ROOD TECHNOLOGY

Rood Testhouse International N.V.

Annual Report 2006

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Rood Technology

certifies the integrity of customers' applications

Rood Testhouse International N.V.
Burgemeester van Roijensingel 13
NL-8011 CT Zwolle

Correspondence address:
P.O. Box 1042
NL-8001 BA Zwolle

Telephone: +31 (0)38 4215216
Fax: +31 (0)38 4216410

Email: info@roodtechnology.com
Website: **www.roodtechnology.com**

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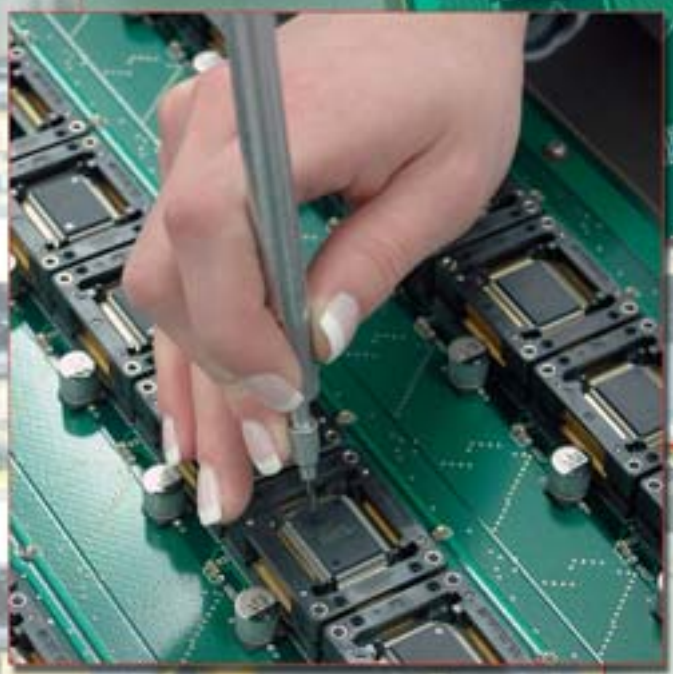


Profile of Rood Technology

General

Rood Testhouse International N.V. (Rood Technology) is listed on the Euronext Amsterdam stock exchange (Euronext N.V.). The company has two subsidiaries in Germany (Nördlingen and Dresden) and one in the Netherlands (Zwolle).

The core activities of Test & Related Services consist of development, production and service provision to the semiconductor industry, such as:

- testing semiconductors (microchips), which represents the majority of sales;
- supplying End-of-line manufacture and service;
- developing test software for semi-conductors;
- qualifying semiconductors;
- qualifying production processes;
- analyzing failures in products;
- facilitating the purchasing, testing and acceptance of semiconductors from Asia (China) for sale in Europe.

Next to the abovementioned activities, intensive know-how development takes place within the company, giving Rood Technology a unique position in the market. A strong sales organization with test engineers enables customers to profit maximally from the company's development work and expertise.
The majority of its customers is active in the automotive sector (approximately 45%), the telecom sector (approximately 23%) and the industry/medical sector (approximately 17%).

Rood Technology increasingly facilitates the procurement, testing and acceptance of semiconductors from Asia (China) for sales in Europe, exploiting the trend among European manufacturers of increasingly procuring their components from Asia.

At year-end 2006 the company had 106 employees on permanent staff.
In the 2006 financial year net sales of EUR 8,892,000 was realized with a net result of EUR 141,000.

History

In 1976 the foundation was laid for Rood Testhouse by the trading company C.N. Rood B.V. in Rijswijk, the Netherlands, an electronic testing equipment trading company. The activities gradually expanded to performing testing work for third parties to writing the necessary software.
As its activities began to deviate more and

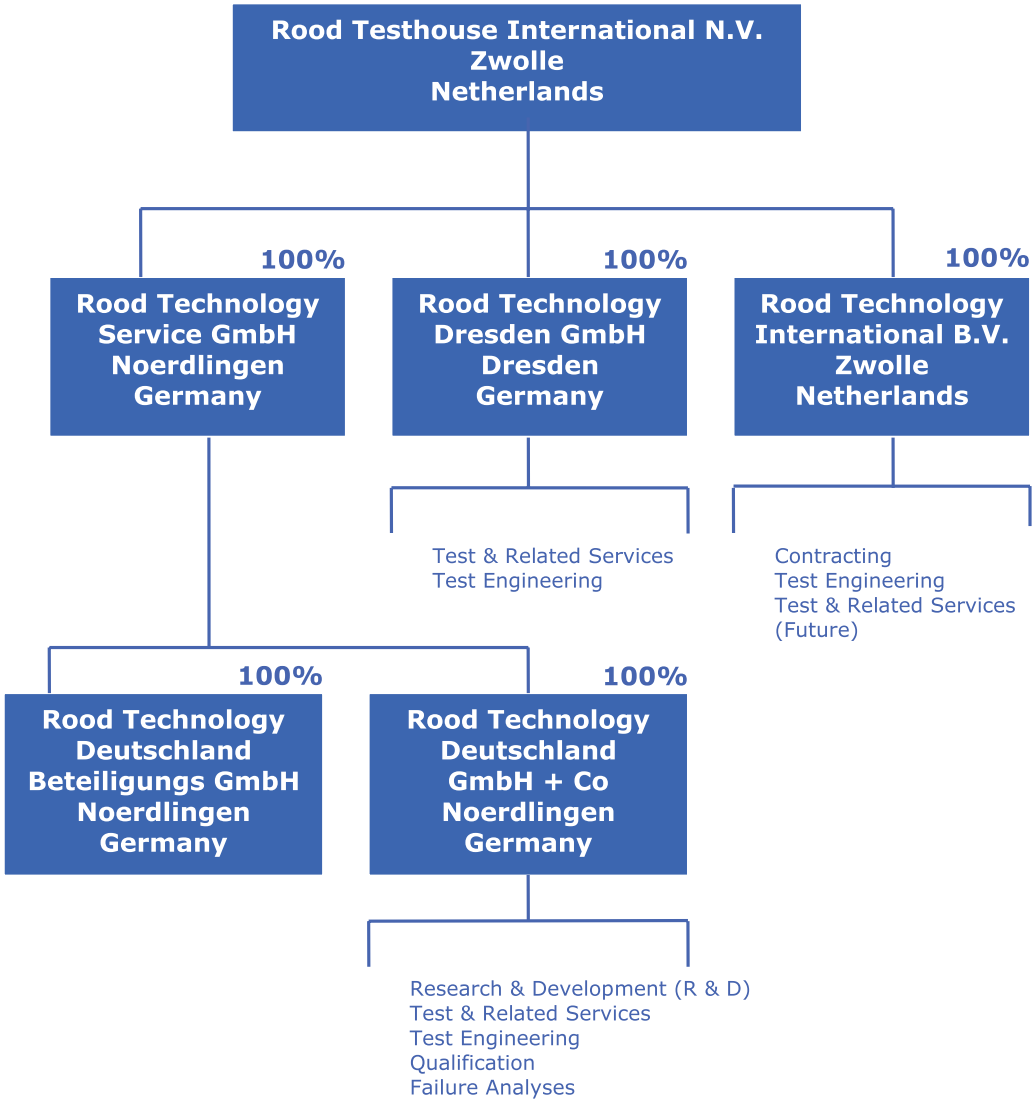
more from the activities of the parent company due to the increase of semiconductor testing work, including the manufacture of testing equipment, it was decided in 1979 to incorporate Rood Testhouse. Meanwhile, the activities had moved to Heerde, the Netherlands.
Since 1986 Rood has been listed on the Amsterdam Stock Exchange.
In the following years, mergers and takeovers took place.
In 1989 MTL Microtechnology Ltd UK (Rood Technology, UK) was added, in 1991 SES Electronics GmbH, Germany (Rood Technology Deutschland GmbH in Nördlingen) and in 1994 Edgetek, France. Joint ventures were set up with KES in Taiwan (1994) and Malaysia (1995). During the recession, the joint ventures did not produce the desired result, so that the joint venture with KES was cancelled. The 2001 recession led to the divestment of Rood Technology UK.
At the end of 2003, the supply and manufacture of testing equipment was divested, so that the last sales from equipment were realized in 2004.

After a difficult period, in 2003 Rood obtained EUR 2 million in risk-bearing capital from the Venture Capital Organization ICN (TIIN), of which Mr Wanrooij was managing director.
A second capital injection of EUR 1 million followed in 2005.
Currently, Rood Technology is focusing on its core activity: semiconductor testing and related services.
Starting the end of 2005 a testing facility was established in Dresden, Germany, and preparations were made for manufacturing in China.
Since 2004, the company's headquarters are located in Zwolle, the Netherlands.

Market position

Rood Technology mostly has European-based customers, but the number of customers from elsewhere is increasing. The high level of know-how in the organization enables Rood Technology to focus on more complex products, of which 'mixed signal test' is an exponent. With its Dresden site, Rood is the only independent testhouse with a presence in Silicon Saxony (the cluster of semiconductor companies in the rapidly developing Dresden area).

Group Structure



Corporate Management Team

Board of Management

Philip M.G. Nijenhuis (1945)
Chief Executive Officer since September 2004
Previous positions: senior management and board positions with BESI, DTS, Schlumberger, AT Kearney, ITT/Alcatel, Scania and Wavin.

Members of Corporate Management Team

Thorsten Bucksch (1968)
Chief Operational Officer and Member of Corporate Management since 2007
Previous positions: (senior) management positions with Elmos, Siemens Semiconductor/Infineon and Qimonda.

Wilma H. Gomarus (1967)
Chief Financial Officer and Member of Management Team until March 2007
Previous positions: (senior) management positions with PricewaterhouseCoopers

Supervisory Board

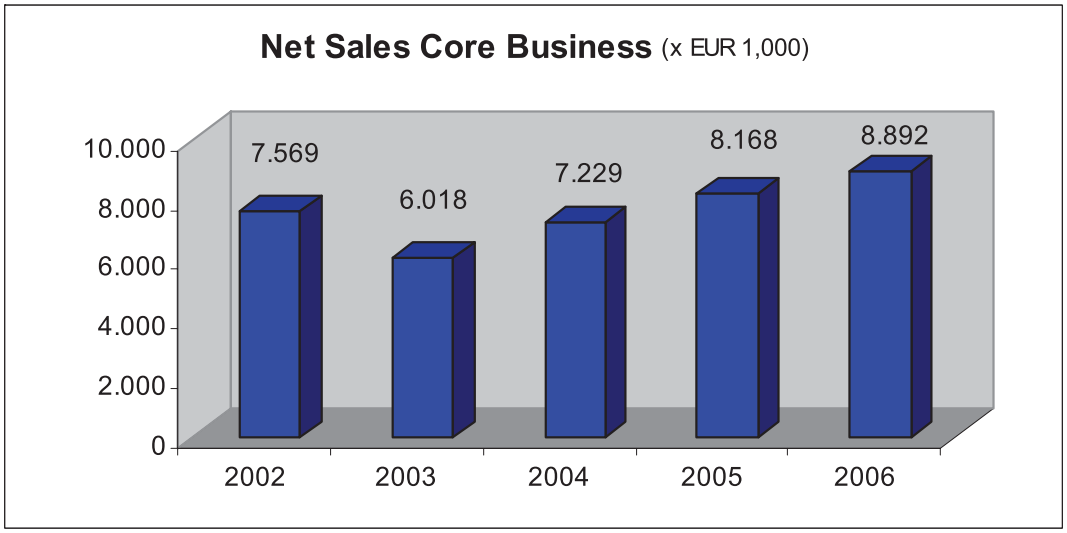
Cees W.M. Koot (1936)
Nationality: Dutch
Chairman of the supervisory board since 1998
Reappointed in 2005 Term of office ends in 2009
Previous positions: senior management and board positions with Philips Components, Communications and Semiconductors

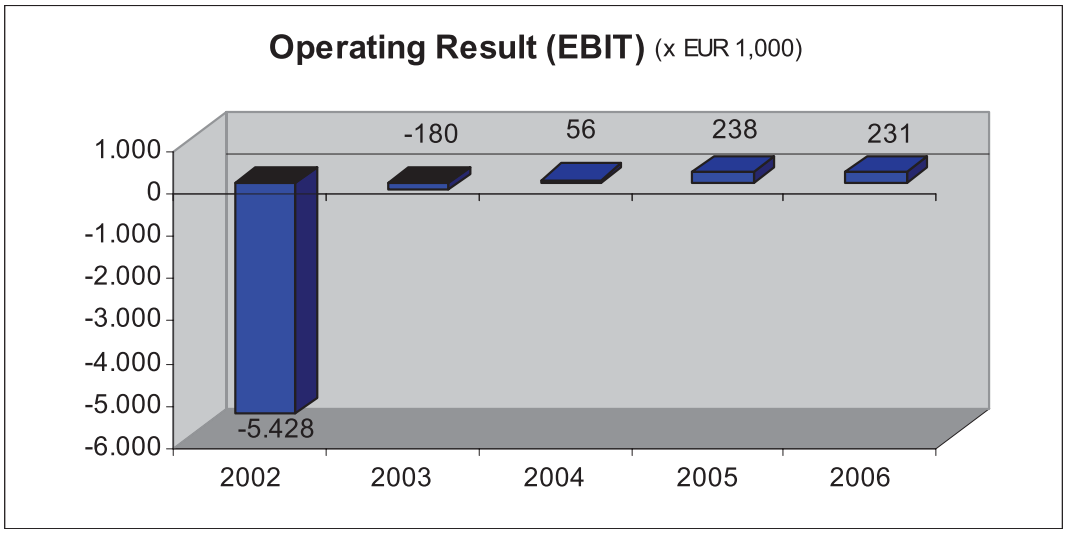
Ad Mommer, (1944)
Nationality: Dutch
Member of the supervisory board
To be appointed on 26 March 2007
Term of office ends in 2011
Previous positions: financial positions with Philips Electronics, inter alia CFO of the Semiconductor Division and the Consumer Electronics Division

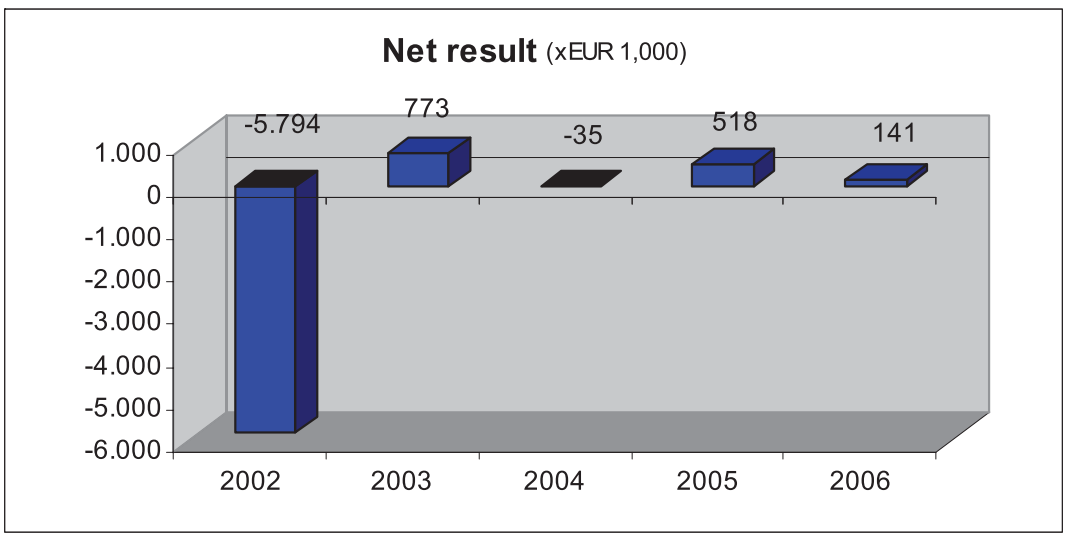
Key Figures

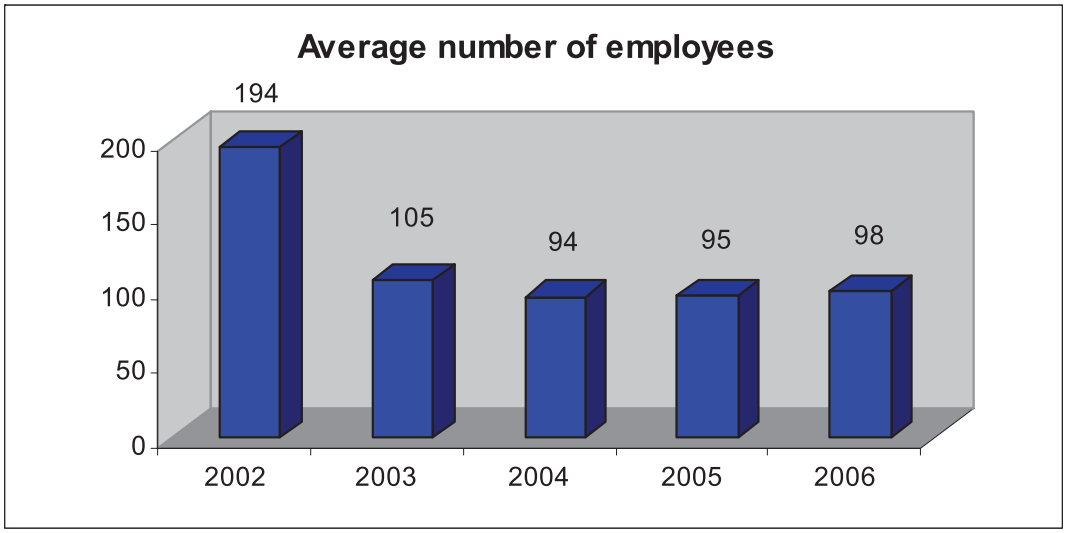
(in EUR x 1,000 unless stated otherwise)

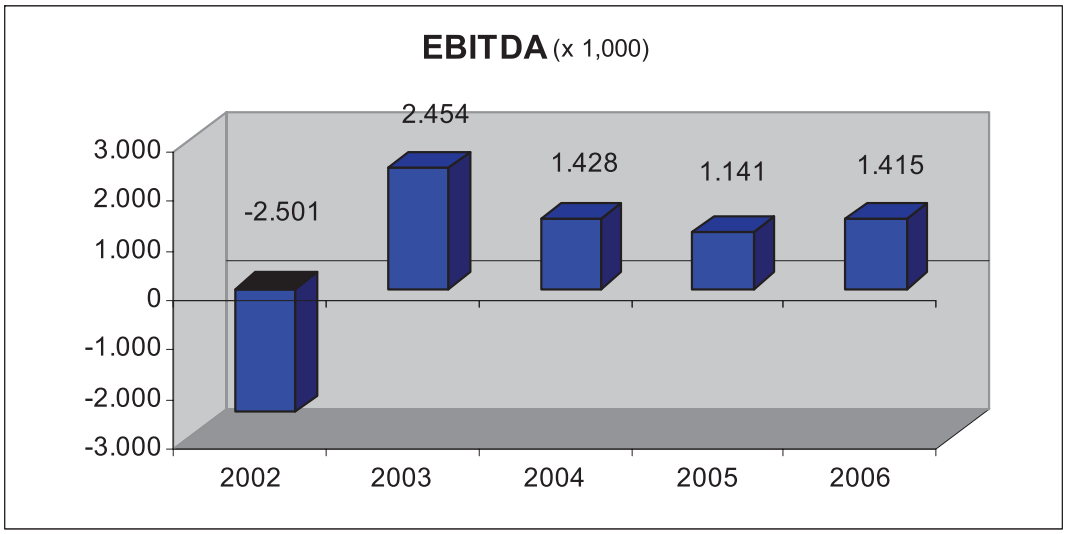
	IFRS 2006	IFRS 2005	IFRS 2004	Dutch GAAP 2003	Dutch GAAP 2002
Result					
Net sales					
* Net sales Core Business	8,892	8,168	7,229	6,018	7,569
* Net sales equipment			580	2,022	1,526
	8,892	8,168	7,809	8,040	9,095
Total operating income	8,872	8,149	7,760	7,291	8,547
Gross margin	7,948	7,470	6,924	6,413	7,591
Operating result/EBIT	231	238	56	1,116	-5,428
Operating result/EBIT(excl. disposal equipment branche and waver of banks)	231	238	56	-180	-5,428
EBITDA	1,415	1,141	1,428	2,454	-2,501
Cash flow (net result and depreciation)	1,325	1,421	1,391	2,11	-2,867
Cash flow from operating activities	169	1,269	1,632	904	-1,695
Net result	141	518	-35	773	-5,794
Capital					
Total assets	11,174	8,630	7,653	8,609	9,294
Group equity	3,335	3,075	2,543	3,193	643
Group equity as a percentage of total assets	29.8	35.6	33.2	37.1	6.9
Net debt as a percentage of equity	143.5	64.8	66.9	69.5	796.7
Net debt as a percentage of total assets	42.8	23.1	22.2	25.8	55.1
Assets					
Tangible fixed assets	8,433	6,597	6,014	6,521	6,926
Investments	3,088	1,405	826	1,017	130
Depreciation of tangible fixed assets	1,106	822	1,325	1,338	2,927
Data per share					
Capital and reserves	0.12	0.15	0.19	0.38	0.09
Operating results	0.01	0.01	0.00	0.13	-0.77
Cash flow	0.01	0.08	0.12	0.11	-0.24
Net result	0.01	0.03	0.00	0.09	-0.82
Share price: year-end	0.66	0.56	0.54	0.57	0.23
Share price: highest	0.96	0.73	0.94	0.89	0.61
Share price: lowest	0.55	0.45	0.37	0.18	0.18
Number of ordinary shares in issue					
At year-end (x 1,000)	26,741	19,867	13,578	8,389	7,053
Number of employees					
At year-end	106	97	97	94	173
Average	98	95	94	105	194
Sales (total) / employee	91	86	83	77	47
Sales (core-business) / employee	91	86	78	57	39

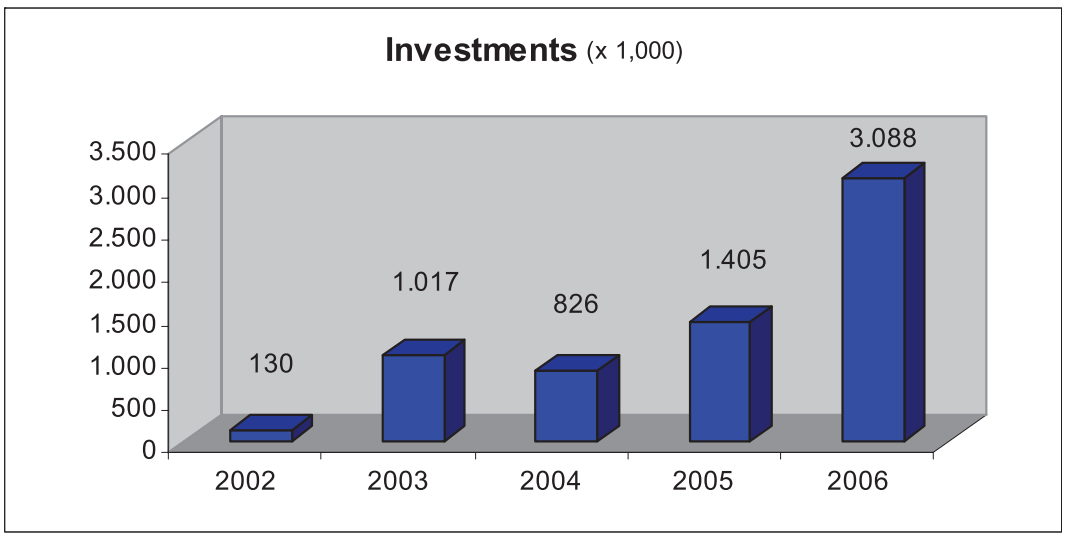

Net Sales Core Business (x EUR 1,000)
10.000
8.000
6.000
4.000
2.000
0
7.569
6.018
7.229
8.168
8.892
2002
2003
2004
2005
2006


Operating Result (EBIT) (x EUR 1,000)
1.000
0
-1.000
-2.000
-3.000
-4.000
-5.000
-6.000
-5.428
-180
56
238
231
2002
2003
2004
2005
2006


Net result (xEUR 1,000)
1.000
0
-1.000
-2.000
-3.000
-4.000
-5.000
-6.000
-5.794
773
-35
518
141
2002
2003
2004
2005
2006


Average number of employees
194
105
94
95
98
200
150
100
50
0
2002
2003
2004
2005
2006


EBITDA (x 1,000)
2.454
1.428
1.141
1.415
-2.501
3.000
2.000
1.000
0
-1.000
-2.000
-3.000
2002
2003
2004
2005
2006


Investments (x 1,000)
3.088
1.405
1.017
826
130
3.500
3.000
2.500
2.000
1.500
1.000
500
0
2002
2003
2004
2005
2006

Report of the CEO

The foundations for a successful future have been laid.

The years before 2006 were marked by efforts to exploit the opportunities that the semiconductor market offers Rood Technology, and to secure sales. All the managers have done their utmost to achieve this.

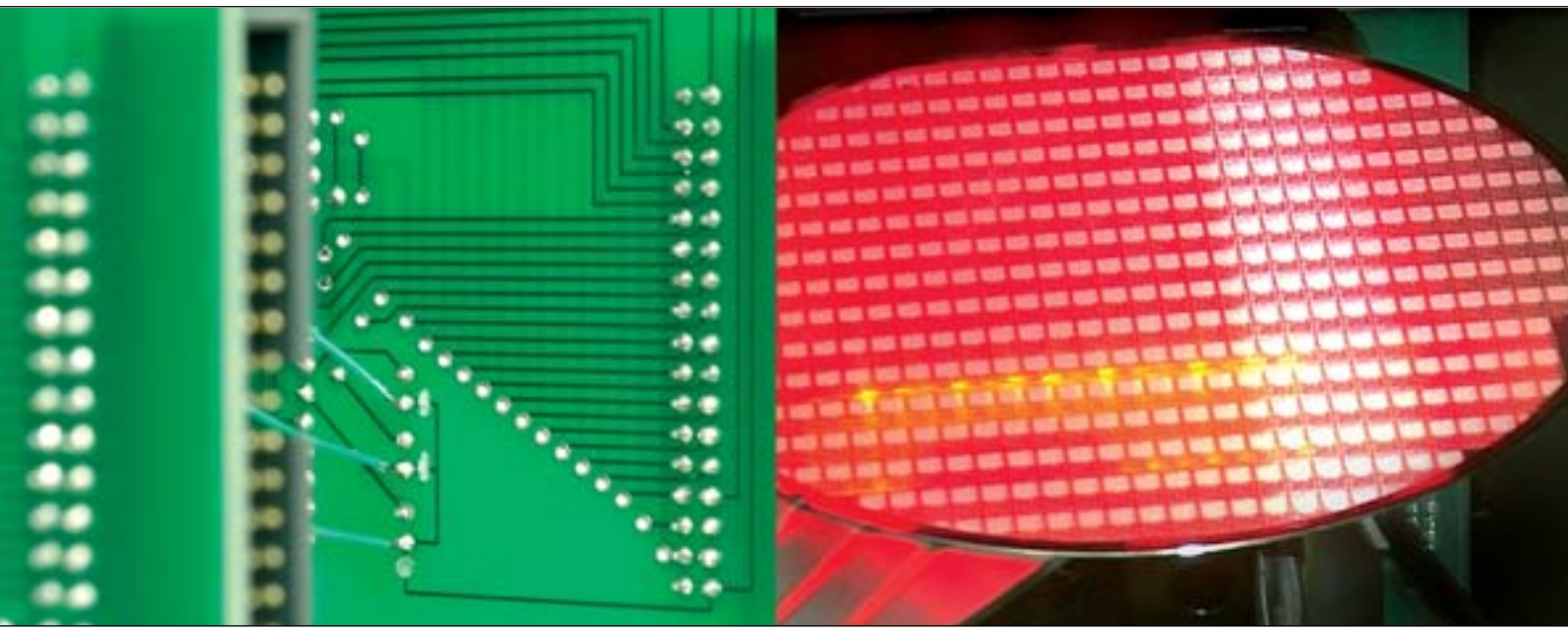
In 2006, we succeeded in improving our relationships with the banks. We looked for new opportunities and worked towards further professionalizing the organization.
Additionally, we made the necessary investments for the future, laying down a good foundation for further growth.

A considerable, strengthening of our management, employees and of the relations with our banks, including the corresponding rating, have enabled us to make the efforts and the investments which were needed to achieve significant further growth in Nördlingen of both Qualification, Failure Analysis and Tests in the future.

On the sales side, we have been able to further develop and improve relationships with many customers, which, next to sales growth in Nördlingen, will generate further growth in Dresden and in the supply chain Asia - Europe in the foreseeable future.

The developments in Dresden, in particular, demanded a great deal of attention. A strong positive was the conditional grant of 43% on invested capital, but obtaining more acceptable agreements with customers and banking support was less straightforward.
Late 2006, a breakthrough was achieved in the financing of Dresden with assistance from TIIN.

While 2006 had a difficult start, Rood Technology's management showed its ability to bounce back and came close to realizing the 2006 sales forecast after all. It was a great disappointment to all when we just came up short due to a sudden stock reduction among customers.
Our team has drawn its conclusions and is working towards minimizing the impact of such unexpected developments.



Due to our limited financial resources, we have not been able to respond sufficiently decisively at crucial times, which no doubt has lost us sales. After all, commitment and quick responses are needed in the semiconductor market. And flexible financing instruments are required to operate fast and adequately in this market.

Our proposal to authorize us to issue shares, will considerably improve our effectiveness and flexibility.

This will also improve our financial rating, and consequently the interest rate on our loan portfolio.

With the foundations laid in 2006, Rood Technology has great confidence in its future, and maintains its long-term objectives.

Zwolle, 26 February 2007
Ph.M.G. Nijenhuis
CEO

Shareholder information

Financial agenda

1 March 2007	Publication annual figures 2006
1 March 2007	Press and analysts' meeting
12 March 2007	Release of annual report 2007
26 March 2007	General meeting of shareholders
15 May 2007	Publication interim update
12 July 2007	Publication sales figures half year 2007
6 September 2007	Publication half year figures 2007
6 September 2007	Conference call press and analysts
13 November 2007	Publication interim update
8 January 2008	Publication sales figures full year 2007

Act on Disclosure of Major Holdings

As per 31 December 2006, Rood had received no reports in the context of the Act on Disclosure of Major Holdings (WMZ).

Rules to prevent insider trading

Rood Technology conforms to the Rules on the Notification and Regulation of Securities Transactions (Wte 1995, Securities Transactions Supervision Act 1995).
A wide circle of employees and consultants is bound by signing a declaration to abide by the Rules as referred to in Article 46d Wte 1995.
The board of management and the supervisory board have further conformed to the WMZ 1996, as amended on 1 September 2002.
The Authority Financial Markets (AFM) supervises compliance with this law.

Dividend

Rood Technology so far has not defined a dividend policy since its financial position did not allow it. Rood's board of management prefers to allow the company to grow over the next few years and to continue to improve its financial health. The management prefers as far as possible to use the company's own resources to finance growth, and strives to increase the market value of the share through such growth. Consequently, it will be proposed to the shareholders not to distribute any dividend for the 2006 financial year.

Development of the number of shares in 2006

Position as at 1 January: 19,866,570
Position as at 31 December: 26,741,086.
As at 31 December 2006, the company held 4100 of its own shares.

Share price development and market capitalization Rood Testhouse International N.V. in 2006

Investor relations

Rood Technology is well aware of the importance of active and open communication with its shareholders. Having focused exclusively on the survival of the company for a number of years, since 2006 Rood Technology has pursued a more active investor relations policy consisting of analysts' reports and meetings with the press, analysts and investors. On Rood's website, www.roodtechnology.com, more attention will be given to communicating with various target groups.

Liquidity provider

In order to support the trade in the Rood Technology share and to optimize the relationship with shareholders, SNS Securities N.V. in Amsterdam was appointed as liquidity provider as per 16 January 2006.

General meeting of shareholders 2006

A report of the meeting can be found on the company's website.

Mission, objectives and strategy

Mission

Rood Technology has set itself the aims of:

- positioning itself as an innovative testhouse in Europe;
- developing into an important player in the semiconductor supply chain from Asia (China) to Europe.

This requires Rood Technology to:

- realize an annual growth above the annual growth of the semiconductor market;
- be able to guarantee the financial structure and cash flow necessary for continuity and growth;
- to have available enthusiastic and motivated employees who are maximally qualified to perform the duties assigned to them.

Objectives for 2007

Also taking into account current market expectations

- net sales increase of between 10% and 20%;
- a positive operating result that is in line with the growth strategies in both Europe and Asia;
- improving solvency (2006: 29.8%);
- offer a total solution to our customers, from the production design phase up to the final phase of the project (Total Test Solution Provider);
- innovating the testing process together with our partners by using 'Re-use of Testblocks'.

Long-term objectives

- in 2004 the objective was defined of a doubling of sales within 5 years for Test & Related Services based on an average annual market growth of 8%;
- on average 'double digit' (10% - 20%) sales growth for Test & Related Services in 2007 - 2009;
- generating 20% to 40% of sales in new markets (such as Silicon Saxony and China) by 2008;
- continue developing the markets for 'advanced packages' (like MEMS (Micro-Electro-Mechanical Systems), Multi-die packages and KGD technology (Known Good Dies)).

Strategy

In 2004 Rood Technology defined a four-stage strategy:

- reshaping stage:
  securing growth of sales in tandem with better quality orders;
- innovation stage:
  focusing more emphatically on research and development;
- expansion stage:
  expansion in fast growing regions and products, as well as in more complex products;
- diversification stage:
  supporting the semiconductor supply chain from Asia (China) to Europe in combination with the start-up of a test facility in China.

In the reshaping stage the focus is on:

- better quality orders;
- growth in engineering, qualifying and analysis;
- improved cost control;
- reducing risks associated with market downswings;
- further improving the balance sheet position.

Many customers use Rood Technology as an emergency back-up system in case of lack of capacity, which means that when the market stabilizes or decreases, those orders dry up. Rood is aiming to do all the testing work as well as test development, or a significant amount of it, for certain products so as to be less sensitive to market fluctuations.

While this may somewhat reduce margins, it is likely to increase the equipment load.
Over the next few years, Rood Technology will be focusing even more on the objective of being a 'Total Test Solution Provider'. In that context, the sales team has been expanded. Additionally, Rood Technology aims to play an increasingly prominent role in the areas of developing test programs, qualifying and failure analyses of semiconductors and/or processes.
Across Europe there is great demand for such activities. Rood aims for stronger growth in this area rather than in testing work pure and simple.
To achieve this, Rood Technology is training the necessary high-quality staff itself.

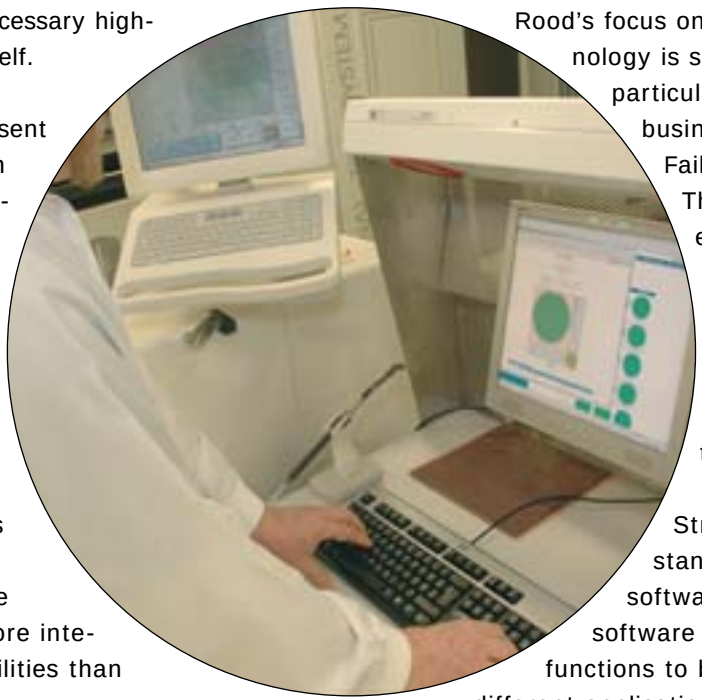
Due to the present labor market in Europe, recruiting engineers is difficult.
By making costs more transparent, it is easier to control them and to define responsibilities clearly.
Managers have been given more integral responsibilities than before.

The risks of decreasing markets are limited inter alia by working with relatively more flexible staff. Further developments in this area are required.

This objective has proved hard to realize in view of the tight labor market. In Dresden this is easier to achieve due to higher unemployment.

A new Human Resources manager has been hired to support the personnel policy. More steps will be taken in this area.
While Rood Technology's solvency (29.8%) is adequate, it is relatively low for a company in the semiconductor market. In 2005 a convertible bond was issued to increase guarantee equity.
Rood Technology is constantly looking for opportunities to strengthen the balance sheet, while keeping a sharp eye on our shareholders' interests.
In the innovation stage the focus is on:

- developing nanotechnology;
- structuring the development of testing software and standardizing it.



Rood's focus on nanotechnology is strategic, in particular with its business unit Failure Analysis. The company is endeavoring to strengthen its position in this market by using high grade technology.

Structuring and standardizing test software enables software for identical functions to be re-used in different application areas, making the testing software development independent of the testers. Rood Technology has done successful research in this area under the name ROT (Re-use of Testblocks).
Some leading parties in the semiconductor industry are showing interest in this technology. Rood is currently consulting with various parties in order to jointly develop this project further.

In the expansion stage, Rood Technology focuses on:

- growth markets, i.e. growth regions as well as high-growth products;
- more complex test domains, such as 'mixed signal'.

Various publications show that the European semiconductor market is no longer growing; the Asian market, however, is. Also, the expectation is that in Europe the semiconductor industry will further concentrate in Silicon Saxony. Therefore Rood Technology is focusing on Silicon Saxony, Asia and China.
The move into China is partly based on the strategy of some of its customers, who are also fully or partly concentrating on China. Rood Technology's strategy is to grow as rapidly as possible in Silicon Saxony, where a test facility has been established, and subsequently in China. Both sites must become profitable shortly after start-up.

Within the semiconductor industry there are shifts at product level (from 'through hole' technologies to 'array' products). Rood Technology is increasingly focusing on the most advanced technologies ('array' products), but also on the other growth sectors, such as Advanced Packages like MEMS (already mentioned under 'long-term objectives'), as well as on the automotive and radio frequency (RF) markets.

In the diversification stage Rood Technology focuses mainly on new markets with existing technologies.
The supply chain from Asia to the West is expected to increase further in the next few years. Manufacturers in Europe are increasingly procuring their components, on the condition of equal quality, from Asia (China).

Rood Technology already supports existing customers who have shifted production to Asia (both with testing procedures and other services).

Rood also aims to facilitate new customers wishing to use these low-cost markets, preferably by finding supplying manufacturers in China, by qualifying products and processes, by testing quality, by administering the supply chain and by securing delivery. This enables Rood's customers to market their products competitively.

Critical success factors

In the context of its mission, Rood Technology has identified the following success factors:

- flexibility and dedication of its employees;
- innovative power of the organization;
- attractive work environment for engineers;
- quality and delivery time of products and services;
- marketing quality;
- balanced approach of stakeholders;
- financial performance;
- good banking relations.

Flexibility and dedication of employees

The semiconductor market is volatile and demand can fluctuate strongly. Quick responses are crucial. Therefore, employees must show a high degree of flexibility and dedication.
Rood Technology is constantly stimulating and motivating its employees.

Innovative power of the organization

In this strongly fluctuating market marked by advancing techniques and technologies, creativity is key. Rood Technology can only stand out in the market and remain interesting to large

market parties by offering new ideas and solutions in the area of semi-conductor testing and related services.

Attractive work environment for engineers

The tight labor market for engineers is marked by demand outstripping supply, in particular for specialists in the areas of Tests, Failure Analysis and related techniques. This means that in order to meet capacity, Rood Technology must create a challenging work environment for its engineers.

Quality and delivery time of products and services

Semiconductors increasingly demand a 'zero defect level', meaning zero failures in a million products. As a testhouse, Rood Technology must deliver the highest level of quality. The organization is fully focused on this goal and strives to achieve it by monitoring its own processes intensively and by improving them (continuous improvement).

Marketing quality

The high level of investment associated with testing requires high-quality marketing. Knowing the concerns of the market and anticipating them adequately is a condition for Rood Technology's success. Rood Technology's commercial strength has improved in 2006 by appointing an experienced sales manager.

Balanced approach of stakeholders

In the past few years Rood Technology has been through a serious decline from which it is slowly emerging due to the efforts of its shareholders, employees and informal investors. Its employees agreed to a pay cut on top of their increased efforts. Informal investors, led by TIIN, have provided risk-bearing capital in a risky environment.

There is interaction between the stakeholders mentioned, which demands a permanent balance; after all, imbalance can hurt long-term continuity. For this reason, business activities must lead to:

- becoming an attractive investment for shareholders, resulting in a realistic share price development;
- offering employees challenging work with appropriate employment conditions;
- maintaining and improving the quality of employees' environment.

Financial performance

Rood Technology strives for positive financial results. That is what makes the company attractive to shareholders, releasing funds from investors to enable it to continue to invest in growth.

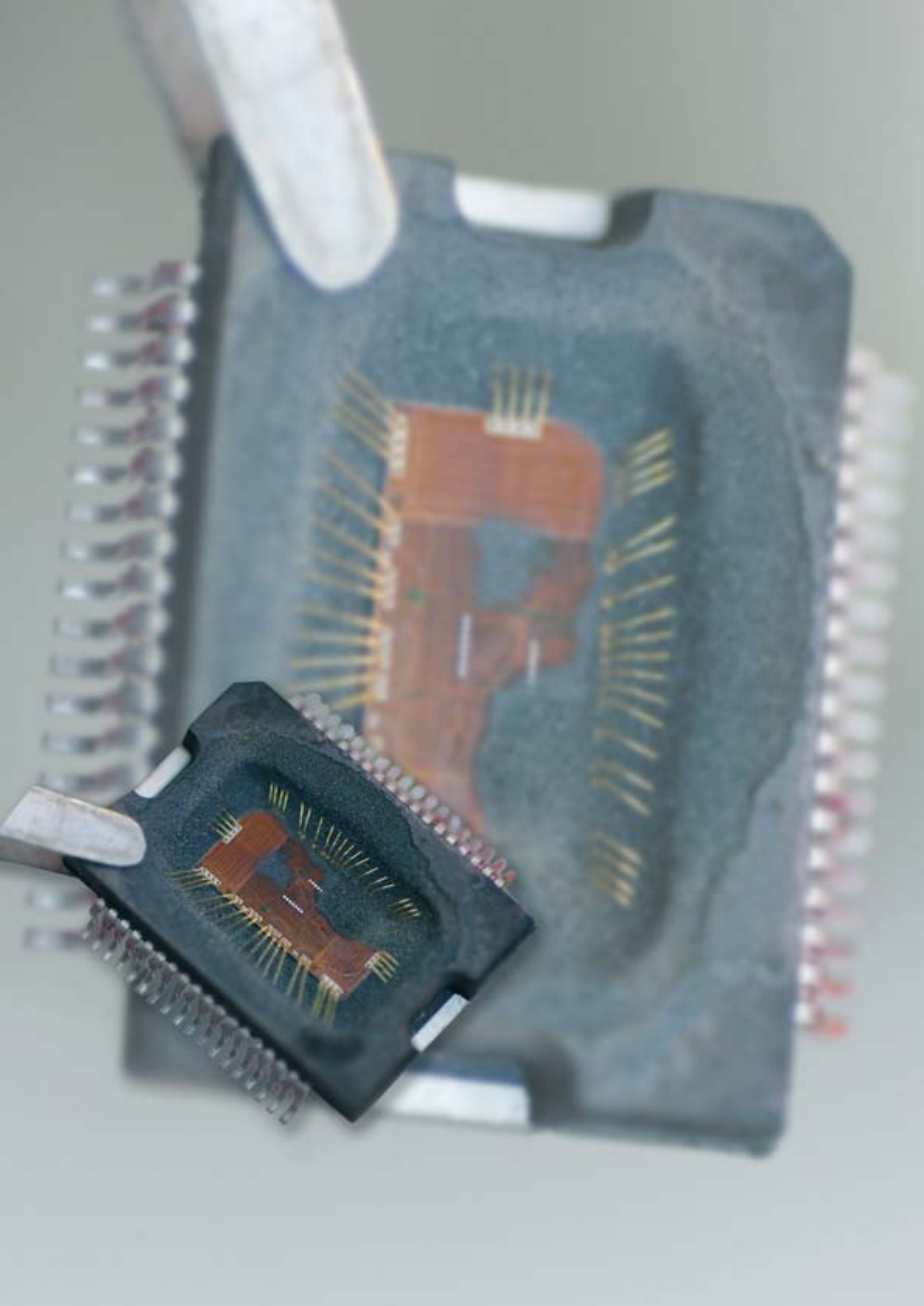
Good banking relations

Due to its history, Rood Technology has proved more sensitive to good banking relations than other companies of similar size.
The problems of 2003 are still being felt in 2006. Therefore, much work has gone into improving the existing relationship with the company's bank and entering into new banking relations, which succeeded at the end of 2006, partly as the result of a positive rating from a new banking relation.

Reflection

We are on course,
based on the defined strategy:

- increasing better orders
- new innovations, particularly concerning nanotechnology
- expansion in Dresden
- growth of supply chain Asia-Europe.



Report of the Supervisory Board

We hereby present the 2006 annual report as prepared by the board of management in line with article 26 of the Articles of Association of the company.

The financial statements were audited by Mazars Paardekooper Hoffman Accountants N.V., Amsterdam.
We propose to our shareholders to adopt these financial statements in the general meeting of shareholders on 26 March 2007.
Furthermore, we propose that they endorse the conduct of affairs of the board of management and the supervision exercised by this supervisory board.

Illness sadly forced Mr Gerrit Jan O. Wanrooij to retire from the supervisory board in September 2006. Both the supervisory board and the board of management feel Mr Wanrooij's death in November 2006 as a great loss.
At a very early stage Mr Wanrooij saw Rood Technology's potential and he was the creative force behind the company's refinancing in 2003. He joined the board in 2004 and with his contribution during these years he has to a major extent supported the revival of the company. We deeply regret his loss.

The present composition of the board is:
Mr C.W.M. Koot, chairman
Year of appointment 1998
Year of retirement 2009

The board proposes for the time being to maintain a maximum of two board members.

Furthermore, the board proposes to the general shareholder's meeting of 26 March 2007 to appoint Mr A. Mommer as the new supervisory director.
Until 2003 Mr Mommer held several CFO positions with Philips Electronics' Semiconductor Division and later the Consumer Electronics Division. He was closely involved in some major financing activities like the floating of ASML and exercising the option to increase the participation in TSMC towards almost 50%.
Mr Mommer has broad international experience and a network, which matches the profile as set up by the supervisory board. He is 62 years old and does not hold any shares in Rood Testhouse.

The appointment is expected to take effect per 26 March 2007 for a period of 4 years, after approval by the general meeting of shareholders.

During the year 2006, the supervisory board met four times, of which one time with only the chairman.
In the meetings, which were attended by the board of management, the following topics were reviewed and discussed extensively:

- the business update, the overall strategy including the scope of the company, operational and financial targets (including ratios), the financial position, the organization, investments, including research and development, the structure of the company and corporate governance issues (audit, remuneration and selection/appointment issues).

The supervisory board met twice without the board of management to review and discuss the performance of the supervisory board itself,

the interaction and the relationship with the board of management and the performance of the members of the board of management individually and jointly.

The supervisory board gives high priority to good corporate governance practice. Since the board consists of only two members, no separate audit, remuneration and selection/appointment committees were formed. All topics were discussed in the joint meetings with the board of management.

With regards to audit issues the following topics were discussed:

- implementation of internal risk management and of new financial control systems, internal audits, the role and responsibilities of the external auditor (including the remuneration of the auditor), the review of the financial statements and the annual budget, tax planning policy, the International Financial Reporting Standards (IFRS), financing and the application of ICT. The IFRS standards have been applied successfully and a new control system is being implemented.

The following topics were discussed concerning remuneration issues:

- the salary of CEO Mr Ph.M.G. Nijenhuis. No changes are proposed, as his remuneration was fixed for a period of four years (disclosed at the 2005 general meeting of shareholders). For the other members of the board of management, the company aims for market level salaries.

The topics related to selection and appointment issues for the higher management tier, as mentioned in the previous annual report, has been implemented. We are pleased to announce that the overall company targets as mentioned in Mr. Nijenhuis' plan, have been detailed into operational targets.

The supervisory board recognizes that the second year of the four-year strategic plan, which was laid down in 2004, experienced a difficult first half, but had a successful second half.
The internal reasons for the problems in the first half year have been addressed to satisfaction, which led to improved results in the second half year.

Important improvements were achieved in sales per employee, the equipment load and the structure of the organization. The new Dresden site is operational and ready to contribute the 2007 results.
The preparations for starting activities in China, as carried out in 2006, promise new business in the course of 2007.

We would like to thank the board of management and all the staff of the company for their team work and excellent support during 2006, which form a sound base for the company's position in 2007.

Amsterdam, 26 February 2007

The supervisory board
C.W.M. Koot, chairman

Report of the board of management

1 General

In the year under review, Rood Technology has shown a changing, but positive development of sales.

As reported in the 2005 annual report, growth would largely take place in the second half of 2006. Indeed, there was a 30% increase in the second half of 2006 compared to the first half.

Sales in the first half of 2006 were marginally higher than in the first half of 2005 (+1.5%), while sales in the second half of 2006 showed significant growth compared to the second half of 2005 (+15%). Personnel costs did not rise correspondingly.

Net sales rose by 9% to EUR 8,892,000. The net result decreased in 2006 to EUR 141,000 (2005: EUR 518,000). The 2005 result, in contrast to 2006, included the recognition of a deferred tax asset based on carry forward losses of EUR 427,000.
At EUR 339,000, the operating result in the second half of 2006 was a clear improvement on the first half (EUR -/- 108,000).
It should be noted that the developments in Silicon Saxony and the start-up costs for facilitating European companies from Asia (China) entailed costs, while not yet contributing to net sales.
The continuation of the reshaping of the organization, work on our Dresden facility and the development of our activities in the supply chain Asia (China) - Europe will create the conditions for continuous growth for Rood Technology in the next few years.

Rood Technology's reporting year was marked by the following projects and developments:

- 4% sales growth for Test & End-of-Line Services; during the year under review, the margin on part of the sales fell due to various factors including increasing competition from Asia. As in 2005, Rood has continued to carry out orders which fit in the supply chain Asia (China) - Europe.
  These orders were completed at relatively high cost in Germany (over EUR 1,300,000 of sales);
- Development for Test Engineering was flat, largely due to a lack of qualified engineers;
- Positive growth in the business unit Failure Analysis of 12.9%; relatively high investments were made in this business unit in both know-how and equipment (nanotechnology);
- Explosive growth of 73.4% in the business unit Qualification; this business unit has been simultaneously developed further for future growth;
- Preparations for the facility in Silicon Saxony (Dresden); qualified personnel has been hired, but concrete agreements with customers could not be made quickly enough. The grant applications and the associated financing also delayed developments in Dresden;
- Further development of the supply chain Asia (China) - Europe by approaching prospects, which are to contribute substantially to sales in the next few years;
- Expanding the sales organization;
- Expanding the dealer network by recruiting a sales representative in France;
- Extending banking relations in southern Germany on behalf of Nördlingen, as well as in Dresden and the Netherlands;

- Creating significant interest in the ROT project (Re-use of Testblocks) among major parties in the semiconductor industry;
- Strengthening the organization by appointing a COO.

In 2007, the reshaping of the organization will continue, and the facility in Silicon Saxony and the supply chain Asia (China) - Europe will be developed further.

In this context, Rood Technology will focus on:

- Installing test equipment and production in Dresden;
- Creating and developing the supply chain Asia (China) - Europe, for which Rood Technology will attend the semiconductor fair in Shanghai;
- Improving the equipment load of the equipment at Nördlingen;
- Improving productively and contributions of all business units, in particular Failure Analysis and Qualification;
- Realizing more sales growth in Test Engineering and consolidating the sales growth in Failure Analysis and Qualification;
- Better cost control, partly through new instruments;
- Further professionalization of management;
- Further detailing responsibilities per business unit.

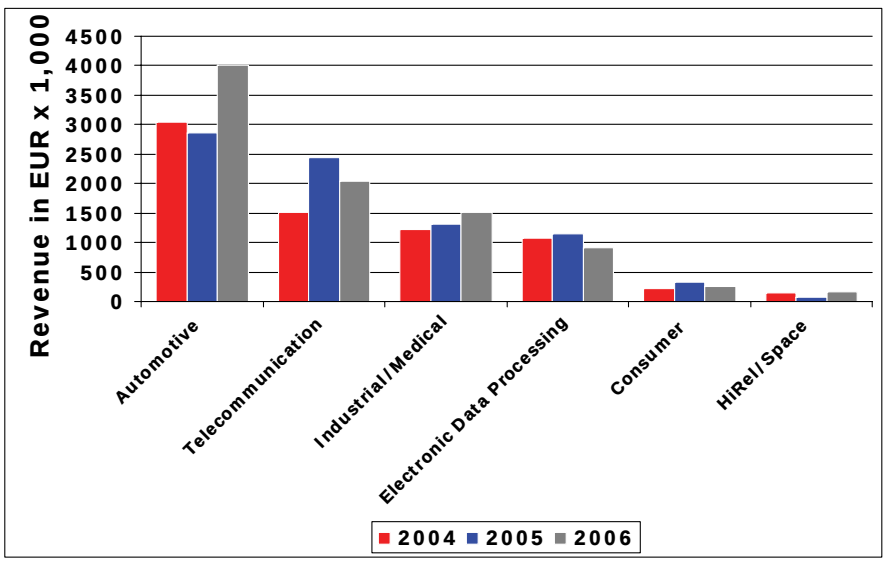
The action points above are focused more acutely than before on optimum use of invested capital, improving the operating result and consequently the net result.

1.1 Market development and position of Rood Technology

The following trends can be identified in the semiconductor industry:

- Ongoing globalization with corresponding pressure on prices;
- Continuation of the move to low-wage countries;
- Reorientation of customers' core competences.

Turnover market segmentation



Note: excluding Equipment, excl. Dresden, excl. China

Rood Technology responds to these developments by focusing in particular on the 'high-end market', the more complex semiconductors, and on Fabless design houses and OEMs (Original Equipment Manufacturers), but most of all on the supply chain Asia (China) - Europe, because many existing customers, too, are choosing the strategy of moving production to Asia.

Due to the extensive grant Rood receives in Silicon Saxony, Rood can offer testing services of new high-end semiconductors competitively. Production in Silicon Saxony also has the preference of some customers who wish to keep product know-how in Europe and protect it.

More customers than in the past are reconsidering their core business and core competences, leading to more production activities being outsourced on a structural basis.
For Rood Technology this brings extra opportunities and possible new business.

1.2 Strategic development

Rood Technology emphatically aims for autonomous growth by means of expansion of business locations and diversification. Additionally, Rood continues to strive to improve its balance sheet position.

To achieve autonomous growth, Rood Technology reckons with the possibility of renewed capital requirement. The present options are being exploited maximally.

A doubling of sales in 2009 based on annual sales of its core activities in 2004 (EUR 7,229,000), as stated in the company's strategy, in the next few years will only be possible with periodical capital injections to finance small acquisitions and to be able to respond to orders quickly. Rood must be able to exploit opportunities, while keeping shareholders' interests uppermost in mind.

An excellent short-term financing instrument is a share issue possibility, which would improve Rood's effectiveness. This is one of the reasons why we will focus more on communication with the financial world.

Next to the developments described above, Rood is looking for collaboration and/or a merger with other companies, which would lower Rood's vulnerability, making it more attractive for all its stakeholders.
Increasing attractiveness to stakeholders through a collaboration or merger would be further strengthened by joining with a market party which is profitable, so that offsettable losses could be effected more rapidly.

1.3 Organization and personnel

At year-end 2006, Rood Technology had 106 employees on permanent staff, of which 11 were being trained. This is an increase of 9 employees compared to year-end 2005 (97). The average number of employees rose by 2.9, to 98,1, an increase of 3.3%.

Sales per employee in the core business Test and Related Services increased by approximately 4.8% from EUR 85,779 in 2005 to EUR 89,909 in 2006.
This growth of sales was achieved to a great extent due to the dedication and willingness of our employees to work constructively towards the necessary development of the company.

In September 2006, Mr Anton Kotz (CTO) left the company amicably for personal reasons.

In November 2006, Mr Thorsten Bucksch was appointed as COO as per 1 March 2007. He will take on many of Mr Kotz' responsibilities, but will also focus intensively on operations.
Mr Bucksch has built up extensive experience with Elmos, Siemens Semiconductor/Infineon and Qimonda.

As per 1 October 2006, Mr Uwe Meul joined Rood Technology Deutschland GmbH. Mr Meul came over from FlipChip International (Kulicke & Soffa), and worked previously with Siemens AG and Muhlbauer GmbH.

Legislation caused the number of permanent staff to rise more than expected. Measures will be taken next year to counteract this increase.
Rood Technology's long-term strategy is to have the costs of permanent staff rise at a significantly lower rate than sales.

1.4 Sustainability

'People, planet and profit' are a major concern for Rood.

In the area of 'people', evaluation schemes including the corresponding objectives were further introduced in 2005 and 2006. For this purpose a part-time personnel manager was appointed in late 2006.

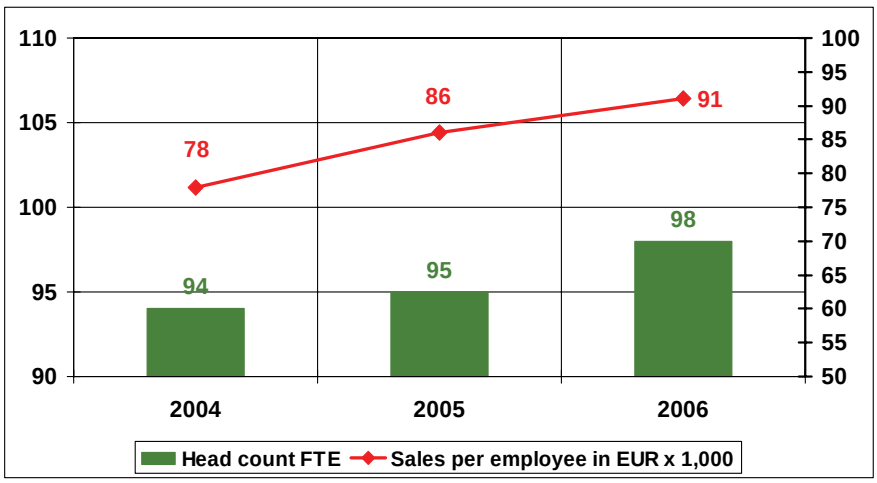
Rood plays an active role in the area of 'continuous improvement' in the organization improvement program (TOP), which was developed in Germany and is supported by the federal government.
With regard to 'planet', Rood has implemented an active environmental policy.
This project comprises the introduction of an environmental care system and preventive action to keep environmental risks within acceptable limits and to monitor them.
In 2006, Rood Technology Deutschland GmbH received ISO 14001 certification and also holds a ISO TS 16949 certification, which is the result of a collaboration between ISO and IATF (International Automotive Task Force) and is recognized by all automotive QS-9000 and VDA 6.1 oriented industries.

ISO/IEC 17025
DAT-P-025/92-03

ISO /TS 16949:2002
291921 TS2/28847

ISO 14001:2004
291921 UM

Sales per employee and head count
(core business)



2 Finances

2.1 IFRS

As of 2005, Rood Testhouse International N.V., being a listed company on the stock exchange, must report its financial statements in accordance with International Financial Reporting Standards (IFRS).

Rood Testhouse International has decided to adopt IFRS and to report over the financial year 2006 in accordance with IFRS as endorsed by the European Union.

2.2 Sales and result

In 2006, sales in the sectors automotive and industrial/medical increased substantially in line with market developments.
In the sector automotive, this was achieved despite pressure on prices, which limits sales.

The following table breaks net sales down by customer category/sector:

(x EUR 1,000)	2004	2005	2006
Automotive	3,036	2,859	4,001
Telecoms	1,518	2,450	2,052
Industrial/Medical	1,229	1,307	1,521
Electronic Data Proc.	1,084	1,144	903
Consumer	217	327	254
Military/Space	145	81	161
	7,229	**8,168**	**8,892**

Rood Technology's consolidated net sales increased by 9% to EUR 8,892,000 (2005: EUR 8,168,000), while the operating result remained virtually unchanged at EUR 231,000 (2005: 238,000).

The operating result was affected by various specific costs:

- Start-up costs of the Dresden site of approximately EUR 125,000;
- Start-up costs of the Asian activities of approximately EUR 110,000;
- China production performed in Germany, resulting in a lower margin;
- Significantly higher material costs;
- Considerably higher personnel recruitment costs;
- Significantly higher energy and nitrogen usage (approximately EUR 70,000);
- Considerably higher travel costs;
- A loss of approximately EUR 100,000 due to start-up costs of the business unit Failure Analysis;
- Higher pension obligations of approximately EUR 28,000;
- Proportional lower labor costs due to lower than planned results;
- Severely deteriorated payment performance from our customers, in particular in our growth sectors (debtor balance increased to the equivalent of approximately two months' sales).

On balance, the operating result remained almost equal at EUR 231,000 (2005: EUR 238,000), while net earnings fell to EUR 141,000 (2005: EUR 518,000).
This equates to earnings per share (average number of shares in issue in the financial year) of EUR 0.01 (2005: EUR 0.03).

2.3 Dividend proposal

With reference to the shareholders' information, Rood Technology proposes not to distribute any dividend for the 2006 financial year.

2.4 Investments and financing

In 2006, net investments in tangible fixed assets amounted to EUR 3.1 million (2005: EUR 1.4 million), while equipment with a value of EUR 0.4 million was leased.
Write-offs totaled EUR 1.2 million (2005: EUR 0.8 million).
The investments were financed partly from operational cash flow.
At year-end 2006, equity amounted to EUR 3,335,000, an increase of 8.5% compared to year-end 2005 (EUR 3,075,000).
Solvency decreased to 29.8% (year-end 2005: 35.6%), excluding the convertible of EUR 1,000,000.
For the next few years, Rood Technology expects that investments in Dresden will increase, and will be limited in Nördlingen.

3 Report per business unit and department

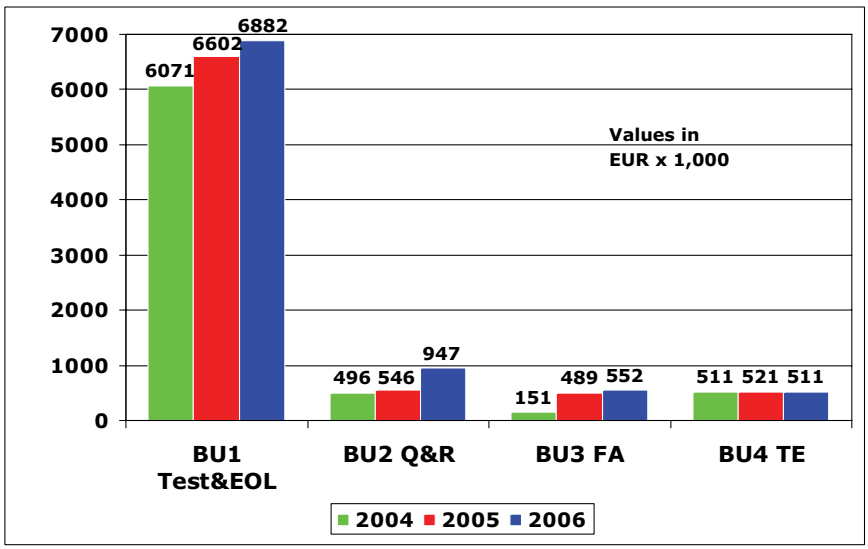
3.1 Research and development

With its many years of experience in the semiconductor industry, Rood Technology works towards permanent development and improvement, such as for example:

- Yield improvement
- Time-to-market
- Price/quality improvement
- New technological developments

In this context, Rood has set up a development program entitled 'Re-use of Testblocks' (ROT), which is supported by the German government and the EU, and which was patented in 2006.
The objective of this development program is to halve the development time of test programs by standardization and re-use, which would reduce the time-to-market for new products.
Rood intends to pursue further developments in this area jointly with other parties, in order to achieve significant costs savings for this sector.

Sales per Business Unit
(core business)



This was one of the reasons for Rood to join the STC (Semiconductor Test Consortium) in 2006, a global organization which focuses on issues like optimizing the test process.

The introduction of nanotechnology at Rood through Focus Ion Beam (FIB) Technology was supported strongly by R & D (see also business unit Failure Analysis).

Outlook for 2007

- Assessing and improving the quality of the development processes in companies by means of CMMI (Capability Maturity Model Integration).
- Expansion of the FIB technology at chip level of copper compounds, where the traditional technology uses aluminum.
- Implementation of tracking routines in test programs; binning, uptime, test time, yield, etcetera.

3.2 Business unit Test & End-of-line Services

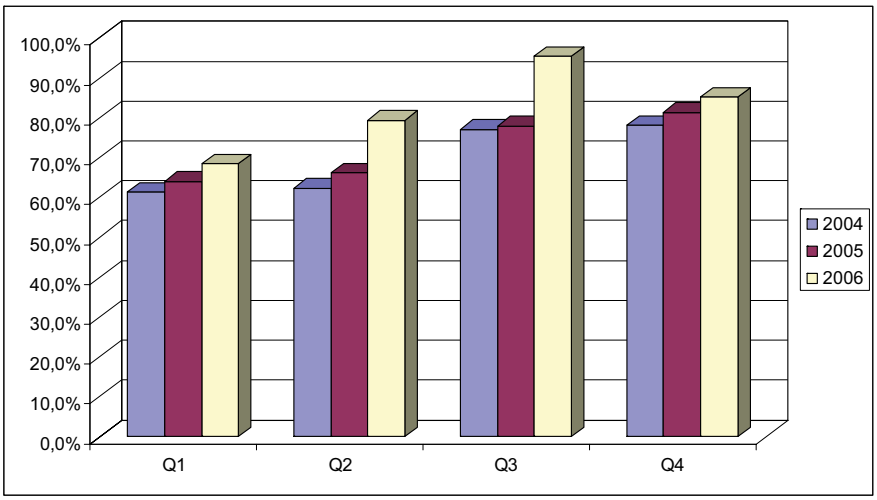
Profile of test activities

The business unit Test & End-of-line Services focuses on testing semi-conductors as a subcontractor to the semi-conductor industry. For these activities Rood has 14 testers, in addition to other equipment for test-related services.

Major developments in 2006

- After a decrease of the equipment load in the first half of 2006 compared to the second half of 2005 due to a 'product mix' problem, in the second half of 2006 the rate rose to nearly 90%.
- Expansion of testing capacity with a Teradyne microFLEX and expansion of End-of-line Services with programming and tape & reel equipment.
- Capacity increase for wafertest and expansion of the clean room environment.
- Intensification of the collaboration with existing customers by taking over testing activities and consigned equipment.

Equipment Load



- Further broadening of the customer base, in particular for Fabless Design houses.
- Increased use of flexible employees and rearrangement of work shifts to achieve better know-how transfer.
- Quality improvements and process optimization and further cost reductions.
- 4.2% sales increase to EUR 6,882,000 (2005: EUR 6,602,000).

Outlook for 2007

- Better use of installed capacity through increased transparency. This will be achieved by improving machine uptime, equipment load per tester, yield per tester, flexibility, parallel production and a testing time reduction road map.
- Replacement of existing test handling equipment.
- Strengthening of clean room activities.
- Introduction of new test-related activities, like die handling and possibly wafer cutting.
- Reduction of interruption level at the business unit by means of TPM (Total Productive Maintenance).
- Work towards more flexible organization and personnel.
- Further improvement of customer relationships through additional services.

3.3 Business unit Test Engineering

Profile of test program development

In this part of the business unit Test Engineering, Rood Technology is developing test programs along with the necessary hardware developments.

These test program developments also determine the choice of the test equipment.

The business unit also develops new techniques to optimize test program development.

Broad know-how is present in the business unit Test Engineering, focused on tester platforms including the following:

- Teradyne
- Credence SZ
- Credence Duo
- Advantest
- Lab View

Application know-how has been developed in particular for:

- Mixed Signal
- Digital
- Analog
- Memory
- RF
- PC-Applications

The business unit Test Engineering has a broad range of customers, primarily in the area of mixed signal applications in the automotive, radio frequency and industrial sectors.

Major developments in 2006

The breakthrough in the development of the ROT (Re-use of Testblocks) project has not yet been achieved. However, Rood Technology is still in intensive discussions with various interested parties.
Moreover, the subject has become an item within the STC.

Rood is already achieving direct results, but expects in the future certainly to achieve indirect results with this project.

Mixed signal engineering projects carried out in the year under review were mostly focused on:

a. industrial applications (ASI field bus);
b. sensors in automotive applications;
c. radio frequency applications, such as infrared components and RF modulators.

Much work has been done to recruit new test engineers and train them. This is very difficult in the tight German labor market; indeed engineers are being poached. For this reason Rood is searching for engineers outside German, in particular in Eastern Europe. A great deal of progress has been made in building up know-how in the area of Teradyne microFLEX, and an initiative has been set up to create a specialized group.

Outlook for 2007

- Restructuring the engineering department, to allow better use of engineers in Germany and at other sites.
  Rood Technology is trying to achieve this by setting up new sites and by facilitating remote engineering developments to increasingly create a virtual engineering environment.
- Strengthening the developments on the Teradyne microFLEX and Veregy tester platforms.
- Further developments in the area of Lab View.
- Expanding capacity at Test Engineering in, or for the benefit of, Dresden and China.
- In-house development of better Loadboards.

3.4 Business unit Failure and Technology Analysis

Profile

Rood Technology's extensively equipped failure analysis laboratory is capable of providing Failure, Construction and Qualification related Analysis as well as specialized FIB services. These various kinds of analytical investigations can be performed as a part of a reliability assessment.

Failure Analysis

Analysis of defective devices (failure analysis) is carried out by using physical, chemical and metallurgical analytical methods. These methods are applied to confirm customer complained failures, to detect the area of the defect, to identify the failure mechanisms and to initiate corrective actions for quality improvement.

Construction Analysis and DPA

Construction Analysis and Destructive Physical Analysis (DPA) can be performed as part of reliability assessment.
The objective of the Construction Analysis is the early identification of potential deficiencies which can cause zero hour failures or reliability problems.

Qualification related Analysis

Qualification related analyses are carried out before and after various qualification tests performed by Rood's own Q&R laboratory.
The purpose of these investigations is the determination of the influence of these environmental tests on package and chip-related problems.

FIB Service

We offer our customers the option of making modifications and/or performing analyses at the early stage of development of new devices (Chip modification/circuit editing, Micro cross sectioning, TEM lamella preparation, Micromachining, Applications of Material Science et cetera).

This service is a further contribution in the consistent implementation of the company road map to support our customers with yield improvement cost reductions and time to market.
The business unit has a wide customer base, primarily in the automotive and aerospace industries.

Major developments in 2006

- Demand for Failure Analysis rose by approximately 13% in 2006, primarily from the automotive sector.
- Investments were made in the new Focused Ion Beam Tool and Technology and in a new probe station including dark box.
- The laboratory activities obtained ISO/IEC 17025 certification.
- Doubling of personnel capacity in the business unit and improving their level of know-how.
- More intensive collaboration with EMPA in Switzerland.

Outlook for 2007

- Increasing laboratory capacity.
- Expanding FIB services, specially focused on new technologies as described under Developments.
- Ongoing sales growth compared to 2006, improvement of the operating result and expansion of the customer base.

Growth in the business unit put a great deal of pressure on the employees; there were also considerable start-up costs.
The organization has now reached the level where further growth can be realized. In 2007, growth and profitability of the business unit will be aimed for.

3.5 Business unit Qualification

Profile

The business unit qualification through focuses on semiconductor research in various environments.
For this, the products are exposed to extreme temperature fluctuations and other influences.

The result of the research determines whether the semiconductors qualify.

The business unit is one of the leading independently accredited test laboratories in Europe. Products to be tested originate primarily from the HiRel/space and the automotive sectors.

Major developments in 2006

- Investments in equipment of approximately EUR 950,000 to generate new sales.
- A ISO/IEC 17025 accreditation was obtained for the qualifying activities.
- A year-on-year sales increase of approximately 73%.
- Strengthening of the position in the automotive industry, particularly through growth in sensor technology.
- Further growth in the Micro-Electronic Mechanical Systems (MEMS), in particular in the sector Membrane Power Devices.
- Growth in the telecoms sector.
- Growth in the HiRel/space sector.
- Growth in the medical sector.

The listed growth sectors are largely due to the abovementioned accreditation of this business unit.

Outlook for 2007

The business unit will expand its services in 2007.
This expansion will follow the same lines as in 2006, albeit with less new investments and with the secondary goal of servicing a wider customer base.

New investments will in principle be made from cash flow. As a result of these measures, sales will continue to grow and the market position will be strengthened further.

Growth has put major pressure on the business unit, and in 2007 we will be working towards improving processes and strengthening the team, as well as towards improving profitability.

3.6 Developments in Dresden

In 2005, Rood Technology, prompted by the Silicon Saxony organization, decided to establish a facility in Dresden, in the Saxony region, which is a development area for the German government and the EU.

In 2006, the infrastructure (the plant and the clean room environment) were equipped to the relevant standard, laying the foundations for starting Wafertests and Test Engineering, in addition to the traditional testing and related services.
Personnel was also recruited after being trained at Nördlingen.

Expectations were that production could be started in 2006, but this was postponed to 2007 due to various factors, including a change in the order scope of the first customer, and Rood's inability to respond quickly enough to customer questions.
Rood's response time was seriously hampered by negotiations with financial institutions.

Meanwhile, the organization has been integrated into the Silicon Saxony network, and most of the conditions have been met to obtain a significant subsidy.

Rood currently aims to startup the Silicon Saxony operations with a number of testers as soon as possible, so that the start-up costs associated with this development are kept to a minimum.

Engineering will be developed further, in parallel with the build-up of production facilities.
During the production start-up phase, various qualifications must be obtained.

3.7 Developments in China

Rood is developing into a player in the supply chain Asia - Europe.
Rood initiated this activity in mid-2005.

Rood uses two models in the supply chain Asia - Europe:

- Contracting for European customers. In this model, Rood Technology supports European customers wishing to import high-quality semiconductors, mostly ASIC and ASSPs from Asia (China), by qualifying and testing suppliers and products, and if required carries out integral project management.
  This contracting activity has generated several prospects, with whom further negotiations are on the agenda in 2007.
  These contracting activities require considerable preparation time, since they involve design and development.
- Test activities in China for Rood's customers, primarily IDMs (Integrated Device Manufacturers). A number of these customers (IDMs) of Rood Technology increasingly procure semiconductors from Asia; in its customers' footsteps, Rood is making the move from Europe to Asia.
  Based on this strategy, Rood is currently testing semiconductors (sales of over EUR 1,300,000) in Germany which in time, when there is critical mass, will be tested in China. Rood aims to pursue this development forcefully in 2007.

Rood Technology will attend the Shanghai semiconductor fair from 21 to 23 of March 2007.

4 Events after balance sheet date

No significant events have taken place after balance sheet date.

5 Outlook for 2007

Globally, further growth of the semiconductor market is expected, concentrated in Asia.

Rood Technology's strategy is to realize double digit (10% - 20%) sales growth in the next three years for Test and Related Services.
In view of the current market developments and the foundations that have been laid in 2006, Rood expects to realize sales growth of between 10% and 20% in 2007 with a similar seasonal pattern as in previous years.

Rood expects that the efforts that have been made in Silicon Saxony and China will contribute to that growth.
Rood aims to further improve the operating result in 2007 compared to 2006. Collaboration with other parties is actively being pursued, inter alia in order to cash the considerable offsettable losses in both Germany and the Netherlands.

In order to be able to realize its objectives and exploit market opportunities, Rood will need an investment instrument to strengthen its risk bearing capital: the ability, based on the Articles of Association, to issue shares.

Zwolle, 26 February 2007

Board of Management
Ph.M.G. Nijenhuis

Risk management

General

Rood Technology's policy is aimed at growth in conjunction with comparatively decreasing market risks. Operational, market-related and financial aspects play an increasingly important role in this.

Operational

Sales

Sales in Test & End-of-line Services make up more than 75% of total sales. Rood Technology has a good name in this sector, and as such has built up a bond of trust with its major customers, in particular those in the automotive industry. Growth of demand from the automotive industry is relatively constant, which lowers risk.
Even though in a majority of cases Rood Technology has long-term contracts with its major customers, these contracts offer no hard sales guarantees.
Risks are reduced to an important degree by intensive communication with the company's customers on anticipated volumes.

Costs

Due to globalization, price levels are increasingly under pressure, which means that continuous focus is needed on controlling costs, cost reductions and maximizing the testing equipment load. Salaries and the associated pension commitments also have our highest attention. Salary costs make up approximately half of all costs. In order to reduce its risks, it is a necessity for Rood in Germany to work with the highest possible number of flexible personnel.
The site in Dresden, which receives government grants, will reduce the cost risk to some extent, but in the middle term a branch in China will become necessary in the context of costs savings.

Qualified personnel

In view of the technical sophistication of Rood's work, the company is highly dependent on qualified personnel. Since such personnel is not easily found in the labor market, Rood Technology has opted for its own training projects in order to limit the risks associated with the unavailability of qualified personnel. In 2006, it became clear that more measures were needed. Alternative approaches to attract more qualified personnel are being developed.

Market-related

Market

Rood Technology operates in a strongly cyclical market, which is stable in Europe, but is growing in Asia (China). Within Europe further concentration is taking place in Silicon Saxony. Rood chooses, also from the point of view of risk management, to be active in these growth sectors since this best guarantees continuity. Various customers use Rood Technology as an option to quickly generate additional sales, which makes the company vulnerable to market fluctuations. For that reason Rood is increasingly focusing on customers who wish to outsource testing activities on a structural basis. This means that the company will continue to be sensitive to the movements of the markets, but will generate structural sales, even during a downswing, for those customers who have made such a strategic choice.
Rood's preferred form of outsourcing is for customers to outsource all their testing activities (Total Test Solution) for certain projects to Rood Technology.
In the other fast-growing sectors such as Failure analysis and Qualification, the risk of downswings is also present. An active personnel policy, striving for a balance between fixed and flexible employees, will limit Rood Technology's risks.

Competition

In Europe Rood Technology is experiencing competition from various countries. Rood strives to minimize its risks by operating as the only independent testhouse in the Silicon Saxony region, supported by the Silicon Saxony umbrella organization.
In addition, Rood Technology tries to reduce risks by offering quality and innovation, so that the company remains a key market player.

Financial

Currencies and interest

So far, Rood Technology has mostly marketed its products and services in Europe and invoiced in euros, making it relatively independent of currency fluctuations. However, sales in dollars are increasing. Rood will continue to monitor this aspect actively, certainly in view of the activities the company is developing internationally.
Since Rood has many short-term loans, the company pays a comparatively high interest rate. Repayments are also considerable.
In the future Rood intends to make more use of long-term loans with lower interest rates. Rood is currently actively improving its position, aided by external consultants.

Insurance

Rood Technology has adequate liability insurance for production errors, which is especially important in the automotive industry.

Internal risk management and control system

General

In order to optimize financial control, Rood started to implement a new IT system in 2006, which is expected to be ready in 2007. The various companies, as well as the business units within them, will operate with the same system. Central control will take place at holding company level from the Nördlingen office. This system will enable Rood to better monitor financial results per responsible sector and per manager.

Strategic plans

The plans will be turned into budgets which will be compared periodically to actuals. Reporting takes place on a monthly basis, and can trigger corrective measures.

Internal evaluations and external audits

Annually, a schedule is drawn up for internal evaluations and external audits. This schedule is implemented by Rood Technology employees and external auditors. Both the internal evaluations and the external audits can lead to corrective measures, while the management letters resulting from the external audits are discussed by the supervisory board (audit committee).

Audit committee

See Corporate governance, paragraph V.

Letter of representation

The board of management of Rood Technology annually signs a detailed statement regarding financial reports and internal controls.

Corporate governance

Rood Testhouse International N.V. (further referred to as Rood Technology) considers the application of the Dutch Code of Corporate governance (further referred to as the Code) in the light of the company's scale.
In this context, Rood Technology has decided on a trend-follower position.
The system of the Code will be leading in this chapter. The numbering corresponds with the numbers of the Code.

I. Enforcement and application of the Code

Rood Technology follows all the Code's principles and has implemented almost all best practices. Deviations from the Code will be explained in the remainder of the chapter.

II. The Board of Management

1.1 - 1.7 Tasks and working methods

Our CEO has a 4-year contract.
In compliance with article 12 of the Preamble of the Code, this term shall also apply to any new board member to be appointed.
The CEO shall resign at the request of the general meeting of shareholders, provided that this concerns a broadly supported wish, rather than the request of one dominant shareholder.
Such a resignation shall be considered as the company's notice of termination of the CEO's contract.

The supervisory board supervises the policy of the board of management, as well as the general course of the corporate affairs and business, and provides advice to the board of management.
The board of management must keep the supervisory board informed, consult with the supervisory board on important matters and submit certain important decisions to the supervisory board for its prior approval.
Over the years it has become a tradition that the supervisory board and the board of management determine Rood Technology's operational and financial objectives and the company's targets in consultation.
The same applies to the strategy and the framework conditions to be implemented. The habit of including the highlights in the annual report will be continued.

The company has an internal risk management and control system, which includes
(a) risk analysis of the operational and financial objectives of the company,
(b) a code of ethics for principal executive and financial officers and a code of conduct which the board of management and employees must adhere to, which is published on the company's website www.roodtechnology.com
(c) guidelines for the layout of financial reports and the procedures to be followed drawing up the reports,
(d) a system of disclosure controls.

The risk management and control system has proved to function adequately and effectively.
This was achieved by extra focus on the operating and control system.
The vacancy which was created by the departure of the current CFO will be filled as soon as possible.

By the end of 2005, further organizational adjustments had been implemented, including the selection of 'empowered' management.
Based on this decision, each business unit manager is now accountable for the

performance and management of his/her business unit and shall report accordingly in the future.

The necessity for optimization of the organization was discussed with the supervisory board on several occasions last year.

With reference to the section on Risk Control, the sales levels and results are highly sensitive to upswings and downswings in the market.
However, customer structure also plays an important role.

Rood Technology employees can report suspected irregularities within the company without jeopardizing their legal position.
Rood Technology's whistle-blower policy enables employees to report any suspected irregularities of a general, operational or financial nature within the company and its subsidiaries without having to fear for their legal position.

Insofar as the suspected irregularities do not involve Rood Technology's managing director(s) under the Articles of Association; any such reports should be addressed to the chairman of Rood Technology's board of management.
However, if the report concerns actions or lack of action by Rood Technology's managing director(s) under the Articles of Association, the whistle-blower is to communicate this to the chairman of Rood Technology's supervisory board.

Before an employee may invoke that his/her legal position has been jeopardized as a consequence of a report as described above, the chairman of the board of management (in the case of a report not involving suspicions against Rood Technology's managing director(s) under the Articles of Association) or the chairman of the supervisory board
(in the case of a report involving suspicions against Rood Technology's managing director(s) under the Articles of Association) must issue an assessment in writing.
This assessment document must be provided within 14 days after the relevant request.

Members of Rood Technology's board of management are not board member in other listed companies.
The contract with board members stipulates that accepting other postitions in a business environment is subject to approval by Rood Technology's supervisory board.
Where applicable, the company has complied with this provision.

2.1 - 2.14 Remuneration

Options on shares are one of the company's remuneration components. Granting these options is subject to achieving targets (which are based on the company's 4-year strategic plan), as well as the market situation in general.
An overview of the options granted can be found in the annual accounts of the company.

Regarding ownership and transactions of shares by board members, other than those issued by the company itself, the supervisory board has decided to deviate from the Code.

Board members are not allowed to hold direct or indirect interests amounting to more than 5% in other listed companies or companies in the semiconductor industry, unless the supervisory board has granted specific permission.

Furthermore, board members need to report changes in share holdings in other listed or semiconductor companies to the chairman of the supervisory board.

The existing employment contract with the CEO includes a compensation clause in case of termination of employment. This redundancy payment amounts to a maximum of one year's salary.
No personal loans or guarantees have been provided to the CEO.

The remuneration of the CEO consists of a fixed salary plus a variable part that will be paid out in options without vesting period.
As stated above, the granting of options is subject to the achievement of targets set by the supervisory board in the context of the company's 4-year plan.

The achievement of the targets by the CEO will be evaluated every six months and new targets will be set, taking significant changes in circumstances such as market development into account.
The targets for the CEO in 2006 are described in the annual accounts.

The CEO has a 4 year contract.
The contract may be terminated by giving 6 months' notice in writing before the end of each calendar month.
Rood Technology complies with provision II.2.7 of the Code.
The CEO's labor contract contains no formal pension plan. However,
Rood Technology pays him a pension contribution of 10% of his salary.
There are no early retirement provisions for the CEO.

3.1 - 3.4 Conflicting interests

According to Article 22 of
Rood Technology's Articles of Association, the company shall be represented by the chairman of the supervisory board in the event of a conflict of interest with a managing director.

The company complies with all provisions of the Code regarding refraining from competing with the company, accepting or requesting gifts for the managing director and/or his/her immediate family, providing unjustifiable benefits charged to the company, the managing director and/or his/her immediate family using business opportunities that are intended for the company, and the obligation to report a potential conflict of interest to the chairman of the supervisory board.
Furthermore, the managing director may not take part in the discussion of the event in which he/she has a conflict of interest.

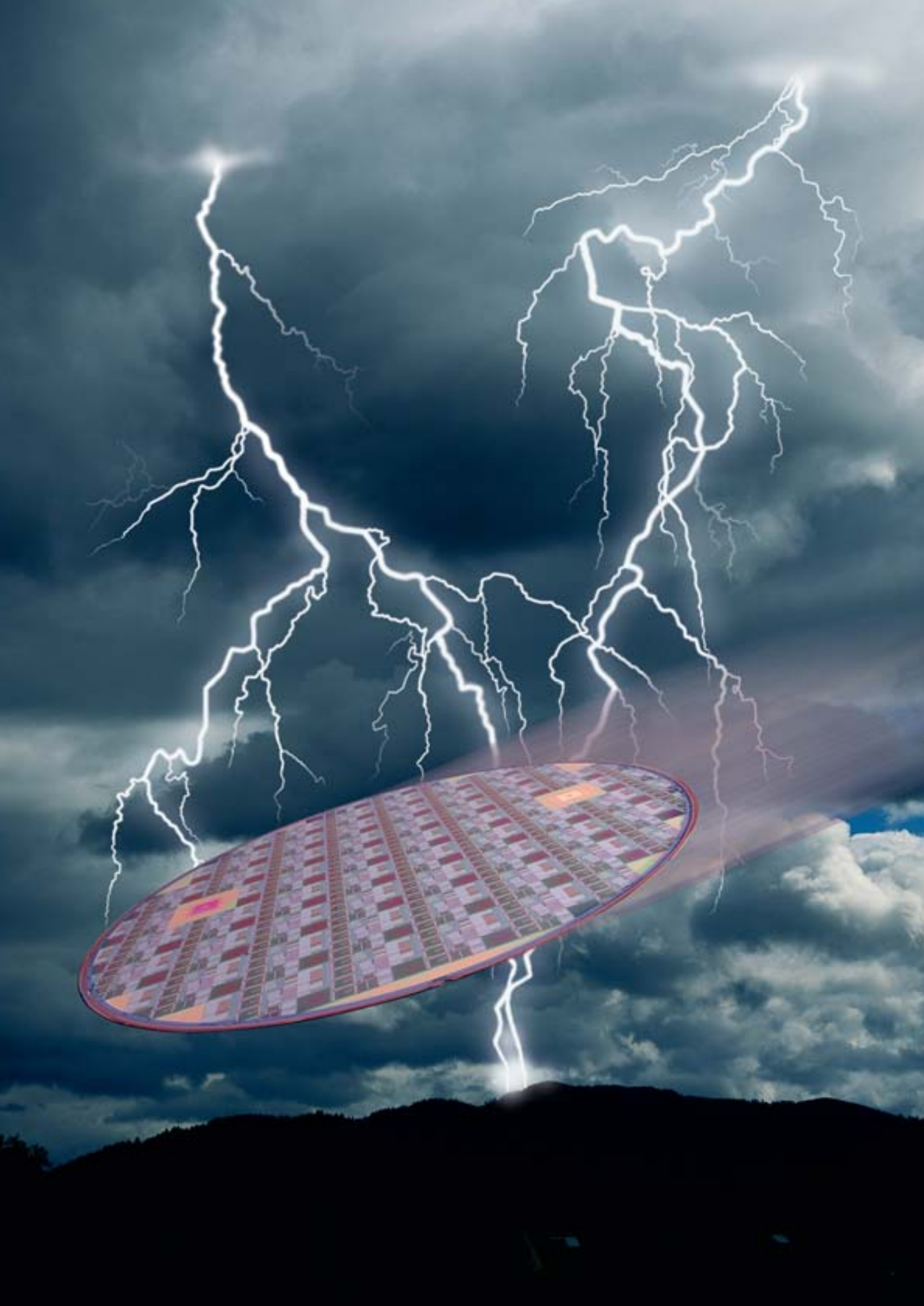
Moreover, all transactions concerning a conflict of interest must be approved by the supervisory board and will be reported in the annual report.

III. The supervisory board

1.1 - 1.9 Task and working methods

Some years ago, the supervisory board prepared a set of rules for its own functioning, which are available for the stakeholders' and stakeholders' inspection at the company offices.

These rules include regulations for the interaction with the board of management. The Articles of Association of the company provide regulations regarding the interaction with the shareholders.
The report of the supervisory board, which is included in this annual report, provides specific details regarding the members of the supervisory board as required by the Code.



2.1 - 2.3 Independence

Rood Technology complies with the Code, which recommends that the supervisory board should not include more than one non-independent member.

3.1 - 3.6 Expertise and composition

The profile for the supervisory board is available on Rood Technology's website.

In view of the scale of the company, presently Rood Technology is not in compliance with the Code's requirement of having a financial expert on the supervisory board.
However, with the proposed appointment of Mr A. Mommer as supervisory director, Rood will have a financial expert on the board.

All new members of the supervisory board are required to attend an introduction program, with attention for general financial and legal issues, the financial reporting of the company, the specific aspects of the company's activities and the responsibilities of a supervisory director.
Current supervisory directors will annually evaluate their need for training. The company will play a facilitating role in this.

Rood Technology's Articles of Association stipulate that a member of the supervisory board shall be appointed for a maximum term of four years, and be re-appointed no more than three times.
The resignation roster is set out in the report of the supervisory board.

4.1 - 4.3 Role of the chairman of the supervisory board and the company secretary

Rood Technology applies these provisions of the Code.

The company has appointed a Company Secretary, who ensures the usage of certain procedures and ensures that the company operates in accordance with legal obligations and the Articles of Association.

5.1 - 5.13 Composition and the role of three core committees amongst the supervisory board

The company intends to extend the supervisory board, which currently consists of one member, with one new member.
If this should change into three members in the future, the relevant committees (audit committee, remuneration committee and selection and appointment committee) will be installed.
The company will, in that event, apply the relevant provisions of the Code.
Until such time, the responsibilities of the core committees will be performed by the entire supervisory board.

6.1 - 6.7 Conflict of interest

A supervisory director who has a conflict of interest as described in provision III.6.1 of the Code shall report this to the chairman of the supervisory board and the supervisory director will not take part in the discussion of the matter in which the supervisory director has a conflict of interest.

Moreover, all transactions concerning a conflict of interest must be approved by the supervisory board and will be reported in the annual report.

If relevant, the company shall comply with the provision 6.4 concerning transactions between the company and natural persons or legal entities holding 10% or more of the company's share capital.

Regulations on dealing with (potentially) conflicting interests of CEOs, managing directors, board members, including supervisory board members, and the external auditor, will be expanded by rules of the supervisory board.

The company shares the Tabaksblat Committee's opinion regarding the tasks and authority of a delegated member of the supervisory board.

7.1 - 7.4 Remuneration

The remuneration of the supervisory board is subject to approval from the general meeting of shareholders (see also Article 24, paragraph 4 of the Articles of Association). Regarding the remuneration of the supervisory board, no shares and/or options on shares will be granted as part of the remuneration. The by-laws of the supervisory board, to be published on the company website, will be extended with the relevant Articles of the Code.

In deviation from the Code, it has been determined that no member of the supervisory board will be permitted to hold direct or indirect interests amounting to more than 5% in the share capital of other listed companies or companies in the semiconductor industry. Furthermore, supervisory directors must report changes in share holdings in other listed or semiconductor companies to the chairman of the supervisory board.

Rood Technology has not provided any personal loans or guarantees to members of the supervisory board.

IV. The (general meeting of) shareholders

1.1 - 1.7 Scope of authority

In accordance with the Articles of Association of Rood Technology, the general meeting of shareholders has the authority to suspend or remove managing and supervisory directors.

The company complies with the Code regarding decision-making of the general meeting of shareholders on the following items:

- The voting rights on preference shares;
- The public announcement and motivation of the board's point of view concerning a published, serious private offer on a company division or participation in the company with a value exceeding the limit as stated in Book 2, Section 107(a) of the Dutch Civil Code, first paragraph, sub c;
- The allocation and dividend policy as well as the dividend distribution proposal, and granting discharge to CEOs, managing directors and supervisory directors, as separate items on the agenda of the general meeting of shareholders;
- The setting of a registration date for exercising voting and attendance rights.

2.1 - 2.8 share certificates

Since no share certificates have been issued, this part of the Code is not applicable to Rood Technology.

3.1 - 3.9 Information provision / logistics of the general meeting of shareholders

Rood Technology complies with the best practice provisions concerning informing shareholders and other parties in the financial market simultaneously and similarly on issues that may affect the share price.
However, based on a cost/benefit analysis, the company will not spend money on technology aimed at attending meetings remotely.

The company will continue to provide the general meeting of shareholders with all relevant information required for properly exercising its rights and authorities, unless a material interest prevents it from disclosing certain information.
In compliance with the Code, Rood Technology publishes presentations to analysts on its website after the event. If necessary, the company will request to suspend trade in Rood Technology shares during such presentations.

Rood Technology will publish or make available all information pursuant to Corporate Law and Securities Legislation.

In accordance with best practice provision 3.7, the company will inform the general meeting of shareholders by circular letter of all facts and circumstances relevant for approval, delegation or authorization by the general meeting of shareholders. The circular letter will be published on the website of the company.

Furthermore, the company shall on first request make the minutes of any general meeting of shareholders available to all shareholders no later than three months after the date of the relevant meeting.
Shareholders then have three months to submit reactions to the minutes. Subsequently, the minutes will be adopted by the chairman of the meeting and the person who prepared the minutes, in accordance with Article 31, paragraph 1 of Rood Technology's Articles of Association.

The company has not put in place any protective construction against takeovers. The reason for this is that for a relatively small company like Rood Technology, it would not be unfavorable for the shareholders nor for the operational entity to be part of a bigger organization in the semiconductor industry.

4.1 - 4.3 Responsibility of institutional investors

Rood Technology currently does not have any institutional investors.
If this should change in the future, Rood Technology will ask the institutional investors to apply these best practices provisions of the Code.
However, Rood Technology does not consider compliance with the best

practice provisions a requirement, since it does not wish to restrict potential institutional investors.

V. The audit of financial reports and the position of the internal audit function and the external auditor.

1.1 - 1.3 Financial reporting

Rood Technology's supervisory board monitors the reporting and publication of the annual report, the annual accounts and other financial statements required by internal procedures.

The board of management bears responsibility for the internal procedures that ensure the adequacy, accuracy and reliability of the external financial reporting.

2.1 - 1.3 Role, appointment, remuneration and assessment of the external auditor's performance

The external auditor will attend the general meeting of shareholders to answer questions regarding the accuracy of the annual accounts.

The company's board of management reports annually to the supervisory board on developments in the relationship with the external auditor.
According to the company's Articles of Association (Article 25, paragraph 2), the authority to appoint the external auditor lies with the general meeting of shareholders.

3.1 Internal audit function

Rood Technology does not have an internal auditor.

4.1 - 4.3 Relation and communication with the external auditor and the departments of the company

The external auditor will attend the meetings of the supervisory board in which the external auditor's report and the annual accounts are discussed.

Furthermore, the external auditor will receive all financial information he/she requires to perform his/her tasks.
The external auditor will annually submit a management letter to the board of management and the supervisory board, which is discussed at the combined board of management and supervisory board meeting.









Annual Accounts 2006

1 Consolidated balance sheet

(x EUR 1,000)

Note		As at 31 December 2006	2005
	Assets		
	Non-current assets		
5.22	Property, plant and equipment	8,433	6,597
5.23	Intangible assets	30	108
5.25	Deferred income tax assets	302	328
		8,765	7,033
	Current assets		
5.26	Inventories	146	157
5.27	Trade and other receivables	1,956	1,274
5.25	Deferred income tax assets	100	100
5.28	Cash and cash equivalents	207	66
		2,409	1,597
	Total assets	11,174	8,630
	Equity		
	Capital and reserves attributable to equity holders of the company		
5.29	Ordinary shares	2,941	2,185
5.29	Share premium	16,723	16,702
5.30	Other reserves	2,021	2,826
5.30	Retained earnings	-18,350	-18,638
	Total equity	3,335	3,075
	Liabilities		
	Non-current liabilities		
5.31	Interest-bearing loans and borrowing	1,535	532
5.32	Convertible loan	1,000	750
5.25	Deferred income tax liabilities	1,400	1,402
5.33	Retirement benefit obligations	698	666
		4,633	3,350
	Current liabilities		
5.28	Bank overdrafts	925	444
5.31	Current portion of long-term debt	1,327	266
5.34	Trade accounts and other payables	860	1,195
	Payroll tax and social securities contribution	94	300
		3,206	2,205
	Total liabilities	7,839	5,555
	Total equity and liabilities	11,174	8,630

The notes on pages 51 to 76 are an integral part of these consolidated financial statements

2 Consolidated income statement

(x EUR 1,000)

Note		Year ended 31 December 2006	2005
5.35	**Net sales**	8,892	8,168
	Change in work in process/own work capitalized	20	19
	Cost of raw materials and consumables	924	679
5.36	Personnel expenses	4,810	4,774
5.37	Depreciation and amortization of fixed assets	1,184	903
5.38	Other operating expenses	1,723	1,555
	Total operating expenses	8,661	7,930
	Operating result	231	238
5.39	Financial income and expenses	-183	-147
	Result before income tax	48	91
5.40	Income tax	93	427
	Net result	141	518
	Earnings per share for profit attributable to the equity holders of the company during the year		
	- basic	0.01	0.03
	- diluted	0.01	0.02

The notes on pages 51 to 76 are an integral part of these consolidated financial statements

3 Consolidated statement of changes in equity

(x EUR 1,000)

Note		Attributable to equity holders of the Company			
		Share capital	Other reserves	Retained earning	Total equity
	Balance at 1 January 2005	18,178	3,450	-19,085	2,543
5.30	Depreciation buildings and intangible fixed assets, net of tax	0	89	-89	0
5.30	Net income/(expense) recognised directly in equity	0	89	-89	0
	Profit for the year	0	0	518	518
	Total recognised income and expense for 2005	0	89	429	518
	Employee share option scheme:				
5.29	- value of employee services	0	0	125	125
5.32	- conversion loan	709	-713	0	-4
	- proceeds from shares issued	0	0	0	0
5.30	Dividends to shareholders	0	0	-107	-107
		709	-713	18	14
	Balance at 31 December 2005	18,887	2,826	-18,638	3,075
	Balance at 1 January 2006	18,887	2,826	-18,638	3,075
5.30	Depreciation buildings and intangible fixed assets, net of tax	0	-80	80	0
5.30	Net income/(expense) recognised directly in equity	0	-80	80	0
	Profit for the year	0	0	141	141
	Total recognised income and expense for 2006	0	-80	221	141
	Employee share option scheme:				
5.29	- value of employee services	53	0	103	156
5.32	- share options exercised through convertible loan	724	-725	0	-1
	- proceeds from shares issued	0	0	0	0
5.30	Dividends to shareholders	0	0	-36	-36
		777	-725	67	119
	Balance at 31 December 2006	19,664	2,021	-18,350	3,335

The notes on pages 51 to 76 are an integral part of these consolidated financial statements

4 Consolidated cash flow statement

(x EUR 1,000)

	Year ended 31 December	
	2006	2005
Cash flows from operating activities		
Net result	141	518
Depreciation and amortization	1,184	903
Increase/decrease of provisions/options to equity	30	132
Increase/decrease of deferred income tax assets	26	-328
Changes in working capital		
- inventories	11	29
- trade, other receivables and deferred income tax assets	-682	-131
- current liabilities	-541	146
Net cash generated from operating activities	169	1,269
Cash flows from investing activities		
Purchases of property, plant and equipment	-2,942	-1,405
Purchases of intangibles assets	0	7
Disposal of tangible fixed assets	0	0
Net cash used in investing activities	-2,942	-1,398
Cash flows from financing activities		
Proceeds from issuance of ordinary new shares	156	0
Proceeds from issuance of new convertible loan	250	750
Proceeds from borrowings	2,502	798
Repayment of borrowings	-438	-210
Dividend (=interest of convertible loan)	-36	-107
Capital tax	-1	-4
Net cash used in from financing activities	2,433	1,227
Net (decrease) / increase in cash, cash equivalents and bank overdrafts	-340	1,098
Cash, cash equivalents and bank overdrafts at beginning of the year	-378	-1,476
Cash, cash equivalents and bank overdrafts at end of the year	-718	-378
Change in cash at banks and bank overdrafts	-340	1,098

The notes on pages 51 to 76 are an integral part of these consolidated financial statements

5 Notes to the consolidated financial statements

5.1 General information

Rood Testhouse International N.V. is a company with its registered office in Amsterdam, the Netherlands. The consolidated financial statements of the company for the year ended 31 December 2006 comprise the company and its subsidiaries (together referred to as the 'Group'). The Group includes the wholly-owned subsidiaries Rood Technology Service GmbH (Nördlingen, Germany), Rood Technology Dresden GmbH (Dresden, Germany) and Rood Technology International B.V. (Zwolle, The Netherlands). The 2006 financial statements were prepared by the Board of Management and released for publication on 12 March 2007. The 2006 financial statements were adopted by the Supervisory board on 26 February 2007 and will be submitted for approval to the annual general meeting of shareholders on 26 March 2007.

Summary of significant accounting policies

The principal accounting policies in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS endorsed by the European Union) and its interpretations as adopted by the International Accounting Standards Board (IASB).
The financial statements are presented in EUR 1,000, unless stated otherwise. The financial statements have been prepared on historical cost basis, except that the following assets and liabilities are stated at their fair value: land and buildings, and the retirement benefits obligation resulting from defined benefit pension plans.

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. In the past year, Rood Testhouse International N.V. made major investments, which are contributing positively to the result since the end of 2006. These investments were financed by the company's bank and three new financial parties. Additionally, a number of major customers confirmed their confidence in Rood by placing new large orders. In view of these positive developments, the board of management feels that valuation on a going-concern basis is justified.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been consistently applied by Group entities to all periods presented in these consolidated financial statements.

5.3 Basis of consolidation

5.3.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, which are generally associated with a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealized gains and transactions between group companies are eliminated. Unrealized losses are also eliminated, but are considered an impairment indicator of the asset transferred, if occurred.

5.4 Foreign currency translation

5.4.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the company's functional and presentation currency.

5.5.3 Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transactions at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

5.5 Property, plant and equipment

5.5.1 Owned assets

Property, plant and equipment are stated at cost, except for land and buildings, which are carried at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of directly allocated overheads. Property that is being constructed or developed for future use is classified as property, plant and equipment and stated at cost until construction and development is complete, at which time it is classified as property, plant or equipment. Where an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for as separate items of property, plant and equipment.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

5.5.2 Lease assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer to accounting policy 5.5.4) and impairment losses (refer accounting policy 5.10). Lease payments are accounted for as described in accounting policy 5.19.1 and 5.19.2.

5.5.3 Subsequent cost

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

5.5.4 Depreciation

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life. Land is not depreciated. The useful economical life various among the different items of the tangible fixed assets are:

Category	**Years**
Buildings	70
Machinery and equipment	2-10
Other fixed assets	4-10

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

5.6 Intangible assets

5.6.1 Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's development is recognized only if all of the following conditions are met:

An asset is created that can be identified (such as software and new processes);
It is probable that the asset created will generate future economic benefits;
The development cost of the asset can be measured reliably.

5.6.2 Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date.

5.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

5.8 Trade and other receivables

5.8.1 Work in progress

Work in progress concerning services rendered on work not yet completed is stated at cost plus a mark-up for directly attributable overheads. Costs include all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

5.8.2 Other trade and other receivables

Trade and other receivables are stated at fair value and subsequently measured at amortized cost less impairment losses (refer to accounting policy 5.10).

5.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown separately on the balance sheet.

5.10 Impairment of non-financial assets

The carrying amounts of asset and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is calculated. For intangible assets that are not available for use, the recoverable amount is determined at each balance sheet date.
The recoverable amount is the higher of an assets fair value less cost to sell and value in use less costs to sell.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

5.11 Share capital

5.11.1 Ordinary shares

Ordinary shares are classified as equity. The Group has not issued preference shares.

5.11.2 Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are reported as reserve for own shares and presented as a deduction from total equity, until the shares are cancelled, re-issued or disposed of.

5.11.3 Dividends

Dividends are recognized as a liability in the period in which they are approved by the shareholders.

5.12 Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loan note into equity of the Group, is included in equity (capital reserves).

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan notes.

5.13 Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

5.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences are arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

5.15 Employee benefits

5.15.1 Defined contribution plan

Obligations for contributions to defined contribution pension plans and related plans are recognized as an expense in the income statement as incurred.

5.15.2 Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans and related plans is calculated separately for each plan by calculating the present value of future benefits that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets and unrecognized actuarial results are deducted. The discount rate is the yield at balance sheet date on high-quality corporate or government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by qualified actuaries using the projected unit credit method.

Past service costs are recognized as an expense in the income statement on a straight-line basis over the average period until the benefits are vested. To the extent that benefits vest immediately, the expense is recognized immediately in the income statement.

Actuarial gains and losses are arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected remaining working lives.

5.15.3 Share-based payment transactions

The share option program allows employees of the Group to acquire shares of the company. The fair value of options is recognized as an employee expense with the corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the income statement, with corresponding adjustments to equity.-

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

5.15.4 Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

5.16 Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

5.17 Trade and other payables

Trade and other payables are stated at nominal value.

5.18 Net sales

5.18.1 Net sales

Income from the supply of goods is recognised as soon as all substantial rights and risks relating to the title to the goods are transferred to the customer.

Income from the provision of services is recognised based on the ratio of services provided until the balance sheet date to the total service provision.

Income relating to projects in progress for third parties consists of contractually agreed-upon compensation, agreed deviations, and claims and compensation if it is probable that the income will be realised and it can be reliably measured.

5.18.2 Government grants

An unconditional government grant is recognized in the balance sheet when the grant becomes receivable. Any other government grant is initially recognized in the balance sheet as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in the income statement as revenue on a systematic basis over the useful life of the asset.

5.18.3 Other income

Other income regards income not related to the key business activities of the Group, like income from the sale of non-monetary assets or liabilities, exceptional and/or non-recurring items.

5.19 Expenses

5.19.1 Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognized in the income statement as an integral part of the total lease expense.

5.19.2 Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period in such way that this results in a constant periodical interest rate for the remaining balance of the liability during the lease term.

5.19.3 Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method. The interest expenses component of finance lease payments is recognized in the income statement using the effective interest rate method.

5.20 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax in respect of previous years.

Deferred tax is provided as described in accounting policy 5.14.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

5.21 Statement of cash flow

The statement of cash flow is prepared using the indirect method. The cash flow statement distinguishes between operating, investing and financing activities. Payments and receipts of corporate taxes are included as cash flow from operating activities and interest is shown as cash flow from financing activities as far as the interest is related to long-term financing; remaining interest is included in the operational cash flow. Cash flow as a result from divestment of financial interest in group company and subsidiaries are included as cash flow from investing activities, taking into account the available cash in these interests. Dividends paid are part of the cash flow from financing activities.

5.22 Property, plant and equipment

(x EUR 1,000)

	Land and buildings	Machinery and equipment	Other	Total
At 1 January 2005				
Cost or valuation	7,686	16,150	1,387	25,223
Accumulated depreciation	-3,264	-14,681	-1,264	-19,209
Net book amount	4,422	1,469	123	6,014
Year ended 31 December 2005				
Opening net amount	4,422	1,469	123	6,014
Additions	55	1,233	117	1,405
Disposals	0	0	0	0
Depreciation charge	-78	-658	-86	-822
Closing net book amount	4,399	2,044	154	6,597
At 31 December 2005				
Cost or valuation	7,741	17,383	1,504	26,628
Accumulated depreciation	-3,342	-15,339	-1,350	-20,031
Net book amount	4,399	2,044	54	6,597
Year ended 31 December 2006				
Opening net amount	4,399	2,044	154	6,597
Additions	348	2,627	113	3,088
Disposals	0	-1,131	-30	-1,161
Depreciation charge	-99	-901	-106	-1,106
Accumulated depreciation disposals	0	1,000	15	1,015
Closing net book amount	4,648	3,639	146	8,433
At 31 December 2006				
Cost or valuation	8,089	18,879	1,587	28,555
Accumulated depreciation	-3,441	-15,240	-1,441	-20,122
Net book amount	4,648	3,639	146	8,433

5.22.1 Revaluation and historical cost

The last revaluation of the land and building took place at 30 June 2005. The next valuation is scheduled for 2008. The historical cost of the land and building as at 31 December 2006 is EUR 1,045,000.
According to the valuation report dated June 2005, as prepared by Dipl.Ing. (FH) Hermann Illenberger, the actual value of the building amounts to EUR 4,750,000.

5.22.2 Impairment loss and subsequent reversal

The company has not incurred nor reversed any impairment losses in 2005 and 2006.

5.22.3 Assets under construction

Assets under construction included in other amount to EUR 99,000 (2005: EUR 0). This is included under land and buildings.

5.22.4 Security

The following securities have been provided for long-term and current liabilities:

Mortgage to a total sum of EUR 3,323,379 on the real estate situated at Oettinger Strasse 6, Nördlingen, Germany.

Pledge on machinery and equipment.

Corporate Guarantee of EUR 113,750

Corporate Guarantee of EUR 150,000

Corporate Guarantee of EUR 315,000

5.23 Intangible assets

(x EUR 1,000)

	Development costs	Total
At 1 January 2005		
Cost or valuation	243	243
Accumulated amortization	-47	-47
Net book amount	196	196
Year ended 31 December 2005		
Opening net amount	196	196
Additions	-7	-7
Disposals	0	0
Amortization charge	-81	-81
Closing net book amount	108	108
At 31 December 2005		
Cost or valuation	236	236
Accumulated amortization	-128	-128
Net book amount	108	108
Year ended 31 December 2006		
Opening net amount	108	108
Additions	0	0
Amortization charge	-78	-78
Closing net book amount	30	30
At 31 December 2006		
Cost or valuation	236	236
Accumulated amortization	-206	-206
Net book amount	30	30

5.24 Financial fixed assets

The Group holds the following long-term receivables:

(x EUR 1,000)

	2006	2005
Deferred tax assets	302	328
Total	302	328

5.25 Deferred income tax assets

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are attributed to the following items in the table.

(x EUR 1,000)

	2006	2005
Deferred income tax assets:		
Deferred income tax asset to be recovered after more than 12 months	-302	-328
Deferred income tax asset to be recovered within 12 months	-100	-100
	-402	-428
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	1,400	1,402
Deferred tax liability to be recovered within 12 months	0	0
	1,400	1,402
Deferred income tax liability (net)	998	974
The gross movement on the deferred income tax account is as follows:		
Beginning of the year	974	1,401
Income statement charge	24	-427
Tax charged to equity	0	0
End of the year	998	974

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

5.25.1 Deferred tax assets

(x EUR 1,000)

	2006	2005
Balance at 1 January	-428	0
Release change to the statement of earnings	26	0
Recognition of tax asset	0	-428
Balance at 31 December	-402	-428

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize these benefits. The unrecognized tax losses in the Netherlands amount to approximately EUR 14 million. The unrecognized tax losses in Germany amount to approximately EUR 11 million 'Körperschaftssteuer' and approximately EUR 5 million 'Gewerbe-ertragssteuer'.

5.25.2 Deferred tax liabilities

(x EUR 1,000)

	2006	2005
Balance at 1 January	1,402	1,401
Release change to the income statement	-2	1
Balance at 31 December	1,400	1,402

As a result of the revaluation of land and buildings in 2002, a provision for deferred tax liabilities has been formed amounting to 40% of the difference.

5.26 Inventories

(x EUR 1,000)

	2006	2005
Raw materials and consumables	107	99
Work in progress	39	58
Finished goods and goods for resale	0	0
Total	146	157

5.27 Trade and other receivables

(x EUR 1,000)

	2006	2005
Trade receivables (net)	1,785	1,185
Taxation and social security	3	6
Other	168	83
Total	1,956	1,274

Trade receivables are shown net of impairment losses amounting to EUR 23,000 (2005: EUR 26,000) arising from identified doubtful receivables from customers.

5.28 Cash and cash equivalents

(x EUR 1,000)

	2006	2005
Cash at bank and on hand	207	66
Bank overdrafts	-925	-444
Cash and cash equivalents at 31 December	-718	-378

The securities mentioned under long-term liabilities (note 5.31.2) have also been provided for the current liabilities to German credit institutions. The credit line with the banks in Germany as of 31 December 2006 amounted to EUR 950,000. The interest rate is 8.75% (2005: 7.5%).
The credit line with the credit institutions in the Netherlands as of 31 December 2006 amounted of EUR 25,000, without any securities.

5.29 Share capital

5.29.1 Share capital

(x EUR 1,000)

	Number of shares	Ordinary shares	Share premium	Total
Balance at 1 January 2005	13,578	1,494	16,684	18,178
Capital tax	0		-4	-4
Share options exercised through convertible loan	6,289	691	22	713
Balance at 31 December 2005	19,867	2,185	16,702	18,887
Balance at 1 January 2006	19,867	2,185	16,702	18,887
Share options exercised by employees	485	53	0	53
Share options exercised through convertible loan	6,389	703	21	724
Balance at 31 December 2006	26,741	2,941	16,723	19,664

At 31 December 2006 the authorized share capital comprised 35,900,000 ordinary shares (2005: 35,900,000). The shares have a nominal value of EUR 0.11 each. At 31 December 2006 a number of 26,741,086 common shares (2005: 19,866,570) were in issue. As of this date, the members of the board of management and the members of the supervisory board did not hold any shares in the company. The company held 4,100 common shares (2005: 4,100) in its own share capital. The number of treasury shares held by the company at the end of the year under review amounts to 0.02% of the issued and paid-up capital (2005: 0.02%).

5.29.2 Share options

Share options are granted to directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares less 10% on the date of the grant. Options are conditional on the employee completing three years' service (vesting period). The options are exercisable starting three years after the grant date provided that the employee is still working for the Group. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

5.29.3 Employee share option rights

The overview of all employee option rights still outstanding on 31 December 2006 is as follows.

Granted In	Options 01-01-06	Granted in 2006	Exercised in 2006	Expired in 2006	Options 31-12-06	Exercise price in €	First date of exercise	Last date of exercise
2001	28,375	0	0	28,375	0	1.12	2 Jan 04	1 Jan 06
2002	46,375	0	12,625	28,000	5,750	0.51	3 Jan 05	31 Mar 07
2004	31,500	0	0	13,000	18,500	0.68	1 Apr 07	31 Mar 09
2005	52,500	0	0	13,000	39,500	0.46	4 Jan 08	3 Jan 10
2006	0	76,300		13,000	63,300	0,51	5 Jan 09	4 Jan 11
Total	158,750	76,300	12,625	95,375	127,050			

As at 31 December 2006, the members of the supervisory board did not hold any options on shares in the company.

5.29.4 Options Mr. Ph.M.G. Nijenhuis

Options of Mr. Ph.M.G. Nijenhuis, CEO of the company, are as follows.

Granted In	Options 01-01-06	Granted in 2006	Exercised in 2006	Expired in 2006	Options 31-12-06	Exercise price in €	First date of exercise	Last date of exercise
2005	100,000	0	100,000	0	0	0.11	6 Apr 05	5 Apr 08
2005	186,792	0	186,792	0	0	0.11	17 Sep 05	30 Sep 09
2006	0	185,822	185,822	0	0	0.11	2 Mar 06	21 Mar 09
Total	286,792	185,822	472,614	0	0			

During the time of his contract, Mr. Ph.M.G. Nijenhuis, CEO of the company, will be granted a maximum of 200,000 options per half year depending on the fulfillment of certain conditions related to the company's performance. The options will be granted in half-yearly parts. The targets are defined by the supervisory board.

5.30 Other reserves

(x EUR 1,000)

	Convertible loan	Revaluation reserve	Total
Balance at 1 January 2005	1,438	2,012	3.450
Share options exercised through convertible loan	-713	0	-713
Addition to reserves	0	89	89
Balance at 31 December 2005	725	2,101	2,826

	Convertible loan	Revaluation reserve	Total
Balance at 1 January 2006	725	2,101	2,826
Share options exercised through convertible loan	-725	0	-725
Addition to reserves	0	-80	80
Balance at 31 December 2005	0	2,021	2,021

	Convertible loan	Revaluation reserve	Other reserve	Total
Balance at 1 January 2006	725	2,101	-18,638	-15,812
Total recognized gains and losses				
Share options exercised by employees			103	103
Share options exercised through convertible loan	-725			-725
Addition to reserves		-80	80	0
Dividends to shareholders (=interest convertible)			36	-36
	0	2,021	-18,491	-16,470
Net result year 2006			141	141
Balance at 31 December 2006	0	2,021	-18,350	-16,329

5.30.1 Convertible loan

This item refers to a 9% interest bearing subordinated convertible loan. Repayment will take place by converting the agreed twelve quarterly installments, varying from EUR 83,000 up to EUR 255,000, into newly issued ordinary shares of the company at a fixed conversion price of EUR 0.1134. As at 31 December 2006 the convertible is fully converted into equity.

5.30.2 Dividend

The interest on the convertible loan amounting to EUR 36,000 (2005: EUR 107,000) is regarded as dividend payment.

5.31 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest and currency risk, refer to note 5.31.3.

(x EUR 1,000)

	2006	2005
Secured bank loans	1,891	798
Convertible loan	1,000	750
Finance lease liabilities	671	0
Other loans	300	0
	3,862	1,548
Less: current portion of long-term loans	-1,327	-266
	2,535	1,282

5.31.1 Terms and debt repayment schedule

(x EUR 1,000)

	Total	1 year or less	1 to 2 years	2 to .5 years	more than 5 years
Secured bank loans	1,891	796	781	314	0
Convertible notes	1,000	0	0	1,000	0
Finance lease liabilities	671	231	240	200	0
Other loans	300	300	0	0	0
	3,862	1,327	1,021	1,514	0

5.31.2 Secured bank loans

In 2006, a loan facility of EUR 340,000 was agreed with the Bayerische Hypo- und Vereinsbank AG in Augsburg (Germany). The loan has a term of three years. The interest rate is 8.05%.
In 2006, a loan facility of EUR 600,000 was agreed with the Kommerzbank in Augsburg (Germany). The loan has a term of three years. The interest rate is 7.9%.

The bank loans and the current liabilities to credit institutions are secured by a mortgage on land and buildings with a carrying amount of EUR 3,323,397, with pledge on machinery and equipment and pledge on trade receivables and inventories and a corporate guarantee of EUR 263,750.

5.31.3 Finance lease liabilities

The Group leases certain equipment, leases where the Group bears substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalized at the lease commencement at the lower of the fair value of the leased equipment and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the useful life of the asset.

Equipment includes the following amounts where the Group is a lessee under a finance lease:

(x EUR 1,000)

	2006	2005
Cost-capitalized finance leases	711	0
Accumulated depreciation	-26	0
Net book amount	685	0

In 2006 a lease facility of EUR 315,000 was agreed with Amstel Lease in the Netherlands. The lease has a term of three years. The interest rate is 5.73%.

In 2006 a lease facility of EUR 396,000 was agreed with VRL Leasing in Germany.
The lease has a term of three year. The interest is 6.056 %. The lease payment is secured with pledge on equipement and a corporate guarantee of EUR 315,000.

5.31.4 Other Loan

In 2006 a loan facility of EUR 300,000 was agreed with ICN Part Rood B.V. in the Netherlands. The loan has a term of one year. The interest rate is 10%.

5.31.5 Interest rates

The average interests paid were as follows:

	Year ended 2006	Year ended 2005
Bank overdrafts	8.75%	7.5%
Bank loans	6.50% - 8.05%	6.5%
Finance lease liabilities	5.73% - 6.056%	0.0%
Other loan	9.0%	0.0%

The bank loan was arranged at fixed interest rate.

5.32 Convertible loan

The convertible loan amounts to a total of EUR 1,000,000. The last installment of EUR 250,000 was received by the company in 2006. The convertible notes were issued on 29 April 2005.

The loan shall be redeemed by the company in four consecutive annual payments starting 15 April 2009. The amount of each redemption will be EUR 250,000. Interest of 4.5% will be paid annually up till that settlement date.

After 1 January 2008, the company has the right to redeem the outstanding amount of the loan in shares, subject to the average shares price exceeding 130% - during 30 consecutive trading days – of the conversion price of EUR 0.84. The share related to this early redemption will be transferred to the lender within five days after the 30 day period ends.

(x EUR 1,000)

	2006	2005
Nominal value of convertible loan notes issued	1,000	1,475
Equity component (net of deferred tax)	0	-725
Deferred tax liabilities	0	0
Liability components at date of issue	1,000	750
Interest charged	80	122
Interest paid	-80	-122
Liability component at 31 December	1,000	750

5.33 Retirement benefit obligations

(x EUR 1,000)

	2006	2005
Present value of unfunded obligations	3,811	3,780
Fair value of plan assets	1,387	1,365
Present value of unfunded obligations	2,424	2,415
Unrecognized actuarial gains and losses	401	434
Other pension assets	1,325	1,315
Net liability recognized in the balance sheet	698	666

5.33.1 Present value of unfunded obligations

The Group makes contributions to a number of defined benefit plans that provide pension benefits for employees upon retirement in Germany. In the Netherlands the pension plan is classified as a defined contribution plan and/or similar arrangements for employees, if customary, are maintained, taking local circumstances into account. In Germany the defined benefit pension plan comprising mitigated final pay arrangements is fully re-insured. In determining the annual costs the nature of the plan is recognized which includes (conditional) indexation of pension benefits insofar as the return on the separated investments surpasses the actuarial required interest. The required reserves of these obligations are recognized, net of plan assets, in the balance sheet.
Not all insurance policies meet the definition of a qualifying insurance policy as defined in IAS 19 Employee Benefits. The fair value of insurance policies that do not qualify as plan assets have been presented as other pension assets, since it is virtually certain that the insurance company will reimburse some or all of the expenditures required to settle the defined benefit obligation.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on 31 December 2006 by Höfer Vorsorge-Management GmbH & Co. KG, Mülheim an der Ruhr. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

(x EUR 1,000)

	2006	2005
Discount rate at 31 December	4.5%	4.5%
Expected return on plan assets at 31 December	4.0%	4.0%
Future salary increase	0%	0%
Medical cost trend rate	0%	0%
Future pension increases	1%	1%

5.33.2 Expenses recognized in the income statement

(x EUR 1,000)

	2006	2005
Current service costs	30	30
Interest on obligation	167	173
Expected return on plan assets	-55	-54
Actuarial losses recognized in the year	9	0
Total	151	149

The charge for the year is included in the employee benefits expense in the income statement. The actual return on plan assets was EUR 70,361 (2005: EUR 58,535).

Changes in the present value of the defined benefit obligation are as follows:

(x EUR 1,000)

	2006	2005
Opening defined benefit obligation	3,780	3,215
Service costs	30	30
Interest costs	167	173
Actuarial gain (-) or losses	-9	509
Pension payments	-156	-147
Closing present value of the defined benefit obligation	3,812	3,780

Changes in the fair value of plan assets are as follows:

(x EUR 1,000)

	2006	2005
Opening fair value of plan assets	1,365	1,306
Expected return on plan assets	55	54
Actuarial gain (-) or losses	15	5
Contributions by employer	16	33
Benefits paid	-64	-33
Closing fair value of plan assets	1,387	1,365

The plan assets do not include any of the Group's own financial instruments, nor any property occupied by or other assets used by the Group.

The expected rates of return on individual categories of plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

5.34 Trade accounts payable

(x EUR 1,000)

	2006	2005
Suppliers and trade credits	428	578
Non-trade payables and accrued expenses	432	617
Total	860	1,195

5.35 Net sales

(x EUR 1,000)

	2006	2005
EU	8,630	7,884
Outside EU	262	284
Total	8,892	8,168

5.36 Personnel expenses

(x EUR 1,000)

	2006	2005
Salaries	3,925	3,767
Social security	752	707
Share options granted to directors and employees	99	126
Pension charges	99	213
Own work capitalized	-65	-39
Total	4,810	4,774

The average number of people employed by the Group in 2006 on a full-time basis was 107 (2005: 95).

5.37 Depreciation and amortization of fixed assets

(x EUR 1,000)

	2006	2005
Intangible fixed assets		
Intangible fixed assets	78	81
Tangible fixed assets		
Land and buildings	99	78
Machinery and equipment	901	658
Other fixed assets	106	86
Total	1,184	903

5.38 Other operating expenses

(x EUR 1,000)

	2006	2005
Other operating expenses	1,741	1,578
Special items		
Result selling off tangible fixed assets	-18	-23
Total	1,723	1,555

The most important task of the external auditor is the audit of the annual accounts of Rood Testhouse International. Furthermore, the external auditor assists with annual accounts-related work. Tax advice is in principle given by specialist firms or specialized departments of local audit firms, which are rarely involved in the audit of the annual accounts of the relevant subsidiary. Other than these advisory services, Rood Testhouse International makes only limited use of the external advisors. If such services are required, specialists are engaged that are not associated with the external auditor. The fees for the abovementioned services, which are included in Other Expenses, are evaluated on a regular basis and in line with the market.

5.39 Financial income and expenses

(x EUR 1,000)

	2006	2005
Interest expenses:		
- bank borrowings	-165	-132
- convertible loan	-45	-15
- interest tax reservation	27	0
Total	-183	-147

5.39 Income tax expense

(x EUR 1,000)

	2006	2005
Current tax expense		
Current year	0	0
Previous years	117	0
Deferred tax from expense		
Origination from and reversal of timing differences	2	-1
Benefit of tax losses recognized	-26	428
Total	93	427

Reconciliation of effective tax rate

	2006	2005
	%	%
Tax rate the Netherlands	29.6	31.5
Effect of tax losses utilized	-29.6	-31.5
Effect of tax losses recognized	54.2	-470.2
Effect of resersal of timing difference	-4.2	1.1
Release provision	-243.8	0.0
Total	-193.8	-469.3

5.40 Earnings per share

5.40.1 Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to equity holders of the company	141	518
Weight average number of ordinary shares in issue (in thousands)	23,303	16,722
Basis earnings per share	0.01	0.03

5.40.2 Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has two categories of dilutive potential ordinary shares: convertible and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
Profit attributable to equity holders of the company	141	518
Interest expense on convertible debt (net of tax)	-36	-107
Profit used to determine diluted earnings per share	105	411
Weighted average number of ordinary shares in issue (thousands)	23,303	16,722
Adjustments for:		
- Assumed conversion of convertible debt (thousands)	0	6,389
- Share options (thousands)	127	446
Weighted average number of ordinary shares for diluted earnings per share (thousands)	23,410	23,557
Diluted earnings per share	0.00	0.02

5.41 Off-balance sheet commitments

5.41.1 Operational leases as lessee

(x EUR 1,000)

	2006	2005
Less than one year	292	148
Between one and five years	441	314
More than five years	0	0
Total	733	462

The Group leases a number of vehicles and equipment under various operating lease agreements. The leases typically run for an initial period of between two and five years, with an option to renew the lease after that date. Lease payments are increased annually to reflect market rentals. None of the leases includes contingent rentals.

The Group does, in principle, not act as a lessor.

5.41.2 Rental commitments

The group rents its office in Zwolle (the Netherlands) for a period of five years with renewal rights. The yearly rent amounts EUR 16,800.

5.41.3 Capital commitments

During the year ended 31 December 2006 the Group entered into a contract to purchase property, plant and equipment for EUR nil (2005: EUR 392,000).

5.41.4 Contingencies

The holding company has given a guarantee amounting to EUR 5,950 to a third party.

The holding company and the majority of the Dutch operating companies form a fiscal unit for corporate tax. Each of the operating companies is severally liable for tax to be paid by all companies that belong to the fiscal unity.

5.42 Subsequent events

No significant events have taken place after balance sheet date.

5.43 Related parties

5.44.1 Remuneration of the managing directors

In addition to their salaries, the Group contributes to a post-employment defined benefit plan on their behalf. The CEO also participates in the Group's share option scheme (refer to 5.29.4).

(x EUR 1,000)

	Fixed salary	Bonus	Pension	Valuation options	Total 2006	Total 2005
Mr. Ph.M.G. Nijenhuis (CEO)	87	0	0	95	182	210
Total	87	0	0	95	182	210

The CEO has been provided with a mobile telephone and also receives a limited monthly allowance to cover expenses for a company car.
The remuneration of the managing directors is determined by the supervisory board. The remunerations are adjusted as from 2004 based on the 'managing directors agreement' as of the appointment of the CEO in September 2004. In determining the number of granted options, the realization of company and personal targets are taken into account. The supervisory board will define the targets each half year.

There are no guarantees or obligations towards or on behalf of the directors. The information about the options granted to members of the board of management is provided on an individual basis (see notes 5.29.4).

5.44.2 Remuneration of the supervisory board

(x EUR 1,000)

	2006
Mr C.W.M. Koot (Chairman)	11
Mr G.J.O. Wanrooy (till September 2006)	7
Total	18

No options have been granted and no assets are available to the members of the supervisory board. There are no loans outstanding to the members of the supervisory board and no guarantees given on behalf of members of the supervisory board.

5.44.3 Other related party transactions

The group has not entered into any joint ventures.

5.45 Parent company's profit and loss account

The facility provided by Volume 9, Book 2, Section 402 of the Netherlands Civil Code has been utilized in the preparation of the non-consolidated profit and loss account.

6 Subsidiaries of Rood Testhouse International N.V.

(Including registered office and interest)

Unless stated otherwise, the direct of indirect interest of Rood Testhouse International N.V. amounts to 100%. Insignificant subsidiary companies in terms of third-party revenue and balance sheet total have been deleted. These subsidiary companies are fully incorporated into the consolidated annual accounts of Rood Testhouse International N.V., unless stated otherwise.

Company	%	Office	Country
Rood Technology International B.V.	100	Zwolle	The Netherlands
Rood Technology Service GmbH	100	Nördlingen	Germany
Rood Technology Deutschland Beteiligungs GmbH	100	Nördlingen	Germany
Rood Technology Deutschland GmbH + Co	100	Nördlingen	Germany
Rood Technology Dresden GmbH	100	Dresden	Germany

7 Company accounts

7.1 General

The annual accounts of Rood Testhouse International N.V. as presented hereafter are prepared in conformity with Generally Accepted Accounting Principles in the Netherlands and compliant with the legal requirements concerning annual reporting as included in Volume 9 of Book 2 of the Netherlands Civil Code. Note that the consolidated Dutch GAAP financial statements have already been presented in the foregoing chapter 6: Statements of reconciliation on the first time adoption of IFRS.

These accounting principles are generally in accordance with the valuation principles as applied in the primary consolidated annual accounts prepared under IFRS. Reference is made to the accounting principles set out in notes 5.2 to 5.21 of this annual report.

The notes to the consolidated Annual Accounts under IFRS form an integral part of the Annual Accounts prepared under Dutch GAAP. Material differences are separately disclosed in this section.

7.2 Presentation

Referring to Volume 9, Book 2, Section 362, clause 4 of the Netherlands Civil Code, there is a deviation from the rules on Models of Annual Accounts for the presentation of profit and loss account. This deviation is amongst others for comparison purposes.

7.3 Research and development

The Group is deeply committed to research and development. However, as research and development is frequently contained within projects at cost price, or lower, a precise quantification of the amounts incurred is not possible.

7.4 Tangible fixed assets

Refer to note 5.5 to the consolidated financial statements.

7.5 Financial fixed assets

Long-term receivables included here are stated at nominal value less any provisions considered necessary.

7.6 Stocks of consumables and work in progress

Refer to note 5.7 and 5.8.1. Unlike under IFRS work in progress is presented in total separately from advances received in total, which are included in short-term liabilities.

7.7 Receivables

These receivables are stated at nominal value less a provision for doubtful debts if required.

7.8 Liquid assets

Refer to note 5.9 to the consolidated financial statements.

7.9 Liabilities and loans

Long-term and current liabilities and loans are stated at their nominal amounts.

7.10 Provisions

Provisions are built up for actual or legally enforceable obligations and are taken into account at nominal value except for those relating to the Group's obligations for pension back service, which are based upon actuarial valuations.

7.11 Deferred taxes

Deferred taxes arise as a result of temporary differences between the business economic and fiscal valuation of assets and liabilities. The deferred taxes are included at nominal value and calculated using the tax rates valid on the balance sheet date. Deferred tax receivables are only included as far as they are offset by deferred tax obligations that relate to the same periods or if in some other manner there is high degree of probability that these deferred receivables can be realized. Deferred tax assets are included as other receivables.

7.12 Contingent liabilities

These include conditional and unconditional liabilities resulting from agreements such as guarantees, lease obligations et cetera.

7.13 Net sales

Refer to note 5.18 to the consolidated financial statements.

7.14 Depreciation

Refer to note 5.5.4 to the consolidated financial statements.

7.15 Impairment of assets

Refer to note 5.10 to the consolidated financial statements.

7.16 Personnel expenses and other operating costs

Personnel expenses and other operating costs are reported in the period to which they relate.

7.17 Interest receivable (payable)

These relate to interest income receivable from and expenses payable to third parties.

7.18 Taxes

These are computed on the commercial result before tax and after taking into account all fiscal facilities available. Taxes on profit are computed in accordance with the rates of taxation in the various countries in which companies of the Group operate. Amounts of tax which have not yet fallen due and are caused by timing differences are included in the deferred tax assets / liabilities.

7.19 Accounting principles for the cash flow statement

Refer to note 5.21 to the consolidated financial statements.

8 Company balance sheet (before appropriation of net-result)

(x EUR 1,000)

		As at 31 December	
		2006	2005
	Assets		
	Non-current assets		
	Fixed assets		
	Property, plant and equipment	12	11
	Financial fixed assets		
10.1.1	Group companies	2,147	1,764
10.1.2	Loans to group companies	1,984	2,134
		4,143	3,909
	Current assets		
	Receivables		
	Group companies	403	45
	Taxation and social security	0	6
	Other receivables	6	0
	Cash and cash equivalents	202	40
		611	91
	Total assets	4,754	4,000
	Equity		
	Share capital	2,941	2,185
	Share premium	16,723	16,702
	Legal reserve	2,129	2,209
	Retained earnings	-18,562	-19,156
	Result for the year	105	411
10.2	**Total equity**	3,335	2,351
	Liabilities		
	Non-current liabilities		
10.3	Subordinated convertible loan	1,000	750
	Current liabilities		
10.3	Current portion of long-term debt	0	724
	Group companies	47	57
	Short term loan	300	0
	Trade and other payables	63	90
	Current tax liabilities	9	28
	Total liabilities	1,419	1,649
	Total equity and liabilities	4,754	4,000

9 Company income statement

(x EUR 1,000)

		For the year ended	
		2006	2005
	Net profit from group companies	83	703
	Other income	22	-292
10.4	**Net profit**	105	411

10 Notes to the company financial statements

10.1 Financial fixed assets

10.1.1 Group companies

This item relates to wholly-owned subsidiaries. Movements in this item in the year under review were as follows:

(x EUR 1,000)

	2006	2005
Balance as at 1 January	1,764	1,006
Effect IFRS	0	-470
Addition due to partial loan conversion	300	500
Profit of group companies	83	703
Addition due to Share capital group companies	0	25
Balance as at 31 December	2,147	1,764

10.1.2 Loans to group companies

This item relates to three subordinated loans issued to the German group company. A loan amounting to EUR 1,034,000 is subordinated to all other liabilities. A loan amounting to EUR 800,000 and a loan amounting EUR 150,000 is subordinated to bank debts. During 2006, 2005 and 2004 part of the loans issued to the German Group company was converted into equity.
The interest rate is between 4.5% and 9%.

Movements in this item were as follows:

(x EUR 1,000)

	2006	2005
Balance as at 1 January	2,134	2,334
New loan	150	300
Conversion into equity	-300	-500
Balance as at 31 December	1,984	2,134

10.2 Equity

10.2.1 Movements in total equity

The movements in equity were as follows:

(x EUR 1,000)

	Issued share-capital	Share premium	Legal reserve	Retained earnings	Total 2006	Total 2005
Balance as at 1 January	2,185	16,702	2,209	-18,745	2,351	1,575
Effect IFRS						-470
Employee options exercised	53				53	3
Valuation options granted						123
Capital tax						-4
Conversion convertible loan	703	21			724	713
Reserve development costs			-78	78	0	0
Reserve building revaluation			-2		-2	0
	2,941	16,723	2,129	-18,562	3,231	1,940
Result of the year				105	105	411
Balance as at 31 December	2,941	16,723	2,129	-18,457	3,335	2,351

10.2.2 Legal reserves

This item comprises of the revaluation reserve related to land and buildings, as well as the legal reserve for capitalized development costs.

The movements were as follows:

(x EUR 1,000)

	Revaluation reserve	Develop-ment costs	Total 2006	Total 2005
Balance as at 1 January	2,101	108	2,209	2,208
Addition due to correction revaluation reserve	0	0	0	88
Addition due to capitalized development costs	0	0	0	-7
Realized through depreciation	-2	-78	-80	-80
Balance as at 31 December	2,099	30	2,129	2,209

10.2.3 Reconciliation with total equity in the Consolidated IFRS balance sheet

The total equity amounting to EUR 3,335,000 (2005: EUR 3,075,000) differs no longer from the Group's total equity presented in the Group's balance sheet. Due to the obliged conversion, the subordinated convertible loan is regarded as part of the equity in the consolidated balance sheet. The reconciliation can be shown as follows:

(x EUR 1,000)

	2006	2005
Total equity in company balance sheet	3,335	2,351
Subordinated convertible loan as at 31 December	0	724
Group equity in Consolidated Dutch IFRS balance sheet	3,335	3,075

10.3 Subordinated convertible loans

This item refers to a 9% interest-bearing subordinated convertible loan. Repayment will take place by converting the agreed thirteen quarterly installments, varying from EUR 83,000 up to EUR 211,000, into newly issued ordinary shares of the company at a fixed conversion price of EUR 0.1134.

The new convertible loan amounts to a total of EUR 1,000,000. At 31 December 2006, the amount of EUR 1,000,000 had been received by the company (2006: EUR 250,000). The convertible notes were issued on 29 April 2005.

The loan shall be redeemed by the company in four consecutive annual payments starting 15 April 2009. The amount of each redemption will be EUR 250,000. Interest of 4.5% will be paid annually up to that settlement date.

After 1 January 2008, the company has the right to redeem the outstanding amount of the loan in shares, subject to the average share price exceeding 130% - during 30 consecutive trading days – of the conversion price of EUR 0.84. The share related to this early redemption will be transferred to the lender within five days after the 30-day period ends.

Movements in this item were as follows:

(x EUR 1,000)

	2006	2005
Balance as at 1 January	1,475	1,438
New loan	250	750
Conversions	-725	-713
Balance as at 31 December	1,000	1,475

(x EUR 1,000)

	2006	2005
Presented under		
Non-current liabilities:		
Subordinated convertible loan	1,000	750
Current liabilities		
Current portion of long-term debt	0	725
Total	1,000	1,475

10.4 Reconciliation with profit in the Consolidated IFRS income statement

The net profit amounting EUR 105,000 (2005: EUR 411,000) differs from the Group's net profit in IFRS presented in the reconciliation of IFRS income statement (refer to note 5.3). The difference results from the fact that in the consolidated IFRS income statement the interest payment of the convertible loan amounting to EUR 36,000 (2005: EUR 107,000) is regarded as a dividend payment. In the company income statement this amount is taken into account as interest expenses.

(x EUR 1,000)

	2006	2005
Net profit in the company income statement	105	411
Interest on the convertible loan	36	107
Net profit in Consolidated IFRS income statement	141	518

10.5 Guarantees

The company has provided parent company guarantees in respect of its subsidiaries of EUR 578,750.

Amsterdam, 26 February 2007

Board of Management
Ph. M.G. Nijenhuis, CEO

Supervisory board
C.W.M. Koot, Chairman

11 Other information

11.1 Auditors' report

Introduction

We have audited the Annual Report of Rood Testhouse International N.V., Amsterdam. The Annual Report consists of the consolidated annual accounts and the company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company annual accounts comprise the company balance sheet as at 31 December 2006, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Volume 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Board of Management in accordance with Volume 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors responsibility

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those assessments of material risks, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of Rood Testhouse International N.V. at 31 December 2006, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Volume 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company annual accounts

In our opinion, the company annual accounts give a true and fair view of the financial position of Rood Testhouse International N.V. at 31 December 2006, and of its result for the year then ended in accordance with Volume 9 of Book 2 of the Netherlands Civil Code.

Pursuant to the legal requirements under Book 2, Section 393 paragraph 5(e) of the Netherlands Civil Code, we report, to the extent of our competence, that the Report of the Board of Management is consistent with the annual accounts as required by Book 2, Section 391 paragraph 4 of the Netherlands Civil Code.

Amsterdam, 26 February 2007

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.
P.J. Steman RA

11.2 Post balance sheet date events

Reference is made to note 5.43.

11.3 Profit appropriation

Article 27 of the Articles of Association contains *inter alia* the following provisions for profit appropriation:

1. The company may pay dividends and make other distributions only to the extent that its equity exceeds the amount of the paid-up and called-up portion of the share capital plus the reserves which must be maintained by law and under these Articles.
2. Subject to the prior approval of the supervisory board, the board of management is authorized to add any profit in whole or in part to the reserves.
3. Any profit remaining after reservation referred to in the preceding paragraph shall be at the disposal of the annual general meeting.
4. To the extent that the general meeting of shareholders does not resolve to distribute the profit for any financial year, such profit shall be added to the reserves.

11.4 Proposed profit appropriation

In accordance with Article 27 of the Articles of Association, we propose to add the entire result to the reserves.

Addresses and personal details

Rood Testhouse International N.V.
Burgemeester van Roijensingel 13
NL-8011 CT Zwolle
The Netherlands

Correspondence address:
P.O. Box 1042
NL-8001 BA Zwolle
The Netherlands
Telephone : +31 (0) 38 4215 216
Telefax : +31 (0) 38 4216 410
Email : info@roodtechnology.com
Website : www.roodtechnology.com

Board of Management
Ph.M.G. Nijenhuis, CEO

Members of Corporate Management Team
T. Bucksch, COO (as from 1 March 2007)
W.H. Gomarus, CFO (until 1 March 2007)

Companies

Rood Technology Deutschland GmbH & Co
Oettinger Strasse 6
D-86720 Nördlingen
Telephone : +49 (0) 9081 804-0
Telefax : +49 (0) 9081 804-208

Board of management
Rood Technology Deutschland
Beteiligungs GmbH

Rood Technology Service GmbH
Oettinger Strasse 6
D-86720 Nördlingen

Board of management
Ph.M.G. Nijenhuis
T. Bucksch (as from 1 March 2007)

Rood Technology Deutschland Beteiligungs GmbH
Oettinger Strasse 6
D-86720 Nördlingen

Board of management
Ph.M.G. Nijenhuis
T. Bucksch (as from 1 March 2007)

Rood Technology Dresden GmbH
Maria–Reiche-Strasse 7
D-1109 Dresden
Telephone: +49 (0) 351 205 666-0

Board of management
T. Bucksch (as from 1 March 2007)
W.H. Gomarus (until 1 March 2007)

Rood Technology International B.V.
Burgemeester van Roijensingel 13
NL-8011 CT Zwolle
Telephone : +31 (0) 38 4215 216
Telefax : +31 (0) 38 4216 410

Board of management
Ph.M.G. Nijenhuis

Colophon
Textual advice and editing: Kort Investor Relations
Design and layout: SjeWorks.nl
Images: SjeWorks.nl