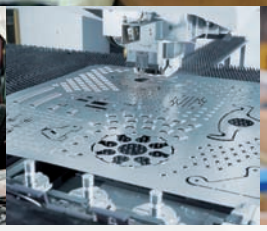
Annual Report 2006



BOSCH

Invented for life

The Bosch Vision
Creating value – sharing values

If we want to work successfully as a team in a global and complex world, then we need a common image of the future for our company. This image – this vision – will help us bring our strategic thinking into clear alignment.

As a leading technology and services company, we take advantage of our global opportunities for a strong and meaningful development. Our ambition is to enhance the quality of life with solutions that are both innovative and beneficial. We focus on our core competencies in automotive and industrial technologies as well as in products and services for professional and private use.

We strive for sustained economic success and a leading market position in all that we do. Entrepreneurial freedom and financial independence allow our actions to be guided by a long-term perspective. In the spirit of our founder, we particularly demonstrate social and environmental responsibility—wherever we do business.

Our customers choose us for our innovative strength and efficiency, for our reliability and quality of work. Our organizational structures, processes, and leadership tools are clear and effective, and support the requirements of our various businesses. We act according to common principles. We are strongly determined to jointly achieve the goals we have agreed upon.

As associates worldwide, we feel a special bond in our values that we live by day by day. The diversity of our cultures is a source of additional strength. We experience our task as challenging, we are dedicated to our work, and we are proud to be part of Bosch.

Key Data

Bosch Group	2005[1]	2006
Sales revenue	41,461	**43,684**
percentage change from previous year	+6.4	**+5.4**
Sales revenue generated outside Germany		
as a percentage of sales revenue	73	**74**
Research and development cost	3,073	**3,348**
as a percentage of sales revenue	7.4	**7.7**
Capital expenditure	2,923	**2,670**
as a percentage of depreciation	156	**116**
Associates		
average for the year	248,853	**257,754**
as of January 1, 2006/2007	250,975	**261,291**
Total assets	45,554	**46,940**
Equity	20,943	**22,482**
as a percentage of total assets	46	**48**
Profit before tax	3,178	**3,081**
Profit after tax	2,450	**2,170**
Unappropriated earnings (dividend of Robert Bosch GmbH)	63	**69**

Currency figures in millions of euros

[1] With the exception of profit after tax, continuing operations only

The Bosch Group at a Glance

The Bosch Values

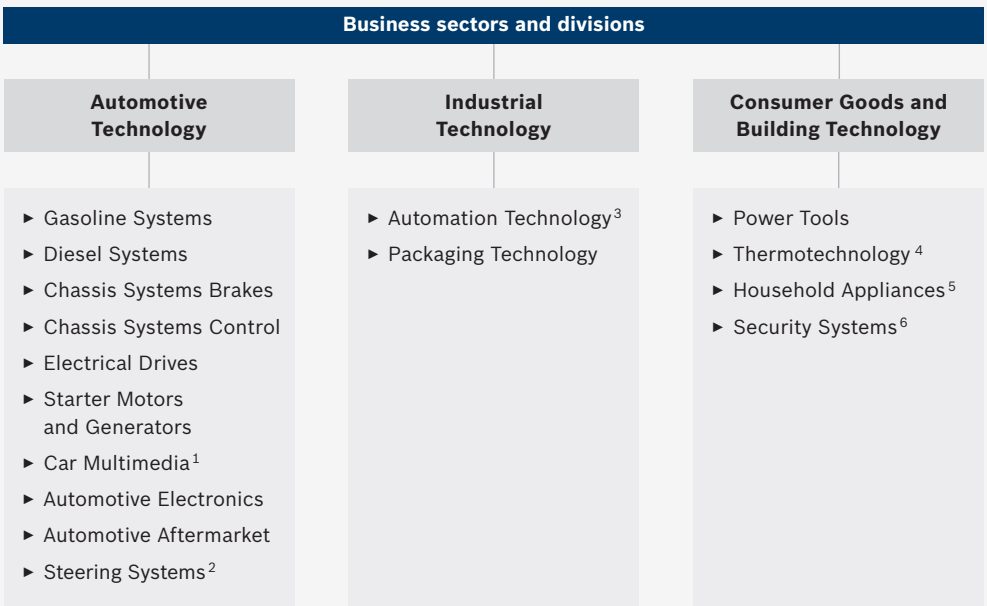
- Future and result focus
- Responsibility
- Initiative and determination
- Openness and trust
- Fairness
- Reliability, credibility, and legality
- Cultural diversity

The Bosch Group is a leading global supplier of technology and services. In the areas of automotive and industrial technology, consumer goods, and building technology, some 260,000 associates generated sales of 43.7 billion euros in fiscal 2006.
The Bosch Group comprises Robert Bosch GmbH and its roughly 300 subsidiary and regional companies in over 50 countries. This worldwide development, manufacturing, and sales network is the foundation for further growth. Bosch spends more than three billion euros each year for research and development, and in 2006 applied for over 3,000 patents worldwide. The company was set up in Stuttgart in 1886 by Robert Bosch (1861-1942) as "Workshop for Precision Mechanics and Electrical Engineering."

The special ownership structure of Robert Bosch GmbH guarantees the entrepreneurial freedom of the Bosch Group, making it possible for the company to plan over the long term and to undertake significant up-front investments in the safeguarding of its future. Ninety-two percent of the share capital of Robert Bosch GmbH is held by Robert Bosch Stiftung GmbH, a charitable foundation. The majority of voting rights are held by Robert Bosch Industrietreuhand KG, an industrial trust. The entrepreneurial ownership functions are carried out by the trust. The remaining shares are held by the Bosch family and by Robert Bosch GmbH.

Ownership structure of Robert Bosch GmbH

- Robert Bosch Stiftung GmbH
  92 % share of equity
  No voting rights
- Bosch family
  7 % share of equity
  7 % voting rights
- Robert Bosch Industrietreuhand KG
  93 % voting rights
- Robert Bosch GmbH
  1 % share of equity
  No voting rights



[1] Blaupunkt GmbH (100 % Bosch-owned)
[2] ZF Lenksysteme GmbH (50 % Bosch-owned)
[3] Bosch Rexroth AG (100 % Bosch-owned)
[4] BBT Thermotechnik GmbH (100 % Bosch-owned)
[5] BSH Bosch und Siemens Hausgeräte GmbH (50 % Bosch-owned)
[6] Bosch Sicherheitssysteme GmbH (100 % Bosch-owned)

Contents

The global company
International presence is not only a matter of statistics. Seen from this perspective, Bosch was already global before anyone had ever heard of globalization. On a deeper level, international presence is about working together successfully in a large company across national borders, and about understanding and making the most of cultural diversity. This is reason enough for our Annual Report 2006 to take up the theme of "international collaboration."

On the basis of selected projects, we show a variety of ways in which work in our company transcends national boundaries. For example, many of the associates working in our global manufacturing network are in constant contact with each other, always on the lookout for the best solution, and always prepared to support others with advice and expertise (pages 10–11). Or again, car drivers worldwide can rest assured the staff of our Bosch service centers will inspect and repair their vehicles according to unified standards and guidelines, whether they are in Malaysia, the Philippines, or Turkey (pages 32–33). Then there are our researchers from 20 different countries who are working together with scientists from Stanford University and the University of California in Berkeley to develop a new, eco-friendly combustion process for the air-fuel mixture in internal-combustion engines (pages 54–55).

These are just three examples that show how we master the challenge posed by globalization and what international presence means for us. They also show that global collaboration is nothing unusual for Bosch, but instead has been a fact of business life for us for many years.

Introduction

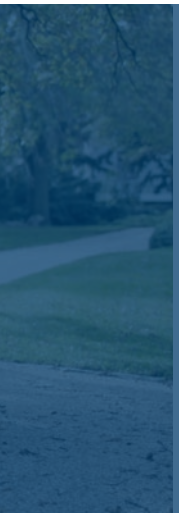
Ladies and gentlemen,

Development in our business sectors was uneven in 2006. Due to an increasingly strained market environment, it was especially in Automotive Technology that we were unable to leverage our strengths and generate the business success we have enjoyed in the past. Our other areas of operation, by contrast, performed better than expected. Overall, we are satisfied with what we have achieved for the Bosch Group.

This was the result of a joint effort by many people, first and foremost our roughly 260,000 associates around the world. Good cooperation with our customers, suppliers, and other business partners was likewise instrumental to this achievement. We were also able to rely at all times on the loyal support of our shareholders and supervisory council members. On behalf of the entire board of management, I wish to thank all of you for your valuable contributions in the past year.

The way business developed in 2006 is further confirmation that the strategy we have chosen is the right one, not only as regards the structure of our global activities but also as regards the focus of our areas of operation. Both these things strengthen the stability of our Group, and both give us cause to look forward with confidence to the years ahead. Automotive technology is still our mainstay, and in this area we shall take advantage of each and every potentially profitable growth opportunity around the world – in the current year just as in the past. Our declared goal is to secure and expand our leading position here in the global market, especially in times of momentous change in the automotive industry.

By continuing to redefine the balance among our business sectors, we broaden our portfolio of products and services that offer genuine user benefits to our many customers. Our efforts here are oriented to our core competencies and are clearly aimed at forging ahead with innovation in the markets in which we operate. At the same time, we are working to be-



"Our corporate strategy seeks to find a balance between entrepreneurial concerns on the one hand and societal and ecological concerns on the other. Finding this balance is never easy, but we must nonetheless keep our sights firmly set on it. As a company, we have always believed in the value of this endeavor."

Franz Fehrenbach

come even more international, so that we can open up additional dynamic markets for our products and services. In other words, we have set our sights on 'globalizing' our innovations. In focusing increasingly on Asia, we remain in step with the global shift in economic power, but without overlooking the importance that other regions have for us.

The structure we want for our business activities is guided by the comprehensive definition of corporate social responsibility which we have incorporated into our "House of Orientation." This definition explicitly includes societal and ecological concerns. In our view, future and result focus can only contribute to securing the company's long-term success if we also explicitly list the economical use of resources as well as the protection of the environment among the key benefits that our products and services have to offer. Bosch is therefore resolute in its corporate policy to set standards for responsible action in all areas of operation.

In imposing these standards on ourselves, we shall continue to make significant new contributions to sustainably reducing pollutant emissions in road traffic with state-of-the-art technology. Yet our efforts in other areas of activity will by no means be any less ambitious. Very much in the spirit of our corporate slogan "Invented for life," we shall drive forward the efficient use of energy and other resources as well as the deployment of environmentally sound technologies in all our products and services. Rarely has there been a challenge of such globe-spanning proportions as saving the environment and conserving resources. We are standing at the threshold of ecological globalization, and we intend to make an appropriate contribution to its success.

In this annual report, you will find many examples that illustrate our broad-based commitment to corporate social responsibility. We feel confident that with this commitment we act in a manner reflective of the wishes of our company's founder by securing for the Bosch Group a "strong and meaningful development."

Board of Management

Franz Fehrenbach
Chairman

- Corporate Planning; Corporate Communications; Senior Executives; Real Estate and Facilities

Siegfried Dais
Deputy Chairman

- Product Planning and Technology; Research and Advance Engineering; Information Technology
- Automation Technology

Rudolf Colm

- Purchasing and Logistics
- Asia Pacific; Italy

Gerhard Kümmel

- Business Administration; Finance and Financial Statements; Planning and Controlling; Internal Accounting and Organization
- Commercial Affairs Chassis Systems Brakes and Chassis Systems Control

Volkmar Denner

- Electrical Drives; Starter Motors and Generators; Car Multimedia; Automotive Electronics

Peter Tyroller

- Original Equipment Sales
- Automotive Aftermarket

- **Corporate Responsibilities**
- **Divisional Responsibilities**
- **Regional Responsibilities**

Bernd Bohr

- Chairman of the Automotive Group; Automotive Systems Integration; Quality Management
- Gasoline Systems; Diesel Systems; Chassis Systems Brakes; Chassis Systems Control; Steering Systems
- India

Wolfgang Chur

- Consumer Goods and Building Technology; Coordination Sales and Marketing, Consumer Goods, Building Technology, and Industrial Technology; Marketing Communication and Brand Management
- Power Tools; Thermotechnology; Security Systems; Household Appliances
- Middle Eastern Europe; Russia; United Kingdom; France; Spain; Austria

Wolfgang Malchow

- Human Resources and Social Services; CIP Coordination; Legal Services; Taxes; Internal Auditing; Intellectual Property
- Packaging Technology

Peter Marks

- Manufacturing Coordination and Investment Planning; Environmental Protection;
- North America; South America

Presidents of the Divisions

Wolf-Henning Scheider
Gasoline Systems

Ulrich Dohle
Diesel Systems

Andreas Wiegert
Chassis Systems Brakes

Werner Struth
Chassis Systems Control

Udo Wolz
Electrical Drives

Stefan Asenkerschbaumer
Starter Motors and Generators

Uwe Thomas
Car Multimedia

Christoph Kübel
Automotive Electronics

Robert Hanser
Automotive Aftermarket

Manfred Grundke
Automation Technology

Friedbert Klefenz
Packaging Technology

Uwe Raschke
Power Tools

Joachim Berner
Thermotechnology

Uwe Glock
Security Systems

Supervisory Council Report

Ladies and gentlemen,

All in all, we were able to see fiscal 2006 to a successful conclusion for the Bosch Group. The supervisory council was regularly informed by the board of management about developments during the year, about the measures necessary for achieving our targets, and about strategies for the longer term. At its meetings, the council discussed the financial situation and substantial investment plans in depth, such as the construction of a new semiconductor factory in Reutlingen for eight-inch wafers. It also concerned itself in detail with the discontinuance of unit-injector technology for passenger cars and the structural repercussions this will have on the diesel business. Further, it concerned itself with important engineering developments and with the Bosch Group's activities in the fast-growing markets of Asia. Between meetings, the supervisory council received written monthly reports on the Group's business development and ad-hoc bulletins on important matters. Furthermore, the chairman of the supervisory council was also informed in timely fashion of key developments and impending decisions.

Other important topics considered by the supervisory council in 2006 included the work undertaken to further enhance quality, as well as cost-cutting measures and restructuring issues. The council particularly discussed the restructuring of the Energy and Body Systems division to form the new Starter Motors and Generators division as well as the new Electrical Drives division. The supervisory council examined the implications of demographic change for the company as well as the current employment and training situation in the Bosch Group. It also concerned itself with the impact of increasing internationalization on the way the company is managed.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited and issued an unqualified audit opinion on the Robert Bosch GmbH annual financial statements, the Bosch Group consolidated financial statements, and the accompanying management reports as of and for the year ended

"Collaboration across borders is something that only works when there is mutual respect. Cultural diversity is an important factor in our business success. Wherever we operate in the world, we follow the same principles of corporate and social responsibility."

Hermann Scholl

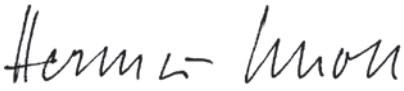
December 31, 2006. The supervisory council examined and discussed these documents in detail. All members of the supervisory council had access to the auditor's reports. These were addressed in detail in the presence of the auditor, who also reported on the main audit findings in person.

The supervisory council concurs with the audit findings, without any objections. It approves, and recommends that the shareholders approve, the financial statements of Robert Bosch GmbH and the consolidated financial statements. It also recommends that the shareholders approve the board of management's proposal for the appropriation of net profit.

As of April 30, 2006, Walter Bauer, deputy chairman of the supervisory council for many years, resigned for age reasons. At the suggestion of the combined works council and the German metalworkers' union IG Metall, Alfred Löckle was appointed a new member of the supervisory council by order of the Stuttgart local court on May 10, 2006. He also assumed the office of deputy chairman. Hans Peter Stihl resigned from his position as of June 29, 2006. As of the same date, Dr. Christof Bosch was appointed to replace him. The supervisory council thanks the members who have retired for their dedication as well as for their constructive and loyal collaboration.

Above all, however, the supervisory council would like to thank the board of management and all associates of the Bosch Group worldwide for their successful work. Going forward, the supervisory council will closely follow and assist them as they take responsibility for and act on behalf of the company.

Stuttgart, March 30, 2007
For the supervisory council



Prof. Dr. Hermann Scholl
Chairman

Supervisory Council

Prof. Dr.-Ing. Hermann Scholl
Stuttgart
Chairman,
formerly Chairman
of the Board of Management
of Robert Bosch GmbH

Alfred Löckle
Ludwigsburg
(from May 10, 2006)
Deputy Chairman,
member of the Works Council
of the Schwieberdingen Plant
and Chairman of the Central
Works Council as well as
of the Combined Works Council
of Robert Bosch GmbH

Walter Bauer
Kohlberg
(until April 30, 2006)
Deputy Chairman,
Chairman of the Works Council
of the Reutlingen Plant
and Chairman of the Central
Works Council as well as of
the Combined Works Council
of Robert Bosch GmbH

Dr. jur. Peter Adolff
Munich
former Member of the Board
of Management of Allianz
Versicherungs-Aktiengesellschaft

Dr. h. c. Bo Erik Berggren
Stockholm
former Chairman of the
Administrative Board and Chief
Executive Officer of The Stora
Kopparberget Corp.

Henning Blum
Hildesheim
Chairman of the Works Council
of the Hildesheim Plant and
Member of the Central Works
Council of Robert Bosch GmbH

Dr. forest. Christof Bosch
Königsdorf
(from June 29, 2006)
Spokesperson for the Bosch family

Dr. jur. Ulrich Cartellieri
Frankfurt
former Member of the Board
of Management of Deutsche
Bank AG

Dr.-Ing. Heiner Gutberlet
Fellbach-Oeffingen
Chairman of the Board of
Trustees of Robert Bosch
Stiftung GmbH

Dr.-Ing. Rainer Hahn
Stuttgart
former Member
of the Board of Management
of Robert Bosch GmbH

Aline Hoffmann
Frankfurt
Political Secretary at HQ,
Industriegewerkschaft Metall

Jörg Hofmann
Stuttgart
Regional Chairman of Industrie-
gewerkschaft Metall,
Baden-Württemberg region

Dieter Klein
Wolfersheim
Chairman of the Works Council
of the Homburg Plant and
Member of the Central Works
Council of Robert Bosch GmbH

Matthias Georg Madelung
Munich
Member of the Board of Trustees
of Robert Bosch Stiftung GmbH

Werner Neuffer
Stuttgart
Chairman of the Works Council
of the Feuerbach Plant and
Deputy Chairman of the
Central Works Council as well
as of the Combined Works Council
of Robert Bosch GmbH

Wolfgang Ries
Lohr
Chairman of the Works Council
of Rexroth Indramat GmbH
and Chairman of the Central
Works Council of Bosch Rexroth AG
and Member of the
Combined Works Council of
Robert Bosch GmbH

Urs B. Rinderknecht
Zurich
Chief Executive of UBS AG

Wolf Jürgen Röder
Hofheim/Taunus
Managing Member of the
Executive Board of Industrie-
gewerkschaft Metall

Hans Peter Stihl
Remseck
(until June 29, 2006)
General Partner of
STIHL Holding AG & Co. KG

Tilman Todenhöfer
Stuttgart
former Deputy Chairman
of the Board of Management
of Robert Bosch GmbH

Jörg Vial
Nehren
Senior Vice President,
Global Policies and Strategies,
Corporate Sector Purchasing
and Logistics, as well as
Chairman of the Central Executives'
Committee of Robert Bosch GmbH
and of the Combined Executives'
Committee

Hans Wolff
Bamberg
Chairman of the Works Council
of the Bamberg Plant and
Member of Central Works Council
of Robert Bosch GmbH

Robert Bosch International Advisory Committee

Prof. Dr. Hermann Scholl
Stuttgart
President

Dr. Peter Adolff
Munich

Michel Barnier
Paris

Dott. Alessandro Benetton
Treviso/Venice

Dr. h. c. Bo Erik Berggren
Stockholm

Miguel Boyer Salvador
Madrid

Fernão Botelho Bracher
São Paulo

Professor the Lord Broers FRS FREng
Cambridge

Dr. Hugo Bütler
Zurich

Prof. Drs. Cornelius A.J. Herkströter
Wassenaar/The Hague

Kensuke Hotta
Tokyo

Baba N. Kalyani
Pune

Dr. Klaus Kinkel
St. Augustin/Bonn

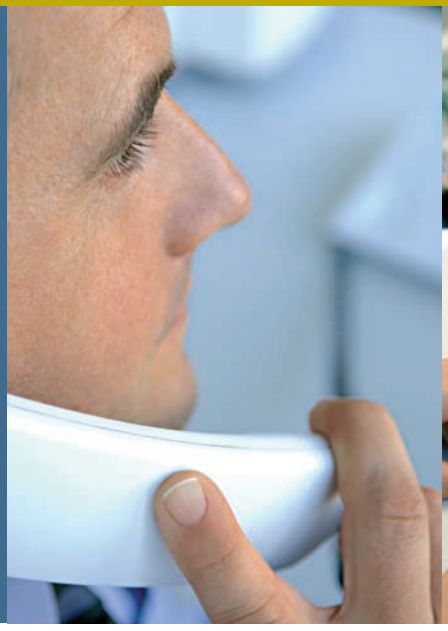
Dr. Henry A. Kissinger KCMG
Washington

Charles F. Knight
St. Louis

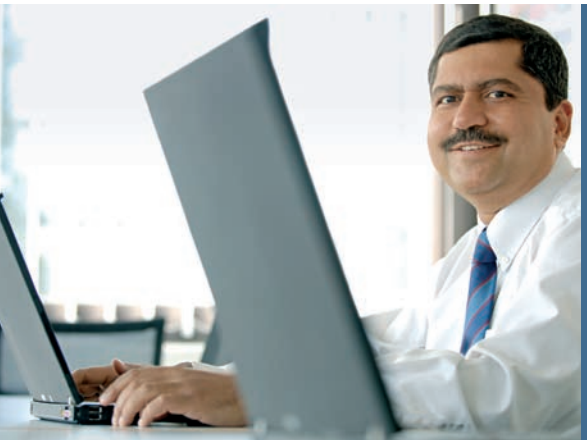
Dr. Hans-Friedrich von Ploetz
Berlin

Erwin Schurtenberger
Ascona, Beijing

Reliable, fuel-efficient injection technology from Bosch contributes to the success of diesel cars in the Le Mans 24 Hours endurance race. Injection systems for racing are **tailor-made assemblies** that operate virtually fault-free. But also in **series production**, the aim is **zero defects**. Worldwide, expert networks are working to achieve this aim.

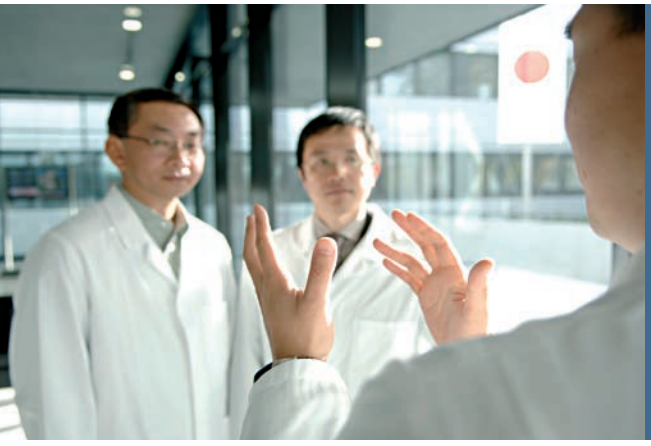


In a European plant, a defect has occurred in the fuel rail of a diesel injection system for an international customer. The assembly station at which the defect occurred has been identified. This is where the associate network comes in. Experts around the world immediately examine the risk of the defect occurring in their own plant – which uses the same or similar manufacturing processes – and report their findings via the "lessons learned" network.



B R Suresh heads the "lessons learned" project in central quality management at Diesel Systems. Set up in mid-2005, the project now includes 18 manufacturing sites around the world. Suresh has built up networks of associates who communicate with each other in a timely, effective, and understandable manner by means of the intranet portal DSLessons. The communication and feedback paths are clearly structured and allow experience to be exchanged freely and efficiently.

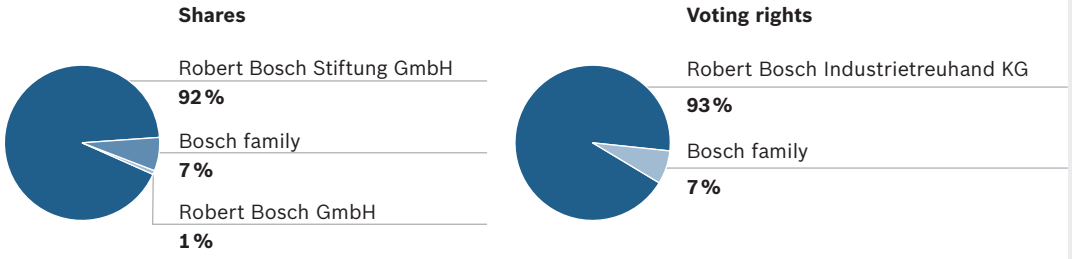
Global networking is first and foremost a question of attitude. A database, for example, is only as good as its users and their willingness to share knowledge. In its “lessons learned” project, Bosch has introduced a structured approach to identify risks and avoid repeat defects. Sources of potential defects and proposals for solutions are communicated worldwide to all plants and product groups. People learn from each other and pick up on colleagues’ ideas. This new approach has been taken up enthusiastically, and has contributed to minimizing defects. Associate networks like this are being created in many Bosch operating units such as Diesel Systems, and some of them even involve suppliers. The objective is to nip defects in the bud, preventing them from occurring in the first place.



“Lessons learned” coordinators from various business units are at work in every plant. They act as multipliers, using their knowledge of the units to bring together the right people as experts. Thanks to this learning approach, the solution developed at the European plant mentioned above has been transferred to other operations around the world. Additional improvements from Japan and the U.S. have also been introduced into the global manufacturing network.

Management Report

Shareholders of Robert Bosch GmbH



In a generally favorable global operating environment, we were able to meet our 2006 growth target for the Bosch Group. Our strategy of strong international focus and broad reach across different areas of activity, supported by shared core competencies, continued to deliver results. Our business grew especially in consumer goods and industrial technology. In automotive technology, on the other hand, results were affected by the weakness of our main markets in Europe and North America. Our result before taxes was down on the prior year, but we achieved our target return overall. We see ourselves well positioned for the challenges of the future. For 2007, we have set ourselves the task of increasing sales in our existing areas of business at a similar rate as last year, and of maintaining last year's earnings performance.

Business and strategy

Business situation

Strong global economic growth

Global economic growth was stronger in fiscal 2006 than originally expected. Real growth came close to 4 % – a strong rate last seen in 2000 and 2004. Asian emerging markets retained the greatest forward thrust, but the recovery in western Europe also contributed toward healthy global growth. American economic activity stayed robust, but lost some of its momentum.

World output of passenger and commercial vehicles increased by a strong 4 % in 2006, up from 3 % the previous year. However, the overall figure conceals strong regional variation. Asian automobile production maintained growth in excess of 10 %, with the greatest push coming from the Indian and Chinese markets. This contrasted with persistently weak automotive markets in North America and the European Union. Production managed another slight increase in Europe but dropped in North America by 2.5 %.

The global capital goods business boomed in 2006, mostly driven by the trend in the Asian emerging markets. Yet the propensity to invest also improved in Europe, notably in Germany. The operating environment was favorable in most regions for our Consumer Goods and Building Technology business sector. In Europe, the main factor here was a visible easing of the labor market situation. In Germany, the announced rise in value added tax also increased consumer demand.

Bosch Group meets growth target

We met our 2006 growth target for the Bosch Group with sales growth of 5.4 % to 43.7 billion euros. Overall exchange-rate movements had practically no effect on sales. Newly consolidated businesses accounted for less than one percentage point of total growth:

- In Automotive Technology, we acquired – through a fifty-fifty joint venture with German automotive supplier Mann+Hummel – the Purolator filter business from U.S. automotive supplier ArvinMeritor.
- In our Consumer Goods and Building Technology business sector, we supplemented our Security Systems division by acquiring Telex Communications Holdings, Inc, Minneapolis, MN (USA), a leading manufacturer of professional electroacoustic systems.

For many years now, we have been systematically expanding our international activities, and we reaped further rewards from this expansion in 2006. Most of all, we shared in the economic upturn in the Asia Pacific region, where we achieved 12% growth. In this region, we generated roughly one-third of our total sales growth last year. Year-on-year growth in North and South America dropped to only about 6 %, down from 11 % growth in the previous year, largely due to weaknesses of the U.S. vehicle manufacturers. In Europe, we grew by 3.8 % overall, with growth in eastern Europe reaching 14 %.

Growth rates across the various business sectors varied even more markedly than in the prior year. In Automotive Technology – including the result of the brake disc business reassigned from Industrial Technology – we generated total sales of 27.2 billion euros, an increase of 3.4 % over 2005. While we made a good start to 2006, during the second half of the year we especially felt the effects of weakness among some European and particularly major American automakers. In addition, growth in the European diesel market slowed after a long upturn. This slowdown was compounded by the far-reaching decision of a key customer to switch from unit-injector to common-rail diesel injection technology over the next few years. We began to feel the effects of this decision in the course of fiscal 2006, with competition in the market for common-rail systems becoming even fiercer. In the past year, we also had to contend with price cuts of roughly 3.5 % in the automotive technology sector.

In view of the intensifying debate about climate change as well as the need for further lasting cuts in fuel consumption and carbon dioxide emissions, we forecast an even better outlook for our diesel and gasoline direct injection systems in the years to come. This applies equally to Europe, Asia Pacific, and the Americas. To complete our diesel business portfolio, we established a joint venture for diesel particulate filters with Denso, a Japanese automotive supplier. From 2009, we plan to jointly manufacture and separately market high-performance and cost-effective diesel particulate filters made on the basis of Cordierite ceramic.

We successfully defended our position in 2006 as the world's largest automotive supplier. Contributing factors included growth in areas such as gasoline injection, ABS and ESP® braking technologies, automotive electronics, and steering systems. Drive systems accounted for some 40 % of our total automotive technology sales in 2006. Effective November 1, 2006, we split our Energy and Body Systems division into the Electrical Drives division and the Starter Motors and Generators division to sharpen their focus on the needs of these two markets. Both divisions operate in exceptionally difficult competitive environments.

Business sectors and divisions			
Automotive Technology	**Industrial Technology**	**Consumer Goods and Building Technology**	
▸ Gasoline Systems ▸ Diesel Systems ▸ Chassis Systems Brakes ▸ Chassis Systems Control ▸ Electrical Drives ▸ Starter Motors and Generators ▸ Car Multimedia[1] ▸ Automotive Electronics ▸ Automotive Aftermarket ▸ Steering Systems[2]	▸ Automation Technology[3] ▸ Packaging Technology	▸ Power Tools ▸ Thermotechnology[4] ▸ Household Appliances[5] ▸ Security Systems[6]	[1] Blaupunkt GmbH (100% Bosch-owned) [2] ZF Lenksysteme GmbH (50% Bosch-owned) [3] Bosch Rexroth AG (100% Bosch-owned) [4] BBT Thermotechnik GmbH (100% Bosch-owned) [5] BSH Bosch und Siemens Hausgeräte GmbH (50% Bosch-owned) [6] Bosch Sicherheitssysteme GmbH (100% Bosch-owned)

In terms of regions, growth also in the Automotive Technology business sector centered on Asia Pacific, where it now generates 19 % of its sales. In India, we launched a fifty-fifty filter-manufacturing joint venture with Mann+Hummel. At our subsidiary Mico in Bangalore, we opened our first manufacturing facility in India for high-pressure common-rail pumps. Our production capacity for starters and alternators in China was also expanded. We announced a majority takeover of Australia's Pacifica Group Ltd, Melbourne, and were offered roughly 75 % of the company's shares for purchase before the bid expired on March 4, 2007. Pacifica is a leading maker of disc brakes and other brake components for the original equipment and spare parts markets.

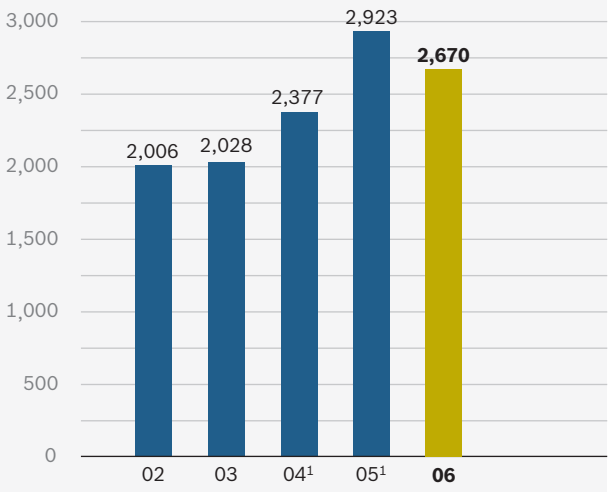
We recorded exceptionally strong growth over the past year in Consumer Goods and Building Technology, followed by Industrial Technology. These results made up for modest growth in Automotive Technology. Our Consumer Goods and Building Technology business sector increased sales by nearly 11 % to 11 billion euros. Excluding first-time consolidations, sales in this sector were up by roughly 9.5 %. As a result, the sector accounts for 25 % of Bosch Group sales. All divisions contributed to this success. BSH Bosch und Siemens Hausgeräte GmbH attained a notable increase in revenue. This company considerably expanded its business in Asia – particularly China – as well as in eastern Europe. It also achieved substantial growth in Germany, due to improved consumer confidence and purchases in advance of the increase in value added tax at the beginning of 2007. The company gained additional market share in the process.

In thermotechnology, energy-efficient systems such as condensing boilers and heating systems using renewable energy were in great demand. In power tools, we were successful with further product innovations based on lithium-ion rechargeable batteries. The improved economic climate also favored this market – especially in Europe, and not least in Germany. While we felt the effects of a slowdown in U.S. construction activity, we significantly expanded our business in eastern Europe and Asia. In the field of security systems, we registered encouraging growth in our product business, especially with our video surveillance technology.

Our Industrial Technology business sector recorded sales of 5.5 billion euros in 2006. Measured on a like-for-like basis, sales growth was 7.1 %. However, the disclosed growth figure is reduced to 5.1 %, primarily due to the transfer of brake disc activities to Automotive Technology. The positive trend was again largely driven by Bosch Rexroth. We achieved notable successes here with mobile hydraulics, where we profited as a supplier from the strong demand for construction machinery and from the rapid growth in demand for wind power systems. In our Packaging Technology division, we were able to stabilize our position.

Capital expenditure

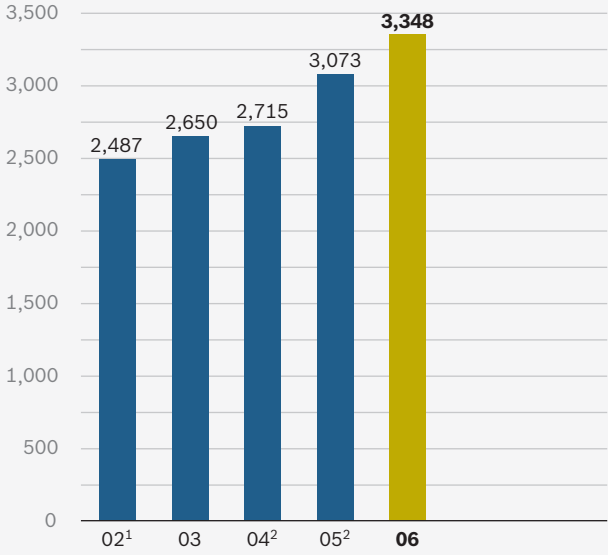
Bosch Group 2002 – 2006
Figures in millions of euros



[1] Continuing operations only

Total research and development cost [1]

Bosch Group 2002 – 2006
Figures in millions of euros



[1] Including development work charged directly to customers; from 2004, calculated according to IFRS
[2] Continuing operations only

Headcount up in Asia and eastern Europe

Our global workforce continued to grow in 2006, increasing by more than 10,300 to some 261,300 over the course of the year. Of this total, we employ approximately 110,500 in Germany and roughly 150,800 outside Germany. China and eastern Europe again saw the largest additions to the workforce. Disregarding changes due to companies included in consolidation for the first time, the worldwide headcount was up by approximately 5,300. We held staff numbers steady in Germany.

In view of the fierce competitive environment in the automotive technology sector as well as in other areas of activity, we face constant pressure to secure our long-term competitiveness and to close any disadvantage. We achieve this by continuously optimizing our activities along the entire value added chain as well as in the core processes related to that chain, from product creation through to sales.

This is why once again we entered into agreements with employee representatives at various locations in 2006 to implement a series of measures boosting competitiveness across the board. Talks are still in progress at other locations. In 2009, we will close the Rommelsbach plant, where we produce components

for diesel injection systems. The reason for this move is that unit-injector manufacture will be abandoned as a result of a customer's switching to a different technology. We shall offer the Rommelsbach workforce new jobs at an eight-inch semiconductor manufacturing facility to be built over the next few years in nearby Reutlingen.

Strategy

Strategic focus on global trends

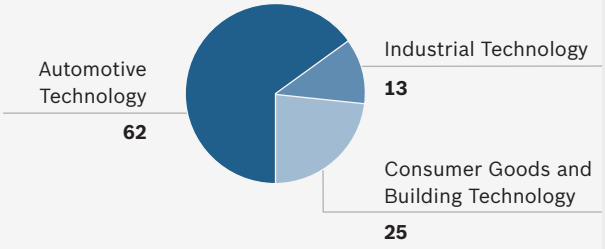
We gear our strategy to the great challenges of the future, which we see in a number of different areas. One challenge is the shift of global growth toward Asia in the next few years. By our estimate, the Asia Pacific regional economy will grow twice as fast as that of Europe or the Americas through 2015. By that time, the Asia Pacific share of global value added will have increased to about one-third, catching up with the Americas and Europe. In Europe, the strongest growth impetus will come from the eastern European countries.

However, profiting from growth in emerging economies first and foremost involves servicing low-price market segments – not least in automotive technology. According to our forecasts, the strongest rise in demand, not just in Asia but in eastern Europe as well, will be for low-price vehicles. Although they will sell in the 5,000 to 7,000-euro price bracket, these vehicles will still have to meet high standards in emissions, fuel economy, and safety. Production of these low-price vehicles will grow from about 7.5 million units a year today to over 12 million by 2015 – that is, substantially faster than global automotive manufacturing overall.

Yet the highly developed western European, Japanese, and North American markets will still remain very important, notably as regards the specific quality of growth. These economies will continue to be the proving ground for our high-tech products – particularly in mastering major ecological challenges. The manifestations of climate change, with sometimes substantial damage to the natural environment, call for an integrated approach to further reducing emissions that impact the climate. On top of this comes increasing scarcity of key resources and currently available energy reserves, requiring more efficient utilization of energy and new ways to obtain it. Another major trend to address is the demographic change toward net population aging, notably in established industrial nations. This change places new demands on products, especially with regard to comfort and convenience, and opens up new opportunities for product innovation.

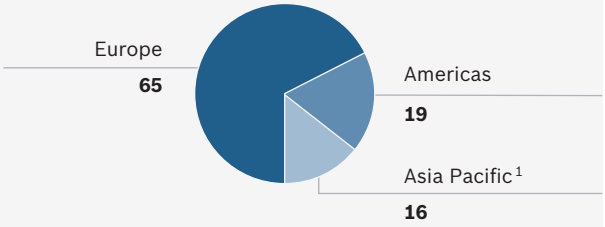
Sales by business sector

Bosch Group 2006
Percentage figures



Sales by region

Bosch Group 2006
Percentage figures



[1] Including other regions

We see these trends as significant opportunities for the further development of the Bosch Group. We have a good starting position by virtue of our already broad international reach, numerous products designed to use energy efficiently and to minimize pollutant emissions, and our strong focus on innovation. In the coming years, we plan to reinforce this position through both our existing activities and acquisitions. Our objective is to achieve sustained profitable growth for our Group. To this end, we shall push ahead with the consistent internationalization of our business. At the same time, we plan to fast-track expansion in our Industrial Technology as well as our Consumer Goods and Building Technology business sectors, without neglecting opportunities in Automotive Technology. Our strategy is one of focused diversification in line with our Group's established core competencies, with special strengths in metering, governing, and control, with comprehensive know-how in electronics, and with high-precision manufacturing technology. Our ethos is best summed up in our slogan "Invented for life" – products that deliver key customer benefits in which ecological aspects play an increasingly important role.

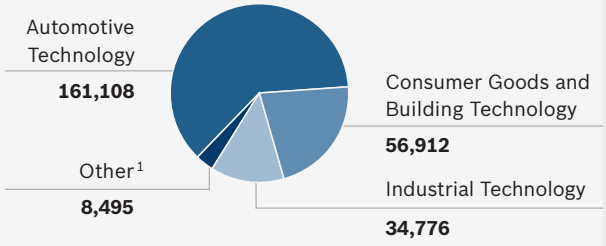
Global position further extended

We already generate over a third of our sales outside Europe. Over the long term, we want to raise this to about half, with a correspondingly stronger presence in Asia Pacific and the Americas. We expect that our strongest growth impetus will come from China and India, as well as from eastern Europe and particularly Russia. Our broadest international footprint is currently to be found in Automotive Technology. In this sector, we aim to further step up cooperation with Asian automakers. In India and China, we have already secured a number of orders in the growing low-price vehicle segment.

We are likewise systematically reinforcing our market position in our Industrial Technology as well as in our Consumer Goods and Building Technology business sectors, particularly in Asia and eastern Europe. Last year, in its Mobile Hydraulics business unit, Bosch Rexroth opened a new plant in Beijing, China, and expanded its plant in Wujin, China. We also brought a new plant into operation at Bursa, Turkey, and are currently building a new manufacturing facility for linear technology at Blaj, Romania. We opened a new packaging machinery plant at Hangzhou, China. In Consumer Goods and Building Technology, we

Headcount by business sector

Bosch Group
As per January 1, 2007

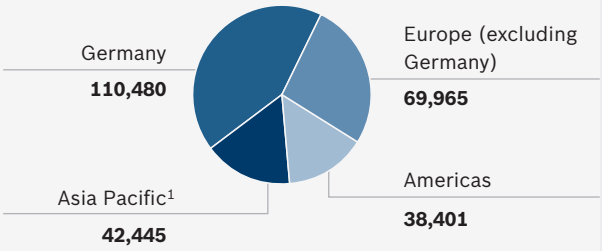


Total: 261 291

[1] Corporate functions and research

Headcount by region

Bosch Group
As per January 1, 2007



[1] Including other regions

launched a joint venture for stationary power tools with Chinese vendor Chervon in December 2006. BSH Bosch und Siemens Hausgeräte GmbH is building a new refrigeration equipment factory at St. Petersburg, Russia, which is set to start production in mid-2007.

Toward ecological globalization

Increasingly strict environmental requirements worldwide present us with further growth opportunities in all business sectors. In Automotive Technology, we already supply a wide range of energy-saving, emission-reducing drive technologies, from modern gasoline and diesel injection systems to alternative fuel systems and hybrid drives. Emerging economies such as India and China, too, are adopting increasingly stringent emission standards to reduce carbon dioxide emissions and reliance on imported oil. Our high-pressure diesel injection technology is therefore met with intense interest in these markets. We are working with Asian manufacturers on an array of projects in this area.

In North America, sharp rises in fuel prices and increasingly critical awareness of carbon dioxide emissions are also triggering heightened interest in economical engines. The introduction of ultra-low sulfur diesel in the U.S. last year fulfilled a key condition for the deployment of today's advanced diesel technology. By 2009, the United States will be one of the countries with the most stringent emission standards, and also will have tighter standards for fleet fuel economy. Since we expect to meet the strict new exhaust standards with our diesel injection systems by mid-2008, we also expect the diesel share of passenger car and light truck production in the U.S. to rise from 6 % in 2006 to some 15 % in 2015.

In Brazil, ethanol will continue to play a major role in reducing reliance on petroleum and hence in stimulating the growth of domestic industry. We are already present in this market with our Flex-Fuel technology.

We have also stepped up our activities in hybrid drive systems. We have been awarded a contract to develop and manufacture key components for several full hybrid vehicles. We also entered into a cooperation agreement for hybrid systems with dual clutch transmissions.

The Bosch planning and control system

Our comprehensive internal planning and controlling system is an essential tool for the management of the Bosch Group. A monthly business report keeps the board of management informed about performance of the operating units with reference to selected indicators. Controlling is done via a comparison of actual with target values whose basis is the business plan agreed at the end of each preceding year. The business plan has a three-year perspective, and is itself embedded into strategic corporate planning, which takes an eight-year perspective.

The central control parameter of our value-based management system is value contribution. Its development is the yardstick we use to assess performance. It is also used for portfolio management purposes and forms the basis for calculating executives' performance-based bonuses. Value contribution represents cash flow less cost of capital. The cost of capital applied in 2006 was 8%.

In our other business sectors, too, we supply products that help cut energy consumption and pollutant emissions. Alongside making transmissions for wind turbines, Bosch Rexroth is active in the development of new technologies for generating power from marine currents. We are also looking into wave energy, a power-generation process that involves the use of hydraulic components. In mobile hydraulics, Bosch Rexroth is working on an innovative brake system for construction machinery that recovers the energy produced when braking.

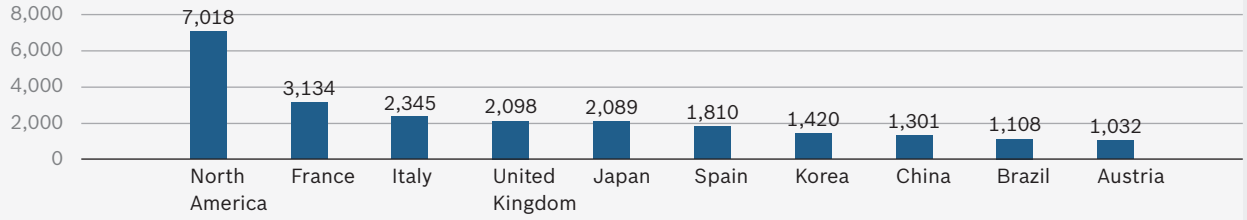
In thermotechnology, we generate a substantial share of our sales with modern condensing technology; however, we achieved our highest growth rates in renewables such as geothermal and solar thermal energy. At the start of 2007, we announced the acquisition of FHP Manufacturing Company, Fort Lauderdale, FL (USA), thereby improving our access to the rapidly growing American market for geothermal electric heat pumps. A second solar collector manufacturing facility which we are currently building at Aveiro, Portugal, is set to begin production in 2007. We are also expanding capacity for heat pumps at our location in Tranås, Sweden. In household appliances, we have long focused on energy and water-saving models. Overall, we see further attractive prospects in the energy technology sector, which we are currently exploring.

Safety, comfort, and convenience are further customer benefits to which we continue to devote close attention. The outlook is particularly favorable for our Electronic Stability Program (ESP®). The U.S. National Highway Traffic Safety Administration plans to mandate the gradual adoption of ESP® for all newly produced passenger cars by 2011. In its statement of position on the CARS 21 program, the EU Commission sees ESP® as one of the most significant measures for enhancing road safety and has announced plans to rapidly mandate this system. China, too, has begun efforts to improve road safety. Together with Chinese government agencies, we are taking initial steps to demonstrate the importance of active safety systems in vehicles.

We are also in the process of networking safety technologies in our modular Combined Active and Passive Safety (CAPS) system. This networking provides a platform for the implementation of new features for even better accident prevention. The first applications

The most important markets outside Germany

Bosch Group sales 2006
Figures in millions of euros



are already in series production. Greater driver convenience is delivered by products such as integrated parking space measurement, which went into series production in 2006. Future versions will also assist the driver in actually maneuvering into a parking space.

Within the company, there are a number of promising ideas for transferring our automotive expertise to other areas of activity. Our Bosch Sensortec operating unit, for example, is using know-how from automotive microsystems technology to develop acceleration sensors for use in consumer electronics devices such as laptop computers.

Boosting innovative strength

We continue to secure our global lead in many areas with a high level of innovative strength. To better exploit our innovative potential, we have consolidated board of management responsibility for technology and product planning across all business sectors. From the beginning of 2007, we have assigned both activities to Siegfried Dais, deputy chairman of the board of management. This consolidation also helps to accelerate knowledge transfer within the company, to promote projects across business sector boundaries, and to ensure that full use is made of our innovations.

In 2006 alone, we spent some 3.3 billion euros, or 7.7 % of sales, on research and development. We also registered over 3,000 patents worldwide. This is the work of some 25,300 associates around the globe, the majority in product development organized at divisional level. Some 1,300 associates work in our Corporate Research and Advance Engineering sector, where – on the basis of defined priorities – we lay the foundations for future products and processes. We significantly expanded this sector toward industrial technology and consumer goods over the past year.

We have set ourselves the goal of identifying global technology trends earlier than ever before. To this end, we conduct technology scouting not just in Europe, but also in the U.S., Japan, and China. With 16,200 researchers and developers, Germany continues to be a key research and development location.

Here, we benefit enormously from a successful, close-knit network of technologically advanced customers and suppliers, as well as research and education establishments. We are nonetheless adding to product development capacity elsewhere, especially in countries such as China and India, as well as in eastern Europe. This allows us, again in contact with our customers there, to better address regional market needs such as the demand for low-price vehicles.

Consistent focus on quality

In all areas in which we work, we want our quality to set standards. Our customers, too, have further tightened their quality requirements, often calling for longer guarantee periods and for quality costs to be absorbed even for unexplained defects. This places high and increasingly exacting demands on process steps at every link in the value added chain to minimize risk. With the adoption of the Bosch Production System, which implements just-in-time manufacturing throughout the supply chain, enhanced quality standards now apply especially for our suppliers as well.

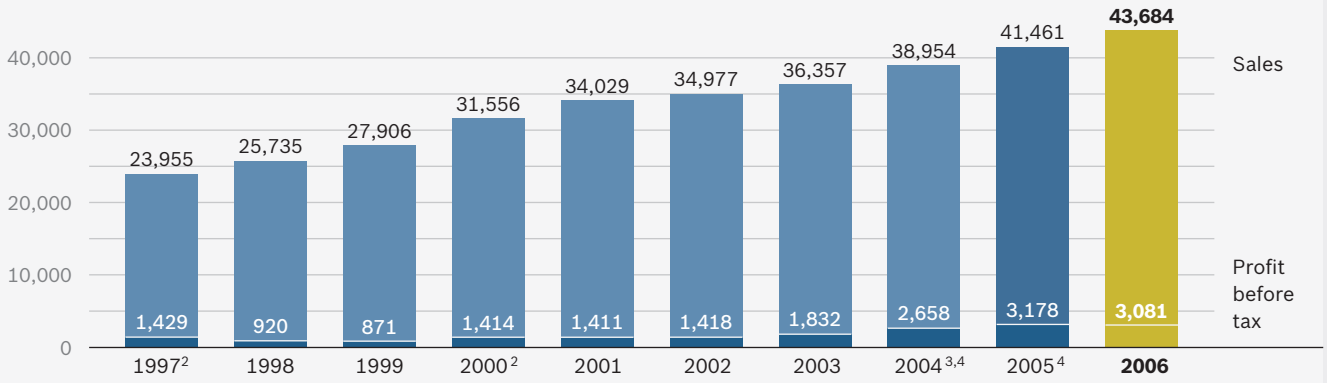
We therefore enforce integrated quality management right from the beginning of development. In Automotive Technology, we work in close cooperation with our customers in the product creation process. We have further strengthened our work in this area by fine-tuning the allocation of customer responsibilities among divisions and corporate sectors. We also continue to promote conceptual skills in all areas. This involves training courses to reinforce on-the-spot problem resolution capabilities and the comprehensive adoption of "lessons learned" processes to prevent repetition of defects. Our efforts over the past year have paid off. We have further reduced defect rates and cut quality costs overall.

Internationalization of purchasing activities continues

In the course of our ongoing internationalization, we have further added to our global supplier base in the past year. These efforts focused mainly on eastern Europe, Mexico, South America, and Asia – including China, India, and Thailand. In all three global regions, we aim to source the great majority of inputs to local value added from the countries where the inputs are processed. In 2006, we purchased goods, services, machinery, and tools worth just under 23 billion euros in total.

Sales and profit before tax[1]

Bosch Group 1997 – 2006
Figures in millions of euros



[1] Up to 2003 designated income from ordinary business activities pursuant to HGB
[2] Special effects as a result of the "distribute-recapture method" at Robert Bosch GmbH
[3] Sales 2004 according to HGB: 40 billion euros
[4] Pursuant to IFRS, only continuing operations

Another part of our strategy consists in increasing focus on preferred suppliers. Our aim in doing this is to have a sufficient number of highly qualified and competitive suppliers available for all types of materials at locations important to Bosch worldwide. In the past year, we adopted a tool for integrated evaluation of supplier performance and potential in terms of quality, expertise, costs, and logistics. This involved setting up a system allowing us to measure the quality performance of suppliers worldwide and to manage improvement measures on a global basis. Quality is also a central issue in our supplier development programs.

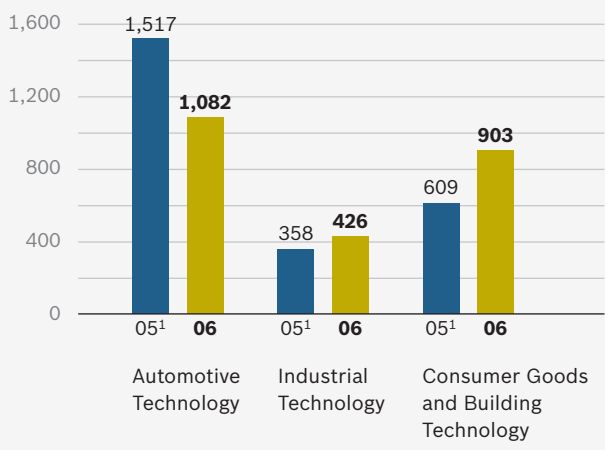
Corporate social responsibility

We published the Bosch Group's first corporate social responsibility report in 2006. It explains how we understand the guiding principles of our actions, our responsibility, and our activities for associates, for society, and for the environment. For us, achieving a balance among these aspects is one of the most important conditions for securing the company's long-term existence. These efforts are underscored by our membership in the United Nations Global Compact, in accordance with which we regularly review and fine-tune environmental and social standards at our Bosch locations. We also attach top priority to occupational safety and health as well as workplace safety.

We have also set down rules for our working relationships and our long-term road map in a frame of reference we call the "House of Orientation." This frame presents firstly our code of values which, alongside future and result focus, include responsibility, legality, and cultural diversity. Further, the House of Orientation provides Bosch associates with information about our vision as an image of the future, our BeQIK mission as a guideline for continuous improvement, and our core competencies for the successful further development of the Bosch Group. It presents finally the Bosch Business System, which is designed to contribute toward the continuous improvement of all internal processes.

Operating result by business sector

Bosch Group 2005/2006
Figures in millions of euros



[1] Continuing operations only

Results of operations

Result slightly down on prior year

The Bosch Group's result before taxes was 3.1 billion euros in 2006, compared with 3.2 billion euros in 2005. One reason for the decrease is a drop in operating earnings in Automotive Technology. The financial result, at slightly over 660 million euros, came close to the previous year's high level. Pre-tax return on sales for the Bosch Group was 7.1 %, just within our target corridor of between 7 and 8 %. Growth in our Industrial Technology and our Consumer Goods and Building Technology business sectors to a great extent offset the negative impacts within the Automotive Technology business sector.

Operating result, at 2.4 billion euros, is down on the prior-year figure of 2.5 billion euros. This figure reflects not only the earnings drop in Automotive Technology but also our high level of expenditure on research and development, which further increased in 2006 to 3.3 billion euros or 7.7 % of sales. Improvements in purchasing prices and lower warranty costs did not fully compensate for these effects.

Corporate financial and currency management

The Bosch Group manages finance and currency at corporate level. Corporate finance management comprises financing and the investment of funds, the control of global payment transactions, and risk management. In many of its finance functions, it acts as the internal bank of the Bosch Group. The task of cash management is primarily to ensure ability to pay at all times and to control cash flows in the best possible way, also taking issues of risk into account. Currency management is based on a regularly prepared consolidated foreign exchange balance plan. The internal currency exposures of the operating units are first offset against each other and, if deemed necessary, any residual net position is hedged by corporate management on the currency market. In addition, investment of cash resources and securities largely takes place at the corporate level, as does borrowing.

Large variation in sectoral results

Result varied substantially among our three business sectors. In Automotive Technology, we generated an operating result of 1.1 billion euros. This represents only a 4.0 % return on sales. Severe price pressure resulting in price reductions of roughly 3.5 % and sharp rises in the cost of raw materials had a seriously negative impact. This was compounded by losses in North America due to lower capacity utilization resulting from reduced production levels among major customers. In our Energy and Body Systems division (which has since been subdivided), we had to recognize 85 million euros in asset impairments. Increased depreciation on plant, property, and equipment, following the high levels of capital expenditure in recent years, further contributed to the drop in result. We also set up provisions in connection with supply commitments and with the phasing-out of unit-injector technology. Our measures to cut costs, the improvements of productivity, and the reduction in warranty expenditure were not able to make up for these impacts in 2006.

The Industrial Technology business sector improved its operating result to just under 430 million euros, or 7.8 % of sales. Bosch Rexroth accounted for the largest share. We continued to benefit from rapid growth and good capacity utilization as a result of the globally favorable climate for capital goods. In the area of packaging machinery, reorganization measures are showing an effect. Here, we were able to stabilize our result of operations.

The Consumer Goods and Building Technology business sector increased its operating result to 900 million euros, or 8.2 % of sales. The improvement was supported mainly by a generally positive competitive environment. We also succeeded in further opening up international markets and extending our market position with a large number of new products. For the first time in many years, we achieved substantial growth in the German market, although this partly resulted from purchases in advance of the rise in value added tax at the start of 2007.

Consolidated cash flow statement

Bosch Group 2005/2006	2005	2006
Cash flow	4,352	**4,521**
Cash flow from operating activities	3,440	**3,681**
Cash flow from investing activities	–3,631	**–3,277**
Cash flow from financing activities	–262	**–614**
Liquidity at year-end	3,074	**2,849**

Figures in millions of euros

Financial position

Financial basis further strengthened

The Bosch Group has a sound financial basis. This is one of the main reasons why the Standard and Poor's rating agency reaffirmed its long-term AA- rating for the Bosch Group last year. In 2006, cash flow increased slightly to 4.5 billion euros or 10.3 % of sales. This was mostly accounted for by the 3.1 billion euro profit before tax. Our liquidity at the end of 2006 as reported on the cash flow statement amounted to 2.8 billion euros, the decrease of approximately 200 million euros compared with 2005 resulting from our having further scaled back financial liabilities.

High level of investment sustained

We invested some 2.7 billion euros in property, plant, and equipment in 2006, or 6.1 % of sales. Capital expenditure thus significantly exceeded depreciation of property, plant, and equipment, which came to 2.3 billion euros. Of this capital expenditure, some three-quarters were again accounted for by the Automotive Technology business sector. The main focus of investment was on expanding capacity for common-rail diesel injection systems, semiconductors and sensors, and gasoline injection systems, and for hydraulics manufacturing at Bosch Rexroth. To expand our business in the major global growth regions, we invested some 450 million euros in Asia and some 400 million euros in eastern Europe. Our locations in Germany still accounted for approximately 40 % or roughly one billion euros of total capital expenditure.

We plan capital expenditure on a similar scale in 2007 and 2008. One major item will be the construction of an eight-inch semiconductor manufacturing facility at Reutlingen, where we shall be investing a total of 550 million euros. At Bosch Rexroth, we shall be undertaking ambitious expansion of our activities in large gear units for wind turbines. A total in excess of 300 million euros will be invested in this project at locations in Germany, the U.S., and China over a period of several years. Notable capital expenditure projects outside Germany include the construction of a manufacturing facility for fire alarm and burglar-proofing systems in the Security Systems division at Zhuhai, China, and the building of a winter testing center for brake systems at Yakeshi, China. The main focus of capital expenditure in 2007 and 2008 will remain the Automotive Technology business sector. There will also be no major change in the distribution of capital expenditure among the three global regions.

Reduction in borrowing

The Bosch Group retains a healthy balance-sheet structure. Equity increased in 2006 to 22.5 billion euros and the equity ratio to 48 %, from 46% in the previous year. The growth in equity, by 1.5 billion euros, is primarily attributable to the after-tax result of 2.2 billion euros. This was partly offset by the negative impact of changes in accumulated other comprehensive income.

Our net liquidity position remains positive. Cash and cash equivalents, including current securities and current bank balances, amounted to 3.4 billion euros at the end of 2006, exceeding current and non-current financial liabilities by roughly one billion euros. We scaled back financial liabilities by some 500 million euros. Apart from the rescheduling of U.S. dollar loans, we repaid the 1.3 billion euros still outstanding from the bond issued in 2001, and refinanced only part of the repayment amount. We issued a new bond for a total of 750 million euros over a ten-year term. With a minimum subscription of 50,000 euros, the bond was aimed at institutional investors. Our long-term balance-sheet structure is likewise healthy. The securities we report under non-current financial assets come to 7.7 billion, exceeding the 6.5 billion euros in pension provisions.

Subsequent events

There were no events of material importance subsequent to the balance sheet date.

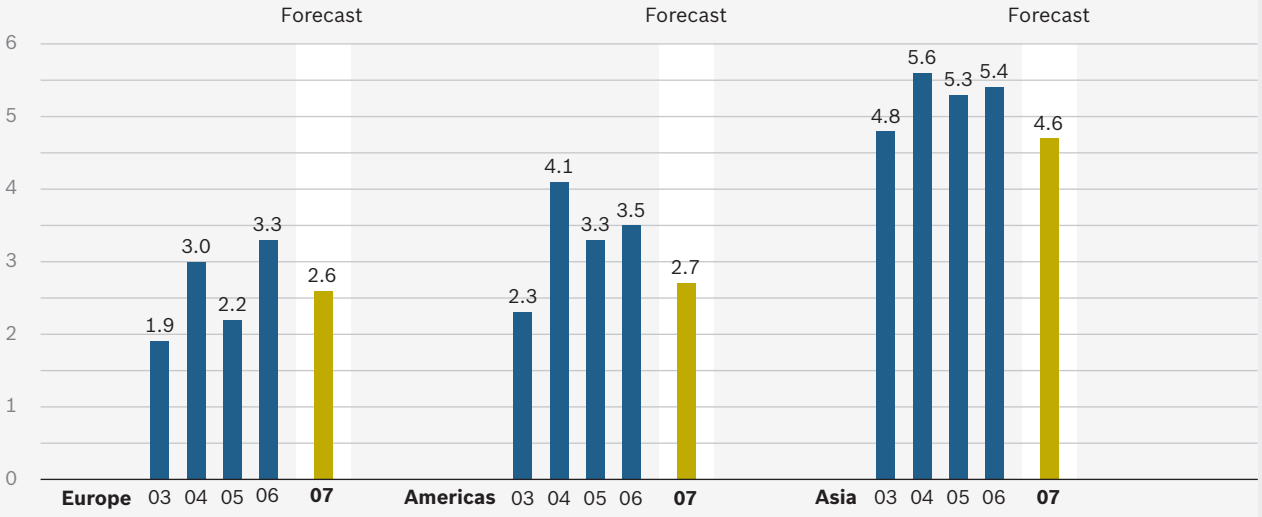
Forecast

Generally favorable environment to continue in 2007

After the unexpectedly positive trend in the past year, we anticipate that global growth will lose some of its momentum in 2007. This applies to all regions, although the Asian emerging economies will continue to grow faster than others. Despite the first corrective price adjustments on the world's stock markets, we believe there is little danger of a major slowdown. Raw materials prices have stabilized on a high level, globalization continues to sustain the worldwide propensity to invest at a high level, and employment has been increasing in many countries for some time. Risks are posed by major discrepancies in regional balances of payments and international financial flows, and by the fact that key Asian currencies are clearly undervalued. However, we believe these risks can be limited through even more intensive international coordination.

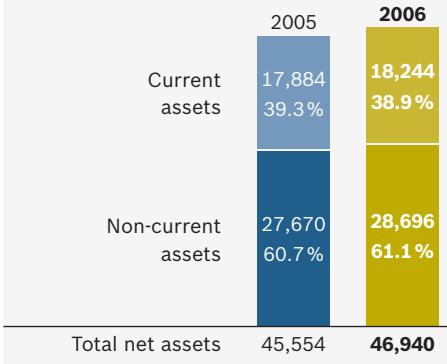
Regional economic growth 2003 – 2007

Real GDP, percentage change on year ago



Balance-sheet structure – assets

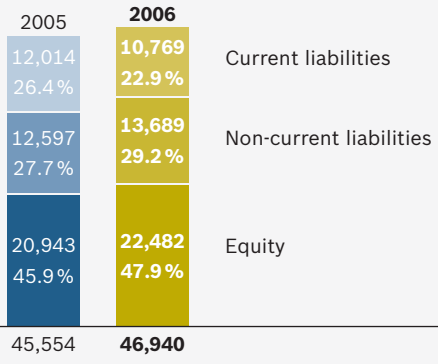
Bosch Group 2005/2006
Figures in millions of euros/as a percentage of total net assets



	2005	2006
Total net assets	45,554	**46,940**

Balance-sheet structure – equity and liabilities

Bosch Group 2005/2006
Figures in millions of euros/as a percentage of total net assets



	2005	2006
	45,554	**46,940**

Growth in global automotive production is also likely to remain relatively high, at 3 % in 2007, with emerging economies continuing to provide the greatest impetus. Under pressure largely from Asian manufacturers, further production cutbacks and capacity adjustments are expected among the major North American automotive manufacturers. European vehicle output, by contrast, could gain as in 2006 by 2 to 3 %, with the main focus of growth in central and eastern Europe. There are risks, however, due to the announced tightening of carbon dioxide emission limits for passenger cars. This could have an effect on the mix of vehicles sold.

Against this backdrop, our target for 2007 is that total sales by the Bosch Group as a result of organic growth should increase by a similar increment as in the previous year, provided there is no further substantial appreciation of the euro. We think the conditions for achieving this growth are good considering the sustained positive trend, particularly in consumer goods and industrial technology, in the first months of this year. Later in the year, we also expect the automotive technology sector to return to stronger growth, especially as key customers in Europe begin to recover. Not least in view of the CO_2 debate, we also expect that diesel's share of the passenger car market will continue to rise – and not just in Europe.

Pressure on prices is set to persist unabated, however, and will thus inevitably act as a brake on sales growth. To absorb the impact on result, we shall continue to work consistently to reduce our costs across all operating units. We are confident that we can keep the Bosch Group's earnings in 2007 on the same level as in the previous year, and can improve them further in the years that follow. This will enable us to invest in further growth in all major world markets, to secure our innovative strength in sustainable fashion, and to provide stable levels of employment worldwide.

Risk report

Risk management in the Bosch Group

All the organizational rules and actions relating to risk management in the Bosch Group have been compiled in directives, which we review and revise on a regular basis. Internal control provisions and the Bosch Group internal auditing unit ensure compliance with applicable central directives and guidelines. In our reporting system, we disclose on a monthly basis all commercially relevant matters and their impact on result.

General risk assessment

In addition to the market-related opportunities and risks listed in the forecast above, there are no recognizable individual risks that will materially impair the net assets, financial position, and results of operations of the Bosch Group in fiscal 2007. More than anything else, our broad regional and sectoral presence ensures that risks are spread.

Products: One risk has its origin in automakers' demands for further price reductions and in high price pressures in the area of consumer goods. Our markets are also subject to cyclical swings, especially in sectors closely tied to capital investment. Continuously shortening development cycles and increasingly complex systems comprise a risk in the automotive technology sector. These things increase the danger of isolated defects with major impacts. We counter this risk with intensive quality assurance measures encompassing the entire supply chain. In addition, market conditions can fundamentally change at short notice if customers switch to other technologies, as occurred with unit-injector systems for diesel fuel injection. High and possibly still rising raw material prices in key industrial metals also continue to pose risks in 2007.

Legal risks: We do not anticipate any material risks as a result of current or pending litigation.

Financial risks: The operational business of the Bosch Group is impacted by fluctuations in exchange and interest rates. We limit these risks by hedging transactions entered into at corporate level. Internal regulations and guidelines set down a mandatory framework and define the responsibilities relating to investment and hedging transactions. According to these regulations, derivatives may only be used in connection with operative business, financial investments, or financing transactions; speculative transactions are forbidden. Hedging transactions are entered into solely via banks whose creditworthiness is regarded as impeccable; the yardstick for their creditworthiness is the rating given by leading agencies.

We have substantial financial assets, partly as a counter to our pension obligations. These are subject to interest-rate and exchange-rate risks. We control these risks by means of an investment process geared to our financial exposure. The objective here is to secure appropriate, risk-adjusted returns on invested capital.

Car drivers **worldwide** rely on Bosch equipment. And on Bosch service. Bosch's Automotive Aftermarket division makes sure that repair shops **don't need to go far to get the knowledge they require.**

Yüksel Silen is one of the most successful users of the training programs at the Bosch Training Center in Istanbul, Turkey. The knowledge he gained gave him the chance to open his own Bosch Car Service operation. In Turkey, there is a rapidly growing number of vehicles with the latest clean, fuel-efficient technology. As a result, the Istanbul Training Center is recording a 30 % annual growth in participant numbers.

A high standard of technology is important, but because vocational training differs widely from region to region it requires an equally high standard of training in electrics, electronics, gasoline and diesel injection, brakes, mechanical components, diagnosis, and inspection. The Bosch Automotive Aftermarket division ensures that training for Bosch Service operations and independent workshops in the regions of the world is based on common processes and standards, with consistent database support. Regional service training centers create a framework for knowledge sharing. They know the local car market and local training requirements, and have the necessary service information for diagnosis and repair. This makes training particularly efficient.

Part of the training philosophy is group work, involving systematic troubleshooting and measurement exercises on engines and vehicles. The equipment includes engine testers and Esitronic stations. Knowledge is imparted in interactive teaching sessions. The 130 Bosch Service trainers worldwide form a personal network and receive instruction themselves in regular train-the-trainer seminars.

Learning by doing, reliable parts supplies, profound customer satisfaction: Yüksel Silen benefits from optimum support from Bosch. For him, undergoing a training program tailored to his market is a worthwhile investment. While seminar content is standardized, its application is attuned to local vehicle markets and local training needs.

Automotive Technology

Key data	2005[1]	2006
Sales	26,313	**27,220**
Capital expenditure	2,306	**2,040**
R&D cost[2]	2,538	**2,743**

Figures in millions of euros

[1] Continuing operations only

[2] Including development work charged directly to customers

In 2006, our automotive technology sales grew by 3.4% to 27.2 billion euros. There were wide variations in performance in the individual markets. While vehicle production fell back slightly in western Europe and dropped considerably in the U.S., it enjoyed strong export-based growth of around 6% in Japan. Meanwhile, the rapid growth we have seen over the past few years in India, and especially in China, continued unabated. These developments give us confidence to continue along the path we have chosen. We therefore aim to maintain our position in Europe and to grow further in North and South America and, more importantly, in Asia. To this end, we are further strengthening our existing business relationships with Japanese automakers and taking full advantage of the opportunities in emerging markets such as China and India. For this, we need to ensure that we can offer innovative technology in all vehicle classes, from premium models to low-cost cars.

A growing diversity of drive concepts

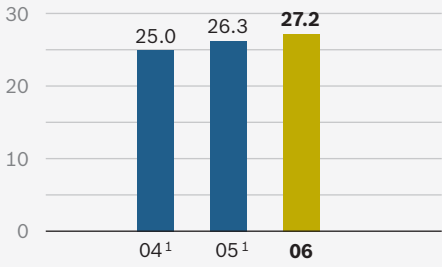
Motor vehicles are used for a huge variety of purposes, and the optimum drive configurations for each of these purposes differ considerably. The advent of new synthetic fuels and biofuels is adding to this diversity. We are therefore working closely with automakers around the world to develop injection systems and components for all engine and fuel types.

Diesel cars continue to be in great demand. In Europe, half of all new cars registered now have diesel engines, which customers are choosing for their high torque and low fuel consumption. This success is attributable to the high-pressure direct injection technology we pioneered, and which we shall continue to refine in the years to come. In 2006, for example, we increased the maximum injection pres-

In 2006, we commenced production of ESP®premium, a high-performance model of our ESP® braking control systems. This latest development generates braking pressure more quickly and operates more quietly – with hardly any vibration. In conjunction with other electronic systems in the vehicle, it provides the optimum basis for new assistance and safety functions.

Automotive Technology sales

2004 – 2006 Bosch Group
in billions of euros



1 Continuing operations only

Automotive brakes need to be comfortable as well as effective. Around the world, more than 80 of our engineers and technical experts make sure that our braking systems neither squeak nor vibrate. Comprehensive analyses and tests in the laboratory, on the test bench, and on test drives ensure that brake discs, calipers, and pads are perfectly attuned to each other.

sure in our common-rail systems for cars from 1600 to 1800 bar, and we plan to move to 2000 bar in 2007. An increasing number of commercial vehicle manufacturers are also adopting common-rail technology.

In order to ensure compliance with the stricter emission standards that are being implemented around the world (such as the US07 standard in the U.S.), we are developing exhaust gas treatment systems for cars. In 2004, we began manufacturing the Denoxtronic metering system for commercial vehicles. This system injects the reducing agent Adblue into the exhaust gas flow. We now also offer Departronic, a further metering system for commercial vehicles. This injects diesel fuel into the exhaust gas flow, thus facilitating the regeneration of particulate filters. In 2006, we agreed to set up a fifty-fifty joint-venture company with Denso Corporation of Japan, which is expected to commence manufacturing of ceramic elements in eastern Europe in 2009. These will be used in diesel particulate filters.

We continue to see great market potential for diesel injection systems in the United States and Asia. Over the next few years, all automotive manufacturers in North America will be offering a growing number of diesel models, and we are sure that American drivers will appreciate the advantages that diesel engines offer. In 2006, three times more light vehicles were equipped with diesel engines than with hybrid engines in the U.S. In India, we commenced production of injection pumps and injectors for common-rail systems, and a great deal more capital expenditure is planned.

A new generation of powerful gasoline engines

We see the gasoline engine remaining an alternative to diesel in Europe over the next few years. With turbocharging and direct injection, gasoline engines now employ the same technologies that make diesel so efficient. Several automakers have already begun series production of such engines, for which we supply the injection technology. Compared with engines used to date, which require greater engine displacement to deliver the same power, these new models will reduce fuel consumption and carbon dioxide emissions by around 15%. Together with one automaker, we have also pioneered a system that will make a spray-guided and therefore highly efficient lean-burn combustion system possible for the first time. Key to this system are our injection valves which employ piezo elements – an innovation in gasoline engines.

With crude oil prices continuing to rise over the long term, the automotive industry is focusing more and more on alternative fuels. We already offer injection systems which allow vehicles to run on gasoline and natural gas or gasoline and ethanol, either alternatively or as a mixture. Admixing synthetic fuels or biofuels to conventional fuels also opens up interesting options, and we are developing solutions for them.

Hybrid drive goes into series production

A third drive concept alongside gasoline and diesel engines is the hybrid system, in which an electric motor supplements the internal-combustion engine. Our dedicated project unit has around 250 associates working solely on this technology. In 2006, we were awarded the contract for the development and production of key components for several hybrid vehicles. In the New European Driving Cycle, this drive concept can reduce fuel consumption by up to 25 % as compared to gasoline engines with the same performance. We expect to see start of production in 2008.

In addition to optimizing combustion processes, we are also working on other technologies to cut fuel consumption. For example, we are developing a start-stop system which switches off the engine when the vehicle has stopped, for example at a traffic light. If the driver depresses the clutch pedal or releases the brake, the engine is restarted automatically. A system of this kind went into series production at the beginning of 2007. It features a modified starter and control electronics from Bosch. This approach is

an inexpensive solution which allows fuel consumption to be cut by up to 8 % in urban traffic. We therefore expect other manufacturers to begin applying this technology in the near future.

Assistance systems boost safety and comfort

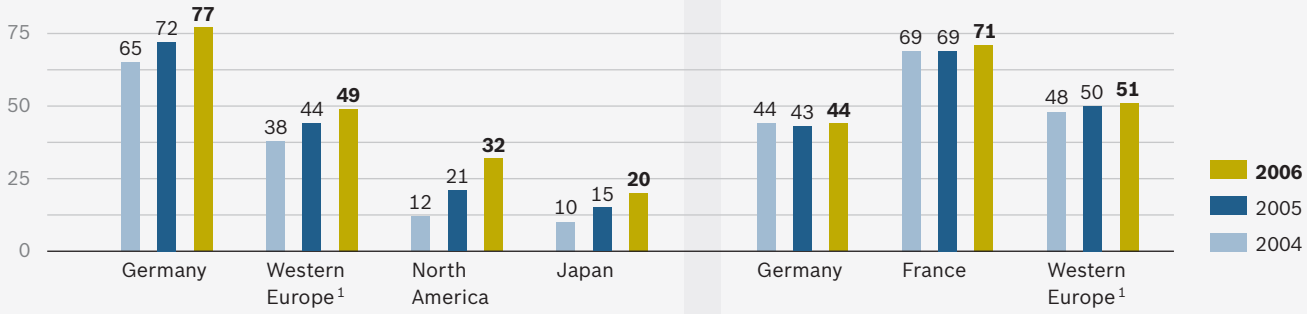
Our active night-vision system went into series production in late 2005. Invisibly for the human eye, it uses infrared headlights to illuminate the road. In combination with these headlights, an infrared camera can identify obstacles at a distance of over 150 meters and can display them on a screen on the dashboard. The system is currently available as an option in premium vehicles, and is proving to be very popular. In the future, our systems will also help drivers to park their cars once they reach their destination. For example, at the end of 2006, we took a parking space measurement system into series production. In the near future, we shall begin series production of enhanced versions of this system, which will be able to automatically steer the vehicle. We are also making ongoing refinements to our Parkpilot ultrasonic parking assistant, which is already widely in use.

By networking the electronic systems in the vehicle, we are creating the basis for new functions in order to maximize road safety. Our development work focuses on the Combined Active & Passive Safety (CAPS) modular safety system, which links the vehicle's environment recognition systems with its active and passive safety systems and on-board communication systems. Building on this work, the second generation of our predictive safety systems went into series production in 2006. If the radar-based Adaptive Cruise Control

Our plant in Nuremberg, Germany, manufactures various products including a single-cylinder high-pressure pump for our second-generation gasoline direct injection systems. Since the pump is made of stainless steel, it is suitable for all grades of fuel, including ethanol, and can therefore be used anywhere in the world.

Growing acceptance of ESP®

Share of vehicles equipped with an Electronic Stability Program, on the basis of the production of cars in selected markets from 2004 to 2006
Percentage figures



[1] Including Germany

Growing acceptance of diesel

Share of diesel in newly registered cars, based on selected markets from 2004 to 2006
Percentage figures

[1] Including Germany and France

Electrical steering systems are increasingly displacing hydraulic systems. In our plant in Hildesheim, Germany, we manufacture the electric motors for these systems and supply them to ZF Lenksysteme GmbH, a joint-venture company of Robert Bosch GmbH and ZF Friedrichshafen AG. These new steering systems are more compact and efficient than their predecessors. These features alone allow fuel consumption to be cut by up to 0.3 liters per 100 kilometers.

(ACC) device identifies a potentially critical traffic situation and the driver fails to react within a reasonable amount of time, the system alerts the driver to the hazard by briefly jerking the brakes. Studies show that this technology can prevent a large number of accidents. Another example of a CAPS function is an improved rollover detection system, which also went into series production in 2006. This technology provides earlier and more reliable deployment of airbags and triggering of seat-belt pretensioners in the event of an accident in which the vehicle overturns.

Braking control systems market remains dynamic

Numerous studies demonstrate that the ESP® electronic stability program can considerably reduce the number of serious or fatal accidents. The U.S. National Highway Traffic Safety Administration is therefore planning to phase in – between now and 2012 – the active safety system as a mandatory feature in all cars produced for the U.S. market. In addition, a growing number of vehicles are fitted with the system in Europe and Japan. In Europe, the system is now standard equipment in nearly all new vehicles in

New car radio models such as the Bremen MP76 from Blaupunkt offer a whole range of connection options. For example, an optional hands-free device allows wireless connection of cell phones via a Bluetooth interface. A wide range of digital memory cards and compact MP3 players can also be connected and operated with ease.

the middle class and above. To a lesser extent, it also features in smaller cars and light commercial vehicles. Specifically for light commercial vehicles, Bosch has developed ESP® with load-adaptive control. This system determines the total weight of the vehicle and its center of gravity and then adapts the vehicle dynamics control to these two parameters. Nearly all European manufacturers of light commercial vehicles now offer this system to their customers.

Blaupunkt technology for businesses and end-consumers

Our subsidiary Blaupunkt offers a mobility management system for logistics companies. This helps vehicle fleet operators to optimize their data management and improve vehicle utilization. Using the Trailer Control Unit launched in 2006, the logistics operator can now keep a complete log for the transport of the load, showing when the trailer is unhitched from the cab or when the cab is changed. Mounted on the trailer, the device delivers constant and precise information about the trailer's location, as well as other important data relating to the load. This type of record-keeping is required by new EU quality standards for food shipments, for example.

A full range of replacement parts for the aftermarket and workshops

One of our strengths in the automotive aftermarket lies in our comprehensive product portfolio. We expanded this portfolio even further in 2006. In the U.S., together with our partner Mann+Hummel, we jointly acquired the Purolator-branded filters business from ArvinMeritor, thereby considerably improving our position in North America. Our fifty-fifty joint-venture company produces oil, air, fuel, and cabin-air filters. In 2006, together with Mann+Hummel, we founded a joint-venture company in Tumkur, India, to produce filters for the region.

When technically complex and therefore expensive spare parts are required, a remanufactured product from the Bosch Exchange Program is often a less expensive alternative. Our product range now comprises some 5,800 different components in 21 product groups, and we sold around 2.7 million such items in 2006. We shall continue to expand this portfolio over the next few years.

With the acquisition of Beissbarth GmbH and Sicam s.r.l., we have bolstered our business with diagnostic systems for workshops. These companies manufacture mainly chassis-measuring and brake-testing systems.

Rapid growth in low-cost vehicles

Ultra low-cost vehicles are in especially great demand in emerging markets. In order to offer attractive products for these vehicles, we further expanded our international development and manufacturing capacities in 2006. At our Chinese locations, we extended our production facilities for starters and alternators as well as electrical drives, which are used in applications such as wiper systems, power-window units, and radiator fans. We also opened a new development center for braking systems in India. This strategy is already paying off: in 2006, we were awarded the contract for the braking and injection systems for a series-produced car whose basic model will only cost roughly 2,000 euros, but nonetheless complies with current emission and fuel-consumption limits.

A further project being handled by our Chassis Systems Brakes division exemplifies the benefits of our broad international base (see also back flap). In several regions, we are now supplying the complete braking system for a Japanese car that is manufactured all over the world. Most of the components in the system are applied to the vehicle on site, and now these components are also produced locally.

In nature, each water wave has its own height, length, and contours. For research purposes, electromechanical **wave generators** accurately **produce and reproduce** natural waves – thanks to Bosch drive and control technology.

The practical implications of fluid dynamic theories can only be assessed where models can be tested in a realistic environment. Thanks to electrome-chanical wave generators, the complex interaction of buoyancy, stability, drag, propulsion, and statics as well as their effects on the design of ships' hulls can be researched more realistically than ever before. Coastal protection also benefits from their simulation capabilities.

Man-sized paddles for research: the movements of the wave-generating paddles, all grouped in easily installed sections, are perfectly coordinated. Each paddle has its own compact servo motor and controller – powerful, robust, and low on maintenance. Sea-condition parameters can be entered via the control computer.

What harbor basin configurations are required for what flow conditions? How can coastal protection be improved? Which bow designs promise the least wave and friction drag? Electromechanical wave generator systems provide a realistic research environment. Depending on requirements, their programs can produce regular or irregular waves with long or short crests, with minimum disturbance from reflection. The special drive and control technology needed for this is supplied by Bosch Rexroth and is used internationally by maritime research institutes in Europe, China, the U.S., and Brazil.

The team led by Corino Corver (below) at Bosch Rexroth in Boxtel, Netherlands, designs electromechanical wave generators to customer specifications. Their software configures the system, computes wave types, and reproduces wave time series and groups. Bosch Rexroth installed this system at the Maritime Research Institute Netherlands (MARIN) for hydrodynamic research into models of ships' hulls.

Industrial Technology

Key data	2005[1]	2006
Sales	5,187	**5,452**
Capital expenditure	278	**245**
R&D cost	234	**260**

Figures in millions of euros

[1] Continuing operations only

The market for capital goods and mechanical engineering remained strong around the world in 2006, providing a favorable environment for our Industrial Technology business sector. Its sales increased by roughly 5.1 % to a total of 5.5 billion euros. This figure reflects our reassignment of Industrial Technology's brake disc operations to the Chassis Systems Brakes division in 2006. After adjusting for these changes, sales increased by 7.1 %.

A very encouraging sales performance was recorded by our subsidiary Bosch Rexroth AG, which enjoyed strong demand from European markets, particularly Germany, and also from Asia Pacific. Bosch Rexroth offers all major technologies for machine drive, control, and motion applications – hydraulics, electrics, mechanics, and pneumatics – often providing these as integrated system solutions in several alternative configurations. Demand for these solutions is growing worldwide. As a result of improved orders, we were able to stabilize our position in Packaging Technology.

Bosch Rexroth on growth course

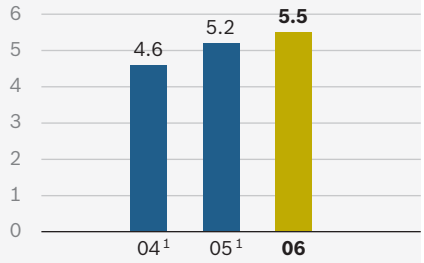
As a technology leader in drives and controls, Bosch Rexroth has consolidated its strong position in the world market through further growth. In 2006, the company achieved particularly impressive growth in mobile hydraulics, i.e. hydraulic products for off-road vehicles and agricultural and construction machinery. In the field of industrial hydraulics – hydraulic systems for stationary applications – the company performed very well in high-growth regions. We also achieved positive growth rates in the field of automation, particularly with linear-motion and assembly technologies, as well as with pneumatics.

Bosch Rexroth grew its global manufacturing base, thereby boosting its competitiveness. Production capacities were expanded in the dynamic Asia Pacific region. In 2006, we began manufacturing mobile hydraulics components at our new plant in Beijing, China, and expanded our manufacturing of hydraulic valves at our newly enlarged plant in Wujin, China. We also invested in additional manufacturing facilities in other regions. Production of hydraulics components began at our new plant in Bursa, Turkey, and we are currently building a new linear-motion technology facility in Blaj, Romania. We are also present in the growth markets of North and South America,

The giant awnings on the new Great Mosque which was inaugurated in Central Java, Indonesia, in 2006 are over 20 meters high. When they are open, they provide protection from the elements for 10,000 worshippers. Each of the six huge awnings has a total surface area of around 600 square meters, and is opened and closed using a hydraulic system from Bosch Rexroth.

Industrial Technology sales

2004 – 2006 Bosch Group
in billions of euros



[1] Continuing operations only

We help our customers in the pharmaceutical industry to achieve their quality targets by delivering tailor-made filling lines with integrated clean room technology. To ensure that there is absolutely no contact between the product and the operating personnel, our systems feature a barrier with built-in glove ports, plus advanced filtration equipment and sterile process technology.

and now offer an even greater number of products there. In Pomerode, Brazil, and Fountain Inn, SC (USA), our manufacturing capacities for hydraulics components have been expanded.

Numerous innovations have enabled us to continue our successful strategy of integrating hydraulic control technologies and electronics even more closely, allowing us to create products with even greater functionality. For automated production processes, for example, we have developed control systems which can simultaneously move up to 32 hydraulic axles. Indramotion for Packaging, our new generation of control systems for pharmaceutical and food packaging machines, can handle complex robotic movements, ensure synchronization with conveyor belts, and monitor protection zones. We have also launched Camoline, a new modular solution for conveying, positioning, and processing tasks in manufacturing, which boosts efficiency in this field dramatically.

Making excavators less polluting and more efficient

Technology from Bosch Rexroth also makes heavy commercial vehicles and mobile machinery such as excavators less polluting and more efficient. The new hydrostatic regenerative braking system (HRB) is a technology that points the way forward. It stores energy generated during braking so that it can be utilized later on. Our new Shift-on-Fly electro-hydraulic function makes small mobile machinery faster and more dynamic. It allows gear-shifting while the vehicle is moving – rather than having to stop every time, as has been the case until now. This greatly improves the efficiency of these vehicles. New products also enable production facilities to go into operation more quickly. Bosch Rexroth is involved in a high-profile project for the 2008 Beijing Olympics. To mark the Games, the world's largest Ferris wheel, with a diameter of 198 meters, will go into operation. Bosch Rexroth is supplying the drive system and the automation technology that will allow passengers to get on and off the wheel while it is in motion.

Packaging Technology: on the spot in Asia

The year 2006 saw rising levels of investment in all areas of the highly fragmented market for packaging technology. The pharmaceutical industry is investing in improving the efficiency of its production operations, product ranges are being expanded in the food industry, and product safety is becoming increasingly important all over the world. We offer innovative solutions tailored to these trends.

In 2006, we continued to strongly expand our position in the growth markets of China and southeast Asia. To support this expansion, our new plant in Hangzhou, China, went into operation last year. Production, development, and sales are now all present in China, which means that Bosch Packaging Technology is very well positioned in this highly promising market. To achieve our growth targets, we have extended our machinery portfolio to include more functional differentiation and now offer service packages that span the entire product life-cycle. Integrated systems such as machinery for the manufacturing, testing, and packaging of pharmaceutical products are playing an increasingly important role.

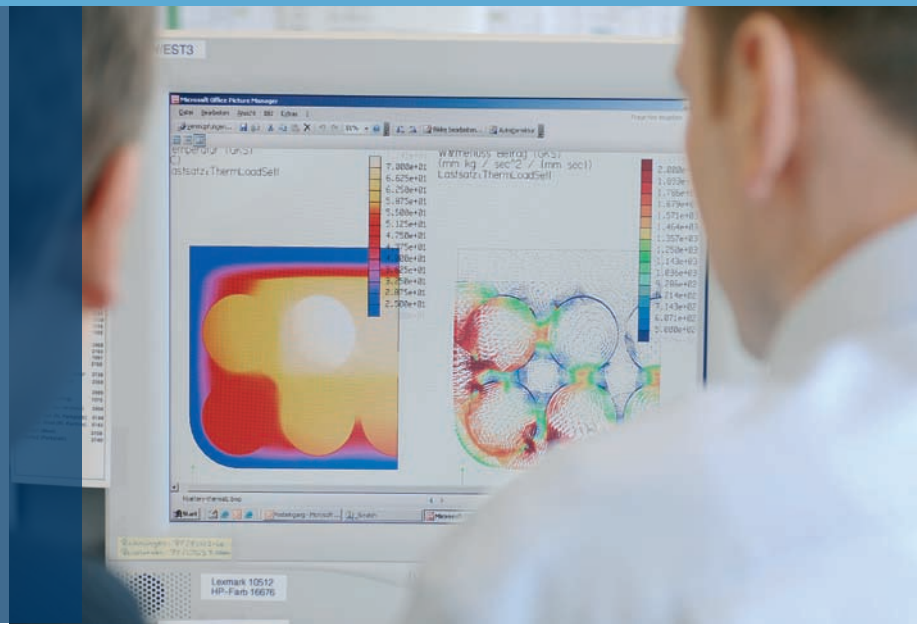
Our numerous innovations are making their mark in this intensely competitive sector. These products include a filling and sealing machine for pre-sterilized syringes. The Pull Pack, a unique new opening mechanism for bagged foods, won us the German Packaging Award for sales packaging as well as the WorldStar Award in 2006. During the year, a worldwide interdisciplinary team developed a new horizontal bagging machine, the Pack 201. Meanwhile, our new Lab Systems business unit, which specializes in laboratory automation solutions, has designed an innovative analytical system. In conjunction with BASF AG, it has developed a modern robot-controlled system that allows pigments, resins, and additives to be tested for their suitability for paints. With this technology, it is now possible for the first time to test complex paint formulae from raw material to finished product in one integrated system.

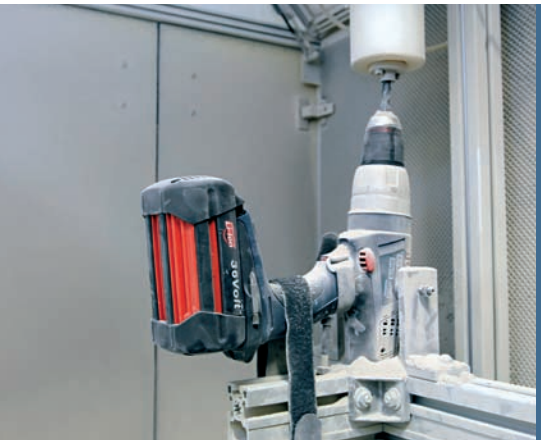
Professional users demand ample power reserves, **simple handling, reliability, and flexibility** from their power tools. Innovative rechargeable battery technology from Bosch gives them just that.

Rainer Glauning from the Bosch Power Tools division in Leinfelden, Germany, is in charge of battery and charging technology development. Prototypes have to withstand rigorous testing, including a program for their charging and discharging under continuous operation conditions. At various Bosch development sites, the batteries are tested in tools under realistic conditions and exposed to continuous working loads, environmental influences, shocks, and vibrations.

Professional builders appreciate it when they can go about their work untroubled by long power leads or empty batteries. They need tools capable of providing lasting performance. Bosch drivers, drills, and hammer drills with 36-volt lithium-ion rechargeable batteries are independent of power cords and designed for tough jobs. For the third year running, our Ixo cordless drill/driver has been the widest-selling power tool in the world. More than six million of these tools have now been produced since 2003. The know-how Bosch can draw on internationally continues to drive the technology forward. This means that Bosch products meet the highly sophisticated demands of professional users.

The 36-volt lithium-ion rechargeable battery from Bosch is a world first: powerful, light, without memory effect, simple to use. It gives workmen on site unlimited freedom of movement. Bosch batteries have a unique cell protection technology, thanks to which their service life is four times longer. They are also protected against deep discharge. Heat management prevents high temperatures and uneven temperature distributions. The batteries' red housing, shown at left and below, is designed as a cooling surface. All Bosch products benefit from international collaboration – from product idea to development and production, even to sales support.





A single battery type forms the common energy platform for various power tools and equipment, including the new Rotak lawn mower. It is as powerful as a mains-operated mower and lighter than any other battery-powered mower. It can be stored away in the garden shed in the fall and still have over 80 % of its energy in the spring. The high-power battery outperforms conventional batteries in many respects and is also easier to handle and maintain.

Consumer Goods and Building Technology

Key data	2005[1]	2006
Sales	9,961	**11,012**
Capital expenditure	336	**373**
R&D cost	301	**345**

Figures in millions of euros

[1] Continuing operations only

In 2006, our Consumer Goods and Building Technology business sector continued to go from strength to strength. Sales reached 11 billion euros, 11 % up on the previous year. All business fields in this sector – from power tools and thermotechnology to security systems and household appliances – contributed to the positive business development. Key factors behind this impressive growth included beneficial product innovations and product modifications, the expansion of our product and service portfolio, and the acquisition of international companies. The overall positive situation in the consumer goods and construction sectors also worked in our favor. We also succeeded in further growing our business outside Germany and in adding new locations to our global manufacturing network.

Innovation driver in power tools

The world market volume for power tools and accessories was much larger than in the previous year. In Europe, our professional power tools business exhibited particularly strong growth, and our DIY products were also in great demand. We further expanded our leadership in the European market, capturing market share from unestablished brands. Our products also sold very well in Asia and South America. And in the North American market, we managed to maintain our market position in spite of the slowdown in the construction sector. The heavy demand for garden products in the European and North American markets also contributed to our encouraging performance over the year. In addition, our accessories for both DIY enthusiasts and professionals were very much in demand.

Battery-powered devices employing lithium-ion technology featured prominently among the most popular power tools worldwide in 2006. Our Ixo cordless drill/driver was the widest selling power tool in the world for the third year running. More than six million Ixos have now been produced since 2003. The expansion of our product range of semi-stationary power tools, such as circular bench saws, miter saws,

Our 10.8-volt cordless screwdriver is the smallest of its kind in the world, and is only half the size of a standard cordless screwdriver. This is made possible by our innovative lithium-ion battery technology. This technology also results in a powerful rechargeable battery, and a screwdriver whose service life is up to four times longer than other lithium-ion cordless screwdrivers. Our screwdriver is extremely versatile. It performs well even in extremely cold conditions.

and measuring tools, also contributed to our success. Bosch was the first company to successfully launch a laser rangefinder for DIY enthusiasts in the European market. Our product range for professionals includes the world's smallest laser rangefinder. We intend to continue to grow through innovation in the coming year. In the 2007 gardening season, we are set to become the first manufacturer to launch electrical garden tools featuring lithium-ion battery technology. The Isio grass and shrub shears and the Rotak LI lawn mower are both world firsts.

Focusing on energy systems that conserve resources

Our subsidiary BBT Thermotechnik has consolidated its position as European market leader for efficient heating systems and hot-water solutions. Extensive product ranges offered under its eleven international and regional brand names, which include Bosch, Buderus, Junkers, e.l.m. leblanc, IVT, Nefit, and Worcester, are one reason for this success story.

Energy-efficient, eco-friendly heating systems such as advanced condensing appliances and systems using renewable energies sold very well in 2006. Our solar heating systems experienced a boom in demand – especially in Germany, France, Belgium, and Spain. The electric heat pump business was also very dynamic, with Germany, France, and the Czech Republic as primary markets. We further strengthened our renewable energies portfolio with the introduction of our latest generation of solar collectors. These fiberglass collectors are very light, simple to install, tough, and long lasting.

In view of rising energy prices, the increasing scarcity of energy supplies, growing environmental awareness, and more government incentives, we expect our renewable energy products to continue to enjoy strong demand in the future. We have therefore boosted our manufacturing capacities for solar heating systems at our sites in Aveiro, Portugal, and Wettringen, Germany, and have expanded our electric heat pump production operations in Tranås, Sweden. We improved our access to the fast-growing American market for electric heat pumps in January 2007, when we acquired FHP Manufacturing Company of Fort Lauderdale, FL (USA).

Global demand for security systems

We continued to service the growing demand for security in 2006. Our business in innovative security systems and communication solutions performed very encouragingly. We enjoyed strong global demand for our broad portfolio of video surveillance, public address, evacuation, and access control systems and services. Our new products, which include high-performance color video cameras, video transmission via internet, and wireless intruder alarm systems, did particularly well. The strongest growth was recorded in Asia Pacific and eastern Europe. Major contracts included supplying the evacuation and fire alarm technology for the AsiaWorld Expo in Hong Kong, China, and providing extensive security systems installations at the new trade fair complex in Stuttgart, Germany. Our facial recognition system is already in use in locations including Frankfurt airport and the casino in Bad Homburg, both in Germany. With the acquisition of Telex Communications Inc of Minneapolis, MN (USA), we expanded our portfolio to include professional electroacoustic systems. These products are installed in airports, railway stations, and stadiums such as the Allianz Arena in Munich, Germany.

We also expanded our call center business. This business offers international clients such as airlines a comprehensive customer service solution. With links to approximately 55,000 security systems and over 22 million transactions processed, the Bosch Communication Center is one of the largest security operations centers in Germany.

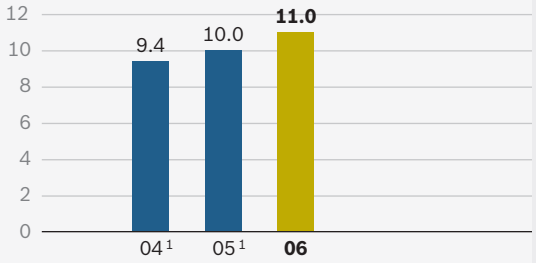
BSH expands market share

BSH Bosch und Siemens Hausgeräte GmbH (BSH), the fifty-fifty joint-venture company we run with Siemens AG of Germany, is developing innovative and energy-efficient household appliances to further strengthen its competitive position in international markets. A full 21 % of BSH's new refrigerators and 42 % of its washing machines are already classified as highly energy-efficient.

In 2006, BSH was able to win market share in nearly all its markets, enjoying its greatest expansion in southeast Asia, China, South America, and eastern Europe, as well as in western European countries such as Spain and France. After a few difficult years in Germany, the company once again achieved growth in its home market. Manufacturing capacities have been expanded in Poland, Russia, China, Turkey, and the U.S. In Germany, following investment of around 90 million euros, production of a new series of washing machines began at the Nauen plant, and it was agreed that some operations would continue at the Berlin plant until 2010. To further strengthen its market position, BSH set up sales companies in Australia, Canada, Malaysia, New Zealand, and Ukraine. Overall, BSH increased its global sales by around 13 % in 2006, taking the total sales figure to 8.3 billion euros. Of this amount, half is included in our consolidated financial statements.

Consumer Goods and Building Technology sales

2004 – 2006 Bosch Group
in billions of euros



1 Continuing operations only

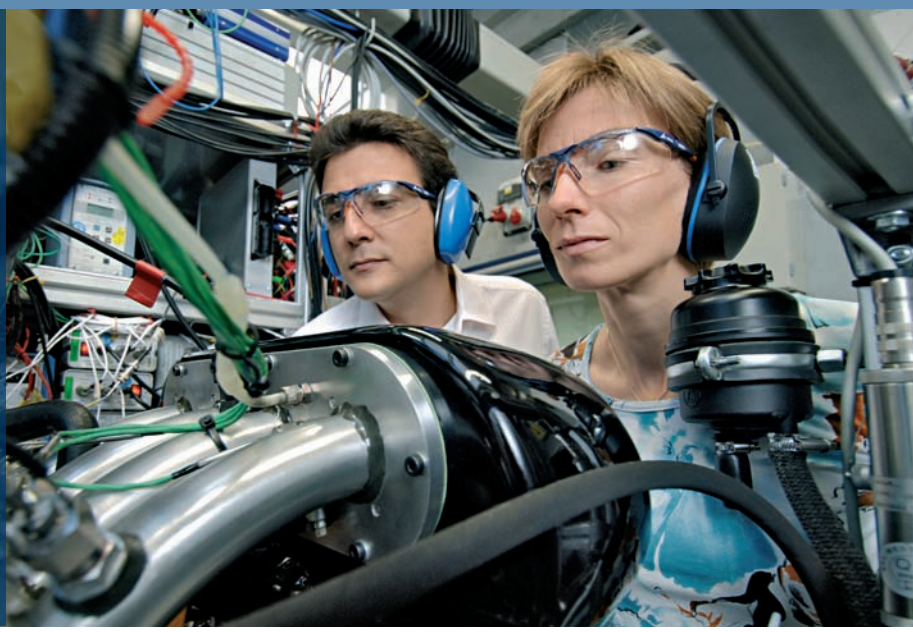
We fitted Kempinski Hotel The Dome, in Turkey, with a comprehensive, advanced fire alarm system. We installed 1,092 fire detectors in this five-star luxury hotel on the Mediterranean coast near Antalya. These are linked to three central fire alarm systems via the Bosch Local Security Network. This reliable monitoring and control system provides hotel guests and staff with greater safety in the event of fire. We have also installed similar fire detection and alarm systems in other well-known international hotels.

Nikolaus Otto and Rudolf Diesel would have been fascinated: thanks to **homogeneous air/fuel mixing and combustion**, the engines they invented are now **cleaner** and **more efficient** than ever.

At home throughout the Bosch world: Dr. Jean-Pierre Hathout (left) from Corporate Research and Advance Engineering heads the multinational team of experts in engine management. The many resources they use, including engine test benches in Germany and the U.S., as well as the know-how available in Schwieberdingen and Palo Alto, are indispensable for the complex control of homogeneous combustion.

It's the moment when everything comes together: the combustion process in an engine lasts only 5 to 50 milliseconds. Under the leadership of our Corporate Research and Advance Engineering sector in Schwieberdingen near Stuttgart, Germany, a multinational team of experts in engine management is carrying out research into novel combustion technologies including homogeneous charge compression ignition (HCCI). The Bosch Research and Technology Center in Palo Alto, CA (USA), as well as a team of researchers funded by Bosch at nearby Stanford University, are among the partners involved. Successful cooperation between Stanford and the Bosch research units in Palo Alto and Schwieberdingen generates synergies in the development of complex algorithms that allow this innovative ignition process to be controlled.

With controlled ignition, air and fuel are evenly mixed in the combustion chamber and burned more effectively. This process combines successfully the low pollution characteristics of a gasoline engine with the fuel efficiency of a diesel, and is suitable for small to medium load requirements. The aim of Bosch research is to allow combustion to occur reliably and to extend the usable load range.



Through experiments and simulation, the team analyzes – for various combustion chamber geometries – the effect of the air management system and mixture formation on the combustion process. Since each ignition cycle depends on the one preceding it, the engine has to regulate itself by means of intelligent feedback control using our innovative in-cylinder pressure sensors. The sensors and control systems are being developed together.

Research and Advance Engineering

Around the world, we have more than 25,000 research and development associates whose task is to drive forward technological advances. 1,300 of them are employed in our Corporate Research and Advance Engineering sector. They create technical foundations and workable solutions for the products of tomorrow – products which offer outstanding performance and quality while at the same time protecting the environment and conserving the world's resources. Whether they are doing basic research, working on new manufacturing processes, or developing components and systems, they aim to make sustainable improvements to the quality of life.
In 2006, as part of this integrated approach in our advance engineering activities, we placed special emphasis on our Consumer Goods and Building Technology and on our Industrial Technology business sectors.

New control system improves fuel economy

Using energy resources sparingly is a key focus of our research and advance engineering work. This is why our automotive technology research associates have been working on technologies to make engines even cleaner and more economical. One solution is controlled ignition in the engine (see previous page), while another is electrohydraulic valve control. Hydraulically controlled valves regulate the air flow for each individual cylinder in the combustion engine, allowing the engine to adjust much more effectively to prevailing driving conditions. The camshaft, conventionally used to open and close valves, is no longer required. Electrohydraulic valve control offers a number of advantages, as it further cuts fuel consumption and reduces pollutant emissions without any detriment to performance.

While potential savings can be clearly quantified for projects we are currently working on, other technologies still need to be appraised for their potential benefit. This is the job of our industrial basic research teams. They aim to identify, at an early stage, developments which might become future fields of business. Magnetic shape memory alloys are a good example of this. These are monocrystalline compounds which

To make engines even more economical, more dynamic, and cleaner, we are working on the development of electrohydraulic valve control. This technology provides individual air management for each cylinder, thus allowing the engine to adjust even more effectively to prevailing driving conditions. This cuts fuel consumption and reduces pollutant emissions even further, without any detriment to performance.

exhibit remarkable properties. If the crystal is exposed to a magnetic field, it changes shape and expands rapidly. We are examining whether this ability can be adapted to deliver new, even more efficient actuators. An actuator translates electrical impulses into mechanical movements. One example in production is the piezo actuator used in the common-rail diesel direct injection system that opens the injector needle valve. Because it can switch on and off quickly, the actuator helps save fuel. Fifteen years ago, the piezo actuator was no more than an unproven idea in need of thorough investigation.

Thermoshock-resistant materials for exhaust gas treatment

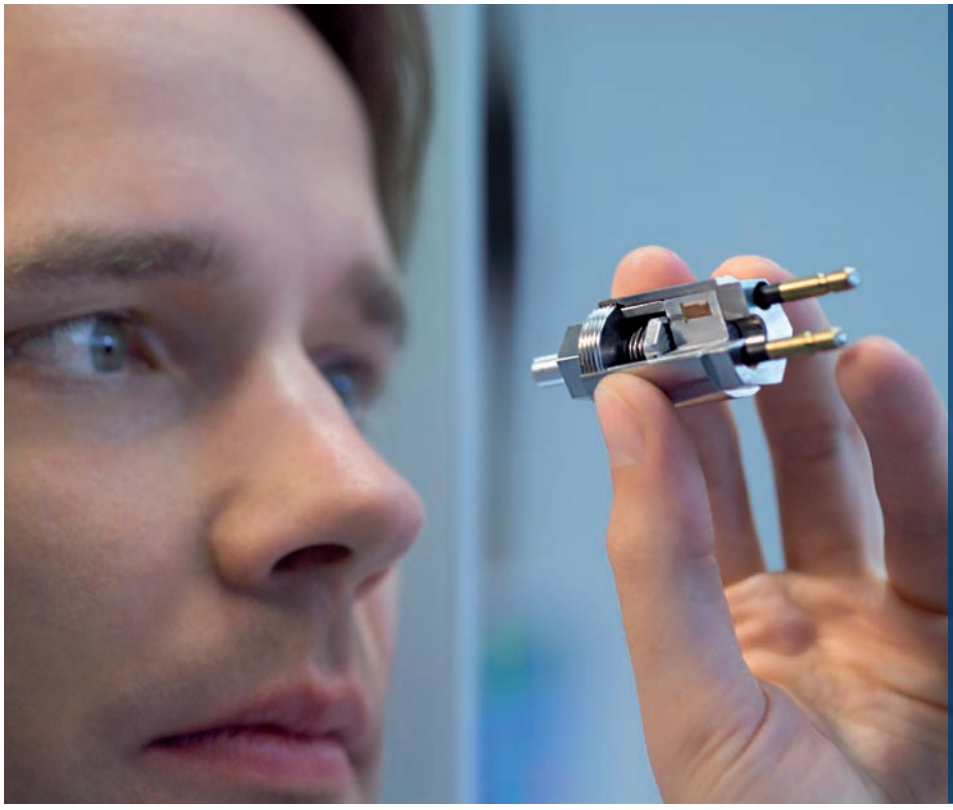
The lambda sensor is now integral to any eco-friendly and cost-effective engine management system. Thirty years ago we became the first manufacturer to launch this sensor for measuring oxygen content in exhaust emissions. We have now improved it even further. In operation, the ceramic sensor element is rapidly heated up to its operating temperature of 700 °C to 800 °C. Under cold-start conditions, this leads to condensation that threatens to destroy the hot ceramic. In the past, this risk had to be countered by delaying heat-up until after the dew point was reached. As a consequence, the potential of emissions reduction could not be fully exploited. However, our researchers have now come up with a further technological advance. Our scientists have devised a high-strength coating that absorbs the extreme temperature differences between the water droplets and the ceramic sensor element. This makes the lambda sensor so robust that it can work without risk under all operating conditions. Our researchers have also completely redesigned the sensor element using self-optimizing simulation programs. With this redesigned sensor element, the time it takes today's series-produced lambda sensors to achieve operational readiness has been halved from an already impressive ten seconds to just five seconds, without the ceramic fracturing that often results from high thermal stresses during heating. These technological advances ensure that engine management systems from Bosch are well equipped to meet the even stricter emission limits of the future.

Good visibility at night

Ensuring safety in all driving situations is becoming more and more of a priority. We are therefore working on refining our night-vision system for drivers. The system is based on the principle of an active near-infrared light which illuminates the road in a similar way to high-beam headlights, but without blinding oncoming traffic. The image generated gives a clear view of pedestrians at the edge of the road, for example, and will in future be projected onto the windshield by a head-up display. The aim is to develop an intelligent system which directs the driver's attention to hazards on the road. This system, which is being optimized by our associates in Lonay, Switzerland, could also be used to place information from navigation systems directly in the driver's field of vision.

Lithium-ion batteries – efficient energy storage devices

The lithium-ion battery technology we are increasingly employing in our power tools offers great potential for the future. These rechargeable batteries have the advantage of being very light. There is barely any discharge while in standby mode, so they remain ready for use even after long periods of inactivity. The development of batteries with high current capability opens up potential new applications, for example in hybrid vehicles. Lithium-ion batteries could play a central role in the use of renewable energies. We expect to see strong growth in this area, and the batteries would provide suitable storage devices. One of our research teams is engaged in assessing the full potential of this technology for future products. For example, we are testing the battery cells to see how they behave under different conditions, and are investigating the chemistry of the different cell types as well as the control of the cells.

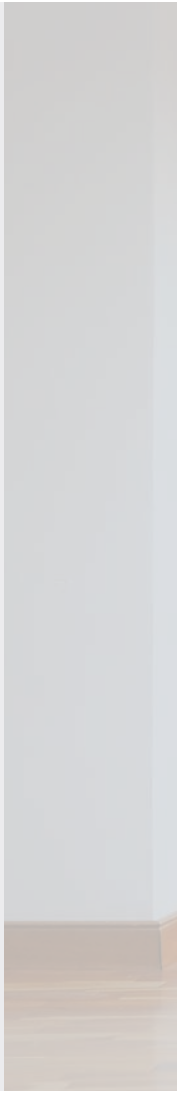


To raise the efficiency of actuators and small-power motors, we are examining the use of magnetic shape memory alloys as alternative materials. They have very good dynamic characteristics. Possible applications could include actuators for fuel injection or automation technology, or electric drives for seat adjustment in the vehicle.

Wireless communication using the wLSN (wireless Local Security Network) is another technology that offers efficiency, reliability, and greater independence for the user. A team at the Bosch Research and Technology Center in Palo Alto, CA (USA), has done the groundwork on this technology. The system comprises a network of alarm devices provided by our Security Systems division. It is unique in that the individual devices network with each other independently, so no wiring is required. In addition, the system is robust, easy to operate, and energy-efficient – so much so that the batteries in the devices last for up to five years. This wireless technology is impressively simple and versatile. It can also be used in other sectors, for example to network domestic appliances or vehicle functions.

Environmental Protection

As a company that is committed to global citizenship, we take care to preserve a balance between the economic need to secure the company's long-term future on the one hand and societal and ecological concerns on the other. This commitment, which derives from our corporate values, is part of our business strategy, and plays a decisive role in driving forward our product innovations. Investing in environmental protection helps us to fulfill our societal responsibilities, and at the same time cuts costs. In this sense, our products are answers to the challenges of both economic and ecological globalization. We base our future growth on the creation of technology that is innovative, beneficial, and at the same time environmentally friendly. This is what we mean by our slogan "Invented for life." Environmental protection is part of our global strategy. Our guidelines for occupational safety and environmental protection apply to all our locations, regional companies, and subsidiaries around the world. We also require our suppliers to commit to the same high standards.



Technology to protect the climate

Protecting the environment and conserving resources are global priorities. The greenhouse effect is a major concern, but limited fossil-fuel resources and the unstable political situation in some of the oil-producing countries of the world are of equal concern. Population growth and economic expansion are expected to cause a 60 % increase in global energy demand by 2030. For this reason, sweeping measures to protect the climate are absolutely vital. Although very much in the public eye, automotive technology is not the only area in which we can improve energy efficiency. We can also improve building installations. In Europe, heating and hot-water systems account for one-third of carbon dioxide emissions. Our Thermotechnology division helps to reduce these emissions by supplying energy-efficient condensing technology and systems that use renewable energies. Thus, advanced technology is lessening the impact our homes and cars make on the climate.

Conserving resources is a growth factor

The growth of our Thermotechnology division is strongly linked with that of condensing technology. Condensing technology captures and uses heat which would otherwise be lost in waste gases from heating

The new gas-fired condensing boilers in the Junkers-branded Cerapur range are part of a integrated energy-saving system which features a new control program for optimum exploitation of the sun's energy. The system also features a new series of water tanks and highly efficient solar collectors. This highlights our systems expertise in what is currently one of the most popular and energy-efficient heating systems in the market – condensing technology used in conjunction with solar water heating and central heating support.

systems, cutting fossil-fuel consumption by around 30 % as compared with older systems. In 2006, the market volume for condensing systems in Europe was just under 2.2 billion euros. By 2014, that amount will have nearly doubled, to four billion euros. More than a quarter of our thermotechnology business is based on systems that use condensing technology, while a strong 11 % is based on systems that exploit renewable energies – primarily systems that use the sun to generate heat (solar thermal systems), electric heat pumps, and solid fuel boilers. Solar thermal technology does not generate carbon dioxide during operation, making it the ideal complement to modern condensing technology. The global market for solar thermal systems was worth 1.6 billion euros in 2006. This figure is expected to grow to 2.8 billion euros by 2014. The European market is forecast to achieve the strongest growth – from 0.8 to 1.8 billion euros. This is twice the growth forecast for the Asia Pacific region, and 20 times that forecast for the Americas. Modernization of heating systems in Germany alone would allow the amount of energy consumed by buildings to be reduced by 25 %, and could cut carbon dioxide emissions by 30 million metric tons per year.

Cost-effective environmental protection

Bosch repeatedly provides cost-effective solutions to environmental challenges – for example with exhaust gas treatment for diesel engines. The second generation of our Denoxtronic metering system cuts emissions and fuel consumption in commercial vehicles, and enables them to meet the limits outlined in the Euro 5 emission standard, which will come into force in 2008. When used together with an SCR (Selective Catalytic Reduction) catalytic converter, Denoxtronic helps cut nitrogen oxide emissions by up to 85 %. Denoxtronic also allows engines to be designed that consume 5% less fuel than conventional models. In addition, particulate emissions are reduced by up to 40%. There are sound economic arguments for logistics companies to change over early to modern commercial vehicles complying with the Euro 5 standard. In Germany, these companies will enjoy a discount of 2 cents per kilometer on the normal road toll charges for trucks. This means that a logistics company whose trucks cover 100,000 kilometers per year on the highway can save 2,000 euros per truck and year. On top of that, improved fuel efficiency means further annual cost savings of around 2,300 euros per vehicle.

Product recycling to conserve resources

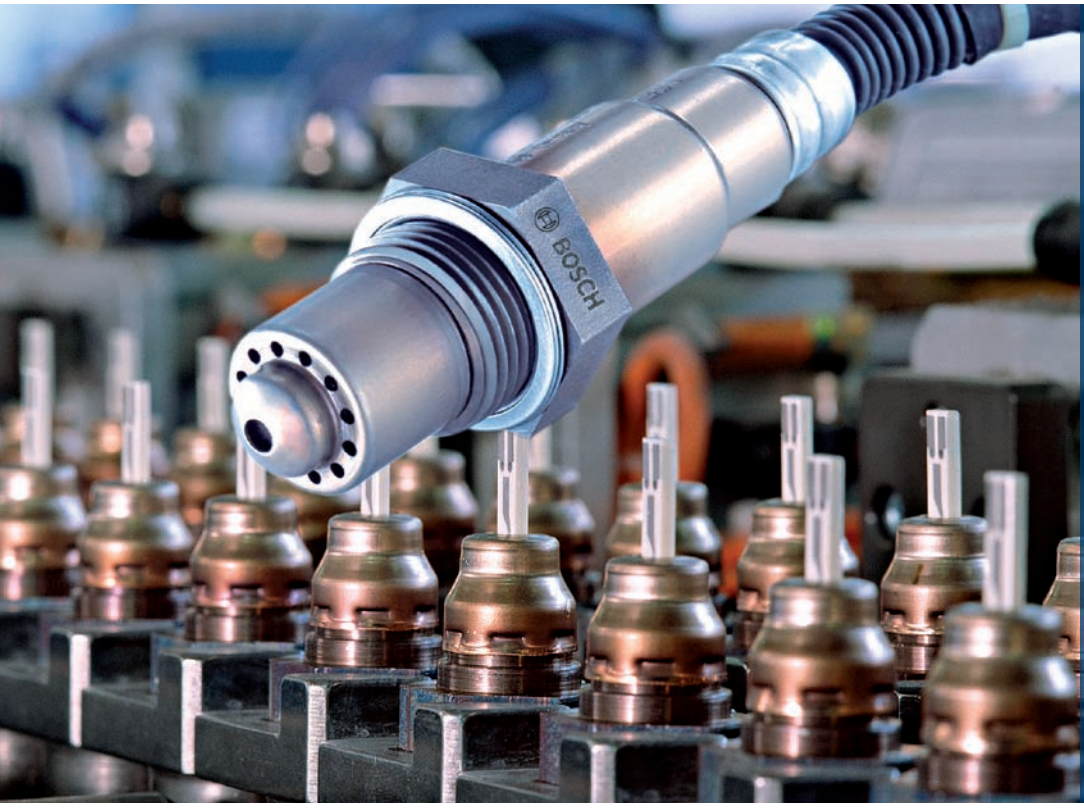
Remanufactured automotive components are playing an increasingly important role in today's vehicle-repair market. For drivers, they keep repair costs in line with the current value of the vehicle, and are a less expensive alternative to buying new spare parts. At the same time, these parts make an important contribution to protecting the environment and conserving resources. Globally, material consumption can be cut by 14 million metric tons, and 35 billion kilowatt-hours of power can be saved. We are one of the world's leading suppliers in this market, remanufacturing a total of around 1.6 million automotive parts at ten different locations around the world in 2006. The program, called "Bosch Exchange," covers gasoline and diesel injection products as well as brake components, starters, and alternators.

Environmental protection at our suppliers

We set strict standards for our suppliers, placing great value on both quality and eco-friendly solutions in our purchasing guidelines. When selecting our suppliers, we pay particular attention to ensuring that they use resources efficiently and respect minimum social standards. We do not work with companies that fail to comply with the core labor standards of the International Labor Organization (ILO). These principles are part and parcel of the new framework contracts which we have recently concluded with our suppliers, and the audits we perform during the supplier and process evaluation procedure are designed to ensure that our partners also adhere to these principles. We assess and document occupational safety and environmental protection in our suppliers' plants. We also expect our roughly 200 preferred suppliers to have a certified environmental management system in place by 2008 at the latest.

Award for our commitment to the environment

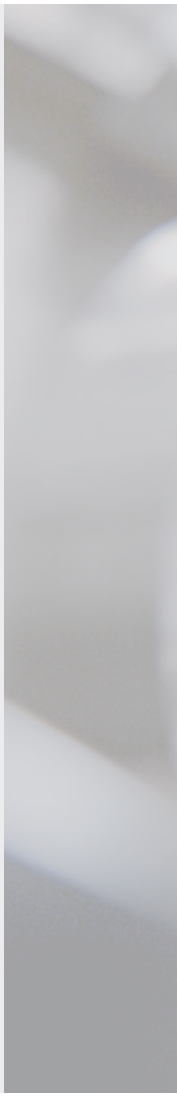
Protecting the environment and conserving resources have a long tradition at Bosch. In recognition of this, the German chapter of the World Wildlife Fund together with the business magazine *Capital* presented Franz Fehrenbach, chairman of the Bosch board of management, with the "Eco-Manager of the Year 2006" award at a ceremony in Berlin in November 2006. Professor Detlev Drenckhahn, president of the WWF in Germany, said that the panel of judges had been impressed by the "Bosch Group's outstanding and innovative commitment to environmental protection." As Franz Fehrenbach pointed out in his response, this is the first time that an automotive company has received this award, and it highlights the environmental commitment of the automotive industry in general and of Bosch in particular.



In 2006, we delivered our 400 millionth lambda sensor. We had launched this exhaust gas sensor 30 years before. By making the use of catalytic converters possible, the lambda sensor has been helping to clean up the exhaust emissions of gasoline engines ever since its introduction. Since 2002, the lambda sensor has also been employed in diesel engines, where it delivers greater precision in the amount of fuel injected and reduces pollutant emissions.

Associates

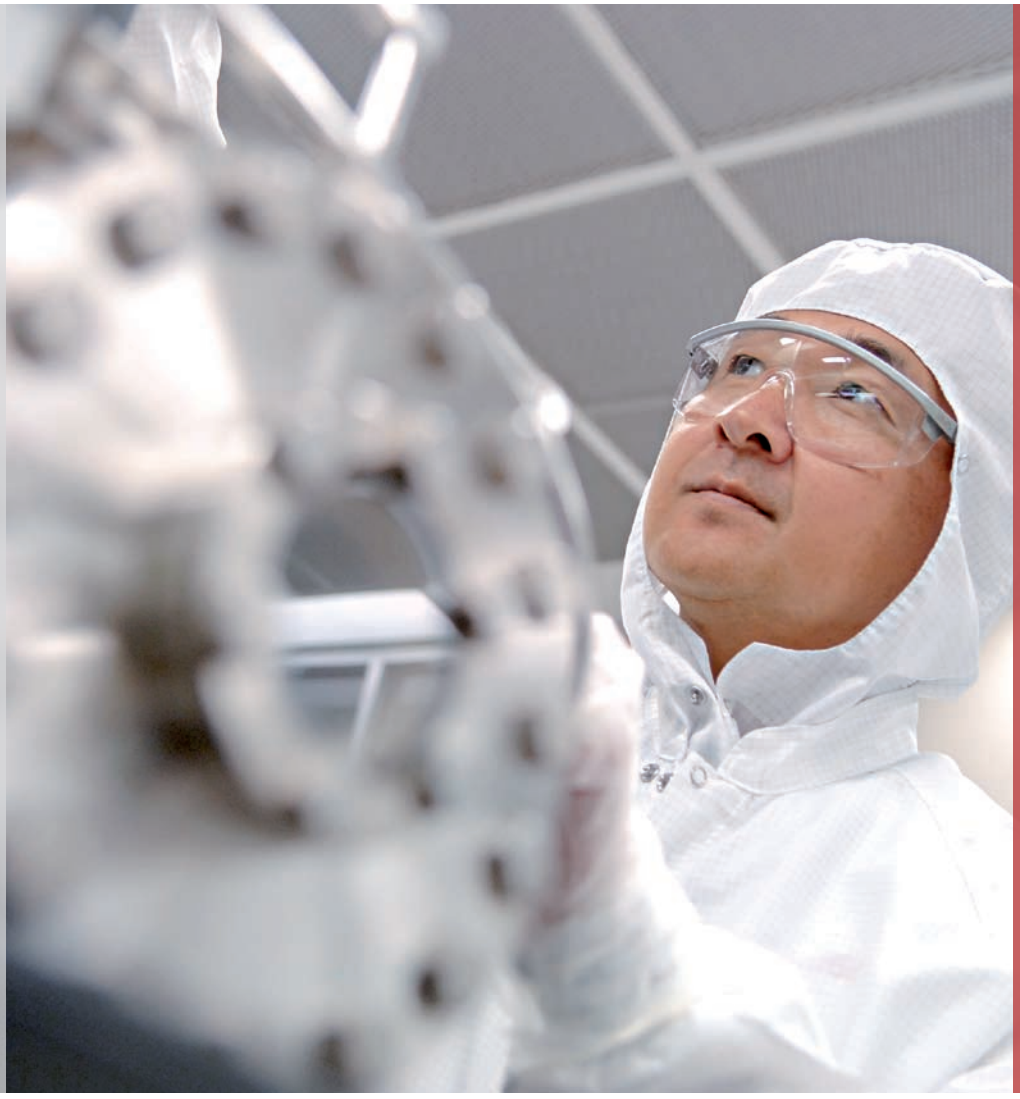
Our company will remain successful only if our associates are fully informed of where we are heading and how we intend to achieve our objectives. This is particularly true during periods of great change. This is why we have anchored the “House of Orientation” roadmap, introduced in 2005, more firmly into the organization. The House of Orientation remains the primary frame of reference for associates seeking to understand the Bosch culture and values. Guided by the framework of the House of Orientation, associates help shape the development of our company, and ensure its long-term competitiveness. This is how we are able to bring our strengths to bear all over the world, working together to achieve our objectives. We have been helped in this endeavor by the worldwide associate survey conducted in the second half of 2005 at around 300 locations. The results of the survey highlighted areas requiring action. Throughout 2006, we have worked intensively to improve these areas. The next worldwide associate survey will be conducted in 2007. We believe that well-informed and competent associates are the key to strong, profitable growth in the future.



Our company's increasing internationalization is reflected in our global HR strategy. This strategy pays special attention to appointing managers in growth regions and to managing competence systematically. This includes planning what specialist skills the company will need and where they will be needed in the future. The defined strategic objectives are quantified, communicated, and monitored globally, across divisions, using the balanced scorecard method. We make it a priority to fill executive positions in growth regions with local associates. We provide special entry programs to attract qualified university graduates and applicants with professional experience. We have also launched these programs successfully outside Germany – for example, in Hungary, Russia, India, China, and the U.S.

Reinforcing our appeal as an employer

Studies conducted by independent institutes to analyze the company's appeal as an employer regularly confirm the success of our personnel acquisition activities in Germany. In the future, we wish to present ourselves as an attractive employer to young graduates and professionals also in key markets outside Germany. In China, for example, we have established contacts at 39 universities that are important to



Like all our associates, staff at the Bosch Research and Technology Center in Palo Alto, CA (USA), are committed to our slogan "Invented for life." Here, researchers and developers of 20 different nationalities work on the technologies of tomorrow. In close cooperation with scientists from nearby Stanford University and the University of California in Berkeley, the Bosch associates are seeking ways of making sensors smaller, more cost-effective, and more powerful. Such sensors are used in applications including vehicle safety systems such as the Electronic Stability Program (ESP®).

us. On a "Campus Tour" of China, we spoke to highly qualified students and outlined our entry programs and training courses. We did so with considerable success, and received applications from more than 20,000 Chinese students. At our location in Bursa, Turkey, we organized an "Open Door Day" which was attended by 140 engineering students from five Turkish universities.

Our students@bosch program remains extremely popular. The aim of this initiative is to get in touch with promising students while they are still studying. In 2006, the number of students participating in the program grew by 50 % to over 1,000. As a result of our success with this program in Germany, we have taken the first steps toward launching students@bosch in North America, China, and Hungary.

Training levels remain high

Given our international focus, we also attach particular importance to training young people at locations outside Germany. In Brazil, the U.S., and India, standardized criteria are used to train young people as skilled workers, similar to the tried and tested system used in Germany, which alternates working and study phases. This means we can rely on our skilled workers having the same uniformly high standards of expertise across all our locations worldwide. In India, our industrial apprentices' workshop has been named the country's best training facility on numerous occasions. For several years, we have also organized an international apprentice exchange program. This gives young people the opportunity to get to know different ways of working, and to benefit from intercultural experience.

Altogether, the Bosch Group is currently training 6,000 young people worldwide, 4,400 of them in Germany. As of September 1, 2006, 1,340 young men and women began their apprenticeships at Bosch in Germany. This was on par with the previous year. The number of young people we admitted to our apprenticeship program was far higher than the actual needs of our locations. For many years now, we have trained more young people than we actually need. We regard this as one important way of fulfilling our social responsibilities. We provide young people with training in more than 30 different careers, primarily in technical and industrial disciplines.

Knowledge is an increasingly significant factor in every company's success. But it now also becomes outdated faster than ever before. Further training for associates is therefore taking on ever greater importance. At Bosch, more than 400 associates are currently employed in this area worldwide, organizing further training opportunities for our associates in the form of 30,000 seminars each year. In 2006, some 380,000 associates took advantage of these training opportunities.

Bosch wins equal opportunities award

Our efforts to promote the advancement of women have also received official recognition. The German State of Baden-Württemberg awarded us first prize in the "Equal opportunities for women and men at work" competition. The issue of equal opportunities has been a special concern of the Bosch board of management since 1994, when the "Women in leadership positions" working group was formed. Today, our internal and external activities in this field are coordinated by a central project unit that works in close cooperation with the board of management. Our efforts have already yielded long-term benefits, with the proportion of women in leadership positions more than doubling over the past ten years to 6 %.

Awards for the Bosch pension fund

On November 30, 2006, the European specialist publication Investment & Pensions Europe (IPE) presented two awards to the Bosch pension fund. The fund was set up in 2006 to finance our associates' company pension entitlements in Germany. Our fund was presented with the "Best Corporate Pension Fund" award. It also won the "Best Small European Pension Fund" prize, which goes to pension funds with assets of less than one billion euros. The prestigious panel of international judges praised the Bosch pension fund for its innovative design, its pioneering achievements for pension funds in Germany, and its successful performance. This is the first time that a German company pension fund has won an international award. The IPE annual awards are presented to entrants in national, Europe-wide, and subject categories.

Progress with Single Status Pay Agreement

Preparations to standardize the different remuneration arrangements for wage earners and salaried staff within the Bosch Group in Germany took a major step forward in 2006 with the Single Status Pay Agreement. We were largely able to finalize our negotiations with employee representatives on the classification of specific job tasks within our company and to agree concrete transfer arrangements for most regions. It was important to ensure that, despite maintaining cost neutrality, all associates' wage levels were kept at their previous level in the changeover to the Single Status Pay Agreement. Our executives have received thorough training in the new arrangements, and jobs have been classified according to the Single Status Pay Agreement. Associates in the Baden-Württemberg, Saarland, and Thüringen regions have already been informed which pay category they will be assigned to following the introduction of the agreement, and how their pay will be structured in the future. During 2007, associates in the remaining regions will receive their initial notification. This means that the agreement can be introduced in most regions at the same time as the 2007 pay increase takes effect.

Thanks to our associates and their representatives

Our associates are the key to the further development of our company. Once again, their expertise, skills, commitment, and performance ensured the success of our company in 2006, and we are very grateful to them. Our thanks also go to the employee representatives, who helped us take the measures necessary to safeguard our competitiveness.

In 2006, we increased the number of education partnerships in the *Wissensfabrik – Unternehmen für Deutschland e.V.* (Knowledge Factory – Companies for Germany) initiative that we and eight other companies launched in 2005. The activities we run under this initiative include a series of science lectures for junior high and high school students. The aim of this exercise is to kindle young people's interest in technology and science. We also play an active role in acatec, the German Academy of Engineering and Technology.

Consolidated Financial Statements of the Bosch Group

Contents

Income statement for the period from January 1 to December 31, 2006

	Note	2006	2005
Sales revenue	1	**43,684**	**41,461**
Cost of sales		–30,226	–28,349
Gross profit		**13,458**	**13,112**
Distribution and administrative cost	2	–7,806	–7,550
Research and development cost	3	–3,348	–3,073
Other operating income	4	1,013	931
Other operating expenses	5	–901	–927
Operating profit		**2,416**	**2,493**
Financial income	6	1,548	1,437
Financial expenses	6	–883	–752
Profit before tax		**3,081**	**3,178**
Income tax expense	7	–911	–836
Profit after tax from continuing operations		**2,170**	**2,342**
Profit after tax from discontinued operations			108
Profit after tax		**2,170**	**2,450**
of which attributable to minority interests	8	117	101
of which attributable to parent company		2,053	2,349

Figures in millions of euros

Balance sheet
for the year ended December 31, 2006

Assets	Note	12/31/2006	12/31/2005
Current assets			
Cash and cash equivalents	10	2,669	2,936
Marketable securities	11	738	967
Trade receivables	12	7,724	7,308
Income tax receivables		240	86
Other assets	13	1,158	1,105
Inventories	14	5,715	5,482
		18,244	**17,884**
Non-current assets			
Financial assets	15	10,181	9,549
Income tax receivables		120	
Property, plant, and equipment	16	11,712	11,736
Intangible assets	17	4,325	4,014
Deferred taxes	7	2,358	2,371
		28,696	**27,670**
Total assets		**46,940**	**45,554**

Figures in millions of euros

Equity and liabilities	Note	12/31/2006	12/31/2005
Current liabilities			
Financial liabilities	18	370	2,019
Trade payables	19	3,245	3,147
Income tax liabilities		148	167
Other liabilities	20	3,675	3,532
Income tax provisions		285	218
Other provisions	20	3,046	2,931
		10,769	**12,014**
Non-current liabilities			
Financial liabilities	18	2,105	964
Other liabilities	20	254	269
Pension provisions	21	6,548	6,882
Income tax provisions		130	110
Other provisions	20	3,610	3,398
Deferred taxes	7	1,042	974
		13,689	**12,597**
Equity	22		
Issued capital		1,200	1,200
Capital reserve		4,557	4,557
Retained earnings		15,929	14,395
Unappropriated earnings		69	63
Minority interests		727	728
		22,482	**20,943**
Total equity and liabilities		**46,940**	**45,554**

Figures in millions of euros

Cash flow statement

	Note 23	2006	2005
Profit before tax		3,081	3,178
Depreciation and amortization[1]		2,654	2,262
Increase in pension provisions		77	101
Increase in non-current provisions		254	303
Gains on disposal of non-current assets		–113	–204
Losses on disposal of non-current assets		86	108
Gains on disposal of securities		–554	–481
Losses on disposal of securities		115	62
Financial income		–669	–781
Financial expenses		484	534
Interest and dividends received		496	559
Interest paid		–272	–176
Income taxes paid		–1,118	–1,113
Cash flow		**4,521**	**4,352**
Increase in inventories		–278	–245
Increase in trade receivables		–812	–996
Increase in liabilities		303	903
Decrease in current provisions		–53	–574
Cash flows from operating activities (A)		**3,681**	**3,440**
Acquisition of subsidiaries		–219	–318
Disposal of subsidiaries			311
Additions to non-current assets		–3,240	–3,447
Proceeds from disposal of non-current assets		283	482
Purchase of securities		–5,076	–4,362
Disposal of securities		4,975	3,703
Cash flows from investing activities (B)		**–3,277**	**–3,631**
Purchase of treasury stock		–62	
Borrowing		1,441	464
Repayment of financial liabilities		–1,907	–631
Dividends paid		–86	–95
Cash flows from financing activities (C)		**–614**	**–262**
Change in liquidity (A+B+C)		**–210**	**–453**
Liquidity at the beginning of the period (January 1)		**3,074**	**3,296**
Exchange-rate related change in liquidity		–40	39
Increase in liquidity due to changes in consolidated group		25	192
Liquidity at the end of the period (December 31)		**2,849**	**3,074**

Figures in millions of euros

[1] After offsetting write-ups of EUR 17 million (prior year: EUR 9 million)

Statement of recognized income and expense

	2006	2005
Change from marketable financial instruments	–341	702
Change due to actuarial parameters for pension provisions	361	–381
Adjustment item from currency translation of entities outside the euro zone	–404	522
Deferred taxes on revaluations recognized directly in equity	–80	201
Revaluations recognized directly in equity	**–464**	**1,044**
Profit after tax	2,170	2,450
Total (sum of profit after tax and revaluations recognized directly in equity in the period)	**1,706**	**3,494**
of which attributable to minority interests	119	148
of which attributable to parent company	1,587	3,346

Figures in millions of euros

Statement of changes in equity

			Retained earnings		
	Issued capital	Capital reserve	Earned profit	Treasury stock	Currency translation
January 1, 2005	**1,200**	**4,557**	**9,973**		**–119**
Dividends					
Profit after tax					
Transfer to retained earnings			2,286		
Exchange differences					490
Other changes					
December 31, 2005	**1,200**	**4,557**	**12,259**		**371**
Dividends					
Profit after tax					
Transfer to retained earnings			1,984		
Exchange differences					–332
Other changes				–62	
December 31, 2006	**1,200**	**4,557**	**14,243**	**–62**	**39**

Figures in millions of euros

Accumulated other comprehensive income						
Securities	Other changes	Total	Unappropriated earnings	**Equity parent company**	Minority interests	**Total equity**
1,508	**–250**	**1,139**	**63**	**16,932**	**496**	**17,428**
			–63	**–63**	–32	**–95**
			2,349	**2,349**	101	**2,450**
			–2,286			
		490		**490**	32	**522**
749	–242	507		**507**	131	**638**
2,257	**–492**	**2,136**	**63**	**20,215**	**728**	**20,943**
			–63	**–63**	–23	**–86**
			2,053	**2,053**	117	**2,170**
			–1,984			
		–332		**–332**	–72	**–404**
–279	223	–56		**–118**	–23	**–141**
1,978	**–269**	**1,748**	**69**	**21,755**	**727**	**22,482**

Notes to the consolidated financial statements
Principles and methods

General explanations

The consolidated financial statements of the Bosch Group for the year ended December 31, 2006 have been prepared according to the standards issued by the ***I**nternational **A**ccounting **S**tandards **B**oard* (IASB), London. The ***I**nternational **F**inancial **R**eporting **S**tandards* (IFRS) and the Interpretations of the ***I**nternational **F**inancial **R**eporting **I**nterpretations **C**ommittee* (IFRIC) applicable as of the balance sheet date have been applied. The prior-year figures have been determined using the same principles.

The consolidated financial statements are in line with the provisions of Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code] and Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards.

The following IFRS's or ***I**nternational **A**ccounting **S**tandards* (IAS's) are applied:

- IAS 1: Presentation of Financial Statements
- IAS 2: Inventories
- IAS 7: Cash Flow Statements
- IAS 8: Accounting Policies, Changes in Accounting Estimates, and Errors
- IAS 10: Events after the Balance Sheet Date
- IAS 11: Construction Contracts
- IAS 12: Income Taxes
- IAS 14: Segment Reporting
- IAS 16: Property, Plant, and Equipment
- IAS 17: Leases
- IAS 18: Revenue
- IAS 19: Employee Benefits
- IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- IAS 21: The Effects of Changes in Foreign Exchange Rates
- IAS 23: Borrowing Costs
- IAS 24: Related Party Disclosures
- IAS 26: Accounting and Reporting by Retirement Benefit Plans
- IAS 27: Consolidated and Separate Financial Statements
- IAS 28: Investments in Associates
- IAS 29: Financial Reporting in Hyperinflationary Economies
- IAS 31: Interests in Joint Ventures
- IAS 32: Financial Instruments: Disclosure and Presentation
- IAS 36: Impairment of Assets
- IAS 37: Provisions, Contingent Liabilities, and Contingent Assets
- IAS 38: Intangible Assets
- IAS 39: Financial Instruments: Recognition and Measurement with the Addition of the Provisions on the Use of the Fair Value Option
- IAS 40: Investment Property
- IFRS 1: First-Time Adoption of International Financial Reporting Standards
- IFRS 3: Business Combinations
- IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations

The Bosch Group has elected not to early adopt IFRS 7 *Financial Instruments: Disclosures,* which has been adopted by the EU (mandatory adoption from January 1, 2007).

To enhance the clarity and transparency of the consolidated financial statements, individual items of the consolidated income statement and the consolidated balance sheet have been combined. These items are explained separately in the notes to the consolidated financial statements. The income statement has been prepared using the function of expense method.

The preparation of consolidated financial statements in accordance with IFRS/IAS requires that assumptions be made for some items. These assumptions have an effect on the amount of the assets and liabilities, income and expenses, and contingent liabilities disclosed in the consolidated balance sheet.

The group currency is the euro (EUR). Unless otherwise stated, all figures are in millions of euros (EUR million).

The consolidated financial statements prepared as of December 31, 2006 were authorized for disclosure by management on March 13, 2007. The consolidated financial statements and group management report will be filed with the electronic Federal Gazette [*Bundesanzeiger*] and published there.

Basis of consolidation

Besides Robert Bosch GmbH, the consolidated financial statements include all subsidiaries for which Robert Bosch GmbH fulfils the criteria pursuant to IAS 27 *Consolidated and Separate Financial Statements,* or to which the interpretation of the ***S****tanding* ***I****nterpretations* ***C****ommittee* SIC 12 *Consolidation – Special Purpose Entities* apply. These entities are included in the consolidated financial statements from the date on which the Bosch Group obtains control. Conversely, subsidiaries are no longer included when control of the entity is lost.

The capital of the companies consolidated in the fiscal year for the first time and of additional shares purchased is consolidated pursuant to IFRS 3 *Business Combinations* using the purchase method of accounting. At the time of combination, the purchase costs of the shares acquired are offset against pro rata revalued equity. Assets, liabilities, and contingent liabilities are carried at fair value. Remaining debit differences are accounted for as goodwill. Any credit differences are recognized with effect on income.

Joint ventures as defined by IAS 31 *Interests in Joint Ventures* are consolidated proportionately.

Pursuant to IAS 28 *Investments in Associates,* investments are included in consolidation using the equity method if significant influence can be exercised. At present, no entity has been accounted for using the equity method.

Within the consolidated group, intercompany profits and losses, sales, income and expenses, and all receivables and liabilities or provisions are eliminated. In the case of consolidation measures with an effect on income, the effects for income tax purposes are considered and deferred taxes disclosed.

Currency translation

In the separate financial statements of the Group companies, all receivables and liabilities denominated in currencies other than the euro are measured at the spot rate on the balance sheet date, regardless of whether they are hedged or not. Exchange-rate gains and losses from revaluations are recorded in profit and loss.

The financial statements of the consolidated companies outside the euro zone are translated into euros in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates.* Assets and liabilities are translated at the closing rate at balance sheet date, while equity is translated at historical rates. The positions of the income statement are translated into euros at the annual average exchange rate. Any resulting exchange differences are recorded directly in equity until the disposal of the subsidiaries, and disclosed as a separate position in equity. Exercising the option provided by IFRS 1 *First-Time Adoption of International Financial Reporting Standards,* it was elected not to determine the translation differences for the periods before January 1, 2004.

For the most important non-euro currencies of the Bosch Group, the following exchange rates apply:

		Closing rate		Average rate	
	1 EUR =	12/31/2006	12/31/2005	2006	2005
Australia	AUD	1.67	1.61	1.67	1.63
Brazil	BRL	2.82	2.74	2.73	3.04
Czech Republic	CZK	27.50	29.01	28.34	29.79
India	INR	58.32	53.28	56.90	54.86
Japan	JPY	156.65	139.13	146.07	136.90
Switzerland	CHF	1.61	1.56	1.57	1.55
United Kingdom	GBP	0.67	0.69	0.68	0.68
United States of America	USD	1.32	1.18	1.26	1.25

Accounting policies

Cash and cash equivalents consist of cash, reserve bank deposits, bank balances with a maturity of less than 90 days, and checks. Measurement is at amortized cost.

Trade receivables, income tax receivables, other assets (current), and **other financial assets (non-current)** are measured at amortized cost. All discernible specific risks and general credit risks are accounted for by appropriate valuation allowances. This does not apply to derivative financial instruments. For finance leases under which the Bosch Group is the lessor, a receivable is disclosed equivalent to the net investment value. Leases under which substantially all risks and rewards in connection with ownership have been transferred to the lessee are classified as finance leases.

Inventories include raw materials, consumables, and supplies, work in process, finished goods and merchandise, and prepayments. Inventories are stated at purchase cost or cost of conversion using the average cost method. In addition to direct costs, cost of conversion includes an allocable portion of necessary materials and production overheads as well as production-related depreciation that can be directly allocated to the production process. Borrowing costs are not capitalized. Appropriate allowance is made for risks associated with holding and selling inventories due to obsolescence. Inventories are written down further if unfavorable sales conditions make this necessary.

Property, plant, and equipment are measured at cost of purchase or production cost less depreciation. Borrowing costs are not capitalized. Depreciation is charged on a straight-line basis over the economic useful life.

Depreciation is based on the following ranges of useful lives:

	Useful life
Buildings	10 – 33 years
Plant and equipment	6 – 14 years
Other equipment, fixtures, and furniture	3 – 12 years

In accordance with IAS 36 *Impairment of Assets,* impairment losses are recorded on property, plant, and equipment if the recoverable amount has fallen below the carrying amount. Impairment losses are reversed if the reasons for the impairment loss from prior years no longer apply. Repair costs are recognized in the income statement.

In accordance with IAS 17 *Leases,* rented items of property, plant, and equipment which for economic purposes are deemed to be purchases of assets with long-term financing (finance leases) are recognized at the time of addition at the lower of cost or present value of the minimum lease payments. Depreciation is charged over the economic useful life. If it is uncertain whether title to the leased asset will be transferred, the asset is depreciated over the term of the lease agreement (if shorter than the economic useful life). The finance expense from these leases is disclosed under other financial expenses.

Government grants are only recognized pursuant to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* if it is sufficiently certain that the assistance will be granted. Grants related to assets are deducted in order to calculate the carrying amount of the asset. Grants related to income are recognized in the income statement of the period in which the expenses are incurred.

Investment property is measured at amortized cost in accordance with IAS 40 *Investment Property.*

Purchased and internally generated intangible assets are capitalized pursuant to IAS 38 *Intangible Assets* if a future economic benefit will flow to the entity from the use of the asset and the cost of the asset can be reliably determined. These assets are generally carried at cost and amortized using the straight-line method over their economic useful life. As a rule, the useful life is four years. Intangible assets accounted for in the course of business combinations have a useful life of up to 20 years.

Goodwill from business combinations represents the difference between the purchase price on the one hand and the pro rata fair value of the net assets at the time of acquisition on the other. Goodwill is allocated to the cash generating units and tested annually for impairment. If the recoverable amount of the cash generating unit does not cover the carrying amount of the net asset, impairment losses are charged in accordance with the requirements of IAS 36.

Pursuant to IFRS 1, goodwill existing as of January 1, 2004 (date of transition) was transferred at the carrying amount pursuant to the German commercial code. It was also tested for impairment pursuant to the provisions of IAS 36.

Intangible assets with an indefinite useful life are tested annually for impairment. Intangible assets subject to wear and tear are only tested for impairment if there is any indication that they may be impaired.

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity on the one hand and to a financial liability or equity instrument of a second entity on the other hand. As a rule, financial instruments are determined as of the settlement date. Financial instruments are accounted for at amortized cost or fair value. Fair value is the market or quoted value.

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement with the Addition of the Provisions on the Use of the Fair Value Option,* the following categories of financial instruments are used in the Bosch Group:

- Held-to-maturity investments
- Loans and receivables
- Liabilities measured at amortized cost
- Available-for-sale financial assets
- Assets and liabilities held for trading

The fair value option pursuant to IAS 39 is not exercised.

Financial investments held to maturity, loans and receivables, and current and non-current liabilities are measured at amortized cost. These are mainly loans, trade receivables, and current and non-current other financial assets and liabilities.

Financial assets available for sale are carried at fair value. If the fair value cannot be reliably determined, they are accounted for at amortized cost. These are investments for which there is no active market. Unrealized gains and losses from changes in market value are disclosed in equity, net of deferred taxes, until they are realized. If there are objective indications that the value is impaired, the accumulated net loss is eliminated from equity and disclosed in profit and loss. If an impairment loss recorded on equity instruments is reversed in accordance with IAS 39, this is offset directly against equity.

Assets and liabilities held for trading are measured at fair value. Changes in value are recorded with an effect on income. These are derivative financial instruments which are mainly used to limit currency and interest risks. Hedge accounting is not used in the Bosch Group.

Pursuant to IAS 12 *Income Taxes,* **deferred tax assets and liabilities** are recorded for temporary differences between the tax values and the carrying amounts in the consolidated balance sheet. This also applies to unused tax losses and tax credits if these can be used with reasonable certainty. The deferred tax item equals the estimated tax burden/relief in later periods. The tax rate applicable at the time of realization is taken as a basis. Tax implications from profit distributions are not considered until the resolution for the appropriation of profits has been adopted. If it is uncertain whether deferred tax assets can be realized, they are adjusted accordingly.

Liabilities are measured at amortized cost. Liabilities from finance leases are disclosed under other liabilities, at the present value of the future lease installments. The effective interest method is applied when valuing bonds.

Pursuant to IAS 19 *Employee Benefits,* **pension provisions** are recognized using the projected unit credit method, taking future estimated increases in pensions and salaries into account.

Tax provisions pertain to obligations relating to income tax and other taxes. Deferred taxes are disclosed in separate positions of the balance sheet.

Pursuant to IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets,* **other provisions** are formed if there is a current obligation from a past event which will probably lead to an outflow of resources in future. In addition, it must be possible to reliably estimate the amount of this outflow. Other provisions are measured at full cost. Provisions due in more than one year are stated at their discounted settlement amount.

Revenue from the supply of products and goods or from the provision of services is recognized when title and risk is transferred to the purchaser, less sales deductions. Interest and lease income is recorded according to the contractual agreement and, where appropriate, accrued pro rata temporis. In the case of finance leases, the payments are divided up using actuarial methods.

Cost of sales contains the cost of internally manufactured goods and the cost price of resold merchandise. The production cost of internally manufactured goods contains directly allocable direct materials and production costs, the allocable parts of indirect overheads, including the depreciation of production equipment and the amortization of other intangible assets, and the devaluation of inventories.

Development costs that cannot be recognized are charged against income in the period incurred.

Consolidation

Consolidated group

Robert Bosch GmbH is headquartered in Stuttgart, Germany. The shareholders of Robert Bosch GmbH are Robert Bosch Stiftung GmbH, Stuttgart (92.0% of the shares), the Bosch family (7.4% of the shares), and Robert Bosch Industrietreuhand KG, Stuttgart, which performs the entrepreneurial ownership functions. Robert Bosch GmbH holds treasury stock equivalent to 0.6% of capital.

Besides Robert Bosch GmbH, the consolidated group comprises a further 298 (prior year: 282) fully consolidated companies. The Group developed as follows:

	Germany	Outside Germany	Total
Included in consolidation at December 31, 2004	**42**	**232**	**274**
Additions/formations in the fiscal year 2005	1	26	27
Disposals/mergers in the fiscal year 2005	5	13	18
Included in consolidation at December 31, 2005	**38**	**245**	**283**
Additions/formations in the fiscal year 2006	2	26	28
Disposals/mergers in the fiscal year 2006		12	12
Included in consolidation at December 31, 2006	**40**	**259**	**299**

Pursuant to SIC 12, the consolidated group contains special funds for which the Bosch Group bears the economic risks and rewards.

In the fiscal year 2006, the following companies or sub-groups were included in the consolidation for the first time:

- Bosch Automotive Products (Changsha) Co Ltd, Changsha, China
- Robert Bosch odbytova spolecnost sro, Prague, Czech Republic
- Robert Bosch Kft, Budapest, Hungary
- Robert Bosch Limited, Bangkok, Thailand
- Telex Communications Holdings Inc, Burnsville, MN, USA (the sub-group comprises 16 companies)
- ETAS Automotive Technology (Shanghai) Co Ltd, Shanghai, China
- IVT Lämpöpumput Oy, Espoo, Finland
- Bosch Rexroth SRL, Bucharest, Romania
- Bosch Rexroth OOO, Moscow, Russian Federation
- Robert Bosch España Fábrica La Carolina SA, Madrid, Spain

Due to corporate restructuring and mergers, the number of subsidiaries included in consolidation was reduced by a total of 12.

Due to additions to the companies included in consolidation, sales revenue increased by EUR 0.3 billion and total assets by EUR 0.4 billion.

Proportionate consolidation

In accordance with the shares in capital, the following financial statements are each included proportionate to their shareholding (50%):

- BSH Bosch und Siemens Hausgeräte GmbH, Munich (the sub-group comprises 62 companies)
- ZF Lenksysteme GmbH, Schwäbisch Gmünd (the sub-group comprises 15 companies)
- United Automotive Electronic Systems Co Ltd, Shanghai, China
- KEFICO Corporation, Gunpo, Korea
- Purolator Filters North America LLC, Fayetteville, NC, USA (for the first time in 2006)

The proportionate consolidation of these companies had the following impact on the assets, liabilities, as well as income and expenses of the Bosch Group:

Effects of proportionate consolidation on assets and liabilities

Figures in millions of euros	2006	2005
Current assets	2,241	2,010
Non-current assets	1,405	1,246
Current liabilities	1,297	1,115
Non-current liabilities	1,235	1,140

Effects of proportionate consolidation on the income statement

Figures in millions of euros	2006	2005
Income	5,868	5,147
Expenses	5,614	4,904

The share of contingent liabilities of these companies attributable to the Bosch Group amounts to EUR 9 million (prior year: EUR 34 million).

Business combinations

The companies listed below were acquired in the fiscal year 2006:

				Figures in millions of euros	
Company	Activity and absorbing business sector	First-time consolidation	Share of voting rights	Acquisition cost	Profit share since first-time consolidation
Telex Communications Holdings Inc, Burnsville, MN, USA (STNT)	Communication systems UBG[1]	Sept. 1, 2006	100 %	151	–16
Purolator Filters North America LLC, Fayetteville, NC, USA (PFNA)	Vehicle filters UBK[2]	April 1, 2006	50 %	72	2

[1] Consumer Goods and Building Technology business sector

[2] Automotive Technology business sector

The aforementioned business combinations were all financed by transferring cash and cash equivalents.

At the time of the first-time consolidation, the acquisitions had the following effect on the assets and liabilities of the Bosch Group:

Figures in millions of euros	STNT	PFNA	Total
Current assets	**125**	**38**	**163**
of which cash and cash equivalents	7	0	7
Non-current assets	**298**	**51**	**349**
Financial assets	2		2
Property, plant, and equipment	34	25	59
Intangible assets	262	26	288
of which goodwill	152	3	155
Current liabilities	**229**	**17**	**246**
Non-current liabilities	**42**		**42**
Provisions	6		6
Liabilities incl. deferred taxes	36		36

Acquisitions led to the disclosure of intangible assets previously not accounted for, totaling EUR 109 million at STNT and EUR 23 million at PFNA.

Assuming that the above companies had already been consolidated for the first time as of January 1, 2006, total sales revenues of the Bosch Group would come to EUR 43,876 million and profit after tax to EUR 2,167 million.

Discontinued operations

No decisions were taken in the fiscal year 2006 pertaining to the sale of business units or subsidiaries.

In the prior year, Edelstahlwerke Buderus AG (EBW), Wetzlar, and its subsidiary Deville Rectification Buderus SA, Pont-Salomon, France, and the business operations of Buderus Guss GmbH (BGG) with its subsidiaries Buderus Feinguss GmbH, Moers, Buderus Kanalguss GmbH, Limburg, both located in Germany, Nering Bögel BV, Weert, Netherlands, and Tiroler Röhren- und Metallwerke AG and Guss Komponenten GmbH, both in Hall, Austria, were sold. In addition, the 50% share held by Bosch Corporation, Shibuya-ku, Tokyo, Japan, in Zexel Valeo Climate Control Corporation (ZVCC), Shibuya-ku, Tokyo, Japan, was sold.

The positions of the prior-year income statement contain the following results of discontinued operations:

2005 results

Figures in millions of euros	BGG	EBW	ZVCC	Total
Sales revenue	220	256	79	555
Cost of sales	–182	–217	–67	–466
Gross profit	**38**	**39**	**12**	**89**
Distribution and administrative cost	–30	–25	–5	–60
Research and development cost	–1	–1	–4	–6
Other operating income	8	2	1	11
Other operating expenses	–6	–1	–4	–11
Profit from operations	**9**	**14**	**0**	**23**
Financial income				
Financial expenses				
Profit before tax	**9**	**14**	**0**	**23**
Income tax expense	–1	–4		–5
Profit after tax	**8**	**10**	**0**	**18**

The sale in 2005 resulted in book losses of EUR 0.4 million for EBW (after tax EUR 1.2 million) and of EUR 54 million for BGG (after tax EUR 46 million). Book gains of EUR 100 million (after tax EUR 93 million) were generated for ZVCC. The sale of BN Breitbandnetze GmbH, Berlin, Germany, which was completed in early 2005, also generated book gains of EUR 73 million (after tax EUR 44 million).

Cash flow 2005

Figures in millions of euros	BGG	EBW	ZVCC[1]	Total
Operating activities	20	22		42
Investing activities	–7	–3		–10
Financing activities	–15			–15

[1] Cash flow 2005 is attributable to the buyer and is therefore not disclosed

Notes to the income statement

1 Sales revenue

Sales revenue amounted to EUR 43,684 million (prior year: EUR 42,016 million; of this, EUR 555 million related to discontinued operations).

2 Distribution and administrative cost

Figures in millions of euros	2006	2005
Administrative expenses	2,302	2,114
Distribution cost	5,504	5,496
	7,806	**7,610**
Discontinued operations		–60
	7,806	**7,550**

The distribution cost includes personnel and indirect costs, depreciation charged in the distribution function, customer service, logistics, market research, sales promotion, shipping, advertising, and guarantee costs.

3 Research and development cost

Research and development cost contains both research cost as well as development cost that cannot be capitalized and depreciation on recognized development cost. In addition, it includes development work charged directly to customers.

Figures in millions of euros	2006	2005
Total research and development cost	3,376	3,095
Development cost recognized in the reporting period	–209	–188
Depreciation on recognized development cost	181	172
	3,348	**3,079**
Discontinued operations		–6
	3,348	**3,073**

4 Other operating income

Figures in millions of euros	2006	2005
Income from exchange-rate fluctuations	286	313
Income from the reversal of valuation allowances on receivables and other assets	71	64
Income from the disposal of property, plant, and equipment	85	63
Income from rent and leases	12	12
Income from the reversal of provisions (not disclosed in the functional areas)	233	267
Gains on sale of business operations		173
Sundry other operating income	326	223
	1,013	**1,115**
Discontinued operations		–184
	1,013	**931**

Sundry other operating income contains government grants of EUR 88 million (prior year: EUR 24 million).

The income from exchange-rate fluctuations is offset by expenses which are disclosed in other operating expenses. These items contain the effective exchange-rate results and the results from foreign currency derivatives allocable to the operating business.

Leases are accounted for according to the rules pertaining to operating leases to the extent that the substantial risks and rewards associated with the leased asset rest with the lessor. The assets concerned are recognized in property, plant, and equipment and the lease payments received are recorded in other operating income. In the reporting year, income from operating leases came to EUR 12 million (prior year: EUR 12 million).

5 Other operating expenses

Figures in millions of euros	2006	2005
Expenses from exchange-rate fluctuations	307	145
Valuation allowances on receivables and other assets	82	88
Expenses from the disposal of non-current assets	86	70
Other taxes	42	42
Expenses from the recognition of provisions	178	180
Impairment of goodwill		55
Losses on sale of business operations		54
Sundry other operating expenses	206	358
	901	**992**
Discontinued operations		–65
	901	**927**

6 Financial result

Figures in millions of euros	2006	2005
Investment income	42	92
Gains on disposal of investments	28	103
Income from investments	**70**	**195**
Interest and similar income	506	427
Interest and similar expenses	–267	–225
of which net interest expense from amortization of securities	–24	–32
Interest result	**239**	**202**
Gains on disposal of securities	554	481
Losses on disposal of securities	–115	–62
Realized exchange-rate gains	138	68
Realized exchange-rate losses	–184	–89
Unrealized exchange-rate gains	30	86
Unrealized exchange-rate losses	–47	–33
Gains on derivatives	181	128
Losses on derivatives	–126	–251
Other income	69	52
Other expense	–144	–92
Other financial result	**356**	**288**
Financial result, total	**665**	**685**
of which financial income	1,548	1,437
of which financial expenses	–883	–752

The positions “gains/losses on derivatives” contain transactions not directly related to operations.

7 Income taxes

Income taxes are classified according to their origin as follows:

Figures in millions of euros	2006	2005
Current taxes	1,023	1,121
Deferred taxes	–112	–251
Income taxes	**911**	**870**
Discontinued operations		–34
	911	**836**

Deferred taxes are calculated on the basis of the tax rates that apply or that are expected to apply given the current legislation in the individual countries at the expected time of realization. In Germany, a corporate income tax rate of 25 % applies. Taking into account trade tax and the solidarity surcharge, the tax rate for companies in Germany is 39 %. The tax rates outside Germany range between 9 % and 41 %.

The income tax expense does not contain any elements that fall under IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors.*

As of December 31, deferred tax assets and liabilities are allocable to the following balance sheet positions:

Figures in millions of euros	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Receivables, other assets, and inventories	301	279	199	182
Securities, investments	18	326	3	362
Property, plant, and equipment	108	748	109	780
Intangible assets	66	317	86	269
Other assets	77		95	
Liabilities	329	17	292	11
Provisions	1,914	60	2,034	52
Other liabilities		46	1	42
Unused tax losses and tax credits	463		335	
Gross amount	**3,276**	**1,793**	**3,154**	**1,698**
Valuation allowances	–167		–59	
Netting	–751	–751	–724	–724
	2,358	**1,042**	**2,371**	**974**

There are EUR 242 million in unused tax losses for which no deferred tax assets have been recognized (prior year: EUR 212 million).

Consolidation measures give rise to deferred tax assets of EUR 134 million (prior year: EUR 112 million) and deferred tax liabilities of EUR 72 million (prior year: EUR 27 million).

In the reporting period, deferred taxes of EUR 80 million (prior year: EUR 201 million) were recorded directly in equity. An equity increase of EUR 60 million (prior year: EUR 50 million) from the change in the surplus from securities is counterbalanced by a decrease in equity of EUR 140 million (prior year: EUR 151 million increase in equity) from the change in retained earnings due to the change in actuarial parameters pursuant to IAS 19.

The basis for the expected income tax expense is the German tax rate of 39%. The difference between expected and disclosed income tax expense is attributable to the following factors:

Figures in millions of euros	2006	2005
Expected income tax expense	1,202	1,294
Variances due to tax rate	–185	–127
Non-deductible expenses	103	120
Zero-rated income	–215	–308
Other differences	6	–109
Income tax expense disclosed	**911**	**870**
Discontinued operations		–34
	911	**836**
Effective tax rate	30%	26%

8 Minority interests

Profits allocable to minority interests amount to EUR 129 million (prior year: EUR 107 million). This is counterbalanced by losses of EUR 12 million (prior year: EUR 6 million).

9 Other notes to the income statement

The income statement contains the following personnel expenses:

Figures in millions of euros	2006	2005
Personnel expenses	12,534	12,049
Discontinued operations		–113
	12,534	**11,936**

Cost of materials amounts to EUR 20,130 million (prior year: EUR 19,413 million). Information about amortization and depreciation is contained in the explanations on non-current assets.

Notes to the balance sheet

10 Cash and cash equivalents

Figures in millions of euros	2006	2005
Bank balances (term up to 90 days)	2,621	2,853
Checks, cash, and reserve bank deposits	48	83
	2,669	**2,936**

In most cases, the effective interest rate for bank balances with a term of up to 90 days is between 3.3% and 3.7%. The fair value of cash and cash equivalents corresponds to the carrying amount.

11 Marketable securities

The securities classified as current are either listed securities with a residual term of less than one year or securities which are intended for sale within a year. The effective interest rates range between 3.3% and 3.6%. The fair value of the marketable securities is the carrying amount.

12 Trade receivables

Figures in millions of euros	2006	2005
Trade receivables	7,724	7,308
of which bad debt allowances	415	445

Of the total amount of trade receivables, an amount of EUR 8 million (prior year: EUR 5 million) is due in more than one year. The fair value of the receivables is the carrying amount.

13 Other assets (current)

Figures in millions of euros	2006	2005
Bank balances (term of more than 90 days)	47	74
Loan receivables	109	136
Receivables from finance leases	27	27
Positive market values from derivatives	68	32
Prepaid expenses	76	53
Receivables from tax authorities (without income tax receivables)	525	448
Receivables from board of management, associates	25	20
Sundry other receivables	281	315
	1,158	**1,105**

The fair values of other current assets correspond to the carrying amounts. The effective interest rate for bank balances with a term of more than 90 days is between 3.4% and 6.0%.

The receivables from finance leases mainly stem from the lease of products of the Security Systems division. As a rule, the agreed term is ten years. The receivables are due as follows:

Figures in millions of euros	2006	2005
Gross capital expenditures on finance leases		
due not later than one year	40	36
due later than one year and not later than five years	117	112
due later than five years	52	52
	209	**200**
Present value of outstanding minimum lease payments		
due not later than one year	27	27
due later than one year and not later than five years	86	90
due later than five years	42	47
	155	**164**
Unearned finance income	**54**	**36**

There were no unguaranteed residual values. It was not necessary to write down any lease receivables.

The outstanding minimum lease payments from operating leases mainly result from the activities of the Security Systems division. The minimum lease payments are due as follows:

Figures in millions of euros	2006	2005
Due not later than one year	21	23
Due later than one year and not later than five years	71	74
Due later than five years	46	45
	138	**142**

14 Inventories

Figures in millions of euros	2006	2005
Raw materials, consumables, and supplies	1,845	1,712
Work in process	1,027	954
Finished goods and merchandise	2,777	2,756
Prepayments	66	60
	5,715	**5,482**

Of the total amount of inventories, an amount of EUR 167 million (prior year: EUR 150 million) is carried at the lower net selling price. In the fiscal year, write-downs of EUR 84 million (prior year: EUR 53 million) were recorded with effect on income. No write-ups were performed, no inventories were pledged.

15 Non-current financial assets

Figures in millions of euros	2006	2005
Securities	7,675	7,228
Investments	2,003	1,954
Other financial assets	503	367
	10,181	**9,549**

Held-to-maturity investments

Figures in millions of euros	2006	2005
Due later than one year and not later than five years (carrying amount)	73	71
Due later than five years (carrying amount)	7	9
Fair value at December 31	80	81

Other non-current financial assets

Figures in millions of euros	2006	2005
Loans	37	57
Receivables from finance leases	128	137
Other receivables and other assets	338	173
	503	**367**

There are no receivables due in more than five years.

Non-current securities and investments
The securities consist of fixed-yield and other securities as well as shares which are not designated for sale within twelve months of the balance sheet date. The effective interest rates for fixed-yield securities range between 2% and 22%.

The market value of the pledged securities amounts to EUR 374 million (prior year: EUR 296 million). They were mainly pledged to secure obligations to employees as required by law.

Non-current securities and investments developed as follows:

Figures in millions of euros	Available-for-sale financial assets				Held-to-maturity investments	**Total**
	Investments		Securities		Securities	
	Listed	Unlisted	Shares	Other		
Gross values 1/1/2005	**1,121**	**709**	**2,265**	**3,894**	**81**	**8,070**
Changes in consolidated group	–54	–359			–2	–415
Additions	78	100	1,318	2,529		4,025
Reclassifications			–357	–256		–613
Disposals	–104	–9	–1,586	–1,240		–2,939
Revaluations	638		529	39		1,206
Exchange differences	13	13	2	11	1	40
Gross values 12/31/2005	**1,692**	**454**	**2,171**	**4,977**	**80**	**9,374**
Depreciation 1/1/2005		**263**				**263**
Changes in consolidated group		–71				–71
Disposals		–3				–3
Exchange differences		3				3
Depreciation 12/31/2005		**192**				**192**
Carrying amounts 12/31/2005	**1,692**	**262**	**2,171**	**4,977**	**80**	**9,182**
Gross values 1/1/2006	**1,692**	**454**	**2,171**	**4,977**	**80**	**9,374**
Changes in consolidated group		–65				–65
Additions	71	91	1,619	2,654	2	4,437
Reclassifications				–23		–23
Disposals	–39	–15	–1,708	–2,129	–1	–3,892
Revaluations	15		236	–189		62
Exchange differences	–11	–3	–4	–9	–1	–28
Gross values 12/31/2006	**1,728**	**462**	**2,314**	**5,281**	**80**	**9,865**
Depreciation 1/1/2006		**192**				**192**
Changes in consolidated group		–7				–7
Additions		10				10
Disposals		–4				–4
Write-ups		–3				–3
Exchange differences		–1				–1
Depreciation 12/31/2006		**187**				**187**
Carrying amounts 12/31/2006	**1,728**	**275**	**2,314**	**5,281**	**80**	**9,678**

16 Property, plant, and equipment

Figures in millions of euros	Land, buildings belonging to operating assets	Investment property	Plant and equipment	Other equipment, fixtures and furniture, leased assets	Prepayments and assets under construction	**Total**
Gross values 1/1/2005	**5,161**	**180**	**14,169**	**5,634**	**775**	**25,919**
Changes in consolidated group	35		–656	27	35	–559
Additions	196	9	1,268	587	874	2,934
Reclassifications	120	–8	463	144	–719	
Disposals	–134	–5	–656	–417	–55	–1,267
Exchange differences	155	1	476	121	47	800
Gross values 12/31/2005	**5,533**	**177**	**15,064**	**6,096**	**957**	**27,827**
Depreciation 1/1/2005	**2,171**	**63**	**9,237**	**3,854**	**2**	**15,327**
Changes in consolidated group	–60		–472	–8		–540
Additions	164	4	1,241	477	1	1,887
Reclassifications	4	–3	–27	26		
Disposals	–75	–1	–561	–361		–998
Write-ups	–5		–3	–1		–9
Exchange differences	53		291	80		424
Depreciation 12/31/2005	**2,252**	**63**	**9,706**	**4,067**	**3**	**16,091**
Carrying amounts 12/31/2005	**3,281**	**114**	**5,358**	**2,029**	**954**	**11,736**
Gross values 1/1/2006	**5,533**	**177**	**15,064**	**6,096**	**957**	**27,827**
Changes in consolidated group	23		48	24	32	127
Additions	183	2	1,152	648	685	2,670
Reclassifications	132	1	480	174	–787	
Disposals	–38	–3	–858	–401	–19	–1,319
Exchange differences	–159	–1	–418	–103	–37	–718
Gross values 12/31/2006	**5,674**	**176**	**15,468**	**6,438**	**831**	**28,587**
Depreciation 1/1/2006	**2,252**	**63**	**9,706**	**4,067**	**3**	**16,091**
Changes in consolidated group	3		7	13		23
Additions	154	4	1,372	753	26	2,309
Reclassifications	3		–16	14	–1	
Disposals	–30	–1	–717	–370		–1,118
Write-ups	–4		–9		–1	–14
Exchange differences	–69		–278	–69		–416
Depreciation 12/31/2006	**2,309**	**66**	**10,065**	**4,408**	**27**	**16,875**
Carrying amounts 12/31/2006	**3,365**	**110**	**5,403**	**2,030**	**804**	**11,712**

The total amount of depreciation contains the following impairment losses:
- Land and buildings: EUR 1 million (prior year: EUR 11 million)
- Plant and equipment: EUR 78 million (prior year: EUR 22 million)
- Other equipment, fixtures, and furniture: EUR 37 million (prior year: EUR 8 million)

The impairment losses contain an amount of EUR 85 million attributable to technical equipment and machinery for the production of starters and alternators. The impairment test was carried out at business-unit level. The recoverable amount was assumed to be the fair value less selling costs. The fair value was determined by means of a qualified estimate.

The carrying amounts contain the following amounts from finance leases under which the Bosch Group is the lessee:
- Land and buildings: EUR 36 million (prior year: EUR 1 million)
- Plant and equipment: EUR 3 million (prior year: EUR 4 million)
- Other equipment, fixtures, and furniture: EUR 46 million (prior year: EUR 23 million)

The obligations entered into to purchase items of property, plant, and equipment amounted to EUR 284 million (prior year: EUR 154 million), restrictions on title totaled EUR 89 million (prior year: EUR 20 million). Government grants for assets of EUR 9 million (prior year: EUR 4 million) were deducted from the additions in the reporting period. The use of these grants is not restricted.

Investment property comprises rented properties which were measured at amortized cost. Valued at fair value, the portfolio came to EUR 138 million (prior year: EUR 131 million). The fair values were determined on the basis of freely available representative lists of market rents and on the basis of the company's own estimates. The rental income from investment property came to EUR 12 million (prior year: EUR 11 million), and maintenance expenses totaled EUR 5 million (prior year: EUR 4 million).

17 Intangible assets

The goodwill of EUR 3,253 million (prior year: EUR 3,084 million) breaks down by business sector as follows: Automotive Technology EUR 123 million (prior year: EUR 126 million), Industrial Technology EUR 1,817 million (prior year: EUR 1,783 million), Consumer Goods and Building Technology EUR 1,313 million (prior year: EUR 1,175 million).

Goodwill is subjected to an annual impairment test. An impairment loss is recorded when the recoverable amount is below the carrying amount of the cash generating unit. The recoverable amount is derived from the future cash inflows (value in use). The cash flows are determined on the basis of business plans with a planning period of three years.

For cash flows after the end of the planning period, a growth rate of 1.0% (prior year: 1.0%) was applied. For the Industrial Technology business sector a discount rate of 11.3% (prior year: EUR 12.0%) was applied, for Consumer Goods and Building Technology 11.4% (prior year: 12.9%), and for Automotive Technology 10.7% (prior

year: 12.6%). A risk-free interest rate of 3.8% (prior year: 4.3%) and a market risk premium of 4.0% (prior year: 5.0%) were assumed. The standard tax rate used is 39% (prior year: 39%).

In the current year, there was no impairment of goodwill (prior year: EUR 55 million).

Figures in millions of euros	Franchises, industrial rights, licenses, software	Purchased goodwill	Internally generated intangible assets	**Total**
Gross values 1/1/2005	**848**	**2,829**	**935**	**4,612**
Changes in consolidated group	8	284	7	299
Additions	114	9	212	335
Disposals	–99		–158	–257
Exchange differences	12	17	1	30
Gross values 12/31/2005	**883**	**3,139**	**997**	**5,019**
Amortization 1/1/2005	**412**		**461**	**873**
Changes in consolidated group	–12			–12
Additions	135	55	194	384
Disposals	–92		–158	–250
Exchange differences	10			10
Amortization 12/31/2005	**453**	**55**	**497**	**1,005**
Carrying amounts 12/31/2005	**430**	**3,084**	**500**	**4,014**
Gross values 1/1/2006	**883**	**3,139**	**997**	**5,019**
Changes in consolidated group	138	153	1	292
Additions	139	38	231	408
Disposals	–102		–167	–269
Exchange differences	–18	–22		–40
Gross values 12/31/2006	**1,040**	**3,308**	**1,062**	**5,410**
Amortization 1/1/2006	**453**	**55**	**497**	**1,005**
Changes in consolidated group	1			1
Additions	150		201	351
Disposals	–97		–167	–264
Exchange differences	–8			–8
Amortization 12/31/2006	**499**	**55**	**531**	**1,085**
Carrying amounts 12/31/2006	**541**	**3,253**	**531**	**4,325**

The total amount of amortization contains the following impairment losses:

- Franchises, industrial rights, licenses, software: EUR 9 million
- Internally generated intangible assets: EUR 18 million (prior year: EUR 36 million)

18 Current and non-current financial liabilities

Figures in millions of euros	2006		2005	
	up to 1 year	more than 1 year	up to 1 year	more than 1 year
Bonds		749	1,272	8
Liabilities to banks	323	1,331	744	895
Other financial liabilities	47	25	3	61
	370	**2,105**	**2,019**	**964**

Of the financial liabilities, EUR 1,233 million (prior year: EUR 126 million) have a residual term of more than five years.

Terms and conditions of the bond

					Figures in millions of euros	
Interest terms	Interest rate	Beginning of term	End of term	Currency	Nominal	Market value 12/31/2006
Fixed	4.375%	05/2006	05/2016	EUR	750	749

Terms and conditions of the liabilities to banks

			Figures in millions of euros		
Interest terms	Interest rate	Currency	up to 1 year	more than 1 year	Carrying amount 12/31/2006
Fixed	2.4%	EUR	52		52
Fixed	4.2%	EUR	48		48
Fixed	2.7%	EUR		273	273
Fixed	5.7%	USD		383	383
Floating	EURIBOR +0.25%	EUR		600	600
Floating	10.3% – 12.2%	USD	51		51
Floating	8.6% – 13.0%	BRL	24	30	54
Other			148	45	193
			323	**1,331**	**1,654**

19 Trade payables

Figures in millions of euros	2006	2005
Trade payables	3,132	3,023
Notes payable	113	124
	3,245	**3,147**

Of the total amount of trade payables, an amount of EUR 2 million (prior year: EUR 2 million) is due in more than one year. The fair values are the carrying amounts.

20 Other liabilities and provisions

Other liabilities

Figures in millions of euros	2006		2005	
	up to 1 year	more than 1 year	up to 1 year	more than 1 year
Loans	79	24	59	31
Accruals in the personnel area	1,402		1,278	
Accruals in the sales and marketing area	391		376	
Other accruals	282		249	
Deferred income	141		49	
Tax liabilities (without income tax liabilities)	285		289	
Liabilities from finance leases	24	44	27	53
Deferred income from tooling compensation received	67	105	30	89
Prepayments received for inventories	341		214	
Sundry other liabilities	663	81	961	96
	3,675	**254**	**3,532**	**269**

Loans with a residual term of more than five years amount to EUR 17 million. Of the sundry other financial liabilities, EUR 4 million (prior year: EUR 4 million) have a residual term of more than five years. The fair values of the other liabilities are the carrying amounts.

The accruals in the personnel area mainly relate to vacation and salary entitlements as well as accrued special payments. In the sales and marketing area, they mainly relate to bonus and commission payments.

Liabilities from finance leases primarily stem from vehicle lease agreements with terms of three to six years. The liabilities are due as follows:

Figures in millions of euros	2006	2005
Future minimum lease payments		
due not later than one year	27	30
due later than one year and not later than five years	41	50
due later than five years	26	31
Interest portion contained in the future minimum lease payments		
due not later than one year	3	3
due later than one year and not later than five years	9	9
due later than five years	14	19
Present value of future minimum lease payments		
due not later than one year	24	27
due later than one year and not later than five years	32	41
due later than five years	12	12
	68	**80**

Provisions (without income tax provisions and pension provisions)

Figures in millions of euros	2006		2005	
	up to 1 year	**more than 1 year**	**up to 1 year**	**more than 1 year**
Tax provisions (without provision for income tax)	17	82	27	70
Provisions in the personnel area	566	1,090	382	1,070
Provisions in the sales and marketing area	2,078	1,482	1,995	1,262
Other provisions	385	956	527	996
	3,046	**3,610**	**2,931**	**3,398**

Provisions developed as follows:

Figures in millions of euros							
	At 1/1/2006	Changes in consolidated group	Amounts used	Amounts reversed	Increase incl. increase in discounted amount	Exchange adjustments	At 12/31/2006
Tax provisions	425	1	–194	–19	312	–11	**514**
Provisions in the personnel area	1,452	3	–224	–151	599	–23	**1,656**
Provisions in the sales and marketing area	3,257	2	–597	–605	1,550	–47	**3,560**
Other provisions	1,523	3	–124	–306	270	–25	**1,341**
	6,657	**9**	**–1,139**	**–1,081**	**2,731**	**–106**	**7,071**

Of the total increase in provisions, an amount of EUR 50 million (prior year: EUR 44 million) relates to increases in discounted amount.

Provisions in the personnel area relate to obligations from personnel adjustment measures, from early phased retirement, and from other special benefits for which the time or amount cannot yet be precisely determined. Provisions in the sales and marketing area mainly take account of losses from delivery and warranty obligations, including risks from recall, exchange, and product liability cases. Other provisions are mainly recognized for risks from restructuring, purchasing obligations, and renewal obligations for rent and lease agreements.

Contingent liabilities and other financial obligations
No provisions were recognized for the following contingent liabilities as it is more likely than not that they will not occur:

Figures in millions of euros	2006	2005
Contingent liabilities related to notes issued and transferred	44	34
Contingent liabilities from guarantees	46	41
Contingent liabilities from warranties	2	4
Other contingent liabilities	7	5
	99	**84**

Obligations from operating leases mainly pertain to rent agreements for technical equipment, for IT equipment, and for vehicles. They mature in between two and six years. The minimum amount of the undiscounted future payments from operating leases comes to EUR 475 million (prior year: EUR 514 million). The obligations are due as follows:

Figures in millions of euros	2006	2005
Due not later than one year	155	164
Due later than one year and not later than five years	244	259
Due later than five years	76	91
	475	**514**

The payments of the period recognized in profit and loss of EUR 175 million (prior year: EUR 156 million) are contained in the costs of the functional areas (cost of sales, distribution, administrative, research and development costs).

21 Pension provisions

The Bosch Group makes direct or indirect provision for the post-retirement period of many associates by paying contributions to private institutions. Payments by the Bosch Group vary according to local legal, tax, and economic provisions, and are usually based on the length of service and the salary of the associates. The obligations include both current pension obligations and future pension obligations. The Group's post-employment benefits include both defined contribution plans and defined benefit plans. In the case of defined contribution plans, the company pays voluntary contributions to state or private pension funds based on legal or contractual provisions. No further payment obligations arise for the company from the payment of these contributions.

All other post-employment benefit systems are defined benefit plans; a distinction is made between funded and unfunded benefit systems.

In accordance with agreements made with the employee representatives and their institutions in October 2005, the company pension scheme in Germany was modified effective as of January 1, 2006 and the *Bosch Vorsorge Plan* (Bosch pension scheme) was introduced. During the vesting period, both employer and employee contributions are contributed to the *Bosch Pensionsfonds* (Bosch pension fund) up to the tax-allowed limit for contributions; amounts in excess of that are transferred to the provision. Claims of employees born in or before 1950 continue to be covered by direct guarantees.

From October 2006, the replacement of capital accumulation benefits by the *Tarifvertrag über altersvorsorgewirksame Leistungen* (collective agreement on pension benefits) is implemented in the *Bosch Vorsorge Plan* as an employer contribution subject neither to tax nor social security contributions.

Pension provisions for the defined benefit plans are calculated according to the projected unit method in accordance with IAS 19. This involves measuring future obligations using actuarial procedures, with prudent estimates of the relevant factors. Taking account of dynamic components, the future benefit obligations are spread over the entire period of service.

Actuarial calculations and estimates are essential for all defined benefit plans. Besides assumptions about life expectancy, the calculations are based on the following parameters, which vary from one country to another depending on the local economic circumstances:

Percentage figures	Europe		Americas		Asia		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Discount factor	4.5	4.0	5.8	5.5	2.0	1.7	4.6	4.1
Expected return on plan assets	5.1	5.1	7.5	7.5	2.0	2.0	5.5	5.4
Future salary increases	3.0	2.9	4.2	4.0	2.7	2.3	3.1	3.0
Pension increases	1.8	1.4	3.5	3.5	0.0	0.0	1.9	1.7

The estimates of future salary increases are made, among other things, on the basis of the economic situation and inflation.

Adjustments between the actuarial projected benefit obligation – after deducting plan assets – and the provision mainly result from actuarial gains or losses related to changes in the rates of personnel turnover and deviations between the actual salary development and the assumptions used for calculation purposes.

To ensure the transparency of reporting, the actuarial gains and losses from defined benefit plans are recognized outside of profit and loss in accordance with the option of IAS 19, introduced in December 2004.

If the benefit system is funded externally, the value of the assets of the external pension institution is deducted from the benefit obligations resulting from the projected unit credit method. The pension institutions in Germany are Bosch Pensionsfonds AG and Bosch Hilfe e.V.

Pension schemes and obligations are measured at regular intervals, at least every three years. All significant schemes are measured annually by means of comprehensive actuarial procedures.

The present value of the obligation breaks down as follows:

Figures in millions of euros	2006	2005
Present value of the obligation at January 1	9,448	8,446
Revaluations	2	50
Current service cost	388	299
Interest cost	377	383
Transfers	8	–112
Past service cost	–25	75
Pension payments	–438	–401
Actuarial gains and losses	–295	519
Currency translation	–188	169
Other	1	20
Present value of the obligation at December 31	**9,278**	**9,448**

Plan assets developed as follows:

Figures in millions of euros	2006	2005
Fair value of plan assets at January 1	2,584	2,083
Revaluations	15	36
Expected return on plan assets	140	125
Contributions by the employer	191	218
Contributions by the employees	9	10
Transfers	1	–30
Benefits paid	–107	–98
Actuarial gains and losses	66	138
Currency translation	–134	102
Other	3	
Fair value of plan assets at December 31	**2,768**	**2,584**
Actual income	207	263
Expected contributions	274	351

The fund assets comprise the following components:

Percentage figures	2006	2005
Shares	38.1	37.6
Fixed-interest securities	32.3	28.5
Property	20.2	20.1
Other	9.4	13.8

The funding status of the defined benefit obligations pursuant to IAS 19 is as follows:

Figures in millions of euros	2006	2005
Present value of benefit obligations from wholly unfunded plans	3,956	6,122
Present value of benefit obligations from plans that are wholly or partly funded	5,322	3,326
Total present value of benefit obligation	9,278	9,448
Plan assets at fair value	–2,768	–2,584
Net obligation	6,510	6,864
Past service cost	13	18
Other	25	
	6,548	**6,882**

The table below presents the development of pension provisions:

Figures in millions of euros	2006	2005
Currency amount at January 1	**6,882**	**6,387**
Changes in consolidated group	7	–64
Net expense for the period	587	605
Pension payments	–331	–303
Contributions to funds	–191	–218
Actuarial gains and losses	–361	381
Other	–45	94
Carrying amount at December 31	**6,548**	**6,882**

The total amount of recognized actuarial gains and losses developed as follows:

Figures in millions of euros	2006	2005
Total actuarial losses at January 1	**795**	**401**
Actuarial gains / losses of the current year	–361	381
Change of effect pursuant to IAS 19.58 (b)	–3	68
Other changes and adjustments	11	–1
Total actuarial gains / losses	**–353**	**448**
Currency effects from gains and losses in the current year	–6	–54
Total actuarial losses at December 31	**436**	**795**

The amounts recognized in the income statement are as follows:

Figures in millions of euros	2006	2005
Current service cost	379	288
Interest cost	377	383
Expected return on plan assets	–140	–125
Past service cost	–29	73
Other		–14
Net expense for the period	**587**	**605**

The net expense is contained in the costs of the functional areas.

Expenses for defined benefit obligations amounted to EUR 662 million (prior year: EUR 606 million).

Other disclosures in the notes:

Figures in millions of euros	
Distribution of gains and losses from the valuation	–295
of which from changes in assumptions	–400
of which from unexpected changes in number of beneficiaries	105
Payments expected in the following year	
additions to plan assets	502
directly payable benefits	335

Figures in millions of euros	2006	2005	2004
History of the present value of the obligation	9,278	9,448	8,446
History of the plan assets	2,768	2,584	2,083
History of net obligation	–6,510	–6,864	–6,363
History of change in obligation due to changes in number of beneficiaries	105	102	
History of change in plan assets (actual vs. expected)	66	138	21

Effect of change in cost trend on medical costs

Figures in millions of euros			
	2006	One percentage point increase in cost trend	One percentage point decrease in cost trend
Present value of the obligation	300	341	264
Service cost and interest cost	23	26	20

22 Equity

The issued capital of EUR 1,200 million and capital reserve of EUR 4,557 million correspond with the balance sheet items disclosed by Robert Bosch GmbH. The issued capital is divided between the shareholders as follows:

Shareholders of Robert Bosch GmbH

Percentage figures	Shareholding	Voting rights
Robert Bosch Stiftung GmbH	92.0	
Robert Bosch Industrietreuhand KG		93.2
Bosch family	7.4	6.8
Robert Bosch GmbH (treasury stock)	0.6	

Retained earnings contain profits that have not been distributed and that were generated in the past by the entities included in the consolidated financial statements, as well as accumulated other comprehensive income. The effects of changes in actuarial parameters in the pension provisions are disclosed in the “Other changes” column of accumulated other comprehensive income.

Retained earnings also consider treasury stock of EUR 62 million.

The unappropriated earnings of the Group match those of Robert Bosch GmbH.

Minority interests
The shares of minority interests in the equity of the consolidated subsidiaries mainly consist of the minority interests in Motor Industries Co Ltd, Bangalore, India, Bosch Corporation, Shibuya-ku, Tokyo, Japan, and Bosch Automotive Diesel Systems Co Ltd, Wuxi, China. The remaining minority interests at Bosch Rexroth GmbH, Pasching, Austria, were purchased. The difference between the purchase cost and carrying amount at the date of purchase is recorded as goodwill.

Other notes

23 Cash flow statement

The cash flow statement presents cash inflows and outflows from operating activities, investing activities, and financing activities.

The cash flow is derived indirectly, starting from the profit before tax. Cash inflow from operating activities is adjusted for non-cash expenses and income (mainly depreciation of non-current assets), and takes changes in working capital into account.

The investing activities consist of additions to non-current assets including rented assets and the purchase and disposal of subsidiaries and securities.

Financing activities combine the inflows and outflows of cash and cash equivalents from borrowing and repayment of financial liabilities, from dividends, and purchase of treasury stock.

Changes in balance sheet positions contained in the cash flow statement cannot be directly derived from the balance sheet, as these have been adjusted for exchange-rate effects and changes in the consolidated group. The change in accounting for pensions is adjusted to eliminate actuarial gains and losses.

The cash and cash equivalents shown in the cash flow statement contain cash of EUR 2,669 million (prior year: EUR 2,936 million) and securities with a residual term of less than 90 days of EUR 180 million (prior year: EUR 138 million). In the reporting period, there was no transfer restriction for cash and cash equivalents (prior year: EUR 7 million).

Effects on the cash flow from acquisitions and sales are explained in the sections on business combinations and discontinued operations.

24 Segment reporting

IAS 14 *Segment Reporting* requires that the figures of the financial statements be reported by business segment and geographical segment. Based on the internal management structure, the Bosch Group is divided into three business sectors (primary segmentation). The operating business within the business sectors is the responsibility of the divisions.

Automotive Technology	Industrial Technology	Consumer Goods and Building Technology
Gasoline Systems	Automation Technology[3]	Power Tools
Diesel Systems	Packaging Technology	Thermotechnology[4]
Chassis Systems Brakes		Household Appliances[5]
Chassis Systems Control		Security Systems[6]
Electrical Drives		
Starter Motors and Generators		
Car Multimedia[1]		
Automotive Electronics		
Automotive Aftermarket		
Steering Systems[2]		

[1] Blaupunkt GmbH (100% Bosch); [2] ZF Lenksysteme GmbH (50% Bosch); [3] Bosch Rexroth AG (100% Bosch); [4] BBT Thermotechnik GmbH (100% Bosch); [5] BSH Bosch und Siemens Hausgeräte GmbH (50% Bosch); [6] Bosch Sicherheitssysteme GmbH (100% Bosch)

Business sectors: Sales and results of continuing operations

Figures in millions of euros	Automotive Technology		Industrial Technology		Consumer Goods and Building Technology		Reconciliation		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External sales	27,220	26,313	5,452	5,187	11,012	9,961			43,684	41,461
Operating profit	1,082	1,517	426	358	903	609	5	9	2,416	2,493

Business sectors: Figures including discontinued operations

Figures in millions of euros	Automotive Technology		Industrial Technology		Consumer Goods and Building Technology		Reconciliation		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External sales	27,220	26,392	5,452	5,663	11,012	9,961			43,684	42,016
Intersegment sales			220	304			–220	–304		
Total sales	27,220	26,392	5,672	5,967	11,012	9,961	–220	–304	43,684	42,016
Operating profit	1,082	1,617	426	327	903	682	5	9	2,416	2,635
Non-cash expenses (without depreciation)	2,441	2,508	270	330	590	536	28	31	3,329	3,405
Segment assets	17,677	17,680	5,225	5,146	7,581	6,662	38	20	30,521	29,508
Segment liabilities	11,986	11,991	2,428	2,282	4,546	4,286	190	303	19,150	18,862
Capital expenditures on intangible assets and property, plant, and equipment	2,331	2,575	299	298	435	393	13	3	3,078	3,269
Depreciation and amortization of intangible assets and property, plant, and equipment	2,008	1,676	158	169	348	293	3	1	2,517	2,139

Geographical segments: Sales revenue from continuing operations

Figures in millions of euros	Europe		Americas		Asia		Africa, Australia		Reconciliation		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External sales	28,519	27,485	8,350	7,881	6,139	5,409	676	686			43,684	41,461

Geographical segments: Figures including discontinued operations

Figures in millions of euros	Europe		Americas		Asia		Africa, Australia		Reconciliation		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External sales	28,519	27,938	8,350	7,909	6,139	5,482	676	687			43,684	42,016
Segment assets	22,390	21,681	4,661	4,538	3,920	3,729	337	365	–787	–805	30,521	29,508
Capital expenditures on intangible assets and property, plant, and equipment	2,164	2,245	431	466	466	508	17	50			3,078	3,269

The reconciliation column shows the elimination of intersegment, intercompany items. This column also contains assets, liabilities, expenses, and income which cannot be directly allocated to the operative business sectors. Positions that belong to financing activities are not included in the segment reporting.

Impairment losses amount to EUR 124 million (prior year: EUR 105 million) for the Automotive Technology business sector, EUR 1 million (prior year: EUR 19 million) for the Industrial Technology business sector, and EUR 19 million (prior year: EUR 8 million) for the Consumer Goods and Building Technology business sector. They are disclosed in non-cash expenses.

25 Financial instruments and risk management

Hedging policy and financial derivatives

The operative business of the Bosch Group is impacted in particular by fluctuations in exchange and interest rates. Business policy aims to limit these risks by means of hedging. All hedging transactions are implemented at corporate level.

Internal regulations and guidelines establish a mandatory framework and define the responsibilities related to investment and hedging transactions. According to these regulations, derivatives may only be used in connection with operative business, financial investments, or financing transactions; speculative transactions are forbidden. Limits for business transactions are an important element of these guidelines. Hedges are entered into solely via banks whose creditworthiness is regarded as impeccable; the yardstick is the rating given by leading agencies.

Within the corporate finance department, there is a spatial and functional segregation of trading, settlement, and control functions. Key tasks of the control function include determining risks using the value at risk method and regular compliance checks with instructions and guidelines.

Currency risk
Currency risks of the operative business are mitigated by the central management of selling and purchasing currencies. A worldwide consolidated foreign exchange balance plan containing the estimated currency positions of the Bosch Group is used to determine the expected currency exposures. The object of currency management is the resulting net positions for each currency.

The largest net currency position is in USD, but it is low in proportion to sales.

Hedging largely takes the form of forward exchange contracts; currency options and cross-currency interest rate swaps to secure financing are used to a lesser extent. These transactions, which are only entered into with banks, are subject to minimum requirements.

The risk of the whole operative foreign currency position is determined using the value at risk concept, supplemented by worst-case analyses. These risk analyses and the hedge result are determined monthly and presented to management. In addition, interest-bearing investments in special funds are generally hedged against currency fluctuations.

Interest rate risks
Over-the-counter derivative financial instruments are used to limit the risks from expected interest rate changes on borrowings and investments. These are mainly interest swaps and, to a lesser extent, interest options. By using receiver swaps that mature no later than 2010, part of the variable interest receipts from short-term money market investments are changed into fixed interest rates. Receiver swaps were also used to exchange part of the interest expense for the bond that matured in July 2006 into short-term floating interest. Payer swaps are used to exchange part of the variable interest expense for a loan from the European Investment Bank into fixed interest.

The principles of financial investment management are set forth in internal instructions. The committee for investment strategy that meets twice a year stipulates the principles of financial investment management and prescribes the operative scope. This scope comprises both internally managed portfolios and also externally managed special funds.

Share price risks
To limit the risks from investments in shares, traded share index futures were used on a small scale.

On a monthly basis, the risk of financial investments including investment derivatives is calculated using the value at risk concept for the next month. Prescribed risk limits for the various investment categories limit the potential loss. The forecast quality of the value at risk method is tested by means of monthly backtesting. Management is informed monthly about the performance and the result of the risk analyses.

Liquidity and credit risks were not foreseeable at balance sheet date.

Listed investments
The Bosch Group holds direct and indirect shares in listed companies which were not acquired for trading. These investments are subject to general exchange-rate risks.

Composition of the derivative financial instruments

Figures in millions of euros	Market values				Nominal values	
	2006 up to 1 year	2006 more than 1 year	2005 up to 1 year	2005 more than 1 year	2006	2005
Interest derivatives	0	**13**	**16**	**7**	**1,639**	**1,780**
of which interest swaps	0	13	17	7	1,407	1,596
of which interest derivatives	0	0	–1		232	184
Foreign currency derivatives	**52**	**11**	**–37**	**1**	**2,964**	**2,523**
of which USD	36	6	–22		1,689	1,625
of which JPY	1		–3	1	62	98
of which other currencies	15	5	–12		1,213	800
Other derivatives	**5**	**38**	**1**	**9**	**21**	**52**

The currency derivatives are almost all forward exchange contracts. The interest rates for interest swaps range between 2.8% and 4.1%.

26 Related parties disclosures

As shareholder, Robert Bosch Industrietreuhand KG exercises majority voting rights at Robert Bosch GmbH. In addition, Robert Bosch Industrietreuhand KG is accountable for the internal audit of the Bosch Group. The costs incurred amount to EUR 9 million (prior year: EUR 7 million), and were borne by Robert Bosch GmbH.

All business relations with non-consolidated companies and joint ventures are transacted under customary market conditions.

A part of the pension obligations and funds is outsourced to Bosch Pensionsfonds AG and Bosch Hilfe e.V. Robert Bosch GmbH is the sole shareholder of Bosch Pensionsfonds AG. Bosch Hilfe e.V. is co-owned by Robert Bosch GmbH, Stuttgart, Blaupunkt GmbH, Hildesheim, and Robert Bosch Elektronik GmbH, Salzgitter. Bosch Hilfe e.V. is integral in Group pension planning. Parts of the asset portfolio are invested in property which is rented to Robert Bosch GmbH at market prices. In addition, Bosch Hilfe e.V. is owner of Robert Bosch Wohnungsgesellschaft mbH, Stuttgart, which builds and rents property for Bosch associates.

Robert Bosch Stiftung GmbH, Stuttgart, is the tenant of several properties belonging to Robert Bosch GmbH, Stuttgart. The properties are let under customary market conditions.

As of December 31, 2006, receivables from related parties came to EUR 51 million (prior year: EUR 52 million) and liabilities to related parties to EUR 11 million (prior year: EUR 55 million).

Sales, receivables, and liabilities due to and from related parties

Figures in millions of euros	Sales		Receivables		Liabilities	
	2006	2005	2006	2005	2006	2005
EMASA, Equipos y Maquinarias SA, Chile	20	7	5	2		
RBS Thermotechnology Co Ltd, China	1		1			
BT Magnet-Technologie GmbH, Germany	4	17	6	5	4	1
Knorr-Bremse Systeme für Nutzfahrzeuge GmbH, Germany	73	62	12	16		
VB Autobatterie GmbH & Co KGaA, Germany	7	4	16	15	1	
KBX Motorbike Products Private Ltd, India	8		2			
Advanced Driver Information Technology Corporation, Japan					1	2
Akebono Brake Industry Co Ltd, Japan					1	19
CVTEC Co Ltd, Japan				12		5
Knorr-Bremse Commercial Vehicle Systems Japan Ltd, Japan	1	1			1	1
Ohta Iron Works Co Ltd, Japan					1	2
Tokuden Renma Kousakusho Co Ltd, Japan					1	1
Doowon Precision Industry Co Ltd, Korea	13	15	1	2		
Tele Atlas NV, Netherlands	5	7	1			
Rotzinger AG, Switzerland			1		1	
Associated Fuel Pump Systems Corporation, USA	2	2	6			24

Total remuneration of management in key positions

The members of management in key positions are the general partners of Robert Bosch Industrietreuhand KG, the members of the Supervisory Council, and the members of the Board of Management of Robert Bosch GmbH.

The total remuneration of members of management in key positions totals EUR 24 million in the fiscal year 2006 (prior year: EUR 34 million) and breaks down as follows:

Figures in millions of euros	2006	2005
Short-term benefits	16	15
Post-employment benefits	7	15
Other long-term benefits	1	2
Termination benefits		2

Share-based payments are not made.

There are no provisions (valuation allowances) for bad debts due from members of management in key positions. Moreover, no expenses were incurred for uncollectible or doubtful receivables.

The Bosch Group grants other related parties compensation totaling EUR 0.2 million (prior year: EUR 0.2 million) for various services. The services are mainly consulting activities. At the end of the fiscal year there were neither receivables nor liabilities from these business transactions. Guarantees have neither been given nor received.

27 Additional disclosures pursuant to Sec. 315a HGB

Shareholdings of the Bosch Group
The list of the Bosch Group's shareholdings is filed with the electronic Federal Gazette [*Bundesanzeiger*] and published there.

Remuneration of members of the board of management and supervisory council
The total remuneration of members of the board of management (including provisions) comes to EUR 14 million in the reporting period, and that of former members of the board of management and their dependents to EUR 9 million. The remuneration of the members of the supervisory council comes to approximately EUR 1 million. An amount of EUR 75 million has been accrued at Robert Bosch GmbH for pension commitments to former members of the board of management and their survivors.

Headcount

	Annual average 2006		Annual average 2005	
	Total	of which BSH, KEFI, PFNA, UAES, ZFLS (proportionate)	Total	of which BSH, KEFI, UAES, ZFLS, ZVCC (proportionate)
EU countries	168,848	16,662	167,444	16,403
Rest of Europe	10,304	1,774	9,540	1,559
Americas	37,719	2,806	37,086	2,464
Asia, Africa, Australia	40,883	4,520	36,792	3,843
	257,754	**25,762**	**250,862**	**24,269**
Discontinued operations			–2,009	–259
	257,754	**25,762**	**248,853**	**24,010**

Stuttgart, March 13, 2007

Robert Bosch GmbH
The Board of Management

Auditor's report

We have audited the consolidated financial statements prepared by Robert Bosch GmbH, Stuttgart, comprising the balance sheet, the income statement, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent company's managing directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's managing directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 13, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wagner)
Wirtschaftsprüfer

(Kayser)
Wirtschaftsprüfer

Ten-Year Summary of the Bosch Group

	1997	1998	1999	2000	2001	2002	2003[1]	2004[2]	2005[2]	2006
Sales revenue	**23,955**	**25,735**	**27,906**	**31,556**	**34,029**	**34,977**	**36,357**	**38,954**	**41,461**	**43,684**
Share outside Germany as percent	65	65	66	72	72	72	71	72	73	74
Research and development cost[3]	1,665	1,778	1,921	2,030	2,274	2,487	2,650	2,715	3,073	3,348
– as a percentage of sales revenue	7.0	6.9	6.9	6.4	6.7	7.1	7.3	7.0	7.4	7.7
Capital expenditure	1,486	1,929	1,946	2,111	2,368	2,006	2,028	2,377	2,923	2,670
– of which in Germany	704	987	893	851	905	903	1,002	1,057	974	968
– of which outside Germany	782	942	1,053	1,260	1,463	1,103	1,026	1,320	1,949	1,702
– as a percentage of sales revenue	6.2	7.5	7.0	6.7	7.0	5.7	5.6	6.1	7.0	6.1
– as a percentage of depreciation	125	148	128	118	123	108	118	135	156	116
Depreciation of property, plant, and equipment	1,187	1,302	1,523	1,788	1,924	1,865	1,713	1,758	1,870	2,309
Annual average number of associates (thousands)	180	188	194	197	218	226	229	234	249	258
– located in Germany	91	94	97	91	99	103	105	107	110	110
– located outside Germany	89	94	97	106	119	123	124	127	139	148
– as of Jan. 1 of subsequent year	181	190	195	199	221	224	232	238	251	261
Personnel expenses	7,342	7,963	8,298	8,950	9,959	10,815	10,994	11,179	11,936	12,534
Total assets	**17,847**	**18,582**	**20,832**	**24,504**	**27,783**	**27,475**	**31,995**	**41,170**	**45,554**	**46,940**
Equity	5,817	6,069	6,646	8,288	9,014	8,885	11,760	17,428	20,943	22,482
– as a percentage of total assets	33	33	32	34	32	32	37	42	46	48
Cash flow	2,669	2,507	3,258	3,729	3,681	3,352	3,727	3,977	4,352	4,521
– as a percentage of sales revenue	11.1	9.7	11.7	11.8	10.8	9.6	10.3	10.2	10.5	10.3
Profit after tax	848[4]	435	460	1,380[4]	650	650	1,100	1,870	2,450	2,170
Unappropriated earnings (dividend of Robert Bosch GmbH)	1,129[4]	41	41	2,603[4]	50	60	60	63	63	69

Currency figures in millions of euros

[1] Before 2004, figures pursuant to the provisions of the German commercial code
[2] With the exception of profit after tax, figures apply to continuing operations only
[3] Including development work charged directly to customers
[4] Special effects as a result of the “distribute-recapture method” at Robert Bosch GmbH

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– Bosch today
– Corporate Social Responsibility

The above brochures can be ordered in English at:

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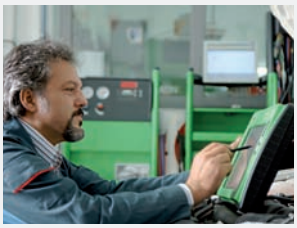
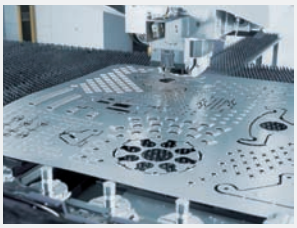
Title pictures

The Bosch Annual Report 2006 focuses on international collaboration. Our main title picture shows Dr. Jean-Pierre Hathout from Corporate Research and Advance Engineering in Stuttgart and Dr. Jasim Ahmed from the Bosch Research and Technology Center in Palo Alto, CA (USA) at work together on calculations for a research project.



Car drivers worldwide rely on Bosch equipment. And on Bosch service. Bosch's Automotive Aftermarket division makes sure that repair shops don't need to go far to get the knowledge they require (pages 32 and 33).



In automation technology, we supply all the important technologies needed for drive, control, and motion – hydraulics, electrics, mechanics, and pneumatics. Intelligent systems solutions for mechanical engineering are one example of the products we offer (pages 42 to 47).

Bosch is one of the world's leading manufacturers of power tools. Our cordless devices based on innovative lithium-ion technology are extremely successful (pages 48 to 52).

For Bosch, international presence did not simply happen overnight. Right from the beginning, its associates had to work hard to build up sound knowledge about each country in which the company was active. Robert Bosch always assigned experts to the task of establishing business relationships on the spot. **Already at a very early stage, the whole world was his market**, though getting to such a market and staying there was not always easy.

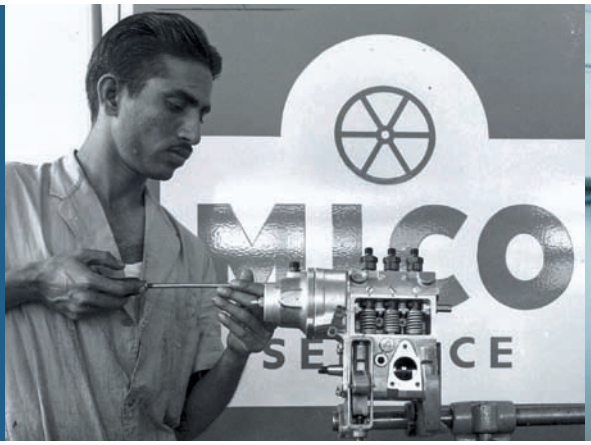
The company made a promising start in the U.S. in 1906: Bosch launched the company's first ever advertising campaign, and presented its ignition system to U.S. automakers. The result was more than a million dollars' worth of orders. Bosch had gained a strategically important foothold in the country with the most cars in the world. These orders led to delivery bottlenecks and paved the way for the company's first factory in the United States, built to serve this growing demand. The company's assets in the U.S. were confiscated after both the first and second world wars, but each time Bosch succeeded in regaining the U.S. market. Today, after Germany, the United States is the company's largest market by volume. Some 17,700 associates currently work there for Bosch.

Bosch's activities in India stretch back to 1922, but the breakthrough came in 1951. On the basis of a license agreement with the Indian Motor Industries Co (Mico), Bosch manufactured products for new Indian vehicles, as well as injection pumps for stationary engines – whose power was used to irrigate large tracts of agricultural land. Following the end of the colonial period, such products were in great demand in India. By continuously increasing its share in Mico and opening up other areas of business, Bosch became established as a local manufacturer, creating the conditions for its present strong position in the growth market that is India today. A total of 12,700 associates currently work for Bosch on the subcontinent.

From 1960, Japan rapidly emerged as one of the world's major car exporters. Bosch, which had been present in Japan with product-selling activities since 1911 and with products produced under license by Japanese partners since 1939, placed its hopes on long-term relationships with the country's automakers in order to share in this export boom. Its persistence paid off, and it gained a foothold as an automotive supplier. The first step was the joint venture Japan Electronic Control System Co Ltd, which manufactured electronic gasoline injection systems. It was set up in 1973, one year after Bosch had established its Japanese regional company Bosch KK. Then as now, a strong presence is important not only for the local Japanese market, but also as the basis for growth with Japanese automakers outside Japan. Roughly 7,700 people now work for Bosch in Japan.


$1.00
BOSCH
PLUGS
AS GOOD AS
BOSCH MAGNETOS


BOSCH


MICO


BOSCH


BOSCH

A Tradition of Global Presence

Robert Bosch tested the low-voltage magneto – his first product for the automobile – in 1897 and presented it at the Berlin Motor Show in 1898. In doing so, he paved the way for an important development. The magneto ignition device was about to make its market debut beyond Germany's borders.

And so it was. The company's London sales office opened in 1898, followed a year later by a sales office in Paris. These two offices opened up markets that were crucial for the company's success. For while Germany was the country that had invented the car, there were many more potential car buyers in England and France in those years.

The strategy worked. The final breakthrough came in 1902, when the magneto was further developed into a high-voltage magneto with spark plug. Demand for Bosch ignition systems grew so fast that factories were opened in France in 1905 and in the United States in 1912. In 1912, there were already sales offices all over the world, for example in San Francisco, Shanghai, Sydney, and Johannesburg, while the number of Bosch ignition systems sold had already passed the one-million mark. During this time, more than 80 % of the company's sales were generated outside Germany.

In every country that was won over for Bosch products, associates had to take a different approach. What was more important than anything else was to understand and make use of cultural diversity. This was true then, and is still true today. Bosch has meanwhile become a global company. For such a company to function smoothly, there have to be comparable standards and structures at all locations. We owe this mix of diversity and standardization to the company founder Robert Bosch, who was far more than just a tinkerer. He was also an entrepreneur with foresight.

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