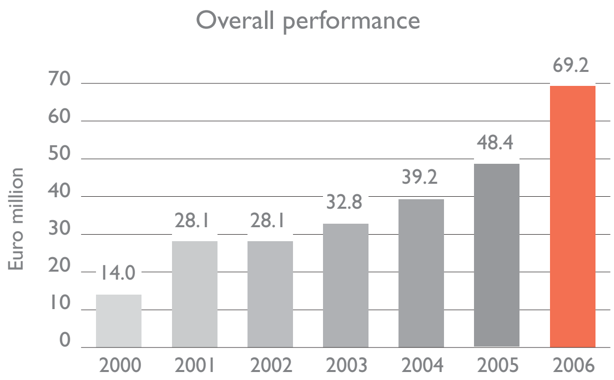
STRATEC Biomedical Inc. which is based in Hamden, Connecticut, USA, supports the service and sales activities of the STRATEC Group in the USA. The company recently moved from Aliquippa, Pennsylvania, USA, to the base of the US-American subsidiary of Sanguin International Ltd., which was acquired in March 2006.

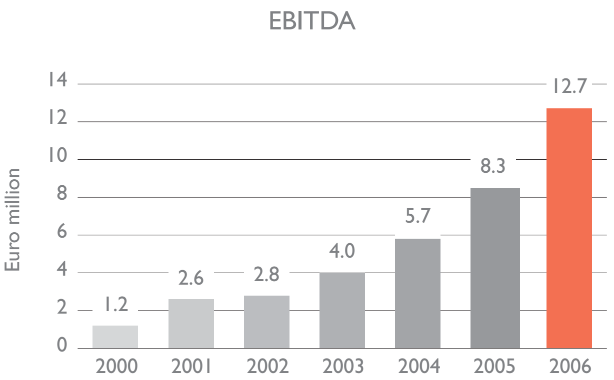
With its base in Birkenfeld, Germany, and laboratory operations in Frankfurt am Main, Germany, STRATEC NewGen GmbH, holds the exclusive rights to a patented technology for the stabilization and purification of RNA and DNA from viruses. Within the rapidly developing market for molecular diagnostics, STRATEC NewGen GmbH is focusing on the enhancement of this technology for the stabilization of nucleic acids in sample material, such as blood samples.

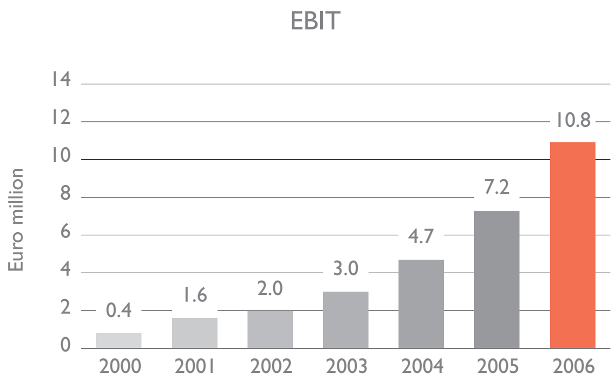
Based in Neuhausen am Rheinfall, Switzerland, Robion AG focuses on analyzer systems for clinical diagnostics and is thus helping to expand existing production capacities at its parent company in Germany.

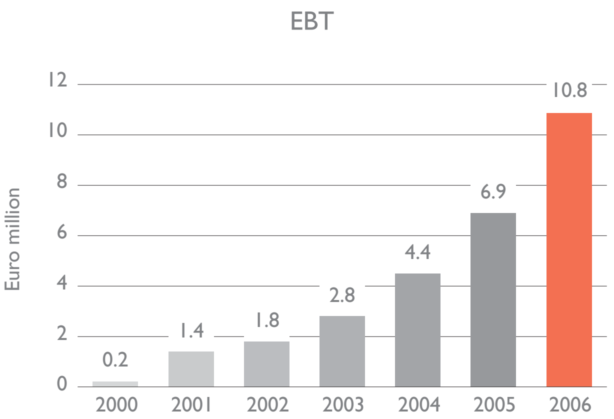
Overview of Key Figures for 2000 to 2006 (IFRS)

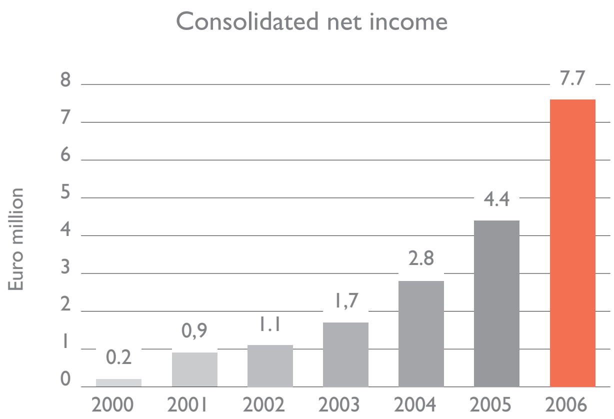




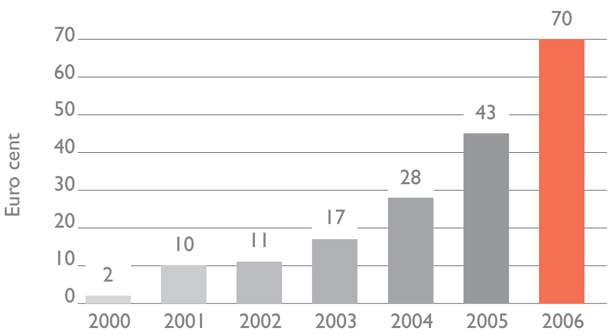




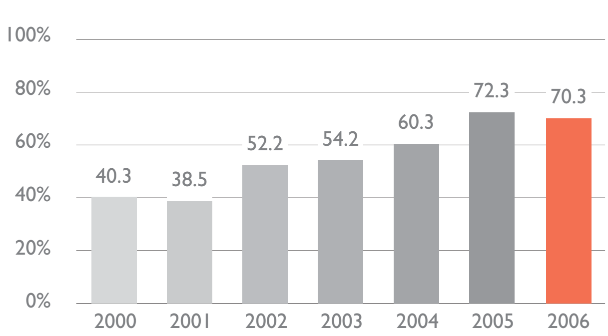




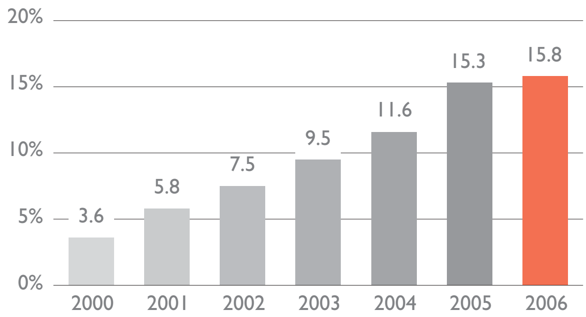
Earnings per share



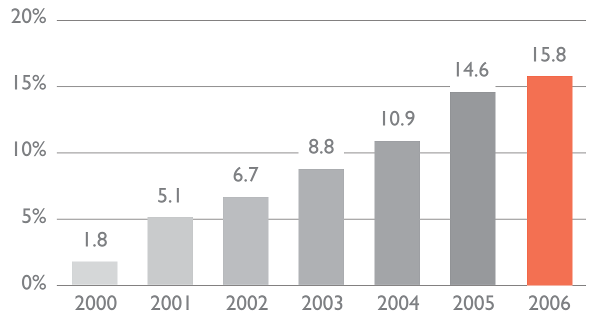
Equity ratio



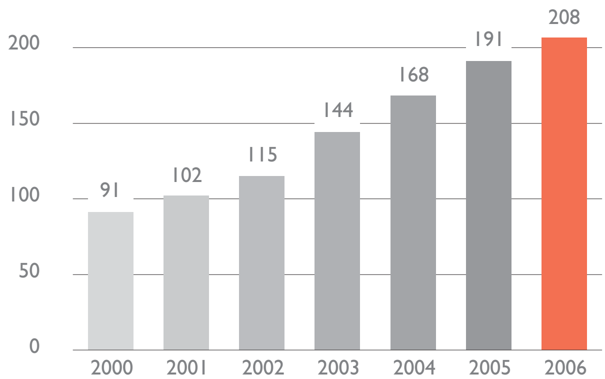
EBIT margin



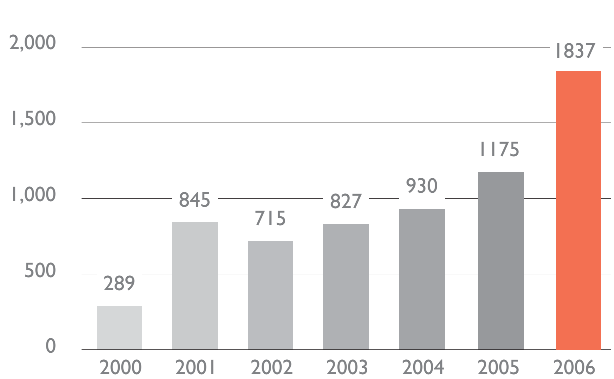
EBT margin



Employees (annual average)



No. of analyzer systems delivered



Dear Shareholders,

The past financial year was once again a record year for the STRATEC Group. As planned, we substantially increased the number of analyzer systems delivered in 2006, and the Anglo-American software company Sanguin International, which we took over in March 2006, has now been completely integrated into the STRATEC Group and already contributed to the successful performance of the Group in 2006.

The STRATEC Group increased its sales by 45% to EUR 68.4 million in the 2006 financial year. At EUR 7.7 million, the consolidated net income was 75% higher than the equivalent value for the previous year. Following adjustment for the capital increase undertaken from company funds in July 2006 and for the resultant issue of bonus shares, earnings per share amounted to EUR 0.70 and were thus 63% higher than in the previous year (EUR 0.43). We were able to create numerous new jobs in the course of our expansion in 2006. Including the employees of Sanguin International Ltd., which was taken over in 2006, and the personnel provided by a temporary employment agency, the STRATEC Group had a total workforce of 246 employees at the end of the year.

The STRATEC Group remains on its growth course. While the systems we have developed for the research market generated their first operating sales in the 2006 financial year, the largest share of the analyzer systems produced by the STRATEC Group in 2006 were delivered to its partners in the field of in-vitro diagnostics. Individual segments within the diagnostics market, such as near-patient diagnostics, which involves the deployment of easily used test systems close to patients, or molecular diagnostics, which involves tests being undertaken on the basis of measurements of DNA and RNA parameters, will see higher growth in future than the overall diagnostics market. In view of the high level of expertise available at the STRATEC Group in the aforementioned segments, among others, we believe that we are well-positioned to participate in this growth. In June 2006, for example, we announced the conclusion of an exclusive contract for the development of fully automated instrumentation for one of the world's most important providers in the field of molecular diagnostics. This project is focused on these rapidly growing market segments, as are further production projects currently in development and new development assignments. These therefore represent the current and future growth drivers of the STRATEC Group.

In view of the superb performance of the company once again in 2006, the Board of Management and Supervisory Board will propose a 50% increase in the dividend to EUR 0.15 per STRATEC share entitled to dividend for approval by the Annual General Meeting on May 16, 2007. We would like to thank our shareholders for the trust they have placed in us and would be pleased to have the opportunity of welcoming them to our Annual General Meeting in Pforzheim.

The high level of commitment shown by the employees of STRATEC AG and its subsidiaries have played a crucial role in the performance of the STRATEC Group. The value of the company increased by more than 50% in 2006 to reach EUR 247.7 million. The Board of Management would like to thank all employees for their great dedication.

Birkenfeld, March 2007
The Board of Management of
STRATEC Biomedical Systems AG

Hermann Leistner

Marcus Wolfinger

Bernd M. Steidle

Report of the Supervisory Board

The STRATEC Group maintained its strong, profitable growth in 2006. As the Supervisory Board, we accompanied and advised the Board of Management in its running of the company, supervising its management and performing the duties required of us by law, the articles of incorporation, our code of procedure and the German Corporate Governance Code. The Supervisory Board was directly involved in all decisions or measures of fundamental significance, particularly those relating to the corporate strategy, group-related matters or the net asset, financial and earnings position of the company and the Group. The Board of Management provided the Supervisory Board with regular, timely and comprehensive written and oral information concerning all issue of relevance to the company.

Four scheduled meetings were held during the 2006 financial year, at each of which the Supervisory Board addressed the risk handbook, sales and earnings performance, financial position and status of the various development projects at the company and the Group.

The discussions concerning the progress of the integration of the Anglo-American software company Sanguin International Ltd. acquired by the company in March 2006 formed a major part of all meetings. Further focuses of deliberation at individual meetings included the examination and approval of the financial statements and management reports for the 2005 financial year, the discussion and setting of the agenda for the forthcoming Annual General Meeting and the determination of the distribution to shareholders. Personnel planning measures and the modernization of the code of procedure of the Board of Management in the light of the Group Guidelines formed the focus of deliberation at one meeting respectively.

The matters addressed by the Supervisory Board at its final meeting in the 2006 financial year included the German Corporate Governance Code in its version dated 12 June 2006. In the interests of monitoring compliance with the German Corporate Governance Code, the Supervisory Board subjected the implementation of the relevant recommendations at STRATEC Biomedical Systems AG and the effectiveness of its own activities to review. This resulted in the Supervisory Board and Board of Management renewing their Statement of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) on December 15, 2006 and making this permanently accessible to shareholders at the company's website.

On the basis of the resolution adopted by the Annual General Meeting on June 23, 2006, the Supervisory Board appointed Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, to conduct the audit of the annual and consolidated financial statements for the 2006 financial year. The audit encompassed the annual financial statements of STRATEC Biomedical Systems AG compiled in accordance with German commercial law and the consolidated financial statements compiled in accordance with International Financial Reporting Standards (IFRS), as well as the management reports of STRATEC Biomedical Systems AG and the Group.

The annual financial statements and management report of STRATEC Biomedical Systems AG based on German commercial law, the consolidated financial statements and group management report compiled on the basis of IFRS for the 2006 financial year and the company's accounts were audited by the auditor, Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, and provided in each case with an unqualified audit opinion. The auditor confirmed that the consolidated financial statements and group management report compiled in accordance with IFRS were in compliance with IFRS regulations as applicable in the EU and with the supplementary provisions of commercial law requiring application pursuant to Section 315a (1) of the German Commercial Code (HGB) and that the Board of Management had introduced an effective risk management system which conformed with legal requirements.

The financial statements and management reports were discussed in detail at the meeting of the Supervisory Board on March 26, 2007. This meeting was attended by the auditor, who reported on the audit and answered all questions on the part of the Supervisory Board.

Following its own examination, the Supervisory Board raised no objections to the financial statements and management reports thereby presented and concurred with the findings of the auditor based on the conclusive results of its own audit. The Supervisory Board approved the annual financial statements and management report compiled by the Board of Management, as well as the consolidated financial statements and group management report of STRATEC Biomedical Systems AG compiled by the Board of Management for the 2006 financial year. The annual financial statements of STRATEC Biomedical Systems AG are thus adopted.

The Supervisory Board also endorses the proposal submitted by the Board of Management with regard to the appropriation of profits.

There were no changes in the composition either of the Supervisory Board or of the Board of Management in the 2006 financial year.

At its meeting on March 26, 2007, the Supervisory Board addressed the disclosures required by Sections 289 (4) and 315 (4) of the German Commercial Code (HGB) and the report on such disclosures in the group management report. Reference is made to the corresponding notes in the group management report, Chapter 13 "Supplementary disclosures as a result of the Takeover Directive Implementation Act of July 8, 2006". These notes have been audited and adopted by the Supervisory Board.

On behalf of my colleagues in the Supervisory Board, I would like to thank the members of the Board of Management and all employees for their great commitment and for their successful work in the 2006 financial year.

Birkenfeld, March 2007

On behalf of the Supervisory Board

Fred K. Brückner
Chairman

Bernd M. Steidle (54),
Oberboihingen;
Director of Sales and Marketing

Fred K. Brückner (64),
Marburg; Chairman
of the Supervisory Board

Burkhard G. Wollny (56),
Göppingen;
Member of the Supervisory Board

Dr. Robert Siegle (39),
Birkenfeld, Deputy Chairman
of the Supervisory Board

Hermann Leistner (61),
Birkenfeld;
Chairman of the
Board of Management

Marcus Wolfinger (39),
Remchingen;
Chief Financial Officer

The STRATEC Group believes that it is well-positioned in the high-growth diagnostics and life science segments to benefit disproportionately from the growth in these segments. The two examples presented in the following pages provide some insights into developments within segments of the diagnostics market, as well as some of the reasons for the growth potential available to the STRATEC Group in providing automated solutions for these submarkets.

Molecular diagnostics

Molecular diagnostics, i.e. the measurement of DNA or RNA parameters, is one of the major growth markets within in-vitro diagnostics and already represents one of the main focal points of the STRATEC Group.

The molecular diagnostics market has a current global volume of around EUR 2.5 billion and is growing at an annual rate of 13% to 15%. The largest share of this volume currently relates to tests for infectious diseases such as HIV or Hepatitis C.

Molecular diagnostics is characterized by a high degree of sensitivity and, as a result, by the early detection of the presence of an infection. Whereas traditional immunoassays only allow the presence of a virus to be detected several weeks following infection, the molecular diagnostic test enables the infection to be identified within just a few days. This high degree of sensitivity and the resultant earlier recognition of the presence of an infection make molecular-diagnostic tests attractive for blood banks and clinical diagnostics. Moreover, the high degree of sensitivity of these processes also facilitates the quantitative control of the virus in patients being treated with virostatics. For this reason, it forms an integral component in the therapy of HIV patients, for example.

A further benefit of molecular diagnostics involves the improved differentiability of infectious diseases. In cases where the severity of the disease and its course depend on the precise type and subtype of the virus, molecular-diagnostic processes use genotyping to facilitate the precise specification of the virus type, thus enabling harmless strains to be differentiated from pathogenic types. This is the case, for example, for the HPV virus. Certain strains of this virus are responsible for the development of cervical cancer. Whereas traditional immunological processes only allow the presence of a general infection to be proven, molecular diagnostics enable a statement to be made as to whether this infection could potentially trigger a tumor. As is apparent from this example, molecular diagnostics not only help to recognize diseases at an earlier stage, but also support completely new diagnostic statements which were not possible with traditional methods.

Genotyping in particular still harbors considerable potential for further developments. As in the case outlined above, this can involve genotyping the pathogen. One major area in this respect is the diagnosis of so-called "hospital germs", i.e. viruses which are resistant to antibiotics, such as "MRSA". The procedures currently used to identify these germs are highly time-consuming and therefore represent a logistical challenge for the hospitals thereby affected, given that potential germ carriers, whether patients or employees, have to be quarantined until a clear diagnosis is available. Molecular-diagnostic processes can provide far more rapid results in this area and are thus of great assistance in the operation of hospitals.

Molecular-biological typing is also of benefit in the field of oncology. The precise typing of tumors already allows therapeutic approaches to be tailored to the respective type of tumor.

It is not only viruses and tumors which can be differentiated into their respective genotypes, however, but patients as well. Genotyping is already used with patients to identify hereditary diseases and risk factors. Researchers believe that this area harbors even greater potential for the future. Under the motto of "personalized medicine", research is underway to determine the extent to which people with different genotypes benefit from different treatments. Past clinical studies have repeatedly shown that people suffering from the same disease react very differently to various medications and that preparations which lead to a considerable improvement in the health of one patient only induce severe side-effects in another. By drawing on personalized medicine, researchers are now attempting to correlate this reaction with genetic attributes. Based on the diagnosis of the disease and the diagnosis of the patient, it is possible to provide the doctor treating the case with an optimal therapy proposal involving the minimum possible level of side-effects for the patient. The resultant dovetailing of pharmaceutical products and laboratory diagnostic processes, together with the enormous potential which this approach has for the future, is one of the principal reasons why the molecular diagnostics business division was not sold in the most recent spin-off of diagnostics divisions by pharmaceutical companies.

The growth and increasing success of molecular diagnostics has also led to increasing demand for adequate automation and instrumentation for these processes. Today's market is diametrically divided into two areas in this respect. The highly automated screening area, in which a small number of different parameters are measured for a very large volume of samples, includes, for example, the determination of infection parameters at blood banks. The highly specialized area, which is in most cases handled manually, includes the typing of tumors, among other areas.

The aforementioned areas are expected to converge to the extent that new parameters will make applications from the screening area relevant for clinical diagnostics in lower throughput areas on the one hand and that genotyping will increasingly develop into a routine application on the other, thus raising the significance of automation in this area as well. This development will lead to a substantial increase in demand for medium throughput analyzer systems.

Molecular-
diagnostic processes are made possible by the amplification step, which copies a small number of molecules – in the case of HIV, 50 viruses in

one milliliter of blood (equivalent to finding a grain of salt in a mass of water the size of Lake Constance) – so often that sufficient volume is available for simple detection. The best-known amplification procedure is the PCR (Polymerase Chain Reaction). Application is also made of various other procedures which multiply either the sought-after molecule or the signaling components. At the same time, this amplification step, without which molecular-diagnostics would not be possible, represents one of the key challenges in the automation of these methods.

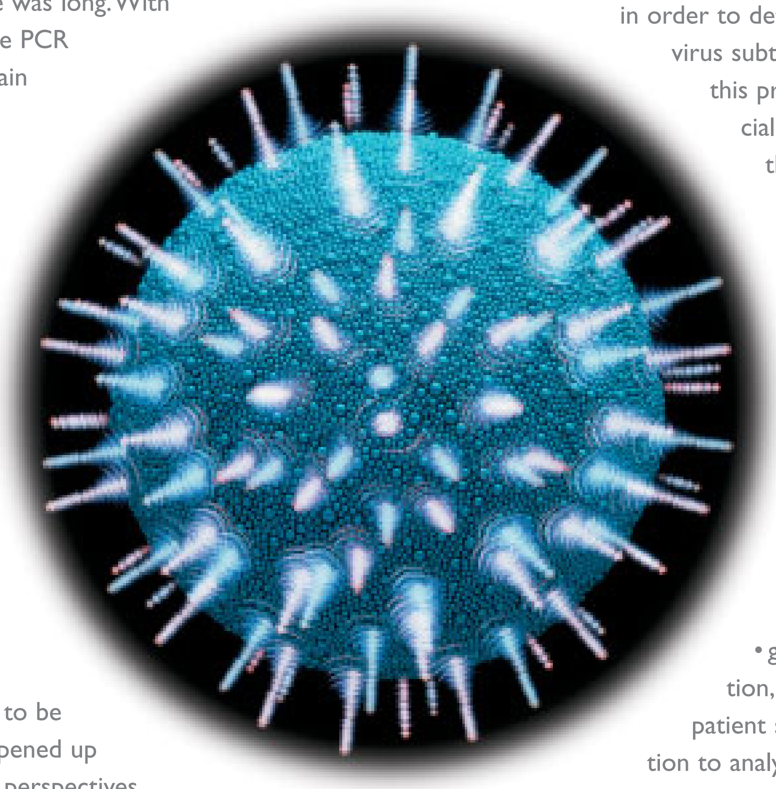
Given that the transmission of even the smallest amounts of material after amplification into samples prior to amplification would lead to the wrong results, it is necessary to find ways of reliably avoiding such transmission in all cases. In the past, the potential danger of transmission of sample material resulted in separate analyzer systems being developed to purify and prepare the samples. This enabled operators to undertake the work steps prior to amplification in a different room from the process steps following amplification. This approach is practicable and is also widespread, but involves the major drawback that it fails to do justice to the modern "tube-in result-out" approach and also generates a considerable amount of manual work. The first systems enabling molecular-diagnostic processes to be fully integrated into one appliance are already available on the market. This approach is expected to prevail.

Furthermore, molecular-diagnostic processes generate numerous additional requirements and challenges in terms of instrumentation. These include, for example, the purification of the sample and the resultant volume problem, meaning that a volume of liquid amounting to several milliliters has to be reduced to a few microliters, as well as the high incubation temperatures typically required for amplification and the resultant problem of reaction solution evaporation, and not least the high degree of complexity of the molecular-biological tests.

Over the past years, the STRATEC Group has built up a high level of expertise in this area in particular and is able to provide its customers with optimal system solutions. Our subsidiary STRATEC NewGen GmbH has dealt closely with the purification and stabilization of samples for molecular-diagnostic processes in order to gain a profound understanding of this important work step. Within the framework of our activities in the field of life science we come into contact with methods which are either still in their development stage or which have so far only been used for research applications. This provides us with early insights into the next generation of test systems. Moreover, we have developed instrumentation solutions for aspects of molecular-diagnostic processes in various projects undertaken for in-vitro diagnostics OEM customers. Building on this knowledge and our expertise in matters of instrumentation, we have succeeded in finding partners for the development of fully integrated systems for molecular diagnostics. Our increased involvement in molecular diagnostics will enable us to expand the product portfolio on offer to our customers and to further strengthen our position in the market.

Multiplexing – current and future role in diagnostics

The concept of multiplexing, which involves **the simultaneous analysis of several parameters (target analytes) using one test system**, has been used in clinical diagnostics (starting with electrophoresis) and in research laboratories since the 1960s. The use of multiplexing was limited to special cases, given that the methods were laborious, had limited sensitivity and turnaround time was long. With the advent of the PCR (Polymerase Chain Reaction) in the 1990s and new automation technologies, the role of multiplexing has changed. PCR enables target analytes to be multiplied, thus allowing the presence of just a few DNA or RNA molecules to be detected. This opened up completely new perspectives for extending the use of multiplexing in clinical diagnostics.



A seminal example occurred in the mid 1990s with the introduction of therapies to treat AIDS and hepatitis. It rapidly became apparent that these viruses mutated when treated with specific drugs. These mutations made the viruses resistant to the drug in some cases. To determine the correct drug, multiplexing was used to identify the specific DNA or RNA sequence, or genotype.

Currently, there are more than 15 products used in clinical laboratories that utilize multiplexing methods. Besides the examples listed above of HIV (the AIDS virus) and HBV (the Hepatitis B virus), there are further prominent products, such as those for cystic fibrosis, human papilloma virus (HPV – the virus which can cause cervical cancer), herpes simplex viruses, tuberculosis and various cancer mutational assays. The genotyping capabilities of relevance to these diseases which are offered by multiplexing, for example in order to determine the virus subtype, mean that this process is especially useful in these areas. The list of potential applications is long.

The coming years will see a further expansion in the number of applications, given that

- greater automation, covering patient sample collection to analysis, is being developed
- research studies have identified how specific analytes are associated with specific diseases
- research studies have verified how differences in a person's genetic make-up affect the metabolism of different therapies and the probability the person will develop a specific disease if left untreated.

The latter two concepts are associated with what is called personalized medicine (pharmacogenomics, i.e. the interaction between genomes and pharmaceutics). New products for this area are now just beginning to reach hospitals. Regulatory authorities, for example, have started requiring pharmaceutical companies to change the labeling on specific drugs, because some patients cannot metabolize the drug properly or may suffer massive side effects due to their genetic make-up.

As medicine and science have advanced, it has become more apparent that many diseases involve the interplay of multiple biological processes. In the past, diagnostic testing was limited to single and discrete assays to attempt to mimic and understand the interplay of the various biological processes. Now, as multiplexing is evolving, this technology is opening the door to capturing multiple biological analytes at the base level of the key biological process.

Several companies have now adapted multiplexing for the detection of proteins (for traditional diagnostics purposes) in the field of protein diagnostics.

STRATEC has worked together with a reagent producer to create a new multiplex analysis system based on its 4-PS platform. This system uses flow cytometry to analyze several test parameters at the same time. The system enables five or more parameters to be tested simultaneously, for example, in order to compile a hormone level schedule for use in fertility diagnosis.

Given the uncertainty surrounding the reimbursement of the parameters, the diagnostics industry had for many years been somewhat hesitant to address the subject of multiplexing. Even though conclusive agreement has still not been reached in many countries as to reimbursement, there are indications that this field will now witness rapid growth. This development is being driven by the possibilities offered by molecular biology, but also extends to include the field of protein diagnostics.

SHARE

2006 on the stock markets

With only a few exceptions, the international stock markets showed marked growth in 2006. Robust macroeconomic developments, pleasing company results and numerous M&A activities proved to be the key factors driving developments on the stock markets. The substantial downturn in stock prices in May and June, when concerns about inflation and interest rates, and thus the fear of a slowdown in global economic growth, exerted downward pressure on the stock markets, constituted only a temporary, if rather severe, interruption to the upward trend in stock prices. The DAX, the leading German stock index, concluded the 2006 trading year with an increase of almost 22%. A few days earlier it had reached its highest level since February 2001. The "Technology All Share" and "German-Entrepreneurial-Index" indices, which seem to represent the most suitable basis of comparison for the performance of STRATEC's share, rose by 23.2% and 27.9% respectively in 2006.

Performance of STRATEC's share

Right at the beginning of the 2006 trading year, the stock market price of STRATEC's share increased by almost 15% within the first eight days of trading. It subsequently lost substantial ground, marking its annual low in May following several ups and downs. The share price seen at the beginning of January was only matched in early July and was then surmounted on an ongoing basis at the end of July, shortly before the issue of bonus shares.

The second half of the trading year was in general less nerve-wracking for STRATEC's shareholders. The share continued to see major fluctuations, yet its price passed one all-time high after the next and finished the 2006 trading year with an increase of 47.3%.

As in previous years, STRATEC's share therefore outperformed its comparative indices by a considerable margin in the 2006 trading year.

Tradability of STRATEC's share and designated sponsoring

Shares in STRATEC are traded on Xetra and in floor trading at the Frankfurt, Stuttgart, Munich, Berlin-Bremen and Düsseldorf Stock Exchanges. The emporia with the highest turnover of shares were the first two of the aforementioned marketplaces.

STRATEC AG has issued a mandate to WestLB AG to act as designated sponsor with effect from March 1, 2007. The highly successful cooperation already in place between the two companies in looking after the needs of institutional investors in Germany and abroad will thus be extended to include the sponsoring of stock trading. Alongside Landesbank Baden-Württemberg, which has acted as designated sponsor to STRATEC AG since February 1, 2005, WestLB AG is thus the second bank whose traders provide binding bid and offer prices for STRATEC's share on Xetra. They thus supply additional liquidity to bridge any temporary imbalances between supply and demand for STRATEC's share. Both banks have been awarded an AA rating by the German Stock Exchange for meeting strict requirements in terms of quota duration and the spread between the purchase and sale prices of the shares they sponsor. It had become necessary to commission a second designated sponsor to do justice to the company's growing market capitalization and the increasing interest shown by investors, as well as to broaden the marketing network for our share.

Measured in terms of simple order book turnover, STRATEC shares with a value of EUR 135.7 million changed hands on the German stock exchanges in 2006 (previous year: EUR 90.8 million), with 87% of this volume being traded on Xetra and in Frankfurt alone (previous year: 84%).

Regulated market of the Stuttgart Stock Exchange and the Gate-M mid-cap segment

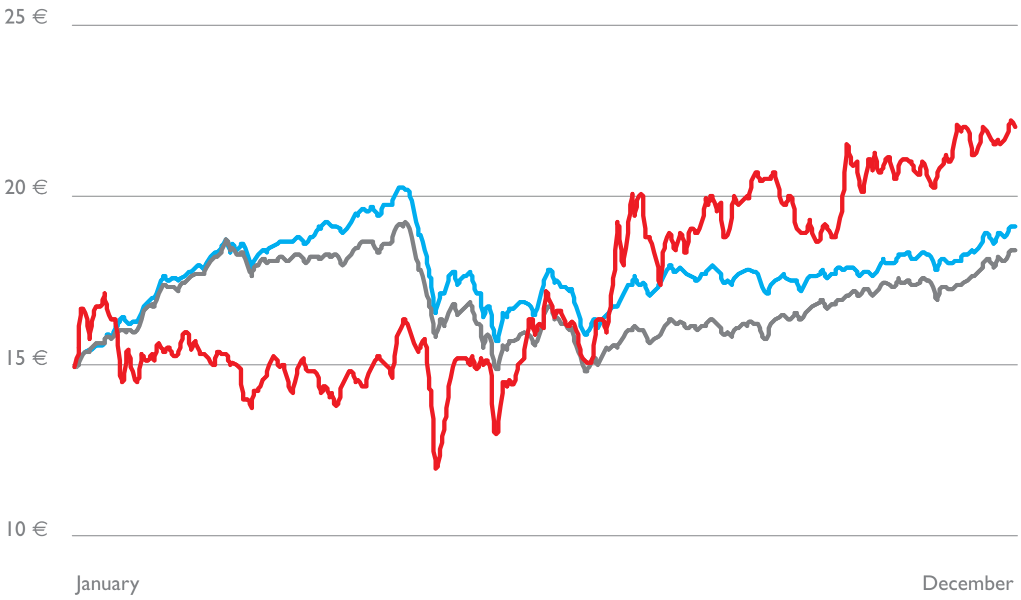
In view of the increasingly stringent regulation of the capital market and the growing internationalization of our Group and its shareholder structure, it is crucial that the stock market listing of our share should have a cost-effective and transparent basis.

In the interests of achieving such a basis, we applied in December 2006 for the discontinuation of STRATEC's listing in the regulated market of the Stuttgart Stock Exchange. Since January 1, 2007, the share has been listed there for unofficial trading.

We have also discontinued the listing of STRATEC's share in the Gate-M mid-cap segment of the Stuttgart Stock Exchange. The trading, service and information platform failed to live up to our expectations.

Having focused on the Frankfurt financial center, where our share is listed in the Prime Standard, a subsection of the regulated market of the Frankfurt Stock Exchange, we have achieved our optimal listing structure from a current perspective.

Performance Comparison of STRATEC's Share (2006)



STRATEC share (ISIN: DE0007289001)
German-Entrepreneurial-Index (ISIN: DE000A0AER17)
Technology All Share (ISIN: DE0008468943)

STRATEC's Share in Figures

Key Figures		2006	2005
Earnings per share	Euro	0.70	0.43
Dividend per share	Euro	0.15	0.10
Cash flow per share	Euro	0.86	0.52
Share capital	Euro million	11.3	11,0
Market capitalization	Euro million	247.7	163.6

Stock Market Prices		2006	2005
Year-end share price	Euro	22.00	14.93
Annual high	Euro	22.50	15.66
Annual low	Euro	11.44	5.44

Dividend

We concluded the 2006 financial year as expected with substantial earnings growth. In view of our performance, the Supervisory Board and Board of Management will propose to the Annual General Meeting on May 16, 2007 that a dividend of EUR 0.15 per share with dividend rights be distributed to shareholders (previous year: EUR 0.10). Subject to approval by Annual General Meeting, this would be equivalent to a total distribution of EUR 1.7 million (previous year: EUR 1.1 million).

Capital-related measures

A series of capital-related measures was executed during the 2006 financial year, which overall led the share capital to increase by EUR 7,600,107 to EUR 11,260,246.

Capital increase in return for non-cash contributions – Within the framework of the acquisition of the Anglo-American software company Sanguin International, the share capital was increased by EUR 18,206 in return for the issue of 18,206 new shares. This capital-related measure was entered in the Commercial Register at the end of March 2006.

Capital increase from company funds – The capital increase from company funds resolved by the Annual General Meeting on June 23, 2006 was entered in the Commercial Register in July 2006. This was followed by the issuing of bonus shares at a ratio of 1 to 2.9942188, resulting in an additional 1.9942188 new shares being issued for each STRATEC share held. Overall, 7,416,478 bonus shares were issued. As a result, the share capital increased by EUR 7,416,478.

Capital increases in return for cash contributions – A total of 82,320 option rights were exercised by option holders within the framework of the employee option program during the 2006 financial year. This resulted in 165,423 new shares, which increased the share capital by EUR 165,423.

On December 31, 2006, the share capital amounted to EUR 11,260,246 and was divided into 11,260,246 ordinary bearer shares.

Shareholder structure

The level of free float calculated in line with the definition of the German Stock Exchange amounted to 56.3% at December 31, 2006 (previous year: 55.5%).

Corporate communications

STRATEC AG backs up its corporate strategy, which is aimed at achieving sustainable value growth, with continuous and transparent communications with capital market participants. Our aim is to retain investors' trust and to acquire new investors. The investor relations activities at STRATEC AG ensure that investors, analysts and business and financial journalists are actively provided with continuous, up-to-date information as to the company's business performance and the latest developments.

During the 2006 financial year, STRATEC AG published six press releases, seven ad-hoc announcements, an extensive annual report and three interim reports. We sent a total of 17 electronic newsletters with which we drew readers' attention to the publication of press releases and ad-hoc announcements, to reports newly published on our internet site and to special events relating to STRATEC AG.

The Board of Management presented the company and outlined its underlying business model in extensive detail at numerous one-to-one meetings with investors from Germany and abroad. During the 2006 financial year, a further bank, Crédit Agricole Cheuvreux, began to publish analyses of STRATEC AG and to provide regular commentaries on important events at the company.

We further expanded our international investor base in the course of the year. One focus of our investor relations work is on attracting investors with long-term investment horizons. We succeeded in this way in acquiring new institutional investors, notably from the UK and the USA.

Our dialog with you is very important to us. Why not register to receive information via our postal and/or electronic mailing list? In addition, all significant information and important items of news are available to you around the clock at our company's homepage: http://www.stratec-biomedical.de.

Corporate Governance Report

In July 2006, the Federal Ministry of Justice formally published the new version of the German Corporate Governance Code in the electronic Federal Gazette. The German Corporate Governance Code is intended to make the rules governing corporate management and supervision in Germany transparent for national and international investors, and thus to increase the confidence placed in the corporate management of German companies.

The German Corporate Governance Code government commission, the so-called Cromme Commission, adopted important resolutions concerning the further development of the Code in June 2006. The previous amendments had been adopted in June 2005.

On December 15, 2006, the Board of Management and Supervisory Board submitted the following Statement of Compliance for the 2006 financial year in respect of the recommendations of the Code pursuant to Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders at the company's internet site:

"Statement of Compliance of the Board of Management and the Supervisory Board of STRATEC Biomedical Systems AG with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG).

STRATEC Biomedical Systems AG has complied with the actions recommended in respect of corporate management and supervision by the German Corporate Governance Code government commission in the version dated June 2, 2005 since the submission of its previous Statement of Compliance on December 16, 2005 with the exceptions outlined in that statement. STRATEC Biomedical Systems AG will comply in future with the recommendations made by the German Corporate Governance Code government commission in the version dated June 12, 2006 with the following exceptions:

Point 3.8

The German Corporate Governance Code recommends that a suitable deductible be agreed for the members of the Board of Management and the Supervisory Board upon the conclusion of any D&O insurance policy.

The company foregoes any deductible in its D&O insurance policy for members of the Board of Management and Supervisory Board. The Board of Management and Supervisory Board are of the opinion that the members of the boards and the management of the subsidiaries make every effort to avoid any damages to the company. Their responsibility and motivation to continue to make efforts in this direction would not be fostered by a deductible for the D&O insurance policy. Moreover, any possible deductible would also not have any impact on the insurance premium.

Point 4.2.3

The German Corporate Governance Code recommends that in order to cover against extraordinary unforeseen developments the Supervisory Board should agree a limit (cap) on the stock options and comparable instruments granted to the members of the Board of Management as variable components of their compensation.

The Supervisory Board has not agreed any limit for the stock options issued to the members of the Board of Management, neither is any such limit foreseen for the future in view of the fact that this would result in the stock options failing to provide the element of risk/opportunity required, especially for variable compensation components, and that such a limit would not provide the necessary incentives, particularly when compared with practices in other countries.

Point 4.2.5

According to the law governing the disclosure of management board compensation dated August 3, 2005, the total compensation of each member of the Board of Management has to be disclosed on an individual basis, broken down into non-performance-related and performance-related components, as well as components of a long-term incentive nature, unless otherwise resolved by the Annual General Meeting with a three-quarters majority.

The German Corporate Governance Code recommends that such disclosures be made on an individual basis in a compensation report (forming part of the Corporate Governance Report).

The compensation of all members of the Board of Management, broken down into its components, was and continues to be reported in total. The disclosure of the total compensation of each member of the Board of Management has been foregone in view of the resolution adopted with the necessary qualifying majority by the Annual General Meeting held on June 23, 2006.

It is our opinion that the recipient of such disclosures concerning the compensation of the individual members of the Board of Management is less interested in the incentive for the individual member of the Board than in the incentive for the Board as a whole. Moreover, any disclosure of the compensation of the Board of Management on an individual basis would result in the longer term in a leveling out of the salaries between the various positions on the Board, thus undermining the desired incentive effect.

Point 5.2, 5.3.1 and 5.3.2

The German Corporate Governance Code recommends that the Supervisory Board should establish specialist committees (including an audit committee), depending on the specific circumstances of the company and the number of its members. Moreover, the Chairman of the Supervisory Board should assume the chairmanship of the committee which deals with the contracts concluded with members of the Board of Management.

The Supervisory Board of the company consists of the minimum legal requirement of three members and, in view of its size, has not established any committees to date.

Point 5.4.7

The German Corporate Governance Code recommends that the compensation of the members of the Supervisory Board be disclosed in the Corporate Governance report on an individual basis and broken down into its constituent components.

The compensation, broken down into its constituent components, has been and continues to be reported in total for all members of the Supervisory Board. The disclosure of the compensation of each member of the Supervisory Board has been foregone in view of the resolution adopted with the required qualifying majority by the Annual General Meeting on June 23, 2006. Moreover, the transparency requirements of this recommendation in the Code are largely accounted for by the disclosure of the composition of Supervisory Board compensation in Section 13 of the company's Articles of Incorporation.

Point 6.6

The German Corporate Governance Code recommends that any ownership of shares in the company or of related financial instruments by members of the Board of Management and the Supervisory Board should be stated in the Corporate Governance report in the event of such direct or indirect shareholdings exceeding 1% of the shares issued by the company. Moreover, the German Corporate Governance Code recommends that the total shareholding held by such members should be stated in the Corporate Governance report broken down into the Board of Management and the Supervisory Board in the event of the total shareholding of all members of the Board of Management and the Supervisory Board exceeding 1% of the shares issued by the company.

The Board of Management and the Supervisory Board are of the opinion that the notification duties set out in the respective legal requirements, which require the company to be notified in the event of the shareholding held by any shareholder (in this case a company board) exceeding certain thresholds, are adequate in this respect. The holdings of shares in the company or of related financial instruments by members of the Board of Management and the Supervisory Board have not been stated in the past and will not be reported in future. This does not apply to the disclosures resulting from legal requirements.

Point 7.1.2

The German Corporate Governance Code recommends that the consolidated financial statements be published within 90 days and the interim reports within 45 days of the conclusion of the respective reporting period.

The aforementioned deadlines concerning the publication of the consolidated financial statements and interim reports have not been and are in some cases still not met by the company. STRATEC Biomedical Systems AG does, however, meet the publication deadlines set out in the rules and regulations governing the company's membership of the segment of the regulated market of the Frankfurt Stock Exchange involving additional admission requirements (Prime Standard), namely four months in the case of annual financial statements and two months for interim reports."

Statements of Compliance with the Code which are no longer up to date continue to be available on the company's internet site for a period of five years.

Further information on the Corporate Governance Report

Further information relating to the Corporate Governance Report has been included in this Annual Report in accordance with legal requirements.

- Compensation of the Board of Management and Supervisory Board
  Reference is made in this respect to the notes to the consolidated financial statements, Note 29 "Disclosures relating to closely related companies and individuals" and in the group management report, Section 8 "Basic features of the compensation system for the Board of Management and Supervisory Board".

- Disclosures concerning stock option programs and similar security-based incentive systems
  Reference is made to the notes to the consolidated financial statements, Note 13 "Shareholders' equity", Section "Stock option programs".

- Directors' dealings
  Section 15a of the German Securities Trading Act (WpHG) obliges members of the Board of Management and Supervisory Board to disclose the acquisition or disposal of shares in STRATEC AG or related financial instruments, to the extent that the value of the transactions undertaken by the respective member and persons closely related to such member reaches or exceeds a total amount of EUR 5,000. The securities transactions requiring such disclosure have been published on the internet site of the company and on the internet site of the Federal Financial Supervisory Authority.

Birkenfeld, March 2007

STRATEC Biomedical Systems AG

The Supervisory Board The Board of Management

GROUP MANAGEMENT REPORT

Group Management Report of STRATEC Biomedical Systems AG for the 2006 Financial Year

1. Overview of business performance and earnings

Further sales growth and a considerable expansion in margins meant that the 2006 financial year was once again a record year.

- Consolidated sales increase by 45% to EUR 68.4 million
- EBIT rises by 50% to EUR 10.8 million
- EBIT margin now amounts to 15.8%
- Consolidated net income increased by EUR 3.3 million to EUR 7.7 million
- Basic earnings per share of EUR 0.70, compared with EUR 0.43 in previous year
- Cash flow from operating activities at EUR 8.8 million (previous year: EUR 1.3 million)

For the STRATEC Group, 2006 was a further record year. We even succeeded in surpassing the challenging and ambitious targets we had set ourselves for 2006. The two largest individual companies within the STRATEC Group, STRATEC AG and Robion AG, showed very pleasing developments in terms of sales and earnings. The acquisition and integration of our Anglo-American software development subsidiary, Sanguin International Ltd., has also shown initial success. The acquisition, which was driven by technological and strategic considerations, contributed sales of EUR 1.3 million to consolidated sales in the first 9 months since its consolidation on April 1, 2006.

The mandatory requirements of IFRS 3 mean that the predominant share of the purchase price for Sanguin International Ltd. has been allocated to intangible assets.

STRATEC acquired Sanguin International Ltd. in March 2006, mainly on the basis of technological considerations. In particular, the combination of Sanguin's software with STRATEC's technology will enable both companies to benefit from their complementary product portfolios, for example in the field of FDA-approved solutions for clinical diagnostic laboratories. The customer structures of the two companies also complement each other ideally in this area. Moreover, the takeover will enable STRATEC to achieve savings on analyzer system families currently in the development and planning stages. Further benefits, notably cost savings, will be generated by the now completed geographical merger of business operations at STRATEC Biomedical Inc., Aliquippa, PA, USA, and Sanguin International Inc., Hamden, CT, USA.

Robion AG has been fully consolidated in the financial statements of STRATEC Biomedical Systems AG as of December 31, 2006 for the second time now, thus enabling its operating performance to be compared with the previous year.

2. Market and sector

Market and sector: Overview

Although the products developed by the STRATEC Group for the research market generated operative sales for the first time in 2006, the overwhelming share of STRATEC analyzer systems continue to be used for in-vitro diagnostics (clinical diagnostic laboratories, blood banks etc.). The users of these analyzer systems, for example in hospital laboratories, do not represent the direct customers of the STRATEC Group. Our customers are large companies in the diagnostics industry and the research divisions of pharmaceutical groups. These generally supply the aforementioned end users with reagents (chemicals) together with the automation solutions provided by STRATEC. STRATEC's customers see their core competency as involving the global marketing of system solutions. A strategic realignment can currently be observed among these customers in that they are now in some cases outsourcing even the development and enhancement of testing processes to competent reagent development companies. STRATEC's customers are thus increasingly positioning themselves as system marketers holding the respective industrial property rights.

The increasing concentration of sales, and especially of market growth, at and due to the actions of the "big players" continued in 2006, not least as a result of the consolidation seen within the diagnostics industry.

Various studies forecast market growth of 5% - 7% for 2006. Based on estimates made by specialists, the actual growth of the market in 2006 was at the upper end of this range. We expect the overall market to see growth on this scale in the coming three years. The growth of the STRATEC Group was many times higher than the average growth in the sector, mainly as a result of the outsourcing of development and production by large diagnostics companies to the STRATEC Group.

It has become apparent that individual market segments within the diagnostics industry will witness significantly higher growth than the overall market. Substantial growth is expected in this respect in point-of-care diagnostics (near-patient testing), diagnostics involving a highly sensitive form of antibody reaction test (luminescence immunoassays) and especially in molecular diagnostics. STRATEC has great expertise in all of these areas. The company's active production projects, and in particular its development inquiries and activities, focus on these areas. These therefore represent the current and future growth drivers of the STRATEC Group.

Market and sector: Performance criteria

Customer-specific development – Given that the sales of the STRATEC Group are almost exclusively attributable to customer-specific solutions, the identification and documentation of customer requirements prior to the specification stage represents one of the most important processes. Alongside purely physical and biological requirements, account also has to be taken of other features, such as service aspects, extension possibilities and scalability. These partly determine the later success of an automated solution. Factors which are not directly allocable to projects, such as development, production or quality management processes, form a fixed component of customer requirements. The business strategy of focusing on a small number of business partners enables the STRATEC Group to respond very closely to its customers' requirements, not least as a result of its high degree of integration into the business processes of its customers.

Economic effectiveness – The features of the STRATEC Group's business model enable the Group's customers to depict the project and analyzer system costs in their own project calculations even before the beginning of a development project. Once the requirements for an automated solution have been determined, fixed prices are contractually agreed for the use of STRATEC technology and the price per analyzer system. Moreover, minimum purchase volumes are set per system family. This approach provides both contractual partners with a high degree of budgeting reliability and a solid basis for costing. The technology pool, established processes, the high degree of expertise, including that of translating development results into production, the established target cost management system and the vertical integration of the STRATEC Group make it possible to compile a highly economic overall package.

Quality of development results – In addition to the quality of the engineering work and the achievement of a balanced compromise between price-sensitive development and specific development, the overall reliability of analyzer systems is also affected by the complexity of the biochemical processes to be handled. For regulatory reasons, amendments intended to enhance serial production quality frequently require the customer to undertake a renewed inspection of the analysis process. This inevitably leads to delays in the introduction of quality enhancement measures into serial production. We believe that we are well-positioned to do justice to requirements such as the speed of reliability enhancements, economic effectiveness and absolute reliability.

Possibility of global deployment – By complying with the norms and processes required around the world, STRATEC provides its customers with the possibility of safely and rapidly achieving market approval in an environment in which highly innovative analyzer systems are subject to a high level of regulatory requirements. As well as meeting a clear requirement on the part of customers and the authorities, this unique selling point also provides customers with a criterion on which to base their decisions between proprietary, internal development and outsourcing to STRATEC. STRATEC's competence in this area is confirmed by regular customer audits and by inspections undertaken by the US-American health authority FDA (Food & Drug Administration).

Market and sector: The market position of the STRATEC Group

The STRATEC Group has achieved further major improvements in its very strong competitive position by concluding new development agreements and by expanding its production volumes. The ongoing improvement in the company's competitive position is based on the consistent implementation of the key features of its corporate strategy:

Innovation management – The large number of successfully completed development projects means that the STRATEC Group has access to a very large technology pool, which is constantly being extended to include current projects. This means that the STRATEC Group is now in a position to automate a very broad range of diagnostic applications and research tasks. On the basis of this broad and secure foundation, the STRATEC Group promotes innovation and innovation opportunities arising within the company and externally. Alongside economic effectiveness, reliability and safety, innovation and creativity play a key role in the fulfillment of project objectives.

Project management – The primary competence of STRATEC's customers involves the development and marketing of diagnostic tests, such as hepatitis tests. To facilitate the successful development of analyzer systems, as an automation specialist STRATEC also has employees with proven high levels of competence in customers' specialist areas. These employees are thus able to transfer the biochemical processes involved to the automated solution. This enables the STRATEC Group to provide "everything from one source" when it comes to laboratory automation, thus allowing its customers to focus on their core competencies. The projects therefore incorporate all of the steps required, from the joint generation of product requirements, via the development process and the transition to production through to the serial production and supply of the analyzer systems.

In parallel to this, we also provide additional services, such as the further development of the analyzer systems, including all follow-on processes, such as the administration of development documentation, change and complaints management, training our customers' employees, and the provision of service and support to our customers' product specialists. The special scope of our services provides us with a distinct competitive advantage.

Customers – The STRATEC Group focuses on market and technology-leading diagnostics companies. Strategic alliances are forged with these companies, ranging over the complete development and product lifecycle, which can last up to 20 years from the start of development to the decommissioning of the last analyzer system. As well as acquiring new market and technology leaders as customers, the STRATEC Group aims to be able to handle follow-up projects and thus to be able to start developing successor systems during the peak stage of the product lifecycle already. Both objectives were successfully met in 2006, meaning that our development departments will be working at capacity over a period of several years.

Transition of products from development to production – We view the dovetailing of development and production processes as representing one of the key success factors in fulfilling the requirement made by our customers for short "times to market" (speed of market launch of new products). The involvement of production departments at an early stage, for example for feasibility studies, the testing of functional modules, prototype production and the development of testing equipment, reduces development times and thus accelerates the respective projects.

3. Financial position and investments

Mainly as a result of the strong growth shown by the operating business, the cash flow increased by 70% from EUR 5.7 million to EUR 9.7 million. Even more substantial growth was seen in the inflow of funds from operating activities, which rose from EUR 1.3 million in the previous year to EUR 8.8 million in the year under report.

The investment activities resulted in an outflow of funds amounting to EUR 6.6 million (previous year: EUR 3.0 million). This outflow related in particular to an amount of EUR 3.8 million for the acquisition of Sanguin International Ltd., an amount of EUR 1.7 million for the increase in the shareholding in CyBio AG, and expenditure of EUR 0.9 million on property, plant and equipment.

Financing activities led to an overall outflow of funds amounting to EUR 0.3 million in 2006 (previous year: inflow of EUR 10.4 million). This figure includes an outflow of funds amounting to EUR 1.1 million for the distribution of the dividend for the 2005 financial year. This was countered by inflows of funds amounting to EUR 0.6 million as a result of the issuing of shares in connection with employee option programs and an amount of EUR 0.2 million from the taking up of loans.

The total of all inflows and outflows of funds during the 2006 financial year led liquid funds to rise by EUR 2.0 million to EUR 12.0 million as of December 31, 2006.

4. Earnings position

The STRATEC Group succeeded in increasing its sales by 45% from EUR 47.3 million to EUR 68.4 million. Together with the moderate increase in the volume of finished and unfinished products and unfinished services, this resulted in an equally considerably rise in the overall performance from EUR 48.4 million to EUR 69.2 million, equivalent to growth of 43%.

The increase in the cost of materials from EUR 25.1 million to EUR 37.6 million is directly related to the sales growth generated.

The intensification of development activities and further expansion of production capacity, as well as the integration of Sanguin International Ltd., are reflected in an increase in personnel expenses by around 21%. Other operating expenses rose in line with the budget by around EUR 1.8 million. There were no major one-off items.

The increase in depreciation and amortization by EUR 0.8 million is mainly due to the scheduled depreciation and amortization of EUR 0.6 million undertaken on the fair values identified at Sanguin International Ltd.

The EBIT for the 2006 financial year amounted to EUR 10.8 million, compared with EUR 7.2 million in 2005. We have thus succeeded in increasing the EBIT of the Group by 50% or more for the fourth year in succession.

Taxes on income amounted to EUR 3.1 million in 2006, compared with EUR 2.5 million in the previous year. Consolidated net income thus rose by EUR 3.3 million to EUR 7.7 million.

5. Asset and capital structure

Total assets increased by EUR 13.5 million compared with the previous year to reach EUR 57.1 million. Long-term assets rose from EUR 6.7 million to EUR 14.9 million.

As a result of the purchase of Sanguin International Ltd., the intangible assets included goodwill for the first time, which was reported at EUR 897k. The marked increase in other intangible assets is attributable to the fair values identified, which were also stated on account of the purchase of Sanguin International Ltd. and which will be amortized over the coming years.

Shares in associated companies rose during the financial year under report from EUR 38k to EUR 329k as a result of the valuation at fair value of the 75% shareholding already held by Sanguin International Ltd. in Sanguin International Inc. prior to the takeover of Sanguin International Ltd.

The rise in the carrying amount of the shareholding held in CyBio AG from EUR 771k to EUR 2,678k was due in part to the increase in the level of shareholding and in part to the adjustment in the fair value undertaken without any impact on earnings.

Short-term assets increased by EUR 5.3 million to EUR 42.2 million. Inventories grew by 15% to EUR 14.7 million. The 33% increase in raw materials and supplies to EUR 5.6 million is directly attributable to the sales growth.

The 15% decline in accounts receivable achieved in spite of the considerable level of sales growth is the result of efficiency enhancements in the field of receivables management and of active debtor management measures.

By analogy with the growth in sales, future receivables from production orders also rose to EUR 5.5 million.

The securities were acquired for trading purposes and have been reported at a value of EUR 449k.

Largely as a result of the consolidated net income of EUR 7.7 million, shareholders' equity increased from EUR 31.5 million to EUR 40.1 million. The rise in share capital from EUR 3.7 million to EUR 11.3 million was attributable to the capital increase from company funds and to the exercising of stock options, as a result of which the capital reserve showed a parallel reduction from EUR 15.9 million to EUR 9.9 million. Other equity rose from EUR 93k to EUR 492k. The equity ratio amounted to 70.3% as of December 31, 2006.

Long-term financial debt increased by EUR 754k, while short-term financial debt fell by EUR 585k. Mainly as a result of the fair value valuation within intangible assets, deferred taxes increased from EUR 0.4 million to EUR 2.2 million.

Compared with the level of sales growth, the increase in accounts payable by 19% is very moderate.

The rise in other short-term liabilities by EUR 2.4 million is attributable to the increase in advance payments on orders by EUR 2.3 million.

6. Development

The STRATEC Group supplies its customers exclusively with specific, complex analyzer systems developed by STRATEC. The successful completion of the development process in such a way as to meet the requirements defined together with the individual customer is and remains the core element and at the same time the unique feature underlying the Group's performance.

Although STRATEC is positioned as a development company in terms of its business model and internal processes, we are of the opinion that the requirements of IAS 38 with regard to the capitalization of development projects as intangible assets were still not adequately met in 2006. The fulfillment of the aforementioned criteria at the late stage customary to our sector reflects the actual situation and the resultant risks and opportunities as of the reporting date. As in the previous year, in the event of any direct or indirect links between developments and customer-specific system solutions, then the respective developments are capitalized as unfinished services.

The acceleration in the process observed in the sector in which STRATEC's customers operate towards companies focusing on their core business, the marketing of system solutions consisting of analyzer systems and proprietary reagents (chemicals), coupled with the demand in the market for shorter development cycles, a requirement which large groups find difficult to meet, has resulted in these global players outsourcing their development activities. There is an increasingly apparent trend in this respect towards these companies also outsourcing parts of their proprietary chemicals development activities and thus taking a further step towards becoming "marketing companies owning the respective industrial property rights". The STRATEC Group has implemented its system platform concept in order to do justice to changes in the underlying framework and to the necessity of achieving ever shorter development cycles. This concept draws on hardware and software designs (modules) which can be combined flexibly.

In addition, the platform concept enables established STRATEC technologies to be diversified into new market segments. The company is focusing in this respect on high-margin key customers within the framework of its business-to-business model (OEM). The need for proprietary system solutions in the high-growth segments of clinical diagnostics, and in particular in near-patient and molecular diagnostics, however, opposes the use of a platform concept in the sense of a modular construction. We therefore expect to see a moderate extension in development cycles for developments in these segments of the diagnostics market.

Two development programs of major significance for the company were launched in the field of molecular diagnostics in 2006.

7. Employees

The sharp rise in sales in 2006 was accompanied by significant growth in our workforce. The STRATEC Group created a total of 38 new jobs in 2006. Including the employees taken over from Sanguin International Ltd. and the employees hired from a temporary employment agency, the STRATEC Group had 246 employees as of December 31, 2006. The average number of personnel (excluding temporary personnel) employed at the STRATEC Group increased to 210 (previous year: 191).

Personnel expenses rose by 21.2% during the year under report to EUR 13,921k (previous year: EUR 11,483k; the previous year's figure has been adjusted as a result of the reclassification outlined in the notes to the financial statements). The rise in personnel expenses is largely due to the increased size of the workforce, with a large share of this increase being channeled into the development departments. The share of the overall performance amounted to EUR 300k per employee in 2006 (previous year: EUR 251k).

Our stock option program enables our longstanding employees to participate in the value they have created for STRATEC AG.

Our strong growth orientation continues to be reflected in our personnel structure. The largest part of the STRATEC team works in the development departments. With their work, they are maintaining the constant growth in our technology pool and are already developing STRATEC's future growth drivers.

We should like to take this opportunity of thanking all of our employees for their consistently outstanding commitment and their willingness to give of their best.

8. Basic features of the compensation system for the Board of Management and the Supervisory Board

Compensation system of the Board of Management

The compensation system for the members of the Board of Management provides for:

- A fixed salary component, paid in prorated monthly installments
- A variable component paid in the form of an annual bonus and taking particular account of the personal performance and the economic situation of the company
- Stock option programs based on the resolutions adopted by the Annual General Meetings on May 28, 2003 and June 23, 2006.

A D&O insurance policy has been concluded for the Board of Management. It has been decided to forego any deductible, given that the insurance company does not provide for any such deductible in its calculation of the premium.

Compensation system of the Supervisory Board

Each member of the Supervisory Board receives fixed compensation in addition to the reimbursement of his expenses and the benefits of a pecuniary loss liability insurance policy concluded by the company for members of the Supervisory Board at its own expense and at suitable conditions customary to the market. Furthermore, each member of the Supervisory Board receives performance-related compensation for each financial year, the total amount of which is limited to double (i.e. twice) the level of fixed compensation. The variable compensation is structured as follows:

- EUR 500.00 per complete EUR 500,000.00 "Result of ordinary business activities" (pursuant to IFRS)

and an additional amount to be offset of

- EUR 500.00 per complete EUR 500,000.00 "Cash flow from operating activities".

The Deputy Chairman of the Supervisory Board receives one and a half times (1.5 times) the aforementioned compensation and the Chairman of the Supervisory Board receives twice (two times) such amount. Moreover, each member of the Supervisory Board receives a meeting allowance for each meeting of the Supervisory Board attended in person. The company reimburses each member of the Supervisory Board for the sales tax incurred on his compensation. The fixed compensation is due for payment upon the conclusion of the financial year. The variable compensation is due for payment upon the approval or adoption of the annual financial statements.

9. Procurement

Our focus on the share of production creating the greatest value and the resultant low level of vertical integration coupled with extremely high logistical complexity at the STRATEC Group mean that we have basically focused our procurement on functional modules. These modules are purchased from a very small number of suppliers distinguished by their quality management systems and process orientation. In the case of components and modules with special functionalities and of non-variable components, the STRATEC Group has optimized its supply chain by means of comprehensive master agreements.

10. Sales logistics

The analyzer systems manufactured by the STRATEC Group are forwarded to the sales and logistics centers of large diagnostics and pharmaceutical groups, which in turn market the systems together with their own reagents as system solutions under their own names. Given that the customers of the STRATEC Group generally supply their country outlets and customers from these central distribution centers themselves, the company's regional sales do not reflect the actual geographical distribution of the final operating locations of the analyzer systems manufactured by the STRATEC Group.

11. System assembly and inspection

The focus on complex and high-margin production processes places special requirements in the employee structure and in the available premises. The assembly, quality assurance and inspection processes are therefore undertaken by highly-qualified and excellently trained personnel, in some cases in a laboratory environment. This approach maintains the focus on economic effectiveness, while simultaneously enabling the quality thereby produced to be inspected in an environment which corresponds to the application locations of our analyzer systems.

12. Risk report

Risk report: Risk management system

The risk management system established as an early warning risk recognition system serves to analyze and assess the risks facing the company and its environment pursuant to Section 91 (2) of the German Stock Corporation Act (AktG). The individuals required to report such risks compile reports on their respective areas of risk at fixed intervals, as well as ad-hoc reports if necessary, which are qualified and quantified on the basis of a systematic approach. At the various levels of aggregation, the decision makers and executive and supervisory bodies of the company are provided with a so-called Risk Handbook to serve as a controlling instrument. This enables the conceivable consequences of individual risks presented over the period of their arising to be viewed and evaluated alongside any change in their probability of occurrence. With the extension of group structures within the STRATEC Group, the subsidiaries have been incorporated into the existing risk management system at the parent company. The respective risks and their various interdependencies are analyzed both at the individual companies and between the group companies.

The opportunities arising for the STRATEC Group on account of its cooperation with new partners, its new technologies, and its increasing sales and earnings in changing markets are to be assessed as being positive on a sustainable basis. Potential risks should nevertheless be reported, regardless of whether it is considered likely or unlikely that they will actually occur.

Factors such as the speed of development and the fulfillment of regulatory and market requirements have a considerable impact on the growth and success of the STRATEC Group. In contrast to these, other factors, such as the definition of market acceptance criteria and marketing performance, do not lie within the control of the STRATEC Group. Due to our business model, the trials, validation, extent to which minimum purchase volumes are exceeded and sales structures are in the hands of our customers.

Risk report: Market and customer-related risks

In line with its business model, the STRATEC Group focuses on companies which are market or technology leaders in their respective fields. The resultant potential dependency is mutual and thus constitutes a symbiotic partnership. As a result of the growing strength of its position and reputation in the market for diagnostics and research laboratory automation, STRATEC is able to focus on those customers who have proven that they have the competencies referred to above. This automatically leads to a concentration of sales at a limited number of key customers.

The STRATEC Group draws on internal and external supervision to ensure that no industrial property rights are violated. Moreover, the company has protected its own expertise with numerous international patents and registrations.

The STRATEC Group has reacted to the increase in development expenses, particularly for systems automating molecular diagnostic applications, by introducing strict project controlling procedures in connection with an effective target cost management system. In particular, the complexity of production processes means that, for reasons of economy, the STRATEC Group focuses on a small number of suppliers. The high cost of supervising logistics activities and of monitoring quality standards renders this degree of concentration in terms of suppliers absolutely essential. This risk is knowingly entered into and is minimized by accompanying measures such as individual contract terms, maintaining inventory stocks and regular supplier audits.

Risk report: Financial instruments / risk management

Financial instruments are contractually regulated financial transactions involving a claim to liquid funds. A distinction is made in this respect between:

- primary financial instruments, such as accounts receivable and payable or financial receivables and liabilities
- derivative financial instruments not involving a hedging relationship with an underlying transaction
- derivative financial instruments, such as hedges deployed to cover risks relating to changes in exchange rates and interest rates.

The volume of primary financial instruments can be seen in the balance sheet. The financial instruments included on the asset side of the balance sheet have been subdivided pursuant to IAS 39 into various categories and stated in line with their respective classification at cost or at fair value. With the exception of shareholdings reported under financial assets and short-term securities, the short-term nature of receivables and liquid funds means that there are no significant variances between the respective carrying amounts and fair values.

Changes in the fair value of financial instruments available for sale are recorded under equity up to the realization of the respective financial instrument. If there are permanent reductions in the value of such instruments, however, then these are reported through profit or loss. Changes in the fair value of financial instruments held for trading are recorded through profit or loss.

Financial risks can generally arise from currency and interest rate fluctuations and from financial dependency on individual debt capital providers.

Currency risks are currently still of subordinate significance for the STRATEC Group, given that the majority of its procurement markets are located within the euro area and that group companies also mainly denominate their invoices in euros. There was a considerable increase in the flow of payments from outside the euro area in 2006. For reasons of economy, the company currently does not deploy any derivative hedging instruments to cover currency fluctuations.

The managers responsible for cash management review the expediency of currency hedging transactions at regular intervals. Given the group structure and the internationalization of its procurement activities, the Group is facing increased risk in terms of currency fluctuations. In 2006, the exchange rate differences between CHF and EUR had a tangible impact in connection with the Swiss subsidiary Robion AG.

Interest rate risks are countered on the basis of the internal requirements of the risk management system in place at the STRATEC Group. Depending on the internal risk assessment, these also involve covering such risks by means of derivative financial instruments.

Further details can be found in Note 27 of the notes to the consolidated financial statements.

Risk report: Other risks

In the light of the company's substantial growth, the risk managers have identified the following potential challenges:

- Recruitment of adequately qualified personnel with appropriate industry experience.
- Extension of monitoring and controlling instruments as a result of the internal and external growth of the company.
- The development of the company could be affected by the negative impact on its image of potential admonitions by authorities or product recalls.

The company's risk management system in general and its Risk Handbook as the central component of this system in particular have been and continue to be adjusted and extended to account for these growth-related challenges, as have the processes and systems used to control the company.

13. Supplementary disclosures in accordance with the Takeover Directive Implementing Act of July 8, 2006

The share capital is divided into 11,260,246 ordinary shares with a nominal value of EUR 1.00 each (previous year: 3,660,139 ordinary shares). The shares are bearer shares. The Chairman of the Board of Management, Hermann Leistner, held 14.3% of the share capital at the balance sheet reporting date.

The appointment and dismissal of members of the Board of Management, as well as any amendments to the Articles of Incorporation, are undertaken in accordance with the requirements of stock corporation law. The Articles of Incorporation do not include any divergent stipulations in this respect.

The Annual General Meeting held on June 23, 2006 authorized the company up to December 22, 2007 to acquire treasury stock up to a total of ten percent of the company's share capital. With the exception of the acquisition of 0.672 shares for the purpose of rounding up the number of shares, the company had not made any use of this authorization as of December 31, 2006.

The Board of Management is authorized by Section 4 (4.5) of the Articles of Incorporation, subject to the consent of the Supervisory Board, to increase the company's share capital up to June 22, 2011 by issuing new shares with a nominal value of EUR 1.00 each in return for non-cash or cash contributions on one or more occasions by a maximum total of EUR 5,500,000 (authorized capital). Shareholders are generally to be granted subscription rights in this regard. In certain circumstances set out in the Articles of Incorporation, however, the Board of Management is entitled to exclude such subscription rights.

In accordance with the provisions of the Articles of Incorporation, the company has various conditional capitals with a total value of EUR 1,202k as of December 31, 2006. Reference is made for further details to the corresponding notes on shareholders' equity in the notes to the consolidated financial statements.

With regard to further disclosures, use has been made of the protective clause provided for by Section 315 (4) No. 8 of the German Commercial Code (HGB).

14. Major events after the balance sheet reporting date and expected development of the STRATEC Group

Events after the reporting date

The removal and geographical merger of STRATEC Biomedical Inc. from Aliquippa, PA, USA, to Sanguin International Inc. in Hamden, CT, USA, has been fully completed.

We are not aware of any events having occurred within the STRATEC Group since December 31, 2006 which could have any notable impact on the financial and economic position of the Group.

Business strategy

The fact that the STRATEC Group continues to have a reinvestment rate (investment in the research and development of new technologies and products) amounting to almost 40% of its gross profit provides clear evidence of its status as an innovative development company. We are positioned as a development company and will continue to focus on market and technology leaders in the fields of diagnostics and life sciences, as well as on specialist technical solutions in growth segments with high margin potential. Taking due account of the optimization of our allocation of resources, this strategic alignment will enable us to further expand our position as a leading supplier of automated solutions for complex applications in the high-growth subsections of the diagnostics and life science markets.

Financial strategy

The financial management of the STRATEC Group is controlled from the headquarters in Birkenfeld, Germany. The principal objectives of this financial management involve a basically conservative debt policy, effective risk management and the short and medium-term supply of the required levels of liquidity. These objectives are overarched by the targeted optimization of our financing costs. The utilization of available financial funds was highly volatile in 2006, notably as a result of the high level of working capital required in connection with the substantial sales growth, thus making it difficult to implement long-term investment strategies. Subject to exceptional influences, we expect to see the consistent generation of free cash flow in 2007.

Overall, our financial strategy is aimed at safeguarding the funds required for considerable growth and at achieving an investment policy which is balanced in terms of the risks and opportunities involved. We will continue to adhere to this strategy.

We will deploy derivative financial instruments in order to cover risks resulting from the operating business. Moreover, we will deploy derivative financial instruments to optimize interest rates in cases where financing necessities render such measures opportune and where they are related to a general transaction, such as a working capital financing requirement on the part of a subsidiary in a foreign country. Within the framework of our Code of Procedure, we consciously accept that this may in certain circumstances result in a conflict of objectives between the hedging context and the accounting guidelines to the extent that earnings may be affected without any impact on cash flow, particularly in cases when the cash flow hedging possibilities set out in IAS 39 do not apply.

Objectives for 2007

Our budget is based on the assumption that raw material and component prices will remain high and will increase further. Although our transactions are backed up by long-term agreements with customers and suppliers, the rise in prices results in pressure on margins, which we have been able to compensate for by means of logistical measures. We see opportunities for achieving sustainable, significant improvements in our sales and earnings position. These will be driven in particular by our innovative strength and our strategic cooperation with our customers in the interests of enhancing our joint product portfolio.

As a result of the outsourcing requirements on the part of our customers, coupled with their focus on their core business of reagent development and marketing, we assume that we are in a position to continue to achieve significantly more rapid growth than the market. We continue to reinvest almost 40% of our gross profit in the field of development. This is more than 10% higher than the benchmark average. We estimate that only 15% to 20% would be necessary to maintain the substance of the company, i.e. to supply the company with sufficient development results to maintain stable sales and earnings.

Our efforts to expand our margins are principally based on the following factors:

- Product portfolio expansion
- Substantial degression effects in terms of fixed costs
- Increasingly widespread basis of systems already installed, thus boosting sales of consumables.

Our indicators both before and after the balance sheet reporting date, such as further developments in existing projects, point to an ongoing positive business performance. The general structure of our contracts and the customer purchase forecast system referred to above provide us with a reliable budget horizon in terms of our sales and earnings performance. Although there will be an increase in the expenses incurred on increasingly complex developments and regulatory requirements, we expect to see considerable sales growth in the coming years and, moreover, to witness further growth in our operating margin.

Our innovation potential and access to customers, coupled with the full utilization of our production and development capacities, provide us with an excellent foundation for achieving further improvements in the position and key figures of the STRATEC Group and thus for further expanding our market position as a leading company in the field of laboratory automation.

Birkenfeld, March 14, 2007
STRATEC Biomedical Systems AG
The Board of Management

Hermann Leistner

Marcus Wolfinger   Bernd M. Steidle

FACTS AND FIGURES

Consolidated Balance Sheet of STRATEC Biomedical Systems AG as of December 31, 2006

ASSETS

	Note	12.31.2006 EUR	12.31.2006 EUR	Prev. year EUR 000s
Long-term assets				
Intangible assets	(1)			
Goodwill		896,938.38		0
Other intangible assets		5,357,986.85		188
			6,254,925.23	188
Property, plant and equipment	(2)		5,574,564.86	5,688
Financial assets				
Shares in associated companies	(3)	328,977.71		38
Shareholdings	(4)	2,678,361.76		771
			3,007,339.47	809
Other financial assets	(5)		25,965.75	31
			14,862,795.31	6,716
Short-term assets				
Inventories	(6)			
Raw materials and supplies		5,550,724.08		4,167
Unfinished products, unfinished services		8,921,797.01		8,566
Finished products		212,575.59		0
			14,685,096.68	12,733
Receivables and other assets				
Accounts receivable	(7)	8,884,667.79		10,495
Future receivables from production orders	(8)	5,516,577.53		3,116
Receivables from associated companies	(9)	43,592.91		0
Other receivables and other assets	(10)	686,920.57		606
			15,131,758.80	14,217
Securities	(11)		449,026.10	0
Cash and cash equivalents	(12)		11,991,375.31	9,961
			42,257,256.89	36,911
			57,120,052.20	43,627

SHAREHOLDER'S EQUITY AND LIABILITIES

	Note	12.31.2006 EUR	12.31.2006 EUR	Prev. year EUR 000s
Shareholders' equity	(13)			
Share capital			11,260,246.00	3,660
Capital reserve			9,863,611.83	15,896
Revenue reserves			10,777,753.53	7,462
Consolidated net earnings			7,740,796.20	4,412
Other equity			491,547.11	93
			40,133,954.67	31,523
Debt				
Long-term debt				
Long-term financial liabilities	(16)	2,460,053.85		1,706
Pension provisions	(14)	53,461.94		24
Deferred taxes	(15)	2,240,926.62		394
			4,754,442.41	2,124
Short-term debt				
Short-term financial liabilities	(16)	1,254,657.20		1,840
Accounts payable	(17)	2,933,881.51		2,463
Liabilities to affiliated companies	(17)	55,170.45		57
Other short-term liabilities	(18)	3,938,940.64		1,547
Short-term provisions	(19)	2,366,196.22		1,754
Tax provisions	(19)	1,682,809.10		2,319
			12,231,655.12	9,980
			57,120,052.20	43,627

Consolidated Income Statement of STRATEC Biomedical Systems AG for the Period from January 1 to December 31, 2006

	Note	2006 EUR	2006 EUR	Prev. year EUR 000s
Sales	(20)		68,414,445.98	47,297
Increase in volume of finished and unfinished products and unfinished services	(21)		568,624.86	864
Other capitalized own-account services	(2)		249,962.00	254
Overall performance			**69,233,032.84**	**48,415**
Other operating income	(22)		648,687.56	274
Cost of materials				
a) Cost of raw materials and supplies		37,042,739.45		24,287
b) Cost of services rendered		607,187.15		764
			37,649,926.60	25,051
Personnel expenses	(23)			
a) Wages and salaries		11,843,398.53		9,744
b) Social security contributions, pension expenses and other benefits		2,077,196.18		1,739
			13,920,594.71	11,483
Depreciation and amortization of property, plant and equipment and intangible assets	(24)		1,816,099.29	1,032
Other operating expenses	(25)		5,656,048.16	3,878
Income from profit transfer agreements	(3)	-5,269.51		0
Other interest and similar income		135,642.23		64
Interest and similar expenses	(16)	151,863.42		267
			-21,490.70	-203
Other financial result	(16)		-25,000.00	-141
Operating result (EBT)			**10,792,560.94**	**6,901**
Taxes on income	(15)			
a) Current tax expenses		3,056,457.25		2,256
b) Deferred tax income (prev. year: tax expenses)		-4,692.51	3,051,764.74	232
Consolidated net income			**7,740,796.20**	**4,413**
Basic earnings per share in Euro	(26)		0.70	0.43
No. of shares used as basis			11,104,989	10,173,583
Diluted earnings per share in Euro	(26)		0.68	0.42
Diluted no. of shares used as basis			11,398,394	10,505,656

Statement of Changes in Group Shareholders' Equity of STRATEC Biomedical Systems AG for the 2006 Financial Year

EUR 000s	Share capital	Capital reserve	Revenue reserves: Cumulative earnings	Revenue reserves: Free revenue reserves	Consolidated net income	Other equity: Reserve for fair value valuation	Other equity: Treasury stock	Other equity: Currency conversion	Group equity
December 31, 2004	**3,300**	**4,059**	**4,655**	**689**	**2,778**	**0**	**-13**	**0**	**15,468**
Transfer to revenue reserves				850	-850				**0**
Dividend payment					-660				**-660**
Profit carried forward			1,268		-1,268				**0**
Capital increase in return for cash contributions	330	11,635							**11,965**
Issue of subscription shares from stock option programs	30	66							**96**
Transfers due to stock option plan		136							**136**
Adjustment resulting from the valuation of assets available for sale at fair value						106			**106**
Transfer to free revenue reserves									
Consolidated net income 2005					4,413				**4,413**
December 31, 2005	**3,660**	**15,896**	**5,923**	**1,539**	**4,413**	**106**	**-13**	**0**	**31,524**
Dividend payment					-1,097				**-1,097**
Profit carried forward			3,316		- 3,316				**0**
Capital increase from company funds	7,416	-7,416							**0**
Issue of subscription shares from stock option programs	166	482							**648**
Transfers due to stock option plan		120							**120**
Company acquisition in return for shares from real capital increase (change in reporting entity)	18	782							**800**
Adjustment resulting from the valuation of assets available for sale at fair value						256			**256**
Currency conversion								142	**142**
Consolidated net income 2006					7,741				**7,741**
December 31, 2006	**11,260**	**9,864**	**9,239**	**1,539**	**7,741**	**362**	**-13**	**142**	**40,134**

Consolidated Cash Flow Statement of STRATEC Biomedical Systems AG for the Period from January 1 to December 31, 2006

	Note	EUR 000s 2006	EUR 000s 2005
I. Operations			
Consolidated net income		7,741	4,413
Depreciation and amortization	(24)	1,816	1,032
Other non-cash expenses	(12)	252	286
Other non-cash income	(12)	-149	0
Change in pension provisions	(14)	29	-32
Cash flow		**9,689**	**5,699**
Change in deferred taxes		-13	93
Profit on the disposal of long-term assets		-10	-19
Increase in inventories, accounts receivable and other assets		-3,245	-7,188
Increase in accounts payable and other liabilities		2,406	2,723
Inflow of funds from operating activities		**8,827**	**1,308**
II. Investments			
Incoming payments from disposals of long-term assets		25	24
Outgoing payments for investments in long-term assets			
Intangible assets	(1)	-210	-177
Property, plant and equipment	(2)	-899	-2,154
Financial assets	(3, 4)	-1,673	-665
Outgoing payments for the acquisition of consolidated subsidiaries, less cash and cash equivalents thereby taken over	(12)	-3,824	0
Outflow of funds for investment activities		**-6,581**	**-2,972**
III. Financing			
Incoming payments from the taking up / outgoing payments for the repayment of financial debt	(16)	192	-997
Incoming payments from the issue of shares for employee stock option programs (previous year: and from the capital increase in return for cash contributions)	(13)	648	12,061
Dividend payments	(13)	-1,097	-660
Outflow of funds (previous year: inflow) for financing activities		**-257**	**10,404**
IV. Cash-effective change in financial funds (Balance of I - III)		**1,989**	**8,740**
Financial funds at start of period		**9,962**	**1,222**
Change in financial funds due to changes in exchange rates		40	0
Financial funds at end of period	(12)	**11,991**	**9,962**
Cash and cash equivalents as stated in balance sheet	(12)	**11,991**	**9,962**
The inflow of funds from operating activities includes			
Net balance of interest paid and received		21	203
Net balance of taxes on income paid and received		3,850	1,170

I. Principles and methods

1. General information

STRATEC Biomedical Systems AG (hereinafter „STRATEC AG“) designs and manufactures fully automated systems for its partners in the fields of clinical diagnostics and biotechnology. These partners market such systems, in general together with their own reagents, to laboratories and research institutes around the world. STRATEC AG develops its products on the basis of its own patented technologies.

The legal domicile of STRATEC AG is in Birkenfeld, Germany. The financial year of STRATEC AG corresponds to the calendar year.

The declaration required by Section 161 of the German Stock Corporation Act (AktG) in respect of the German Corporate Governance Code (the so-called „Statement of Compliance“) was submitted by the Board of Management and Supervisory Board of STRATEC Biomedical Systems AG and was made permanently available to shareholders on December 15, 2006.

Due to its stock market listing in the Prime Standard segment of the regulated market of the Frankfurt Stock Exchange, STRATEC AG is obliged pursuant to Section 315a (1) of the German Commercial Code (HGB) to compile consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements of STRATEC AG have been compiled in euros. Unless otherwise stated, the amounts reported in the notes have been stated in thousand euros (EUR 000s).

2. Application of International Financial Reporting Standards (IFRS) and presentation of the implications of new accounting standards

The consolidated financial statements compiled by STRATEC AG as the topmost parent company have been based on uniform accounting and valuation principles. Pursuant to Section 315a of the German Commercial Code (HGB), application has been made of the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as adopted by the European Union which are valid as of the balance sheet reporting date. These include the IAS, IFRS and corresponding interpretations (SIC / IFRIC) requiring mandatory application as of the balance sheet reporting date (December 31, 2006). The requirements of the aforementioned regulations have been met without exception, so that the consolidated financial statements of STRATEC AG provide a true and fair picture of the net asset, financial and earnings position, as well as of the cash flows, for the financial year under report.

An amendment to IAS 19 (Employee Benefits) was published in December 2004. This provides for the option of immediate recognition of any actuarial gains and losses in connection with defined benefit pension obligations. This amendment applies to financial year beginning on or after January 1, 2006. The company made use of this option in the year under report and reported actuarial losses through profit and loss. The exercising of this option did not have any major impact on the net asset, financial and earnings position of the Group.

Accounting regulations requiring initial application in the year under report

The consolidated financial statements for the financial year from January 1, 2006 to December 31, 2006 comply with all of the standards revised by the IASB within the framework of its so-called improvement projects. These were already applied in the previous year.

Moreover, the following standards and interpretations required application for the first time in the 2006 financial year:

- IFRS 6 „Exploration for and Evaluation of Mineral Resources", as well as amendments to IFRS 1 and IFRS 6
- Amendments to IAS 19 „Employee Benefits"
- Amendments to IAS 21 „The Effects of Changes in Foreign Exchange Rates"
- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement": Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement": Fair Value Option
- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement" and IFRS 4 „Insurance Contracts" - Financial Guarantees and Credit Insurance
- IFRIC 4 „Determining whether an Arrangement contains a Lease"
- IFRIC 5 „Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
- IFRIC 6 „Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment".

These did not have any major implications for the financial statements.

IFRS 8 is due to replace IAS 14 „Segment Reporting". IFRS 8 first requires application in financial years beginning on or after January 1, 2009, with premature application being recommended. The company made voluntary premature application of IFRS 8 „Operating Segments" in the 2006 financial year. IFRS 8 requires companies to introduce the „management approach" instead of the previous „risk and reward approach" for the purpose of reporting on the financial performance of its operating segments. The premature application of IFRS 8 resulted in it still not being necessary for the company to compile segment reports.

The company made no premature application of the following accounting standards issued by the IASB but not yet requiring mandatory application:

IFRS 7 „Financial Instruments: Disclosures"
IFRS 7 governs the disclosure obligations for financial instruments both at industrial companies and at banks and similar institutions. IFRS 7 replaces IAS 30 „Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure obligations included in IAS 32 „Financial Instruments: Disclosure and Presentation". IFRS 7 requires application in financial years beginning on or after January 1, 2007.

Amendment to IAS 1 „Presentation of Financial Statements"
The amendments will result in additional disclosures being made in the notes on shareholders' equity. The amendment requires application in financial years beginning on or after January 1, 2007.

IFRIC 7 „Applying the Restatement Approach" under IAS 29 „Reporting in Hyperinflationary Economies"
IFRIC 7 requires application for the first time in financial years beginning on or after January 1, 2007.

IFRIC 8 „Scope of IFRS 2"
The amendments require application for the first time in financial years beginning on or after May 1, 2006.

IFRIC 9 „Reassessment of Embedded Derivatives"
This interpretation requires application for the first time in financial years beginning on or after June 1, 2006.

IFRIC 10 „Interim Reporting and Impairment"
This interpretation requires application for the first time in financial years beginning on or after November 1, 2006.

IFRIC 11 „IFRS 2 - Group and Treasury Share Transactions"
This interpretation requires application for the first time in financial years beginning on or after March 1, 2007.

IFRIC 12 „Service Concession Arrangements"
This interpretation requires application for the first time in financial years beginning on or after January 1, 2008.

STRATEC AG is currently investigating the implications of the new standards and interpretations for its accounting. Based on its current preliminary assessment, these are not expected to influence the net asset, financial and earnings position of the Group to any significant extent.

3. Basic principles

The consolidated financial statements have been compiled on the basis of the assumption that the company constitutes a going concern. Up to the conclusion of the compilation of these consolidated financial statements there were no further events with any significant influence on the net asset, financial and earnings situation of the Group.

The financial statements have in principle been compiled on the basis of historic costs of acquisition and manufacture, with the exception of derivative financial instruments, securities available for sale, and securities held for trading, which have been valued at fair value.

The annual financial statements of the companies included have been based on uniform accounting and valuation principles. The separate financial statements of the companies included have been compiled as of the same reporting date as the consolidated financial statements.

The income statement has been compiled using the total cost method.

In the interests of clarity, individual items have been summarized in the income statement and the balance sheet. These are explained in the notes to the financial statements. Pursuant to IAS 1 (Presentation of Financial Statements), a distinction has been made in the balance sheet between long-term and short-term items. All assets and liabilities with maturities within the next 12 months are classified as short-term. Assets and liabilities earmarked for realization in the company's usual course of business are also classified as short-term, even when their maturities exceed 12 months. In the case of loan obligations, a distinction has been made between the repayment installments due for payment within the next 12 months (short-term financial debt) and the long-term portions (long-term financial debt).

IFRS views the prepayments and accrued income requiring statement under German commercial law as constituting assets. These items have therefore been included under „Other receivables and other assets". Corresponding adjustments have been made to the figures reported for the previous year. Prepaid and deferred items have currently been included under „Other short-term liabilities".

The items within assets and shareholders' equity and liabilities have been subdivided into the principal groups of long-term and short-term assets and liabilities. Individual long-term assets and the reserves within group equity have been summarized to a greater extent with the aim of enhancing the clarity of their presentation in the accounts. The loans to employees reported in previous years under financial assets as loans have been included in „Other financial assets". The reserve for the fair value valuation of available-for-sale financial instruments included in previous years under revenue reserves has been combined with treasury stock under „Other equity". In the interests of increased transparency, on the other hand, the individual equity items have been depicted in greater detail in the statement of changes in group shareholder's equity. Corresponding adjustments have been made to the figures reported for the previous year.

As in the previous year, the depiction of the cash flow from operating activities in the cash flow statement has been based on the indirect method. In contrast to the previous year, the payments made for interest and taxes on income have been stated directly beneath the cash flow statement (in the previous year these disclosures were made in the notes).

The additional „of which" disclosures made in the income statement in previous years in respect of sales and changes in the volume of unfinished and finished products have been discontinued in view of the nominal decline in the significance of these figures in recent reporting periods. Starting in the 2006 financial year, the corresponding disclosures have been made in the notes to the consolidated financial statements.

The further increase in the deployment of employees assigned to the company by a personnel services provider (temporary employees) during the year under report has been accounted for by including the resultant expenses under personnel expenses in the income statement (such expenses were previously recorded under other operating expenses). Corresponding amendments have been made to the figures for the previous year. This also resulted in an improvement in the depiction of the long-term personnel policies of the company in terms of acceptance of these employees into fixed employment at the company.

The compilation of the consolidated financial statements requires the making of a certain number of estimates and assumptions which have implications for the level at which and the manner in which assets, liabilities, expenses, income and contingent liabilities are stated. These assumptions and estimates are subject to continuous review. Assumptions and estimates are required in particular in connection with the valuation at fair value of the stock options granted, the valuation of primary and derivative financial instruments at fair value, the assessment of the useful lives of long-term assets and in general in the valuation of provisions.

The principal assumptions and parameters relating to the estimates made have been depicted in the notes to the financial statements. The resultant figures may differ from actual figures.

II. Principles of the consolidated financial statements

1. Consolidation methods

The capital consolidation has been undertaken in accordance with the acquisition method by offsetting the costs of acquisition of the shareholdings against the equity of the subsidiaries at the time of acquisition. Assets, liabilities and contingent liabilities have been stated at fair value. Any remaining credit difference resulting from the capital consolidation has been recognized as goodwill and subject to an annual impairment test pursuant to IFRS 3. Any hidden reserves and liabilities thereby uncovered have been updated in subsequent years in line with the development in the corresponding assets and liabilities.

Any write-ups or write-downs undertaken in the separate financial statements during the financial year on shares held in companies included in the consolidated financial statements have been cancelled in the consolidated financial statements. No such write-ups or write-downs were undertaken during the 2006 financial year.

Intercompany profits and losses, sales, income and expenses, as well as receivables and liabilities between the companies included in the consolidated financial statements, have been eliminated.

The income tax implications of consolidation entries have been accounted for by stating deferred taxes.

The shares held in companies not included in the reporting entity have been stated at updated costs under financial assets (3) „Shares in associated companies“.

2. Reporting entity

The consolidated financial statements of STRATEC AG basically include all companies where STRATEC AG has the possibility of determining the financial and business policy (so-called control relationship). Such companies are included for the first time upon the possibility of such control arising.

In addition to STRATEC AG, the consolidated financial statements as of December 31, 2006 include the subsidiaries

- Robion AG, Neuhausen am Rheinfall, Switzerland
- Sanguin International Ltd., Barton under Needwood, UK

The subsidiary Robion AG was founded on February 23, 2005. The share capital of Robion AG amounts to CHF 100,000 and is divided into 100 bearer shares of CHF 1,000 each. STRATEC AG holds 100% of the voting rights in the company. An amount of EUR 65k was spent in connection with the takeover of share capital as of February 23, 2005. This amount has been converted at the exchange rate as of the acquisition date.

In March 2006, STRATEC AG acquired Sanguin International Ltd., mainly in view of technology considerations. Both companies stand to benefit from their complementary product portfolios, and especially from the combination of Sanguin's software with STRATEC's technology, for example in the form of FDA-approved solutions for clinical diagnostics laboratories. Moreover, the takeover will enable STRATEC AG to achieve savings in the development and planning of analyzer system families. Additional benefits, notably cost savings, result from the now completed geographical pooling of the business operations of STRATEC Biomedical Inc., Aliquippa, PA, USA, and Sanguin International Inc., Hamden, CT, USA.

The subsidiary Sanguin International Ltd., including its 75% shareholding in Sanguin International Inc., Hamden, CT, USA., was acquired on March 13, 2006. The share capital of Sanguin International Ltd. amounts to GBP 563. STRATEC AG holds 100% of the company's share capital. The costs of acquisition amounted to EUR 5,999k, including EUR 108k of ancillary expenses directly allocable to the acquisition.

	EUR 000s
Purchase price	5,199
Issue of new shares	800
	5,999

The non-cash portion of the costs of acquisition was settled by granting 18,206 new shares created from the authorized capital of STRATEC AG, which were valued at their fair value of EUR 800k. The fair value was determined on the basis of the stock market price at the time of the exchange.

In the interests of simplicity, the company was initially consolidated as of March 31, 2006, rather than on the date of the transfer of control (March 13, 2006). This did not have any substantial impact on the net asset, financial and earnings position of the Group.

In particular, the following assets and liabilities, stated in each case at fair value, were acquired:

	Fair value EUR 000s	Carrying amounts at company EUR 000s
ASSETS		
Intangible assets	5,551	0
Property, plant and equipment	40	40
Financial assets	262	1
Inventories	4	4
Customer receivables	112	112
Other assets and receivables	46	46
Cash and cash equivalents	1,051	1,051
LIABILITIES		
Other liabilities and tax provisions	191	191
	6,875	1,063
Deferred taxes relating to hidden reserves and liabilities	-1,743	
	5,132	
Goodwill	867	
Total purchase price	5,999	

The acquisition has been accounted for as follows in the investment activity section of the cash flow statement:

	EUR 000s
Purchase price (excluding shares from real capital increase)	5,199
less remaining purchase price outstanding	324
less cash and cash equivalents acquired	1,051
Outflow of funds	3,824

In the case of companies acquired during the course of financial years, IFRS 3.66 et seq. requires pro forma disclosures to be made as to the sales and earnings which the Group would have generated had the acquisition taken place as of the beginning of the financial year, i.e. as if the income and expenses of the subsidiary had been included in the consolidated net income from January 1, 2006 already. Based on this assumption, the sales of the Group for the financial year from January 1 to December 31, 2006 would have amounted to EUR 68,701k. Given the correspondingly higher level of Group depreciation and amortization, the inclusion of Sanguin International Ltd. for the 1st quarter of 2006 as well would only have had an immaterial impact on the consolidated net income.

In the interests of ensuring comparability with the previous year, the principal impact of the initial inclusion of Sanguin International Ltd. on individual balance sheet items as of December 31, 2006 and on individual items in the income statement for the 2006 financial year has been depicted below:

	EUR 000s
Goodwill	897
Software	5,090
Shares in associated companies	271
Tax provisions	307
Sales	1,261
Depreciation and amortization (after effects of deferred tax income)	459
Personnel expenses	582
Other operating expenses	235

The inclusion of Sanguin International Ltd. increased the consolidated net income for 2006 by around EUR 313k (before the aforementioned amortization of hidden reserves realized among other intangible assets within the framework of the purchase price allocation).

Three subsidiaries were not consolidated (previous year: two) in view of their subordinate overall significance for the net asset, financial and earnings position of the Group. The combined financial data of these companies accounts for around 1% of consolidated sales, group equity and total assets of the group.

3. Currency conversion

Receivables and liabilities denominated in foreign currencies in the separate financial statements of the group companies have been converted using the exchange rate as of the balance sheet reporting date. Any differential amounts resulting from the conversion are recorded in the income statement with a corresponding impact on earnings.

Pursuant to IAS 21, the separate financial statements of group companies outside the European currency union have been converted to euros on the basis of functional currency.

In the case of the Swiss subsidiary included in the consolidated financial statements of STRATEC AG, the functional currency is the euro (so-called „integrated foreign unit“).

In the case of the British subsidiary Sanguin International Ltd. application has been made of the modified reporting date exchange rate method in view of the fact the company's operations are autonomous in financial, economic and organizational terms. Assets and liabilities have therefore been converted at the rate on the balance sheet reporting date, while income and expenses have been converted at the annual average exchange rate. Equity has been converted at the historic rate valid upon initial consolidation (1 EUR = 0.6946 GBP).

The differential amounts resulting from the currency conversion have been stated under other equity.

The exchange rates of major currencies showed the following developments compared with the euro:

1 EUR		Rate on reporting date		Average rate	
		2006	2005	2006	2005
UK	GBP	0.67	0.69	0.68	0.68
USA	USD	1.32	1.18	1.26	1.24
Switzerland	CHF	1.61	1.56	1.57	1.55

4. Accounting and valuation principles

Intangible assets

Pursuant to IFRS 3, the goodwill resulting from capital consolidation is not subject to scheduled amortization but is rather subject to an impairment test intended to ascertain any value impairment, with such test being undertaken annually or upon the occurrence of any significant event or change in circumstances. Should any value impairment be identified, then the balance sheet statement is to be adjusted with a corresponding impact on earnings.

For the investigation of the recoverability of its value, the goodwill was allocated to the „Sanguin Group“ cash generating unit. The carrying amount of the goodwill is of major significance in terms of the total carrying amount. In addition to goodwill, the total carrying amount includes the other intangible assets (software) identified within the framework of the purchase price allocation and the shareholding held in Sanguin International Inc., Hamden, USA (financial asset directly related to services rendered).

The recoverable amount of the unit has been calculated on the basis of its use value. Use values are determined using the discounted cash flow method on the basis of the future cash flows of the cash generating units. The cash flow forecasts are based on a detailed budgeting horizon of five years. The calculation is undertaken on the level of pre-tax earnings with a discount rate of 10%. The cash flows beyond the detailed budget period are depicted as perpetuity based on the cash flows of the fifth year and a growth rate of 6% p.a. The growth rate reflects the estimates made by the Board of Management by reference to market studies (growth rates of 5.7%) and historic values.

The basis for determining the value of the underlying assumptions is as follows:

Budgeted sales
Based on historic values and market potential in line with the estimates made by the Board of Management taking due account of market studies.

Development in EUR/USD exchange rate
Currency fluctuations in the EUR/USD exchange rate are not expected to have any major implications.

Budgeted margins
Margins achieved in the past, taking due account of further efficiency increases based on increases already achieved.

Intangible assets acquired in return for payment have been accounted for at cost of acquisition, less scheduled straight-line amortization. The useful life of the intangible assets is limited and generally amounts to three years, and to three to eight years in the case of the intangible assets acquired with Sanguin International Ltd.

Research and development expenses have been recorded as expenses for the period in which they were incurred. Pursuant to IAS 38, any project development expenses which meet all of the following criteria in full have been exempted from such treatment:

- The product or process can be clearly and unambiguously delineated and the corresponding costs can be clearly allocated and reliably determined
- The technical feasibility can be proven
- The product or process is either marketed or put to proprietary use
- The assets will generate future economic benefit (e.g. there is a market for the product or, in the case of proprietary use, the benefit of the product for the company can be proven)
- Sufficient technical, financial and other resources are available to complete the project.

The capitalization of intangible assets manufactured internally is undertaken at cost of manufacture upon their first complying with the above criteria. The manufacturing costs include all costs directly allocable to the manufacturing process and relevant shares of those development expenses not dependent on production volumes (production-related overheads). Financing costs are not capitalized. Expenditure recorded as expenses in previous accounting periods is not capitalized retrospectively.

As in the previous year, no development expenses were capitalized in the 2006 financial year given that not all of the aforementioned requirements of IAS 38 were fulfilled. Customer-specific development services are capitalized as unfinished services under inventories.

The amortization of intangible assets is recorded in the income statement under „Amortization of intangible assets and depreciation of property, plant and equipment“.

Property, plant and equipment

Property, plant and equipment have been valued at cost of acquisition or manufacture and, to the extent that they are depreciable, have been subject to scheduled depreciation. Such assets are subject to scheduled depreciation in line with the decline in the utility of the assets. Application is made of the straight-line method in most cases.

The manufacturing costs of assets manufactured internally include all direct expenses and a commensurate share of material and production overheads, including depreciation. Borrowing costs have not been capitalized.

In view of their immaterial significance, assets with a value of up to EUR 410.00 have been depreciated in full in the year of their addition and recorded as retirements.

Grants to finance investments in assets have been deducted upon the capitalization of the respective objects of investment. Non-repayable grants received within the framework of project subsidies for development expenses already incurred have been recorded with an impact on earnings and reported under other operating income (gross statement).

Leases

The company only has operating leases. A leasing arrangement is classified as an operating lease in cases where all major risks and rewards relating to ownership remain with the lessor. The corresponding leasing payments are to be recorded as expenses in the income statement over the term of the leasing arrangement (under „Other operating expenses“).

Impairment

Any impairment in the value of intangible assets and property, plant and equipment is accounted for in the form of extraordinary amortization or depreciation as of the balance sheet reporting date. Pursuant to IAS 36, value impairments exist when the recoverable amount of the respective asset is lower than its carrying amount. The assets are reviewed using qualitative tests at each balance sheet reporting date to ascertain whether any events or change in circumstances indicate that the carrying amount of the respective assets may no longer be recoverable. Goodwill and assets with indeterminate useful lives are reviewed for impairments using quantitative tests on an annual basis.

Financial assets

Financial assets include financial investments, receivables issued, securities, credit balances at banks and cash on hand. Financial assets are capitalized at cost of acquisition on their respective performance dates. Receivables issued and items with maturity dates are subsequently valued at updated cost. Write-downs are undertaken as necessary. Financial assets available for sale and trading assets have been stated at their fair values as of the balance sheet reporting date. Non-listed equity instruments, however, have only been stated at fair value to the extent that such value can be reliably determined. Where this is not the case, such instruments have been stated at their alternative cost of acquisition.

Non-recognized changes in the value of financial assets available for sale have been recorded without any impact on earnings up to time of sale or of a permanent reduction in their fair value. Changes in the value of trading assets have been recorded with an impact on earnings.

In addition to the any individual allowances required for bad debt, a general allowance has also been stated to account for identifiable risks relating to general credit risks.

Inventories

Inventories include raw materials and supplies, unfinished products not relating to specific orders, finished products and unfinished services. In addition to directly allocable manufacturing wage and material expenses, the costs of manufacture also include a prorated share of material and production overheads, including depreciation and production-related administration costs. Rather than being capitalized, sales overheads and borrowing costs are recorded in full through profit or loss. Inventories are valued at the lower of cost of acquisition or manufacture on the one hand and the recoverable net selling price as of the balance sheet reporting date, less any costs still to be incurred, on the other hand. Write-downs are undertaken on non-current inventories.

Future receivables from production orders

Pursuant to IAS 11, production orders have been accounted for at their respective percentage of completion. The aggregate amount of the cumulative costs of acquisition or manufacture and the prorated share of earnings recognized as of the reporting date have been stated in the balance sheet under „Future receivables from production orders“. Changes in the level of future receivables have been recorded in the income statement as part of the sales item.

Provisions

Pension obligations have been valued pursuant to IAS 19 using the projected unit credit method for defined benefit pension plans. On account of its immaterial significance, the interest share of the pension expenses has not been stated as interest expenses in the net interest expenses item.

Actuarial gains and losses are included in the period in which they arise in the valuation of pension provisions with a corresponding impact on earnings. Asset values relating to plan assets are netted against the obligations.

Provisions have been taken to cover those obligations to third parties resulting from past events which are likely to lead to an outflow of funds in the future and for which the expected amount of the obligation can be estimated reliably.

Such obligations have been capitalized as liabilities at their present values in cases where the outflow of funds is expected to occur at a time later than the following year.

The calculation of other provisions generally takes account of all cost components also included in the valuation of the inventories.

Deferred taxes

The calculation of deferred taxes has been based on the liability method (IAS 12). Deferred taxes have been stated on the level of the separate financial statements of the companies included in the Group for valuation differences between assets and liabilities in the tax balance sheet and those in the financial statements compiled in line with IFRS, to the extent that such differences are expected to be settled in later financial years („temporary differences“).

Moreover, deferred taxes have also been accounted for at Group level in cases where such result from consolidation entries.

Deferred tax assets and liabilities have been reported on a net basis in cases where they refer to the same taxable entity and the same tax authority. Given that the balance sheet is structured in terms of maturities, deferred tax liabilities have been stated as long-term liabilities.

Liabilities

Liabilities have been stated at updated cost. Liabilities denominated in foreign currencies have been valued using the mean exchange rate on the balance sheet reporting date. Prepayments received have been stated at face value.

Recognition of sales

Sales and other operating income have been recognized upon the contractually agreed delivery being executed or the service provided. Sales have been reported less cash discounts, price reductions, customer bonuses and rebates. Sales deductions have been reported upon the respective sales being recognized.

In the case of order-related production, sales have been stated using the percentage of completion method in accordance with the progress made.

Operating expenses have been reported in their respective periods at the time at which they are incurred or at which the service is rendered.

Product-related expenses

Provisions for warranties have been taken upon the completion of the respective product or upon the respective service having been rendered in full on the basis of past experience of such expenses.

Research and development

The 2006 financial year saw a continuation of the trend observed in previous years towards development partners only entering the project development at STRATEC AG in a legally binding manner at a later stage of the overall development. The modular development practiced by STRATEC AG for several years now takes account of the requirements of the market in this respect.

Pursuant to IAS 38 (Intangible Assets), research expenses are not eligible for capitalization and are to be reported as expenses in the income statement upon being incurred. Development expenses may be capitalized, but only in cases complying with the detailed requirements set out in IAS 38.

Prototypes are reported under „Property, plant and equipment“, while development projects undertaken on behalf of third parties are reported under „Inventories“ and proprietary development activities are reported under „Intangible assets“ – provided that they meet the requirements of IAS 38. The two latter items are amortized over five years, while property, plant and equipment is depreciated over three years.

Income resulting from expense grants relating to projects in the research and development division is included in the income statement under „Other operating income“.

Cash flow statement

The cash flow statement has been compiled in accordance with the provisions of IAS 7. It has been subdivided into three sections: operations, investments and financing. In the case of transactions involving more than one category, the flow of funds has been allocated as appropriate to more than one of the sections. The presentation of the cash flow from operating activities has been based on the indirect method. This involves eliminating non-cash components from the consolidated net income.

The financial funds include liquid funds, comprising cash holdings and credit balances at banks, and correspond to the balance sheet item „Cash and cash equivalents“.

Interest income and expenses have been allocated to the cash flow from operating activities. Dividend payments have been recorded in the cash flow from financing activities.

Tax payments have been allocated as a whole to the cash flow from operating activities, given that is not feasible to allocate such payments to individual business divisions.

The cash flows of foreign subsidiaries whose accounts are denominated in other currencies have been converted to euros using annual average rates.

The changes in balance sheet items referred to for the development of the cash flow have been adjusted to account for non-cash items resulting from currency conversion and changes in the reporting entity. For this reason, the changes in the respective balance sheet items are not directly comparable with the corresponding figures in the published consolidated balance sheet.

III. Disclosures relating to the balance sheet

The composition and development of intangible assets, property, plant and equipment and financial assets have been depicted in detail in the development of long-term assets of the STRATEC Group (annex to notes to consolidated financial statements).

(1) Intangible assets

Intangible assets relate to acquired development services, goodwill, licenses and software.

Goodwill

	EUR 000s
01.01.2006	0
Additions	867
Currency conversion	30
12.31.2006	897

The goodwill results from the acquisition of the subsidiary Sanguin International Ltd. No write-downs were required.

Other intangible assets

This item mainly includes the fair values of three software products identified within the framework of the acquisition of the subsidiary Sanguin International Ltd. The respective software packages, which amount to EUR 3,468k, EUR 1,022k and EUR 1,061k, are subject to scheduled amortization in accordance with their forecast useful lives. The useful lives amount to three, six and eight years. The scheduled amortization of EUR 641k was recorded in the income statement under „Amortization of intangible assets and depreciation of property, plant and equipment".

The development in the software packages is as follows:

	EUR 000s
01.01.2006	0
Additions	5,551
Scheduled amortization	-641
Currency conversion	180
12.31.2006	5,090

No further development expenses were capitalized during the year under report.

The expenses for research and project supervision, as well as development expenses not meeting the criteria for capitalization set out in IAS 38, amounted to EUR 7,138k (previous year: EUR 5,120k) and have been reported in the income statement, in most cases as „Personnel expenses". Moreover, expenses of EUR 603k were incurred during the period under report on the procurement of materials serving research and development. These expenses are included in cost of materials.

(2) Property, plant and equipment

For reasons of simplification, assets with costs of acquisition of up to EUR 410 have been written down in full upon addition. Such immediate depreciation amounted to EUR 75k (previous year: EUR 33k).

The investments made in property, plant and equipment in the 2006 financial year mainly related to:

	EUR 000s
Cars	73
Internally produced test analyzer systems and inspection materials	250
Tools	128
IT components	218
Plant and office equipment	100
Changes in the reporting entity	40

Test analyzer systems and inspection materials mainly involve testing systems and prototypes developed internally by the company. The respective capitalized own services of EUR 250k for the year under report (previous year: EUR 254k) have been subject to scheduled straight-line depreciation in line with their actual decline in use over an expected useful life of three years.

The following average useful lives have been applied for property, plant and equipment:

	U.L. in years
Buildings	25 - 33
Outdoor facilities	10 - 15
Technical equipment and machinery	3 - 10
Vehicles	3 - 5
Tools	4 - 5
IT components	3 - 5
Other plant and office equipment	3 - 10

The company land is encumbered by land charges amounting to EUR 2,000k (previous year: EUR 2,000k) in order to secure liabilities to banks.

Financial assets

(3) Shares in associated companies

The shares in associated companies are structured as follows:

	Share capital	Share-holding %
STRATEC NewGen GmbH, Birkenfeld	EUR 25,000.00	100.0
STRATEC Biomedical Inc., Aliquippa, USA	USD 15,000.00	100.0
Sanguin International Inc., Hamden, USA	USD 1,000.00	75.0

STRATEC NewGen GmbH was founded on October 2, 2002 with share capital of EUR 25k and during the year under report primarily provided services to STRATEC AG. A profit transfer agreement is in place between STRATEC AG and STRATEC NewGen GmbH. The resultant loss of EUR 5k from the shareholding for the 2006 financial year (previous year: EUR 0k) has been reported in the income statement under „Income from profit transfer agreements“.

The key financial data for STRATEC NewGen GmbH for the 2006 financial year is as follows:

	EUR 000s
Total assets	99
Shareholders' equity	25
Annual net deficit prior to profit transfer	5

STRATEC AG holds 15,000 shares with a nominal value of USD 1.00 each in STRATEC Biomedical Inc. This company, which was established in order to support service and sales-related activities, has only been active to an immaterial extent since its foundation. The earnings of STRATEC AG were only affected by this shareholding to an insignificant extent.

Sanguin International Inc., based in the USA, is a 75% subsidiary of Sanguin International Ltd. (UK), which was acquired in March 2006. The company acts as a service and sales representation for Sanguin International Ltd. in the USA. The shareholding was stated at the fair value of the shares upon the takeover of Sanguin International Ltd. by STRATEC AG. The equivalent value of the shareholding amounted to EUR 290k as of December 31, 2006.

For reasons of materiality, the shares in the aforementioned subsidiaries have not been included in the consolidated financial statements by means of full consolidation. They have been stated in the balance sheet at the Group's cost of acquisition.

The calculation of the fair value at the balance sheet reporting date has been based on the share price of the shares, given that the level of volatility, which was still classified as critically high in the previous year, stabilized in the past financial year. The derivation of the fair value on the basis of investment theory, as was undertaken as an alternative in the previous year, was therefore no longer necessary at the balance sheet reporting date.

Adjustments to the fair value have been allocated to „Other equity“ without any impact on earnings.

(4) Shareholdings

This item consists of the shareholding held in the share capital of the publicly listed company CyBio AG, Jena, which was increased from 4.875% to 12.35% in the 2006 financial year. The shareholding has been stated at fair value at the balance sheet reporting date.

The value stated in the balance sheet has developed as follows:

	Historic cost of acquisition EUR 000s	Fair value adjustment not affecting earnings EUR 000s	Fair value EUR 000s
01.01.2005			
Addition in 2005	0	0	0
12.31.2005	665	106	771
	665	106	771
Addition in 2006			
Disposal in 2006	1,654	256	1,910
12.31.2006	-3	0	-3
	2,316	362	2,678

(5) Other financial assets

This item includes a loan to a former employee, which been valued at updated cost.

(6) Inventories

As in the previous year, inventories have mainly been valued at cost of acquisition or manufacture at the balance sheet reporting date. Write-downs of EUR 386k were undertaken in the financial year with a corresponding impact on earnings (previous year: EUR 337k). The write-downs arose on account of topicality considerations.

Unfinished products / unfinished services

Unfinished products and services are structured as follows:

	12.31.2006 EUR 000s	12.31.2005 EUR 000s
Unfinished products	563	303
Unfinished services	8,359	8,263
	8,922	8,566

The unfinished services depict customer-specific development projects.

Capitalized development expenses relating to system platforms and other development projects have been amortized over the period of their expected economic useful lives from the time of the delivery of the first serial-produced appliances. This period is generally taken to be five years.

Finished products

	12.31.2006 EUR 000s	12.31.2005 EUR 000s
Finished products	213	0

As a result of logistical changes, finished products have been stated as a separate item for the first time as of December 31, 2006. In the previous year, finished products were included under raw materials and supplies. In view of the immateriality of the previous year's figure, the figures stated for the previous year have not been adjusted.

(7) Accounts receivable

Accounts receivable have been stated at face value, less any required write-downs.

Credit balances on the part of customers have been reported under other short-term liabilities.

In addition to the individual allowances required for bad debt, general allowances have also been stated to account for identifiable general credit risks. The required write-downs amounted to EUR 138k (previous year: EUR 145k). Accounts receivable have terms of less than one year.

(8) Future receivables from production orders

The future receivables from production orders item involves production orders stated at their respective percentage of completion. The service relationships involved are based on fixed-price agreements. The degree of completion has been determined in accordance with the so-called cost-to-cost method.

The figures stated include the cumulative costs of acquisition and manufacture of the production orders still underway at the reporting date (EUR 3,404k), as well as a prorated share of the earnings recognized (EUR 2,112k).

The prepayments received for production orders did not merit consideration.

Work on the production orders was commenced during the 2006 financial year. Their completion has been scheduled for 2007 in the respective contractual agreements.

Sales totaling EUR 66,014k have been reported in connection with production orders in the income statement for the 2006 financial year (previous year: EUR 44,051k).

(9) Receivables from associated companies

The figure of EUR 44k stated relates to receivables due at Sanguin International Ltd. (UK) from Sanguin International Inc. (USA). The term amounts to less than one year.

(10) Other receivables and other assets

Other receivables and other assets have mainly been stated at updated cost and have remaining terms of up to one year. They mainly relate to tax refund claims (EUR 511k; previous year: EUR 428k).

Furthermore, this item also includes the corporate income tax credit pursuant to Section 37 (4) of the German Corporate Income Tax Act (KStG). This tax credit will be paid out in ten equal annual installments from 2008 to 2017. It has been valued at present value using a risk-free interest rate appropriate to the period involved.

Moreover, this item also includes prepayments and accrued income, which were reported as a separate item in previous years (EUR 66k; previous year: EUR 117k). Corresponding amendments have been made to the figures reported for the previous year.

(11) Securities

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), securities held for trading purposes have been stated at their market values, which amounted to EUR 449k.

(12) Cash and cash equivalents / cash flow

Financial funds relate to liquid funds, which consist of cash on hand and credit balances at banks. In view of the short terms involved, it was not necessary to undertake any adjustments due to interest rate fluctuations as of the balance sheet reporting date. The conversion of foreign currency credit balances resulted in exchange rate differences amounting to EUR 40k.

The following expenses were neutralized as other non-cash income and expenses in the calculation of the cash flow from operating activities in the cash flow statement:

Expenses	2006 EUR 000s	2005 EUR 000s
Personnel expenses in connection with the granting of stock option rights	136	136
Expenses resulting from the market valuation of securities held for trading	91	0
Expenses resulting from the market valuation of financial instruments	25	150
	252	**286**

Income	2006 EUR 000s	2005 EUR 000s
Income from exchange rate differences relating to financial debt denominated in foreign currencies	58	0
Income from the release of other provisions	91	0
	149	**0**

A summary of the disclosures made in connection with the acquisition of the consolidated subsidiary Sanguin International Ltd. has been provided in Section II. 2. Reporting Entity.

(13) Shareholders' equity

The development of the shareholders' equity of the Group has been depicted in the statement of changes in group equity.

At the balance sheet reporting date, the **share capital** of STRATEC AG amounted to EUR 11,260k (previous year: EUR 3,660k). The share capital is divided into 11,260,246 ordinary shares with a nominal value of EUR 1.00 each (previous year: 3,660,139 ordinary shares). The shares have been paid in full and are bearer shares. STRATEC AG has been publicly listed since August 1998. The shares have been listed in the Prime Standard of the Frankfurt Stock Exchange since January 2003.

With the consent provided by the Supervisory Board on March 13, 2006, the Board of Management acted on its authorization to undertake a capital increase in return for non-cash contributions by drawing on part of the existing authorized capital. Within the framework of this capital increase, a total of 18,206 new bearer shares with a nominal value of EUR 1.00 each were issued at a price of EUR 43.94 in return for non-cash contributions and to the exclusion of shareholders' subscription rights.

In accordance with the resolution adopted by the Annual General Meeting held on June 23, 2006, the subscribed capital was increased by means of a capital increase undertaken from company funds (Sections 207 et seq. of the German Stock Corporation Act (AktG)) by converting a partial amount of EUR 7,416,478 from the capital reserve reported in the annual balance sheet as of December 31, 2005 and issuing 7,416,478 new bearer shares with a nominal value of EUR 1.00 each to shareholders.

Furthermore, various capital increases totaling EUR 166k were undertaken from conditional capital during the 2006 financial year in connection with the exercising of stock option rights.

In summary, the subscribed capital of STRATEC AG showed the following developments in the 2006 financial year compared with the previous year:

	2006 EUR 000s	2005 EUR 000s
Balance at 12.31 of the previous year	3,660	3,300
Capital increase from company funds by issuing bonus shares	7,416	0
Capital increase in return for cash contributions in the course of exercising stock options (with corresponding reduction in conditional capital)	166	30
Capital increase in return for non-cash contributions by issuing new shares (with corresponding reduction in authorized capital) (acquisition of Sanguin Ltd.)	18	0
Capital increase in return for cash contributions by issuing new shares (with corresponding reduction in authorized capital)	0	330
Subscribed capital as of 12.31 of the financial year	**11,260**	**3,660**

Following the partial use of the existing authorized capital, the Board of Management continues to be authorized pursuant to Section 4 (4.5) of the Articles of Incorporation, subject to the consent of the Supervisory Board, to increase the share capital on one or more occasions prior to June 22, 2011 by issuing new shares with a nominal value of EUR 1.00 in return for non-cash or cash contributions, however only by maximum amount of EUR 5,500,000 (**Authorized Capital**). In general, the shareholders are to be granted subscription rights. Under certain circumstances outlined in the Articles of Incorporation, however, the Board of Management is entitled to exclude such subscription rights.

Conditional Capital I, which is created pursuant to Section 4 (4.6) of the Articles of Association, serves to issue subscription shares with a nominal value of EUR 10,750 up to June 28, 2006. Section 4 (4.6) of the Articles of Incorporation provides for **Conditional Capital II**. This conditional capital increase serves to grant subscription rights (stock options) up to April 1, 2008 on the basis of the resolution adopted by the Annual General Meeting on May 28, 2003. Following the issue of subscription shares with a nominal value of EUR 29,894 in the period from January to June 2006, the remaining conditional capital was increased to EUR 751,818 in line with the capital increase undertaken from company funds on July 14, 2006. Following the issue of further subscription shares with a total nominal value of EUR 124,779 in the period from June 28 to November 30, 2006, Conditional Capital II still amounted to EUR 627,039 at the balance sheet reporting date. Moreover, Section 4 (4.6) of the Articles of Incorporation provides for **Conditional Capital III**, amounting to EUR 75,000. This conditional capital increase also serves to grant subscription rights (stock options) by issuing up to 75,000 ordinary bearer shares with a nominal value of EUR 1.00 each up to June 22, 2011 on the basis of the resolution adopted by the Annual General Meeting on June 23, 2006. Furthermore, Section 4 (4.7) of the Articles of Incorporation provides for **Conditional Capital IV**, amounting to EUR 500,000. Conditional Capital IV serves exclusively to grant up to 500,000 new ordinary bearer shares to the owners or creditors of warrant or convertible bonds issued pursuant to the resolution adopted by the Annual General Meeting on June 23, 2006 by the company or by companies in which the company holds direct or indirect majority shareholdings. The conditional capital thus amounts to EUR 1,202k as of December 31, 2006 (previous year: EUR 291k).

The company holds 4,492 **treasury stock** shares. The increase in the number of such shares since the previous year (1,500) is due to the capital increase from company funds on July 14, 2006. This involved bonus shares being issued at a ratio of 1:2.9942188. In order to round off the figures, 0.672 shares were acquired at a cost of EUR 17.38.

On the basis of a resolution adopted by the Annual General Meeting held on May 4, 2005, the company was authorized up to November 4, 2006 to acquire further treasury stock up to a total of ten percent of the share capital. No use was made of this authorization. The Annual General Meeting on June 23, 2006 further authorized the company up to December 22, 2007 to acquire treasury stock up to a total of ten percent of the share capital. Apart from the aforementioned acquisition undertaken to round off the figures, the company had made no use of this authorization as of December 31, 2006.

The **capital reserve** includes the premium from the issuing of shares, less the costs of equity procurement. Moreover, the benefit from the granting of stock options recorded as personnel expenses is also allocated to the capital reserve.

The development in the capital reserve has been presented in the statement of changes in group equity.

The **revenue reserves** contain the earnings generated in the past, to the extent that these have not been distributed, as well as free reserves.

The revenue reserves are thus structured as follows:

	12.31.2006 EUR 000s	12.31.2005 EUR 000s
Free revenue reserves	1,539	1,539
Cumulative earnings	9,239	5,923
	10,778	7,462

Cumulative earnings showed the following developments during the year under report:

	EUR 000s
Cumulative earnings as of 12.31.2005	5,923
Consolidated net income 2005	4,413
Distribution (dividend for 2005)	-1,097
Cumulative earnings as of 12.31.2006	9,239

The **other equity** contains the reserve for valuation at fair value, treasury stock and the reserve for foreign currency conversion.

The reserve for valuation at fair value relates to changes in the value of financial instruments available for sale, which are recorded directly under equity.

Conversion differences resulting from the conversion of the separate financial statements of subsidiaries whose functional currency is not the euro are recorded directly in the reserve for foreign currency conversion following any deferred tax effects.

Appropriation of earnings

According to the German Stock Corporation Act (AktG), the dividends to be distributed to the shareholders are calculated on the basis of the net earnings reported in the annual financial statements of STRATEC AG compiled in accordance with the German Commercial Code (HGB).

During the 2006 financial year, a dividend of EUR 0.30 per share (total: EUR 1.097k) was paid for the 2005 financial year. This is equivalent to a dividend of EUR 0.10 per share following the issue of bonus shares in July 2006.

With the consent of the Supervisory Board, the Board of Management proposes that of the net earnings of EUR 10,069k calculated for STRATEC AG in accordance with the German Commercial Code (HGB) an amount of EUR 1,688,363.10 be distributed (EUR 0.15 per share) and that the remaining amount of EUR 8,380k be carried forward. The proposed dividend is dependent on approval by shareholders at the Annual General Meeting and has not been reported as a liability in the consolidated financial statements.

Within the framework of the compilation of the separate financial statements of STRATEC AG, an amount of EUR 2,000k was allocated by the Board of Management and the Supervisory Board from the consolidated net income for 2006 to other revenue reserves as of December 31, 2006.

Stock option programs

STRATEC AG has introduced stock option programs for the members of its Board of Management, its managers and its employees. Three stock option models were in place as of December 31, 2006. The programs are aimed at safeguarding the success of the company by enabling employees of STRATEC AG, as well as members of the management and employees of associated companies, to acquire shares in the company. For the members of the Board of Management, the stock options simultaneously serve as variable components of their compensation with a long-term incentive nature and involving risk. An option entitles its owner to subscribe one ordinary bearer share in the company with a nominal value of one euro in return for payment of an exercise price at a later date.

The options outstanding as of the balance sheet reporting date which were granted prior to the capital increase from company funds undertaken on July 14, 2006 entitle their owners to subscribe per option 2.9942188 ordinary bearer shares with a nominal value of one euro in return for payment of the exercise price agreed upon the granting of the options. Following the expiry of qualifying periods and the meeting of certain performance targets, the options may only be exercised during certain exercise windows. The exercise price is equivalent to the average closing price of the shares in STRATEC AG on the five trading days prior to the options being granted. The minimum exercise price in this respect is that of the prorated share of one such share in the share capital. The first half of the options may be exercised two years and the second half three years following their being granted. All options granted lapse following seven years.

The following basic conditions and assumptions apply for all stock option programs:

- The exercise and subscription prices are in each case determined at the time of the options being granted (share price at the time of granting).
- The expected term of all stock options so far allocated amounts to between 24 and 36 months from the time of such allocation.
- The exercising of the option rights is in each case dependent on various requirements (compliance with the qualifying period, defined exercise windows, relationship between the closing price upon the expiry of the qualifying period and the subscription price).

The respective stock option programs, the calculation of the fair value using the Black/Scholes option pricing model, and the calculation of the related personnel expenses in the individual periods (taking due account of personnel turnover) have mainly been based on the following parameters (with the expected volatility being derived from historic volatility figures):

	Stock Option Plans									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Granted in:	2002	2003	2004	2004	2005	2005	2006	2006	2006	2006
Subscription price per share* in EUR	2.64	3.48	9.84	11.96	26.08	39.53	42.27	15.36	20.27	20.74
Subscription price per share following capital increase from company funds (bonus shares)* in EUR	0.88	1.16	3.28	3.99	8.71	13.20	14.12	15.36	20.27	20.74
Expected volatility of the share price in %	65.0	65.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Expected dividend yield in %	0.00	2.90	1.00	1.00	1.00	0.66	0.70	0.65	0.50	0.50
Risk-free interest rate in %	3.50	2.60	3.15	2.80	2.30	2.60	3.40	3.70	3.70	3.70
Assumed turnover of personnel entitled to subscribe in %	0.00	0.00	3.50	2.00	3.50	3.50	3.50	3.50	3.50	3.50
Personnel expenses to be distributed in EUR 000s	26	49	149	100	60	28	9	86	13	7

* Following the capital increase from company funds on July 14, 2006 (1:2.9942188) 2.9942188 ordinary shares with a nominal value of EUR 1.00 each are granted for the subscription prices for Plans (1) to (7) depicted above, to the extent that these had not been exercised by July 14, 2006.

Stock option program (SOP I)

(1) In accordance with the contract dated October 25, 2002 based on the resolution adopted by the Annual General Meeting on July 27, 2000, the members of the Board of Management were granted a total of 21,500 option rights for the subscription of shares in STRATEC AG. Following the exercising of 10,750 option rights, a total of 10,750 shares were issued during the 2006 financial year (previous year: 10,750). Stock option program I has thus been exercised in full.

Stock option program II (SOP II)

Stock option program II was adopted by the Annual General Meeting on May 28, 2003. The following option rights were allocated on the basis of this resolution (each option right entitles the bearer to acquire one share in STRATEC AG; from July 14, 2006: to acquire 2.9942188 shares):

(2) 1st tranche of SOP II:

In accordance with the contract dated May 29, 2003, 37,500 option rights were allocated to members of the Board of Management and 1,500 option rights to employees. In the 2005 financial year, 18,750 shares were issued to members of the Board of Management and 750 shares to employees following the exercising of option rights. In the 2006 financial year, 18,750 shares were also issued to members of the Board of Management and 750 shares to employees following the exercising of option rights. This tranche has thus been exercised in full.

(3) 2nd tranche of SOP II:

A total of 70,000 option rights were issued to employees in April 2004.

Prior to the execution of the capital increase from company funds (bonus shares), a total of 10,394 shares were issued to employees in the 2006 financial year following the exercising of 10,394 option rights. After the execution of the capital increase from company funds, a total of 68,639 shares were issued to employees following the exercising of 22,926 option rights. A total of 36,680 option rights therefore remain as of December 31, 2006, entitling their bearers to subscribe a maximum total of 109,828 shares.

(4) 3rd tranche of SOP II:

A total of 37,500 option rights were issued to members of the Board of Management of STRATEC AG in August 2004. In the 2006 financial year, 56,140 shares were issued to members of the Board of Management following the exercising of 18,750 option rights. A total of 18,750 option rights therefore remain as of December 31, 2006, entitling their bearers to subscribe a maximum total of 56,142 shares.

(5) 4th tranche of SOP II:

A total of 11,000 option rights were issued to employees of STRATEC AG in July 2005. The option rights entitle their bearers to subscribe a maximum total of 32,936 shares.

(6) 5th tranche of SOP II:

A total of 3,250 option rights were issued to employees of STRATEC AG in October 2005. The option rights entitle their bearers to subscribe a maximum total of 9,731 shares.

(7) 6th tranche of SOP II:

A total of 1,000 option rights were issued to employees of STRATEC AG in April 2006. The option rights entitle their bearers to subscribe a maximum total of 2,994 shares.

Stock option program III (SOP III)

Stock option program III was adopted by the Annual General Meeting on June 23, 2006. The following option rights were allocated on the basis of this resolution (each option right entitles the bearer to acquire one share in STRATEC AG):

(8) 1st tranche of SOP III:

On the basis of a contract dated July 20, 2006, 9,000 option rights were issued to members of the Board of Management, 370 option rights to the management of associated companies and 15,630 option rights to employees of STRATEC AG.

(9) 2nd tranche of SOP III:

On the basis of a contract dated October 1, 2006, 2,800 option rights were issued to employees of STRATEC AG.

(10) 3rd tranche of SOP III:

On the basis of a contract dated November 1, 2006, 1,500 option rights were issued to employees of STRATEC AG.

Taking due account of the expected level of personnel turnover, the total value (at the respective date of issue) of the stock options so far issued to members of the Board of Management and employees of STRATEC AG, as well as to the management and employees of associated companies, amounts to EUR 520k (previous year: EUR 412k).

The total value of the option rights has been allocated as personnel expenses to the agreed qualifying periods and has resulted in an endowment of the same amount in the capital reserve. This led to personnel expenses of EUR 137k in the 2006 financial year (previous year: EUR 136k). Given the consistent, low level of personnel turnover, it was not necessary in subsequent periods to adjust the personnel expenses calculated at the date of issue.

The following options schedule provides an overview of the development of option rights:

	No. of Option Rights	Average Exercise Price
Outstanding on 12.31.2003	**60,500**	**3.21 EUR**
During the 2004 financial year		
- granted	107,500	10.58 EUR
- exercised	0	--
- lapsed	0	--
Outstanding on 12.31.2004	**168,000**	**7.93 EUR**
During the 2005 financial year		
- granted	14,250	**29.15 EUR**
- exercised	30,250	3.18 EUR
- lapsed	0	--
Outstanding on 12.31.2005	**152,000**	**10.86 EUR**
During the 2006 financial year		
- granted	30,300	16.97 EUR
- exercised	82,320	7.88 EUR
- lapsed	0	--
Outstanding on 12.31.2006	**99,980**	**15.15 EUR**
Exercisable on 12.31.2006	**1,680**	**9.84 EUR**

The weighted average share price of the stock options exercised during the reporting period amounted to EUR 17.68.

The range of weighted exercise prices and the weighted average of remaining contractual terms of the stock options outstanding at the end of the reporting period are depicted in the following table:

Number of Stock Options	Weighted Exercise Price (EUR)	Weighted Remaining Contractual Term (Months)
55,430	10.56	5.4
14,250	29.15	12.7
30,300	16.97	24.4

Provisions

(14) Provisions for pensions

As of the balance sheet reporting date, there were two undertakings to members of the Board of Management of STRATEC AG with regard to pension and capital allowance commitments. The right to payment of such old-age pensions and capital allowances comes into force upon the individuals reaching the age of 65.

Reinsurance policies have been concluded in order to cover these pension obligations. Actuarial surveys have been obtained in order to ascertain their asset value as of the balance sheet reporting date.

The obligations have been valued using the project unit credit method in accordance with the stipulations of IAS 19. The calculation has been based on the 2005G Guidelines published by Heubeck-Richttafeln GmbH, Cologne 2005, using an assumed interest rate of 4.50% (previous year: 4.25%). An annual pension increase of 1.75% has been assumed for the old-age pension entitlement. Actuarial losses have been recorded in full with a corresponding impact on earnings for the first time pursuant to IAS 19.93. For reasons of materiality, account was also taken in this respect of the unrecognized losses carried over from previous years.

Pension obligations have been netted against the pledged asset values of the reinsurance policies and reported as such in the balance sheet.

The obligations showed the following developments:

	12.31.2006 EUR 000s	12.31.2005 EUR 000s
Current value of pension rights at beginning of financial year	249	222
Service cost	16	16
Interest expenses	11	11
Expected current value of pension rights at end of financial year	276	249
Actual current value of pension rights at end of financial year	327	269
Actuarial loss on current value of pension rights	51	20
Actuarial loss on plan assets	8	0
Cumulative actuarial losses	59	20
Amortization of actuarial loss	59	0
Gross obligation stated in balance sheet	327	249
Fair value of plan assets	-274	-225
Net obligation stated in balance sheet	53	24

The total personnel and interest expenses reported in the income statement for the financial year under report amounted to EUR 27k. The expenses resulting from the immediate amortization of actuarial losses amounted to EUR 59k.

The following table shows the results of the calculation of obligations based on alternative scenarios (sensitivity analyses). These have been based on the following economic assumptions:

- Assumed interest rate of 4%
- Assumed interest rate of 5%
- Adjustment in current pensions of 1.25% p.a.
- Adjustment in current pensions of 2.25% p.a.
- Assumed interest rate of 4.25% and adjustment in current pensions of 0%.

Parameters	Current value of pension rights in 2006 EUR 000s	Personnel / interest expenses in 2007 EUR 000s
Assumed interest rate of 4%	354	19
Assumed interest rate of 5%	303	16
Pension increase of 1.25%	313	16
Pension increase of 2.25%	343	18
Assumed interest rate of 4.25% Pension increase of 0%	293	16

Further disclosures for the past four years pursuant to IAS 19 Subsection 120:

	12.31.2006 EUR 000s	12.31.2005 EUR 000s	12.31.2004 EUR 000s	12.31.2003 EUR 000s
Present value of defined benefit obligation	327	269	222	180
Fair value of plan assets	274	225	173	129
Surplus of obligation over plan assets	53	44	49	51

(15) Deferred taxes

The taxes on income include all taxes based on the taxable earnings of the companies included in the consolidated financial statements. Other taxes not based on earnings have been reported under „Other operating expenses".

The net balance of the following amounts of **deferred** income taxes has been reported in the balance sheet:

	12.31.2006 EUR 000s	12.31.2005 EUR 000s
Deferred income tax claims	106	59
Deferred income tax obligations	2,347	453
Net obligations	2,241	394

Deferred taxes have been calculated using the liability method, which accounts for the deferred taxation implications of temporary differences on the level of the individual companies between the values of assets and liabilities for tax purposes and the values of the same as reported in the commercial balance sheet (IFRS).

Furthermore, deferred taxes also arose as a result of consolidation procedures.

The amount of deferred taxes is calculated taking account of the local tax rates expected to be valid in future, i.e. the tax rates which are applicable upon the tax deferrals being realized. In the case of STRATEC AG, this results in an overall tax rate of 36.3%. The calculation of the tax rates accounts for trade tax, corporate income tax and the solidarity surcharge on corporate income tax.

In the case of foreign subsidiaries, the unweighted average underlying overall tax rate amounts to 21.0%. It was not necessary to undertake any write-downs on the value of deferred taxes taken during the previous year or those taken for the first time during the year under report.

The following table provides a breakdown of income tax expenses in terms of their origin:

	2006 EUR 000s	2005 EUR 000s
Earnings before taxes on income (consolidated)		
- Germany	6,897	6,398
- Other countries	3,896	503
	10,793	6,901
Actual taxes on income		
- Germany	2,460	2,255
- Other countries	596	1
	3,056	2,256
Deferred taxes		
- Germany	170	160
- Other countries	-174	72
	-4	232
Income tax expenses	3,052	2,488

The net development of deferred taxes during the year under report is depicted in the following overview:

	12.31.2006 EUR 000s	31.12.2005 EUR 000s
Balance at 01.01.	394	302
Additions due to consolidation	1,743	0
Change not affecting earnings	117	0
Change affecting earnings	-13	92
Balance at 12.31.	2,241	394

The temporary differences result from the following items in the balance sheet:

	12.31.2006 EUR 000s	12.31.2005 EUR 000s	Change affecting earnings EUR 000s	Change not affecting earnings EUR 000s
Other provisions	85	58	27	0
Pension provisions	21	1	20	0
Deferred tax assets	**106**	**59**	**47**	**0**
Intangible assets	1,528	0	-191	1,719
Property, plant and equipment	0	4	-4	
Financial assets	81	0	0	81
Accounts receivable	10	29	-19	
Future receivables from production orders	635	414	221	
Inventories	33	6	27	
Deferred tax liabilities	**2,287**	**453**	**34**	**1,800**
Deferred tax liabilities from currency conversion of foreign companies	**60**	**0**	**0**	**60**
Total deferred tax liabilities	**2,347**	**453**	**34**	**1,860**
Balance (Net tax deferrals)	**2,241**	**394**	**-13**	**1,860**

The reduction in net tax deferrals affecting earnings in the 2006 financial year (EUR -13k; previous year: EUR 92k) has been recorded in the income statement under „Deferred tax income“.

The offsetting of the expenses relating to the increase in equity against the capital reserve resulted in additional deferred tax expenses amounting to EUR 10k (previous year: EUR 140k).

The following table contains a reconciliation between the tax expenses expected and those reported for the respective financial years. An overall Group tax rate of 36.3% has been applied to calculate the expected tax expenses. This corresponds to the overall tax burden of the STRATEC AG parent company.

(-) Expenses (+) Income	2006 EUR 000s	2005 EUR 000s
Consolidated earnings before taxes	10,793	6,901
Expected tax expenses	-3,918	-2,505
Deviations in foreign tax rates	+980	+106
Changes in foreign tax rates	+15	0
Expenses not deductible for tax purposes	-108	-25
Personnel expenses IFRS (stock options)	-49	-49
Tax income from capitalization of corporate income tax credit	+45	0
Other	-17	-16
Total (current and deferred) tax expenses reported in the income statement	-3,052	-2,489

The following overview depicts the maturities of the deferred taxes reported as of the balance sheet reporting date. Deferred taxes are categorized as short-term in cases where they are expected to be realized within twelve months following the balance sheet reporting date.

	EUR 000s
Short-term deferred tax assets	85
Long-term deferred tax assets	21
Short-term deferred tax liabilities	-964
Long-term deferred tax liabilities	-1,383
Net short-term deferred taxes	-879
Net long-term deferred taxes	-1,362

(16) Financial debt

This debt is mainly due to banks. Long-term financial funds amounting to EUR 1,000k were taken up during the past financial year. The weighted interest rate charged on the long-term loans amounted to 3.74%.

The company had foreign currency liabilities denominated in US dollars (EUR 545k) and in Swiss francs (EUR 454k) with a remaining term of less than one year.

Income of EUR 63k has been stated in the income statement in connection with exchange rate differences relating to financial debt.

As of December 31, 2006, the company had unutilized short-term credit facilities amounting to EUR 3,502k (previous year: EUR 3,722k).

Interest expenses amounting to EUR 60k for short-term (previous year: EUR 84k) and to EUR 92k for long-term (previous year: EUR 183k) liabilities to banks have been reported under interest expenses for the financial year under report.

The financial debt had the following maturity structure as of December 31, 2006:

	EUR 000s	EUR 000s
Maturity in		
2007		1,255
- of which: short-term debt	999	
- of which: short-term portion of long-term debt	256	
2008		194
2009		195
2010		177
2011		167
2012 and later		1,552
		3,540

The company land has been encumbered with a land charge amounting to EUR 2.0 million as security for bank loans.

The carrying amounts reported generally correspond to the market values.

Moreover, the long-term financial debt also includes the negative market value of a derivative financial instrument amounting to EUR 175k (previous year: EUR 150k). The term of this contract runs until July 6, 2010. The change in value was recorded in the income statement at an amount of EUR -25k included under „Other financial result".

(17) Accounts payable / liabilities to associated companies

Accounts payable mostly relate to goods and services provided in the months of November and December 2006 and are due for payment within one year.

The liabilities to associated companies amounting to EUR 55k (previous year: EUR 57k) are due to STRATEC NewGen GmbH and relate to the ongoing exchange of goods and services.

(18) Other short-term liabilities

These liabilities have been accounted for at updated cost and are structured as follows:

	2006 EUR 000s	2005 EUR 000s
Wage and salary liabilities	4	29
Tax liabilities	309	341
Social security liabilities	46	252
Prepayments received on orders	3,202	925
Other liabilities	378	0
	3,939	1,547

The liabilities have remaining terms of up to one year.

The social security liabilities primarily relate to social security contributions. The tax liabilities relate to the settlement of employee remuneration.

The prepayments received on orders involve payments for the achievement of technical milestones within the development process for contractually agreed development services which have not yet been completed.

The other liabilities include an amount of EUR 334k relating to the remaining purchase price obligation from the acquisition of Sanguin International Ltd.

(19) Short-term provisions, tax provisions

Provisions have developed as follows:

	01.01.2006 EUR 000s	Change in reporting entity EUR 000s	Currency movement EUR 000s	Utilized EUR 000s	Released EUR 000s	Added EUR 000s	12.31.2006 EUR 000s
Tax provisions	2,319	160	8	1,981	0	1,177	1,683
Personnel-related obligations	867	0	0	565	4	744	1,042
Contingent liabilities, outstanding invoices	359	0	0	316	7	285	321
Other	528	0	0	432	79	986	1,003
	1,754	0	0	1,313	90	2,015	2,366

The tax provisions relate to the company's current income tax obligations.

The personnel-related obligations mainly concern overdue vacation allowances, contributions to social insurance against occupational hazards and employee commissions and bonuses.

The other provisions have been stated to cover warranties, as well as year-end and audit costs.

V. Disclosures relating to the income statement

(20) Breakdown of sales

The breakdown of sales into their respective geographical regions represents the distribution of the STRATEC Group. In view of the fact that the customers of the STRATEC Group generally supply their country outlets and customers from central distribution centers, however, this breakdown of sales does not represent the geographical distribution of the final operating locations of STRATEC analyzer systems. We assume that the overwhelming majority, with a rising tendency, of all analyzer systems ever produced by the STRATEC Group are now located outside Germany.

Sales can be broken down into their respective geographical regions (customer locations) as follows (figures in EUR 000s):

Year	Germany	EU	Other	Total
2006	12,460	27,650	28,304	68,414
2005	10,851	29,182	7,264	47,297
2004	8,762	23,573	8,107	40,442

The sales during the year under report can be further broken down as follows:

	2006 EUR 000s	2005 EUR 000s
Sales involving analyzer systems and replacement parts, as well as other sales predominantly relating to the invoicing of development orders, licenses and other services	66,014	46,104
Increase in volume of future receivables from production orders	2,400	3,246 1,193
	68,414	47,297

Taking due account of the type and structure of our product portfolio, our business model and the specific features of the distribution channels referred to above, any segment reporting would not be meaningful and would therefore not provide readers of the financial statements with any information of relevance to their decisions. As a result of the business model and of homogeneous product portfolio (laboratory automation) of the STRATEC Group, it is not possible to compile any sector-based segmentation broken down by business division. This is still the case following the acquisition of the software company Sanguin International Ltd., given that the Group believes that any separate consideration of Sanguin International Ltd. as a software manufacturer would not do justice to the integration of the product range and thus of the expertise at Sanguin International Ltd. into the field of laboratory automation. For the reasons outlined above, the internal management of the company is, as in previous years, not based on segment-related information.

(21) Increase in the volume of finished and unfinished products and unfinished services

This item is structured as follows:

	2006 EUR 000s	2005 EUR 000s
Addition due to change in reporting entity	0	0
Increase in finished products	213	0
Increase in unfinished products	260	158
Increase in unfinished services	96	706
	569	864

Extraordinary write-downs amounting to EUR 285k were undertaken on unfinished services during the 2006 financial year.

(22) Other operating income

Other operating income mainly relates to income of EUR 84k from exchange rate differences (previous year: EUR 36k), grants related to income amounting to EUR 227k (previous year: EUR 52k) and auxiliary transactions (EUR 100k). This item also includes neutral income amounting to EUR 150k, which chiefly involves non-period income. It also includes income of EUR 52k from the associated company STRATEC NewGen GmbH.

(23) Number of employees

The average number of individuals employed by the Group during the financial year (including temporary employees) was as follows:

	2006 Number	2005 Number
Industrial workers	36	41
Salaried employees	166	144
Trainees	6	6
	208	191
Employees hired from temporary employment agencies	23	3
Total	231	194

	2006 Number	2005 Number
Fixed employees in Germany	186	186
Employees hired from temporary employment agencies in Germany	23	3
Employees in other countries	22	5
Total	231	191

The inclusion of the employees hired from temporary employment agencies in the employee totals is to be viewed in connection with the inclusion of the resultant expenses in personnel expenses from the 2006 financial year onwards (c.f. disclosures made in Section I.3 Basic Principles).

(24) Depreciation and amortization

Depreciation and amortization were structured as follows:

	2006 EUR 000s	2005 EUR 000s
Intangible assets, scheduled amortization	771	188
Property, plant and equipment, scheduled depreciation	1,045	844
	1,816	1,032

(25) Other operating expenses

This item primarily relates to the costs of goods handling and administration and sales-related expenses.

The item is structured as follows:

	2006 EUR 000s	2005 EUR 000s
Advertising, travel and entertainment expenses	550	349
Trade fair expenses, outgoing freight and sales commissions	956	743
External services	1,112	991
Legal and advisory expenses	370	336
Insurance, contributions, fees	262	389
Expenses from currency differences	189	0
Expenses from stock market losses	116	61
Other expenses	2,101	1,009
	5,656	3,878

The other expenses primarily relate to expenses for premises, other personnel expenses, transitory expenses, expenses relating to warranty claims and general office and administration expenses.

As a result of the increasingly significant role played by temporary employees in the provision of services by the company since the financial year under report, the resultant expenses have been recorded as personnel expenses. Corresponding adjustments have been made to the previous year's figures.

An amount of EUR 100k was paid in connection with operating leases during the financial year under report (previous year: EUR 122k).

(26) Earnings per share

Earnings per share have been calculated pursuant to IAS 33 (Earnings per Share) by dividing the consolidated net income by the average number of shares in STRATEC AG.

The shares bought back by STRATEC AG in 1998 have been excluded from the calculation of the number of shares in circulation. The increase in the number of shares compared with the previous year is due to the issuing of new shares in the context of the capital increase from company funds, the real capital increase and the exercising of stock option programs. Account has been taken of shares issued in the course of the financial year by weighting the respective figures on a prorated basis. The resultant final weighted average number of outstanding shares used for the calculation of (basic) earnings per share amounted to 11,104,989 (previous year: 10,173,583).

Pursuant to IAS 33, the consolidated net income of EUR 7,741k (previous year: EUR 4,413k) reported in the income statement has been used as the unaltered basis for the calculation.

On account of the option rights outstanding as of December 31, 2006, both basic and diluted earnings per share have been calculated. This calculation has been based on the assumption that all outstanding as yet not exercised options are exercised. The number of additional shares to be accounted for is calculated by comparing the proceeds generated by such exercising of options with the proceeds which could theoretically be generated by issuing new shares at market conditions.

The allocation or exercising of option rights within the financial year has been accounted for using prorated weighting. The resultant weighted average number of outstanding shares with a diluting effect used in the calculation of (diluted) earnings per share amounts to 11,398,394 (previous year: 10,505,656).

(27) Financial instruments / risk management

Financial instruments are contractually regulated financial transactions involving a claim to liquid funds. A distinction is made in this respect between:

- primary financial instruments, such as accounts receivable and payable or financial receivables and liabilities
- derivative financial instruments not involving a hedging relationship with an underlying transaction
- derivative financial instruments, such as hedges deployed to cover risks relating to changes in exchange rates and interest rates.

The volume of **primary** financial instruments can be seen in the balance sheet. The financial instruments included on the asset side of the balance sheet have been subdivided pursuant to IAS 39 into various categories and stated in line with their respective classification at cost or at fair value. With the exception of shareholdings reported under financial assets and short-term securities, the short-term nature of receivables and liquid funds means that there are no significant variances between the respective carrying amounts and fair values.

Changes in the fair value of financial instruments available for sale are recorded under equity up to the realization of the respective financial instrument. If there are permanent reductions in the value of such instruments, however, then these are reported through profit or loss. Changes in the fair value of financial instruments held for trading are recorded through profit or loss.

Financial instruments which constitute financial liabilities have been stated at updated cost.

The fair value of a primary instrument is the price at which the instrument can be freely traded between third parties. In the case of securities reported under short-term or long-term assets, the fair value is generally based on stock market prices.

The financial instruments included in the balance sheet could, in principle, result in the following risks for the company:

- Currency risks:
  These involve the risk that the value of financial instruments may reduce as a result of changes in exchange rates. Given that the foreign currency positions of the STRATEC Group, particularly in respect of receivables or liabilities, are only of subordinate significance, no hedging measures, such as the use of derivatives, have been taken.
- Default risks:
  These involve contractual partners failing to fulfill their obligations. At STRATEC AG, this risk especially involves customer receivables. The risk of default is countered by means of debtor management measures, such as trade credit insurance.
- Interest rate risks:
  Interest rate risks involve the risk that the value of financial instruments may fluctuate as a result of changes in the market interest rate. In general, this risk relates to financial receivables and liabilities with floating interest rates and terms of more than one year. The risk of interest rate changes may be covered in individual cases by the use of derivative hedging instruments (such as swaps).

Derivative financial instruments not involving a hedging relationship with an underlying transaction are classified as trading financial instruments and valued at fair value as of the balance sheet reporting date. Any differences between the cost of acquisition and the fair value are recorded with an impact on earnings.

Derivative financial instruments involving a hedging relationship to an underlying transaction, such as those deployed to hedge against currency and interest rate risks, are stated through profit or loss or under equity depending on whether the hedge in question is intended to secure the fair value or the future cash flow.

An interest swap is deployed in order to secure the supply of working capital to the Swiss subsidiary Robion AG. This involves a so-called „Leveraged-Quanto-CMS-Swap“. The negative fair value of this derivative financial instrument, amounting to EUR 175k (previous year: EUR 150k), has been reported under long-term financial debt. The assumed reference basis (nominal value) of this financial derivative, which does not affect payments and which is used exclusively as a basis for the calculation of interest payments, amounts to EUR 3,000k. Given that the strict requirements governing the recognition of hedging transactions permitted for accounting purposes were not fulfilled, the change in the value of the liability stated in the balance sheet in 2006 on account of the aforementioned negative value of the financial derivative has been recognized through profit and loss and reported under „Other financial result“. Given that this reduction in value does not impact on payments, it has been recorded in the cash flow statement under „Other non-cash expenses“.

The aims and methods used by the STRATEC Group when dealing with the aforementioned financial risks form the object of the Group's risk management activities. The principles of the risk management policies applied by the Group have been depicted in the „Risk Report“ section of the group management report. The group management report, which has been compiled in accordance with Section 315 of the German Commercial Code (HGB), constitutes an integral component of these consolidated financial statements pursuant to IFRS.

(28) Disclosures concerning the auditor's fee pursuant to Section 314 (1) No. 9 of the German Commercial Code (HGB)

The expenses recorded as the fee for the group auditor in the financial year under report pursuant to Section 314 (1) No. 9 of the German Commercial Code (HGB) are structured as follows:

	EUR 000s
Expenses for:	
a) Auditing of financial statements	75
b) Tax advisory services	6
c) Other services performed for STRATEC AG or its subsidiaries	47
Total auditor's fee	128

(29) Disclosures relating to closely related companies and individuals

Board of Management and Supervisory Board

The company's **Board of Management** has the following members:

- **Hermann Leistner**, Birkenfeld
  (Chairman / Development Division)
  Electrical Engineer
- **Marcus Wolfinger**, Remchingen
  (Chief Financial Officer)
  Graduate in Business Administration
- **Bernd M. Steidle**, Oberboihingen
  (Director of Marketing and Sales)
  Businessman

Hermann Leistner held around 14.3% of the shares in the company as of December 31, 2006.

The Chairman of the Board of Management, Hermann Leistner, and the Chief Financial Officer, Marcus Wolfinger, are each authorized to solely represent the company.

There have been no alterations in the composition of the Board of Management between the balance sheet reporting date and the compilation of the consolidated financial statements.

The compensation of members of the Board of Management consists of fixed annual compensation (fixed salary) and a variable component dependent on the achievement of individual performance targets. Moreover, members of the Board of Management are entitled to participate in a stock option program. Among other conditions, the exercising of the options requires performance targets determined at the time of issue to have been met.

On the basis of the resolution adopted by the Annual General Meeting of June 23, 2006 the company may forego (opt out of) the publication of the compensation of the members of the Board of Management on an individual basis and the additional disclosures required by Section 314 (1) No. 6 a) Sentence 6 to 9 of the German Commercial Code (HGB). The company has exercised this right in the period under report. The total compensation of the Board of Management amounted to EUR 759k during the period under report (previous year: EUR 728k). More specifically, the compensation was structured as follows:

	2006 EUR 000s	2005 EUR 000s
Fixed salary	493	504
Share-based compensation	46	59
Payments in kind	27	29
Insurance payments	57	57
Performance-related components	136	79
Total compensation	759	728

The short-term portion of the total compensation amounted to EUR 713k (previous year: EUR 669k).

The figure stated for share-based compensation involves the period-specific arithmetical value of the stock options issued to members of the Board of Management recorded pursuant to IFRS 2 as personnel expenses during the financial year under report. A total of 9,000 stock options with a subscription price of EUR 15.36 and an arithmetical total value of EUR 30k were issued to the Board of Management in the 2006 financial year.

The pension provisions for members of the Board of Management have been stated as liabilities amounting to EUR 53k in the consolidated financial statements (previous year: EUR 24k).

Hermann Leistner is Managing Director of STRATEC NewGen GmbH, Birkenfeld. Marcus Wolfinger is a member of the Supervisory Board of CyBio AG, Jena, and a member of the Board of Sanguin International Ltd., Barton under Needwood, UK.

The **Supervisory Board** consisted of the following individuals at the balance sheet reporting date:

- **Fred K. Brückner**, Marburg
  (Chairman)
  Chemical Engineer / Self-employed Management Consultant
- **Dr. Robert Siegle**, Birkenfeld
  (Deputy Chairman)
  Self-employed Lawyer
- **Burkhard G. Wollny**, Göppingen
  Banker
- **Dr. Juan Pedro Lorenz**, Heidelberg
  (Substitute Member)

The total compensation of the Supervisory Board amounted to EUR 119k during the year under report (previous year: EUR 62k). More specifically, the remuneration was structured as follows:

	2006 EUR 000s	2005 EUR 000s
Fixed compensation	36	27
Performance-related components	72	27
Meeting allowance	11	8
Total short-term compensation	119	62

In addition to this overall remuneration, each member of the Supervisory Board also received the reimbursement of his expenses and the benefits of a pecuniary damage liability insurance policy concluded at the company's expense at suitable terms customary to the market.

The law firm of Dr. Siegle, a member of the Supervisory Board, „DR.WILLE • DR.SIEGLE • ZINDER“, provided STRATEC AG with legal advisory services amounting to around EUR 29k during the 2006 financial year. These services were invoiced at prices which would also be agreed with third parties.

Apart from this, there were no service relationships between members of the executive and supervisory bodies, or these closely related persons, and the companies included in the consolidated financial statements of STRATEC AG.

Closely related companies

In view of the fact that members of the Leistner family hold a considerable share of the voting rights in both STRATEC Biomedical Systems AG and in DITABIS Digital Biomedical Imaging Systems AG, the latter company is to be deemed a closely related company pursuant to IAS 24. During the year under report, STRATEC AG provided DITABIS Digital Biomedical Imaging Systems AG with services amounting to EUR 14k (previous year: EUR 11k). These services were invoiced at prices which would also be agreed with third parties.

Subsidiaries

During the 2006 financial year, STRATEC Biomedical Systems AG generated sales of EUR 52k from transactions with STRATEC NewGen GmbH (previous year: EUR 82k) and received services amounting to EUR 242k (previous year: EUR 230k). These services were invoiced at market prices. The profit transfer agreement concluded with STRATEC NewGen GmbH resulted in expenses of EUR 5k being incurred in connection with the assumption of losses during the year under report. Sanguin International Ltd. (UK) generated sales of EUR 32k from transactions with Sanguin International Inc. (USA) during the period under report.

The receivables and liabilities relating to associated companies as of the balance sheet reporting date have been noted in the respective balance sheet items.

Other closely related individuals

There were no relationships with other closely related individuals.

(30) Contingent liabilities and other financial obligations

The other financial obligations primarily relate to acceptance obligations (basic contracts with suppliers concerning modules), operating leases and development orders and are structured as in the following table:

	2006 EUR 000s	2005 EUR 000s
Remaining term of up to three years	18,811	14,035
of which:		
Remaining term of up to one year	17,336	13,851

There were no contingent liabilities relating to the provision of security for third-party liabilities.

(31) Events after the balance sheet reporting date

We are not aware of any events having occurred within the STRATEC Group since December 31, 2006 which could have any notable impact on the financial and economic position of the Group.

(32) Date of approval for publication

The Board of Management of STRATEC AG has presented the consolidated financial statements to the Supervisory Board, which will pass resolution on their adoption on March 26, 2007.

Birkenfeld, March 14, 2007
STRATEC Biomedical Systems AG
The Board of Management

Hermann Leistner

Marcus Wolfinger

Bernd M. Steidle

Development of Long-Term Assets at the STRATEC Group for the Period from January 1 to December 31, 2006

	Historic Costs EUR 000s								
	01.01.2006	Increase in Value due to Fair Value 01.01.2006	Currency Differences	Change in Reporting Entity	Additions	Increase in Value due to Fair Value	Disposals	Reclassifications	12.31.2006
Intangible assets									
Goodwill	0	0	30	867	0	0	0	0	897
Other intangible assets	695	0	180	5,551	210	0	0	0	6,636
	695	**0**	**210**	**6,418**	**210**	**0**	**0**	**0**	**7,533**
Property, plant and equipment									
Land, leasehold rights and buildings	4,972	0	0	0	29	0	0	0	5,001
Technical equipment and machinery	412	0	0	0	7	0	6	0	413
Other equipment, plant and office equipment	4,729	0	1	212	864	0	206	14	5,614
Prepayments made and assets under construction	14	0	0	0	0	0	0	-14	0
	10,127	**0**	**1**	**212**	**900**	**0**	**212**	**0**	**11,028**
Financial assets									
Shares in affiliated companies	38	0	9	262	20	0	0	0	329
Shareholdings	665	106	0	0	1,654	256	3	0	2,678
	703	**106**	**9**	**262**	**1,674**	**256**	**3**	**0**	**3,007**

Cumulative Depreciation and Amortization EUR 000s						Net Carrying Amounts EUR 000s	
01.01.2006	Currency Differences	Change in Reporting Entity	Additions	Disposals	12.31.2006	12.31.2006	12.31.2005
0	0	0	0	0	0	897	0
507	0	0	771	0	1,278	5,358	188
507	**0**	**0**	**771**	**0**	**1,278**	**6,255**	**188**
883	0	0	139	0	1,022	3,979	4,089
214	0	0	46	3	257	156	198
3,342	0	171	860	199	4,174	1,440	1,387
0	0	0	0	0	0	0	14
4,439	**0**	**171**	**1,045**	**202**	**5,453**	**5,575**	**5,688**
0	0	0	0	0	0	329	38
0	0	0	0	0	0	2,678	771
0	**0**	**0**	**0**	**0**	**0**	**3,007**	**809**

Audit Opinion of Group Auditor

We have audited the consolidated financial statements compiled by STRATEC Biomedical Systems Aktiengesellschaft, Birkenfeld, which consist of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and the notes to the consolidated financial statements, as well as the group management report, for the financial year from January 1 to December 31, 2006. The responsibility for the compilation of the consolidated financial statements and group management report in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), lies within the responsibility of the board of management of the company. It is our responsibility to submit an opinion on the consolidated financial statements and the group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking due account of the principles governing the proper auditing of financial statements promulgated by the German Institute of Auditors (IDW). These standards require the audit to be planned and executed in such a manner that any inaccuracies and infringements with a material impact on the depiction of the net asset, financial and earnings situation provided by the consolidated financial statements, taking due account of the applicable accounting standards, and by the group management report are identified with reasonable certainty. When determining the audit procedures, account was taken of our knowledge of the business activities and economic and legal environment of the group, as well as of expectations as to any possible errors. The effectiveness of the internal accounting controlling system and the evidence supporting the disclosures made in the consolidated financial statements and the group management report were examined within the framework of the audit, principally on the basis of trial samples. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the delineation of the reporting entity, the accounting and consolidation principles thereby applied, and the principal estimates made by the board of management, as well as an appraisal of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonably secure basis for our opinion.

Our audit did not give rise to any qualifications.

On the basis of the findings of our audit it is our opinion that the consolidated financial statements are in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), and that they provide a true and fair view of the net asset, financial and earnings situation of the Group, taking due account of the aforementioned requirements. The group management report is in agreement with the consolidated financial statements and provides an accurate overall impression of the situation of the group and adequately presents the opportunities and risks relating to its future development.

Stuttgart, March 14, 2007

Wirtschaftstreuhand GmbH
Chartered Accountants
Tax Consultants

Thiem
Chartered Accountant

Ernst
Chartered Accountant

Would you like to be kept regularly informed of developments at STRATEC Biomedical Systems AG in future? We would be very pleased to add your name to our electronic and/or postal mailing lists. Please cross the appropriate box:

❐ **Yes, please add me to your electronic mailing list.**

Surname ____________________

First name ____________________

E-mail ____________________

❐ **Yes, please add me to your postal mailing list.**

Company ____________________

Surname ____________________

First name ____________________

Street ____________________

Zip-code/City ____________________

Country ____________________

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2007 Financial Calendar

04.04.2007	Publication of consolidated/annual financial statements
04.04.2007	Annual Press Conference Call
04.17.2007	7th MedTech Day, Frankfurt am Main/Germany
05.09.2007	Publication of First Quarter Report
05.16.2007	Annual General Meeting, Pforzheim/Germany
06.12.2007	European Small & Mid Cap Conference, CA Cheuvreux S.A., London, UK
08.08.2007	Publication of Second Quarter Report
11.07.2007	Publication of Third Quarter Report
November 2007	Deutsches Eigenkapitalforum, Frankfurt am Main/Germany (Analysts' Conference)

Subject to amendment

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