



TRADEGATE AG  
WERTPAPIERHANDELSBANK

Tradegate AG Wertpapierhandelsbank  
WKN 521690, ISIN DE0005216907

31 December 2006

Stock capital	24,150,000 € = 24,150,000 individual shares
Berliner Effektengesellschaft AG	95.49 % = 23,062,000 individual shares
Free float	4.51 % = 1,088,000 individual shares
Balance sheet total	46,002,038.90 €
Stockholders' equity	40,903,999.63 €
Stock price at the close of the year	4.29 €
Group result	3,733,492.27 €
Result per share	0.1548 €
Proposed dividend	0.15 €
Number of employees in the Group	75



<b>04</b>	<b>Preface</b>
<b>07</b>	<b>TRADEGATE® – ECN Made in Germany</b>
<b>18</b>	<b><a href="http://www.tradegate.de">www.tradegate.de</a></b>
<b>20</b>	<b>Report of the Board</b>
21	Monthly number of trades
22	Annual number of transactions
23	Share price development
<b>26</b>	<b>Annual financial statements of the Tradegate AG Wertpapierhandelsbank</b>
26	Assets
27	Equities and liabilities
28	Income statement
30	Notes to the financial statements 2006
41	Management report
53	Auditors' report
<b>54</b>	<b>Report of the Supervisory Board</b>
<b>56</b>	<b>Contact   imprint</b>



Kerstin Timm, Thorsten Commichau, Holger Timm, Jörg Hartmann

**Dear shareholders, business partners and friends of exchange and online securities trading,**

A year of high-running emotions lies behind us. No-one could ignore the fascination of the major event of the year: the final round of the Football World Cup in Germany. Children, parents, men, women, natives and foreigners were united in the biggest folk festival in recent history. A peaceful and friendly atmosphere reigned over the land and hopefully will continue to do so long after the euphoria of the sporting event has died down. May the positive impact be a source of energy and harmony in our daily life!

But not everything happened with so much ado: calmly and quietly, while everyone was occupied by the World Cup, some radical and partly uncomfortable decisions were being made by the grand coalition of our country's government. Rather than anything else the media followed the agreement on the key points of the so called health service reform. Maybe there is a connection not just between falling unemployment figures and the final round of the World Cup and another fantastic summer, but also the law on the further development of the basic social care for job-seekers. The law on the abolishment of home owner's allowance certainly counts among the less than popular decisions made, along with that of an increase in value added tax by no less than 3 %, and the law on bio fuel quotas accompanied by a further increase in petrol prices. An increase in the age of retirement will not be greeted with universal enthusiasm either.

On a European level things were happening, too. The Markets in Financial Instruments Directive (MiFID) was further developed and will be bindingly implemented in all Member States in November 2007. The directive should lead to more transparency, fairness and more favourable conditions in securities trading; a welcome initiative that corresponds with our company's overall concept and will, in turn, hopefully find its way into daily business life.

In 2006 our company, too, recorded both loud and quiet successes. What certainly caught most public attention was the change of the company's name to "Tradegate AG Wertpapierhandelsbank". With this change we did justice to two things: firstly the original connection of the name "Berliner Freiverkehr (Aktien) AG" to the unofficial regulated market segment of the stock exchanges – which in Frankfurt is now called "Entry Standard" – no longer existed. Secondly the operation of our trading platform TRADEGATE® fortunately – albeit quietly – evolved to become an established alternative to traditional floor trading, a fact which was decisive in finding a new name.

Basically we prefer to act quietly and successfully. Thus, in our activities as a broker on the stock exchanges in Frankfurt and Berlin we were gradually able to substantially increase the number of securities we look after. Over twenty years' experience in the field augmented by the increasing technical support has helped us to increase capacity without having to engage more personnel.

The circle of friends of the platform TRADEGATE® grows just as quietly. During the last business year we were able to set up a direct connection to two new promising customers who can make a significant contribution to the continued success of the platform: E\*Trade Deutschland and the new online broker Flatex. The European directive already mentioned will certainly help us to achieve more attention internationally.

For every subject there is a fitting Chinese proverb – and for our actions in 2006 and beyond we have chosen: "Practise what you know and learn what you don't know!" In this spirit we have expanded our existing business areas and at the same time set the course for new, trendsetting activities for the coming year. We would be pleased if you would accompany us into familiar and unfamiliar territory and we thank you for the trust you have already shown.



Holger Timm



Kerstin Timm



Jörg Hartmann



Thorsten Commichau

>>The CD will never replace the LP...<<  
>>No-one needs the internet; it'll never catch on...<<  
>>We can do without off-market trading...<<

TRADEGATE®  
[ECN Made in Germany]

[www.tradegate.de](http://www.tradegate.de)

## TRADEGATE® – ECN MADE IN GERMANY

> SECURITIES TRADING –  
A SHORT INTRODUCTION

Securities trading is characterised by the exchange of money and shares between two parties. The purpose of the stock markets is that both parties can trade with one another without having to have their shares or money with them. Stock exchanges provide the infrastructure that allows this special kind of trading. Even though both shares and money are no longer physically transferred and, like many things in the 21st century, exist only in the form of bits and bytes and there has long been no need for traders to appear in person at the stock exchange, the principle remains the same.

In classic floor trading the broker, also known as the order book manager, plays a significant role in the mediation between buyer and seller. On behalf of the stock exchange he makes sure that trading takes place fairly for all participants and according to the rules of the stock market. Only through his assistance does trading occur at all. On many German stock markets brokers perform their job while sitting in their own offices. This is made possible by technical access, provided by the stock exchange, to the stock exchange system. In trade jargon the securities handled in this way are called “Fernskontren” (remote securities). Fernskontren allow the broker to create the working conditions he needs to best fulfil his task. He has access to systems which supply prices, or to media technology equipment so that he is always up to date on the current market situation. Fernskontren are certainly a very useful device which on top of everything gives the stock exchanges the advantage of saving costs on representative floor offices.

Not quite so new, but an increasingly quickening development is the shift of business onto electronic trading systems. In Germany the chief exponent is the system XETRA® of the Deutsche Börse AG. Internationally the electronic platforms have long ago surpassed classic floor trading. One does not have to be a prophet to predict that this will happen in this country, too. Efforts to sustain the attractiveness of floor trading might, due to media coverage, certainly slow up the process, but is not to be stopped.



## > THE PRIVATE INVESTOR

To start with: institutional market participants who deal in huge numbers of security transactions are in good hands at the stock exchanges. Above all, the system XETRA® offers these companies all the facilities they need to execute their business. But who takes care of the needs of private investors? Does the frequently mentioned poor affinity of our nation with securities have cultural reasons? Or is there still a gap in the market for getting shares established as a financial product for, among other things, provisions for old-age; a market that is specialised in such customers and best serves their needs?

## > TRADEGATE® – THE MARKET PLACE FOR THE PRIVATE INVESTOR

New platforms, stock exchanges and strategies are usually geared to the requirements of institutional clientele. Even before 2000 the Tradegate AG Wertpapierhandelsbank, which also has its roots as a traditional broker on the stock exchange floor, was of the opinion that the private investor should be taken more strongly into consideration when shaping the German trading market. Early on, the company took sides with the private investor and – as an extension to the service range of the stock exchanges – created possibilities for security trading which accommodated this type of customer.

The market place TRADEGATE® was originally created to be able to offer trading to working people at a time when they have the opportunity to attend to their securities account. Furthermore the platform aimed to enable investors of US shares – always a special focus of our company – to trade in Germany, without a foreign currency account and during the opening hours of the stock exchanges in the USA. TRADEGATE® extended its trading hours and was open from 8 a.m., before stock exchange trading started, and after the stock exchanges closed until 10 p.m.





## > TRADEGATE® – MARKET MAKING IN GERMANY

During this phase the Tradegate AG Wertpapierhandelsbank developed the market place TRADEGATE® to a full electronic trading system modelled on the American ECNs (Electronic Communication Networks). Aeroplanes have been flown by autopilot for years; driverless local trains transport millions of passengers every day, so why shouldn't modern information technology be able to trade securities to a high quality? The underlying principle, so-called "market making", is based on a liquidity contributor (the market maker) offering tradable prices for the purchase and sale of securities at all times.

The principle is simple: the interested party requests from the market maker a price for buying or selling a certain security. The system provides him with the price together with the maximum available number of securities. The customer can accept this offer and thereby knows before each transaction at what price his order is carried out. This procedure is called the Quote Request Procedure. Contrary to trading on the stock exchange floor, an uninvolved third party does not determine the price. An agent to conclude the business transaction is not needed either. This happens electronically, without delay and fully automatically. The times when one submitted an order and was forced to wait until the next day to find out from the newspaper if, and at what price it had been executed are long gone.

The market maker specialises in trading with private investors. He makes sure that a quantity of securities and shares tailored to this customer group is available. The crucial advantage for the customer: the service of a broker is rendered unnecessary and therefore the accompanying costs in the form of a broker's fee do not apply.

## > MEETING HIGH EXPECTATIONS IS THE ONLY WAY TO SUCCESS

TRADEGATE® claims to be the most cost effective trading place for private investors. Alongside the immediate electronic order execution already mentioned, this includes in particular the achievable result for the customer. For years TRADEGATE® has been the first and only German trading place for securities that offers trading at market-driven prices without broker's fees. The task of the Tradegate AG Wertpapierhandelsbank is to recover its costs and generate earnings solely from the difference between the buying and selling prices, the so-called "spread". Since this spread is no bigger than, but at least as narrow as that of comparable stock exchanges, a higher turnover is needed in order to be able to operate successfully.

As TRADEGATE® has already been able to convince numerous investors with its business model and continues to do so, and furthermore offers just as attractive conditions for depositary banks to lower their additional expenses, its platform is in equal demand from banks and private customers. Leading German and foreign online brokers are opening up this market and putting Tradegate AG Wertpapierhandelsbank in a position to operate profitably. Shortly after the platform started up, participants expressed their desire to trade on TRADEGATE® during exchange trading hours as the system offers numerous advantages, not only as an extension but also increasingly as an alternative to traditional stock exchange dealing.

### > TRADEGATE® – ADVANCED TECHNOLOGY FROM GERMANY

Looked at in detail TRADEGATE® is first and foremost a complex network made up of information technology components. At the same time, as a trading forum based on established procedures and structures with meanwhile many years' proof of practice and also through continuous technical modifications, TRADEGATE® succeeds in being one of the most modern trading places in existence. In 2006 TRADEGATE® was partner in the German Government's initiative "Year of Computer Science 2006" and was the only security trading platform represented alongside other technology ventures such as BITKOM (German Association for Information Technology, Telecommunications and New Media e.V.), IBM Germany, Intel, SAP and Siemens.

Before the technology came the vision of giving private investors in particular a worthwhile alternative to stock exchange trading via a modern, technologically innovative trading place. The idea took time to develop and was accompanied by fundamental changes in the surrounding field. Today, if not sooner, it is clear that the government's slogan for its high-tech strategy is spot on: "Ignite ideas! Germany is the land of ideas".



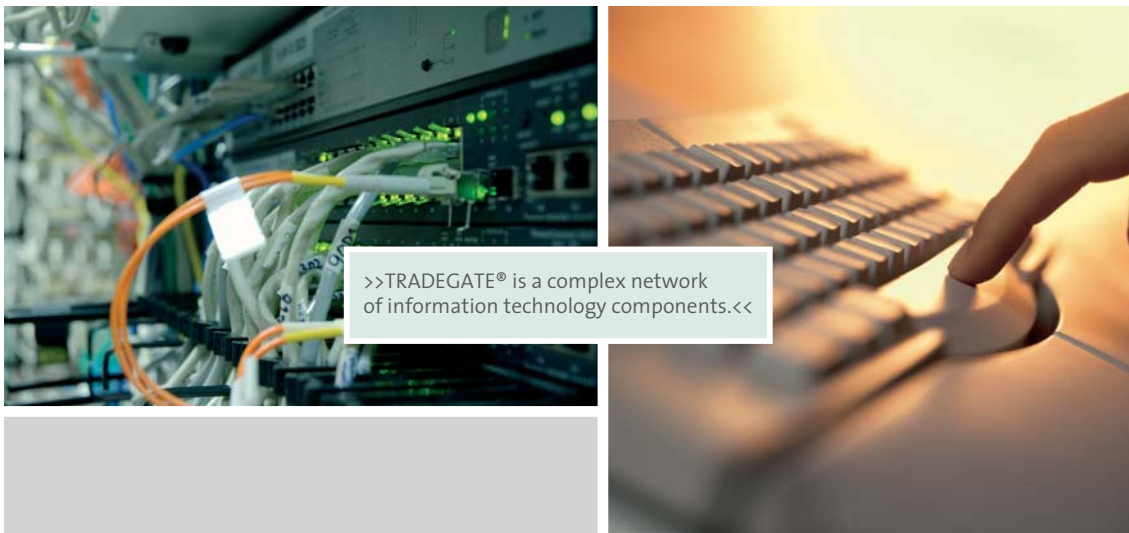
### > THE SECRET LIES IN "BLACK BOXES"

Often the term "black box" is used to give a technical process a certain air of secrecy. Technologically, the market place that is TRADEGATE® is made up of a number of individual components that when put together allow the successful operation of a trading platform. An example is the automatic pricing which, according to highly complex procedures determined by mathematicians, computer scientists and market makers, processes a multitude of information in order to automatically ascertain a currently valid, tradable price in line with the market. The amount of input is so extensive that one person alone would be totally overwhelmed by the wealth of information that has to be processed in a very short time. The job of the security trader has therefore changed dramatically. The requirements of

his work profile are far more wide-ranging today than they were just a few years ago. Besides the traditional tasks of a trader he has to help, to an extent unknown so far, to structure procedures and, in close cooperation with the IT department, work on the implementation of automatic processes.

As our company is active on several different types of market another type of “black box” is necessary for quoting. This system makes sure that the prices ascertained are prepared in such a way that they comply with the technical requirements of the respective market and also that their content specifications satisfy the guidelines. On the one hand the German stock exchanges with floor trading have differing quality requirements, and on the other the possibility of inputting up to date market prices is limited. For XETRA® and TRADEGATE® the practice is a little different. The quoting system makes sure that from the prices determined on the respective markets tailored quotes, i.e. buying and selling prices with corresponding number of securities, are generated and administered on the market.

Of the many “black boxes” one more is worth a mention: risk management. The electronic calculation and generation of tradable quotes leads – incidentally, by way of another “black box” – to automatic executions or changes in inventory. Whenever a situation in the order book occurs where orders can be matched, automatic processes conclude the buying or selling transaction mechanically. In order to make sure that no uncontrollable risk for the company arises out of these positions a multi-level risk management guarantees that stocks are monitored and controlled.



### › HIGHLY EFFICIENT TECHNOLOGY AS THE BASIS FOR SOLID TRADE

In all these “black boxes” with their particular characteristics there is no witchcraft involved; they comprise rather a sophisticated IT-system that is state of the art technology and thus subject to a permanent development process. This combination gives the securities trader a working tool that allows him to manage a large number of securities extremely efficiently and to the highest quality standards. And only with this combination of highly developed information technology and professionally trained people can the accustomed service of our company for private investors be achieved in a manner which is profitable for all involved.

Luckily, despite all the technical support, people still remain the centre of activity in securities trading. Today many market situations can already be supervised automatically. The correct market price of a security can always be ascertained electronically whenever liquid trading takes place on an electronic market. In the time from 9 a.m. to 5 p.m. the callable price on XETRA® will almost certainly be correct. The same thing applies for a well filled order book. Whenever numerous buying and selling orders are on hand it is possible to ascertain a price using strict mathematical rules that must be consistent with stock market practice. For machines the situation only becomes difficult or impossible if insufficient liquidity is available for simultaneous trading. In this case it is necessary to have specially and continually trained, highly qualified traders who supplement available hard facts, such as closing prices from reference markets, with a multitude of information from the area of so-called “soft facts”, e.g. from the field of company news or from the more or less significant barrage of market rumours, in order to accordingly fix a price based on an individual assessment. Thus TRADEGATE® allows the best possible combination of both worlds, technical and human, and is a valuable complement to the service range of existing trading places.

### › HOW MANY MARKETS DOES A REGION NEED?

The ever accelerating globalisation is beginning to have an increasing influence on the securities trading business. This refers not just to the development of nationwide active corporations but rather to the possibility of trading securities globally, irrespective of the respective country of origin. Hence a DaimlerChrysler share is not only available in the USA and Germany; Asian investors, too, value the investment in this company which is listed both on the DAX and the Eurostoxx50.

Not only the corporations themselves but also the stock exchanges where transactions in their securities take place are developing into globally active enterprises. Cross national mergers of stock exchanges are regularly discussed and sometimes also completed. If stock exchanges are joining up on an international level we must ask ourselves: how many markets do we need in Europe, how many in Germany?

The question causes heated discussion; the effected stock exchanges fortify their necessity with various arguments. One must only sit back and wait. The market will settle this question, too. Where there is a need the provider will have the right to exist. Whether we need seven stock exchanges in Germany is indeed doubtful. Particularly successful on the market are those providers whose range of services is most widely distinguishable from that of its competitors. In Germany we have in XETRA® a market place for institutional investors in German heavy weights, above all the DAX companies. The battle for trade in warrants seems to have already been decided and takes place primarily off-exchange. What is positive for our company is that the private investor, with his often small amount of securities transactions, can only be served by a trading place that is especially tuned to his needs. At the moment there is no competitor in sight who, with a comparable concept and trading system, can serve this group of customers as successfully as TRADEGATE®.

#### > TRADEGATE® – THE SUCCESS STORY HAS ONLY JUST BEGUN

Although TRADEGATE® has been in use as an electronic platform for over six years now, the market undergoes constant renewal. As a result of outside influences, often from supervisory authorities but mainly from the ever changing needs of the private investor, the platform undergoes perpetual growth and transformation. TRADEGATE® still offers the most customer favourable securities trading, has customer friendly opening hours with trading hours from 8 a.m. to 10 p.m. on every trading day and, in the quote request procedure, trades all securities of the most important indices at home and abroad plus the stocks that are of current interest for the private investor.



### > THE HIGHLIGHT IN 2007: LIMIT TRADING

Our customers' desire for more flexibility in placing orders meant that in 2006 TRADEGATE® acquired yet another feature: so called limit trading. This function has been available on TRADEGATE® since 2000 and has now been integrated into several customers' systems to help contribute towards the further increase in trading activity during the course of 2007. It enables customers

#### TO PLACE MARKET ORDERS

as with the quote request procedure, as soon as the order is placed it is immediately executed in each case at the currently valid market maker price

#### TO MAKE LIMIT ORDERS

the order is executed as soon as the market maker price matches the limit, i.e. the price, of the submitted order

#### TO ENTER EXPIRY DATES

if the order is not executed by a certain date it is deleted automatically – a common expiry date is the month end, also known as "ultimo"

#### TO SET STOP LIMITS

the order is converted into a limit or market order if the market maker's price reaches that of the accompanying stop or conversion limit

We are well aware of our customers' strong interest in limit trading and are convinced that this new service will lead to further interest in the market place TRADEGATE®. We hope that we can persuade both existing and new customers alike of the charm of limit trading and we will report on its success in the coming year.

### > NOVEMBER 2007: MIFID BECOMES GERMAN LAW

In the autumn of this year the EU securities markets will receive a new constitutional law: according to the current status the Markets in Financial Instruments Directive (MiFID) of the European Union will, via the Implementation Act for the Regulation of Financial Markets (FRUG), which was approved by the Bundestag at the end of March this year, be made binding by German law.

The significant key points of the new regulations from the point of view of the private investor are

- a) customer favourable execution (“best execution offer”)
- b) disclosure of all fees, provisions, charges and expenses of the various institutions involved in the process of order execution
- c) pre and post trade transparency

As the trading system of the Tradegate AG Wertpapierhandelsbank, TRADEGATE® sees itself as being well prepared to fulfil the requirements of MiFID and FRUG.

Contrary to the current legal situation the MiFID envisages so called “Multilateral Trading Facilities” (MTF) and systematic internalisers as being almost on an equal footing with the traditional stock exchanges (referred to in MiFID as “regulated markets”). The MTF is thereby defined as a system that brings together multiple third-party buying and selling interests in financial instruments in a way that results in a contract. An internalisation system differs from an MTF in that the customer orders of a bank are matched internally against each other.

In this setting TRADEGATE® ranks as an MTF, even though all orders are only executed against quotes from Tradegate AG. This is because a system is also classed as being multi-lateral whenever a number of orders of different origins come up against the quotes of a market maker. However, the market maker should not at the same time be the bank with which the customer has placed his order; otherwise it would be a systematic internaliser.

The image is a composite of three parts. On the left, a computer screen displays the URL 'http://www.tra...'. In the center, a hand-drawn diagram shows a central box labeled 'DATABASE' with three arrows pointing to it from boxes labeled 'USERS', 'ORDERS', and 'ENTRIES'. Below these boxes are lists of fields: 'USERS' (password, username, mcpid id), 'ORDERS' (orderid, mcpid id, username, password, ordertitle, orderticket, ordertime, ordertext), and 'ENTRIES' (mcpid id, orderticket, ordertime, ordertitle, orderticket, ordertime, ordertext). On the right, a person's hand is visible holding a pen, positioned as if writing or pointing at the diagram.

>>TRADEGATE® is best equipped to meet the requirements of MiFID and FRUG.<<



The classification of the TRADEGATE®-System as an MTF is important because in line with the “best execution policy” (see a) above) it holds significant relevance. This “policy” obliges the banks that receive customer orders to execute these orders at the best possible rate. Here they not only have to compare stock exchanges (as is the rule up to now) but also the possibilities of execution via an MTF or systematic internaliser. Thus the law obliges all banks to examine their customers’ needs on the one hand, and on the other to analyse and choose from those available the trading place with the appropriate quality features.

In relation to the customer needs that have to be taken into account, MiFID sets minimum standards, the so called “order execution criteria”. These include the price of a security, and the cost, probability, speed and size of the execution. These criteria are not, however, equally weighted.

So, with the introduction of MiFID the price of a security will remain the most important factor. Since on sundry market places there will be hardly any difference in the price of high turnover securities, and the criteria related to the execution of such securities will not differ from one trading entity to another, execution costs will gain a significance that goes far beyond their importance today. In the case of securities in narrow markets, that is with low turnover, besides the price and costs speed and security of execution play a particularly important role.

In all these criteria the trading system TRADEGATE® is in an excellent position. As described, the prices of high turnover securities generated on TRADEGATE® are no worse than on the reference markets (for example on the Deutsche Börse’s trading system, Xetra), but the costs are much lower because, among other reasons, there are no transaction fees. This ought to attract the customer’s attention because in future banks will have to make detailed disclosure of the execution costs (see b) above). On narrow markets the market maker system with its quote request procedure on TRADEGATE® offers additional safety and speed of execution.

Finally, with regard to the pre trade transparency required by MiFID (see c) above – it is demanded that the highest limited buying order and the lowest limited selling order be made public, together with the tradable volume at that price, or the “depth of trading interest”) the TRADEGATE®-System has always met these requirements right from the beginning. TRADEGATE® is a market maker system and so publishes the best bid and ask prices out of its own interest. Since TRADEGATE® was conceived for the private investor, for whom the price plays a significant role when choosing where to trade, TRADEGATE® can pass on its quality and competitive ability to the investor through the publication of attractive buying and selling bids. Furthermore, with regard to price transparency TRADEGATE® aims to treat its private investors just like institutional clients, which means that before the conclusion of a business transaction all information that has an influence on the price is made available.

The same goes for the necessary post trade transparency (see c) above): if a sale takes place TRADEGATE® publishes the relevant information on it immediately. Each trade of a security represents valuable information for the market since at the given price a certain number (also specified) of securities has been converted. Thus, via the pre and post trade transparency, all significant price information pertaining to a security is publicly available and can be taken into account when making an investment decision.

All in all the banks should be much more than previously obliged to consider the offer of the TRADEGATE®-System when forwarding their customers’ orders.

One last look at the new regulations should be given to the section on the protection of investors. If one compares the effective rules for MTFs with those for the classic markets one might get the impression that investor protection is not as intense and universally guaranteed as on a stock exchange: contrary to the stock exchanges an MTF does not have to establish a market surveillance unit. Nor are there any stock exchange regulations, the authorisation of which the supervisory authorities have the possibility to influence. It is also an open question whether the regional stock exchange supervisory authorities are primarily responsible for monitoring, or the BaFin (Federal Financial Supervisory Authority).

However, a glance at the currently valid rules for MTFs shows that here, too, a high supervisory standard is to be achieved. For example, the fact that the regulations on price fixing on MTFs have to comply with stock exchange guidelines shows that in their key function the same quality standards apply to both stock exchanges and MTFs. Other rules which also can be compared with stock exchange guidelines aim to ensure that appropriate protection of investors is guaranteed when trading on an MTF.

Similarly, the supervisory body of the Securities Trade Act and the German Banking Act appear to be adequate. The BaFin has the right to take measures in order to prevent infringements against supervisory regulations, or to avert or correct grievances within companies. The duty of disclosure and obligation to report provide the supervisory authorities with a regular flow of information on all significant developments. Overall, then, the regulations on the form of an MTF and the supervisory instruments available are sufficient to guarantee a protection of investors comparable with that of the stock exchanges.



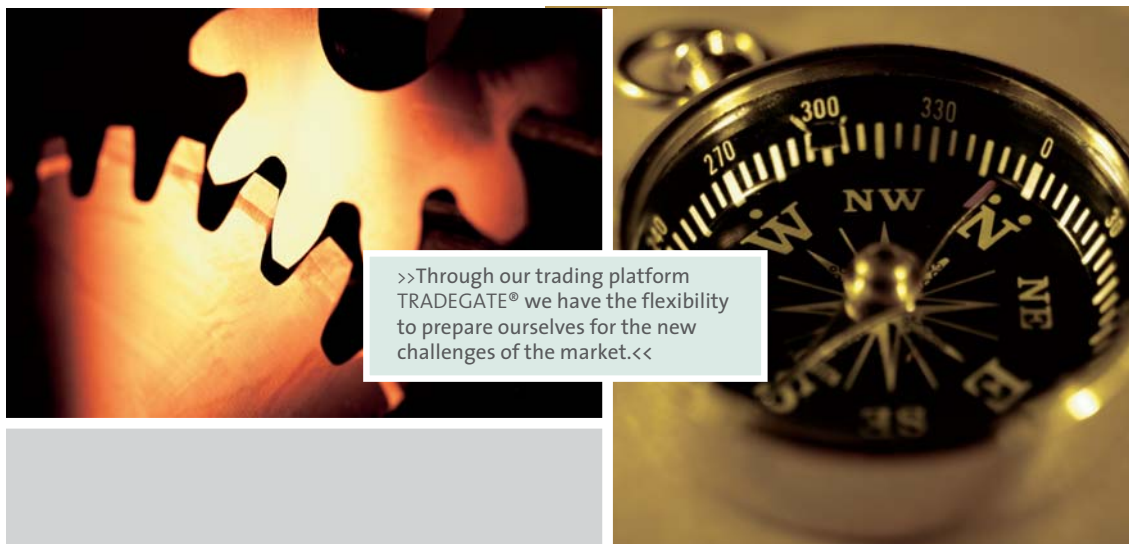
## FUTURE PROSPECTS

### > QUO VADIS, TRADEGATE®?

In the business of securities transactions one thing that can be relied on is change. Whether it be radical changes in the stock exchange environment, new European guidelines, German or international regulations on financial accounting – hardly a year goes by without the external parameters of the business changing, sometimes quite dramatically.

The areas immediately surrounding our field of activity are also marked by continuous change. Back in the year 2000 we were already offering our customers the possibility of making limit orders in off-exchange trading. The public's interest could be described truthfully as worse than lukewarm. By the end of 2006, however, the item limit orders was again at the top of the list of private investors' wishes. Since our customers have begun to activate this service for their investors, further growth in off-exchange business can be expected.

Whatever the market calls for, the Tradegate AG Wertpapierhandelsbank is well prepared. With our trading platform TRADEGATE® we have the flexibility to attune to new demands of the market, whether they be different order types, additional customers, changed trading hours or new products.

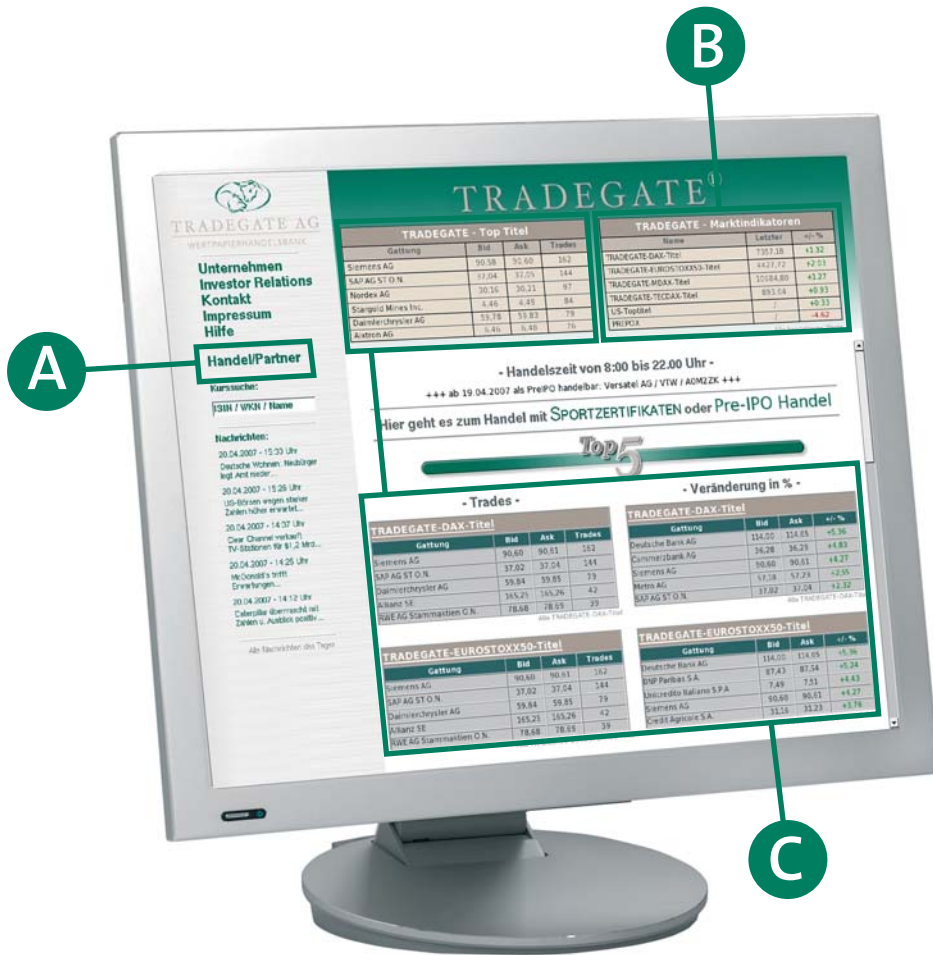


www.tradegate.de

www.tradegate.de provides you with the most important information at a glance:

**What's happening on the markets? Which security is most heavily traded? Where are the most sales being made?**

You can find detailed information by clicking on the heading of your choice.



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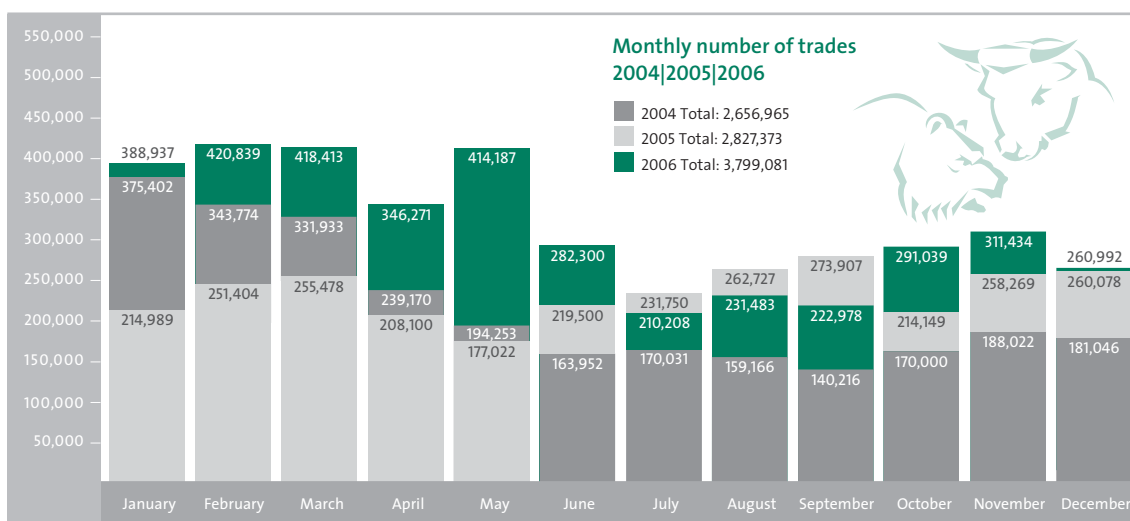
### Report of the Board for the year 2006 of the Tradegate AG Wertpapierhandelsbank

When a young business enters the “trading floor” for the first time and is opened up to new shareholders for growth capital this is usually a big and important step for the company. Likewise great importance is attached to the first annual report published and the first annual general meeting. In contrast, the IPO onto the Entry Standard of the Frankfurt Stock Exchange that took place in 2006 was an unusual déjà-vu experience for the institutions and shareholders of our company and, at this point, for all new shareholders we should take a quick look into the past.

The history of the company Tradegate AG, with its different legal forms and names, already stretches back over a period of twenty years, during which it has gathered experience as one of the most dynamic and innovative financial service companies in Germany. The first IPO of the company as the “Berliner Freiverkehr (Aktien) AG took place back in 1997, and with a price increase per share of DM 100 to about DM 4,000 was certainly one of the most successful IPOs of those turbulent years. Only one year later the company was restructured as a pure financial holding (today's Berliner Effektengesellschaft AG) and the operative business of today's Tradegate AG was spun off as a 100 % subsidiary under the name “Berliner Freiverkehr (Aktien) Handel AG”. The fact that the company has carried out an IPO for the second time in nine years, and the context of the change of name during 2006 to Tradegate AG Wertpapierhandelsbank marks a notable and well considered milestone in the company's history, and it is not just coincidence that this happened alongside considerable paradigm shifts in the increasingly globalised business of securities trading. Of our current shareholders the majority has been with us from the very beginning; those who, as shareholders of the parent company Berliner Effektengesellschaft AG, had preferential rights to subscribe for shares, and who have closely followed the development of the company over the past nine years. Hence this annual report is meant to progressively tie in with the indirect reports within the group's annual report in which Tradegate AG has always played a large part.

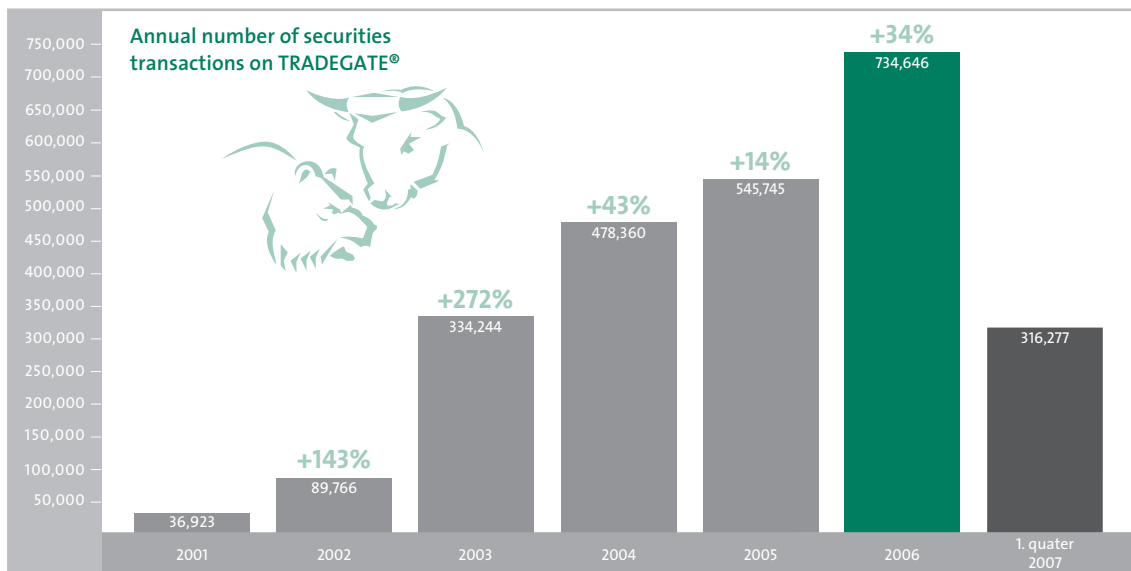
For the business year 2006 the Tradegate AG earned a profit after tax of € 3.738 M compared with € 1.458 M the previous year. This increase of around 156 % is certainly good news, especially if one compares it with the much more moderate rise of “only” 34 % in all completed securities transactions, from 2.83 M to 3.8 M trades. A glance at the number of securities transactions in individual months of the last three years, however, also points to a problem and highlights how difficult it is for the management to plan turnover and profits reliably. Once again the year 2006 was

marked by substantial turnover fluctuations in the course of the year. While the months January to May showed significant turnover gain compared with the previous year thus predominantly influencing the business result for the whole year, from June to September a definite reticence from private investors was recorded so that in these months the critical mass for a profitable business operation could not be achieved. Only as of October 2006 was there once again a positive increase in trade figures.



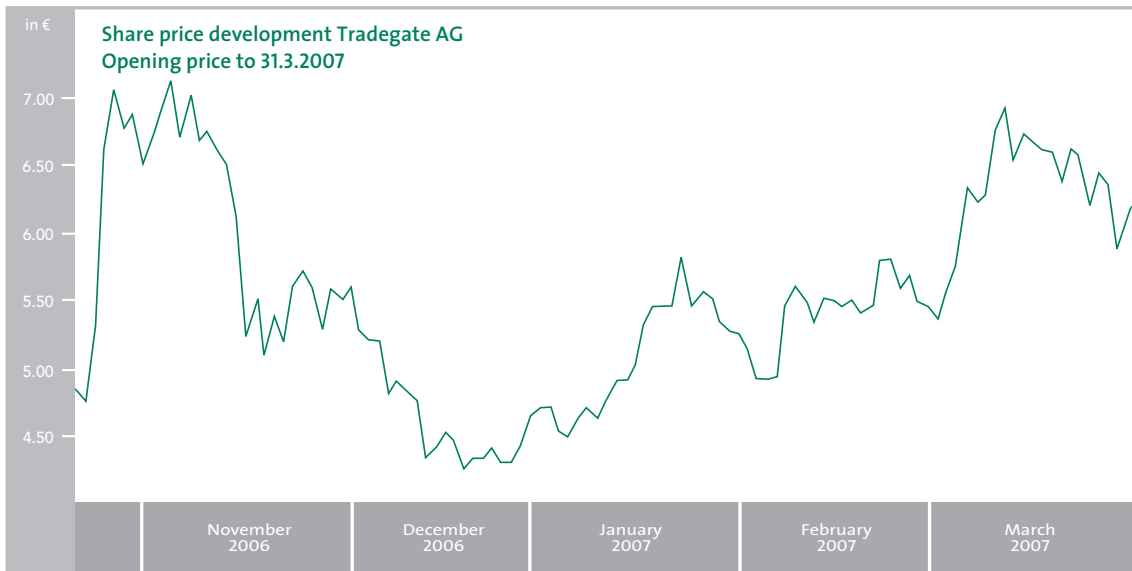
With its historical key business activity as so-called order book manager on the Frankfurt and Berlin/Bremen stock exchanges the company is largely dependent on the market environment and to an even greater extent on the behaviour of private investors. Rising indices do not necessarily lead to an increased number of trades. Precisely last year, with its spectacular DAX increase, shows that the bull market sometimes happens without the private investor. Another important factor for the earning power of the company is based on the particular focus of investment by private investors. So the trading in over 10,000 international second-line stocks, the area in which Tradegate AG is specialised, is much more lucrative than trading with standard stocks and bonds.

The dependence on the market environment in general and the role of “service-deliverer” for stock exchanges led us, back in the year 2000, to consider opening up an additional source of income for the company by developing our own trading platform. As a powerful and cost effective market competitor this would allow an increased business volume even in years of weaker turnover. The investment and effort involved in developing the off-exchange trading platform TRADGATE® in the years 2001 to 2006 were considerable, but in the opinion of the management urgently necessary to give the company a long term future perspective.



The diagram illustrating the total number of transactions on TRADEGATE® over the past years clearly shows how painstaking and drawn-out the realisation of such a strategic project is. Of course, a trading platform always experiences a spurt of growth whenever new customers are acquired and electronically connected, or when new products and trading methods can be put into effect.

The autumn of 2006 represents an important milestone for our company, although this would not be immediately recognisable for an outsider. Not until then, by achieving the critical mass of securities transactions for the first time did the development and growth phase of our trading platform come to an end. This means that from that point onwards, with any future growth in turnover a corresponding increase in earnings for Tradegate AG is to be expected. In this context, the reasons for the change of company name and the date chosen for the IPO can be clearly understood. Both measures support and clarify the most likely increasing shift of focus of our company's activity in the years to come. The dealings on TRADEGATE® in the first quarter of 2007 and promising negotiations with prospective customers give the management cause to look to the future with optimism, as the next weak phase of the market can be much better compensated for by growth on TRADEGATE® than in the past.



The chart showing the share price of Tradegate AG since IPO is of course not yet meaningful; it does show, however, that the second début of our company onto the capital market was successful. The rapid price increase of over 250 % directly after listing was apparently followed by profit-taking at the end of the year. At the beginning of the new year the volatility diminished and the share now finds itself in calmer waters with a hopefully stable and long term upswing. For the business year 2006 the company will pay a dividend of € 0.15 per share and aims to maintain the policy of profit distribution over the next years. In any case, with an equity capital of over € 40 million the company is well equipped to undertake additional future investments at any time, even during considerable growth, without making a capital increase.

First and foremost, the management would like to thank our ever creative and conscientious employees whose dedication is our success, and whose loyalty to the company we wish to keep through the payment of bonuses and the issue of employee share options. Naturally we also hope to win long term and committed shareholders for Tradegate AG, just as we were able to do for the Berliner Freiverkehr (Aktien) AG back in 1997.





**26** Annual financial statements of the Tradegate AG Wertpapierhandelsbank

26	Assets
27	Equities and liabilities
28	Income statement
30	Notes to the financial statements 2006
41	Management report
53	Auditors' report

**54** Report of the Supervisory Board**56** Contact | imprint

BALANCE SHEET : ASSETS Tradegate AG Wertpapierhandelsbank as at 31 December 2006	in € 31 · 12 · 2006	in € 31 · 12 · 2006	in € 31 · 12 · 2005
1) Cash reserves			
a) cash balance	144.74	144.74	302.12
2) Receivables from banks			
a) due daily	18,240,936.31		7,740,701.29
b) other receivables	8,937,699.46	27,178,635.77	15,927,352.41
3) Receivables from customers		457,432.18	225,208.70
of which:			
financial services institutions	251,302.46		190,252.91
4) Bonds and other fixed-interest securities			
a) money market securities			
aa) from other issuers	-		2,499,202.19
of which: lendable from the Deutsche Bundesbank	-		-
b) loans and bonds			
ba) from other issuers	333,263.95	333,263.95	449,449.75
of which: lendable from the Deutsche Bundesbank	-		-
5) Shares and other non-fixed securities		16,892,958.89	11,240,261.17
6) Intangible assets		244,426.00	132,744.00
7) Tangible fixed assets		507,329.00	638,149.00
8) Other current assets		349,563.57	174,127.07
9) Prepaid and deferred expenses		38,284.80	35,792.97
<b>Total assets</b>		<b>46,002,038.90</b>	<b>39,063,290.67</b>

BALANCE SHEET : EQUITY AND LIABILITIES Tradegate AG Wertpapierhandelsbank as at 31 December 2006	in € 31 · 12 · 2006	in € 31 · 12 · 2006	in € 31 · 12 · 2005
1) Liabilities to banks			
a) due daily	2,935,118.60	2,935,118.60	565,567.96
2) Liabilities to customers		248,079.69	254,094.49
of which:			
financial services institutions	248,079.69		254,094.49
3) Other liabilities		278,310.77	1,258,857.69
4) Prepaid and deferred expenses		38,443.68	-
5) Provisions and accruals			
a) tax provisions	849,913.98		155,678.32
b) other provisions	748,172.55	1,598,086.53	513,584.85
6) Shareholders' equity			
a) subscribed stock	24,150,000.00		23,000,000.00
b) capital reserves	1,933,656.78		783,656.78
c) revenue reserves			
ca) statutory reserves	1,516,343.22		97,207.27
cb) other revenue reserves	9,681,499.63		9,565,507.36
d) net profit	3,622,500.00	40,903,999.63	2,869,135.95
<b>Total equity and liabilities</b>		<b>46,002,038.90</b>	<b>39,063,290.67</b>

INCOME STATEMENT Tradegate AG Wertpapierhandelsbank for the period from 01.01.2006 to 31.12.2006	in € 1 · 1 – 31 · 12 · 2006	in € 1 · 1 – 31 · 12 · 2006	in € 1 · 1 – 31 · 12 · 2006	in € 1 · 1 – 31 · 12 · 2005
1. Interest earned from				
a) credit and financial market business	537,191.31			422,540.88
b) fixed-interest securities and government ledger bonds	19,411.56	556,602.87		63,832.50
2. Interest paid		- 0.36	556,602.51	- 1,506.64
3. Current earnings from				
a) securities and other non fixed-interest securities			210,447.46	158,289.85
4. Commissions received		8,312,067.29		5,561,661.37
of which: broker's commission	8,043,422.27			5,323,630.26
5. Commissions paid		- 6,831,874.37	1,480,192.92	- 4,318,332.47
of which: broker's commission	- 3,630,853.76			- 2,636,945.88
6a. Earnings from financial transactions		42,848,489.99		22,979,544.37
of which:				
aa) securities	15,886,735.17			4,849,207.99
ab) foreign exchange differences from designation of the counterparty transactions	26,959,861.08			18,128,524.15
6b. Expenses from financial transactions		- 29,777,654.41	13,070,835.58	- 15,058,483.53
of which:				
ba) securities	- 12,702,096.94			- 3,150,935.38
bb) foreign exchange differences from designation of the counterparty transactions	- 17,073,699.85			- 11,840,599.92
7. Other operating profits			514,676.04	1,120,896.90
8. General administration				
a) personnel expenses				
aa) wages and salaries	- 5,059,584.38			- 3,965,190.00
ab) social security payments and expenses for retirement provisions	- 717,876.37	- 5,777,460.75		- 659,218.64
of which: € 31,521.02 for retirement provisions				30,730.50
b) other administration expenses		- 4,859,756.64	- 10,637,217.39	- 4,264,942.55

	in € 1·1 – 31·12·2006	in € 1·1 – 31·12·2006	in € 1·1 – 31·12·2006	in € 1·1 – 31·12·2005
9. Write-offs and value adjustments on intangible assets and tangible fixed assets			- 309,366.81	- 357,099.43
10. Other operating expenses			- 127,984.17	- 67,462.51
11. Write-offs and value adjustments on receivables and certain securities and on allocations to provisions and accruals in the credit business			-	- 19,412.87
12. Earnings from write-ups to receivables and certain securities and from the release of provisions in the credit business		15,215.83	15,215.83	-
<b>13. Result from ordinary activities</b>			4,773,401.97	1,595,117.23
14. Income and profit taxes		- 1,034,909.70		- 137,101.59
15. Other taxes, unless recorded under item 10		-	- 1,034,909.70	-
<b>16. Net income for the year</b>			3,738,492.27	1,458,015.64
17. Withdrawals from revenue reserves				
a) from other revenue reserves		-	-	1,508,327.58
18. Allocations to the revenue reserves				
a) to statutory reserves		-		- 97,207.27
b) to other revenue reserves		- 115,992.27	- 115,992.27	-
<b>19. Net profit</b>			3,622,500.00	2,869,135.95

## A. GENERAL INFORMATION ON THE CLASSIFICATION OF THE FINANCIAL STATEMENTS AND ON ACCOUNTING AND VALUATION METHODS

### > Preparation of the financial statements

The financial statements of the Tradegate AG Wertpapierhandelsbank, formerly Berliner Freiverkehr (Aktien) AG, for the year ended 31 December 2006 were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV) – (Bank Accounting Directive), as last amended on 22 May 2005.

The classification of the financial statements is made in accordance with the RechKredV; the step-down report has been chosen for the profit and loss statement.

The financial statements were prepared in €.

### > Accounting and valuation principles

Accounting and valuation principles correspond with statutory regulations.

Receivables from banks and customers are shown at their nominal value. Securities are defined in Section 7 RechKredV; in the balance sheet at 31 December 2006 we show them under the items “bonds and other fixed-interest securities” and “stocks and other non-fixed interest securities”. When stating profits/expenses we distinguish in the case of securities between trading stocks, stocks of the liquidity reserve (securities which are treated neither as fixed assets nor as part of the trading stock), and securities that are treated as fixed assets. In the first two cases, these are current assets which are stated strictly observing the principle of lower of cost or market, for each type of security, at the continuously determined average values or lower values on the balance sheet date. Securities that are treated as fixed assets are not included in the balance sheet.

Recognisable risks have been accounted for with value adjustments, provisions and accruals.

We have valued intangible assets and tangible fixed assets at acquisition or production costs and, where possible, allowed for book depreciation on a straight-line basis. Low-value fixed assets are written off in full in the year of acquisition and booked out.

Liabilities, as far as they are interest bearing, are stated at their repayment amount. Non-interest-bearing liabilities, if any, are shown at cash value. Delivery liabilities arising from going short on securities are shown at the value of the securities at the time of sale under liabilities to banks.

We have formed provisions and accruals for taxes, uncertain liabilities and impending losses from pending transactions to the amount of their probable utilisation on the basis of reasonable commercial judgement. Provisions were made for impending losses from going short on securities and pending name-to-follow transactions.

Proportionate interest determined at the balance sheet date is shown under the underlying receivables or liabilities.

### > Currency exchange

The valuation of assets and debts denominated in foreign currency has been made in accordance with the provisions of Section 340 h HGB. A variance occurs for those stocks quoted on a stock exchange in € and whose nominal value or computed

nominal value (for example individual shares) is denominated in a foreign currency. These might be stocks of US-American companies whose capital is denominated in US-\$. We have recorded these securities, observing the principle of lower of cost or market, at their acquisition costs or at the closing rates determined in € on a German stock exchange as at 29 December 2006.

All other assets and debts denominated in foreign currencies were converted at reference rates of the European Central Bank or, in cases where no reference rates were available, at the average rates on the foreign exchange market on the balance sheet date. For the balance sheet items, providing the assets and liabilities positions were in the same currency, the method of simply covered assets and debts was applied and the option taken pursuant to § 340 HGB to exclusively realise losses from currency conversion.

## B. NOTES TO THE BALANCE SHEET

### > Classification of remaining terms

The classification of remaining terms is as follows:

	in € 2006	in € 2005
<b>Other receivables from banks</b>		
a) up to three months	8,937,699.46	15,927,352.41
b) more than three months and less than one year	0.00	0.00
c) more than one year and less than five years	0.00	0.00
d) more than five years	0.00	0.00
	8,937,699.46	15,927,352.41
<b>Receivables from customers</b>		
a) up to three months	0.00	0.00
b) more than three months and less than one year	0.00	0.00
c) more than one year and less than five years	0.00	0.00
d) more than five years	0.00	0.00
e) indefinite time period	457,432.18	225,208.70
	457,432.18	225,208.70

### > Receivables from and liabilities to affiliated companies

Classification according to balance sheet item	in '000 € 2006	in '000 € 2005
Receivables:		
Receivables from banks	-	17,458
Receivables from customers	-	-
Other current assets	-	8
Prepaid and deferred expenses	-	8
<b>Total</b>	-	17,474
Liabilities:		
Liabilities to banks	-	-
Liabilities to customers	-	-
Provisions	-	-
Other liabilities	6	816
<b>Total</b>	6	816

The drop in values is explained by the change in basis of consolidation of the Berliner Effektengesellschaft AG. Up until 30 September 2006 the quirin bank AG was an affiliated company of the Tradegate AG Wertpapierhandelsbank to which significant items were allocated last year.

### > Total amount of all assets and debts denominated in foreign currency

The amounts represent the sums of the equivalents in € of the most variable currencies. The difference does not indicate any exposed foreign currency positions.

	in '000 € 2006	in '000 € 2005
Assets	2,079	1,380
Debts	307	531



## &gt; Securities marketable on the stock exchange

	in '000 € 2006	in '000 € 2005
<b>Listed on a stock exchange</b>		
Bonds and other fixed-interest securities	333	149
Stocks and other non-fixed interest securities	3,966	1,975
Stocks in affiliated companies	0	0
<b>Not listed on a stock exchange</b>		
Bonds and other fixed-interest securities	0	2,800
Stocks and other non-fixed interest securities	12,776	9,265
Stocks in affiliated companies	0	0

Except for shares to the book value of € 151,000.00, all securities held are all marketable on the stock exchange.

Remaining term	less than one year	from one to five years	more than five years	indefinite	total
Book value in '000 €	0	26	3	304	333

The shares not listed on the stock exchange and other non-fixed interest securities include € 812,000.00 marketable shares, € 10,000,000.00 shares in an equity fund and € 1,964,000.00 in money market funds.

## &gt; Development of fixed assets

	in € Acquisition costs	in € Additions in the business year	in € Disposals in the business year	in € Rebooking	
<b>Intangible assets</b>					
Software	1,255,383.32	178,775.23	-	-	
Payments on intangible assets	-	-	-	-	
<b>Intangible assets</b>	<b>1,255,383.32</b>	<b>178,775.23</b>	<b>-</b>	<b>-</b>	
<b>Tangible fixed assets</b>					
Business and office equipment	4,235,858.85	111,947.75	22,464.56	-	
<b>Total tangible fixed assets</b>	<b>4,235,858.85</b>	<b>111,947.75</b>	<b>22,464.56</b>	<b>-</b>	
<b>Total fixed assets</b>	<b>5,491,242.17</b>	<b>290,722.98</b>	<b>22,464.56</b>	<b>-</b>	

## &gt; Other current assets

The position "other current assets" contains those items which cannot be subsumed under other balance sheet items on the assets side. They relate mainly to receivables from the tax authorities due to overpaid taxes for the assessment periods 2000 and 2005 which amount to € 72,000.00 and corporate tax credits of € 277,000.00.

## &gt; Other liabilities

The position "other liabilities" contains those items which cannot be subsumed under other balance sheet items on the equity and liabilities side. Of the € 278,000.00, € 189,000.00 relate to liabilities and accruals and deferrals based on deliveries and services, € 64,000.00 to income tax not yet paid, and € 22,000.00 to sales tax to be paid to the parent company. In line with the evaluation of foreign currency in "receivables and liabilities" it was necessary to create a foreign currency balancing item for unrealised gains to the amount of € 3,000.00.

At the balance sheet date for last year € 559,000.00 prepaid and deferred expenses were included here for the settlement services of the quirin bank AG, as the service had been used but no invoice made. As at 31 December 2006 invoices existed for the settlement services used and entered under "liabilities to banks".

	in € Write-offs in total	in € Write-offs in the business year	in € Residual book value at 31.12.2006	in € Residual book value in previous year
	1,189,732.55	67,093.23	244,426.00	132,744.00
	-	-	-	-
	1,189,732.55	67,093.23	244,426.00	132,744.00
	3,818,013.04	242,273.58	507,329.00	638,149.00
	3,818,013.04	242,273.58	507,329.00	638,149.00
	5,007,745.59	309,366.81	751,755.00	770,893.00

#### > Provisions and accruals

Under provisions and accruals items have been placed which belong in the income statement for the business year 2006 or earlier, but do not yet have a fixed amount or date of maturity. The classification of the other provisions and accruals can be seen in the following table:

Provisions and accruals for	in '000 € 31 · 12 · 2006	in '000 € 31 · 12 · 2005
Personnel costs	191	269
Cost of annual financial statements	127	64
Impending losses from settlement agreement	120	0
Rebuilding costs	90	84
Contributions to associations	40	12
Stock exchange fees for the flotation of securities	39	11
Cost of securities settlement	27	0
Impending losses from pending transactions	21	31
Stock exchange fees for the use of electronic data	18	0
Advisory and auditing services	11	5
Additional property expenses	7	17
Impending losses from going short	4	12
Other expenses	53	8
<b>Total</b>	<b>748</b>	<b>513</b>

### > Capital stock/subscribed stock

As at 31 December 2006 the subscribed stock amounted to € 24,150,000.00. A capital increase for cash of € 1,150,000.00 was made last year. The capital stock of the corporation is thus divided into 24,150,000 nominal shares. The largest shareholder and parent company in terms of § 290 HGB (German Commercial Code) is the Berliner Effektengesellschaft AG, which is also the highest-level company in the group. The Tradegate AG Wertpapierhandelsbank is included in the parent company's group financial statements, which are published in the Federal Bulletin and filed at the local court in Charlottenburg.

Following a resolution passed at the annual general meeting on 31 March 2006, contingent capital of € 2,300,000.00 was made available for convertible bonds and/or warrants to be issued by the company up until 30 June 2008.

Furthermore, approved capital exists to the amount of € 11,500,000.00. At the annual general meeting on 31 March 2006 the board of management was authorised to increase the capital stock of the company, once or more than once, by issuing new bearer shares against cash and/or non-cash contribution.

### > Capital reserves

In the course of the capital increase for cash during the business year, a contribution of € 1,150,000.00 was made to the capital reserves.

### > Revenue reserves

Due to the resolution of the annual general meeting of 31 March 2006, the revenue reserves increased by € 1,419,135.95. The capital reserves and the legal reserves together amounted to more than 10 % of the subscribed stock according to the requirement of § 150, section 2 of the Companies Act. Thus no allocation to legal reserves was necessary. The managing board allocated € 115,992.27 from the annual surplus to other revenue reserves.

Providing the managing board and the supervisory board approve the annual financial statements, they can put the amount that exceeds half of the year's profit into the other revenue reserves until half the amount of capital stock is reached.

## C. EXPLANATIONS TO THE INCOME STATEMENT

### > Profits and expenses from financial transactions

The "profits and expenses from financial transactions" are earnings or losses which arise from the purchase and sale of financial instruments, especially securities, as a result of market price fluctuations. Write-offs on trading stocks are dealt with separately. They are shown under "profits" or "expenses from financial transactions a) securities". Furthermore, differences on name-to-follow transactions are shown here under the sub-item b). In the past business year there were no profits or expenses from futures or options. The results from foreign exchange positions arising in connection with trading stocks in securities are included in the total amount.

### > Commission earnings and expenses

The "commission earnings and expenses" contain earnings and expenses that arise during business operation from invoices for the use of financial services. These include, among other things, invoices from the settlement bank for the costs of securities settlement. Broker's fees and costs are booked pre-tax each trading day.

### > Other operating profits

The position "other operating profits" contains items which are not related directly to actual business. The most important amounts of the total of € 515,000.00 are € 416,000.00 from cost allocations to affiliated companies, € 38,000.00 other cost allocations and € 26,000.00 proceeds from the dissolution of provisions and accruals. Following the final notification of the Department of Securities Trading of the Federal Financial Supervisory Authority, we have received a rebate of € 23,000.00 for the year 2005.

### > Expenses in other accounting periods

The position "other administration expenses" does not contain expenses in other accounting periods.

### > Taxes

The income and profit taxes pertain to taxes for the last year from normal business activities and estimated taxes and provisions for 2006. The provisions for tax prepayments in the reporting period 2006 amount to € 790,000.00. Meanwhile, a draft report of the external audit carried out by the Tax Office for Corporations I in Berlin covering the years 2000 to 2002 is now available. On the basis of this draft report we have made provisions and accruals for back duties of € 20,000.00 plus € 5,000.00 for interest. In return we expect a refund of business tax of € 23,000.00.

## D. OTHER INFORMATION

### > Other financial obligations

Obligations of € 2,735,000.00 exist for rental, leasing and servicing contracts. They relate mainly to rental contracts valid until 31 December 2009 for office premises.

The Tradegate AG Wertpapierhandelsbank has guaranteed credits with the quirin bank AG and the Delbrück Bethmann Maffei AG. The total amount stands at € 8,356,000.00. The guaranteed credits serve mainly as security required by the Stock Exchange Act for risks from the settlement of name-to-follow transactions and foreign exchange differences. We have mortgaged assets and securities for the amount corresponding to the guaranteed credits.

Through its membership in the Compensatory Fund of Securities Trading Companies (EdW) the company may have to pay special costs as a result of the liability case of the Phoenix Kapitaldienst GmbH. According to reports in the press, the damages are estimated to be € 200 million which the compensatory fund would have to pay. It has been said that the fund does not have the necessary reserves at its disposal so that at the moment it is being discussed whether this can be financed by allocating costs to member companies, spread over several years if necessary. Although Tradegate AG does not itself engage in business which might involve compensation it is still, by law, required to be a member of the compensatory fund. Both the company and the association to which it belongs are questioning the legitimacy of the current safety system. Should Tradegate be required to pay costs, legal steps will be taken.

**> Employees**

The number of employees developed as follows:

	female	male	total
<b>Average of the year</b>			
Board members	1.0	2.0	3.0
Traders	7.3	28.8	36.1
Other employees	11.0	16.3	27.3
Maternity leave	2.5	-	2.5
Student trainees	0.5	5.0	5.5
Trainees	-	-	-
<b>Total</b>	<b>22.3</b>	<b>52.1</b>	<b>74.4</b>
of which part-time employees (headcount)	3.5	6.3	9.8
of which part-time employees (in terms of full-time positions)	2.6	2.2	4.8
<b>as at 31 December 2006</b>			
Board members	1	2	3
Traders	7	31	38
Other employees	11	16	27
Maternity leave	2	-	2
Student trainees	-	5	5
Trainees	-	-	-
<b>Total</b>	<b>21</b>	<b>54</b>	<b>75</b>
of which part-time employees (headcount)	3	6	9
of which part-time employees (in terms of full-time positions)	2.2	1.9	4.1

### > Corporate bodies of the Tradegate AG Wertpapierhandelsbank

According to § 285 No. 10 HGB, listed below as at 31 December 2006 are the members of the board and the members of the supervisory board as well as their memberships of supervisory boards and comparable managing bodies in domestic and foreign business establishments.

#### MEMBERS OF THE BOARD

**Jörg Hartmann, Berlin**

Occupation held: exchange trader, domestic securities trading department

**Holger Timm, Berlin**

Occupation held: Chairman of the Board and Speaker of the Board of the parent company

Other positions:

Chairman of the Subversory Board

quirin bank AG, Berlin

Deputy Chairman of the Subversory Board

quirin business support AG, Leipzig

Member of the Supervisory Board

Ex-tra Sportwetten AG, Vienna, Austria

EuroChange AG, Berlin

Ventegis Capital AG, Berlin

**Kerstin Timm, Berlin**

Occupation held: exchange trader, foreign securities trading department

**Thorsten Commichau, Berlin (since 1.1.2007)**

Occupation held: development and marketing of the off-exchange information and trading platform, TRADEGATE®

#### MEMBERS OF THE SUPERVISORY BOARD

**Prof. Dr. Jörg Franke, Frankfurt am Main**

Occupation held: Chairman of the Supervisory Board of Tradegate AG Wertpapierhandelsbank, Berlin (since 16.2.2006)

Other positions:

Chairman of the Subversory Board

Berliner Effektengesellschaft AG, Berlin (Member since 1.2.2006, Chairman since 31.3.2006)

RTS Realtime Systems (Deutschland) AG, Frankfurt am Main

Ventegis Capital AG, Berlin

Ex-tra Sportwetten AG, Vienna, Austria

Deputy Chairman of the Subversory Board

Berliner Börse AG, Berlin

Zweitmarkt PLUS AG, Berlin (since October 2006)

Member of the Subversory Board

Europäische Warenterminbörse Beteiligungs AG, Hannover

Chairman of the Stock Exchange Council

Berlin-Bremen Stock Exchange, Berlin and Bremen

Member of the Board

Federal Association of Financial Intermediaries on the German Stock Exchanges, Berlin and Frankfurt am Main

Member of the Advisory Board

Industrie- und Handelsunion, Dr. Wolfgang Boettger GmbH und Co. KG, Berlin

Deutsch-Asiatischer Wirtschaftskreis e. V., Frankfurt am Main (since October 2006)

**Wolfgang Hermanni, Berlin, (Chairman until 16.2.2006)**

Occupation held: businessman

Other positions:

Chairman of the Subversory Board

Berliner Effektengesellschaft AG, Berlin (until 31.3.2006)

EuroChange AG, Berlin

Member of the Subversory Board

Berliner Effektengesellschaft AG, Berlin (since 31.3.2006)

**Dr. Andor Koritz, Berlin (Deputy Chairman)**

Occupation held: lawyer

Other positions:

Member of the Subversory Board

Berliner Effektengesellschaft AG, Berlin

quirin bank AG, Berlin

quirin business support AG, Leipzig

#### > Remuneration of corporate bodies

The members of the board of Tradegate AG Wertpapierhandelsbank received remuneration of € 779,000.00 of which € 5,000.00 was accounted for by benefits in kind from the stock option scheme 2004 and from group accident insurance. The supervisory board received remuneration of € 26,000 including value-added tax.

#### > Proposal on the allocation of the unappropriated profits

Based on the resolution of the annual general meeting, € 1,450,000.00 from the total of € 2,869,135.95 of last year's accumulated profits was distributed to the then sole shareholder, the Berliner Effektengesellschaft AG. A further € 1,419,135.95 was allocated to other revenue reserves. At the annual general meeting the board of management suggests distributing in full the accumulated profits of 2006, € 3,622,500.00, as a dividend. This is equal to a dividend of € 0.15 per share.

Berlin, 31 January 2007

Tradegate AG Wertpapierhandelsbank

*Holger Timm*

*Kerstin Timm*

*Jörg Hartmann*

*Thorsten Commichau*



## MANAGEMENT REPORT OF THE TRADEGATE AG WERTPAPIERHANDELSBANK FOR THE YEAR ENDED 31 DECEMBER 2006

### 1. FOREWORD

The structure of the management report primarily follows the rules adopted by the German Accounting Standards Committee e.V. and recorded in the German Accounting Standard 15.

### 2. BUSINESS AND STRATEGY

#### 2.1 Organisation and business areas

The company is authorised by the Federal Financial Supervisory Authority (BaFin) to operate in the following business areas:

Investment agent (§1 section 1a subsection 2 No. 1 KWG [German Banking Act])  
 Acquisition agent (§ 1 section 1a subsection 2 No. 2 KWG)  
 Own-account trading for others (§1 section 1a subsection 2 No. 4 KWG)

The authorisation includes the right to trade with financial instruments for own account.

On 21 July 2003 the authorisation was extended to include the following business areas:

Financial commission business (§ 1 section 1 subsection 2 No. 4 KWG)  
 Investment banking (§ 1 section 1 subsection 2 No. 10 KWG).

The company has not yet activated the investment banking business.

For the purpose of operating its business the company acts as order book manager on the Frankfurt and Berlin stock exchanges, has further admissions to listing on the stock exchanges in Munich, Stuttgart, Düsseldorf and Vienna, is designated sponsor on XETRA® and, as an additional focus, runs its own off-market trading platform TRADEGATE®.

The company considers itself to be a so-called liquidity provider or market maker and provides continuous bid and ask prices for around 10,450 categories of security, mainly in shares. Insofar as the company carries out its function as order book manager on the Frankfurt and Berlin stock exchanges it accrues a fee for turnovers, known as the broker's commission. A significant source of earnings is, however, the financial result which arises from the calculated spread between the purchase and selling of a position. On our own trading platform TRADEGATE® and on electronic exchanges or markets such as XETRA® no broker's commission is due and earnings are determined by the financial result arising from purchase and sale. Since the business is driven by volume the company tries to reach as many customers as possible with its prices. Mid or long term risk positions in proprietary trading are not scheduled and are not part of the business concept. Long-term own holdings are, therefore, always exclusively part of the liquidity management of the company and reserved for the managing board.

The management, all administrative areas and the main operative areas are based at the headquarters of the company in Berlin. In Frankfurt am Main the company maintains a technically and personnel equipped branch office to serve the locally based order book management at the Frankfurt stock exchange.

Because of the continually increasing importance of computer supported trading a focal point of the company lies in the departments IT-Operations and IT-Development. The company is largely self-sufficient and attaches particular importance to the development of its own programmes for the areas of trading, trading settlement and risk control.

The management of the company comprises three board members, two of whom are responsible for the operative business areas including the management of the branch in Frankfurt, while the speaker of the board is chiefly responsible for strategic

planning and coordination as well as the administrative areas such as organisation, back-office, middle-office, personnel, compliance and law, revision and money laundering, and accounting including controlling and regulatory reporting. At the end of 2005 the managing board and the supervisory board had already decided to add one additional member to the board of management in order to better cope with the increasing significance of the further development and marketing of the off-exchange platform TRADEGATE®. On 1.1.2005 the hitherto Head of IT-Development was initially made chief representative with the appointment to the company's board of management subject to the agreement of the supervisory authorities. Following the latter's agreement the appointment became effective on 1.1.2007 and was confirmed by the supervisory board.

## 2.2 Competitive position and general conditions

The company belongs to the small group of brokerage firms that despite a fluctuating market situation in past and present years has been able to achieve and continually expand the critical mass for the successful realisation of its business concept. In the area of order book management the company has refrained from increasing market presence by taking over economically less successful companies. The main reason, apart from the risk involved, is the current practice of allocation of order books by the regional stock exchanges in which each order book is assigned to a brokerage firm only temporarily. The currently managed order books do not, therefore, represent any binding value that can be capitalised on for the balance sheet. It is also still unclear which market models the German stock exchanges will adopt midterm with regard to the upcoming new laws (MiFID). Alongside order book management the company focuses in its long term strategic plan predominantly on electronic trading platforms like XETRA®, and invests in new trading and settlement software to lower the process costs of largely automated services. In order to avoid dependence on monopoly-like European exchange structures further emphasis is placed on the development of our own off-exchange information and trading platform, TRADEGATE®. TRADEGATE® is a so called ECN, an electronic communication network; in the USA ECNs have already been able to gain a large share of the market. Currently in Germany there is no other serious competitor operating an ECN for trading in shares. Only in the area of warrants and certificates have ECNs been able to achieve anything of significance in Germany.

## 2.3 Goals and strategies

The company aims to further develop its own trading system and to win more customers. The company's products (bid and ask prices) are of excellent quality and meet with high approval from connected customers. With its products the company offers not only high quality but also significant cost advantages in the settlement of transactions and, especially due to its own platform, is capable of providing services outside the usual market trading hours.

In order to accommodate the increasing importance of the ECN TRADEGATE® within the activities of the company and to make sure that this business area is adequately communicated externally, the company's name was changed in the last business year from "Berliner Freiverkehr (Aktien) AG" to Tradegate AG Wertpapierhandelsbank. With this step, together with the IPO (Initial Public Offering) carried out on the Entry Standard segment of the Frankfurt Stock Exchange in October, the company hopes for wider public recognition, and thus more efficient marketing for its products and services. The share development of the first months was positive, so that, if need be, with its current market capitalisation the company also has the possibility of making an acquisition by capital increase through contributions in kind.

Despite its IPO the company remains closely involved in the affiliated group of the parent company Berliner Effektengesellschaft AG, Berlin, with numerous potential synergies and complementary services between the various group companies.

## 2.4 Business development and the development of general conditions

During the reporting period the company increased the number of managed order books at the exchanges in Berlin and Frankfurt by new listings from 10,740 to 11,691 categories of securities. The emphasis of new listings and existing securities remains on corporations from all over the world with occasional international bonds included. An important indicator for business development is the number of individual securities transactions which in past years – since the stock market boom in 2000 – has been continuously on the decline. This downward trend could be stemmed for the first time in 2005 with a

slight increase compared with the previous year of 2.8 million to 2,867 million transactions. In the last business year, 2006, a distinct increase of 2,867 million to 3,799 million transactions was recorded. This increase of 32.5 % could mean a medium term, stable turnaround. However in the last business year there was no even distribution of transactions over individual months which makes the informational value of a prognosis for the next year difficult. The year 2006 was marked by very high turnover in the first quarter and a pronounced, longer “summer slump” in the relative low turnover months from June to September.

In 2006 the business gained impetus from new issues in Germany, but also from other countries, and the return of private investors to the market. This can also be seen in the increase in the number of securities looked after by the company from ca. 10,000 last year to currently 10,453. The difference between this figure and the total of 11,691 arises because some securities are quoted by the company both in Frankfurt and Berlin. Furthermore, however, with the product “shares” the company stands in increasing competition with numerous derivative products such as warrants and certificates. The number of business transactions in these products in Germany has probably already exceeded the number of transactions in shares. As the company does not yet act as issuer for such products it cannot benefit from these sales. The company is opposed to the mere trading of these products on grounds of the risks involved.

The number of employees remained relatively constant. 12 new employees were set off by 16 leavers or transfers within the group, so that the total number of 75 employees at the end of the year – compared with 79 last year – represents no great change. At the beginning of the new business year some positions are to be newly advertised in order to reach the required “strength” of 80 employees. The age structure has not changed much either. The average age lies at about 35.6 (last year 35) with the emphasis on the age group from 25 to 30. The average job tenure is 6.03 years (last year 6 years). The company attaches great importance to retaining well-trained and qualified employees even during less profitable times. The flexible increase or reduction of personnel according to the amount of business, e.g. using temporary employees, is difficult in the industry and not desired by the company. Rather through flexible remuneration models the company ensures that on the one hand no unacceptably high fixed salaries endanger results in difficult economic situations, and on the other hand that during economically successful periods the employees, who are ultimately responsible for this success, have a suitable share in the company’s profit and are compensated for possible weaker periods.

In the past business year only small investments were made for items to be capitalised. Larger investments, particularly for the upgrading, extension or renewal of the existing IT-systems are due first in 2007. Software is usually developed and maintained by company employees. The personnel costs involved are not such that they can be capitalised. Occasionally individual contracts for work are outsourced and, depending on size, can be capitalised. In the areas of networks, data banks, word processing, etc. standard software from large providers is used.

The total portion of costs for administration and maintenance, just to comply with all stock market and legal regulations, is very high. The company has, however, managed to establish efficient and practicable structures that are suitable for its size.

In view of the continued less than perfect general conditions the outcome of normal business activities with a profit of € 4,773,000.00 and an increase of 200 % is to be seen positively.

### 3. DEVELOPMENT OF RESULTS

The important positions in the financial statement are the net commission income and the result from financial transactions. The development of these components is the main deciding factor for the development of the results. Last year the net commission income increased by € 237,000.00 compared with last year. The broker’s fees were mainly responsible for this as they increased by € 1,726,000.00. This increase was faced by equally higher costs for settlement (€ 2,281,000.00 compared with € 1,017,000.00). The main reason for these costs is that in the previous year this service was only calculated for about six months due to the reorganisation of business processes. The positive development of the result from financial transactions, the balance of earnings and expenses from financial transactions, continued in the last business year. In 2006 the result from financial transactions arises from the spread from name-to-follow transactions and that of trading profit from own-trading transactions. The changeover in the processing of transactions via XETRA® and TRADEGATE®, which was effected mid 2005, led to a further shift within the result from financial transactions, away from the balance from counterparty transactions towards the profit

and loss from securities trading. Despite these changes in processing the trading activities increased dramatically compared with 2005, especially the first half year was much improved and led to a 49 % higher plus balance of counterparty transactions and a 44 % higher minus balance. The net balances even increased by 57 %. In accordance with the above-mentioned shift the realised net result, coming from securities trading and the balance of realised profits and realised losses, was, at 3,447,000.00 €, significantly higher than last year (1,798,000.00 €). The valuation result of security holdings worsened from € -100,000.00 to € -248,000.00. The general administration expenses increased last year by € 1,749,000.00, due mainly to the payment of much higher staff bonuses. In proportion to this result a pool is created for bonuses and special payments. The increase in the result was accompanied by a boost in the payout of bonuses to employees. Other administration expenses were caused partly by stronger price increases. The extended trading activity in the first half-year brought about higher costs for the use of stock exchange systems which are oriented to the number of transactions made. At the same time higher prices had to be paid to stock market news and price providers. The IPO of Tradegate AG brings expenses with it, too, for example the preparation of an annual report, which also leads to an increase in the general administration expenses. Savings to the amount of around € 51,000.00 could be made on occupancy costs. The write-offs on intangible assets and fixed assets fell once again, especially as some software and computers had been fully written off in the previous year but could still be used after being updated and re-fitted. Larger reinvestments which are noticeable in following years were, therefore, not yet necessary. In December the tax law regarding the use of corporate tax funds was changed. The hitherto existing requisite to distribute profits was lifted, so that the company set up as an asset a corporate tax credit of € 349,607.00. The capitalisation of each of the ten annual instalments is reduced by a risk-free rate of interest. From the currently available draft report on the tax audit of the assessment period from the year 2000 to 2002, an additional tax expense of € 20,000.00 with interest of € 5,000.00 is to be expected. Under taxable possible utilisation of the loss brought forward provisions for taxation were made to the amount of € 842,000.00. Balanced out, the tax expenses come to € 1,035,000.00.

Income Statement	in '000 € 2004	in '000 € 2005	in '000 € 2006
Interest profits	548	486	557
Interest expenses	-	- 2	-
Current profits	150	158	210
Commissions received	4,877	5,561	8,312
Commissions paid	- 2,839	- 4,318	- 6,832
Profit from financial transactions	18,357	22,980	42,848
Expenses of financial transactions	- 11,321	- 15,059	- 29,777
Other operating profits	912	1,121	515
Profits from the release of special items partly with reserve character	-	-	-
General administrative expenses	- 8,697	- 8,889	- 10,638
Write-offs and value adjustments on intangible assets and tangible fixed assets	- 632	- 357	- 309
Other operating expenses	- 525	- 67	- 128
Write-offs and value adjustments on receivables and certain securities	- 285	- 19	-
Profits from write-ups on receivables and certain securities	-	-	15
Write-offs and value adjustments on participatory investments, stocks in affiliated companies and securities treated as fixed assets	-	-	-
<b>Result from ordinary activities</b>	<b>545</b>	<b>1,595</b>	<b>4,773</b>
Income and profit taxes	- 6	- 137	- 1,035
Other taxes, unless recorded under other operating expenses	- 6	-	-
<b>Net profit/loss</b>	<b>533</b>	<b>1,458</b>	<b>3,738</b>

From the development of results the following operating figures can be derived:

- Cost income ratio (CIR) defined as quotient from the sum of general administrative expenses, write-offs and gross earnings
- Return on equity (ROE) defined as quotient of the net profit for the year and the equity capital
- Earnings per share (EpS) defined as quotient of the net profit for the year and the number of shares

	2004	2005	2006
CIR	95.5%	94.3%	71.5%
ROE	1.51%	4.01%	9.14%
EpS	0.023€	0.063€	0.155€

#### 4. DEVELOPMENT OF FINANCIAL POSITION

The liabilities of the company are relatively low. The biggest single item is the liabilities from the usage of settlement services to the amount of € 2,502,000.00 which is entered under liabilities to banks. The invoice for 2006 was issued in December 2006 with a term of payment of 5 days. At the balance sheet date of the previous year prepaid and deferred expenses to the amount of € 559,000.00 were entered under other liabilities. Further positions include the open clearing amounts resulting from stock market trading which are reported under liabilities to banks and customers. Alongside this there are liabilities from the area of business operations in the form of deliveries and services. These include accruals for services used for which an invoice has not yet been made at the balance sheet date, but for which the amount is known from contracts. The largest position in provisions and accruals is the provision for taxation of € 850,000.00 which increased significantly due to the good results. In consequence of the open liabilities for settlement and the much higher provisions for taxation the equity capital ratio, although still high, fell slightly from 93 % to 89 %. The increase of equity capital through a capital increase for cash of € 2,300,000.00 also contributed to this.

All liabilities due within one month stand against the much higher amounts deposited with banks which are also due in one month. Shares in funds to the book value of € 13,985,000.00 are available as cash reserves.

Liabilities	in '000 € 31.12.2004	in '000 € 31.12.2005	in '000 € 31.12.2006
Liabilities to banks	35	566	2,935
Liabilities to customers	208	254	248
Other liabilities	479	1,258	317
Provisions and accruals	927	669	1,598
Special item partly with reserve character	-	-	-
Equity capital	35,343	36,316	40,904
<b>Total liabilities</b>	<b>36,992</b>	<b>39,063</b>	<b>46,002</b>

## 5. DEVELOPMENT OF NET ASSETS POSITION

The net assets position of the Tradegate AG Wertpapierhandelsbank is marked by relatively high liquidity. Alongside the assets in securities in the liquidity reserve the receivables from banks represent the largest position on the assets side. Of the shares and other non-fixed interest securities € 10,000,000.00 is invested in the BEG Fund 1 which follows a conservative investment strategy. The fund retains the achieved results and at 31 December 2006 builds reserves accordingly. A further € 2,000,000.00 is invested in a money market fund and € 1,985,000.00 in an equity fund as liquidity reserve. The increase in liquidity is primarily due to the capital increase for cash and the good company result. The development of the last three years is shown in the following table.

Assets	in '000 € 31.12.2004	in '000 € 31.12.2005	in '000 € 31.12.2006
Cash reserve	-	-	-
Receivables from banks	24,878	23,668	27,179
Receivables from customers	201	225	457
Bonds and other fixed-interest securities	4,493	2,949	333
Shares and other non fixed-interest securities	6,177	11,240	16,893
Intangible assets	140	133	245
Tangible fixed assets	876	638	507
Other current assets	210	174	350
Prepaid and deferred expenses	17	36	38
<b>Total assets</b>	<b>36,992</b>	<b>39,063</b>	<b>46,002</b>

The structure of the assets is influenced and limited also by bank supervisory regulations, particularly through the rules and regulations for large credits under the German banking law, and the relation of weighted risk assets to the liable equity capital.

To summarise, it can be said that the development in the last business year was positive and the company finds itself in a satisfactory position.

## 6. SUPPLEMENTARY REPORT

No noteworthy events occurred between the end of the business year and the completion of the financial statement.

## 7. RISK REPORT

### 7.1 Risk management policy and strategy

Tradegate AG Wertpapierhandelsbank is active in a field that is subject both to dramatic fluctuations regarding the amount of business and to changes in general conditions. In this environment it is necessary to continuously develop the means to manage, monitor and control the relevant risks. With the publication of the minimum requirements for risk management

(MaRisk) and its compulsory implementation as of 31 December 2006, an examination and adaptation of the monitoring and control mechanisms and their documentation was necessary. In principle, risk is understood to be the negative difference between actual incidents and expected incidents. Damage is then the occurrence of a risk with negative consequences. As the company sees itself as a liquidity provider or, as the case may be, a market maker the build up and assumption of securities positions with expectations of a positive market price development is not company strategy. Rather the business activity is geared towards enabling as many dealings in securities as possible. In doing so, during the course of a day the company assumes an interim position as buyer or seller with the aim largely of continuing to trade these positions up to the close of trading. With the changeover of the settlement of security transactions onto the trading systems XETRA® and TRADEGATE® the number of securities still open at the close of trading, and which appear on the balance sheet of the company, has increased. However the number of positions that are held until the start of trading on the next day is small compared with the trading volume. If any one position worthy of note is held open, then this happens strictly within the scope of investments in liquid assets. The development on the German and European stock exchange scene is an important influencing factor for business activity and the connected technical development and surrounding conditions. Trends are watched at an early stage for any possible impact on the company's field of business and for technical necessities. Wrong decisions can lead especially to high costs, loss of earnings and delays. As regards further activity in exchange trading an eye must be kept on the continued shift towards electronic trading systems and its effects. Strategic importance must be paid in particular to the future form of the stock exchange floor in Frankfurt am Main and to the trading system XETRA®.

The basis of the risk management system is the classification of risks into market price risk, operational risk, counterparty default risk and liquidity risk. The risk management system differentiates between the areas most exposed to risk, risk management in the narrower sense and risk control which monitors the risk situation and supports risk management, in particular with information on assumed risks. The controlling department is also largely responsible for the further development of the risk management system. The basis of the limit system is the anticipated result of the business year including the current total amount of capital and reserves and the effective result of the business year. An upper loss limit was decided for 2006 which was not exceeded during the course of the year.

## 7.2 Market price risks

Market price risks are understood to be the negative differences of the expected market price development. Market prices are interest rates, stock prices and foreign exchange rates. Any change brings about changes in the value of the financial instruments within the portfolio such as stocks, bonds or bank balances in foreign currency which can lead to write-offs affecting results. Since one focal point of business activities lies in the trading and relaying of transactions of shares in foreign companies, especially US-American stocks, an indirect foreign currency risk also has an effect. For example, in an ideal market, changes in the US-\$ exchange rate bring about corresponding changes in the stock price in €. In the context of the risk management system of securities trading, the risk arising from securities transactions is considered to be implicit in the share price risk.

Last year the controlling limits were monitored successfully. On the basis of the expected results for 2006 and the capital resources an absolute upper loss limit for all transactions was set by the company's management board. One part of this upper loss limit was divided as a control limit between the trading areas overseas, domestic and Frankfurt am Main. Using these control limits pending losses from open positions were limited. The pending losses are calculated from the value of the open position and the current value on the basis of a reference price. This reference price is determined on an ongoing basis and entered into the control system. In 2006 the largely only marginally used limit was exceeded occasionally for a short period of time. In nearly all cases, the reason for exceeding the limit was that the monitoring system was provided with incorrect reference prices. If risk control notifies a limit exceedance the cause is investigated and the board member responsible for controlling is informed accordingly. The board member responsible for controlling discusses with the board member responsible for trading the steps to be taken and informs risk control of the result. If losses are actually incurred which exceed a certain threshold value, the limit concerned is lowered automatically. In a subsequent comparison of the actual and planned result of the company, a decision is made on the retention or change of the limit alignment. In 2006 no adjustments were made to the control limits for securities trading.



In addition there is a limit especially for the risks coming from assets in the liquidity reserve. The assessment of the amount of risk is handled analogue to the observation of trade securities. In the case of the limit being exceeded, the board is informed immediately and then decides on the further handling of the securities in the liquidity reserve.

A further controlling limit exists for receivables and liabilities not in € against banks, customers and suppliers. To be noted in particular are the risks from deposits in South African rand and US dollars with domestic banks. No limits were exceeded here. Currency swaps for the management of currency risk were not used last year. If limits are exceeded the board members responsible for controlling and trading are informed and they then decide on a course of action.

### 7.3 Operational risks

Operational risks are understood to be such risks arising out of inappropriate or faulty company operations or those caused by employees, systems or external occurrences, legal risks included.

The existing risk matrix was reassessed for risks, early warning indicators and possible counter measures. If there were any new values the early warning indicators in the risk matrix were renewed or adjusted. In order to get an overview of any damages occurring, employees were required to report to risk control the cases of damages that exceeded a defined minimum limit. The damages arising were due to increased manpower and rated as minimal. Additionally, in the area of IT-operations a list of system changes, faults and failures is kept. Last year there were no significant faults which caused definable or noteworthy damages. During the last business year the Compensatory Fund of Securities Trading Companies (EdW) reported a liability case (Phoenix Kapitaldienst GmbH). The EdW is authorised to charge its affiliated companies with a share in the costs for the damages that have been reported to it and for which it has paid compensation. At the moment neither the amount nor the date of a possible allocation can be accurately estimated, so although the risk of a claim on the company by the EdW exists, there is no need to make provisions.

The management of operational risks is the responsibility of each department head. They monitor the work processes and, if necessary, make interventions or adjustments. A special limit was not set. As only 15 % of directly specified risks were allotted to the upper loss limit decided by the managing board at the beginning of the year, the undistributed amount is drawn on across the board to cover those risks not limited separately.

### 7.4 Other risks

The other risks include counterparty default risks and liquidity risks. The counterparty default risk is the danger that liabilities are fulfilled either too late, incompletely or not at all. The Tradegate Wertpapierhandelsbank AG has predominantly receivables from banks. The most important bank connection, where a large part of the investments in liquidity funds are made, is with the quirin bank AG, which was an affiliated company until 30 September 2006. On the basis of a delivered and unrevoked declaration made as a member of the group, any deposits kept here are not subject to a deposit guarantee. Since, within the scope of its associated relation to the group, the quirin bank AG is still integrated into the monthly reports, and because Mr. Timm is a member of the supervisory board of the bank, sufficient realtime information on the economic situation is always available. Further accounts exist at other domestic banks and at one foreign bank. Apart from these bank accounts which are used for payment transactions and cash deposits, receivables from tax repayments exist along with receivables from other brokers for securities transactions. As these are regulated by the stock exchange systems and the market participants are subject to supervision by the stock exchanges and the Federal Financial Supervisory Authority, the risks here are considered to be low.

We consider the risk that a counterparty of an off-exchange securities trading transaction does not fulfil his duties of payment or delivery to be a peculiarity of counterparty default. Damages from the risk of settlement of securities trading transactions did not arise.

In order to minimise counter party default, all transactions with addresses which do not have admission to a German, west European or American stock exchange are subject to separate supervision directly by the board of management. This applies mostly to east European trading addresses.

Liquidity risk is understood to be the danger that payment obligations might be made not at all, too late or incompletely, or that due to illiquid markets assets cannot be sold, or sold at the expected price. Control of solvency occurs within a plan of payments received and payments outgoing over the following twelve months. The first quarter is reported on a monthly basis, thereafter reports are made on a quarterly basis. If there are certain shortfalls, reports are made more often than usual. In the last year there were no shortfalls of these self-imposed limits. Additionally, the Tradegate AG Wertpapierhandelsbank AG is subject to the terms of Principle II which sets certain minimum requirements with relation to capital and financial liabilities. Last year's reference numbers moved between 10.79 and 19.59, the minimum figure being 1. The market liquidity risk is controlled and monitored through the choice of where to trade, consideration of the current market situation when completing transactions, and the limitation of open positions.

### 7.5 Reporting

The whole board of management receives a daily risk report which contains the realised results of the last day of trading, the current month and the current year, as well as information on limit adjustments and special issues, such as significant exceedance of limits and unusual transactions as regards business partners, volume or conditions. Information on other significant risks to the company is also included in the report. Particularly data on cases of damage from operational risks, specific incidents and steps undertaken is recorded. This risk report complements the monthly report supplied to the managing board on economic development. Apart from the balance sheet and profit and loss statement the latter contains employee statistics, the development of securities transactions and some key business figures. At the moment the board of management receives a detailed quarterly summary of the company's payment reserves. In order to increase the transparency of general administration expenses the managing board and department heads are provided with a report on the costs allocated to each area. Any questions and necessary measures are discussed in meetings. Besides increased transparency, the aim is to encourage the awareness of those responsible.

### 7.6 Institutional supervision

Based on the authorisation allowing the company to provide banking and financial services according to § 1 Article 1 Nos. 4 and 10 and 1a Nos. 1.2 and 4 of the German Banking Act, the Tradegate AG Wertpapierhandelsbank is subject to supervision by the Federal Financial Supervisory Authority. Accordingly, every month an interim return, a profit and loss statement, the calculations for Principles I and II and quarterly reports on any large loans and loans in millions must be submitted. If any unusual events occur, these are to be reported separately. By virtue of its authorisation to carry out certain banking business, the company is duty bound to support an internal audit according to the minimum requirements for risk management. When the authorisation to carry out financial commission business and investment banking was granted it was decreed that as at 31 July 2006 the total key reference figures of Principle I should amount to at least 12 %. The reference figures always fulfilled the minimum requirements without problem. Thus the equity ratio, which measures the liable capital resources in relation to the risk assets in terms of banking law, lay between 202.9 % and 233.9 %. The total key reference figures, which measure the creditable equity capital in relation to the risk-fraught positions, this being in our case the liable capital resources, oscillated between 119.3 % and 148.8 %.

The financial holding group Berliner Effektengesellschaft AG must adhere to the regulations governing the summary of Principle I, the consolidated monthly report and the large loans from institutional groups. In anticipation of the further outstanding regulation of the parent company, the Tradegate AG Wertpapierhandelsbank submitted the relevant reports. With the withdrawal of the quirin bank AG from the supervisory consolidated group the Tradegate AG Wertpapierhandelsbank is now by law the highest-level company in the financial holding group. The reported total key reference figure of Principle I between January and December 2006 lay between 162.8 % and 241.1 %.

## 8. DECLARATION ACCORDING TO § 312 OF THE COMPANIES ACT

According to § 312 of the Companies Act the board of management of the Tradegate AG Wertpapierhandelsbank must deliver a report on the relations with affiliated companies for the business year 2006. The closing statement of this report reads:

“Beyond the aforementioned legal transactions and measures, no other legal transactions were made in the reporting period and no measures are known of for which a report must be submitted.”

According to § 312 of the Companies Act the board of management of the Tradegate AG Wertpapierhandelsbank, Berlin, declares that for all transactions with the prevailing corporation and its affiliated businesses the company has received appropriate service in return.

## 9. OUTLOOK

The company assumes that in the next years no significant increase in securities transactions is to be expected. On the other hand, should the positive development of last year stabilise in 2007, the company will aim for a net operating profit of the same level as 2006.

Unfortunately the development and testing of new derivative products hinted at in last year's management report could not be realised by the parent company in 2006; meanwhile the project has largely been completed and is to be implemented by issuing the product innovation in the course of the first quarter of 2007. The company is prepared for trading in the intended products, both with personnel resources and technically. At the moment it is not possible to estimate the influence of these new products on the turnover and income of the company since the market acceptance and potential competition of the product innovation is unknown.

On the costs side the company has almost no scope to reduce costs; rather it is subject to heavy price increases by suppliers or supplementary service providers. On the personnel side a moderate increase in basic salaries is to be reckoned with. If business develops positively a moderate increase in the number of employees is also to be expected. Cost savings might only be possible in the area of securities settlement through optimising processes.

The upcoming changes on the German and European stock exchanges will be important for the company, although at the moment it is not yet clear what structures will finally emerge. The company is represented in all important committees and associations and will watch all developments closely and, if need be, actively participate in the interests of the company. The new European regulations (MiFID) which are likely to be implemented in 2007 may bring about new business potential for the company, either for its systematic internalising or for TRADEGATE®, its multi-trading facility (MTF) platform; however, this could only have a lasting impact on the company's results in 2008.

Given the sometimes very unclear goals of the leading stock exchanges the company set-up remains multifaceted. In its role as order book manager in Berlin and Frankfurt it aims to gain further market share. Furthermore, the company will continue to focus on investing in its own trading system, TRADEGATE®, in order to avoid dependency as far as possible.

Berlin, 31 January 2007

*Holger Timm*

*Kerstin Timm*

*Jörg Hartmann*

*Thorsten Commichau*



In the German version of the annual report the auditots' report is printed here. This report confirms the unreserved validation by the PwC Deutsche Revision AG Wirtschaftsprüfungsgesellschaft, Berlin, of the group's annual financial statements of the Tradegate AG Wertpapierhandelsbank.

### > Report of the Supervisory Board

The Supervisory Board assisted the Board of Management intensively throughout 2006. In this process the business strategy and policy, the current market and earnings situation, and the financing of corporate activities were dealt with. The corresponding legal regulations, articles of association, and rules of procedure were observed at all times. The Supervisory Board played an important role in making decisions of primary significance for the company.

The Board of Management regularly informed the members of the Supervisory Board, verbally or in writing, on the company's situation and on the main business transactions. The Supervisory Board dealt with the reports of the board in detail during its meetings.

#### Meetings

In the business year 2006 a total of five Supervisory Board meetings took place, on 16 February, 31 March, 21 June, 27 September and 13 December. The members regularly took part in these meetings.

Since the Supervisory Board of the company comprises the statutory three members, committees are not formed. In the course of their activities all members of the Supervisory Board deal with the tasks of a Supervisory Board as a whole.

Accordingly, all matters put before the Supervisory Board were discussed and decided on by all members together. Hereby, following appropriate consultation the Supervisory Board approved the submitted business transactions and procedures.

#### Focus of activity

The members of the Supervisory Board made sure that the board of the company takes suitable measures and maintains a monitoring system whereby any developments endangering the continuity of the company can be recognised at an early stage (Section 91, Subsection 2 of the Companies Act). The company has an efficient controlling system at its disposal and produces conclusive monthly development reports. The monitoring of risks, in particular the day-to-day supervision of risks from the change in share prices was further improved. The Supervisory Board was informed by the Board of the results of the internal audit report. According to this report no particular risks or complaints arose. In the opinion of the Supervisory Board the existing risk control system fulfils legal requirements and is qualified to enable the realtime monitoring of the company.

The audit for 2006 according to § 36 Section 1 of the Securities Trade Act was carried out by Dohm Schmidt Janka Revision und Treuhand AG, Berlin. The audit report was given to the members of the Supervisory Board.

Further subjects during the reporting year were the Board's suggestions to change the company name from Berliner Freiverkehr (Aktien) AG to Tradegate AG Wertpapierhandelsbank, and the IPO of the company planned for the fourth quarter.

Commensurate with the focus of the company's activities the Board of Management and the Supervisory Board resolved to clearly denote in the name the company's orientation towards off-exchange trading. As a result the company's name was changed to Tradegate AG Wertpapierhandelsbank. This was decided in the annual general meeting on 31 March 2006.

In conjunction with the implementation of the requirements of the Minimum Requirements for Risk Management (MaRisk) the business and risk strategy of the company were revised during the year and discussed with the Supervisory Board in the meeting on 13 December 2006.

The Board of Management provided the Supervisory Board with the report according to § 312 of the Companies Act on business relations with affiliated companies. The report was examined by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and awarded the auditor's certificate.

The Supervisory Board agreed to accept the report of the board and the results of the above report without reservation.

#### Members

Mr. Wolfgang Hermanni resigned as Chairman of the Supervisory Board in the supervisory board meeting on 16 February. Professor Dr. Jörg Franke, who was elected in his place, thanked Mr. Hermanni on behalf of the Supervisory Board and the company for his long service as Chairman and for his willingness to continue assisting as a member of the Supervisory Board.

#### Annual Financial Statements 2006

The annual financial statements compiled by the Board of Management for the business year 2006, including the accounting and management reports, were examined by the external auditors PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and were

certified without reservation. The Supervisory Board also received the report and examined the financial statements, the management report, and the Board of Management's proposal for the use of the net profit for the year. The auditors also took part in these consultations. Based on its own examination the Supervisory Board agreed with the auditors' findings on the annual financial statements.

Following the final conclusion of the examination the Supervisory Board raised no objections. The annual financial statements compiled by the Board of Management were thus approved and endorsed. The Supervisory Board agrees with the Board of Management's proposal for the use of the net profit of € 3,622,500.00.

The Supervisory Board would like to thank the Board of Management and all employees for their diligent and successful collaboration during the last year.

Berlin, 14 February 2007



Professor Dr. Jörg Franke  
Chairman of the Supervisory Board



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