Annual report to contract holders for the twelve months ended December 31, 2006

ANNUAL REPORT

FOR CONTRACT HOLDERS OF SCUDDER DESTINATIONS℠

AIM Variable Insurance Funds

The Alger American Fund

Credit Suisse Trust

Dreyfus Investment Portfolios

The Dreyfus Socially Responsible Growth Fund, Inc.

DWS Investments VIT Funds
(formerly Scudder Investments VIT Funds)

DWS Variable Series I
(formerly Scudder Variable Series I)

DWS Variable Series II
(formerly Scudder Variable Series II)

ONE GLOBAL FORCE. ONE FOCUS. YOU.

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PROSPECTUS SUPPLEMENTS

This section includes supplements to your current prospectus.

Please read these supplements carefully and retain with your current prospectus.

(Prospectus supplements are not part of this report.)

THE ALGER AMERICAN FUND

Supplement Dated January 11, 2007 to the Prospectuses Dated May 1, 2006 As supplemented to date

Andrew Silverberg has been appointed a co-manager of the Alger American Balanced Portfolio and the Alger American Growth Portfolio. Accordingly, the following replaces the paragraph regarding Mr. Silverberg under the heading "Portfolio Managers" on page 9 of the Prospectuses:

- Mr. Silverberg, co-manager of the Balanced Portfolio and the Growth Portfolio since January 2007 and assistant portfolio manager of the MidCap Growth Portfolio since September 2003, has been employed by the Manager as a Vice President and Senior Analyst since December 2004, as an Analyst from October 2001 to December 2004 and as an Assistant Vice President from September 2002 to December 2004.

December 20, 2006

THE DREYFUS FAMILY OF FUNDS

Supplement to Current Prospectus

The following information supplements the information contained in the Prospectus under the caption "Management":

On December 4, 2006, Mellon Financial Corporation and The Bank of New York Company, Inc. announced that they had entered into a definitive agreement to merge. The new company will be called The Bank of New York Mellon Corporation. As part of this transaction, The Dreyfus Corporation, the fund's investment adviser, currently a wholly-owned subsidiary of Mellon Financial Corporation, would become a wholly-owned subsidiary of The Bank of New York Mellon Corporation.

The transaction is subject to certain regulatory approvals and the approval of The Bank of New York Company, Inc.'s and Mellon Financial Corporation's shareholders, as well as other customary conditions to closing. Subject to such approvals and the satisfaction of the other conditions, Mellon Financial Corporation and The Bank of New York Company, Inc. expect the transaction to be completed in the third quarter of 2007.

DWS VARIABLE SERIES II

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED PORTFOLIO

DWS Balanced VIP

The following information replaces paragraphs 7 through 10 in "The Portfolio's Main Investment Strategy" section of the prospectuses.

Growth Stocks. In choosing these securities, the investment advisor primarily invests in US companies that it believes offer the potential for sustainable growth of revenue or earnings and whose market values appear reasonable in light of their business prospects.

Value Stocks. When selecting value stocks, the investment advisor begins by screening for stocks whose performance potential appears to be attractive. The managers use quantitative stock techniques and fundamental equity analysis to evaluate each company's stock price relative to the company's earnings, operating trends, market outlook and other measures of performance potential.

Small Company Stocks. In selecting stocks of small companies, in addition to analyzing standard measures of performance potential, the investment advisor also looks for factors that may signal a rebound for a company, whether through a recovery in its markets, a change in business strategy or other factors. The managers use quantitative stock techniques and fundamental equity analysis to evaluate each company's stock price relative to the company's earnings, operating trends, market outlook and other measures of performance potential.

The following information replaces similar disclosure in the "Performance" section of the portfolio's Class A prospectus.

Average Annual Total Returns (%) as of 12/31/2005

	1 Year	5 Years	10 Years
Portfolio — Class A	4.30	0.91	6.55
Index 1	4.91	0.54	9.07
Index 2	6.27	1.07	7.38
Index 3	2.43	5.87	6.16

Index 1: Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index 2: The Russell 1000 Index is an unmanaged capitalization-weighted price-only index composed of the largest capitalized US companies whose common stocks are traded in the United States.

Index 3: The Lehman Brothers Aggregate Bond Index is an unmanaged, market value-weighted measure of treasury issues, corporate bond issues and mortgage securities.

Total returns would have been lower if operating expenses hadn't been reduced.

On January 23, 2007, the Russell 1000 Index replaced the S&P 500 as the portfolio's benchmark index for equity investment because the advisor believes that it more accurately reflects the portfolio's investment strategy.

Current performance may be higher or lower than the performance data quoted above. For more recent performance information, contact your participating insurance company.

The following information replaces similar disclosure in the "Performance" section of the portfolio's Class B prospectus.

Average Annual Total Returns (%) as of 12/31/2005

	1 Year	5 Years	10 Years
Portfolio — Class B	3.90	0.59	6.25
Index 1	4.91	0.54	9.07
Index 2	6.27	1.07	7.38
Index 3	2.43	5.87	6.16

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Index 1: Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index 2: The Russell 1000 Index is an unmanaged capitalization-weighted price-only index composed of the largest capitalized US companies whose common stocks are traded in the United States.

Index 3: The Lehman Brothers Aggregate Bond Index is an unmanaged, market value-weighted measure of treasury issues, corporate bond issues and mortgage securities.

Total returns would have been lower if operating expenses hadn't been reduced.

On January 23, 2007, the Russell 1000 Index replaced the S&P 500 as the portfolio's benchmark index for equity investments because the advisor believes that it more accurately reflects the portfolio's investment strategy.

Current performance may be higher or lower than the performance data quoted above. For more recent performance information, contact your participating insurance company.

The following information revises similar disclosure for the above portfolio in "The Portfolio Managers" section of the prospectuses.

The following people handle the day-to-day management of the portfolio.

William Chepolis, CFA
Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1998 after 13 years of experience as vice president and portfolio manager for Norwest Bank, where he managed the bank's fixed income and foreign exchange portfolios.
- Portfolio Manager for Retail Mortgage Backed Securities: New York.
- Joined the portfolio in 2005.
- BIS, University of Minnesota.

Matthew F. MacDonald
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management and the portfolio in 2006 after 14 years of fixed income experience at Bank of America Global Structured Products and PPM America, Inc., where he was portfolio manager for public fixed income, including MBS, ABS, CDOs and corporate bonds; earlier, as an analyst for MBS, ABS and money markets; and originally, at Duff & Phelps Credit Rating Company.
- Portfolio Manager for Retail Mortgage Backed Securities: New York.
- BA, Harvard University; MBA, University of Chicago Graduate School of Business.

Inna Okounkova
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Lead portfolio manager for Asset Allocation strategies: New York.
- Joined Deutsche Asset Management in 1999 as quantitative analyst, becoming associate portfolio manager in 2001.
- Joined the portfolio in 2005.
- BS, MS, Moscow State University; MBA, University of Chicago Graduate School of Business.

Gary Sullivan, CFA
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1996 and the portfolio in 2006. Served as head of the High Yield group in Europe and as an Emerging Markets portfolio manager.
- Prior to that, four years at Citicorp as a research analyst and structurer of collateralized mortgage obligations. Prior to Citicorp, served as an officer in the US Army from 1988 to 1991.
- BS, United States Military Academy (West Point); MBA, New York University, Stern School of Business.

Julie M. Van Cleave, CFA
Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management and the portfolio in 2002.
- Head of Large Cap Growth Portfolio Selection Team.
- Previous experience includes 18 years of investment industry experience at Mason Street Advisors, as Managing Director and team leader for the large cap investment team.
- BBA, MBA, University of Wisconsin – Madison.

Robert Wang
Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1995 as portfolio manager for asset allocation after 13 years of experience of trading fixed income, foreign exchange and derivative products at J.P. Morgan.
- Global Head of Quantitative Strategies Portfolio Management: New York.
- Joined the portfolio in 2005.
- BS, The Wharton School, University of Pennsylvania.

Jin Chen, CFA
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Senior portfolio manager for Global Strategies: New York.
- Joined Deutsche Asset Management in 1999; prior to that, served as portfolio manager for Absolute Return Strategies and as a fundamental equity analyst and portfolio manager for Thomas White Asset Management.
- Joined the portfolio in 2007.
- BS, Nanjing University; MS, Michigan State University.

Julie Abbett
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Senior portfolio manager for Global Quantitative Equity: New York.
- Joined Deutsche Asset Management in 2000 after four years of combined experience as a consultant with equity trading services for BARRA, Inc. and a product developer for FactSet Research.
- Joined the portfolio in 2007.
- BA, University of Connecticut.

Thomas Picciochi
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Senior portfolio manager for Quantitative strategies: New York.
- Joined Deutsche Asset Management in 1999, formerly serving as portfolio manager for Absolute Return Strategies, after 13 years of experience in various research and analysis positions at State Street Global Advisors, FPL Energy, Barnett Bank, Trade Finance Corporation and Reserve Financial Management.
- Joined the portfolio in 2007.
- BA and MBA, University of Miami.

Please Retain This Supplement for Future Reference

DWS VARIABLE SERIES I

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUS

DWS Capital Growth VIP

The following information replaces similar disclosure in the first sentence of the first paragraph of "The Portfolio's Main Investment Strategy" section of the portfolio's prospectus:

The portfolio seeks to provide long-term growth of capital.

Please Retain This Supplement for Future Reference

January 8, 2007
VS1-3601

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DWS VARIABLE SERIES II

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED PORTFOLIOS:

DWS Dreman High Return Equity VIP

DWS Dreman Small Mid Cap Value VIP

The following information revises similar disclosure for the above portfolios in "The portfolio managers" section of the prospectuses.

DWS Dreman High Return Equity VIP

The following people handle the day-to-day management of the portfolio:

David N. Dreman
Chairman and Chief Investment Officer of Dreman Value Management, L.L.C. and Lead Portfolio Manager.

- Began investment career in 1957.
- Joined the portfolio team in 1998.
- Founder, Dreman Value Management, L.L.C.

F. James Hutchinson
Portfolio Manager.

- Managing Director of Dreman Value Management, L.L.C.
- Joined Dreman Value Management, L.L.C. in 2000.
- Began investment career in 1986.
- Joined the portfolio team in 2002.
- Prior to joining Dreman Value Management, L.L.C., 30 years of experience in finance and trust/investment management with The Bank of New York.

E. Clifton Hoover, Jr.
Portfolio Manager.

- Joined Dreman Value Management, L.L.C. in 2006 as a Managing Director and Co-Chief Investment Officer of Large Cap Value Strategy.
- Prior to joining Dreman Value Management, L.L.C., Managing Director and a Portfolio Manager at NFJ Investment Group since 1997; Vice President — Corporate Finance at Credit Lyonnais, 1992–1997; Financial Analyst at Citibank, 1990–1992; and Credit Analyst/Corporate Loan Officer for RepublicBank (now Bank of America), 1985–1990.
- Over 20 years of investment industry experience.
- Joined the portfolio team in 2006.
- MS, Texas Tech University.

DWS Dreman Small Mid Cap Value VIP

The following people handle the day-to-day management of the portfolio:

David N. Dreman
Chairman and Chief Investment Officer of Dreman Value Management, L.L.C. and Lead Portfolio Manager.

- Began investment career in 1957.
- Joined the portfolio in 2002.
- Founder, Dreman Value Management, L.L.C.

E. Clifton Hoover, Jr.
Portfolio Manager.

- Joined Dreman Value Management L.L.C. in 2006 as a Managing Director and Co-Chief Investment Officer of Large Cap Value Strategy.
- Prior to joining Dreman Value Management, L.L.C., Managing Director and a Portfolio Manager at NFJ Investment Group since 1997; Vice President — Corporate Finance at Credit Lyonnais, 1992–1997; Financial Analyst at Citibank, 1990–1992; and Credit Analyst/Corporate Loan Officer for RepublicBank (now Bank of America), 1985–1990.
- Over 20 years of investment industry experience.
- Joined the portfolio team in 2006.
- MS, Texas Tech University.

Nelson Woodard
Portfolio Manager through December 31, 2006.

- Began investment career in 1985.
- Joined the portfolio team in 2002.
- Mr. Woodard rejoined Dreman Value Management, L.L.C. in 2001 after serving as a Managing Director of the Firm from 1997 to 2000. He is currently a Managing Director and Senior Portfolio Manager with the Firm. From 2000 through 2001, Mr. Woodard was Vice President of Asset Allocation and Quantitative Analysis at Prudential Investments. Mr. Woodard received a BA in Mathematics and Economics, MA in Economics and a Ph.D. in Econometrics and Public Finance from the University of Virginia.

Mark Roach
Portfolio Manager, effective November 28, 2006.

- Joining Dreman Value Management, L.L.C. in November 2006 as a Managing Director and Portfolio Manager of Small and Mid Cap products.
- Prior to that, Portfolio Manager at Vaughan Nelson Investment Management, managing a small cap product from 2002 through 2006; security analyst from 1997 to 2001 for various institutions including Fifth and Third Bank, Lynch, Jones & Ryan and USAA.
- BS, Baldwin Wallace College; MBA, University of Chicago.

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DWS SCUDDER
Deutsche Bank Group

November 27, 2006
VS2-3612

DWS VARIABLE SERIES I

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED PORTFOLIO

DWS Growth & Income VIP

The following information replaces "The Portfolio's Main Investment Strategy" section of the prospectuses.

The portfolio seeks long-term growth of capital, current income and growth of income. The portfolio invests at least 65% of total assets in equities, mainly common stocks. Although the portfolio can invest in companies of any size and from any country, it invests primarily in large US companies. The managers may favor securities from different industries and companies at different times.

The managers use quantitative stock techniques and fundamental equity analysis to evaluate each company's stock price relative to the company's earnings, operating trends, market outlook and other measures of performance potential.

The managers will normally sell a stock when the managers believe its fundamental factors have changed, other investments offer better opportunities or in the course of adjusting the portfolio's emphasis on or within a given industry.

The portfolio may lend its investment securities in an amount up to $33^1/_3$% of its total assets to approved institutional borrowers who need to borrow securities in order to complete certain transactions.

Although major changes tend to be infrequent, the Board of Trustees could change the portfolio's investment objective without seeking shareholder approval.

Other Investments

While most of the portfolio's investments are common stocks, some may be other types of equities, such as convertible securities and preferred stocks.

The portfolio is permitted, but not required, to use various types of derivatives (contracts whose value is based on, for example, indexes, currencies or securities). The portfolio may use derivatives in circumstances where the managers believe they offer an economical means of gaining exposure to a particular asset class or to keep cash on hand to meet shareholders redemptions or other needs while maintaining exposure to the market.

As a temporary defensive measure, the portfolio could shift up to 100% of assets into investments such as money market securities. This measure could prevent losses, but, while engaged in a temporary defensive position, the portfolio will not be pursuing its investment objective. However, the portfolio managers may choose not to use these strategies for various reasons, even in very volatile market conditions.

The following information replaces similar disclosure in the "Performance" section of the portfolio's Class A prospectus.

Average Annual Total Returns (%) as of 12/31/2005

	1 Year	5 Years	10 Years
Portfolio — Class A	6.07	0.20	5.98
Index 1	4.91	0.54	9.07
Index 2	6.27	1.07	7.38

Index 1: Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index 2: The Russell 1000 Index is an unmanaged capitalization-weighted price-only index composed of the largest capitalized US companies whose common stocks are traded in the United States.

Total returns for the period ended 2005 would have been lower if operating expenses hadn't been reduced.

On January 23, 2007, the Russell 1000 Index will replace the S&P 500 as the portfolio's benchmark index because the advisor believes that it more accurately reflects the portfolio's investment strategy.

Current performance may be higher or lower than the performance data quoted above. For more recent performance information, contact your participating insurance company.

DWS SCUDDER
Deutsche Bank Group

January 23, 2007
VS1-GI

The following information replaces similar disclosure in the "Performance" section of the portfolio's Class B prospectus.

Average Annual Total Returns (%) as of 12/31/2005

	1 Year	5 Years	10 Years
Portfolio — Class B	5.73	-0.10	5.69
Index 1	4.91	0.54	9.07
Index 2	6.27	1.07	7.38

Index 1: Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index 2: The Russell 1000 Index is an unmanaged capitalization-weighted price-only index composed of the largest capitalized US companies whose common stocks are traded in the United States.

Total returns for the period ended 2005 would have been lower if operating expenses hadn't been reduced.

On January 23, 2007, the Russell 1000 Index will replace the S&P 500 as the portfolio's benchmark index because the advisor believes that it more accurately reflects the portfolio's investment strategy.

Current performance may be higher or lower than the performance data quoted above. For more recent performance information, contact your participating insurance company.

The following information revises similar disclosure for the above portfolio in "The Portfolio Managers" section of the prospectuses.

The following people handle the day-to-day management of the portfolio.

Robert Wang

Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1995 as portfolio manager for asset allocation after 13 years of experience of trading fixed income, foreign exchange and derivative products at J.P. Morgan.
- Global Head of Quantitative Strategies Portfolio Management: New York.
- Joined the portfolio in 2007.
- BS, The Wharton School, University of Pennsylvania.

Jin Chen, CFA

Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Senior portfolio manager for Global Strategies: New York.
- Joined Deutsche Asset Management in 1999; prior to that, served as portfolio manager for Absolute Return Strategies and as a fundamental equity analyst and portfolio manager for Thomas White Asset Management.
- Joined the portfolio in 2007.
- BS, Nanjing University; MS, Michigan State University.

Julie Abbett

Director of Deutsche Asset Management and Portfolio Manager of the portfolio

- Senior portfolio manager for Global Quantitative Equity: New York.
- Joined Deutsche Asset Management in 2000 after four years of combined experience as a consultant with equity trading services for BARRA, Inc. and a product developer for FactSet Research.
- Joined the portfolio in 2007.
- BA, University of Connecticut.

Please Retain This Supplement for Future Reference

DWS VARIABLE SERIES I

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED PORTFOLIO

DWS Health Care VIP

The following information revises similar disclosure for the above portfolio in "The Portfolio Managers" section of the prospectuses.

The following people handle the day-to-day management of the portfolio.

Leefin Lai, CFA
Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management and the portfolio in 2001, previously serving as an analyst for Salomon Smith Barney and PaineWebber and as Vice President/analyst for Citigroup Global Asset Management and Scudder Kemper Investments.
- Over 13 years of investment industry experience.
- MBA, University of Illinois.

Thomas E. Bucher, CFA
Director of Deutsche Asset Management and Consultant to the portfolio.

- Head of global equity research team for Health Care sector and portfolio manager for European Equity: Frankfurt.
- Joined Deutsche Asset Management in 1995, previously serving as analyst for European Chemical, Oil, Steel and Engineering sectors and analyst/portfolio manager for Eastern European equity.
- Joined the portfolio in 2002.
- MA, University of Tuegingen, Germany.

Please Retain This Supplement for Future Reference

January 23, 2007
VS1-HC

DWS SCUDDER
Deutsche Bank Group

DWS VARIABLE SERIES II

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED PORTFOLIO

DWS Large Cap Value VIP

In order to enable the Portfolio's investment advisor, Deutsche Investment Management Americas Inc. ("DeIM"), to appoint its affiliate, Deutsche Asset Management International GmbH ("DeAMi"), as sub-advisor to the Fund, the Board of Trustees has approved the termination of the existing Investment Management Agreement for the Portfolio with DeIM. The Board has also approved an interim Investment Management Agreement with DeIM and an interim Sub-Advisory Agreement between DeIM and DeAMi, each effective February 5, 2007. Each of the interim agreements will remain effective for a period of up to 150 days. A new Investment Management Agreement and Sub-Advisory Agreement will be submitted for approval by shareholders at a Shareholder Meeting to be held in the second quarter of 2007. The aggregate fee paid to DeIM will not change as a result of the changes to the Portfolio's investment management agreement.

The following information supplements existing information for the above portfolio in "The Portfolio Subadvisors" section of the prospectuses.

Subadvisor for DWS Large Cap Value VIP

Effective February 5, 2007, Deutsche Asset Management International GmbH ("DeAMi"), Mainzer Landstrasse 178-190, 60325 Frankfurt am Main, Germany, will be the subadvisor for the portfolio. DeAMi will render investment advisory and management services to the portfolio. DeAMi is an investment advisor registered with the US Securities and Exchange Commission and currently manages over $40 billion in assets, which is primarily comprised of institutional accounts and investment companies. DeAMi is a subsidiary of Deutsche Bank AG. DeIM will compensate DeAMi out of the management fee it receives from the portfolio.

The following information replaces the disclosure for the above portfolio in "The Portfolio Managers" section of the prospectuses.

The portfolio is managed by a team of investment professionals who collaborate to develop and implement the portfolio's investment strategy. The portfolio manager on the team has authority over all aspects of the portfolio's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio construction techniques, portfolio risk assessment and the management of daily cash flows in accordance with portfolio holdings.

The following person will handle the day-to-day management of the portfolio through February 4, 2007.

David Hone, CFA
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1996 as an equity analyst for consumer cyclicals, consumer staples and financials.
- Prior to that, eight years of experience as an analyst for Chubb & Son.
- Portfolio manager for Large Cap Value; Lead portfolio manager for US Equity Income Fund Strategy: New York.
- Joined the portfolio in 2007.
- BA, Villanova University.

DWS SCUDDER
Deutsche Bank Group

January 23, 2007
VS2-LCV

Effective February 5, 2007, the following individual will handle the day-to-day management of the portfolio.

Thomas Schuessler, PhD
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 2001 after 5 years at Deutsche Bank where he managed various projects and served as executive assistant to board member.
- US and Global Fund Management: Frankfurt.
- Joined the portfolio in 2007.
- PhD, University of Heidelberg, studies in physics and economics at University of Heidelberg and University of Utah.

The following information replaces similar disclosure in the "Investment Advisor" section of the prospectuses.

Each portfolio's shareholder report for the year ended November 30, 2005 contains a discussion regarding the basis for the Board of Trustees' approval of each portfolio's investment management agreement and, as applicable, subadvisory agreement (see "Shareholder reports" on the back cover). A discussion regarding the Board's consideration of the new Investment Management Agreement and Sub-Advisory Agreement for DWS Large Cap Value VIP will be included in the Portfolio's semi-annual report for the period ended May 31, 2007 and in the forthcoming proxy statement seeking shareholder approval of the new agreements.

Please Retain This Supplement for Future Reference

January 23, 2007
VS2-LCV

DWS VARIABLE SERIES II

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED PORTFOLIOS

DWS Mid Cap Growth VIP

DWS Small Cap Growth VIP

The following information revises "The Portfolio Manager" section of the prospectuses for the portfolios:

The following people handle the day-to-day management of the portfolios.

Robert S. Janis
Managing Director of Deutsche Asset Management and Lead Portfolio Manager of the portfolios.

- Joined Deutsche Asset Management and the portfolios in 2004.
- Previously served as portfolio manager for 10 years at Credit Suisse Asset Management (or at its predecessor, Warburg Pincus Asset Management).
- Over 20 years of investment industry experience.
- BA, University of Pennsylvania; MBA, University of Pennsylvania, Wharton School.

Joseph Axtell, CFA
Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolios.

- Joined Deutsche Asset Management in 2001 and the portfolios in 2006.
- Senior analyst at Merrill Lynch Investment Managers for the international equity portion of a global balanced portfolio (1996–2001).
- Director, International Research at PCM International (1989–1996).
- Associate manager, structured debt and equity group at Prudential Capital Corporation (1988–1989).
- Analyst at Prudential-Bache Capital Funding in London (1987-1988).
- Equity analyst in the health care sector at Prudential Equity Management Associates (1985–1987).
- BS, Carlson School of Management, University of Minnesota.

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December 21, 2006
VS2-3613

DWS SCUDDER
Deutsche Bank Group

DWS VARIABLE SERIES II

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED PORTFOLIO

DWS Strategic Income VIP

The following information revises similar disclosure for the above portfolio in "The Portfolio Managers" section of the prospectuses.

The following people handle the day-to-day management of the portfolio.

Gary Sullivan, CFA
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1996 and the portfolio in 2006. Served as head of the High Yield group in Europe and as an Emerging Markets portfolio manager.
- Prior to that, four years at Citicorp as a research analyst and structurer of collateralized mortgage obligations. Prior to Citicorp, served as an officer in the US Army from 1988 to 1991.
- BS, United States Military Academy (West Point); MBA, New York University, Stern School of Business.

William Chepolis, CFA
Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1998 after 13 years of experience as vice president and portfolio manager for Norwest Bank, where he managed the bank's fixed income and foreign exchange portfolios.
- Portfolio Manager for Retail Mortgage Backed Securities: New York.
- Joined the portfolio in 2002.
- BIS, University of Minnesota.

Matthew F. MacDonald
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management and the portfolio in 2006 after 14 years of fixed income experience at Bank of America Global Structured Products and PPM America, Inc., where he was portfolio manager for public fixed income, including MBS, ABS, CDOs and corporate bonds; earlier, as an analyst for MBS, ABS and money markets; and originally, at Duff & Phelps Credit Rating Company.
- Portfolio Manager for Retail Mortgage Backed Securities: New York.
- BA, Harvard University; MBA, University of Chicago Graduate School of Business.

Thomas Picciochi
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Senior portfolio manager for Quantitative strategies: New York.
- Joined Deutsche Asset Management in 1999, formerly serving as portfolio manager for Absolute Return Strategies, after 13 years of experience in various research and analysis positions at State Street Global Advisors, FPL Energy, Barnett Bank, Trade Finance Corporation and Reserve Financial Management.
- Joined the portfolio in 2007.
- BA and MBA, University of Miami.

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DWS SCUDDER
Deutsche Bank Group

January 23, 2007
VS2-SI

DWS VARIABLE SERIES II

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED PORTFOLIO

DWS Strategic Income VIP

The following information revises similar disclosure for the above portfolio in "The Portfolio Managers" section of the prospectuses.

The following people handle the day-to-day management of the portfolio.

Gary Sullivan, CFA
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1996 and the portfolio in 2006. Served as head of the High Yield group in Europe and as an Emerging Markets portfolio manager.
- Prior to that, four years at Citicorp as a research analyst and structurer of collateralized mortgage obligations. Prior to Citicorp, served as an officer in the US Army from 1988 to 1991.
- BS, United States Military Academy (West Point); MBA, New York University, Stern School of Business.

William Chepolis, CFA
Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1998 after 13 years of experience as vice president and portfolio manager for Norwest Bank, where he managed the bank's fixed income and foreign exchange portfolios.
- Portfolio Manager for Retail Mortgage Backed Securities: New York.
- Joined the portfolio in 2002.
- BIS, University of Minnesota.

Robert Wang
Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1995 as portfolio manager for asset allocation after 13 years of experience of trading fixed income, foreign exchange and derivative products at J.P. Morgan.
- Global Head of Quantitative Strategies Portfolio Management: New York.
- Joined the portfolio in 2007.
- BS, The Wharton School, University of Pennsylvania.

Matthew F. MacDonald
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management and the portfolio in 2006 after 14 years of fixed income experience at Bank of America Global Structured Products and PPM America, Inc., where he was portfolio manager for public fixed income, including MBS, ABS, CDOs and corporate bonds; earlier, as an analyst for MBS, ABS and money markets; and originally, at Duff & Phelps Credit Rating Company.
- Portfolio Manager for Retail Mortgage Backed Securities: New York.
- BA, Harvard University; MBA, University of Chicago Graduate School of Business.

Thomas Picciochi
Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Senior portfolio manager for Quantitative strategies: New York.
- Joined Deutsche Asset Management in 1999, formerly serving as portfolio manager for Absolute Return Strategies, after 13 years of experience in various research and analysis positions at State Street Global Advisors, FPL Energy, Barnett Bank, Trade Finance Corporation and Reserve Financial Management.
- Joined the portfolio in 2007.
- BA and MBA, University of Miami.

Please Retain This Supplement for Future Reference

DWS SCUDDER
Deutsche Bank Group

February 13, 2007
SVS-3607

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SECTOR EQUITY

Sectors

The Fund provides a complete list of its holdings four times in each fiscal year, at the quarter-ends. For the second and fourth quarters, the lists appear in the Fund's semiannual and annual reports to shareholders. For the first and third quarters, the Fund files the lists with the Securities and Exchange Commission (SEC) on Form N-Q. The Fund's Form N-Q filings are available on the SEC Web site, sec.gov. Copies of the Fund's Forms N-Q may be reviewed and copied at the SEC Public Reference Room in Washington, D.C.You can obtain information on the operation of the Public Reference Room, including information about duplicating fee charges, by calling 202-942-8090 or 800-732-0330, or by electronic request at the following E-mail address: publicinfo@sec.gov. The SEC file numbers for the Fund are 811-07452 and 033-57340. The Fund's most recent portfolio holdings, as filed on Form N-Q, have also been made available to insurance companies issuing variable annuity contracts and variable life insurance policies ("variable products") that invest in the Fund.

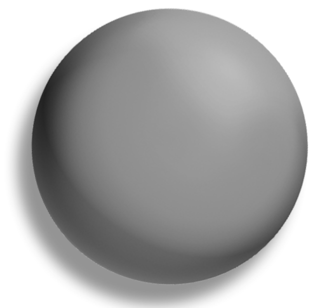
A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, from our Client Services department at 800-410-4246 or on the AIM Web site, AIMinvestments.com. On the home page, scroll down and click on AIM Funds Proxy Policy. The information is also available on the SEC Web site, sec.gov.

Information regarding how the Fund voted proxies related to its portfolio securities during the 12 months ended June 30, 2006, is available at our Web site. Go to AIMinvestments.com, access the About Us tab, click on Required Notices and then click on Proxy Voting Activity. Next, select the Fund from the drop-down menu. The information is also available on the SEC Web site, sec.gov.

AIM INVESTMENTS

AIM V.I. Utilities Fund

Annual Report to Shareholders ▪ December 31, 2006



AIM V.I. UTILITIES FUND seeks capital growth and income.

Unless otherwise stated, information presented in this report is as of December 31, 2006, and is based on total net assets.

This report must be accompanied or preceded by a currently effective Fund prospectus and variable product prospectus, which contain more complete information, including sales charges and expenses. Investors should read each carefully before investing.

Not FDIC insured	May lose value	No bank guarantee

Management's discussion of Fund performance

Performance Summary

An investor preference for dividend-paying equities boosted the performance of utilities stocks, helping the Fund post positive returns for the year ended December 31, 2006. The Fund, excluding variable product issuer charges, outperformed its broad market index, the S&P 500® Index, as utilities was one of the better performing sectors during the year. Utilities stocks benefited from an increase in merger and acquisition activity, as well as investor preference for their generally more defensive character and their tendency to pay dividends.

Your Fund's long-term performance appears on pages 4–5.

Fund vs. Indexes

Total returns, 12/31/05–12/31/06, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	25.46%
Series II Shares	25.25
S&P 500 Index (Broad Market Index)	15.78
Lipper Utility Funds Index (Peer Group Index)	26.89

Source: Lipper Inc.

How we invest

We invest primarily in natural gas, electricity and telecommunication services companies, selecting stocks based on our quantitative and fundamental analysis of individual companies. Our quantitative analysis focuses on positive cash flows and predictable earnings. Our fundamental analysis seeks strong balance sheets, competent management and sustainable dividends and distributions.

We look for companies that could potentially benefit from industry trends, such as increased demand for certain products and deregulation of state markets, and that are attractively valued relative to the rest of the market. We also monitor and may adjust industry and position weights according to prevailing economic trends such as gross domestic product (GDP) growth and interest rate changes.

We control risk by:

■ Diversifying across most industries and sub-industries within the utilities sector.

■ Owning both regulated and unregulated utilities—unregulated companies provide greater growth potential, while regulated firms provide more stable dividends and principal.

■ Generally avoiding excessive concentration of assets in a small number of stocks.

■ Maintaining a reasonable cash position to avoid having to sell stocks during market downturns.

We may sell a stock for any of the following reasons:

■ Earnings growth is threatened because of deterioration in the firm's fundamentals or change in the operating environment.

■ Valuation becomes too high.

■ Corporate strategy changes.

Market conditions and your Fund

The year started off on a positive note as the markets were encouraged by strong economic data. However, tensions in the Middle East escalated with the Israel-Lebanon conflict, residential housing markets showed signs of cooling and rising energy prices heightened inflation concerns. These factors led to a slight sell-off in the markets mid way through the year as investors became concerned about an economic downturn. However, the markets staged a rally beginning in August after the Fed held interest rates steady after 17 consecutive increases. Also contributing to the rally was a series of solid economic reports that indicated the economy, while slowing, continued to expand, and inflation remained within manageable levels.

Against this backdrop, telecommunication services, energy and utilities were the best-performing sectors of the S&P 500 Index. Investor preference for utilities stocks, based on their generally more defensive character and tendency to pay dividends, increased during the year, bolstered by evidence of a slowing economy, low interest rates and lower energy costs. Utilities stocks tend to be sensitive to interest rate

Portfolio Composition

By industry

Electric Utilities	29.8%
Multi-Utilities	26.7
Integrated Telecommunication Services	11.2
Independent Power Producers & Energy Traders	11.0
Gas Utilities	8.3
Oil & Gas Storage & Transportation	6.4
Water Utilities	1.6
Money Market Funds Plus Other Assets Less Liabilities	5.0

Top 10 Equity Holdings*

1. AT&T Inc.	5.2%
2. TXU Corp.	5.2
3. Duke Energy Corp.	4.9
4. Exelon Corp.	4.7
5. NRG Energy, Inc.	4.4
6. Sempra Energy	4.3
7. Entergy Corp.	4.2
8. Verizon Communications Inc.	4.2
9. FPL Group, Inc.	4.0
10. Edison International	4.0

Total Net Assets	$141.54 million
Total Number of Holdings*	33

The Fund's holdings are subject to change, and there is no assurance that the Fund will continue to hold any particular security.

*Excluding money market fund holdings.

movements because they generally pay dividends and are particularly attractive when interest rates are low. An increase in merger and acquisition activity, particularly in the integrated telecommunication services industry, also helped to strengthen stocks within the utilities sector. For the year, our holdings in electric utilities, multi-utilities and integrated telecommunication services companies had the most positive impact on Fund performance.

A number of the Fund's integrated telecommunications holdings performed well during the year; our largest holding, **AT&T**, in particular was a notable contributor. The company provides various landline telecommunication services, as well as satellite television services and wireless voice and data communication services in the United States. Recently, the company completed its acquisition of BellSouth, thus consolidating its ownership and management of joint venture Cingular Wireless. With the merger complete, we believe AT&T may be able to expand its broadband, wireless and television services while preserving its core phone business.

Electric utility provider **FPL Group** also contributed positively to performance over the year. A Florida-based company, FPL is one of the largest and fastest growing domestic utilities. FPL operates in a variety of growing non-regulated businesses and is aggressively growing that part of the business.

Detractors to Fund performance were minimal. Our exposure to water utilities was the only detractor from performance. In fact, only one holding, **Aqua America**, was down for the year. Aqua America is a holding company for regulated utilities providing water or wastewater services primarily in the United States. Shares of the stock declined after the company reported lower financial results. We continued to own the stock, as we believe the company is making progress and acquiring new water systems.

During the year, the reduced federal income tax rate for qualified dividends, which has made utilities stocks attractive to investors, was extended. However, we remained modestly concerned about interest rate and inflationary trends. We continued to maintain our focus on holding what we believed were the favorably priced stocks of strong companies with reasonable growth prospects and attractive dividend yields.

In closing

Over the past 12 months, the Fund has experienced strong double-digit returns. It would be imprudent for us to suggest that such a level of performance is sustainable over the long term.

As always, we thank you for your continued investment and welcome any new investors to AIM V.I. Utilities Fund.

The views and opinions expressed in management's discussion of Fund performance are those of A I M Advisors, Inc. These views and opinions are subject to change at any time based on factors such as market and economic conditions. These views and opinions may not be relied upon as investment advice or recommendations, or as an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but A I M Advisors, Inc. makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

John S. Segner

Senior portfolio manager is lead manager of AIM V.I. Utilities Fund. Mr. Segner has more than 20 years of experience in the energy and investment industries. Before joining the Fund's advisor in 1997, he was managing director and principal with an investment management company that focused exclusively on publicly-traded energy stocks. Prior to that, he held positions with several energy companies. Mr. Segner holds a B.S. in civil engineering from the University of Alabama and an M.B.A. with a concentration in finance from The University of Texas at Austin.

Assisted by the Energy/Gold/ Utilities Team

For a discussion of the risks of investing in your Fund, indexes used in this report and your Fund's long-term performance, please see pages 4–5.

Your Fund's long-term performance

Average Annual Total Returns	
As of 12/31/06	
Series I Shares	
Inception (12/30/94)	8.75%
10 Years	8.33
5 Years	11.13
1 Year	25.46
Series II Shares	
10 Years	8.07%
5 Years	10.87
1 Year	25.25

Cumulative Total Returns	
6 months ended 12/31/06	
Series I Shares	16.51%
Series II Shares	16.40

Series II shares' inception date is April 30, 2004. Returns since that date are historical. All other returns are the blended returns of the historical performance of Series II shares since their inception and the restated historical performance of Series I shares (for periods prior to inception of Series II shares) adjusted to reflect the Rule 12b-1 fees applicable to Series II shares. The performance of the Fund's Series I and Series II share classes will differ primarily due to different class expenses. The performance data quoted represent past performance and cannot guarantee comparable future results; current performance may be lower or higher. Please contact your variable product issuer or financial advisor for the most recent month-end variable product performance. Performance figures reflect Fund expenses, reinvested distributions and changes in net asset value. Investment return and principal value will fluctuate so that you may have a gain or loss when you sell shares.

AIM V.I. Utilities Fund, a series portfolio of AIM Variable Insurance Funds, is currently offered through insurance companies issuing variable products. You cannot purchase shares of the Fund directly. Performance figures given represent the Fund and are not intended to reflect actual variable product values. They do not reflect sales charges, expenses and fees assessed in connection with a variable product. Sales charges, expenses and fees, which are determined by the variable product issuers, will vary and will lower the total return.

Per NASD requirements, the most recent month-end performance data at the Fund level, excluding variable product charges, is available on this AIM automated information line, 866-702-4402. As mentioned above, for the most recent month-end performance including variable product charges, please contact your variable product issuer or financial advisor.

Principal risks of investing in the Fund

The prices of securities held by the Fund may decline in response to market risks.

Investing in a fund that invests in smaller companies involves risks not associated with investing in more established companies, such as business risk, stock price fluctuations and illiquidity.

Foreign securities have additional risks, including exchange rate changes, political and economic upheaval, the relative lack of information about these companies, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

The Fund may use enhanced investment techniques such as derivatives. The principal risk of investments in derivatives is that the fluctuations in their values may not correlate perfectly with the overall securities markets. Derivatives are subject to counter party risk—the risk that the other party will not complete the transaction with the Fund.

Investing in emerging markets involves greater risk than investing in more established markets. The risks include the relatively smaller size and lesser liquidity of these markets, high inflation rates, adverse political developments and lack of timely information.

If the seller of a repurchase agreement in which the Fund invests defaults on its obligation or declares bankruptcy, the Fund may experience delays in selling the securities underlying the repurchase agreement.

There is no guarantee that the investment techniques and risk analyses used by the Fund's portfolio managers will produce the desired results.

About indexes used in this report

The unmanaged **Standard & Poor's Composite Index of 500 Stocks** (the S&P 500 Index) is an index of common stocks frequently used as a general measure of U.S. stock market performance.

The unmanaged **Lipper Utility Funds Index** represents an average of the 10 largest utility funds tracked by Lipper Inc., an independent mutual fund performance monitor.

In conjunction with the annual prospectus update on or about May 1, 2007, the AIM V.I Utilities Fund prospectus will be amended to reflect that the Fund has elected to use the Lipper VUF Utilities Funds Index as its peer group rather than the Lipper Utilities Funds Index. The Lipper Variable Underlying Funds (VUF) Utilities Funds Index, recently published by Lipper Inc., comprises the underlying funds in each variable insurance category and does not include mortality and expense fees.

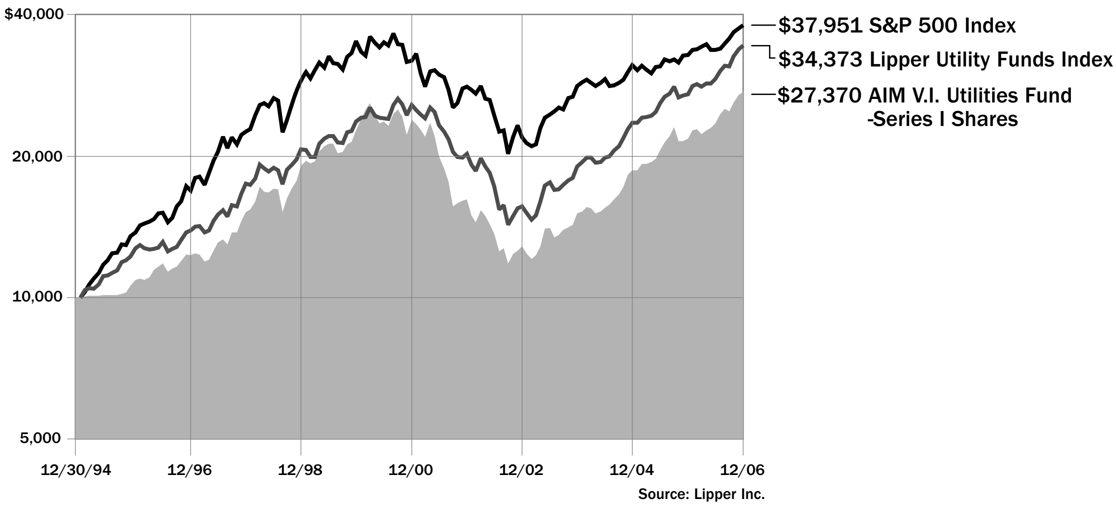
The Fund is not managed to track the performance of any particular index, including the indexes defined here, and consequently, the performance of the Fund may deviate significantly from the performance of the indexes.

A direct investment cannot be made in an index. Unless otherwise indicated, index results include reinvested dividends, and they do not reflect sales charges. Performance of an index of funds reflects fund expenses; performance of a market index does not.

Continued on page 5

Results of a $10,000 Investment

Fund data from 12/30/94, index data from 12/31/94



Past performance cannot guarantee comparable future results.

This chart, which is a logarithmic chart, presents the fluctuations in the value of the Fund and its indexes. We believe that a logarithmic chart is more effective than other types of charts in illustrating changes in value during the early years shown in the chart. The vertical axis, the one that indicates the dollar value of an investment, is constructed with each segment representing a percent change in the value of the investment. In this chart, each segment represents a doubling, or 100% change, in the value of the investment. In other words, the space between $5,000 and $10,000 is the same size as the space between $10,000 and $20,000, and so on.

Continued from page 4

Other information

The returns shown in management's discussion of Fund performance are based on net asset values calculated for shareholder transactions. Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes, and as such, the net asset values for shareholder transactions and the returns based on those net asset values may differ from the net asset values and returns reported in the Financial Highlights. Additionally, the returns and net asset values shown throughout this report are at the Fund level only and do not include variable product issuer charges. If such charges were included, the total returns would be lower.

Industry classifications used in this report are generally according to the Global Industry Classification Standard, which was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. and Standard & Poor's.

Calculating your ongoing Fund expenses

Example

As a shareholder of the Fund, you incur ongoing costs, including management fees; distribution and/or service (12b-1) fees; and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with ongoing costs of investing in other mutual funds. The example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period July 1, 2006, through December 31, 2006.

The actual and hypothetical expenses in the examples below do not represent the effect of any fees or other expenses assessed in connection with a variable product; if they did, the expenses shown would be higher while the ending account values shown would be lower.

Actual expenses

The table below provides information about actual account values and actual expenses. You may use the information in this table, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the table under the heading entitled "Actual Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical example for comparison purposes

The table below also provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The Fund's actual cumulative total returns at net asset value after expenses for the six months ended December 31, 2006, appear in the table "Cumulative Total Returns" on page 4.

The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs. Therefore, the hypothetical information is useful in comparing ongoing costs, and will not help you determine the relative total costs of owning different funds.

		ACTUAL		HYPOTHETICAL (5% annual return before expenses)		
Share Class	Beginning Account Value (7/1/06)	Ending Account Value (12/31/06)[1]	Expenses Paid During Period[2]	Ending Account Value (12/31/06)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$1,165.10	$5.08	$1,020.52	$4.74	0.93%
Series II	1,000.00	1,164.00	6.44	1,019.26	6.01	1.18

[1] The actual ending account value is based on the actual total return of the Fund for the period July 1, 2006, through December 31, 2006, after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's expense ratio and a hypothetical annual return of 5% before expenses. The Fund's actual cumulative total returns at net asset value after expenses for the six months ended December 31, 2006, appear in the table "Cumulative Total Returns" on page 4.

[2] Expenses are equal to the Fund's annualized expense ratio as indicated above multiplied by the average account value over the period, multiplied by 184/365 to reflect the most recent fiscal half year.

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Approval of Investment Advisory Agreement

The Board of Trustees of AIM Variable Insurance Funds (the "Board") oversees the management of AIM V.I. Utilities Fund (the "Fund") and, as required by law, determines annually whether to approve the continuance of the Fund's advisory agreement with A I M Advisors, Inc. ("AIM"). Based upon the recommendation of the Investments Committee of the Board, at a meeting held on June 27, 2006, the Board, including all of the independent trustees, approved the continuance of the advisory agreement (the "Advisory Agreement") between the Fund and AIM for another year, effective July 1, 2006.

The Board considered the factors discussed below in evaluating the fairness and reasonableness of the Advisory Agreement at the meeting on June 27, 2006 and as part of the Board's ongoing oversight of the Fund. In their deliberations, the Board and the independent trustees did not identify any particular factor that was controlling, and each trustee attributed different weights to the various factors.

One responsibility of the independent Senior Officer of the Fund is to manage the process by which the Fund's proposed management fees are negotiated to ensure that they are negotiated in a manner which is at arms' length and reasonable. To that end, the Senior Officer must either supervise a competitive bidding process or prepare an independent written evaluation. The Senior Officer has recommended an independent written evaluation in lieu of a competitive bidding process and, upon the direction of the Board, has prepared such an independent written evaluation. Such written evaluation also considered certain of the factors discussed below. In addition, as discussed below, the Senior Officer made a recommendation to the Board in connection with such written evaluation.

The discussion below serves as a summary of the Senior Officer's independent written evaluation and recommendation to the Board in connection therewith, as well as a discussion of the material factors and the conclusions with respect thereto that formed the basis for the Board's approval of the Advisory Agreement. After consideration of all of the factors below and based on its informed business judgment, the Board determined that the Advisory Agreement is in the best interests of the Fund and its shareholders and that the compensation to AIM under the Advisory Agreement is fair and reasonable and would have been obtained through arm's length negotiations.

Unless otherwise stated, information presented below is as of June 27, 2006 and does not reflect any changes that may have occurred since June 27, 2006, including but not limited to changes to the Fund's performance, advisory fees, expense limitations and/or fee waivers.

■ The nature and extent of the advisory services to be provided by AIM. The Board reviewed the services to be provided by AIM under the Advisory Agreement. Based on such review, the Board concluded that the range of services to be provided by AIM under the Advisory Agreement was appropriate and that AIM currently is providing services in accordance with the terms of the Advisory Agreement.

■ The quality of services to be provided by AIM. The Board reviewed the credentials and experience of the officers and employees of AIM who will provide investment advisory services to the Fund. In reviewing the qualifications of AIM to provide investment advisory services, the Board considered such issues as AIM's portfolio and product review process, various back office support functions provided by AIM and AIM's equity and fixed income trading operations. Based on the review of these and other factors, the Board concluded that the quality of services to be provided by AIM was appropriate and that AIM currently is providing satisfactory services in accordance with the terms of the Advisory Agreement.

■ The performance of the Fund relative to comparable funds. The Board reviewed the performance of the Fund during the past one, three and five calendar years against the performance of funds advised by other advisors with investment strategies comparable to those of the Fund. The Board noted that the Fund's performance was above the median performance of such comparable funds for the one year period and below such median performance for the three and five year periods. The Board also noted that AIM began serving as investment advisor to the Fund in April 2004. Based on this review and after taking account of all of the other factors that the Board considered in determining whether to continue the Advisory Agreement for the Fund, the Board concluded that no changes should be made to the Fund and that it was not necessary to change the Fund's portfolio management team at this time. Although the independent written evaluation of the Fund's Senior Officer (discussed below) only considered Fund performance through the most recent calendar year, the Board also reviewed more recent Fund performance, which did not change their conclusions.

■ The performance of the Fund relative to indices. The Board reviewed the performance of the Fund during the past one, three and five calendar years against the performance of the Lipper Variable Underlying Fund Utility Index. The Board noted that the Fund's performance was above the performance of such Index for the one year period, comparable to such Index for the three year period, and below such Index for the five year period. The Board also noted that AIM began serving as investment advisor to the Fund in April 2004. Based on this review and after taking account of all of the other factors that the Board considered in determining whether to continue the Advisory Agreement for the Fund, the Board concluded that no changes should be made to the Fund and that it was not necessary to change the Fund's portfolio management team at this time. Although the independent written evaluation of the Fund's Senior Officer (discussed below) only considered Fund performance through the most recent calendar year, the Board also reviewed more recent Fund performance, which did not change their conclusions.

■ Meetings with the Fund's portfolio managers and investment personnel. With respect to the Fund, the Board is meeting periodically with such Fund's portfolio managers and/or other investment personnel and believes that such individuals are competent and able to continue to carry out their responsibilities under the Advisory Agreement.

■ Overall performance of AIM. The Board considered the overall performance of AIM in providing investment advisory and portfolio administrative services to the Fund and concluded that such performance was satisfactory.

■ Fees relative to those of clients of AIM with comparable investment strategies. The Board reviewed the effective advisory fee rate (before waivers) for the Fund under the Advisory Agreement. The Board noted that this rate was below the effective advisory fee rate (before waivers) for one mutual fund advised by AIM with investment strategies comparable to those of the Fund. The Board noted that AIM has agreed to limit the Fund's total operating expenses, as discussed below. Based on this review, the Board concluded that the advisory fee rate for the Fund under the Advisory Agreement was fair and reasonable.

■ Fees relative to those of comparable funds with other advisors. The Board reviewed the advisory fee rate for the Fund under the Advisory Agreement. The Board compared effective contractual advisory fee rates at a common asset level at the end of the past calendar year and noted that the Fund's rate was below the median rate of the funds advised by other advisors with investment strategies comparable to those of the Fund that the Board reviewed. The Board noted that AIM has agreed to limit the Fund's total operating expenses, as discussed below. Based on this review, the Board concluded that the advisory fee rate for the Fund under the Advisory Agreement was fair and reasonable.

(continued)

■ Expense limitations and fee waivers. The Board noted that AIM has contractually agreed to waive fees and/or limit expenses of the Fund through April 30, 2008 in an amount necessary to limit total annual operating expenses to a specified percentage of average daily net assets for each class of the Fund. The Board considered the contractual nature of this fee waiver/expense limitation and noted that it remains in effect until April 30, 2008. The Board considered the effect this fee waiver/expense limitation would have on the Fund's estimated expenses and concluded that the levels of fee waivers/expense limitations for the Fund were fair and reasonable.

■ Breakpoints and economies of scale. The Board reviewed the structure of the Fund's advisory fee under the Advisory Agreement, noting that it does not include any breakpoints. The Board considered whether it would be appropriate to add advisory fee breakpoints for the Fund or whether, due to the nature of the Fund and the advisory fee structures of comparable funds, it was reasonable to structure the advisory fee without breakpoints. Based on this review, the Board concluded that it was not necessary to add advisory fee breakpoints to the Fund's advisory fee schedule. The Board reviewed the level of the Fund's advisory fees, and noted that such fees, as a percentage of the Fund's net assets, would remain constant under the Advisory Agreement because the Advisory Agreement does not include any breakpoints. The Board concluded that the Fund's fee levels under the Advisory Agreement therefore would not reflect economies of scale, although the advisory fee waiver reflects economies of scale.

■ Investments in affiliated money market funds. The Board also took into account the fact that uninvested cash and cash collateral from securities lending arrangements, if any (collectively, "cash balances") of the Fund may be invested in money market funds advised by AIM pursuant to the terms of an SEC exemptive order. The Board found that the Fund may realize certain benefits upon investing cash balances in AIM advised money market funds, including a higher net return, increased liquidity, increased diversification or decreased transaction costs. The Board also found that the Fund will not receive reduced services if it invests its cash balances in such money market funds. The Board noted that, to the extent the Fund invests uninvested cash in affiliated money market funds, AIM has voluntarily agreed to waive a portion of the advisory fees it receives from the Fund attributable to such investment. The Board further determined that the proposed securities lending program and related procedures with respect to the lending Fund is in the best interests of the lending Fund and its respective shareholders. The Board therefore concluded that the investment of cash collateral received in connection with the securities lending program in the money market funds according to the procedures is in the best interests of the lending Fund and its respective shareholders.

■ Independent written evaluation and recommendations of the Fund's Senior Officer. The Board noted that, upon their direction, the Senior Officer of the Fund, who is independent of AIM and AIM's affiliates, had prepared an independent written evaluation in order to assist the Board in determining the reasonableness of the proposed management fees of the AIM Funds, including the Fund. The Board noted that the Senior Officer's written evaluation had been relied upon by the Board in this regard in lieu of a competitive bidding process. In determining whether to continue the Advisory Agreement for the Fund, the Board considered the Senior Officer's written evaluation.

■ Profitability of AIM and its affiliates. The Board reviewed information concerning the profitability of AIM's (and its affiliates') investment advisory and other activities and its financial condition. The Board considered the overall profitability of AIM, as well as the profitability of AIM in connection with managing the Fund. The Board noted that AIM's operations remain profitable, although increased expenses in recent years have reduced AIM's profitability. Based on the review of the profitability of AIM's and its affiliates' investment advisory and other activities and its financial condition, the Board concluded that the compensation to be paid by the Fund to AIM under its Advisory Agreement was not excessive.

■ Benefits of soft dollars to AIM. The Board considered the benefits realized by AIM as a result of brokerage transactions executed through "soft dollar" arrangements. Under these arrangements, brokerage commissions paid by the Fund and/or other funds advised by AIM are used to pay for research and execution services. This research may be used by AIM in making investment decisions for the Fund. The Board concluded that such arrangements were appropriate.

■ AIM's financial soundness in light of the Fund's needs. The Board considered whether AIM is financially sound and has the resources necessary to perform its obligations under the Advisory Agreement, and concluded that AIM has the financial resources necessary to fulfill its obligations under the Advisory Agreement.

■ Historical relationship between the Fund and AIM. In determining whether to continue the Advisory Agreement for the Fund, the Board also considered the prior relationship between AIM and the Fund, as well as the Board's knowledge of AIM's operations, and concluded that it was beneficial to maintain the current relationship, in part, because of such knowledge. The Board also reviewed the general nature of the non-investment advisory services currently performed by AIM and its affiliates, such as administrative, transfer agency and distribution services, and the fees received by AIM and its affiliates for performing such services. In addition to reviewing such services, the trustees also considered the organizational structure employed by AIM and its affiliates to provide those services. Based on the review of these and other factors, the Board concluded that AIM and its affiliates were qualified to continue to provide non-investment advisory services to the Fund, including administrative, transfer agency and distribution services, and that AIM and its affiliates currently are providing satisfactory non-investment advisory services.

■ Other factors and current trends. The Board considered the steps that AIM and its affiliates have taken over the last several years, and continue to take, in order to improve the quality and efficiency of the services they provide to the Funds in the areas of investment performance, product line diversification, distribution, fund operations, shareholder services and compliance. The Board concluded that these steps taken by AIM have improved, and are likely to continue to improve, the quality and efficiency of the services AIM and its affiliates provide to the Fund in each of these areas, and support the Board's approval of the continuance of the Advisory Agreement for the Fund.

Schedule of Investments

December 31, 2006

	Shares	Value
Common Stocks–94.97%		
Electric Utilities–29.80%		
E.ON A.G. (Germany)[(a)]	25,000	$ 3,392,336
Edison International	125,000	5,685,000
Enel S.p.A. (Italy)[(a)]	198,000	2,038,958
Entergy Corp.	64,000	5,908,480
Exelon Corp.	107,000	6,622,230
FirstEnergy Corp.	73,000	4,401,900
FPL Group, Inc.	105,000	5,714,100
PPL Corp.	117,000	4,193,280
Southern Co.	95,000	3,501,700
Westar Energy, Inc.	28,000	726,880
		42,184,864
Gas Utilities–8.26%		
AGL Resources Inc.	81,000	3,151,710
Equitable Resources, Inc.	91,000	3,799,250
Questar Corp.	57,000	4,733,850
		11,684,810
Independent Power Producers & Energy Traders–10.98%		
Constellation Energy Group	30,000	2,066,100
NRG Energy, Inc.[(b)]	110,000	6,161,100
TXU Corp.	135,000	7,318,350
		15,545,550
Integrated Telecommunication Services–11.24%		
Alaska Communications Systems Group Inc.	173,000	2,627,870
AT&T Inc.	207,000	7,400,250
Verizon Communications Inc.	158,000	5,883,920
		15,912,040
Multi-Utilities–26.72%		
Ameren Corp.	63,000	$ 3,384,990
Dominion Resources, Inc.	52,000	4,359,680
Duke Energy Corp.	210,000	6,974,100
National Grid PLC (United Kingdom)[(a)]	118,000	1,710,116
OGE Energy Corp.	30,000	1,200,000
PG&E Corp.	111,000	5,253,630
PNM Resources Inc.	29,842	928,086
Public Service Enterprise Group Inc.	23,000	1,526,740
SCANA Corp.	28,000	1,137,360
Sempra Energy	109,000	6,108,360
Veolia Environnement (France)[(a)]	68,000	5,242,117
		37,825,179
Oil & Gas Storage & Transportation–6.39%		
El Paso Corp.	226,000	3,453,280
Williams Cos., Inc. (The)	214,000	5,589,680
		9,042,960
Water Utilities–1.58%		
Aqua America Inc.	98,000	2,232,440
Total Common Stocks (Cost $94,616,530)		134,427,843
Money Market Funds–5.04%		
Liquid Assets Portfolio–Institutional Class[(c)]	3,563,271	3,563,271
Premier Portfolio–Institutional Class[(c)]	3,563,271	3,563,271
Total Money Market Funds (Cost $7,126,542)		7,126,542
TOTAL INVESTMENTS–100.01% (Cost $101,743,072)		141,554,385
OTHER ASSETS LESS LIABILITIES–(0.01)%		(13,049)
NET ASSETS–100.00%		$141,541,336

Notes to Schedule of Investments:

(a) In accordance with the procedures established by the Board of Trustees, the foreign security is fair valued using adjusted closing market prices. The aggregate value of these securities at December 31, 2006 was $12,383,527, which represented 8.75% of the Fund's Net Assets. See Note 1A.

(b) Non-income producing security.

(c) The money market fund and the Fund are affiliated by having the same investment advisor. See Note 3.

Statement of Assets and Liabilities

December 31, 2006

Assets:	
Investments, at value (cost $94,616,530)	$134,427,843
Investments in affiliated money market funds (cost $7,126,542)	7,126,542
Total investments (cost $101,743,072)	141,554,385
Receivables for:	
Investments sold	17,252
Fund shares sold	20,997
Dividends	378,274
Investment for trustee deferred compensation and retirement plans	52,420
Other assets	3,641
Total assets	142,026,969
Liabilities:	
Payables for:	
Fund shares reacquired	276,026
Trustee deferred compensation and retirement plans	59,057
Fund expenses advanced	5,530
Accrued administrative services fees	111,653
Accrued distribution fees — Series II	1,470
Accrued trustees' and officer's fees and benefits	3,636
Accrued transfer agent fees	1,526
Accrued operating expenses	26,735
Total liabilities	485,633
Net assets applicable to shares outstanding	$141,541,336
Net assets consist of:	
Shares of beneficial interest	$ 94,315,500
Undistributed net investment income	2,828,242
Undistributed net realized gain from investment securities and foreign currencies	4,583,579
Unrealized appreciation of investment securities and foreign currencies	39,814,015
	$141,541,336
Net Assets:	
Series I	$139,079,690
Series II	$ 2,461,646
Shares outstanding, $0.001 par value per share, unlimited number of shares authorized:	
Series I	6,549,957
Series II	116,581
Series I:	
Net asset value per share	$ 21.23
Series II:	
Net asset value per share	$ 21.12

Statement of Operations

For the year ended December 31, 2006

Investment income:	
Dividends (net of foreign withholding taxes of $88,409)	$ 3,862,928
Dividends from affiliated money market funds	169,732
Total investment income	4,032,660
Expenses:	
Advisory fees	726,202
Administrative services fees	322,038
Custodian fees	17,159
Distribution fees — Series II	4,225
Transfer agent fees	18,163
Trustees' and officer's fees and benefits	18,289
Other	55,084
Total expenses	1,161,160
Less: Fees waived and expense offset arrangements	(31,861)
Net expenses	1,129,299
Net investment income	2,903,361
Realized and unrealized gain (loss) from investment securities and foreign currencies:	
Net realized gain (loss) from:	
Investment securities (includes net gains from securities sold to affiliates of $1,408)	8,839,326
Foreign currencies	(29,301)
	8,810,025
Change in net unrealized appreciation of:	
Investment securities	16,332,103
Foreign currencies	6,419
	16,338,522
Net gain from investment securities and foreign currencies	25,148,547
Net increase in net assets resulting from operations	$28,051,908

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Changes in Net Assets

For the years ended December 31, 2006 and 2005

	2006	2005
Operations:		
Net investment income	$ 2,903,361	$ 4,326,573
Net realized gain from investment securities and foreign currencies	8,810,025	33,099,707
Change in net unrealized appreciation (depreciation) of investment securities and foreign currencies	16,338,522	(3,902,530)
Net increase in net assets resulting from operations	28,051,908	33,523,750
Distributions to shareholders from net investment income:		
Series I	(4,313,053)	(2,617,447)
Series II	(75,912)	(17,260)
Total distributions from net investment income	(4,388,965)	(2,634,707)
Distributions to shareholders from net realized gains:		
Series I	(2,662,863)	—
Series II	(47,944)	—
Total distributions from net realized gains	(2,710,807)	—
Decrease in net assets resulting from distributions	(7,099,772)	(2,634,707)
Share transactions–net:		
Series I	4,313,312	(76,258,358)
Series II	1,371,296	118,284
Net increase (decrease) in net assets resulting from share transactions	5,684,608	(76,140,074)
Net increase (decrease) in net assets	26,636,744	(45,251,031)
Net assets:		
Beginning of year	114,904,592	160,155,623
End of year (including undistributed net investment income of $2,828,242 and $4,337,557, respectively)	$141,541,336	$114,904,592

Notes to Financial Statements

December 31, 2006

NOTE 1—Significant Accounting Policies

AIM V.I. Utilities Fund (the ‘‘Fund’’) is a series portfolio of AIM Variable Insurance Funds (the ‘‘Trust’’). The Trust is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the ‘‘1940 Act’’), as an open-end series management investment company consisting of twenty-one separate portfolios. The Fund currently offers two classes of shares, Series I and Series II, both of which are offered to insurance company separate accounts funding variable annuity contracts and variable life insurance policies (‘‘variable products’’). Matters affecting each portfolio or class will be voted on exclusively by the shareholders of such portfolio or class. Current Securities and Exchange Commission (‘‘SEC’’) guidance, however, requires participating insurance companies offering separate accounts to vote shares proportionally in accordance with the instructions of the contract owners whose investments are funded by shares of each portfolio or class. The assets, liabilities and operations of each portfolio are accounted for separately. Information presented in these financial statements pertains only to the Fund.

The Fund’s investment objective is to seek capital growth and current income.

The following is a summary of the significant accounting policies followed by the Fund in the preparation of its financial statements.

A. Security Valuations — Securities, including restricted securities, are valued according to the following policy.

A security listed or traded on an exchange (except convertible bonds) is valued at its last sales price or official closing price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales or official closing price on a particular day, the security may be valued at the closing bid price on that day. Securities traded in the over-the-counter market are valued based on the prices furnished by independent pricing services, in which case the securities may be considered fair valued, or by market makers. Futures contracts are valued at the final settlement price set by an exchange on which they are principally traded. Listed options are valued at the mean between the last bid and the ask prices from the exchange on which they are principally traded. Options not listed on an exchange are valued by an independent source at the mean between the last bid and ask prices. For purposes of determining net asset value per share, futures and option contracts generally are valued 15 minutes after the close of the customary trading session of the New York Stock Exchange (‘‘NYSE’’).

Investments in open-end and closed-end registered investment companies that do not trade on an exchange are valued at the end of day net asset value per share. Investments in open-end and closed-end registered investment companies that trade on an exchange are valued at the last sales price or official closing price as of the close of the customary trading session on the exchange where the security is principally traded.

Debt obligations (including convertible bonds) and unlisted equities are fair valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institution-size trading in similar groups of securities, developments related to specific securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Short-term obligations having 60 days or less to maturity and commercial paper are recorded at amortized cost which approximates value.

Foreign securities (including foreign exchange contracts) are converted into U.S. dollar amounts using the applicable exchange rates as of the close of the NYSE. If market quotations are available and reliable for foreign exchange traded equity securities, the securities will be valued at the market quotations. Because trading hours for certain foreign securities end before the close of the NYSE, closing market quotations may become unreliable. If between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and may make the closing price unreliable, the Fund may fair value the security. If the event is likely to have affected the closing price of the security, the security will be valued at fair value in good faith using procedures approved by the Board of Trustees. Adjustments to closing prices to reflect fair value may also be based on a screening process of an independent pricing service to indicate the degree of certainty, based on historical data, that the closing price in the principal market where a foreign security trades is not the current value as of the close of the NYSE. Foreign securities meeting the approved degree of certainty that the price is not reflective of current value will be priced at the indication of fair value from the independent pricing service. Multiple factors may be considered by the independent pricing service in determining adjustments to reflect fair value and may include information relating to sector indices, ADRs and domestic and foreign index futures.

Securities for which market prices are not provided by any of the above methods may be valued based upon quotes furnished by independent sources and are valued at the last bid price in the case of equity securities and in the case of debt obligations, the mean between the last bid and asked prices.

Securities for which market quotations are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust's officers following procedures approved by the Board of Trustees. Issuer specific events, market trends, bid/ask quotes of brokers and information providers and other market data may be reviewed in the course of making a good faith determination of a security's fair value.

B. Securities Transactions and Investment Income — Securities transactions are accounted for on a trade date basis. Realized gains or losses on sales are computed on the basis of specific identification of the securities sold. Interest income is recorded on the accrual basis from settlement date. Dividend income is recorded on the ex-dividend date. Bond premiums and discounts are amortized and/or accreted for financial reporting purposes.

Brokerage commissions and mark ups are considered transaction costs and are recorded as an increase to the cost basis of securities purchased and/or a reduction of proceeds on a sale of securities. Such transaction costs are included in the determination of realized and unrealized gain (loss) from investment securities reported in the Statement of Operations and the Statement of Changes in Net Assets and the realized and unrealized net gains (losses) on securities per share in the Financial Highlights. Transaction costs are included in the calculation of the Fund's net asset value and, accordingly, they reduce the Fund's total returns. These transaction costs are not considered operating expenses and are not reflected in net investment income reported in the Statement of Operations and Statement of Changes in Net Assets, or the net investment income per share and ratios of expenses and net investment income reported in the Financial Highlights, nor are they limited by any expense limitation arrangements between the Fund and the advisor.

The Fund allocates income and realized and unrealized capital gains and losses to a class based on the relative net assets of each class.

C. Country Determination — For the purposes of making investment selection decisions and presentation in the Schedule of Investments, AIM may determine the country in which an issuer is located and/or credit risk exposure based on various factors. These factors include the laws of the country under which the issuer is organized, where the issuer maintains a principal office, the country in which the issuer derives 50% or more of its total revenues and the country that has the primary market for the issuer's securities, as well as other criteria. Among the other criteria that may be evaluated for making this determination are the country in which the issuer maintains 50% or more of its assets, the type of security, financial guarantees and enhancements, the nature of the collateral and the sponsor organization. Country of issuer and/or credit risk exposure has been determined to be the United States of America unless otherwise noted.

D. Distributions — Distributions from income and net realized capital gain, if any, are generally paid to separate accounts of participating insurance companies annually and recorded on ex-dividend date.

E. Federal Income Taxes — The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund's taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders. Therefore, no provision for federal income taxes is recorded in the financial statements.

F. Expenses — Fees provided for under the Rule 12b-1 plan of a particular class of the Fund and which are directly attributable to that class are charged to the operations of such class. All other expenses are allocated among the classes based on relative net assets.

G. Accounting Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including estimates and assumptions related to taxation. Actual results could differ from those estimates.

H. Indemnifications — Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust's investment manager) is indemnified against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. The risk of material loss as a result of such indemnification claims is considered remote.

I. Foreign Currency Translations — Foreign currency is valued at the close of the NYSE based on quotations posted by banks and major currency dealers. Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at date of valuation. Purchases and sales of portfolio securities (net of foreign taxes withheld on disposition) and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not separately account for the portion of the results of operations resulting from changes in foreign exchange rates on investments and the fluctuations arising from changes in market prices of securities held.

The combined results of changes in foreign exchange rates and the fluctuation of market prices on investments (net of estimated foreign tax withholding) are included with the net realized and unrealized gain or loss from investments in the Statement of Operations. Reported net realized foreign currency gains or losses arise from (i) sales of foreign currencies, (ii) currency gains or losses realized between the trade and settlement dates on securities transactions, and (iii) the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign currency gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

The Fund may invest in foreign securities which may be subject to foreign taxes on income, gains on investments or currency repatriation, a portion of which may be recoverable. Taxes are accrued based on the Fund's current interpretation of tax regulations and rates that exist in the foreign markets in which the Fund invests.

J. Foreign Currency Contracts — A foreign currency contract is an obligation to purchase or sell a specific currency for an agreed-upon price at a future date. The Fund may enter into a foreign currency contract to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies. The Fund may also enter into a foreign currency contract for the purchase or sale of a security denominated in a foreign currency in order to "lock in" the U.S. dollar price of that security. Fluctuations in the value of these contracts are recorded as unrealized appreciation (depreciation) until the contracts are closed. When these contracts are closed, realized gains (losses) are recorded. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations. The Fund could be exposed to risk, which may be in excess of the amount reflected in the Statement of Assets and Liabilities, if counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably.

NOTE 2—Advisory Fees and Other Fees Paid to Affiliates

The Trust has entered into a master investment advisory agreement with A I M Advisors, Inc. ("AIM"). Under the terms of the investment advisory agreement, the Fund pays an advisory fee to AIM at the annual rate of 0.60% of the Fund's average daily net assets.

AIM has contractually agreed to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual operating expenses (excluding certain items discussed below) of Series I shares to 0.93% and Series II shares to 1.18% of average daily net assets, through at least April 30, 2008. In determining the advisor's obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the net annual operating expenses to exceed the numbers reflected above: (i) interest; (ii) taxes; (iii) dividend expense on short sales; (iv) extraordinary items; (v) expenses related to a merger or reorganization, as approved by the Fund's Board of Trustees; and (vi) expenses that the Fund has incurred but did not actually pay because of an expense offset arrangement. Currently, in addition to the expense reimbursement arrangement with AMVESCAP PLC ("AMVESCAP") described more fully below, the expense offset arrangements from which the Fund may benefit are in the form of credits that the Fund receives from banks where the Fund or its transfer agent has deposit accounts in which it holds uninvested cash. In addition, the Fund may also benefit from a one time credit to be used to offset future custodian expenses. These credits are used to pay certain expenses incurred by the Fund.

Further, AIM has voluntarily agreed to waive advisory fees of the Fund in the amount of 25% of the advisory fee AIM receives from the affiliated money market funds on investments by the Fund in such affiliated money market funds. Voluntary fee waivers or reimbursements may be modified or discontinued at any time upon consultation with the Board of Trustees without further notice to investors.

For the year ended December 31, 2006, AIM waived advisory fees of $29,683.

At the request of the Trustees of the Trust, AMVESCAP agreed to reimburse expenses incurred by the Fund in connection with market timing matters in the AIM Funds, which may include legal, audit, shareholder reporting, communications and trustee expenses. For the year ended December 31, 2006, AMVESCAP did not reimburse any such expenses.

The Trust has entered into a master administrative services agreement with AIM pursuant to which the Fund has agreed to pay AIM a fee for costs incurred in providing accounting services and fund administrative services to the Fund and to reimburse AIM for administrative services fees paid to insurance companies that have agreed to provide services to the participants of separate accounts. These administrative services provided by the insurance companies may include, among other things: the printing of prospectuses, financial reports and proxy statements and the delivery of the same to existing participants; the maintenance of master accounts; the facilitation of purchases and redemptions requested by the participants; and the servicing of participants' accounts. The Fund may reimburse AIM for up to 0.25% of average daily assets invested by each insurance company providing administrative services to the Fund. Pursuant to such agreement, for the year ended December 31, 2006, AIM was paid $50,000 for accounting and fund administrative services and reimbursed $272,038 for services provided by insurance companies.

The Trust has entered into a transfer agency and service agreement with AIM Investment Services, Inc. ("AIS") pursuant to which the Fund has agreed to pay AIS a fee for providing transfer agency and shareholder services to the Fund and reimburse AIS for certain expenses incurred by AIS in the course of providing such services. For the year ended December 31, 2006, expenses incurred under the agreement are shown in the Statement of Operations as transfer agent fees.

The Trust has entered into a master distribution agreement with AIM Distributors, Inc. ("ADI") to serve as the distributor for the Fund. The Trust has adopted a plan pursuant to Rule 12b-1 under the 1940 Act with respect to the Fund's Series II shares (the "Plan"). The Fund, pursuant to the Plan, pays ADI compensation at the annual rate of 0.25% of the Fund's average daily net assets of Series II shares. Of the Plan payments, up to 0.25% of the average daily net assets of the Series II shares may be paid to insurance companies who furnish continuing personal shareholder services to customers who purchase and own Series II shares of the Fund. For the year ended December 31, 2006, expenses incurred under the Plan are shown in the Statement of Operations as distribution fees.

Certain officers and trustees of the Trust are officers and directors of AIM, AIS and/or ADI.

NOTE 3—Investments in Affiliates

The Fund is permitted, pursuant to procedures approved by the Board of Trustees, to invest daily available cash balances in affiliated money market funds. The Fund and the money market funds below have the same investment advisor and therefore, are considered to be affiliated. The table below shows the transactions in and earnings from investments in affiliated money market funds for the year ended December 31, 2006.

Fund	Value 12/31/05	Purchases at Cost	Proceeds from Sales	Change in Unrealized Appreciation (Depreciation)	Value 12/31/06	Dividend Income	Realized Gain (Loss)
Liquid Assets Portfolio–Institutional Class	$ —	$15,909,195	$(12,345,924)	$—	$3,563,271	$ 60,254	$—
Premier Portfolio–Institutional Class	5,216,837	34,587,309	(36,240,875)	—	3,563,271	109,478	—
Total Investments in Affiliates	$5,216,837	$50,496,504	$(48,586,799)	$—	$7,126,542	$169,732	$—

NOTE 4—Security Transactions with Affiliated Funds

The Fund is permitted to purchase or sell securities from or to certain other AIM Funds under specified conditions outlined in procedures adopted by the Board of Trustees of the Trust. The procedures have been designed to ensure that any purchase or sale of securities by the Fund from or to another fund or portfolio that is or could be considered an affiliate by virtue of having a common investment advisor (or affiliated investment advisors), common Trustees and/or common officers complies with Rule 17a-7 of the 1940 Act. Further, as defined under the procedures, each transaction is effected at the current market price. Pursuant to these procedures, for the year ended December 31, 2006, the Fund engaged in securities sales of $39,151, which resulted in net realized gains of $1,408.

NOTE 5—Expense Offset Arrangements

The expense offset arrangements are comprised of (i) custodian credits which result from periodic overnight cash balances at the custodian and (ii) a one custodian fee credit to be used to offset future custodian fees. For the year ended December 31, 2006, the Fund received credits from these arrangements, which resulted in the reduction of the Fund's total expenses of $2,178.

Note 6—Trustees' and Officer's Fees and Benefits

''Trustees' and Officer's Fees and Benefits'' include amounts accrued by the Fund to pay remuneration to each Trustee and Officer of the Fund who is not an ''interested person'' of AIM. Trustees have the option to defer compensation payable by the Fund, and ''Trustees' and Officer's Fees and Benefits'' also include amounts accrued by the Fund to fund such deferred compensation amounts. Those Trustees who defer compensation have the option to select various AIM Funds in which their deferral accounts shall be deemed to be invested. Finally, current Trustees are eligible to participate in a retirement plan that provides for benefits to be paid upon retirement to Trustees over a period of time based on the number of years of service. The Fund may have certain former Trustees who also participate in a retirement plan and receive benefits under such plan. ''Trustees' and Officer's Fees and Benefits'' include amounts accrued by the Fund to fund such retirement benefits. Obligations under the deferred compensation and retirement plans represent unsecured claims against the general assets of the Fund.

During the year ended December 31, 2006, the Fund paid legal fees of $4,186 for services rendered by Kramer, Levin, Naftalis & Frankel LLP as counsel to the Independent Trustees. A member of that firm is a Trustee of the Trust.

NOTE 7—Borrowings

Pursuant to an exemptive order from the Securities and Exchange Commission, the Fund may participate in an interfund lending facility that AIM has established for temporary borrowings by the AIM Funds. An interfund loan will be made under this facility only if the loan rate (an average of the rate available on bank loans and the rate available on investments in overnight repurchase agreements) is favorable to both the lending fund and the borrowing fund. A loan will be secured by collateral if the Fund's aggregate borrowings from all sources exceeds 10% of the Fund's total assets. To the extent that the loan is required to be secured by collateral, the collateral is marked to market daily to ensure that the market value is at least 102% of the outstanding principal value of the loan.

The Fund is a participant in an uncommitted unsecured revolving credit facility with State Street Bank and Trust Company (''SSB''). The Fund may borrow up to the lesser of (i) $125,000,000, or (ii) the limits set by its prospectus for borrowings. The Fund and other funds advised by AIM which are parties to the credit facility can borrow on a first come, first served basis. Principal on each loan outstanding shall bear interest at the bid rate quoted by SSB at the time of the request for the loan.

During the year ended December 31, 2006, the Fund did not borrow or lend under the interfund lending facility or borrow under the uncommitted unsecured revolving credit facility.

Additionally, the Fund is permitted to temporarily carry a negative or overdrawn balance in its account with SSB, the custodian bank. To compensate the custodian bank for such overdrafts, the overdrawn Fund may either (i) leave funds as a compensating balance in the account so the custodian bank can be compensated by earning the additional interest; or (ii) compensate by paying the custodian bank at a rate agreed upon by the custodian bank and AIM, not to exceed the contractually agreed upon rate.

Note 8—Distributions to Shareholders and Tax Components of Net Assets

Distributions to Shareholders:

The tax character of distributions paid during the years ended December 31, 2006 and 2005 was as follows:

	2006	2005
Distributions paid from:		
Ordinary income	$4,388,965	$2,634,707
Long-term capital gain	2,710,807	—
Total distributions	$7,099,772	$2,634,707

Tax Components of Net Assets:

As of December 31, 2006, the components of net assets on a tax basis were as follows:

	2006
Undistributed ordinary income	$ 3,758,297
Undistributed long-term gain	6,592,190
Unrealized appreciation — investments	39,684,042
Temporary book/tax differences	(49,765)
Capital loss carryforward	(2,758,928)
Shares of beneficial interest	94,315,500
Total net assets	$141,541,336

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is due to differences in the timing of recognition of gains and losses on investments for tax and book purposes. The Fund's unrealized appreciation (depreciation) difference is attributable primarily to losses on wash sales. The tax-basis net unrealized appreciation on investments amount includes appreciation on foreign currencies of $2,702.

The temporary book/tax differences are a result of timing differences between book and tax recognition of income and/or expenses. The Fund's temporary book/tax differences are the result of the trustee deferral of compensation and retirement plan benefits.

Capital loss carryforward is calculated and reported as of a specific date. Results of transactions and other activity after that date may affect the amount of capital loss carryforward actually available for the Fund to utilize. The ability to utilize capital loss carryforward in the future may be limited under the Internal Revenue Code and related regulations based on the results of future transactions. Under these limitation rules, the Fund is limited as of December 31, 2006 to utilizing $919,643 of capital loss carryforward in the fiscal year ended December 31, 2007.

The Fund utilized $919,643 of capital loss carryforward in the current period to offset net realized capital gain for federal income tax purposes. The Fund has a capital loss carryforward as of December 31, 2006 which expires as follows:

Expiration	Capital Loss Carryforward*
December 31, 2009	2,758,928

* Capital loss carryforward as of the date listed above is reduced for limitations, if any, to the extent required by the Internal Revenue Code.

NOTE 9—Investment Securities

The aggregate amount of investment securities (other than short-term securities, U.S. Treasury obligations and money market funds, if any) purchased and sold by the Fund during the year ended December 31, 2006 was $44,520,375 and $46,708,646, respectively.

Unrealized Appreciation (Depreciation) of Investment Securities on a Tax Basis	
Aggregate unrealized appreciation of investment securities	$39,681,340
Aggregate unrealized (depreciation) of investment securities	—
Net unrealized appreciation of investment securities	$39,681,340

Cost of investments for tax purposes is $101,873,045.

NOTE 10—Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of defaulted bond and foreign currency transactions, on December 31, 2006, undistributed net investment income was decreased by $23,711 and undistributed net realized gain was increased by $23,711. This reclassification had no effect on the net assets of the Fund.

NOTE 11—Share Information

Changes in Shares Outstanding

	Year ended December 31,			
	2006[a]		2005	
	Shares	Amount	Shares	Amount
Sold:				
Series I	2,859,050	$ 55,911,823	6,323,063	$ 104,776,537
Series II	71,923	1,371,458	42,862	681,910
Issued as reinvestment of dividends:				
Series I	329,053	6,975,916	144,530	2,617,447
Series II	5,876	123,856	956	17,260
Reacquired:				
Series I	(3,038,761)	(58,574,427)	(10,289,904)	(183,652,342)
Series II	(6,299)	(124,018)	(37,379)	(580,886)
	220,842	$ 5,684,608	(3,815,872)	$ (76,140,074)

[a] There are four entities that are each record owners of more than 5% of the outstanding shares of the Fund and in the aggregate they own 57% of the outstanding shares of the Fund. The Fund and the Fund's principal underwriter or advisor, are parties to participation agreements with these entities whereby these entities sell units of interest in separate accounts funding variable products that are invested in the Fund. The Fund, AIM and/or AIM affiliates may make payments to these entities, which are considered to be related to the Fund, for providing services to the Fund, AIM and/or AIM affiliates including but not limited to services such as, securities brokerage, third party record keeping and account servicing and administrative services. The Trust has no knowledge as to whether all or any portion of the shares owned of record by these entities are also owned beneficially.

NOTE 12—New Accounting Standard

In June 2006, the Financial Accounting Standards Board (''FASB'') issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (''FIN 48''). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions for FIN 48 are effective for fiscal years beginning after December 15, 2006. Management is currently assessing the impact of FIN 48, if any, on the Fund's financial statements and currently intends for the Fund to adopt FIN 48 provisions during the fiscal year ending December 31, 2007.

NOTE 13—Financial Highlights

The following schedule presents financial highlights for a share of the Fund outstanding throughout the periods indicated.

	Series I				
	Year ended December 31,				
	2006	2005	2004	2003	2002
Net asset value, beginning of period	$ 17.83	$ 15.61	$ 12.95	$ 11.16	$ 14.08
Income from investment operations:					
Net investment income	0.47[a]	0.42[a]	0.42[a]	0.33[a]	0.19
Net gains (losses) on securities (both realized and unrealized)	4.06	2.21	2.57	1.60	(3.05)
Total from investment operations	4.53	2.63	2.99	1.93	(2.86)
Less distributions:					
Dividends from net investment income	(0.70)	(0.41)	(0.33)	(0.14)	(0.06)
Distributions from net realized gains	(0.43)	—	—	—	—
Total distributions	(1.13)	(0.41)	(0.33)	(0.14)	(0.06)
Net asset value, end of period	$ 21.23	$ 17.83	$ 15.61	$ 12.95	$ 11.16
Total return[b]	25.46%	16.83%	23.65%	17.38%	(20.32)%
Ratios/supplemental data:					
Net assets, end of period (000s omitted)	$139,080	$114,104	$159,554	$62,510	$31,204
Ratio of expenses to average net assets:					
With fee waivers and/or expense reimbursements	0.93%[c]	0.93%	1.01%	1.08%	1.15%
Without fee waivers and/or expense reimbursements	0.96%[c]	0.96%	1.01%	1.08%	1.15%
Ratio of net investment income to average net assets	2.40%[c]	2.49%	3.09%	2.84%	2.59%
Portfolio turnover rate	38%	49%	52%	58%	102%

[a] Calculated using average shares outstanding.
[b] Includes adjustments in accordance with accounting principles generally accepted in the United States of America and as such, the net asset value for financial reporting purposes and the returns based upon those net asset values may differ from the net asset value and returns for shareholder transactions. Total returns do not reflect charges assessed in connection with a variable product, which if included would reduce total returns.
[c] Ratios are based on average daily net assets of $119,343,568.

NOTE 13—Financial Highlights—(continued)

	Series II		
	Year ended December 31,		April 30, 2004 (Date sales commenced) to December 31,
	2006	2005	2004
Net asset value, beginning of period	$17.76	$15.57	$12.63
Income from investment operations:			
Net investment income[a]	0.42	0.38	0.26
Net gains on securities (both realized and unrealized)	4.06	2.20	2.68
Total from investment operations	4.48	2.58	2.94
Less distributions:			
Dividends from net investment income	(0.69)	(0.39)	—
Distributions from net realized gains	(0.43)	—	—
Total distributions	(1.12)	(0.39)	—
Net asset value, end of period	$21.12	$17.76	$15.57
Total return[b]	25.25%	16.55%	23.28%
Ratios/supplemental data:			
Net assets, end of period (000s omitted)	$2,462	$ 801	$ 602
Ratio of expenses to average net assets:			
With fee waivers and/or expense reimbursements	1.18%[c]	1.18%	1.28%[d]
Without fee waivers and/or expense reimbursements	1.21%[c]	1.21%	1.28%[d]
Ratio of net investment income to average net assets	2.15%[c]	2.24%	2.82%[d]
Portfolio turnover rate[e]	38%	49%	52%

(a) Calculated using average shares outstanding.
(b) Includes adjustments in accordance with accounting principles generally accepted in the United States of America and as such, the net asset value for financial reporting purposes and the returns based upon those net asset values may differ from the net asset value and returns for shareholder transactions. Total returns are not annualized for periods less than one year and do not reflect charges assessed in connection with a variable product, which if included would reduce total returns.
(c) Ratios are based on average daily net assets of $1,690,117.
(d) Annualized.
(e) Portfolio turnover is calculated at the fund level and is not annualized for periods less than one year.

NOTE 14—Legal Proceedings

Terms used in the Legal Proceedings Note are defined terms solely for the purpose of this note.

Settled Enforcement Actions and Investigations Related to Market Timing

On October 8, 2004, INVESCO Funds Group, Inc. (''IFG'') (the former investment advisor to certain AIM Funds), AIM and A I M Distributors, Inc. (''ADI'') (the distributor of the retail AIM Funds) reached final settlements with certain regulators, including the Securities and Exchange Commission (''SEC''), the New York Attorney General and the Colorado Attorney General, to resolve civil enforcement actions and/or investigations related to market timing and related activity in the AIM Funds, including those formerly advised by IFG. As part of the settlements, a $325 million fair fund ($110 million of which is civil penalties) has been created to compensate shareholders harmed by market timing and related activity in funds formerly advised by IFG. Additionally, AIM and ADI created a $50 million fair fund ($30 million of which is civil penalties) to compensate shareholders harmed by market timing and related activity in funds advised by AIM, which was done pursuant to the terms of the settlement. These two fair funds may increase as a result of contributions from third parties who reach final settlements with the SEC or other regulators to resolve allegations of market timing and/or late trading that also may have harmed applicable AIM Funds. These two fair funds will be distributed in accordance with a methodology to be determined by AIM's independent distribution consultant, in consultation with AIM and the independent trustees of the AIM Funds and acceptable to the staff of the SEC. Management of AIM and the Fund are unable to estimate the impact, if any, that the distribution of these two fair funds may have on the Fund or whether such distribution will have an impact on the Fund's financial statements in the future.

At the request of the trustees of the AIM Funds, AMVESCAP PLC (''AMVESCAP''), the parent company of IFG and AIM, has agreed to reimburse expenses incurred by the AIM Funds related to market timing matters.

Pending Litigation and Regulatory Inquiries

On August 30, 2005, the West Virginia Office of the State Auditor—Securities Commission (''WVASC'') issued a Summary Order to Cease and Desist and Notice of Right to Hearing to AIM and ADI (Order No. 05-1318). The WVASC makes findings of fact that AIM and ADI entered into certain arrangements permitting market timing of the AIM Funds and failed to disclose these arrangements in the prospectuses for such Funds, and conclusions of law to the effect that AIM and ADI violated the West Virginia securities laws. The WVASC orders AIM and ADI to cease any further violations and seeks to impose monetary

NOTE 14—Legal Proceedings—(continued)

sanctions, including restitution to affected investors, disgorgement of fees, reimbursement of investigatory, administrative and legal costs and an ''administrative assessment,'' to be determined by the Commissioner. Initial research indicates that these damages could be limited or capped by statute.

Civil lawsuits, including purported class action and shareholder derivative suits, have been filed against certain of the AIM Funds, IFG, AIM, ADI and/or related entities and individuals, depending on the lawsuit, alleging:

- that the defendants permitted improper market timing and related activity in the AIM Funds;
- that certain AIM Funds inadequately employed fair value pricing; and
- that the defendants improperly used the assets of the AIM Funds to pay brokers to aggressively promote the sale of the AIM Funds over other mutual funds and that the defendants concealed such payments from investors by disguising them as brokerage commissions.

These lawsuits allege as theories of recovery, depending on the lawsuit, violations of various provisions of the Federal and state securities laws and ERISA, negligence, breach of fiduciary duty and/or breach of contract. These lawsuits seek remedies that include, depending on the lawsuit, damages, restitution, injunctive relief, imposition of a constructive trust, removal of certain directors and/or employees, various corrective measures under ERISA, rescission of certain AIM Funds' advisory agreements and/or distribution plans and recovery of all fees paid, an accounting of all fund-related fees, commissions and soft dollar payments, restitution of all commissions and fees paid, and prospective relief in the form of reduced fees.

All lawsuits based on allegations of market timing, late trading and related issues have been transferred to the United States District Court for the District of Maryland (the ''MDL Court''). Pursuant to an Order of the MDL Court, plaintiffs in these lawsuits consolidated their claims for pre-trial purposes into three amended complaints against various AIM- and IFG-related parties: (i) a Consolidated Amended Class Action Complaint purportedly brought on behalf of shareholders of the AIM Funds; (ii) a Consolidated Amended Fund Derivative Complaint purportedly brought on behalf of the AIM Funds and fund registrants; and (iii) an Amended Class Action Complaint for Violations of the Employee Retirement Income Securities Act (''ERISA'') purportedly brought on behalf of participants in AMVESCAP's 401(k) plan. Based on orders issued by the MDL Court, all claims asserted against the AIM Funds that have been transferred to the MDL Court have been dismissed, although certain Funds remain nominal defendants in the Consolidated Amended Fund Derivative Complaint. On September 15, 2006, the MDL Court granted the AMVESCAP defendants' motion to dismiss the Amended Class Action Complaint for Violations of ERISA and dismissed such Complaint. The plaintiff has commenced an appeal from that decision.

IFG, AIM, ADI and/or related entities and individuals have received inquiries from numerous regulators in the form of subpoenas or other oral or written requests for information and/or documents related to one or more of the following issues, among others, some of which concern one or more AIM Funds: market timing activity, late trading, fair value pricing, excessive or improper advisory and/or distribution fees, mutual fund sales practices, including revenue sharing and directed-brokerage arrangements, investments in securities of other registered investment companies, contractual plans, issues related to Section 529 college savings plans and procedures for locating lost security holders. IFG, AIM and ADI have advised the Fund that they are providing full cooperation with respect to these inquiries. Regulatory actions and/or additional civil lawsuits related to these or other issues may be filed against the AIM Funds, IFG, AIM and/or related entities and individuals in the future.

At the present time, management of AIM and the Fund are unable to estimate the impact, if any, that the outcome of the Pending Litigation and Regulatory Inquiries described above may have on AIM, ADI or the Fund.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of AIM Variable Insurance Funds
and Shareholders of AIM V.I. Utilities Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of AIM V.I. Utilities Fund (one of the funds constituting AIM Variable Insurance Funds, hereafter referred to as the ''Fund'') at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for the each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as ''financial statements'') are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

February 14, 2007
Houston, Texas

Tax Information

Form 1099-DIV, Form 1042-S and other year-end tax information provide shareholders with actual calendar year amounts that should be included in their tax returns. Shareholders should consult their tax advisors.

The following distribution information is being provided as required by the Internal Revenue Code or to meet a specific state's requirement.

The Fund designates the following amounts or, if subsequently determined to be different, the maximum amount allowable for its fiscal year ended December 31, 2006:

Federal and State Income Tax

Long-Term Capital Gain Distributions	$2,710,807
Corporate Dividends Received Deduction*	99.82%

* The above percentage is based on ordinary income dividends paid to shareholders during the Fund's fiscal year.

Trustees and Officers

The address of each trustee and officer of AIM Variable Insurance Funds (the ''Trust''), is 11 Greenway Plaza, Suite 100, Houston, Texas 77046. Each trustee oversees 109 portfolios in the AIM Funds complex. The trustees serve for the life of the Trust, subject to their earlier death, incapacitation, resignation, retirement or removal as more specifically provided in the Trust's organizational documents. Column two below includes length of time served with predecessor entities, if any.

Name, Year of Birth and Position(s) Held with the Trust	Trustee and/ or Officer Since	Principal Occupation(s) During Past 5 Years	Other Directorship(s) Held by Trustee
Interested Persons			
Robert H. Graham[1] — 1946 Trustee and Vice Chair	1993	Director and Chairman, A I M Management Group Inc. (financial services holding company); Director and Vice Chairman, AMVESCAP PLC; Chairman, AMVESCAP PLC — AIM Division (parent of AIM and a global investment management firm) and Trustee and Vice Chair of The AIM Family of Funds® Formerly: President and Chief Executive Officer, A I M Management Group Inc.; Director, Chairman and President, A I M Advisors, Inc. (registered investment advisor); Director and Chairman, A I M Capital Management, Inc. (registered investment advisor), A I M Distributors, Inc. (registered broker dealer), AIM Investment Services, Inc., (registered transfer agent), and Fund Management Company (registered broker dealer); Chief Executive Officer, AMVESCAP PLC — Managed Products; and President and Principal Executive Officer of The AIM Family of Funds®	None
Philip A. Taylor[2] — 1954 Trustee, President and Principal Executive Officer	2006	Director, Chief Executive Officer and President, A I M Management Group Inc., AIM Mutual Fund Dealer Inc. (registered broker dealer), AIM Funds Management Inc. (registered investment advisor) and 1371 Preferred Inc. (holding company); Director and President, A I M Advisors, Inc., INVESCO Funds Group, Inc. (registered investment advisor and register transfer agent) and AIM GP Canada Inc. (general partner for a limited partnership); Director, A I M Capital Management, Inc. and A I M Distributors, Inc.; Director and Chairman, AIM Investment Services, Inc., Fund Management Company and INVESCO Distributors, Inc. (registered broker dealer); Director, President and Chairman, AVZ Callco Inc. (holding company); AMVESCAP Inc. (holding company) and AIM Canada Holdings Inc. (holding company); Director and Chief Executive Officer, AIM Trimark Corporate Class Inc. (formerly AIM Trimark Global Fund Inc.) (corporate mutual fund company) and AIM Trimark Canada Fund Inc. (corporate mutual fund company); Trustee, President and Principal Executive Officer of The AIM Family of Funds® (other than AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust); Trustee and Executive Vice President, The AIM Family of Funds® (AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust only); and Manager, Powershares Capital Management LLC Formerly: President and Principal Executive Officer, The AIM Family of Funds® (AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust only); Chairman, AIM Canada Holdings, Inc.; Executive Vice President and Chief Operations Officer, AIM Funds Management Inc.; President, AIM Trimark Global Fund Inc. and AIM Trimark Canada Fund Inc.; and Director, Trimark Trust (federally regulated Canadian Trust Company)	None
Independent Trustees			
Bruce L. Crockett — 1944 Trustee and Chair	1993	Chairman, Crockett Technology Associates (technology consulting company)	ACE Limited (insurance company); and Captaris, Inc. (unified messaging provider)
Bob R. Baker — 1936 Trustee	2004	Retired	None
Frank S. Bayley — 1939 Trustee	2001	Retired Formerly: Partner, law firm of Baker & McKenzie	Badgley Funds, Inc. (registered investment company (2 portfolios))
James T. Bunch — 1942 Trustee	2004	Founder, Green, Manning & Bunch Ltd., (investment banking firm); and Director, Policy Studies, Inc. and Van Gilder Insurance Corporation	None
Albert R. Dowden — 1941 Trustee	2000	Director of a number of public and private business corporations, including the Boss Group Ltd. (private investment and management); Cortland Trust, Inc. (Chairman) (registered investment company (3 portfolios)); Annuity and Life Re (Holdings), Ltd. (insurance company); CompuDyne Corporation (provider of products and services to the public security market); and Homeowners of America Holding Corporation (property casualty company) Formerly: Director, President and Chief Executive Officer, Volvo Group North America, Inc.; Senior Vice President, AB Volvo; and Director of various affiliated Volvo companies; and Director, Magellan Insurance Company	None
Jack M. Fields — 1952 Trustee	1997	Chief Executive Officer, Twenty First Century Group, Inc. (government affairs company); and Owner, Dos Angelos Ranch, L.P. Formerly: Chief Executive Officer, Texana Timber LP (sustainable forestry company)	Administaff, and Discovery Global Education Fund (non-profit)
Carl Frischling — 1937 Trustee	1993	Partner, law firm of Kramer Levin Naftalis and Frankel LLP	Cortland Trust, Inc. (registered investment company (3 portfolios))
Prema Mathai-Davis — 1950 Trustee	1998	Formerly: Chief Executive Officer, YWCA of the USA	None
Lewis F. Pennock — 1942 Trustee	1993	Partner, law firm of Pennock & Cooper	None
Ruth H. Quigley — 1935 Trustee	2001	Retired	None
Larry Soll — 1942 Trustee	2004	Retired	None
Raymond Stickel, Jr. — 1944 Trustee	2005	Retired Formerly: Partner, Deloitte & Touche	Director, Mainstay VP Series Funds, Inc. (21 portfolios)

[1] Mr. Graham is considered an interested person of the Trust because he is a director of AMVESCAP PLC, parent of the advisor to the Trust.
[2] Mr. Taylor is considered an interested person of the Trust because he is an officer and a director of the advisor to, and a director of the principal underwriter of, the Trust.

Trustees and Officers—(continued)

The address of each trustee and officer of AIM Variable Insurance Funds (the ''Trust''), is 11 Greenway Plaza, Suite 100, Houston, Texas 77046. Each trustee oversees 109 portfolios in the AIM Funds complex. The trustees serve for the life of the Trust, subject to their earlier death, incapacitation, resignation, retirement or removal as more specifically provided in the Trust's organizational documents. Column two below includes length of time served with predecessor entities, if any.

Name, Year of Birth and Position(s) Held with the Trust	Trustee and/ or Officer Since	Principal Occupation(s) During Past 5 Years	Other Directorship(s) Held by Trustee
Other Officers			
Russell C. Burk — 1958 Senior Vice President and Senior Officer	2005	Senior Vice President and Senior Officer of The AIM Family of Funds® Formerly: Director of Compliance and Assistant General Counsel, ICON Advisers, Inc.; Financial Consultant, Merrill Lynch; General Counsel and Director of Compliance, ALPS Mutual Funds, Inc.	N/A
John M. Zerr — 1962 Senior Vice President, Chief Legal Officer and Secretary	2006	Director, Senior Vice President, Secretary and General Counsel, A I M Management Group Inc. and A I M Advisors, Inc.; Director, Vice President and Secretary, INVESCO Distributors, Inc.; Vice President and Secretary, A I M Capital Management, Inc., AIM Investment Services, Inc., and Fund Management Company; Senior Vice President and Secretary, A I M Distributors, Inc.; Director and Vice President, INVESCO Funds Group Inc.; Senior Vice President, Chief Legal Officer and Secretary of The AIM Family of Funds®; and Manager, Powershares Capital Management LLC Formerly: Chief Operating Officer, Senior Vice President, General Counsel, and Secretary, Liberty Ridge Capital, Inc. (an investment adviser); Vice President and Secretary, PBHG Funds (an investment company); Vice President and Secretary, PBHG Insurance Series Fund (an investment company); General Counsel and Secretary, Pilgrim Baxter Value Investors (an investment adviser); Chief Operating Officer, General Counsel and Secretary, Old Mutual Investment Partners (a broker-dealer); General Counsel and Secretary, Old Mutual Fund Services (an administrator); General Counsel and Secretary, Old Mutual Shareholder Services (a shareholder servicing center); Executive Vice President, General Counsel and Secretary, Old Mutual Capital, Inc. (an investment adviser); and Vice President and Secretary, Old Mutual Advisors Funds (an investment company)	N/A
Lisa O. Brinkley — 1959 Vice President	2004	Global Compliance Director, AMVESCAP PLC; and Vice President of The AIM Family of Funds® Formerly: Senior Vice President, A I M Management Group Inc.; Senior Vice President and Chief Compliance Officer, A I M Advisors, Inc.; Vice President and Chief Compliance Officer, A I M Capital Management, Inc. and A I M Distributors, Inc.; Vice President, AIM Investment Services, Inc. and Fund Management Company; Senior Vice President and Chief Compliance Officer of The AIM Family of Funds®; and Senior Vice President and Compliance Director, Delaware Investments Family of Funds	N/A
Kevin M. Carome — 1956 Vice President	2003	Senior Vice President and General Counsel, AMVESCAP PLC; Director, INVESCO Funds Group, Inc.; and Vice President of The AIM Family of Funds® Formerly: Director, Vice President and General Counsel, Fund Management Company; Director, Senior Vice President, Secretary and General Counsel, A I M Management Group Inc. and A I M Advisors, Inc.; Director and Vice President, INVESCO Distributors, Inc.; Senior Vice President, A I M Distributors, Inc.; Vice President, A I M Capital Management, Inc. and AIM Investment Services, Inc.; Senior Vice President, Chief Legal Officer and Secretary of The AIM Family of Funds®; Chief Executive Officer and President, INVESCO Funds Group, Inc.; and Senior Vice President, and General Counsel, Liberty Financial Companies, Inc. and Senior Vice President and General Counsel Liberty Funds Group, LLC	N/A
Sidney M. Dilgren — 1961 Vice President, Principal Financial Officer and Treasurer	2004	Vice President and Fund Treasurer, A I M Advisors, Inc.; and Vice President, Treasurer and Principal Officer of The AIM Family of Funds® Formerly: Senior Vice President, AIM Investment Services, Inc.; and Vice President, A I M Distributors, Inc.	N/A
J. Philip Ferguson — 1945 Vice President	2005	Senior Vice President and Chief Investment Officer, A I M Advisors Inc.; Director, Chairman, Chief Executive Officer, President and Chief Investment Officer, A I M Capital Management, Inc.; Executive Vice President, A I M Management Group Inc. and Vice President of The AIM Family of Funds® Formerly: Senior Vice President, AIM Private Asset Management, Inc.; and Chief Equity Officer, Senior Vice President and Senior Investment Officer, A I M Capital Management, Inc.	N/A
Karen Dunn Kelley — 1960 Vice President	1993	Director of Cash Management, Managing Director and Chief Cash Management Officer, A I M Capital Management, Inc; Director and President, Fund Management Company; and Vice President, A I M Advisors, Inc. and The AIM Family of Funds® (other than AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust); and President and Principal Executive Officer, The AIM Family of Funds® (AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust Only) Formerly: Vice President, The AIM Family of Funds® (AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust only)	N/A
Lance A. Rejsek — 1967 Anti-Money Laundering Compliance Officer	2005	Anti-Money Laundering Compliance Officer, A I M Advisors, Inc., A I M Capital Management, Inc., A I M Distributors, Inc., AIM Investment Services, Inc., AIM Private Asset Management, Inc., Fund Management Company and The AIM Family of Funds® Formerly: Manager of the Fraud Prevention Department, AIM Investment Services, Inc.	N/A
Todd L. Spillane — 1958 Chief Compliance Officer	2006	Senior Vice President, A I M Management Group Inc.; Senior Vice President and Chief Compliance Officer, A I M Advisors, Inc.; Chief Compliance Officer of The AIM Family of Funds®; Vice President and Chief Compliance Officer, A I M Capital Management, Inc.; and Vice President, A I M Distributors, Inc., AIM Investment Services, Inc. and Fund Management Company Formerly: Global Head of Product Development, AIG-Global Investment Group, Inc.; Chief Compliance Officer and Deputy General Counsel, AIG-SunAmerica Asset Management; and Chief Compliance Officer, Chief Operating Officer and Deputy General Counsel, American General Investment Management	N/A

The Statement of Additional Information of the Trust includes additional information about the Fund's Trustees and is available upon request, without charge, by calling 1.800.410.4246.

Office of the Fund
11 Greenway Plaza
Suite 100
Houston, TX 77046-1173

Investment Advisor
A I M Advisors, Inc.
11 Greenway Plaza
Suite 100
Houston, TX 77046-1173

Distributor
A I M Distributors, Inc.
11 Greenway Plaza
Suite 100
Houston, TX 77046-1173

Auditors
PricewaterhouseCoopers LLP
1201 Louisiana Street
Suite 2900
Houston, TX 77002-5678

Counsel to the Fund
Ballard Spahr
Andrews & Ingersoll, LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599

Counsel to the Independent Trustees
Kramer, Levin, Naftalis & Frankel LLP
1177 Avenue of the Americas
New York, NY 10036-2714

Transfer Agent
AIM Investment Services, Inc.
P.O. Box 4739
Houston, TX 77210-4739

Custodian
State Street Bank and Trust Company
225 Franklin Street
Boston, MA 02110-2801

The Alger American Fund

Alger American
Balanced Portfolio

Annual Report

December 31, 2006

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Dear Shareholders,

January 10, 2007

Looking back on the fiscal year that ended December 31, 2006, we were reminded of the famous quotation from Shakespeare's The Tempest: "O Wonder! How many goodly creatures are there here! How beauteous mankind is! O brave new world that has such people in't!"

"Brave New World" strikes us as a good metaphor for where U.S. investors find themselves today. Early in 2006, Federal Chairman Ben Bernanke discussed his own uncertainty about the "conundrum" of why long-term interest rates weren't moving in sync with short-term rates. If Bernanke, a skilled and experienced economist and policy-maker, is perplexed about the world today, it is hardly surprising that so many investors are feeling unsettled. More than at any point in recent memory, the data that most of us use to gauge the health or weakness of the economy and the markets offers little clarity. Inflation was a concern, and then it wasn't; the job market was strong statistically, yet people seem concerned about employment; corporate profits have accelerated at a double-digit pace, yet the markets have held back. And overall, Wall Street pundits and U.S. investors spent a good part of the year worrying and waiting for a "Tempest" that never came.

One reason for the confusion, in our view, is that today's economic reality reflects an international macro-economy, not just a national one. But there are few metrics to track global data the way the major U.S. indicators track our national economy. A few economists, market mavens, and commentators have begun to grapple with this issue, but until systems can be created that do effectively gauge factors such as global inflation or global labor data, U.S. investors may feel like Shakespeare's Miranda, washed up on the shores of an uncharted, potentially dangerous island — with no overarching point of reference and a profound sense of unease.

Take inflation. While gas prices soared until the summer, they came down after. Home prices also began to soften, and in some regions of the country, plummet. The earlier increase in both was widely felt by most consumers to be proof of inflation, and for most people, it was. But statistically, it was a different matter. Gasoline prices are not included in so-called "core inflation," and home prices aren't either. Even core inflation is a strange statistic, because nearly one-third of the core index is made up of "owner's equivalent rent" — a component that reflects potential homebuyers who choose to rent during a cooling housing market, while waiting for a more opportune time to buy. As this group grew in the early months of the year, demand for rental units increased, and rents went up. That meant that inflation readings went up as well, largely because home prices didn't! And to add insult to injury, the rise in inflation was triggered by the Fed raising rates — which meant that the very act of increasing interest rates to contain inflation was instead causing it. No wonder there has been such unease.

But as in Shakespeare's brave new world, unease sits side by side with opportunities. Today's better companies are much farther ahead in their thinking and planning than most countries and governments — think Prospero and his bag of magic tricks. Because of the imperatives of competition and the demands of the market, they are constantly innovating and changing their business models. In fact, in our view, the best way a modern investor can stay informed is to follow what the better managed companies do: ignore trends, and look at investments on a case-by-case corporate basis. (And of course, today's interested investors have a remarkable tool for this research: the Internet. O Brave New World, indeed.)

Apart from the ongoing tectonic shifts, 2006 saw a number of milestones nationally and globally. In early October, the Dow Jones Industrial Average[i] broke 12,000 for the first time and showed no signs of retreating. In later October, the Industrial & Commercial Bank of China held the world's largest IPO ever, raising more than $21 billion in its initial public offering, most of it from foreign institutional investors, which was yet one more sign that China has emerged as the second engine of international growth, one which is directly impacting a majority of the dynamic growth companies that we focus on.

And spurring the U.S. equity markets to their fall rally was one of the year's most significant developments, when the Federal Open Market Committee decided on August 8th to stop raising interest rates after 17 consecutive hikes dating back to June 2004. For the first half of the year, relentless scrutiny of whether or not the Fed would ever pause was actually obscuring what the better companies were doing, and impeding multiple expansion. To the relief of U.S. pundits, investors, and the equity markets in general the Fed continued to hold steady at 5.25% for the remainder of the year, and we believe that rates are not likely to rise in the foreseeable future. The fact that the 10-year Treasury, at about 4.5% is trading at the same level it was when the Fed began in 2004, is yet another sign that the global market is determining the economic landscape more than any one central bank — even one as powerful as the Federal Reserve.

What has been most surprising this year is how strong corporate earnings have remained; and almost as surprising is how little that strength has propelled the U.S. equity market. Even as earnings of the S&P 500 have registered double-digit growth — not to mention having increased almost 75% over the past five years — the S&P 500 Index[ii] itself was up approximately 16% year-to-date through December 31. The major U.S. indices have fared about the same, with the Dow stronger and the Nasdaq[iii] weaker. The result over this time has been a steady compression of valuations, with the forward P/E multiple for the S&P 500 going from over 18x in 2002 to just over 14x in 2006, a compression of nearly 25%.

The continued abatement of inflation and neutral stance of the Federal Reserve had positive implications for the bond market. Even though event risk dominated the corporate bond landscape as M&A activity reached a fevered pitch, corporate bond returns outpaced both Treasuries and U.S. Agency returns on the heels of solid balance sheets and a relatively benign interest rate environment.

One other positive for the equities market occurred at the end of our fiscal year, namely the fall congressional elections. The uncertainty about the outcome was for a time a headwind, and judging by the upward move of the markets after, investors were apparently relieved by the outcome — not the victory of the Democrats necessarily, but rather the end of the flurry of debates. Soon enough attention will turn to the presidential election of 2008, but for a while at least, politics will be less of a distraction.

As for our outlook for 2007: more of the same. We expect the gap between how the U.S economy is doing (fine but not spectacular) and how innovative growth companies are doing (extremely well) to continue. We also expect the international economy to benefit U.S. companies that are competing in the global marketplace, even as all of us continue to grapple with the unknowns of the new and evolving landscape.

The Alger American Balanced Portfolio returned 4.72% for the fiscal year, compared to the Russell 1000 Growth Index[iv] which returned 9.09%. Information technology represented an average weight of 26.52% of the Portfolio's equity holdings, an overweight compared to the benchmark, and outperformed in this sector. Strong performers included Research In Motion Ltd., Nintendo Co. Ltd., and Cisco Systems, Inc.

In the consumer discretionary sector, the Portfolio was slightly underweight at 14.00% compared to the benchmark, and underperformed despite good returns from XM Satellite Radio Holdings Inc., a leading distributor of satellite radio programming, Las Vegas Sands Corp., and Cablevision Systems Corp., a leading telecommunications and entertainment company.

The financial sector accounted for an average weight of 11.78% of the Portfolio's holdings, an overweight to the benchmark, and significantly outperformed. Strong contributions in this sector came from Industrial and Commercial Bank of China Ltd., Goldman Sachs Group, Inc. and IntercontinentalExchange Inc.

At an average weight of 12.59%, the Portfolio was underweight the benchmark in the health care sector, and underperformed due to weaker performances from Medco Health Solutions, Inc., and Humana, Inc.

The Fixed income portion of the Alger American Balanced Fund returned 4.08% versus the Lehman Brothers Government/Credit Bond Index YTD return of 3.78%. As of December 31, 2006, 28% of the portfolio was in corporate securities, 34% in mortgage backed securities, 3% in asset backed securities, 20% in US Treasury, 12% in US Agency and 2% in cash equivalents.

In Summary

Shakespeare's *The Tempest* ended with kings and navigators leaving an old, brittle world behind, and looking towards a new world of possibilities and rewards. We are all in that position today, heading towards an uncertain future laden with unknowns and opportunities. At Alger, we are as passionate about investing and about discovering innovative, dynamic companies as we have been for the past four decades. And as the year comes to a close, we thank you for the trust you place in us and for joining as we explore this brave new world.

Respectfully submitted,

Daniel C. Chung
Chief Investment Officer

Zachary Karabell
Chief Economist

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[i] The Dow Jones Industrial Average is an index of common stocks comprised of major industrial companies and assumes reinvestment of dividends. It is frequently used as a general measure of stock market performance.

[ii] Standard & Poor's 500 Index ("S&P 500 Index") is an index of the 500 largest and most profitable companies in the United States.

[iii] Nasdaq is an index of 4000 domestic and non-U.S. companies listed on the Nasdaq stock market.

[iv] Russell 1000 Growth Index is an unmanaged index designed to track the performance of the large capitalization growth segment of the U.S. equity universe.

You can not invest directly in any index.

This report and the financial statements contained herein are submitted for the general information of shareholders of The Alger American Fund. This report is not authorized for distribution to prospective investors in the Fund unless proceeded or accompanied by an effective prospectus for the Fund. Securities mentioned in this letter were held during the reporting period but may or may not be reflected in the Schedule of Investments as of December 31, 2006. Sector weightings represents the funds average weightings in the particular sector during the reporting period and may differ from the sector weightings as of December 31, 2006.

The views and opinions of the Fund's management and the schedule of investments described in this report are as of December 31, 2006 and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable, however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a portfolio. Please refer to the Schedule of Investments for the fund which is included in this report for a complete list of fund holdings as of December 31, 2006.

A Word About Risk

Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial resources. Portfolios that invest in fixed-income securities, such as the Balanced Portfolio, are subject to the fixed-income securities' sensitivity to interest rate movements; their market values tend to fall when interest rates rise and to rise when interest rates fall. These portfolios are also subject to the risk of a decline in the value of the portfolio's securities in the event of an issue's falling credit rating or actual default. For a more detailed discussion of the risks associated with a Portfolio, please see the Fund's Prospectus.

Mutual funds are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by banks, and are subject to investment risks, including possible loss of principal amount invested.

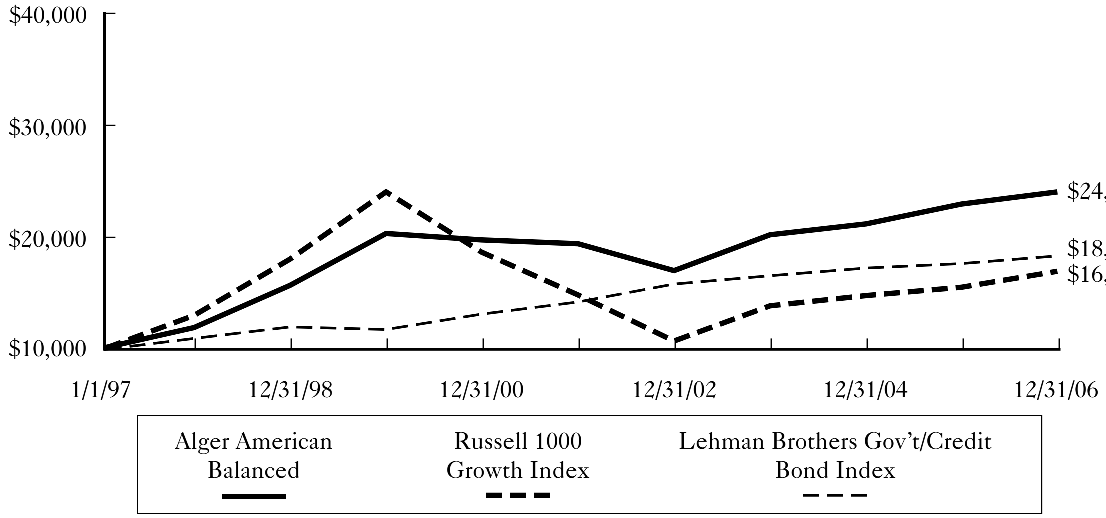
The performance data quoted represents past performance, which is not an indication or guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's share, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance current to the most recent month-end, visit the Alger web site or call the 800 number below.

Before investing in any portfolio in The Alger American Fund, investors should consider the Fund's investment objective, risks and charges and expenses carefully before investing. The Fund's prospectus contains this and other information about the Fund, and may be obtained by asking your financial advisor, calling us at (800) 254-3797, or visiting our website at www.alger.com, or contacting the Fund's distributor, Fred Alger & Company, Incorporated, 111 Fifth Avenue, New York 10003. Read the prospectus carefully before investing.

ALGER AMERICAN BALANCED PORTFOLIO

Portfolio Highlights Through December 31, 2006 (Unaudited)

HYPOTHETICAL $10,000 INVESTMENT—10 Years Ended December 31, 2006



The chart above illustrates the growth in value of a hypothetical $10,000 investment made in Alger American Balanced Class O shares, the Russell 1000 Growth Index, and the Lehman Brothers Government/Credit Bond Index for the ten years ended December 31, 2006. Figures for the Alger American Balanced Class O shares, the Russell 1000 Growth Index (an unmanaged index of common stocks), and the Lehman Brothers Government/Credit Bond Index (an unmanaged index of government and corporate bonds), include reinvestment of dividends and/or interest. Performance for the Alger American Balanced Class S shares will vary from the results shown above due to differences in expenses that class bears.

PERFORMANCE COMPARISON THROUGH December 31, 2006

	Average Annual Total Returns			
	1 Year	5 Years	10 Years	Since Inception
Class O (Inception 9/5/89)	4.72%	4.39%	9.18%	8.94%
Russell 1000 Growth Index	9.09%	2.69%	5.45%	9.24%
Lehman Brothers Gov't/Credit Bond Index	3.78%	5.17%	6.26%	7.31%
Class S (Inception 5/1/02)	4.46%	—	—	5.49%
Russell 1000 Growth Index	9.09%	—	—	5.37%
Lehman Brothers Gov't/Credit Bond Index	3.78%	—	—	5.21%

The performance data quoted represents past performance, which is not an indication or a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For performance current to the most recent month-end, visit us at www.alger.com, or call us at (800) 254-3797.

Returns indicated assume reinvestment of all distributions, no transaction costs or taxes, and are net of management fees and fund operating expenses only. Total return does not include deductions at the Portfolio or contract level for cost of insurance charges, premium load, administrative charges, mortality and expense risk charges or other charges that may be incurred under the variable annuity contract, variable life insurance plan or retirement plan for which the Portfolio serves as an underlying investment vehicle. If these charges were deducted, the total return figures would be lower. Please refer to the variable insurance product or retirement plan disclosure documents for any additional applicable expenses. Investing in the stock market involves gains and losses and may not be suitable for all investors.

THE ALGER AMERICAN FUND
ALGER AMERICAN BALANCED PORTFOLIO
PORTFOLIO SUMMARY*
DECEMBER 31, 2006 (UNAUDITED)

Sectors/Security Types	
Consumer Discretionary	9.6%
Consumer Staples	4.6
Energy	4.2
Financials	7.0
Health Care	6.5
Industrials	7.1
Information Technology	17.5
Materials	3.4
Telecommunication Services	3.6
Utilities	0.9
Total Common Stocks	64.4%
Corporate Bonds	15.3%
Agency Bonds	11.0
U.S. Treasury Bonds	6.9
Total Bonds	33.2%
Cash and Net Other Assets	2.4%
	100.0%

* Based on net assets for the Fund.

Shares	COMMON STOCKS—64.4%	Value
	AEROSPACE & DEFENSE—1.6%	
29,600	Boeing Company	$ 2,629,664
23,050	L-3 Communications Holdings, Inc.	1,885,029
		4,514,693
	BIOTECHNOLOGY—.7%	
27,150	Amgen Inc.	1,854,617
	BROADCASTING—.3%	
25,100	EchoStar Communications Corp., Cl. A*	954,553
	CAPITAL MARKETS—1.7%	
12,450	Bear Stearns Companies Inc.	2,026,611
14,400	Goldman Sachs Group, Inc.	2,870,640
		4,897,251
	COMMUNICATION EQUIPMENT—3.5%	
124,600	Cisco Systems, Inc.*	3,405,318
100,900	Corning Incorporated*	1,887,839
35,900	Research In Motion Limited*	4,587,302
		9,880,459
	COMPUTERS & PERIPHERALS—5.0%	
57,600	Apple Computer, Inc.*	4,886,784
125,600	EMC Corporation*	1,657,920
36,200	Hewlett-Packard Company	1,491,078
161,250	Memc Electronic Materials, Inc.*	6,311,325
		14,347,107
	COMPUTER SERVICES—.7%	
83,200	Satyam Computer Services ADR#	1,997,632
	CONGLOMERATE—1.4%	
69,900	ITT Industries, Inc.	3,971,718
	DIVERSIFIED TELECOMMUNICATION SERVICES—1.0%	
80,700	AT&T Corp.	2,885,025
	EDUCATION—1.0%	
56,200	Laureate Education Inc.*	2,733,006
	ELECTRONIC EQUIPMENT & INSTRUMENTS—1.0%	
67,100	Emerson Electric Co.	2,958,439
	ELECTRONICS—2.1%	
110,400	Nintendo Co., Ltd. ADR#	3,578,704
54,700	SONY CORPORATION	2,342,801
		5,921,505

Shares		Value
	ENERGY EQUIPMENT & SERVICES—3.0%	
45,900	Cameron International Corp.*	$ 2,434,995
59,600	National-Oilwell Varco Inc.*	3,646,328
22,050	Schlumberger Limited	1,392,678
13,100	Transocean Inc.*	1,059,659
		8,533,660
	FINANCE—.6%	
16,900	Intercontinental Exchange Inc.*	1,823,510
	FINANCIAL SERVICES—2.4%	
3,600	Chicago Mercantile Exchange Holdings Inc.	1,835,100
104,300	Hong Kong Exchanges & Clearing Limited	1,146,578
1,649,400	Industrial and Commercial Bank Of China*	1,024,298
47,350	UBS AG	2,856,625
		6,862,601
	FOOD & STAPLES RETAILING—1.6%	
67,000	Walgreen Co.	3,074,630
29,700	Whole Foods Market, Inc.	1,393,821
		4,468,451
	HEALTH & PERSONAL CARE—.5%	
32,150	Brookdale Senior Living Inc.	1,543,200
	HEALTH CARE EQUIPMENT & SUPPLIES—.2%	
11,000	Baxter International Inc.	510,290
	HEALTH CARE PROVIDERS & SERVICES—4.4%	
234,350	Health Management Associates, Inc. Cl. A	4,947,128
98,500	Health Net Inc.*	4,793,010
54,900	Quest Diagnostics Incorporated	2,909,700
		12,649,838
	HOTELS, RESTAURANTS & LEISURE—2.0%	
22,700	Harrah's Entertainment, Inc.	1,877,744
9,000	Melco PBL Entertainment (Macau) Limited*	191,340
68,200	Royal Caribbean Cruises Ltd.	2,822,116
29,500	Wyndham Worldwide Corporation*	944,590
		5,835,790
	HOUSEHOLD DURABLES—.4%	
17,900	Garmin Ltd.	996,314
	HOUSEHOLD PRODUCTS—1.3%	
56,600	Procter & Gamble Company	3,637,682
	INDUSTRIAL CONGLOMERATES—1.7%	
24,500	3M Co.	1,909,285
79,700	General Electric Company	2,965,637
		4,874,922

Shares	COMMON STOCKS—(Cont'd)	Value
	INSURANCE—1.0%	
31,800	Hartford Financial Services Group, Inc. (The)	$ 2,967,258
	INTERNET & CATALOG RETAIL—2.2%	
147,550	eBay Inc.*	4,436,829
71,700	Netflix Inc.*	1,854,162
		6,290,991
	INTERNET SOFTWARE & SERVICES—1.9%	
12,000	Google Inc. Cl. A*	5,525,760
	MACHINERY—.4%	
21,750	Joy Global Inc.	1,051,395
	MEDIA—1.7%	
58,300	Disney (Walt) Company	1,997,941
200,900	XM Satellite Radio Holdings Inc. Cl. A*	2,903,005
		4,900,946
	METALS & MINING—3.4%	
80,500	Freeport-McMoRan Copper & Gold, Inc. Cl. B	4,486,265
139,000	Goldcorp, Inc.	3,953,160
11,800	Phelps Dodge Corporation	1,412,696
		9,852,121
	MULTILINE RETAIL—1.0%	
73,550	Federated Department Stores, Inc.	2,804,462
	OIL & GAS—1.3%	
27,900	EOG Resources, Inc.	1,742,355
35,800	Valero Energy Corporation	1,831,528
		3,573,883
	PHARMACEUTICALS—.7%	
33,200	Sepracor Inc.*	2,044,456
	REAL ESTATE—1.2%	
36,550	Jones Lang LaSalle Incorporated	3,368,814
	SOFTWARE—3.5%	
40,700	Adobe Systems Incorporated	1,673,584
163,450	Microsoft Corporation	4,880,617
80,650	Symantec Corporation*	1,681,553
42,000	TomTom NV*	1,813,448
		10,049,202
	SPECIALTY RETAIL—1.5%	
32,400	Best Buy Co., Inc.	1,593,756
20,550	Home Depot, Inc.	825,288
94,900	The Gap, Inc.	1,850,550
		4,269,594

Shares		Value
	TEXTILES, APPAREL & LUXURY GOODS—.3%	
10,900	Polo Ralph Lauren Corporation Cl. A	$ 846,494
	TOBACCO—1.7%	
57,300	Altria Group, Inc.	4,917,486
	TRANSPORTATION—1.0%	
31,450	Textron Inc.	2,949,066
	UTILITIES—.9%	
35,650	Veolia Environnement	2,683,019
	WIRELESS TELECOMMUNICATION SERVICES—2.6%	
90,700	American Tower Corporation Cl. A*	3,381,296
45,000	NII Holdings Inc. Cl. B*	2,899,800
44,600	SBA Communications Corporation Cl. A*	1,226,500
		7,507,596
	Total Common Stocks (Cost $171,735,848)	184,254,806
	CORPORATE BONDS—15.3%	
Principal Amount		
	AEROSPACE & DEFENSE—.3%	
$ 816,015	Systems 2001 Asset Trust Cl. G, 6.664%, 9/15/13	854,393
	AGRICULTURE—.2%	
700,000	Mosaic Co., 7.375%, 12/1/14(a)	721,875
	AUTOMOTIVE—1.0%	
1,225,000	General Motors Acceptance Corp., 6.875%, 9/15/11	1,257,731
1,570,000	Capital Auto Receivables Asset Trust, 5.32%, 3/20/10(a)	1,571,777
		2,829,508
	AUTOMOTIVE EQUIPMENT & SERVICES—.2%	
625,000	Lear Corporation, 8.50%, 12/1/13(a)	609,375
	CABLE—.4%	
1,145,000	Cox Communications, Inc., 4.625%, 6/1/13	1,078,845
	CAPITAL MARKETS—.5%	
1,335,000	Allied Capital Corp., 6.00%, 4/1/12	1,317,263
	COMMERCIAL BANKS—1.3%	
1,575,000	Associates Corp. North America, 6.95%, 11/1/18	1,767,810
1,842,000	Banc of America Commercial Mortgage Inc., 5.625%, 7/10/46	1,880,311
		3,648,121

Principal Amount	CORPORATE BONDS—(Cont'd)	Value
	COMPUTERS & PERIPHERALS—.5%	
$1,245,000	Xerox Corp., 6.75%, 2/1/17	$ 1,307,250
	ELECTRIC UTILITIES—.7%	
1,350,000	General Electric Capital Corp., 5.50%, 11/15/11	1,349,183
600,000	WPS Resources Co., 6.11%, 12/1/66	596,749
		1,945,932
	ELECTRONICS—.2%	
655,000	Centerpoint Energy Transition Bond Company, 4.97%, 8/1/14	652,894
	ELECTRONIC EQUIPMENT & INSTRUMENTS—.1%	
250,000	Avnet Inc., 6.625%, 9/15/16	257,534
	FINANCE—1.7%	
1,350,000	Capital One Capital III, 7.686%, 8/15/36	1,533,766
1,600,000	Merrill Lynch Mortgage Trust, 5.66%, 5/12/39	1,646,510
1,900,000	Merrill Lynch Mortgage Trust, 4.86%, 10/12/41	1,841,871
		5,022,147
	FINANCIAL SERVICES—3.9%	
1,900,000	Citibank Credit Card Issuance Trust, 5.70%, 5/15/13	1,911,693
1,480,000	Citigroup Commercial Mortgage, 5.43%, 10/15/49	1,487,118
1,350,000	Jefferies Group, Inc., 6.25%, 1/15/36	1,313,867
1,900,000	JP Morgan Chase Commercial Mortgage SEC CO., 5.875%, 4/15/45	1,984,970
1,430,000	JP Morgan Chase Commercial Mortgage, 5.40%, 5/15/45	1,434,161
1,700,000	Morgan Stanley Aces SPC, 6.165%, 9/20/13	1,701,700
300,000	Wells Fargo Capital X, 5.95%, 12/15/36	295,040
1,060,000	Western Union Co., 5.925%, 10/1/16(a)	1,051,770
		11,180,319
	HEALTH CARE PROVIDERS & SERVICES—.2%	
547,000	Aetna Inc., 6.00%, 6/15/16	564,621
	INSURANCE—.2%	
490,000	The Chubb Corporation, 4.925%, 11/16/07	488,120
	MACHINERY—.1%	
175,000	Joy Global Inc., 6.00%, 11/15/16(a)	174,274
	MANUFACTURING—.5%	
1,300,000	Reliance Steel & Aluminum, 6.20%, 11/15/16(a)	1,292,811
	MEDIA—.2%	
585,000	Time Warner Inc., 5.50%, 11/15/11	584,118
	MISCELLANEOUS—.6%	
$1,700,000	Jefferson Valley Floating Rate Note, 6.765%, 3/20/16(a)	$ 1,679,600
	OIL & GAS—.2%	
653,000	Inergy LP / Inergy Fin Corp., 8.25%, 3/1/16	688,915
	OIL AND GAS EXTRACTION—.5%	
1,350,000	Enterprise Products Partners, 8.375%, 8/1/66	1,464,763
	REAL ESTATE—.4%	
1,075,000	ProLogis, 5.75%, 4/1/16	1,083,486
	SOFTWARE—.4%	
1,300,000	Oracle Corporation, 5.25%, 1/15/16	1,274,822
	SPECIALTY RETAIL—.4%	
1,320,000	Lowe's Companies, Inc. 5.80%, 10/15/36	1,284,301
	WIRELESS TELECOMMUNICATION SERVICES—.6%	
590,000	Sprint Nextel Corporation, 6.00%, 12/1/16	576,087
1,190,000	Vodafone Group PLC, 5.50%, 6/15/11	1,194,185
		1,770,272
	Total Corporate Bonds (Cost $43,366,425)	43,775,559
	U.S. GOVERNMENT & AGENCY OBLIGATIONS—17.9%	
	Federal Home Loan Banks,	
1,500,000	5.375%, 5/18/16	1,543,567
850,000	3.75%, 8/15/08	832,992
2,500,000	5.375%, 2/23/11	2,497,117
	Federal Home Loan Mortgage Corporation,	
1,170,000	5.75%, 6/27/16	1,219,939
2,100,000	5.60%, 10/17/13	2,103,062
1,450,000	5.50%, 9/15/36	1,439,692
1,880,000	6.00%, 8/15/29	1,900,650
1,588,354	5.50%, 1/15/15	1,592,758
1,743,676	5.75%, 12/15/18	1,743,418
1,845,000	5.50%, 10/15/31	1,826,496
1,790,000	6.00%, 5/15/32	1,824,845
1,295,259	5.50%, 10/15/16	1,295,663
1,342,482	5.75%, 12/15/18	1,343,552
	Federal National Mortgage Association,	
508,000	6.625%, 11/15/30	608,160
1,490,000	5.28%, 2/27/09	1,489,617
1,200,000	5.15%, 9/21/07	1,198,672
500,000	6.96%, 4/2/07	502,192
1,668,274	6.00%, 6/25/16	1,671,783
1,800,000	6.00%, 4/25/35	1,817,673
1,856,916	5.75%, 9/25/20	1,861,594
1,252,777	5.00%, 4/1/18	1,234,733

Principal Amount	U.S. GOVERNMENT & AGENCY OBLIGATIONS—(Cont'd)	Value
	U.S. Treasury Bonds,	
$1,000,000	5.25%, 11/15/28	$ 1,048,985
2,094,000	7.50%, 11/15/16	2,545,192
	U.S. Treasury Notes,	
2,385,000	5.00%, 8/15/11	2,419,098
3,385,000	6.00%, 8/15/09	3,488,270
132,000	3.13%, 9/15/08	128,380
900,000	4.25%, 11/15/14	873,352
1,800,000	4.63%, 8/31/11	1,794,868
230,000	4.38%, 5/15/07	229,497
640,000	4.50%, 2/15/16	630,001
3,100,000	3.50%, 11/15/09	2,999,374
1,626,000	3.13%, 4/15/09	1,568,963
1,900,000	4.25%, 8/15/13	1,852,947
	Total U.S. Government & Agency Obligations (Cost $51,118,778)	51,127,102

Principal Amount	SHORT-TERM INVESTMENTS—1.9%		Value
	U.S. AGENCY OBLIGATIONS		
$5,569,000	Federal Home Loan Banks, 4.70%, 1/2/07 (Cost $5,568,273)		$ 5,568,273
	Total Investments (Cost $271,789,324)(b)	99.5%	284,725,740
	Other Assets in Excess of Liabilities	.5	1,382,066
	Net Assets	100.0%	$286,107,806

\# American Depositary Receipts.

(a) Pursuant to Securities and Exchange Commission Rule 144A, these securities may be sold prior to their maturity only to qualified institutional buyers. These securities are deemed to be liquid and represent 2.5% of the net assets of the Fund.

(b) At December 31, 2006, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $276,536,569 amounted to $8,189,171 which consisted of aggregate gross unrealized appreciation of $15,391,264 and aggregate gross unrealized depreciation of $7,202,093.

See Notes to Financial Statements.

The Alger American Fund
Alger American Balanced Portfolio
Statement of Assets and Liabilities

December 31, 2006

Assets:	
Investments in securities, at value (identified cost*)—see accompanying schedule of investments	$284,725,740
Cash	3,250
Receivable for investment securities sold	6,235,850
Receivable for shares of beneficial interest sold	156,599
Interest and dividends receivable	1,119,024
Prepaid expenses	62,408
Total Assets	292,302,871
Liabilities:	
Payable for investment securities purchased	5,716,275
Payable for shares of beneficial interest redeemed	233,516
Accrued investment management/advisory fees	164,287
Accrued administration fees	9,808
Accrued expenses	71,179
Total Liabilities	6,195,065
Net Assets	$286,107,806
Net Assets Consist of:	
Paid-in capital	$258,325,883
Undistributed net investment income	5,075,851
Undistributed net realized gain	9,769,656
Net unrealized appreciation (depreciation)	12,936,416
Net Assets	$286,107,806
Class O	
Net Asset Value Per Share	$14.11
Class S	
Net Asset Value Per Share	$14.30
Shares of beneficial interest outstanding—Note 5	
Class O	18,041,422
Class S	2,205,090
*Identified cost	$271,789,324

See Notes to Financial Statements.

THE ALGER AMERICAN FUND
ALGER AMERICAN BALANCED PORTFOLIO
STATEMENT OF OPERATIONS

For the year ended December 31, 2006

INVESTMENT INCOME	
Interest	$ 5,603,319
Dividends (net of foreign withholding taxes*)	2,107,589
Total Income	7,710,908
EXPENSES:	
Management/Advisory fees—Note 3(a)	2,259,363
Administration fees—Note 3(a)	17,111
Interest on line of credit utilized—Note 5	1,103
Custodian fees	62,792
Professional fees	30,487
Transfer agent fees	85,209
Printing fees	66,175
Distribution fees—Note 3(b) Class S	89,856
Trustees' fees	2,000
Miscellaneous	51,002
Total Expenses	2,665,098
Net Investment Income	5,045,810
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY	
Net realized gain on investments	11,101,655
Net realized loss on foreign currency transactions	(30,395)
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	(3,415,314)
Net realized and unrealized gain on investments and foreign currency	7,655,946
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$12,701,756
*Foreign withholding taxes	$ 313

See Notes to Financial Statements.

The Alger American Fund
Alger American Balanced Portfolio
Statement of Changes in Net Assets

For the year ended December 31, 2006

Net investment income	$ 5,045,810
Net realized gain on investments	11,071,260
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	(3,415,314)
Net increase in net assets resulting from operations	12,701,756
Dividends and distributions to shareholders from:	
Net investment income	
Class O	(4,155,477)
Class S	(404,093)
Net realized gains	
Class O	(14,015,672)
Class S	(1,726,857)
Total dividends and distributions to shareholders	(20,302,099)
Decrease from shares of beneficial interest transactions:	
Class O	(30,965,017)
Class S	(11,321,983)
Net decrease from shares of beneficial interest transactions—Note 5	(42,287,000)
Total decrease	(49,887,343)
Net Assets	
Beginning of year	335,995,149
End of year	$286,107,806
Undistributed net investment income	$ 4,932,153

The Alger American Fund
Alger American Balanced Portfolio
Statement of Changes in Net Assets

For the year ended December 31, 2005

Net investment income	$ 4,222,591
Net realized gain on investments	32,650,466
Net change in unrealized appreciation (depreciation) on investments	(10,357,963)
Net increase in net assets resulting from operations	26,515,094
Dividends to shareholders from:	
Net investment income	
Class O	(4,826,274)
Class S	(623,154)
Total dividends to shareholders	(5,449,428)
Decrease from shares of beneficial interest transactions:	
Class O*	(35,627,151)
Class S	(3,622,485)
Net decrease from shares of beneficial interest transactions—Note 5	(39,249,636)
Total decrease	(18,183,970)
Net Assets	
Beginning of year	354,179,119
End of year	$335,995,149
Undistributed net investment income	$ 4,445,955

See Notes to Financial Statements.

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The Alger American Fund
Alger American Balanced Portfolio
Financial Highlights

For a share outstanding throughout the period

	Net Asset Value, Beginning of Period	Income from Investment Operations: Net Investment Income (Loss)	Income from Investment Operations: Net Realized and Unrealized Gain (Loss) on Investments	Total from Investment Operations	Dividends from Net Investment Income	Distributions from Net Realized Gains
Class O						
Year ended 12/31/06	$14.44	$ 0.24(iii)	$ 0.39	$ 0.63	$(0.22)	$(0.74)
Year ended 12/31/05	13.55	0.20	0.92	1.12	(0.23)	—
Year ended 12/31/04	13.16	0.19	0.40	0.59	(0.20)	—
Year ended 12/31/03	11.29	0.19	1.94	2.13	(0.26)	—
Year ended 12/31/02	13.08	0.20	(1.79)	(1.59)	(0.20)	—
Class S						
Year ended 12/31/06	$14.61	$ 0.20(iii)	$ 0.40	$ 0.60	$(0.17)	$(0.74)
Year ended 12/31/05	13.71	0.14	0.96	1.10	(0.20)	—
Year ended 12/31/04	13.34	0.17	0.39	0.56	(0.19)	—
Year ended 12/31/03	11.47	0.23	1.90	2.13	(0.26)	—
Eight months ended 12/31/02(i)(ii)	12.50	0.02	(1.05)	(1.03)	—	—

(i) Ratios have been annualized; total return has not been annualized.
(ii) Commenced operations May 1, 2002.
(iii) Amount was computed based on average shares outstanding during the period.

See Notes to Financial Statements.

Total Distributions	Net Asset Value, End of Period	Total Return	Ratios/Supplemental Data: Net Assets, End of Period (000's omitted)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income (Loss) to Average Net Assets	Portfolio Turnover Rate
$(0.96)	$14.11	4.72%	$254,579	0.86%	1.71%	288.73%
(0.23)	14.44	8.42	292,412	0.81	1.29	218.77
(0.20)	13.55	4.57	309,744	0.87	1.41	177.66
(0.26)	13.16	19.03	308,990	0.87	1.60	135.67
(0.20)	11.29	(12.29)	254,290	0.87	2.16	188.76
$(0.91)	$14.30	4.46%	$ 31,528	1.11%	1.43%	288.73%
(0.20)	14.61	8.15	43,583	1.06	1.05	218.77
(0.19)	13.71	4.27	44,435	1.12	1.20	177.66
(0.26)	13.34	18.73	28,680	1.11	1.25	135.67
—	11.47	(8.24)	494	1.17	1.67	188.76

December 31, 2006

NOTE 1—General:

The Alger American Fund (the "Fund") is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund operates as a series company currently issuing six series of shares of beneficial interest: American Growth Portfolio, American Small Capitalization Portfolio, American Income and Growth Portfolio, American Balanced Portfolio, American MidCap Growth Portfolio and American Leveraged AllCap Portfolio. These financial statements include only the American Balanced Portfolio (the "Portfolio"). The Portfolio's investment objectives are current income and long-term capital appreciation which it seeks to achieve through investing in equity and fixed income securities. Shares of the Portfolio are available and are being marketed exclusively as a pooled funding vehicle for qualified retirement plans and for life insurance companies writing all types of variable annuity contracts and variable life insurance policies.

The Portfolio offers Class O and Class S shares. Each class has identical rights to assets and earnings except that only Class S shares have a plan of distribution and bear the related expenses.

NOTE 2—Significant Accounting Policies:

(a) ***Investment Valuation:*** Investments of the Portfolio are generally valued on each day the New York Stock Exchange (the "NYSE") is open as of the close of the NYSE (normally 4:00 p.m. Eastern time). Listed securities for which such information is readily available are valued at the last reported sales price or, in the absence of reported sales, at the mean between the bid and asked price or, in the absence of a recent bid or asked price, the equivalent as obtained from one or more of the major market makers for the securities to be valued. Securities included within the Nasdaq market are valued at the Nasdaq official closing price ("NOCP") on the day of valuation, or if there is no NOCP issued, at the last sale price on such day. Securities included within the Nasdaq market for which there is no NOCP and no last sale price on the day of valuation are valued at the mean between the last bid and asked prices on such day.

Securities for which market quotations are not readily available or for which the market quotation does not, in the opinion of the investment manager, reflect the securities true value are valued at fair value, as determined in good faith pursuant to procedures established by the Board of Trustees.

Securities in which the Portfolio invests may be traded in markets that close before the close of the NYSE. Normally, developments that occur between the close of the foreign markets and the close of the NYSE (normally 4:00 p.m. Eastern time) will not be reflected in the Portfolio's net asset values. However, if it be determined that such developments are so significant that they will materially affect the value of the Portfolio's securities, the Portfolio may adjust the previous closing prices to reflect what the investment manager, under the direction of the Board of Trustees, believes to be the fair value of these securities as of the close of the NYSE. The Portfolio may also fair value securities in other situations, for example, when a particular foreign market is closed but the Portfolio is open.

Securities having a remaining maturity of sixty days or less are valued at amortized cost which approximates market value.

In September 2006, the Financial Accounting Standards Board (FASB) issued *Statement on Financial Accounting Standards No. 157, "Fair Value Measurements"* (FAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2006 the Portfolio does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

(b) ***Security Transactions and Investment Income:*** Security transactions are recorded on a trade date basis. Resulting receivables and payables are carried at amounts which approximate fair value. Realized gains and losses from security transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis.

Premiums and discounts on debt securities purchased are amortized or accreted over the lives of the respective securities.

(c) ***Foreign Currency Transactions:*** The books and records of the Portfolio are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the prevailing rates of exchange on the valuation date. Purchases and sales of investment securities and income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of such transactions.

The Portfolio isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Net realized gains and losses on foreign currency transactions represent net gains and losses from the sale of portfolio securities, the disposition of foreign currencies, currency gains and losses realized between the trade dates and settlement dates of security transactions, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received.

(d) ***Repurchase Agreements:*** The Portfolio enters into repurchase agreements with approved institutions. The repurchase agreements are collateralized by U.S. Government securities, which are either received and held in physical possession by the custodian or received by such custodian in book-entry form through the Federal Reserve book-entry system. The collateral is valued on a daily basis during the term of the agreement to ensure that its value equals or exceeds the agreed-upon repurchase price to be repaid to the Portfolio. Additional collateral is obtained when necessary.

(e) ***Lending of Portfolio Securities:*** The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets. The Portfolio earns fees on the securities loaned. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash, letters of credit or U.S. Government securities that are maintained in an amount equal to at least 100 percent of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio and any required additional collateral is delivered to the Portfolio on the next business day. There were no securities on loan during the year ended December 31, 2006.

(f) ***Dividends to Shareholders:*** Dividends payable to shareholders are recorded by the Fund on the ex-dividend date.

Dividends from net investment income are declared and paid annually.

Dividends from net realized gains, offset by any loss carryforward, are declared and paid annually after the end of the fiscal year in which earned.

Each class is treated separately in determining the amounts of dividends of net investment income and capital gains payable to holders of its shares.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. Therefore, the source of the Portfolio's distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income or net realized gain on investment transactions, or return of capital, depending on the type of book/tax differences that may exist.

Capital accounts within the financial statements are adjusted for permanent book/tax differences. Reclassifications result primarily from the difference in tax treatment of net operating losses, premium/discount of debt securities, and foreign currency transactions. The reclassifications had no impact on the net asset values of the Portfolio and are designed to present the Portfolio's capital accounts on a tax basis.

(g) ***Federal Income Taxes:*** It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, of each Portfolio to its respective shareholders. Therefore, no federal income tax provision is required. The Portfolio is treated as a separate entity for the purpose of determining such compliance.

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Portfolio's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48 and its impact in the financial statements has not yet been determined.

(h) ***Allocation Methods:*** The Fund accounts separately for the assets, liabilities and operations of each Portfolio. Expenses directly attributable to each Portfolio are charged to that Portfolio's operations; expenses which are applicable to all Portfolios are allocated among them based on net assets. Income, realized and unrealized gains and losses, and expenses of each Portfolio are allocated among the Portfolio's classes based on relative net assets, with the exception of distribution fees, which are only applicable to Class S shares.

(i) ***Indemnification:*** The Fund enters into contracts that contain a variety of indemnification provisions. The Fund's maximum exposure under these arrangements is unknown. The Fund does not anticipate recognizing any loss related to these arrangements.

(j) ***Other:*** These financial statements have been prepared in accordance with U.S. generally accepted accounting principles using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates.

NOTE 3—Investment Management Fees and Other Transactions with Affiliates:

(a) ***Investment Management, Advisory and Administration Fees:*** Prior to September 12, 2006, Fred Alger Management, Inc. ("Alger Management") provided both advisory services and administrative services to the Portfolio pursuant to a separate investment management agreement with the Portfolio. Effective September 12, 2006, the services provided by Alger Management to each Portfolio were bifurcated into two separate agreements—an investment advisory agreement and an adminstration agreement. Fees for these services incurred by the Portfolio, pursuant to the relevant agreement, are payable monthly and computed based on the value of the average daily net assets of the Portfolio, at the following rates:

Investment Management Fee through September 11, 2006	Advisory Fee Effective September 12, 2006	Administration Fee Effective September 12, 2006
.75%	.71%	.04%

The Agreement further provides that if in any fiscal year the aggregate expenses, excluding interest, taxes, brokerage commissions, and extraordinary expenses, of the Portfolio exceed 1.25%; of the average daily net assets of the Portfolio, Alger Management will reimburse the Portfolio for the excess expenses.

As part of the settlement with the New York State Attorney General (See Note 8—Litigation) Alger Management has agreed to reduce its advisory fee to 0.67% for the Portfolio for the period from December 1, 2006 through November 30, 2011.

(b) ***Distribution Fees:*** Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of the Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the average daily net assets of the Class S shares of the Portfolio to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees paid may be more or less than the expenses incurred by the Distributor.

(c) ***Brokerage Commissions:*** During the year ended December 31, 2006, the American Balanced Portfolio paid the Distributor $846,013 in connection with securities transactions.

(d) ***Shareholder Administrative Fees:*** The Fund has entered into a shareholder administrative service agreement with Alger Shareholder Services, Inc. ("Alger Services") to compensate Alger Services on a per account basis for its liaison and administrative oversight of the transfer agent and related services. During the year ended December 31, 2006, the Portfolio incurred fees of $97 for these services.

(e) ***Other:*** Certain trustees and officers of the Fund are directors and officers of Alger Management, the Distributor and Alger Services.

NOTE 4—Securities Transactions:

Purchases and sales of securities, other than short-term securities, for the year ended December 31, 2006, were $863,491,386 and $924,158,791 respectively.

NOTE 5—Lines of Credit:

The Trust participates in committed lines of credits with other mutual funds managed by Alger Management. All borrowings have variable interest rates and are payable on demand.

The Portfolio borrows under such lines of credit exclusively for temporary or emergency purposes. For the year ended December 31, 2006, the Portfolio had the following borrowings:

Average Borrowing	Weighted Average Interest Rate
$20,656	5.89%

NOTE 6—Share Capital:

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value which are divided into six series. The Portfolio is divided into two separate classes.

During the year ended December 31, 2006, transactions of shares of beneficial interest were as follows:

	Shares	Amount
Class O:		
Shares sold	956,880	$ 13,408,352
Dividends reinvested	1,368,309	18,171,149
Shares redeemed	(4,527,182)	(62,544,518)
Net decrease	(2,201,993)	$ (30,965,017)
Class S:		
Shares sold	98,708	$ 1,419,142
Dividends reinvested	158,082	2,130,950
Shares redeemed	(1,034,385)	(14,872,075)
Net decrease	(777,595)	$ (11,321,983)

During the year ended December 31, 2005, transactions of shares of beneficial interest were as follows:

	Shares	Amount
Class O:		
Shares sold	1,273,869	$ 17,530,368
Dividends reinvested	369,829	4,826,274
Shares redeemed	(4,260,365)	(57,983,793)
Net decrease	(2,616,667)	$ (35,627,151)
Class S:		
Shares sold	203,959	$ 2,819,665
Dividends reinvested	47,102	623,154
Shares redeemed	(510,049)	(7,065,304)
Net decrease	(258,988)	$ (3,622,485)

NOTE 7—Tax Character of Distributions to Shareholders:

The tax character of distributions paid during the year ended December 31, 2006 and the year ended December 31, 2005 were as follows:

	Year Ended December 31, 2006	Year Ended December 31, 2005
Distributions paid from:		
Ordinary Income	$14,869,576	$ 5,449,428
Long-Term capital gains	5,432,523	—
Total distributions paid	$20,302,099	$ 5,449,428

As of December 31, 2006, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	$18,213,991
Undistributed long-term gain	1,378,765
Unrealized appreciation (depreciation)	8,189,171

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is determined annually and is attributable primarily to the tax deferral of losses on wash sales and the tax treatment of premium/discount on debt securities.

NOTE 8—Litigation:

On October 11, 2006, Alger Management, Alger Inc. and Alger Shareholder Services, Inc. executed an Assurance of Discontinuance with the Office of the New York State Attorney General ("NYAG"). On December 22, 2006, Alger Management and Alger Inc. executed Offers of Settlement with the Commission, and the settlement is subject to approval of the Commission. As part of the settlements with the Commission and the NYAG, without admitting or denying liability, the firms will consent to the payment of $30 million to reimburse fund shareholders; a fine of $10 million; and certain other remedial measures including a reduction in management fees of $1 million per year for five years. The entire $40 million and fee reduction will be available for the benefit of investors. Alger Management has advised the Funds that the proposed settlement payment is not expected to adversely affect the operations of Alger Management, Alger Inc. or their affiliates, or adversely affect their ability to continue to provide services to the Funds.

On August 31, 2005, the West Virginia Securities Commissioner (the "WVSC") in an ex parte Summary Order to Cease and Desist and Notice of Right to Hearing concluded that Alger Management and Alger Inc. had violated the West Virginia Uniform Securities Act (the "WVUSA"), and ordered Alger Management and Alger Inc. to cease and desist from further violations of the WVUSA by engaging in the market-timing related conduct described in the order. The ex parte order provided notice of their right to a hearing with respect to the violations of law asserted by the WVSC. Other firms unaffiliated with Alger Management were served with similar orders. Alger Management and Alger Inc. intend to request a hearing for the purpose of seeking to vacate or modify the order.

In addition, in 2003 and 2004 several purported class actions and shareholder derivative suits were filed against various parties in the mutual fund industry, including Alger Management, certain mutual funds managed by Alger Management (the "Alger Mutual Funds"), and certain current and former Alger Mutual Fund trustees and officers, alleging wrongful conduct related to market-timing and late-trading by mutual fund shareholders. These cases were transferred to the U.S. District Court of Maryland by the Judicial Panel on Multidistrict Litigation for consolidated pre-trial proceedings. In September 2004, consolidated amended complaints involving these cases — a Consolidated Amended Fund Derivative Complaint (the "Derivative Complaint") and two substantially identical Consolidated Amended Class Action Complaints (together, the "Class Action Complaint") — were filed in the Maryland federal district court under the caption number 1:04-MD-15863 (JFM). In April 2005, a civil lawsuit involving similar allegations was filed by the West Virginia Attorney General and also transferred to the Maryland District Court, but such lawsuit has since been withdrawn.

The Derivative Complaint alleged (i) violations, by Alger Management and, depending on the specific offense alleged, by Alger Inc. and/or the fund trustee defendants, of Sections 36(a), 36(b), 47, and 48 of the Investment Company Act of 1940, as amended, (the "Investment Company Act") and of Sections 206 and 215 of the Investment Advisers Act of 1940, as amended, breach of fiduciary duty, and breach of contract, (ii) various offenses by other third-party defendants, and (iii) unjust enrichment by all the named defendants. The Class Action Complaint alleged, in addition to the offenses listed above, (i) violations, by Alger Management, Alger Inc., their affiliates, the funds named as defendants, including the Funds, and the current and former fund trustees and officers, of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, as amended, Sections 10(b) (and Rule 10b-5 thereunder) and 20(a) of the Securities Exchange Act of 1934, as amended, (the "1934 Act"), and Section 34(b) of the Investment Company Act of 1940, (ii) breach of contract by the funds named as defendants, and (iii) unjust enrichment of the defendants.

Motions to dismiss the Class Action Complaint and the Derivative Complaint were subsequently filed. On November 3, 2005, the district court issued letter rulings dismissing both complaints in their entirety with respect to the Alger Mutual Funds and dismissing all claims against the other Alger defendants, other than the claims under the 1934 Act and Section 36(b) of the 1940 Act (as to which the court deferred ruling with respect to the Alger Mutual Fund Trustees), with leave to the class action plaintiffs to file amended complaints against those defendants with respect to claims under state law. Orders implementing the letter rulings were entered. On March 31, 2006, attorneys for the class action plaintiffs informed the district court that they had decided not to file amended complaints with respect to the plaintiffs' state law claims. Answers to the Class Action Complaint were filed by the Alger defendants on April 24, 2006.

In subsequent orders, all remaining claims in the Class Action Complaint and the Derivative Complaint have been dismissed, other than claims under the 1934 Act against Alger Management, Alger Inc., Alger Associates, Inc. and Alger Shareholder Services, Inc., and certain present and former members of the senior management of Alger Management and/or Alger Inc., and claims under Section 36(b) of the 1940 Act against Alger Management, Alger Inc., Alger Associates, Inc. and Alger Shareholder Services, Inc.

Report of Independent Registered Public Accounting Firm

**To the Shareholders and Board of Trustees
of The Alger American Fund:**

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger American Balanced Portfolio (one of the portfolios comprising The Alger American Fund) (the "Fund") as of December 31, 2006, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years then ended, and the financial highlights for each of the five years then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006, by correspondence with custodians and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above, present fairly, in all material respects, the financial position of the Alger American Balanced Portfolio at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years then ended, and the financial highlights for each of the five years then ended, in conformity with U.S. generally accepted accounting principles.

ERNST & YOUNG LLP

New York, New York
January 31, 2007

As a shareholder of the Portfolio, you incur two types of costs: transaction costs, if applicable; and ongoing costs, including management fees, distribution (12b-1) fees, if applicable, and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in a Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The example below is based on an investment of $1,000 invested at the beginning of the six-month period starting July 1, 2006 and ending December 31, 2006.

Actual Expenses

The first line for each class of shares in the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you would have paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During the Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line for each class of shares in the table below provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratios for each class of shares and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in a Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs or deduction of insurance charges against assets or annuities. Therefore, the second line under each class of shares in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

		Beginning Account Value July 1, 2006	Ending Account Value December 31, 2006	Expenses Paid During the Six Months Ended December 31, 2006(b)	Ratio of Expenses to Average Net Assets For the Six Months Ended December 31, 2006(c)
Class O	**Actual**	$1,000.00	$1,069.70	$4.49	0.86%
	Hypothetical(a)	1,000.00	1,020.87	4.38	0.86
Class S	**Actual**	1,000.00	1,068.80	5.79	1.11
	Hypothetical(a)	1,000.00	1,019.61	5.65	1.11

(a) 5% annual return before expenses.
(b) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).
(c) Annualized.

Trustees and Officers of the Fund (Unaudited)

Information about the Trustees and officers of the Fund is set forth below. In the table the term "Alger Fund Complex" refers to the Fund, Spectra Fund, The Alger Funds, The Alger Institutional Funds, The China-U.S. Growth Fund and Castle Convertible Fund, Inc., each of which is a registered investment company managed by Fred Alger Management, Inc. ("Alger Management"). Each Trustee serves until an event of termination, such as death or resignation, or until his successor is duly elected; each officer's term of office is one year. Unless otherwise noted, the address of each person named below is 111 Fifth Avenue, New York, NY 10003.

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Funds in the Alger Fund Complex which are Overseen by Trustee
Non-Interested Trustees			
Stephen E. O'Neil (74) Trustee	Attorney; Private investor since 1981; Director of Brown-Forman Corporation since 1978; Trustee/Director of the six funds in the Alger Fund Complex since the inception of each.	1988	27
Nathan E. Saint-Amand, M.D. (68) Trustee	Medical doctor in private practice; Member of the Board of the Manhattan Institute since 1988; Trustee/Director of the six funds in the Alger Fund Complex since the later of 1986 or its inception; formerly Co-Chairman Special Projects Committee, Memorial Sloan Kettering.	1988	27
Officers			
Dan C. Chung (44) Trustee and President	President since September 2003 and Chief Investment Officer and Director since 2001 of Alger Management; President since 2003 and Director since 2001 of Alger Associates, Inc. ("Associates"), Alger Shareholder Services, Inc. ("Services"), Fred Alger International Advisory S.A. ("International") (Director since 2003), Director of Fred Alger & Co., Inc. ("Alger Inc.") and Analysts Resources, Inc. ("ARI"); President of the six investment companies in the Alger Fund Complex since September 2003; Trustee/Director of four of the six investment companies in the Alger Fund Complex since 2001; senior analyst with Alger Management 1998–2001.	2001	N/A
Frederick A. Blum (52) Treasurer	Executive Vice President, Chief Financial Officer and Treasurer of Alger Inc., Alger Management, ARI and Services since September 2003 and Senior Vice President prior thereto; Executive Vice President of Associates since September 2003; Treasurer or Assistant Treasurer of each of the six investment companies in the Alger Fund Complex since the later of 1996 or its inception; Director of SICAV and International and Chairman of the Board (and prior thereto Senior Vice President) since 2003.	2003	N/A

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Funds in the Alger Fund Complex which are Overseen by Trustee
Officers			
Hal Liebes (42) Secretary and Chief Operating Officer	Executive Vice President, Chief Legal Officer, Director and Secretary of Alger Management, Chief Operating Officer, Director and Secretary of Services, Director of Associates; Executive Vice President, Chief Legal Officer and Director of Alger, Inc.; Secretary of the six investment companies in the Alger Fund Complex. Formerly Chief Compliance Officer 2004–2005, AMVESCAP PLC; U.S. General Counsel 1994–2002 and Global General Counsel 2002–2004, Credit Suisse Asset Management.	2005	N/A
Michael D. Martins (41) Assistant Treasurer	Senior Vice President of Alger Management; Assistant Treasurer of the six investment companies in the Alger Fund Complex since 2004. Formerly Vice President, Brown Brothers Harriman & Co. 1997–2004.	2005	N/A
Lisa A. Moss (41) Assistant Secretary	Vice President and Assistant General Counsel of Alger Management since June 2006. Formerly Director of Merrill Lynch Investment Managers, L.P. from 2005–2006; Assistant General Counsel of AIM Management, Inc. from 1995–2005.	2006	N/A
Barry J. Mullen (53) Chief Compliance Officer	Senior Vice President and Chief Compliance Officer of Alger Management since May 2006. Formerly, Director of BlackRock, Inc. from 2004–2006; Vice President of J.P. Morgan Investment Management from 1996–2004.	2006	N/A

No Trustee is a director of any public company except as may be indicated under “Principal Occupations.”

The Statement of Additional Information contains additional information about the Fund’s Trustees and is available without charge upon request by calling (800) 254-3797.

Board Considerations

At an in-person meeting held on September 12, 2006, the Trustees, including the Independent Trustees, unanimously approved, subject to the required shareholder approval described herein, the New Investment Advisory Agreement. The Independent Trustees were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of Alger Management.

For each Fund, in evaluating the New Investment Advisory Agreement, the Trustees drew on materials that they requested and which were provided to them in advance of the meeting by Alger Management and by counsel to the Trust. The materials covered, among other matters, (i) the nature, extent and quality of the services provided by Alger Management under the Current Investment Advisory Agreement, (ii) the investment performance of the Fund, (iii) the costs to Alger Management of its services and the profits realized by Alger Management and Alger Inc. from their relationship with the Fund, and (iv) the extent to which economies of scale would be realized if and as the Fund grows and whether the fee level in the New Investment Advisory Agreement reflects these economies of scale. These materials included an analysis of the Fund and Alger Management's services by Callan Associates Inc. ("Callan"), an independent consulting firm whose specialties include assistance to fund trustees and directors in their review of advisory contracts pursuant to Section 15(c) of the 1940 Act. At the meeting, senior Callan personnel provided a presentation to the Trustees based on the Callan materials.

In deciding whether to approve the New Investment Advisory Agreements, the Trustees considered various factors, including those enumerated above. They also considered other direct and indirect benefits to Alger Management and its affiliates from their relationship with the Funds.

Nature, Extent and Quality of Services. In considering the nature, extent and quality of the services proposed to be provided by Alger Management pursuant to each Fund's New Investment Advisory Agreement, the Trustees relied on their prior experience as Trustees of the Trust, their familiarity with the personnel and resources of Alger Management and its affiliates and the materials provided at the meeting, and considered the nature, extent and quality of the services provided by Alger Management pursuant to the Current Investment Advisory Agreements. For each Fund, they noted that under the Advisory Agreements, Alger Management is responsible for managing the investment operations of the Fund. They also noted that administrative, compliance, reporting and accounting services necessary for the conduct of the Fund's affairs are provided under the separate Administration Agreement. The Trustees reviewed the background and experience of Alger Management's senior investment management personnel, including the individuals currently responsible for the investment operations of the Funds. They also considered the resources, operational structures and practices of Alger Management in managing each Fund's portfolio and administering the Fund's affairs, as well as Alger Management's overall investment management business. The Trustees concluded that Alger Management's experience, resources and strength in those areas of importance to the Funds are considerable. The Trustees considered the level and depth of Alger Management's ability to execute portfolio transactions to effect investment decisions, including those through Alger Inc. The Trustees also considered the ongoing enhancements to the control and compliance environment at Alger Management and within the Trust.

Transfer of Ownership of Alger Associates. The Trustees assessed the implications for Alger Management of the pending transfer of ownership control of Alger Associates and Alger Management's ability to continue to provide services to the Funds of the same scope and quality as are currently provided. In particular, the Board inquired as to the impact of the pending transfer on Alger Management's personnel, management, facilities and financial capabilities, and received assurances in this regard from senior management of Alger Management that the pending transfer would not adversely affect Alger Management's ability to fulfill its obligations under the New Investment Advisory Agreements, and to operate its business in a manner consistent with past practices. The Board also considered that each Fund's New Investment Advisory Agreement, and the fees paid thereunder, are substantively identical in all respects to that Fund's Current Investment Advisory Agreement, except for the time periods covered by the Agreements and, that for administrative convenience, the separate Current Investment Advisory Agreements were being combined into a single New Investment Advisory Agreement between Alger Management and the Trust, on behalf of the Funds.

Investment Performance of the Funds. Drawing upon information provided at the meeting by Alger Management as well as Callan and upon reports provided to the Trustees by Alger Management throughout the preceding year, the Trustees noted that the performance of the Portfolio had underperformed its benchmarks and fund peer group for at least the year ended August 31, 2006. The Trustees discussed with Alger Management the performance, inquiring into both the reasons for the underperformance and Alger Management's plans for upgrading the Portfolio's performance.

Fund Fees and Expense Ratios; Profitability to Alger Management and its Affiliates. The Trustees considered the profitability of the Current Investment Advisory Agreement to Alger Management and its affiliates, and the methodology used by Alger Management in determining such profitability. The Trustees reviewed previously-provided data on the Fund's profitability to Alger Management and its affiliates for the Fund's most recent fiscal year. In addition, the Trustees reviewed the Fund's management fees and expense ratios and compared them with a group of comparable funds. In order to assist the Trustees in this comparison, Callan had provided the Trustees with comparative information with respect to fees paid, and expense ratios incurred, by similar funds. That information indicated that the Portfolio's advisory fees and/or expense ratios were higher than those of most of the funds in the Callan peer group. The Trustees determined that such information should be taken into account in weighing the size of the fee against the nature, extent and quality of the services provided. After discussing with representatives of the Adviser and Callan the methodologies used in computing the costs that formed the bases of the profitability calculations, the Trustees turned to the profitability data provided. After analysis and discussion, they concluded that, to the extent that Alger Management's and its affiliates' relationships with the Fund had been profitable to either or both of those entities, the profit margin in each case was modest.

Economies of Scale. On the basis of their discussions with management and their analysis of information provided at the meeting, the Trustees determined that the nature of the Funds and their operations is such that Alger Management is likely to realize economies of scale in the management of each Fund at some point as it grows in size, but that in view of the current levels of profitability of each of the Funds to Alger Management and its affiliates, such economies as might already exist were subsumed in the level of the management fees, and that adoption of breakpoints in one or more advisory fees, while possibly appropriate at a later date, could await further analysis of the sources and potential scale of the economies and the fee structure that would best reflect them. Accordingly, the Trustees requested that Alger Management address this topic with the Trustees at future meetings.

Other Benefits to Alger Management. The Trustees considered whether Alger Management benefits in other ways from its relationship with the Funds. They noted that Alger Management maintains soft-dollar arrangements in connection with the Funds' brokerage transactions, data on which is regularly supplied to the Trustees at their quarterly meetings. The Trustees also noted that Alger, Inc. provides a substantial portion of the Funds' equity brokerage and that Alger Shareholder Services, Inc. receives fees from the Funds under a shareholder services agreement. The Trustees had been provided with information regarding, and had considered, the brokerage and shareholder servicing fee benefits in connection with their review of the profitability to Alger Management and its affiliates of their relationships with the Funds. As to other benefits received, the Trustees decided that none were so significant as to render Alger Management's fees excessive.

At the conclusion of these discussions, each of the Independent Trustees expressed the opinion that he had been furnished with sufficient information to make an informed business decision with respect to approval of each Fund's New Investment Advisory Agreement. Based on its discussions and considerations as described above, the Board made the following conclusions and determinations, as to each Fund:

- The Board concluded that the nature, extent and quality of the services provided by Alger Management are adequate and appropriate.
- The Board determined that the pending transfer of ownership control of Alger Associates would not be a detriment to Alger Management's ability to continue to provide services to the Fund of the same scope and quality as provided under the Current Investment Advisory Agreement, and that the pending transfer would not adversely affect Alger Management's ability to fulfill its obligations under the New Investment Advisory Agreement, and to operate its business in a manner consistent with past practices.
- The Board was satisfied with the performance of the Funds that had shown excellent performance, but determined to monitor the progress of Alger Management's steps to improve the performance of the underperforming Funds.
- The Board concluded that the Fund's fee paid to Alger Management, which was proposed to be the same under the New Investment Advisory Agreement as under the Current Investment Advisory Agreement, was reasonable in light of comparative performance and expense and advisory fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by Alger Management from the relationship with the Fund.
- The Board determined that there were not at this time significant economies of scale to be realized by Alger Management in managing the Fund's assets and that, to the extent that material economies of scale had not been shared with the Fund, the Board would seek to do so.

The Board considered these conclusions and determinations and, without any one factor being dispositive, determined that approval of the New Investment Advisory Agreement was in the best interests of each Fund and its shareholders.

Proxy Voting Policies

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities and the proxy voting record is available, without charge, by calling (800) 992-3863 or online on the Fund's website at http://www.alger.com or on the SEC's website at http://www.sec.gov.

Quarterly Fund Holdings

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarter of each fiscal year on Form N-Q. Forms N-Q are available online on the Fund's website at http://www.alger.com or on the SEC's website at http://www.sec.gov. The Portfolio's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. A copy of the most recent quarterly holdings may also be obtained from the Fund by calling (800) 992-3863.

The Alger American Fund

Alger American
Leveraged AllCap Portfolio

Annual Report

December 31, 2006

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Dear Shareholders,

January 10, 2007

Looking back on the fiscal year that ended December 31, 2006, we were reminded of the famous quotation from Shakespeare's The Tempest: "O Wonder! How many goodly creatures are there here! How beauteous mankind is! O brave new world that has such people in't!"

"Brave New World" strikes us as a good metaphor for where U.S. investors find themselves today. Early in 2006, Federal Chairman Ben Bernanke discussed his own uncertainty about the "conundrum" of why long-term interest rates weren't moving in sync with short-term rates. If Bernanke, a skilled and experienced economist and policy-maker, is perplexed about the world today, it is hardly surprising that so many investors are feeling unsettled. More than at any point in recent memory, the data that most of us use to gauge the health or weakness of the economy and the markets offers little clarity. Inflation was a concern, and then it wasn't; the job market was strong statistically, yet people seem concerned about employment; corporate profits have accelerated at a double-digit pace, yet the markets have held back. And overall, Wall Street pundits and U.S. investors spent a good part of the year worrying and waiting for a "Tempest" that never came.

One reason for the confusion, in our view, is that today's economic reality reflects an international macro-economy, not just a national one. But there are few metrics to track global data the way the major U.S. indicators track our national economy. A few economists, market mavens, and commentators have begun to grapple with this issue, but until systems can be created that do effectively gauge factors such as global inflation or global labor data, U.S. investors may feel like Shakespeare's Miranda, washed up on the shores of an uncharted, potentially dangerous island — with no overarching point of reference and a profound sense of unease.

Take inflation. While gas prices soared until the summer, they came down after. Home prices also began to soften, and in some regions of the country, plummet. The earlier increase in both was widely felt by most consumers to be proof of inflation, and for most people, it was. But statistically, it was a different matter. Gasoline prices are not included in so-called "core inflation," and home prices aren't either. Even core inflation is a strange statistic, because nearly one-third of the core index is made up of "owner's equivalent rent" — a component that reflects potential homebuyers who choose to rent during a cooling housing market, while waiting for a more opportune time to buy. As this group grew in the early months of the year, demand for rental units increased, and rents went up. That meant that inflation readings went up as well, largely because home prices didn't! And to add insult to injury, the rise in inflation was triggered by the Fed raising rates — which meant that the very act of increasing interest rates to contain inflation was instead causing it. No wonder there has been such unease.

But as in Shakespeare's brave new world, unease sits side by side with opportunities. Today's better companies are much farther ahead in their thinking and planning than most countries and governments — think Prospero and his bag of magic tricks. Because of the imperatives of competition and the demands of the market, they are constantly innovating and changing their business models. In fact, in our view, the best way a modern investor can stay informed is to follow what the better managed companies do: ignore trends, and look at investments on a case-by-case corporate basis. (And of course, today's interested investors have a remarkable tool for this research: the Internet. O Brave New World, indeed.)

Apart from the ongoing tectonic shifts, 2006 saw a number of milestones nationally and globally. In early October, the Dow Jones Industrial Average[i] broke 12,000 for the first time and showed no signs of retreating. In later October, the Industrial & Commercial Bank of China held the world's largest IPO ever, raising more than $21 billion in its initial public offering, most of it from foreign institutional investors, which was yet one more sign that China has emerged as the second engine of international growth, one which is directly impacting a majority of the dynamic growth companies that we focus on.

And spurring the U.S. equity markets to their fall rally was one of the year's most significant developments, when the Federal Open Market Committee decided on August 8th to stop raising interest rates after 17 consecutive hikes dating back to June 2004. For the first half of the year, relentless scrutiny of whether or not the Fed would ever pause was actually obscuring what the better companies were doing, and impeding multiple expansion. To the relief of U.S. pundits, investors, and the equity markets in general the Fed continued to hold steady at 5.25% for the remainder of the year, and we believe that rates are not likely to rise in the foreseeable future. The fact that the 10-year Treasury, at about 4.5% is trading at the same level it was when the Fed began in 2004, is yet another sign that the global market is determining the economic landscape more than any one central bank — even one as powerful as the Federal Reserve.

What has been most surprising this year is how strong corporate earnings have remained; and almost as surprising is how little that strength has propelled the U.S. equity market. Even as earnings of the S&P 500 have registered double-digit growth — not to mention having increased almost 75% over the past five years — the S&P 500 Index[ii] itself was up approximately 16% year-to-date through December 31. The major U.S. indices have fared about the same, with the Dow stronger and the Nasdaq[iii] weaker. The result over this time has been a steady compression of valuations, with the forward P/E multiple for the S&P 500 going from over 18x in 2002 to just over 14x in 2006, a compression of nearly 25%.

The continued abatement of inflation and neutral stance of the Federal Reserve had positive implications for the bond market. Even though event risk dominated the corporate bond landscape as M&A activity reached a fevered pitch, corporate bond returns outpaced both Treasuries and U.S. Agency returns on the heels of solid balance sheets and a relatively benign interest rate environment.

One other positive for the equities market occurred at the end of our fiscal year, namely the fall congressional elections. The uncertainty about the outcome was for a time a headwind, and judging by the upward move of the markets after, investors were apparently relieved by the outcome — not the victory of the Democrats necessarily, but rather the end of the flurry of debates. Soon enough attention will turn to the presidential election of 2008, but for a while at least, politics will be less of a distraction.

As for our outlook for 2007: more of the same. We expect the gap between how the U.S economy is doing (fine but not spectacular) and how innovative growth companies are doing (extremely well) to continue. We also expect the international economy to benefit U.S. companies that are competing in the global marketplace, even as all of us continue to grapple with the unknowns of the new and evolving landscape.

The Alger American Leveraged AllCap Portfolio gained 19.26% for the year ended December 31, 2006, compared to the Russell 3000 Growth Index[iv] return of 9.46%.

The Portfolio's industrial holdings, at an average weight of 14.24%, were underweight to the benchmark and substantially outperformed. Strong performers included Terex Corp., a manufacturer of trucks and hydraulic mining excavators, BE Aerospace Inc., and Textron, Inc., a global network of aircraft, industrial and finance businesses.

Information technology represented an average weight of 25.77% of the Portfolio's holdings, an underweight to the benchmark and outperformed. Strong IT performers included MEMC Electronic Materials, Inc., a global supplier of silicon wafers to the semiconductor industry, Cisco Systems, Inc., and DealerTrack Holdings Inc. During the past year, we made minor shifts in our IT weightings out of peripherals and semiconductors and solidified our weight in online services.

In the consumer discretionary sector, the Portfolio was underweight at 10.92% compared to the benchmark, but outperformed due to substantial returns by Focus Media Holdings Ltd., GameStop Corp., and MGM MIRAGE.

Energy stocks accounted for an average weight of 10.17%, an overweight to the benchmark but underperformed with weaker performances from companies including Warren Resources, Inc., a company engaged in the exploration and development of domestic onshore natural gas and oil reserves, and Horizon Offshore, Inc., a provider of marine construction services to the offshore oil and gas industry.

In Summary

Shakespeare's *The Tempest* ended with kings and navigators leaving an old, brittle world behind, and looking towards a new world of possibilities and rewards. We are all in that position today, heading towards an uncertain future laden with unknowns and opportunities.

At Alger, we are as passionate about investing and about discovering innovative, dynamic companies as we have been for the past four decades. And as the year comes to a close, we thank you for the trust you place in us and for joining as we explore this brave new world.

Respectfully submitted,

Daniel C. Chung	Zachary Karabell
Chief Investment Officer	Chief Economist

[i] The Dow Jones Industrial Average is an index of common stocks comprised of major industrial companies and assumes reinvestment of dividends. It is frequently used as a general measure of stock market performance.

[ii] Standard & Poor's 500 Index ("S&P 500 Index") is an index of the 500 largest and most profitable companies in the United States.

[iii] Nasdaq is an index of 4000 domestic and non-U.S. companies listed on the Nasdaq stock market.

[iv] Russell 3000 Growth Index is an unmanaged index designed to track the performance of companies of the broad growth equity market.

You can not invest directly in any index.

This report and the financial statements contained herein are submitted for the general information of shareholders of The Alger American Fund. This report is not authorized for distribution to prospective investors in the Fund unless proceeded or accompanied by an effective prospectus for the Fund. Securities mentioned in this letter were held during the reporting period but may or may not be reflected in the Schedule of Investments as of December 31, 2006. Sector weightings represents the funds average weightings in the particular sector during the reporting period and may differ from the sector weightings as of December 31, 2006.

The views and opinions of the Fund's management and the schedule of investments described in this report are as of December 31, 2006 and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable, however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a portfolio. Please refer to the Schedule of Investments for the fund which is included in this report for a complete list of fund holdings as of December 31, 2006.

A Word About Risk

Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial resources. Portfolios that participate in leveraging, such as the Portfolio, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, the portfolio's net asset value can decrease more quickly than if the Portfolio had not borrowed. For a more detailed discussion of the risks associated with a Portfolio, please see the Fund's Prospectus.

Mutual funds are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by banks, and are subject to investment risks, including possible loss of principal amount invested.

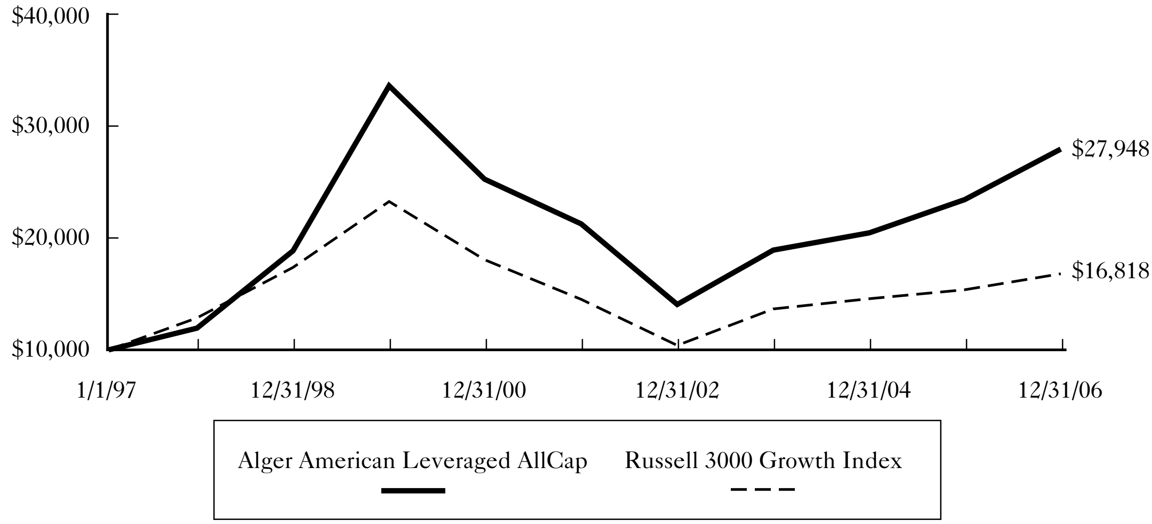
The performance data quoted represents past performance, which is not an indication or guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's share, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance current to the most recent month-end, visit the Alger web site or call the 800 number below.

Before investing in any portfolio in The Alger American Fund, investors should consider the Fund's investment objective, risks and charges and expenses carefully before investing. The Fund's prospectus contains this and other information about the Fund, and may be obtained by asking your financial advisor, calling us at (800) 254-3797, or visiting our website at www.alger.com, or contacting the Fund's distributor, Fred Alger & Company, Incorporated, 111 Fifth Avenue, New York 10003. Read the prospectus carefully before investing.

ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO

Portfolio Highlights Through December 31, 2006 (Unaudited)

HYPOTHETICAL $10,000 INVESTMENT—10 Years Ended December 31, 2006



The chart above illustrates the growth in value of a hypothetical $10,000 investment made in Alger American Leveraged AllCap Class O shares and the Russell 3000 Growth Index for the ten years ended December 31, 2006. Figures for the Alger American Leveraged AllCap Class O shares and the Russell 3000 Growth Index (an unmanaged index of common stocks), include reinvestment of dividends. Performance for Alger American Leveraged AllCap Class S shares will vary from the results shown above due to differences in expenses that class bears.

PERFORMANCE COMPARISON THROUGH December 31, 2006

	Average Annual Total Returns			
	1 Year	5 Years	10 Years	Since Inception
Class O (Inception 1/25/95)	19.26%	5.63%	10.82%	15.28%
Russell 3000 Growth Index	9.46%	3.01%	5.34%	8.88%
Class S (Inception 5/1/02)	18.96%	—	—	8.11%
Russell 3000 Growth Index	9.46%	—	—	5.60%

The performance data quoted represents past performance, which is not an indication or a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For performance current to the most recent month-end, visit us at www.alger.com, or call us at (800) 254-3797.

Returns indicated assume reinvestment of all distributions, no transaction costs or taxes, and are net of management fees and fund operating expenses only. Total return does not include deductions at the Portfolio or contract level for cost of insurance charges, premium load, administrative charges, mortality and expense risk charges or other charges that may be incurred under the variable annuity contract, variable life insurance plan or retirement plan for which the Portfolio serves as an underlying investment vehicle. If these charges were deducted, the total return figures would be lower. Please refer to the variable insurance product or retirement plan disclosure documents for any additional applicable expenses. Investing in the stock market involves gains and losses and may not be suitable for all investors.

THE ALGER AMERICAN FUND
ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO
PORTFOLIO SUMMARY*
DECEMBER 31, 2006 (UNAUDITED)

Sectors	
Consumer Discretionary	10.5%
Consumer Staples	6.5
Energy	11.6
Financials	4.1
Health Care	14.2
Industrials	9.8
Information Technology	32.2
Materials	2.2
Telecommunication Services	8.6
Utilities	1.0
Cash and Net Other Assets	(0.7)
	100.0%

* Based on net assets for the Fund.

The Alger American Fund
Alger American Leveraged AllCap Portfolio
Schedule of Investments—December 31, 2006

Shares	COMMON STOCKS—100.7%	Value
	AEROSPACE & DEFENSE—4.6%	
138,400	Armour Holdings, Inc.*	$ 7,591,240
121,200	BE Aerospace, Inc.*	3,112,416
17,300	Boeing Company	1,536,932
33,500	L-3 Communications Holdings, Inc.	2,739,630
		14,980,218
	BIOTECHNOLOGY—3.6%	
15,700	Alexion Pharmaceuticals, Inc.*	634,123
64,600	Amgen Inc.	4,412,826
80,900	Genentech, Inc.*	6,563,417
		11,610,366
	CAPITAL MARKETS—.6%	
12,050	Bear Stearns Companies Inc.	1,961,499
	COMMERCIAL BANKS—.8%	
48,000	Bank of America Corporation	2,562,720
	COMMERCIAL SERVICES & SUPPLIES—.7%	
75,150	Net 1 UEPS Technologies, Inc.*	2,221,434
	COMMUNICATION EQUIPMENT—4.3%	
178,500	Cisco Systems, Inc.*	4,878,405
74,600	Comverse Technology, Inc.*	1,574,806
294,200	Corning Incorporated*	5,504,482
302,900	Sonus Networks, Inc.*	1,996,111
		13,953,804
	COMPUTERS & PERIPHERALS—11.3%	
108,200	Apple Computer, Inc.*	9,179,688
120,800	EMC Corporation*	1,594,560
104,900	Hewlett-Packard Company	4,320,831
376,200	Memc Electronic Materials, Inc.*†	14,724,468
93,700	NCR Corporation*	4,006,612
93,300	Seagate Technology	2,472,450
		36,298,609
	COMPUTER TECHNOLOGY—1.7%	
182,700	Atheros Communications*	3,895,164
45,300	NAVTEQ*	1,584,141
		5,479,305
	CONSTRUCTION & ENGINEERING—1.2%	
76,900	McDermott International, Inc.*	3,911,134
	DIVERSIFIED TELECOMMUNICATION SERVICES—.5%	
303,800	Level 3 Communication Inc.*	1,701,280
	DRUGS & PHARMACEUTICALS—.4%	
24,100	United Therapeutics Corporation*	1,310,317
	ELECTRICAL EQUIPMENT—.7%	
75,300	AMETEK, Inc.	2,397,552
	ENERGY EQUIPMENT & SERVICES—3.6%	
80,500	Cameron International Corp.*	$ 4,270,525
21,100	Diamond Offshore Drilling Inc.	1,686,734
91,200	Horizon Offshore, Inc.*	1,486,560
39,800	National-Oilwell Varco Inc.*	2,434,964
47,000	Suntech Power Holdings Co., Ltd. ADR*#	1,598,470
		11,477,253
	FINANCIAL INFORMATION SERVICES—.5%	
51,460	Genworth Financial Inc. Cl. A	1,760,447
	FINANCIAL SERVICES—2.1%	
8,250	Chicago Mercantile Exchange Holdings Inc.	4,205,437
54,700	Lazard Ltd.	2,589,498
		6,794,935
	FOOD & STAPLES RETAILING—1.7%	
180,500	CVS Corporation	5,579,255
	FREIGHT & LOGISTICS—.5%	
15,400	FedEx Corp.	1,672,748
	HEALTH CARE EQUIPMENT & SUPPLIES—1.6%	
50,600	Hologic, Inc.*	2,392,368
63,400	Ventana Medical Systems, Inc.*	2,728,102
		5,120,470
	HEALTH CARE PROVIDERS & SERVICES—2.3%	
44,260	Health Net Inc.*	2,153,692
31,900	Humana Inc.*	1,764,389
30,000	Medco Health Solutions, Inc.*	1,603,200
33,920	UnitedHealth Group Incorporated	1,822,522
		7,343,803
	HOTELS, RESTAURANTS & LEISURE—2.0%	
67,400	Penn National Gaming, Inc.*	2,805,188
85,700	Royal Caribbean Cruises Ltd.	3,546,266
		6,351,454
	HOUSEHOLD PRODUCTS—1.5%	
73,327	Procter & Gamble Company	4,712,726
	INTERNET & CATALOG RETAIL—.9%	
94,600	eBay Inc.*	2,844,622
	INTERNET SOFTWARE & SERVICES—5.2%	
148,700	DealerTrack Holdings Inc.*	4,374,754
19,200	Google Inc. Cl. A*	8,841,216
138,975	Yahoo! Inc.*	3,549,422
		16,765,392
	MACHINERY—.4%	
19,500	Terex Corporation*	1,259,310

Shares	COMMON STOCKS (Cont'd)	Value
	MEDIA—4.8%	
146,100	DreamWorks Animation SKG, Inc. Cl. A*	$ 4,308,489
119,550	Focus Media Holding Limited ADR*#	7,936,924
150,600	Regal Entertainment Group	3,210,792
		15,456,205
	METALS—2.3%	
229,900	SXR Uranium One, Inc.*	3,161,125
310,500	Yamana Gold, Inc.	4,092,390
		7,253,515
	METALS & MINING—2.1%	
1,887,650	Breakwater Resources, Ltd.*	2,954,172
92,800	Cameco Corporation	3,753,760
		6,707,932
	MULTILINE RETAIL—.9%	
77,500	Federated Department Stores, Inc.	2,955,075
	MULTI-UTILITIES UNREGULATED POWER—	
7,873	Dynegy Inc. Cl. A	57,000
	OIL AND EXPLORATION SERVICES—2.2%	
470,400	Petrobank Energy and Resources Ltd.*	7,183,008
	OIL & GAS—4.2%	
195,300	Sunoco, Inc.	12,178,908
111,700	Warren Resources Inc.*	1,309,124
		13,488,032
	PHARMACEUTICAL PREPARATIONS—1.0%	
80,600	Adams Respiratory Therapeutics, Inc.*	3,289,286
	PHARMACEUTICALS—5.3%	
32,000	Abbott Laboratories	1,558,720
40,900	New River Pharmaceuticals Inc.*	2,237,639
152,900	Salix Pharmaceuticals, Ltd.*	1,860,793
126,400	Schering-Plough Corporation	2,988,096
135,600	Sepracor Inc.*	8,350,248
		16,995,496
	ROAD & RAIL—.8%	
35,650	Burlington Northern Santa Fe Corporation	2,631,326
	SEMICONDUCTOR CAPITAL EQUIPMENT—.4%	
37,900	FormFactor Inc.*	1,411,775
	SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT—2.3%	
41,100	Microsemi Corporation*	807,615
89,805	Tessera Technologies Inc.*	3,622,734
161,700	Trident Microsystems, Inc.*	2,939,706
		7,370,055

Shares		Value
	SOFTWARE—5.6%	
56,400	Adobe Systems Incorporated	$ 2,319,168
154,100	Microsoft Corporation	4,601,426
138,800	Symantec Corporation*	2,893,980
88,500	Synchronoss Technologies Inc.*	1,214,220
191,800	Tibco Software Inc.*	1,810,592
68,500	TomTom NV*	2,957,648
58,100	VeriFone Holdings Inc.*	2,056,740
		17,853,774
	SPECIALTY RETAIL—1.7%	
25,200	Abercrombie & Fitch Co. Cl. A	1,754,676
24,000	Carmax Inc.*	1,287,120
43,200	Gamestop Corp Cl. A*	2,380,752
		5,422,548
	TEXTILES & APPAREL—1.1%	
182,900	Iconix Brand Group, Inc.*	3,546,431
	TOBACCO—3.3%	
123,700	Altria Group, Inc.	10,615,934
	TRANSPORTATION—1.0%	
33,300	Textron Inc.	3,122,541
	UTILITIES—.9%	
39,900	Veolia Environnement	3,002,874
	WIRELESS TELECOMMUNICATION SERVICES—8.1%	
42,250	America Movil S.A. de C.V. Series L ADR#	1,910,545
354,542	American Tower Corporation Cl. A*	13,217,326
129,900	NII Holdings Inc. Cl. B*	8,370,756
127,700	Sprint Nextel Corporation	2,412,253
		25,910,880
	Total Common Stocks (Cost $300,775,100)	324,344,340

Principal Amount	SHORT-TERM INVESTMENTS—.6%		
	U.S. AGENCY OBLIGATIONS		
$1,827,000	Federal Home Loan Banks, 4.70%, 1/2/07 (Cost $1,826,761)		1,826,761
Total Investments (Cost $302,601,861)(a)		101.3%	326,171,101
Liabilities in Excess of Other Assets		(1.3)	(4,302,121)
Net Assets		100.0%	$321,868,980

* Non-income producing security.
\# American Depositary Receipts.
(a) At December 31, 2006, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $303,989,511 amounted to $22,181,590 which consisted of aggregate gross unrealized appreciation of $28,812,033 and aggregate gross unrealized depreciation of $6,630,443.
† A portion of the securities are pledged as collateral for options written.

See Notes to Financial Statements.

THE ALGER AMERICAN FUND
ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO
SCHEDULE OF OPTIONS WRITTEN—DECEMBER 31, 2006

Contracts	CALL OPTIONS WRITTEN	Shares Subject to Call	Value
1,375	Memc Electronic Materials/April/45	137,500	$226,875
687	Memc Electronic Materials/April/50	68,700	44,655
	Total		
	(Premiums Received $713,136)		$271,530

See Notes to Financial Statements.

The Alger American Fund
Alger American Leveraged AllCap Portfolio
Statement of Assets and Liabilities

December 31, 2006

Assets:	
Investments in securities, at value (identified cost*)—see accompanying schedule of investments	$ 326,171,101
Cash	644,682
Receivable for investment securities sold	12,510,109
Receivable for shares of beneficial interest sold	48,511
Interest and dividends receivable	154,718
Prepaid expenses	63,778
Total Assets	339,592,899
Liabilities:	
Payable for investment securities purchased	16,534,189
Written options outstanding	271,530
Payable for shares of beneficial interest redeemed	589,081
Accrued investment management/advisory fees	213,444
Accrued administration fees	11,017
Accrued expenses	104,658
Total Liabilities	17,723,919
Net Assets	$ 321,868,980
Net Assets Consist of:	
Paid-in capital	$ 398,310,774
Undistributed net investment income (accumulated loss)	—
Undistributed net realized gain (accumulated loss)	(100,452,640)
Net unrealized appreciation (depreciation)	24,010,846
Net Assets	$ 321,868,980
Class O **Net Asset Value Per Share**	$41.48
Class S **Net Asset Value Per Share**	$40.97
Shares of beneficial interest outstanding—Note 5	
Class O	7,185,353
Class S	582,070
*Identified cost	$ 302,601,861

See Notes to Financial Statements.

THE ALGER AMERICAN FUND
ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO
STATEMENT OF OPERATIONS

For the year ended December 31, 2006

INVESTMENT INCOME	
Interest	$ 227,856
Dividends (net of foreign withholding taxes*)	2,181,507
Total Income	2,409,363
EXPENSES:	
Management/Advisory fees—Note 3(a)	2,593,824
Administration fees—Note 3(a)	18,990
Interest on line of credit utilized—Note 5	13,840
Custodian fees	63,925
Professional fees	32,682
Transfer agent fees	106,866
Printing fees	89,950
Distribution fees—Note 3(b)	
Class S	54,675
Trustees' fees	2,000
Miscellaneous	56,240
Total Expenses	3,032,992
Net Investment Loss	(623,629)
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FOREIGN CURRENCY AND OPTIONS	
Net realized gain on investments	67,951,894
Net realized gain on foreign currency transactions	10,895
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	(12,707,701)
Net change in unrealized appreciation (depreciation) on options	441,606
Net realized and unrealized gain on investments, foreign currency and options	55,696,694
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 55,073,065
*Foreign withholding taxes	$ 2,491

See Notes to Financial Statements.

THE ALGER AMERICAN FUND
ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO
STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, 2006

Net investment loss	$ (623,629)
Net realized gain on investments, foreign currency transactions and options	67,962,789
Net change in unrealized appreciation (depreciation) on investments, foreign currency translations and options	(12,266,095)
Net increase in net assets resulting from operations	55,073,065
Increase (decrease) from shares of beneficial interest transactions:	
Class O	(51,703,354)
Class S	2,202,134
Net decrease from shares of beneficial interest transactions—Note 5	(49,501,220)
Total increase	5,571,845
Net Assets	
Beginning of year	316,297,135
End of year	$321,868,980
Undistributed net investment income (accumulated loss)	$ (623,629)

THE ALGER AMERICAN FUND
ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO
STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, 2005

Net investment loss	$ (336,618)
Net realized gain on investments and options	58,124,065
Net change in unrealized appreciation (depreciation) on investments and options	(11,579,064)
Net increase in net assets resulting from operations	46,208,383
Increase (decrease) from shares of beneficial interest transactions:	
Class O*	(126,082,841)
Class S	2,063,932
Net decrease from shares of beneficial interest transactions—Note 5	(124,018,909)
Total decrease	(77,810,526)
Net Assets	
Beginning of year	394,107,661
End of year	$ 316,297,135
Undistributed net investment income (accumulated loss)	$ —
* Includes securities redeemed-in-kind, at value	$ (74,200,551)

See Notes to Financial Statements.

The Alger American Fund
Alger American Leveraged AllCap Portfolio
Financial Highlights

For a share outstanding throughout the period

		Income from Investment Operations				
	Net Asset Value, Beginning of Period	**Net Investment Income (Loss)**	**Net Realized and Unrealized Gain (Loss) on Investments**	**Total from Investment Operations**	**Net Asset Value, End of Period**	**Total Return**
Class O						
Year ended 12/31/06	$34.78	$(0.07)(iii)	$ 6.77	$ 6.70	$41.48	19.26%
Year ended 12/31/05	30.39	(0.21)	4.60	4.39	34.78	14.45
Year ended 12/31/04	28.09	(0.07)	2.37	2.30	30.39	8.19
Year ended 12/31/03	20.85	(0.07)	7.31	7.24	28.09	34.72
Year ended 12/31/02	31.55	(0.14)	(10.56)	(10.70)	20.85	(33.91)
Class S						
Year ended 12/31/06	$34.44	$ (0.17)(iii)	$ 6.70	$ 6.53	$40.97	18.96%
Year ended 12/31/05	30.17	(0.08)	4.35	4.27	34.44	14.15
Year ended 12/31/04	27.96	(0.04)	2.25	2.21	30.17	7.90
Year ended 12/31/03	20.83	(0.16)	7.29	7.13	27.96	34.23
Eight months ended 12/31/02(i)(ii)	28.46	(0.02)	(7.61)	(7.63)	20.83	(26.81)

(i) Ratios have been annualized; total return has not been annualized.
(ii) Commenced operations May 1, 2002.
(iii) Amount was computed based on average shares outstanding during the period.

See Notes to Financial Statements.

Ratios/Supplemental Data			
Net Assets, End of Period (000's omitted)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income (Loss) to Average Net Assets	Portfolio Turnover Rate
$298,024	0.98%	(0.19)%	245.58%
298,410	0.91	(0.08)	130.14
380,336	0.97	(0.14)	182.41
382,289	0.97	(0.36)	161.71
271,373	0.96	(0.49)	203.05
$ 23,845	1.23%	(0.45)%	245.58%
17,887	1.16	(0.33)	130.14
13,772	1.22	(0.31)	182.41
7,328	1.21	(0.63)	161.71
281	1.32	(0.92)	203.05

December 31, 2006

NOTE 1—General:

The Alger American Fund (the "Fund") is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund operates as a series company currently issuing six series of shares of beneficial interest: American Growth Portfolio, American Small Capitalization Portfolio, American Income and Growth Portfolio, American Balanced Portfolio, American MidCap Growth Portfolio and American Leveraged AllCap Portfolio. These financial statements include only the American Leveraged AllCap Portfolio (the "Portfolio"). The Portfolio invests primarily in equity securities and has an investment objective of long-term capital appreciation. Shares of the Portfolio are available and are being marketed exclusively as a pooled funding vehicle for qualified retirement plans and for life insurance companies writing all types of variable annuity contracts and variable life insurance policies.

The Portfolio offers Class O and Class S shares. Each class has identical rights to assets and earnings except that only Class S shares have a plan of distribution and bear the related expenses.

NOTE 2—Significant Accounting Policies:

(a) ***Investment Valuation:*** Investments of the Portfolio are generally valued on each day the New York Stock Exchange (the "NYSE") is open as of the close of the NYSE (normally 4:00 p.m. Eastern time). Listed securities for which such information is readily available are valued at the last reported sales price or, in the absence of reported sales, at the mean between the bid and asked price or, in the absence of a recent bid or asked price, the equivalent as obtained from one or more of the major market makers for the securities to be valued. Securities included within the Nasdaq market are valued at the Nasdaq official closing price ("NOCP") on the day of valuation, or if there is no NOCP issued, at the last sale price on such day. Securities included within the Nasdaq market for which there is no NOCP and no last sale price on the day of valuation are valued at the mean between the last bid and asked prices on such day.

Securities for which market quotations are not readily available or for which the market quotation does not, in the opinion of the investment manager, reflect the securities true value are valued at fair value, as determined in good faith pursuant to procedures established by the Board of Trustees.

Securities in which the Portfolio invests may be traded in markets that close before the close of the NYSE. Normally, developments that occur between the close of the foreign markets and the close of the NYSE (normally 4:00 p.m. Eastern time) will not be reflected in the Portfolio's net asset value. However, if it be determined that such developments are so significant that they will materially affect the value of the Portfolio's securities, the Portfolio may adjust the previous closing prices to reflect what the investment manager, under the direction of the Board of Trustees, believes to be the fair value of these securities as of the close of the NYSE. The Portfolio may also fair value securities in other situations, for example, when a particular foreign market is closed but the Portfolio is open.

Securities having a remaining maturity of sixty days or less are valued at amortized cost which approximates market value.

In September 2006, the Financial Accounting Standards Board (FASB) issued *Statement on Financial Accounting Standards No. 157, "Fair Value Measurements"* (FAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2006 the Portfolio does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

(b) ***Security Transactions and Investment Income:*** Security transactions are recorded on a trade date basis. Resulting receivables and payables are carried at amounts which approximate fair value. Realized gains and losses from security transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis.

Premiums and discounts on debt securities purchased are amortized or accreted over the lives of the respective securities.

(c) ***Foreign Currency Transactions:*** The books and records of the Portfolio are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the prevailing rates of exchange on the valuation date. Purchases and sales of investment securities and income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of such transactions.

The Portfolio isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Net realized gains and losses on foreign currency transactions represent net gains and losses from the sale of portfolio securities, the disposition of foreign currencies, currency gains and losses realized between the trade dates and settlement dates of security transactions, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received.

(d) ***Repurchase Agreements:*** The Portfolio enters into repurchase agreements with approved institutions. The repurchase agreements are collateralized by U.S. Government securities, which are either received and held in physical possession by the custodian or received by such custodian in book-entry form through the Federal

Reserve book-entry system. The collateral is valued on a daily basis during the term of the agreement to ensure that its value equals or exceeds the agreed-upon repurchase price to be repaid to the Portfolio. Additional collateral is obtained when necessary.

(e) ***Option Contracts:*** When a Portfolio writes an option, an amount equal to the premium received by the Portfolio is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Portfolio on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Portfolio has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Portfolio. The Portfolio as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

The Portfolio may also purchase put and call options. Purchasing call and put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included in the Portfolio's Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying security to determine the realized gain or loss.

(f) ***Lending of Portfolio Securities:*** The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets. The Portfolio earns fees on the securities loaned. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash, letters of credit or U.S. Government securities that are maintained in an amount equal to at least 100 percent of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio and any required additional collateral is delivered to the Portfolio on the next business day. There were no securities on loan during the year ended December 31, 2006.

(g) ***Dividends to Shareholders:*** Dividends payable to shareholders are recorded by the Fund on the ex-dividend date.

Dividends from net investment income are declared and paid annually. Dividends from net realized gains, offset by any loss carryforward, are declared and paid annually after the end of the fiscal year in which earned.

Each class is treated separately in determining the amounts of dividends of net investment income and capital gains payable to holders of its shares.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. Therefore, the source of the Portfolio's distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income or net realized gain on investment transactions, or return of capital, depending on the type of book/tax differences that may exist.

Capital accounts within the financial statements are adjusted for permanent book/tax differences. Reclassifications result primarily from the difference in tax treatment of net operating losses, premium/discount of debt securities, and foreign currency transactions. The reclassifications had no impact on the net asset values of the Portfolio and are designed to present the Portfolio's capital accounts on a tax basis.

(h) ***Federal Income Taxes:*** It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, of the Portfolio to its respective shareholders. Therefore, no federal income tax provision is required. The Portfolio is treated as a separate entity for the purpose of determining such compliance.

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Portfolio's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48 and its impact in the financial statements has not yet been determined.

(i) ***Allocation Methods:*** The Fund accounts separately for the assets, liabilities and operations of each Portfolio. Expenses directly attributable to each Portfolio are charged to that Portfolio's operations; expenses which are applicable to all Portfolios are allocated among them based on net assets. Income, realized and unrealized gains and losses, and expenses of each Portfolio are allocated among the

Portfolio's classes based on relative net assets, with the exception of distribution fees, which are only applicable to Class S shares.

(j) ***Indemnification:*** The Fund enters into contracts that contain a variety of indemnification provisions. The Fund's maximum exposure under these arrangements is unknown. The Fund does not anticipate recognizing any loss related to these arrangements.

(k) ***Other:*** These financial statements have been prepared in accordance with U.S. generally accepted accounting principles using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates.

NOTE 3—Investment Management Fees and Other Transactions with Affiliates:

(a) ***Investment Management, Advisory and Administration Fees:*** Prior to September 12, 2006, Fred Alger Management, Inc. ("Alger Management") provided both advisory services and administrative services to the Portfolio pursuant to a separate investment management agreement with the Portfolio. Effective September 12, 2006, the services provided by Alger Management to the Portfolio were bifurcated into two separate agreements—an investment advisory agreement and an adminstration agreement. Fees for these services incurred by the Portfolio, pursuant to the relevant agreement, are payable monthly and computed based on the value of the average daily net assets of the Portfolio, at the following rates:

Investment Management Fee through September 11, 2006	Advisory Fee Effective September 12, 2006	Administration Fee Effective September 12, 2006
.85%	.81%	.04%

The Agreement further provides that if in any fiscal year the aggregate expenses, excluding interest, taxes, brokerage commissions, and extraordinary expenses of the Portfolio exceed 1.50% of the average daily net assets of the Portfolio, Alger Management will reimburse that Portfolio for the excess expenses.

As part of the Settlement with the New York State Attorney General (see Note 8-Litigation) Alger Management has agreed to reduce its advisory fee to 0.775% for the Portfolio for the period from December 1, 2006 through November 30, 2011.

(b) ***Distribution Fees:*** Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of the Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the average daily net assets of the Class S shares of the Portfolio to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees paid may be more or less than the expenses incurred by the Distributor.

(c) ***Brokerage Commissions:*** During the year ended December 31, 2006, the Portfolio paid the Distributor $835,608 in connection with securities transactions.

(d) ***Shareholder Administrative Fees:*** The Fund has entered into a shareholder administrative service agreement with Alger Shareholder Services, Inc. ("Alger Services") to compensate Alger Services on a per account basis for its liaison and administrative oversight of the transfer agent and related services. During the year ended December 31, 2006, the Portfolio incurred fees of $244 for these services.

(e) ***Other:*** Certain trustees and officers of the Fund are directors and officers of Alger Management, the Distributor and Alger Services.

NOTE 4—Securities Transactions:

Purchases and sales of securities, other than short-term securities, for the year ended December 31, 2006, were $741,698,933 and $780,439,738, respectively.

As of December 31, 2006, the Portfolio had portfolio securities and cash valued at $8,070,668 segregated as collateral for written options.

Written call and put option activity for the year ended December 31, 2006 was as follows:

	Number of Contracts	Premiums Received
Options outstanding at December 31, 2005	—	$ —
Options written	2,062	713,136
Options closed or expired	—	—
Options exercised	—	—
Options outstanding at December 31, 2006	2,062	$ 713,136

NOTE 5—Lines of Credit:

The Trust participates in committed lines of credits with other mutual funds managed by Alger Management. All borrowings have variable interest rates and are payable on demand.

The Portfolio may borrow under these lines up to 1/3 of the value of its assets, to purchase additional securities. To the extent the Portfolio borrows under these lines, it must pledge securities with a total value of at least twice the amount borrowed. For the year ended December 31, 2006, the Portfolio had the following borrowings:

Average Borrowing	Weighted Average Interest Rate
$236,826	5.84%

NOTE 6—Share Capital:

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value which are divided into six series. The Portfolio is divided into two separate classes.

During the year ended December 31, 2006, transactions of shares of beneficial interest were as follows:

	Shares	Amount
Class O:		
Shares sold	1,041,009	$ 39,055,541
Shares redeemed	(2,436,336)	(90,758,895)
Net decrease	(1,395,327)	$ (51,703,354)
Class S:		
Shares sold	284,361	$ 10,377,871
Shares redeemed	(221,723)	(8,175,737)
Net increase	62,638	$ 2,202,134

During the year ended December 31, 2005, transactions of shares of beneficial interest were as follows:

	Shares	Amount
Class O:		
Shares sold	1,040,839	$ 33,263,898
Shares redeemed	(4,973,709)	(159,346,739)
Net decrease	(3,932,870)	$(126,082,841)
Class S:		
Shares sold	137,584	$ 4,384,234
Shares redeemed	(74,576)	(2,320,302)
Net increase	63,008	$ 2,063,932

NOTE 7—Tax Character of Distributions to Shareholders:

During the year ended December 31, 2006 and the year ended December 31, 2005 there were no distributions paid.

As of December 31, 2006, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	—
Undistributed long-term gain	—
Other loss deferral	—
Unrealized appreciation (depreciation)	$22,623,196

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is determined annually and is attributable primarily to the tax deferral of losses on wash sales and the tax treatment of premium/discount on debt securities.

At December 31, 2006, the Portfolio, for federal income tax purposes, had capital loss carryforwards which expire as set forth in the table below. These amounts may be applied against future net realized gains until the earlier of their utilization or expiration.

Expiration Date			
2009	2010	2011	Total
$ 1,077,219	97,987,772	—	$99,064,991

NOTE 8—Litigation:

On October 11, 2006, Alger Management, Alger Inc. and Alger Shareholder Services, Inc. executed an Assurance of Discontinuance with the Office of the New York State Attorney General ("NYAG"). On December 22, 2006, Alger Management and Alger Inc. executed Offers of Settlement with the Commission, and the settlement is subject to approval of the Commission. As part of the settlements with the Commission and the NYAG, without admitting or denying liability, the firms will consent to the payment of $30 million to reimburse fund shareholders; a fine of $10 million; and certain other remedial measures including a reduction in management fees of $1 million per year for five years. The entire $40 million and fee reduction will be available for the benefit of investors. Alger Management has advised the Funds that the proposed settlement payment is not expected to adversely affect the operations of Alger Management, Alger Inc. or their affiliates, or adversely affect their ability to continue to provide services to the Funds.

On August 31, 2005, the West Virginia Securities Commissioner (the "WVSC") in an ex parte Summary Order to Cease and Desist and Notice of Right to Hearing concluded that Alger Management and Alger Inc. had violated the West Virginia Uniform Securities Act (the "WVUSA"), and ordered Alger Management and Alger Inc. to cease and desist from further violations of the WVUSA by engaging in the market-timing related conduct described in the order. The ex parte order provided notice of their right to a hearing with respect to the violations of law asserted by the WVSC. Other firms unaffiliated with Alger Management were served with similar orders. Alger Management and Alger Inc. intend to request a hearing for the purpose of seeking to vacate or modify the order.

In addition, in 2003 and 2004 several purported class actions and shareholder derivative suits were filed against various parties in the mutual fund industry, including Alger Management, certain mutual funds managed by Alger Management (the "Alger Mutual Funds"), and certain current and former Alger Mutual Fund trustees and officers, alleging wrongful conduct related to market-timing and late-trading by mutual fund shareholders. These cases were transferred to the U.S.

District Court of Maryland by the Judicial Panel on Multidistrict Litigation for consolidated pre-trial proceedings. In September 2004, consolidated amended complaints involving these cases — a Consolidated Amended Fund Derivative Complaint (the "Derivative Complaint") and two substantially identical Consolidated Amended Class Action Complaints (together, the "Class Action Complaint") — were filed in the Maryland federal district court under the caption number 1:04-MD-15863 (JFM). In April 2005, a civil lawsuit involving similar allegations was filed by the West Virginia Attorney General and also transferred to the Maryland District Court, but such lawsuit has since been withdrawn.

The Derivative Complaint alleged (i) violations, by Alger Management and, depending on the specific offense alleged, by Alger Inc. and/or the fund trustee defendants, of Sections 36(a), 36(b), 47, and 48 of the Investment Company Act of 1940, as amended, (the "Investment Company Act") and of Sections 206 and 215 of the Investment Advisers Act of 1940, as amended, breach of fiduciary duty, and breach of contract, (ii) various offenses by other third-party defendants, and (iii) unjust enrichment by all the named defendants. The Class Action Complaint alleged, in addition to the offenses listed above, (i) violations, by Alger Management, Alger Inc., their affiliates, the funds named as defendants, including the Funds, and the current and former fund trustees and officers, of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, as amended, Sections 10(b) (and Rule 10b-5 thereunder) and 20(a) of the Securities Exchange Act of 1934, as amended, (the "1934 Act"), and Section 34(b) of the Investment Company Act of 1940, (ii) breach of contract by the funds named as defendants, and (iii) unjust enrichment of the defendants.

Motions to dismiss the Class Action Complaint and the Derivative Complaint were subsequently filed. On November 3, 2005, the district court issued letter rulings dismissing both complaints in their entirety with respect to the Alger Mutual Funds and dismissing all claims against the other Alger defendants, other than the claims under the 1934 Act and Section 36(b) of the 1940 Act (as to which the court deferred ruling with respect to the Alger Mutual Fund Trustees), with leave to the class action plaintiffs to file amended complaints against those defendants with respect to claims under state law. Orders implementing the letter rulings were entered. On March 31, 2006, attorneys for the class action plaintiffs informed the district court that they had decided not to file amended complaints with respect to the plaintiffs' state law claims. Answers to the Class Action Complaint were filed by the Alger defendants on April 24, 2006.

In subsequent orders, all remaining claims in the Class Action Complaint and the Derivative Complaint have been dismissed, other than claims under the 1934 Act against Alger Management, Alger Inc., Alger Associates, Inc. and Alger Shareholder Services, Inc., and certain present and former members of the senior management of Alger Management and/or Alger Inc., and claims under Section 36(b) of the 1940 Act against Alger Management, Alger Inc., Alger Associates, Inc. and Alger Shareholder Services, Inc.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees
of The Alger American Fund:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger American Leveraged AllCap Portfolio (one of the portfolios comprising The Alger American Fund) (the "Fund") as of December 31, 2006, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years then ended, and the financial highlights for each of the five years then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006, by correspondence with custodians and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above, present fairly, in all material respects, the financial position of the Alger American Leveraged AllCap Portfolio at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years then ended, and the financial highlights for each of the five years then ended, in conformity with U.S. generally accepted accounting principles.

ERNST & YOUNG LLP

New York, New York
January 31, 2007

ADDITIONAL INFORMATION
SHAREHOLDER EXPENSE EXAMPLE (UNAUDITED)

As a shareholder of the Portfolio, you incur two types of costs: transaction costs, if applicable; and ongoing costs, including management fees, distribution (12b-1) fees, if applicable, and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in a Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The example below is based on an investment of $1,000 invested at the beginning of the six-month period starting July 1, 2006 and ending December 31, 2006.

Actual Expenses

The first line for each class of shares in the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you would have paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During the Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line for each class of shares in the table below provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratios for each class of shares and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in a Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs or deduction of insurance charges against assets or annuities. Therefore, the second line under each class of shares in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

		Beginning Account Value July 1, 2006	Ending Account Value December 31, 2006	Expenses Paid During the Six Months Ended December 31, 2006(b)	Ratio of Expenses to Average Net Assets For the Six Months Ended December 31, 2006(c)
Class O	**Actual**	$1,000.00	$1,157.70	$5.33	0.98%
	Hypothetical(a)	1,000.00	1,020.27	4.99	0.98
Class S	**Actual**	1,000.00	1,156.40	6.69	1.23
	Hypothetical(a)	1,000.00	1,019.00	6.26	1.23

(a) 5% annual return before expenses.
(b) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).
(c) Annualized.

Trustees and Officers of the Fund (Unaudited)

Information about the Trustees and officers of the Fund is set forth below. In the table the term "Alger Fund Complex" refers to the Fund, Spectra Fund, The Alger Funds, The Alger Institutional Funds, The China-U.S. Growth Fund and Castle Convertible Fund, Inc., each of which is a registered investment company managed by Fred Alger Management, Inc. ("Alger Management"). Each Trustee serves until an event of termination, such as death or resignation, or until his successor is duly elected; each officer's term of office is one year. Unless otherwise noted, the address of each person named below is 111 Fifth Avenue, New York, NY 10003.

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Funds in the Alger Fund Complex which are Overseen by Trustee
Non-Interested Trustees			
Stephen E. O'Neil (74) Trustee	Attorney; Private investor since 1981; Director of Brown-Forman Corporation since 1978; Trustee/Director of the six funds in the Alger Fund Complex since the inception of each.	1988	27
Nathan E. Saint-Amand, M.D. (68) Trustee	Medical doctor in private practice; Member of the Board of the Manhattan Institute since 1988; Trustee/Director of the six funds in the Alger Fund Complex since the later of 1986 or its inception; formerly Co-Chairman Special Projects Committee, Memorial Sloan Kettering.	1988	27
Officers			
Dan C. Chung (44) Trustee and President	President since September 2003 and Chief Investment Officer and Director since 2001 of Alger Management; President since 2003 and Director since 2001 of Alger Associates, Inc. ("Associates"), Alger Shareholder Services, Inc. ("Services"), Fred Alger International Advisory S.A. ("International") (Director since 2003), Director of Fred Alger & Co., Inc. ("Alger Inc.") and Analysts Resources, Inc. ("ARI"); President of the six investment companies in the Alger Fund Complex since September 2003; Trustee/Director of four of the six investment companies in the Alger Fund Complex since 2001; senior analyst with Alger Management 1998–2001.	2001	N/A
Frederick A. Blum (52) Treasurer	Executive Vice President, Chief Financial Officer and Treasurer of Alger Inc., Alger Management, ARI and Services since September 2003 and Senior Vice President prior thereto; Executive Vice President of Associates since September 2003; Treasurer or Assistant Treasurer of each of the six investment companies in the Alger Fund Complex since the later of 1996 or its inception; Director of SICAV and International and Chairman of the Board (and prior thereto Senior Vice President) since 2003.	2003	N/A

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Funds in the Alger Fund Complex which are Overseen by Trustee
Officers			
Hal Liebes (42) Secretary and Chief Operating Officer	Executive Vice President, Chief Legal Officer, Director and Secretary of Alger Management, Chief Operating Officer, Director and Secretary of Services, Director of Associates; Executive Vice President, Chief Legal Officer and Director of Alger, Inc.; Secretary of the six investment companies in the Alger Fund Complex. Formerly Chief Compliance Officer 2004–2005, AMVESCAP PLC; U.S. General Counsel 1994–2002 and Global General Counsel 2002–2004, Credit Suisse Asset Management.	2005	N/A
Michael D. Martins (41) Assistant Treasurer	Senior Vice President of Alger Management; Assistant Treasurer of the six investment companies in the Alger Fund Complex since 2004. Formerly Vice President, Brown Brothers Harriman & Co. 1997–2004.	2005	N/A
Lisa A. Moss (41) Assistant Secretary	Vice President and Assistant General Counsel of Alger Management since June 2006. Formerly Director of Merrill Lynch Investment Managers, L.P. from 2005–2006; Assistant General Counsel of AIM Management, Inc. from 1995–2005.	2006	N/A
Barry J. Mullen (53) Chief Compliance Officer	Senior Vice President and Chief Compliance Officer of Alger Management since May 2006. Formerly, Director of BlackRock, Inc. from 2004–2006; Vice President of J.P. Morgan Investment Management from 1996–2004.	2006	N/A

No Trustee is a director of any public company except as may be indicated under “Principal Occupations.”

The Statement of Additional Information contains additional information about the Fund’s Trustees and is available without charge upon request by calling (800) 254-3797.

Board Considerations

At an in-person meeting held on September 12, 2006, the Trustees, including the Independent Trustees, unanimously approved, subject to the required shareholder approval described herein, the New Investment Advisory Agreement. The Independent Trustees were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of Alger Management.

For each Fund, in evaluating the New Investment Advisory Agreement, the Trustees drew on materials that they requested and which were provided to them in advance of the meeting by Alger Management and by counsel to the Trust. The materials covered, among other matters, (i) the nature, extent and quality of the services provided by Alger Management under the Current Investment Advisory Agreement, (ii) the investment performance of the Fund, (iii) the costs to Alger Management of its services and the profits realized by Alger Management and Alger Inc. from their relationship with the Fund, and (iv) the extent to which economies of scale would be realized if and as the Fund grows and whether the fee level in the New Investment Advisory Agreement reflects these economies of scale. These materials included an analysis of the Fund and Alger Management's services by Callan Associates Inc. ("Callan"), an independent consulting firm whose specialties include assistance to fund trustees and directors in their review of advisory contracts pursuant to Section 15(c) of the 1940 Act. At the meeting, senior Callan personnel provided a presentation to the Trustees based on the Callan materials.

In deciding whether to approve the New Investment Advisory Agreements, the Trustees considered various factors, including those enumerated above. They also considered other direct and indirect benefits to Alger Management and its affiliates from their relationship with the Funds.

Nature, Extent and Quality of Services. In considering the nature, extent and quality of the services proposed to be provided by Alger Management pursuant to each Fund's New Investment Advisory Agreement, the Trustees relied on their prior experience as Trustees of the Trust, their familiarity with the personnel and resources of Alger Management and its affiliates and the materials provided at the meeting, and considered the nature, extent and quality of the services provided by Alger Management pursuant to the Current Investment Advisory Agreements. For each Fund, they noted that under the Advisory Agreements, Alger Management is responsible for managing the investment operations of the Fund. They also noted that administrative, compliance, reporting and accounting services necessary for the conduct of the Fund's affairs are provided under the separate Administration Agreement. The Trustees reviewed the background and experience of Alger Management's senior investment management personnel, including the individuals currently responsible for the investment operations of the Funds. They also considered the resources, operational structures and practices of Alger Management in managing each Fund's portfolio and administering the Fund's affairs, as well as Alger Management's overall investment management business. The Trustees concluded that Alger Management's experience, resources and strength in those areas of importance to the Funds are considerable. The Trustees considered the level and depth of Alger Management's ability to execute portfolio transactions to effect investment decisions, including those through Alger Inc. The Trustees also considered the ongoing enhancements to the control and compliance environment at Alger Management and within the Trust.

Transfer of Ownership of Alger Associates. The Trustees assessed the implications for Alger Management of the pending transfer of ownership control of Alger Associates and Alger Management's ability to continue to provide services to the Funds of the same scope and quality as are currently provided. In particular, the Board inquired as to the impact of the pending transfer on Alger Management's personnel, management, facilities and financial capabilities, and received assurances in this regard from senior management of Alger Management that the pending transfer would not adversely affect Alger Management's ability to fulfill its obligations under the New Investment Advisory Agreements, and to operate its business in a manner consistent with past practices. The Board also considered that each Fund's New Investment Advisory Agreement, and the fees paid thereunder, are substantively identical in all respects to that Fund's Current Investment Advisory Agreement, except for the time periods covered by the Agreements and, that for administrative convenience, the separate Current Investment Advisory Agreements were being combined into a single New Investment Advisory Agreement between Alger Management and the Trust, on behalf of the Funds.

Investment Performance of the Funds. Drawing upon information provided at the meeting by Alger Management as well as Callan and upon reports provided to the Trustees by Alger Management throughout the preceding year, the Trustees noted that the performance of the Portfolio had been generally excellent, consistently outperforming the relevant benchmark and fund peer group for various periods through August 31, 2006.

Fund Fees and Expense Ratios; Profitability to Alger Management and its Affiliates. The Trustees considered the profitability of each Current Investment Advisory Agreement to Alger Management and its affiliates, and the methodology used by Alger Management in determining such profitability. The Trustees reviewed previously-provided data on the Fund's profitability to Alger Management and its affiliates for the Fund's most recent fiscal year. In addition, the Trustees reviewed the Fund's management fees and expense ratios and compared them with a group of comparable funds. In order to assist the Trustees in this comparison, Callan had provided the Trustees with comparative information with respect to fees paid, and expense ratios incurred, by similar funds. That information indicated that the Portfolio's fees and/or expense ratios were higher than those of most of the funds in the Callan peer group. In this case, the Trustees determined that such information should be taken into account in weighing the size of the fee against the nature, extent and quality of the services provided. After discussing with representatives of the Adviser and Callan the methodologies used in computing the costs that formed the bases of the profitability calculations, the Trustees turned to the profitability data provided. After analysis and discussion, they concluded that, to the extent that Alger Management's and its affiliates' relationships with the Fund had been profitable to either or both of those entities, the profit margin in each case was modest.

Economies of Scale. On the basis of their discussions with management and their analysis of information provided at the meeting, the Trustees determined that the nature of the Funds and their operations is such that Alger Management is likely to realize economies of scale in the management of each Fund at some point as it grows in size, but that in view of the current levels of profitability of each of the Funds to Alger Management and its affiliates, such economies as might already exist were subsumed in the level of the management fees, and that adoption of breakpoints in one or more advisory fees, while possibly appropriate at a later date, could await further analysis of the sources and potential scale of the economies and the fee structure that would best reflect them. Accordingly, the Trustees requested that Alger Management address this topic with the Trustees at future meetings.

Other Benefits to Alger Management. The Trustees considered whether Alger Management benefits in other ways from its relationship with the Funds. They noted that Alger Management maintains soft-dollar arrangements in connection with the Funds' brokerage transactions, data on which is regularly supplied to the Trustees at their quarterly meetings. The Trustees also noted that Alger, Inc. provides a substantial portion of the Funds' equity brokerage and that Alger Shareholder Services, Inc. receives fees from the Funds under a shareholder services agreement. The Trustees had been provided with information regarding, and had considered, the brokerage and shareholder servicing fee benefits in connection with their review of the profitability to Alger Management and its affiliates of their relationships with the Funds. As to other benefits received, the Trustees decided that none were so significant as to render Alger Management's fees excessive.

At the conclusion of these discussions, each of the Independent Trustees expressed the opinion that he had been furnished with sufficient information to make an informed business decision with respect to approval of each Fund's New Investment Advisory Agreement. Based on its discussions and considerations as described above, the Board made the following conclusions and determinations, as to each Fund:

- The Board concluded that the nature, extent and quality of the services provided by Alger Management are adequate and appropriate.
- The Board determined that the pending transfer of ownership control of Alger Associates would not be a detriment to Alger Management's ability to continue to provide services to the Fund of the same scope and quality as provided under the Current Investment Advisory Agreement, and that the pending transfer would not adversely affect Alger Management's ability to fulfill its obligations under the New Investment Advisory Agreement, and to operate its business in a manner consistent with past practices.
- The Board was satisfied with the performance of the Funds that had shown excellent performance, but determined to monitor the progress of Alger Management's steps to improve the performance of the underperforming Funds.
- The Board concluded that the Fund's fee paid to Alger Management, which was proposed to be the same under the New Investment Advisory Agreement as under the Current Investment Advisory Agreement, was reasonable in light of comparative performance and expense and advisory fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by Alger Management from the relationship with the Fund.
- The Board determined that there were not at this time significant economies of scale to be realized by Alger Management in managing the Fund's assets and that, to the extent that material economies of scale had not been shared with the Fund, the Board would seek to do so.

The Board considered these conclusions and determinations and, without any one factor being dispositive, determined that approval of the New Investment Advisory Agreement was in the best interests of each Fund and its shareholders.

Proxy Voting Policies

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities and the proxy voting record is available, without charge, by calling (800) 992-3863 or online on the Fund's website at http://www.alger.com or on the SEC's website at http://www.sec.gov.

Quarterly Fund Holdings

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarter of each fiscal year on Form N-Q. Forms N-Q are available online on the Fund's website at http://www.alger.com or on the SEC's website at http://www.sec.gov. The Portfolio's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. A copy of the most recent quarterly holdings may also be obtained from the Fund by calling (800) 992-3863.

CREDIT SUISSE

CREDIT SUISSE FUNDS

Annual Report

December 31, 2006

CREDIT SUISSE TRUST
■ EMERGING MARKETS PORTFOLIO

Credit Suisse Trust (the "Trust") shares are not available directly to individual investors, but may be offered only through certain insurance products and pension and retirement plans.

The Trust's investment objectives, risks, charges and expenses (which should be considered carefully before investing), and more complete information about the Trust, are provided in the *Prospectus,* which should be read carefully before investing. You may obtain additional copies by calling 800-222-8977 or by writing to Credit Suisse Trust, P.O. Box 55030, Boston, MA 02205-5030.

Credit Suisse Asset Management Securities, Inc., Distributor, is located at Eleven Madison Ave., New York, NY 10010. The Trust is advised by Credit Suisse Asset Management, LLC.

The views of the Portfolio's management are as of the date of the letter and the Portfolio holdings described in this document are as of December 31, 2006; these views and Portfolio holdings may have changed subsequent to these dates. Nothing in this document is a recommendation to purchase or sell securities.

January 18, 2007

Dear Shareholder:

For the 12 months ended December 31, 2006, Credit Suisse Trust — Emerging Markets Portfolio[1] (the "Portfolio") had a gain of 32.51%, versus an increase of 32.59% for the Morgan Stanley Capital International Emerging Markets Free Index.[2]

Market Review: Strong Gains Despite Volatility

For the period ending December 31, 2006, emerging markets equities showed strong gains, aided by positive global liquidity conditions, solid earnings growth and high commodity prices. Although volatility was higher during the period, changes in expectations regarding global growth and inflation prompted a sell-off of many cyclical asset classes during the second quarter. The Federal Reserve's August pause in tightening prompted a bounce-back in risk appetite and markets through the remainder of the year.

By region, Latin America and Eastern Europe were the strongest performers. Within Latin America, both the larger markets of Brazil and Mexico, as well as the smaller markets of Argentina, Peru and Venezuela, strongly outperformed the MSCI Emerging Markets Free Index (the Fund's benchmark). Within Eastern Europe, Russia led the region overall with Poland and, to a lesser extent, the Czech Republic also outperforming. Performance in non-Japan Asia was more mixed — China, India and Indonesia posted strong returns while the larger North Asian markets of Taiwan and Korea disappointed.

Strategic Review and Outlook: Global Backdrop is Relatively Constructive for Emerging Markets

The Portfolio's return was similar to that of the MSCI Emerging Markets Free Index for the 12-month period. China (insurance/banking), Taiwan (selected technology) and Russia (financials, energy, commodity) contributed to the Portfolio's positive performance. In China, the market enjoyed strong gains due to ample domestic liquidity, expectations of currency revaluation, and other factors. The most significant gains in China occurred in the financials and property sectors. In Taiwan, an upturn in the tech cycle combined with attractive valuations helped cause a sector rebound. The Portfolio was overweight in Russia (through most of the year), where the benefits of strong liquidity and higher commodity prices led to broad-based gains in all sectors. The most substantial increases in Russia, however, occurred in banks, metals producers and energy.

Brazil telecoms were a performance disappointment. The sector, which suffers from an intensely competitive environment, underperformed the market as a whole.

In our view, the global backdrop, while more challenging from a cyclical standpoint, still looks relatively positive for emerging markets. We believe that although global growth has entered a short, shallow period of deceleration led by the U.S. housing and consumer sector, growth elsewhere potentially remains supportive. Given the low level of inflation (with the exception of energy) and the recent decline in energy prices, we expect monetary policy among the major central banks to probably remain relatively nonaggressive going forward. We believe China's economy shows some signs of moderation in activity indicators, but the strength of growth to date — as well as the moderate nature of tightening — suggests to us that commodity demand will likely be well underpinned over the medium term even if some speculative sell-off takes place.

One concern is that, with many markets retesting May 2006 highs, the asset class could be vulnerable to any negative external shocks, such as a sudden shift in risk appetite coming from investor complacency over U.S. interest rates, a more dramatic slowdown in the U.S. housing market that carries into the broader economy, or a sudden rise in geopolitical tensions.

While emerging markets will usually be susceptible to external events — as illustrated by the sell-off in May — we believe that the global cycle is a less important determinant of market performance than in the past. Approximately 50% of our universe is dominated by sectors exposed to the local economy. As a longer term trend, we would expect this to continue as we believe: (1) The larger tech-heavy markets of Korea and Taiwan will eventually graduate to developed market status; (2) New equity supply will emanate from markets with large domestic economies (Brazil, China, Russia); (3) Significant expenditures in infrastructure spending will take place in many markets (India, South Africa, China); and (4) Improved fiscal balance sheets and inflationary dynamics will allow for the pursuit of monetary policies that are countercyclical to global monetary developments. We have observed that an easing in inflationary pressures in many markets over the past few months has already allowed several central banks (Israel, Brazil, Korea, Taiwan, Thailand, Indonesia) to either cut rates or keep rates on hold against expectations of additional tightening.

Within Latin America, we continue to favor Brazil, although it underperformed along with other commodity producing economies toward the latter part of the year. While domestic growth has been somewhat disappointing in Brazil, the interest rate cycle could remain equity-friendly and the successful conclusion of the Presidential election might remove outstanding political risks (which we saw as minimal in any case). In Mexico, we trimmed our neutral position toward the end of the period and are now modestly underweight in the market, primarily due to our analysis of the less attractive valuations among many of the MSCI Emerging Markets Index heavyweights. Elsewhere in the region we are relatively underweight, although we have added to smaller positions in Colombia, Argentina and Chile on stock-specific grounds.

In Asia, we are overweight in China, which, in our view, continues to benefit from ample liquidity conditions, upside earnings surprises, and a revival in the domestic A-share market. Profit-taking in some of the stronger tech names has reduced our overweight in Taiwan, although we have added more to life insurance issues within the financial sector. We moved from being broadly neutral to slightly underweight in Korea toward the end of the third quarter, which, despite fairly good valuation and local inflows into the market, may, in our opinion, remain relatively lackluster until greater global cyclical clarity emerges. We reduced our neutral position in India to a slight underweight — primarily due to valuation concerns — but remain positive on the longer-term prospects for the economy and the market. In Southeast Asia, we added back Thai property stocks and are now marginally overweight in both Thailand and Indonesia. The September coup in Thailand appears to be unlikely to result in a meaningful rise in political risk and activity indicators for the economy show that the worst may be over. Elsewhere in the region, we remain underweight.

In the Eastern Europe, Middle East and Africa (EMEA) region, we have few strong country positions. The benchmark's increased weighting of Gazprom at the end of the third quarter (3.7% of the Portfolio as of December 31, 2006) left our Russian exposure as a technical underweight. Regardless, even with the recent decline in crude oil prices, we would still be net buyers of the EMEA market — which continues to enjoy robust liquidity conditions. After what we saw as an excessive sell-off of both domestic and commodity names as well as the rand, we added to our South Africa positions. We remain slightly underweight in Turkey, reflecting our concerns that earnings growth may slow on the back of central bank rate hikes following the sharp depreciation in the lira. Relatively poor valuations and macro fundamentals — in addition to the rising political tensions in Hungary and Poland — have kept us underweight in the Central European markets, although we maintain some exposure to the Czech Republic.

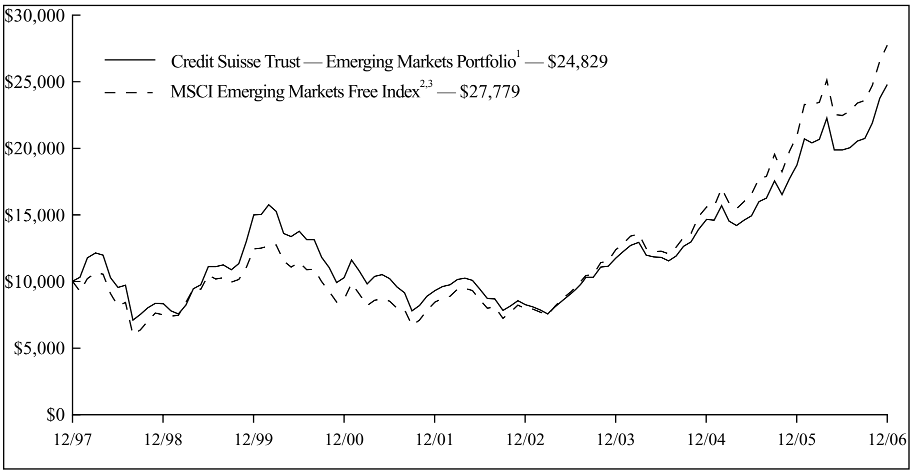
The Credit Suisse Emerging Markets Team

Neil Gregson
Annabel Betz
Jonathon S. Ong
Elizabeth H. Eaton
Matthew J.K. Hickman

International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods; these risks are generally heightened for emerging-market investments. The Portfolio may involve a greater degree of risk than other funds that seek capital growth by investing in larger, more developed markets.

In addition to historical information, this report contains forward-looking statements, which may concern, among other things, domestic and foreign market, industry and economic trends and developments and government regulation and their potential impact on the Portfolio's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future and their impact on the Portfolio could be materially different from those projected, anticipated or implied. The Portfolio has no obligation to update or revise forward-looking statements.

Comparison of Change in Value of $10,000 Investment in the Credit Suisse Trust — Emerging Markets Portfolio[1] and the MSCI Emerging Markets Free Index[2,3] from Inception (12/31/97).



Average Annual Returns as of December 31, 2006[1]

1 Year	5 Years	Since Inception
32.51%	21.76%	10.63%

Returns represent past performance and include change in share price and reinvestment of dividends and capital gains. ***Past performance cannot guarantee future results.*** *The current performance of the Portfolio may be lower or higher than the figures shown. Returns and share price will fluctuate, and redemption value may be more or less than original cost. The performance results do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares. Performance includes the effect of deducting expenses, but does not include charges and expenses attributable to any particular variable contract or plan. Accordingly, the Prospectus of the sponsoring Participating Insurance Company separate account or plan documents or other informational materials supplied by plan sponsors should be carefully reviewed for information on relevant charges and expenses. Excluding these charges and expenses from quotations of performance has the effect of increasing the performance quoted, and the effect of these charges should be considered when comparing performance to that of other mutual funds. Performance information current to the most recent month-end is available at www.credit-suisse.com/us.*

1 Fee waivers and/or expense reimbursements may reduce expenses for the Portfolio, without which performance would be lower. Waivers and/or reimbursements may be discontinued at any time.

2 The Morgan Stanley Capital International Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. It is the exclusive property of Morgan Stanley Capital International Inc. Investors cannot invest directly in an index.

3 Performance for the benchmark is not available for the period beginning December 31, 1997 (commencement of operations). For that reason performance is shown for the period beginning January 1, 1998.

Information About Your Portfolio's Expenses

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section and which would result in higher total expenses. The following table is intended to help you understand your ongoing expenses of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The table is based on an investment of $1,000 made at the beginning of the six month period ended December 31, 2006.

The table illustrates your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs, such as sales charges (loads) or redemption fees. If these transaction costs had been included, your costs would have been higher. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expenses of owning different funds.

Expenses and Value of a $1,000 Investment for the six month period ended December 31, 2006

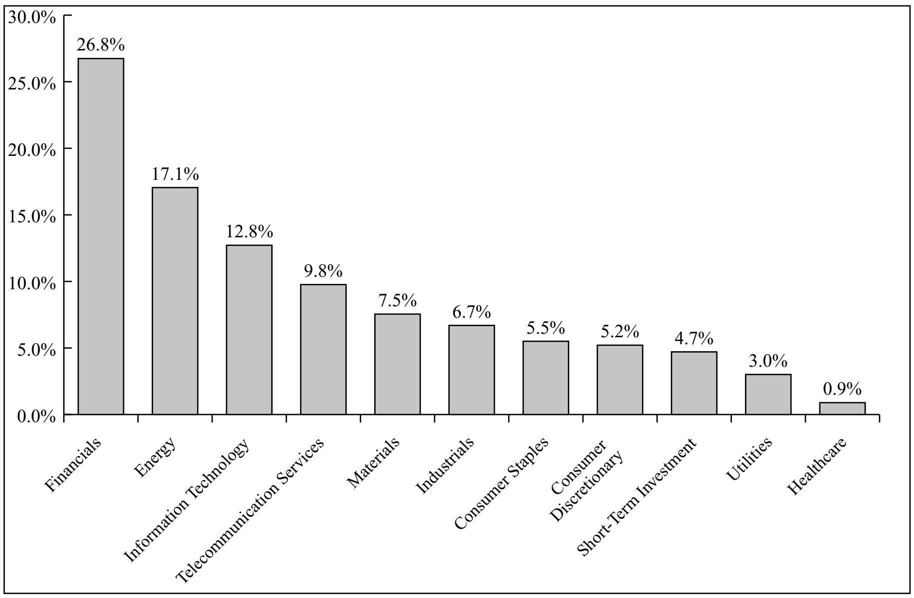
Actual Portfolio Return	
Beginning Account Value 7/1/06	$1,000.00
Ending Account Value 12/31/06	$1,248.70
Expenses Paid per $1,000*	$ 7.65
Hypothetical 5% Portfolio Return	
Beginning Account Value 7/1/06	$1,000.00
Ending Account Value 12/31/06	$1,018.40
Expenses Paid per $1,000*	$ 6.87
Annualized Expense Ratios*	1.35%

* *Expenses are equal to the Portfolio's annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year period, then divided by 365.*

The "Expenses Paid per $1,000" and the "Annualized Expense Ratios" in the tables are based on actual expenses paid by the Portfolio during the period, net of fee waivers and/or expense reimbursements. If those fee waivers and/or expense reimbursements had not been in effect, the Portfolio's actual expenses would have been higher. Expenses do not reflect additional charges and expenses that are, or may be, imposed under the variable contracts or plans. Such charges and expenses are described in the prospectus of the insurance company separate account or in the plan documents or other informational materials supplied by plan sponsors. The Portfolio's expenses should be considered with these charges and expenses in evaluating the overall cost of investing in the separate account.

For more information, please refer to the Portfolio's prospectus.

SECTOR BREAKDOWN*



* Expressed as a percentage of total investments (excluding security lending collateral) and may vary over time.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments
December 31, 2006

	Number of Shares	Value
COMMON STOCKS (88.4%)		
Austria (0.7%)		
Real Estate (0.7%)		
Meinl European Land, Ltd.*	67,343	$ 1,726,419
TOTAL AUSTRIA		1,726,419
Brazil (6.1%)		
Airlines (0.5%)		
Gol-Linhas Aereas Inteligentes SA ADR§	40,000	1,146,800
Banks (0.6%)		
Unibanco - Uniao de Bancos Brasileiros SA GDR	15,100	1,403,696
Beverages (0.1%)		
Companhia de Bebidas das Americas ADR§	4,640	203,696
Diversified Telecommunication Services (0.8%)		
Brasil Telecom Participacoes SA	60,700,000	995,082
Tele Norte Leste Participacoes SA	33,600	876,590
		1,871,672
Electric Utilities (1.0%)		
Obrascon Huarte Lain Brasil SA*	82,600	1,330,885
Terna Participacoes SA*	98,000	1,106,230
		2,437,115
Food Products (0.3%)		
Cosan SA Industria e Comercio*	42,600	891,906
Internet & Catalog Retail (0.5%)		
Submarino SA	41,500	1,360,462
Oil & Gas (2.1%)		
Petroleo Brasileiro SA - Petrobras ADR	54,700	5,073,972
Wireless Telecommunication Services (0.2%)		
Vivo Participacoes SA§	99,700	408,770
TOTAL BRAZIL		14,798,089
Chile (1.0%)		
Electric Utilities (0.5%)		
Enersis SA ADR	77,400	1,238,400
Water Utilities (0.5%)		
Inversiones Aguas Metropolitanas SA ADR Rule 144A‡	52,100	1,282,181
TOTAL CHILE		2,520,581
China (8.5%)		
Banks (3.5%)		
China Construction Bank Series H§	4,834,000	3,074,929
Industrial & Commercial Bank of China Series H*§	8,605,200	5,366,321
		8,441,250
Commingled Fund (0.4%)		
iShares Asia Trust - iShares FTSE/Xinhua A50 China Tracker§	62,300	919,875

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Diversified Telecommunication Services (0.0%)		
China Communications Services Corporation, Ltd. Series H*	32,000	$ 18,269
Insurance (0.9%)		
China Life Insurance Company, Ltd. Series H§	629,000	2,139,194
Oil & Gas (2.6%)		
China Petroleum & Chemical Corp. Series H	3,240,000	3,001,948
PetroChina Company, Ltd. Series H§	2,466,000	3,475,991
		6,477,939
Real Estate (1.1%)		
Beijing Capital Land, Ltd. Series H	2,444,000	1,239,367
Guangzhou R&F Properties Company, Ltd. Series H	692,000	1,490,553
		2,729,920
TOTAL CHINA		20,726,447
Colombia (0.6%)		
Diversified Financials (0.6%)		
Suramericana de Inversiones SA	161,300	1,474,907
TOTAL COLOMBIA		1,474,907
Czech Republic (0.6%)		
Electric Utilities (0.6%)		
CEZ AS	32,800	1,491,931
TOTAL CZECH REPUBLIC		1,491,931
Egypt (0.5%)		
Diversified Telecommunication Services (0.5%)		
Orascom Telecom Holding SAE	18,300	1,202,375
TOTAL EGYPT		1,202,375
Hong Kong (3.1%)		
Oil & Gas (0.8%)		
CNOOC, Ltd.	2,122,000	2,009,286
Real Estate (0.8%)		
China Resources Land, Ltd.§	1,546,000	1,839,669
Wireless Telecommunication Services (1.5%)		
China Mobile (Hong Kong), Ltd.	426,500	3,685,111
TOTAL HONG KONG		7,534,066
Hungary (0.4%)		
Oil & Gas (0.4%)		
Falcon Oil & Gas, Ltd.*	289,700	950,979
TOTAL HUNGARY		950,979
India (6.2%)		
Automobiles (0.4%)		
Mahindra & Mahindra, Ltd.	48,400	993,821

	Number of Shares	Value
COMMON STOCKS		
Diversified Financials (0.6%)		
ICICI Bank, Ltd. ADR	34,000	$ 1,419,160
Reliance Capital, Ltd.	2,620	35,915
		1,455,075
Diversified Telecommunication Services (0.5%)		
Bharti Airtel, Ltd.*	87,600	1,247,102
Electric Utilities (0.0%)		
Reliance Energy, Ltd.	3,930	46,029
Electrical Equipment (0.4%)		
Bharat Heavy Electricals, Ltd.	20,000	1,035,968
Energy Equipment & Services (0.6%)		
Niko Resources, Ltd.	21,000	1,504,125
Gas Utilities (0.3%)		
Gail India, Ltd.	114,500	675,716
Industrial Conglomerates (0.5%)		
Grasim Industries, Ltd.	19,900	1,253,075
IT Consulting & Services (1.6%)		
Infosys Technologies, Ltd. ADR§	46,600	2,542,496
Tata Consultancy Services, Ltd.	45,244	1,247,177
		3,789,673
Materials (0.4%)		
Hindalco Industries, Ltd.	221,500	873,172
Oil & Gas (0.6%)		
Reliance Industries, Ltd. GDR Rule 144A‡	25,900	1,489,250
Reliance Natural Resources, Ltd. Series L*	52,400	26,182
		1,515,432
Wireless Telecommunication Services (0.3%)		
Reliance Communication Ventures, Ltd.*	52,400	557,551
TOTAL INDIA		14,946,739
Indonesia (2.1%)		
Banks (1.0%)		
PT Bank Internasional Indonesia	8,755,500	235,869
PT Bank Mandiri	7,241,000	2,346,378
		2,582,247
Wireless Telecommunication Services (1.1%)		
PT Telekomunikasi Indonesia	2,293,500	2,584,978
TOTAL INDONESIA		5,167,225
Israel (2.3%)		
Electronic Equipment & Instruments (0.4%)		
Orbotech, Ltd.*	39,400	1,002,336
Insurance (0.6%)		
Harel Insurance Investments, Ltd.	26,900	1,458,406

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Internet Software & Services (0.5%)		
Check Point Software Technologies, Ltd.*	52,100	$ 1,142,032
Pharmaceuticals (0.8%)		
Teva Pharmaceutical Industries, Ltd. ADR	65,800	2,045,064
TOTAL ISRAEL		5,647,838
Kazakhstan (0.9%)		
Oil & Gas (0.9%)		
KazMunaiGas Exploration Production GDR*	86,930	2,126,308
TOTAL KAZAKHSTAN		2,126,308
Luxembourg (0.6%)		
Energy Equipment & Services (0.6%)		
Tenaris SA ADR	30,000	1,496,700
TOTAL LUXEMBOURG		1,496,700
Malaysia (2.2%)		
Diversified Financials (0.9%)		
AMMB Holdings Berhad	2,417,500	2,171,841
Food Products (0.7%)		
IOI Corporation Berhad	340,100	1,773,147
Hotels, Restaurants & Leisure (0.6%)		
Genting Berhad	138,100	1,290,950
TOTAL MALAYSIA		5,235,938
Mexico (5.3%)		
Beverages (0.6%)		
Fomento Economico Mexicano SA de CV ADR	12,777	1,479,066
Construction Materials (0.9%)		
Cemex SA de CV ADR*	64,542	2,186,683
Household Durables (0.5%)		
Consorcio ARA SA de CV§	179,700	1,219,920
Metals & Mining (0.4%)		
Grupo Mexico SA de CV Series B§	292,050	1,068,189
Real Estate (0.7%)		
Urbi Desarrollos Urbanos SA de CV*	435,372	1,568,270
Transportation Infrastructure (0.6%)		
Grupo Aeroportuario del Pacifico SA de CV ADR	34,900	1,367,731
Wireless Telecommunication Services (1.6%)		
America Movil SA de CV ADR Series L	65,474	2,960,734
America Telecom SA de CV Class A1*§	98,800	898,854
		3,859,588
TOTAL MEXICO		12,749,447
Russia (9.9%)		
Banks (1.5%)		
Sberbank RF	1,040	3,580,418

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Commercial Services & Supplies (0.1%)		
OAO TMK GDR Rule 144A*‡	4,258	$ 149,030
Industrial Conglomerates (0.9%)		
Mining and Metallurgical Company Norilsk Nickel ADR	13,700	2,164,600
Oil & Gas (6.3%)		
Gazprom	549,714	6,306,406
Gazprom ADR	53,000	2,420,539
Lukoil ADR	75,100	6,563,740
		15,290,685
Wireless Telecommunication Services (1.1%)		
OAO Vimpel Communications ADR*§	34,900	2,755,355
TOTAL RUSSIA		23,940,088
South Africa (7.5%)		
Banks (1.8%)		
FirstRand, Ltd.§	567,482	1,781,034
Standard Bank Group, Ltd.	194,939	2,604,953
		4,385,987
Diversified Financials (0.4%)		
African Bank Investments, Ltd.	244,800	990,497
Diversified Telecommunication Services (0.4%)		
Telkom South Africa, Ltd.	44,700	894,751
Electronic Equipment & Instruments (0.7%)		
Reunert, Ltd.§	148,100	1,713,344
Food Products (0.5%)		
Tiger Brands, Ltd.	45,200	1,094,953
Insurance (0.5%)		
Liberty Group, Ltd.	103,600	1,216,011
Metals & Mining (1.0%)		
Anglo Platinum, Ltd.§	20,300	2,461,488
Oil & Gas (1.0%)		
Sasol	64,400	2,358,658
Specialty Retail (1.2%)		
Edgars Consolidated Stores, Ltd.	285,960	1,579,617
JD Group, Ltd.§	126,900	1,432,302
		3,011,919
TOTAL SOUTH AFRICA		18,127,608
South Korea (14.9%)		
Automobiles (0.5%)		
Hyundai Motor Company, Ltd.*	16,010	1,157,011

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Banks (2.4%)		
Kookmin Bank*	33,510	$ 2,694,271
Korea Exchange Bank*§	152,300	2,094,895
Shinhan Financial Group Company, Ltd.*	18,350	$937,231
		5,726,397
Beverages (0.9%)		
Hite Brewery Company, Ltd.*	16,500	2,112,798
Construction & Engineering (1.5%)		
GS Engineering & Construction Corp.*	16,210	1,440,289
Hyundai Development Co.*	38,360	2,342,847
		3,783,136
Electric Utilities (1.1%)		
Korea Electric Power Corp.*	57,500	2,621,505
Metals & Mining (1.1%)		
POSCO ADR§	33,700	2,785,979
Multiline Retail (1.5%)		
Hyundai Department Store Company, Ltd.*	19,069	1,715,741
Lotte Shopping Company, Ltd.*	4,600	1,913,081
		3,628,822
Semiconductor Equipment & Products (4.9%)		
Samsung Electronics Company, Ltd.	17,961	11,782,564
Tobacco (0.6%)		
KT&G Corp.*§	24,360	1,479,936
Wireless Telecommunication Services (0.4%)		
SK Telecom Company, Ltd.	4,300	1,028,008
TOTAL SOUTH KOREA		36,106,156
Taiwan (11.9%)		
Banks (1.5%)		
Chinatrust Financial Holding Company, Ltd.	2,679,760	2,234,007
SinoPac Financial Holdings Company, Ltd.	2,680,000	1,433,600
		3,667,607
Computers & Peripherals (0.3%)		
High Tech Computer Corp.	37,000	729,778
Construction Materials (0.9%)		
Asia Cement Corp.	2,278,800	2,157,661
Diversified Telecommunication Services (0.5%)		
Chunghwa Telecom Company, Ltd.	682,380	1,267,977
Electronic Equipment & Instruments (2.1%)		
Hon Hai Precision Industry Company, Ltd.	707,696	5,035,328
Food & Drug Retailing (0.7%)		
President Chain Store Corp.	700,000	1,689,328

	Number of Shares	Value
COMMON STOCKS		
Food Products (0.8%)		
Uni-President Enterprises Corp.	1,880,000	$ 1,872,135
Insurance (2.1%)		
Cathay Financial Holding Company, Ltd.	898,943	2,038,320
China Life Insurance Company, Ltd.*	1,910,000	1,028,835
Shin Kong Financial Holding Company, Ltd.	1,799,495	1,933,270
		5,000,425
Metals & Mining (0.7%)		
China Steel Corp.	1,563,850	1,658,972
Semiconductor Equipment & Products (2.3%)		
MediaTek, Inc.	32,000	329,546
Taiwan Semiconductor Manufacturing Company, Ltd.	2,610,330	5,359,480
		5,689,026
TOTAL TAIWAN		28,768,237
Thailand (1.6%)		
Banks (0.9%)		
Krung Thai Bank Public Company, Ltd.	4,415,500	1,509,487
Siam City Bank Public Company, Ltd.	1,541,500	770,482
		2,279,969
Construction & Engineering (0.1%)		
Italian - Thai Development Public Company, Ltd.	1,408,300	210,369
Real Estate (0.6%)		
Land and Houses Public Company, Ltd.	7,674,600	1,373,125
TOTAL THAILAND		3,863,463
Turkey (1.0%)		
Banks (0.9%)		
Akbank T.A.S.	230,709	1,383,362
Turkiye Garanti Bankasi AS	240,733	786,348
		2,169,710
Wireless Telecommunication Services (0.1%)		
Turkcell Iletisim Hizmetleri AS	64,173	314,300
TOTAL TURKEY		2,484,010
Zambia (0.5%)		
Metals & Mining (0.5%)		
First Quantum Minerals, Ltd.	22,400	1,207,871
TOTAL ZAMBIA		1,207,871
TOTAL COMMON STOCKS (Cost $137,114,466)		214,293,422

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
PREFERRED STOCKS (6.7%)		
Brazil (6.7%)		
Banks (1.5%)		
Banco Bradesco SA	33,900	$ 1,373,466
Banco Itau Holding Financeira SA	63,100	2,287,560
		3,661,026
Beverages (0.3%)		
Companhia de Bebidas das Americas ADR	16,000	780,800
Diversified Telecommunication Services (0.8%)		
Telemar Norte Leste SA Class A	47,900	1,090,370
Telesp - Telecomunicacoes de Sao Paulo SA	32,400	834,660
		1,925,030
Industrial Conglomerates (1.0%)		
Bradespar SA	18,400	870,445
Itausa - Investimentos Itau SA	281,722	1,440,939
		2,311,384
Metals & Mining (1.5%)		
Companhia Vale do Rio Doce ADR	137,300	3,604,125
Oil & Gas (1.1%)		
Petroleo Brasileiro SA - Petrobras ADR	24,800	2,554,152
Road & Rail (0.5%)		
All America Latina Logistica	125,800	1,306,316
TOTAL PREFERRED STOCKS (Cost $7,725,108)		16,142,833
RIGHTS (0.0%)		
Thailand (0.0%)		
Diversified Telecommunication Services (0.0%)		
True Corporation Public Company, Ltd. strike price THB 20.60, expires 04/03/08*^ (Cost $0)	50,021	0
SHORT-TERM INVESTMENTS (15.8%)		
State Street Navigator Prime Portfolio§§	26,723,333	$ 26,723,333
	Par (000)	
State Street Bank and Trust Co. Euro Time Deposit, 4.100%, 1/02/07	$11,462	11,462,000
TOTAL SHORT-TERM INVESTMENTS (Cost $38,185,333)		38,185,333
TOTAL INVESTMENTS AT VALUE (110.9%) (Cost $183,024,907)		268,621,588
LIABILITIES IN EXCESS OF OTHER ASSETS (-10.9%)		(26,302,989)
NET ASSETS (100.0%)		$242,318,599

See Accompanying Notes to Financial Statements.

INVESTMENT ABBREVIATIONS

ADR = American Depositary Receipt

GDR = Global Depositary Receipt

* Non-income producing security.

‡ Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 2006, these securities amounted to a value of $2,920,461 or 1.2% of net assets.

^ Not readily marketable security; security is valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees.

§ Security or portion thereof is out on loan.

§§ Represents security purchased with cash collateral received for securities on loan.

Credit Suisse Trust — Emerging Markets Portfolio
Statement of Assets and Liabilities
December 31, 2006

Assets	
Investments at value, including collateral for securities on loan of $26,723,333 (Cost $183,024,907) (Note 2)	$268,621,588[1]
Cash	71
Foreign currency at value (Cost $521,104)	519,469
Dividend and interest receivable	470,356
Receivable for portfolio shares sold	140,856
Prepaid expenses and other assets	15,968
Total Assets	269,768,308
Liabilities	
Advisory fee payable (Note 3)	207,882
Administrative services fee payable (Note 3)	34,976
Payable upon return of securities loaned (Note 2)	26,723,333
Deferred foreign tax liability (Note 2)	246,098
Payable for portfolio shares redeemed	34,854
Other accrued expenses payable	202,566
Total Liabilities	27,449,709
Net Assets	
Capital stock, $0.001 par value (Note 6)	11,088
Paid-in capital (Note 6)	131,496,749
Undistributed net investment income	1,830,087
Accumulated net realized gain on investments and foreign currency transactions	23,624,370
Net unrealized appreciation from investments and foreign currency translations	85,356,305
Net Assets	$242,318,599
Shares outstanding	11,088,475
Net asset value, offering price, and redemption price per share	$21.85

[1] Including $25,242,777 of securities on loan

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Statement of Operations
For the Year Ended December 31, 2006

Investment Income (Note 2)	
Dividends	$ 5,675,580
Interest	133,573
Securities lending	113,413
Foreign taxes withheld	(625,774)
Total investment income	5,296,792
Expenses	
Investment advisory fees (Note 3)	2,653,175
Administrative services fees (Note 3)	329,893
Custodian fees	226,619
Printing fees (Note 3)	67,336
Audit and tax fees	34,209
Legal fees	22,465
Insurance expense	15,137
Transfer agent fees	7,253
Commitment fees (Note 4)	5,547
Registration fees	4,267
Interest expense (Note 4)	3,409
Trustees' fees	3,000
Miscellaneous expense	26,830
Total expenses	3,399,140
Less: fees waived (Note 3)	(487,030)
Net expenses	2,912,110
Net investment income	2,384,682
Net Realized and Unrealized Gain (Loss) from Investments and Foreign Currency Related Items	
Net realized gain from investments (including Thailand Capital Gain Tax of $62,502)	24,527,296
Net realized loss from foreign currency transactions	(385,798)
Net change in unrealized appreciation (depreciation) from investments	32,789,788
Net change in unrealized appreciation (depreciation) from foreign currency translations	(124,455)
Net realized and unrealized gain from investments and foreign currency related items	56,806,831
Net increase in net assets resulting from operations	$59,191,513

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Statements of Changes in Net Assets

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
From Operations		
Net investment income	$ 2,384,682	$ 1,501,833
Net realized gain from investments and foreign currency transactions	24,141,498	8,210,795
Net change in unrealized appreciation (depreciation) from investments and foreign currency translations	32,665,333	26,149,109
Net increase in net assets resulting from operations	59,191,513	35,861,737
From Dividends and Distributions		
Dividends from net investment income	(1,180,743)	(986,165)
Distributions from net realized gains	(2,900,006)	—
Net decrease in net assets resulting from dividends and distributions	(4,080,749)	(986,165)
From Capital Share Transactions (Note 6)		
Proceeds from sale of shares	53,674,806	67,779,637
Reinvestment of dividends and distributions	4,080,749	986,165
Net asset value of shares redeemed	(56,737,879)	(32,675,340)
Net increase in net assets from capital share transactions	1,017,676	36,090,462
Net increase in net assets	56,128,440	70,966,034
Net Assets		
Beginning of year	186,190,159	115,224,125
End of year	$242,318,599	$186,190,159
Undistributed net investment income	$ 1,830,087	$ 953,171

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Financial Highlights
(For a Share of the Portfolio Outstanding Throughout Each Year)

	For the Year Ended December 31,				
	2006	2005	2004	2003	2002
Per share data					
Net asset value, beginning of year	$ 16.82	$ 13.25	$ 10.63	$ 7.44	$ 8.43
INVESTMENT OPERATIONS					
Net investment income	0.21	0.14	0.12	0.07	0.01
Net gain (loss) on investments and foreign currency related items (both realized and unrealized)	5.19	3.53	2.53	3.12	(0.98)
Total from investment operations	5.40	3.67	2.65	3.19	(0.97)
LESS DIVIDENDS AND DISTRIBUTIONS					
Dividends from net investment income	(0.11)	(0.10)	(0.03)	—	(0.02)
Distributions from net realized gains	(0.26)	—	—	—	—
Total dividends and distributions	(0.37)	(0.10)	(0.03)	—	(0.02)
Net asset value, end of year	$ 21.85	$ 16.82	$ 13.25	$ 10.63	$ 7.44
Total return[1]	32.51%	27.84%	25.02%	42.88%	(11.56)%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (000s omitted)	$242,319	$186,190	$115,224	$73,782	$43,867
Ratio of expenses to average net assets	1.36%	1.40%	1.40%	1.40%	1.40%
Ratio of net investment income to average net assets	1.11%	1.11%	1.21%	0.94%	0.13%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.23%	0.25%	0.29%	0.41%	0.44%
Portfolio turnover rate	80%	77%	121%	167%	128%

[1] Total returns are historical and assume changes in share price and reinvestment of all dividends and distributions. Had certain expenses not been reduced during the years shown, total returns would have been lower. Total returns do not reflect charges and expenses attributable to any particular variable contract or plan.

Note 1. Organization

Credit Suisse Trust (the "Trust") is an open-end management investment company registered under the Investment Company Act of 1940, as amended, and currently offers nine managed investment portfolios of which one, the Emerging Markets Portfolio (the "Portfolio"), is included in this report. The Portfolio is a diversified investment fund that seeks long-term growth of capital. Shares of the Portfolio are not available directly to individual investors but may be offered only through (a) variable annuity contracts and variable life insurance contracts offered by separate accounts of certain insurance companies and (b) tax-qualified pension and retirement plans. The Portfolio may not be available in connection with a particular contract or plan. The Trust was organized under the laws of The Commonwealth of Massachusetts as a business trust on March 15, 1995.

Note 2. Significant Accounting Policies

A) SECURITY VALUATION — The net asset value of the Portfolio is determined daily as of the close of regular trading on the New York Stock Exchange, Inc. (the "Exchange") on each day the Exchange is open for business. Equity investments are valued at market value, which is generally determined using the closing price on the exchange or market on which the security is primarily traded at the time of valuation (the "Valuation Time"). If no sales are reported, equity investments are generally valued at the most recent bid quotation as of the Valuation Time or at the lowest asked quotation in the case of a short sale of securities. Debt securities with a remaining maturity greater than 60 days are valued in accordance with the price supplied by a pricing service, which may use a matrix, formula or other objective method that takes into consideration market indices, yield curves and other specific adjustments. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless it is determined that using this method would not represent fair value. Investments in mutual funds are valued at the mutual fund's closing net asset value per share on the day of valuation. Securities and other assets for which market quotations are not readily available, or whose values have been materially affected by events occurring before the Portfolio's Valuation Time but after the close of the securities' primary markets, are valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees under procedures established by the Board of Trustees. The Portfolio may utilize a service provided by an independent third party which has been approved by the Board of Trustees to fair value certain securities. When fair-value pricing is employed,

Note 2. Significant Accounting Policies

the prices of securities used by a portfolio to calculate its net asset value may differ from quoted or published prices for the same securities.

B) FOREIGN CURRENCY TRANSACTIONS — The books and records of the Portfolio are maintained in U.S. dollars. Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the current exchange rate at the end of the period. Translation gains or losses resulting from changes in the exchange rate during the reporting period and realized gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current period. The Portfolio does not isolate that portion of realized gains and losses on investments in *equity* securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of equity securities. The Portfolio isolates that portion of realized gains and losses on investments in *debt* securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of debt securities.

C) SECURITY TRANSACTIONS AND INVESTMENT INCOME — Security transactions are accounted for on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes.

D) DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS — Dividends from net investment income and distributions of net realized capital gains, if any, are declared and paid at least annually. However, to the extent that a net realized capital gain can be reduced by a capital loss carryforward, such gain will not be distributed. Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America ("GAAP").

E) FEDERAL INCOME TAXES — No provision is made for federal taxes as it is the Trust's intention to have the Portfolio continue to qualify for and elect the tax treatment applicable to regulated investment companies under the Internal Revenue Code of 1986, as amended, and to make the requisite distributions to its shareholders, which will be sufficient to relieve it from federal income and excise taxes.

F) USE OF ESTIMATES — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

Note 2. Significant Accounting Policies

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

G) SHORT-TERM INVESTMENTS — The Portfolio, together with other funds/portfolios advised by Credit Suisse Asset Management, LLC ("Credit Suisse"), an indirect, wholly-owned subsidiary of Credit Suisse Group, pools available cash into either a short-term variable rate time deposit issued by State Street Bank and Trust Company ("SSB"), the Portfolio's custodian, or a money market fund advised by Credit Suisse. The short-term time deposit issued by SSB is a variable rate account classified as a short-term investment.

H) FORWARD FOREIGN CURRENCY CONTRACTS — The Portfolio may enter into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency. The Portfolio will enter into forward foreign currency contracts primarily for hedging purposes. Forward foreign currency contracts are adjusted by the daily forward exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until the contract settlement date or an offsetting position is entered into. At December 31, 2006, the Portfolio had no open forward foreign currency contracts.

I) SECURITIES LENDING — Loans of securities are required at all times to be secured by collateral at least equal to 102% of the market value of domestic securities on loan (including any accrued interest thereon) and 105% of the market value of foreign securities on loan (including any accrued interest thereon). Cash collateral received by the Portfolio in connection with securities lending activity may be pooled together with cash collateral for other funds/portfolios advised by Credit Suisse and may be invested in a variety of investments, including certain Credit Suisse–advised funds, funds advised by SSB, the Portfolio's securities lending agent, or money market instruments. However, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings.

SSB has been engaged by the Portfolio to act as the Portfolio's securities lending agent. The Portfolio's securities lending arrangement provides that the Portfolio and SSB will share the net income earned from securities lending activities. During the year ended December 31, 2006, total earnings from the Portfolio's investment in cash collateral received in connection with securities

Note 2. Significant Accounting Policies

lending arrangements was $726,388, of which $600,280 was rebated to borrowers (brokers). The Portfolio retained $113,413 in income from the cash collateral investment, and SSB, as lending agent, was paid $12,695. The Portfolio may also be entitled to certain minimum amounts of income from its securities lending activities. Securities lending income is accrued as earned.

J) OTHER — The Portfolio may invest in securities of foreign countries and governments which involve certain risks in addition to those inherent in domestic investments. Such risks generally include, among others, currency risk (fluctuations in currency exchange rates), information risk (key information may be inaccurate or unavailable) and political risk (expropriation, nationalization or the imposition of capital or currency controls or punitive taxes). Other risks of investing in foreign securities include liquidity and valuation risks.

The Portfolio's investments in securities of issuers located in less developed countries considered to be "emerging markets" involve risks in addition to those generally applicable to foreign securities. Focusing on emerging (less developed) markets involves higher levels of risk, including increased currency, information, liquidity, market, political and valuation risks. Deficiencies in regulatory oversight, market infrastructure, shareholder protections and company laws could expose the Portfolio to operational and other risks as well. Some countries may have restrictions that could limit the Portfolio's access to attractive investment opportunities. Additionally, emerging markets often face serious economic problems (such as high external debt, inflation and unemployment) that could subject the Portfolio to increased volatility or substantial declines in value.

The Portfolio may be subject to taxes imposed by countries in which it invests with respect to its investments in issuers existing or operating in such countries. Such taxes are generally based on income earned or repatriated and capital gains realized on the sale of such investments. The Portfolio accrues such taxes when the related income is earned or gains are realized.

Note 3. Transactions with Affiliates and Related Parties

Credit Suisse serves as investment adviser for the Portfolio. For its investment advisory services, Credit Suisse was entitled to receive a fee from the Portfolio at an annual rate of 1.25% of the Portfolio's average daily net assets. Effective March 1, 2006, Credit Suisse agreed to voluntarily waive part of its investment advisory fee from 1.25% to 1.20%. Effective October 1, 2006, the Portfolio pays Credit Suisse for its advisory services a fee that consists of

Note 3. Transactions with Affiliates and Related Parties

two components: (1) a monthly base management fee calculated by applying a fixed rate of 1.20% ("Base Fee"), plus or minus (2) a performance-fee adjustment ("Performance Adjustment") calculated by applying a variable rate of up to 0.20% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period. The performance measurement period will generally be 36 months. During the period from October 1, 2006 through September 30, 2007, only the Base Fee will apply to the Portfolio. The fee adjustment will go into effect on October 1, 2007. After 12 months have passed, the measurement period will be equal to the number of months that have elapsed since October 1, 2006 until 36 months has passed, after which the measurement period will become 36 months. The Base Fee is calculated and accrued daily. The Performance Adjustment is accrued and calculated daily. The investment advisory fee is paid monthly in arrears. No Performance Adjustment will be applied unless the difference between the Portfolio's investment performance and the investment record of the MSCI Emerging Markets Free Index, the Portfolio's benchmark index (the "Index"), is 1.00% or greater (plus or minus) during the applicable performance measurement period. For purposes of computing the Base Fee and the Performance Adjustment, net assets will be averaged over different periods (average daily net assets during the relevant month for the Base Fee, versus average daily net assets during the performance measurement period for the Performance Adjustment). The investment performance of the Portfolio for the performance measurement period is used to calculate the Portfolio's Performance Adjustment. After Credit Suisse determines whether the Portfolio's performance was above or below the Index by comparing the investment performance of the Portfolio against the investment record of the Index, Credit Suisse will apply the Performance Adjustment (positive or negative) across the Portfolio.

The following table shows the structure of the Performance Adjustment. No Performance Adjustment will be applied unless the difference between the Portfolio's investment performance and the investment record of the Index is 1.00% or greater (plus or minus) during the applicable performance measurement period.

	Annualized Return (Net of Expenses) Relative to Index	Performance Adjustment
	Over 2.00%	+0.20%
	1.00% to 2.00%	+0.10%
Base Fee plus/minus	0.00% to 1.00%	None
	0.00% to -1.00%	None
	-1.00% to -2.00%	-0.10%
	Over -2.00%	-0.20%

Note 3. Transactions with Affiliates and Related Parties

For the year ended December 31, 2006, investment advisory fees earned and voluntarily waived were $2,653,175 and $487,030, respectively. Credit Suisse will not recapture from the Portfolio any fees it waived during the fiscal year ended December 31, 2006. Fee waivers and reimbursements are voluntary and may be discontinued by Credit Suisse at anytime.

Credit Suisse Asset Management Limited ("Credit Suisse U.K.") and Credit Suisse Asset Management Limited ("Credit Suisse Australia"), affiliates of Credit Suisse, are sub-investment advisers to the Portfolio (the "Sub-Advisers"). Credit Suisse U.K's and Credit Suisse Australia's sub-investment advisory fees are paid by Credit Suisse out of Credit Suisse's net investment advisory fee and are not paid by the Portfolio.

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of Credit Suisse, and SSB serve as co-administrators to the Portfolio. For its co-administrative services, CSAMSI received a fee calculated at an annual rate of 0.10% of the Portfolio's average daily net assets through November 30, 2006. Effective December 1, 2006, the co-administrative fee was reduced to an annual rate of 0.09%. For the year ended December 31, 2006, co-administrative services fees earned by CSAMSI were $212,460.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, calculated in total for all the Credit Suisse funds/portfolios co-administered by SSB and allocated based upon relative average net assets of each fund/portfolio, subject to an annual minimum fee. For the year ended December 31, 2006, co-administrative services fees earned by SSB (including out-of-pocket expenses) were $117,433.

In addition to serving as the Portfolio's co-administrator, CSAMSI currently serves as distributor of the Portfolio's shares without compensation.

Merrill Corporation ("Merrill"), an affiliate of Credit Suisse, has been engaged by the Portfolio to provide certain financial printing and fulfillment services. For the year ended December 31, 2006, Merrill was paid $3,816 for its services to the Portfolio.

Note 4. Line of Credit

The Portfolio, together with other funds/portfolios advised by Credit Suisse (collectively, the "Participating Funds"), participates in a $75 million committed, unsecured line of credit facility ("Credit Facility") for temporary or emergency purposes with Deutsche Bank, A.G. as administrative agent and syndication agent and SSB as operations agent. Under the terms of the Credit

Note 4. Line of Credit

Facility, the Participating Funds pay an aggregate commitment fee at a rate of 0.10% per annum on the average unused amount of the Credit Facility, which is allocated among the Participating Funds in such manner as is determined by the governing Boards of the Participating Funds. In addition, the Participating Funds pay interest on borrowings at the Federal Funds rate plus 0.50%. At December 31, 2006, the Portfolio had no loans outstanding. During the year ended December 31, 2006, the Portfolio had borrowings under the Credit Facility as follows:

Average Daily Loan Balance	Weighted Average Interest Rate%	Maximum Daily Loan Outstanding
$3,041,000	5.766%	$4,189,000

Note 5. Purchases and Sales of Securities

For the year ended December 31, 2006, purchases and sales of investment securities (excluding short-term investments) were $167,365,462 and $171,019,614, respectively.

Note 6. Capital Share Transactions

The Trust is authorized to issue an unlimited number of full and fractional shares of beneficial interest, $.001 par value per share. Transactions in capital shares of the Portfolio were as follows:

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
Shares sold	2,834,504	4,677,861
Shares issued in reinvestment of dividends and distributions	225,705	66,097
Shares redeemed	(3,040,925)	(2,371,979)
Net increase	19,284	2,371,979

On December 31, 2006, the number of shareholders that held 5% or more of the outstanding shares was as follows:

Number of Shareholders	Approximate Percentage of Outstanding Shares
6	92%

Some of the shareholders are omnibus accounts, which hold shares on behalf of individual shareholders.

Note 7. Federal Income Taxes

Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP.

Note 7. Federal Income Taxes

The tax characteristics of dividends and distributions paid during the years ended December 31, 2006, and 2005, respectively, for the Portfolio were as follows:

Ordinary Income		Long – Term Capital Gain	
2006	2005	2006	2005
$1,930,716	$986,165	$2,150,033	$ —

The tax basis of components of distributable earnings differ from the amounts reflected in the Statement of Assets and Liabilities by temporary book/tax differences. These differences are primarily due to losses deferred due to wash sales, post-October losses and the mark-to-market income from Passive Foreign Investment Companies.

At December 31, 2006, the components of distributable earnings on a tax basis for the Portfolio were as follows:

Undistributed net investment income	$ 10,112,983
Accumulated net realized gains	16,650,218
Unrealized appreciation	84,060,424
Deferral of Post - October currency losses	(12,863)
	$110,810,762

Under current tax law, certain currency losses realized after October 31 within a taxable year may be deferred and treated as occuring on the first day of the following tax year. For the tax period ended December 31, 2006, the Portfolio elected to defer net losses arising between November 1, 2006 and December 31, 2006 as follows:

Currency
$12,863

At December 31, 2006, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were: $184,320,788, $85,977,047, $(1,676,247) and $84,300,800, respectively.

At December 31, 2006, the Portfolio reclassified $327,023 from undistributed net investment income to accumulated net realized gain from investments, to adjust for current year permanent book/tax differences which arose principally from differing book/tax treatments of foreign currency transactions, realized

Note 7. Federal Income Taxes

capital gains tax and the sale of Passive Foreign Investment Companies. Net assets were not affected by these reclassifications.

Note 8. Contingencies

In the normal course of business, the Portfolio may provide general indemnifications pursuant to certain contracts and organizational documents. The Portfolio's maximum exposure under these arrangements is dependent on future claims that may be made against the Portfolio and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

Note 9. Recent Accounting Pronouncements

During June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48" or the "Interpretation"), *Accounting for Uncertainty in Income Taxes — an interpretation of FASB statement* 109. FIN 48 supplements FASB Statement 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 prescribes a comprehensive model for how a portfolio should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the portfolio has taken or expects to take on a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is "more likely than not" to be sustained based solely on its technical merits. Management must be able to conclude that the tax law, regulations, case law, and other objective information regarding the technical merits sufficiently support the position's sustainability with a likelihood of more than 50 percent. FIN 48 is effective for fiscal periods beginning after December 15, 2006. At adoption, the financial statements must be adjusted to reflect only those tax positions that are more likely than not to be sustained as of the adoption date.

On September 20, 2006, the FASB released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years, beginning after November 15, 2007 and interim periods within those fiscal years.

At this time, management is evaluating the implications of FIN 48 and FAS 157 and their impact on the financial statements has not yet been determined.

Credit Suisse Trust — Emerging Markets Portfolio
Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Credit Suisse Trust and Shareholders of
Credit Suisse Trust — Emerging Markets Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Emerging Markets Portfolio (the "Portfolio"), a portfolio of the Credit Suisse Trust, at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 15, 2007

In approving the renewal of the current Advisory and Sub-Advisory Agreements, the Board of Trustees, including the Independent Trustees, at a meeting held on November 14-15, 2006, considered the following factors with respect to the Emerging Markets Portfolio (the "Portfolio"):

Investment Advisory Fee Rates

The Board reviewed and considered the current contractual advisory fee with a base rate of 1.20% for the Portfolio plus a variable performance adjustment fee based upon the Portfolio's performance relative to its benchmark during a performance adjustment period ("Contractual Advisory Fee"), in light of the extent and quality of the advisory services provided by Credit Suisse Asset Management, LLC ("Credit Suisse") or Credit Suisse Asset Management Limited ("Credit Suisse U.K.") and Credit Suisse Asset Management Limited ("Credit Suisse Australia"). In addition, the Board noted that the compensation paid to Credit Suisse U.K. and Credit Suisse Australia (collectively, the "Sub-Advisers") does not increase the fees or expenses otherwise incurred by the Portfolio's shareholders.

The Board considered that it and Portfolio shareholders had approved a new Investment Advisory Agreement between the Trust and Credit Suisse with respect to the Portfolio that became effective in August 2006. Under the new agreement, the advisory fee structure for the Portfolio was revised to provide for a base fee for the Portfolio at the rate of 1.20% of the average daily net assets of the Portfolio (reduced from the advisory fee rate of 1.25% of the average daily net assets that had been in effect prior to that date), and a performance-based adjustment that will increase or decrease the base fee depending on whether the Portfolio's total return performance exceeds or lags the Portfolio's benchmark index, which is currently the MSCI Emerging Markets Free Index. The performance-fee adjustment ("Performance Adjustment") is calculated by applying a variable rate of up to 0.20% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period, generally 36 months. The Board noted that the Performance Adjustment of the Contractual Advisory Fee will go into effect in October 2007.

Additionally, the Board received and considered information comparing the Portfolio's Contractual Advisory Fee and the Portfolio's overall expenses with those of funds in both the relevant expense group ("Expense Group") and universe of funds (the "Expense Universe") provided by Lipper Inc., an independent provider of investment company data.

Nature, Extent and Quality of the Services under the Advisory and Sub-Advisory Agreements

The Board received and considered information regarding the nature, extent and quality of services provided to the Portfolio by Credit Suisse under the Advisory Agreement and by the Sub-Advisers under the Sub-Advisory Agreements. The Board also noted information received at regular meetings throughout the year related to the services rendered by Credit Suisse and the Sub-Advisers. The Board reviewed background information about Credit Suisse and the Sub-Advisers, including their respective Forms ADV. The Board considered the background and experience of both Credit Suisse's and the Sub-Advisers' senior management and the expertise of, and the amount of attention given to the Portfolio by, senior personnel of Credit Suisse and the Sub-Advisers. With respect to the Sub-Advisers, the Board also considered their expertise in managing the types of global investments that the Portfolio utilizes in its investment strategy. In addition, the Board reviewed the qualifications, backgrounds and responsibilities of the portfolio management team primarily responsible for the day-to-day portfolio management of the Portfolio and the extent of the resources devoted to research and analysis of actual and potential investments. The Board also received and considered information about the nature, extent and quality of services and fee rates offered to other Credit Suisse clients for comparable services.

In approving the Sub-Advisory Agreements, the Board also considered the benefits of retaining Credit Suisse's United Kingdom and Australian affiliates given the increased complexity of the domestic and international securities markets, specifically that retention of Credit Suisse U.K. and Credit Suisse Australia expands the universe of companies and countries from which investment opportunities could be sought and enhances the ability of the Portfolio to obtain the best price and execution on trades in international markets.

Portfolio Performance

The Board received and considered the performance results of the Portfolio, along with comparisons both to the relevant performance group ("Performance Group") and universe of funds ("Performance Universe") for the Portfolio. The Board was provided with a description of the methodology used to arrive at the funds included in the Performance Group and the Performance Universe.

Credit Suisse Profitability

The Board received and considered a profitability analysis of Credit Suisse based on the fees payable under the Advisory Agreement for the Portfolio, including any fee waivers or fee caps, as well as other relationships between the Portfolio on the one hand and Credit Suisse affiliates on the other. The Board received profitability information for the other funds in the Credit Suisse family of funds.

Economies of Scale

The Board considered whether economies of scale in the provision of services to the Portfolio were being passed along to the shareholders. Accordingly, the Board considered whether alternative fee structures (such as breakpoint fee structures) would be more appropriate or reasonable taking into consideration economies of scale or other efficiencies that might accrue from increases in the Portfolio's asset levels.

Other Benefits to Credit Suisse

The Board considered other benefits received by Credit Suisse, the Sub-Advisers and their affiliates as a result of their relationship with the Portfolio. Such benefits include, among others, research arrangements with brokers who execute transactions on behalf of the Portfolio, administrative and brokerage relationships with affiliates of Credit Suisse and the Sub-Advisers and benefits potentially derived from an increase in Credit Suisse's and the Sub-Advisers' businesses as a result of their relationship with the Portfolio (such as the ability to market to shareholders other financial products offered by Credit Suisse, the Sub-Advisers and their affiliates).

The Board considered the standards applied in seeking best execution, whether and to what extent soft dollar credits are sought and how any such credits are utilized, any benefits that may be achieved by using an affiliated broker and the existence of quality controls applicable to brokerage allocation procedures. The Board also reviewed Credit Suisse's and the Sub-Advisers' method for allocating portfolio investment opportunities among their advisory clients.

Conclusions

In selecting Credit Suisse and the Sub-Advisers, and approving the Advisory Agreement and the investment advisory fee under such agreement and the Sub-Advisory Agreements, the Board concluded that:

- The Board noted that while the Contractual Advisory Fee was above the median for the Expense Group, the Contractual Advisory Fee reflected a reduction from the contractual fee previously in effect for the Portfolio.
- The Board was aware that the Portfolio's performance was below most funds in the Performance Group and the Performance Universe for all periods. The Board noted that the new base fee and performance-based fee structure had been adopted to more closely align Credit Suisse's interests with the interests of the Portfolio's shareholders, which could result in improved investment performance over time for the benefit of all shareholders. The Board would continue to monitor steps taken by Credit Suisse to improve performance.
- Aside from performance (as described above), the Board was satisfied with the nature and extent of the investment advisory services provided to the Portfolio by Credit Suisse and the Sub-Advisers and that, based on dialogue with management and counsel, the services provided by Credit Suisse under the Advisory Agreement and by the Sub-Advisers under the Sub-Advisory Agreements are typical of, and consistent with, those provided to mutual funds by other investment advisers.
- In light of the costs of providing investment management and other services to the Portfolio and Credit Suisse's ongoing commitment to the Portfolio and willingness to cap fees and expenses, the profits and other ancillary benefits that Credit Suisse and its affiliates received were considered reasonable.
- Credit Suisse's profitability based on fees payable under the Advisory Agreement was reasonable in light of the nature, extent and quality of the services provided to the Portfolio thereunder.
- In light of the amount of the Contractual Advisory Fee, the Portfolio's current fee structure was considered reasonable.

No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve the Advisory Agreement and the Sub-Advisory Agreements. The Independent Trustees were advised by separate independent legal counsel throughout the process.

Information Concerning Trustees and Officers (unaudited)

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees					
Enrique Arzac c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 Date of Birth: 10/02/41	Trustee, Nominating Committee Member and Audit Committee Chairman	Since 2005	Professor of Finance and Economics, Graduate School of Business, Columbia University since 1971.	37	Director of Epoch Holding Corporation (an investment management and investment advisory services company); Director of The Adams Express Company (a closed-end Investment company); Director of Petroleum and Resources Corporation (a closed-end investment company).
Richard H. Francis c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 Date of Birth: 04/23/32	Trustee, Nominating and Audit Committee Member	Since 1999	Currently retired	31	None
Jeffrey E. Garten[2] Box 208200 New Haven, Connecticut 06520-8200 Date of Birth: 10/29/46	Trustee, Nominating and Audit Committee Member	Since 1998	The Juan Trippe Professor in the Practice of International Trade, Finance and Business from July 2005 to present; Partner and Chairman of Garten Rothkopf (consulting firm) from October 2005 to present; Dean of Yale School of Management from November 1995 to June 2005.	30	Director of Aetna, Inc. (insurance company); Director of CarMax Group (used car dealers).

[1] Each Trustee and Officer serves until his or her respective successor has been duly elected and qualified.

[2] Mr. Garten was initially appointed as a Trustee of the Trust on February 6, 1998. He resigned as Trustee on February 3, 2000 and was subsequently reappointed on December 21, 2000.

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees					
Peter F. Krogh 301 ICC Georgetown University Washington, DC 20057 Date of Birth: 02/11/37	Trustee, Nominating and Audit Committee Member	Since 2001	Dean Emeritus and Distinguished Professor of International Affairs at the Edmund A. Walsh School of Foreign Service, Georgetown University from June 1995 to present.	30	Director of Carlisle Companies Incorporated (diversified manufacturing company).
Steven N. Rappaport Lehigh Court, LLC 40 East 52nd Street New York, New York 10022 Date of Birth: 07/10/48	Chairman of the Board of Trustees, Nominating Committee Chairman and Audit Committee Member	Trustee since 1999 and Chairman since 2005	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present; Transition Adviser to SunGard Securities Finance, Inc. from February 2002 to July 2002; President of SunGard Securities Finance, Inc. from 2001 to February 2002; President of Loanet, Inc. (on-line accounting service) from 1997 to 2001.	37	Director of iCAD, Inc. (surgical and medical instruments and apparatus company); Director of Presstek, Inc. (digital imaging technologies company); Director of Wood Resources, LLC. (plywood manufacturing company).
Interested Trustee					
Michael E. Kenneally[3] c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 Date of Birth: 03/30/54	Trustee	Since 2004	Chairman and Global Chief Executive Officer of Credit Suisse from March 2003 to July 2005; Chairman and Chief Investment Officer of Banc of America Capital Management from 1998 to March 2003.	30	None

[3] Mr. Kenneally is a Trustee who is an "interested person" of the Trust as defined in the 1940 Act, because he was an officer of Credit Suisse within the last two fiscal years.

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years
Officers			
Keith M. Schappert Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 01/14/51	Chief Executive Officer and President	Since 2007	Executive Vice Chairman and Head of Asset Management for Americas; Chief Executive Officer and President of Federated Investment Advisory Companies from 2002 to March 31, 2006; Chief Executive Officer and President of JP Morgan Investment Management from April 1994 to November 2001.
Michael A. Pignataro Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 11/15/59	Chief Financial Officer	Since 1999	Director and Director of Fund Administration of Credit Suisse; Associated with Credit Suisse or its predecessor since 1984; Officer of other Credit Suisse Funds.
Emidio Morizio Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 09/21/66	Chief Compliance Officer	Since 2004	Director and Global Head of Compliance of Credit Suisse; Associated with Credit Suisse since July 2000; Officer of other Credit Suisse Funds.
J. Kevin Gao Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 10/13/67	Chief Legal Officer, Vice President and Secretary	Since 2004	Director and Legal Counsel of Credit Suisse; Associated with Credit Suisse since July 2003; Associated with the law firm of Willkie Farr & Gallagher LLP from 1998 to 2003; Officer of other Credit Suisse Funds.
Robert Rizza Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 12/09/65	Treasurer	Since 2006	Vice President of Credit Suisse; Associated with Credit Suisse since 1998; Officer of other Credit Suisse Funds.

The Statement of Additional Information includes additional information about the Trustees and is available, without charge, upon request, by calling 800-222-8977.

Important Tax Information for Corporate Shareholders

Corporate Shareholders should note for the year ended December 31, 2006, the percentage of the Portfolio's investment income (i.e., net investment income plus short-term capital gains) that qualified for the intercorporate dividends received deduction is 0%.

Important Tax Information for Shareholders

During the year ended December 31, 2006, the Portfolio declared $2,150,033 in dividends that were designated as long-term capital gains dividends.

Credit Suisse Trust — Emerging Markets Portfolio
Shareholder Meeting Results (unaudited)

A special meeting of shareholders of the Credit Suisse Trust — Emerging Markets Portfolio (the "Portfolio") was held at 466 Lexington Avenue, 16th Floor, New York, NY 10017 on May 19, 2006 and adjourned to August 11, 2006. The following matter was voted upon by the shareholders of the Portfolio and the results are presented below. Shares delivered not voted are included in the total for the proposal.

1. Approval of an Amended Investment Advisory Agreement:

	Shares	% of Total Shares Outstanding	% of Total Shares Voted
For	8,026,343	67.58%	84.30%
Against	1,145,670	9.65%	12.03%
Abstain	349,334	2.94%	3.67%

Credit Suisse Trust — Emerging Markets Portfolio
Proxy Voting and Portfolio Holdings Information (unaudited)

Information regarding how the Portfolio voted proxies related to its portfolio securities during the 12 month period ended June 30 of each year, as well as the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities are available:

- By calling 1-800-222-8977
- On the Portfolio's website, www.credit-suisse.com/us
- On the website of the Securities and Exchange Commission, www.sec.gov.

The Portfolio files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Portfolio's Forms N-Q are available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-202-551-8090.

CREDIT SUISSE

P.O. Box 55030, Boston, MA 02205-5030
800-222-8977 ■ www.credit-suisse.com/us

CREDIT SUISSE ASSET MANAGEMENT SECURITIES, INC., DISTRIBUTOR. TREMK-AR-1206

CREDIT SUISSE

CREDIT SUISSE FUNDS

Annual Report

December 31, 2006

Credit Suisse Trust
■ Global Small Cap Portfolio

Credit Suisse Trust (the "Trust") shares are not available directly to individual investors, but may be offered only through certain insurance products and pension and retirement plans.

The Trust's investment objectives, risks, charges and expenses (which should be considered carefully before investing), and more complete information about the Trust, are provided in the *Prospectus*, which should be read carefully before investing. You may obtain additional copies by calling 800-222-8977 or by writing to Credit Suisse Trust, P.O. Box 55030, Boston, MA 02205-5030.

Credit Suisse Asset Management Securities, Inc., Distributor, is located at Eleven Madison Avenue, New York, NY 10010. The Trust is advised by Credit Suisse Asset Management, LLC.

The views of the Portfolio's management are as of the date of the letter and the Portfolio holdings described in this document are as of December 31, 2006; these views and Portfolio holdings may have changed subsequent to these dates. Nothing in this document is a recommendation to purchase or sell securities.

Portfolio shares are not deposits or other obligations of Credit Suisse Asset Management, LLC ("Credit Suisse") or any affiliate, are not FDIC-insured and are not guaranteed by Credit Suisse or any affiliate. Portfolio investments are subject to investment risks, including loss of your investment.

Credit Suisse Trust — Global Small Cap Portfolio
Annual Investment Adviser's Report
December 31, 2006 (unaudited)

January 17, 2007

Dear Shareholder:

For the year ended December 31, 2006, Credit Suisse Trust — Global Small Cap Portfolio[1] (the "Portfolio") had a gain of 13.28%, versus an increase of 15.78% for the Morgan Stanley Capital International World Small Cap Index.[2]

Market Review: A Strong, if Volatile Market

Overall, the global market environment was strong for the 12-month period ended December 31, 2006. The market, however, was very volatile. Small companies outperformed during the first calendar quarter, reached their peaks in May, and were subsequently hurt by a severe sell off. This occurrence was largely triggered by worries over U.S. inflation and rising global interest rates. These concerns have eased a little as the Federal Reserve has halted rate increases, although elsewhere rates continue to rise. On balance, the weakness of the dollar has continued to bolster the local currency returns of international markets and boost the profits of U.S. companies with substantial overseas operations. Additionally, in the United States, the decline of oil and gasoline prices in recent months from historic highs has helped to strengthen returns in the last quarter.

Overall, small companies performed extremely well during the first half of the year, only to lose their gains from May through August. Subsequently, they rebounded and the MSCI World Small Cap Index finished the year up 15.78%.

Strategic Review and Outlook: Looking to Traditional Growth Sectors for the Future

For the year ended December 31, 2006, the Portfolio returned 13.28% compared to 15.78% for the MSCI World Small Cap Index. Internationally, Europe, the United Kingdom and Australia all produced bumper returns, with a continuing increase in activity in Continental Europe driving demand for stocks. The UK saw a noticeable pickup in takeover activity and Australia benefited from the recent surge in commodity prices. One market that struggled during the year was Japan, where weak consumer spending has put domestic profits under pressure relative to exporters. Share prices have fallen to attractive levels and we used this weakness to increase our exposure, particularly in high-value-added technology companies. We concurrently took profits in some of the other better performing Asian markets.

The best performing U.S. sectors in the Portfolio during the 12-month period were healthcare and technology. Strong stock selection in technology and healthcare contributed to the Portfolio's performance, while stock selection challenges in energy detracted from performance.

At an international sector level, industrials and healthcare stocks were the key contributors to Portfolio performance — with industrials particularly benefiting from the increased activity outside the United States. Detracting from performance was an overweight in information technology, where competition seems to have intensified. Further reducing overall portfolio performance was a global underweight in financials, where the impact of rising asset prices was greater than expected.

Going forward, we would expect to see renewed performance in more traditional growth sectors as the market returns to rewarding those companies with more consistent, sustainable earnings growth.

Effective December 1, 2006, the investment strategy used for the U.S. equity portion of the Portfolio's assets changed to a quantitative approach. The Credit Suisse Quantitative Strategies Group is responsible for the portfolio management of the U.S. equity portion of the Portfolio. The group currently consists of Joseph Cherian, William Weng and Todd Jablonski. U.S. equity securities for the Portfolio are now selected using proprietary quantitative stock selection models rather than the more traditional fundamental analysis approach. The remainder of the Portfolio's assets will continue to be managed using the investment strategy described in the Prospectus. Crispin Finn remains the portfolio manager on the non-U.S. portion of the Portfolio. For more information, please see the Portfolio's prospectus.

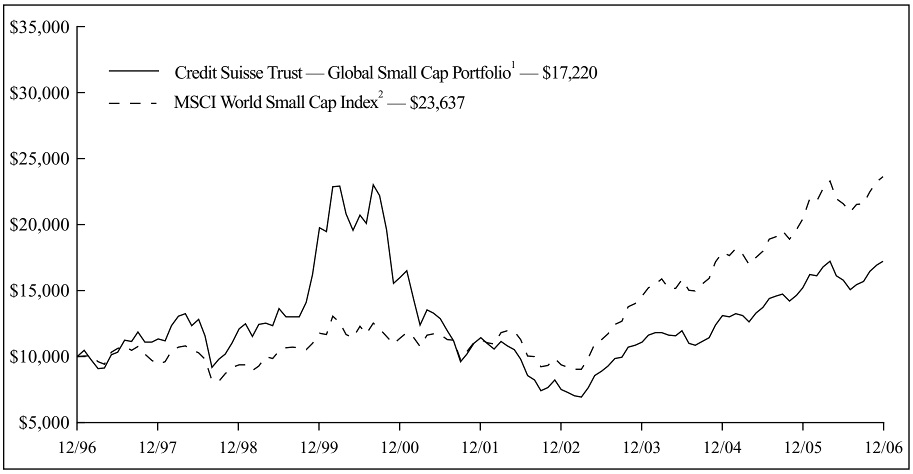
Sincerely,

Crispin Finn
Joseph Cherian
William Weng
Todd Jablonski

International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods. Because of the nature of the Portfolio's investments in start-up and other small companies and certain aggressive strategies it may use, an investment in the Portfolio may be more volatile and less liquid than investments in larger companies and may not be appropriate for all investors.

In addition to historical information, this report contains forward-looking statements, which may concern, among other things, domestic and foreign market, industry and economic trends and developments and government regulation and their potential impact on the Portfolio's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future, and their impact on the Portfolio could be materially different from those projected, anticipated or implied. The Portfolio has no obligation to update or revise forward-looking statements.

Comparison of Change in Value of $10,000 Investment in the Credit Suisse Trust — Global Small Cap Portfolio[1] and the MSCI World Small Cap Index[2] for Ten Years.



Average Annual Returns as of December 31, 2006[1]

1 Year	5 Years	10 Years	Since Inception[3]
13.28%	8.57%	5.59%	5.19%

Returns represent past performance and include change in share price and reinvestment of dividends and capital gains. ***Past performance cannot guarantee future results.*** *The current performance of the Portfolio may be lower or higher than the figures shown. Returns and share price will fluctuate, and redemption value may be more or less than original cost. The performance results do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares. Performance includes the effect of deducting expenses, but does not include charges and expenses attributable to any particular variable contract or plan. Accordingly, the Prospectus of the sponsoring Participating Insurance Company separate account or plan documents or other informational materials supplied by plan sponsors should be carefully reviewed for information on relevant charges and expenses. Excluding these charges and expenses from quotations of performance has the effect of increasing the performance quoted, and the effect of these charges should be considered when comparing performance to that of other mutual funds. Performance information current to the most recent month-end is available at www.credit-suisse.com/us.*

[1] Fee waivers and/or expense reimbursements may reduce expenses for the Portfolio, without which performance would be lower. Waivers and/or reimbursements may be discontinued at any time.

[2] The Morgan Stanley Capital International World Small Cap Index is an unmanaged broad-based index comprised of small cap companies from 23 developed markets. Index returns are price only and do not reflect the reinvestment of dividends. It is the exclusive property of Morgan Stanley Capital International Inc. Investors cannot invest directly in an index.

[3] Inception date 9/30/96.

Information About Your Portfolio's Expenses

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section and which would result in higher total expenses. The following table is intended to help you understand your ongoing expenses of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The table is based on an investment of $1,000 made at the beginning of the six month period ended December 31, 2006.

The table illustrates your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs, such as sales charges (loads) or redemption fees. If these transaction costs had been included, your costs would have been higher. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expenses of owning different funds.

Expenses and Value of a $1,000 Investment for the six month period ended December 31, 2006

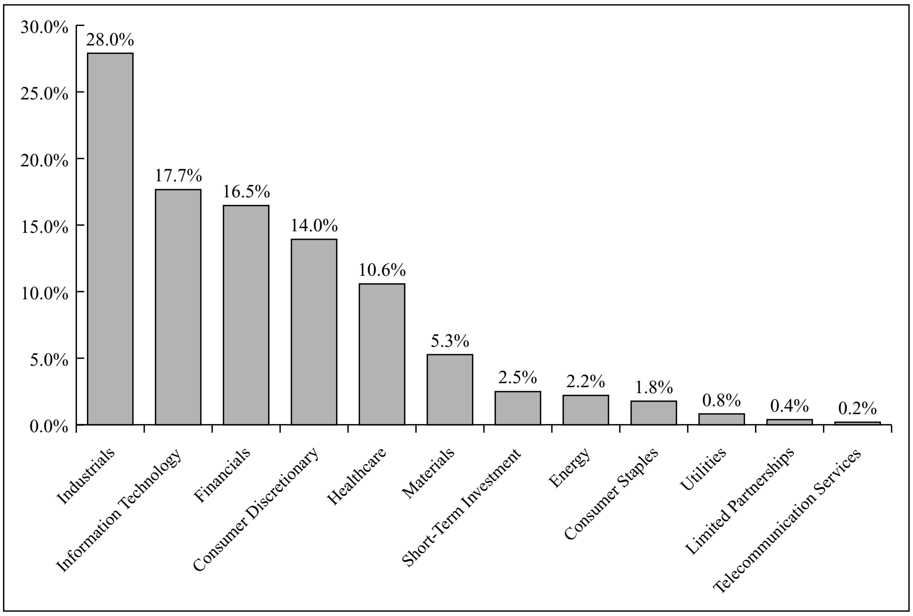
Actual Portfolio Return	
Beginning Account Value 7/1/06	$1,000.00
Ending Account Value 12/31/06	$1,090.70
Expenses Paid per $1,000*	$ 7.38
Hypothetical 5% Portfolio Return	
Beginning Account Value 7/1/06	$1,000.00
Ending Account Value 12/31/06	$1,018.15
Expenses Paid per $1,000*	$ 7.12
Annualized Expense Ratios*	1.40%

* *Expenses are equal to the Portfolio's annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year period, then divided by 365.*

The "Expenses Paid per $1,000" and the "Annualized Expense Ratios" in the tables are based on actual expenses paid by the Portfolio during the period, net of fee waivers and/or expense reimbursements. If those fee waivers and/or expense reimbursements had not been in effect, the Portfolio's actual expenses would have been higher. Expenses do not reflect additional charges and expenses that are, or may be, imposed under the variable contracts or plans. Such charges and expenses are described in the prospectus of the insurance company seperate account or in the plan documents or other informational materials supplied by plan sponsors. The Portfolio's expenses should be considered with these charges and expenses in evaluating the overall cost of investing in the separate account.

For more information, please refer to the Portfolio's prospectus.

SECTOR BREAKDOWN*



* Expressed as a percentage of total investments (excluding security lending collateral) and may vary over time.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments
December 31, 2006

	Number of Shares	Value
COMMON STOCKS (97.4%)		
Australia (4.8%)		
Banks (0.6%)		
Bendigo Bank, Ltd.§	67,000	$ 734,815
Commercial Services & Supplies (0.3%)		
Iress Market Technology, Ltd.§	55,000	302,837
Diversified Financials (2.6%)		
Austbrokers Holdings, Ltd.	312,000	1,047,976
Australian Infrastructure Fund§	256,000	544,073
Babcock & Brown Infrastructure Group§	419,192	613,624
Mortgage Choice, Ltd.	395,000	831,044
		3,036,717
Machinery (0.4%)		
Emeco Holdings, Ltd.*	329,000	473,961
Media (0.9%)		
Seven Network, Ltd.	67,000	595,135
STW Communications Group, Ltd.§	205,000	527,773
		1,122,908
TOTAL AUSTRALIA		5,671,238
Belgium (1.3%)		
Healthcare Equipment & Supplies (1.3%)		
Omega Pharma SA	19,950	1,499,675
TOTAL BELGIUM		1,499,675
Bermuda (0.4%)		
Household Durables (0.1%)		
Helen of Troy, Ltd.*§	2,000	48,520
Insurance (0.3%)		
Max Re Capital, Ltd.§	15,900	394,638
TOTAL BERMUDA		443,158
China (2.7%)		
Airlines (1.3%)		
Air China, Ltd. Series H§	3,000,000	1,616,973
Communications Equipment (1.4%)		
ZTE Corp. Series H§	352,800	1,622,283
TOTAL CHINA		3,239,256
Denmark (1.2%)		
Household Durables (1.2%)		
Bang & Olufsen AS B Shares§	11,600	1,490,480
TOTAL DENMARK		1,490,480
Finland (0.6%)		
Communications Equipment (0.6%)		
Elcoteq SE	54,150	697,546
TOTAL FINLAND		697,546

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2006

	Number of Shares	Value
COMMON STOCKS		
France (1.6%)		
Hotels, Restaurants & Leisure (0.2%)		
Elior*§	12,109	$ 239,959
Real Estate (1.4%)		
Nexity	23,650	1,708,120
TOTAL FRANCE		1,948,079
Germany (8.1%)		
Building Products (1.3%)		
Pfleiderer AG§	57,300	1,539,555
Commercial Services & Supplies (1.0%)		
CeWe Color Holding AG	28,500	1,237,698
Diversified Financials (1.6%)		
AWD Holding AG§	44,000	1,852,858
Energy Equipment & Services (0.4%)		
Q-Cells AG*§	9,474	423,716
Machinery (1.2%)		
IWKA AG*§	58,000	1,476,394
Real Estate (1.0%)		
Vivacon AG*	35,000	1,162,473
Specialty Retail (1.6%)		
Fielmann AG§	30,600	1,967,964
TOTAL GERMANY		9,660,658
Japan (15.8%)		
Auto Components (1.8%)		
NHK Spring Company, Ltd.§	96,000	1,005,596
Nippon Seiki Company, Ltd.	50,000	1,168,560
		2,174,156
Chemicals (3.2%)		
Kuraray Company, Ltd.	194,000	2,285,405
Toho Tenax Company, Ltd.*§	219,000	1,464,337
		3,749,742
Commercial Services & Supplies (0.6%)		
Take and Give Needs Company, Ltd.§	895	700,330
Computers & Peripherals (1.2%)		
Melco Holdings, Inc.§	51,300	1,430,835
Distribution & Wholesale (0.3%)		
Happinet Corp.	21,100	334,909
Diversified Financials (1.3%)		
Asset Managers Company, Ltd.§	440	870,174
OMC Card, Inc.§	87,100	681,597
		1,551,771

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Japan		
Electronic Equipment & Instruments (1.5%)		
Nidec Corp.	11,500	$ 888,915
Nihon Dempa Kogyo Company, Ltd.§	22,500	925,865
		1,814,780
Food Products (0.5%)		
Mitsui Sugar Company, Ltd.§	199,000	647,200
Hotels, Restaurants & Leisure (0.8%)		
Round One Corp.§	309	910,391
Internet & Catalog Retail (0.6%)		
Belluna Company, Ltd.	50,200	744,947
Internet Software & Services (1.3%)		
ACCA Networks Company, Ltd.	206	372,130
SBI Holdings, Inc.§	3,375	1,133,430
		1,505,560
Machinery (1.2%)		
Sodick Company, Ltd.	159,800	1,459,952
Specialty Retail (1.5%)		
USS Company, Ltd.	19,250	1,251,521
Village Vanguard Company, Ltd.	109	535,774
		1,787,295
TOTAL JAPAN		18,811,868
Netherlands (2.3%)		
Commercial Services & Supplies (0.1%)		
Tele Atlas NV*§	6,744	141,682
Electronic Equipment & Instruments (0.7%)		
Gemalto NV*§	34,200	847,058
Semiconductor Equipment & Products (1.5%)		
ASM International NV*§	84,000	1,762,033
TOTAL NETHERLANDS		2,750,773
Norway (2.7%)		
Electronic Equipment & Instruments (1.7%)		
Tandberg ASA	138,730	2,084,231
Machinery (1.0%)		
Tomra Systems ASA§	172,000	1,181,285
TOTAL NORWAY		3,265,516
Puerto Rico (0.2%)		
Banks (0.2%)		
First BanCorp.	22,000	209,660
TOTAL PUERTO RICO		209,660

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2006

	Number of Shares	Value
COMMON STOCKS		
Sweden (4.2%)		
Commercial Services & Supplies (1.0%)		
Observer AB*	216,000	$ 1,218,463
Healthcare Equipment & Supplies (1.5%)		
Getinge AB Class B	77,200	1,728,917
Machinery (1.7%)		
Alfa Laval AB	45,000	2,024,625
TOTAL SWEDEN		4,972,005
Switzerland (3.1%)		
Biotechnology (1.3%)		
Actelion, Ltd.*	6,899	1,513,302
Machinery (1.8%)		
Georg Fischer AG*	3,420	2,207,100
TOTAL SWITZERLAND		3,720,402
United Kingdom (9.7%)		
Commercial Services & Supplies (4.2%)		
Enterprise PLC	140,000	1,490,566
Michael Page International PLC	200,000	1,765,655
Serco Group PLC	240,000	1,789,562
		5,045,783
Diversified Financials (1.2%)		
Melrose PLC	400,000	1,406,755
Industrial Conglomerates (2.2%)		
Intertek Group PLC	100,000	1,627,563
Synergy Healthcare PLC	81,215	1,058,797
		2,686,360
Insurance (0.7%)		
Amlin PLC	130,000	825,278
Road & Rail (1.4%)		
Arriva PLC	110,000	1,638,364
TOTAL UNITED KINGDOM		11,602,540
United States (38.7%)		
Aerospace & Defense (0.2%)		
Armor Holdings, Inc.*	2,900	159,065
United Industrial Corp.§	800	40,600
		199,665
Airlines (0.5%)		
Alaska Air Group, Inc.*§	4,400	173,800
ExpressJet Holdings, Inc.*§	18,500	149,850
Skywest, Inc.§	9,600	244,896
		568,546

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2006

	Number of Shares	Value
COMMON STOCKS		
United States		
Auto Components (0.3%)		
Accuride Corp.*§	8,200	$ 92,332
American Axle & Manufacturing Holdings, Inc.§	12,900	244,971
Superior Industries International, Inc.§	3,300	63,591
		400,894
Banks (2.2%)		
Boston Private Financial Holdings, Inc.§	1,500	42,315
Center Financial Corp.§	1,900	45,543
Citizens Banking Corp.§	1,500	39,750
Community Bancorp*§	2,900	87,551
Corus Bankshares, Inc.	11,400	262,998
First Niagara Financial Group, Inc.§	4,600	68,356
FirstFed Financial Corp.*§	7,200	482,184
Hanmi Financial Corp.	8,100	182,493
Independent Bank Corp.§	3,600	91,044
Nara Bancorp, Inc.	4,500	94,140
Placer Sierra Bancshares§	7,800	185,406
Prosperity Bancshares, Inc.	5,800	200,158
Southwest Bancorp, Inc.§	1,600	44,576
Sterling Bancshares, Inc.§	14,850	193,347
Sterling Financial Corp.	1,400	47,334
TierOne Corp.	1,500	47,415
Umpqua Holdings Corp.§	5,400	158,922
Whitney Holding Corp.§	4,200	137,004
Wilshire Bancorp, Inc.§	8,500	161,245
		2,571,781
Biotechnology (1.5%)		
Albany Molecular Research, Inc.*§	11,700	123,552
Alkermes, Inc.*§	13,200	176,484
Cubist Pharmaceuticals, Inc.*	4,800	86,928
Digene Corp.*	3,300	158,136
Kendle International, Inc.*	1,900	59,755
LifeCell Corp.*§	14,400	347,616
Pharmanet Development Group, Inc.*§	4,000	88,280
Savient Pharmaceuticals, Inc.*	8,300	93,043
United Therapeutics Corp.*	5,300	288,161
ViroPharma, Inc.*	25,400	371,856
		1,793,811
Building Products (0.7%)		
American Woodmark Corp.§	6,300	263,655
Lamson & Sessions Co.*§	8,900	215,914
NCI Building Systems, Inc.*	1,800	93,150
PW Eagle, Inc.§	7,400	255,300
		828,019

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2006

	Number of Shares	Value
COMMON STOCKS		
United States		
Chemicals (0.5%)		
CF Industries Holdings, Inc.	1,800	$ 46,152
Georgia Gulf Corp.§	12,400	239,444
H.B. Fuller Co.	4,200	108,444
Olin Corp.§	5,200	85,904
PolyOne Corp.*	17,000	127,500
W.R. Grace & Co.*§	2,200	43,560
		651,004
Commercial Services & Supplies (1.9%)		
Administaff, Inc.§	4,700	201,019
Banta Corp.	4,900	178,360
BISYS Group, Inc.*§	8,700	112,317
Deluxe Corp.	3,200	80,640
Headwaters, Inc.*§	7,600	182,096
Heidrick & Struggles International, Inc.*	5,300	224,508
ICT Group, Inc.*	1,500	47,385
Kelly Services, Inc. Class A§	4,900	141,806
Korn/Ferry International*§	8,500	195,160
Labor Ready, Inc.*	11,400	208,962
Navigant Consulting, Inc.*	2,400	47,424
PHH Corp.*	4,700	135,689
Pre-Paid Legal Services, Inc.*	1,700	66,521
Valassis Communications, Inc.*§	7,400	107,300
Vertrue, Inc.*§	8,400	322,644
		2,251,831
Communications Equipment (1.3%)		
Arris Group, Inc.*§	15,400	192,654
Brocade Communications Systems, Inc.*§	52,200	428,562
Comtech Telecommunications Corp.*	3,800	144,666
Emulex Corp.*	19,500	380,445
Sonus Networks, Inc.*	7,300	48,107
Symmetricom, Inc.*§	11,100	99,012
UTStarcom, Inc.*	26,100	228,375
		1,521,821
Computers & Peripherals (0.6%)		
Hutchinson Technology, Inc.*§	5,300	124,921
Komag, Inc.*§	11,700	443,196
Palm, Inc.*§	13,600	191,624
		759,741
Construction & Engineering (0.0%)		
Granite Construction, Inc.	800	40,256
Distribution & Wholesale (0.1%)		
Brightpoint, Inc.*§	7,540	101,413

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
United States		
Diversified Financials (1.8%)		
ASTA Funding, Inc.§	4,200	$ 127,848
Cash America International, Inc.§	5,000	234,500
EZCORP, Inc. Class A*	2,900	47,125
First Cash Financial Services, Inc.*	5,400	139,698
Knight Capital Group, Inc. Class A*	12,600	241,542
MCG Capital Corp.	9,700	197,104
Piper Jaffray Companies, Inc.*	3,800	247,570
Portfolio Recovery Associates, Inc.*§	5,500	256,795
SWS Group, Inc.§	7,800	278,460
Texas Capital Bancshares, Inc.*§	3,200	63,616
World Acceptance Corp.*	5,400	253,530
		2,087,788
Diversified Telecommunication Services (0.2%)		
CT Communications, Inc.	10,100	231,492
Electric Utilities (0.8%)		
Cleco Corp.	20,000	504,600
El Paso Electric Co.*§	7,600	185,212
Empire District Electric Co.	4,000	98,760
Unisource Energy Corp.§	4,300	157,079
		945,651
Electrical Equipment (0.7%)		
General Cable Corp.*§	4,800	209,808
Genlyte Group, Inc.*	4,900	382,739
Houston Wire & Cable Co.*§	8,800	183,920
		776,467
Electronic Equipment & Instruments (0.9%)		
Benchmark Electronics, Inc.*§	1,700	41,412
KEMET Corp.*§	20,300	148,190
Itron, Inc.*§	7,300	378,432
Littelfuse, Inc.*	1,600	51,008
Methode Electronics, Inc.	13,400	145,122
Plexus Corp.*§	8,600	205,368
TTM Technologies, Inc.*	8,600	97,438
		1,066,970
Energy Equipment & Services (0.9%)		
Atwood Oceanics, Inc.*	5,400	264,438
Global Industries, Ltd.*	6,300	82,152
Hercules Offshore, Inc.*	4,500	130,050
Lone Star Technologies, Inc.*	1,000	48,410
Lufkin Industries, Inc.§	900	52,272
Matrix Service Co.*	2,600	41,860
Oceaneering International, Inc.*	1,300	51,610
SEACOR Holdings, Inc.*	500	49,570
UNIT CORP*	7,800	377,910
		1,098,272

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2006

	Number of Shares	Value
COMMON STOCKS		
United States		
Food & Drug Retailing (0.6%)		
Central European Distribution Corp.*§	2,200	$ 65,340
Longs Drug Stores Corp.§	5,800	245,804
Nash Finch Co.§	9,300	253,890
PetMed Express, Inc.*§	3,200	42,720
Wild Oats Markets, Inc.*§	7,000	100,660
		708,414
Food Products (0.4%)		
Chiquita Brands International, Inc.§	9,000	143,730
Corn Products International, Inc.	1,100	37,994
Delta & Pine Land Co.§	1,000	40,450
MGP Ingredients, Inc.	4,400	99,484
Peet's Coffee & Tea, Inc.*§	1,600	41,984
Pilgrim's Pride Corp.§	3,100	91,233
		454,875
Healthcare Equipment & Supplies (1.6%)		
ArthroCare Corp.*§	11,700	467,064
Candela Corp.*	5,500	68,035
Cutera, Inc.*	1,800	48,600
Illumina, Inc.*	1,200	47,172
Immucor, Inc.*	5,900	172,457
IntraLase Corp.*§	2,000	44,760
LCA-Vision, Inc.	1,800	61,848
Neurometrix, Inc.*	10,800	161,028
Noven Pharmaceuticals, Inc.*	4,600	117,070
Palomar Medical Technologies, Inc.*	2,800	141,876
Quidel Corp.*	11,800	160,716
Somanetics Corp.*§	2,100	47,943
SurModics, Inc.*§	9,600	298,752
Zoll Medical Corp.*	1,800	104,832
		1,942,153
Healthcare Providers & Services (1.4%)		
Amedisys, Inc.*	2,200	72,314
Amerigroup Corp.*	15,100	541,939
Centene Corp.*	8,900	218,673
Cross Country Healthcare, Inc.*§	2,000	43,640
eResearch Technology, Inc.*§	24,600	165,558
Gentiva Health Services, Inc.*	2,600	49,556
Healthspring, Inc.*	7,100	144,485
Kindred Healthcare, Inc.*	2,100	53,025
Omnicell, Inc.*	2,200	40,986
Parexel International Corp.*§	6,700	194,099
Psychiatric Solutions, Inc.*	3,552	133,271
Sunrise Senior Living, Inc.*	1,600	49,152
		1,706,698

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
United States		
Hotels, Restaurants & Leisure (0.6%)		
CKE Restaurants, Inc.§	25,700	$ 472,880
Live Nation, Inc.*§	3,700	82,880
Multimedia Games, Inc.*§	10,900	104,640
P.F. Chang's China Bistro, Inc.*§	1,800	69,084
		729,484
Household Durables (0.2%)		
American Greetings Corp. Class A§	8,500	202,895
Topps Company, Inc.	5,100	45,390
		248,285
Household Products (0.0%)		
WD-40 Co.§	1,200	41,844
Insurance (1.8%)		
American Equity Investment Life Holding Co.§	3,600	46,908
American Physicians Capital, Inc.*	1,200	48,048
Argonaut Group, Inc.*	1,200	41,832
Delphi Financial Group, Inc. Class A§	13,100	530,026
Safety Insurance Group, Inc.§	8,500	431,035
Seabright Insurance Holdings*	5,200	93,652
Tower Group, Inc.	13,900	431,873
Triad Guaranty, Inc.*§	5,800	318,246
Universal American Financial Corp.*	8,800	164,032
		2,105,652
Internet & Catalog Retail (0.1%)		
Insight Enterprises, Inc.*	3,500	66,045
Internet Software & Services (1.8%)		
Allscripts Heathcare Solutions, Inc.*§	18,100	488,519
Blue Coat Systems, Inc.*	1,900	45,505
Digital River, Inc.*§	10,300	574,637
InfoSpace, Inc.*§	9,700	198,947
Interwoven, Inc.*§	2,900	42,543
Knot, Inc.*	2,100	55,104
United Online, Inc.	33,800	448,864
Vignette Corp.*	11,100	189,477
webMethods, Inc.*	5,800	42,688
Websense, Inc.*	4,100	93,603
		2,179,887
IT Consulting & Services (0.1%)		
ProQuest Co.*§	11,900	124,355
Leisure Equipment & Products (0.2%)		
JAKKS Pacific, Inc.*§	7,700	168,168
RC2 Corp.*	1,000	44,000
		212,168

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2006

	Number of Shares	Value
COMMON STOCKS		
United States		
Machinery (1.4%)		
Ceradyne, Inc.*§	8,000	$ 452,000
Columbus McKinnon Corp.*§	2,700	56,754
EnPro Industries, Inc.*§	9,800	325,458
Freightcar America, Inc.§	3,100	171,895
Gehl Co.*§	1,500	41,295
Greenbrier Companies, Inc.§	1,100	33,000
Insteel Industries, Inc.	6,000	106,740
Mueller Industries, Inc.	2,700	85,590
Navistar International Corp.*§	11,500	384,445
		1,657,177
Marine (0.3%)		
Hornbeck Offshore Services, Inc.*§	8,400	299,880
Media (1.1%)		
Emmis Communications Corp. Class A§	27,800	229,072
InVentiv Health, Inc.*§	3,500	123,725
Netflix, Inc.*	13,900	359,454
Scholastic Corp.*§	7,400	265,216
Sonic Solutions*§	9,100	148,330
Westwood One, Inc.§	23,700	167,322
		1,293,119
Metals & Mining (1.4%)		
AK Steel Holding Corp.*§	16,600	280,540
Carpenter Technology Corp.	2,100	215,292
Chaparral Steel Co.	7,600	336,452
Cleveland-Cliffs, Inc.§	2,500	121,100
Metal Management, Inc.	6,200	234,670
Oregon Steel Mills, Inc.*§	2,600	162,266
Quanex Corp.§	8,600	297,474
		1,647,794
Multiline Retail (0.0%)		
Fred's, Inc.	3,500	42,140
Oil & Gas (1.4%)		
Cimarex Energy Co.§	1,100	40,150
Comstock Resources, Inc.*§	7,000	217,420
EXCO Resources, Inc.*§	16,800	284,088
General Maritime Corp.§	4,600	161,874
Omi Corp.§	1,800	38,106
PetroQuest Energy, Inc.*§	3,300	42,042
Pioneer Drilling Co.*§	28,500	378,480
Swift Energy Co.*§	7,800	349,518
VAALCO Energy, Inc.*	18,000	121,500
		1,633,178

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
United States		
Paper & Forest Products (0.3%)		
Potlatch Corp.§	8,000	$ 350,560
Personal Products (0.0%)		
Elizabeth Arden, Inc.*	2,500	47,625
Pharmaceuticals (0.6%)		
Alpharma, Inc. Class A*§	6,600	159,060
Par Pharmaceutical Companies, Inc.*§	3,700	82,769
Salix Pharmaceuticals, Ltd.*	9,200	111,964
Sciele Pharma, Inc.*§	17,300	415,200
		768,993
Real Estate (2.0%)		
American Home Mortgage Investment Corp.§	11,200	393,344
Anworth Mortgage Asset Corp.§	15,000	142,650
Arbor Realty Trust, Inc.	4,600	138,414
BioMed Realty Trust, Inc.	4,700	134,420
Capital Lease Funding, Inc.§	4,000	46,400
Education Realty Trust, Inc.§	8,000	118,160
Entertainment Properties Trust§	5,800	338,952
Equity Inns, Inc.§	9,800	156,408
Innkeepers USA Trust	19,400	300,700
Kite Realty Group Trust§	5,000	93,100
MFA Mortgage Investments, Inc.	19,500	149,955
National Health Investors, Inc.§	2,800	92,400
Redwood Trust, Inc.	4,300	249,744
		2,354,647
Road & Rail (0.5%)		
Arkansas Best Corp.§	5,200	187,200
Celadon Group, Inc.*§	12,700	212,725
Saia, Inc.*§	7,300	169,433
		569,358
Semiconductor Equipment & Products (1.8%)		
Advanced Energy Industries, Inc.*	13,800	260,406
Brooks Automation, Inc.*	11,100	159,840
Cabot Microelectronics Corp.*	4,600	156,124
Cymer, Inc.*	3,500	153,825
Diodes, Inc.*§	5,000	177,400
FormFactor, Inc.*§	1,100	40,975
OmniVision Technologies, Inc.*	8,300	113,295
Photronics, Inc.*	14,300	233,662
PortalPlayer, Inc.*	14,900	200,405
RF Micro Devices, Inc.*	8,000	54,320
Standard Microsystems Corp.*	1,700	47,566
Tessera Technologies, Inc.*§	1,900	76,646
Varian Semiconductor Equipment Associates, Inc.*§	6,000	273,120
Zoran Corp.*	16,200	236,196
		2,183,780

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
United States		
Software (1.2%)		
Aspen Technology, Inc.*	4,500	$ 49,590
Dendrite International, Inc.*	11,900	127,449
Inter-Tel, Inc.§	9,900	219,384
Mentor Graphics Corp.*§	9,000	162,270
MicroStrategy, Inc. Class A*	800	91,208
Progress Software Corp.*	11,200	312,816
TradeStation Group, Inc.*	30,100	413,875
Wind River Systems, Inc.*§	3,800	38,950
		1,415,542
Specialty Retail (2.0%)		
Aeropostale, Inc.*§	11,700	361,179
Building Materials Holding Corp.	8,400	207,396
Charlotte Russe Holding, Inc.*§	8,200	252,150
Charming Shoppes, Inc.*§	22,100	299,013
Children's Place Retail Stores, Inc.*	2,000	127,040
Christopher & Banks Corp.§	2,700	50,382
Dick's Sporting Goods, Inc.*	3,300	161,667
DSW, Inc. Class A*§	6,100	235,277
Gymboree Corp.*	4,500	171,720
J. Crew Group, Inc.*	1,200	46,260
Pacific Sunwear Of California, Inc.*	3,400	66,572
Rent-A-Center, Inc.*§	5,000	147,550
Select Comfort Corp.*§	12,000	208,680
Tween Brands, Inc.*	1,200	47,916
		2,382,802
Textiles & Apparel (0.5%)		
K-Swiss, Inc. Class A§	4,700	144,478
Kenneth Cole Productions, Inc. Class A§	1,800	43,182
Oxford Industries, Inc.	800	39,720
Steven Madden, Ltd.	7,700	270,193
True Religion Apparel, Inc.*§	6,700	102,577
		600,150
Tobacco (0.3%)		
Alliance One International, Inc.*	11,100	78,366
Schweitzer-Mauduit International, Inc.	3,900	101,595
Vector Group, Ltd.§	8,400	149,100
		329,061
Wireless Telecommunication Services (0.0%)		
Dobson Communications Corp. Class A*	5,500	47,905
TOTAL UNITED STATES		46,038,993
TOTAL COMMON STOCKS (Cost $101,406,144)		116,021,847

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
PREFERRED STOCK (1.6%)		
Germany (1.6%)		
Healthcare Equipment & Supplies (1.6%)		
Draegerwerk AG (Cost $1,540,403)	26,000	$ 1,932,929
WARRANTS (0.0%)		
United States (0.0%)		
Chemicals (0.0%)		
Pacific Ethanol, Inc., strike price $31.55, expires 02/28/07* (Cost $0)	11,500	0
LIMITED PARTNERSHIP (0.4%)		
United States (0.4%)		
Venture Capital (0.4%)		
Austin Ventures VIII L.P.*†† (Cost $399,855)	513,333	482,516
SHORT-TERM INVESTMENTS (31.4%)		
State Street Navigator Prime Portfolio§§	34,294,585	34,294,585
	Par (000)	
State Street Bank and Trust Co. Euro Time Deposit, 4.100%, 1/02/07‡‡	$3,051	3,051,000
TOTAL SHORT-TERM INVESTMENTS (Cost $37,345,585)		37,345,585
TOTAL INVESTMENTS AT VALUE (130.8%) (Cost $140,691,987)		155,782,877
LIABILITIES IN EXCESS OF OTHER ASSETS (-30.8%)		(36,677,480)
NET ASSETS (100.0%)		$119,105,397

* Non-income producing security.

†† Restricted security, not readily marketable; security is valued at fair value as determined in good faith, by or under the direction of, the Board of Trustees.

‡‡ Collateral segregated for futures contracts.

§ Security or portion thereof is out on loan.

§§ Represents security purchased with cash collateral received for securities on loan.

Credit Suisse Trust — Global Small Cap Portfolio
Statement of Assets and Liabilities
December 31, 2006

Assets	
Investments at value, including collateral for securities on loan of $34,294,585 (Cost $140,691,987) (Note 2)	$155,782,877[1]
Cash	12,585
Cash segregated at broker for futures contracts	192,000
Foreign currency at value (cost $402)	400
Receivable for investments sold	12,225,947
Dividend and interest receivable	75,784
Receivable for portfolio shares sold	35,559
Prepaid expenses and other assets	16,379
Total Assets	168,341,531
Liabilities	
Advisory fee payable (Note 3)	108,108
Administrative services fee payable (Note 3)	18,985
Payable upon return of securities loaned (Note 2)	34,294,585
Payable for investments purchased	14,719,368
Variation margin payable (Note 2)	9,712
Payable for portfolio shares redeemed	2,477
Other accrued expenses payable	82,899
Total Liabilities	49,236,134
Net Assets	
Capital stock, $0.001 par value (Note 7)	8,119
Paid-in capital (Note 7)	129,856,247
Accumulated net investment income	1,351
Accumulated net realized loss on investments, futures contracts and foreign currency transactions	(25,849,292)
Net unrealized appreciation from investments, futures contracts, and foreign currency translations	15,088,972
Net Assets	$119,105,397
Shares outstanding	8,118,519
Net asset value, offering price, and redemption price per share	$14.67

[1] Including $32,992,162 of securities on loan.

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Statement of Operations
For the Year Ended December 31, 2006

Investment Income (Note 2)	
Dividends	$ 1,439,669
Interest	210,150
Securities lending	200,200
Net investment income allocated from partnerships	41,117
Foreign taxes withheld	(93,185)
Total investment income	1,797,951
Expenses	
Investment advisory fees (Note 3)	1,629,855
Administrative services fees (Note 3)	206,772
Custodian fees	57,158
Printing fees (Note 3)	51,718
Audit and tax fees	27,728
Legal fees	24,239
Insurance expense	10,676
Transfer agent fees	7,047
Commitment fees (Note 4)	3,510
Trustees' fees	2,994
Registration fees	1,665
Miscellaneous expense	13,708
Total expenses	2,037,070
Less: fees waived (Note 3)	(211,631)
Net expenses	1,825,439
Net investment loss	(27,488)
Net Realized and Unrealized Gain (Loss) from Investments, Futures Contracts and Foreign Currency Related Items	
Net realized gain from investments	22,355,179
Net realized loss on futures contracts	(7,120)
Net realized loss on foreign currency transactions	(37,401)
Net change in unrealized appreciation (depreciation) from investments	(7,847,125)
Net change in unrealized appreciation (depreciation) from futures transactions	(2,591)
Net change in unrealized appreciation (depreciation) from foreign currency translations	(3,984)
Net realized and unrealized gain from investments, futures contracts, and foreign currency related items	14,456,958
Net increase in net assets resulting from operations	$14,429,470

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Statements of Changes in Net Assets

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
From Operations		
Net investment loss	$ (27,488)	$ (445,814)
Net realized gain from investments, futures contracts and foreign currency transactions	22,310,658	24,312,256
Net change in unrealized appreciation (depreciation) from investments, futures contracts and foreign currency translations	(7,853,700)	(6,565,791)
Net increase in net assets resulting from operations	14,429,470	17,300,651
From Capital Share Transactions (Note 7)		
Proceeds from sale of shares	21,903,845	37,385,132
Net asset value of shares redeemed	(46,535,898)	(35,487,395)
Net increase (decrease) in net assets from capital share transactions	(24,632,053)	1,897,737
Net increase (decrease) in net assets	(10,202,583)	19,198,388
Net Assets		
Beginning of year	129,307,980	110,109,592
End of year	$119,105,397	$129,307,980
Accumulated net investment income (loss)	$ 1,351	$ (11,454)

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Financial Highlights
(For a Share of the Portfolio Outstanding Throughout Each Year)

	For the Year Ended December 31,				
	2006	2005	2004	2003	2002
Per share data					
Net asset value, beginning of year	$ 12.95	$ 11.15	$ 9.45	$ 6.40	$ 9.72
INVESTMENT OPERATIONS					
Net investment loss	(0.00)[2]	(0.04)	(0.09)	(0.06)	(0.08)
Net gain (loss) on investments, futures contracts and foreign currency related items (both realized and unrealized)	1.72	1.84	1.79	3.11	(3.24)
Total from investment operations	1.72	1.80	1.70	3.05	(3.32)
Net asset value, end of year	$ 14.67	$ 12.95	$ 11.15	$ 9.45	$ 6.40
Total return[1]	13.28%	16.14%	17.99%	47.66%	(34.16)%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (000s omitted)	$119,105	$129,308	$110,110	$102,577	$60,633
Ratio of expenses to average net assets	1.40%	1.40%	1.40%	1.40%	1.40%
Ratio of net investment loss to average net assets	(0.02)%	(0.39)%	(0.85)%	(0.94)%	(0.90)%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.16%	0.19%	0.17%	0.23%	0.31%
Portfolio turnover rate	117%	75%	79%	86%	86%

[1] Total returns are historical and assume changes in share price and reinvestment of all dividends and distributions. Had certain expenses not been reduced during the years shown, total returns would have been lower. Total returns do not reflect charges and expenses attributable to any particular variable contract or plan.

[2] This amount represents less than $(0.01) per share.

See Accompanying Notes to Financial Statements.

Note 1. Organization

Credit Suisse Trust, (the "Trust") is an open-end management investment company registered under the Investment Company Act of 1940, as amended, and currently offers nine managed investment portfolios of which one, the Global Small Cap Portfolio (the "Portfolio"), is included in this report. The Portfolio is a diversified investment fund that seeks long-term growth of capital. Shares of the Portfolio are not available directly to individual investors but may be offered only through (a) variable annuity contracts and variable life insurance contracts offered by separate accounts of certain insurance companies and (b) tax-qualified pension and retirement plans. The Portfolio may not be available in connection with a particular contract or plan. The Trust was organized under the laws of The Commonwealth of Massachusetts as a business trust on March 15, 1995.

Note 2. Significant Accounting Policies

A) SECURITY VALUATION — The net asset value of the Portfolio is determined daily as of the close of regular trading on the New York Stock Exchange, Inc. (the "Exchange") on each day the Exchange is open for business. Equity investments are valued at market value, which is generally determined using the closing price on the exchange or market on which the security is primarily traded at the time of valuation (the "Valuation Time"). If no sales are reported, equity investments are generally valued at the most recent bid quotation as of the Valuation Time or at the lowest asked quotation in the case of a short sale of securities. Debt securities with a remaining maturity greater than 60 days are valued in accordance with the price supplied by a pricing service, which may use a matrix, formula or other objective method that takes into consideration market indices, yield curves and other specific adjustments. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless it is determined that using this method would not represent fair value. Investments in mutual funds are valued at the mutual fund's closing net asset value per share on the day of valuation. Securities and other assets for which market quotations are not readily available, or whose values have been materially affected by events occurring before the Portfolio's Valuation Time but after the close of the securities' primary markets, are valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees under procedures established by the Board of Trustees. The Portfolio may utilize a service provided by an independent third party which has been approved by the Board of Trustees to fair value certain securities. When fair-value pricing is employed,

Note 2. Significant Accounting Policies

the prices of securities used by a portfolio to calculate its net asset value may differ from quoted or published prices for the same securities.

The Portfolio initially values its investments in private-equity portfolios ("Private Funds") at the amount invested in the Private Funds, less related expenses, where identifiable, unless and until Credit Suisse Asset Management, LLC ("Credit Suisse") determines that such value does not represent fair value. Thereafter, investments in Private Funds held by the Portfolio are valued at their "fair values" using procedures approved by the Board of Trustees.

B) FOREIGN CURRENCY TRANSACTIONS — The books and records of the Portfolio are maintained in U.S. dollars. Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the current exchange rate at the end of the period. Translation gains or losses resulting from changes in the exchange rate during the reporting period and realized gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current period. The Portfolio does not isolate that portion of realized gains and losses on investments in equity securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of *equity* securities. The Portfolio isolates that portion of realized gains and losses on investments in *debt* securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of debt securities.

C) SECURITY TRANSACTIONS AND INVESTMENT INCOME — Security transactions are accounted for on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes.

D) DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS — Dividends from net investment income and distributions of net realized capital gains, if any, are declared and paid at least annually. However, to the extent that a net realized capital gain can be reduced by a capital loss carryforward, such gain will not be distributed. Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America ("GAAP").

E) FEDERAL INCOME TAXES — No provision is made for federal taxes as it is the Trust's intention to have the Portfolio continue to qualify for and elect the tax treatment applicable to regulated investment companies under the

Note 2. Significant Accounting Policies

Internal Revenue Code of 1986, as amended, and to make the requisite distributions to its shareholders, which will be sufficient to relieve it from federal income and excise taxes.

F) USE OF ESTIMATES — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

G) SHORT TERM INVESTMENTS — The Portfolio, together with other funds/portfolios advised by Credit Suisse, an indirect, wholly-owned subsidiary of Credit Suisse Group, pools available cash into either a short-term variable rate time deposit issued by State Street Bank and Trust Company ("SSB"), the Portfolio's custodian, or a money market fund advised by Credit Suisse. The short-term time deposit issued by SSB is a variable rate account classified as a short-term investment.

H) FORWARD FOREIGN CURRENCY CONTRACTS — The Portfolio may enter into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency. The Portfolio will enter into forward foreign currency contracts primarily for hedging purposes. Forward foreign currency contracts are adjusted by the daily forward exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until the contract settlement date or an offsetting position is entered into. At December 31, 2006, the Portfolio had no open forward foreign currency contracts.

I) FUTURES — The Portfolio may enter into futures contracts to the extent permitted by its investment policies and objectives. Upon entering into a futures contract, the Fund is required to deposit cash or pledge U.S. Government securities as initial margin. Subsequent payments, which are dependent on the daily fluctuations in the value of the underlying instrument, are made or received by the Portfolio each day (daily variation margin) and are recorded as unrealized gains or losses until the contracts are closed.

When the contracts are closed, the Portfolio records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transactions and the Portfolio's basis in the contracts. Risks of entering into

Note 2. Significant Accounting Policies

futures contracts for hedging purposes include the possibility that a change in the value of the contract may not correlate with the changes in the value of the underlying instruments. In addition, the purchase of a futures contract involves the risk that the Portfolio could lose more than the original margin deposit and subsequent payments required for a futures transaction. At December 31, 2006, the Portfolio had the following open futures contracts:

Futures Contracts	Number of Contracts	Expiration Date	Contract Amount	Contract Value	Unrealized Appreciation/ (Depreciation)
Russell E Mini 2000 Index Futures	6	03/16/07	$479,532	$476,940	$(2,592)

J) SECURITIES LENDING — Loans of securities are required at all times to be secured by collateral at least equal to 102% of the market value of domestic securities on loan (including any accrued interest thereon) and 105% of the market value of foreign securities on loan (including any accrued interest thereon). Cash collateral received by the Portfolio in connection with securities lending activity may be pooled together with cash collateral for other funds/portfolios advised by Credit Suisse and may be invested in a variety of investments, including certain Credit Suisse–advised funds, funds advised by SSB, the Portfolio's securities lending agent, or money market instruments. However, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings.

SSB has been engaged by the Portfolio to act as the Portfolio's securities lending agent. The Portfolio's securities lending arrangement provides that the Portfolio and SSB will share the net income earned from securities lending activities. During the year ended December 31, 2006, total earnings from the Portfolio's investment in cash collateral received in connection with securities lending arrangements was $1,583,126, of which $1,344,071 was rebated to borrowers (brokers). The Portfolio retained $200,200, in income from the cash collateral investment, and SSB, as lending agent, was paid $38,855. The Portfolio may also be entitled to certain minimum amounts of income from its securities lending activities. Securities lending income is accrued as earned.

K) PARTNERSHIP ACCOUNTING POLICY — The Portfolio records its pro-rata share of the income/(loss) and capital gains/(losses) allocated from the underlying partnerships and adjusts the cost of the underlying partnerships accordingly. These amounts are included in the Portfolio's Statement of Operations.

Note 2. Significant Accounting Policies

L) OTHER — The Portfolio may invest in securities of foreign countries and governments which involve certain risks in addition to those inherent in domestic investments. Such risks generally include, among others, currency risk (fluctuations in currency exchange rates), information risk (key information may be inaccurate or unavailable) and political risk (expropriation, nationalization or the imposition of capital or currency controls or punitive taxes). Other risks of investing in foreign securities include liquidity and valuation risks.

The Portfolio may be subject to taxes imposed by countries in which it invests, with respect to its investments in issuers existing or operating in such countries. Such taxes are generally based on income earned or repatriated and capital gains realized on the sale of such investments. The Portfolio accrues such taxes when the related income is earned or gains are realized.

The Portfolio may invest up to 15% of its net assets in non-publicly traded securities. Non-publicly traded securities may be less liquid than publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from such sales could differ from the price originally paid by the Portfolio or the current carrying values, and the difference could be material.

Note 3. Transactions with Affiliates and Related Parties

Credit Suisse serves as investment adviser for the Portfolio. For its investment advisory services, Credit Suisse is entitled to receive a fee from the Portfolio at an annual rate of 1.25% of the Portfolio's average daily net assets. For the year ended December 31, 2006, investment advisory fees earned and voluntarily waived for the Portfolio were $1,629,855 and $211,631, respectively. Credit Suisse will not recapture from the Portfolio any fees it waived during the fiscal year ended December 31, 2006. Fee waivers and reimbursements are voluntary and may be discontinued by Credit Suisse at any time.

Credit Suisse Asset Management Limited ("Credit Suisse U.K."), Credit Suisse Asset Management Limited ("Credit Suisse Japan") and Credit Suisse Asset Management Limited ("Credit Suisse Australia"), each an affiliate of Credit Suisse, are sub-investment advisers to the Portfolio (the "Sub-Advisers"). Credit Suisse U.K.'s, Credit Suisse Japan's and Credit Suisse Australia's sub-investment advisory fees are paid by Credit Suisse out of Credit Suisse's net investment advisory fee and are not paid by the Portfolio. As of April 1, 2006, Credit Suisse Japan serves as sub-investment adviser to the Portfolio.

Note 3. Transactions with Affiliates and Related Parties

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of Credit Suisse, and SSB serve as co-administrators to the Portfolio. For its co-administrative services, CSAMSI received a fee calculated at an annual rate of 0.10% of the Portfolio's average daily net assets through November 30, 2006. Effective December 1, 2006, the co-administrative fee was reduced to an annual rate of 0.09%. For the year ended December 31, 2006, co-administrative services fees earned by CSAMSI were $129,369.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, calculated in total for all the Credit Suisse funds/portfolios co-administered by SSB and allocated based upon relative average net assets of each fund/portfolio, subject to an annual minimum fee. For the year ended December 31, 2006, co-administrative services fees earned by SSB (including out-of-pocket expenses) were $77,403.

In addition to serving as the Portfolio's co-administrator, CSAMSI currently serves as distributor of the Portfolio's shares without compensation.

Merrill Corporation ("Merrill"), an affiliate of Credit Suisse, has been engaged by the Portfolio to provide certain financial printing and fulfillment services. For the year ended December 31, 2006, Merrill was paid $4,909 for its services to the Portfolio.

Note 4. Line of Credit

The Portfolio, together with other funds/portfolios advised by Credit Suisse (collectively, the "Participating Funds"), participates in a $75 million committed, unsecured line of credit facility ("Credit Facility") for temporary or emergency purposes with Deutsche Bank, A.G. as administrative agent and syndication agent and SSB as operations agent. Under the terms of the Credit Facility, the Participating Funds pay an aggregate commitment fee at a rate of 0.10% per annum on the average unused amount of the Credit Facility, which is allocated among the Participating Funds in such manner as is determined by the governing Boards of the Participating Funds. In addition, the Participating Funds pay interest on borrowings at the Federal Funds rate plus 0.50%. At December 31, 2006, and during the year ended December 31, 2006, the Portfolio had no borrowings under the Credit Facility.

Note 5. Purchases and Sales of Securities

For the year ended December 31, 2006, purchases and sales of investment securities (excluding short-term investments) were $146,906,878 and $163,467,845, respectively.

Note 6. Restricted Securities

Certain investments of the Portfolio are restricted as to resale and are valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees under procedures established by the Board of Trustees. The Portfolio does not have the right to demand that such securities be registered.

Security	Security Type	Number of Shares	Acquisition Date	Cost	Fair Value	Value per Share	Percentage of Net Assets	Distributions Received	Open Commitments
Austin Ventures VIII L.P.	Ltd. Partnership	513,333	7/13/01	$399,855	$482,516	$0.94	0.41%	$68,264	$40,000

Note 7. Capital Share Transactions

The Trust is authorized to issue an unlimited number of full and fractional shares of beneficial interest, $.001 par value per share. Transactions in capital shares of the Portfolio were as follows:

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
Shares sold	1,576,665	3,149,654
Shares redeemed	(3,440,797)	(3,040,456)
Net increase (decrease)	(1,864,132)	109,198

On December 31, 2006, the number of shareholders that held 5% or more of the outstanding shares of the Portfolio was as follows:

Number of Shareholders	Approximate Percentage of Outstanding Shares
5	77%

Some of the shareholders are omnibus accounts, which hold shares on behalf of individual shareholders.

Note 8. Federal Income Taxes

Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP.

The tax basis of components of distributable earnings differ from the amounts reflected in the Statement of Assets and Liabilities by temporary book/tax differences. These differences are primarily due to losses deferred on wash sales, dividends received from Real Estate Investment Trusts and mark to market of futures contracts.

At December 31, 2006, the components of distributable earnings on a tax basis for the Portfolio were as follows:

Accumulated net realized loss	$(25,789,299)
Unrealized appreciation	15,030,330
	$(10,758,969)

At December 31, 2006, the Portfolio had capital loss carryforwards available to offset possible future capital gains as follows:

Expires December 31,		
2009	2010	2011
$1,435,434	$19,475,667	$4,878,198

During the tax year ended December 31, 2006, the Portfolio utilized $22,412,186 of the capital loss carryforwards.

It is uncertain that the Portfolio will realize the full benefit of these losses prior to expiration.

At December 31, 2006, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were: $140,753,220, $20,824,424, $(5,794,767) and $15,029,657, respectively.

At December 31, 2006, the Portfolio reclassified $40,293 to accumulated net investment loss and $41,536 to accumulated net realized loss from investments, adjusting paid-in capital for current period permanent book/tax differences which arose principally from differing book/tax treatments of net operating losses, dividends received from Real Estate Investment Trusts and foreign currency transactions. Net assets were not affected by these reclassifications.

Note 9. Contingencies

In the normal course of business, the Portfolio may provide general indemnifications pursuant to certain contracts and organizational documents. The Portfolio's maximum exposure under these arrangements is dependent on future claims that may be made against the Portfolio and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

Note 10. Recent Accounting Pronouncements

During June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48" or the "Interpretation"), *Accounting for Uncertainty in Income Taxes — an interpretation of FASB statement 109*. FIN 48 supplements FASB Statement 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 prescribes a comprehensive model for how a portfolio should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the portfolio has taken or expects to take on a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is "more likely than not" to be sustained based solely on its technical merits. Management must be able to conclude that the tax law, regulations, case law, and other objective information regarding the technical merits sufficiently support the position's sustainability with a likelihood of more than 50 percent. FIN 48 is effective for fiscal periods beginning after December 15, 2006. At adoption, the financial statements must be adjusted to reflect only those tax positions that are more likely than not to be sustained as of the adoption date.

On September 20, 2006, the FASB released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years, beginning after November 15, 2007 and interim periods within those fiscal years.

At this time, management is evaluating the implications of FIN 48 and FAS 157 and their impact on the financial statements has not yet been determined.

Credit Suisse Trust — Global Small Cap Portfolio
Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Credit Suisse Trust and Shareholders of
Credit Suisse Trust — Global Small Cap Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Global Small Cap Portfolio (the "Portfolio"), a portfolio of the Credit Suisse Trust, at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 15, 2007

In approving the renewal of the current Advisory and Sub-Advisory Agreements, the Board of Trustees, including the Independent Trustees, at a meeting held on November 14-15, 2006, considered the following factors with respect to the Global Small Cap Portfolio (the "Portfolio"):

Investment Advisory Fee Rates

The Board reviewed and considered the contractual advisory fee rate of 1.25% for the Portfolio ("Contractual Advisory Fee") in light of the extent and quality of the advisory services provided by Credit Suisse Asset Management, LLC ("Credit Suisse") or Credit Suisse Asset Management Limited ("Credit Suisse U.K."), Credit Suisse Asset Management Limited ("Credit Suisse Australia") and Credit Suisse Asset Management Limited ("Credit Suisse Japan"). The Board also reviewed and considered the fee waivers and/or expense reimbursement arrangements currently in place for the Portfolio and considered the actual fee rate of 1.09% paid by the Portfolio after taking waivers and reimbursements into account ("Net Advisory Fee"). The Board acknowledged that the fee waivers and reimbursements could be discontinued at any time. In addition, the Board noted that the compensation paid to Credit Suisse U.K., Credit Suisse Australia and Credit Suisse Japan (collectively, the "Sub-Advisers") does not increase the fees or expenses otherwise incurred by the Portfolio's shareholders.

Additionally, the Board received and considered information comparing each Portfolio's Contractual Advisory Fee and Net Advisory Fee and the Portfolio's overall expenses with those of funds in both the relevant expense group ("Expense Group") and universe of funds (the "Expense Universe") provided by Lipper Inc., an independent provider of investment company data.

Nature, Extent and Quality of the Services under the Advisory and Sub-Advisory Agreements

The Board received and considered information regarding the nature, extent and quality of services provided to the Portfolio by Credit Suisse under the Advisory Agreement and by the Sub-Advisers under the Sub-Advisory Agreements. The Board also noted information received at regular meetings throughout the year related to the services rendered by Credit Suisse and the Sub-Advisers. The Board reviewed background information about Credit Suisse and the Sub-Advisers, including their respective Forms ADV. The Board considered the background and experience of both Credit Suisse's and the Sub-Advisers' senior management and the expertise of, and the amount of attention given to the Portfolio by, senior personnel of Credit Suisse and the

Sub-Advisers. With respect to the Sub-Advisers, the Board also considered their expertise in managing the types of global investments that the Portfolio utilizes in its investment strategy. In addition, the Board reviewed the qualifications, backgrounds and responsibilities of the portfolio management team primarily responsible for the day-to-day portfolio management of the Portfolio and the extent of the resources devoted to research and analysis of actual and potential investments. The Board also received and considered information about the nature, extent and quality of services and fee rates offered to other Credit Suisse clients for comparable services.

In approving the Sub-Advisory Agreements, the Board also considered the benefits of retaining Credit Suisse's United Kingdom, Australian and Japanese affiliates given the increased complexity of the domestic and international securities markets, specifically that retention of Credit Suisse U.K., Credit Suisse Australia and Credit Suisse Japan expands the universe of companies and countries from which investment opportunities could be sought and enhances the ability of the Portfolio to obtain the best price and execution on trades in international markets.

Portfolio Performance

The Board received and considered the performance results of the Portfolio over time, along with comparisons, both to the relevant performance group ("Performance Group") and universe of funds ("Performance Universe") for the Portfolio. The Board was provided with a description of the methodology used to arrive at the funds included in the Performance Group and the Performance Universe.

Credit Suisse Profitability

The Board received and considered a profitability analysis of Credit Suisse based on the fees payable under the Advisory Agreement for the Portfolio, including any fee waivers or fee caps, as well as other relationships between the Portfolio on the one hand and Credit Suisse affiliates on the other. The Board received profitability information for the other funds in the Credit Suisse family of funds.

Economies of Scale

The Board considered whether economies of scale in the provision of services to the Portfolio were being passed along to the shareholders. Accordingly, the

Board considered whether alternative fee structures (such as breakpoint fee structures) would be more appropriate or reasonable taking into consideration economies of scale or other efficiencies that might accrue from increases in the Portfolio's asset levels.

Other Benefits to Credit Suisse

The Board considered other benefits received by Credit Suisse, the Sub-Advisers and their affiliates as a result of their relationships with the Portfolio. Such benefits include, among others, research arrangements with brokers who execute transactions on behalf of the Portfolio, administrative and brokerage relationships with affiliates of Credit Suisse and the Sub-Advisers and benefits potentially derived from an increase in Credit Suisse's and the Sub-Advisers' businesses as a result of their relationship with the Portfolio (such as the ability to market to shareholders other financial products offered by Credit Suisse, the Sub-Advisers and their affiliates).

The Board considered the standards applied in seeking best execution, whether and to what extent soft dollar credits are sought and how any such credits are utilized, any benefits that may be achieved by using an affiliated broker and the existence of quality controls applicable to brokerage allocation procedures. The Board also reviewed Credit Suisse's and the Sub-Advisers' method for allocating portfolio investment opportunities among their advisory clients.

Conclusions

In selecting Credit Suisse and the Sub-Advisers, and approving the Advisory Agreement and the investment advisory fee under such agreement and the Sub-Advisory Agreements, the Board concluded that:

- Both the Contractual and Net Advisory Fees were at the high end in the Portfolio's Expense Group. The Board considered the fee to be reasonable taking into account the fee waiver and the relatively small size of the Portfolio.
- The Portfolio's performance was below most of the funds in its Performance Group and Performance Universe for most of the periods. As a result of continued underperformance, and in view of the organizational realignment of Credit Suisse's asset management business and the potential impact of those changes on the Portfolio, the Board had approved changes in the investment strategies and portfolio management of the U.S.

portion of the Portfolio to a quantitative strategies approach to be implemented by the Credit Suisse Quantitative Strategies Group, with the current strategies and portfolio manager for the non-U.S. portion to remain in place. The quantitative strategies for the U.S. portion of the Portfolio went into effect on December 1, 2006. The Board would continue to monitor steps undertaken by Credit Suisse to improve performance.

- Aside from performance (as described above), the Board was satisfied with the nature and extent of the investment advisory services provided to the Portfolio by Credit Suisse and the Sub-Advisers and that, based on dialogue with management and counsel, the services provided by Credit Suisse under the Advisory Agreement and by the Sub-Advisers under the Sub-Advisory Agreements are typical of, and consistent with, those provided to mutual funds by other investment advisers.
- In light of the costs of providing investment management and other services to the Portfolio and Credit Suisse's ongoing commitment to the Portfolio and willingness to cap fees and expenses, the profits and other ancillary benefits that Credit Suisse and its affiliates received were considered reasonable.
- Credit Suisse's profitability based on fees payable under the Advisory Agreement was reasonable in light of the nature, extent and quality of the services provided to the Portfolio thereunder.
- In light of the relatively small size of the Portfolio and the amount of the Net Advisory Fees, the Portfolio's current fee structure (without breakpoints) was considered reasonable.

No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve the Advisory Agreement and the Sub-Advisory Agreements. The Independent Trustees were advised by separate independent legal counsel throughout the process.

Credit Suisse Trust — Global Small Cap Portfolio
Information Concerning Trustees and Officers (unaudited)

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees					
Enrique Arzac c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 Date of Birth: 10/02/41	Trustee, Nominating Committee Member and Audit Committee Chairman	Since 2005	Professor of Finance and Economics, Graduate School of Business, Columbia University since 1971.	37	Director of Epoch Holding Corporation (an investment management and investment advisory services company); Director of The Adams Express Company (a closed-end Investment company); Director of Petroleum and Resources Corporation (a closed-end investment company).
Richard H. Francis c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 Date of Birth: 04/23/32	Trustee, Nominating and Audit Committee Member	Since 1999	Currently retired	31	None
Jeffrey E. Garten[2] Box 208200 New Haven, Connecticut 06520-8200 Date of Birth: 10/29/46	Trustee, Nominating and Audit Committee Member	Since 1998[2]	The Juan Trippe Professor in the Practice of International Trade, Finance and Business from July 2005 to present; Partner and Chairman of Garten Rothkopf (consulting firm) from October 2005 to present; Dean of Yale School of Management from November 1995 to June 2005.	30	Director of Aetna, Inc. (insurance company); Director of CarMax Group (used car dealers).

[1] Each Trustee and Officer serves until his or her respective successor has been duly elected and qualified.

[2] Mr. Garten was initially appointed as a Trustee of the Trust on February 6, 1998. He resigned as Trustee on February 3, 2000 and was subsequently reappointed on December 21, 2000.

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees					
Peter F. Krogh 301 ICC Georgetown University Washington, DC 20057 Date of Birth: 02/11/37	Trustee, Nominating and Audit Committee Member	Since 2001	Dean Emeritus and Distinguished Professor of International Affairs at the Edmund A. Walsh School of Foreign Service, Georgetown University from June 1995 to present.	30	Director of Carlisle Companies Incorporated (diversified manufacturing company).
Steven N. Rappaport Lehigh Court, LLC 40 East 52nd Street New York, New York 10022 Date of Birth: 07/10/48	Chairman of the Board of Trustees, Nominating Committee Chairman and Audit Committee Member	Trustee since 1999 and Chairman since 2005	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present; Transition Adviser to SunGard Securities Finance, Inc. from February 2002 to July 2002; President of SunGard Securities Finance, Inc. from 2001 to February 2002; President of Loanet, Inc. (on-line accounting service) from 1997 to 2001.	37	Director of iCAD, Inc. (surgical and medical instruments and apparatus company); Director of Presstek, Inc. (digital imaging technologies company); Director of Wood Resources, LLC. (plywood manufacturing company).
Interested Trustee					
Michael E. Kenneally[3] c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 Date of Birth: 03/30/54	Trustee	Since 2004	Chairman and Global Chief Executive Officer of Credit Suisse from March 2003 to July 2005; Chairman and Chief Investment Officer of Banc of America Capital Management from 1998 to March 2003.	30	None

[3] Mr. Kenneally is a Trustee who is an "interested person" of the Trust as defined in the 1940 Act, because he was an officer of Credit Suisse within the last two fiscal years.

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years
Officers			
Keith M. Schappert Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 01/14/51	Chief Executive Officer and President	Since 2007	Executive Vice Chairman and Head of Asset Management for Americas; Chief Executive Officer and President of Federated Investment Advisory Companies from 2002 to March 31, 2006; Chief Executive Officer and President of JP Morgan Investment Management from April 1994 to November 2001.
Michael A. Pignataro Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 11/15/59	Chief Financial Officer	Since 1999	Director and Director of Fund Administration of Credit Suisse; Associated with Credit Suisse or its predecessor since 1984; Officer of other Credit Suisse Funds.
Emidio Morizio Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 09/21/66	Chief Compliance Officer	Since 2004	Director and Global Head of Compliance of Credit Suisse; Associated with Credit Suisse since July 2000; Officer of other Credit Suisse Funds.
J. Kevin Gao Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 10/13/67	Chief Legal Officer since 2006, Vice President and Secretary since 2004	Since 2004	Director and Legal Counsel of Credit Suisse; Associated with Credit Suisse since July 2003; Associated with the law firm of Willkie Farr & Gallagher LLP from 1998 to 2003; Officer of other Credit Suisse Funds.
Robert Rizza Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 Date of Birth: 12/09/65	Treasurer	Since 2006	Vice President of Credit Suisse; Associated with Credit Suisse since 1998; Officer of other Credit Suisse Funds.

The Statement of Additional Information includes additional information about the Trustees and is available, without charge, upon request, by calling 800-222-8977.

A special meeting of the Credit Suisse Trust — Global Small Cap Portfolio (the "Portfolio") was held at 466 Lexington Avenue, 16th Floor, New York, NY 10017 on December 2, 2005 and adjourned to February 3, 2006. The following matter was voted upon by the shareholders of the Portfolio and the results are presented below. Shares delivered not voted are included in the total for the proposal.

1. Approval of a Sub Investment Advisory Agreement among the Portfolio, Credit Suisse Asset Management, LLC and Credit Suisse Asset Management Limited.

	Shares	% of Total Shares Outstanding	% of Total Shares Voted
For	8,749,395	88.12%	88.79%
Against	467,915	4.71%	4.75%
Abstain	637,024	6.42%	6.46%

Information regarding how the Portfolio voted proxies related to its portfolio securities during the 12 month period ended June 30 of each year, as well as the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities are available:

- By calling 1-800-222-8977
- On the Portfolio's website, www.credit-suisse.com/us
- On the website of the Securities and Exchange Commission, www.sec.gov.

The Portfolio files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Portfolio's Forms N-Q are available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-202-551-8090.

CREDIT SUISSE

P.O. Box 55030, Boston, MA 02205-5030
800-222-8977 ■ www.credit-suisse.com/us

CREDIT SUISSE ASSET MANAGEMENT SECURITIES, INC., DISTRIBUTOR. TRGSC-AR-1206

Dreyfus Investment Portfolios, MidCap Stock Portfolio

ANNUAL REPORT December 31, 2006

Dreyfus
A Mellon Financial Company℠

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus portfolio are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus portfolio.

Contents

THE PORTFOLIO

FOR MORE INFORMATION

The Portfolio

A LETTER FROM THE CEO

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Investment Portfolios, MidCap Stock Portfolio, covering the 12-month period from January 1, 2006, through December 31, 2006.

2006 proved to be a good year for the financial markets. Virtually all sectors and capitalization ranges of the U.S. equity markets generated strong returns, especially over the second half of the year. A number of positive factors contributed to the markets' gains in 2006, including an expanding domestic economy, subdued inflation, stabilizing interest rates, rising productivity and robust corporate profits.

In our analysis, 2006 provided an excellent reminder of the need for a long-term investment perspective. Adopting too short a time frame proved costly for some investors last year, as chasing recent winners often meant buying the next month's losers. Indeed, history shows that reacting to near-term developments with extreme shifts in strategy rarely is the right decision. We believe that a better course of action is to set a portfolio mix to meet future goals, while attempting to ignore short term market fluctuations in favor of a longer-term view.

For information about how the portfolio performed during the reporting period, as well as market perspectives, we have provided a Discussion of Performance given by the portfolio manager.

Thank you for your continued confidence and support. We wish you good health and prosperity in 2007.

Sincerely,

Thomas F. Eggers
Chief Executive Officer
The Dreyfus Corporation
January 16, 2007

DISCUSSION OF PERFORMANCE

John O'Toole, Portfolio Manager

How did Dreyfus Investment Portfolios, MidCap Stock Portfolio perform relative to its benchmark?

For the 12-month period ended December 31, 2006, the portfolio's Initial shares produced a total return of 7.75%, and its Service shares produced a total return of 7.68%.[1] This compares with the total return of 10.32% provided by the portfolio's benchmark, the Standard & Poor's MidCap 400 Index (the "S&P 400"), for the same period.[2]

Robust corporate earnings reports drove most sectors of the U.S. stock market higher in 2006, particularly during the second half of the year. While midcap stocks benefited from the rally, large-cap stocks fared better as investors became more risk-averse. The portfolio participated in the midcap market's gains, benefiting from relatively good results in the health care and consumer cyclicals areas. However, relatively weak returns in the energy and industrials sectors caused the portfolio's returns to lag the benchmark.

What is the portfolio's investment approach?

The portfolio normally invests at least 80% of its assets in growth and value stocks of midsize companies. When selecting securities, we use a disciplined investment process that combines computer-modeling techniques, fundamental analysis and risk management. We identify and rank stocks based on several characteristics, including: *value*, or a stock's price relative to its perceived intrinsic worth; *growth*, the sustainability or growth of earnings; and *financial profile*, which refers to the financial health of the company. Our investment process is designed to manage risks by maintaining sector weightings and risk characteristics that are similar to those of the S&P 400.

What other factors influenced the portfolio's performance?

Resurgent energy prices, rising short-term interest rates and fears of higher inflation constrained the stock market's advance during the first half of 2006. These gains were erased by a sharp reversal from May through mid-June, during which midcap stocks declined more sharply than their large-cap counterparts as investors generally adopted more defensive strategies. Over the summer and fall, however, investors first anticipated and then responded positively to the Federal Reserve Board's decision to hold short-term interest rates steady at 5.25%, its first pause after more than two years of rate hikes. Investors' expectations of interest rates and improving inflation, as well as anticipation of an economic "soft landing," helped drive stock prices higher over the remainder of the year.

The health care sector produced some of the portfolio's better returns, particularly among specialized medical service providers, such as Magellan Health Services, which was sold at the end of the reporting period, Laboratory Corporation of America Holdings, Universal Health Services and DaVita, which was sold during the reporting period. Retail holdings in the consumer cyclicals sector, such as American Eagle Outfitters and The Men's Wearhouse, which was sold during the reporting period, also performed well due to strong earnings growth and surprisingly high levels of consumer confidence. Among industrial stocks, the portfolio's returns were further enhanced by holdings of Terex, a heavy machinery maker that saw increasing demand for mining and road construction equipment.

The portfolio roughly matched or slightly exceeded the benchmark's gains in two other key areas. In the technology sector, semiconductor equipment maker MEMC Electronic Materials contributed positively to performance. Among materials and processing holdings, gains in specialty chemical manufacturer H.B. Fuller and steel and metals producer Commercial Metals also had a positive impact upon return.

Nevertheless, the portfolio's returns trailed the benchmark. One reason is that our disciplined, valuation-conscious investment approach limited the portfolio's volatility, constraining gains during the market's rise. In addition, a few individual holdings produced disappointing returns. For example, new positions in a few energy stocks proved to be poorly timed, hurting returns. These included services provider FMC Technologies and independent oil and gas producer Noble Energy, the latter of which we later sold. We also established a position in shipping logistics company Expeditors International of Washington just prior to the summer market slump. Two other industrial holdings—heating and cooling products distributor Watsco, later sold, and homebuilder NVR—both suffered due to industry-wide declines in housing-related stocks. Finally, visual content provider Getty Images, which was sold during the reporting period, lost ground after the company reported lower-than-expected earnings, causing the portfolio's returns to lag in the business services sector.

What is the portfolio's current strategy?

The U.S. economy has continued to show signs of a gradual slowdown, which we believe makes it unlikely that, in 2007, U.S. companies will continue to post the extraordinary earning gains achieved during 2006. Slowing U.S. economic growth also may limit the stock market's advance, including in the midcap area. Accordingly, we currently are focusing on companies that we believe are likely to deliver consistently positive financial results under less robust economic conditions, emphasizing those with a history of stable earnings performance and relatively clear forward-looking visibility. At the same time, the midcap sector continues to yield intriguing investment opportunities with dynamic growth potential, giving us confidence in the portfolio's prospects. We remain committed to the portfolio's sector-neutral investment approach, which we believe enables us to focus more intently on our research-intensive security selection process.

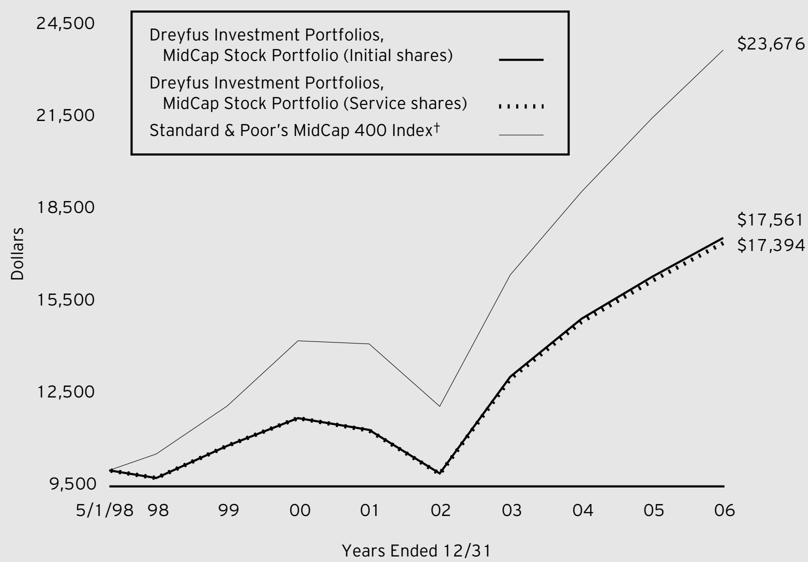
January 16, 2007

The portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the portfolio directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals. The investment objective and policies of Dreyfus Investment Portfolios, MidCap Stock Portfolio made available through insurance products may be similar to other funds/portfolios managed or advised by Dreyfus. However, the investment results of the portfolio may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund/portfolio.

1 *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, portfolio shares may be worth more or less than their original cost. The portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts, which will reduce returns. Return figures provided reflect the absorption of certain portfolio expenses by The Dreyfus Corporation pursuant to an agreement in effect through December 31, 2007, at which time it may be extended, terminated or modified. Had these expenses not been absorbed, the portfolio's returns would have been lower.*

2 *SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's MidCap 400 Index is a widely accepted, unmanaged total return index measuring the performance of the midsize-company segment of the U.S. market.*

PORTFOLIO PERFORMANCE



Comparison of change in value of $10,000 investment in Dreyfus Investment Portfolios, MidCap Stock Portfolio Initial shares and Service shares and the Standard & Poor's MidCap 400 Index

Average Annual Total Returns *as of 12/31/06*

	Inception Date	1 Year	5 Years	From Inception
Initial shares	**5/1/98**	**7.75%**	**9.19%**	**6.71%**
Service shares	**5/1/98**	**7.68%**	**9.01%**	**6.59%**

The data for Service shares includes the results of Initial shares for the period prior to December 31, 2000 (inception date of Service shares). Actual Service shares' average annual total return and hypothetical growth results would have been lower. See notes below.

† Source: Lipper Inc.

Past performance is not predictive of future performance. The portfolio's performance shown in the graph and table does not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares. ***The portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts which will reduce returns.***

The above graph compares a $10,000 investment made in Initial and Service shares of Dreyfus Investment Portfolios, MidCap Stock Portfolio on 5/1/98 (inception date of Initial shares) to a $10,000 investment made in the Standard & Poor's MidCap 400 Index (the "Index") on that date.

The portfolio's Initial shares are not subject to a Rule 12b-1 fee. The portfolio's Service shares are subject to a 0.25% annual Rule 12b-1 fee. The performance figures for Service shares reflect the performance of the portfolio's Initial shares from their inception date through December 30, 2000, and the performance of the portfolio's Service shares from December 31, 2000 (inception date of Service shares) to December 31, 2006 (blended performance figures). The performance figures for each share class reflect certain expense reimbursements, without which the performance of each share class would have been lower. In addition, the blended performance figures have not been adjusted to reflect the higher operating expenses of the Service shares. If these expenses had been reflected, the blended performance figures would have been lower. All dividends and capital gain distributions are reinvested.

The portfolio's performance shown in the line graph takes into account all applicable portfolio fees and expenses (after any expense reimbursements). The Index is a widely accepted, unmanaged total return index measuring the performance of the midsize company segment of the U.S. stock market and does not take into account charges, fees and other expenses. Further information relating to portfolio performance, including expense reimbursements, if applicable, is contained in the Financial Highlights section of the prospectus and elsewhere in this report.

UNDERSTANDING YOUR PORTFOLIO'S EXPENSES (Unaudited)

As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads) and redemption fees, which are not shown in this section and would have resulted in higher total expenses. For more information, see your portfolio's prospectus or talk to your financial adviser.

Review your portfolio's expenses

The table below shows the expenses you would have paid on a $1,000 investment in Dreyfus Investment Portfolios, MidCap Stock Portfolio from July 1, 2006 to December 31, 2006. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

Expenses and Value of a $1,000 Investment
assuming actual returns for the six months ended December 31, 2006

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.14	$ 4.60
Ending value (after expenses)	$1,029.00	$1,029.10

COMPARING YOUR PORTFOLIO'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your portfolio's expenses based on a $1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the portfolio with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended December 31, 2006

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.13	$ 4.58
Ending value (after expenses)	$1,021.12	$1,020.67

† *Expenses are equal to the portfolio's annualized expense ratio of .81% for Initial shares and .90% for Service shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2006

Common Stocks—99.6%	Shares		Value ($)
Consumer Cyclical—11.4%			
Abercrombie & Fitch, Cl. A	63,150		4,397,134
American Eagle Outfitters	147,350		4,598,794
AnnTaylor Stores	40,050	a	1,315,242
Brinker International	100,550		3,032,588
CBRL Group	30,250	b	1,353,990
CDW	28,050	b	1,972,476
Choice Hotels International	44,300		1,865,030
Dick's Sporting Goods	46,700	a	2,287,833
Dollar Tree Stores	114,250	a	3,438,925
Family Dollar Stores	40,400		1,184,932
Jones Apparel Group	36,950		1,235,238
Longs Drug Stores	54,800	b	2,322,424
MSC Industrial Direct, Cl. A	50,650		1,982,947
Nordstrom	47,600		2,348,584
Office Depot	65,250	a	2,490,592
Polo Ralph Lauren	30,850		2,395,811
Rent-A-Center	102,750	a	3,032,153
Ross Stores	71,150		2,084,695
Scholastic	41,400	a	1,483,776
Sonic	77,300	a,b	1,851,335
WESCO International	28,700	a	1,687,847
			48,362,346
Consumer Hard Goods—2.5%			
Gentex	144,050		2,241,418
Hasbro	72,650		1,979,713
Herman Miller	47,150	b	1,714,374
Speedway Motorsports	27,400	b	1,052,160
Thor Industries	36,400	b	1,601,236
Toro	41,700		1,944,471
			10,533,372
Consumer Staples—2.0%			
Church & Dwight	45,600		1,944,840
Hormel Foods	95,000		3,547,300
J.M. Smucker	58,800		2,850,036
			8,342,176

Common Stocks (continued)	Shares		Value ($)
Financial—18.3%			
A.G. Edwards	46,900		2,968,301
AMB Property	55,400		3,246,994
American Financial Group/OH	76,475		2,746,217
AmeriCredit	127,750	a	3,215,467
Archstone-Smith Trust	28,150		1,638,611
Assurant	31,250		1,726,562
Bank of Hawaii	53,450		2,883,628
BankUnited Financial, Cl. A	60,550	b	1,692,978
BRE Properties, Cl. A	35,050	b	2,278,951
CapitalSource	96,900	b	2,646,339
CBOT Holdings, Cl. A	6,350	a	961,834
Dime Bancorp (warrants 12/26/50)	19,900	a	2,886
Downey Financial	30,800	b	2,235,464
Eaton Vance	104,200	b	3,439,642
Entertainment Properties Trust	31,450		1,837,938
First Industrial Realty Trust	35,600		1,669,284
FirstFed Financial	37,400	a,b	2,504,678
HCC Insurance Holdings	111,600		3,581,244
Hudson City Bancorp	172,200		2,390,136
IndyMac Bancorp	56,650	b	2,558,314
IntercontinentalExchange	15,150	a,b	1,634,685
KKR Financial	41,450	b	1,110,446
Knight Capital Group, Cl. A	86,600	a,b	1,660,122
LaSalle Hotel Properties	38,500	b	1,765,225
New Century Financial	42,600	b	1,345,734
Radian Group	61,400		3,310,074
Safeco	30,750		1,923,413
StanCorp Financial Group	57,750		2,601,637
Sunstone Hotel Investors	55,800	b	1,491,534
SVB Financial Group	40,400	a,b	1,883,448
TCF Financial	76,950	b	2,109,969
Unitrin	70,100		3,512,711
Ventas	44,550		1,885,356
Whitney Holding	65,250		2,128,455
Wilmington Trust	69,800		2,943,466
			77,531,743

Common Stocks (continued)	Shares		Value ($)
Health Care—11.1%			
AmerisourceBergen	48,050		2,160,328
Beckman Coulter	56,500		3,378,700
Cephalon	48,500	a,b	3,414,885
Covance	36,000	a	2,120,760
Dentsply International	163,050		4,867,043
Edwards Lifesciences	35,550	a,b	1,672,272
HealthSpring	25,350	a	515,872
Henry Schein	58,000	a	2,840,840
Hologic	37,750	a,b	1,784,820
IDEXX Laboratories	18,400	a	1,459,120
Invitrogen	52,400	a,b	2,965,316
King Pharmaceuticals	111,250	a	1,771,100
Laboratory Corp. of America Holdings	42,750	a	3,140,842
PDL BioPharma	111,950	a	2,254,673
Pediatrix Medical Group	45,800	a	2,239,620
Sepracor	39,800	a,b	2,450,884
Sierra Health Services	85,000	a	3,063,400
Tektronix	47,400		1,382,658
Universal Health Services, Cl. B	30,900		1,712,787
WellCare Health Plans	25,000	a	1,722,500
			46,918,420
Industrial—14.9%			
Acuity Brands	42,700	b	2,222,108
Applied Industrial Technologies	98,250		2,584,957
Avis Budget Group	85,150	a	1,846,903
C.H. Robinson Worldwide	64,850		2,651,716
Cummins	20,650		2,440,417
EMCOR Group	26,700	a	1,517,895
Expeditors International Washington	45,400		1,838,700
GATX	37,200		1,611,876
Graco	49,450		1,959,209
Granite Construction	42,250		2,126,020
Jones Lang LaSalle	14,350		1,322,640
Korn/Ferry International	74,950	a	1,720,852
Lennar, Cl. A	40,400		2,119,384
Manpower	74,750		5,601,017

Common Stocks (continued)	Shares		Value ($)
Industrial (continued)			
Nordson	48,850		2,434,195
NVR	3,475	a,b	2,241,375
Overseas Shipholding Group	52,400	b	2,950,120
Pacer International	66,050	b	1,966,308
Precision Castparts	46,400		3,632,192
Republic Services	90,850		3,694,869
Ryder System	52,700		2,690,862
Snap-On	45,000		2,143,800
SPX	34,550		2,113,078
Terex	29,050	a	1,876,049
Thomas & Betts	52,350	a	2,475,108
United Rentals	68,700	a	1,747,041
Wabtec	49,300	b	1,497,734
			63,026,425
Information—5.0%			
American Reprographics	62,850	a,b	2,093,533
CheckFree	36,200	a	1,453,792
ChoicePoint	59,750	a	2,352,955
Cognizant Technology Solutions, Cl. A	26,600	a	2,052,456
Convergys	102,150	a	2,429,127
Discovery Holding, Cl. A	119,000	a	1,914,710
Dun & Bradstreet	46,200	a	3,824,898
Equifax	67,400		2,736,440
Fidelity National Information Services	58,039		2,326,784
			21,184,695
Materials—6.7%			
Airgas	105,950		4,293,094
Ashland	35,450		2,452,431
Commercial Metals	78,850		2,034,330
H.B. Fuller	69,250	b	1,788,035
Hercules	100,000	a	1,931,000
IPSCO	18,050	b	1,694,354
Louisiana-Pacific	100,200		2,157,306
Lyondell Chemical	155,300	b	3,971,021
Quanex	51,800	b	1,791,762

Common Stocks (continued)	Shares		Value ($)
Materials (continued)			
Sonoco Products	60,950		2,319,757
Steel Dynamics	77,450		2,513,253
Universal Forest Products	29,050		1,354,311
			28,300,654
Oil & Gas Producers—7.6%			
Alon USA Energy	59,950	b	1,577,285
Cimarex Energy	74,850		2,732,025
FMC Technologies	30,800	a	1,898,204
Frontier Oil	53,800		1,546,212
Newfield Exploration	104,650	a	4,808,668
ONEOK	60,550	b	2,610,916
Patterson-UTI Energy	95,000		2,206,850
SEACOR Holdings	14,150	a	1,402,831
St. Mary Land & Exploration	50,950	b	1,876,998
Superior Energy Services	66,550	a,b	2,174,854
Swift Energy	33,050	a	1,480,971
Tetra Technologies	56,950	a,b	1,456,781
Tidewater	41,850	b	2,023,866
Unit	37,200		1,802,340
W & T Offshore	85,150		2,615,808
			32,214,609
Technology—12.4%			
ADTRAN	79,350		1,801,245
Altera	65,450	a	1,288,056
Amphenol, Cl. A	25,100		1,558,208
Arris Group	136,550	a	1,708,241
Arrow Electronics	99,400	a	3,136,070
Cadence Design Systems	178,300	a,b	3,193,353
Dolby Laboratories, Cl. A	41,300	a	1,281,126
Harris	57,100		2,618,606
Hyperion Solutions	56,400	a	2,027,016
Imation	66,900	b	3,106,167
Intersil, Cl. A	80,750		1,931,540
Itron	25,150	a	1,303,776
Lam Research	84,200	a	4,262,204

Common Stocks (continued)	Shares		Value ($)
Technology (continued)			
Lexmark International, Cl. A	31,300	a	2,291,160
McAfee	88,300	a	2,505,954
MEMC Electronic Materials	53,250	a	2,084,205
Microchip Technology	157,950		5,164,965
MicroStrategy, Cl. A	14,200	a	1,618,942
NCR	42,650	a	1,823,714
Novellus Systems	82,000	a	2,822,440
Transaction Systems Architects	64,450	a	2,099,137
Western Digital	145,900	a,b	2,985,114
			52,611,239
Telecommunications—.5%			
NII Holdings	35,450	a	**2,284,398**
Utilities—7.2%			
AGL Resources	100,400		3,906,564
Alliant Energy	109,200		4,124,484
Atmos Energy	42,250		1,348,197
IDACORP	68,950	b	2,664,918
OGE Energy	111,000		4,440,000
Pepco Holdings	106,700		2,775,267
Pinnacle West Capital	63,350		3,211,212
Puget Energy	60,150		1,525,404
UGI	104,450		2,849,396
WPS Resources	66,450	b	3,590,294
			30,435,736
Total Common Stocks (cost $391,729,556)			**421,745,813**

Other Investment—.2%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $989,000)	989,000	c	**989,000**

Investment of Cash Collateral for Securities Loaned—11.8%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $49,811,390)	49,811,390 [c]	**49,811,390**
Total Investments (cost $442,529,946)	**111.6%**	**472,546,203**
Liabilities, Less Cash and Receivables	**(11.6%)**	**(49,187,530)**
Net Assets	**100.0%**	**423,358,673**

[a] *Non-income producing security.*
[b] *All or a portion of these securities are on loan. At December 31, 2006, the total market value of the portfolio's securities on loan is $50,548,978 and the total market value of the collateral held by the portfolio is $52,676,678, consisting of cash collateral of $49,811,390 and U.S. Government and agency securities valued at $2,865,288.*
[c] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Financial	18.3	Oil & Gas Producers	7.6
Industrial	14.9	Utilities	7.2
Technology	12.4	Materials	6.7
Money Market Investments	12.0	Information	5.0
Consumer Cyclical	11.4	Other	5.0
Health Care	11.1		**111.6**

† *Based on net assets.*
See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2006

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $50,548,978)—Note 1(b):		
Unaffiliated issuers	391,729,556	421,745,813
Affiliated issuers	50,800,390	50,800,390
Cash		79,484
Receivable for investment securities sold		7,431,160
Dividends and interest receivable		385,299
Receivable for shares of Beneficial Interest subscribed		81,373
Prepaid expenses		17,996
		480,541,515
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		300,892
Liability for securities on loan—Note 1(b)		49,811,390
Payable for investment securities purchased		6,907,259
Payable for shares of Beneficial Interest redeemed		88,729
Interest payable—Note 2		380
Accrued expenses		74,192
		57,182,842
Net Assets ($)		**423,358,673**
Composition of Net Assets ($):		
Paid-in capital		342,781,790
Accumulated undistributed investment income—net		1,694,146
Accumulated net realized gain (loss) on investments		48,866,480
Accumulated net unrealized appreciation (depreciation) on investments		30,016,257
Net Assets ($)		**423,358,673**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	338,081,407	85,277,266
Shares Outstanding	19,437,997	4,925,307
Net Asset Value Per Share ($)	**17.39**	**17.31**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2006

Investment Income ($):	
Income:	
Cash dividends (net of $548 foreign taxes withheld at source):	
Unaffiliated issuers	5,483,220
Affiliated issuers	99,596
Income from securities lending	78,033
Total Income	**5,660,849**
Expenses:	
Investment advisory fee—Note 3(a)	3,320,946
Distribution fees—Note 3(b)	220,365
Custodian fees—Note 3(b)	73,009
Prospectus and shareholders' reports	60,865
Professional fees	57,258
Trustees' fees and expenses—Note 3(c)	10,164
Interest expense—Note 2	5,986
Shareholder servicing costs—Note 3(b)	3,323
Registration fees	530
Miscellaneous	16,573
Total Expenses	**3,769,019**
Less—waiver of fees due to undertaking—Note 3(a)	(124,496)
Net Expenses	**3,644,523**
Investment Income—Net	**2,016,326**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	48,537,987
Net unrealized appreciation (depreciation) on investments	(17,537,219)
Net Realized and Unrealized Gain (Loss) on Investments	**31,000,768**
Net Increase in Net Assets Resulting from Operations	**33,017,094**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2006	2005
Operations ($):		
Investment income—net	2,016,326	1,678,973
Net realized gain (loss) on investments	48,537,987	72,458,985
Net unrealized appreciation (depreciation) on investments	(17,537,219)	(35,672,859)
Net Increase (Decrease) in Net Assets Resulting from Operations	**33,017,094**	**38,465,099**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial shares	(1,362,755)	(105,741)
Service shares	(160,836)	–
Net realized gain on investments:		
Initial shares	(58,101,236)	(1,407,926)
Service shares	(14,498,194)	(339,127)
Total Dividends	**(74,123,021)**	**(1,852,794)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial shares	22,686,207	33,046,475
Service shares	7,303,727	11,856,989
Dividends reinvested:		
Initial shares	59,463,991	1,513,667
Service shares	14,659,030	339,127
Cost of shares redeemed:		
Initial shares	(74,010,854)	(46,371,291)
Service shares	(17,690,863)	(11,602,504)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**12,411,238**	**(11,217,537)**
Total Increase (Decrease) in Net Assets	**(28,694,689)**	**25,394,768**
Net Assets ($):		
Beginning of Period	452,053,362	426,658,594
End of Period	**423,358,673**	**452,053,362**
Undistributed investment income—net	1,694,146	1,562,813

	Year Ended December 31,	
	2006	2005
Capital Share Transactions:		
Initial Shares		
Shares sold	1,290,264	1,864,146
Shares issued for dividends reinvested	3,435,239	87,850
Shares redeemed	(4,227,682)	(2,589,219)
Net Increase (Decrease) in Shares Outstanding	**497,821**	**(637,223)**
Service Shares		
Shares sold	413,692	668,722
Shares issued for dividends reinvested	849,799	19,751
Shares redeemed	(1,020,884)	(655,124)
Net Increase (Decrease) in Shares Outstanding	**242,607**	**33,349**

See notes to financial statements.

FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single portfolio share. Total return shows how much your investment in the portfolio would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the portfolio's financial statements.

	Year Ended December 31,				
Initial Shares	2006	2005	2004	2003	2002
Per Share Data ($):					
Net asset value, beginning of period	19.15	17.62	15.82	12.04	13.80
Investment Operations:					
Investment income—net[a]	.08	.08	.07	.04	.04
Net realized and unrealized gain (loss) on investments	1.39	1.53	2.22	3.78	(1.76)
Total from Investment Operations	1.47	1.61	2.29	3.82	(1.72)
Distributions:					
Dividends from investment income—net	(.07)	(.01)	(.07)	(.04)	(.04)
Dividends from net realized gain on investments	(3.16)	(.07)	(.42)	–	–
Total Distributions	(3.23)	(.08)	(.49)	(.04)	(.04)
Net asset value, end of period	17.39	19.15	17.62	15.82	12.04
Total Return (%)	7.75	9.17	14.48	31.72	(12.49)
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.80	.79	.78	.82	.85
Ratio of net expenses to average net assets	.80	.79	.78	.82	.85
Ratio of net investment income to average net assets	.48	.43	.43	.32	.32
Portfolio Turnover Rate	149.02	99.27	79.75	74.15	69.15
Net Assets, end of period ($ x 1,000)	338,081	362,789	344,979	302,253	218,387

[a] *Based on average shares outstanding at each month end.*
See notes to financial statements.

Service Shares	Year Ended December 31, 2006	2005	2004	2003	2002
Per Share Data ($):					
Net asset value, beginning of period	19.06	17.57	15.77	12.02	13.78
Investment Operations:					
Investment income—net[a]	.06	.04	.04	.02	.02
Net realized and unrealized gain (loss) on investments	1.39	1.52	2.21	3.75	(1.75)
Total from Investment Operations	1.45	1.56	2.25	3.77	(1.73)
Distributions:					
Dividends from investment income—net	(.04)	–	(.03)	(.02)	(.03)
Dividends from net realized gain on investments	(3.16)	(.07)	(.42)	–	–
Total Distributions	(3.20)	(.07)	(.45)	(.02)	(.03)
Net asset value, end of period	17.31	19.06	17.57	15.77	12.02
Total Return (%)	7.68	8.93	14.23	31.48	(12.64)
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.05	1.04	1.03	1.06	1.10
Ratio of net expenses to average net assets	.91	1.00	1.00	1.00	1.00
Ratio of net investment income to average net assets	.37	.22	.22	.12	.15
Portfolio Turnover Rate	149.02	99.27	79.75	74.15	69.15
Net Assets, end of period ($ x 1,000)	85,277	89,264	81,680	58,224	18,320

[a] *Based on average shares outstanding at each month end.*

See notes to financial statements.

NOTE 1—Significant Accounting Policies:

Dreyfus Investment Portfolios (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company, operating as a series company currently offering nine series, including the MidCap Stock Portfolio (the "portfolio"). The portfolio is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The portfolio is a diversified series. The portfolio's investment objective is to provide investment results that are greater than the total return performance of publicly-traded common stocks of medium-size domestic companies in the aggregate, as represented by the Standard & Poor's MidCap 400 Index. The Dreyfus Corporation (the "Manager" or "Dreyfus") serves as the portfolio's investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation ("Mellon Financial").

On December 4, 2006, Mellon Financial and The Bank of New York Company, Inc. announced that they had entered into a definitive agreement to merge. The new company will be called The Bank of New York Mellon Corporation. As part of this transaction, Dreyfus would become a wholly-owned subsidiary of The Bank of New York Mellon Corporation. The transaction is subject to certain regulatory approvals and the approval of The Bank of New York Company, Inc.'s and Mellon Financial's shareholders, as well as other customary conditions to closing. Subject to such approvals and the satisfaction of the other conditions, Mellon Financial and The Bank of New York Company, Inc. expect the transaction to be completed in the third quarter of 2007.

Dreyfus Service Corporation (the "Distributor"), a wholly-owned subsidiary of the Manager, is the distributor of the portfolio's shares, which are sold without a sales charge. The portfolio is authorized to issue an unlimited number of $.001 par value shares of Beneficial Interest in each of the following classes of shares: Initial and Service. Each class of shares has identical rights and privileges, except with respect to the distribution plan and the expenses borne by each class and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The fund accounts separately for the assets, liabilities and operations of each series. Expenses directly attributable to each series are charged to that series' operations; expenses which are applicable to all series are allocated among them on a pro rata basis.

The portfolio's financial statements are prepared in accordance with U.S. generally accepted accounting principles, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The portfolio's maximum exposure under these arrangements is unknown. The portfolio does not anticipate recognizing any loss related to these arrangements.

(a) Portfolio valuation: Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. Securities not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices, except for open short positions, where the asked price is used for valuation purposes. Bid price is used when no asked price is available. Registered open-end investment companies that are not traded on an exchange are valued at their net asset value. When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the portfolio calculates its net asset value, the portfolio may value these investments at fair value as determined in accordance with the procedures approved by the Board of Trustees. Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADR's and futures contracts. For other securities that are fair valued by the Board of Trustees, certain factors may be considered such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold and public trading in similar securities of the issuer or comparable issuers. Financial futures are valued at the last sales price.

On September 20, 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management does not believe that the application of this standard will have a material impact on the financial statements of the portfolio.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

The portfolio has an arrangement with the custodian bank whereby the portfolio receives earnings credits from the custodian when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the portfolio includes net earnings credits, if any, as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with Mellon Bank, N.A., an affiliate of the Manager, the portfolio may lend securities to qualified institutions. It is the portfolio's policy, that at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Cash collateral is invested in certain money market mutual funds managed by the Manager. The portfolio is entitled to receive all income on securities loaned, in addition to income earned as a result of the lending transaction. Although each security loaned is fully collateralized, the portfolio bears the risk of delay in recovery of, or loss of rights in, the securities loaned should a borrower fail to return the securities in a timely manner.

(c) Affiliated issuers: Investments in other investment companies advised by the Manager are defined as "affiliated" in the Act.

(d) Dividends to shareholders: Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gain, if any, are normally declared and paid annually, but the portfolio may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent that net realized capital gain can be offset by capital loss carryovers, if any, it is the policy of the portfolio not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

(e) Federal income taxes: It is the policy of the portfolio to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable provisions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

On July 13, 2006, the FASB released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the portfolio's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Management does not believe that the application of this standard will have a material impact on the financial statements of the portfolio.

At December 31, 2006, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $10,281,032, undistributed capital gains $40,313,630 and unrealized appreciation $29,982,221.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2006 and December 31, 2005 were as follows: ordinary income $25,731,071 and $105,741 and long-term capital gains $48,391,950 and $1,747,053, respectively.

During the period ended December 31, 2006, as a result of permanent book to tax differences, primarily due to the tax treatment for real estate investment trusts, the portfolio decreased accumulated undistributed investment income-net by $361,402 and increased accumulated net realized gain (loss) on investments by the same amount. Net assets were not affected by this reclassification.

NOTE 2—Bank Line of Credit:

The portfolio participates with other Dreyfus-managed funds in a $100 million unsecured line of credit primarily to be utilized for temporary or emergency purposes, including the financing of redemptions. Interest is charged to the portfolio based on prevailing market rates in effect at the time of borrowing.

The average daily amount of borrowings outstanding under the line of credit during the period ended December 31, 2006, was approximately $104,900, with a related weighted average annualized interest rate of 5.71%.

NOTE 3—Investment Advisory Fee and Other Transactions With Affiliates:

(a) Pursuant to an Investment Advisory Agreement with the Manager, the investment advisory fee is computed at the annual rate of .75% of the value of the portfolio's average daily net assets and is payable monthly.

The Manager has agreed from February 1, 2006 to December 31, 2007, to waive receipt of its fees and/or assume the expenses of the portfolio so that the expenses of neither class, exclusive of taxes, brokerage fees, interest on borrowings and extraordinary expenses, exceed .90% of the value of the average daily net assets of their class. The Manager had agreed, from January 1, 2006 to January 31, 2006, to waive receipt of its fees and/or assume the expenses of the portfolio so that the expenses of neither class, exclusive of certain expenses as described above, exceed 1% of the value of the average daily net assets of their class. During the period ended December 31, 2006, the Manager waived receipt of fees of $124,496, pursuant to the undertakings.

(b) Under the Distribution Plan (the "Plan") adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing their shares, for servicing and/or maintaining Service shares shareholder accounts and for advertising and marketing for Service shares. The Plan provides for payments to be made at an annual rate of .25% of the value of the Service shares' average daily net assets. The Distributor may make payments to Participating Insurance Companies and to brokers and dealers acting as principal underwriter for their variable insurance products. The fees payable under the Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2006, Service shares were charged $220,365 pursuant to the Plan.

The portfolio compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the portfolio. During the period ended December 31, 2006, the portfolio was charged $816 pursuant to the transfer agency agreement.

The portfolio compensates Mellon Bank, N.A., an affiliate of the Manager, under a custody agreement for providing custodial services for the portfolio. During the period ended December 31, 2006, the portfolio was charged $73,009 pursuant to the custody agreement.

During the period ended December 31, 2006, the portfolio was charged $4,204 for services performed by the Chief Compliance Officer.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: investment advisory fees $272,958, Rule 12b-1 distribution plan fees $18,228, custodian fees $18,627, chief compliance officer fees $2,044 and transfer agency per account fees $179, which are offset against an expense reimbursement currently in effect in the amount of $11,144.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

(d) Pursuant to an exemptive order from the SEC, the portfolio may invest its available cash balances in affiliated money market mutual funds. Management fees of the underlying money market mutual funds have been waived by the Manager.

NOTE 4—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended December 31, 2006, amounted to $657,281,606 and $708,396,270, respectively.

At December 31, 2006, the cost of investments for federal income tax purposes was $442,563,982; accordingly, accumulated net unrealized appreciation on investments was $29,982,221, consisting of $42,534,390 gross unrealized appreciation and $12,552,169 gross unrealized depreciation.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees
Dreyfus Investment Portfolios, MidCap Stock Portfolio

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Dreyfus Investment Portfolios, MidCap Stock Portfolio (one of the funds comprising Dreyfus Investment Portfolios) as of December 31, 2006, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the years indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006 by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Investment Portfolios, MidCap Stock Portfolio at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the indicated years, in conformity with U. S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
February 6, 2007

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the portfolio hereby designates $2.1030 per share as a long-term capital gain distribution paid on March 30, 2006 and also the portfolio hereby designates 19.42% of the ordinary dividends paid during the fiscal year ended December 31, 2006 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in January 2007 of the percentage applicable to the preparation of their 2006 income tax returns.

INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE PORTFOLIO'S INVESTMENT ADVISORY AGREEMENT (Unaudited)

At a meeting of the Board of Trustees of Dreyfus Investment Portfolios (the "Company") held on July 11-12, 2006, the Board considered the re-approval of the portfolio's Investment Advisory Agreement for another one year term, pursuant to which the Manager provides the portfolio with investment advisory and administrative services. The Board members, none of whom are "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the Company, were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of the Manager.

<u>Analysis of Nature, Extent and Quality of Services Provided to the Portfolio.</u> The Board members received a presentation from representatives of the Manager regarding services provided to the portfolio and other funds in the Dreyfus fund complex, and discussed the nature, extent and quality of the services provided to the portfolio pursuant to the portfolio's Investment Advisory Agreement. The Manager's representatives reviewed the portfolio's distribution of accounts and the relationships the Manager has with various intermediaries and the different needs of each. The Board members noted that the portfolio's shares are offered only to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The Manager's representatives noted the diversity of distribution of the funds in the Dreyfus fund complex, and the Manager's corresponding need for broad, deep and diverse resources to be able to provide ongoing shareholder services to each distribution channel, including that of the portfolio. The Board also reviewed the number of separate accounts investing in the portfolio, as well as the portfolio's asset size.

The Board members also considered the Manager's research and portfolio management capabilities and that the Manager also provides oversight of day-to-day portfolio operations, including portfolio accounting and administration and assistance in meeting legal and regulatory requirements, and the Manager's extensive administrative, accounting and compliance infrastructure.

Comparative Analysis of the Portfolio's Investment Advisory Fee, Expense Ratio and Performance. The Board members reviewed reports prepared by Lipper, Inc., an independent provider of investment company data, which included information comparing the portfolio's advisory fee and expense ratio with a group of comparable funds (the "Expense Group") and with a broader group of funds (the "Expense Universe") that were selected by Lipper. Included in these reports were comparisons of contractual and actual advisory fee rates, total operating expenses and performance. The Manager furnished these reports to the Board along with a description of the methodology Lipper used to select the Expense Group and Expense Universe.

The Board reviewed the results of the Expense Group and Expense Universe comparisons. The Board reviewed the range of advisory fees and expense ratios of the funds in the Expense Group and Expense Universe, and noted that the expense ratio of the portfolio's Initial shares (which are not subject to a Rule 12b-1 plan) ranked in the first quintile of the Expense Group and Expense Universe, noting that the expense ratio of the Initial shares was below the Expense Group and Expense Universe medians and that the expense ratio of the portfolio's Service shares (which are subject to a Rule 12b-1 plan) was above the Expense Group and Expense Universe medians. The Board considered the current fee waiver and expense reimbursement arrangement undertaken by the Manager.

The Board members also reviewed the reports prepared by Lipper that presented the portfolio's performance and placed significant emphasis on comparisons of performance to a group of comparable funds (the "Performance Group") composed of the same funds included in the Expense Group and to a broader group of funds (the "Performance Universe"). The Manager also provided a comparison of the portfolio's calendar year total returns to the returns of its benchmark index. The Board noted that the performance of the portfolio's Initial shares was below the Performance Group and Performance Universe medians for reported periods. The Board members also noted that the portfolio's short-term performance was improving, based on the performance information for various periods ended June 30, 2006 that also was presented to them. Representatives of the Manager noted that the portfolio's underperformance versus the Performance Group may be attributable, in part, to the higher-quality holdings of the portfolio compared with the lower-quality holdings of some funds in the Performance Group.

Representatives of the Manager reviewed with the Board members the fees paid to the Manager or its affiliates by other accounts managed or sub-advised by the Manager or its affiliates with similar investment objectives, policies and strategies as the portfolio (the "Similar Accounts"). The Manager's representatives explained the nature of the Similar Accounts and the differences, from the Manager's perspective, in management of the Similar Accounts as compared to managing and providing services to the portfolio. Representatives of the Manager noted that the Manager or its affiliates do not manage other mutual funds with similar investment objectives, policies and strategies as the portfolio. The Manager's representatives also reviewed the costs associated with distribution through intermediaries. The Board analyzed the differences in fees paid to the Manager and discussed the relationship of the advisory fees paid in light of the services provided. The Board members considered the relevance of the fee information provided for the Similar Accounts to evaluate the appropriateness and reasonableness of the portfolio's advisory fees.

Analysis of Profitability and Economies of Scale. The Manager's representatives reviewed the dollar amount of expenses allocated and profit received by the Manager and the method used to determine such expenses and profit. The Board previously had been provided with information prepared by an independent consulting firm regarding the Manager's approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus mutual fund complex. The Board members also had been informed that the methodology had been reviewed by an independent registered public accounting firm which, like the consultant, found the methodology to be reasonable. The consulting firm also analyzed where any economies of scale might emerge in connection with the management of the portfolio. The Board members evaluated the analysis in light of the relevant circumstances for the portfolio, noting that economies of scale may be realized as the portfolio's assets increase and considering whether fee levels reflect these economies of scale for the benefit of portfolio investors. The Board members evaluated the profitability analysis in light of the relevant circumstances for the portfolio, including any decline in assets, and the extent to which economies of scale would be realized if the portfolio grows and whether fee levels reflect these economies of scale for the benefit of portfolio shareholders. The Board members also considered potential benefits to the Manager from acting as investment adviser to the portfolio, including any soft dollar arrangements with respect to trading the portfolio's portfolio.

It was noted that the Board members should consider the Manager's profitability with respect to the portfolio as part of their evaluation of whether the fee under the Investment Advisory Agreement bears a reasonable relationship to the mix of services provided by the Manager, including the nature, extent and quality of such services. It was noted that the profitability percentage for managing the portfolio was within ranges determined by appropriate court cases to be reasonable given the services rendered and that the profitability percentage for managing the portfolio was reasonable given the portfolio's overall performance and generally superior service levels provided. The Board also noted the current fee waiver and expense reimbursement arrangement and its effect on the profitability of the Manager.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to continuation of the portfolio's Investment Advisory Agreement. Based on the discussions and considerations as described above, the Board made the following conclusions and determinations with respect to the portfolio:

- The Board concluded that the nature, extent and quality of the services provided by the Manager to the portfolio are adequate and appropriate.

- While the Board was concerned with the portfolio's total return performance, the Board members noted that the portfolio's short-term performance was improving, and management's view that differences in the quality of the portfolio's holdings compared with those of some other funds in the performance group affected, in part, the portfolio's relative performance.
- The Board concluded that the fee paid to the Manager by the portfolio was reasonable in light of the services provided, comparative performance and expense and advisory fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by the Manager from its relationship with the portfolio.
- The Board determined that the economies of scale which may accrue to the Manager and its affiliates in connection with the management of the portfolio had been adequately considered by the Manager in connection with the advisory fee rate charged to the portfolio, and that, to the extent in the future it were determined that material economies of scale had not been shared with the portfolio, the Board would seek to have those economies of scale shared with the portfolio.

The Board members considered these conclusions and determinations, along with the information received on a routine and regular basis throughout the year, and, without any one factor being dispositive, the Board determined that re-approval of the portfolio's Investment Advisory Agreement was in the best interests of the portfolio and its shareholders.

Joseph S. DiMartino (63)
Chairman of the Board (1998)

Principal Occupation During Past 5 Years:
- Corporate Director and Trustee

Other Board Memberships and Affiliations:
- The Muscular Dystrophy Association, Director
- Century Business Services, Inc., a provider of outsourcing functions for small and medium size companies, Director
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director
- Sunair Services Corporation, engaging in the design, manufacture and sale of high frequency systems for long-range voice and data communications, as well as providing certain outdoor-related services to homes and businesses, Director

No. of Portfolios for which Board Member Serves: 190

Clifford L. Alexander, Jr. (73)
Board Member (1998)

Principal Occupation During Past 5 Years:
- President of Alexander & Associates, Inc., a management consulting firm (January 1981-present)
- Chairman of the Board of Moody's Corporation (October 2000-October 2003)

Other Board Memberships and Affiliations:
- Mutual of America Life Insurance Company, Director

No. of Portfolios for which Board Member Serves: 67

Lucy Wilson Benson (79)
Board Member (1998)

Principal Occupation During Past 5 Years:
- President of Benson and Associates, consultants to business and government (1980-present)

Other Board Memberships and Affiliations:
- The International Executive Services Corps., Director Emeritus
- Citizens Network for Foreign Affairs, Vice Chairperson
- Council on Foreign Relations, Member
- Lafayette College Board of Trustees, Trustee Emeritus
- Atlantic Council of the U.S., Director

No. of Portfolios for which Board Member Serves: 35

David W. Burke (70)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Corporate Director and Trustee

Other Board Memberships and Affiliations:
• John F. Kennedy Library Foundation, Director
• U.S.S. Constitution Museum, Director

No. of Portfolios for which Board Member Serves: 81

Whitney I. Gerard (72)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 33

George L. Perry (72)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 33

Once elected all Board Members serve for an indefinite term, but achieve Emeritus status upon reaching age 80. The address of the Board Members and Officers is in c/o The Dreyfus Corporation, 200 Park Avenue, New York, New York 10166. Additional information about the Board Members is available in the fund's Statement of Additional Information which can be obtained from Dreyfus free of charge by calling this toll free number: 1-800-554-4611.

Arthur A. Hartman, Emeritus Board Member

J. DAVID OFFICER, President since December 2006.

Chief Operating Officer, Vice Chairman and a director of the Manager, and an officer of 90 investment companies (comprised of 190 portfolios) managed by the Manager. He is 58 years old and has been an employee of the Manager since April 1, 1998.

MARK N. JACOBS, Vice President since March 2000.

Executive Vice President, Secretary and General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 60 years old and has been an employee of the Manager since June 1977.

MICHAEL A. ROSENBERG, Vice President and Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since October 1991.

JAMES BITETTO, Vice President and Assistant Secretary since August 2005.

Associate General Counsel and Assistant Secretary of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since December 1996.

JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. She is 51 years old and has been an employee of the Manager since October 1988.

JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since June 2000.

JANETTE E. FARRAGHER, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. She is 44 years old and has been an employee of the Manager since February 1984.

JOHN B. HAMMALIAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 43 years old and has been an employee of the Manager since February 1991.

ROBERT R. MULLERY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 54 years old and has been an employee of the Manager since May 1986.

JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since October 1990.

JAMES WINDELS, Treasurer since November 2001.

Director – Mutual Fund Accounting of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since April 1985.

ERIK D. NAVILOFF, Assistant Treasurer since December 2002.

Senior Accounting Manager – Taxable Fixed Income Funds of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 38 years old and has been an employee of the Manager since November 1992.

ROBERT ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since October 1988.

ROBERT SVAGNA, Assistant Treasurer since December 2002.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 39 years old and has been an employee of the Manager since November 1990.

GAVIN C. REILLY, Assistant Treasurer since December 2005.

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 38 years old and has been an employee of the Manager since April 1991.

JOSEPH W. CONNOLLY, Chief Compliance Officer since October 2004.

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (91 investment companies, comprised of 206 portfolios). From November 2001 through March 2004, Mr. Connolly was first Vice-President, Mutual Fund Servicing for Mellon Global Securities Services. In that capacity, Mr. Connolly was responsible for managing Mellon's Custody, Fund Accounting and Fund Administration services to third-party mutual fund clients. He is 49 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

WILLIAM GERMENIS, Anti-Money Laundering Compliance Officer since October 2002.

Vice President and Anti-Money Laundering Compliance Officer of the Distributor, and the Anti-Money Laundering Compliance Officer of 87 investment companies (comprised of 202 portfolios) managed by the Manager. He is 36 years old and has been an employee of the Distributor since October 1998.

NOTES

For More Information

Dreyfus Investment Portfolios, MidCap Stock Portfolio
200 Park Avenue
New York, NY 10166

Investment Adviser

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

Mellon Bank, N.A.
One Mellon Bank Center
Pittsburgh, PA 15258

Transfer Agent & Dividend Disbursing Agent

Dreyfus Transfer, Inc.
200 Park Avenue
New York, NY 10166

Distributor

Dreyfus Service Corporation
200 Park Avenue
New York, NY 10166

Telephone 1-800-554-4611 or 516-338-3300

Mail The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144
Attn: Investments Division

The portfolio files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The portfolio's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-202-551-8090.

A description of the policies and procedures that the portfolio uses to determine how to vote proxies relating to portfolio securities, and information regarding how the portfolio voted these proxies for the 12-month period ended June 30, 2006, is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-645-6561.

0174AR1206

The Dreyfus Socially Responsible Growth Fund, Inc.

ANNUAL REPORT December 31, 2006

Dreyfus
A Mellon Financial Company℠

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus fund.

Contents

THE FUND

FOR MORE INFORMATION

A LETTER FROM THE CEO

Dear Shareholder:

We are pleased to present this annual report for The Dreyfus Socially Responsible Growth Fund, Inc., covering the 12-month period from January 1, 2006, through December 31, 2006.

2006 proved to be a good year for the financial markets. Virtually all sectors and capitalization ranges of the U.S. equity markets generated strong returns, especially over the second half of the year. A number of positive factors contributed to the markets' gains in 2006, including an expanding domestic economy, subdued inflation, stabilizing interest rates, rising productivity and robust corporate profits.

In our analysis, 2006 provided an excellent reminder of the need for a long-term investment perspective. Adopting too short a time frame proved costly for some investors last year, as chasing recent winners often meant buying the next month's losers. Indeed, history shows that reacting to near-term developments with extreme shifts in strategy rarely is the right decision. We believe that a better course of action is to set a portfolio mix to meet future goals, while attempting to ignore short term market fluctuations in favor of a longer-term view.

For information about how the fund performed during the reporting period, as well as market perspectives, we have provided a Discussion of Fund Performance given by the fund's portfolio managers.

Thank you for your continued confidence and support. We wish you good health and prosperity in 2007.

Sincerely,

Thomas F. Eggers
Chief Executive Officer
The Dreyfus Corporation
January 16, 2007

DISCUSSION OF FUND PERFORMANCE

John O'Toole and Jocelin Reed, Portfolio Managers

How did The Dreyfus Socially Responsible Growth Fund perform relative to its benchmark?

For the 12-month period ended December 31, 2006, the fund's Initial shares produced a 9.20% total return, and the fund's Service shares produced a 8.96% total return.[1] In comparison, the fund's benchmark, the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index"), produced a 15.78% total return for the same period.[2]

Better-than-expected corporate earnings and revenue growth supported a sustained market rally over the second half of 2006, despite persistent inflationary pressures and slowing economic growth. The fund participated in the equity market's climb to a significant degree. However, the fund's returns underperformed the benchmark, mainly due to its emphasis on growth-oriented stocks at a time when the market favored value-oriented issues.

What is the fund's investment approach?

The fund seeks capital growth, with current income as a secondary objective. To pursue these goals, the fund invests primarily in the common stocks of companies that, in our opinion, meet traditional investment standards while simultaneously conducting their businesses in a manner that contributes to the enhancement of the quality of life in America. In selecting stocks, we begin by using quantitative research to identify and rank stocks within an industry or sector. Next, based on fundamental analysis, we designate the most attractive of the higher ranked securities as potential purchase candidates. We then evaluate potential purchase candidates by industry or sector, to determine whether the company meets the fund's socially responsible investment criteria.

We next select investments from those companies that we consider to be the most attractive based on financial considerations. If there is more than one company to choose from, we can select stocks of companies that we consider to have records that exhibit positive accomplishments in the fund's areas of social concern.

The fund normally focuses on large-cap growth stocks; however, we may emphasize different types of growth-oriented stocks and different market capitalizations within the large-capitalization range as market conditions warrant. The fund also may invest in value-oriented stocks, midcap stocks and small-cap stocks.

What other factors influenced the fund's performance?

As a group, growth-oriented stocks stood at historically attractive valuations compared to their value-oriented counterparts during the reporting period. The fund sought to take advantage of this disparity by emphasizing growth-oriented investment opportunities. However, the stock market responded to persistent inflationary pressures and greater economic uncertainties by continuing to favor value-oriented stocks, a trend that undermined the fund's relative performance.

Still, the fund participated significantly in the market's gains. Consumer discretionary holdings generated some of the fund's more robust gains. For example, publisher The McGraw-Hill Companies rose on the strength of its Standard & Poor's division, which benefited from increasing levels of capital markets activity. Media giants The Walt Disney Company and News Corp. generated strong cash flows from rising advertising revenues. Toy maker Mattel benefited from a surge in sales of its Barbie product line, and retailer Nordstrom demonstrated in-store sales growth plus an expanding on-line presence. Gains in these areas more than made up for weakness in other consumer holdings, such as Advance Auto Parts and Home Depot, which were sold during the reporting period, and Lowe's.

The fund also benefited from investments in several other areas. Top performers among industrials stocks included employment and temporary staffing services provider Manpower, which prospered amid strong U.S. and international hiring trends while returning cash to shareholders through higher dividends and a share repurchase plan. In the health care sector, medical products providers, such as Baxter International and Becton, Dickinson and Company, achieved steady earnings growth. Finally, among financials stocks, the fund's investments in brokerage firms, such as Goldman Sachs Group, gained ground due to high trading volumes and a surge in mergers-and-acquisitions activity.

On the other hand, the fund's underweighted exposure to the traditionally value-oriented energy sector detracted from its relative performance. Energy returns were further undermined by our emphasis on producers of relatively clean-burning natural gas, such as Pioneer Natural Resources and Anadarko Petroleum, at a time when natural gas prices failed to keep pace with oil prices. In the technology area, computer maker Dell encountered unexpectedly strong competitive pressures during a weak point in its product cycle.

What is the fund's current strategy?

In response to rising interest rates and other economic fundamentals, in August 2006 the fund began shifting to a more neutral balance between growth- and value-oriented stocks. As of the end of the reporting period, the fund's exposure to traditionally value-oriented banks and other financial institutions is closer to that of the benchmark. Conversely, we have reduced the fund's exposure to growth-oriented technology, health care and consumer cyclical stocks. We believe that these shifts position the fund for today's more uncertain economic environment.

Can you highlight some of the fund's socially responsible investing activities?

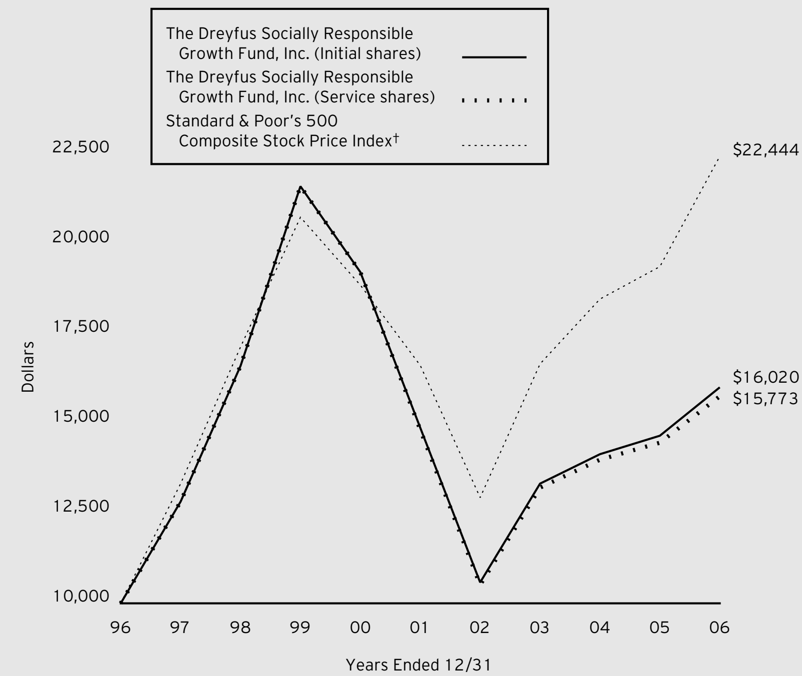
The quality of a company's employee relations and its success in providing equal employment opportunities are fundamental to the fund's socially responsible investment criteria. Retailer Nordstrom meets these criteria by virtue of having been cited as one of Fortune Magazine's Best Places to Work for its compensation system, its practice of promoting from within, and the latitude for decision-making it offers employees. Toy maker Mattel has developed micro-business units offering management opportunities to emerging market employees, and has established relatively strong employment guidelines and standards for its foreign subcontractors. In doing so, the company has earned a reputation as a leader in the education and development of its international workforce. For further information regarding the fund's approach to socially responsible investing, please consult the fund's prospectus.

January 16, 2007

The fund is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the fund directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals. The investment objective and policies of The Dreyfus Socially Responsible Growth Fund, Inc. made available through insurance products may be similar to other funds/portfolios managed or advised by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund/portfolio.

1 *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, fund shares may be worth more or less than their original cost. The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts, which will reduce returns.*

2 *SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's 500 Composite Stock Price Index is a widely accepted, unmanaged index of U.S. stock market performance.*



Comparison of change in value of $10,000 investment in The Dreyfus Socially Responsible Growth Fund, Inc. Initial shares and Service shares and the Standard & Poor's 500 Composite Stock Price Index

Average Annual Total Returns *as of 12/31/06*

	1 Year	5 Years	10 Years
Initial shares	**9.20%**	**1.47%**	**4.83%**
Service shares	**8.96%**	**1.23%**	**4.66%**

The data for Service shares includes the results of Initial shares for the period prior to December 31, 2000 (inception date of Service shares). Actual Service shares' average annual total return and hypothetical growth results would have been lower. See notes below.

† Source: Lipper Inc.

Past performance is not predictive of future performance. The fund's performance shown in the graph and table does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts which will reduce returns.

The above graph compares a $10,000 investment made in Initial and Service shares of The Dreyfus Socially Responsible Growth Fund, Inc. on 12/31/96 to a $10,000 investment made in the Standard & Poor's 500 Composite Stock Price Index (the "Index") on that date.

The fund's Initial shares are not subject to a Rule 12b-1 fee. The fund's Service shares are subject to a 0.25% annual Rule 12b-1 fee. The performance figures for Service shares reflect the performance of the fund's Initial shares from their inception date through December 30, 2000, and the performance of the fund's Service shares from December 31, 2000 (inception date of Service shares) to December 31, 2006 (blended performance figures). The blended performance figures have not been adjusted to reflect the higher operating expenses of the Service shares. If these expenses had been reflected, the blended performance figures would have been lower. All dividends and capital gain distributions are reinvested.

The fund's performance shown in the line graph takes into account all applicable fund fees and expenses. The Index is a widely accepted, unmanaged index of U.S. stock market performance, which does not take into account charges, fees and other expenses. Further information relating to fund performance, including expense reimbursements, if applicable, is contained in the Financial Highlights section of the prospectus and elsewhere in this report.

UNDERSTANDING YOUR FUND'S EXPENSES (Unaudited)

As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads) and redemption fees, which are not shown in this section and would have resulted in higher total expenses. For more information, see your fund's prospectus or talk to your financial adviser.

Review your fund's expenses

The table below shows the expenses you would have paid on a $1,000 investment in The Dreyfus Socially Responsible Growth Fund, Inc. from July 1, 2006 to December 31, 2006. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

Expenses and Value of a $1,000 Investment
assuming actual returns for the six months ended December 31, 2006

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.45	$ 5.77
Ending value (after expenses)	$1,103.20	$1,101.90

COMPARING YOUR FUND'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your fund's expenses based on a $1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the fund with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended December 31, 2006

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.28	$ 5.55
Ending value (after expenses)	$1,020.97	$1,019.71

† *Expenses are equal to the fund's annualized expense ratio of .84% for Initial shares and 1.09% for Service shares; multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2006

Common Stocks—99.3%	Shares	Value ($)
Consumer Cyclical—8.2%		
Bed Bath & Beyond	82,850 [a]	3,156,585
Costco Wholesale	83,950	4,438,436
Darden Restaurants	74,000	2,972,580
Lowe's Cos.	90,900	2,831,535
Nordstrom	110,600	5,457,004
Office Depot	67,350 [a]	2,570,750
Target	118,400	6,754,720
TJX Cos.	120,250	3,429,530
		31,611,140
Consumer Hard Goods—1.4%		
Mattel	240,550	**5,450,863**
Consumer Staples—8.7%		
Avon Products	78,800	2,603,552
General Mills	60,700	3,496,320
Kimberly-Clark	70,300	4,776,885
PepsiCo	216,550	13,545,202
Procter & Gamble	139,950	8,994,587
		33,416,546
Financial—21.9%		
Bank of America	182,750	9,757,022
Capital One Financial	82,000	6,299,240
Chubb	48,200	2,550,262
CIT Group	42,500	2,370,225
Comerica	67,550	3,963,834
Genworth Financial, Cl. A	81,800	2,798,378
Goldman Sachs Group	46,100	9,190,035
Hartford Financial Services Group	34,600	3,228,526
IntercontinentalExchange	19,100 [a]	2,060,890
KeyCorp	79,800	3,034,794
Lincoln National	40,200 [b]	2,669,280
National City	62,100	2,270,376
Northern Trust	67,650	4,105,679
NYSE Group	25,000 [a,b]	2,430,000
ProLogis	36,300	2,205,951
Regions Financial	106,400	3,979,360

Common Stocks (continued)	Shares	Value ($)
Financial (continued)		
Safeco	68,300	4,272,165
SLM	94,400	4,603,888
St. Paul Travelers Cos.	50,100	2,689,869
U.S. Bancorp	107,500 [b]	3,890,425
Washington Mutual	86,500	3,934,885
Whitney Holding	60,800	1,983,296
		84,288,380
Health Care—14.1%		
Aetna	83,250	3,594,735
Alcon	27,150	3,034,556
Amgen	57,700 [a]	3,941,487
Baxter International	100,950	4,683,070
Becton, Dickinson & Co.	68,600	4,812,290
Genzyme	77,200 [a]	4,753,976
Gilead Sciences	28,800 [a]	1,869,984
Johnson & Johnson	195,650	12,916,813
Novartis, ADR	106,700	6,128,848
Quest Diagnostics	29,600	1,568,800
WellPoint	91,400 [a]	7,192,266
		54,496,825
Industrial—9.4%		
Burlington Northern Santa Fe	41,200	3,040,972
Eaton	43,100	3,238,534
Emerson Electric	233,800	10,308,242
Manpower	77,700	5,822,061
Rockwell Automation	28,750	1,756,050
Rockwell Collins	78,100	4,942,949
United Technologies	116,700	7,296,084
		36,404,892
Information/Data—9.6%		
Accenture, Cl. A	101,250	3,739,162
Equifax	80,600	3,272,360
Google, Cl. A	10,000 [a]	4,604,800
McGraw-Hill Cos.	78,900	5,366,778
Moody's	70,100	4,841,106
News, Cl. B	376,150	8,373,099

Common Stocks (continued)	Shares		Value ($)
Information/Data (continued)			
VeriSign	83,250	[a]	2,002,163
Walt Disney	142,750		4,892,042
			37,091,510
Materials—3.2%			
3M	55,600		4,332,908
Air Products & Chemicals	42,400		2,979,872
Ecolab	114,200		5,161,840
			12,474,620
Oil & Gas Producers—5.0%			
Anadarko Petroleum	92,000	[b]	4,003,840
ENSCO International	56,100	[b]	2,808,366
Pioneer Natural Resources	81,300		3,226,797
Tetra Technologies	129,100	[a]	3,302,378
TODCO	67,450	[a,b]	2,304,767
XTO Energy	77,400		3,641,670
			19,287,818
Technology—15.3%			
Cisco Systems	216,450	[a]	5,915,578
Danaher	61,400		4,447,816
Dell	154,100	[a]	3,866,369
EMC/Massachusetts	201,650	[a]	2,661,780
Intel	249,850		5,059,463
International Business Machines	112,700		10,948,805
Microsoft	390,800		11,669,288
National Semiconductor	125,350		2,845,445
QUALCOMM	131,050		4,952,380
Texas Instruments	226,600		6,526,080
			58,893,004
Telecommunications—.7%			
Qwest Communications International	341,750	[a,b]	**2,860,447**
Utilities—1.8%			
NiSource	117,300		2,826,930
Sempra Energy	75,400		4,225,416
			7,052,346
Total Common Stocks (cost $340,265,317)			**383,328,391**

Short-Term Investment–.0%	Principal Amount ($)		Value ($)
Negotiable Bank Certificate Of Deposit;			
Self-Help Credit Union, 4.86%, 3/14/07 (cost $100,000)	100,000		**100,000**
Other Investment–.3%	**Shares**		**Value ($)**
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $1,076,000)	1,076,000	c	**1,076,000**
Investment of Cash Collateral for Securities Loaned–2.9%			
Registered Investment Company;			
Dreyfus Institutional Cash Advantage Plus Fund (cost $11,005,272)	11,005,272	c	**11,005,272**
Total Investments (cost $352,446,589)	**102.5%**		**395,509,663**
Liabilities, Less Cash and Receivables	**(2.5%)**		**(9,600,748)**
Net Assets	**100.0%**		**385,908,915**

ADR—American Depository Receipts
[a] *Non-income producing security.*
[b] *All or a portion of these securities are on loan. At December 31, 2006, the total market value of the fund's securities on loan is $10,495,657 and the total market value of the collateral held by the fund is $11,005,272.*
[c] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Financial	21.9	Oil & Gas Producers	5.0
Technology	15.3	Short-Term/Money Market Investments	3.2
Health Care	14.1	Materials	3.2
Information/Data	9.6	Other	3.9
Industrial	9.4		
Consumer Staples	8.7		
Consumer Cyclical	8.2		**102.5**

† *Based on net assets.*
See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2006

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $10,495,657)—Note 1(b):		
Unaffiliated issuers	340,365,317	383,428,391
Affiliated issuers	12,081,272	12,081,272
Cash		47,991
Receivable for investment securities sold		1,243,240
Dividends and interest receivable		515,665
Receivable for shares of Common Stock subscribed		3,620
Prepaid expenses		21,005
		397,341,184
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		258,263
Liability for securities on loan—Note 1(b)		11,005,272
Payable for shares of Common Stock redeemed		43,679
Interest payable—Note 2		2,781
Accrued expenses		122,274
		11,432,269
Net Assets ($)		**385,908,915**
Composition of Net Assets ($):		
Paid-in capital		531,521,737
Accumulated undistributed investment income—net		1,962,673
Accumulated net realized gain (loss) on investments		(190,638,569)
Accumulated net unrealized appreciation (depreciation) on investments		43,063,074
Net Assets ($)		**385,908,915**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	374,537,194	11,371,721
Shares Outstanding	13,165,029	403,064
Net Asset Value Per Share ($)	**28.45**	**28.21**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2006

Investment Income ($):	
Income:	
Cash dividends (net of $27,636 foreign taxes withheld at source):	
Unaffiliated issuers	5,163,726
Affiliated issuers	35,365
Income from securities lending	97,522
Interest	38,664
Total Income	**5,335,277**
Expenses:	
Investment advisory fee—Note 3(a)	3,022,201
Prospectus and shareholders' reports	128,054
Professional fees	90,738
Custodian fees—Note 3(c)	34,573
Distribution fees—Note 3(b)	29,182
Shareholder servicing costs—Note 3(c)	16,928
Interest expense—Note 2	13,160
Directors' fees and expenses—Note 3(d)	10,089
Loan commitment fees—Note 2	3,436
Registration fees	56
Miscellaneous	17,581
Total Expenses	**3,365,998**
Investment Income—Net	**1,969,279**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	26,165,908
Net unrealized appreciation (depreciation) on investments	6,300,965
Net Realized and Unrealized Gain (Loss) on Investments	**32,466,873**
Net Increase in Net Assets Resulting from Operations	**34,436,152**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2006	2005
Operations ($):		
Investment income—net	1,969,279	425,025
Net realized gain (loss) on investments	26,165,908	66,981,589
Net unrealized appreciation (depreciation) on investments	6,300,965	(52,689,108)
Net Increase (Decrease) in Net Assets Resulting from Operations	**34,436,152**	**14,717,506**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial shares	**(431,631)**	**–**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial shares	10,444,022	17,384,093
Service shares	875,069	1,656,359
Dividends reinvested:		
Initial shares	431,631	–
Cost of shares redeemed:		
Initial shares	(88,292,377)	(101,794,701)
Service shares	(2,780,990)	(3,222,562)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(79,322,645)**	**(85,976,811)**
Total Increase (Decrease) in Net Assets	**(45,318,124)**	**(71,259,305)**
Net Assets ($):		
Beginning of Period	431,227,039	502,486,344
End of Period	**385,908,915**	**431,227,039**
Undistributed investment income—net	1,962,673	425,025
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	387,219	695,015
Shares issued for dividends reinvested	15,986	–
Shares redeemed	(3,299,941)	(4,060,531)
Net Increase (Decrease) in Shares Outstanding	**(2,896,736)**	**(3,365,516)**
Service Shares		
Shares sold	33,024	66,883
Shares redeemed	(105,261)	(129,971)
Net Increase (Decrease) in Shares Outstanding	**(72,237)**	**(63,088)**

See notes to financial statements.

FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single fund share. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the fund's financial statements.

	Year Ended December 31,				
Initial Shares	2006	2005	2004	2003	2002
Per Share Data ($):					
Net asset value, beginning of period	26.08	25.17	23.79	18.90	26.67
Investment Operations:					
Investment income—net [a]	.13	.03	.09	.02	.05
Net realized and unrealized gain (loss) on investments	2.27	.88	1.39	4.89	(7.77)
Total from Investment Operations	2.40	.91	1.48	4.91	(7.72)
Distributions:					
Dividends from investment income—net	(.03)	–	(.10)	(.02)	(.05)
Net asset value, end of period	28.45	26.08	25.17	23.79	18.90
Total Return (%)	9.20	3.62	6.21	26.00	(28.94)
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.83	.81	.82	.84	.80
Ratio of net expenses to average net assets	.83	.81	.82	.84	.80
Ratio of net investment income to average net assets	.50	.10	.38	.12	.20
Portfolio Turnover Rate	32.19	94.99	55.54	63.17	90.07
Net Assets, end of period ($ x 1,000)	374,537	418,916	488,994	521,262	456,014

[a] *Based on average shares outstanding at each month end.*

See notes to financial statements.

Service Shares	Year Ended December 31, 2006	2005	2004	2003	2002
Per Share Data ($):					
Net asset value, beginning of period	25.90	25.06	23.69	18.84	26.59
Investment Operations:					
Investment income (loss)—net [a]	.07	(.04)	.04	(.03)	(.00) [b]
Net realized and unrealized gain (loss) on investments	2.24	.88	1.37	4.88	(7.75)
Total from Investment Operations	2.31	.84	1.41	4.85	(7.75)
Distributions:					
Dividends from investment income—net	–	–	(.04)	(.00) [b]	(.00) [b]
Net asset value, end of period	28.21	25.90	25.06	23.69	18.84
Total Return (%)	8.96	3.35	5.94	25.75	(29.14)
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.08	1.06	1.06	1.09	1.03
Ratio of net expenses to average net assets	1.08	1.06	1.06	1.09	1.03
Ratio of net investment income (loss) to average net assets	.25	(.15)	.17	(.14)	(.01)
Portfolio Turnover Rate	32.19	94.99	55.54	63.17	90.07
Net Assets, end of period ($ x 1,000)	11,372	12,311	13,492	12,202	8,115

[a] *Based on average shares outstanding at each month end.*
[b] *Amount represents less than $.01 per share.*
See notes to financial statements.

NOTE 1—Significant Accounting Policies:

The Dreyfus Socially Responsible Growth Fund, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified open-end management investment company. The fund's investment objective is to provide capital growth, with current income as a secondary goal through equity investments in companies that not only meet traditional investment standards, but which also show evidence that they conduct their business in a manner that contributes to the enhancement of the quality of life in America. The fund is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The Dreyfus Corporation (the "Manager" or "Dreyfus") serves as the fund's investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation ("Mellon Financial").

On December 4, 2006, Mellon Financial and The Bank of New York Company, Inc. announced that they had entered into a definitive agreement to merge. The new company will be called The Bank of New York Mellon Corporation. As part of this transaction, Dreyfus would become a wholly-owned subsidiary of The Bank of New York Mellon Corporation. The transaction is subject to certain regulatory approvals and the approval of The Bank of New York Company, Inc.'s and Mellon Financial's shareholders, as well as other customary conditions to closing. Subject to such approvals and the satisfaction of the other conditions, Mellon Financial and The Bank of New York Company, Inc. expect the transaction to be completed in the third quarter of 2007.

Dreyfus Service Corporation (the "Distributor"), a wholly-owned subsidiary of the Manager, is the distributor of the fund's shares, which are sold without a sales charge. The fund is authorized to issue 300 million shares of $.001 par value Common Stock in each of the following classes of shares: Initial shares (150 million shares authorized) and Service shares (150 million shares authorized). Initial shares are subject to a shareholder services fee and Service shares are subject to a distribution fee. Each class of shares has identical rights and privileges, except with respect to the shareholder services plan, the distribution plan, and the expenses borne by each class and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The fund accounts separately for the assets, liabilities and operations of each series. Expenses directly attributable to each series are charged to that series' operations; expenses which are applicable to all series are allocated among them on a pro rata basis.

The fund's financial statements are prepared in accordance with U.S. generally accepted accounting principles, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

(a) Portfolio valuation: Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available, are valued at the official closing price or, if there is no official closing price that day, at the last sales price. Securities not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices, except for open short positions, where the asked price is used for valuation purposes. Bid price is used when no asked price is available. Registered open-end investment companies that are not traded on an exchange are valued at their net asset value. When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board of Directors. Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADR's and futures contracts. For other securities that are fair valued by the Board of Directors, certain factors may be considered such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold and public trading in similar securities of the issuer or comparable issuers.

On September 20, 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

The fund has an arrangement with the custodian bank whereby the fund receives earnings credits from the custodian when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the fund includes net earnings credits, if any, as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with Mellon Bank, N.A., an affiliate of the Manager, the fund may lend securities to qualified institutions. It is the fund's policy, that at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Cash collateral is invested in certain money market mutual funds managed by the Manager. The fund is entitled to receive all income on securities loaned, in addition to income earned as a result of the lending transaction. Although each security loaned is fully collateralized, the fund bears the risk of delay in recovery of, or loss of rights in, the securities loaned should a borrower fail to return the securities in a timely manner.

(c) Affiliated issuers: Investments in other investment companies advised by the Manager are defined as "affiliated" in the Act.

(d) Dividends to shareholders: Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gain, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent that net realized capital gain can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

(e) Federal income taxes: It is the policy of the fund to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable provisions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

On July 13, 2006, the FASB released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

At December 31, 2006, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $1,962,673, accumulated capital losses $190,626,597 and unrealized appreciation $43,051,102.

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to December 31, 2006. If not applied, $67,021,381 of the carryover expires in fiscal 2009, $103,833,733 expires in fiscal 2010 and $19,771,483 expires in fiscal 2011.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2006 and December 31, 2005 were as follows: ordinary income $431,631 and $0, respectively.

NOTE 2—Bank Line of Credit:

The fund participates with other Dreyfus-managed funds in a $350 million redemption credit facility (the "Facility") to be utilized for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay commitment fees on its pro rata portion of the Facility. Interest is charged to the fund based on prevailing market rates in effect at the time of borrowing.

The average daily amount of borrowing outstanding under the Facility during the period ended December 31, 2006 was approximately $237,700, with a related weighted average annualized interest rate of 5.54%.

NOTE 3—Investment Advisory Fee and Other Transactions with Affiliates:

(a) Pursuant to an Investment Advisory Agreement with the Manager, the investment advisory fee is computed at the annual rate of .75% of the value of the fund's average daily net assets and is payable monthly.

(b) Under the Distribution Plan (the "Plan") adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing their shares, for servicing and/or maintaining Service shares shareholder accounts and for advertising and marketing for Service shares. The Plan provides for payments to be made at an annual rate of .25% of the value of the Service shares' average daily net assets. The Distributor may make payments to Participating Insurance Companies and to brokers and dealers acting as principal underwriter for their variable insurance products. The fees payable under the Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2006, Service shares were charged $29,182 pursuant to the Plan.

(c) Under the Shareholder Services Plan, Initial shares reimburse the Distributor an amount not to exceed an annual rate of .25% of the value of Initial shares' average daily net assets for certain allocated expenses with respect to servicing and/or maintaining Initial shares shareholder accounts. During the period ended December 31, 2006, Initial shares were charged $16,072 pursuant to the Shareholder Services Plan.

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund. During the period ended December 31, 2006, the fund was charged $1,252 pursuant to the transfer agency agreement.

The fund compensates Mellon Bank, N.A., an affiliate of the Manager, under a custody agreement for providing custodial services for the fund. During the period ended December 31, 2006, the fund was charged $34,573 pursuant to the custody agreement.

During the period ended December 31, 2006, the fund was charged $4,204 for services performed by the Chief Compliance Officer.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: investment advisory fees $247,544, Rule 12b-1 distribution plan fees $2,422, custodian fees $6,000, chief compliance officer fees $2,044 and transfer agency per account fees $253.

(d) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

(e) Pursuant to an exemptive order from the SEC, the fund may invest its available cash balances in affiliated money market mutual funds. Management fees of the underlying money market mutual funds have been waived by the Manager.

NOTE 4—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended December 31, 2006, amounted to $129,093,341 and $203,525,945, respectively.

At December 31, 2006, the cost of investments for federal income tax purposes was $352,458,561; accordingly, accumulated net unrealized appreciation on investments was $43,051,102, consisting of $51,798,615 gross unrealized appreciation and $8,747,513 gross unrealized depreciation.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
The Dreyfus Socially Responsible Growth Fund, Inc.

We have audited the accompanying statement of assets and liabilities of The Dreyfus Socially Responsible Growth Fund, Inc., including the statement of investments, as of December 31, 2006, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the years indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006 by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Dreyfus Socially Responsible Growth Fund, Inc., at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the indicated years, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
February 6, 2007

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the fund hereby designates 100% of the ordinary dividends paid during the fiscal year ended December 31, 2006 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in January 2007 of the percentage applicable to the preparation of their 2006 income tax returns.

INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE FUND'S INVESTMENT ADVISORY AGREEMENT (Unaudited)

At meetings of the Board of Directors of the fund held on July 11-12, 2006, the Board considered the re-approval of the fund's Management Agreement for another one year term, pursuant to which the Manager provides the fund with investment advisory and administrative services. The Board members, none of whom are "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the fund, were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of the Manager.

Analysis of Nature, Extent and Quality of Services Provided to the Fund. The Board members received a presentation from representatives of the Manager regarding services provided to the fund and other funds in the Dreyfus fund complex, and discussed the nature, extent and quality of the services provided to the fund pursuant to the fund's Management Agreement. The Manager's representatives reviewed the fund's distribution of accounts and the relationships the Manager has with various intermediaries and the different needs of each. The Board members noted that the fund's shares are offered only to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The Manager's representatives noted the diversity of distribution of the funds in the Dreyfus fund complex, and the Manager's corresponding need for broad, deep and diverse resources to be able to provide ongoing shareholder services to each distribution channel, including that of the fund. The Board also reviewed the number of shareholder accounts in the fund, as well as the fund's asset size.

The Board members also considered the Manager's research and portfolio management capabilities and that the Manager also provides oversight of day-to-day fund operations, including fund accounting and administration and assistance in meeting legal and regulatory requirements, and the Manager's extensive administrative, accounting and compliance infrastructure.

Comparative Analysis of the Fund's Management Fee, Expense Ratio and Performance. The Board members reviewed reports prepared by Lipper, Inc., an independent provider of investment company data, which included information comparing the fund's management fee and expense ratio with a group of comparable funds and a broader group of funds that were selected by Lipper and are not required to use one or more social screens when choosing securities for the funds' portfolios ("Expense Group I" and "Expense Universe I," respectively) and with a group of funds and a broader group of funds that were selected by Lipper and use one or more social screens when choosing securities for the funds' portfolios ("Expense Group II" and "Expense Universe II," respectively). The fund's portfolio managers use social screens when choosing securities for the fund's portfolio, as described in the fund's prospectus. Included in these reports were comparisons of contractual and actual management fee rates, total operating expenses and performance. The Manager furnished these reports to the Board along with a description of the methodology Lipper used to select each Expense Group and Expense Universe.

The Board reviewed the results of the comparisons for each Expense Group and Expense Universe. The Board reviewed the range of management fees and expense ratios of the funds in each Expense Group and Expense Universe, and noted that the expense ratio of the fund's Initial shares (which are not subject to a Rule 12b-1 plan) ranked in the third quintile of Expense Group I (comparable to the median) and in the second quintile of Expense Universe I (below the median), and ranked in the fourth quintile (above the median) of Expense Group II and in the third quintile (above the median) of Expense Universe II. The Board also noted that the expense ratio of the fund's Service shares (which are subject to a Rule 12b-1 plan) was above the medians of each Expense Group and Expense Universe.

The Board members also reviewed the reports prepared by Lipper that presented the fund's performance and placed significant emphasis on comparisons of performance to two groups of funds composed of the same funds included in Expense Group I and Expense Group II ("Performance Group I" and "Performance Group II," respectively) and to two corresponding broader groups of funds ("Performance Universe I" and "Performance Universe II," respectively). The Manager also provided a comparison of the fund's calendar year total returns to the returns of its benchmark index. The Board noted that the performance of the fund's Initial shares was below the medians of Performance Group I and Performance Group II and of Performance Universe I and Performance Universe II for the reported periods ended May 31, 2006. The Board members also noted that the fund's short-term performance was improving, based on the performance information for various periods ended June 30, 2006 that also was presented to them, and management's efforts to improve performance in connection with its proposals, which were effective December 1, 2005, by appointing two new portfolio managers and implementing the revised investment process that the Board had requested.

Representatives of the Manager noted that the Manager or its affiliates do not manage other mutual funds or accounts with substantially similar investment objectives, policies and strategies as the fund.

Analysis of Profitability and Economies of Scale. The Manager's representatives reviewed the dollar amount of expenses allocated and profit received by the Manager and the method used to determine such expenses and profit. The Board previously had been provided with information prepared by an independent consulting firm regarding the Manager's approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus mutual fund complex. The Board members also had been informed that the methodology had been reviewed by an independent registered public accounting firm which, like the consultant, found the methodology to be reasonable. The consulting firm also analyzed where any economies of scale might emerge in connection with the management of the fund. The Board members evaluated the analysis in light of the relevant circumstances for the fund, noting that economies of scale may be realized as the fund's assets increase and considering whether fee levels reflect these economies of scale for the benefit of fund investors. The Board members evaluated the profitability analysis in light of the relevant circumstances for the fund, including any decline in assets, and the extent to which economies of scale would be realized if the fund grows and whether fee levels reflect these economies of scale for the benefit of fund shareholders. The Board members also considered potential benefits to the Manager from acting as investment adviser to the fund, including any soft dollar arrangements with respect to trading the fund's portfolio.

It was noted that the Board members should consider the Manager's profitability with respect to the fund as part of their evaluation of whether the fee under the Management Agreement bears a reasonable relationship to the mix of services provided by the Manager, including the nature, extent and quality of such services. It was noted that the profitability percentage for managing the fund was within ranges determined by appropriate court cases to be reasonable given the services rendered and that the profitability percentage for managing the fund was reasonable given the fund's overall performance and generally superior service levels provided.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to continuation of the fund's Management Agreement. Based on the discussions and considerations as described above, the Board made the following conclusions and determinations with respect to the fund:

- The Board concluded that the nature, extent and quality of the services provided by the Manager to the fund are adequate and appropriate.
- While the Board was concerned with the fund's overall total return performance, the Board members noted that the fund's short-term performance was improving.
- The Board concluded that the fee paid to the Manager by the fund was reasonable in light of the services provided, comparative performance and expense and management fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by the Manager from its relationship with the fund.

• The Board determined that the economies of scale which may accrue to the Manager and its affiliates in connection with the management of the fund had been adequately considered by the Manager in connection with the management fee rate charged to the fund, and that, to the extent in the future it were determined that material economies of scale had not been shared with the fund, the Board would seek to have those economies of scale shared with the fund.

The Board members considered these conclusions and determinations, along with the information received on a routine and regular basis throughout the year, and, without any one factor being dispositive, the Board determined that re-approval of the fund's Management Agreement was in the best interests of the fund and its shareholders.

Joseph S. DiMartino (63)
Chairman of the Board (1998)

Principal Occupation During Past 5 Years:

- Corporate Director and Trustee

Other Board Memberships and Affiliations:

- The Muscular Dystrophy Association, Director
- Century Business Services, Inc., a provider of outsourcing functions for small and medium size companies, Director
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director
- Sunair Services Corporation, engaging in the design, manufacture and sale of high frequency systems for long-range voice and data communications, as well as providing certain outdoor-related services to homes and businesses, Director

No. of Portfolios for which Board Member Serves: 190

Clifford L. Alexander, Jr. (73)
Board Member (1998)

Principal Occupation During Past 5 Years:

- President of Alexander & Associates, Inc., a management consulting firm (January 1981-present)
- Chairman of the Board of Moody's Corporation (October 2000-October 2003)

Other Board Memberships and Affiliations:

- Mutual of America Life Insurance Company, Director

No. of Portfolios for which Board Member Serves: 67

Lucy Wilson Benson (79)
Board Member (1998)

Principal Occupation During Past 5 Years:

- President of Benson and Associates, consultants to business and government (1980-present)

Other Board Memberships and Affiliations:

- The International Executive Services Corps., Director Emeritus
- Citizens Network for Foreign Affairs, Vice Chairperson
- Council on Foreign Relations, Member
- Lafayette College Board of Trustees, Trustee Emeritus
- Atlantic Council of the U.S., Director

No. of Portfolios for which Board Member Serves: 35

David W. Burke (70)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Corporate Director and Trustee

Other Board Memberships and Affiliations:
• John F. Kennedy Library Foundation, Director
• U.S.S. Constitution Museum, Director

No. of Portfolios for which Board Member Serves: 81

Whitney I. Gerard (72)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 33

George L. Perry (72)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 33

Once elected all Board Members serve for an indefinite term, but achieve Emeritus status upon reaching age 80. The address of the Board Members and Officers is in c/o The Dreyfus Corporation, 200 Park Avenue, New York, New York 10166. Additional information about the Board Members is available in the fund's Statement of Additional Information which can be obtained from Dreyfus free of charge by calling this toll free number: 1-800-554-4611.

Arthur A. Hartman, Emeritus Board Member

J. DAVID OFFICER, President since December 2006.

Chief Operating Officer, Vice Chairman and a director of the Manager, and an officer of 90 investment companies (comprised of 190 portfolios) managed by the Manager. He is 58 years old and has been an employee of the Manager since April 1, 1998.

MARK N. JACOBS, Vice President since March 2000.

Executive Vice President, Secretary and General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 60 years old and has been an employee of the Manager since June 1977.

MICHAEL A. ROSENBERG, Vice President and Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since October 1991.

JAMES BITETTO, Vice President and Assistant Secretary since August 2005.

Associate General Counsel and Assistant Secretary of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since December 1996.

JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. She is 51 years old and has been an employee of the Manager since October 1988.

JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since June 2000.

JANETTE E. FARRAGHER, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. She is 44 years old and has been an employee of the Manager since February 1984.

JOHN B. HAMMALIAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 43 years old and has been an employee of the Manager since February 1991.

ROBERT R. MULLERY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 54 years old and has been an employee of the Manager since May 1986.

JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since October 1990.

JAMES WINDELS, Treasurer since November 2001.

Director – Mutual Fund Accounting of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since April 1985.

ERIK D. NAVILOFF, Assistant Treasurer since December 2002.

Senior Accounting Manager – Taxable Fixed Income Funds of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 38 years old and has been an employee of the Manager since November 1992.

ROBERT ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since October 1988.

ROBERT SVAGNA, Assistant Treasurer since December 2002.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 39 years old and has been an employee of the Manager since November 1990.

GAVIN C. REILLY, Assistant Treasurer since December 2005.

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 91 investment companies (comprised of 206 portfolios) managed by the Manager. He is 38 years old and has been an employee of the Manager since April 1991.

JOSEPH W. CONNOLLY, Chief Compliance Officer since October 2004.

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (91 investment companies, comprised of 206 portfolios). From November 2001 through March 2004, Mr. Connolly was first Vice-President, Mutual Fund Servicing for Mellon Global Securities Services. In that capacity, Mr. Connolly was responsible for managing Mellon's Custody, Fund Accounting and Fund Administration services to third-party mutual fund clients. He is 49 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

WILLIAM GERMENIS, Anti-Money Laundering Compliance Officer since October 2002.

Vice President and Anti-Money Laundering Compliance Officer of the Distributor, and the Anti-Money Laundering Compliance Officer of 87 investment companies (comprised of 202 portfolios) managed by the Manager. He is 36 years old and has been an employee of the Distributor since October 1998.

NOTES

For More Information

The Dreyfus Socially Responsible Growth Fund, Inc.
200 Park Avenue
New York, NY 10166

Investment Adviser

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

Mellon Bank, N.A.
One Mellon Bank Center
Pittsburgh, PA 15258

Transfer Agent & Dividend Disbursing Agent

Dreyfus Transfer, Inc.
200 Park Avenue
New York, NY 10166

Distributor

Dreyfus Service Corporation
200 Park Avenue
New York, NY 10166

Telephone 1-800-554-4611 or 516-338-3300

Mail The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144
Attn: Investments Division

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-202-551-8090.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the fund voted these proxies for the 12-month period ended June 30, 2006, is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-645-6561.

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December 31, 2006

ANNUAL REPORT

DWS INVESTMENTS VIT FUNDS

DWS Equity 500 Index VIP

ONE GLOBAL FORCE. ONE FOCUS. YOU.

DWS SCUDDER
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus, call (800) 778-1482 or your financial representative. We advise you to consider the portfolio's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the portfolio. Please read the prospectus carefully before you invest.

The portfolio is subject to investment risks, including possible loss of principal amount invested. There is no guarantee that the portfolio will be able to mirror the S&P 500® Index closely enough to track its performance. Please read the prospectus for specific details regarding its investments and risk profile.

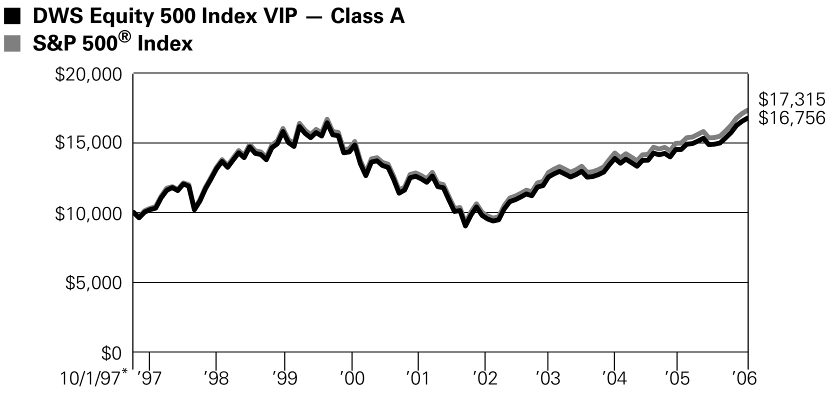
Performance Summary

December 31, 2006

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance figures for Classes A, B and B2 differ because each class maintains a distinct expense structure. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Portfolio returns during all periods shown reflect a fee waiver/and or reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment



The Standard & Poor's (S&P) 500® Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results (as of December 31, 2006)

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$11,552	$13,373	$13,314	$16,756
	Average annual total return	15.52%	10.17%	5.89%	5.74%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$13,503	$17,315
	Average annual total return	15.79%	10.44%	6.19%	6.11%

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$11,524	$13,275	N/A	$13,989
	Average annual total return	15.24%	9.90%	N/A	7.46%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	N/A	$14,335
	Average annual total return	15.79%	10.44%	N/A	8.02%

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class***
Class B2	Growth of $10,000	$11,520	N/A	N/A	$11,654
	Average annual total return	15.20%	N/A	N/A	12.66%
S&P 500 Index	Growth of $10,000	$11,579	N/A	N/A	$11,821
	Average annual total return	15.79%	N/A	N/A	14.32%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on October 1, 1997. Index returns began on September 30, 1997.*

** *The Portfolio commenced offering Class B shares on April 30, 2002. Index returns began on April 30, 2002.*

*** *The Portfolio commenced offering Class B2 shares on September 16, 2005. Index returns began on September 30, 2005.*

Information concerning portfolio holdings of the Portfolio as of a month end will be posted to www.dws-scudder.com on or after the last day of the following month.

Information About Your Portfolio's Expenses

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual portfolios. In the most recent period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the period and held for the entire six-month period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,126.40	$1,124.80	$1,124.80
Expenses Paid per $1,000*	$ 1.50	$ 2.84	$ 3.37

Hypothetical 5% Portfolio Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,023.79	$1,022.53	$1,022.03
Expenses Paid per $1,000*	$ 1.43	$ 2.70	$ 3.21

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**	**Class B2**
DWS Equity 500 Index VIP	.28%	.53%	.63%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

Management Summary

December 31, 2006

After several years of above-trend growth, during 2006 the US economy expanded at a pace slightly below most estimates of the economy's potential, while core inflation increased somewhat, to a rate slightly above the US Federal Reserve (the "Fed") Board's desired range. Despite a slump in housing, consumer spending held up reasonably well. Trends in business investment also remained fairly positive. After raising interest rates fairly steadily for two years, the Fed stopped tightening in the last half of 2006 because they believed the moderation in economic growth, together with tame inflation expectations and receding energy prices, would help bring core inflation down. The main question now is whether the current slowdown will help contain inflation without moving into a period of growth well below trend.

Both stocks and bonds had positive returns in 2006, with stocks much stronger than bonds. The broad equity market, as measured by the S&P 500® Index, had a return of 15.79%. The Portfolio returned 15.52% (Class A shares, unadjusted for contract charges). Since the Portfolio's investment strategy is to replicate, as closely as possible, before the deduction of expenses, the performance of the S&P 500 Index, the Portfolio's return is normally quite close to return of the index.

In 2006, all the 10 industry sectors within the S&P 500 had positive returns. The strongest sector was telecommunication services, with a return of 36.72%, followed by utilities, which had a return of 21.47%. The weakest sectors were health care with a return of 7.65%, and information technology which returned 8.67%.

Chad M. Rakvin, CFA

Vice President

Northern Trust Investments, N.A. (NTI), Subadvisor to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance figures for Classes A and B differ because each class maintains a distinct expense structure. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

The Portfolio is subject to investment risks, including possible loss of principal amount invested. The Portfolio may not be able to mirror the S&P 500 index closely enough to track its performance for several reasons, including the Portfolio's cost to buy and sell securities, the flow of money into and out of the Portfolio and the potential underperformance of stocks selected. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Standard & Poor's 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. It is not possible to invest directly into an index.

"Standard & Poor's," "S&P 500," "Standard & Poor's 500" and "500" are trademarks of The McGraw-Hill Companies, Inc., and have been licensed for use by the Portfolio's investment advisor. This Portfolio is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the Portfolio.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions and should not be construed as a recommendation.

Portfolio Summary

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	97%	98%
Cash Equivalents	3%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Financials	22%	22%
Information Technology	15%	15%
Health Care	12%	13%
Industrials	11%	11%
Energy	10%	9%
Consumer Staples	9%	10%
Consumer Discretionary	11%	11%
Utilities	4%	3%
Telecommunication Services	3%	3%
Materials	3%	3%
	100%	100%

Ten Largest Equity Holdings (19.5% of Net Assets)

1.	**ExxonMobil Corp.** Explorer and producer of oil and gas	**3.4%**
2.	**General Electric Co.** Industrial conglomerate	**2.9%**
3.	**Citigroup, Inc.** Provider of diversified financial services	**2.1%**
4.	**Microsoft Corp.** Developer of computer software	**2.0%**
5.	**Bank of America Corp.** Provider of commercial banking services	**1.8%**
6.	**Procter & Gamble Co.** Manufacturer of diversified consumer products	**1.6%**
7.	**Johnson & Johnson** Provider of health care products	**1.5%**
8.	**Pfizer, Inc.** Manufacturer of prescription pharmaceuticals and nonprescription self medications	**1.4%**
9.	**American International Group, Inc.** Provider of insurance services	**1.4%**
10.	**Altria Group, Inc.** Parent company operating in the tobacco and food industries	**1.4%**

Asset allocation, sector diversification, and holdings are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 7. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

Investment Portfolio

December 31, 2006

	Shares	Value ($)
Common Stocks 97.1%		
Consumer Discretionary 10.3%		
Auto Components 0.1%		
Goodyear Tire & Rubber Co.* (a)	18,694	392,387
Johnson Controls, Inc.	22,046	1,894,192
		2,286,579
Automobiles 0.4%		
Ford Motor Co. (a)	221,975	1,667,032
General Motors Corp.	66,766	2,051,052
Harley-Davidson, Inc.	32,086	2,261,100
		5,979,184
Distributors 0.1%		
Genuine Parts Co.	19,309	**915,826**
Diversified Consumer Services 0.1%		
Apollo Group, Inc. "A"*	17,044	664,205
H&R Block, Inc.	34,696	799,396
		1,463,601
Hotels Restaurants & Leisure 1.6%		
Carnival Corp.	50,846	2,493,996
Darden Restaurants, Inc.	15,254	612,753
Harrah's Entertainment, Inc.	22,119	1,829,684
Hilton Hotels Corp.	42,532	1,484,367
International Game Technology	41,356	1,910,647
Marriott International, Inc. "A"	38,240	1,824,813
McDonald's Corp.	145,191	6,436,317
Starbucks Corp.*	92,228	3,266,716
Starwood Hotels & Resorts Worldwide, Inc.	27,625	1,726,562
Wendy's International, Inc.	12,411	410,680
Wyndham Worldwide Corp.*	24,837	795,281
YUM! Brands, Inc.	34,058	2,002,610
		24,794,426
Household Durables 0.6%		
Black & Decker Corp.	8,122	649,516
Centex Corp.	15,335	862,900
D.R. Horton, Inc.	29,900	792,051
Fortune Brands, Inc.	18,555	1,584,411
Harman International Industries, Inc.	7,100	709,361
KB Home	9,892	507,262
Leggett & Platt, Inc.	19,064	455,630
Lennar Corp. "A"	18,100	949,526
Newell Rubbermaid, Inc.	29,197	845,253
Pulte Homes, Inc.	23,082	764,476
Snap-on, Inc.	8,693	414,135
The Stanley Works	9,756	490,629
Whirlpool Corp.	10,088	837,506
		9,862,656
Internet & Catalog Retail 0.2%		
Amazon.com, Inc.*	38,528	1,520,315
IAC/InterActiveCorp.*	26,300	977,308
		2,497,623
Leisure Equipment & Products 0.2%		
Brunswick Corp.	11,006	351,091
Eastman Kodak Co.	31,107	802,561
Hasbro, Inc.	17,986	490,118
Mattel, Inc.	41,798	947,143
		2,590,913
Media 3.6%		
CBS Corp. "B"	88,087	2,746,553
Clear Channel Communications, Inc.	60,252	2,141,356
Comcast Corp. "A"*	247,058	10,457,965
Dow Jones & Co., Inc.	6,261	237,918
E.W. Scripps Co. "A"	11,900	594,286
Gannett Co., Inc.	25,942	1,568,453
Interpublic Group of Companies, Inc.*	46,397	567,899
McGraw-Hill Companies, Inc.	42,664	2,902,005
Meredith Corp.	4,624	260,562
New York Times Co. "A"	20,810	506,932
News Corp. "A"	282,154	6,060,668
Omnicom Group, Inc.	21,516	2,249,283
The DIRECTV Group, Inc.*	91,900	2,291,986
The Walt Disney Co.	246,680	8,453,724
Time Warner, Inc.	477,730	10,404,959
Tribune Co.	25,983	799,757
Univision Communications, Inc. "A"*	27,093	959,634
Viacom, Inc. "B"*	86,087	3,532,150
		56,736,090
Multiline Retail 1.1%		
Big Lots, Inc.*	11,792	270,273
Dillard's, Inc. "A"	7,151	250,070
Dollar General Corp.	41,184	661,415
Family Dollar Stores, Inc.	20,370	597,452
Federated Department Stores, Inc.	62,808	2,394,869
J.C. Penney Co., Inc.	26,522	2,051,742
Kohl's Corp.*	38,678	2,646,736
Nordstrom, Inc.	28,748	1,418,426
Sears Holdings Corp.*	9,843	1,652,935
Target Corp.	101,310	5,779,736
		17,723,654
Specialty Retail 1.9%		
AutoNation, Inc.*	21,151	450,939
AutoZone, Inc.*	5,791	669,208
Bed Bath & Beyond, Inc.*	35,516	1,353,160
Best Buy Co., Inc.	48,036	2,362,891
Circuit City Stores, Inc.	16,230	308,045
Home Depot, Inc.	241,199	9,686,552
Limited Brands, Inc.	37,870	1,095,958
Lowe's Companies, Inc.	180,400	5,619,460
Office Depot, Inc.*	32,303	1,233,005
OfficeMax, Inc.	7,441	369,446
RadioShack Corp.	14,545	244,065
Staples, Inc.	92,289	2,464,116
The Gap, Inc.	67,932	1,324,674
The Sherwin-Williams Co.	11,689	743,187
Tiffany & Co.	14,900	584,676
TJX Companies, Inc.	51,558	1,470,434
		29,979,816
Textiles, Apparel & Luxury Goods 0.4%		
Coach, Inc.*	45,600	1,958,976
Jones Apparel Group, Inc.	11,994	400,960
Liz Claiborne, Inc.	10,724	466,065
NIKE, Inc. "B"	23,275	2,304,923
VF Corp.	9,787	803,317
		5,934,241

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Consumer Staples 9.0%		
Beverages 2.0%		
Anheuser-Busch Companies, Inc.	90,709	4,462,883
Brown-Forman Corp. "B"	8,780	581,587
Coca-Cola Co.	240,614	11,609,626
Coca-Cola Enterprises, Inc.	38,450	785,149
Constellation Brands, Inc. "A"*	22,300	647,146
Molson Coors Brewing Co. "B"	5,492	419,808
Pepsi Bottling Group, Inc.	15,111	467,081
PepsiCo, Inc.	194,646	12,175,107
		31,148,387
Food & Staples Retailing 2.1%		
Costco Wholesale Corp.	53,545	2,830,924
CVS Corp.	94,634	2,925,137
Kroger Co.	81,463	1,879,351
Safeway, Inc.	52,827	1,825,701
SUPERVALU, Inc.	26,648	952,666
Sysco Corp.	70,257	2,582,647
Wal-Mart Stores, Inc.	290,327	13,407,301
Walgreen Co.	121,496	5,575,452
Whole Foods Market, Inc.	17,700	830,661
		32,809,840
Food Products 1.1%		
Archer-Daniels-Midland Co.	78,207	2,499,495
Campbell Soup Co.	27,785	1,080,558
ConAgra Foods, Inc.	62,605	1,690,335
Dean Foods Co.*	14,400	608,832
General Mills, Inc.	39,128	2,253,773
H.J. Heinz Co.	42,379	1,907,479
Kellogg Co.	26,932	1,348,216
McCormick & Co., Inc.	18,414	710,044
Sara Lee Corp.	96,039	1,635,544
The Hershey Co.	18,946	943,511
Tyson Foods, Inc. "A"	34,400	565,880
Wm. Wrigley Jr. Co.	24,833	1,284,363
		16,528,030
Household Products 2.1%		
Clorox Co.	16,030	1,028,324
Colgate-Palmolive Co.	62,821	4,098,442
Kimberly-Clark Corp.	53,947	3,665,699
Procter & Gamble Co.	374,755	24,085,504
		32,877,969
Personal Products 0.2%		
Avon Products, Inc.	49,870	1,647,705
Estee Lauder Companies, Inc. "A"	13,200	538,824
		2,186,529
Tobacco 1.5%		
Altria Group, Inc.	245,470	21,066,236
Reynolds American, Inc.	22,028	1,442,173
UST, Inc.	20,835	1,212,597
		23,721,006
Energy 9.5%		
Energy Equipment & Services 1.7%		
Baker Hughes, Inc.	40,071	2,991,701
BJ Services Co.	38,286	1,122,545
Halliburton Co.	121,682	3,778,226
Nabors Industries Ltd.*	36,996	1,101,741
National-Oilwell Varco, Inc.*	19,800	1,211,364
Noble Corp.	17,395	1,324,629
Rowan Companies, Inc.	11,582	384,522

	Shares	Value ($)
Schlumberger Ltd.	139,818	8,830,905
Smith International, Inc.	23,700	973,359
Transocean, Inc.*	34,503	2,790,948
Weatherford International Ltd.*	40,244	1,681,797
		26,191,737
Oil, Gas & Consumable Fuels 7.8%		
Anadarko Petroleum Corp.	52,014	2,263,649
Apache Corp.	37,153	2,471,046
Chesapeake Energy Corp.	47,300	1,374,065
Chevron Corp.	259,382	19,072,358
ConocoPhillips	194,142	13,968,517
CONSOL Energy, Inc.	21,200	681,156
Devon Energy Corp.	54,092	3,628,491
El Paso Corp.	85,054	1,299,625
EOG Resources, Inc.	27,157	1,695,955
ExxonMobil Corp.	688,804	52,783,051
Hess Corp.	31,950	1,583,762
Kinder Morgan, Inc.	13,922	1,472,252
Marathon Oil Corp.	41,571	3,845,317
Murphy Oil Corp.	20,300	1,032,255
Occidental Petroleum Corp.	101,788	4,970,308
Peabody Energy Corp.	31,200	1,260,792
Sunoco, Inc.	16,516	1,029,938
Valero Energy Corp.	72,372	3,702,552
Williams Companies, Inc.	67,387	1,760,148
XTO Energy, Inc.	45,608	2,145,856
		122,041,093
Financials 21.6%		
Capital Markets 3.7%		
Ameriprise Financial, Inc.	26,705	1,455,423
Bank of New York Co., Inc.	94,984	3,739,520
Bear Stearns Companies, Inc.	13,830	2,251,247
Charles Schwab Corp.	127,489	2,465,637
E*TRADE Financial Corp.*	49,100	1,100,822
Federated Investors, Inc. "B"	8,900	300,642
Franklin Resources, Inc.	18,552	2,043,874
Janus Capital Group, Inc.	22,371	482,990
Legg Mason, Inc.	16,200	1,539,810
Lehman Brothers Holdings, Inc.	65,142	5,088,893
Mellon Financial Corp.	45,075	1,899,911
Merrill Lynch & Co., Inc.	104,572	9,735,653
Morgan Stanley	127,340	10,369,296
Northern Trust Corp.	20,549	1,247,119
State Street Corp.	41,165	2,776,168
T. Rowe Price Group, Inc.	33,020	1,445,285
The Goldman Sachs Group, Inc.	50,933	10,153,494
		58,095,784
Commercial Banks 4.1%		
BB&T Corp.	61,334	2,694,403
Comerica, Inc.	17,137	1,005,599
Commerce Bancorp, Inc. (a)	21,700	765,359
Compass Bancshares, Inc.	17,500	1,043,875
Fifth Third Bancorp.	65,906	2,697,533
First Horizon National Corp.	13,298	555,590
Huntington Bancshares, Inc.	34,560	820,800
KeyCorp.	43,829	1,666,817
M&T Bank Corp.	8,450	1,032,252
Marshall & Ilsley Corp.	27,154	1,306,379
National City Corp.	75,376	2,755,747
PNC Financial Services Group, Inc.	32,826	2,430,437
Regions Financial Corp.	86,261	3,226,161
SunTrust Banks, Inc.	45,371	3,831,581

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Synovus Financial Corp.	41,003	1,264,122
US Bancorp.	214,954	7,779,185
Wachovia Corp.	225,999	12,870,643
Wells Fargo & Co.	394,848	14,040,795
Zions Bancorp.	14,211	1,171,555
		62,958,833
Consumer Finance 1.0%		
American Express Co.	143,425	8,701,595
Capital One Financial Corp.	51,502	3,956,384
SLM Corp.	50,178	2,447,181
		15,105,160
Diversified Financial Services 5.5%		
Bank of America Corp.	533,486	28,482,817
Chicago Mercantile Exchange Holdings, Inc.	4,100	2,089,975
CIT Group, Inc.	24,324	1,356,549
Citigroup, Inc.	582,631	32,452,547
JPMorgan Chase & Co.	409,162	19,762,525
Moody's Corp.	29,352	2,027,049
		86,171,462
Insurance 4.7%		
ACE Ltd.	36,476	2,209,351
Aflac, Inc.	55,637	2,559,302
Allstate Corp.	77,256	5,030,138
Ambac Financial Group, Inc.	12,778	1,138,136
American International Group, Inc.	304,681	21,833,440
Aon Corp.	35,283	1,246,901
Chubb Corp.	49,170	2,601,585
Cincinnati Financial Corp.	22,909	1,038,007
Genworth Financial, Inc. "A"	50,200	1,717,342
Hartford Financial Services Group, Inc.	37,434	3,492,966
Lincoln National Corp.	32,569	2,162,582
Loews Corp.	51,770	2,146,902
Marsh & McLennan Companies, Inc.	62,313	1,910,517
MBIA, Inc.	14,164	1,034,822
MetLife, Inc.	92,432	5,454,412
Principal Financial Group, Inc.	30,211	1,773,386
Progressive Corp.	87,956	2,130,294
Prudential Financial, Inc.	59,663	5,122,665
Safeco Corp.	15,618	976,906
The St. Paul Travelers Companies, Inc.	84,771	4,551,355
Torchmark Corp.	10,910	695,622
UnumProvident Corp.	39,565	822,161
XL Capital Ltd. "A"	19,677	1,417,138
		73,065,930
Real Estate Investment Trusts 1.1%		
Apartment Investment & Management Co. "A" (REIT)	9,600	537,792
Archstone-Smith Trust (REIT)	22,800	1,327,188
Boston Properties, Inc. (REIT)	14,800	1,655,824
Equity Office Properties Trust (REIT)	45,720	2,202,332
Equity Residential (REIT)	31,630	1,605,223
Kimco Realty Corp. (REIT)	22,600	1,015,870
Plum Creek Timber Co., Inc. (REIT)	20,800	828,880
ProLogis (REIT)	26,700	1,622,559
Public Storage, Inc. (REIT)	11,846	1,154,985
Simon Property Group, Inc. (REIT)	27,341	2,769,370
Vornado Realty Trust (REIT)	16,000	1,944,000
		16,664,023

	Shares	Value ($)
Real Estate Management & Development 0.1%		
CB Richard Ellis Group, Inc. "A"*	21,600	717,120
Realogy Corp.*	29,508	894,683
		1,611,803
Thrifts & Mortgage Finance 1.4%		
Countrywide Financial Corp.	74,338	3,155,648
Fannie Mae	112,650	6,690,283
Freddie Mac	80,063	5,436,278
MGIC Investment Corp.	9,242	577,995
Sovereign Bancorp, Inc.	39,498	1,002,854
Washington Mutual, Inc.	111,143	5,055,895
		21,918,953

Health Care 11.7%

	Shares	Value ($)
Biotechnology 1.3%		
Amgen, Inc.*	137,816	9,414,211
Biogen Idec, Inc.*	39,660	1,950,875
Celgene Corp.*	43,800	2,519,814
Genzyme Corp.*	29,803	1,835,269
Gilead Sciences, Inc.* (a)	55,586	3,609,199
MedImmune, Inc.*	30,675	992,950
		20,322,318
Health Care Equipment & Supplies 1.6%		
Bausch & Lomb, Inc.	7,436	387,118
Baxter International, Inc.	75,103	3,484,028
Becton, Dickinson & Co.	27,978	1,962,657
Biomet, Inc.	31,243	1,289,399
Boston Scientific Corp.*	143,565	2,466,447
C.R. Bard, Inc.	10,998	912,504
Hospira, Inc.*	17,020	571,531
Medtronic, Inc.	135,625	7,257,294
St. Jude Medical, Inc.*	40,788	1,491,209
Stryker Corp. (a)	35,382	1,949,902
Zimmer Holdings, Inc.*	28,084	2,201,224
		23,973,313
Health Care Providers & Services 2.4%		
Aetna, Inc.	64,772	2,796,855
AmerisourceBergen Corp.	23,982	1,078,231
Cardinal Health, Inc.	47,700	3,073,311
Caremark Rx, Inc.	52,177	2,979,828
CIGNA Corp.	13,735	1,807,114
Coventry Health Care, Inc.*	17,595	880,630
Express Scripts, Inc.*	17,434	1,248,274
Health Management Associates, Inc. "A"	25,402	536,236
Humana, Inc.*	18,375	1,016,321
Laboratory Corp. of America Holdings*	15,191	1,116,083
Manor Care, Inc.	8,338	391,219
McKesson Corp.	36,715	1,861,451
Medco Health Solutions, Inc.*	35,964	1,921,916
Patterson Companies, Inc.*	18,500	656,935
Quest Diagnostics, Inc.	17,716	938,948
Tenet Healthcare Corp.*	56,300	392,411
UnitedHealth Group, Inc.	159,008	8,543,500
WellPoint, Inc.*	73,188	5,759,164
		36,998,427
Health Care Technology 0.0%		
IMS Health, Inc.	21,030	**577,904**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Life Sciences Tools & Services 0.3%		
Applera Corp. — Applied Biosystems Group	19,929	731,195
Millipore Corp.*	7,515	500,499
PerkinElmer, Inc.	17,736	394,271
Thermo Fisher Scientific, Inc.*	47,621	2,156,755
Waters Corp.*	13,700	670,889
		4,453,609
Pharmaceuticals 6.1%		
Abbott Laboratories	180,482	8,791,278
Allergan, Inc.	17,262	2,066,952
Barr Pharmaceuticals, Inc.*	11,400	571,368
Bristol-Myers Squibb Co.	230,162	6,057,864
Eli Lilly & Co.	118,137	6,154,938
Forest Laboratories, Inc.*	38,095	1,927,607
Johnson & Johnson	345,234	22,792,349
King Pharmaceuticals, Inc.*	31,586	502,849
Merck & Co., Inc.	256,859	11,199,052
Mylan Laboratories, Inc.	27,436	547,622
Pfizer, Inc.	857,889	22,219,325
Schering-Plough Corp.	170,850	4,038,894
Watson Pharmaceuticals, Inc.*	14,355	373,661
Wyeth	158,776	8,084,874
		95,328,633

Industrials 10.6%

	Shares	Value ($)
Aerospace & Defense 2.3%		
Boeing Co.	93,808	8,333,903
General Dynamics Corp.	47,334	3,519,283
Goodrich Corp.	13,061	594,928
Honeywell International, Inc.	100,147	4,530,650
L-3 Communications Holdings, Inc.	15,600	1,275,768
Lockheed Martin Corp.	44,193	4,068,849
Northrop Grumman Corp.	38,631	2,615,319
Raytheon Co.	50,996	2,692,589
Rockwell Collins, Inc.	18,331	1,160,169
United Technologies Corp.	119,400	7,464,888
		36,256,346
Air Freight & Logistics 0.9%		
FedEx Corp.	35,065	3,808,760
United Parcel Service, Inc. "B"	128,558	9,639,279
		13,448,039
Airlines 0.1%		
Southwest Airlines Co.	90,595	**1,387,915**
Building Products 0.1%		
American Standard Companies, Inc.	18,964	869,499
Masco Corp.	45,265	1,352,066
		2,221,565
Commercial Services & Supplies 0.6%		
Allied Waste Industries, Inc.*	28,875	354,874
Avery Dennison Corp.	12,386	841,381
Cintas Corp.	16,642	660,854
Equifax, Inc.	13,291	539,614
Monster Worldwide, Inc.*	16,685	778,188
Pitney Bowes, Inc.	28,846	1,332,397
R.R. Donnelley & Sons Co.	24,429	868,207
Robert Half International, Inc.	18,600	690,432
Waste Management, Inc.	64,569	2,374,202
		8,440,149
Construction & Engineering 0.1%		
Fluor Corp.	11,425	**932,851**
Electrical Equipment 0.5%		
American Power Conversion Corp.	23,414	716,234
Cooper Industries Ltd. "A"	9,764	882,959
Emerson Electric Co.	100,504	4,431,221
Rockwell Automation, Inc.	20,247	1,236,687
		7,267,101
Industrial Conglomerates 3.9%		
3M Co.	88,936	6,930,782
General Electric Co.	1,217,332	45,296,924
Textron, Inc.	16,141	1,513,542
Tyco International Ltd.	237,853	7,230,731
		60,971,979
Machinery 1.4%		
Caterpillar, Inc.	77,436	4,749,150
Cummins, Inc.	6,278	741,934
Danaher Corp.	28,865	2,090,981
Deere & Co.	27,212	2,587,045
Dover Corp.	21,702	1,063,832
Eaton Corp.	18,505	1,390,466
Illinois Tool Works, Inc.	48,594	2,244,557
Ingersoll-Rand Co., Ltd. "A"	36,622	1,433,019
ITT Corp.	19,794	1,124,695
PACCAR, Inc.	31,001	2,011,965
Pall Corp.	18,053	623,731
Parker Hannifin Corp.	15,079	1,159,273
Terex Corp.*	12,100	781,418
		22,002,066
Road & Rail 0.7%		
Burlington Northern Santa Fe Corp.	44,738	3,302,112
CSX Corp.	49,548	1,705,938
Norfolk Southern Corp.	48,286	2,428,303
Ryder System, Inc.	6,052	309,015
Union Pacific Corp.	32,281	2,970,497
		10,715,865
Trading Companies & Distributors 0.0%		
W.W. Grainger, Inc.	8,509	**595,120**

Information Technology 14.7%

	Shares	Value ($)
Communications Equipment 2.6%		
ADC Telecommunications, Inc.*	16,630	241,634
Avaya, Inc.*	49,892	697,490
Ciena Corp.*	8,865	245,649
Cisco Systems, Inc.*	718,495	19,636,468
Comverse Technologies, Inc.*	21,606	456,103
Corning, Inc.*	183,222	3,428,084
JDS Uniphase Corp.*	24,978	416,133
Juniper Networks, Inc.*	64,400	1,219,736
Motorola, Inc.	289,180	5,945,541
QUALCOMM, Inc.	194,720	7,358,469
Tellabs, Inc.*	57,216	587,036
		40,232,343
Computers & Peripherals 3.7%		
Apple Computer, Inc.*	99,962	8,480,776
Dell, Inc.*	265,109	6,651,585
EMC Corp.*	271,267	3,580,724
Hewlett-Packard Co.	323,327	13,317,839
International Business Machines Corp.	179,602	17,448,334
Lexmark International, Inc. "A"*	11,568	846,778
NCR Corp.*	19,451	831,725
Network Appliance, Inc.*	45,384	1,782,683
QLogic Corp.*	21,118	462,907

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
SanDisk Corp.*	26,600	1,144,598
Sun Microsystems, Inc.*	417,081	2,260,579
		56,808,528
Electronic Equipment & Instruments 0.3%		
Agilent Technologies, Inc.*	48,997	1,707,545
Jabil Circuit, Inc.	20,047	492,154
Molex, Inc.	15,217	481,314
Sanmina-SCI Corp.*	72,617	250,529
Solectron Corp.*	122,107	393,184
Symbol Technologies, Inc.*	33,250	496,755
Tektronix, Inc.	12,324	359,491
		4,180,972
Internet Software & Services 1.3%		
eBay, Inc.*	136,968	4,118,628
Google, Inc. "A"*	24,941	11,484,832
VeriSign, Inc.*	31,700	762,385
Yahoo!, Inc.*	146,888	3,751,519
		20,117,364
IT Services 1.1%		
Affiliated Computer Services, Inc. "A"*	13,473	658,022
Automatic Data Processing, Inc.	68,708	3,383,869
Cognizant Technology Solutions Corp. "A"*	16,600	1,280,856
Computer Sciences Corp.*	20,644	1,101,770
Convergys Corp.*	13,472	320,364
Electronic Data Systems Corp.	57,891	1,594,897
Fidelity National Information Services, Inc.	19,200	769,728
First Data Corp.	92,212	2,353,250
Fiserv, Inc.*	21,542	1,129,232
Paychex, Inc.	37,511	1,483,185
Sabre Holdings Corp. "A"	12,752	406,661
Unisys Corp.*	34,080	267,187
Western Union Co.	92,212	2,067,393
		16,816,414
Office Electronics 0.1%		
Xerox Corp.*	111,588	**1,891,417**
Semiconductors & Semiconductor Equipment 2.3%		
Advanced Micro Devices, Inc.*	58,960	1,199,836
Altera Corp.*	38,586	759,372
Analog Devices, Inc.	39,635	1,302,802
Applied Materials, Inc.	163,930	3,024,509
Broadcom Corp. "A"*	54,421	1,758,343
Intel Corp.	680,845	13,787,111
KLA-Tencor Corp.	25,645	1,275,839
Linear Technology Corp.	38,814	1,176,841
LSI Logic Corp.*	41,113	370,017
Maxim Integrated Products, Inc.	40,101	1,227,893
Micron Technology, Inc.*	82,820	1,156,167
National Semiconductor Corp.	36,926	838,220
Novellus Systems, Inc.*	14,014	482,362
NVIDIA Corp.*	42,014	1,554,938
PMC-Sierra, Inc.*	23,410	157,081
Teradyne, Inc.*	20,904	312,724
Texas Instruments, Inc.	180,879	5,209,315
Xilinx, Inc.	40,646	967,781
		36,561,151
Software 3.3%		
Adobe Systems, Inc.*	69,110	2,841,803
Autodesk, Inc.*	27,248	1,102,454
BMC Software, Inc.*	22,706	731,133

	Shares	Value ($)
CA, Inc.	55,759	1,262,942
Citrix Systems, Inc.*	21,898	592,341
Compuware Corp.*	52,146	434,376
Electronic Arts, Inc.*	36,558	1,841,061
Intuit, Inc.*	38,070	1,161,516
Microsoft Corp.	1,021,671	30,507,096
Novell, Inc.*	46,736	289,763
Oracle Corp.*	471,378	8,079,419
Parametric Technology Corp.*	16,416	295,816
Symantec Corp.*	110,752	2,309,179
		51,448,899
Materials 2.9%		
Chemicals 1.4%		
Air Products & Chemicals, Inc.	24,539	1,724,601
Ashland, Inc.	7,708	533,239
Dow Chemical Co.	115,261	4,603,524
E.I. du Pont de Nemours & Co.	112,012	5,456,105
Eastman Chemical Co.	8,730	517,776
Ecolab, Inc.	19,566	884,383
Hercules, Inc.*	17,207	332,267
International Flavors & Fragrances, Inc.	8,143	400,310
Monsanto Co.	66,516	3,494,086
PPG Industries, Inc.	17,750	1,139,728
Praxair, Inc.	36,185	2,146,856
Rohm & Haas Co.	15,194	776,717
Sigma-Aldrich Corp.	9,420	732,122
		22,741,714
Construction Materials 0.1%		
Vulcan Materials Co.	10,725	**963,856**
Containers & Packaging 0.2%		
Ball Corp.	10,936	476,810
Bemis Co., Inc.	9,772	332,053
Pactiv Corp.*	19,619	700,202
Sealed Air Corp.	10,848	704,252
Temple-Inland, Inc.	11,736	540,208
		2,753,525
Metals & Mining 0.9%		
Alcoa, Inc.	99,581	2,988,426
Allegheny Technologies, Inc.	12,217	1,107,837
Freeport-McMoRan Copper & Gold, Inc. "B" (a)	24,396	1,359,589
Newmont Mining Corp.	52,832	2,385,365
Nucor Corp.	36,530	1,996,730
Phelps Dodge Corp.	24,640	2,949,901
United States Steel Corp.	15,459	1,130,671
		13,918,519
Paper & Forest Products 0.3%		
International Paper Co.	52,172	1,779,065
MeadWestvaco Corp.	23,459	705,178
Weyerhaeuser Co.	31,445	2,221,589
		4,705,832
Telecommunication Services 3.4%		
Diversified Telecommunication Services 2.8%		
AT&T, Inc.	457,147	16,343,005
BellSouth Corp.	211,841	9,979,829
CenturyTel, Inc.	15,519	677,560
Citizens Communications Co.	34,490	495,621
Embarq Corp.	16,598	872,391
Qwest Communications International, Inc.*	183,840	1,538,741

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Verizon Communications, Inc.	345,229	12,856,328
Windstream Corp.	60,059	854,039
		43,617,514
Wireless Telecommunication Services 0.6%		
ALLTEL Corp.	47,508	2,873,284
Sprint Nextel Corp. (a)	341,868	6,457,887
		9,331,171

Utilities 3.4%

	Shares	Value ($)
Electric Utilities 1.8%		
Allegheny Energy, Inc.*	17,510	803,884
American Electric Power Co., Inc.	51,316	2,185,035
Duke Energy Corp.	149,183	4,954,367
Edison International	35,867	1,631,231
Entergy Corp.	26,356	2,433,186
Exelon Corp.	79,042	4,891,909
FirstEnergy Corp.	38,354	2,312,746
FPL Group, Inc.	51,684	2,812,643
Pinnacle West Capital Corp.	9,508	481,961
PPL Corp.	41,628	1,491,948
Progress Energy, Inc.	26,731	1,311,958
Southern Co.	85,704	3,159,050
		28,469,918
Gas Utilities 0.1%		
Nicor, Inc.	5,184	242,611
Peoples Energy Corp.	2,489	110,935
Questar Corp.	10,100	838,805
		1,192,351
Independent Power Producers & Energy Traders 0.4%		
AES Corp.*	75,348	1,660,670
Constellation Energy Group	19,210	1,322,993
Dynegy, Inc. "A"*	43,472	314,737
TXU Corp.	56,112	3,041,831
		6,340,231
Multi-Utilities 1.1%		
Ameren Corp. (a)	21,569	1,158,902
CenterPoint Energy, Inc.	31,321	519,302
CMS Energy Corp.*	31,172	520,572
Consolidated Edison, Inc.	32,122	1,544,105
Dominion Resources, Inc.	43,717	3,665,233
DTE Energy Co.	19,457	941,913
KeySpan Corp.	19,214	791,233
NiSource, Inc.	38,408	925,633
PG&E Corp.	44,749	2,117,970
Public Service Enterprise Group, Inc.	31,975	2,122,501
Sempra Energy	28,087	1,573,996
TECO Energy, Inc.	30,400	523,792
Xcel Energy, Inc.	42,357	976,752
		17,381,904
Total Common Stocks (Cost $1,197,836,620)		**1,509,227,971**

	Principal Amount ($)	Value ($)

US Treasury Obligations 0.1%

US Treasury Bill: 4.771%**, 2/22/2007 (b) (Cost $2,089,584)	2,130,000	**2,089,584**

	Shares	Value ($)

Securities Lending Collateral 0.8%

Daily Assets Fund Institutional, 5.34% (c) (d) (Cost $12,278,475)	12,278,475	**12,278,475**

Cash Equivalents 2.7%

Cash Management QP Trust, 5.46% (e) (Cost $41,207,261)	41,207,261	**41,207,261**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $1,253,411,940)†	100.7	**1,564,803,291**
Other Assets and Liabilities, Net	(0.7)	**(11,368,297)**
Net Assets	100.0	**1,553,434,994**

* *Non-income producing security.*

** *Annualized yield at time of purchase; not a coupon rate.*

† *The cost for federal income tax purposes was $1,281,971,033. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $282,832,258. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $359,832,908 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $77,000,650.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $11,826,379 which is 0.8% of net assets.*

(b) *At December 31, 2006, this security, in part or in whole, has been segregated to cover initial margin requirements for open futures contracts.*

(c) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

REIT: Real Estate Investment Trust

At December 31, 2006, open future contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation ($)
S&P 500 Index	3/15/2007	129	46,011,508	46,065,900	**54,392**

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $1,199,926,204) — including $11,826,379 of securities loaned	$ 1,511,317,555
Investment in Daily Assets Fund Institutional (cost $12,278,475)*	12,278,475
Investment in Cash Management QP Trust (cost $41,207,261)	41,207,261
Total investments in securities, at value (cost $1,253,411,940)	1,564,803,291
Cash	10,000
Dividends receivable	2,078,553
Interest receivable	176,158
Receivable for Portfolio shares sold	290,007
Due from Advisor	214,758
Other assets	75,386
Total assets	1,567,648,153
Liabilities	
Payable upon return of securities loaned	12,278,475
Payable for Portfolio shares redeemed	1,075,190
Payable for daily variation margin on open futures contracts	172,309
Accrued management fee	410,643
Other accrued expenses and payables	276,542
Total liabilities	14,213,159
Net assets, at value	**$ 1,553,434,994**
Net Assets	
Net assets consist of:	
Undistributed net investment income	22,881,660
Net unrealized appreciation (depreciation) on:	
Investments	311,391,351
Futures	54,392
Accumulated net realized gain (loss)	(88,811,531)
Paid-in capital	1,307,919,122
Net assets, at value	**$ 1,553,434,994**
Class A	
Net Asset Value, offering and redemption price per share ($1,411,993,096 ÷ 94,305,191 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 14.97**
Class B	
Net Asset Value, offering and redemption price per share ($83,983,058 ÷ 5,613,107 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 14.96**
Class B2	
Net Asset Value, offering and redemption price per share ($57,458,840 ÷ 3,841,811 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 14.96**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends	$ 26,026,101
Interest	55,353
Interest — Cash Management QP Trust	1,175,584
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	47,997
Total Income	27,305,035
Expenses:	
Management fee	2,632,731
Administrative service fee	156,996
Administration fee	838,241
Custodian fee	49,179
Distribution service fees (Class B and Class B2)	323,360
Record keeping fee (Class B2)	78,544
Services to shareholders	6,237
Auditing	39,447
Legal	75,420
Trustees' fees and expenses	46,948
Reports to shareholders and shareholder meeting	8,517
Total expenses before expense reductions	4,255,620
Expense reductions	(139,693)
Total expenses after expense reductions	4,115,927
Net investment income (loss)	**23,189,108**
Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	96,648
Futures	2,847,103
	2,943,751
Net unrealized appreciation (depreciation) during the period on:	
Investments	178,583,450
Futures	265,863
	178,849,313
Net gain (loss) on investment transactions	**181,793,064**
Net increase (decrease) in net assets resulting from operations	**$ 204,982,172**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 23,189,108	$ 15,253,658
Net realized gain (loss) on investment transactions	2,943,751	(14,168,370)
Net unrealized appreciation (depreciation) during the period on investment transactions	178,849,313	41,844,749
Net increase (decrease) in net assets resulting from operations	204,982,172	42,930,037
Distributions to shareholders from:		
Net investment income:		
Class A	(13,781,595)	(12,006,950)
Class B	(640,558)	(714,321)
Class B2	(485,019)	—
Portfolio share transactions:		
Class A		
Proceeds from shares sold	369,528,119	176,934,741
Proceeds from tax-free reorganization	—	311,282,616
Reinvestment of distributions	13,781,595	12,006,950
Cost of shares redeemed	(245,811,474)	(216,433,043)
Net increase (decrease) in net assets from Class A share transactions	137,498,240	283,791,264
Class B		
Proceeds from shares sold	21,759,460	29,079,301
Reinvestment of distributions	640,558	714,321
Cost of shares redeemed	(15,841,867)	(17,678,251)
Net increase (decrease) in net assets from Class B share transactions	6,558,151	12,115,371
Class B2		
Proceeds from shares sold	10,704,216	71,422,580
Proceeds from tax-free reorganization	—	69,769,766
Reinvestment of distributions	485,019	—
Cost of shares redeemed	(20,239,713)	(82,593,913)
Net increase (decrease) in net assets from Class B2 share transactions	(9,050,478)	58,598,433
Increase (decrease) in net assets	325,080,913	384,713,834
Net assets at beginning of period	1,228,354,081	843,640,247
Net assets at end of period (including undistributed net investment income of $22,881,660 and $14,832,109, respectively)	**$ 1,553,434,994**	**$ 1,228,354,081**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets (continued)

Other Information	Years Ended December 31, 2006	2005
Class A		
Shares outstanding at beginning of period	84,067,247	62,064,495
Shares sold	27,355,596	14,056,786
Share issued in tax-free reorganization	—	24,054,780
Shares issued to shareholders in reinvestment of distributions	1,008,902	1,010,686
Shares redeemed	(18,126,554)	(17,119,500)
Net increase (decrease) in Class A shares	10,237,944	22,002,752
Shares outstanding at end of period	**94,305,191**	**84,067,247**
Class B		
Shares outstanding at beginning of period	5,155,670	4,191,602
Shares sold	1,579,717	2,301,387
Shares issued to shareholders in reinvestment of distributions	46,858	60,077
Shares redeemed	(1,169,138)	(1,397,396)
Net increase (decrease) in Class B shares	457,437	964,068
Shares outstanding at end of period	**5,613,107**	**5,155,670**
Class B2		
Shares outstanding at beginning of period	4,506,034	—
Shares sold	788,488	5,522,164
Share issued in tax-free reorganization	—	5,392,081
Shares issued to shareholders in reinvestment of distributions	35,455	—
Shares redeemed	(1,488,166)	(6,408,211)
Net increase (decrease) in Class B2 shares	(664,223)	4,506,034
Shares outstanding at end of period	**3,841,811**	**4,506,034**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$13.11**	**$12.73**	**$11.64**	**$ 9.20**	**$11.98**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.24	.21	.21	.15	.14
Net realized and unrealized gain (loss) on investment transactions	1.78	.37	1.01	2.41	(2.81)
Total from investment operations	2.02	.58	1.22	2.56	(2.67)
Less distributions from:					
Net investment income	(.16)	(.20)	(.13)	(.12)	(.11)
Net asset value, end of period	**$14.97**	**$13.11**	**$12.73**	**$11.64**	**$ 9.20**
Total Return (%)	15.52[b]	4.68	10.59[b]	28.16[b]	(22.31)[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	1,412	1,102	790	627	395
Ratio of expenses before expense reductions and/or recoupments (%)	.28	.27	.28	.30	.32
Ratio of expenses after expense reductions and/or recoupments (%)	.27	.27	.29	.30	.30
Ratio of net investment income (loss) (%)	1.73	1.62	1.76	1.50	1.33
Portfolio turnover rate (%)	9	15	1	1	10

a *Based on average shares outstanding during the period.*
b *Total return would have been lower had certain expenses not been reduced.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$13.10**	**$12.72**	**$11.63**	**$ 9.20**	**$11.27**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.21	.17	.20	.14	.09
Net realized and unrealized gain (loss) on investment transactions	1.78	.38	.99	2.40	(2.07)
Total from investment operations	1.99	.55	1.19	2.54	(1.98)
Less distributions from:					
Net investment income	(.13)	(.17)	(.10)	(.11)	(.09)
Net asset value, end of period	**$14.96**	**$13.10**	**$12.72**	**$11.63**	**$ 9.20**
Total Return (%)	15.24[c]	4.42	10.32[c]	27.83	(17.56)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	84	68	53	17	3
Ratio of expenses before expense reductions and/or recoupments (%)	.53	.52	.53	.55	.55*
Ratio of expenses after expense reductions and/or recoupments (%)	.52	.52	.54	.55	.55*
Ratio of net investment income (loss) (%)	1.48	1.37	1.71	1.29	1.45*
Portfolio turnover rate (%)	9	15	1	1	10

a *For the period April 30, 2002 (commencement of operations) to December 31, 2002.*
b *Based on average shares outstanding during the period.*
c *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

Class B2

Years Ended December 31,	2006	2005[a]
Selected Per Share Data		
Net asset value, beginning of period	**$13.09**	**$12.94**
Income (loss) from investment operations:		
Net investment income (loss)[b]	.19	.05
Net realized and unrealized gain (loss) on investment transactions	1.79	.10
Total from investment operations	1.98	.15
Less distributions from:		
Net investment income	(.11)	—
Net asset value, end of period	**$14.96**	**$13.09**
Total Return (%)[c]	15.20	1.16**
Ratios to Average Net Assets and Supplemental Data		
Net assets, end of period ($ millions)	57	59
Ratio of expenses before expense reductions (%)	.67	.66*
Ratio of expenses after expense reductions (%)	.63	.63*
Ratio of net investment income (loss) (%)	1.37	1.34*
Portfolio turnover rate (%)	9	15

a *For the period September 16, 2005 (commencement of operations) to December 31, 2005.*
b *Based on average shares outstanding during the period.*
c *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

Notes to Financial Statements

A. Significant Accounting Policies

DWS Investments VIT Funds (the "Trust") is registered under the Investment Company Act of 1940 as amended, (the "1940 Act"), as a diversified, open-end management investment company. The Trust is organized as a Massachusetts business trust. The Trust is comprised of several portfolios. DWS Equity 500 Index VIP (the "Portfolio") is one of the series the Trust offers to investors. The Portfolio is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

Multiple Classes of Shares of Beneficial Interest. The Portfolio offers three classes of shares to investors: Class A Shares, Class B Shares and Class B2 shares. Class B and Class B2 Shares are subject to Rule 12b-1 distribution fees under the 1940 Act equal to an annual rate up to 0.25% of average daily net assets. In addition, Class B2 shares are subject to record keeping fees equal to an annual rate of up to 0.15% of average daily net assets. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain Portfolio-level expenses and expense reductions, if any, are borne pro rata on the basis of relative net assets by the holders of all classes of shares, except that each class bears certain expenses unique to that class (including the applicable 12b-1 distribution fee). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Portfolio's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Portfolio in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Equity securities are valued at the most recent sale price or official closing price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Cash Management QP Trust are valued at their net asset value each business day.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees.

In September 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2006, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). The Portfolio may enter into futures contracts as a hedge against anticipated interest rate changes and for duration management, risk management and return enhancement purposes.

Upon entering into a futures contract, the Portfolio is required to deposit with a financial intermediary an amount ("initial margin") equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Portfolio depending upon the daily fluctuations in the value of the underlying security and are recorded for financial reporting purposes as unrealized gains or losses by the Portfolio. When entering into a closing transaction, the Portfolio will realize a gain or loss equal to the difference between the value of the futures contract to sell and the futures contract to buy. Futures contracts are valued at the most recent settlement price.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid secondary market will limit the Portfolio's ability to close out a futures contract prior to the settlement date and that a change in the value of a futures contract may not correlate exactly with the changes in the value of the securities or currencies hedged. When utilizing futures contracts to hedge, the Portfolio gives up the opportunity to profit from favorable price movements in the hedged positions during the term of the contract.

Federal Income Taxes. The Portfolio's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable and tax-exempt income to its shareholders. Accordingly, the Portfolio paid no federal income taxes and no federal income tax provision was required.

At December 31, 2006, DWS Equity 500 Index VIP had a net tax basis capital loss carryforward of approximately $60,044,000, of which $46,481,000 was inherited from its merger with the SVS II Index 500 Portfolio (Note H), and may be applied against any realized net taxable gains of each succeeding year until fully utilized or until the expiration dates December 31, 2009 ($5,504,000), December 31, 2010 ($17,081,000) and December 31, 2011 ($4,052,000) and December 31, 2012 ($33,407,000), whichever occurs first, and which may be subject to certain limitations under Sections 382-384 of the Internal Revenue Code. During the year ended December 31, 2006, the Portfolio utilized approximately $6,827,000 of its capital loss carryforward.

In addition, from November 1, 2006 through December 31, 2006, the Portfolio incurred approximately $169,000 of net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year end December 31, 2007.

In July 2006, FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for the Portfolio a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether the Portfolio is taxable in certain jurisdictions), and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006. On December 22, 2006, the SEC indicated that they would not object if a Portfolio implements FIN 48 in the first required financial statement reporting period for its fiscal year beginning after December 15, 2006. Management has begun to evaluate the application of the Interpretation to the Portfolio and is not in a position at this time to estimate the significance of its impact, if any, on the Portfolio's financial statements.

Distribution of Income and Gains. Net investment income of the Portfolio, if any, is declared and distributed to shareholders annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Portfolio if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in futures contracts and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Portfolio.

At December 31, 2006, the Portfolio's components of distributable earnings (accumulated gains) on a tax-basis were as follows:

Undistributed ordinary income*	$ 22,878,420
Capital loss carryforwards	$ (60,044,000)
Unrealized appreciation (depreciation) on investments	$282,832,258

In addition, the tax character of distributions paid to shareholders by the Portfolio is summarized as follows:

	Years Ended December 31,	
	2006	2005
Distributions from ordinary income*	$ 14,907,172	$ 12,721,271

* *For tax purposes short-term capital gains distributions are considered ordinary income distributions.*

Securities Lending. The Portfolio may lend securities to financial institutions. The Portfolio retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Portfolio requires the borrowers of the securities to maintain collateral with the Portfolio consisting of liquid, unencumbered assets having a value at least equal to the value of the securities loaned. The Portfolio may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. The Portfolio receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of fees paid to a lending agent. Either the Portfolio or the borrower may terminate the loan. The

Portfolio is subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Contingencies. In the normal course of business, the Portfolio may enter into contracts with service providers that contain general indemnification clauses. The Portfolio's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Portfolio that have not yet been made. However, based on experience, the Portfolio expects the risk of loss to be remote.

Expenses. Expenses of the Trust arising in connection with a specific portfolio are allocated to that portfolio. Other Trust expenses which cannot be directly attributed to a portfolio are apportioned among the portfolios in the Trust.

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset valuation calculations. However, for financial reporting purposes, investment security transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend as soon as the Portfolio is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis.

B. Purchases and Sales of Securities

During the year ended December 31, 2006, purchases and sales of investment securities (excluding short-term investments) aggregated $246,853,451 and $122,580,053, respectively.

C. Related Parties

Investment Management Agreement. Deutsche Asset Management, Inc. ("DAMI" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, is the Portfolio's Advisor. Effective December 31, 2006, DAMI merged with Deutsche Investment Management Americas Inc. ("DIMA"), an indirect, wholly owned subsidiary of Deutsche Bank AG. The Board of the Portfolio approved an Amended and Restated Investment Management Agreement between the Portfolio and DIMA. The new investment management agreement is identical in substance to the current investment management agreement for the Portfolio, except for the named investment advisor. Under the Amended and Restated Investment Management Agreement, the Portfolio pays the Advisor an annual fee equal to an annual rate calculated daily and paid monthly as follows:

	Annual Rate
First $1 billion of the Portfolio's average daily net assets	.200%
Next $1 billion of such net assets	.175%
Over $2 billion of such net assets	.150%

For the period from January 1, 2006 through April 30, 2009, the Advisor contractually agreed to waive all or a portion of its management fee and reimburse or pay certain operating expenses of the Portfolio to the extent necessary to maintain operating expenses of each class (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest, and organizational and offering costs) as follows:

	Annual Rate
Class A	.280%
Class B	.530%
Class B2	.630%

Accordingly, for the year ended December 31, 2006, the Advisor waived a portion of its Management fee aggregating $122,134 and the amount charged aggregated $2,510,268, which was equivalent to an annual effective rate of 0.18% of the Portfolio's average daily net assets.

In addition, the Advisor reimbursed the Portfolio $16,513 for the record keeping fees for Class B2 shares for the year ended December 31, 2006.

The Advisor may recoup any of its waived investment management fees within the following three years if the Portfolio is able to make the repayment without exceeding its contractual expense limits during the period of waiver/reimbursement. As of December 31, 2006, there were no amounts subject to repayment by the Advisor.

Administrative Service Fee. Prior to June 1, 2006, Investment Company Capital Corp. ("ICCC" or the "Administrator"), an affiliate of the Advisor, was the Portfolio's Administrator. The Portfolio paid the Administrator an annual fee ("Administrative service fee") based on its average daily net assets, computed and accrued daily and payable monthly at an annual rate of 0.03%. For the period from January 1, 2006 through May 31, 2006, ICCC received an administrative service fee of $156,996, all of which has been paid.

Administration Fee. Effective June 1, 2006, the Administrator agreement with ICCC was terminated and the Portfolio entered into an Administrative Service Agreement with DIMA, pursuant to which DIMA provides most administrative services to the Portfolio. For all services provided under the Administrative Services Agreement, the Portfolio pays DIMA an annual fee ("Administration fee") of 0.10% of the Portfolio's average daily net assets, computed and accrued daily and payable monthly. For the period from June 1, 2006 through December 31, 2006, DIMA received an administration fee of $838,241, of which $131,516 is unpaid.

Distribution Service Agreement. DWS Scudder Distributors, Inc. ("DWS-SDI"), also an affiliate of the Advisor, is the Portfolio's distributor. In accordance with the Distribution Plan, DWS-SDI receives 12b-1 fees of up to 0.25% of average daily net assets of Class B and B2 shares. For the year ended December 31, 2006, the Distribution Service Fees were as follows:

Distribution Service Fee	Total Aggregated	Unpaid at December 31, 2006
Class B	$ 180,061	$ 24,396
Class B2	143,299	9,706
	$ 323,360	**$ 34,102**

Service Provider Fees. DWS Scudder Investments Service Company ("DWS-SISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Portfolio. Pursuant to a sub-transfer agency agreement between DWS-SISC and DST Systems, Inc. ("DST"), DWS-SISC has delegated certain transfer agent and dividend paying agent functions to DST. DWS-SISC compensates DST out of the shareholder servicing fee it receives from the Portfolio.

For the period January 1, 2006 through May 31, 2006, the amounts charged to the Portfolio by DWS-SISC aggregated $5,907; and at December 31, 2006, $18,745 is unpaid. Under the new fee structure effective October 1, 2006, the amounts charged to the Portfolio by DWS-SISC were as follows:

Services to shareholders	Total Aggregated	Unpaid at December 31, 2006
Class A	$ 252	$ 252
Class B	49	49
Class B2	29	29
	$ 330	**$ 330**

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Portfolio. For the year ended December 31, 2006, the amount charged to the Portfolio by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $5,988, of which $2,160 is unpaid.

Trustees Fees and Expenses. As compensation for his or her services, each Independent Trustee receives an aggregated annual fee, plus a fee for each meeting attended (plus reimbursement for reasonable out-of-pocket expenses incurred in connection with his or her attendance at board and committee meetings) from each Fund in the Fund Complex for which he or she serves. In addition, the Chairman of the Board and the Chairman of each committee of the Board receives additional compensation for their services. Payment of such fees and expenses is allocated among all such Funds described above in direct proportion to their relative net assets.

Cash Management QP Trust. Pursuant to an Exemptive Order issued by the SEC, the Portfolio may invest in the Cash Management QP Trust (the "QP Trust") and other affiliated funds managed by the Manager or Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Manager or Advisor a management fee for the affiliated funds' investments in the QP Trust.

D. Expense Reductions

The Portfolio has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Portfolio's custodian expenses. During the year ended December 31, 2006, the Portfolio's custodian fees were reduced by $716 for custody credits earned.

E. Line of Credit

The Portfolio and several other affiliated funds (the "Participants") share in a $750 million revolving credit facility administered by JPMorgan Chase Bank N.A. for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated, based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5%. The Portfolio may borrow up to a maximum of 33% of its net assets under the agreement.

F. Ownership of the Portfolio

At December 31, 2006, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 60% and 15%, respectively. At December 31, 2006, three participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 68%, 17% and 15%, respectively. At December 31, 2006, two participating insurance companies were beneficial owners of record of 10% or more of the outstanding Class B2 shares of the Portfolio, each owning 79% and 21%, respectively.

G. Regulatory Matters and Litigation

Regulatory Settlements. On December 21, 2006, Deutsche Asset Management ("DeAM") settled proceedings with the Securities and Exchange Commission ("SEC") and the New York Attorney General on behalf of Deutsche Asset Management, Inc. ("DAMI") and Deutsche Investment Management Americas Inc. ("DIMA"), the investment advisors to many of the DWS Scudder funds, regarding allegations of improper trading at DeAM and at the legacy Scudder and Kemper organizations prior to their acquisition by DeAM in April 2002. These regulators alleged that although the prospectuses for certain funds in the regulators' view indicated that the funds did not permit market timing, DAMI and DIMA breached their fiduciary duty to those funds in that their efforts to limit trading activity in the funds were not effective at certain times. The regulators also alleged that DAMI and DIMA breached their fiduciary duty to certain funds by entering into certain market timing arrangements with investors. These trading arrangements originated in businesses that existed prior to the currently constituted DeAM organization, which came together as a result of various mergers of the legacy Scudder, Kemper and Deutsche fund groups, and all of the arrangements were terminated prior to the start of the regulatory investigations that began in the summer of 2003. No current DeAM employee approved these trading arrangements. Under the terms of the settlements, DAMI and DIMA neither admit nor deny any wrongdoing.

The terms of the SEC settlement, which identified improper trading in the legacy Deutsche and Kemper mutual funds only, provide for payment of disgorgement in the amount of $17.2 million. The terms of the settlement with the New York Attorney General provide for payment of disgorgement in the amount of $102.3 million, which is inclusive of the amount payable under the SEC settlement, plus a civil penalty in the amount of $20 million. The total amount payable by DeAM, approximately $122.3 million, would be distributed to funds in accordance with a distribution plan to be developed by a distribution consultant. The funds' investment advisors do not believe these amounts will have a material adverse financial impact on them or materially affect their ability to perform under their investment management agreements with the DWS funds. The above-described amounts are not material to Deutsche Bank, and have already been reserved.

Among the terms of the settled orders, DeAM is subject to certain undertakings regarding the conduct of its business in the future, including: formation of a Code of Ethics Oversight Committee to oversee all matters relating to issues arising under the advisors' Code of Ethics; establishment of an Internal Compliance Controls Committee having overall compliance oversight responsibility of the advisors; engagement of an Independent Compliance Consultant to conduct a comprehensive review of the advisors' supervisory compliance and other policies and procedures designed to prevent and detect breaches of fiduciary duty, breaches of the Code of Ethics and federal securities law violations by the advisors and their employees; and commencing in 2008, the advisors shall undergo a compliance review by an independent third party.

In addition, DeAM is subject to certain further undertakings relating to the governance of the mutual funds, including that: at least 75% of the members of the Boards of Trustees/Directors overseeing the DWS Funds continue to be independent of DeAM; the Chairmen of the DWS Funds' Boards of Trustees/Directors continue to be independent of DeAM; DeAM maintain existing management fee reductions for certain funds for a period of five years and not increase management fees for certain funds during this period; the funds retain a senior officer (or independent consultants) responsible for assisting in the review of fee arrangements and monitoring compliance by the funds and the investment advisors with securities laws, fiduciary duties, codes of ethics and other compliance policies, the expense of which shall be borne by DeAM; and periodic account statements, fund prospectuses and the mutual funds' web site contain additional disclosure and/or tools that assist investors in understanding the fees and costs associated with an investment in the funds and the impact of fees and expenses on fund returns.

DeAM has also settled proceedings with the Illinois Secretary of State regarding market timing matters. The terms of the Illinois settlement provide for investor education contributions totaling approximately $4 million and a payment in the amount of $2 million to the Securities Audit and Enforcement Fund.

On September 28, 2006, the SEC and the National Association of Securities Dealers ("NASD") announced final agreements in which Deutsche Investment Management Americas Inc. ("DIMA"), Deutsche Asset Management, Inc. ("DAMI") and Scudder Distributors, Inc. ("SDI") (now known as DWS Scudder Distributors, Inc.) settled administrative proceedings regarding disclosure of brokerage allocation practices in connection with sales of the Scudder Funds' (now known as the DWS Scudder Funds) shares during 2001–2003. The agreements with the SEC and NASD are reflected in orders which state, among other things, that DIMA and DAMI failed to disclose potential conflicts of interest to the fund Boards and to shareholders relating to SDI's use of certain funds' brokerage commissions to reduce revenue sharing costs to broker-dealer firms with whom it had arrangements to market and distribute Scudder Fund shares. These directed brokerage practices were discontinued in October 2003.

Under the terms of the settlements, in which DIMA, DAMI and SDI neither admitted nor denied any of the regulators' findings, DIMA, DAMI and SDI agreed to pay disgorgement, prejudgment interest and civil penalties in the total amount of $19.3 million. The portion of the settlements distributed to the funds was approximately $17.8 million and was paid to the funds as prescribed by the settlement orders based upon the amount of brokerage commissions from each fund used to satisfy revenue sharing agreements with broker-dealers who sold fund shares. Based on the prescribed settlement order, the Portfolio was not entitled to a portion of the settlement.

As part of the settlements, DIMA, DAMI and SDI also agreed to implement certain measures and undertakings relating to revenue sharing payments including making additional disclosures in the fund Prospectuses or Statements of Additional Information, adopting or modifying relevant policies and procedures and providing regular reporting to the fund Boards.

Private Litigation Matters. The matters alleged in the regulatory settlements described above also serve as the general basis of a number of private class action lawsuits involving the DWS funds. These lawsuits name as defendants various persons, including certain DWS funds, the funds' investment advisors and their affiliates, and certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each DWS fund's investment advisor has agreed to indemnify the applicable DWS funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making similar allegations.

Based on currently available information, the funds' investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a DWS fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the DWS funds.

H. Acquisition of Assets

On September 16, 2005, the DWS Equity 500 Index VIP acquired all of the net assets of Scudder SVS II Index 500 Portfolio pursuant to a plan of reorganization approved by shareholders on September 2, 2005. The acquisition was accomplished by a tax-free exchange of 33,992,448 Class A shares and 7,616,366 Class B2 shares of the Scudder SVS II Index 500 Portfolio, respectively, for 24,054,780 Class A shares and 5,392,081 Class B2 shares of DWS Equity 500 Index VIP, respectively, outstanding on September 16, 2005. Scudder SVS II Index 500 Portfolio's net assets at that date of $381,052,382, including $69,449,584 of net unrealized appreciation, were combined with those of the DWS Equity 500 Index VIP. The aggregate net assets of the DWS Equity 500 Index VIP immediately before the acquisition were $859,731,509. The combined net assets of the DWS Equity 500 Index VIP immediately following the acquisition were $1,240,783,891.

Report of Independent Registered Public Accounting Firm

To the Trustees of DWS Investments VIT Funds and the Shareholders of DWS Equity 500 Index VIP:

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of DWS Equity 500 Index VIP (the "Portfolio") at December 31, 2006, and the results of its operations, the changes in its net assets and the financial highlights for the two years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion. The financial highlights of the Portfolio for each of the periods ended on or prior to December 31, 2004 were audited by another Independent Registered Public Accounting Firm whose report dated February 8, 2005 expressed an unqualified opinion on those statements.

Boston, Massachusetts
February 16, 2007

PricewaterhouseCoopers LLP

Tax Information

(Unaudited)

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please call (800) 778-1482

For corporate shareholders, 100% of the income dividends paid during the Portfolio's fiscal year ended December 31, 2006 qualified as a dividend received deduction.

For federal income tax purposes, the Portfolio designates $26,026,098, or the maximum amount allowable under tax law, as qualified dividend income.

Proxy Voting

A description of the Portfolio's policies and procedures for voting proxies for portfolio securities and information about how the Portfolio voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — www.dws-scudder.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — www.sec.gov. To obtain a written copy of the Portfolio's policies and procedures without charge, upon request, call us toll free at (800) 778-1482.

Investment Management Agreement Approval

The Fund's Trustees approved the continuation of the Fund's investment management agreement with DAMI and the sub-advisory agreement between DAMI and Northern Trust Investments, N.A. ("NTI") in September 2006. The Fund's investment management agreement was also approved by the Fund's shareholders at a special meeting held in May 2006 as part of an overall plan to standardize and add flexibility to the management agreements for the DWS funds.

In terms of the process that the Trustees followed prior to approving the agreements, shareholders should know that:

- At present time, all but one of your Fund's Trustees are independent of DAMI and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Fund's investment management agreement, the Trustees also review the terms of the Fund's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2006 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Fund's arrangements, that committee recommended that the Board vote to approve the continuation of the Fund's investment management agreement and sub-advisory agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants in the course of their 2006 review of the Fund's contractual arrangements.
- The sub-advisory fee paid to NTI is paid by DAMI out of its fee and not directly by the Fund.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DAMI is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Fund's Trustees consider these and many other factors, including the quality and integrity of DAMI's and NTI's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Fund's investment management agreement and the sub-advisory agreement, the Board considered all factors that it believes relevant to the interests of Fund shareholders, including:

- **The investment management fee schedule for the Fund, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DAMI by similar funds and institutional accounts advised by DAMI (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the fee rates paid by the Fund were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2005). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DAMI, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Fund represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Fund.
- **The extent to which economies of scale would be realized as the Fund grows.** In this regard, the Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between Fund shareholders and DAMI of such economies of scale as may exist in the management of the Fund at current asset levels.

- **The total operating expenses of the Fund.** In this regard, the Board noted that the total (net) operating expenses of the Fund (Class A shares) are expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2005, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DAMI helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Fund and DAMI, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that the Fund's performance (Class A shares) was in the 2nd quartile of the applicable Lipper universe for each of the one-, three- and five-year periods ended June 30, 2006. The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended June 30, 2006. The Board recognized that DAMI has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

- **The nature, extent and quality of the advisory services provided by DAMI.** The Board considered extensive information regarding DAMI, including DAMI's and NTI's personnel (including particularly those personnel with responsibilities for providing services to the Fund), resources, policies and investment processes. The Board also considered the terms of the investment management agreement and the sub-advisory agreement, including the scope of services provided under the agreements. In this regard, the Board concluded that the quality and range of services provided by DAMI and NTI have benefited and should continue to benefit the Fund and its shareholders.

- **The costs of the services to, and profits realized by, DAMI and its affiliates from their relationships with the Fund.** The Board reviewed information concerning the costs incurred and profits realized by DAMI during 2005 from providing investment management services to the Fund (and, separately, to the entire DWS Scudder fund complex), and reviewed with DAMI the cost allocation methodology used to determine DAMI's profitability. In analyzing DAMI's costs and profits, the Board also reviewed the fees paid to and services provided by DAMI and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DAMI and its affiliates as a result of DAMI's relationship with the Fund. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DAMI's cost allocation methodology and calculations. The Board concluded that the Fund's investment management fee schedule represented reasonable compensation in light of the costs incurred by DAMI and its affiliates in providing services to the Fund. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), Deutsche Asset Management's overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DAMI and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

- **The practices of DAMI and NTI regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Fund.** The Board considered that a portion of the Fund's brokerage may be allocated to affiliates of DAMI and NTI, subject to compliance with applicable SEC rules. The Board also reviewed and approved, subject to ongoing review by the Board, a plan whereby a limited portion of the Fund's brokerage may in the future be allocated to brokers who acquire (and provide to DAMI and its affiliates) research services from third parties that are generally useful to DAMI and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Fund's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

- **DAMI's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DAMI's commitment to indemnify the Fund against any costs and liabilities related to lawsuits or regulatory actions making allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DAMI to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DAMI's chief compliance officer; (ii) the large number of compliance personnel who report to DAMI's chief compliance officer; and (iii) the substantial commitment of resources by Deutsche Asset Management to compliance matters.

- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Fund and its shareholders while various organizational initiatives are being implemented. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Fund shareholders and Deutsche Bank's management of the DWS fund group, one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Fund's investment management agreement and sub-advisory agreement, and concluded that the continuation of such agreements was in the best interests of the Fund's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the agreements.

In December 2006, the Board approved an amended and restated investment management agreement with Deutsche Investment Management Americas Inc. ("DIMA") in connection with the merger of DAMI into DIMA. In determining to approve this agreement, the Board considered Deutsche Bank's representations that this change was administrative in nature, and would not involve any change in operations or services provided to the fund, or to the personnel involved with providing such services.

Trustees and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2006. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Dawn-Marie Driscoll, PO Box 100176, Cape Coral, FL 33904. The term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

Independent Board Members

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Dawn-Marie Driscoll (1946) Chairperson since 2006 Board Member since 2006	President, Driscoll Associates (consulting firm); Executive Fellow, Center for Business Ethics, Bentley College; formerly, Partner, Palmer & Dodge (1988-1990); Vice President of Corporate Affairs and General Counsel, Filene's (1978-1988). Directorships: Advisory Board, Center for Business Ethics, Bentley College; Trustee, Southwest Florida Community Foundation (charitable organization). Former Directorships: Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	87
Henry P. Becton, Jr. (1943) Board Member since 2006	President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Becton Dickinson and Company[1] (medical technology company); Belo Corporation[1] (media company); Boston Museum of Science; Public Radio International. Former Directorships: American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	85
Keith R. Fox (1954) Board Member since 2006	Managing General Partner, Exeter Capital Partners (a series of private equity funds). Directorships: Progressive Holding Corporation (kitchen goods importer and distributor); Natural History, Inc. (magazine publisher); Box Top Media Inc. (advertising). Former Directorships: The Kennel Shop (retailer)	87
Kenneth C. Froewiss (1945) Board Member since 2006	Clinical Professor of Finance, NYU Stern School of Business (1997-present); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	87
Martin J. Gruber (1937) Board Member since 2002	Nomura Professor of Finance, Leonard N. Stern School of Business, New York University (since September 1965); Director, Japan Equity Fund, Inc. (since January 1992), Thai Capital Fund, Inc. (since January 2000), Singapore Fund, Inc. (since January 2000), National Bureau of Economic Research (since January 2006). Formerly, Trustee, TIAA (pension funds) (January 1996–January 2000); Trustee, CREF and CREF Mutual Funds (January 2000–March 2005); Chairman, CREF and CREF Mutual Funds (February 2004–March 2005); and Director, S.G. Cowen Mutual Funds (January 1985–January 2001)	87
Richard J. Herring (1946) Board Member since 2002	Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center (since July 2000). Formerly, Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (since July 2000–June 2006)	87
Graham E. Jones (1933) Board Member since 2002	Senior Vice President, BGK Realty, Inc. (commercial real estate) (since 1995). Formerly, Trustee of various investment companies managed by Sun Capital Advisors, Inc. (1998–2005), Morgan Stanley Asset Management (1985–2001) and Weiss, Peck and Greer (1985–2005)	87
Rebecca W. Rimel (1951) Board Member since 2002	President and Chief Executive Officer, The Pew Charitable Trusts (charitable foundation) (1994 to present); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to present); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001 to present). Formerly, Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983 to 2004); Board Member, Investor Education (charitable organization) (2004–2005)	87
Philip Saunders, Jr. (1935) Board Member since 2002	Principal, Philip Saunders Associates (economic and financial consulting) (since November 1988). Formerly, Director, Financial Industry Consulting, Wolf & Company (consulting) (1987–1988); President, John Hancock Home Mortgage Corporation (1984–1986); Senior Vice President of Treasury and Financial Services, John Hancock Mutual Life Insurance Company, Inc. (1982–1986)	87
William N. Searcy, Jr. (1946) Board Member since 2002	Private investor since October 2003; Trustee of eight open-end mutual funds managed by Sun Capital Advisers, Inc. (since October 1998). Formerly, Pension & Savings Trust Officer, Sprint Corporation[1] (telecommunications) (November 1989–September 2003)	87

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Jean Gleason Stromberg (1943) Board Member since 2006	Retired. Formerly, Consultant (1997–2001); Director, US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; Service Source, Inc. Former Directorships: Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	87
Carl W. Vogt (1936) Board Member since 2006	Retired Senior Partner, Fulbright & Jaworski, L.L.P. (law firm); formerly, President (interim) of Williams College (1999-2000); formerly, President of certain funds in the Deutsche Asset Management family of funds (formerly, Flag Investors family of funds) (registered investment companies) (1999-2000). Directorships: Yellow Corporation (trucking); American Science & Engineering (x-ray detection equipment). Former Directorships: ISI Family of Funds (registered investment companies, four funds overseen); National Railroad Passenger Corporation (Amtrak); Waste Management, Inc. (solid waste disposal). Formerly, Chairman and Member, National Transportation Safety Board	85

Interested Board Member

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Axel Schwarzer[2] (1958) Board Member since 2006	Managing Director[4], Deutsche Asset Management; Head of Deutsche Asset Management Americas; CEO of DWS Scudder; formerly, board member of DWS Investments, Germany (1999–2005); formerly, Head of Sales and Product Management for the Retail and Private Banking Division of Deutsche Bank in Germany (1997–1999); formerly, various strategic and operational positions for Deutsche Bank Germany Retail and Private Banking Division in the field of investment funds, tax driven instruments and asset management for corporates (1989–1996)	86

Officers[3]

Name, Year of Birth, Position with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Michael G. Clark[5] (1965) President, 2006–present	Managing Director[4], Deutsche Asset Management (2006–present); President of DWS family of funds; formerly, Director of Fund Board Relations (2004–2006) and Director of Product Development (2000–2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999–2000)
John Millette[6] (1962) Vice President and Secretary, 2003–present	Director[4], Deutsche Asset Management
Paul H. Schubert[5] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[4], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Patricia DeFilippis[5] (1963) Assistant Secretary, 2005–present	Vice President, Deutsche Asset Management (since June 2005); formerly, Counsel, New York Life Investment Management LLC (2003–2005); legal associate, Lord, Abbett & Co. LLC (1998–2003)
Elisa D. Metzger[5] (1962) Assistant Secretary 2005–present	Director[4], Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999–2005)
Caroline Pearson[6] (1962) Assistant Secretary, 2002–present	Managing Director[4], Deutsche Asset Management
Scott M. McHugh[6] (1971) Assistant Treasurer, 2005–present	Director[4], Deutsche Asset Management
Kathleen Sullivan D'Eramo[6] (1957) Assistant Treasurer, 2003–present	Director[4], Deutsche Asset Management
John Robbins[5] (1966) Anti-Money Laundering Compliance Officer, 2005–present	Managing Director[4], Deutsche Asset Management (since 2005); formerly, Chief Compliance Officer and Anti-Money Laundering Compliance Officer for GE Asset Management (1999–2005)
Robert Kloby[5] (1962) Chief Compliance Officer, 2006–present	Managing Director[4], Deutsche Asset Management (2004–present); formerly, Chief Compliance Officer/Chief Risk Officer, Robeco USA (2000–2004); Vice President, The Prudential Insurance Company of America (1988–2000); E.F. Hutton and Company (1984–1988)

Name, Year of Birth, Position with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held
J. Christopher Jackson[5] (1951) Chief Legal Officer, 2006–present	Director[4], Deutsche Asset Management (2006–present); formerly, Director, Senior Vice President, General Counsel and Assistant Secretary, Hansberger Global Investors, Inc. (1996–2006); Director, National Society of Compliance Professionals (2002–2005)(2006–2009)

1 *A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.*

2 *The mailing address of Axel Schwarzer is c/o Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, New York 10154. Mr. Schwarzer is an interested Board Member by virtue of his positions with Deutsche Asset Management.*

3 *As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the funds.*

4 *Executive title, not a board directorship.*

5 *Address: 345 Park Avenue, New York, New York 10154.*

6 *Address: Two International Place, Boston, MA 02110.*

The fund's Statement of Additional Information ("SAI") includes additional information about the Board Members. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: (800) 778-1482.

About the Portfolio's Advisor

Deutsche Asset Management, Inc., an indirect, wholly owned subsidiary of Deutsche Bank AG, is the Portfolio's Advisor.

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.

This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

DWS Scudder Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 778-1482

vit-equ500-2 (48616 2/07)

DWS SCUDDER
Deutsche Bank Group

DECEMBER 31, 2006

ANNUAL REPORT

DWS VARIABLE SERIES I

DWS Bond VIP

DWS Growth & Income VIP

DWS Capital Growth VIP

DWS Global Opportunities VIP

DWS International VIP

DWS Health Care VIP

ONE GLOBAL FORCE. ONE FOCUS. YOU.

DWS SCUDDER

Deutsche Bank Group

Contents

Performance Summary, Information About Your Portfolio's Expenses, Management Summary, Portfolio Summary, Investment Portfolio, Financial Statements and Financial Highlights for:

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus, call (800) 778-1482 or your financial representative. We advise you to consider the product's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the investment product. Please read the prospectus carefully before you invest.

DWS Bond VIP

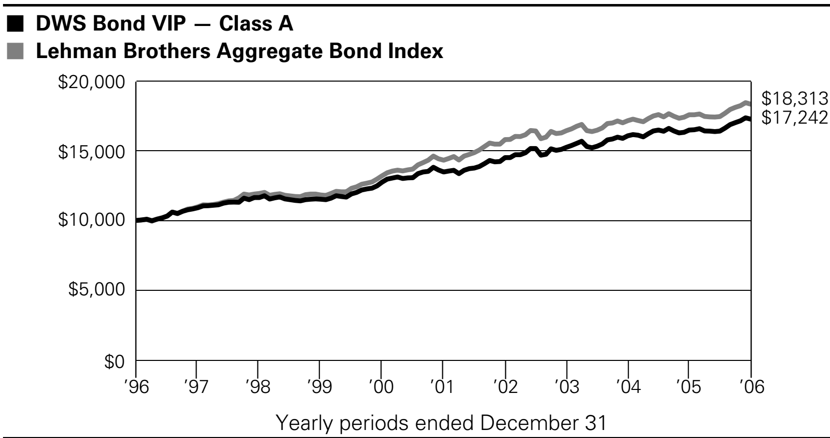
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Portfolio returns during all periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Risk Considerations

Investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. This Portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and changes in political/economic conditions and market risks. All of these factors may result in greater share price volatility. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment



The Lehman Brothers Aggregate Bond (LBAB) Index is an unmanaged, market value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Bond VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,472	$11,322	$12,806	$17,242
	Average annual total return	4.72%	4.23%	5.07%	5.60%
Lehman Brothers Aggregate Bond Index	Growth of $10,000	$10,433	$11,150	$12,798	$18,313
	Average annual total return	4.33%	3.70%	5.06%	6.24%

DWS Bond VIP		1-Year	Life of Class*
Class B	Growth of $10,000	$10,433	$10,569
	Average annual total return	4.33%	3.39%
Lehman Brothers Aggregate Bond Index	Growth of $10,000	$10,433	$10,595
	Average annual total return	4.33%	3.53%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on May 2, 2005. Index returns began on April 30, 2005.*

Information About Your Portfolio's Expenses

DWS Bond VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,052.40	$1,051.00
Expenses Paid per $1,000*	$ 3.05	$ 5.07
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,022.23	$1,020.27
Expenses Paid per $1,000*	$ 3.01	$ 4.99

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Bond VIP	.59%	.98%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Bond VIP

The year 2006 was a tale of two halves. After rising an average of 0.73% along the yield curve during the first half of 2006, Treasury yields dropped roughly 0.39% across all maturities during the latter half. The benchmark 10-year Treasury yield ended at 4.70%. After 17 consecutive rate hikes, including four early in 2006, the US Federal Reserve Board (the Fed) left rates unchanged at its last four meetings. The pause in Fed tightening combined with generally tighter spreads to lift all non-Treasury sectors to positive returns.

During the 12-month period ended December 31, 2006, the Portfolio provided a total return of 4.72% (Class A shares, unadjusted for contract charges) compared with the 4.33% return of its benchmark, the Lehman Brothers Aggregate Bond Index.

Security selection within the investment-grade corporate sector added value, particularly an overweight to BBB issues including the telecommunications and homebuilding sectors.[1,2] Our holdings in the finance sector, which emphasize bank and insurance hybrid capital securities, also made a material contribution to returns. In the residential mortgage sector, our overweight helped returns. However, this was offset by the fact that our Portfolio is less sensitive to prepayment risk than the benchmark; interest rate volatility declined over the period, favoring more prepayment-sensitive issues.[3] High-yield exposure had a large positive impact as spreads narrowed. Our holdings continue to emphasize the upper tier of the high-yield market, which dampened returns slightly as lower-rated securities performed better. Similar to high yield, the emerging-markets debt sector outperformed high-quality bonds by a wide margin. Thus, our exposure to the sector, along with good security selection within it, added to returns. International bonds added marginally to results. Currency management was a neutral factor with respect to performance for the full year.

The Portfolio's subadvisor is Aberdeen Asset Management, Inc. The following members of the management team handle the day-to-day operations of the high-yield and core bond, active fixed-income and high-yield portions of the Portfolio.

Senior Portfolio Managers:

Gary W. Bartlett, CFA
Warren S. Davis, III
Thomas J. Flaherty
J. Christopher Gagnier
Daniel R. Taylor, CFA
Timothy C. Vile, CFA
William T. Lissenden

The following Portfolio Managers are responsible for the day-to-day management of the foreign securities, foreign currencies and related investments for the Portfolio.

Co-Managers:

Brett Diment
Annette Fraser
Anthony Fletcher
Nik Hart
Stephen Ilott
Ian Winship
Matthew Cobon

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

Investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. This Portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and changes in political/economic conditions and market risks. All of these factors may result in greater share price volatility. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Lehman Brothers Aggregate Bond (LBAB) Index is an unmanaged, market value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

The yield curve is a graph with a left-to-right line that shows how high or low yields are, from the shortest to the longest maturities. Typically (and when the yield curve is characterized as "steep," this is especially true) the line rises from left to right as investors who are willing to tie up their money for a longer period are rewarded with higher yields.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

2 *The credit quality of a bond is an assessment of the likelihood that the issuer will default on scheduled payments of principal and interest.*

3 *Prepayment risk refers to the risk that loans that underly a mortgage-backed security will be refinanced, forcing holders of the security to reinvest the principal returned at a lower rate.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Bond VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Commercial and Non-Agency Mortgage-Backed Securities	29%	19%
Corporate Bonds	16%	17%
US Government Agency Sponsored Pass-Throughs	12%	7%
US Treasury Obligations	11%	18%
Collateralized Mortgage Obligations	11%	15%
Foreign Bonds — US$ Denominated	8%	8%
Municipal Bonds and Notes	5%	5%
Cash Equivalents	4%	3%
Asset Backed	3%	7%
Foreign Bonds — Non US$ Denominated	1%	1%
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
US Government & Treasury Obligations	34%	40%
AAA*	36%	32%
AA	—	2%
A	6%	7%
BBB	14%	12%
BB or Below	10%	7%
	100%	100%

Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/06**	**12/31/05**
Under 1 year	9%	10%
1–4.99 years	35%	33%
5–9.99 years	39%	39%
10–14.99 years	7%	7%
15+ years	10%	11%
	100%	100%

* *Category includes cash equivalents*

Asset allocation, quality and effective maturity are subject to change.

The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Portfolio's credit quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 7. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Bond VIP

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 16.3%		
Consumer Discretionary 3.1%		
Avis Budget Car Rental LLC, 144A, 7.625%, 5/15/2014	329,000	320,776
Boyd Gaming Corp., 7.125%, 2/1/2016	140,000	139,300
Caesars Entertainment, Inc.:		
7.875%, 3/15/2010 (b)	248,000	258,540
8.125%, 5/15/2011 (b)	165,000	172,631
Comcast Cable Holdings LLC:		
7.125%, 2/15/2028	34,000	36,292
10.125%, 4/15/2022	168,000	224,209
Comcast Corp., 5.875%, 2/15/2018	231,000	228,518
DaimlerChrysler NA Holding Corp., Series E, 5.901%*, 10/31/2008	801,000	804,101
Dex Media East LLC/Financial, 12.125%, 11/15/2012	132,000	145,365
EchoStar DBS Corp., 7.0%, 10/1/2013	210,000	209,738
INVISTA, 144A, 9.25%, 5/1/2012	513,000	550,192
Mediacom Broadband LLC, 144A, 8.5%, 10/15/2015	79,000	79,988
MGM MIRAGE:		
6.75%, 4/1/2013	230,000	224,825
6.875%, 4/1/2016	105,000	100,800
7.625%, 1/15/2017	35,000	35,088
Service Corp. International:		
7.375%, 10/1/2014	79,000	82,555
7.625%, 10/1/2018	26,000	27,560
TCI Communications, Inc., 8.75%, 8/1/2015	608,000	719,133
Time Warner, Inc.:		
7.57%, 2/1/2024	135,000	148,356
7.625%, 4/15/2031	280,000	312,805
7.7%, 5/1/2032	387,000	436,649
United Auto Group, Inc., 144A, 7.75%, 12/15/2016	175,000	175,875
Viacom, Inc.:		
5.75%, 4/30/2011	458,000	458,234
6.875%, 4/30/2036	879,000	869,049
		6,760,579
Consumer Staples 0.7%		
Allied Waste North America, Inc., 6.5%, 11/15/2010	325,000	325,813
Constellation Brands, Inc., 7.25%, 9/1/2016	331,000	340,102
Dean Foods Co., 7.0%, 6/1/2016	518,000	523,180
SUPERVALU, Inc., 7.5%, 11/15/2014	329,000	343,049
		1,532,144
Energy 1.5%		
Berry Petroleum Co., 8.25%, 11/1/2016	218,000	218,272
Chesapeake Energy Corp.:		
6.375%, 6/15/2015	133,000	131,670
6.875%, 1/15/2016	128,000	129,120
Complete Production Services, Inc., 144A, 8.0%, 12/15/2016	35,000	35,875

	Principal Amount ($)(a)	Value ($)
Constellation Energy Group, 7.6%, 4/1/2032	205,000	239,446
Enterprise Products Operating LP:		
Series B, 5.0%, 3/1/2015 (b)	125,000	117,865
Series B, 6.375%, 2/1/2013 (b)	280,000	287,670
7.5%, 2/1/2011	347,000	370,055
8.375%, 8/1/2066	458,000	496,108
Peabody Energy Corp., 7.375%, 11/1/2016	103,000	109,695
Sempra Energy, 4.621%, 5/17/2007	760,000	757,101
Southern Natural Gas, 8.875%, 3/15/2010	30,000	31,473
Southern Union Co., 7.2%, 11/1/2066	321,000	316,429
Williams Companies, Inc.:		
8.125%, 3/15/2012	45,000	48,712
8.75%, 3/15/2032	20,000	22,600
		3,312,091
Financials 4.3%		
American General Finance Corp., Series I, 4.875%, 5/15/2010 (b)	105,000	103,832
Arch Western Finance, 6.75%, 7/1/2013	230,000	228,275
ComEd Financing III, 6.35%, 3/15/2033	172,000	147,437
Dresdner Funding Trust I, 144A, 8.151%, 6/30/2031	600,000	722,671
Erac USA Finance Co.:		
144A, 5.6%, 5/1/2015	455,000	451,652
144A, 8.0%, 1/15/2011	330,000	359,870
ERP Operating LP, 6.95%, 3/2/2011	75,000	79,419
Farmers Exchange Capital, 144A, 7.2%, 7/15/2048	385,000	394,258
Ford Motor Credit Co., 8.11%*, 1/13/2012	320,000	317,094
GMAC LLC, 6.0%, 12/15/2011	370,000	368,390
Idearc, Inc., 144A, 8.0%, 11/15/2016	295,000	299,425
Mangrove Bay Pass-Through Trust, 144A, 6.102%, 7/15/2033	210,000	204,842
Merrill Lynch & Co., Inc., 6.05%, 5/16/2016	955,000	988,464
Nelnet, Inc., 7.4%, 9/29/2036	365,000	375,862
NLV Financial Corp., 144A, 6.5%, 3/15/2035	734,000	709,633
R.H. Donnelly Finance Corp., 10.875%, 12/15/2012	57,000	62,130
Reinsurance Group of America, Inc., 6.75%, 12/15/2065	1,010,000	1,009,408
Suntrust Preferred Capital I, 5.853%, 12/15/2011	221,000	222,687
United Dominion Realty Trust, Inc., Series E, (REIT), 3.9%, 3/15/2010	245,000	236,503
Wachovia Capital Trust III, 5.8%, 3/15/2042	1,195,000	1,204,865
ZFS Finance USA Trust I, 144A, 6.15%, 12/15/2065	1,080,000	1,095,995
		9,582,712
Health Care 0.1%		
HCA, Inc., 7.875%, 2/1/2011	165,000	**165,412**

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
Industrials 1.0%		
America West Airlines, Inc., Series 99-1, 7.93%, 1/2/2019	232,169	250,742
Arizona Public Service Co., 5.625%, 5/15/2033	550,000	498,917
Corrections Corp. of America, 6.75%, 1/31/2014	73,000	73,730
D.R. Horton, Inc., 5.375%, 6/15/2012	155,000	149,916
K. Hovnanian Enterprises, Inc., 8.625%, 1/15/2017 (b)	397,000	422,805
Northwest Pipelines Corp., 7.0%, 6/15/2016	57,000	59,565
SemGroup LP, 144A, 8.75%, 11/15/2015	318,000	319,590
Williams Partners LP, 144A, 7.25%, 2/1/2017	35,000	35,700
Xerox Corp.:		
6.75%, 2/1/2017	460,000	480,700
7.125%, 6/15/2010	31,000	32,550
		2,324,215
Information Technology 0.1%		
Freescale Semiconductor, Inc.:		
144A, 8.875%, 12/15/2014	80,000	79,700
144A, 9.244%*, 12/15/2014	160,000	158,600
		238,300
Materials 0.8%		
Berry Plastics Holding Corp., 144A, 8.875%, 9/15/2014	135,000	137,025
Chemtura Corp., 6.875%, 6/1/2016	483,000	464,887
Lyondell Chemical Co.:		
8.0%, 9/15/2014	261,000	270,788
8.25%, 9/15/2016	96,000	100,800
10.5%, 6/1/2013	55,000	60,500
Momentive Performance, 144A, 9.75%, 12/1/2014	220,000	220,000
Peabody Energy Corp., Series B, 6.875%, 3/15/2013	5,000	5,125
Pliant Corp., 11.625%, 6/15/2009 (PIK)	7	8
The Mosaic Co.:		
144A, 7.375%, 12/1/2014	137,000	140,596
144A, 7.625%, 12/1/2016	32,000	33,160
Westlake Chemical Corp., 6.625%, 1/15/2016	289,000	279,607
		1,712,496
Telecommunication Services 0.9%		
Citizens Communications Co.:		
144A, 7.875%, 1/15/2027	55,000	55,550
9.0%, 8/15/2031	217,000	235,445
Embarq Corp., 7.995%, 6/1/2036	572,000	595,238
Sprint Nextel Corp., 6.0%, 12/1/2016	615,000	599,396
US Unwired, Inc., Series B, 10.0%, 6/15/2012	480,000	528,000
		2,013,629
Utilities 3.8%		
AES Corp., 144A, 8.75%, 5/15/2013	70,000	74,987
Allegheny Energy Supply Co. LLC, 144A, 8.25%, 4/15/2012	365,000	400,587
Baltimore Gas & Electric Co., 144A, 6.35%, 10/1/2036	260,000	265,414
CC Funding Trust I, 6.9%, 2/16/2007	758,000	758,919
CMS Energy Corp., 8.5%, 4/15/2011	35,000	38,063
Commonwealth Edison Co., Series 98, 6.15%, 3/15/2012	550,000	560,838
Consumers Energy Co., Series F, 4.0%, 5/15/2010	980,000	936,722
Dominion Resources, Inc.:		
Series 06-B, 6.3%, 9/30/2066	330,000	331,512
7.5%, 6/30/2066	955,000	1,026,859
Edison Mission Energy, 7.75%, 6/15/2016	208,000	220,480
Energy East Corp., 6.75%, 7/15/2036	545,000	575,026
Entergy Louisiana LLC, 6.3%, 9/1/2035	140,000	137,815
Entergy Mississippi, Inc., 5.92%, 2/1/2016	225,000	222,876
FPL Energy National Wind, 144A, 5.608%, 3/10/2024	526,942	517,073
Mirant Mid Atlantic LLC, Series A, 8.625%, 6/30/2012	126,757	134,046
Mission Energy Holding Co., 13.5%, 7/15/2008	120,000	132,300
Nevada Power Co., 9.0%, 8/15/2013	35,000	37,798
NRG Energy, Inc.:		
7.25%, 2/1/2014	75,000	75,562
7.375%, 2/1/2016	90,000	90,450
Pedernales Electric Cooperative, Series 2002-A, 144A, 6.202%, 11/15/2032	315,000	333,780
PSE&G Energy Holdings LLC, 10.0%, 10/1/2009	64,000	70,080
Regency Energy Partners LP, 144A, 8.375%, 12/15/2013	230,000	230,575
Sierra Pacific Resources:		
6.75%, 8/15/2017	15,000	14,712
8.625%, 3/15/2014 (b)	10,000	10,737
TXU Corp., 7.48%, 1/1/2017	616,000	632,823
WPS Resources Corp., 6.11%, 12/1/2066	440,000	436,814
		8,266,848
Total Corporate Bonds (Cost $35,727,974)		**35,908,426**

Foreign Bonds — US$ Denominated 8.3%

	Principal Amount ($)(a)	Value ($)
Consumer Discretionary 0.0%		
Shaw Communications, Inc., 8.25%, 4/11/2010	10,000	**10,625**
Energy 0.2%		
GAZ Capital (Gazprom), 144A, 6.212%, 11/22/2016	319,000	**321,233**
Financials 5.2%		
AES El Salvador Trust, 144A, 6.75%, 2/1/2016	475,000	472,492
Axa, 144A, 6.379%, 12/14/2049	500,000	493,681
Banco Do Estado de Sao Paulo, 144A, 8.7%, 9/20/2049	135,000	143,977
Banco Mercantil del Norte SA, Series A, 144A, 6.862%, 10/13/2021	362,000	365,899
Banque Centrale de Tunisie, 8.25%, 9/19/2027	80,000	98,560

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
ChinaTrust Commercial Bank, 144A, 5.625%, 12/29/2049	535,000	518,886
Corp. Andina de Fomento, 5.75%, 1/12/2017 (b)	305,000	306,425
DBS Capital Funding Corp., Series A, 144A, 7.657%, 3/31/2049	337,000	362,424
Kazakhstan Temir Zholy, 7.0%, 5/11/2016	250,000	261,075
Mantis Reef Ltd., 144A, 4.692%, 11/14/2008	1,330,000	1,312,923
Mizuho Financial Group (Cayman), 8.375%, 12/29/2049	1,100,000	1,162,260
MUFG Capital Finance 1 Ltd., 6.346%, 7/29/2049	1,575,000	1,598,449
Oil Insurance Ltd., 144A, 7.558%, 12/29/2049	1,505,000	1,556,847
Royal Bank of Scotland Group PLC, Series 1, 9.118%, 3/31/2049	355,000	393,282
SMFG Preferred Capital, 144A, 6.078%, 1/29/2049	1,100,000	1,088,065
SPI Electricity & Gas Australia Holdings Property Ltd., 144A, 6.15%, 11/15/2013	425,000	440,380
Sumitomo Mitsui Banking Corp., 144A, 5.625%, 7/29/2049	910,000	889,560
		11,465,185
Industrials 0.2%		
Kansas CIty Southern de Mexico:		
144A, 7.625%, 12/1/2013	162,000	162,000
9.375%, 5/1/2012	289,000	308,508
12.5%, 6/15/2012	30,000	32,400
		502,908
Information Technology 0.1%		
Seagate Technology HDD Holdings:		
6.375%, 10/1/2011	95,000	95,000
6.8%, 10/1/2016	145,000	145,725
		240,725
Materials 0.3%		
Celulosa Arauco y Constitucion SA:		
5.125%, 7/9/2013	274,000	264,834
5.625%, 4/20/2015	385,000	378,394
Sappi Papier Holding AG, 144A, 6.75%, 6/15/2012	85,000	84,774
		728,002
Sovereign Bonds 0.9%		
Dominican Republic, Series REG S, 8.625%, 4/20/2027 (PIK)	100,000	115,500
Government of Ukraine, Series REG S, 7.65%, 6/11/2013	100,000	107,640
Republic of Argentina:		
GDP Linked Note, 12/15/2035	447,062	59,459
8.28%, 12/31/2033	193,201	210,106
Republic of Colombia, 7.375%, 1/27/2017	100,000	107,500
Republic of El Salvador, Series REG S, 7.65%, 6/15/2035	130,000	147,225
Republic of Pakistan, Series REG S, 7.875%, 3/31/2036	100,000	108,670
Republic of Panama:		
6.7%, 1/26/2036	20,000	20,800
7.125%, 1/29/2026	160,000	172,800
Republic of Turkey, 6.875%, 3/17/2036	180,000	171,900

	Principal Amount ($)(a)	Value ($)
Republic of Venezuela, 7.65%, 4/21/2025	240,000	260,160
Russian Federation, Series REG S, 12.75%, 6/24/2028	50,000	90,511
State of Qatar, Series REG S, 9.75%, 6/15/2030	220,000	328,064
United Mexican States, 8.3%, 8/15/2031	60,000	76,710
		1,977,045
Telecommunication Services 1.4%		
Mobifon Holdings BV, 12.5%, 7/31/2010	60,000	66,301
Nordic Telephone Co. Holdings, 144A, 8.875%, 5/1/2016	182,000	194,740
Telecom Italia Capital:		
4.0%, 1/15/2010	175,000	167,106
4.95%, 9/30/2014	370,000	342,784
5.25%, 11/15/2013	549,000	523,465
Telefonica Europe BV, 7.75%, 9/15/2010	1,527,000	1,640,064
		2,934,460
Total Foreign Bonds — US$ Denominated (Cost $17,954,436)		**18,180,183**

Foreign Bonds — Non US$ Denominated 1.5%

Financials 0.1%			
Red Arrow International Leasing, "A", 8.375%, 6/30/2012	RUB	4,450,987	**174,655**
Sovereign Bonds 1.4%			
Central Bank of Argentina, 2.0%, 2/4/2018	ARS	200,000	95,876
Government of Indonesia:			
Series FR-23, 11.0%, 12/15/2012	IDR	800,000,000	94,468
Series FR-26, 11.0%, 10/15/2014	IDR	1,547,000,000	178,636
Series FR-33, 12.5%, 3/15/2013	IDR	600,000,000	74,887
Government of Malaysia, Series 1/04, 4.305%, 2/27/2009	MYR	570,000	163,889
Mexican Bonds:			
Series MI-10, 8.0%, 12/19/2013	MXN	12,030,000	1,150,105
Series M, 9.0%, 12/22/2011	MXN	2,650,000	262,302
Republic of Argentina:			
GDP Linked Note, 12/15/2035	ARS	1,246,290	47,960
5.83%, 12/31/2033 (PIK)	ARS	220,000	105,116
Republic of Egypt:			
Series 364, Treasury Bill, 8.69%, 4/3/2007**	EGP	1,500,000	256,546
Series 182, Treasury Bill, 9.834%, 4/10/2007**	EGP	600,000	102,430
Republic of Peru, 8.2%, 8/12/2026	PEN	550,000	201,319
Republic of Turkey:			
14.0%, 1/19/2011	TRY	410,000	254,317
15.0%, 2/10/2010	TRY	130,000	81,967
			3,069,818
Total Foreign Bonds — Non US$ Denominated (Cost $3,016,083)			**3,244,473**

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
Asset Backed 2.8%		
Automobile Receivables 0.1%		
Drive Auto Receivables Trust, "A2", Series 2005-2, 144A, 4.12%, 1/15/2010	262,901	**261,432**
Home Equity Loans 2.7%		
Household Home Equity Loan Trust, "A1F", Series 2006-3, 5.98%, 3/20/2036	1,289,297	1,288,355
Merrill Lynch Mortgage Investors Trust, "A1A", Series 2005-NCB, 5.451%, 7/25/2036	171,259	170,546
New Century Home Equity Loan Trust, "A2", Series 2005-A, 4.461%, 8/25/2035	1,113,272	1,103,811
Option One Mortgage Loan Trust, "2A1", Series 2006-3, 5.36%*, 2/25/2037	1,366,337	1,366,251
Renaissance Home Equity Loan Trust, "AF3", Series 2004-2, 4.464%, 7/25/2034	363,861	361,965
Residential Asset Mortgage Products, Inc.:		
"A3", Series 2003-RZ4, 3.38%, 2/25/2030	6,892	6,867
"AI3", Series 2004-RS4, 4.003%, 1/25/2030	183,159	182,310
Terwin Mortgage Trust, "AF2", Series 2005-14HE, 4.849%, 8/25/2036	1,525,000	1,507,391
		5,987,496
Total Asset Backed (Cost $6,276,083)		**6,248,928**

	Shares	Value ($)
Preferred Stocks 0.1%		
Arch Capital Group Ltd., 8.0% (Cost $106,004)	4,202	**111,484**
Convertible Preferred Stocks 0.0%		
Consumer Discretionary		
ION Media Networks, Inc. Series AI, 144A, 9.75%, (PIK) (Cost $7,000)	1	**4,550**

	Principal Amount ($)(a)	Value ($)
US Government Agency Sponsored Pass-Throughs 12.5%		
Federal Home Loan Mortgage Corp., 5.5%, with various maturities from 11/15/2016 until 8/1/2024	2,133,557	2,128,616
Federal National Mortgage Association:		
4.5%, with various maturities from 5/1/2019 until 6/1/2034	3,596,893	3,429,891
5.0%, with various maturities from 3/1/2025 until 5/1/2034	3,699,052	3,586,581
5.5%, with various maturities from 1/1/2025 until 4/1/2036	6,848,656	6,782,944
6.0%, with various maturities from 6/1/2017 until 3/1/2025 (g)	2,718,508	2,754,625
6.31%, 6/1/2008	1,700,000	1,707,448
6.5%, with various maturities from 3/1/2017 until 9/1/2036	5,934,870	6,048,854
7.0%, 8/1/2036	1,007,748	1,034,412
8.0%, 9/1/2015	45,492	47,837
Total US Government Agency Sponsored Pass-Throughs (Cost $27,641,989)		**27,521,208**
Commercial and Non-Agency Mortgage-Backed Securities 28.2%		
Adjustable Rate Mortgage Trust, "3A31", Series 2005-10, 5.425%*, 1/25/2036	820,000	808,401
American Home Mortgage Investment Trust, "5A3", Series 2005-2, 5.077%, 9/25/2035	1,050,000	1,039,512
Banc of America Commercial Mortgage, Inc., "A4", Series 2005-5, 5.115%, 10/10/2045	1,465,000	1,442,883
Banc of America Mortgage Securities, "1A20", Series 2005-3, 5.5%, 4/25/2035	1,095,000	1,091,128
Bear Stearns Adjustable Rate Mortgage Trust:		
"2A1", Series 2004-12, 4.462%*, 2/25/2035	874,791	863,451
"2A2", Series 2005-4, 4.567%*, 8/25/2035	950,000	928,786
"A1", Series 2006-1, 4.625%*, 2/25/2036	2,857,060	2,807,112
Chase Commercial Mortgage Securities Corp., Class "A2", Series 1998-2, 6.39%, 11/18/2030	942,330	955,653
Chase Mortgage Finance Corp., "3A1", Series 2005-A1, 5.271%*, 12/25/2035	1,462,927	1,450,207
Citigroup Commercial Mortgage Trust, "ASB", Series 2006-C4, 5.72%*, 3/15/2049	930,000	953,100
Citigroup Mortgage Loan Trust, Inc.:		
"1A2", Series 2006-AR2, 5.548%*, 3/25/2036	1,298,776	1,297,549
"1A3A", Series 2006-AR5, 5.94%*, 7/25/2036	864,649	873,181
"1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	756,648	770,599
CitiMortgage Alternative Loan Trust, "A1", Series 2006-A2, 6.0%, 5/25/2036	1,246,011	1,254,283
Countrywide Alternative Loan Trust:		
"1A1", Series 2004-2CB, 4.25%, 3/25/2034	494,506	484,717
"A1", Series 2004-1T1, 5.0%, 2/25/2034	527,822	521,219
"A2", Series 2002-18, 5.25%, 2/25/2033	882,659	876,085
"A2", Series 2003-21T1, 5.25%, 12/25/2033	720,064	713,022
"A2", Series 2004-1T1, 5.5%, 2/25/2034	350,546	348,678
"4A3", Series 2005-43, 5.742%*, 10/25/2035	580,560	577,234
"A1", Series 2004-35T2, 6.0%, 2/25/2035	582,557	582,409

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans:		
"2A2C", Series 2006-HYB1, 5.271%*, 3/20/2036	930,000	926,805
"2A1", Series 2006-HYB1, 5.391%*, 3/20/2036	766,024	765,024
"A1", Series 2005-29, 5.75%, 12/25/2035	1,284,580	1,276,591
"A2", Series 2006-1, 6.0%, 3/25/2036	1,016,071	1,016,184
CS First Boston Mortgage Securities Corp.:		
"A2", Series 1998-C2, 6.3%, 11/15/2030	899,392	911,685
"A3", Series 1997-C2, 6.55%, 1/17/2035	913,737	919,983
Deutsche Mortgage & Asset Receiving Corp., "A2", Series 1998-C1, 6.538%, 6/15/2031	914,071	920,116
First Horizon Alternative Mortgage Securities, "1A18", Series 2005-FA8, 5.5%, 11/25/2035	950,000	945,122
GMAC Mortgage Corp. Loan Trust:		
"A15", Series 2004-J1, 5.25%, 4/25/2034	591,602	588,393
"A1", Series 2006-J1, 5.75%, 4/25/2036	1,334,337	1,336,701
Greenwich Capital Commercial Funding Corp., "AAB", Series 2006-GG7, 5.912%*, 7/10/2038	590,000	612,522
GS Mortgage Securities Corp. II, "A4", Series 2005-GG4, 4.761%, 7/10/2039	1,500,000	1,442,896
GSR Mortgage Loan Trust, "4A5", Series 2005-AR6, 4.551%*, 9/25/2035	845,000	829,281
Indymac Inda Mortgage Loan Trust, Class "2A1", Series 2005-AR2, 5.0%*, 1/25/2036	1,097,459	1,084,665
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A3A1", Series 2005-LDP4, 4.871%, 10/15/2042	1,470,000	1,444,971
"A4", Series 2005-LDP5, 5.179%*, 12/15/2044	690,000	687,481
JPMorgan Mortgage Trust:		
"7A1", Series 2006-A3, 4.581%*, 4/25/2035	1,345,431	1,322,510
"2A4", Series 2006-A2, 5.766%*, 4/25/2036	1,420,000	1,440,524
Master Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	1,007,698	1,000,457
"5A1", Series 2005-2, 6.5%, 12/25/2034	147,410	148,930
"8A1", Series 2004-3, 7.0%, 4/25/2034	56,858	56,919
Master Asset Securitization Trust, "2A7", Series 2003-9, 5.5%, 10/25/2033	594,702	582,436
Merrill Lynch Mortgage Investors Trust, "A2", Series 2005-A5, 4.566%, 6/25/2035	105,000	102,147
Morgan Stanley Capital I, "F", Series 1998-HF1, 144A, 7.18%, 3/15/2030	925,000	940,046
RAAC Series, "2A5", Series 2005-SP1, 5.25%, 9/25/2034	1,150,000	1,145,530
Residential Accredit Loans, Inc.:		
"CB", Series 2004-QS2, 5.75%, 2/25/2034	651,783	646,080
"A2", Series 2006-QS4, 6.0%, 4/25/2036	1,384,823	1,387,871
Residential Asset Mortgage Products, Inc., "A4", Series 2003-RZ4, 4.04%, 12/25/2030	990,000	982,519
Structured Adjustable Rate Mortgage Loan Trust:		
"5A1", Series 2006-1, 5.25%, 2/25/2036	999,255	992,466
"6A3", Series 2005-21, 5.4%, 11/25/2035	740,000	724,104
"5A1", Series 2005-18, 5.558%*, 9/25/2035	623,773	622,717
"7A4", Series 2006-1, 5.62%, 2/25/2036	930,000	923,532
Structured Asset Securities Corp., "2A1", Series 2003-1, 6.0%, 2/25/2018	5,798	5,810
Wachovia Bank Commercial Mortgage Trust, "AMFX", Series 2005-C20, 5.179%, 7/15/2042	1,550,000	1,531,129
Wachovia Mortgage Loan Trust LLC, "3A1", Series 2005-B, 5.158%*, 10/20/2035	1,272,150	1,259,466
Washington Mutual:		
"2A1", Series 2002-S8, 4.5%, 1/25/2018	106,399	105,763
"A1", Series 2005-AR3, 4.641%*, 3/25/2035	543,816	537,161
"1A3", Series 2005-AR16, 5.113%*, 12/25/2035	825,000	820,539
"1A1", Series 2006-AR18, 5.372%, 1/25/2037	1,655,000	1,653,769
Wells Fargo Mortgage Backed Securities Trust:		
"B1", Series 2005-AR12, 4.326%*, 7/25/2035	764,347	740,306
"2A5", Series 2006-AR2, 5.088%*, 3/25/2036	3,036,565	3,018,281
"A4", Series 2005-AR14, 5.387%*, 8/25/2035	945,000	929,877
"2A5", Series 2006-AR1, 5.561%*, 3/25/2036	935,000	928,601
"1A3", Series 2006-6, 5.75%, 5/25/2036	1,003,416	1,004,890
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $61,864,553)		**61,902,009**

Collateralized Mortgage Obligations 10.5%

	Principal Amount ($)(a)	Value ($)
Fannie Mae Whole Loan, "1A1", Series 2004-W15, 6.0%, 8/25/2044	380,102	381,521
Federal Home Loan Mortgage Corp.:		
"KB", Series 2552, 4.25%, 6/15/2027	666,523	660,476
"WJ", Series 2557, 5.0%, 7/15/2014	738,854	734,919
"PE", Series 2721, 5.0%, 1/15/2023	2,425,000	2,327,907
"EW", Series 2545, 5.0%, 3/15/2029	534,558	530,364
"PD", Series 2844, 5.0%, 12/15/2032	1,580,000	1,520,201

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
"EG", Series 2836, 5.0%, 12/15/2032	1,580,000	1,521,231
"PD", Series 2783, 5.0%, 1/15/2033	761,000	732,644
"TE", Series 2780, 5.0%, 1/15/2033	1,150,000	1,108,549
"NE", Series 2802, 5.0%, 2/15/2033	1,580,000	1,522,670
"PD", Series 2893, 5.0%, 2/15/2033	800,000	768,501
"OG", Series 2889, 5.0%, 5/15/2033	685,000	658,722
"PE", Series 2898, 5.0%, 5/15/2033	335,000	321,490
"ND", Series 2950, 5.0%, 6/15/2033	1,140,000	1,091,497
"BG", Series 2869, 5.0%, 7/15/2033	185,000	177,803
"PD", Series 2939, 5.0%, 7/15/2033	535,000	512,767
"KD", Series 2915, 5.0%, 9/15/2033	1,140,000	1,093,876
"HD", Series 3056, 5.0%, 2/15/2034	845,000	806,187
"KG", Series 2987, 5.0%, 12/15/2034	1,470,000	1,405,343
"CH", Series 2390, 5.5%, 12/15/2016	200,000	199,643
"PE", Series 2522, 5.5%, 3/15/2022	950,000	950,326
Federal National Mortgage Association:		
"PE", Series 2005-44, 5.0%, 7/25/2033	300,000	286,926
"ME", Series 2005-14, 5.0%, 10/25/2033	1,525,000	1,457,536
"EG", Series 2005-22, 5.0%, 11/25/2033	750,000	717,079
"OG", Series 2001-69, 5.5%, 12/25/2016	750,000	751,637
"PG", Series 2002-3, 5.5%, 2/25/2017	500,000	501,184
"QC", Series 2002-11, 5.5%, 3/25/2017	290,000	290,465
"VD", Series 2002-56, 6.0%, 4/25/2020	33,235	33,170
"ZQ", G92-9, 7.0%, 12/25/2021	114,456	115,346
Total Collateralized Mortgage Obligations (Cost $23,516,417)		**23,179,980**

Municipal Bonds and Notes 4.6%

	Principal Amount ($)(a)	Value ($)
Gainesville, FL, Post-Employment Benefits Obligation Revenue, Retiree Health Care Plan, 4.6%, 10/1/2012 (c)	630,000	614,017
Georgia, Winder-Barrow Industrial Building Authority Revenue, Barrow County Economic Development, 5.65%, 10/1/2015 (c)	465,000	475,490
Hoboken, NJ, Core City General Obligation, 6.5%, 4/1/2026 (c)	1,900,000	2,110,710
Jicarilla, NM, Apache Nation Revenue, 144A, 3.85%, 12/1/2008	680,000	662,782
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013	670,000	657,397
Los Angeles, CA, Community Redevelopment Agency, Financing Authority Revenue, Bunker Hill Project, Series B, 4.99%, 12/1/2012 (c)	680,000	674,002
Pittburgh, PA, Taxable General Obligation, Series A, 5.41%, 9/1/2007 (c)	1,240,000	1,239,950
Trenton, NJ, Core City General Obligation, School District Revenue, 4.7%, 4/1/2013 (c)	745,000	723,023
Union County, NJ, Improvement Authority, Student Loan Revenue, 5.29%, 4/1/2018 (c)	940,000	926,840
Virgin Islands, Port Authority Marine Revenue, Series B, 5.08%, 9/1/2013 (c)	1,420,000	1,408,186
Washington, State Economic Development Finance Authority Revenue, CSC Tacoma LLC Project, Series A, 3.8%, 10/1/2011 (c)	550,000	520,735
Total Municipal Bonds and Notes (Cost $9,886,921)		**10,013,132**

US Treasury Obligations 11.1%

	Principal Amount ($)(a)	Value ($)
US Treasury Bonds:		
6.0%, 2/15/2026 (b)	9,315,000	10,564,523
6.875%, 8/15/2025 (b)	129,000	159,698
7.5%, 11/15/2016	890,000	1,081,489
8.125%, 8/15/2019 (b)	6,750,000	8,818,767
US Treasury Notes:		
2.25%, 2/15/2007	485,000	483,367
3.25%, 8/15/2007 (b)	2,781,000	2,750,910
4.25%, 8/15/2013	430,000	419,216
4.25%, 11/15/2014 (b)	60,000	58,205
Total US Treasury Obligations (Cost $24,807,759)		**24,336,175**

	Shares	Value ($)

Securities Lending Collateral 7.9%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.34% (d) (e) (Cost $17,391,458)	17,391,458	**17,391,458**

Cash Equivalents 3.5%

	Shares	Value ($)
Cash Management QP Trust, 5.46% (f) (Cost $7,602,306)	7,602,306	**7,602,306**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $235,798,983)†	107.3	**235,644,312**
Other Assets and Liabilities, Net	(7.3)	**(16,036,701)**
Net Assets	100.0	**219,607,611**

The accompanying notes are an integral part of the financial statements.

* Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of December 31, 2006.

** Bond equivalent yield to maturity; not a coupon rate.

† The cost for federal income tax purposes was $235,835,555. At December 31, 2006, net unrealized depreciation for all securities based on tax cost was $191,243. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,778,596 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,969,839.

(a) *Principal amount stated in US dollars unless otherwise noted.*

(b) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $16,685,991 which is 7.6% of net assets.*

(c) *Bond is insured by one of these companies:*

Insurance Coverage	As a % of Total Investment Portfolio
Ambac Financial Group	0.3
CIFG Assurance Corp.	0.5
Financial Guaranty Insurance Co.	0.3
Financial Security Assurance, Inc.	1.0
MBIA Corp.	1.6

(d) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

(f) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(g) *Mortgage dollar rolls included.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

PIK: Denotes that all or a portion of the income is paid in kind.

REIT: Real Estate Investment Trust

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association and Federal Home Loan Mortgage Corp. issues have similar coupon rates and have been aggregated for presentation purposes in the investment portfolio.

As of December 31, 2006, the Portfolio entered into the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
CAD	1,810,000	USD	1,604,254	1/25/2007	50,962
CLP	290,000,000	USD	549,763	1/25/2007	4,975
JPY	130,000,000	USD	1,105,197	1/25/2007	12,806
USD	81,155	BRL	177,000	1/25/2007	1,288
USD	173,429	BRL	374,000	1/25/2007	774
USD	1,178,076	CHF	1,450,000	1/25/2007	14,775
USD	1,119,989	EUR	853,000	1/25/2007	7,456
USD	1,661,571	EUR	1,260,000	1/25/2007	3,823
USD	553,244	GBP	286,000	1/25/2007	6,844
USD	1,019,820	NOK	6,720,000	1/25/2007	59,245
USD	158,908	ZAR	1,237,000	1/25/2007	16,945
USD	5,011	ZAR	39,000	1/25/2007	533
Total net unrealized appreciation					**180,426**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
CHF	1,421,000	USD	1,129,544	1/25/2007	(39,450)
EUR	860,000	USD	1,095,737	1/25/2007	(40,960)
GBP	900,000	USD	1,686,636	1/25/2007	(75,880)
IDR	908,000,000	USD	97,719	1/25/2007	(3,244)
MXN	2,360,000	USD	217,306	1/25/2007	(911)
MXN	11,945,000	USD	1,099,884	1/25/2007	(4,609)
NZD	829,566	AUD	722,000	1/25/2007	(14,043)
NZD	829,249	AUD	722,000	1/25/2007	(13,820)
TRY	81,000	USD	53,334	1/25/2007	(3,326)

The accompanying notes are an integral part of the financial statements.

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
TRY	190,000	USD	125,632	1/25/2007	(7,274)
USD	1,115,095	JPY	128,000,000	1/25/2007	(35,767)
USD	170,000	KZT	21,564,500	1/25/2007	(11)
USD	82,003	UAH	416,000	3/1/2007	(138)
ZAR	1,276,000	USD	172,579	1/25/2007	(8,818)
Total net unrealized depreciation					**(248,251)**

Currency Abbreviations

ARS	Argentine Peso	EGP	Egyptian Pound	MXN	Mexican Peso	RUB	New Russian Ruble
AUD	Australian Dollar	EUR	Euro	MYR	Malaysian Ringgit	TRY	New Turkish Lira
BRL	Brazilian Real	GBP	Great British Pound	NOK	Norwegian Krone	UAH	Ukraine Hryvna
CAD	Canadian Dollars	IDR	Indonesian Rupiah	NZD	New Zealand Dollar	USD	United States Dollar
CHF	Swiss Franc	JPY	Japanese Yen	PEN	Peruvian Nouveau Sol	ZAR	South African Rand
CLP	Chilian Peso	KZT	Kazakhstan Tenge				

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $210,805,219), including $16,685,991 of securities loaned	$ 210,650,548
Investment in Daily Assets Fund Institutional (cost $17,391,458)*	17,391,458
Investment in Cash Management QP Trust (cost $7,602,306)	7,602,306
Total investments in securities, at value (cost $235,798,983)	235,644,312
Foreign currency, at value (cost $93,150)	94,060
Interest receivable	2,095,424
Receivable for Portfolio shares sold	299,569
Foreign taxes recoverable	635
Net receivable on closed forward foreign currency exchange contracts	3,321
Unrealized appreciation on forward foreign currency exchange contracts	180,426
Due from Advisor	117,328
Other assets	4,358
Total assets	238,439,433

Liabilities	
Due to custodian	4,803
Payable for investments purchased — mortgage dollar rolls	922,120
Payable for Portfolio shares redeemed	7,341
Payable upon return of securities loaned	17,391,458
Unrealized depreciation on forward foreign currency exchange contracts	248,251
Accrued management fee	81,693
Accrued distribution service fee (Class B)	276
Accrued shareholder service fee (Class B)	21
Other accrued expenses and payables	175,859
Total liabilities	18,831,822
Net assets, at value	**$ 219,607,611**

Net Assets	
Net assets consist of:	
Undistributed net investment income	10,422,246
Net unrealized appreciation (depreciation) on:	
Investments	(154,671)
Foreign currency related transactions	(63,326)
Accumulated net realized gain (loss)	(1,796,685)
Paid-in capital	211,200,047
Net assets, at value	**$ 219,607,611**
Class A	
Net Asset Value, offering and redemption price per share ($218,218,105 ÷ 31,026,023 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 7.03**
Class B	
Net Asset Value, offering and redemption price per share ($1,389,506 ÷ 198,161 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 7.01**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends	$ 10,098
Interest (net of foreign taxes withheld of $3,530)	11,288,296
Interest — Cash Management QP Trust	336,954
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	27,184
Total Income	11,662,532
Expenses:	
Management fee	910,424
Administration fee	126,522
Custodian and accounting fees	95,534
Distribution service fee (Class B)	2,561
Shareholder service fee (Class A)	193
Shareholder service fee (Class B)	21
Record keeping fee (Class B)	1,411
Auditing	43,984
Legal	24,104
Trustees' fees and expenses	10,536
Reports to shareholders and shareholder meeting	129,865
Other	70,443
Total expenses before expense reductions	1,415,598
Expense reductions	(93,020)
Total expenses after expense reductions	1,322,578
Net investment income	**10,339,954**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	(1,514,674)
Foreign currency related transactions	76,830
Net increase from payments by affiliates and net gains (losses) realized on the disposal of investments in violation of restrictions	—
	(1,437,844)
Net unrealized appreciation (depreciation) during the period on:	
Investments	1,205,839
Foreign currency related transactions	(78,080)
	1,127,759
Net gain (loss) on investment transactions	**(310,085)**
Net increase (decrease) in net assets resulting from operations	**$ 10,029,869**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income	$ 10,339,954	$ 7,479,327
Net realized gain (loss) on investment transactions	(1,437,844)	(119,069)
Net unrealized appreciation (depreciation) during the period on investment transactions	1,127,759	(2,521,110)
Net increase (decrease) in net assets resulting from operations	10,029,869	4,839,148
Distributions to shareholders from:		
Net investment income:		
Class A	(7,979,436)	(6,383,141)
Class B	(26,938)	—
Net realized gains:		
Class A	(254,695)	(1,627,075)
Class B	(953)	—
Portfolio share transactions:		
Class A		
Proceeds from shares sold	35,231,866	52,731,670
Reinvestment of distributions	8,234,131	8,010,216
Cost of shares redeemed	(35,894,600)	(25,921,871)
Net increase (decrease) in net assets from Class A share transactions	7,571,397	34,820,015
Class B		
Proceeds from shares sold	1,183,848	473,041*
Reinvestment of distributions	27,891	—
Cost of shares redeemed	(308,110)	(15,935)*
Net increase (decrease) in net assets from Class B share transactions	903,629	457,106*
Increase (decrease) in net assets	10,242,873	32,106,053
Net assets at beginning of period	209,364,738	177,258,685
Net assets at end of period (including undistributed net investment income of $10,422,246 and $8,003,780, respectively)	**$ 219,607,611**	**$ 209,364,738**

Other Information		
Class A		
Shares outstanding at beginning of period	29,892,841	24,873,210
Shares sold	5,142,133	7,554,171
Shares issued to shareholders in reinvestment of distributions	1,234,502	1,165,970
Shares redeemed	(5,243,453)	(3,700,510)
Net increase (decrease) in Class A shares	1,133,182	5,019,631
Shares outstanding at end of period	**31,026,023**	**29,892,841**
Class B		
Shares outstanding at beginning of period	66,058	—
Shares sold	172,869	68,350*
Shares issued to shareholders in reinvestment of distributions	4,182	—
Shares redeemed	(44,948)	(2,292)*
Net increase (decrease) in Class B shares	132,103	66,058*
Shares outstanding at end of period	**198,161**	**66,058**

* *For the period May 2, 2005 (commencement of operations of Class B shares) to December 31, 2005.*

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.99**	**$ 7.13**	**$ 7.04**	**$ 6.98**	**$ 6.89**
Income (loss) from investment operations:					
Net investment income[a]	.33	.29	.29	.26	.34
Net realized and unrealized gain (loss) on investment transactions	(.01)	(.10)	.08	.09	.17
Total from investment operations	.32	.19	.37	.35	.51
Less distributions from:					
Net investment income	(.27)	(.26)	(.28)	(.29)	(.42)
Net realized gain on investment transactions	(.01)	(.07)	—	—	—
Total distributions	(.28)	(.33)	(.28)	(.29)	(.42)
Net asset value, end of period	**$ 7.03**	**$ 6.99**	**$ 7.13**	**$ 7.04**	**$ 6.98**
Total Return (%)	4.72[c]	2.60	5.38	5.06	7.66
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	218	209	177	176	165
Ratio of expenses before expense reductions (%)	.66	.68	.60	.58	.55
Ratio of expenses after expense reductions (%)	.62	.68	.60	.58	.55
Ratio of net investment income (%)	4.82	4.11	4.18	3.78	5.03
Portfolio turnover rate (%)[b]	179	187	223	242	262

[a] *Based on average shares outstanding during the period.*

[b] *The portfolio turnover rate including mortgage dollar roll transactions was 186%, 197%, 245%, 286% and 276% for the periods ended December 31, 2006, December 31, 2005, December 31, 2004, December 31, 2003 and December 31, 2002, respectively.*

[c] *Total return would have been lower had certain expenses not been reduced.*

Class B

Years Ended December 31,	2006	2005[a]
Selected Per Share Data		
Net asset value, beginning of period	**$ 6.97**	**$ 6.88**
Income (loss) from investment operations:		
Net investment income[b]	.30	.18
Net realized and unrealized gain (loss) on investment transactions	(.01)	(.09)
Total from investment operations	.29	.09
Less distributions from:		
Net investment income	(.24)	—
Net realized gain on investment transactions	(.01)	—
Total distributions	(.25)	—
Net asset value, end of period	**$ 7.01**	**$ 6.97**
Total Return (%)	4.33[d]	1.31**
Ratios to Average Net Assets and Supplemental Data		
Net assets, end of period ($ millions)	1	.5
Ratio of expenses, before expense reductions (%)	1.04	1.04*
Ratio of expenses, after expense reductions (%)	.99	1.04*
Ratio of net investment income (%)	4.45	3.86*
Portfolio turnover rate (%)[c]	179	187

[a] *For the period May 2, 2005 (commencement of operations of Class B shares) to December 31, 2005.*

[b] *Based on average shares outstanding during the period.*

[c] *The portfolio turnover rate including mortgage dollar roll transactions was 186% and 197% for the years ended December 31, 2006 and December 31, 2005, respectively.*

[d] *Total return would have been lower had certain expenses not been reduced.*

* *Annualized*

** *Not annualized*

DWS Growth & Income VIP

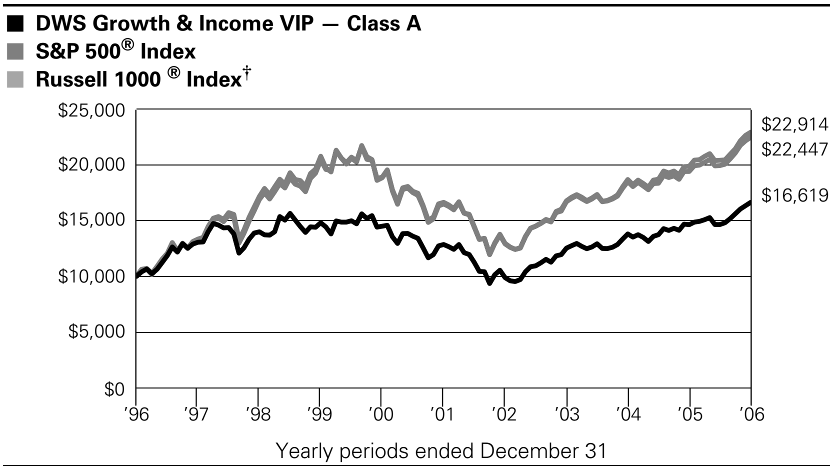
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Portfolio returns during all periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Risk Considerations

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this Portfolio's prospectus for specific information regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment



The Standard & Poor's® 500 (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Growth & Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,363	$13,276	$12,935	$16,619
	Average annual total return	13.63%	9.91%	5.28%	5.21%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$13,503	$22,447
	Average annual total return	15.79%	10.44%	6.19%	8.42%
Russell 1000 Index†	Growth of $10,000	$11,546	$13,669	$13,910	$22,914
	Average annual total return	15.46%	10.98%	6.82%	8.64%

DWS Growth & Income VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$11,328	$13,149	$12,745	$15,262
	Average annual total return	13.28%	9.55%	4.97%	4.47%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$13,503	$20,630
	Average annual total return	15.79%	10.44%	6.19%	7.78%
Russell 1000 Index†	Growth of $10,000	$11,546	$13,669	$13,910	$21,406
	Average annual total return	15.46%	10.98%	6.82%	8.19%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on May 1, 1997. Index returns began on April 30, 1997.*

† *On January 23, 2007, The Russell 1000 Index will replace the S&P 500 as the Portfolio's benchmark index because the Advisor believes that it more accurately reflects the Portfolio's investment strategy.*

Information About Your Portfolio's Expenses

DWS Growth & Income VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,136.00	$1,135.40
Expenses Paid per $1,000*	$ 2.91	$ 4.79
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,022.48	$1,020.72
Expenses Paid per $1,000*	$ 2.75	$ 4.53

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Growth & Income VIP	.54%	.89%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Growth & Income VIP

The US economy posted positive growth for all four quarters of 2006, although growth slowed somewhat in the last half of the year. All major asset classes — equities, bonds and cash — had positive returns for the year. Within the equity market, small-cap stocks (as measured by the Russell 2000® Index) performed better than large-cap stocks (as measured by the Russell 1000® Index), as they have for several years. With a return of 13.63% (Class A shares, unadjusted for contract charges), the Portfolio's return was below that of its benchmark, the S&P 500® Index, which had a return of 15.79%, although performance improved considerably in the second half of the year. The Russell 1000 Index had a return of 15.46%.

Since sector weights of this Portfolio are maintained quite close to those of the S&P 500 Index, essentially all differences in return between the Portfolio and the index result from stock selection and expenses. The main cause of the Portfolio's underperformance was stock selection in the information technology sector. Information technology was the second-worst-performing of the 10 sectors in the index, and the Portfolio's performance was hurt by large positions in eBay, Inc. and QUALCOMM, Inc., both of which had negative returns, and an underweight in Hewlett-Packard Co., which performed well.[1] However, an overweight in Cisco Systems, Inc., which performed well, and the decision not to own poorly performing Yahoo!, Inc. contributed to performance. Also negative was a position in UnitedHealth Group, Inc.

Both on an absolute basis and relative to the benchmark, the Portfolio's best performance was in the financials sector. A major factor in this performance was our emphasis on capital markets holdings, which was balanced by an underweight in insurance to keep the Portfolio's overall position in financials at the desired level. The decision regarding capital markets stocks was based on the strength of equity markets, combined with extensive merger and acquisition activity. The Goldman Sachs Group, Inc., Morgan Stanley and Merrill Lynch & Co., Inc. were large positions that added significantly to performance. Other overweighted stocks that helped performance were retailer J. C. Penney Co., Inc. and aircraft manufacturer Boeing Co.

Robert Wang Jin Chen, CFA
Julie Abbett
Portfolio Managers

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this Portfolio's prospectus for specific information regarding its investments and risk profile.

On January 23, 2007 the Russell 1000 Index replaced the S&P 500 as the Portfolio's benchmark index because the Advisor believes it more accurately reflects the Portfolio's investment strategy.

The Standard & Poor's® 500 (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 2000® Index is an unmanaged capitalization-weighted measure of approximately 2,000 of the smallest companies in the Russell 3000® Index.

The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Growth & Income VIP

Asset Allocation	**12/31/06**	**12/31/05**
Common Stocks	99%	99%
Exchange Traded Funds	1%	—
Cash Equivalents	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Financials	22%	21%
Information Technology	15%	15%
Health Care	12%	13%
Industrials	12%	12%
Consumer Discretionary	10%	11%
Energy	10%	9%
Consumer Staples	9%	10%
Telecommunication Services	4%	3%
Utilities	3%	3%
Materials	3%	3%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 22. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Growth & Income VIP

	Shares	Value ($)
Common Stocks 98.6%		
Consumer Discretionary 10.2%		
Automobiles 0.9%		
Harley-Davidson, Inc.	10,480	738,525
Toyota Motor Corp. (ADR)	17,180	2,307,446
		3,045,971
Hotels Restaurants & Leisure 2.0%		
Hilton Hotels Corp.	43,370	1,513,613
McDonald's Corp.	112,970	5,007,960
		6,521,573
Media 3.0%		
Comcast Corp. "A"*	33,320	1,410,435
Grupo Televisa SA (ADR)	29,860	806,519
McGraw-Hill Companies, Inc.	14,280	971,326
News Corp. "A"	120,680	2,592,206
Omnicom Group, Inc.	24,685	2,580,570
Walt Disney Co.	46,460	1,592,184
		9,953,240
Multiline Retail 1.8%		
Federated Department Stores, Inc.	41,720	1,590,784
J.C. Penney Co., Inc.	58,670	4,538,711
		6,129,495
Specialty Retail 1.5%		
Best Buy Co., Inc.	39,390	1,937,594
Staples, Inc.	109,890	2,934,063
		4,871,657
Textiles, Apparel & Luxury Goods 1.0%		
Coach, Inc.*	80,290	**3,449,259**
Consumer Staples 9.0%		
Beverages 2.4%		
PepsiCo, Inc.	125,620	**7,857,531**
Food & Staples Retailing 1.3%		
Walgreen Co.	91,110	**4,181,038**
Food Products 0.6%		
Dean Foods Co.*	51,350	**2,171,078**
Household Products 4.0%		
Procter & Gamble Co.	207,730	**13,350,807**
Tobacco 0.7%		
Altria Group, Inc.	26,700	**2,291,394**
Energy 9.7%		
Energy Equipment & Services 0.8%		
Cameron International Corp.*	52,710	**2,796,266**
Oil, Gas & Consumable Fuels 8.9%		
ExxonMobil Corp.	85,129	6,523,435
Marathon Oil Corp.	47,605	4,403,463
Occidental Petroleum Corp.	161,110	7,867,001
Sunoco, Inc.	27,790	1,732,984
Total SA (ADR)	76,340	5,490,373
Valero Energy Corp.	68,235	3,490,903
		29,508,159
Financials 21.6%		
Capital Markets 7.1%		
Bank of New York Co., Inc.	187,960	7,399,985
Mellon Financial Corp.	50,710	2,137,427
Merrill Lynch & Co., Inc.	54,420	5,066,502
Morgan Stanley	40,295	3,281,222
The Goldman Sachs Group, Inc.	11,935	2,379,242
UBS AG (Registered)	54,730	3,301,861
		23,566,239
Commercial Banks 5.3%		
Unibanco — Uniao de Bancos Brasileiros SA (GDR)	24,380	2,266,365
Wachovia Corp.	126,440	7,200,758
Wells Fargo & Co.	233,440	8,301,126
		17,768,249
Diversified Financial Services 4.0%		
Bank of America Corp.	210,500	11,238,595
Moody's Corp.	28,080	1,939,205
		13,177,800
Insurance 5.2%		
American International Group, Inc.	168,220	12,054,645
Loews Corp.	31,580	1,309,622
MetLife, Inc.	64,170	3,786,672
		17,150,939
Health Care 11.9%		
Biotechnology 0.5%		
Amgen, Inc.*	25,150	**1,717,996**
Health Care Equipment & Supplies 3.0%		
Baxter International, Inc.	154,090	7,148,235
C.R. Bard, Inc.	33,030	2,740,499
		9,888,734
Health Care Providers & Services 2.6%		
McKesson Corp.	50,900	2,580,630
UnitedHealth Group, Inc.	79,760	4,285,505
WellPoint, Inc.*	22,745	1,789,804
		8,655,939
Life Sciences Tools & Services 1.5%		
Thermo Fisher Scientific, Inc.*	108,468	**4,912,516**
Pharmaceuticals 4.3%		
Abbott Laboratories	19,550	952,280
AstraZeneca PLC (ADR)	17,520	938,196
Johnson & Johnson	46,040	3,039,561
Novartis AG (ADR)	67,120	3,855,373
Sanofi-Aventis (ADR)	18,450	851,837
Wyeth	88,810	4,522,205
		14,159,452
Industrials 11.3%		
Aerospace & Defense 3.0%		
Boeing Co.	28,300	2,514,172
Honeywell International, Inc.	146,250	6,616,350
United Technologies Corp.	11,980	748,990
		9,879,512

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Electrical Equipment 1.4%		
Emerson Electric Co.	109,150	**4,812,423**
Industrial Conglomerates 5.0%		
General Electric Co.	351,370	13,074,478
Tyco International Ltd.	112,690	3,425,776
		16,500,254
Machinery 1.6%		
Caterpillar, Inc.	59,220	3,631,963
PACCAR, Inc.	25,610	1,662,089
		5,294,052
Road & Rail 0.3%		
Hertz Global Holdings, Inc.*	48,260	**839,241**
Information Technology 15.1%		
Communications Equipment 4.2%		
Cisco Systems, Inc.*	458,330	12,526,159
QUALCOMM, Inc.	39,120	1,478,345
		14,004,504
Computers & Peripherals 2.2%		
Apple Computer, Inc.*	25,170	2,135,423
Hewlett-Packard Co.	61,730	2,542,659
International Business Machines Corp.	19,090	1,854,593
Network Appliance, Inc.*	19,620	770,673
		7,303,348
Internet Software & Services 0.7%		
eBay, Inc.*	72,280	**2,173,460**
IT Services 1.8%		
Automatic Data Processing, Inc.	104,320	5,137,760
Paychex, Inc.	20,740	820,060
		5,957,820
Semiconductors & Semiconductor Equipment 1.3%		
Applied Materials, Inc.	151,450	2,794,252
ASML Holding NV (NY Registered Shares)*	60,750	1,496,273
		4,290,525
Software 4.9%		
Adobe Systems, Inc.*	67,180	2,762,442
Autodesk, Inc.*	66,190	2,678,047
Electronic Arts, Inc.*	20,870	1,051,013
Microsoft Corp.	235,555	7,033,672
Symantec Corp.*	131,560	2,743,026
		16,268,200
Materials 3.0%		
Chemicals 1.3%		
Monsanto Co.	83,190	**4,369,971**
Metals & Mining 0.9%		
Rio Tinto PLC (ADR)	14,151	**3,006,946**
Paper & Forest Products 0.8%		
Weyerhaeuser Co.	37,500	**2,649,375**
Telecommunication Services 3.5%		
Diversified Telecommunication Services 2.8%		
AT&T, Inc.	209,100	7,475,325
Telus Corp.	39,630	1,770,272
		9,245,597
Wireless Telecommunication Services 0.7%		
American Tower Corp. "A"*	65,990	**2,460,107**
Utilities 3.3%		
Electric Utilities 2.3%		
Allegheny Energy, Inc.*	50,750	2,329,932
Entergy Corp.	27,250	2,515,720
Exelon Corp.	47,340	2,929,873
		7,775,525
Independent Power Producers & Energy Traders 1.0%		
TXU Corp.	59,190	**3,208,690**
Total Common Stocks (Cost $280,541,163)		**327,164,882**

Exchange Traded Funds 1.0%

	Shares	Value ($)
SPDR Trust, Series 1 (Cost $3,460,719)	24,300	**3,443,067**

Cash Equivalents 0.3%

	Shares	Value ($)
Cash Management QP Trust, 5.46% (a) (Cost $883,979)	883,979	**883,979**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $284,885,861)†	99.9	**331,491,928**
Other Assets and Liabilities, Net	0.1	**340,144**
Net Assets	100.0	**331,832,072**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $286,348,019. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $45,143,909. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $48,723,860 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,579,951.*

(a) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $284,001,882)	$	330,607,949
Investment in Cash Management QP Trust (cost $883,979)		883,979
Total investments in securities, at value (cost $284,885,861)		331,491,928
Cash		577,951
Dividends receivable		551,550
Interest receivable		3,361
Receivable for Portfolio shares sold		34,091
Foreign taxes recoverable		21,041
Due from Advisor		72,055
Other assets		12,882
Total assets		332,764,859

Liabilities		
Payable for investments purchased		514,617
Payable for Portfolio shares redeemed		151,898
Accrued management fee		114,345
Accrued distribution service fee (Class B)		10,420
Accrued shareholder service fee (Class B)		48
Other accrued expenses and payables		141,459
Total liabilities		932,787
Net assets, at value	**$**	**331,832,072**

Net Assets		
Net assets consist of:		
Undistributed net investment income		3,670,368
Net unrealized appreciation (depreciation) on:		
Investments		46,606,067
Foreign currency related transactions		(173)
Accumulated net realized gain (loss)		(7,689,320)
Paid-in capital		289,245,130
Net assets, at value	**$**	**331,832,072**
Class A		
Net Asset Value, offering and redemption price per share ($279,654,028 ÷ 25,561,711 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**10.94**
Class B		
Net Asset Value, offering and redemption price per share ($52,178,044 ÷ 4,788,468 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**10.90**

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $42,745)	$	5,427,781
Interest — Cash Management QP Trust		90,191
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		25,218
Other income*		210,334
Total Income		5,753,524
Expenses:		
Management fee		1,359,770
Administration fee		186,676
Custodian and accounting fees		65,297
Distribution service fee (Class B)		117,433
Shareholder service fee (Class A)		181
Shareholder service fee (Class B)		48
Record keeping fee (Class B)		60,683
Auditing		39,753
Legal		46,813
Trustees' fees and expenses		14,703
Reports to shareholders and shareholder meeting		87,925
Other		24,192
Total expenses before expense reductions		2,003,474
Expense reductions		(95,185)
Total expenses after expense reductions		1,908,289
Net investment income (loss)		**3,845,235**

Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from:		
Investments		24,651,857
Written options		259,938
Foreign currency related transactions		(162)
		24,911,633
Net unrealized appreciation (depreciation) during the period on:		
Investments		12,505,792
Foreign currency related transactions		(173)
		12,505,619
Net gain (loss) on investment transactions		**37,417,252**
Net increase (decrease) in net assets resulting from operations	**$**	**41,262,487**

* *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note H).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 3,845,235	$ 2,961,943
Net realized gain (loss) on investment transactions	24,911,633	23,989,845
Net unrealized appreciation (depreciation) during the period on investment transactions	12,505,619	(2,140,631)
Net increase (decrease) in net assets resulting from operations	41,262,487	24,811,157
Distributions to shareholders from:		
Net investment income:		
Class A	(2,664,327)	(2,208,887)
Class B	(286,921)	(336,934)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	14,579,038	45,563,045
Net assets acquired in tax-free reorganization	—	99,119,857
Reinvestment of distributions	2,664,327	2,208,887
Cost of shares redeemed	(64,690,476)	(43,761,424)
Net increase (decrease) in net assets from Class A share transactions	(47,447,111)	103,130,365
Class B		
Proceeds from shares sold	8,202,285	16,893,009
Net assets acquired in tax-free reorganization	5,500,068	10,376,860
Reinvestment of distributions	286,921	336,934
Cost of shares redeemed	(14,614,169)	(16,154,081)
Net increase (decrease) in net assets from Class B share transactions	(624,895)	11,452,722
Increase (decrease) in net assets	(9,760,767)	136,848,423
Net assets at beginning of period	341,592,839	204,744,416
Net assets at end of period (including undistributed net investment income of $3,670,368 and $2,776,543, respectively)	**$ 331,832,072**	**$ 341,592,839**

Other Information		
Class A		
Shares outstanding at beginning of period	30,277,518	18,483,989
Shares sold	1,462,864	4,876,623
Shares issued in tax-free reorganization	—	11,366,540
Shares issued to shareholders in reinvestment of distributions	265,107	253,023
Shares redeemed	(6,443,778)	(4,702,657)
Net increase (decrease) in Class A shares	(4,715,807)	11,793,529
Shares outstanding at end of period	**25,561,711**	**30,277,518**
Class B		
Shares outstanding at beginning of period	4,883,742	3,576,021
Shares sold	780,726	1,896,063
Shares issued in tax-free reorganization	509,730	1,191,379
Shares issued to shareholders in reinvestment of distributions	28,606	38,684
Shares redeemed	(1,414,336)	(1,818,405)
Net increase (decrease) in Class B shares	(95,274)	1,307,721
Shares outstanding at end of period	**4,788,468**	**4,883,742**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.72**	**$ 9.29**	**$ 8.50**	**$ 6.77**	**$ 8.90**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.13[c]	.10	.12	.07	.07
Net realized and unrealized gain (loss) on investment transactions	1.19	.45	.74	1.74	(2.12)
Total from investment operations	1.32	.55	.86	1.81	(2.05)
Less distributions from:					
Net investment income	(.10)	(.12)	(.07)	(.08)	(.08)
Net asset value, end of period	**$10.94**	**$ 9.72**	**$ 9.29**	**$ 8.50**	**$ 6.77**
Total Return (%)	13.63[b,c]	6.07[b]	10.16	26.74	(23.13)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	280	294	172	161	135
Ratio of expenses before expense reductions (%)	.56	.57	.56	.59	.57
Ratio of expenses after expense reductions (%)	.54	.54	.56	.59	.57
Ratio of net investment income (loss) (%)	1.24[c]	1.10	1.37	.91	.92
Portfolio turnover rate (%)	105	115	33	37	66

a *Based on average shares outstanding during the period.*

b *Total return would have been lower had certain expenses not been reduced.*

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (See Note H). The non-recurring income resulted in an increase in net investment income of $0.007 per share and an increase in the ratio of net investment income of 0.07%. Excluding this non-recurring income, total return would have been 0.06% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.68**	**$ 9.25**	**$ 8.47**	**$ 6.75**	**$ 8.87**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.09[c]	.07	.09	.05	.05
Net realized and unrealized gain (loss) on investment transactions	1.19	.45	.73	1.73	(2.12)
Total from investment operations	1.28	.52	.82	1.78	(2.07)
Less distributions from:					
Net investment income	(.06)	(.09)	(.04)	(.06)	(.05)
Net asset value, end of period	**$10.90**	**$ 9.68**	**$ 9.25**	**$ 8.47**	**$ 6.75**
Total Return (%)	13.28[b,c]	5.73[b]	9.78	26.55	(23.40)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	52	47	33	18	7
Ratio of expenses before expense reductions (%)	.94	.95	.89	.85	.82
Ratio of expenses after expense reductions (%)	.89	.89	.89	.85	.82
Ratio of net investment income (loss) (%)	.89[c]	.75	1.04	.65	.67
Portfolio turnover rate (%)	105	115	33	37	66

a *Based on average shares outstanding during the period.*

b *Total return would have been lower had certain expenses not been reduced.*

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (See Note H). The non-recurring income resulted in an increase in net investment income of $0.007 per share and an increase in the ratio of net investment income of 0.07%. Excluding this non-recurring income, total return would have been 0.06% lower.*

DWS Capital Growth VIP

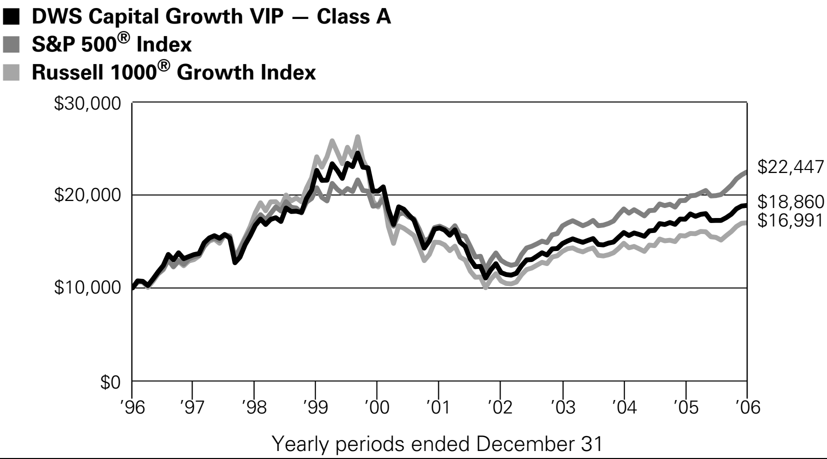
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Portfolio returns during all periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Risk Considerations

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this Portfolio's prospectus for specific information regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment



The Standard & Poor's 500® (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Russell 1000® Growth Index is an unmanaged capitalization-weighted index containing those securities in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Capital Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,853	$12,769	$11,474	$18,860
	Average annual total return	8.53%	8.49%	2.79%	6.55%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$13,503	$22,447
	Average annual total return	15.79%	10.44%	6.19%	8.42%
Russell 1000 Growth Index	Growth of $10,000	$10,907	$12,205	$11,420	$16,991
	Average annual total return	9.07%	6.87%	2.69%	5.44%

DWS Capital Growth VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,817	$12,625	$11,281	$15,940
	Average annual total return	8.17%	8.08%	2.44%	4.96%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$13,503	$19,446
	Average annual total return	15.79%	10.44%	6.19%	7.19%
Russell 1000 Growth Index	Growth of $10,000	$10,907	$12,205	$11,420	$14,781
	Average annual total return	9.07%	6.87%	2.69%	4.16%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on May 12, 1997. Index returns began on May 31, 1997.*

Information About Your Portfolio's Expenses

DWS Capital Growth VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,092.90	$1,090.70
Expenses Paid per $1,000*	$ 2.58	$ 4.53
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,022.74	$1,020.87
Expenses Paid per $1,000*	$ 2.50	$ 4.38

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Capital Growth VIP	.49%	.86%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Capital Growth VIP

The US economy posted positive growth for all four quarters of 2006, although growth slowed somewhat in the last half of the year. The broad equity market, as measured by the S&P 500® Index, had a return of 15.79% for the period. Value stocks, as measured by the Russell 1000® Value Index, performed better than growth stocks, as measured by the Russell 1000® Growth Index. With a return of 8.53% (Class A shares, unadjusted for contract charges), the Portfolio underperformed its benchmarks, the Russell 1000 Growth Index, which posted a return of 9.07%, and the S&P 500 Index, which posted a return of 15.79%.

The Portfolio's performance relative to the Russell 1000 Growth Index was hurt by sector allocation decisions, while stock selection contributed to performance. Our overweight in energy, which has been a major driver of strong performance in past periods, was a negative over the last 12 months.[1] However, stock selection in energy contributed to performance, particularly overweights in Schlumberger Ltd. and ConocoPhillips. Performance relative to the index was hurt also by stock selection in information technology, where the Portfolio was underweight in some stocks that performed well, such as Hewlett-Packard Co. and Cisco Systems, Inc. In health care, overweight positions in Genentech, Inc. and UnitedHealth Group, Inc. hurt performance.

Stock selection in several sectors made a positive contribution to performance. In the financials sector, performance benefited from an emphasis on capital markets stocks such as The Goldman Sachs Group, Inc. and Merrill Lynch & Co., Inc. Consumer staples and consumer discretionary holdings including Harley-Davidson, Inc., Groupe Danone, Diageo PLC and Kohl's Corp. were also positive for performance.

Julie M. Van Cleave, CFA
Lead Portfolio Manager

Jack A. Zehner
Thomas J. Schmid, CFA
Portfolio Managers

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this Portfolio's prospectus for specific information regarding its investments and risk profile.

The Standard & Poor's® 500 (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 1000® Growth Index is an unmanaged capitalization- weighted index containing those securities in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Capital Growth VIP

Asset Allocation	12/31/06	12/31/05
Common Stocks	98%	98%
Cash Equivalents	2%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	12/31/06	12/31/05
Information Technology	22%	25%
Health Care	19%	21%
Energy	15%	14%
Consumer Staples	14%	12%
Consumer Discretionary	12%	11%
Industrials	9%	9%
Financials	8%	7%
Materials	1%	1%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 31. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

Investment Portfolio

DWS Capital Growth VIP

	Shares	Value ($)
Common Stocks 98.0%		
Consumer Discretionary 11.7%		
Automobiles 1.1%		
Harley-Davidson, Inc.	187,200	**13,191,984**
Hotels Restaurants & Leisure 1.1%		
Starbucks Corp.*	382,195	**13,537,347**
Household Durables 1.1%		
Fortune Brands, Inc.	153,800	**13,132,982**
Media 3.2%		
McGraw-Hill Companies, Inc.	312,200	21,235,844
Omnicom Group, Inc.	177,440	18,549,578
		39,785,422
Multiline Retail 2.6%		
Kohl's Corp.*	126,100	8,629,023
Nordstrom, Inc.	49,000	2,417,660
Target Corp.	373,500	21,308,175
		32,354,858
Specialty Retail 2.6%		
Best Buy Co., Inc.	110,200	5,420,738
Lowe's Companies, Inc.	303,300	9,447,795
Staples, Inc.	643,465	17,180,515
		32,049,048
Consumer Staples 13.6%		
Beverages 3.7%		
Diageo PLC	682,588	13,398,492
PepsiCo, Inc.	521,825	32,640,153
		46,038,645
Food & Staples Retailing 3.6%		
Shoppers Drug Mart Corp.	142,000	6,099,370
Wal-Mart Stores, Inc.	349,790	16,153,302
Walgreen Co.	496,500	22,784,385
		45,037,057
Food Products 3.1%		
Dean Foods Co.*	298,100	12,603,668
Groupe Danone	89,264	13,527,223
Kellogg Co.	242,500	12,139,550
		38,270,441
Household Products 3.2%		
Colgate-Palmolive Co.	171,940	11,217,366
Procter & Gamble Co.	438,670	28,193,321
		39,410,687
Energy 14.1%		
Energy Equipment & Services 7.3%		
Baker Hughes, Inc.	291,000	21,726,060
Halliburton Co.	337,795	10,488,535
Noble Corp.	138,200	10,523,930
Schlumberger Ltd.	409,300	25,851,388
Transocean, Inc.*	263,340	21,301,572
		89,891,485
Oil, Gas & Consumable Fuels 6.8%		
ConocoPhillips	311,860	22,438,327
Devon Energy Corp.	299,700	20,103,876
EOG Resources, Inc.	197,925	12,360,416
Valero Energy Corp.	302,145	15,457,738
XTO Energy, Inc.	308,666	14,522,736
		84,883,093
Financials 8.0%		
Capital Markets 4.2%		
Lehman Brothers Holdings, Inc.	152,700	11,928,924
Merrill Lynch & Co., Inc.	168,860	15,720,866
The Goldman Sachs Group, Inc.	70,400	14,034,240
UBS AG (Registered) (a)	133,883	8,136,263
UBS AG (Registered) (a)	35,500	2,141,715
		51,962,008
Consumer Finance 1.0%		
American Express Co.	202,050	**12,258,373**
Diversified Financial Services 1.3%		
Bank of America Corp.	307,400	**16,412,086**
Insurance 1.5%		
Aflac, Inc.	286,500	13,179,000
Genworth Financial, Inc. "A"	162,400	5,555,704
		18,734,704
Health Care 18.3%		
Biotechnology 5.4%		
Amgen, Inc.*	185,350	12,661,259
Genentech, Inc.*	349,250	28,334,652
Gilead Sciences, Inc.*	397,660	25,820,064
		66,815,975
Health Care Equipment & Supplies 5.4%		
Baxter International, Inc.	371,900	17,252,441
C.R. Bard, Inc.	144,400	11,980,868
Medtronic, Inc.	387,700	20,745,827
Zimmer Holdings, Inc.*	216,740	16,988,081
		66,967,217
Health Care Providers & Services 2.2%		
UnitedHealth Group, Inc.	505,185	**27,143,590**
Pharmaceuticals 5.3%		
Abbott Laboratories	282,200	13,745,962
Eli Lilly & Co.	137,900	7,184,590
Johnson & Johnson	607,866	40,131,314
Teva Pharmaceutical Industries Ltd. (ADR)	143,800	4,469,304
		65,531,170
Industrials 9.0%		
Aerospace & Defense 2.3%		
United Technologies Corp.	447,600	**27,983,952**
Air Freight & Logistics 1.3%		
FedEx Corp.	145,020	**15,752,072**
Electrical Equipment 1.5%		
Emerson Electric Co.	428,300	**18,883,747**
Industrial Conglomerates 3.1%		
General Electric Co.	1,017,565	**37,863,594**
Machinery 0.8%		
Caterpillar, Inc.	171,200	**10,499,696**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Information Technology 21.8%		
Communications Equipment 2.7%		
Cisco Systems, Inc.*	834,320	22,801,965
Corning, Inc.*	78,490	1,468,548
QUALCOMM, Inc.	244,900	9,254,771
		33,525,284
Computers & Peripherals 4.0%		
Apple Computer, Inc.*	249,535	21,170,549
EMC Corp.*	995,615	13,142,118
International Business Machines Corp.	161,000	15,641,150
		49,953,817
Electronic Equipment & Instruments 0.5%		
Mettler-Toledo International, Inc.*	79,100	**6,237,035**
Internet Software & Services 2.2%		
eBay, Inc.*	320,500	9,637,435
Google, Inc. "A"*	20,025	9,221,112
Yahoo!, Inc.*	321,125	8,201,533
		27,060,080
IT Services 3.2%		
Accenture Ltd. "A"	484,100	17,877,813
Fiserv, Inc.*	210,100	11,013,442
Paychex, Inc.	285,200	11,276,808
		40,168,063
Semiconductors & Semiconductor Equipment 3.6%		
Broadcom Corp. "A"*	233,400	7,541,154
Intel Corp.	607,890	12,309,772
Linear Technology Corp.	318,030	9,642,670
Texas Instruments, Inc.	512,910	14,771,808
		44,265,404
Software 5.6%		
Adobe Systems, Inc.*	319,975	13,157,372
Electronic Arts, Inc.*	220,400	11,099,344
Microsoft Corp.	1,499,380	44,771,487
		69,028,203
Materials 1.1%		
Chemicals		
Ecolab, Inc.	295,800	**13,370,160**
Utilities 0.4%		
Independent Power Producers & Energy Traders		
TXU Corp.	94,800	**5,139,108**
Total Common Stocks (Cost $863,593,092)		**1,213,138,387**
Cash Equivalents 1.9%		
Cash Management QP Trust, 5.46% (b) (Cost $23,836,230)	23,836,230	**23,836,230**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $887,429,322)†	99.9	**1,236,974,617**
Other Assets and Liabilities, Net	0.1	**1,383,145**
Net Assets	100.0	**1,238,357,762**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $896,301,596. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $340,673,021. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $358,151,601 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $17,478,580.*

(a) *Securities with the same description are the same corporate entity but trade on different stock exchanges.*

(b) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $863,593,092)	$ 1,213,138,387
Investment in Cash Management QP Trust (cost $23,836,230)	23,836,230
Total investments in securities, at value (cost $887,429,322)	1,236,974,617
Foreign currency, at value (cost $318,123)	318,082
Dividends receivable	1,032,196
Interest receivable	95,366
Receivable for Portfolio shares sold	460,714
Foreign taxes recoverable	873
Due from Advisor	319,876
Other assets	25,673
Total assets	1,239,227,397
Liabilities	
Payable for Portfolio shares redeemed	214,693
Accrued management fee	270,879
Accrued distribution service fee (Class B)	19,687
Accrued shareholder service fee (Class B)	55
Other accrued expenses and payables	364,321
Total liabilities	869,635
Net assets, at value	**$ 1,238,357,762**
Net Assets	
Net assets consist of:	
Undistributed net investment income	7,131,831
Net unrealized appreciation (depreciation) on:	
Investments	349,545,295
Foreign currency related transactions	(95)
Accumulated net realized gain (loss)	(391,753,308)
Paid-in capital	1,273,434,039
Net assets, at value	**$ 1,238,357,762**
Class A	
Net Asset Value, offering and redemption price per share ($1,130,883,392 ÷ 62,005,444 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 18.24**
Class B	
Net Asset Value, offering and redemption price per share ($107,474,370 ÷ 5,921,673 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 18.15**

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $29,268)	$ 11,783,714
Interest — Cash Management QP Trust	582,576
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	16,178
Other income*	399,942
Total Income	12,782,410
Expenses:	
Management fee	4,272,143
Administration fee	596,449
Custodian and accounting fees	143,924
Distribution service fee (Class B)	185,189
Shareholder service fee (Class A)	241
Shareholder service fee (Class B)	55
Record keeping fee (Class B)	103,037
Auditing	40,985
Legal	79,403
Trustees' fees and expenses	36,870
Reports to shareholders and shareholder meeting	239,161
Other	54,089
Total expenses before expense reductions	5,751,546
Expense reductions	(357,179)
Total expenses after expense reductions	5,394,367
Net investment income (loss)	**7,388,043**
Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	15,471,912
Foreign currency related transactions	9,396
Net increase from payments by affiliates and gains (losses) realized on trades executed incorrectly	—
	15,481,308
Net unrealized appreciation (depreciation) during the period on investments	58,267,917
Foreign currency related transactions	(95)
	58,267,822
Net gain (loss) on investment transactions	**73,749,130**
Net increase (decrease) in net assets resulting from operations	**$ 81,137,173**

* *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note H).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 7,388,043	$ 5,641,371
Net realized gain (loss) on investment transactions	15,481,308	28,741,011
Net unrealized appreciation (depreciation) during the period on investment transactions	58,267,822	68,936,129
Net increase (decrease) in net assets resulting from operations	81,137,173	103,318,511
Distributions to shareholders from:		
Net investment income:		
Class A	(5,636,032)	(6,678,103)
Class B	(141,341)	(143,508)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	16,358,245	32,068,877
Net assets acquired in tax-free reorganization	210,765,818	335,682,359
Reinvestment of distributions	5,636,032	6,678,103
Cost of shares redeemed	(203,567,867)	(130,607,217)
Net increase (decrease) in net assets from Class A share transactions	29,192,228	243,822,122
Class B		
Proceeds from shares sold	43,601,768	47,750,588
Net assets acquired in tax-free reorganization	37,158,118	44,685,282
Reinvestment of distributions	141,341	143,508
Cost of shares redeemed	(51,781,199)	(49,704,968)
Net increase (decrease) in net assets from Class B share transactions	29,120,028	42,874,410
Increase (decrease) in net assets	133,672,056	383,193,432
Net assets at beginning of period	1,104,685,706	721,492,274
Net assets at end of period (including undistributed net investment income of $7,131,831 and $5,517,479, respectively)	**$ 1,238,357,762**	**$ 1,104,685,706**

Other Information		
Class A		
Shares outstanding at beginning of period	61,042,375	44,544,616
Shares sold	949,778	1,996,443
Shares issued in tax-free reorganization	11,523,100	22,200,595
Shares issued to shareholders in reinvestment of distributions	322,982	441,966
Shares redeemed	(11,832,791)	(8,141,245)
Net increase (decrease) in Class A shares	963,069	16,497,759
Shares outstanding at end of period	**62,005,444**	**61,042,375**
Class B		
Shares outstanding at beginning of period	4,353,863	1,503,725
Shares sold	2,415,727	3,152,024
Shares issued in tax-free reorganization	2,040,472	2,963,218
Shares issued to shareholders in reinvestment of distributions	8,123	9,523
Shares redeemed	(2,896,512)	(3,274,627)
Net increase (decrease) in Class B shares	1,567,810	2,850,138
Shares outstanding at end of period	**5,921,673**	**4,353,863**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$16.90**	**$15.67**	**$14.59**	**$11.54**	**$16.36**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.13[c]	.10	.14	.08	.05
Net realized and unrealized gain (loss) on investment transactions	1.31	1.29	1.02	3.03	(4.82)
Total from investment operations	1.44	1.39	1.16	3.11	(4.77)
Less distributions from:					
Net investment income	(.10)	(.16)	(.08)	(.06)	(.05)
Net asset value, end of period	**$18.24**	**$16.90**	**$15.67**	**$14.59**	**$11.54**
Total Return (%)	8.53[b,c]	8.96[b]	7.99	26.89	(29.18)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	1,131	1,031	698	705	558
Ratio of expenses before expense reductions (%)	.52	.50	.50	.51	.51
Ratio of expenses after expense reductions (%)	.49	.49	.50	.51	.51
Ratio of net investment income (loss) (%)	.73[c]	.61	.98	.61	.38
Portfolio turnover rate (%)	16	17	15	13	25

a *Based on average shares outstanding during the period.*

b *Total return would have been less had certain expenses not been reduced.*

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note H). The non-recurring income resulted in an increase in net investment income of $0.007 per share and an increase in the ratio of net investment income of 0.04%. Excluding this non-recurring income, total return would have been 0.03% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$16.81**	**$15.59**	**$14.52**	**$11.49**	**$16.29**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.06[c]	.04	.09	.03	.02
Net realized and unrealized gain (loss) on investment transactions	1.31	1.28	1.01	3.02	(4.81)
Total from investment operations	1.37	1.32	1.10	3.05	(4.79)
Less distributions from:					
Net investment income	(.03)	(.10)	(.03)	(.02)	(.01)
Net asset value, end of period	**$18.15**	**$16.81**	**$15.59**	**$14.52**	**$11.49**
Total Return (%)	8.17[b,c]	8.51[b]	7.56	26.51	(29.37)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	107	73	23	15	.89
Ratio of expenses before expense reductions (%)	.91	.89	.88	.87	.76
Ratio of expenses after expense reductions (%)	.86	.86	.88	.87	.76
Ratio of net investment income (loss) (%)	.36[c]	.24	.60	.25	.13
Portfolio turnover rate (%)	16	17	15	13	25

a *Based on average shares outstanding during the period.*

b *Total return would have been less had certain expenses not been reduced.*

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note H). The non-recurring income resulted in an increase in net investment income of $0.007 per share and an increase in the ratio of net investment income of 0.04%. Excluding this non-recurring income, total return would have been 0.03% lower.*

Performance Summary

December 31, 2006

DWS Global Opportunities VIP

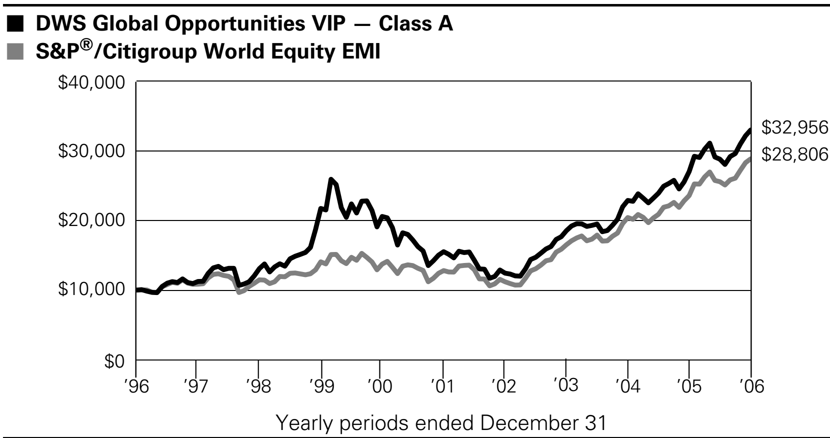
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Returns for all periods shown for Class B shares reflect a fee waiver and/or reimbursement. Without this waiver/reimbursement, returns would have been lower.

Risk Considerations

This Portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuations, political and economic changes and market risks. Additionally, stocks of small-sized companies involve greater risk as they often have limited product lines, markets, or financial resources and may be sensitive to erratic and abrupt market movements more so than securities of larger, more-established companies. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment



The S&P®/Citigroup World Equity Extended Market Index (Citigroup World Equity EMI), is an unmanaged index of small-capitalization stocks within 27 countries around the globe.

Index returns assume the reinvestment of dividends net of withholding tax and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Global Opportunities VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$12,208	$17,796	$21,256	$32,956
	Average annual total return	22.08%	21.18%	16.28%	12.67%
S&P/Citigroup World Equity EMI	Growth of $10,000	$12,239	$17,452	$22,515	$28,806
	Average annual total return	22.39%	20.40%	17.62%	11.16%

DWS Global Opportunities VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$12,188	$17,716	$21,067	$32,810
	Average annual total return	21.88%	21.00%	16.07%	13.09%
S&P/Citigroup World Equity EMI	Growth of $10,000	$12,239	$17,452	$22,515	$29,756
	Average annual total return	22.39%	20.40%	17.62%	11.94%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on May 2, 1997. Index returns began on April 30, 1997.*

Information About Your Portfolio's Expenses

DWS Global Opportunities VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, Class B shares limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,145.90	$1,144.20
Expenses Paid per $1,000*	$ 6.06	$ 7.46
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,019.56	$1,018.25
Expenses Paid per $1,000*	$ 5.70	$ 7.02

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Global Opportunities VIP	1.12%	1.38%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Global Opportunities VIP

DWS Global Opportunities VIP provided a total return of 22.08% during 2006 (Class A shares, unadjusted for contract charges), in line with the 22.39% return of its benchmark, the S&P®/Citigroup World Equity Extended Market Index (Citigroup World Equity EMI). The Portfolio outperformed the 18.78% average return of the 46 portfolios in Lipper's Global Growth Variable Annuity Funds category and remains well ahead of the peer group average over the three-, five- and 10-year periods.

The Portfolio was helped by the continued outperformance of small-cap stocks versus their large-cap counterparts, but the superior return of value relative to growth was a headwind to performance versus the index. With this as a backdrop, the Portfolio's sector allocation — which features an overweight in the traditional growth sectors of health care and technology — weighed on returns.[1] However, stock selection — our primary area of focus — was a strong contributor to performance. Our selection was most effective in the financials sector, where the top contributor was Piraeus Bank SA (Greece). The Greek bank reported robust profit growth on the strength of its expansion into the Balkans and the rising demand for mortgages and consumer credit in Greece. Further aiding performance within financials were Deutsche Boerse AG (Germany) and First Marblehead Corp. (United States). Our stock selection was also strong in health care, where the top three contributors were Celgene Corp. (United States), Stada Arzneimittel AG (Germany) and Fresenius Medical Care AG & Co. (Germany).

Overall, we believe the Portfolio is well-balanced and positioned to perform well even if the broader environment becomes less favorable. The global small-cap growth asset class provides a broad universe in which to find many smaller, under-followed stocks that we believe can offer considerable long-term opportunity.

Joseph Axtell, CFA	Terrence S. Gray, CFA
Lead Portfolio Manager	*Portfolio Manager*

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuations, political and economic changes and market risks. Additionally, stocks of small-sized companies involve greater risk as they often have limited product lines, markets or financial resources and may be sensitive to erratic and abrupt market movements more so than securities of larger, more established companies. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The S&P®/Citigroup World Equity Extended Market Index (Citigroup World Equity EMI), is an unmanaged index of small-capitalization stocks within 27 countries around the globe.

Index returns assume the reinvestment of dividends net of withholding tax and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

The Lipper Global Growth Variable Annuity Funds category invests at least 75% of its equity assets in companies both inside and outside of the US Growth funds typically have an above-average price-to-cash flow ratio, price-to-book ratio, and three-year sales-per-share growth value compared to the S&P/Citigroup World BMI. Category returns assume reinvestment of dividends. It is not possible to invest directly into a Lipper category.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Global Opportunities VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	97%	99%
Cash Equivalents	3%	1%
	100%	100%

Geographical Diversification (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/06**	**12/31/05**
Continental Europe	41%	38%
United States	32%	37%
Japan	7%	8%
Pacific Basin	7%	7%
United Kingdom	7%	4%
Australia	3%	2%
Latin America	2%	2%
Canada	1%	1%
Other	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Financials	27%	25%
Health Care	17%	14%
Information Technology	15%	14%
Consumer Discretionary	13%	17%
Industrials	12%	14%
Energy	8%	5%
Utilities	3%	3%
Consumer Staples	2%	2%
Materials	2%	4%
Telecommunication Services	1%	2%
	100%	100%

Asset allocation, geographical diversification and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 40. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Global Opportunities VIP

	Shares	Value ($)
Common Stocks 97.6%		
Australia 2.6%		
Babcock & Brown Ltd.	238,890	4,659,830
Sigma Pharmaceuticals Ltd. (a)	2,071,038	4,867,000
(Cost $7,413,269)		**9,526,830**
Bermuda 0.6%		
Orient-Express Hotels Ltd. "A" (Cost $1,433,826)	46,400	**2,195,648**
Brazil 2.2%		
Aracruz Celulose SA (ADR) (Preferred)	60,800	3,723,392
Diagnosticos da America SA*	159,200	3,398,065
Weg SA (Preferred)	142,700	1,011,386
(Cost $5,651,342)		**8,132,843**
Canada 1.1%		
Certicom Corp.*	302,000	1,312,987
Flint Energy Services Ltd.*	50,000	1,275,565
OPTI Canada, Inc.*	88,700	1,504,511
(Cost $3,973,532)		**4,093,063**
France 3.7%		
Business Objects SA*	28,382	1,117,494
Business Objects SA (ADR)*	62,100	2,449,845
Financiere Marc de Lacharriere SA	29,535	2,833,585
Flamel Technologies SA (ADR)* (a)	118,900	3,561,055
JC Decaux SA (a)	120,207	3,420,093
(Cost $9,013,677)		**13,382,072**
Germany 14.1%		
AWD Holding AG (a)	124,622	5,266,991
Curanum AG (a)	103,091	939,377
Deutsche Boerse AG (a)	8,235	1,514,531
Francotyp-Postalia Holding AG*	41,300	1,048,928
Fresenius Medical Care AG & Co. (a)	75,696	10,057,980
Grenkeleasing AG	41,755	1,987,177
Hypo Real Estate Holding AG (a)	94,582	5,941,604
Puma AG (a)	9,376	3,658,187
QSC AG* (a)	310,600	2,050,003
Rational AG (a)	15,082	2,809,396
Stada Arzneimittel AG (a)	103,155	5,915,494
United Internet AG (Registered) (a)	339,035	5,605,641
Wincor Nixdorf AG (a)	31,968	4,972,781
(Cost $25,486,633)		**51,768,090**
Greece 5.0%		
Coca-Cola Hellenic Bottling Co. SA	97,300	3,819,567
Hellenic Exchanges Holding SA	146,400	2,693,101
Piraeus Bank SA	259,975	8,377,490
Titan Cement Co. SA	62,900	3,422,026
(Cost $8,858,236)		**18,312,184**
Hong Kong 3.3%		
Kingboard Chemical Holdings Ltd.	1,435,140	5,618,964
Kingboard Laminates Holding Ltd.*	290,233	310,446
Midland Holdings Ltd.	2,222,600	1,129,186
Wing Hang Bank Ltd.	427,700	5,012,964
(Cost $5,720,808)		**12,071,560**
Ireland 6.8%		
Anglo Irish Bank Corp. PLC	461,471	9,568,123
C&C Group PLC	155,740	2,766,456
FBD Holdings PLC	64,300	3,498,950
ICON PLC (ADR)*	73,800	2,782,260
Irish Continental Group PLC	12,760	234,129
Paddy Power PLC	189,500	3,764,358
Ryanair Holdings PLC* (b)	1,100	15,086
Ryanair Holdings PLC* (b)	169,500	2,335,526
(Cost $10,132,288)		**24,964,888**
Italy 3.1%		
Banca Italease	93,800	5,450,013
Lottomatica SpA	45,165	1,875,660
Safilo Group SpA* (a)	373,100	2,216,369
Societa Iniziative Autostradali e Servizi SpA (a)	128,900	1,915,809
(Cost $9,996,258)		**11,457,851**
Japan 6.6%		
AEON Credit Services Co., Ltd. (a)	100,800	1,898,543
AEON Mall Co., Ltd.	78,000	4,373,147
JAFCO Co., Ltd.	21,500	1,063,984
KITZ Corp.	184,000	1,537,426
Matsui Securities Co., Ltd. (a)	180,900	1,375,686
Nidec Corp.	24,900	1,928,932
Park24 Co., Ltd. (a)	238,000	3,053,455
Sumitomo Realty & Development Co., Ltd.	217,000	6,978,950
UFJ Central Leasing Co., Ltd.	45,000	2,129,661
(Cost $15,780,151)		**24,339,784**
Korea 1.0%		
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	109,100	3,419,716
Korea Information Service, Inc.	9,500	238,309
(Cost $1,971,297)		**3,658,025**
Netherlands 3.0%		
Chicago Bridge & Iron Co., NV (New York Shares)	143,500	3,923,290
SBM Offshore NV	206,683	7,104,706
(Cost $4,492,627)		**11,027,996**
Norway 1.0%		
Prosafe ASA (a)	123,000	1,739,709
Tandberg Television ASA* (a)	140,200	1,757,771
(Cost $3,884,504)		**3,497,480**
Sweden 1.7%		
Brostrom AB "B" (a)	87,700	1,921,182
Eniro AB	195,700	2,575,903
Micronic Laser Systems AB*	144,100	1,616,277
(Cost $4,372,123)		**6,113,362**
Switzerland 2.0%		
Advanced Digital Broadcast Holdings SA (ADB Group) (Registered)*	20,654	1,355,408
Fortune Management, Inc. (REG S)* (a)	472,442	2,430,159

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Partners Group (Registered)*	29,000	3,497,567
(Cost $4,158,606)		**7,283,134**
Taiwan 2.3%		
Powerchip Semiconductor Corp.	3,022,902	2,042,004
Siliconware Precision Industries Co.	2,994,739	4,710,739
Yuanta Core Pacific Securities Co.	2,121,000	1,761,589
(Cost $4,958,755)		**8,514,332**
Thailand 0.5%		
Bangkok Bank PCL (Foreign Registered) (Cost $1,483,235)	593,000	**1,912,055**
United Kingdom 6.5%		
Aegis Group PLC	593,379	1,615,958
ARM Holdings PLC	981,137	2,414,462
Ashmore Group PLC*	715,511	3,631,889
BlueBay Asset Management PLC (Unit)*	299,487	2,298,672
John Wood Group PLC	298,024	1,528,370
Lamprell PLC*	442,400	2,090,816
Michael Page International PLC	508,420	4,500,279
Serco Group PLC	487,065	3,640,778
Taylor Nelson Sofres PLC	570,715	2,234,841
(Cost $19,572,497)		**23,956,065**
United States 30.5%		
Adams Respiratory Therapeutics, Inc.*	55,200	2,252,712
Advance Auto Parts, Inc.	80,450	2,860,802
Advanced Medical Optics, Inc.*	75,100	2,643,520
Aeropostale, Inc.*	115,600	3,568,572
Allegheny Energy, Inc.*	212,000	9,732,920
AMERIGROUP Corp.*	118,800	4,263,732
Bravo! Foods International Corp.* (a)	720,900	223,479
Carter's, Inc.*	79,200	2,019,600
Celgene Corp.*	81,800	4,705,954
Cogent, Inc.*	106,400	1,171,464
Diamond Foods, Inc.	74,800	1,421,948
Dresser-Rand Group, Inc.*	106,800	2,613,396
EMS Technologies, Inc.*	62,700	1,255,881
Euronet Worldwide, Inc.*	107,400	3,188,706
First Marblehead Corp.	77,100	4,213,515
Foundation Coal Holdings, Inc.	69,900	2,220,024
FTI Consulting, Inc.* (a)	82,350	2,296,742
Gentex Corp.	95,600	1,487,536
Harman International Industries, Inc.	29,800	2,977,318
Harris Interactive, Inc.*	146,700	739,368
Invitrogen Corp.*	37,100	2,099,489
Itron, Inc.*	33,700	1,747,008
Joy Global, Inc.	99,575	4,813,455
Kenneth Cole Productions, Inc. "A"	32,100	770,079
Lam Research Corp.*	45,400	2,298,148
Metabolix, Inc.*	47,600	901,544
Mueller Water Products, Inc. "A"	103,700	1,542,019
NeuStar, Inc. "A"*	79,500	2,578,980
New York & Co., Inc.*	121,300	1,586,604
Nuveen Investments "A"	74,800	3,880,624
NxStage Medical, Inc.* (a)	198,700	1,665,106
Openwave Systems, Inc.*	142,800	1,318,044
P.F. Chang's China Bistro, Inc.*	53,300	2,045,654
Perficient, Inc.*	100,100	1,642,641
Rowan Companies, Inc.	57,200	1,899,040
Schawk, Inc.	96,000	1,875,840
Somanetics Corp.*	111,200	2,538,696
Thoratec Corp.*	133,000	2,338,140
THQ, Inc.*	163,500	5,317,020
Ultra Petroleum Corp.*	117,400	5,605,850
Waters Corp.*	55,500	2,717,835
WellCare Health Plans, Inc.*	31,100	2,142,790
Zions Bancorp.	35,600	2,934,864
(Cost $82,765,043)		**112,116,659**
Total Common Stocks (Cost $231,118,707)		**358,323,921**

Securities Lending Collateral 13.0%

Daily Assets Fund Institutional, 5.34% (c) (d) (Cost $47,847,277)	47,847,277	**47,847,277**

Cash Equivalents 2.4%

Cash Management QP Trust, 5.46% (e) (Cost $8,986,840)	8,986,840	**8,986,840**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $287,952,824)†	113.0	**415,158,038**
Other Assets and Liabilities, Net	(13.0)	**(47,782,739)**
Net Assets	100.0	**367,375,299**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $296,157,850. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $119,000,188. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $131,351,860 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $12,351,672.*

(a) *All or a portion of these securities were on loan amounting to $45,171,440. In addition, included in other assets and liabilities is a pending sale, amounting to $470,392, that is also on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $45,641,832 which is 12.4% of net assets.*

(b) *Securities with the same description are the same corporate entity but trade on different stock exchanges.*

(c) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $231,118,707), including $45,641,832 of securities loaned	$ 358,323,921
Investment in Daily Assets Fund Institutional (cost $47,847,277)*	47,847,277
Investment in Cash Management QP Trust (cost $8,986,840)	8,986,840
Total investments in securities, at value (cost $287,952,824)	415,158,038
Foreign currency, at value (cost $422,406)	424,340
Receivable for investments sold	488,829
Dividends receivable	181,999
Interest receivable	65,093
Receivable for Portfolio shares sold	6,630
Foreign taxes recoverable	22,364
Due from Advisor	144,220
Other assets	8,520
Total assets	416,500,033

Liabilities	
Due to custodian	485,612
Payable for Portfolio shares redeemed	367,986
Payable upon return of securities loaned	47,847,277
Accrued management fee	274,745
Accrued distribution service fee (Class B)	10,469
Accrued shareholder service fee (Class A)	154
Accrued shareholder service fee (Class B)	48
Other accrued expenses and payables	138,443
Total liabilities	49,124,734
Net assets, at value	**$ 367,375,299**

Net Assets	
Net assets consist of:	
Accumulated distributions in excess of net investment income	(3,290,411)
Net unrealized appreciation (depreciation) on:	
Investments	127,205,214
Foreign currency related transactions	2,114
Accumulated net realized gain (loss)	25,932,605
Paid-in capital	217,525,777
Net assets, at value	**$ 367,375,299**
Class A	
Net Asset Value, offering and redemption price per share ($330,898,614 ÷ 18,234,839 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 18.15**
Class B	
Net Asset Value, offering and redemption price per share ($36,476,685 ÷ 2,034,192 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 17.93**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $303,515)	$ 3,658,341
Interest (net of foreign taxes withheld of $47)	1,273
Interest — Cash Management QP Trust	374,553
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	320,254
Other income**	40,401
Total Income	4,394,822
Expenses:	
Management fee	3,165,067
Administration fee	197,914
Custodian and accounting fees	270,757
Distribution service fee (Class B)	87,390
Shareholder service fee (Class A)	154
Shareholder service fee (Class B)	48
Record keeping fee (Class B)	46,462
Auditing	47,619
Legal	31,026
Trustees' fees and expenses	13,411
Reports to shareholders and shareholder meeting	81,461
Other	33,134
Total expenses before expense reductions	3,974,443
Expense reductions	(70,930)
Total expenses after expense reductions	3,903,513
Net investment income (loss)	**491,309**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments (net of foreign taxes of $120,830)	39,981,193
Foreign currency related transactions	(76,185)
	39,905,008
Net unrealized appreciation (depreciation) during the period on:	
Investments (net of deferred foreign tax credit of $731)	26,805,652
Foreign currency related transactions	1,835
	26,807,487
Net gain (loss) on investment transactions	**66,712,495**
Net increase (decrease) in net assets resulting from operations	**$ 67,203,804**

** *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note H).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 491,309	$ 880,408
Net realized gain (loss) on investment transactions	39,905,008	29,176,839
Net unrealized appreciation (depreciation) during the period on investment transactions	26,807,487	18,673,524
Net increase (decrease) in net assets resulting from operations	67,203,804	48,730,771
Distributions to shareholders from:		
Net investment income:		
Class A	(3,088,293)	(1,475,427)
Class B	(323,635)	(100,297)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	29,442,382	36,509,577
Reinvestment of distributions	3,088,293	1,475,427
Cost of shares redeemed	(44,115,725)	(27,263,254)
Net increase (decrease) in net assets from Class A share transactions	(11,585,050)	10,721,750
Class B		
Proceeds from shares sold	3,685,449	8,447,459
Reinvestment of distributions	323,635	100,297
Cost of shares redeemed	(7,059,014)	(3,892,529)
Net increase (decrease) in net assets from Class B share transactions	(3,049,930)	4,655,227
Increase (decrease) in net assets	49,156,896	62,532,024
Net assets at beginning of period	318,218,403	255,686,379
Net assets at end of period (including accumulated distributions in excess of net investment income $3,290,411 and $621,811, respectively)	**$ 367,375,299**	**$ 318,218,403**

Other Information		
Class A		
Shares outstanding at beginning of period	19,013,655	18,170,922
Shares sold	1,785,621	2,735,197
Shares issued to shareholders in reinvestment of distributions	181,664	116,727
Shares redeemed	(2,746,101)	(2,009,191)
Net increase (decrease) in Class A shares	(778,816)	842,733
Shares outstanding at end of period	**18,234,839**	**19,013,655**
Class B		
Shares outstanding at beginning of period	2,223,191	1,871,933
Shares sold	227,819	635,797
Shares issued to shareholders in reinvestment of distributions	19,241	8,017
Shares redeemed	(436,059)	(292,556)
Net increase (decrease) in Class B shares	(188,999)	351,258
Shares outstanding at end of period	**2,034,192**	**2,223,191**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$15.00**	**$12.77**	**$10.38**	**$ 6.97**	**$ 8.70**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.03[c]	.04	.01	.02	(.00)[b]
Net realized and unrealized gain (loss) on investment transactions	3.28	2.27	2.41	3.40	(1.73)
Total from investment operations	3.31	2.31	2.42	3.42	(1.73)
Less distributions from:					
Net investment income	(.16)	(.08)	(.03)	(.01)	—
Net asset value, end of period	**$18.15**	**$15.00**	**$12.77**	**$10.38**	**$ 6.97**
Total Return (%)	22.08[c]	18.19	23.35	49.09	(19.89)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	331	285	232	183	121
Ratio of expenses (%)	1.12	1.17	1.18	1.18	1.19
Ratio of net investment income (loss) (%)	.16[c]	.32	.09	.28	(.03)
Portfolio turnover rate (%)	28	30	24	41	47

[a] *Based on average shares outstanding during the period.*

[b] *Amount is less than $.005.*

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note H). The non-recurring income resulted in an increase in net investment income of $0.002 per share and an increase in the ratio of net investment income of 0.01%. Excluding this non-recurring income, total return would have been 0.01% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$14.84**	**$12.62**	**$10.25**	**$ 6.89**	**$ 8.62**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.00)[b,d]	.03	(.01)	.00[b]	(.02)
Net realized and unrealized gain (loss) on investment transactions	3.24	2.24	2.38	3.36	(1.71)
Total from investment operations	3.24	2.27	2.37	3.36	(1.73)
Less distributions from:					
Net investment income	(.15)	(.05)	—	—	—
Net asset value, end of period	**$17.93**	**$14.84**	**$12.62**	**$10.25**	**$ 6.89**
Total Return (%)	21.88[c,d]	18.06[c]	23.12[c]	48.77	(20.07)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	37	33	24	13	4
Ratio of expenses before expense reductions (%)	1.51	1.54	1.52	1.43	1.44
Ratio of expenses after expense reductions (%)	1.31	1.24	1.39	1.43	1.44
Ratio of net investment income (loss) (%)	(.03)[d]	.25	(.12)	.03	(.28)
Portfolio turnover rate (%)	28	30	24	41	47

[a] *Based on average shares outstanding during the period.*

[b] *Amount is less than $.005.*

[c] *Total return would have been lower had certain expenses not been reduced.*

[d] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note H). The non-recurring income resulted in an increase in net investment income of $0.002 per share and an increase in the ratio of net investment income of 0.01%. Excluding this non-recurring income, total return would have been 0.01% lower.*

Performance Summary

December 31, 2006

DWS International VIP

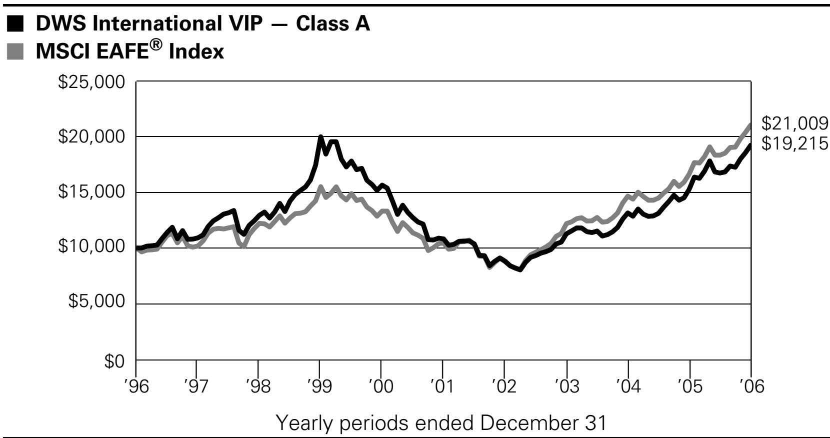
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Returns for all periods shown for Class B shares reflect a fee waiver and/or reimbursement. Without this waiver/reimbursement, returns would have been lower.

Risk Considerations

This Portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes, and market risks. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment



The Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE®) Index is an unmanaged capitalization-weighted measure of stock markets in Europe, Australasia and the Far East. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

Index returns assume the reinvestment of dividends net of withholding tax and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS International VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$12,591	$17,045	$17,776	$19,215
	Average annual total return	25.91%	19.45%	12.19%	6.75%
MSCI EAFE® Index	Growth of $10,000	$12,634	$17,248	$20,094	$21,009
	Average annual total return	26.34%	19.93%	14.98%	7.71%

DWS International VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$12,544	$16,873	$17,510	$17,651
	Average annual total return	25.44%	19.05%	11.85%	6.07%
MSCI EAFE® Index	Growth of $10,000	$12,634	$17,248	$20,094	$19,933
	Average annual total return	26.34%	19.93%	14.98%	7.46%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on May 8, 1997. Index returns began on May 31, 1997.*

Information About Your Portfolio's Expenses

DWS International VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, Class B shares limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,149.00	$1,147.50
Expenses Paid per $1,000*	$ 5.15	$ 7.31
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.42	$1,018.40
Expenses Paid per $1,000*	$ 4.84	$ 6.87

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS International VIP	.95%	1.35%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS International VIP

International equities delivered a strong return of 26.34% in US dollar terms during 2006, as measured by the MSCI EAFE® Index. The performance of the international markets was driven by solid corporate earnings, positive economic growth, relatively accommodative global monetary policies and a high level of mergers and acquisition activity. Notably, all ten major industry sectors provided double-digit returns. In this environment, the Class A shares of the Portfolio gained 25.91% (Class A shares, unadjusted for contract charges), trailing the return of the index.

The Portfolio's return was primarily supported by stock selection in the telecommunications and consumer discretionary sectors. Within telecom, the top performer was Luxembourg-based Millicom International Cellular SA, which has operations in 17 developing countries within Asia, Latin America and Africa. A position in PT Telekomunikasi Indonesia (Indonesia) also gained ground on the strength of increased subscriber growth in its cellular division. Within consumer discretionary, Whitbread PLC (United Kingdom) — an operator of budget lodging, restaurants and fitness clubs — saw its shares hit an all-time record. Also aiding performance was Greene King PLC (United Kingdom), a U.K. brewer of beer and operator of tenanted pub houses that reported a substantial increase in its first half profits.

These advances were counterbalanced by lackluster results within the utilities and industrials sectors. With respect to the former, relative returns were crimped by the Portfolio's non-holding in a number of companies — such as Spain's Endesa — that were taken over during the year. In industrials, relative performance was hurt by mediocre results from Japan's Mitsubishi Corp. and Brazil's Gol-Linhas Aereas Inteligentes SA (ADR), which saw its shares slump following a tragic mid-air collision in September. (As of December 31, 2006, the position in Mitsubishi was sold.)

Matthias Knerr, CFA
Manager

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes, and market risks. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

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Index returns assume the reinvestment of dividends net of withholding tax and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS International VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	96%	99%
Cash Equivalents	3%	1%
Preferred Stocks	1%	—
	100%	100%

Geographical Diversification (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/06**	**12/31/05**
Continental Europe	55%	50%
United Kingdom	18%	17%
Japan	17%	22%
Latin America	5%	3%
Pacific Basin	4%	5%
Australia	1%	2%
Other	—	1%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/06**	**12/31/05**
Financials	33%	34%
Consumer Discretionary	16%	15%
Health Care	9%	6%
Materials	8%	7%
Information Technology	7%	6%
Consumer Staples	6%	7%
Telecommunication Services	6%	4%
Industrials	6%	8%
Energy	6%	11%
Utilities	3%	2%
	100%	100%

Asset allocation, geographical diversification and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 49. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS International VIP

	Shares	Value ($)
Common Stocks 95.1%		
Australia 1.2%		
Australia & New Zealand Banking Group Ltd. (Cost $6,733,720)	411,392	**9,126,419**
Austria 1.0%		
Erste Bank der Oesterreichischen Sparkassen AG (Cost $6,034,363)	101,249	**7,734,727**
Belgium 3.5%		
InBev NV	140,700	9,273,786
KBC Groep NV	89,900	11,004,523
Umicore	34,700	5,892,773
(Cost $21,929,245)		**26,171,082**
Brazil 3.2%		
Companhia Vale do Rio Doce (ADR)	207,612	6,174,381
GOL-Linhas Aereas Inteligentes SA (ADR) (Preferred) (a)	254,300	7,290,781
Petroleo Brasileiro SA (ADR)	102,300	10,535,877
(Cost $14,568,151)		**24,001,039**
China 0.5%		
Shanghai Electric Group Co., Ltd. "H" (Cost $3,861,678)	9,387,000	**3,925,805**
Denmark 1.3%		
Novo Nordisk AS "B" (Cost $7,923,625)	121,500	**10,115,478**
Finland 3.3%		
Fortum Oyj	271,400	7,710,749
Nokia Oyj	374,157	7,609,501
Nokia Oyj (ADR)	82,990	1,686,357
Nokian Renkaat Oyj (a)	384,810	7,882,457
(Cost $20,374,654)		**24,889,064**
France 5.3%		
Axa	98,841	3,985,472
Pernod Ricard SA	19,049	4,362,591
Societe Generale	87,277	14,766,655
Total SA	232,728	16,781,850
(Cost $24,335,385)		**39,896,568**
Germany 10.9%		
BASF AG (a)	63,852	6,214,598
Bayer AG (a)	185,923	9,974,609
Commerzbank AG (a)	153,976	5,843,430
Continental AG (a)	66,120	7,686,766
Deutsche Boerse AG (a)	40,812	7,505,892
E.ON AG (a)	94,245	12,786,491
Fresenius Medical Care AG & Co. (a)	41,073	5,457,507
Hypo Real Estate Holding AG (a)	243,165	15,275,530
Merck KGaA (a)	51,339	5,320,664
Stada Arzneimittel AG (a)	106,864	6,128,189
(Cost $53,129,596)		**82,193,676**
Greece 3.0%		
Alpha Bank AE	176,656	5,337,896
Hellenic Telecommunications Organization SA*	250,020	7,475,750
National Bank of Greece SA	204,900	9,411,014
(Cost $14,069,695)		**22,224,660**
Hong Kong 0.8%		
Esprit Holdings Ltd. (Cost $5,505,084)	530,000	**5,897,344**
Indonesia 0.5%		
PT Telekomunikasi Indonesia (ADR) (Cost $3,701,017)	85,600	**3,903,360**
Ireland 1.9%		
Anglo Irish Bank Corp. PLC	399,678	8,286,909
CRH PLC (b)	47,900	1,990,975
CRH PLC (b)	95,810	3,974,550
(Cost $9,348,724)		**14,252,434**
Italy 3.5%		
Banca Italease	199,029	11,564,079
UniCredito Italiano SpA	1,683,173	14,712,485
(Cost $21,096,437)		**26,276,564**
Japan 16.6%		
Canon, Inc.	332,450	18,829,195
Casio Computer Co., Ltd.	331,000	7,519,096
Daito Trust Construction Co., Ltd.	167,900	7,681,908
Eisai Co., Ltd.	147,000	8,083,775
Komatsu Ltd.	404,000	8,137,966
Mitsui Fudosan Co., Ltd.	504,000	12,327,237
Mizuho Financial Group, Inc.	1,296	9,270,093
ORIX Corp.	33,800	9,807,844
Shinsei Bank Ltd.	1,007,000	5,899,931
Sumitomo Corp.	568,000	8,468,843
Suzuki Motor Corp.	335,000	9,471,138
Toyota Motor Corp.	204,400	13,407,523
Yamaha Motor Co., Ltd.	199,000	6,264,605
(Cost $92,858,836)		**125,169,154**
Korea 1.0%		
Samsung Electronics Co., Ltd. (Cost $3,284,699)	11,887	**7,785,128**
Luxembourg 0.9%		
Millicom International Cellular SA* (Cost $3,685,990)	105,400	**6,496,856**
Mexico 1.6%		
Fomento Economico Mexicano SA de CV (ADR)	61,800	7,153,968
Grupo Financiero Banorte SA de CV "O"	1,292,000	5,051,752
(Cost $9,303,420)		**12,205,720**
Netherlands 1.5%		
ING Groep NV (CVA) (Cost $10,203,140)	262,113	**11,615,964**
Norway 1.3%		
Statoil ASA (Cost $9,871,446)	363,400	**9,580,645**
Pakistan 0.2%		
MCB Bank Ltd. (GDR) 144A (Cost $1,824,043)	102,415	**1,843,470**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Philippines 0.5%		
Philippine Long Distance Telephone Co. (ADR) (a) (Cost $3,610,648)	73,200	**3,742,716**
Spain 1.4%		
Telefonica SA (Cost $9,178,573)	496,335	**10,532,920**
Sweden 4.3%		
Atlas Copco AB "B"	288,000	9,296,340
Rezidor Hotel Group AB*	457,800	3,945,427
Swedish Match AB	428,500	8,007,538
Tele2 AB "B"	286,900	4,177,996
Telefonaktiebolaget LM Ericsson "B"	1,730,200	6,972,243
(Cost $27,896,376)		**32,399,544**
Switzerland 7.5%		
Compagnie Financiere Richemont AG "A" (Unit)	174,167	10,116,144
Lonza Group AG (Registered)	63,197	5,447,327
Novartis AG (Registered)	166,767	9,583,605
Roche Holding AG (Genusschein)	62,782	11,233,025
UBS AG (Registered)	245,109	14,840,141
Xstrata PLC	107,523	5,364,631
(Cost $35,584,051)		**56,584,873**
Taiwan 0.6%		
Hon Hai Precision Industry Co., Ltd. (Cost $1,577,739)	583,709	**4,168,366**
Turkey 0.4%		
Turkiye Is Bankasi (Isbank) "C" (Cost $2,249,701)	641,080	**2,922,057**
United Kingdom 17.4%		
Aviva PLC	512,279	8,224,704
BHP Billiton PLC	686,615	12,685,101
BP PLC	413,980	4,625,147
Capita Group PLC	622,228	7,393,260
Greene King PLC	418,298	9,267,405
Hammerson PLC	328,934	10,129,202
Imperial Tobacco Group PLC	249,180	9,817,715
Informa PLC	463,603	5,401,783
Prudential PLC	566,439	7,737,094
Punch Taverns PLC	223,571	5,579,871
Royal Bank of Scotland Group PLC	215,541	8,376,848
Shire PLC	355,165	7,336,679
Standard Chartered PLC	269,504	7,833,188
Tesco PLC	982,154	7,761,183
Vodafone Group PLC	3,295,284	9,090,041
Whitbread PLC	286,222	9,382,466
(Cost $94,844,965)		**130,641,687**
Total Common Stocks (Cost $518,585,001)		**716,297,320**

Preferred Stocks 1.4%

	Shares	Value ($)
Germany		
Fresenius AG (a)	18,999	4,082,945
Porsche AG (a)	5,008	6,367,872
Total Preferred Stocks (Cost $7,582,433)		**10,450,817**

Securities Lending Collateral 11.7%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.34% (c) (d) (Cost $88,072,511)	88,072,511	**88,072,511**

Cash Equivalents 3.0%

	Shares	Value ($)
Cash Management QP Trust, 5.46% (e) (Cost $22,426,410)	22,426,410	**22,426,410**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $636,666,355)†	111.2	**837,247,058**
Other Assets and Liabilities, Net	(11.2)	**(84,052,068)**
Net Assets	100.0	**753,194,990**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $645,958,018. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $191,289,040. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $193,880,940 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,591,900.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $84,044,836 which is 11.2% of net assets.*

(b) *Securities with the same description are the same corporate entity but trade on different stock exchanges.*

(c) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

CVA: Certificate Van Aandelen

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $526,167,434), including $84,044,836 of securities loaned	$ 726,748,137
Investment in Daily Assets Fund Institutional (cost $88,072,511)*	88,072,511
Investment in Cash Management QP Trust (cost $22,426,410)	22,426,410
Total investments in securities, at value (cost $636,666,355)	837,247,058
Cash	932,213
Foreign currency, at value (cost $2,489,044)	2,486,623
Receivable for investments sold	1,808,800
Dividends receivable	915,804
Interest receivable	115,446
Receivable for Portfolio shares sold	102,262
Foreign taxes recoverable	104,598
Due from Advisor	308,787
Other assets	17,072
Total assets	844,038,663

Liabilities	
Payable for investments purchased	213,514
Payable for Portfolio shares redeemed	1,852,650
Payable upon return of securities loaned	88,072,511
Accrued management fee	449,462
Accrued distribution service fee (Class B)	10,191
Accrued shareholder service fee (Class A)	272
Accrued shareholder service fee (Class B)	62
Other accrued expenses and payables	245,011
Total liabilities	90,843,673
Net assets, at value	**$ 753,194,990**

Net Assets	
Net assets consist of:	
Undistributed net investment income	10,256,171
Net unrealized appreciation (depreciation) on:	
Investments	200,580,703
Foreign currency related transactions	14,191
Accumulated net realized gain (loss)	(66,101,551)
Paid-in capital	608,445,476
Net assets, at value	**$ 753,194,990**
Class A	
Net Asset Value, offering and redemption price per share ($701,947,149 ÷ 52,299,023 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.42**
Class B	
Net Asset Value, offering and redemption price per share ($51,247,841 ÷ 3,829,429 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.38**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $1,360,880)	$ 20,269,741
Interest	50,615
Interest — Cash Management QP Trust	915,657
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	662,732
Total Income	21,898,745
Expenses:	
Management fee	5,225,483
Administration fee	393,235
Custodian and accounting fees	534,668
Distribution service fee (Class B)	108,917
Shareholder service fee (Class A)	272
Shareholder service fee (Class B)	62
Record keeping fee (Class B)	63,307
Auditing	43,056
Legal	66,744
Trustees' fees and expenses	25,669
Reports to shareholders and shareholder meeting	133,626
Other	52,508
Total expenses before expense reductions	6,647,547
Expense reductions	(8,553)
Total expenses after expense reductions	6,638,994
Net investment income (loss)	**15,259,751**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments (net of foreign taxes of $9,395)	105,823,527
Foreign currency related transactions (including CPMF tax of $1,373)	(134,029)
Net increase from payments by affiliates and gain (loss) realized on a trade executed incorrectly	—
	105,689,498
Net unrealized appreciation (depreciation) during the period on:	
Investments (net of deferred foreign tax credit of $156,933)	32,546,949
Foreign currency related transactions	11,155
	32,558,104
Net gain (loss) on investment transactions	**138,247,602**
Net increase (decrease) in net assets resulting from operations	**$ 153,507,353**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 15,259,751	$ 8,859,774
Net realized gain (loss) on investment transactions	105,689,498	53,786,867
Net unrealized appreciation (depreciation) during the period on investment transactions	32,558,104	21,680,735
Net increase (decrease) in net assets resulting from operations	153,507,353	84,327,376
Distributions to shareholders from:		
Net investment income:		
Class A	(11,465,310)	(8,620,538)
Class B	(663,494)	(480,677)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	71,568,481	58,844,328
Net assets acquired in tax-free reorganization	14,831,229	—
Reinvestment of distributions	11,465,310	8,620,538
Cost of shares redeemed	(85,718,829)	(112,841,762)
Net increase (decrease) in net assets from Class A share transactions	12,146,191	(45,376,896)
Class B		
Proceeds from shares sold	10,863,495	4,971,389
Net assets acquired in tax-free reorganization	6,770,201	—
Reinvestment of distributions	663,494	480,677
Cost of shares redeemed	(16,697,624)	(5,251,206)
Net increase (decrease) in net assets from Class B share transactions	1,599,566	200,860
Increase (decrease) in net assets	155,124,306	30,050,125
Net assets at beginning of period	598,070,684	568,020,559
Net assets at end of period (including undistributed net investment income of $10,256,171 and $6,301,420, respectively)	**$ 753,194,990**	**$ 598,070,684**

Other Information		
Class A		
Shares outstanding at beginning of period	51,410,562	56,078,328
Shares sold	5,986,549	5,966,433
Shares issued in tax-free reorganization	1,133,856	—
Shares issued to shareholders in reinvestment of distributions	924,622	946,272
Shares redeemed	(7,156,566)	(11,580,471)
Net increase (decrease) in Class A shares	888,461	(4,667,766)
Shares outstanding at end of period	**52,299,023**	**51,410,562**
Class B		
Shares outstanding at beginning of period	3,739,529	3,699,485
Shares sold	862,789	510,934
Shares issued in tax-free reorganization	519,174	—
Shares issued to shareholders in reinvestment of distributions	53,508	52,764
Shares redeemed	(1,345,571)	(523,654)
Net increase (decrease) in Class B shares	89,900	40,044
Shares outstanding at end of period	**3,829,429**	**3,739,529**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$10.85**	**$ 9.50**	**$ 8.26**	**$ 6.52**	**$ 8.05**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.28[b]	.15	.09	.09	.05
Net realized and unrealized gain (loss) on investment transactions	2.51	1.36	1.26	1.70	(1.52)
Total from investment operations	2.79	1.51	1.35	1.79	(1.47)
Less distributions from:					
Net investment income	(.22)	(.16)	(.11)	(.05)	(.06)
Net asset value, end of period	**$13.42**	**$10.85**	**$ 9.50**	**$ 8.26**	**$ 6.52**
Total Return (%)	25.91	16.17	16.53	27.75	(18.37)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	702	558	533	485	412
Ratio of expenses (%)	.98	1.02	1.04	1.05	1.03
Ratio of net investment income (loss) (%)	2.32[b]	1.59	1.05	1.32	.73
Portfolio turnover rate (%)	105	59	73	119	123

[a] *Based on average shares outstanding during the period.*

[b] *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.11 per share and 0.92% of average daily net assets, respectively.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$10.82**	**$ 9.48**	**$ 8.24**	**$ 6.50**	**$ 8.03**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.24[c]	.12	.06	.07	.04
Net realized and unrealized gain (loss) on investment transactions	2.50	1.35	1.27	1.71	(1.53)
Total from investment operations	2.74	1.47	1.33	1.78	(1.49)
Less distributions from:					
Net investment income	(.18)	(.13)	(.09)	(.04)	(.04)
Net asset value, end of period	**$13.38**	**$10.82**	**$ 9.48**	**$ 8.24**	**$ 6.50**
Total Return (%)	25.44[b]	15.71[b]	16.24[b]	27.52	(18.62)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	51	40	35	24	8
Ratio of expenses before expense reductions (%)	1.37	1.41	1.38	1.32	1.28
Ratio of expenses after expense reductions (%)	1.36	1.37	1.35	1.32	1.28
Ratio of net investment income (loss) (%)	1.94[c]	1.24	.74	1.05	.48
Portfolio turnover rate (%)	105	59	73	119	123

[a] *Based on average shares outstanding during the period.*

[b] *Total return would have been lower had certain expenses not been reduced.*

[c] *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.11 per share and 0.92% of average daily net assets, respectively.*

Performance Summary

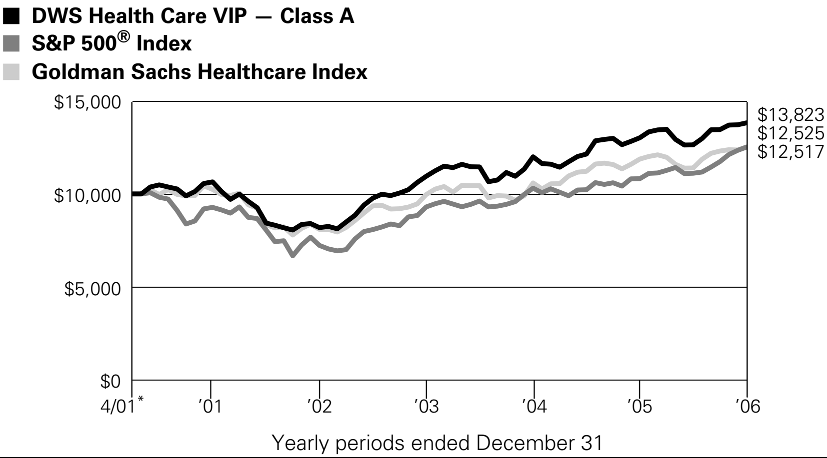
DWS Health Care VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less then their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Risk Considerations

This Portfolio is subject to stock market risk. The Portfolio may focus its investments on certain industry sectors, thereby increasing its vulnerability to any single industry or regulatory development. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment



The Standard & Poor's® 500 (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Goldman Sachs Healthcare Index is an unmanaged, market capitalization-weighted index of 114 stocks designed to measure the performance of companies in the health care sector.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Health Care VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,617	$12,624	$12,979	$13,823
	Average annual total return	6.17%	8.08%	5.35%	5.86%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$13,503	$12,525
	Average annual total return	15.79%	10.44%	6.19%	4.05%
Goldman Sachs Healthcare Index	Growth of $10,000	$10,542	$12,560	$12,220	$12,517
	Average annual total return	5.42%	7.89%	4.09%	4.04%

DWS Health Care VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$10,577	$12,477	$16,827
	Average annual total return	5.77%	7.66%	12.27%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$15,549
	Average annual total return	15.79%	10.44%	10.31%
Goldman Sachs Healthcare Index	Growth of $10,000	$10,542	$12,560	$14,985
	Average annual total return	5.42%	7.89%	9.40%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 2001. Index returns began on April 30, 2001.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Health Care VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,093.70	$1,091.80
Expenses Paid per $1,000*	$ 4.75	$ 6.80
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.67	$1,018.70
Expenses Paid per $1,000*	$ 4.58	$ 6.56

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series I — DWS Health Care VIP	.90%	1.29%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Health Care VIP

During a time when the US economy was stronger than had been predicted and economically sensitive stocks such as steel and airline companies led the market, DWS Health Care VIP posted a 6.17% return for its most recent fiscal year ended December 31, 2006 (Class A shares, unadjusted for contract charges). In comparison, the S&P 500® Index returned 15.79% and the Goldman Sachs Healthcare Index returned 5.42%.

For the period, our stock selections performed especially well within specialty pharmaceuticals. Within the sector, Shire PLC (ADR) and New River Pharmaceuticals, Inc. posted strong gains based on their collaboration for the development of Vyvanse, a new product for attention-deficit/hyperactivity disorder. In addition, within the health care services sector, our stock selection in health-care-related information technology companies contributed strongly to performance. The biggest detractor from comparative performance over the period was our decision not to hold the major pharmaceutical company Merck & Co., Inc., which was up strongly. During the period, Merck won a number of court cases related to Vioxx and exceeded Wall Street's earning expectations through higher than anticipated cost reductions.

Despite the cyclical nature of the economy and the financial markets, we continue to believe that the long-term outlook for health care stocks is very positive. We believe continually advancing technologies should provide significant growth opportunities for innovative companies that develop new products to address illnesses that are not well treated. As the US population ages, we anticipate increasing demand for quality health care.

Leefin Lai, CFA, CPA
Portfolio Manager

Thomas E. Bucher, CFA
Consultant to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk. The Portfolio may focus its investments on certain industry sectors, thereby increasing its vulnerability to any single industry or regulatory development. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Standard & Poor's 500® (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Goldman Sachs Healthcare Index is an unmanaged, market-capitalization-weighted index of 114 stocks designed to measure the performance of companies in the health care sector.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Health Care VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	99%	96%
Cash Equivalents	1%	4%
	100%	100%

Industry Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Pharmaceuticals	35%	35%
Health Care Services	24%	19%
Medical Supply & Specialty	19%	17%
Biotechnology	18%	23%
Life Sciences Equipment	3%	3%
Hospital Management	1%	3%
	100%	100%

Asset allocation and industry diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 58. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on the or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Health Care VIP

	Shares	Value ($)
Common Stocks 98.1%		
Health Care 98.1%		
Biotechnology 17.9%		
Alexion Pharmaceuticals, Inc.*	16,200	654,317
Amgen, Inc.*	33,750	2,305,463
Amylin Pharmaceuticals, Inc.*	14,500	523,015
Arena Pharmaceuticals, Inc.*	41,200	531,892
Biogen Idec, Inc.*	28,220	1,388,142
BioMarin Pharmaceutical, Inc.*	67,500	1,106,325
Celgene Corp.*	40,000	2,301,200
Gen-Probe, Inc.*	15,400	806,498
Genentech, Inc.*	29,400	2,385,222
Genmab A/S*	18,900	1,271,368
Genzyme Corp.*	37,200	2,290,776
Gilead Sciences, Inc.*	39,100	2,538,763
Keryx Biopharmaceuticals, Inc.*	50,600	672,980
Medicines Co.*	24,500	777,140
PDL BioPharma, Inc.*	48,000	966,720
Vertex Pharmaceuticals, Inc.*	35,900	1,343,378
		21,863,199
Health Care Services 23.2%		
Aetna, Inc.	38,900	1,679,702
Allscripts Healthcare Solutions, Inc.* (a)	32,500	877,175
Cardinal Health, Inc.	23,100	1,488,333
Caremark Rx, Inc.	40,300	2,301,533
Cerner Corp.*	19,100	869,050
Covance, Inc.*	25,800	1,519,878
Coventry Health Care, Inc.*	23,000	1,151,150
CVS Corp.	43,500	1,344,585
DaVita, Inc.*	19,100	1,086,408
Fresenius Medical Care AG & Co. (a)	9,129	1,213,001
HealthExtras, Inc.*	21,300	513,330
Henry Schein, Inc.*	26,400	1,293,072
IMS Health, Inc.	45,400	1,247,592
McKesson Corp.	47,400	2,403,180
Medco Health Solutions, Inc.*	31,784	1,698,537
Quality Systems, Inc.	21,900	816,213
UnitedHealth Group, Inc.	72,900	3,916,917
WellPoint, Inc.*	36,900	2,903,661
		28,323,317
Hospital Management 0.7%		
Community Health Systems, Inc.*	24,600	**898,392**
Life Sciences Equipment 3.5%		
Pharmaceutical Product Development, Inc.	56,900	1,833,318
Thermo Fisher Scientific, Inc.*	53,000	2,400,370
		4,233,688
Medical Supply & Specialty 18.3%		
Advanced Medical Optics, Inc.*	18,800	661,760
Alcon, Inc.	12,400	1,385,948
ArthroCare Corp.*	24,200	966,064
Baxter International, Inc.	105,700	4,903,423
Becton, Dickinson & Co.	17,900	1,255,685
C.R. Bard, Inc.	21,600	1,792,152
Cytyc Corp.*	35,300	998,990
DENTSPLY International, Inc.	35,300	1,053,705
Hologic, Inc.*	13,600	643,008
Hospira, Inc.*	34,100	1,145,078
Immucor, Inc.*	28,400	830,132
Medtronic, Inc.	33,800	1,808,638
Mentor Corp.	12,400	605,988
ResMed, Inc.*	16,900	831,818
Respironics, Inc.*	19,400	732,350
SonoSite, Inc.*	16,500	510,345
Stryker Corp.	27,000	1,487,970
Viasys Healthcare, Inc.*	24,300	676,026
		22,289,080
Pharmaceuticals 34.5%		
Abbott Laboratories	53,000	2,581,630
Allergan, Inc.	8,400	1,005,816
Astellas Pharma, Inc.	47,500	2,163,418
AstraZeneca PLC	29,980	1,608,105
Bristol-Myers Squibb Co.	50,000	1,316,000
Cardiome Pharma Corp.*	58,400	651,160
Eli Lilly & Co.	44,600	2,323,660
Forest Laboratories, Inc.*	13,500	683,100
Ista Pharmaceuticals, Inc.*	44,500	315,505
Johnson & Johnson	39,900	2,634,198
Merck KGaA (a)	19,502	2,021,146
New River Pharmaceuticals, Inc.* (a)	20,400	1,116,084
Novartis AG (Registered)	71,496	4,108,663
Pfizer, Inc.	117,040	3,031,336
Roche Holding AG (Genusschein)	23,398	4,186,396
Sanofi-Aventis	33,570	3,091,240
Schering-Plough Corp.	149,100	3,524,724
Shire PLC (ADR)	21,100	1,303,136
Stada Arzneimittel AG (a)	15,000	860,185
Wyeth	67,800	3,452,377
		41,977,879
Total Common Stocks (Cost $87,603,570)		**119,585,555**
Securities Lending Collateral 4.3%		
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $5,227,942)	5,227,942	**5,227,942**
Cash Equivalents 1.5%		
Cash Management QP Trust, 5.46% (d) (Cost $1,752,090)	1,752,090	**1,752,090**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $94,583,602)†	103.9	**126,565,587**
Other Assets and Liabilities, Net	(3.9)	**(4,699,675)**
Net Assets	100.0	**121,865,912**

The accompanying notes are an integral part of the financial statements.

* *Non-income producing security.*

† *The cost for federal income tax purposes was $95,077,083. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $31,488,504. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $33,443,669 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,955,165.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $5,004,309 which is 4.1% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $87,603,570), including $5,004,309 of securities loaned	$	119,585,555
Investment in Daily Assets Fund Institutional (cost $5,227,942)*		5,227,942
Investment in Cash Management QP Trust (cost $1,752,090)		1,752,090
Total investments in securities, at value (cost $94,583,602)		126,565,587
Foreign currency, at value (cost $609,140)		636,757
Receivable for investments sold		1,577,905
Dividends receivable		83,426
Interest receivable		11,888
Receivable for Portfolio shares sold		80,447
Foreign taxes recoverable		3,794
Due from Advisor		31,630
Other assets		2,943
Total assets		128,994,377

Liabilities		
Payable for investments purchased		1,733,859
Payable for Portfolio shares redeemed		14,983
Payable upon return of securities loaned		5,227,942
Accrued management fee		69,002
Accrued distribution service fee (Class B)		4,450
Accrued shareholder service fee (Class A)		49
Accrued shareholder service fee (Class B)		41
Other accrued expenses and payables		78,139
Total liabilities		7,128,465
Net assets, at value	**$**	**121,865,912**

Net Assets		
Net assets consist of:		
Net unrealized appreciation (depreciation) on:		
Investments		31,981,985
Foreign currency related transactions		27,760
Accumulated net realized gain (loss)		6,838,831
Paid-in capital		83,017,336
Net assets, at value	**$**	**121,865,912**
Class A		
Net Asset Value, offering and redemption price per share ($100,925,178 ÷ 7,330,897 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**13.77**
Class B		
Net Asset Value, offering and redemption price per share ($20,940,734 ÷ 1,544,881 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**13.55**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $33,873)	$	911,273
Interest		574
Interest — Cash Management QP Trust		88,588
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		53,145
Other income**		27,245
Total Income		1,080,825
Expenses:		
Management fee		879,239
Administration fee		71,620
Custodian and accounting fees		46,955
Distribution service fee (Class B)		54,613
Shareholder service fee (Class A)		49
Shareholder service fee (Class B)		41
Record keeping fee (Class B)		29,381
Auditing		31,378
Legal		10,672
Trustees' fees and expenses		6,959
Reports to shareholders and shareholder meeting		58,066
Other		17,589
Total expenses before expense reductions		1,206,562
Expense reductions		(1,854)
Total expenses after expense reductions		1,204,708
Net investment income (loss)		**(123,883)**

Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from:		
Investments		7,430,123
Foreign currency related transactions		10,937
		7,441,060
Net unrealized appreciation (depreciation) during the period on:		
Investments		(107,061)
Foreign currency related transactions		34,150
		(72,911)
Net gain (loss) on investment transactions		**7,368,149**
Net increase (decrease) in net assets resulting from operations	**$**	**7,244,266**

** *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note H).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

	Years Ended December 31,	
Increase (Decrease) in Net Assets	**2006**	**2005**
Operations:		
Net investment income (loss)	$ (123,883)	$ (311,861)
Net realized gain (loss) on investment transactions	7,441,060	5,764,320
Net unrealized appreciation (depreciation) during the period on investment transactions	(72,911)	4,952,369
Net increase (decrease) in net assets resulting from operations	7,244,266	10,404,828
Distributions to shareholders from:		
Net realized gains:		
Class A	(391,880)	—
Class B	(84,353)	—
Portfolio share transactions:		
Class A		
Proceeds from shares sold	7,469,837	8,840,510
Reinvestment of distributions	391,880	—
Cost of shares redeemed	(21,696,464)	(17,288,593)
Net increase (decrease) in net assets from Class A share transactions	(13,834,747)	(8,448,083)
Class B		
Proceeds from shares sold	2,569,906	4,364,689
Reinvestment of distributions	84,353	—
Cost of shares redeemed	(5,647,967)	(3,728,727)
Net increase (decrease) in net assets from Class B share transactions	(2,993,708)	635,962
Increase (decrease) in net assets	(10,060,422)	2,592,707
Net assets at beginning of period	131,926,334	129,333,627
Net assets at end of period (including accumulated net investment loss of $8,982 for December 31, 2005)	**$ 121,865,912**	**$ 131,926,334**

Other Information		
Class A		
Shares outstanding at beginning of period	8,377,800	9,070,686
Shares sold	565,517	715,380
Shares issued to shareholders in reinvestment of distributions	30,640	—
Shares redeemed	(1,643,060)	(1,408,266)
Net increase (decrease) in Class A shares	(1,046,903)	(692,886)
Shares outstanding at end of period	**7,330,897**	**8,377,800**
Class B		
Shares outstanding at beginning of period	1,772,301	1,720,377
Shares sold	201,649	357,712
Shares issued to shareholders in reinvestment of distributions	6,684	—
Shares redeemed	(435,753)	(305,788)
Net increase (decrease) in Class B shares	(227,420)	51,924
Shares outstanding at end of period	**1,544,881**	**1,772,301**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$13.02**	**$12.00**	**$10.95**	**$ 8.19**	**$10.65**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.01)[b]	(.02)	(.03)	(.02)	(.03)
Net realized and unrealized gain (loss) on investment transactions	.81	1.04	1.08	2.78	(2.43)
Total from investment operations	.80	1.02	1.05	2.76	(2.46)
Less Distributions from:					
Net realized gain on transactions	(.05)	—	—	—	—
Net asset value, end of period	**$13.77**	**$13.02**	**$12.00**	**$10.95**	**$ 8.19**
Total Return (%)	6.17[b]	8.50	9.59	33.70	(23.10)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	101	109	109	101	69
Ratio of expenses (%)	.89	.88	.88	.87	.91
Ratio of net investment income (loss) (%)	(.03)[b]	(.18)	(.29)	(.24)	(.38)
Portfolio turnover rate (%)	47	43	77	64	53

a *Based on average shares outstanding during the period.*

b *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note H). The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.02%. Excluding this non-recurring income, total return would have been 0.02% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$12.87**	**$11.91**	**$10.91**	**$ 8.19**	**$ 8.09**
Income (loss) from investment operations:					
Net investment income (loss)[b]	(.06)[c]	(.07)	(.08)	(.07)	(.04)
Net realized and unrealized gain (loss) on investment transactions	.79	1.03	1.08	2.79	.14
Total from investment operations	.73	.96	1.00	2.72	.10
Less Distributions from:					
Net realized gain on transactions	(.05)	—	—	—	—
Net asset value, end of period	**$13.55**	**$12.87**	**$11.91**	**$10.91**	**$ 8.19**
Total Return (%)	5.77[c]	8.06	9.17	33.21	1.24**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	21	23	20	11	.3
Ratio of expenses (%)	1.28	1.27	1.27	1.26	1.16*
Ratio of net investment income (loss) (%)	(.42)[c]	(.57)	(.68)	(.63)	(.92)*
Portfolio turnover rate (%)	47	43	77	64	53

a *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note H). The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.02%. Excluding this non-recurring income, total return would have been 0.02% lower.*

* *Annualized*

** *Not annualized*

Notes to Financial Statements

A. Significant Accounting Policies

DWS Variable Series I (the "Series") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, registered management investment company organized as a Massachusetts business trust. The Series consists of six diversified portfolios: DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Opportunities VIP, DWS International VIP and DWS Health Care VIP (individually or collectively hereinafter referred to as a "Portfolio" or the "Portfolios"). The Series is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

Multiple Classes of Shares of Beneficial Interest. The Series offers two classes of shares (Class A shares and Class B shares) for each of the Portfolios. Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and record keeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the applicable Portfolio. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain portfolio-level expenses and expense reductions, if any, are borne pro rata on the basis of relative net assets by the holders of all classes of shares except that each class bears certain expenses unique to that class (including the applicable 12b-1 distribution fees and record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Series' financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Series in the preparation of the financial statements for its Portfolios.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Equity securities are valued at the most recent sale price or official closing price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

Debt securities are valued by independent pricing services approved by the Trustees of the Series. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from a broker-dealer. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Cash Management QP Trust are valued at their net asset value each business day.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees. The Series may use a fair valuation model to value international equity securities in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange.

In September 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2006, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

Securities Lending. Each Portfolio may lend securities to financial institutions. The Portfolio retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Portfolio requires the borrowers of the securities to maintain collateral with the Portfolio consisting of liquid, unencumbered assets having a value at least equal to the value of the securities loaned. The Portfolio may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to an Exemptive Order issued by the SEC. The Portfolio receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Portfolio or the borrower may terminate the loan. The Portfolio is subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Options. An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the Portfolio if the option is exercised. Each Portfolio, may enter into option contracts in order to hedge against potential adverse price movements in the value of portfolio assets; as a temporary substitute for selling selected investments; to lock in the purchase price of a security or currency which it expects to purchase in the near future; as a temporary substitute for purchasing selected investments; and to enhance potential gain.

The liability representing the Portfolio's obligation under an exchange traded written option or investment in a purchased option is valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked prices or at the most recent asked price (bid for purchased options) if no bid and asked prices are available. Over-the-counter written or purchased options are valued using dealer supplied quotations. Gain or loss is recognized when the option contract expires or is closed.

If the Portfolio writes a covered call option, the Portfolio foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Portfolio writes a put option it accepts the risk of a decline in the market value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Portfolio's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Portfolio's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

Foreign Currency Translations. The books and records of the Portfolios are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the disposition of forward foreign currency exchange contracts and foreign currencies, and the difference between the amount of net investment income accrued and the US dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gains and losses on investment securities.

Forward Foreign Currency Exchange Contracts. A forward foreign currency exchange contract (forward currency contract) is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. The Portfolios may enter into forward currency contracts in order to hedge their exposure to changes in foreign currency exchange rates on their foreign currency denominated portfolio holdings and to facilitate transactions in foreign currency denominated securities. The Portfolio may also engage in forward currency contracts for non-hedging purposes.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. Sales and purchases of forward currency contracts having the same settlement date and broker are offset and any gain (loss) is realized on the date of offset; otherwise, gain (loss) is realized on settlement date. Realized and unrealized gains and losses which represent the difference between the value of a forward currency contract to buy and a forward currency contract to sell are included in net realized and unrealized gain (loss) from foreign currency related transactions.

Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. Additionally, when utilizing forward currency contracts to hedge, the Portfolio gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

Mortgage Dollar Rolls. DWS Bond VIP may enter into mortgage dollar rolls in which the Portfolio sells to a bank or broker/dealer (the "counterparty") mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase similar, but not identical, securities at an agreed upon price and date. The counterparty receives all principal and interest payments, including prepayments, made on the security while it is the holder. The Portfolio receives compensation as consideration for entering into the commitment to repurchase. The compensation is paid in the form of a lower price for the security upon its repurchase, or alternatively, a fee.

Mortgage dollar rolls may be renewed with a new sale and repurchase price and a cash settlement made at each renewal without physical delivery of the securities subject to the contract.

Certain risks may arise upon entering into mortgage dollar rolls from the potential inability of counterparties to meet the terms of their commitments. Additionally, the value of such securities may change adversely before the Portfolio is able to repurchase them. There can be no assurance that the Portfolio's use of the cash that it receives from a mortgage dollar roll will provide a return that exceeds its costs.

When-Issued/Delayed Delivery Securities. Each Portfolio may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time a Portfolio enters into a commitment to purchase a security, the transaction is recorded and the value of the security is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. No interest accrues to the Portfolio until payment takes place. At the time the Portfolio enters into this type of transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery securities from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

Loan Participations/Assignments. DWS Bond VIP may invest in US dollar-denominated fixed and floating rate loans ("Loans") arranged through private negotiations between a foreign sovereign entity and one or more financial institutions ("Lenders"). The Portfolio invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of loans from third parties ("Assignments"). Participations typically result in the Portfolio having a contractual relationship only with the Lender, not with the sovereign borrower. The Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Portfolio generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, nor any rights of set-off against the borrower, and the Portfolio will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Portfolio assumes the credit risk of both the borrower and the Lender that is selling the Participation.

Federal Income Taxes. Each Portfolio is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is each Portfolio's policy to comply with the requirements of the Internal Revenue Code, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares. Accordingly, the Portfolios paid no federal income taxes and no federal income tax provision was required.

Additionally, based on the Series' understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which each Portfolio invests, the Series will provide for foreign taxes, and where appropriate, deferred foreign taxes.

DWS Global Opportunities VIP and DWS International VIP are subject to a 0.38% Contribuicao sobre Movimentacao Financiera ("CPMF") transaction tax which is applied to Brazilian Real exchange transactions representing capital inflows or outflows to the Brazilian market.

At December 31, 2006, the following Portfolios had an approximate net tax basis capital loss carryforward which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until the following expiration dates, whichever occurs first:

Portfolio	Capital Loss Carryforwards Utilized ($)	Capital Loss Carryforwards ($)	Expiration Date
DWS Bond VIP	—	1,764,000	12/31/2014
DWS Growth & Income VIP	19,899,000	2,783,000	12/31/2009
		7,546,000	12/31/2010
DWS Capital Growth VIP	18,448,000	82,434,000	12/31/2008
		64,244,000	12/31/2009
		138,234,000	12/31/2010
		69,353,000	12/31/2011
		28,616,000	12/31/2012
DWS Global Opportunities VIP	13,519,000	—	—
DWS International VIP	103,739,000	51,225,000	12/31/2010
		13,952,000	12/31/2011

At December 31, 2006, DWS Growth & Income VIP had a net tax basis capital loss carryforward of approximately $10,329,000 inherited from its merger with SVS Focus Value+Growth Portfolio (Note I), which is included in the table above and may be applied against any realized net taxable gains of each succeeding year until fully utilized or until the expiration dates which range from December 31, 2009, to December 31, 2010, whichever occurs first, and which may be subject to certain limitations under Sections 382–384 of the Internal Revenue Code.

At December 31, 2006, DWS Capital Growth VIP had a net tax basis capital loss carryforward of approximately $382,881,000 including approximately $123,517,000 inherited from its mergers with the SVS Eagle Focused Large Cap Growth Portfolio and Scudder Growth Portfolio (Note I), which is included in the table above and may be applied against any realized net taxable gains of each succeeding year until fully utilized or until the expiration dates which range from December 31, 2008, to December 31, 2011, whichever occurs first, and which may be subject to certain limitations under Sections 382–384 of the Internal Revenue Code.

In addition, DWS Capital Growth VIP inherited approximately $35,852,000 of its capital loss carryforward from its mergers with DWS Oak Strategic Equity VIP ($1,855,000) and DWS Janus Growth Opportunities VIP ($33,997,000) (Note I), which is included in the table above and may be applied against any realized net taxable gains. The Portfolio utilized approximately $0 and $73,000 of the inherited amounts from DWS Oak Strategic Equity VIP and DWS Janus Growth Opportunities VIP, respectively, which is also included in the table above. Due to certain limitations under Sections 381–384 of the Internal Revenue Code, approximately $34,939,000 of the losses from DWS Janus Growth Opportunities VIP cannot be used by the Portfolio, and is not included in the capital loss carryfoward of $382,881,000 disclosed above.

In July 2006, FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for the Portfolio a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether the Portfolio is taxable in certain jurisdictions), and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006. On December 22, 2006, the SEC indicated that they would not object if a Portfolio implements FIN 48 in the first required financial statement reporting period for its fiscal year beginning after December 15, 2006. Management has begun to evaluate the application of the Interpretation to each Portfolio and is not in a position at this time to estimate the significance of its impact, if any, on each Portfolio's financial statements.

Distribution of Income and Gains. Each Portfolio will declare and distribute dividends from their net investment income, if any, annually, although additional distributions may be made if necessary. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to each Portfolio if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in foreign denominated investments, investments in forward foreign currency exchange contracts, passive foreign investment companies, post October loss deferrals and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, each Portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Portfolio.

At December 31, 2006, the Portfolios' components of distributable earnings (accumulated losses) on a tax-basis are as follows:

Portfolio	Undistributed Ordinary Income ($)*	Undistributed Net Long-Term Capital Gains ($)	Capital Loss Carryforwards ($)	Net Unrealized Gain (Loss) on Investments ($)
DWS Bond VIP	10,378,182	—	(1,764,000)	(191,243)
DWS Growth & Income VIP	3,670,368	4,256,339	(10,329,000)	45,143,909
DWS Capital Growth VIP	7,131,831	—	(382,881,000)	340,673,021
DWS Global Opportunities VIP	5,159,288	25,687,931	—	119,000,188
DWS International VIP	18,618,595	—	(65,177,000)	191,289,040
DWS Health Care VIP	—	7,332,312	—	31,488,504

In addition, the tax character of distributions paid to shareholders by the Portfolios is summarized as follows:

	Distributions from Ordinary Income ($)* Years Ended December 31,		Distributions from Long-Term Capital Gains ($) Years Ended December 31,	
Portfolio	**2006**	**2005**	**2006**	**2005**
DWS Bond VIP	8,190,063	6,958,800	71,959	1,051,416
DWS Growth & Income VIP	2,951,248	2,545,821	—	—
DWS Capital Growth VIP	5,777,373	6,821,611	—	—
DWS Global Opportunities VIP	3,411,928	1,575,724	—	—
DWS International VIP	12,128,804	9,101,215	—	—
DWS Health Care VIP	—	—	476,233	—

* *For tax purposes short-term capital gains distributions are considered ordinary income distributions.*

Expenses. Expenses of the Series arising in connection with a specific Portfolio are allocated to that Portfolio. Other Series expenses which cannot be directly attributed to a Portfolio are apportioned among the Portfolios in the Series.

Contingencies. In the normal course of business, each Portfolio may enter into contracts with service providers that contain general indemnification clauses. Each Portfolio's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against each Portfolio that have not yet been made. However, based on experience, each Portfolio expects the risk of loss to be remote.

Other. For each Portfolio, investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Portfolio is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

B. Purchases and Sales of Securities

During the year ended December 31, 2006, purchases and sales of investment securities (excluding short-term investments) were as follows:

Portfolio	Purchases ($)	Sales ($)
DWS Bond VIP excluding US Treasury Obligations and mortgage dollar roll transactions	174,143,080	152,567,970
US Treasury Obligations	206,715,236	219,463,125
mortgage dollar roll transactions	12,963,581	13,567,016
DWS Growth & Income VIP	339,312,793	390,230,680
DWS Capital Growth VIP	168,130,063	322,459,179
DWS Global Opportunities VIP	95,272,255	117,951,684
DWS International VIP	678,035,269	699,898,622
DWS Health Care VIP	57,976,033	71,814,954

For the year ended December 31, 2006, transactions for written options were as follows for the DWS Growth & Income VIP:

	Contract Amounts	Premium ($)
Beginning of period	—	—
Options written	1,768	278,235
Options exercised	(1,094)	(67,680)
Options closed	(674)	(210,555)
Options expired	—	—
End of period	—	—

C. Related Parties

Under the Amended and Restated Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Portfolios in accordance with their investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Portfolios.

Prior to June 1, 2006, in addition to the portfolio management services, the Advisor provided certain administrative services in accordance with the Investment Management Agreement. For the period from January 1, 2006 through May 31, 2006, each Portfolio paid a monthly investment management fee, based on the average net assets of each Portfolio, accrued daily and payable monthly, at the annual rates shown below:

Portfolio	Annual Management Fee Rate
DWS Bond VIP	.475%
DWS Growth & Income VIP	
first $250 million of average daily net assets	.475%
next $750 million of average daily net assets	.450%
over $1 billion of average daily net assets	.425%
DWS Capital Growth VIP	
first $250 million of average daily net assets	.475%
next $750 million of average daily net assets	.450%
over $1 billion of average daily net assets	.425%
DWS Global Opportunities VIP	.975%
DWS International VIP	
first $500 million of average daily net assets	.875%
over $500 million of average daily net assets	.725%
DWS Health Care VIP	
first $250 million of average daily net assets	.750%
next $750 million of average daily net assets	.725%
next $1.5 billion of average daily net assets	.700%
next $2.5 billion of average daily net assets	.680%
next $2.5 billion of average daily net assets	.650%
next $2.5 billion of average daily net assets	.640%
next $2.5 billion of average daily net assets	.630%
over $12.5 billion of average daily net assets	.620%

Effective June 1, 2006, under the Amended and Restated Investment Management Agreement with the Advisor, the Portfolios pay a monthly investment management fee, based on the average daily net assets of each Portfolio, accrued daily and payable monthly, at the annual rates shown below:

Portfolio	Annual Management Fee Rate
DWS Bond VIP	
first $250 million of average daily net assets	.390%
next $750 million of average daily net assets	.365%
over $1 billion of average daily net assets	.340%
DWS Growth & Income VIP	
first $250 million of average daily net assets	.390%
next $750 million of average daily net assets	.365%
over $1 billion of average daily net assets	.340%
DWS Capital Growth VIP	
first $250 million of average daily net assets	.390%
next $750 million of average daily net assets	.365%
over $1 billion of average daily net assets	.340%

Portfolio	Annual Management Fee Rate
DWS Global Opportunities VIP	
first $500 million of average daily net assets	.890%
next $500 million of average daily net assets	.875%
next $1 billion of average daily net assets	.860%
over $2 billion of average daily net assets	.845%
DWS International VIP	
first $500 million of average daily net assets	.790%
over $500 million of average daily net assets	.640%
DWS Health Care VIP	
first $250 million of average daily net assets	.665%
next $750 million of average daily net assets	.640%
next $1.5 billion of average daily net assets	.615%
next $2.5 billion of average daily net assets	.595%
next $2.5 billion of average daily net assets	.565%
next $2.5 billion of average daily net assets	.555%
next $2.5 billion of average daily net assets	.545%
over $12.5 billion of average daily net assets	.535%

Aberdeen Asset Management Inc., a direct, wholly owned subsidiary of Aberdeen Asset Management PLC, serves as subadvisor to DWS Bond VIP and is paid by the Advisor for its services. In addition, on June 28, 2006, the Portfolio's Board approved the transition of DIMA's management of the high yield portion of the Portfolio to the subadvisor. Effective August 31, 2006, this portion of the Portfolio is now managed by the same portfolio management team currently responsible for the core bond and active fixed income portions of the Portfolio.

In addition, the Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2006 to May 31, 2006 (excluding certain expenses such as extraordinary expenses, proxy/shareholder meeting costs, taxes, brokerage, interest and organizational and offering costs) as follows:

Portfolio	Annual Rate
DWS Bond VIP Class A	.71%
DWS Bond VIP Class B	1.11%
DWS Growth & Income VIP Class A	.54%
DWS Growth & Income VIP Class B	.89%
DWS Capital Growth VIP Class A	.49%
DWS Capital Growth VIP Class B	.86%
DWS Global Opportunities VIP Class A	1.24%
DWS Global Opportunities VIP Class B	1.24%
DWS International VIP Class A	1.37%
DWS International VIP Class B	1.37%
DWS Health Care VIP Class A	.95%
DWS Health Care VIP Class B	1.35%

In addition, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from June 1, 2006 to

September 30, 2006 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering costs) as follows:

Portfolio	Annual Rate
DWS Bond VIP Class A	.58%
DWS Bond VIP Class B	.95%
DWS Growth & Income VIP Class A	.54%
DWS Growth & Income VIP Class B	.89%
DWS Capital Growth VIP Class A	.48%
DWS Capital Growth VIP Class B	.86%
DWS Global Opportunities VIP Class A	1.10%
DWS Global Opportunities VIP Class B	1.24%
DWS International VIP Class A	1.15%
DWS International VIP Class B	1.55%
DWS Health Care VIP Class A	1.14%
DWS Health Care VIP Class B	1.54%

In addition, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from October 1, 2006 to September 30, 2007 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering costs) as follows:

Portfolio	Annual Rate
DWS Bond VIP Class A	.60%
DWS Bond VIP Class B	1.00%
DWS Growth & Income VIP Class A	.54%
DWS Growth & Income VIP Class B	.89%
DWS Capital Growth VIP Class A	.49%
DWS Capital Growth VIP Class B	.86%
DWS Global Opportunities VIP Class A	N/A
DWS Global Opportunities VIP Class B	1.52%
DWS International VIP Class A	N/A
DWS International VIP Class B	N/A
DWS Health Care VIP Class A	1.14%
DWS Health Care VIP Class B	1.54%

Effective December 11, 2006 to April 30, 2008, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering costs) as follows:

Portfolio	Annual Rate
DWS Growth & Income VIP Class A	.54%
DWS Growth & Income VIP Class B	.87%
DWS Capital Growth VIP Class A	.49%
DWS Capital Growth VIP Class B	.86%
DWS International VIP Class A	.96%
DWS International VIP Class B	1.34%

In addition, January 1, 2006 to April 27, 2010, the Advisor has contractually agreed to waive 0.01% of the management fee for the DWS Growth & Income VIP.

Accordingly, for the year ended December 31, 2006, the Portfolios waived a portion of their management fees as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Annual Effective Rate
DWS Bond VIP	910,424	90,316	.38%
DWS Growth & Income VIP	1,359,770	72,977	.40%
DWS Capital Growth VIP	4,272,143	325,012	.38%
DWS Global Opportunities VIP	3,165,067	—	.93%
DWS International VIP	5,225,483	—	.79%
DWS Health Care VIP	879,239	—	.70%

In addition, for the year ended December 31, 2006, the Portfolios waived other expenses as follows:

Portfolio	Other Expenses Waived ($)
DWS Bond VIP Class B	192
DWS Growth & Income VIP Class B	16,383
DWS Capital Growth VIP Class B	14,943
DWS Global Opportunities VIP Class B	67,463
DWS International VIP Class B	5,550

Administrative Services Fee. Effective June 1, 2006, the Series entered into a Administrative Services Agreement with the Advisor, pursuant to which the Advisor provides most administrative services to the Series. For all services provided under the Administrative Services Agreement, each Portfolio pays the Advisor a fee of 0.10% of each Portfolio's average daily net assets, computed and accrued daily and payable monthly. For the period from June 1, 2006 to December 31, 2006, the Advisor received an Administration Fee as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2006 ($)
DWS Bond VIP	126,522	18,643
DWS Growth & Income VIP	186,676	28,068
DWS Capital Growth VIP	596,449	99,375
DWS Global Opportunities VIP	197,914	31,078
DWS International VIP	393,235	62,861
DWS Health Care VIP	71,620	10,435

Service Provider Fees. DWS Scudder Fund Accounting Corporation ("DWS-SFAC"), an affiliate of the Advisor, was responsible for determining the daily net asset value per share and maintaining the portfolio and general accounting records of each Portfolio. In turn, DWS-SFAC had delegated certain fund accounting functions to a third-party service provider. Effective June 1, 2006, these fees are now paid under the Administrative Services Agreement. For the period from January 1, 2006 to May 31, 2006, DWS-SFAC received the following fee for its services for the following Portfolios:

Portfolio	Total Aggregated ($)
DWS Bond VIP	63,430
DWS Growth & Income VIP	34,909
DWS Capital Growth VIP	69,474
DWS Global Opportunities VIP	107,325
DWS International VIP	186,914
DWS Health Care VIP	27,283

DWS Scudder Investments Service Company ("DWS-SISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for each Portfolio. Pursuant to a sub-transfer agency agreement between DWS-SISC and DST Systems, Inc. ("DST"), DWS-SISC has delegated certain transfer agent and dividend paying agent functions to DST. DWS-SISC compensates DST out of the shareholder servicing fee it receives from each Portfolio. Effective October 1, 2006, under the amended transfer agent agreement, each Portfolio is charged a fee as detailed in the Statement of Operations.

DWS Scudder Distributors, Inc. ("DWS-SDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DWS-SDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DWS-SDI remits these fees to the Participating Insurance Companies for various costs incurred or paid by these companies in connection with marketing and distribution of Class B shares. These fees are detailed in each Portfolio's Statement of Operations.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Portfolios. For the year ended December 31, 2006, the amount charged to the Portfolios by DIMA included in the Statement of Operations under "reports to shareholders" was as follows:

Portfolio	Amount ($)	Unpaid at December 31, 2006 ($)
DWS Bond VIP	5,028	1,680
DWS Growth & Income VIP	5,028	1,680
DWS Capital Growth VIP	5,028	1,680
DWS Global Opportunities VIP	5,028	1,680
DWS International VIP	5,028	1,680
DWS Health Care VIP	5,028	1,680

Trustees' Fees and Expenses. As compensation for his or her services, each Independent Trustee receives an aggregated annual fee, plus a fee for each meeting attended (plus reimbursement for reasonable out-of-pocket expenses incurred in connection with his or her attendance at board and committee meetings) from each portfolio in the Series for which he or she serves. In addition, the Chairman of the Board and the Chairman of each committee of the Board receive additional compensation for their services. Payment of such fees and expenses is allocated among all such funds described above in direct proportion to their relative net assets.

Cash Management QP Trust. Pursuant to an Exemptive Order issued by the SEC, the Series may invest in the Cash Management QP Trust (the "QP Trust"), and other affiliated funds managed by the Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Advisor a management fee for the affiliated funds' investments in the QP Trust.

D. Investing in Emerging Markets

The DWS Bond VIP, DWS Global Opportunities VIP, DWS International VIP and DWS Health Care VIP may invest in emerging markets. Investing in emerging markets may involve special risks and considerations not typically associated with investing in the United States of America. These risks include revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls, delayed settlements and their prices more volatile than those of comparable securities in the United States of America.

E. Expense Reductions

For the year ended December 31, 2006, the Advisor reimbursed the Portfolios a portion of the expected fee savings for the Advisor through May 31, 2006, related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider as follows:

Portfolio	Amount ($)
DWS Bond VIP	1,919
DWS Growth & Income VIP	5,783
DWS Capital Growth VIP	17,194
DWS Global Opportunities VIP	3,467
DWS International VIP	3,003
DWS Health Care VIP	1,767

In addition, DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP and DWS Health Care VIP have entered into an arrangement with their custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the custodian expenses. During the year ended December 31, 2006, the custodian fees were reduced as follows:

Portfolio	Custody Credits ($)
DWS Bond VIP	593
DWS Growth & Income VIP	42
DWS Capital Growth VIP	30
DWS Health Care VIP	87

F. Ownership of the Portfolios

At the end of the period, the beneficial ownership in the Portfolios was as follows:

DWS Bond VIP: One participating insurance company was an owner of record of 10% or more of the total outstanding Class A shares of the Portfolio, owning 65%. Two participating insurance companies were owners of record each owning 79% and 21% of the total outstanding Class B shares of the Portfolio.

DWS Growth & Income VIP: Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 27%, 27% and 11%. Two participating insurance companies were owners of record, each owning 63% and 28% of the total outstanding Class B shares of the Portfolio.

DWS Capital Growth VIP: Four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 29%, 34%, 12% and 10%. Two participating insurance companies were owners of record, each owning 82% and 17% of the total outstanding Class B shares of the Portfolio.

DWS Global Opportunities VIP: Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 59%, 18% and 10%. Three participating insurance companies were owners of record, each owning 65%, 20% and 15% of the total outstanding Class B shares of the Portfolio.

DWS International VIP: Two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 31% and 20%. Two participating insurance companies were owners of record, each owning 77% and 21% of the total outstanding Class B shares of the Portfolio.

DWS Health Care VIP: Two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 78% and 20%. Two participating insurance companies were owners of record, each owning 75% and 25% of the total outstanding Class B shares of the Portfolio.

G. Line of Credit

The Series and several other affiliated funds (the "Participants") share in a $750 million revolving credit facility administered by JPMorgan Chase Bank N.A. for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated, based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. Each Portfolio may borrow up to a maximum of 33 percent of its net assets under the agreement.

H. Regulatory Matters and Litigation

Regulatory Settlements. On December 21, 2006, Deutsche Asset Management ("DeAM") settled proceedings with the Securities and Exchange Commission ("SEC") and the New York Attorney General on behalf of Deutsche Asset Management, Inc. ("DAMI") and Deutsche Investment Management Americas Inc. ("DIMA"), the investment advisors to many of the DWS Scudder funds, regarding allegations of improper trading at DeAM and at the legacy Scudder and Kemper organizations prior to their acquisition by DeAM in April 2002. These regulators alleged that although the prospectuses for certain open-end funds ("funds") in the regulators' view indicated that the funds did not permit market timing, DAMI and DIMA breached their fiduciary duty to those funds in that their efforts to limit trading activity in the funds were not effective at certain times. The regulators also alleged that DAMI and DIMA breached their fiduciary duty to certain funds by entering into certain market timing arrangements with investors. These trading arrangements originated in businesses that existed prior to the currently constituted DeAM organization, which came together as a result of various mergers of the legacy Scudder, Kemper and Deutsche fund groups, and all of the arrangements were terminated prior to the start of the regulatory investigations that began in the summer of 2003. No current DeAM employee approved these trading arrangements. Under the terms of the settlements, DAMI and DIMA neither admit nor deny any wrongdoing.

The terms of the SEC settlement, which identified improper trading in the legacy Deutsche and Kemper mutual funds only, provide for payment of disgorgement in the amount of $17.2 million. The terms of the settlement with the New York Attorney General provide for payment of disgorgement in the amount of $102.3 million, which is inclusive of the amount payable under the SEC settlement, plus a civil penalty in the amount of $20 million. The total amount payable by DeAM, approximately $122.3 million, would be distributed to funds in accordance with a distribution plan to be developed by a distribution consultant. The funds' investment advisors do not believe these amounts will have a material adverse financial impact on them or materially affect their ability to perform under their investment management agreements with the DWS funds. The above-described amounts are not material to Deutsche Bank, and have already been reserved.

Among the terms of the settled orders, DeAM is subject to certain undertakings regarding the conduct of its business in the future, including: formation of a Code of Ethics Oversight Committee to oversee all matters relating to issues arising under the advisors' Code of Ethics; establishment of an Internal Compliance Controls Committee having overall compliance oversight responsibility of the advisors; engagement of an Independent Compliance Consultant to conduct a comprehensive review of the advisors' supervisory compliance and other policies and procedures designed to prevent and detect breaches of fiduciary duty, breaches of the Code of Ethics and federal securities law violations by the advisors and their employees; and commencing in 2008, the advisors shall undergo a compliance review by an independent third party.

In addition, DeAM is subject to certain further undertakings relating to the governance of the mutual funds, including that: at least 75% of the members of the Boards of Trustees/Directors overseeing the DWS Funds continue to be independent of DeAM; the Chairmen of the DWS Funds' Boards of Trustees/Directors continue to be independent of DeAM; DeAM maintain existing management fee reductions for certain funds for a period of five years and not increase management fees for certain funds during this period; the funds retain a senior officer (or independent consultants) responsible for assisting in the review of fee arrangements and monitoring compliance by the funds and the investment advisors with securities laws, fiduciary duties, codes of ethics and other compliance policies, the expense of which shall be borne by DeAM; and periodic account statements, fund prospectuses and the mutual funds' web site contain additional disclosure and/or tools that assist investors in understanding the fees and costs associated with an investment in the funds and the impact of fees and expenses on fund returns.

DeAM has also settled proceedings with the Illinois Secretary of State regarding market timing matters. The terms of the Illinois settlement provide for investor education contributions totaling approximately $4 million and a payment in the amount of $2 million to the Securities Audit and Enforcement Fund.

On September 28, 2006, the SEC and the National Association of Securities Dealers ("NASD") announced final agreements in which Deutsche Investment Management Americas Inc. ("DIMA"), Deutsche Asset Management, Inc. ("DAMI") and Scudder Distributors, Inc. ("SDI") (now known as DWS Scudder Distributors, Inc.) settled administrative proceedings regarding disclosure of brokerage allocation practices in connection with sales of the Scudder Funds' (now known as the DWS Scudder Funds) shares during 2001–2003. The agreements with the SEC and NASD are reflected in orders which state, among other things, that DIMA and DAMI failed to disclose potential conflicts of interest to the fund Boards and to shareholders relating to SDI's use of certain funds' brokerage commissions to reduce revenue sharing costs to broker-dealer firms with whom it had arrangements to market and distribute Scudder Fund shares. These directed brokerage practices were discontinued in October 2003.

Under the terms of the settlements, in which DIMA, DAMI and SDI neither admitted nor denied any of the regulators' findings, DIMA, DAMI and SDI agreed to pay disgorgement, prejudgment interest and civil penalties in the total amount of $19.3 million. The portion of the settlements distributed to the funds was approximately $17.8 million and was paid to the funds as prescribed by the settlement orders based upon the amount of brokerage commissions from each fund used to satisfy revenue sharing agreements with broker-dealers who sold fund shares. Accordingly, in October 2006, the Portfolios received from the Advisor for their settlement portion as follows:

Portfolio	**Total Settlement ($)**	**Per Share ($)**
DWS Growth & Income VIP	210,334	.007
DWS Capital Growth VIP	399,942	.007
DWS Global Opportunities VIP	40,401	.002
DWS Health Care VIP	27,245	.003

Based on the prescribed settlement order, DWS Bond VIP and DWS International VIP were not entitled to a portion of the settlement.

As part of the settlements, DIMA, DAMI and SDI also agreed to implement certain measures and undertakings relating to revenue sharing payments including making additional disclosures in the fund Prospectuses or Statements of Additional Information, adopting or modifying relevant policies and procedures and providing regular reporting to the fund Boards.

Private Litigation Matters. The matters alleged in the regulatory settlements described above also serve as the general basis of a number of private class action lawsuits involving the DWS funds. These lawsuits name as defendants various persons, including certain DWS funds, the funds' investment advisors and their affiliates, and certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each DWS fund's investment advisor has agreed to indemnify the applicable DWS funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making similar allegations.

Based on currently available information, the funds' investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a DWS fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the DWS funds.

I. Acquisition of Assets

On April 29, 2005, the DWS Growth & Income VIP acquired all of the net assets of SVS Focus Value+Growth Portfolio pursuant to a plan of reorganization approved by shareholders on April 20, 2005. The acquisition was accomplished by a tax-free exchange of 7,630,195 Class A shares and 797,917 Class B shares of the SVS Focus Value+Growth Portfolio, respectively, for 11,366,540 Class A shares and 1,191,379 Class B shares of DWS Growth & Income VIP, respectively, outstanding on April 29, 2005. SVS Focus Value+Growth Portfolio's net assets at that date of $109,496,717, including $2,627,352 of net unrealized appreciation, were combined with those of the DWS Growth & Income VIP. The aggregate net assets of the DWS Growth & Income VIP immediately before the acquisition were $196,724,411. The combined net assets of the DWS Growth & Income VIP immediately following the acquisition were $306,221,128.

On April 29, 2005, the DWS Capital Growth VIP acquired all of the net assets of Scudder Growth Portfolio and SVS Eagle Focused Large Cap Growth Portfolio pursuant to a plan of reorganization approved by shareholders on April 20, 2005. The acquisition was accomplished by a tax-free exchange of 13,922,674 Class A shares and 864,495 Class B shares of the Scudder Growth Portfolio and 9,460,787 Class A shares and 3,575,054 Class B shares of the SVS Eagle Focused Large Cap Growth Portfolio, respectively, for 17,164,853 Class A shares and 1,066,401 Class B shares and 5,035,742 Class A shares and 1,896,817 of Class B shares of the DWS Capital Growth VIP, respectively, outstanding on April 29, 2005. Scudder Growth Portfolio and SVS Eagle Focused Large Cap Growth Portfolio's net assets at that date of $275,619,467 and $104,748,174, respectively, including $53,072,812 and $4,059,393, respectively, of net unrealized appreciation, were combined with those of the DWS Capital Growth VIP. The aggregate net assets of the DWS Capital Growth VIP immediately before the acquisition were $680,032,918. The combined net assets of the DWS Capital Growth VIP immediately following the acquisition were $1,060,400,559.

On December 8, 2006, the DWS Growth & Income VIP acquired all of the net assets of DWS Large Cap Core VIP (formerly DWS Mercury Large Cap Core VIP) pursuant to a plan of reorganization approved by shareholders on October 31, 2006. The acquisition was accomplished by a tax-free exchange of 508,928 Class B shares of the DWS Large Cap Core VIP, for 509,730 Class B shares of DWS Growth & Income VIP outstanding on December 8, 2006. DWS Large Cap Core VIP's net assets at that date of $5,500,068, including $177,549 of net unrealized appreciation, were combined with those of the DWS Growth & Income VIP. The aggregate net assets of the DWS Growth & Income VIP immediately before the acquisition were $325,496,689. The combined net assets of the DWS Growth & Income VIP immediately following the acquisition were $330,996,757.

On December 8, 2006, the DWS Capital Growth VIP acquired all of the net assets of DWS All Cap Growth VIP (formerly DWS Legg Mason Aggressive Growth VIP), DWS Oak Strategic Equity VIP and DWS Janus Growth Opportunities VIP, pursuant to a plan of reorganization approved by shareholders on October 31, 2006. The acquisition was accomplished by a tax-free exchange of 5,327,555 Class A shares and 1,045,108 Class B shares of the DWS All Cap Growth VIP, 6,755,871 Class A shares and 2,803,513 Class B shares of the DWS Oak Strategic Equity VIP and 14,026,288 Class A shares and 1,103,968 Class B shares of the DWS Janus Growth Opportunities VIP, respectively, for 2,512,311 Class A shares and 485,020 Class B shares, 2,559,770 Class A shares and 1,051,664 Class B shares and 6,451,019 Class A shares and 503,788 of Class B shares of the DWS Capital Growth VIP, respectively, outstanding on December 8, 2006. DWS All Cap Growth VIP, DWS Oak Strategic Equity VIP and DWS Janus Growth Opportunities VIP's net assets at that date of $54,782,162, $65,971,466 and $127,170,308, respectively, including $1,437,117, $1,710,783 and $12,337,292, respectively, of net unrealized appreciation, were combined with those of the DWS Capital Growth VIP. The aggregate net assets of the DWS

Capital Growth VIP immediately before the acquisition were $1,004,374,949. The combined net assets of the DWS Capital Growth VIP immediately following the acquisition were $1,252,298,885.

On December 8, 2006, the DWS International VIP acquired all of the net assets of DWS Templeton Foreign Value VIP pursuant to a plan of reorganization approved by shareholders on October 31, 2006. The acquisition was accomplished by a tax-free exchange of 1,450,307 Class A shares and 662,235 Class B shares of the DWS Templeton Foreign Value VIP, respectively, for 1,133,856 Class A shares and 519,174 Class B shares of DWS International VIP, respectively, outstanding on December 8, 2006. DWS Templeton Foreign Value VIP's net assets at that date of $21,601,430, including $761,119 of net unrealized appreciation, were combined with those of the DWS International VIP. The aggregate net assets of the DWS International VIP immediately before the acquisition were $717,923,854. The combined net assets of the DWS International VIP immediately following the acquisition were $739,525,284.

J. Payments Made by Affiliates

During the year ended December 31, 2006, the Advisor fully reimbursed DWS Bond VIP, DWS Capital Growth VIP and DWS International VIP $358, $107,923 and $32,576, respectively, for losses incurred on the disposal of investments in violation of restrictions for DWS Bond VIP and on trades executed incorrectly for DWS Capital Growth VIP and DWS International VIP. The amount of the losses were less than $0.01 of each Portfolio, thus having no impact on each Portfolio's total return.

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of DWS Variable Series I:

In our opinion, the accompanying statements of assets and liabilities, including the investment portfolios, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the six Portfolios (identified in Note A) of DWS Variable Series I (the "Series") at December 31, 2006 and the results of each of their operations, the changes in each of their net assets, and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Series' management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 16, 2007

PricewaterhouseCoopers LLP

Tax Information

(Unaudited)

DWS Bond VIP and DWS Health Care VIP paid distributions of $0.002 and $0.05 per share, respectively, from net long-term capital gains during its year ended December 31, 2006, of which 100% represents 15% rate gains.

Pursuant to Section 852 of the Internal Revenue Code, DWS Growth & Income VIP, DWS Global Opportunities VIP and DWS Health Care VIP designate approximately $4,682,000, $26,972,330 and $8,066,000, respectively, as capital gain dividends for its year ended December 31, 2006, of which 100% represents 15% rate gains.

For corporate shareholders of DWS Growth & Income VIP, DWS Capital Growth VIP and DWS Global Opportunities VIP, 100%, 100% and 10% of their respective income dividends paid during the Portfolios' fiscal year ended December 31, 2006, qualified for the dividends received deduction.

DWS Global Opportunities VIP and DWS International VIP paid foreign taxes of $363,987 and $1,073,486, respectively, and earned $4,137,594 and $20,248,266, respectively, of foreign source income during the year ended December 31, 2006. Pursuant to Section 853 of the Internal Revenue Code, DWS Global Opportunities VIP and DWS International VIP designate $0.02 and $0.02 per share, respectively, as foreign taxes paid and $0.20 and $0.36 per share, respectively, as income earned from foreign sources for the year ended December 31, 2006.

For federal income tax purposes, DWS Growth and Income VIP, DWS Capital Growth VIP and DWS Health Care VIP designate $5,987,000, $12,962,000 and $1,040,000, respectively, or the maximum amount allowable under tax law, as qualified dividend income.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please call (800) 728-3337.

Proxy Voting

A description of the Series' policies and procedures for voting proxies for portfolio securities and information about how the Series voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — www.dws-scudder.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — www.sec.gov. To obtain a written copy of the Series' policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

Investment Management Agreement Approval

DWS Bond VIP

The Fund's Trustees approved the continuation of the Fund's investment management agreement with DIMA and the sub-advisory agreement between DIMA and Aberdeen Asset Management, Inc. ("AAMI") and the sub-sub-advisory between AAMI and Aberdeen Asset Management Investment Services Limited ("Aberdeen IS") in September 2006. The Fund's investment management agreement was also approved by the Fund's shareholders at a special meeting held in May 2006 as part of an overall plan to standardize and add flexibility to the management agreements for the DWS funds.

In terms of the process that the Trustees followed prior to approving the agreements, shareholders should know that:

- At present time, all but one of your Fund's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Fund's investment management agreement, the Trustees also review the terms of the Fund's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2006 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Fund's arrangements, that committee recommended that the Board vote to approve the continuation of the Fund's investment management agreement, sub-advisory agreement and sub-sub-advisory agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants in the course of their 2006 review of the Fund's contractual arrangements.
- The sub-advisory fees paid to AAMI and Aberdeen IS are paid by DIMA out of its fee and not directly by the Fund.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Fund's Trustees consider these and many other factors, including the quality and integrity of DIMA's, AAMI's and Aberdeen IS's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Fund's investment management agreement and the sub-advisory agreements, the Board considered all factors that it believes relevant to the interests of Fund shareholders, including:

- **The investment management fee schedule for the Fund, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the fee rates paid by the Fund were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2005). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Fund represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Fund.

- **The extent to which economies of scale would be realized as the Fund grows.** In this regard, the Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between Fund shareholders and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.
- **The total operating expenses of the Fund.** In this regard, the Board noted that the total (net) operating expenses of the Fund (Class A shares) are expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2005, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.
- **The investment performance of the Fund and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that for the one-, three- and five-year periods ended June 30, 2006, the Fund's performance (Class A shares) was in the 2nd quartile, 1st quartile and 2nd quartile, respectively, of the applicable Lipper universe. The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods ended June 30, 2006 and has underperformed its benchmark in the five-year period ended June 30, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.
- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's, AAMI's and Aberdeen IS's personnel (including particularly those personnel with responsibilities for providing services to the Fund), resources, policies and investment processes. The Board also considered the terms of the investment management agreement and the sub-advisory agreements, including the scope of services provided under the agreements. In this regard, the Board concluded that the quality and range of services provided by DIMA, AAMI and Aberdeen IS have benefited and should continue to benefit the Fund and its shareholders.
- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Fund.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2005 from providing investment management services to the Fund (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Fund. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Fund's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Fund. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), Deutsche Asset Management's overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.
- **The practices of DIMA, AAMI and Aberdeen IS regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Fund.** The Board considered that a portion of the Fund's brokerage may be allocated to affiliates of DIMA, AAMI and Aberdeen IS, subject to compliance with applicable SEC rules. The Board also reviewed and approved, subject to ongoing review by the Board, a plan whereby a limited portion of the Fund's brokerage may in the future be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of

the Fund's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Fund against any costs and liabilities related to lawsuits or regulatory actions making allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by Deutsche Asset Management to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Fund and its shareholders while various organizational initiatives are being implemented. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Fund shareholders and Deutsche Bank's management of the DWS fund group, one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Fund's investment management agreement and the sub-advisory agreements and concluded that the continuation of such agreements was in the best interests of the Fund's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the agreements.

DWS Growth & Income VIP

The Fund's Trustees approved the continuation of the Fund's current investment management agreement with DIMA in September 2006. The Fund's current investment management agreement was also approved by the Fund's shareholders at a special meeting held in May 2006 as part of an overall plan to standardize and add flexibility to the management agreements for the DWS funds.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At present time, all but one of your Fund's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Fund's investment management agreement, the Trustees also review the terms of the Fund's Rule 12b-1 plan, distribution agreement,
- In connection with the Board's 2006 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Fund's arrangements, that committee recommended that the Board vote to approve the continuation of the Fund's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants in the course of their 2006 review of the Fund's contractual arrangements.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Fund's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Fund's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Fund shareholders, including:

- **The investment management fee schedule for the Fund, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the fee rates paid by the Fund were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2005). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Fund represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Fund.

- **The extent to which economies of scale would be realized as the Fund grows.** In this regard, the Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between Fund shareholders and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

- **The total operating expenses of the Fund.** In this regard, the Board noted that the total (net) operating expenses of the Fund (Class A shares) are expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2005, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA with respect to certain classes helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Fund and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that the Fund's performance (Class A shares) was in the 3rd quartile of the applicable Lipper universe for each of the one-, three- and five-year periods ended June 30, 2006. The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended June 30, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Fund), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Fund and its shareholders.

- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Fund.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2005 from providing investment management services to the Fund (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Fund. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Fund's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Fund. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), Deutsche Asset Management's overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Fund.** The Board considered that a portion of the Fund's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also reviewed and approved, subject to ongoing review by the Board, a plan whereby a limited portion of the Fund's brokerage may in the future be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Fund's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.
- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Fund against any costs and liabilities related to lawsuits or regulatory actions making allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by Deutsche Asset Management to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Fund and its shareholders while various organizational initiatives are being implemented. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Fund shareholders and Deutsche Bank's management of the DWS fund group, one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Fund's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Fund's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

DWS Capital Growth VIP

The Fund's Trustees approved the continuation of the Fund's current investment management agreement with DIMA in September 2006. The Fund's current investment management agreement was also approved by the Fund's shareholders at a special meeting held in May 2006 as part of an overall plan to standardize and add flexibility to the management agreements for the DWS funds.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At present time, all but one of your Fund's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Fund's investment management agreement, the Trustees also review the terms of the Fund's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2006 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Fund's arrangements, that committee recommended that the Board vote to approve the continuation of the Fund's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants in the course of their 2006 review of the Fund's contractual arrangements.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Fund's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Fund's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Fund shareholders, including:

- **The investment management fee schedule for the Fund, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the fee rates paid by the Fund were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2005). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Fund represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Fund.
- **The extent to which economies of scale would be realized as the Fund grows.** In this regard, the Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between Fund shareholders and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.
- **The total operating expenses of the Fund.** In this regard, the Board noted that the total (net) operating expenses of the Fund (Class A shares) are expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2005, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA with respect to certain classes helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Fund and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that the Fund's performance (Class A shares) was in the 2nd quartile of the applicable Lipper universe for each of the one-, three- and five-year periods ended June 30, 2006. The Board also observed that the Fund has outperformed its benchmark in the three-year period ended June 30, 2006 and has underperformed its benchmark in the one- and five-year periods ended June 30, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Fund), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Fund and its shareholders.

- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Fund.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2005 from providing investment management services to the Fund (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Fund. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Fund's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Fund. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), Deutsche Asset Management's overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Fund.** The Board considered that a portion of the Fund's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also reviewed and approved, subject to ongoing review by the Board, a plan whereby a limited portion of the Fund's brokerage may in the future be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Fund's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Fund against any costs and liabilities related to lawsuits or regulatory actions making allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by Deutsche Asset Management to compliance matters.

- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the

Fund and its shareholders while various organizational initiatives are being implemented. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Fund shareholders and Deutsche Bank's management of the DWS fund group, one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Fund's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Fund's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

DWS Global Opportunities VIP

The Fund's Trustees approved the continuation of the Fund's current investment management agreement with DIMA in September 2006. The Fund's current investment management agreement was also approved by the Fund's shareholders at a special meeting held in May 2006 as part of an overall plan to standardize and add flexibility to the management agreements for the DWS funds.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At present time, all but one of your Fund's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Fund's investment management agreement, the Trustees also review the terms of the Fund's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2006 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Fund's arrangements, that committee recommended that the Board vote to approve the continuation of the Fund's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants in the course of their 2006 review of the Fund's contractual arrangements.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Fund's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Fund's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Fund shareholders, including:

- **The investment management fee schedule for the Fund, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the fee rates paid by the Fund were higher than the median (3rd quartile) of the applicable Lipper peer group (based on

Lipper data provided as of December 31, 2005). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Fund represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Fund.

- **The extent to which economies of scale would be realized as the Fund grows.** In this regard, the Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between Fund shareholders and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.
- **The total operating expenses of the Fund.** In this regard, the Board noted that the total (net) operating expenses of the Fund (Class A shares) are expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2005, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA with respect to certain classes helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.
- **The investment performance of the Fund and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that the Fund's performance (Class A shares) was in the 1st quartile of the applicable Lipper universe for each of the one-, three- and five-year periods ended June 30, 2006. The Board also observed that the Fund has performed at a level equal to its benchmark in the three-year period ended June 30, 2006 and has underperformed its benchmark in the one- and five-year periods ended June 30, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.
- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Fund), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Fund and its shareholders.
- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Fund.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2005 from providing investment management services to the Fund (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Fund. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Fund's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Fund. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), Deutsche Asset Management's overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.
- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Fund.** The Board considered that a portion of the Fund's brokerage may be allocated to

affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also reviewed and approved, subject to ongoing review by the Board, a plan whereby a limited portion of the Fund's brokerage may in the future be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Fund's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Fund against any costs and liabilities related to lawsuits or regulatory actions making allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by Deutsche Asset Management to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Fund and its shareholders while various organizational initiatives are being implemented. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Fund shareholders and Deutsche Bank's management of the DWS fund group, one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Fund's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Fund's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

DWS International VIP

The Fund's Trustees approved the continuation of the Fund's current investment management agreement with DIMA in September 2006. The Fund's current investment management agreement was also approved by the Fund's shareholders at a special meeting held in May 2006 as part of an overall plan to standardize and add flexibility to the management agreements for the DWS funds.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At present time, all but one of your Fund's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Fund's investment management agreement, the Trustees also review the terms of the Fund's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2006 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Fund's arrangements, that committee recommended that the Board vote to approve the continuation of the Fund's investment management agreement.

- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants in the course of their 2006 review of the Fund's contractual arrangements.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Fund's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Fund's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Fund shareholders, including:

- **The investment management fee schedule for the Fund, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the fee rates paid by the Fund were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2005). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Fund represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Fund.

- **The extent to which economies of scale would be realized as the Fund grows.** In this regard, the Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between Fund shareholders and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

- **The total operating expenses of the Fund.** In this regard, the Board noted that the total (net) operating expenses of the Fund (Class A shares) are expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2005, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA with respect to certain classes helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Fund and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that, for the one-, three- and five-year periods ended June 30, 2006, the Fund's performance (Class A shares) was in the 2nd quartile, 3rd quartile and 4th quartile, respectively, of the applicable Lipper universe. The Board also observed that the Fund has outperformed its benchmark in the one-year period ended June 30, 2006 and has underperformed its benchmark in the three- and five-year periods ended June 30, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Fund), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Fund and its shareholders.

- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Fund.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2005 from providing investment management services to the Fund (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Fund. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Fund's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Fund. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), Deutsche Asset Management's overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.
- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Fund.** The Board considered that a portion of the Fund's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also reviewed and approved, subject to ongoing review by the Board, a plan whereby a limited portion of the Fund's brokerage may in the future be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Fund's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.
- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Fund against any costs and liabilities related to lawsuits or regulatory actions making allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by Deutsche Asset Management to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Fund and its shareholders while various organizational initiatives are being implemented. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Fund shareholders and Deutsche Bank's management of the DWS fund group, one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Fund's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Fund's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

DWS Health Care VIP

The Fund's Trustees approved the continuation of the Fund's current investment management agreement with DIMA in September 2006. The Fund's current investment management agreement was also approved by the Fund's shareholders at a special meeting held in May 2006 as part of an overall plan to standardize and add flexibility to the management agreements for the DWS funds.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At present time, all but one of your Fund's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Fund's investment management agreement, the Trustees also review the terms of the Fund's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2006 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Fund's arrangements, that committee recommended that the Board vote to approve the continuation of the Fund's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants in the course of their 2006 review of the Fund's contractual arrangements.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Fund's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Fund's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Fund shareholders, including:

- **The investment management fee schedule for the Fund, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the fee rates paid by the Fund were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2005). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Fund represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Fund.
- **The extent to which economies of scale would be realized as the Fund grows.** In this regard, the Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between Fund shareholders and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.
- **The total operating expenses of the Fund.** In this regard, the Board noted that the total (net) operating expenses of the Fund (Class A shares) are expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2005, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board

considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA with respect to certain classes helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Fund and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that, for the one-, three- and five-year periods ended June 30, 2006, the Fund's performance (Class A shares) was in the 3rd quartile, 3rd quartile and 2nd quartile, respectively, of the applicable Lipper universe. The Board also observed that the Fund has outperformed its benchmark in each of the one-, three- and five-year periods ended June 30, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Fund), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Fund and its shareholders.

- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Fund.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2005 from providing investment management services to the Fund (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Fund. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Fund's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Fund. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), Deutsche Asset Management's overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Fund.** The Board considered that a portion of the Fund's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also reviewed and approved, subject to ongoing review by the Board, a plan whereby a limited portion of the Fund's brokerage may in the future be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Fund's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Fund against any costs and liabilities related to lawsuits or regulatory actions making allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to

DIMA's chief compliance officer; and (iii) the substantial commitment of resources by Deutsche Asset Management to compliance matters.

- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Fund and its shareholders while various organizational initiatives are being implemented. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Fund shareholders and Deutsche Bank's management of the DWS fund group, one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Fund's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Fund's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

Trustees and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2006. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity, and (ii) the address of each Independent Board Member is c/o Dawn-Marie Driscoll, PO Box 100176, Cape Coral, FL 33904. The term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

Independent Board Members

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Dawn-Marie Driscoll (1946) Chairperson since 2004 Board Member since 1987	President, Driscoll Associates (consulting firm); Executive Fellow, Center for Business Ethics, Bentley College; formerly, Partner, Palmer & Dodge (1988-1990); Vice President of Corporate Affairs and General Counsel, Filene's (1978-1988). Directorships: Advisory Board, Center for Business Ethics, Bentley College; Trustee, Southwest Florida Community Foundation (charitable organization). Former Directorships: Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	87
Henry P. Becton, Jr. (1943) Board Member since 1990	President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Becton Dickinson and Company[1] (medical technology company); Belo Corporation[1] (media company); Boston Museum of Science; Public Radio International. Former Directorships: American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	85
Keith R. Fox (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private equity funds). Directorships: Progressive Holding Corporation (kitchen goods importer and distributor); Natural History, Inc. (magazine publisher); Box Top Media Inc. (advertising). Former Directorships: The Kennel Shop (retailer)	87
Kenneth C. Froewiss (1945) Board Member since 2005	Clinical Professor of Finance, NYU Stern School of Business (1997-present); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	87
Martin J. Gruber (1937) Board Member since 2006	Nomura Professor of Finance, Leonard N. Stern School of Business, New York University (since September 1965); Director, Japan Equity Fund, Inc. (since January 1992), Thai Capital Fund, Inc. (since January 2000), Singapore Fund, Inc. (since January 2000), National Bureau of Economic Research (since January 2006). Formerly, Trustee, TIAA (pension funds) (January 1996–January 2000); Trustee, CREF and CREF Mutual Funds (January 2000–March 2005); Chairman, CREF and CREF Mutual Funds (February 2004–March 2005); and Director, S.G. Cowen Mutual Funds (January 1985–January 2001)	87
Richard J. Herring (1946) Board Member since 2006	Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center (since July 2000). Formerly, Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (since July 2000–June 2006)	87
Graham E. Jones (1933) Board Member since 2006	Senior Vice President, BGK Realty, Inc. (commercial real estate) (since 1995). Formerly, Trustee of various investment companies managed by Sun Capital Advisors, Inc. (1998–2005), Morgan Stanley Asset Management (1985–2001) and Weiss, Peck and Greer (1985–2005)	87
Rebecca W. Rimel (1951) Board Member since 2006	President and Chief Executive Officer, The Pew Charitable Trusts (charitable foundation) (1994 to present); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to present); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001 to present). Formerly, Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983 to 2004); Board Member, Investor Education (charitable organization) (2004–2005)	87
Philip Saunders, Jr. (1935) Board Member since 2006	Principal, Philip Saunders Associates (economic and financial consulting) (since November 1988). Formerly, Director, Financial Industry Consulting, Wolf & Company (consulting) (1987–1988); President, John Hancock Home Mortgage Corporation (1984–1986); Senior Vice President of Treasury and Financial Services, John Hancock Mutual Life Insurance Company, Inc. (1982–1986)	87

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
William N. Searcy, Jr. (1946) Board Member since 2006	Private investor since October 2003; Trustee of eight open-end mutual funds managed by Sun Capital Advisers, Inc. (since October 1998). Formerly, Pension & Savings Trust Officer, Sprint Corporation[1] (telecommunications) (November 1989–September 2003)	87
Jean Gleason Stromberg (1943) Board Member since 1999	Retired. Formerly, Consultant (1997–2001); Director, US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; Service Source, Inc. Former Directorships: Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	87
Carl W. Vogt (1936) Board Member since 2002	Retired Senior Partner, Fulbright & Jaworski, L.L.P. (law firm); formerly, President (interim) of Williams College (1999-2000); formerly, President of certain funds in the Deutsche Asset Management family of funds (formerly, Flag Investors family of funds) (registered investment companies) (1999-2000). Directorships: Yellow Corporation (trucking); American Science & Engineering (x-ray detection equipment). Former Directorships: ISI Family of Funds (registered investment companies, four funds overseen); National Railroad Passenger Corporation (Amtrak); Waste Management, Inc. (solid waste disposal). Formerly, Chairman and Member, National Transportation Safety Board	85

Interested Board Member

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Axel Schwarzer[2] (1958) Board Member since 2006	Managing Director[4], Deutsche Asset Management; Head of Deutsche Asset Management Americas; CEO of DWS Scudder; formerly, board member of DWS Investments, Germany (1999–2005); formerly, Head of Sales and Product Management for the Retail and Private Banking Division of Deutsche Bank in Germany (1997–1999); formerly, various strategic and operational positions for Deutsche Bank Germany Retail and Private Banking Division in the field of investment funds, tax driven instruments and asset management for corporates (1989–1996)	86

Officers[3]

Name, Year of Birth, Position with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Michael G. Clark[5] (1965) President, 2006–present	Managing Director[4], Deutsche Asset Management (2006–present); President of DWS family of funds; formerly, Director of Fund Board Relations (2004–2006) and Director of Product Development (2000–2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999–2000)
John Millette[6] (1962) Vice President and Secretary, 1999–present	Director[4], Deutsche Asset Management
Paul H. Schubert[5] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[4], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Patricia DeFilippis[5] (1963) Assistant Secretary, 2005–present	Vice President, Deutsche Asset Management (since June 2005); formerly, Counsel, New York Life Investment Management LLC (2003–2005); legal associate, Lord, Abbett & Co. LLC (1998–2003)
Elisa D. Metzger[5] (1962) Assistant Secretary 2005–present	Director[4], Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999–2005)
Caroline Pearson[6] (1962) Assistant Secretary, 1997–present	Managing Director[4], Deutsche Asset Management
Scott M. McHugh[6] (1971) Assistant Treasurer, 2005–present	Director[4], Deutsche Asset Management
Kathleen Sullivan D'Eramo[6] (1957) Assistant Treasurer, 2003–present	Director[4], Deutsche Asset Management
John Robbins[5] (1966) Anti-Money Laundering Compliance Officer, 2005–present	Managing Director[4], Deutsche Asset Management (since 2005); formerly, Chief Compliance Officer and Anti-Money Laundering Compliance Officer for GE Asset Management (1999–2005)

Name, Year of Birth, Position with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Robert Kloby[5] (1962) Chief Compliance Officer, 2006–present	Managing Director[4], Deutsche Asset Management (2004–present); formerly, Chief Compliance Officer/Chief Risk Officer, Robeco USA (2000–2004); Vice President, The Prudential Insurance Company of America (1988–2000); E.F. Hutton and Company (1984–1988)
J. Christopher Jackson[5] (1951) Chief Legal Officer, 2006–present	Director[4], Deutsche Asset Management (2006–present); formerly, Director, Senior Vice President, General Counsel and Assistant Secretary, Hansberger Global Investors, Inc. (1996–2006); Director, National Society of Compliance Professionals (2002–2005)(2006–2009)

1 *A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.*

2 *The mailing address of Axel Schwarzer is c/o Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, New York 10154. Mr. Schwarzer is an interested Board Member by virtue of his positions with Deutsche Asset Management.*

3 *As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the funds.*

4 *Executive title, not a board directorship.*

5 *Address: 345 Park Avenue, New York, New York 10154.*

6 *Address: Two International Place, Boston, MA 02110.*

The fund's Statement of Additional Information ("SAI") includes additional information about the Board Members. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: 1-800-621-1048.

Notes

About the Portfolios' Advisor

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.

This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

DWS Scudder Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 778-1482

VS1-2 (48576 2/07)

DWS SCUDDER
Deutsche Bank Group

DECEMBER 31, 2006

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Balanced VIP

DWS Blue Chip VIP

DWS Core Fixed Income VIP

DWS Davis Venture Value VIP

DWS Dreman High Return Equity VIP

DWS Dreman Small Mid Cap Value VIP
(formerly DWS Dreman Small Cap Value VIP)

DWS Global Thematic VIP

DWS Government & Agency Securities VIP

DWS High Income VIP

DWS International Select Equity VIP

DWS Janus Growth & Income VIP

DWS Large Cap Value VIP

DWS Mid Cap Growth VIP

DWS Money Market VIP

DWS Small Cap Growth VIP

DWS Strategic Income VIP

DWS Technology VIP

DWS Turner Mid Cap Growth VIP

ONE GLOBAL FORCE. ONE FOCUS. YOU.

DWS SCUDDER
Deutsche Bank Group

Contents

Information About Your Portfolio's Expenses, Management Summary, Portfolio Summary, Investment Portfolio, Financial Statements and Financial Highlights for:

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus, call (800) 778-1482 or your financial representative. We advise you to carefully consider the product's objectives, risks, charges and expenses before investing. The prospectus contains this and other important information about the product. Please read the prospectus carefully before you invest.

NOT FDIC/NCUA INSURED   NO BANK GUARANTEE   MAY LOSE VALUE   NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Investments in variable portfolios involve risk. Some portfolios have more risk than others. These include portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in Emerging Market countries). Please read the prospectus for specific details regarding its investments and risk profile.

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

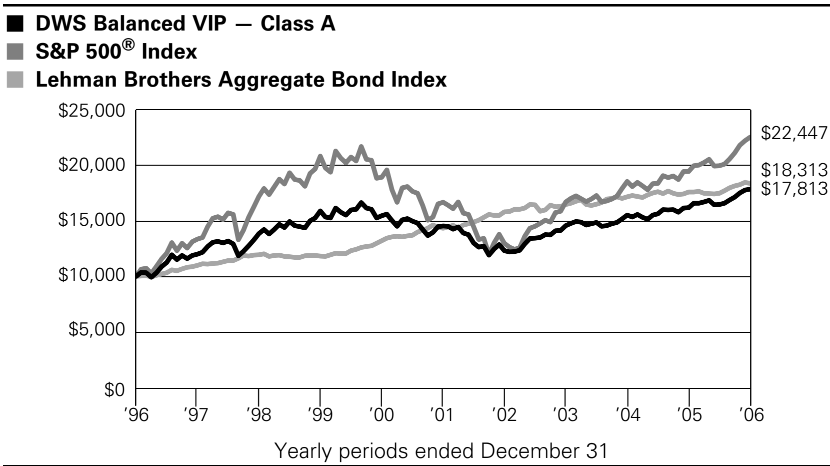
DWS Balanced VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The Portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond portfolio, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Balanced VIP from 12/31/1996 to 12/31/2006



The Standard & Poor's 500® (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Lehman Brothers Aggregate Bond (LBAB) Index is an unmanaged market value-weighted measure of treasury issues, agency issues, corporate and issues and mortgage securities.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Balanced VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,024	$12,261	$12,284	$17,813
	Average annual total return	10.24%	7.03%	4.20%	5.94%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$13,503	$22,447
	Average annual total return	15.79%	10.44%	6.19%	8.42%
Lehman Brothers Aggregate Bond Index	Growth of $10,000	$10,433	$11,150	$12,798	$18,313
	Average annual total return	4.33%	3.70%	5.06%	6.24%

DWS Balanced VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$10,982	$12,125	$13,666
	Average annual total return	9.82%	6.63%	7.19%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$15,549
	Average annual total return	15.79%	10.44%	10.31%
Lehman Brothers Aggregate Bond Index	Growth of $10,000	$10,433	$11,150	$12,331
	Average annual total return	4.33%	3.70%	4.77%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Balanced VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses, had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,084.20	$1,082.40
Expenses Paid per $1,000*	$ 2.68	$ 4.67
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,022.63	$1,020.72
Expenses Paid per $1,000*	$ 2.60	$ 4.53

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Balanced VIP	.51%	.89%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Balanced VIP

The US economy posted positive growth for all four quarters of 2006, although growth slowed somewhat in the last half of the year. All major asset classes — equities, bonds and cash — had positive returns for the year. Most equity indexes had double digit returns, while bond returns, except for high-yield, were in single digits. Within the equity market, small-cap stocks (as measured by the Russell 2000® Index) performed better than large-cap stocks (as measured by the Russell 1000® Index), as they have for several years.

For the 12 months ended December 31, 2006, the DWS Balanced VIP Portfolio had a return of 10.24% (Class A shares, unadjusted for contract charges). Since this Portfolio invests in stocks and bonds in several different categories, performance is analyzed by comparing the Portfolio's return with indexes that represent each asset class. In order to create a benchmark that is representative of the Portfolio's standard asset mix, we calculate a blended benchmark return that is 60% return of the Standard & Poor's 500® (S&P 500) Index and 40% return of the Lehman Brothers Aggregate Bond Index. During 2006, the Portfolio underperformed this blended benchmark, which had a return of 11.11%.

The Portfolio's allocation between stocks and bonds remained close to the neutral position of 60% equity and 40% fixed income during 2006, but with a modest overweight in equities throughout the year.[1] This overweight was positive for returns, as equities outperformed bonds. Within equities, an allocation to small cap equities was positive for performance, while an overweight in large cap growth relative to large cap value detracted. In the fixed income portion of the portfolio, a position in high-yield bonds was positive for performance.

William Chepolis, CFA	Inna Okounkova	Gary Sullivan, CFA	Robert Wang
Matthew F. MacDonald	Thomas F. Sassi	Julie M. Van Cleave, CFA	

Portfolio Managers, Deutsche Investment Management Americas Inc.

Effective January 23, 2007, the following people will handle the day-to-day management of the portfolio.

Julie Abbett	Jin Chen,CFA	William Chepolis, CFA
Matthew F. MacDonald	Inna Okounkova	Thomas Picciochi
Gary Sullivan, CFA	Robert Wang	Julie M.VanCleave, CFA

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The Portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond portfolio, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell 1000 Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

The Russell 2000 Index is an unmanaged capitalization-weighted measure of approximately 2,000 of the smallest companies in the Russell 3000 Index.

The Standard & Poor's 500 (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Lehman Brothers Aggregate Bond (LBAB) Index is an unmanaged market value-weighted measure of treasury issues, agency issues, corporate and issues and mortgage securities.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not include fees or expenses. It is not possible to invest directly into an index.

The Lipper Variable Annuity Mixed-Asset Target Allocation Moderate Funds category consists of funds that maintain a mix of between 40%-60% equity securities, with the remainder invested in bonds, cash and cash equivalents. Category returns assume reinvestment of dividends. It is not possible to invest directly into a Lipper category.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Balanced VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	60%	58%
Corporate Bonds	14%	12%
Commercial and Non-Agency Mortgage Backed Securities	12%	7%
Cash Equivalents	3%	5%
Foreign Bonds — US$ Denominated	3%	3%
US Treasury Obligations	3%	3%
Collateralized Mortgage Obligations	3%	5%
US Government Agency Sponsored Pass-Throughs	1%	2%
Asset Backed	1%	2%
Municipal Bonds and Notes	—	2%
US Government Sponsored Agencies	—	1%
	100%	100%

Sector Diversification (Excludes Cash Equivalents and Securities Lending)	**12/31/06**	**12/31/05**
Financials	23%	19%
Energy	13%	12%
Information Technology	13%	18%
Consumer Discretionary	13%	12%
Health Care	10%	12%
Industrials	9%	10%
Consumer Staples	7%	7%
Materials	5%	4%
Telecommunication Services	4%	3%
Utilities	3%	3%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 7. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

Investment Portfolio

December 31, 2006

DWS Balanced VIP

	Shares	Value ($)
Common Stocks 59.8%		
Consumer Discretionary 6.3%		
Auto Components 0.1%		
American Axle & Manufacturing Holdings, Inc.	7,000	132,930
ArvinMeritor, Inc.	18,000	328,140
Sauer-Danfoss, Inc.	5,000	161,250
Tenneco, Inc.*	12,200	301,584
		923,904
Automobiles 0.3%		
Harley-Davidson, Inc.	24,660	1,737,790
Winnebago Industries, Inc.	9,500	312,645
		2,050,435
Distributors 0.0%		
Building Materials Holding Corp.	11,400	281,466
Core-Mark Holding Co., Inc.*	700	23,415
		304,881
Diversified Consumer Services 0.1%		
Coinstar, Inc.*	9,300	284,301
Jackson Hewitt Tax Service, Inc.	3,800	129,086
Stewart Enterprises, Inc. "A"	2,200	13,750
		427,137
Hotels Restaurants & Leisure 0.5%		
Buffalo Wild Wings, Inc.*	5,100	271,320
Jack in the Box, Inc.*	6,400	390,656
LIFE TIME FITNESS, Inc.*	500	24,255
Luby's, Inc.*	17,000	185,130
O'Charley's, Inc.*	6,800	144,704
Papa John's International, Inc.*	4,000	116,040
Starbucks Corp.*	47,870	1,695,555
Triarc Companies, Inc. "B"	9,800	196,000
Vail Resorts, Inc.*	1,500	67,230
WMS Industries, Inc.*	4,300	149,898
		3,240,788
Household Durables 0.3%		
Blyth, Inc.	15,700	325,775
Fortune Brands, Inc.	19,910	1,700,115
		2,025,890
Internet & Catalog Retail 0.0%		
Stamps.com, Inc.*	3,800	**59,850**
Leisure Equipment & Products 0.1%		
K2, Inc.*	4,700	61,993
Oakley, Inc.	13,900	278,834
		340,827
Media 1.0%		
Carmike Cinemas, Inc.	2,700	55,053
Catalina Marketing Corp.	3,900	107,250
Idearc, Inc.*	3,900	111,735
LodgeNet Entertainment Corp.*	3,300	82,599
McGraw-Hill Companies, Inc.	42,170	2,868,404
Mediacom Communications Corp. "A"*	25,800	207,432
Omnicom Group, Inc.	23,310	2,436,827
Scholastic Corp.*	6,800	243,712
		6,113,012
Multiline Retail 1.3%		
Big Lots, Inc.*	11,900	272,748
Federated Department Stores, Inc.	61,000	2,325,930
Kohl's Corp.*	16,580	1,134,569
Target Corp.	74,300	4,238,815
The Bon-Ton Stores, Inc.	5,900	204,435
		8,176,497
Specialty Retail 2.4%		
Best Buy Co., Inc.	59,420	2,922,870
Cache, Inc.*	3,000	75,720
Christopher & Banks Corp.	11,200	208,992
Dress Barn, Inc.*	12,600	293,958
DSW, Inc. "A"*	7,600	293,132
Group 1 Automotive, Inc.	7,100	367,212
Gymboree Corp.*	7,300	278,568
Lowe's Companies, Inc.	121,300	3,778,495
New York & Co., Inc.*	21,000	274,680
Payless ShoeSource, Inc.*	9,700	318,354
Select Comfort Corp.*	13,300	231,287
Staples, Inc.	171,510	4,579,317
TJX Companies, Inc.	50,000	1,426,000
		15,048,585
Textiles, Apparel & Luxury Goods 0.2%		
Brown Shoe Co., Inc.	6,500	310,310
Kellwood Co.	3,500	113,820
Maidenform Brands, Inc.*	11,200	202,944
NIKE, Inc. "B"	200	15,496
Perry Ellis International, Inc.*	8,600	352,600
Xerium Technologies, Inc.	5,200	50,908
		1,046,078
Consumer Staples 5.1%		
Beverages 1.4%		
Coca-Cola Co.	58,200	2,808,150
Diageo PLC	91,373	1,793,557
PepsiCo, Inc.	68,260	4,269,663
		8,871,370
Food & Staples Retailing 1.0%		
Central European Distribution Corp.*	600	17,820
Pantry, Inc.*	4,800	224,832
Shoppers Drug Mart Corp.	19,300	828,999
Spartan Stores, Inc.	11,400	238,602
Wal-Mart Stores, Inc.	45,940	2,121,509
Walgreen Co.	65,810	3,020,021
		6,451,783
Food Products 1.3%		
Dean Foods Co.*	39,160	1,655,685
Flowers Foods, Inc.	11,800	318,482
General Mills, Inc.	43,700	2,517,120
Groupe Danone	12,089	1,831,988
Kellogg Co.	31,810	1,592,409
		7,915,684
Household Products 1.3%		
Colgate-Palmolive Co.	70,270	4,584,415
Procter & Gamble Co.	56,990	3,662,747
		8,247,162

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Personal Products 0.1%		
Chattem, Inc.*	4,500	225,360
Elizabeth Arden, Inc.*	10,300	196,215
		421,575
Tobacco 0.0%		
Alliance One International, Inc.*	12,200	**86,132**

Energy 9.1%

	Shares	Value ($)
Energy Equipment & Services 3.8%		
Baker Hughes, Inc.	74,550	5,565,903
BJ Services Co.	102,200	2,996,504
ENSCO International, Inc.	55,400	2,773,324
Grey Wolf, Inc.*	15,000	102,900
Halliburton Co.	45,170	1,402,528
Noble Corp.	18,030	1,372,984
Parker Drilling Co.*	26,300	214,871
Pioneer Drilling Co.*	17,900	237,712
Schlumberger Ltd.	97,860	6,180,838
Superior Well Services, Inc.*	2,100	53,676
Transocean, Inc.*	34,740	2,810,119
		23,711,359
Oil, Gas & Consumable Fuels 5.3%		
Alpha Natural Resources, Inc.*	11,900	169,337
Anadarko Petroleum Corp.	57,300	2,493,696
Apache Corp.	12,900	857,979
Berry Petroleum Co. "A"	7,500	232,575
Bois d'Arc Energy, Inc.*	6,200	90,706
BP PLC (ADR)	36,300	2,435,730
Brigham Exploration Co.*	28,600	209,066
Callon Petroleum Co.*	18,700	281,061
Chevron Corp.	46,600	3,426,498
Clayton Williams Energy, Inc.*	1,400	50,834
Comstock Resources, Inc.*	9,000	279,540
ConocoPhillips	81,780	5,884,071
Devon Energy Corp.	78,570	5,270,476
Edge Petroleum Corp.*	10,300	187,872
EOG Resources, Inc.	25,420	1,587,479
ExxonMobil Corp.	66,600	5,103,558
Houston Exploration Co.*	1,900	98,382
Petrohawk Energy Corp.*	15,800	181,700
Swift Energy Co.*	6,600	295,746
USEC, Inc.*	20,300	258,216
Valero Energy Corp.	39,470	2,019,285
Whiting Petroleum Corp.*	6,400	298,240
XTO Energy, Inc.	39,836	1,874,284
		33,586,331

Financials 12.3%

	Shares	Value ($)
Capital Markets 2.2%		
Apollo Investment Corp.	9,517	213,181
Cohen & Steers, Inc.	1,700	68,289
Lehman Brothers Holdings, Inc.	59,090	4,616,111
MCG Capital Corp.	4,400	89,408
Merrill Lynch & Co., Inc.	21,970	2,045,407
Morgan Stanley	23,100	1,881,033
SWS Group, Inc.	1,400	49,980
The Goldman Sachs Group, Inc.	18,120	3,612,222
UBS AG (Registered)	21,278	1,293,094
Waddell & Reed Financial, Inc. "A"	3,400	93,024
		13,961,749
Commercial Banks 3.1%		
BancFirst Corp.	700	37,800
Banner Corp.	800	35,472
Center Financial Corp.	4,400	105,468
City Holding Co.	3,000	122,670
CVB Financial Corp.	9,118	131,846
First Community Bancorp.	6,500	339,755
Frontier Financial Corp.	3,075	89,882
Greater Bay Bancorp.	1,900	50,027
Hanmi Financial Corp.	12,400	279,372
National City Corp.	89,600	3,275,776
Oriental Financial Group, Inc.	5,500	71,225
Pacific Capital Bancorp.	3,900	130,962
Preferred Bank	400	24,036
Prosperity Bancshares, Inc.	700	24,157
Regions Financial Corp.	35,312	1,320,669
Sandy Spring Bancorp., Inc.	400	15,272
Sterling Bancshares, Inc.	32,050	417,291
Sterling Financial Corp.	2,300	77,763
SunTrust Banks, Inc.	12,900	1,089,405
Taylor Capital Group, Inc.	2,900	106,169
Trustmark Corp.	2,200	71,962
United Community Banks, Inc.	700	22,624
US Bancorp.	89,200	3,228,148
Wachovia Corp.	92,000	5,239,400
Wells Fargo & Co.	91,200	3,243,072
West Coast Bancorp.	1,100	38,104
		19,588,327
Consumer Finance 0.4%		
Advanta Corp. "B"	500	21,815
American Express Co.	26,210	1,590,161
Cash America International, Inc.	7,400	347,060
First Cash Financial Services, Inc.*	7,500	194,025
United PanAm Financial Corp.*	6,400	88,064
		2,241,125
Diversified Financial Services 3.2%		
Bank of America Corp.	149,100	7,960,449
Citigroup, Inc.	131,500	7,324,550
JPMorgan Chase & Co.	104,500	5,047,350
		20,332,349
Insurance 1.9%		
Aflac, Inc.	75,600	3,477,600
American International Group, Inc.	63,200	4,528,912
Argonaut Group, Inc.*	6,500	226,590
Genworth Financial, Inc. "A"	27,460	939,407
Hartford Financial Services Group, Inc.	22,400	2,090,144
Odyssey Re Holdings Corp.	11,900	443,870
Seabright Insurance Holdings*	9,600	172,896
Tower Group, Inc.	6,100	189,527
		12,068,946
Real Estate Investment Trusts 0.7%		
Alexandria Real Estate Equities, Inc. (REIT)	1,800	180,720
American Home Mortgage Investment Corp. (REIT)	4,500	158,040
BioMed Realty Trust, Inc. (REIT)	5,900	168,740
Corporate Office Properties Trust (REIT)	1,500	75,705
Cousins Properties, Inc. (REIT)	4,800	169,296
Crescent Real Estate Equities Co. (REIT)	6,700	132,325

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
EastGroup Properties, Inc. (REIT)	1,500	80,340
Entertainment Properties Trust (REIT)	400	23,376
Equity Lifestyle Properties, Inc. (REIT)	1,800	97,974
FelCor Lodging Trust, Inc. (REIT)	400	8,736
First Industrial Realty Trust, Inc. (REIT)	4,600	215,694
Glimcher Realty Trust (REIT)	3,700	98,827
Healthcare Realty Trust, Inc. (REIT)	2,600	102,804
Highwoods Properties, Inc. (REIT)	5,100	207,876
Home Properties, Inc. (REIT)	1,200	71,124
LaSalle Hotel Properties (REIT)	500	22,925
Lexington Corporate Properties Trust (REIT)	7,600	170,392
LTC Properties, Inc. (REIT)	700	19,117
Mid-America Apartment Communities, Inc. (REIT)	1,900	108,756
National Retail Properties, Inc. (REIT)	6,800	156,060
Nationwide Health Properties, Inc. (REIT)	7,200	217,584
Newcastle Investment Corp. (REIT)	6,100	191,052
OMEGA Healthcare Investors, Inc. (REIT)	2,900	51,388
Parkway Properties, Inc. (REIT)	2,800	142,828
Pennsylvania Real Estate Investment Trust (REIT)	2,200	86,636
Potlatch Corp. (REIT)	4,200	184,044
RAIT Investment Trust (REIT)	2,900	99,992
Realty Income Corp. (REIT)	4,300	119,110
Redwood Trust, Inc. (REIT)	2,600	151,008
Senior Housing Properties Trust (REIT)	8,000	195,840
Sovran Self Storage, Inc. (REIT)	1,600	91,648
Strategic Hotels & Resorts, Inc. (REIT)	5,200	113,308
Sun Communities, Inc. (REIT)	400	12,944
Sunstone Hotel Investors, Inc. (REIT)	3,700	98,901
Urstadt Biddle Properties "A" (REIT)	600	11,454
Washington Real Estate Investment Trust (REIT)	4,300	172,000
		4,208,564
Thrifts & Mortgage Finance 0.8%		
BankUnited Financial Corp. "A"	10,900	304,764
Corus Bankshares, Inc.	13,500	311,445
First Niagara Financial Group, Inc.	8,000	118,880
FirstFed Financial Corp.*	6,200	415,214
Franklin Bank Corp.*	1,400	28,756
Fremont General Corp.	18,500	299,885
NetBank, Inc.	11,200	51,968
Ocwen Financial Corp.*	18,600	294,996
PFF Bancorp., Inc.	7,750	267,452
TierOne Corp.	6,000	189,660
Triad Guaranty, Inc.*	1,300	71,331
Washington Mutual, Inc.	62,800	2,856,772
WSFS Financial Corp.	1,900	127,167
		5,338,290
Health Care 7.8%		
Biotechnology 1.6%		
Alkermes, Inc.*	17,600	235,312
Amgen, Inc.*	24,450	1,670,179
Digene Corp.*	4,900	234,808
Genentech, Inc.*	45,590	3,698,717
Gilead Sciences, Inc.*	54,190	3,518,557
ICOS Corp.*	1,800	60,822
OSI Pharmaceuticals, Inc.*	6,400	223,872
Progenics Pharmaceuticals, Inc.*	8,100	208,494
		9,850,761
Health Care Equipment & Supplies 2.1%		
Baxter International, Inc.	119,820	5,558,450
C.R. Bard, Inc.	18,650	1,547,390
HealthTronics, Inc.*	9,300	61,938
Integra LifeSciences Holdings*	8,200	349,238
Medtronic, Inc.	50,800	2,718,308
West Pharmaceutical Services, Inc.	8,300	425,209
Zimmer Holdings, Inc.*	31,290	2,452,510
Zoll Medical Corp.*	900	52,416
		13,165,459
Health Care Providers & Services 1.0%		
Alliance Imaging, Inc.*	30,900	205,485
Apria Healthcare Group, Inc.*	16,700	445,055
Centene Corp.*	9,800	240,786
CorVel Corp.*	4,900	233,093
Gentiva Health Services, Inc.*	11,200	213,472
inVentiv Health, Inc.*	4,600	162,610
Kindred Healthcare, Inc.*	11,200	282,800
LCA-Vision, Inc.	4,800	164,928
LHC Group, Inc.*	700	19,957
Magellan Health Services, Inc.*	9,000	388,980
MedCath Corp.*	9,700	265,392
UnitedHealth Group, Inc.	65,230	3,504,808
		6,127,366
Health Care Technology 0.0%		
TriZetto Group, Inc.*	6,200	113,894
Vital Images, Inc.*	4,400	153,120
		267,014
Life Sciences Tools & Services 0.1%		
Albany Molecular Research, Inc.*	11,300	119,328
Kendle International, Inc.*	5,500	172,975
Pharmanet Development Group, Inc.*	5,500	121,385
		413,688
Pharmaceuticals 3.0%		
Abbott Laboratories	83,240	4,054,620
Eli Lilly & Co.	17,820	928,422
Hi-Tech Pharmacal Co., Inc.*	2,250	27,383
Johnson & Johnson	112,782	7,445,868
K-V Pharmaceutical Co. "A"*	2,400	57,072
Medicines Co.*	8,500	269,620
Noven Pharmaceuticals, Inc.*	8,700	221,415
Pain Therapeutics, Inc.*	17,700	157,530
Pfizer, Inc.	109,700	2,841,230
Sciele Pharma, Inc.*	10,100	242,400
SuperGen, Inc.*	3,800	19,304
Teva Pharmaceutical Industries Ltd. (ADR)	18,440	573,115
Valeant Pharmaceuticals International	12,600	217,224
ViroPharma, Inc.*	10,900	159,576
Wyeth	40,600	2,067,352
		19,282,131

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Industrials 6.0%		
Aerospace & Defense 1.5%		
EDO Corp.	2,400	56,976
Honeywell International, Inc.	36,500	1,651,260
L-3 Communications Holdings, Inc.	23,300	1,905,474
Orbital Sciences Corp.*	18,200	335,608
United Industrial Corp.	6,600	334,950
United Technologies Corp.	84,940	5,310,449
		9,594,717
Air Freight & Logistics 0.4%		
ABX Air, Inc.*	15,500	107,415
FedEx Corp.	19,380	2,105,056
		2,212,471
Airlines 0.1%		
Alaska Air Group, Inc.*	8,200	323,900
ExpressJet Holdings, Inc.*	14,500	117,450
Republic Airways Holdings, Inc.*	11,700	196,326
		637,676
Building Products 0.0%		
American Woodmark Corp.	7,500	**313,875**
Commercial Services & Supplies 0.4%		
Administaff, Inc.	5,900	252,343
American Ecology Corp.	3,100	57,381
Casella Waste Systems, Inc. "A"*	800	9,784
Clean Harbors, Inc.*	4,200	203,322
Consolidated Graphics, Inc.*	4,700	277,629
Deluxe Corp.	15,500	390,600
Huron Consulting Group, Inc.*	700	31,738
IHS, Inc. "A"*	7,200	284,256
John H. Harland Co.	2,900	145,580
Kforce, Inc.*	16,800	204,456
Layne Christensen Co.*	6,800	223,244
McGrath Rentcorp.	700	21,441
Volt Information Sciences, Inc.*	5,100	256,071
Watson Wyatt Worldwide, Inc. "A"	2,300	103,845
		2,461,690
Construction & Engineering 0.2%		
EMCOR Group, Inc.*	7,000	397,950
Granite Construction, Inc.	7,200	362,304
Infrasource Services, Inc.*	8,700	189,399
Perini Corp.*	5,500	169,290
		1,118,943
Electrical Equipment 0.5%		
A.O. Smith Corp.	5,000	187,800
Acuity Brands, Inc.	400	20,816
Emerson Electric Co.	55,540	2,448,758
General Cable Corp.*	5,600	244,776
II-VI, Inc.*	9,800	273,812
		3,175,962
Industrial Conglomerates 1.1%		
General Electric Co.	182,240	6,781,150
Tredegar Corp.	4,000	90,440
		6,871,590
Machinery 1.3%		
Accuride Corp.*	27,300	307,398
Caterpillar, Inc.	22,170	1,359,686
Dover Corp.	17,600	862,752
Freightcar America, Inc.	5,900	327,155
Illinois Tool Works, Inc.	55,900	2,582,021
Ingersoll-Rand Co., Ltd. "A"	71,200	2,786,056
NACCO Industries, Inc. "A"	200	27,320
Wabtec Corp.	2,200	66,836
		8,319,224
Road & Rail 0.5%		
Burlington Northern Santa Fe Corp.	27,700	2,044,537
Celadon Group, Inc.*	1,400	23,450
Dollar Thrifty Automotive Group, Inc.*	8,900	405,929
Marten Transport Ltd.*	7,100	130,143
U.S. Xpress Enterprises, Inc. "A"*	11,700	192,699
USA Truck, Inc.*	14,500	232,725
		3,029,483
Trading Companies & Distributors 0.0%		
Electro Rent Corp.*	9,800	**163,660**
Information Technology 9.3%		
Communications Equipment 1.6%		
C-COR, Inc.*	21,300	237,282
Cisco Systems, Inc.*	173,770	4,749,134
Dycom Industries, Inc.*	13,200	278,784
Harris Corp.	28,400	1,302,424
InterDigital Communications Corp.*	8,500	285,175
Nokia Oyj (ADR)	94,400	1,918,208
QUALCOMM, Inc.	32,330	1,221,751
		9,992,758
Computers & Peripherals 1.3%		
Apple Computer, Inc.*	32,800	2,782,752
EMC Corp.*	130,230	1,719,036
Hewlett-Packard Co.	44,700	1,841,193
International Business Machines Corp.	21,240	2,063,466
Komag, Inc.*	6,500	246,220
		8,652,667
Electronic Equipment & Instruments 0.3%		
Daktronics, Inc.	7,000	257,950
Itron, Inc.*	5,700	295,488
Littelfuse, Inc.*	5,800	184,904
Mettler-Toledo International, Inc.*	10,900	859,465
Newport Corp.*	6,300	131,985
		1,729,792
Internet Software & Services 0.7%		
aQuantive, Inc.*	7,500	184,950
DealerTrack Holdings, Inc.*	6,800	200,056
eBay, Inc.*	41,860	1,258,730
Google, Inc. "A"*	2,640	1,215,667
InfoSpace, Inc.*	2,500	51,275
j2 Global Communications, Inc.*	6,100	166,225
RealNetworks, Inc.*	3,700	40,478
Sohu.com, Inc.*	4,200	100,800
United Online, Inc.	1,500	19,920
ValueClick, Inc.*	9,700	229,211
WebEx Communications, Inc.*	4,700	163,983
Websense, Inc.*	6,700	152,961
Yahoo!, Inc.*	41,960	1,071,659
		4,855,915
IT Services 1.0%		
Accenture Ltd. "A"	63,410	2,341,732
Covansys Corp.*	10,400	238,680
Fiserv, Inc.*	27,460	1,439,453
infoUSA, Inc.	20,100	239,391

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
ManTech International Corp. "A"*	6,600	243,078
Paychex, Inc.	37,200	1,470,888
SRA International, Inc. "A"*	1,100	29,414
StarTek, Inc.	8,300	112,382
Sykes Enterprises, Inc.*	2,400	42,336
		6,157,354
Semiconductors & Semiconductor Equipment 2.2%		
Actel Corp.*	11,800	214,288
Applied Materials, Inc.	94,900	1,750,905
Asyst Technologies, Inc.*	27,400	200,294
Broadcom Corp. "A"*	30,640	989,978
Brooks Automation, Inc.*	17,300	249,120
Credence Systems Corp.*	35,600	185,120
Diodes, Inc.*	6,000	212,880
Intel Corp.	220,700	4,469,175
Intevac, Inc.*	6,900	179,055
Linear Technology Corp.	41,550	1,259,796
Micrel, Inc.*	6,900	74,382
MIPS Technologies, Inc.*	22,100	183,430
OmniVision Technologies, Inc.*	13,700	187,005
RF Micro Devices, Inc.*	11,100	75,369
Supertex, Inc.*	5,200	204,100
Tessera Technologies, Inc.*	7,800	314,652
Texas Instruments, Inc.	105,430	3,036,384
		13,785,933
Software 2.2%		
Adobe Systems, Inc.*	41,650	1,712,648
Ansoft Corp.*	9,700	269,660
Blackbaud, Inc.	2,500	65,000
Electronic Arts, Inc.*	28,800	1,450,368
FalconStor Software, Inc.*	2,400	20,760
Kronos, Inc.*	8,400	308,616
Manhattan Associates, Inc.*	7,600	228,608
Microsoft Corp.	196,550	5,868,983
MicroStrategy, Inc. "A"*	2,122	241,929
NetScout Systems, Inc.*	6,500	53,950
SPSS, Inc.*	2,500	75,175
Symantec Corp.*	153,300	3,196,305
Ultimate Software Group, Inc.*	9,900	230,274
		13,722,276
Materials 1.8%		
Chemicals 1.2%		
Dow Chemical Co.	62,600	2,500,244
E.I. du Pont de Nemours & Co.	40,300	1,963,013
Ecolab, Inc.	38,850	1,756,020
Georgia Gulf Corp.	13,600	262,616
H.B. Fuller Co.	13,300	343,406
Hercules, Inc.*	5,800	111,998
Pioneer Companies, Inc.*	11,400	326,724
Spartech Corp.	13,000	340,860
		7,604,881
Containers & Packaging 0.4%		
Caraustar Industries, Inc.*	18,200	147,238
Rock-Tenn Co. "A"	11,800	319,898
Sonoco Products Co.	57,900	2,203,674
		2,670,810
Metals & Mining 0.2%		
AK Steel Holding Corp.*	13,900	234,910
Century Aluminum Co.*	5,800	258,970
Chaparral Steel Co.	8,500	376,295

	Shares	Value ($)
Hecla Mining Co.*	16,900	129,454
		999,629
Paper & Forest Products 0.0%		
Buckeye Technologies, Inc.*	18,000	215,640
Deltic Timber Corp.	600	33,468
Neenah Paper, Inc.	400	14,128
		263,236
Telecommunication Services 1.4%		
Diversified Telecommunication Services 1.3%		
Alaska Communications Systems Group, Inc.	18,900	287,091
AT&T, Inc.	87,800	3,138,850
CT Communications, Inc.	12,700	291,084
General Communication, Inc. "A"*	12,400	195,052
Golden Telecom, Inc.	7,700	360,668
Verizon Communications, Inc.	113,000	4,208,120
		8,480,865
Wireless Telecommunication Services 0.1%		
Centennial Communications Corp.	26,700	191,973
Syniverse Holdings, Inc.*	3,300	49,467
USA Mobility, Inc.	6,400	143,168
		384,608
Utilities 0.7%		
Electric Utilities 0.4%		
ALLETE, Inc.	700	32,578
FPL Group, Inc.	41,800	2,274,756
IDACORP, Inc.	2,200	85,030
Otter Tail Corp.	1,900	59,204
		2,451,568
Gas Utilities 0.1%		
Piedmont Natural Gas Co., Inc.	1,300	34,775
South Jersey Industries, Inc.	3,900	130,299
Southwest Gas Corp.	11,800	452,766
		617,840
Independent Power Producers & Energy Traders 0.1%		
TXU Corp.	13,160	**713,404**
Multi-Utilities 0.1%		
Avista Corp.	6,000	151,860
PNM Resources, Inc.	7,000	217,700
		369,560
Total Common Stocks (Cost $287,518,938)		**377,247,436**

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 13.9%		
Consumer Discretionary 2.8%		
AAC Group Holding Corp., 12.75%, 10/1/2012 (PIK)	72,702	77,428
Affinia Group, Inc., 9.0%, 11/30/2014	155,000	151,900
AMC Entertainment, Inc., 8.0%, 3/1/2014	235,000	233,237
American Achievement Corp., 8.25%, 4/1/2012	15,000	15,356
American Media Operations, Inc., Series B, 10.25%, 5/1/2009	60,000	58,125
Buffets, Inc., 144A, 12.5%, 11/1/2014	60,000	60,450

The accompanying notes are an integral part of the financial statements.

		Principal Amount ($)(a)	Value ($)
Burlington Coat Factory Warehouse Corp., 144A, 11.125%, 4/15/2014		95,000	92,625
Cablevision Systems Corp., Series B, 9.87%**, 4/1/2009		60,000	63,300
Caesars Entertainment, Inc., 8.875%, 9/15/2008		105,000	109,462
Charter Communications Holdings LLC:			
8.625%, 4/1/2009		10,000	9,700
9.625%, 11/15/2009		10,000	9,700
10.25%, 9/15/2010		490,000	512,662
Series B, 10.25%, 9/15/2010		145,000	151,344
11.0%, 10/1/2015		461,000	473,101
Comcast Cable Communications Holdings, Inc., 9.455%, 11/15/2022		220,000	284,886
Comcast Corp., 6.45%, 3/15/2037		645,000	645,348
Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014		115,000	90,563
CSC Holdings, Inc.:			
7.25%, 7/15/2008		80,000	80,700
7.875%, 12/15/2007		265,000	268,312
Series B, 8.125%, 7/15/2009		35,000	36,269
Series B, 8.125%, 8/15/2009		35,000	36,269
DaimlerChrysler NA Holding Corp.:			
4.75%, 1/15/2008		750,000	743,161
Series E, 5.901%**, 10/31/2008		389,000	390,506
Denny's Corp. Holdings, Inc., 10.0%, 10/1/2012		30,000	31,650
Dex Media East LLC/Financial, 12.125%, 11/15/2012		823,000	906,329
EchoStar DBS Corp.:			
6.625%, 10/1/2014		135,000	131,625
7.125%, 2/1/2016		100,000	100,000
Foot Locker, Inc., 8.5%, 1/15/2022		30,000	29,475
Ford Motor Co., 7.45%, 7/16/2031		95,000	74,575
French Lick Resorts & Casinos, 144A, 10.75%, 4/15/2014		340,000	317,900
General Motors Corp.:			
7.4%, 9/1/2025		85,000	71,825
8.375%, 7/15/2033 (b)		310,000	286,750
Goodyear Tire & Rubber Co., 11.25%, 3/1/2011		550,000	607,750
Gregg Appliances, Inc., 9.0%, 2/1/2013		55,000	52,525
Hanesbrands, Inc., 144A, 8.735%**, 12/15/2014		75,000	76,313
Harrah's Operating Co., Inc., 5.625%, 6/1/2015		450,000	385,942
Hertz Corp.:			
144A, 8.875%, 1/1/2014		220,000	230,450
144A, 10.5%, 1/1/2016		50,000	55,000
ION Media Networks, Inc., 144A, 11.624%**, 1/15/2013		90,000	91,125
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014		315,000	313,425
Jacobs Entertainment, Inc., 9.75%, 6/15/2014		165,000	167,475
JC Penney Corp., Inc., 8.0%, 3/1/2010		500,000	532,362
Lear Corp.:			
Series B, 5.75%, 8/1/2014		10,000	8,400
144A, 8.75%, 12/1/2016		75,000	72,469
Levi Strauss & Co., 10.122%**, 4/1/2012		10,000	10,263
Liberty Media Corp.:			
5.7%, 5/15/2013		20,000	18,843
8.25%, 2/1/2030		125,000	122,528
8.5%, 7/15/2029		160,000	160,873
Majestic Star Casino LLC, 9.5%, 10/15/2010		15,000	15,750
Mediacom Broadband LLC, 8.5%, 10/15/2015		10,000	10,125
Medimedia USA, Inc., 144A, 11.375%, 11/15/2014		45,000	47,138
Metaldyne Corp.:			
10.0%, 11/1/2013		75,000	80,250
11.0%, 6/15/2012		35,000	35,875
MGM MIRAGE:			
6.75%, 9/1/2012		40,000	39,400
8.375%, 2/1/2011		80,000	83,000
9.75%, 6/1/2007		145,000	146,812
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010		160,000	168,800
NCL Corp., 10.625%, 7/15/2014		35,000	35,000
Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012		245,000	207,025
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013		95,000	100,700
Pokagon Gaming Authority, 144A, 10.375%, 6/15/2014		40,000	43,800
Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012		575,000	592,250
PRIMEDIA, Inc.:			
8.875%, 5/15/2011		105,000	107,100
10.749%**, 5/15/2010		260,000	270,400
Resorts International Hotel & Casino, Inc., 11.5%, 3/15/2009		560,000	577,500
Sinclair Broadcast Group, Inc.:			
8.0%, 3/15/2012		115,000	118,737
8.75%, 12/15/2011		305,000	318,344
Sirius Satellite Radio, Inc., 9.625%, 8/1/2013		210,000	206,587
Six Flags, Inc., 9.75%, 4/15/2013		285,000	267,544
Station Casinos, Inc., 6.5%, 2/1/2014		125,000	111,094
TCI Communications, Inc., 8.75%, 8/1/2015		135,000	159,676
The Bon-Ton Department Stores, Inc., 10.25%, 3/15/2014		100,000	102,250
Time Warner, Inc., 5.875%, 11/15/2016		765,000	763,068
Travelport, Inc., 144A, 9.994%**, 9/1/2014		75,000	73,125
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015		395,000	393,025
TRW Automotive, Inc.:			
11.0%, 2/15/2013		405,000	443,981
11.75%, 2/15/2013	EUR	75,000	111,008
United Auto Group, Inc.:			
144A, 7.75%, 12/15/2016		75,000	75,375
9.625%, 3/15/2012		375,000	394,219
Wheeling Island Gaming, Inc., 10.125%, 12/15/2009		65,000	66,219
Wyndham Worldwide Corp., 144A, 6.0%, 12/1/2016		830,000	815,399
XM Satellite Radio, Inc., 9.75%, 5/1/2014		405,000	405,000
Young Broadcasting, Inc., 8.75%, 1/15/2014		585,000	506,756
			17,342,608

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	Principal Amount ($)(a)	Value ($)
Consumer Staples 0.4%		
CVS Corp., 5.75%, 8/15/2011	810,000	819,741
Del Laboratories, Inc., 8.0%, 2/1/2012	80,000	75,000
Delhaize America, Inc.:		
8.05%, 4/15/2027	30,000	32,440
9.0%, 4/15/2031	420,000	498,668
Harry & David Holdings, Inc., 10.369%**, 3/1/2012	85,000	84,575
Kraft Foods, Inc., 6.25%, 6/1/2012	500,000	519,401
North Atlantic Trading Co., 9.25%, 3/1/2012	200,000	174,500
Viskase Co., Inc., 11.5%, 6/15/2011	480,000	480,000
		2,684,325
Energy 0.7%		
Belden & Blake Corp., 8.75%, 7/15/2012	405,000	415,125
Chaparral Energy, Inc., 8.5%, 12/1/2015	215,000	213,925
Chesapeake Energy Corp.:		
6.25%, 1/15/2018	100,000	96,250
6.875%, 1/15/2016	285,000	287,494
7.75%, 1/15/2015	40,000	41,650
Complete Production Services, Inc., 144A, 8.0%, 12/15/2016	140,000	143,500
Delta Petroleum Corp., 7.0%, 4/1/2015	250,000	231,250
Dynegy Holdings, Inc.:		
7.625%, 10/15/2026	250,000	242,500
8.375%, 5/1/2016	200,000	210,000
El Paso Production Holding Corp., 7.75%, 6/1/2013	170,000	177,862
Encore Acquisition Co., 6.0%, 7/15/2015	45,000	41,063
Frontier Oil Corp., 6.625%, 10/1/2011	65,000	64,837
NGC Corp. Capital Trust I, Series B, 8.316%, 6/1/2027	100,000	94,500
Peabody Energy Corp., 7.375%, 11/1/2016	60,000	63,900
Quicksilver Resources, Inc., 7.125%, 4/1/2016	55,000	53,763
Sabine Pass LNG LP:		
144A, 7.25%, 11/30/2013	100,000	99,375
144A, 7.5%, 11/30/2016	100,000	99,625
Southern Natural Gas, 8.875%, 3/15/2010	340,000	356,691
Stone Energy Corp.:		
6.75%, 12/15/2014	265,000	253,075
144A, 8.124%**, 7/15/2010	270,000	267,300
Transmeridian Exploration, Inc., 12.0%, 12/15/2010	150,000	144,375
Williams Companies, Inc.:		
8.125%, 3/15/2012	575,000	622,437
8.75%, 3/15/2032	265,000	299,450
		4,519,947
Financials 4.6%		
Alamosa Delaware, Inc., 11.0%, 7/31/2010	125,000	135,073
Allstate Corp., 6.125%, 2/15/2012	1,000,000	1,035,815
Ashton Woods USA LLC, 9.5%, 10/1/2015	235,000	213,850
BCP Crystal Holdings Corp., 9.625%, 6/15/2014	30,000	33,150
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014	45,000	45,675
Capital One III, 7.686%, 8/15/2036	1,525,000	1,727,152
Citadel Investment Group LLC, 144A, 6.25%, 12/15/2011	1,250,000	1,231,982
CNA Financial Corp., 6.5%, 8/15/2016	370,000	385,968
Duke Realty LP, 5.95%, 2/15/2017	1,250,000	1,268,077
E*TRADE Financial Corp.:		
7.375%, 9/15/2013	80,000	83,200
7.875%, 12/1/2015	65,000	69,063
8.0%, 6/15/2011	140,000	146,300
ERP Operating LP:		
5.375%, 8/1/2016	333,000	329,520
6.95%, 3/2/2011	211,000	223,433
Ford Motor Credit Co.:		
7.25%, 10/25/2011	615,000	602,252
7.375%, 10/28/2009	1,170,000	1,172,492
7.875%, 6/15/2010	295,000	297,450
8.0%, 12/15/2016	100,000	98,815
8.11%**, 1/13/2012	100,000	99,092
GMAC LLC:		
4.375%, 12/10/2007	134,000	132,135
6.125%, 2/1/2007 (b)	1,377,000	1,378,797
6.125%, 8/28/2007	622,000	622,122
6.875%, 9/15/2011	1,305,000	1,338,536
8.0%, 11/1/2031	569,000	653,251
GNC Parent Corp., 144A, 12.114%**, 12/1/2011 (PIK)	110,000	110,000
Health Care Property Investors, Inc., (REIT):		
5.65%, 12/15/2013	1,215,000	1,198,623
5.95%, 9/15/2011	300,000	302,675
Hexion US Finance Corp., 144A, 9.75%, 11/15/2014	60,000	60,825
Idearc, Inc., 144A, 8.0%, 11/15/2016	355,000	360,325
iPayment, Inc., 9.75%, 5/15/2014	85,000	87,338
John Deere Capital Corp., 5.1%, 1/15/2013	1,000,000	982,529
JPMorgan Chase Capital XV, 5.875%, 3/15/2035	585,000	571,557
Lehman Brothers Holdings, Inc., 5.75%, 1/3/2017	625,000	632,999
Manufacturers & Traders Trust Co., 5.629%, 12/1/2021	1,250,000	1,231,401
Merrill Lynch & Co., Inc., 6.22%, 9/15/2026	380,000	391,577
MetLife, Inc., 6.4%, 12/15/2036	675,000	678,110
PNC Preferred Funding Trust, 144A, 6.517%, 12/31/2049 (b)	500,000	508,688
Popular North America, Inc., Series E, 3.875%, 10/1/2008	1,000,000	974,134
Poster Financial Group, Inc., 8.75%, 12/1/2011	290,000	300,875
R.H. Donnelly Finance Corp., 10.875%, 12/15/2012	330,000	359,700
Residential Capital LLC, 6.375%, 6/30/2010	1,630,000	1,648,970
Sally Holdings LLC, 144A, 9.25%, 11/15/2014	155,000	157,906
Simon Property Group LP, (REIT):		
5.25%, 12/1/2016	1,005,000	979,253
6.1%, 5/1/2016	600,000	621,947
The Goldman Sachs Group, Inc., 5.95%, 1/15/2027	705,000	696,622

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
Titan International, Inc., 144A, 8.0%, 1/15/2012	155,000	155,969
Triad Acquisition Corp., Series B, 11.125%, 5/1/2013	125,000	118,750
UCI Holding Co., Inc., 144A, 12.365%**, 12/15/2013 (PIK)	95,000	92,150
Universal City Development, 11.75%, 4/1/2010	380,000	407,075
USB Realty Corp., 144A, 6.091%, 12/22/2049	670,000	668,144
Verizon Global Funding Corp., 7.75%, 12/1/2030	170,000	199,406
Washington Mutual Preferred Funding Delaware, Series A-1, 144A, 6.534%, 3/29/2049	600,000	593,100
Washington Mutual Preferred Funding II, 144A, 6.665%, 12/31/2049	700,000	701,876
Wimar Opco LLC, 144A, 9.625%, 12/15/2014	155,000	153,450
		29,269,174

Health Care 0.2%

	Principal Amount ($)(a)	Value ($)
HCA, Inc.:		
6.5%, 2/15/2016	80,000	67,400
144A, 9.125%, 11/15/2014	120,000	128,250
144A, 9.25%, 11/15/2016	275,000	294,594
HEALTHSOUTH Corp.:		
144A, 10.75%, 6/15/2016	190,000	204,487
144A, 11.354%**, 6/15/2014	30,000	31,950
Tenet Healthcare Corp., 9.25%, 2/1/2015	385,000	385,000
Wyeth, 6.5%, 2/1/2034	400,000	435,092
		1,546,773

Industrials 1.0%

	Principal Amount ($)(a)	Value ($)
Aleris International, Inc., 144A, 9.0%, 12/15/2014	75,000	75,375
Allied Security Escrow Corp., 11.375%, 7/15/2011	130,000	133,250
Allied Waste North America, Inc., Series B, 9.25%, 9/1/2012	300,000	318,750
American Color Graphics, 10.0%, 6/15/2010	145,000	102,950
Browning-Ferris Industries:		
7.4%, 9/15/2035	250,000	233,750
9.25%, 5/1/2021	140,000	148,400
Burlington Northern Santa Fe Corp., 6.2%, 8/15/2036	450,000	463,629
Case New Holland, Inc., 9.25%, 8/1/2011	345,000	365,269
Cenveo Corp., 7.875%, 12/1/2013	195,000	187,200
Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010	275,000	281,187
Congoleum Corp., 8.625%, 8/1/2008*	190,000	180,500
DRS Technologies, Inc.:		
6.625%, 2/1/2016	35,000	35,263
7.625%, 2/1/2018	185,000	190,550
Education Management LLC, 144A, 8.75%, 6/1/2014	75,000	77,625
Esco Corp.:		
144A, 8.625%, 12/15/2013	155,000	159,263
144A, 9.235%**, 12/15/2013	250,000	253,750
Iron Mountain, Inc., 8.75%, 7/15/2018	60,000	63,600
K. Hovnanian Enterprises, Inc.:		
6.25%, 1/15/2016	270,000	255,150
8.875%, 4/1/2012	295,000	299,425
Kansas City Southern:		
7.5%, 6/15/2009	55,000	55,481
9.5%, 10/1/2008	530,000	553,850
Millennium America, Inc., 9.25%, 6/15/2008	120,000	123,900
Mobile Services Group, Inc., 144A, 9.75%, 8/1/2014	140,000	146,300
Owens Corning, Inc., 144A, 7.0%, 12/1/2036	742,000	749,272
Panolam Industries International, Inc., 144A, 10.75%, 10/1/2013	45,000	47,363
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014	30,000	33,338
Riverdeep Bank, 11.063%, 12/15/2007	170,000	170,212
Ship Finance International Ltd., 8.5%, 12/15/2013	75,000	74,906
The Brickman Group Ltd., Series B, 11.75%, 12/15/2009	210,000	223,125
Williams Partners LP, 144A, 7.25%, 2/1/2017	75,000	76,500
Xerox Capital Trust I, 8.0%, 2/1/2027	65,000	66,381
		6,145,514

Information Technology 0.4%

	Principal Amount ($)(a)	Value ($)
Freescale Semiconductor, Inc., 144A, 8.875%, 12/15/2014	75,000	74,719
L-3 Communications Corp.:		
5.875%, 1/15/2015	335,000	323,275
Series B, 6.375%, 10/15/2015	115,000	113,850
Lucent Technologies, Inc., 6.45%, 3/15/2029	495,000	456,637
Sanmina-SCI Corp., 8.125%, 3/1/2016	220,000	212,850
SunGard Data Systems, Inc., 10.25%, 8/15/2015	280,000	298,900
UGS Corp., 10.0%, 6/1/2012	260,000	283,400
Unisys Corp., 7.875%, 4/1/2008	455,000	453,863
		2,217,494

Materials 1.3%

	Principal Amount ($)(a)	Value ($)
ARCO Chemical Co., 9.8%, 2/1/2020	750,000	866,250
Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014	75,000	50,625
Chemtura Corp., 6.875%, 6/1/2016	145,000	139,563
Constar International, Inc., 11.0%, 12/1/2012	35,000	32,375
CPG International I, Inc.:		
10.5%, 7/1/2013	255,000	259,781
12.39%**, 7/1/2012	95,000	96,900
Crystal US Holdings:		
Series A, Step-up Coupon, 0% to 10/1/2009, 10% to 10/1/2014	305,000	260,775
Series B, Step-up Coupon, 0% to 10/1/2009, 10.5% to 10/1/2014	85,000	73,100
Equistar Chemical Funding, 10.625%, 5/1/2011	180,000	191,700
Exopac Holding Corp., 144A, 11.25%, 2/1/2014	250,000	263,125
GEO Specialty Chemicals, Inc., 13.36%**, 12/31/2009	491,000	405,075
Georgia-Pacific Corp., 144A, 7.125%, 1/15/2017	55,000	54,863
Greif, Inc., 8.875%, 8/1/2012	130,000	136,500

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	Principal Amount ($)(a)	Value ($)
Hexcel Corp., 6.75%, 2/1/2015	290,000	285,650
Huntsman LLC, 11.625%, 10/15/2010	392,000	428,260
International Coal Group, Inc., 10.25%, 7/15/2014	100,000	100,000
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014	175,000	140,000
Lyondell Chemical Co., 10.5%, 6/1/2013	50,000	55,000
Massey Energy Co.:		
6.625%, 11/15/2010	215,000	215,000
6.875%, 12/15/2013	110,000	103,400
Metals USA Holding Corp., 144A, 11.365%**, 1/15/2012	110,000	105,600
Momentive Performance, 144A, 9.75%, 12/1/2014	75,000	75,000
Monsanto Co., 4.0%, 5/15/2008	1,000,000	979,684
Mueller Holdings, Inc., Step-up Coupon, 0% to 4/15/2009, 14.75% to 4/15/2014	393,000	353,700
Neenah Foundry Co.:		
144A, 9.5%, 1/1/2017	110,000	110,550
144A, 13.0%, 9/30/2013	40,000	40,000
NewMarket Corp., 144A, 7.125%, 12/15/2016	185,000	185,000
OM Group, Inc., 9.25%, 12/15/2011	120,000	125,550
Omnova Solutions, Inc., 11.25%, 6/1/2010	415,000	446,125
Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010*	252,982	3,795
Radnor Holdings Corp., 11.0%, 3/15/2010*	40,000	100
Rockwood Specialties Group, Inc., 10.625%, 5/15/2011	61,000	64,965
The Mosaic Co.:		
144A, 7.375%, 12/1/2014	185,000	189,856
144A, 7.625%, 12/1/2016	60,000	62,175
TriMas Corp., 9.875%, 6/15/2012	205,000	198,337
United States Steel Corp., 9.75%, 5/15/2010	153,000	162,754
Weyerhaeuser Co., 5.95%, 11/1/2008	600,000	604,797
Witco Corp., 6.875%, 2/1/2026	60,000	52,500
Wolverine Tube, Inc., 10.5%, 4/1/2009	135,000	109,350
		8,027,780

Telecommunication Services 0.9%

	Principal Amount ($)(a)	Value ($)
American Cellular Corp., Series B, 10.0%, 8/1/2011	115,000	121,613
AT&T, Inc., 6.15%, 9/15/2034	500,000	491,783
Centennial Communications Corp., 10.0%, 1/1/2013	120,000	127,650
Cincinnati Bell, Inc.:		
7.25%, 7/15/2013	335,000	346,725
8.375%, 1/15/2014	245,000	251,737
Dobson Cellular Systems, 9.875%, 11/1/2012	115,000	125,350
Dobson Communications Corp., 8.875%, 10/1/2013	110,000	112,063
Insight Midwest LP, 9.75%, 10/1/2009	23,000	23,374
Intelsat Corp., 144A, 9.0%, 6/15/2016	55,000	58,231
MetroPCS Wireless, Inc., 144A, 9.25%, 11/1/2014	115,000	120,175
Nextel Communications, Inc., Series D, 7.375%, 8/1/2015	650,000	666,526
Qwest Corp., 7.25%, 9/15/2025	225,000	231,187
Rural Cellular Corp., 9.875%, 2/1/2010	140,000	148,925
Sprint Nextel Corp., 6.0%, 12/1/2016	805,000	784,575
SunCom Wireless Holdings, Inc., 8.5%, 6/1/2013	165,000	157,987
Ubiquitel Operating Co., 9.875%, 3/1/2011	100,000	108,000
US Unwired, Inc., Series B, 10.0%, 6/15/2012	175,000	192,500
Verizon Global Funding Corp., 6.875%, 6/15/2012	500,000	534,029
Verizon New Jersey, Inc., Series A, 5.875%, 1/17/2012	745,000	754,707
Windstream Corp., 144A, 8.625%, 8/1/2016	10,000	10,950
		5,368,087

Utilities 1.6%

	Principal Amount ($)(a)	Value ($)
AES Corp., 144A, 8.75%, 5/15/2013	885,000	948,056
Allegheny Energy Supply Co. LLC, 144A, 8.25%, 4/15/2012	585,000	642,037
American Electric Power Co., Inc., Series C, 5.375%, 3/15/2010	1,000,000	999,074
CMS Energy Corp., 8.5%, 4/15/2011	530,000	576,375
Consumers Energy Co., Series F, 4.0%, 5/15/2010	1,590,000	1,519,784
Dominion Resources, Inc.:		
Series A, 5.6%, 11/15/2016	770,000	763,734
Series E, 7.195%, 9/15/2014	750,000	822,983
DPL, Inc., 6.875%, 9/1/2011	500,000	525,051
Mirant Americas Generation LLC, 8.3%, 5/1/2011	60,000	61,500
Mirant North America LLC, 7.375%, 12/31/2013	60,000	60,900
Mission Energy Holding Co., 13.5%, 7/15/2008	745,000	821,362
Northern States Power Co., 6.25%, 6/1/2036	400,000	426,114
NRG Energy, Inc.:		
7.25%, 2/1/2014	250,000	251,875
7.375%, 2/1/2016	515,000	517,575
PECO Energy Co., 5.95%, 10/1/2036	400,000	406,416
PSE&G Energy Holdings LLC, 10.0%, 10/1/2009	625,000	684,375
Regency Energy Partners LP, 144A, 8.375%, 12/15/2013	160,000	160,400
Sierra Pacific Resources:		
6.75%, 8/15/2017	175,000	171,642
8.625%, 3/15/2014	33,000	35,431
		10,394,684
Total Corporate Bonds (Cost $86,682,909)		**87,516,386**

Foreign Bonds — US$ Denominated 2.6%

Consumer Discretionary 0.3%

	Principal Amount ($)(a)	Value ($)
Dollarama Group Holdings LP, 144A, 11.12%**, 8/15/2012	75,000	74,438
Jafra Cosmetics International, Inc., 10.75%, 5/15/2011	440,000	470,250
Quebecor World, Inc., 144A, 9.75%, 1/15/2015	75,000	75,469

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
Royal Caribbean Cruises Ltd., 8.75%, 2/2/2011	422,000	461,225
Shaw Communications, Inc., 8.25%, 4/11/2010	100,000	106,250
Telenet Group Holding NV, 144A, Step-up Coupon, 0% to 12/15/2008, 11.5% to 6/15/2014	394,000	355,092
Unity Media GmbH, 144A, 10.375%, 2/15/2015	75,000	72,844
Vitro SA de CV, Series A, 11.75%, 11/1/2013	35,000	38,325
		1,653,893
Energy 0.3%		
GAZ Capital (Gazprom), 144A, 6.212%, 11/22/2016	1,065,000	1,072,455
OPTI Canada, Inc., 144A, 8.25%, 12/15/2014	90,000	92,475
Pemex Project Funding Master Trust, 5.75%, 12/15/2015	750,000	744,750
Secunda International Ltd., 13.374%**, 9/1/2012	130,000	134,388
		2,044,068
Financials 0.8%		
Axa, 144A, 6.379%, 12/14/2049	1,025,000	1,012,047
Conproca SA de CV, Series REG S, 12.0%, 6/16/2010	405,000	467,775
Doral Financial Corp., 6.204%**, 7/20/2007	325,000	295,345
Inmarsat Finance II PLC, Step-up Coupon, 0% to 11/15/2008, 10.375% to 11/15/2012	90,000	82,913
New ASAT (Finance) Ltd., 9.25%, 2/1/2011	95,000	78,850
SMFG Preferred Capital, 144A, 6.078%, 1/29/2049	1,815,000	1,795,307
Svenska Handelsbanken AB, 144A, 7.125%, 3/29/2049	330,000	331,002
Xstrata Finance Canada, 144A, 5.8%, 11/15/2016	835,000	832,577
		4,895,816
Health Care 0.0%		
Biovail Corp., 7.875%, 4/1/2010	240,000	**245,100**
Industrials 0.2%		
Bombardier, Inc., 144A, 8.0%, 11/15/2014	75,000	76,875
Kansas City Southern de Mexico:		
144A, 7.625%, 12/1/2013	205,000	205,000
9.375%, 5/1/2012	190,000	202,825
12.5%, 6/15/2012	163,000	176,040
Navios Maritime Holdings, 144A, 9.5%, 12/15/2014	110,000	108,376
Stena AB, 9.625%, 12/1/2012	75,000	79,875
Tyco International Group SA, 6.375%, 10/15/2011	500,000	523,246
		1,372,237
Information Technology 0.0%		
Seagate Technology HDD Holdings, 6.8%, 10/1/2016	145,000	**145,725**
Materials 0.4%		
Cascades, Inc., 7.25%, 2/15/2013	227,000	226,433
ISPAT Inland ULC, 9.75%, 4/1/2014	284,000	317,370
Novelis, Inc., 144A, Step-Up-Coupon, 8.25% to 1/4/2007, 7.25% to 2/15/2015	365,000	353,137
Rhodia SA:		
8.875%, 6/1/2011	97,000	102,335
10.25%, 6/1/2010	100,000	114,000
Tembec Industries, Inc., 8.625%, 6/30/2009	105,000	71,925
Vale Overseas Ltd., 6.875%, 11/21/2036	1,045,000	1,071,800
		2,257,000
Sovereign Bonds 0.0%		
Federative Republic of Brazil, 8.875%, 10/14/2019	95,000	115,900
Republic of Argentina, 5.59%**, 8/3/2012 (PIK)	190,000	134,645
		250,545
Telecommunication Services 0.6%		
Cell C Property Ltd., 144A, 11.0%, 7/1/2015	290,000	271,875
Embratel, Series B, 11.0%, 12/15/2008	34,000	37,315
Intelsat Bermuda Ltd., 144A, 11.25%, 6/15/2016	145,000	159,137
Intelsat Ltd., 5.25%, 11/1/2008	145,000	141,013
Millicom International Cellular SA, 10.0%, 12/1/2013	80,000	87,200
Mobifon Holdings BV, 12.5%, 7/31/2010	314,000	346,974
Nortel Networks Ltd.:		
144A, 9.624%**, 7/15/2011	295,000	310,856
144A, 10.125%, 7/15/2013	135,000	145,800
144A, 10.75%, 7/15/2016	110,000	120,313
Stratos Global Corp., 9.875%, 2/15/2013	175,000	168,875
Telecom Italia Capital, 4.95%, 9/30/2014	470,000	435,428
Telefonica Emisiones SAU, 6.421%, 6/20/2016	720,000	742,765
Vodafone Group PLC, 5.0%, 12/16/2013	750,000	724,870
		3,692,421
Total Foreign Bonds — US$ Denominated (Cost $16,438,904)		**16,556,805**

Foreign Bonds — Non US$ Denominated 0.2%

		Principal Amount ($)(a)	Value ($)
Consumer Discretionary 0.1%			
Cirsa Capital Luxembourg, 144A, 7.875%, 7/15/2012	EUR	100,000	126,117
Unity Media GmbH, 8.75%, 2/15/2015	EUR	160,000	205,400
			331,517
Financials 0.1%			
Codere Finance Luxembourg SA, 144A, 8.25%, 6/15/2015	EUR	70,000	97,717
Louis No. 1 PLC:			
144A, 8.5%, 12/1/2014	EUR	75,000	99,004
144A, 10.0%, 12/1/2016	EUR	50,000	66,332
Ono Finance II, 144A, 8.0%, 5/16/2014	EUR	50,000	67,983
			331,036
Materials 0.0%			
Rhodia SA, 144A, 6.242%**, 10/15/2013	EUR	95,000	**125,342**

The accompanying notes are an integral part of the financial statements.

		Principal Amount ($)(a)	Value ($)
Sovereign Bonds 0.0%			
Republic of Argentina, 7.82%, 12/31/2033, (PIK)	EUR	110,598	**153,367**
Total Foreign Bonds — Non US$ Denominated (Cost $879,328)			**941,262**

Asset Backed 1.0%

Automobile Receivables 0.3%

	Principal Amount ($)(a)	Value ($)
Capital Auto Receivables Asset Trust, "B", Series 2006-1, 5.26%, 10/15/2010	566,000	564,817
Hertz Vehicle Financing LLC, "A6", Series 2005-2A, 144A, 5.08%, 11/25/2011	1,347,000	1,338,469
MMCA Automobile Trust, "B", Series 2002-2, 4.67%, 3/15/2010	16,478	16,455
		1,919,741

Credit Card Receivables 0.2%

	Principal Amount ($)(a)	Value ($)
Providian Master Note Trust, "B1", Series 2006-B1A, 144A, 5.35%, 3/15/2013	1,075,000	**1,079,031**

Home Equity Loans 0.5%

	Principal Amount ($)(a)	Value ($)
Countrywide Asset-Backed Certificates, "1AF2", Series 2005-17, 5.363%, 5/25/2036	689,000	686,105
Credit-Based Asset Servicing and Securitization, "AF2", Series 2006-CB2, 5.501%, 12/25/2036	1,613,000	1,608,420
DB Master Finance LLC, "A2", Series 2006-1, 144A, 5.779%, 6/20/2031	1,280,000	1,295,918
		3,590,443
Total Asset Backed (Cost $6,584,347)		**6,589,215**

	Shares	Value ($)
Warrants 0.0%		
MicroStrategy, Inc., Expiration 6/24/2007*	96	7
TravelCenters of America, Inc., Expiration 5/1/2009*	59	1,475
Total Warrants (Cost $251)		**1,482**

Preferred Stocks 0.0%

Financials

	Shares	Value ($)
Farm Credit Bank of Texas, Series 1, 7.561% (Cost $233,533)	218,000	**233,142**

Convertible Preferred Stocks 0.0%

Consumer Discretionary

Convertible Preferred

	Shares	Value ($)
ION Media Networks, Inc. 144A, 9.75%, (PIK) (Cost $83,525)	12	**54,600**

	Principal Amount ($)(a)	Value ($)
US Government Sponsored Agencies 0.3%		
Federal National Mortgage Association, 3.25%, 1/15/2008 (Cost $1,961,135)	2,000,000	**1,960,982**

US Government Agency Sponsored Pass-Throughs 1.4%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 8/1/2035	807,515	805,544
Federal National Mortgage Association:		
4.5%, with various maturities from 7/1/2018 until 9/1/2035	4,332,393	4,119,408
5.5%, with various maturities from 11/1/2020 until 12/1/2033	3,169,632	3,151,525
6.0%, 1/1/2024	159,944	161,951
6.5%, 5/1/2017	106,555	109,132
8.0%, 9/1/2015	197,952	208,154
Total US Government Agency Sponsored Pass-Throughs (Cost $8,674,137)		**8,555,714**

Commercial and Non-Agency Mortgage-Backed Securities 12.0%

	Principal Amount ($)(a)	Value ($)
Adjustable Rate Mortgage Trust, "3A31", Series 2005-10, 5.425%**, 1/25/2036	1,000,000	985,855
Banc of America Mortgage Securities, "2A6", Series 2004-G, 4.657%**, 8/25/2034	2,275,000	2,245,682
Bear Stearns Commercial Mortgage Securities, "A3", Series 2006-T24, 5.531%, 10/12/2041	1,800,000	1,820,587
Citicorp Mortgage Securities, Inc., "2A1", Series 2006-5, 5.5%, 10/25/2021	8,803,096	8,748,932
Citigroup Commercial Mortgage Trust, "A5", Series 2004-C2, 4.733%, 10/15/2041	2,000,000	1,926,689
Citigroup Mortgage Loan Trust, Inc., "1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	327,067	333,097
Countrywide Alternative Loan Trust:		
"A1", Series 2004-1T1, 5.0%, 2/25/2034	640,999	632,979
"1A5", Series 2003-J1, 5.25%, 10/25/2033	658,869	653,210
"A8", Series 2005-J14, 5.5%,12/25/2035	3,733,000	3,599,720
"4A3", Series 2005-43, 5.742%**, 10/25/2035	805,044	800,432
"A1", Series 2004-35T2, 6.0%, 2/25/2035	710,720	710,539
"3A5", Series 2005-28CB, 6.0%, 8/25/2035	2,614,807	2,631,923
"1A4", Series 2006-43CB, 6.0%, 2/25/2037	1,400,000	1,411,430
Countrywide Home Loans, "A6", Series 2003-57, 5.5%, 1/25/2034	265,526	264,292
CS First Boston Mortgage Securities Corp.:		
"A3", Series 2005-C5, 5.1%, 8/15/2038	2,000,000	1,979,324
"A4", Series 2001-CP4, 6.18%, 12/15/2035	2,000,000	2,067,529
DLJ Mortgage Acceptance Corp., "A1B", Series 1997-CF2, 144A, 6.82%, 10/15/2030	105,403	105,802
GMAC Commercial Mortgage Securities, Inc., "A3", Series 1997-C1, 6.869%, 7/15/2029	40,243	40,372

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
Greenwich Capital Commercial Funding Corp., "A4", Series 2005-GG3, 4.799%, 8/10/2042	2,000,000	1,933,669
GS Mortgage Securities Corp. II:		
"AAB", Series 2006-GG8, 5.535%, 11/10/2039	1,800,000	1,821,000
"A4", Series 2006-GG6, 5.553%, 4/10/2038	1,950,000	1,979,999
GSR Mortgage Loan Trust:		
"4A5", Series 2005-AR6, 4.551%**, 9/25/2035	1,025,000	1,005,932
"2A1", Series 2006-5F, 6.0%, 6/25/2036	1,733,795	1,744,975
JPMorgan Alternative Loan Trust, "2A4", Series 2006-S1, 5.5%, 2/25/2021	3,084,600	3,073,476
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A4", Series 2005-LDP2, 4.738%, 7/15/2042	2,000,000	1,920,544
"A6", Series 2004-CBX, 4.899%, 1/12/2037	2,000,000	1,945,027
"A3", Series 2001-CIBC, 6.26%, 3/15/2033	2,138,068	2,203,845
LB-UBS Commercial Mortgage Trust:		
"A2", Series 2004-C2, 3.246%, 3/15/2029	1,900,000	1,824,368
"A2", Series 2005-C2, 4.821%, 4/15/2030	165,000	162,886
"A2", Series 2006-C7, 5.3%, 11/15/2038	880,000	882,363
Master Alternative Loans Trust, "5A1", Series 2005-1, 5.5%, 1/25/2020	1,003,895	996,682
Merrill Lynch/Countrywide Commercial Mortgage Trust, "A2", Series 2006-4, 5.112%, 12/12/2049	795,000	788,977
Morgan Stanley Capital I:		
"A4", Series 2005-T17, 4.52%, 12/13/2041	2,100,000	2,035,358
"A2", Series 2006-T21, 5.09%, 10/12/2052	1,079,000	1,073,706
Structured Adjustable Rate Mortgage Loan Trust:		
"6A3", Series 2005-21, 5.4%, 11/25/2035	900,000	880,667
"1A1", Series 2005-17, 5.724%**, 8/25/2035	1,367,078	1,365,141
Structured Asset Securities Corp., "4A1", Series 2005-6, 5.0%, 5/25/2035	163,991	157,738
Wachovia Bank Commercial Mortgage Trust:		
"APB", Series 2006-C23, 5.446%, 1/15/2045	2,100,000	2,111,581
"A4", Series 2006-C25, 5.775%**, 5/15/2043	1,600,000	1,653,904
Washington Mutual:		
"A6", Series 2004-AR4, 3.802%**, 6/25/2034	190,000	183,437
"A6", Series 2003-AR10, 4.063%**, 10/25/2033	1,620,000	1,589,048
"1A6", Series 2005-AR12, 4.838%**, 10/25/2035	1,880,000	1,879,555
"1A3", Series 2005-AR16, 5.113%**, 12/25/2035	1,005,000	999,566
Wells Fargo Mortgage Backed Securities Trust:		
"4A2", Series 2005-AR16, 4.992%**, 10/25/2035	1,470,000	1,452,606
"A3", Series 2006-1, 5.0%, 3/25/2021	1,827,160	1,784,336
"2A3", Series 2006-AR8, 5.241%, 4/25/2036	5,081,691	5,043,497
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $75,585,834)		**75,452,277**

Collateralized Mortgage Obligations 2.5%

	Principal Amount ($)(a)	Value ($)
Fannie Mae Whole Loan, "1A1", Series 2004-W15, 6.0%, 8/25/2044	851,952	855,133
Federal Home Loan Mortgage Corp.:		
"PE", Series 2898, 5.0%, 5/15/2033	1,715,000	1,645,837
"KD", Series 2915, 5.0%, 9/15/2033	1,177,000	1,129,380
"KG", Series 2987, 5.0%, 12/15/2034	1,360,000	1,300,181
"DB", Series 3152, 6.0%, 11/15/2030	9,387,000	9,495,380
"H", Series 2278, 6.5%, 1/15/2031	27,746	28,279
Federal National Mortgage Association:		
"NE", Series 2004-52, 4.5%, 7/25/2033	1,118,000	1,048,897
"HM", Series 2002-36, 6.5%, 12/25/2029	14,259	14,224
"C", Series 1997-M5, 6.74%, 8/25/2007	390,000	391,420
Total Collateralized Mortgage Obligations (Cost $16,080,841)		**15,908,731**

US Treasury Obligations 2.6%

	Principal Amount ($)(a)	Value ($)
US Treasury Bill, 4.95%*** 1/18/2007 (c)	675,000	673,422
US Treasury Bond, 4.5%, 2/15/2036 (a)	2,338,000	2,223,293
US Treasury Notes:		
4.625%, 11/15/2016	575,000	571,227
4.625%, 10/31/2011	800,000	797,093
4.625%, 11/30/2008 (b)	2,250,000	2,241,826
4.5%, 11/30/2011 (b)	8,465,000	8,389,611
4.875%, 5/15/2009	530,000	531,160
4.875%, 8/15/2009	1,000,000	1,003,008
Total US Treasury Obligations (Cost $16,510,300)		**16,430,640**

Other Investments 0.1%

	Units	Value ($)
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029	170,000	145,350
IdleAire Technologies Corp. (Bond Unit), 144A, Step-up Coupon, 0% to 6/15/2008, 13.0% to 12/15/2012	270,000	202,500
Total Other Investments (Cost $319,379)		**347,850**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Securities Lending Collateral 2.2%		
Daily Assets Fund Institutional, 5.34% (d) (e) (Cost $13,693,810)	13,693,810	**13,693,810**
Cash Equivalents 3.4%		
Cash Management QP Trust, 5.46% (f) (Cost $21,755,244)	21,755,244	**21,755,244**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $553,002,415)†	102.0	**643,245,576**
Other Assets and Liabilities, Net	(2.0)	**(12,448,489)**
Net Assets	100.0	**630,797,087**

* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or the interest or has filed for bankruptcy. The following table represents bonds that are in default:*

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Congoleum Corp.	8.63%	8/01/2008	190,000	USD	190,156	180,500
Oxford Automotive, Inc.	12%	10/15/2010	252,982	USD	22,402	3,795
Radnor Holdings Corp.	11%	3/15/2010	40,000	USD	27,743	100
					240,301	**184,395**

** *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of December 31, 2006.*

*** *Annualized yield at time of purchase; not a coupon rate.*

† *The cost for federal income tax purposes was $558,865,963. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $84,379,613. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $96,073,617 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $11,694,004.*

(a) *Principal amount stated in US dollars unless otherwise noted.*

(b) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $13,515,284 which is 2.1% of net assets.*

(c) *At December 31, 2006, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

(d) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents a portion of collateral held in connection with securities lending.*

(f) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

ADR: American Depositary Receipt

PIK: Denotes that all or a portion of the income is paid in-kind.

REIT: Real Estate Investment Trust

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association and Federal Home Loan Corp. issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At December 31, 2006, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Federal Republic of Germany Bond	3/8/2007	27	4,236,028	4,135,466	(100,562)
10 Year Japanese Government Bond	3/9/2007	5	5,638,956	5,632,116	(6,840)
Russell Mini 2000 Index Futures	3/16/2007	25	1,981,834	1,987,250	5,416
10Year US Treasury Note	3/21/2007	31	3,374,977	3,331,531	(43,446)
Total net unrealized depreciation					**(145,432)**

The accompanying notes are an integral part of the financial statements.

At December 31, 2006, the open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation ($)
10 Year Canada Government Bond	3/21/2007	5	492,755	488,016	4,739
2 Year Federal Republic of Germany Bond	3/8/2007	44	6,041,043	3,009,475	31,568
2 Year US Treasury Note	3/30/2007	22	4,505,121	4,488,688	16,433
10 Year Australian Bond	3/15/2007	44	3,574,261	3,505,623	68,638
United Kingdom Treasury Bond	3/28/2007	16	3,431,005	3,387,498	43,507
Total net unrealized appreciation					**164,885**

At December 31, 2006, the open credit default swap contract sold was as follows:

Effective/Expiration Date	Notional Amount ($)	Cash Flows Received by the Portfolio	Underlying Debt Obligation	Unrealized Appreciation ($)
9/27/2006–12/20/2011	700,000†	Fixed — 3.25%	Dow Jones CDX High Yield	23,075
Total net unrealized appreciation				**23,075**

Counterparty:
† *JPMorgan Chase*

As of December 31, 2006, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
USD	805,926	AUD	1,062,890	1/29/2007	32,461
USD	1,969,519	EUR	1,557,000	1/29/2007	88,854
USD	2,609,070	GBP	1,389,000	1/29/2007	111,157
USD	198,630	GBP	104,000	1/29/2007	5,045
JPY	516,997,000	USD	4,396,532	1/29/2007	34,655
JPY	44,596,000	USD	385,021	1/29/2007	8,767
USD	652,010	SEK	4,660,437	1/29/2007	29,556
USD	2,748,794	SGD	4,300,488	1/29/2007	59,347
EUR	125,000	USD	167,109	2/12/2007	1,765
EUR	397,450	USD	527,589	2/12/2007	1,863
Total unrealized appreciation					**373,470**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
EUR	95,000	USD	121,211	1/5/2007	(4,226)
EUR	15,000	USD	18,918	1/12/2007	(895)
USD	502,437	CAD	564,548	1/29/2007	(17,754)
CHF	4,112,000	USD	3,279,107	1/29/2007	(104,957)
NOK	6,548,000	USD	993,627	1/29/2007	(58,024)
CHF	1,019,000	USD	824,647	1/29/2007	(13,962)
EUR	75,000	USD	95,724	2/5/2007	(3,453)
EUR	50,000	USD	63,870	2/9/2007	(2,259)
EUR	52,000	USD	66,890	2/12/2007	(1,894)
EUR	746,000	USD	956,954	2/19/2007	(29,267)
Total unrealized depreciation					**(236,691)**

Currency Abbreviations

AUD	Australian Dollar	EUR	Euro	NOK	Norwegian Krona	SGD	Singapore Dollar
CAD	Canadian Dollar	GBP	British Pound	SEK	Swedish Krona	USD	United States Dollar
CHF	Swiss Franc	JPY	Japanese Yen				

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $517,553,361) — including $13,515,284 of securities loaned	$ 607,796,522
Investment in Daily Assets Fund Institutional (cost $13,693,810)*	13,693,810
Investment in Cash Management QP Trust (cost $21,755,244)	21,755,244
Total investments in securities, at value (cost $553,002,415)	643,245,576
Cash*	202,000
Foreign currency, at value (cost $801,785)	805,258
Receivable for investments sold	8,445,798
Dividends receivable	368,574
Interest receivable	2,534,973
Unrealized appreciation on forward foreign currency exchange contracts	373,470
Unrealized appreciation on credit default swap contracts	23,075
Foreign taxes recoverable	117
Receivable for Portfolio shares sold	14,184
Other assets	19,138
Total assets	656,032,163
Liabilities	
Due to custodian	16,350
Payable for investments purchased	10,200,872
Payable for Portfolio shares redeemed	306,469
Payable upon return of securities loaned	13,895,810
Payable for daily variation margin on open futures contracts	36,827
Unrealized depreciation on forward foreign currency exchange contracts	236,691
Net payable on closed forward foreign currency exchange contracts	13,576
Accrued management fee	208,446
Other accrued expenses and payables	320,035
Total liabilities	25,235,076
Net assets, at value	**$ 630,797,087**
Net Assets	
Net assets consist of:	
Undistributed net investment income	19,394,367
Net unrealized appreciation (depreciation) on:	
Investments	90,243,161
Futures	19,453
Credit default swaps	23,075
Foreign currency related transactions	136,460
Accumulated net realized gain (loss)	(56,019,260)
Paid-in capital	576,999,831
Net assets, at value	**$ 630,797,087**
Class A	
Net Asset Value, offering and redemption price per share ($600,377,515 ÷ 24,544,133 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 24.46**
Class B	
Net Asset Value, offering and redemption price per share ($30,419,572 ÷ 1,244,941 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 24.43**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $26,228)	$ 6,477,972
Interest	14,333,953
Interest — Cash Management QP Trust	1,334,376
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	45,437
Other income**	651,306
Total Income	22,843,044
Expenses:	
Management fee	2,967,510
Custodian fees	62,364
Distribution service fees (Class B)	80,542
Record keeping fees (Class B)	42,949
Auditing	49,340
Legal	20,042
Trustees' fees and expenses	93,100
Reports to shareholders	268,789
Other	117,385
Total expenses before expense reductions	3,702,021
Expense reductions	(257,475)
Total expenses after expense reductions	3,444,546
Net investment income (loss)	**19,398,498**
Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	26,546,142
Futures	485,838
Credit default swaps	117,334
Foreign currency related transactions	524,136
Net increase from payments by affiliates and net losses realized on trades executed incorrectly and the disposal of investments in violation of restrictions	—
	27,673,450
Net unrealized appreciation (depreciation) during the period on:	
Investments	15,850,348
Futures	124,089
Credit default swaps	23,075
Foreign currency related transactions	72,434
	16,069,946
Net gain (loss) on investment transactions	**43,743,396**
Net increase (decrease) in net assets resulting from operations	**$ 63,141,894**

** *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note J).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 19,398,498	$ 18,012,229
Net realized gain (loss) on investment transactions	27,673,450	16,385,204
Net unrealized appreciation (depreciation) during the period on investment and foreign currency transactions	16,069,946	(2,011,011)
Net increase (decrease) in net assets resulting from operations	63,141,894	32,386,422
Distributions to shareholders from:		
Net investment income:		
Class A	(15,934,054)	(14,467,177)
Class B	(705,320)	(715,158)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	7,544,406	6,832,194
Net assets acquired in tax free reorganization	—	118,997,707
Reinvestment of distributions	15,934,054	14,467,177
Cost of shares redeemed	(120,785,402)	(125,051,390)
Net increase (decrease) in net assets from Class A share transactions	(97,306,942)	15,245,688
Class B		
Proceeds from shares sold	1,059,376	5,663,125
Reinvestment of distributions	705,320	715,158
Cost of shares redeemed	(7,245,826)	(6,295,649)
Net increase (decrease) in net assets from Class B share transactions	(5,481,130)	82,634
Increase (decrease) in net assets	(56,285,552)	32,532,409
Net assets at beginning of period	687,082,639	654,550,230
Net assets at end of period (including undistributed net investment income of $19,394,367 and $16,253,135, respectively)	**$ 630,797,087**	**$ 687,082,639**

Other Information		
Class A		
Shares outstanding at beginning of period	28,729,438	27,789,320
Shares sold	324,532	311,313
Shares issued in tax free reorganization	—	5,591,767
Shares issued to shareholders in reinvestment of distributions	696,418	672,579
Shares redeemed	(5,206,255)	(5,635,541)
Net increase (decrease) in Class A shares	(4,185,305)	940,118
Shares outstanding at end of period	**24,544,133**	**28,729,438**
Class B		
Shares outstanding at beginning of period	1,479,683	1,477,597
Shares sold	45,760	254,860
Shares issued to shareholders in reinvestment of distributions	30,773	33,201
Shares redeemed	(311,275)	(285,975)
Net increase (decrease) in Class B shares	(234,742)	2,086
Shares outstanding at end of period	**1,244,941**	**1,479,683**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$22.75**	**$22.37**	**$21.32**	**$18.66**	**$22.57**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.69[d]	.59	.47	.37	.47
Net realized and unrealized gain (loss) on investment transactions	1.60	.34	.93	2.90	(3.81)
Total from investment operations	2.29	.93	1.40	3.27	(3.34)
Less distributions from:					
Net investment income	(.58)	(.55)	(.35)	(.61)	(.57)
Net asset value, end of period	**$24.46**	**$22.75**	**$22.37**	**$21.32**	**$18.66**
Total Return (%)	10.24[b,d]	4.30[b]	6.64	18.10	(15.17)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	600	653	622	667	640
Ratio of expenses before expense reduction (%)	.55	.55	.59	.59	.58
Ratio of expenses after expense reduction (%)	.51	.53	.59	.59	.58
Ratio of net investment income (%)	2.99[d]	2.66	2.18	1.88	2.32
Portfolio turnover rate (%)	108	121[c]	131[c]	102[c]	140

[a] *Based on average shares outstanding during the period.*

[b] *Total return would have been lower had certain expenses not been reduced.*

[c] *The portfolio turnover rate including mortgage dollar roll transactions was 122%, 140% and 108% for the periods ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

[d] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.024 per share and an increase in the ratio of net investment income of 0.10%. Excluding this non-recurring income, total return would have been 0.10% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$22.72**	**$22.33**	**$21.28**	**$18.64**	**$19.46**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.60[e]	.51	.39	.28	.18
Net realized and unrealized gain (loss) on investment transactions	1.60	.35	.92	2.92	(1.00)
Total from investment operations	2.20	.86	1.31	3.20	(.82)
Less distributions from:					
Net investment income	(.49)	(.47)	(.26)	(.56)	—
Net asset value, end of period	**$24.43**	**$22.72**	**$22.33**	**$21.28**	**$18.64**
Total Return (%)	9.82[c,e]	3.90[c]	6.26	17.66	(4.21)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	30	34	33	21	.8
Ratio of expenses before expense reductions (%)	.93	.95	.97	.99	.86*
Ratio of expenses after expense reductions (%)	.89	.91	.97	.99	.86*
Ratio of net investment income (%)	2.61[e]	2.28	1.80	1.48	1.96*
Portfolio turnover rate (%)	108	121[d]	131[d]	102[d]	140

[a] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[b] *Based on average shares outstanding during the period.*

[c] *Total return would have been lower had certain expenses not been reduced.*

[d] *The portfolio turnover rate including mortgage dollar roll transactions was 122%, 140% and 108% for the periods ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

[e] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.024 per share and an increase in the ratio of net investment income of 0.10%. Excluding this non-recurring income, total return would have been 0.10% lower.*

* *Annualized*

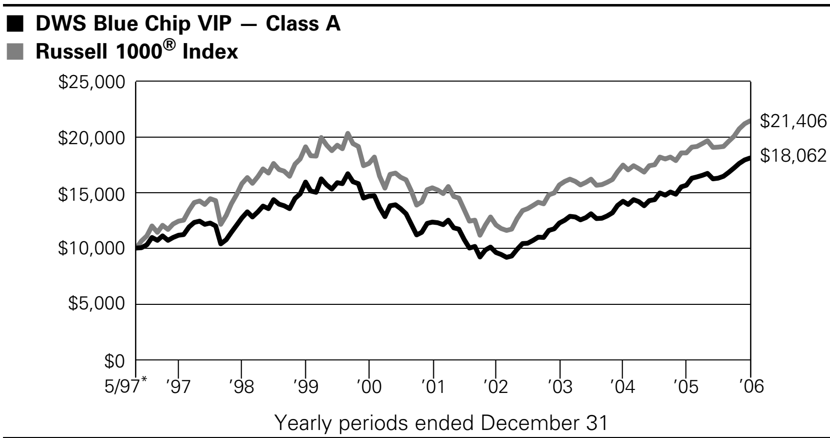
** *Not annualized*

DWS Blue Chip VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. It may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on its derivative positions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS Blue Chip VIP from 5/1/1997 to 12/31/2006



The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which measures the performance of the 3,000 largest US companies based on total market capitalization. The Russell 1000 Index represents approximately 92% of the total market capitalization of the Russell 3000 Index.

Index returns assume reinvestment of dividends and unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Blue Chip VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$11,565	$14,769	$14,637	$18,062
	Average annual total return	15.65%	13.88%	7.92%	6.31%
Russell 1000 Index	Growth of $10,000	$11,546	$13,669	$13,910	$21,406
	Average annual total return	15.46%	10.98%	6.82%	8.19%

DWS Blue Chip VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$11,519	$14,599	$16,832
	Average annual total return	15.19%	13.44%	12.28%
Russell 1000 Index	Growth of $10,000	$11,546	$13,669	$15,955
	Average annual total return	15.46%	10.98%	10.94%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 1997. Index returns began on April 30, 1997.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Blue Chip VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,110.60	$1,108.70
Expenses Paid per $1,000*	$ 3.88	$ 5.90

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,021.53	$1,019.61
Expenses Paid per $1,000*	$ 3.72	$ 5.65

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Blue Chip VIP	.73%	1.11%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Blue Chip VIP

For the 12 months ended December 31, 2006, the DWS Blue Chip VIP posted a return of 15.65% (Class A shares, unadjusted for contract charges), outperforming the Russell 1000® Index, which returned 15.46%.

The materials, media, and insurance industry groups were the top contributors to relative performance. Within the materials group, Phelps Dodge Corp.* and NuCor Corp. were top contributors. Phelps Dodge benefited from significantly higher copper prices throughout the year and was acquired in November by Freeport-McMoRan at a 33% premium to its then current share price. NuCor benefited from better-than-expected sales volumes, lower inventory costs, and increased share buybacks.

Overweight positions in The Goldman Sachs Group, Inc. and ExxonMobil Corp. added to relative performance. Goldman Sachs reported outstanding earnings, benefiting from the sale of its stake in the New York Stock Exchange, robust global capital markets and strong performance from its proprietary trading business.[1] ExxonMobil's earnings exceeded expectations, largely as a result of higher oil prices.

The software and services, food beverage and tobacco, and health care equipment and services industry groups detracted most from relative performance. Within health care equipment and services, UnitedHealth Group, Inc.* was the main detractor from relative return. This leading provider of health care services experienced share price declines as a result of a stock option backdating scandal and subsequent management changes.

A position in Intel Corp.* detracted from relative return, as the stock price responded negatively to competitive pressures and investor concerns about inventory levels. Another detractor was poultry producer Pilgrim's Pride Corp., which experienced earnings declines because of weak international demand and falling prices; this stock has been sold.

Robert Wang, Jin Chen, *CFA* and Julie Abbett

Portfolio Managers, Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. It may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on its derivative positions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell 1000 Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which measures the performance of the 3,000 largest US companies based on total market capitalization. The Russell 1000 Index represents approximately 92% of the total market capitalization of the Russell 3000 Index.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

* *As of December 31, 2006, the positions were sold.*

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Blue Chip VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	99%	98%
Cash Equivalents	1%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Financials	20%	19%
Consumer Discretionary	14%	13%
Health Care	13%	15%
Information Technology	13%	17%
Industrials	11%	10%
Energy	10%	9%
Consumer Staples	7%	8%
Telecommunication Services	5%	2%
Materials	4%	4%
Utilities	3%	3%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 28. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Blue Chip VIP

	Shares	Value ($)
Common Stocks 98.7%		
Consumer Discretionary 13.8%		
Hotels Restaurants & Leisure 2.4%		
Brinker International, Inc.	40,500	1,221,480
Darden Restaurants, Inc.	56,400	2,265,588
Starbucks Corp.*	128,600	4,555,012
YUM! Brands, Inc.	7,300	429,240
		8,471,320
Leisure Equipment & Products 0.1%		
Hasbro, Inc.	13,300	**362,425**
Media 4.7%		
McGraw-Hill Companies, Inc.	87,400	5,944,948
Omnicom Group, Inc.	29,800	3,115,292
The DIRECTV Group, Inc.*	211,500	5,274,810
Walt Disney Co.	73,000	2,501,710
		16,836,760
Multiline Retail 3.2%		
Dollar Tree Stores, Inc.*	87,500	2,633,750
Federated Department Stores, Inc.	114,600	4,369,698
Kohl's Corp.*	22,700	1,553,360
Nordstrom, Inc.	62,800	3,098,552
		11,655,360
Specialty Retail 1.6%		
AnnTaylor Stores Corp.*	57,800	1,898,152
Office Depot, Inc.*	97,100	3,706,307
		5,604,459
Textiles, Apparel & Luxury Goods 1.8%		
Coach, Inc.*	55,700	2,392,872
Jones Apparel Group, Inc.	123,600	4,131,948
		6,524,820
Consumer Staples 6.9%		
Beverages 1.5%		
Pepsi Bottling Group, Inc.	38,800	1,199,308
PepsiCo, Inc.	64,000	4,003,200
		5,202,508
Food & Staples Retailing 1.4%		
Kroger Co.	214,500	4,948,515
Safeway, Inc.	5,500	190,080
		5,138,595
Food Products 1.7%		
ConAgra Foods, Inc.	66,900	1,806,300
General Mills, Inc.	71,300	4,106,880
Smithfield Foods, Inc.*	12,900	331,014
		6,244,194
Household Products 1.0%		
Colgate-Palmolive Co.	53,800	**3,509,912**
Personal Products 0.6%		
Estee Lauder Companies, Inc. "A"	55,500	**2,265,510**
Tobacco 0.7%		
Altria Group, Inc.	28,300	**2,428,706**

	Shares	Value ($)
Energy 9.7%		
Energy Equipment & Services 0.8%		
Superior Energy Services, Inc.*	13,800	450,984
Tidewater, Inc.	9,800	473,928
Unit Corp.*	44,000	2,131,800
		3,056,712
Oil, Gas & Consumable Fuels 8.9%		
Chevron Corp.	107,400	7,897,122
ConocoPhillips	69,200	4,978,940
Denbury Resources, Inc.*	89,600	2,489,984
Devon Energy Corp.	38,900	2,609,412
ExxonMobil Corp.	92,540	7,091,341
Noble Energy, Inc.	6,800	333,676
Range Resources Corp.	41,300	1,134,098
Valero Energy Corp.	67,200	3,437,952
W&T Offshore, Inc.	24,000	737,280
XTO Energy, Inc.	26,501	1,246,872
		31,956,677
Financials 19.6%		
Capital Markets 5.2%		
Lehman Brothers Holdings, Inc.	41,700	3,257,604
Merrill Lynch & Co., Inc.	81,000	7,541,100
Morgan Stanley	16,300	1,327,309
The Goldman Sachs Group, Inc.	33,100	6,598,485
		18,724,498
Commercial Banks 2.7%		
US Bancorp.	59,900	2,167,781
Wells Fargo & Co.	215,600	7,666,736
		9,834,517
Diversified Financial Services 6.4%		
Bank of America Corp.	215,700	11,516,223
Citigroup, Inc.	30,900	1,721,130
JPMorgan Chase & Co.	198,000	9,563,400
		22,800,753
Insurance 3.3%		
Chubb Corp.	6,800	359,788
CNA Financial Corp.*	26,700	1,076,544
Loews Corp.	31,000	1,285,570
MetLife, Inc.	52,100	3,074,421
Philadelphia Consolidated Holding Corp.*	106,100	4,727,816
W.R. Berkley Corp.	38,400	1,325,184
		11,849,323
Real Estate Investment Trusts 2.0%		
AvalonBay Communities, Inc. (REIT)	1,900	247,095
Boston Properties, Inc. (REIT)	3,100	346,828
Camden Property Trust (REIT)	1,300	96,005
Equity Residential (REIT)	22,700	1,152,025
Hospitality Properties Trust (REIT)	8,700	413,511
iStar Financial, Inc. (REIT)	3,000	143,460
Mack-Cali Realty Corp. (REIT)	1,700	86,700
ProLogis (REIT)	19,400	1,178,938
Public Storage, Inc. (REIT)	5,400	526,500
Rayonier, Inc. (REIT)	4,600	188,830

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Regency Centers Corp. (REIT)	1,400	109,438
Simon Property Group, Inc. (REIT)	14,900	1,509,221
The Macerich Co. (REIT)	2,500	216,425
Vornado Realty Trust (REIT)	8,700	1,057,050
		7,272,026
Health Care 12.9%		
Biotechnology 1.5%		
Amgen, Inc.*	79,200	**5,410,152**
Health Care Equipment & Supplies 1.4%		
Baxter International, Inc.	10,600	491,734
Becton, Dickinson & Co.	25,000	1,753,750
Hillenbrand Industries, Inc.	28,400	1,616,812
Kinetic Concepts, Inc.*	27,300	1,079,715
		4,942,011
Health Care Providers & Services 3.3%		
AmerisourceBergen Corp.	37,300	1,677,008
Humana, Inc.*	62,800	3,473,468
Manor Care, Inc.	9,600	450,432
McKesson Corp.	92,200	4,674,540
Sierra Health Services, Inc.*	47,800	1,722,712
		11,998,160
Life Sciences Tools & Services 0.1%		
Applera Corp. — Applied Biosystems Group	5,100	**187,119**
Pharmaceuticals 6.6%		
Abbott Laboratories	136,500	6,648,915
Abraxis Bioscience, Inc.* (a)	19,700	538,598
Endo Pharmaceuticals Holdings, Inc.*	12,900	355,782
Merck & Co., Inc.	63,200	2,755,520
Mylan Laboratories, Inc.	175,600	3,504,976
Pfizer, Inc.	344,850	8,931,615
Schering-Plough Corp.	44,000	1,040,160
		23,775,566
Industrials 11.3%		
Aerospace & Defense 5.6%		
Boeing Co.	76,900	6,831,796
Honeywell International, Inc.	23,400	1,058,616
Lockheed Martin Corp.	67,800	6,242,346
Raytheon Co.	111,800	5,903,040
		20,035,798
Airlines 0.7%		
Continental Airlines, Inc. "B"*	60,300	**2,487,375**
Commercial Services & Supplies 1.6%		
Allied Waste Industries, Inc.*	27,300	335,517
Waste Management, Inc.	145,000	5,331,650
		5,667,167
Industrial Conglomerates 1.3%		
Carlisle Companies, Inc.	4,600	361,100
General Electric Co.	114,100	4,245,661
		4,606,761
Machinery 1.0%		
Cummins, Inc.	10,700	1,264,526
PACCAR, Inc.	6,500	421,850
Parker Hannifin Corp.	16,100	1,237,768
Toro Co.	14,300	666,809
		3,590,953

	Shares	Value ($)
Road & Rail 1.1%		
Laidlaw International, Inc.	16,000	486,880
Ryder System, Inc.	73,000	3,727,380
		4,214,260
Information Technology 12.5%		
Communications Equipment 1.0%		
Cisco Systems, Inc.*	8,000	218,640
Corning, Inc.*	175,600	3,285,476
		3,504,116
Computers & Peripherals 3.5%		
Hewlett-Packard Co.	172,100	7,088,799
Lexmark International, Inc. "A"*	51,100	3,740,520
Western Digital Corp.*	80,900	1,655,214
		12,484,533
Electronic Equipment & Instruments 0.3%		
Amphenol Corp. "A"	3,200	198,656
AVX Corp.	14,600	215,934
Tech Data Corp.*	22,400	848,288
		1,262,878
Internet Software & Services 1.2%		
eBay, Inc.*	8,100	243,567
Google, Inc. "A"*	6,400	2,947,072
Yahoo!, Inc.*	46,200	1,179,948
		4,370,587
IT Services 1.0%		
Acxiom Corp.	133,800	**3,431,970**
Semiconductors & Semiconductor Equipment 2.8%		
Atmel Corp.*	116,500	704,825
Fairchild Semiconductor International, Inc.*	57,800	971,618
MEMC Electronic Materials, Inc.*	57,200	2,238,808
Micron Technology, Inc.*	220,200	3,073,992
National Semiconductor Corp.	135,600	3,078,120
		10,067,363
Software 2.7%		
BEA Systems, Inc.*	229,100	2,882,078
BMC Software, Inc.*	14,700	473,340
Cadence Design Systems, Inc.*	30,000	537,300
FactSet Research Systems, Inc.	24,800	1,400,704
Microsoft Corp.	121,500	3,627,990
Symantec Corp.*	38,600	804,810
		9,726,222
Materials 4.3%		
Chemicals 1.7%		
Celanese Corp. "A"	96,900	2,507,772
Lyondell Chemical Co.	140,900	3,602,813
Westlake Chemical Corp.	5,500	172,590
		6,283,175
Metals & Mining 2.4%		
Carpenter Technology Corp.	19,100	1,958,132
Commercial Metals Co.	23,500	606,300
Nucor Corp.	57,100	3,121,086
United States Steel Corp.	38,000	2,779,320
		8,464,838
Paper & Forest Products 0.2%		
International Paper Co.	15,800	**538,780**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Telecommunication Services 4.5%		
Diversified Telecommunication Services 4.4%		
AT&T, Inc.	234,400	8,379,800
Verizon Communications, Inc.	202,200	7,529,928
		15,909,728
Wireless Telecommunication Services 0.1%		
United States Cellular Corp.*	5,700	**396,663**
Utilities 3.2%		
Electric Utilities 2.9%		
Entergy Corp.	7,700	710,864
Exelon Corp.	93,000	5,755,770
FirstEnergy Corp.	68,600	4,136,580
		10,603,214
Independent Power Producers & Energy Traders 0.1%		
AES Corp.*	8,400	185,136
TXU Corp.	1,800	97,578
		282,714
Multi-Utilities 0.2%		
Sempra Energy	13,200	**739,728**
Total Common Stocks (Cost $318,591,164)		**354,720,906**

	Principal Amount ($)	Value ($)
US Treasury Obligations 0.2%		
US Treasury Bill, 4.95%**, 1/18/2007 (b) (Cost $768,200)	770,000	**768,200**

	Shares	Value ($)
Securities Lending Collateral 0.1%		
Daily Assets Fund Institutional, 5.34% (c) (d) (Cost $483,575)	483,575	**483,575**
Cash Equivalents 1.2%		
Cash Management QP Trust, 5.46% (e) (Cost $4,154,374)	4,154,374	**4,154,374**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $323,997,313)†	100.2	**360,127,055**
Other Assets and Liabilities, Net	(0.2)	**(692,641)**
Net Assets	100.0	**359,434,414**

* *Non-income producing security.*

** *Annualized yield at time of purchase; not a coupon rate.*

† *The cost for federal income tax purposes was $324,693,489. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $35,433,566. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $40,348,146 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,914,580.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $458,396 which is 0.1% of net assets.*

(b) *At December 31, 2006, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

(c) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

REIT: Real Estate Investment Trust

At December 31, 2006, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation ($)
S&P 500 Index	3/15/2007	13	4,625,219	4,642,300	17,081

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $319,359,364 — including $458,396 of securities loaned)	$	355,489,106
Investment in Daily Assets Fund Institutional (cost $483,575)*		483,575
Investment in Cash Management QP Trust (cost $4,154,374)		4,154,374
Total investments in securities, at value (cost $323,997,313)		360,127,055
Dividends receivable		356,146
Interest receivable		21,749
Receivable for Portfolio shares sold		7,008
Other assets		10,496
Total assets		360,522,454
Liabilities		
Payable for Portfolio shares redeemed		278,266
Payable upon return of securities loaned		483,575
Payable for daily variation margin on open futures contracts		17,550
Accrued management fee		195,059
Other accrued expenses and payables		113,590
Total liabilities		1,088,040
Net assets, at value	**$**	**359,434,414**
Net Assets		
Net assets consist of:		
Undistributed net investment income		3,565,164
Net unrealized appreciation (depreciation) on:		
Investments		36,129,742
Futures		17,081
Accumulated net realized gain (loss)		39,103,387
Paid-in capital		280,619,040
Net assets, at value	**$**	**359,434,414**
Class A		
Net Asset Value, offering and redemption price per share ($313,897,419 ÷ 19,412,716 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**16.17**
Class B		
Net Asset Value, offering and redemption price per share ($45,536,995 ÷ 2,824,828 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**16.12**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends	$	5,850,273
Interest		35,409
Interest — Cash Management QP Trust		295,964
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		31,356
Other income**		73,817
Total Income		6,286,819
Expenses:		
Management fee		2,228,613
Custodian fees		19,969
Distribution service fees (Class B)		112,577
Record keeping fees (Class B)		59,973
Auditing		47,391
Legal		14,267
Trustees' fees and expenses		27,593
Reports to shareholders		91,157
Other		20,027
Total expenses before expense reductions		2,621,567
Expense reductions		(4,810)
Total expenses after expense reductions		2,616,757
Net investment income (loss)		**3,670,062**
Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from:		
Investments		39,885,662
Futures		696,593
		40,582,255
Net unrealized appreciation (depreciation) during the period on:		
Investments		5,820,360
Futures		64,304
		5,884,664
Net gain (loss) on investment transactions		**46,466,919**
Net increase (decrease) in net assets resulting from operations	**$**	**50,136,981**

** *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note J).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 3,670,062	$ 3,107,588
Net realized gain (loss) on investment transactions	40,582,255	34,896,786
Net unrealized appreciation (depreciation) during the period on investment transactions	5,884,664	(6,225,182)
Net increase (decrease) in net assets resulting from operations	50,136,981	31,779,192
Distributions to shareholders from:		
Net investment income:		
Class A	(2,723,182)	(2,673,957)
Class B	(213,761)	(231,257)
Net realized gain:		
Class A	(15,496,612)	—
Class B	(2,298,427)	—
Portfolio share transactions:		
Class A		
Proceeds from shares sold	28,436,502	25,386,809
Reinvestment of distributions	18,219,794	2,673,957
Cost of shares redeemed	(52,068,358)	(42,221,426)
Net increase (decrease) in net assets from Class A share transactions	(5,412,062)	(14,160,660)
Class B		
Proceeds from shares sold	8,559,228	13,487,197
Reinvestment of distributions	2,512,188	231,257
Cost of shares redeemed	(13,802,899)	(9,951,414)
Net increase (decrease) in net assets from Class B share transactions	(2,731,483)	3,767,040
Increase (decrease) in net assets	21,261,454	18,480,358
Net assets at beginning of period	338,172,960	319,692,602
Net assets at end of period (including undistributed net investment income of $3,565,164 and $2,849,527, respectively)	**$ 359,434,414**	**$ 338,172,960**

Other Information		
Class A		
Shares outstanding at beginning of period	19,752,422	20,734,323
Shares sold	1,871,977	1,864,296
Shares issued to shareholders in reinvestment of distributions	1,231,899	198,218
Shares redeemed	(3,443,582)	(3,044,415)
Net increase (decrease) in Class A shares	(339,706)	(981,901)
Shares outstanding at end of period	**19,412,716**	**19,752,422**
Class B		
Shares outstanding at beginning of period	2,986,497	2,700,912
Shares sold	566,366	979,006
Shares issued to shareholders in reinvestment of distributions	169,857	17,156
Shares redeemed	(897,892)	(710,577)
Net increase (decrease) in Class B shares	(161,669)	285,585
Shares outstanding at end of period	**2,824,828**	**2,986,497**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$14.88**	**$13.65**	**$11.84**	**$ 9.37**	**$12.07**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.17[b]	.14	.13	.08	.07
Net realized and unrealized gain (loss) on investment transactions	2.07	1.22	1.76	2.45	(2.73)
Total from investment operations	2.24	1.36	1.89	2.53	(2.66)
Less distributions from:					
Net investment income	(.14)	(.13)	(.08)	(.06)	(.04)
Net realized gain on investment transactions	(.81)	—	—	—	—
Total distributions	(.95)	(.13)	(.08)	(.06)	(.04)
Net asset value, end of period	**$16.17**	**$14.88**	**$13.65**	**$11.84**	**$ 9.37**
Total Return (%)	15.65[b]	10.06	16.04	27.25	(22.11)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	314	294	283	242	174
Ratio of expenses (%)	.71	.70	.70	.71	.69
Ratio of net investment income (%)	1.12[b]	1.00	1.08	.82	.65
Portfolio turnover rate (%)	226	288	249	182	195

[a] *Based on average shares outstanding during the period.*

[b] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.02%. Excluding this non-recurring income, total return would have been 0.02% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$14.83**	**$13.60**	**$11.80**	**$ 9.35**	**$10.28**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.11[c]	.09	.09	.04	.03
Net realized and unrealized gain (loss) on investment transactions	2.07	1.22	1.74	2.45	(.96)
Total from investment operations	2.18	1.31	1.83	2.49	(.93)
Less distributions from:					
Net investment income	(.08)	(.08)	(.03)	(.04)	—
Net realized gain on investment transactions	(.81)	—	—	—	—
Total distributions	(.89)	(.08)	(.03)	(.04)	—
Net asset value, end of period	**$16.12**	**$14.83**	**$13.60**	**$11.80**	**$ 9.35**
Total Return (%)	15.19[c]	9.68	15.55	26.76	(9.05)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	46	44	37	17	.4
Ratio of expenses (%)	1.09	1.09	1.08	1.10	.94*
Ratio of net investment income (%)	.74[c]	.61	.70	.43	.61*
Portfolio turnover rate (%)	226	288	249	182	195

[a] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[b] *Based on average shares outstanding during the period.*

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.02%. Excluding this non-recurring income, total return would have been 0.02% lower.*

* *Annualized*

** *Not annualized*

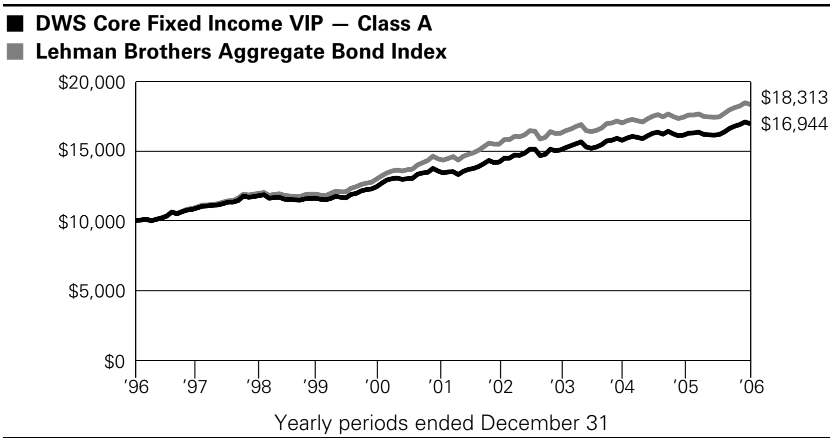
DWS Core Fixed Income VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. This Portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the Portfolio, can decline and the investor can lose principal value. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and changes in political/economic conditions and market risks. All of these factors may result in greater share price volatility. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

A Treasury's guarantee relates only to the prompt payment of principal and interest and does not remove market risks if the investment is sold prior to maturity.

Growth of an Assumed $10,000 Investment in DWS Core Fixed Income VIP



The Lehman Brothers Aggregate Bond (LBAB) Index is an unmanaged market value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Core Fixed Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,426	$11,143	$12,653	$16,944
	Average annual total return	4.26%	3.67%	4.82%	5.41%
Lehman Brothers Aggregate Bond Index	Growth of $10,000	$10,433	$11,150	$12,798	$18,313
	Average annual total return	4.33%	3.70%	5.06%	6.24%

DWS Core Fixed Income VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$10,389	$11,016	$12,150
	Average annual total return	3.89%	3.28%	4.43%
Lehman Brothers Aggregate Bond Index	Growth of $10,000	$10,433	$11,150	$12,331
	Average annual total return	4.33%	3.70%	4.77%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Core Fixed Income VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,049.60	$1,047.80
Expenses Paid per $1,000*	$ 3.56	$ 5.57
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,021.73	$1,019.76
Expenses Paid per $1,000*	$ 3.52	$ 5.50

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Core Fixed Income VIP	.69%	1.08%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Core Fixed Income VIP

The year 2006 was a tale of two halves. After rising an average of 0.73% along the curve during the first half of 2006, Treasury yields dropped roughly 0.39% across all maturities during the latter half. The benchmark 10-year Treasury yield ended at 4.70%. After 17 consecutive rate hikes, including four early in 2006, the US Federal Reserve Bank (the Fed) left rates unchanged at its last four meetings. The pause in Fed tightening combined with generally tighter spreads to lift all non-Treasury sectors to positive returns.

During the 12-month period ended December 31, 2006, the Portfolio provided a total return of 4.26% (Class A shares, unadjusted for contract charges) compared with the 4.33% return of its benchmark, the Lehman Brothers Aggregate Bond Index.

Security selection within the corporate sector added value, particularly an overweight to BBB issues including the telecommunications and homebuilding sectors.[1,2] Our holdings in the finance sector, which emphasize bank and insurance hybrid capital securities, also made a material contribution to returns. In the residential mortgage sector, our overweight helped returns. However, this was offset by the fact that our Portfolio is less sensitive to prepayment risk than the benchmark; interest rate volatility declined over the period, favoring more prepayment-sensitive issues.[3] In asset backed securities (ABS), our holdings remain concentrated in short duration home equity securities where the total rate of return advantage relative to treasuries remains compelling. Home equity securities were the second best performing ABS sector and our overweight there contributed to performance. In commercial mortgage backed securities (CMBS), we sold into swap spread strength, but maintained exposure to specific bonds that we believe have outsized return potential.[4] Our market weighting in CMBS benefited results. Sovereign debt led the non-corporate component of the credit index in performance and our underweight to these securities dampened returns.

Gary W. Bartlett, CFA	J. Christopher Gagnier	Daniel R. Taylor, CFA
Warren S. Davis, III	William T. Lissenden	Timothy C. Vile, CFA
Thomas J. Flaherty		

Portfolio Managers, Aberdeen Asset Management Inc., Subadvisor to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

Investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. This Portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the Portfolio, can decline and the investor can lose principal value. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and changes in political/economic conditions and market risks. All of these factors may result in greater share price volatility. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Lehman Brothers Aggregate Bond (LBAB) Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities with average maturities of one year or more.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

2 *The credit quality of a bond is an assessment of the likelihood that the issuer will default on scheduled payments of principal and interest.*

3 *Prepayment risk refers to the risk that loans that underly a mortgage-backed security will be refinanced, forcing holders of the security to reinvest the principal returned at a lower rate.*

4 *The swap spread is the difference between the the fixed rate that it is necessary to offer in exchange for obtaining a floating rate payment (the "swap rate"), and the yield on government bonds of equal maturity.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Core Fixed Income VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Commercial and Non-Agency Mortgage Backed Securities	29%	18%
Corporate Bonds	13%	15%
Collateralized Mortgage Obligations	13%	21%
US Government Agency Sponsored Pass-Throughs	12%	9%
US Treasury Obligations	10%	15%
Asset Backed	10%	7%
Foreign Bonds — US$ Denominated	6%	5%
Municipal Bonds and Notes	5%	5%
Cash Equivalents	2%	5%
	100%	100%

Corporate and Foreign Bonds Diversification (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/06**	**12/31/05**
Financials	48%	38%
Utilities	20%	13%
Consumer Discretionary	12%	17%
Energy	9%	7%
Telecommunication Services	8%	9%
Industrials	2%	6%
Materials	1%	8%
Health Care	—	2%
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
US Government and Agencies	35%	45%
AAA*	45%	32%
AA	—	2%
A	7%	7%
BBB	11%	12%
BB	2%	2%
	100%	100%

* *Includes cash equivalents*

Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/06**	**12/31/05**
Under 1 year	9%	10%
1–4.99 years	37%	34%
5–9.99 years	39%	43%
10–14.99 years	5%	4%
15 years or greater	10%	9%
	100%	100%

Asset allocation, corporate and foreign bonds diversification, quality and effective maturity are subject to change.

Weighted average effective maturity: 6.9 years and 5.4 years, respectively.

The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Portfolio's quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 38. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Core Fixed Income VIP

	Principal Amount ($)	Value ($)
Corporate Bonds 13.3%		
Consumer Discretionary 2.2%		
Comcast Cable Holdings LLC, 10.125%, 4/15/2022	363,000	484,451
Comcast Corp., 5.875%, 2/15/2018	450,000	445,165
DaimlerChrysler NA Holding Corp., Series E, 5.901%*, 10/31/2008	1,535,000	1,540,944
TCI Communications, Inc., 8.75%, 8/1/2015	848,000	1,003,002
Tele-Communications, Inc., 9.875%, 6/15/2022	250,000	328,989
Time Warner, Inc.:		
7.57%, 2/1/2024	243,000	267,040
7.625%, 4/15/2031	543,000	606,618
7.7%, 5/1/2032	617,000	696,157
Viacom, Inc.:		
5.75%, 4/30/2011	830,000	830,424
6.875%, 4/30/2036	1,697,000	1,677,788
		7,880,578
Energy 1.2%		
Anadarko Petroleum Corp., 6.45%, 9/15/2036	935,000	944,814
Chesapeake Energy Corp.:		
6.375%, 6/15/2015	262,000	259,380
6.875%, 1/15/2016	184,000	185,610
Constellation Energy Group, 7.6%, 4/1/2032	415,000	484,732
Enterprise Products Operating LP:		
Series B, 5.0%, 3/1/2015 (a)	517,000	487,490
7.5%, 2/1/2011	580,000	618,535
Sempra Energy, 4.621%, 5/17/2007	1,510,000	1,504,239
		4,484,800
Financials 5.1%		
American General Finance Corp., Series I, 4.875%, 5/15/2010 (a)	3,929,000	3,885,286
Dresdner Funding Trust I, 144A, 8.151%, 6/30/2031	985,000	1,186,384
Erac USA Finance Co.:		
144A, 5.9%, 11/15/2015	290,000	293,018
144A, 8.0%, 1/15/2011	1,346,000	1,467,832
ERP Operating LP, 6.95%, 3/2/2011	112,000	118,600
Farmers Insurance Exchange, 144A, 8.625%, 5/1/2024	940,000	1,127,490
Mangrove Bay Pass-Through Trust, 144A, 6.102%, 7/15/2033	1,310,000	1,277,826
Merrill Lynch & Co., Inc., 6.05%, 5/16/2016	1,400,000	1,449,058
Nelnet, Inc., 7.4%, 9/29/2036	445,000	458,242
Reinsurance Group of America, Inc., 6.75%, 12/15/2065	875,000	874,487
Suntrust Preferred Capital I, 5.853%, 12/15/2011	1,330,000	1,340,152
United Dominion Realty Trust, Inc., Series E, (REIT), 3.9%, 3/15/2010	345,000	333,034
Wachovia Capital Trust III, 5.8%, 3/15/2042	2,290,000	2,308,904
Western Union Co., 144A, 6.2%, 11/17/2036	1,125,000	1,056,786
ZFS Finance USA Trust I, 144A, 6.15%, 12/15/2065	1,000,000	1,014,810
		18,191,909
Industrials 0.3%		
D.R. Horton, Inc., 5.375%, 6/15/2012	487,000	471,026
K. Hovnanian Enterprises, Inc., 8.625%, 1/15/2017 (a)	726,000	773,190
		1,244,216
Telecommunication Services 0.8%		
AT&T, Inc., 5.875%, 2/1/2012	1,333,000	1,358,103
Embarq Corp., 7.995%, 6/1/2036	550,000	572,344
Sprint Nextel Corp., 6.0%, 12/1/2016	1,035,000	1,008,739
		2,939,186
Utilities 3.7%		
Baltimore Gas & Electric Co., 144A, 6.35%, 10/1/2036	425,000	433,850
Centerior Energy Corp., Series B, 7.13%, 7/1/2007	1,490,000	1,501,717
Commonwealth Edison Co., Series 98, 6.15%, 3/15/2012	980,000	999,312
Consumers Energy Co.:		
Series F, 4.0%, 5/15/2010	1,655,000	1,581,914
5.0%, 2/15/2012	145,000	141,459
Dominion Resources, Inc.:		
Series 06-B, 6.3%, 9/30/2066	560,000	562,565
7.5%, 6/30/2066	1,845,000	1,983,827
Energy East Corp., 6.75%, 7/15/2036	1,145,000	1,208,083
Entergy Louisiana LLC, 6.3%, 9/1/2035	285,000	280,551
Entergy Mississippi, Inc., 5.92%, 2/1/2016	400,000	396,224
Nevada Power Co., Series N, 6.65%, 4/1/2036	1,470,000	1,527,092
Pedernales Electric Cooperative, Series 2002-A, 144A, 6.202%, 11/15/2032	1,715,000	1,817,248
WPS Resources Corp., 6.11%, 12/1/2066	735,000	729,677
		13,163,519
Total Corporate Bonds (Cost $47,701,036)		**47,904,208**
Foreign Bonds — US$ Denominated 5.6%		
Energy 0.5%		
GAZ Capital (Gazprom), 144A, 6.212%, 11/22/2016	1,661,000	**1,672,627**
Financials 3.9%		
Banco Mercantil del Norte SA, Series A, 144A, 6.862%, 10/13/2021	610,000	616,570
ChinaTrust Commercial Bank, 144A, 5.625%, 12/29/2049	1,002,000	971,821
Corp. Andina de Fomento, 5.75%, 1/12/2017	510,000	512,382

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)	Value ($)
Mantis Reef Ltd., 144A, 4.692%, 11/14/2008	2,120,000	2,092,779
Mizuho Financial Group, (Cayman), 8.375%, 12/29/2049	1,995,000	2,107,917
MUFG Capital Finance 1 Ltd., 6.346%, 7/29/2049	2,550,000	2,587,964
Oil Insurance Ltd., 144A, 7.558%, 12/29/2049	2,890,000	2,989,561
Royal Bank of Scotland Group PLC, Series 1, 9.118%, 3/31/2049	745,000	825,338
Sumitomo Mitsui Banking Corp., 144A, 5.625%, 7/29/2049	1,525,000	1,490,747
		14,195,079
Information Technology 0.1%		
Seagate Technology HDD Holdings:		
6.375%, 10/1/2011	160,000	160,000
6.8%, 10/1/2016	245,000	246,225
		406,225
Materials 0.4%		
Celulosa Arauco y Constitucion SA, 5.625%, 4/20/2015	1,295,000	**1,272,779**
Telecommunication Services 0.7%		
Telecom Italia Capital:		
4.0%, 1/15/2010	466,000	444,980
4.95%, 9/30/2014	816,000	755,976
5.25%, 11/15/2013	1,386,000	1,321,536
		2,522,492
Total Foreign Bonds — US$ Denominated (Cost $19,920,023)		**20,069,202**

Asset Backed 9.3%

	Principal Amount ($)	Value ($)
Automobile Receivables 0.0%		
MMCA Automobile Trust,"B", Series 2002-2, 4.67%, 3/15/2010	106,283	**106,135**
Home Equity Loans 9.3%		
Ameriquest Mortgage Securities, Inc.,"A5", Series 2004-FR1, 4.455%, 5/25/2034	2,450,000	2,408,409
Citigroup Mortgage Loan Trust, Inc.,"A1", Series 2006-WFH4, 5.4%*, 11/25/2036	2,532,387	2,532,426
Countrywide Asset-Backed Certificates:		
"AF2", Series 2005-7, 4.367%, 11/25/2035	2,038,042	2,018,771
"A1", Series 2006-S6, 5.43%*, 3/25/2034	1,714,033	1,714,113
"A6", Series 2006-S6, 5.657%, 3/25/2034	1,840,000	1,836,826
"A6", Series 2006-15, 5.826%, 10/25/2046	1,495,000	1,516,289
"1AF6", Series 2006-11, 6.15%, 9/25/2046	1,830,000	1,876,971
Encore Credit Receivables NIM Trust,"NOTE", Series 2005-4, 144A, 4.5%, 1/25/2036	130,408	130,067
Household Home Equity Loan Trust,"A1F", Series 2006-3, 5.98%, 3/20/2036	2,431,881	2,430,104
JPMorgan Mortgage Acquisition Corp.,"A2", Series 2006-CH1, 5.37%*, 7/25/2036	2,505,208	2,505,040
Merrill Lynch Mortgage Investors Trust,"A1A", Series 2005-NCB, 5.451%, 7/25/2036	346,747	345,304
New Century Home Equity Loan Trust,"A2", Series 2005-A, 4.461%, 8/25/2035	1,249,377	1,238,759
Novastar NIM Trust,"NOTE", Series 2005-N1, 144A, 4.777%, 10/26/2035	149,481	149,182
Option One Mortgage Loan Trust,"2A1", Series 2006-3, 5.36%*, 2/25/2037	2,581,906	2,581,744
Popular ABS Mortgage Pass-Through Trust,"AF2", Series 2005-2, 4.415%, 4/25/2035	2,450,000	2,425,401
Residential Asset Securities Corp.,"AI1", Series 2006-KS3, 5.42%*, 4/25/2036	1,389,684	1,390,037
Residential Funding Mortgage Securities II,"A1" Series 2006-HI4, 5.45%*, 9/25/2036	2,575,941	2,576,055
Securitized Asset Backed NIM Trust,"NIM", Series 2005-FR4, 144A, 6.0%, 1/25/2036	725,436	723,378
Terwin Mortgage Trust,"AF2", Series 2005-14HE, 4.849%, 8/25/2036	3,094,000	3,058,273
		33,457,149
Total Asset Backed (Cost $33,535,071)		**33,563,284**

	Shares	Value ($)
Preferred Stocks 0.2%		
Arch Capital Group Ltd., 8.0%	7,384	195,907
BAC Capital Trust XI, 6.6250	330,000	356,131
Total Preferred Stocks (Cost $515,839)		**552,038**

	Principal Amount ($)	Value ($)
US Government Agency Sponsored Pass-Throughs 12.0%		
Federal Home Loan Mortgage Corp.:		
6.0%, with various maturities from 12/1/2025 until 12/1/2034	2,687,549	2,714,726
7.0%, 10/1/2036	861,230	883,479
Federal National Mortgage Association:		
4.5%, with various maturities from 6/1/2019 until 10/1/2033	5,956,755	5,672,534
5.0%, with various maturities from 4/1/2025 until 2/1/2034	3,225,888	3,135,446
5.5%, with various maturities from 7/1/2024 until 4/1/2036	10,901,605	10,817,776
6.0%, with various maturities from 6/1/2016 until 4/1/2024 (f)	5,745,699	5,823,858
6.31%, 6/1/2008	1,500,000	1,506,572
6.5%, with various maturities from 3/1/2017 until 8/1/2036	9,467,683	9,649,069
7.0%, 9/1/2036	1,793,313	1,840,761
7.13%, 1/1/2012	1,084,784	1,075,918
8.0%, 9/1/2015	35,656	37,494
Total US Government Agency Sponsored Pass-Throughs (Cost $43,493,095)		**43,157,633**

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)	Value ($)
Commercial and Non-Agency Mortgage-Backed Securities 28.9%		
Adjustable Rate Mortgage Trust:		
"3A31", Series 2005-10, 5.425%, 1/25/2036	1,265,000	1,247,106
"1A4", Series 2006-2, 5.77%*, 5/25/2036	1,705,000	1,727,810
Banc of America Commercial Mortgage, Inc.,"A4", Series 2005-5, 5.115%, 10/10/2045	2,635,000	2,595,220
Banc of America Mortgage Securities,"1A20", Series 2005-3, 5.5%, 4/25/2035	1,840,000	1,833,494
Bear Stearns Adjustable Rate Mortgage Trust:		
"2A2", Series 2005-4, 4.567%*, 8/25/2035	1,720,000	1,681,592
"A1", Series 2006-1, 4.625%*, 2/25/2036	4,072,238	4,001,046
Chase Commercial Mortgage Securities Corp., Class"A2", Series 1998-2, 6.39%, 11/18/2030	1,792,725	1,818,072
Chase Mortgage Finance Corp.,"3A1", Series 2005-A1, 5.271%*, 12/25/2035	2,705,726	2,682,201
Citicorp Mortgage Securities, Inc.:		
"A4", Series 2003-3, 5.5%, 3/25/2033	431,543	429,452
"1A1", Series 2004-8, 5.5%, 10/25/2034	1,156,754	1,151,843
Citigroup Commercial Mortgage Trust:		
"ASB", Series 2006-C5, 5.413%, 10/15/2049	1,785,000	1,792,044
"ASB", Series 2006-C4, 5.72%, 3/15/2049	1,805,000	1,849,834
Citigroup Mortgage Loan Trust, Inc.:		
"2A1", Series 2006-AR1, 4.7%*, 3/25/2036	1,355,212	1,329,947
"1A1", Series 2006-AR1, 4.9%*, 10/25/2035	466,414	461,620
"1A2", Series 2006-AR2, 5.548%, 3/25/2036	2,315,998	2,313,812
"1A3A", Series 2006-AR5, 5.94%*, 7/25/2036	1,665,251	1,681,682
"1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	1,134,971	1,155,898
CitiMortgage Alternative Loan Trust,"A1", Series 2006-A2, 6.0%, 5/25/2036	1,793,867	1,805,777
Countrywide Alternative Loan Trust:		
"A2", Series 2003-6T2, 5.0%, 6/25/2033	490,836	488,193
"A2", Series 2003-21T1, 5.25%, 12/25/2033	1,293,989	1,281,335
"A6", Series 2004-14T2, 5.5%, 8/25/2034	1,260,797	1,252,383
"7A1", Series 2004-J2, 6.0%, 12/25/2033	295,955	296,417
"1A1", Series 2004-J1, 6.0%, 2/25/2034	229,571	228,442
GE Capital Commercial Mortgage Corp.,"AAB", Series 2005-C3, 4.94%, 7/10/2045	955,000	937,042
GMAC Mortgage Corp. Loan Trust,"A1", Series 2006-J1, 5.75%, 4/25/2036	3,370,261	3,376,232
Greenwich Capital Commercial Funding Corp.,"AAB", Series 2006-GG7, 5.912%, 7/10/2038	1,115,000	1,157,563
GS Mortgage Securities Corp. II:		
"A4", Series 2005-GG4, 4.761%, 7/10/2039	2,705,000	2,602,022
"C", Series 1998-C1, 6.91%, 10/18/2030	1,260,000	1,286,922
Indymac Inda Mortgage Loan Trust,"1A1", Series 2006-AR3, 5.397%, 12/25/2036	2,128,541	2,119,266
JPMorgan Chase Commercial Mortgage Securities Corp.,"A4", Series 2005-LDP5, 5.179%, 12/15/2044	3,305,000	3,292,937
JPMorgan Mortgage Trust:		
"7A1", Series 2006-A3, 4.581%, 4/25/2035	3,296,995	3,240,827
"2A4L", Series 2006-A6, 5.582%, 10/25/2036	1,840,000	1,833,056
"2A4", Series 2006-A2, 5.766%, 4/25/2036	2,565,000	2,602,073
LB-UBS Commercial Mortgage Trust,"A4", Series 2005-C7, 5.197%, 11/15/2030	1,525,000	1,511,887
Lehman Mortgage Trust:		
"3A3", Series 2006-1, 5.5%, 2/25/2036	1,860,000	1,863,005
"1A10", Series 2006-3, 6.0%, 7/25/2036	1,786,217	1,799,551
Master Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	600,816	596,499
"5A1", Series 2005-2, 6.5%, 12/25/2034	195,404	197,419
"8A1", Series 2004-3, 7.0%, 4/25/2034	84,415	84,506
Master Asset Securitization Trust,"2A7", Series 2003-9, 5.5%, 10/25/2033	1,205,832	1,180,961
Merrill Lynch Mortgage Investors Trust,"A2", Series 2005-A5, 4.566%, 6/25/2035	210,000	204,294
Mortgage Capital Funding, Inc.,"A2", Series 1998-MC3, 6.337%, 11/18/2031	981,532	988,926
Residential Accredit Loans, Inc.:		
"CB", Series 2004-QS2, 5.75%, 2/25/2034	790,368	783,453
"A2", Series 2006-QS4, 6.0%, 4/25/2036	2,672,805	2,678,688
Structured Adjustable Rate Mortgage Loan Trust:		
"6A3", Series 2005-21, 5.4%, 11/25/2035	1,485,000	1,453,100
"2A1", Series 2006-1, 5.648%, 2/25/2036	1,500,630	1,500,015
"1A1", Series 2005-18, 5.672%, 9/25/2035	1,216,773	1,217,815
Structured Asset Securities Corp.,"4A1", Series 2005-6, 5.0%, 5/25/2035	791,954	761,761
Wachovia Mortgage Loan Trust LLC,"3A1", Series 2005-B, 5.158%*, 10/20/2035	2,544,300	2,518,931
Washington Mutual:		
"2A1", Series 2002-S8, 4.5%, 1/25/2018	219,604	218,290
"A1", Series 2003-S7, 4.5%, 8/25/2018	1,926,912	1,857,274

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)	Value ($)
"1A3", Series 2005-AR16, 5.113%, 12/25/2035	1,660,000	1,651,025
"1A1", Series 2006-AR16, 5.634%*, 12/25/2036	2,714,606	2,716,117
"1A4", Series 2006-AR8, 5.928%, 8/25/2046	2,397,723	2,415,083
Wells Fargo Mortgage Backed Securities Trust:		
"1A6", Series 2003-1, 4.5%, 2/25/2018	109,621	108,992
"4A2", Series 2005-AR16, 4.991%, 10/25/2035	2,385,000	2,356,779
"2A5", Series 2006-AR2, 5.088%*, 3/25/2036	5,472,190	5,439,241
"A4", Series 2005-AR14, 5.387%*, 8/25/2035	1,700,000	1,672,795
"A1", Series 2006-3, 5.5%, 3/25/2036	2,250,653	2,242,423
"A6", Series 2006-AR11, 5.539%, 8/25/2036	2,750,000	2,764,404
"2A5", Series 2006-AR1, 5.561%*, 3/25/2036	1,700,000	1,688,366
"1A3", Series 2006-6, 5.75%, 5/25/2036	1,939,294	1,942,144
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $103,558,839)		**103,966,904**

Collateralized Mortgage Obligations 13.1%

	Principal Amount ($)	Value ($)
Fannie Mae Whole Loan:		
"A2", Series 2004-W4, 5.0%, 6/25/2034	1,977,397	1,956,747
"1A1", Series 2004-W15, 6.0%, 8/25/2044	1,247,891	1,252,550
Federal Home Loan Mortgage Corp.:		
"KB", Series 2552, 4.25%, 6/15/2027	736,597	729,914
"LN", Series 3145, 4.5%, 10/15/2034	1,910,000	1,842,655
"HG", Series 2543, 4.75%, 9/15/2028	669,200	663,790
"PE", Series 2721, 5.0%, 1/15/2023	135,000	129,595
"EW", Series 2545, 5.0%, 3/15/2029	1,097,817	1,089,203
"BG", Series 2640, 5.0%, 2/15/2032	2,060,000	1,992,439
"PD", Series 2783, 5.0%, 1/15/2033	1,283,000	1,235,194
"TE", Series 2780, 5.0%, 1/15/2033	1,785,000	1,720,661
"NE", Series 2802, 5.0%, 2/15/2033	2,640,000	2,544,207
"OE", Series 2840, 5.0%, 2/15/2033	2,780,000	2,669,245
"PD", Series 2890, 5.0%, 3/15/2033	1,485,000	1,426,519
"OG", Series 2889, 5.0%, 5/15/2033	1,770,000	1,702,099
"PE", Series 2898, 5.0%, 5/15/2033	860,000	825,318
"XD", Series 2941, 5.0%, 5/15/2033	1,055,000	1,010,797
"PE", Series 2864, 5.0%, 6/15/2033	2,275,000	2,190,293
"UE", Series 2911, 5.0%, 6/15/2033	3,055,000	2,929,075
"BG", Series 2869, 5.0%, 7/15/2033	335,000	321,968
"KD", Series 2915, 5.0%, 9/15/2033	1,341,000	1,286,744
"NE", Series 2921, 5.0%, 9/15/2033	2,275,000	2,182,860
"QE", Series 2991, 5.0%, 8/15/2034	2,530,000	2,420,030
"PE", Series 2378, 5.5%, 11/15/2016	1,647,970	1,652,889
"CH", Series 2390, 5.5%, 12/15/2016	440,000	439,215
"PE", Series 2512, 5.5%, 2/15/2022	45,000	45,250
"YA", Series 2841, 5.5%, 7/15/2027	1,937,600	1,938,472
"PE", Series 2165, 6.0%, 6/15/2029	1,762,580	1,777,468
Federal National Mortgage Association:		
"PE", Series 2005-44, 5.0%, 7/25/2033	650,000	621,673
"QD", Series 2005-29, 5.0%, 8/25/2033	435,000	415,582
"HE", Series 2005-22, 5.0%, 10/25/2033	1,540,000	1,472,401
"PG", Series 2002-3, 5.5%, 2/25/2017	500,000	501,184
"QC", Series 2002-11, 5.5%, 3/25/2017	640,000	641,027
"VD", Series 2002-56, 6.0%, 4/25/2020	43,831	43,746
"PH", Series 1999-19, 6.0%, 5/25/2029	1,754,010	1,776,561
"Z", Series 2001-14, 6.0%, 5/25/2031	1,114,066	1,127,423
"A2", Series 1998-M6, 6.32%, 8/15/2008	448,813	453,828
"HM", Series 2002-36, 6.5%, 12/25/2029	10,998	10,971
Total Collateralized Mortgage Obligations (Cost $47,843,408)		**47,039,593**

Municipal Bonds and Notes 5.1%

	Principal Amount ($)	Value ($)
Brockton, MA, General Obligation, Economic Development, Series A, 6.45%, 5/1/2017 (b)	1,530,000	1,623,605
Illinois, Higher Education Revenue, 7.05%, 7/1/2009 (b)	1,410,000	1,471,843
Indiana, Bond Bank Revenue, School Severance Funding, Series 11, 6.01%, 7/15/2021 (b)	1,965,000	2,018,762
Jersey City, NJ, Municipal Utilities Authority, Water Revenue, 4.55%, 5/15/2012 (b)	1,000,000	971,660
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013	945,000	927,224
Los Angeles, CA, Community Redevelopment Agency, Financing Authority Revenue, Bunker Hill Project, 5.83%, 12/1/2017 (b)	2,500,000	2,570,850
Menasha, WI, Anticipation Notes, Series B, 5.65%, 9/1/2009	1,310,000	1,315,096

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)	Value ($)
Michigan, Western Michigan University Revenue, 4.41%, 11/15/2014 (b)	1,130,000	1,094,190
New York, General Obligation, Environmental Facilities Corp., 4.95%, 1/1/2013 (b)	1,500,000	1,483,530
Oklahoma City, OK, Airport Revenue, 5.2%, 10/1/2012 (b)	1,430,000	1,425,453
Oregon, School Board Association Taxable — Pension, 4.668%, 6/30/2020 (b)	1,135,000	1,065,924
Portland, OR, River District, Urban Renewal & Redevelopment, Series B, 3.35%, 6/15/2010 (b)	1,550,000	1,466,734
Trenton, NJ, School District General Obligation, 4.3%, 4/1/2011 (b)	1,040,000	1,003,954
Total Municipal Bonds and Notes (Cost $18,443,220)		**18,438,825**

US Treasury Obligations 10.2%

	Principal Amount ($)	Value ($)
US Treasury Bonds:		
6.0%, 2/15/2026 (a)	18,422,000	20,893,145
8.125%, 8/15/2019 (a)	8,766,000	11,452,639
US Treasury Notes:		
3.25%, 8/15/2007 (a)	942,000	931,808
4.25%, 11/15/2013 (a)	3,571,000	3,476,703
Total US Treasury Obligations (Cost $37,646,991)		**36,754,295**

	Shares	Value ($)

Securities Lending Collateral 11.0%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.34% (c) (d) (Cost $39,550,113)	39,550,113	**39,550,113**

Cash Equivalents 2.3%

	Shares	Value ($)
Cash Management QP Trust, 5.46% (e) (Cost $8,043,491)	8,043,491	**8,043,491**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $400,251,126)†	111.0	**399,039,586**
Other Assets and Liabilities, Net	(11.0)	**(39,690,364)**
Net Assets	100.0	**359,349,222**

* *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of December 31, 2006.*

† *The cost for federal income tax purposes was $400,276,243. At December 31, 2006, net unrealized depreciation for all securities based on tax cost was $1,236,657. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,384,640 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,621,297.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $38,738,935 which is 10.8% of net assets.*

(b) *Bond is insured by one of these companies:*

Insurance Coverage	As a % of Total Investment Portfolio
Ambac Financial Group	1.6
Financial Guaranty Insurance Co.	1.0
Financial Security Assurance Inc.	0.7
MBIA Corp.	0.3
XL Capital Insurance	0.5

(c) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(f) *Mortgage dollar rolls included.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp. issues which have similar coupon rates have been aggregated for presentation purposes in the investment portfolio.

REIT: Real Estate Investment Trust

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $352,657,522) — including $38,738,935 of securities loaned	$ 351,445,982
Investment in Daily Assets Fund Institutional (cost $39,550,113)*	39,550,113
Investment in Cash Management QP Trust (cost $8,043,491)	8,043,491
Total investments in securities, at value (cost $400,251,126)	399,039,586
Cash	376,589
Interest receivable	3,149,913
Receivable for Portfolio shares sold	921,306
Other assets	11,040
Total assets	403,498,434

Liabilities	
Payable upon return of securities loaned	39,550,113
Payable for investments purchased — mortgage dollar rolls	4,157,180
Payable for Portfolio shares redeemed	62,917
Accrued management fee	175,291
Other accrued expenses and payables	203,711
Total liabilities	44,149,212
Net assets, at value	**$ 359,349,222**

Net Assets	
Net assets consist of:	
Undistributed net investment income	15,361,420
Net unrealized appreciation (depreciation) on investments	(1,211,540)
Accumulated net realized gain (loss)	(3,837,892)
Paid-in capital	349,037,234
Net assets, at value	**$ 359,349,222**
Class A	
Net Asset Value, offering and redemption price per share ($276,869,712 ÷ 23,346,010 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 11.86**
Class B	
Net Asset Value, offering and redemption price per share ($82,479,510 ÷ 6,968,915 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 11.84**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Interest	$ 18,050,193
Interest — Cash Management QP Trust	508,577
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	48,204
Dividends	18,382
Total Income	18,625,356
Expenses:	
Management fee	2,124,452
Custodian fees	20,009
Distribution service fees (Class B)	212,516
Record keeping fees (Class B)	117,989
Auditing	47,905
Legal	10,692
Trustees' fees and expenses	25,287
Reports to shareholders	141,507
Other	48,071
Total expenses before expense reductions	2,748,428
Expense reductions	(4,960)
Total expenses after expense reductions	2,743,468
Net investment income	**15,881,888**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from investments	(3,380,379)
Net unrealized appreciation (depreciation) during the period on investments	2,452,304
Net gain (loss) on investment transactions	**(928,075)**
Net increase (decrease) in net assets resulting from operations	**$ 14,953,813**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income	$ 15,881,888	$ 12,079,996
Net realized gain (loss) on investment transactions	(3,380,379)	(353,676)
Net unrealized appreciation (depreciation) during the period on investment transactions	2,452,304	(5,057,842)
Net increase (decrease) in net assets resulting from operations	14,953,813	6,668,478
Distributions to shareholders from:		
Net investment income:		
Class A	(9,250,155)	(7,365,945)
Class B	(2,794,336)	(2,666,763)
Net realized gains:		
Class A	(40,873)	(1,950,232)
Class B	(13,997)	(794,464)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	91,229,471	81,598,580
Reinvestment of distributions	9,291,028	9,316,177
Cost of shares redeemed	(77,798,091)	(45,087,748)
Net increase (decrease) in net assets from Class A share transactions	22,722,408	45,827,009
Class B		
Proceeds from shares sold	10,023,723	9,590,439
Reinvestment of distributions	2,808,333	3,461,227
Cost of shares redeemed	(19,326,554)	(10,890,122)
Net increase (decrease) in net assets from Class B share transactions	(6,494,498)	2,161,544
Increase (decrease) in net assets	19,082,362	41,879,627
Net assets at beginning of period	340,266,860	298,387,233
Net assets at end of period (including undistributed net investment income of $15,361,420 and $11,525,027, respectively)	**$ 359,349,222**	**$ 340,266,860**

Other Information	2006	2005
Class A		
Shares outstanding at beginning of period	21,303,867	17,397,738
Shares sold	7,951,409	6,905,327
Shares issued to shareholders in reinvestment of distributions	821,488	808,696
Shares redeemed	(6,730,754)	(3,807,894)
Net increase (decrease) in Class A shares	2,042,143	3,906,129
Shares outstanding at end of period	**23,346,010**	**21,303,867**
Class B		
Shares outstanding at beginning of period	7,523,292	7,335,272
Shares sold	863,400	808,980
Shares issued to shareholders in reinvestment of distributions	248,086	300,193
Shares redeemed	(1,665,863)	(921,153)
Net increase (decrease) in Class B shares	(554,377)	188,020
Shares outstanding at end of period	**6,968,915**	**7,523,292**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Date					
Net asset value, beginning of period	**$11.81**	**$12.07**	**$12.16**	**$11.98**	**$11.48**
Income (loss) from investment operations:					
Net investment income[a]	.53	.47	.50	.45	.53
Net realized and unrealized gain (loss) on investment transactions	(.05)	(.21)	.05	.14	.37
Total from investment operations	.48	.26	.55	.59	.90
Less distributions from:					
Net investment income	(.43)	(.41)	(.43)	(.41)	(.40)
Net realized gain on investment transactions	(.00)*	(.11)	(.21)	—	—
Total distributions	(.43)	(.52)	(.64)	(.41)	(.40)
Net asset value, end of period	**$11.86**	**$11.81**	**$12.07**	**$12.16**	**$11.98**
Total Return (%)	4.26	2.25	4.53	5.13	8.01
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	277	252	210	201	216
Ratio of expenses (%)	.68	.67	.66	.66	.65
Ratio of net investment income (%)	4.56	3.96	4.18	3.75	4.57
Portfolio turnover rate (%)	183[b]	164[b]	185[b]	229[b]	267

a *Based on average shares outstanding during the period.*

b *The portfolio turnover rate including mortgage dollar roll transactions was 198%, 241%, 176%, 204% and 265% for the years ended December 31, 2006, December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

* *Amount is less than $.005*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$11.78**	**$12.04**	**$12.13**	**$11.96**	**$11.36**
Income (loss) from investment operations:					
Net investment income[b]	.49	.42	.45	.40	.27
Net realized and unrealized gain (loss) on investment transactions	(.05)	(.21)	.05	.15	.33
Total from investment operations	.44	.21	.50	.55	.60
Less distributions from:					
Net investment income	(.38)	(.36)	(.38)	(.38)	—
Net realized gain on investment transactions	(.00)***	(.11)	(.21)	—	—
Total distributions	(.38)	(.47)	(.59)	(.38)	—
Net asset value, end of period	**$11.84**	**$11.78**	**$12.04**	**$12.13**	**$11.96**
Total Return (%)	3.89	1.85	4.10	4.76	5.28**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	82	89	88	45	2
Ratio of expenses (%)	1.07	1.07	1.03	1.05	.92*
Ratio of net investment income (%)	4.17	3.56	3.81	3.36	4.69*
Portfolio turnover rate (%)	183[c]	164[c]	185[c]	229[c]	267

a *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *The portfolio turnover rate including mortgage dollar roll transactions was 198%, 241%, 176%, 204% and 265% for the years ended December 31, 2006, December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

* *Annualized*

** *Not annualized*

*** *Amount is less than $.005*

DWS Davis Venture Value VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

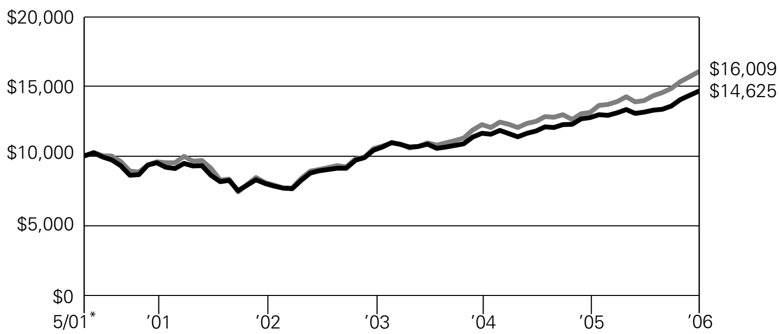
The Portfolio is subject to stock market and equity risks, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Davis Venture Value VIP from 5/1/2001 to 12/31/2006

■ **DWS Davis Venture Value VIP — Class A**

■ **Russell 1000® Value Index**



Yearly periods ended December 31

Russell 1000® Value Index is an unmanaged index, which consists of those stocks in the Russell 1000® Index with lower price-to-book ratios and lower forecasted-growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Davis Venture Value VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$11,484	$14,080	$15,395	$14,625
	Average annual total return	14.84%	12.08%	9.01%	6.94%
Russell 1000 Value Index	Growth of $10,000	$12,225	$15,245	$16,746	$16,009
	Average annual total return	22.25%	15.09%	10.86%	8.66%

DWS Davis Venture Value VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$11,434	$13,915	$16,867
	Average annual total return	14.34%	11.64%	12.33%
Russell 1000 Value Index	Growth of $10,000	$12,225	$15,245	$17,586
	Average annual total return	22.25%	15.09%	13.37%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 2001. Index returns began on April 30, 2001.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Davis Venture Value VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,114.20	$1,111.80
Expenses Paid per $1,000*	$ 4.53	$ 6.60
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.92	$1,018.95
Expenses Paid per $1,000*	$ 4.33	$ 6.31

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Davis Venture Value VIP	.85%	1.24%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Davis Venture Value VIP

For the 12 months ended December 31, 2006, the DWS Davis Venture Value VIP returned 14.84% (Class A shares, unadjusted for contract charges), compared to its benchmark, the Russel 1000® Value Index, which returned 22.25%.

Consumer discretionary companies were the most important contributors to the Portfolio's performance over the 12-month period. Comcast Corp. and Harley-Davidson, Inc. were among the top contributors to performance. Apollo Group, Inc. (purchased in March 2006) and H&R Block, Inc. were among the top detractors from performance. Diversified financial and consumer staple companies also made important contributions to performance. Two diversified financial companies, JPMorgan Chase & Co. and American Express Co., and one consumer staples company, Altria Group, Inc., were among the top contributors to performance. A consumer staples company, The Hershey Co., was among the top detractors from performance.

The Portfolio's largest investment was in insurance companies. While insurance companies had positive returns, they trailed the Index. Berkshire Hathaway, Inc. and Loews Corp. were among the top contributors to performance. Progressive Corp. and Transatlantic Holdings, Inc. were among the top detractors from performance.

The Portfolio's investments in telecommunication service and energy companies also contributed to the Portfolio underperforming the Index over the 12-month period. One energy company, ConocoPhillips was among the top contributors to performance. One telecommunication services company, Sprint Nextel Corp. (purchased in March 2006), and an energy company, EOG Resources, Inc., were among the top detractors from performance.

Christopher C. Davis

Kenneth Charles Feinberg

Portfolio Managers

Davis Selected Advisers, L.P., Subadvisor to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Risk Considerations

The Portfolio is subject to stock market and equity risks, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Russell 1000 Value Index is an unmanaged index, which consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted-growth values.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

In this report, Davis Selected Advisers makes candid statements and observations regarding economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. All investments involve some degree of risk, and there can be no assurance that the investment strategies will be successful. Market values will vary so that an investor may experience a gain or a loss.

Portfolio Summary

DWS Davis Venture Value VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Financials	38%	45%
Consumer Staples	14%	15%
Consumer Discretionary	14%	8%
Energy	12%	11%
Industrials	7%	8%
Information Technology	5%	4%
Materials	4%	4%
Health Care	4%	4%
Telecommunication Services	2%	1%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 50. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Davis Venture Value VIP

	Shares	Value ($)
Common Stocks 98.8%		
Consumer Discretionary 13.7%		
Automobiles 2.0%		
Harley-Davidson, Inc. (a)	119,200	**8,400,024**
Diversified Consumer Services 1.3%		
Apollo Group, Inc. "A"* (a)	27,900	1,087,263
H&R Block, Inc.	197,000	4,538,880
		5,626,143
Household Durables 0.2%		
Hunter Douglas NV	12,563	**1,010,440**
Internet & Catalog Retail 1.4%		
Amazon.com, Inc.* (a)	70,900	2,797,714
Expedia, Inc.*	26,499	555,949
IAC/InterActiveCorp.* (a)	26,699	992,135
Liberty Media Holding Corp. — Interactive "A"*	65,500	1,412,835
		5,758,633
Media 7.3%		
Comcast Corp. Special "A"*	341,100	14,285,268
Gannett Co., Inc.	18,100	1,094,326
Lagardere S.C.A.	48,500	3,898,381
Liberty Media Holding Corp. — Capital "A"*	12,960	1,269,821
News Corp. "A"	341,700	7,339,716
NTL, Inc. (a)	78,632	1,984,672
WPP Group PLC (ADR) (a)	16,600	1,124,484
		30,996,668
Multiline Retail 0.2%		
Sears Holdings Corp.*	6,200	**1,041,166**
Specialty Retail 1.3%		
Bed Bath & Beyond, Inc.*	58,900	2,244,090
CarMax, Inc.*	23,200	1,244,216
Lowe's Companies, Inc.	67,900	2,115,085
		5,603,391
Consumer Staples 14.0%		
Beverages 2.1%		
Diageo PLC (ADR)	69,700	5,527,907
Heineken Holding NV	84,000	3,407,225
		8,935,132
Food & Staples Retailing 5.4%		
Costco Wholesale Corp.	291,500	15,411,605
Wal-Mart Stores, Inc.	166,600	7,693,588
		23,105,193
Food Products 0.6%		
The Hershey Co. (a)	48,200	**2,400,360**
Household Products 1.1%		
Procter & Gamble Co.	72,800	**4,678,856**
Personal Products 0.4%		
Avon Products, Inc.	50,100	**1,655,304**
Tobacco 4.4%		
Altria Group, Inc.	220,800	**18,949,056**
Energy 11.9%		
Energy Equipment & Services 0.8%		
Transocean, Inc.*	43,200	**3,494,448**
Oil, Gas & Consumable Fuels 11.1%		
Canadian Natural Resources Ltd.	31,900	1,698,037
China Coal Energy Co. "H"*	1,478,200	963,511
ConocoPhillips	262,720	18,902,704
Devon Energy Corp.	136,900	9,183,252
EOG Resources, Inc.	115,100	7,187,995
Occidental Petroleum Corp.	184,200	8,994,486
		46,929,985
Financials 37.7%		
Capital Markets 2.5%		
Ameriprise Financial, Inc.	89,620	4,884,290
Mellon Financial Corp.	45,200	1,905,180
Morgan Stanley	38,200	3,110,626
State Street Corp.	12,100	816,024
		10,716,120
Commercial Banks 8.3%		
Commerce Bancorp, Inc. (a)	71,800	2,532,386
HSBC Holdings PLC	663,524	12,091,271
Wachovia Corp.	180,387	10,273,039
Wells Fargo & Co.	297,200	10,568,432
		35,465,128
Consumer Finance 4.5%		
American Express Co.	316,900	**19,226,323**
Diversified Financial Services 7.7%		
Citigroup, Inc.	172,300	9,597,110
JPMorgan Chase & Co.	361,684	17,469,337
Moody's Corp.	82,900	5,725,074
		32,791,521
Insurance 14.7%		
Ambac Financial Group, Inc.	3,100	276,117
American International Group, Inc.	265,200	19,004,232
Aon Corp.	75,900	2,682,306
Berkshire Hathaway, Inc. "B"*	4,114	15,081,924
Chubb Corp.	21,100	1,116,401
Loews Corp.	215,200	8,924,344
Markel Corp.*	800	384,080
Principal Financial Group, Inc.	24,700	1,449,890
Progressive Corp.	368,100	8,915,382
Sun Life Financial, Inc.	15,200	643,720
Transatlantic Holdings, Inc. (a)	62,537	3,883,548
		62,361,944
Health Care 3.7%		
Health Care Providers & Services		
Cardinal Health, Inc.	60,300	3,885,129
Caremark Rx, Inc.	96,350	5,502,548
Express Scripts, Inc.*	22,700	1,625,320
UnitedHealth Group, Inc.	83,500	4,486,455
		15,499,452
Industrials 7.0%		
Air Freight & Logistics 0.5%		
United Parcel Service, Inc. "B"	26,800	**2,009,464**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Commercial Services & Supplies 1.0%		
D&B Corp.*	49,900	**4,131,221**
Industrial Conglomerates 4.2%		
Tyco International Ltd.	587,362	**17,855,805**
Road & Rail 0.3%		
Kuehne & Nagel International AG (Registered)	20,820	**1,514,633**
Transportation Infrastructure 1.0%		
China Merchants Holdings International Co., Ltd	729,579	2,993,342
Cosco Pacific Ltd.	562,600	1,311,884
		4,305,226
Information Technology 5.0%		
Communications Equipment 0.2%		
Nokia Oyj (ADR)	48,500	**985,520**
Computers & Peripherals 1.3%		
Dell, Inc.*	107,000	2,684,630
Hewlett-Packard Co.	67,800	2,792,682
		5,477,312
IT Services 1.3%		
Iron Mountain, Inc.* (a)	128,300	**5,303,922**
Software 2.2%		
Microsoft Corp.	319,300	**9,534,298**
Materials 4.2%		
Construction Materials 1.5%		
Martin Marietta Materials, Inc.	33,500	3,480,985
Vulcan Materials Co.	33,800	3,037,606
		6,518,591
Containers & Packaging 2.2%		
Sealed Air Corp. (a)	143,900	**9,341,988**
Metals & Mining 0.5%		
BHP Billiton PLC	50,300	929,285
Rio Tinto PLC	18,700	993,533
		1,922,818
Telecommunication Services 1.6%		
Wireless Telecommunication Services		
SK Telecom Co., Ltd. (ADR)	83,700	2,216,376
Sprint Nextel Corp.	251,100	4,743,279
		6,959,655
Total Common Stocks (Cost $283,210,633)		**420,505,740**

Securities Lending Collateral 3.6%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $15,439,054)	15,439,054	**15,439,054**

Cash Equivalents 1.4%

	Shares	Value ($)
Cash Management QP Trust, 5.46% (d) (Cost $5,752,421)	5,752,421	**5,752,421**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $304,402,108)†	103.8	**441,697,215**
Other Assets and Liabilities, Net	(3.8)	**(16,047,726)**
Net Assets	100.0	**425,649,489**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $305,032,994. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $136,664,221. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $139,895,845 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,231,624.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $14,973,349 which is 3.5% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $283,210,633) — including $14,973,349 of securities loaned	$ 420,505,740
Investment in Daily Assets Fund Institutional (cost $15,439,054)*	15,439,054
Investment in Cash Management QP Trust (cost $5,752,421)	5,752,421
Total investments in securities, at value (cost $304,402,108)	441,697,215
Foreign currency, at value (cost $1,686)	1,776
Dividends receivable	557,516
Interest receivable	27,274
Foreign taxes recoverable	4,180
Receivable for Portfolio shares sold	10,519
Other assets	11,156
Total assets	442,309,636

Liabilities	
Payable for Portfolio shares redeemed	666,528
Payable upon return of securities loaned	15,439,054
Payable for investments purchased	122,791
Accrued management fee	308,112
Other accrued expenses and payables	123,662
Total liabilities	16,660,147
Net assets, at value	**$ 425,649,489**

Net Assets	
Net assets consist of:	
Undistributed net investment income	2,670,607
Net unrealized appreciation (depreciation) on:	
Investments	137,295,107
Foreign currency related transactions	29
Accumulated net realized gain (loss)	4,679,830
Paid-in capital	281,003,916
Net assets, at value	**$ 425,649,489**
Class A	
Net Asset Value, offering and redemption price per share ($346,049,895 ÷ 24,284,177 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.25**
Class B	
Net Asset Value, offering and redemption price per share ($79,599,594 ÷ 5,597,014 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.22**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $43,756)	$ 6,206,007
Interest — Cash Management QP Trust	257,996
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	18,750
Total Income	6,482,753
Expenses:	
Management fee	3,764,933
Custodian and accounting fees	123,420
Distribution service fees (Class B)	195,529
Record keeping fees (Class B)	103,486
Auditing	46,295
Legal	12,904
Trustees' fees and expenses	30,194
Reports to shareholders	67,623
Other	34,680
Total expenses before expense reductions	4,379,064
Expense reductions	(671,341)
Total expenses after expense reductions	3,707,723
Net investment income (loss)	**2,775,030**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	11,081,136
Foreign currency related transactions	(20,949)
	11,060,187
Net unrealized appreciation (depreciation) during the period on:	
Investments	41,764,735
Foreign currency related transactions	11,573
	41,776,308
Net gain (loss) on investment transactions	**52,836,495**
Net increase (decrease) in net assets resulting from operations	**$ 55,611,525**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 2,775,030	$ 2,485,779
Net realized gain (loss) on investment transactions	11,060,187	1,821,140
Net unrealized appreciation (depreciation) during the period on investment transactions	41,776,308	29,208,587
Net increase (decrease) in net assets resulting from operations	55,611,525	33,515,506
Distributions to shareholders from:		
Net investment income:		
Class A	(2,082,948)	(2,091,774)
Class B	(214,549)	(260,311)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	23,381,717	36,365,583
Reinvestment of distributions	2,082,948	2,091,774
Cost of shares redeemed	(31,847,982)	(22,500,564)
Net increase (decrease) in net assets from Class A share transactions	(6,383,317)	15,956,793
Class B		
Proceeds from shares sold	6,563,580	11,711,444
Reinvestment of distributions	214,549	260,311
Cost of shares redeemed	(15,502,095)	(6,187,073)
Net increase (decrease) in net assets from Class B share transactions	(8,723,966)	5,784,682
Increase (decrease) in net assets	38,206,745	52,904,896
Net assets at beginning of period	387,442,744	334,537,848
Net assets at end of period (including undistributed net investment income of $2,670,607 and $2,254,802, respectively)	**$ 425,649,489**	**$ 387,442,744**

Other Information		
Class A		
Shares outstanding at beginning of period	24,763,248	23,386,408
Shares sold	1,802,609	3,107,848
Shares issued to shareholders in reinvestment of distributions	163,496	184,135
Shares redeemed	(2,445,176)	(1,915,143)
Net increase (decrease) in Class A shares	(479,071)	1,376,840
Shares outstanding at end of period	**24,284,177**	**24,763,248**
Class B		
Shares outstanding at beginning of period	6,263,092	5,765,180
Shares sold	509,107	1,002,803
Shares issued to shareholders in reinvestment of distributions	16,827	22,895
Shares redeemed	(1,192,012)	(527,786)
Net increase (decrease) in Class B shares	(666,078)	497,912
Shares outstanding at end of period	**5,597,014**	**6,263,092**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$12.49**	**$11.48**	**$10.31**	**$ 7.99**	**$ 9.50**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.10	.09	.08	.06	.05
Net realized and unrealized gain (loss) on investment transactions	1.74	1.01	1.14	2.31	(1.55)
Total from investment operations	1.84	1.10	1.22	2.37	(1.50)
Less distributions from:					
Net investment income	(.08)	(.09)	(.05)	(.05)	(.01)
Net asset value, end of period	**$14.25**	**$12.49**	**$11.48**	**$10.31**	**$ 7.99**
Total Return (%)	14.84[b]	9.64[b]	11.83	29.84	(15.79)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	346	309	268	220	160
Ratio of expenses before expense reductions (%)	1.02	1.02	1.05	1.01	1.02
Ratio of expenses after expense reductions (%)	.85	.96	1.05	1.01	1.02
Ratio of net investment income (%)	.77	.78	.74	.62	.62
Portfolio turnover rate (%)	16	8	3	7	22

a *Based on average shares outstanding during the period.*

b *Total return would have been lower had certain expenses not been reduced.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$12.47**	**$11.46**	**$10.29**	**$ 7.98**	**$ 8.52**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.05	.04	.04	.02	.04
Net realized and unrealized gain (loss) on investment transactions	1.73	1.01	1.13	2.32	(.58)
Total from investment operations	1.78	1.05	1.17	2.34	(.54)
Less distributions from:					
Net investment income	(.03)	(.04)	(.00)***	(.03)	—
Net asset value, end of period	**$14.22**	**$12.47**	**$11.46**	**$10.29**	**$ 7.98**
Total Return (%)	14.34[c]	9.23[c]	11.42	29.42	(6.34)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	80	78	66	29	.8
Ratio of expenses before expense reductions (%)	1.40	1.41	1.44	1.40	1.27*
Ratio of expenses after expense reductions (%)	1.23	1.34	1.44	1.40	1.27*
Ratio of net investment income (%)	.39	.40	.36	.23	1.06*
Portfolio turnover rate (%)	16	8	3	7	22

a *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *Total return would have been lower had certain expenses not been reduced.*

* *Annualized*

** *Not annualized*

*** *Amount is less than $.005.*

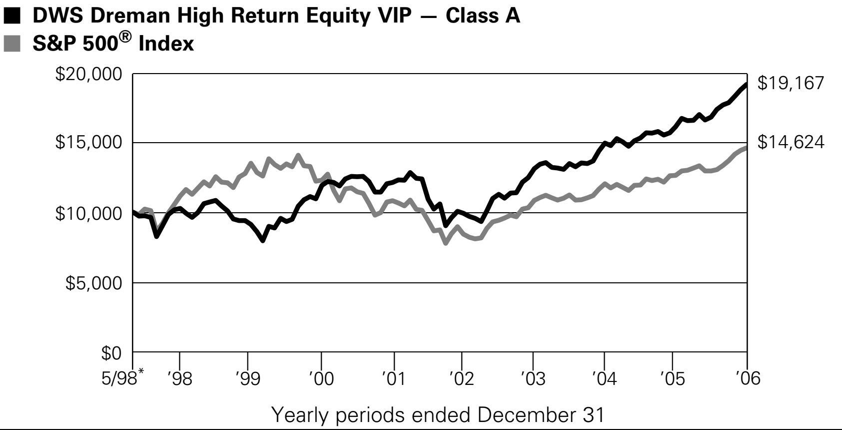
DWS Dreman High Return Equity VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The Portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

Portfolio returns shown for all periods for Class B shares reflect a waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Dreman High Return Equity VIP from 5/4/1998 to 12/31/2006



The Standard & Poor's 500® (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Dreman High Return Equity VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$11,874	$14,601	$15,803	$19,167
	Average annual total return	18.74%	13.45%	9.58%	7.81%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$13,503	$14,624
	Average annual total return	15.79%	10.44%	6.19%	4.48%

DWS Dreman High Return Equity VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$11,821	$14,428	$17,361
	Average annual total return	18.21%	13.00%	13.06%
S&P 500 Index	Growth of $10,000	$11,579	$13,470	$15,549
	Average annual total return	15.79%	10.44%	10.31%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 4, 1998. Index returns began on April 30, 1998.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Dreman High Return Equity VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses for Class B shares; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,139.60	$1,137.50
Expenses Paid per $1,000*	$ 4.15	$ 6.20

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,021.32	$1,019.41
Expenses Paid per $1,000*	$ 3.92	$ 5.85

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Dreman High Return Equity VIP	.77%	1.15%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Dreman High Return Equity VIP

The US economy posted positive growth for all four quarters of 2006, although growth slowed somewhat in the last half of the year. The broad equity market, as measured by the Standard & Poor's 500® (S&P 500) Index, had a return of 15.79% for the period. Value stocks, as measured by the Russell 1000® Value Index, performed better than growth stocks, as measured by the Russell 1000® Growth Index. With a return of 18.74% (Class A shares, unadjusted for contract charges), the Dreman High Return Equity VIP Portfolio outperformed its benchmark, the S&P 500 Index.

A major contributor to return was a significant concentration in tobacco stocks. Two of the Portfolio's top 10 holdings are Altria Group, Inc., which owns Philip Morris, Marlboro and other leading domestic and international brands, and UST, Inc., the leader in smokeless tobacco in the United States. These tobacco stocks have great brands and high yields, which provide some cushion from market fluctuations. Through much of the year we also had a position in Reynolds American, Inc.; this stock was originally purchased in 2000 and sold during 2006 providing almost a ten-fold return. Also positive was stock selection in the health care sector, where Merck & Co., Inc. and Laboratory Corp. of America Holdings* were particularly strong. An overweight in the energy sector detracted from performance, as prices of some energy stocks dropped in response to lower oil prices.[1] However, several energy stocks, including Chevron Corp. and ConocoPhillips were among our best performing holdings.

Performance was hurt by stock selection in financials. Two large holdings, Freddie Mac and American International Group, Inc. (AIG), performed poorly because of concerns about accounting irregularities that required earnings restatements. However, Fannie Mae, which hurt performance in prior periods, was a major contributor to performance over the last 12 months. Another negative in the financials sector was Washington Mutual, Inc., which performed well early in 2006, but has weakened on investor concerns about the profitability of its big mortgage business in a weakening housing market.

David N. Dreman	F. James Hutchinson	E. Clifton Hoover, Jr.
Lead Portfolio Manager	*Portfolio Managers*	

Dreman Value Management L.L.C., Subadvisor to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

The Portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

The Standard & Poor's 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

* *As of December 31, 2006, the positions were sold.*

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Dreman High Return Equity VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	98%	94%
Cash Equivalents	2%	6%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Financials	30%	29%
Energy	21%	21%
Consumer Staples	16%	19%
Health Care	16%	17%
Consumer Discretionary	7%	6%
Industrials	7%	5%
Information Technology	2%	3%
Telecommunication Services	1%	—
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 59. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Dreman High Return Equity VIP

	Shares	Value ($)
Common Stocks 98.3%		
Consumer Discretionary 7.0%		
Multiline Retail 1.0%		
Federated Department Stores, Inc.	309,710	**11,809,242**
Specialty Retail 6.0%		
Borders Group, Inc.	712,900	15,933,315
Home Depot, Inc.	766,100	30,766,576
Lowe's Companies, Inc.	278,200	8,665,930
Staples, Inc.	599,347	16,002,565
		71,368,386
Consumer Staples 15.8%		
Food & Staples Retailing 0.5%		
Safeway, Inc.	157,450	**5,441,472**
Tobacco 15.3%		
Altria Group, Inc.	1,341,420	115,120,665
Imperial Tobacco Group PLC (ADR)	113,745	8,989,267
UST, Inc.	976,440	56,828,808
		180,938,740
Energy 20.5%		
Oil, Gas & Consumable Fuels		
Anadarko Petroleum Corp.	277,300	12,068,096
Apache Corp.	341,300	22,699,863
Chevron Corp.	576,060	42,357,692
ConocoPhillips	1,297,294	93,340,303
Devon Energy Corp.	615,300	41,274,324
El Paso Corp.	402,410	6,148,825
EnCana Corp.	156,300	7,181,985
Occidental Petroleum Corp.	365,900	17,866,897
		242,937,985
Financials 28.7%		
Commercial Banks 4.9%		
KeyCorp.	351,500	13,367,545
PNC Financial Services Group, Inc.	202,400	14,985,696
US Bancorp.	317,700	11,497,563
Wachovia Corp.	303,400	17,278,630
		57,129,434
Diversified Financial Services 4.6%		
Bank of America Corp.	623,736	33,301,265
CIT Group, Inc.	77,700	4,333,329
Citigroup, Inc.	160,900	8,962,130
JPMorgan Chase & Co.	158,864	7,673,131
		54,269,855
Insurance 2.9%		
American International Group, Inc.	129,000	9,244,140
Chubb Corp.	163,300	8,640,203
Hartford Financial Services Group, Inc.	130,288	12,157,173
The St. Paul Travelers Companies, Inc.	84,405	4,531,705
		34,573,221
Thrifts & Mortgage Finance 16.3%		
Fannie Mae	1,069,973	63,545,696
Freddie Mac	948,941	64,433,094
Sovereign Bancorp, Inc.	728,930	18,507,533
Washington Mutual, Inc.	1,021,375	46,462,349
		192,948,672
Health Care 15.2%		
Health Care Equipment & Supplies 0.6%		
Zimmer Holdings, Inc.*	96,400	**7,555,832**
Health Care Providers & Services 5.5%		
Aetna, Inc.	502,000	21,676,360
Quest Diagnostics, Inc.	52,100	2,761,300
UnitedHealth Group, Inc.	758,700	40,764,951
		65,202,611
Pharmaceuticals 9.1%		
Bristol-Myers Squibb Co.	436,660	11,492,891
Johnson & Johnson	55,000	3,631,100
Merck & Co., Inc.	627,995	27,380,582
Pfizer, Inc.	1,180,830	30,583,497
Wyeth	674,000	34,320,080
		107,408,150
Industrials 6.8%		
Aerospace & Defense 0.2%		
United Technologies Corp.	31,500	**1,969,380**
Air Freight & Logistics 0.5%		
FedEx Corp.	53,800	**5,843,756**
Industrial Conglomerates 6.1%		
3M Co.	457,400	35,645,182
General Electric Co.	398,150	14,815,161
Tyco International Ltd.	720,205	21,894,232
		72,354,575
Information Technology 2.2%		
IT Services 1.7%		
Electronic Data Systems Corp.	713,340	**19,652,517**
Software 0.5%		
Microsoft Corp.	208,800	**6,234,768**
Materials 0.0%		
Chemicals		
Tronox, Inc. "B"	590	**9,316**
Telecommunication Services 1.2%		
Diversified Telecommunication Services		
Verizon Communications, Inc.	383,300	**14,274,092**
Utilities 0.9%		
Independent Power Producers & Energy Traders		
TXU Corp.	201,500	**10,923,315**
Total Common Stocks (Cost $855,723,966)		**1,162,845,319**
Cash Equivalents 1.6%		
Cash Management QP Trust, 5.46% (a) (Cost $19,558,908)	19,558,908	**19,558,908**

The accompanying notes are an integral part of the financial statements.

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $ 875,282,874)†	99.9	**1,182,404,227**
Other Assets and Liabilities, Net	0.1	**937,086**
Net Assets	100.0	**1,183,341,313**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $878,577,006. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $303,827,221. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $315,571,764 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $11,744,543.*

(a) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt.

At December 31, 2006, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation ($)
S&P 500 Index	3/15/2007	35	12,409,898	12,498,500	**88,602**

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $855,723,966)	$ 1,162,845,319
Investment in Cash Management QP Trust (cost $19,558,908)	19,558,908
Total investments in securities, at value (cost $875,282,874)	1,182,404,227
Cash	14,000
Dividends receivable	2,136,286
Interest receivable	132,249
Margin Deposit	560,000
Receivable for Portfolio shares sold	79,796
Other assets	37,451
Total assets	1,185,364,009

Liabilities	
Payable for Portfolio shares redeemed	968,080
Payable for daily variation margin on open futures contracts	47,405
Payable for investments purchased	18,792
Accrued management fee	708,109
Other accrued expenses and payables	280,310
Total liabilities	2,022,696
Net assets, at value	**$ 1,183,341,313**

Net Assets	
Net assets consist of:	
Undistributed net investment income	15,397,382
Net unrealized appreciation (depreciation) on:	
Investments	307,121,353
Futures	88,602
Accumulated net realized gain (loss)	5,948,661
Paid-in capital	854,785,315
Net assets, at value	**$ 1,183,341,313**
Class A	
Net Asset Value, offering and redemption price per share ($992,361,654 ÷ 66,083,197 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 15.02**
Class B	
Net Asset Value, offering and redemption price per share ($190,979,659 ÷ 12,713,676 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 15.02**

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $6,704)	$ 25,028,937
Interest — Cash Management QP Trust	1,257,818
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	4,550
Total Income	26,291,305
Expenses:	
Management fee	7,237,569
Custodian and accounting fees	184,894
Distribution service fees (Class B)	380,314
Record keeping fees (Class B)	210,674
Auditing	54,427
Legal	30,163
Trustees' fees and expenses	44,521
Reports to shareholders	126,652
Other	48,063
Total expenses before expense reductions	8,317,277
Expense reductions	(21,690)
Total expenses after expense reductions	8,295,587
Net investment income (loss)	**17,995,718**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	56,834,612
Futures	2,090,201
Net increase from payments by affiliates and net losses realized on a trade executed incorrectly and the disposal of investments in violation of restrictions	—
	58,924,813
Net unrealized appreciation (depreciation) during the period on:	
Investments	98,302,066
Futures	583,916
	98,885,982
Net gain (loss) on investment transactions	**157,810,795**
Net increase (decrease) in net assets resulting from operations	**$ 175,806,513**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 17,995,718	$ 15,850,183
Net realized gain (loss) on investment transactions	58,924,813	13,990,869
Net unrealized appreciation (depreciation) during the period on investment transactions	98,885,982	37,872,457
Net increase (decrease) in net assets resulting from operations	175,806,513	67,713,509
Distributions to shareholders from:		
Net investment income:		
Class A	(16,100,036)	(13,347,076)
Class B	(1,938,310)	(1,660,448)
Net realized gains:		
Class A	(37,221,919)	—
Class B	(7,173,691)	—
Portfolio share transactions:		
Class A		
Proceeds from shares sold	40,524,596	39,914,209
Net assets acquired in tax-free reorganization	137,231,257	—
Reinvestment of distributions	53,321,955	13,347,076
Cost of shares redeemed	(119,759,898)	(60,039,081)
Net increase (decrease) in net assets from Class A share transactions	111,317,910	(6,777,796)
Class B		
Proceeds from shares sold	53,270,899	18,573,514
Net assets acquired in tax-free reorganization	47,215,059	—
Reinvestment of distributions	9,112,001	1,660,448
Cost of shares redeemed	(71,564,607)	(9,785,758)
Net increase (decrease) in net assets from Class B share transactions	38,033,352	10,448,204
Increase (decrease) in net assets	262,723,819	56,376,393
Net assets at beginning of period	920,617,494	864,241,101
Net assets at end of period (including undistributed net investment income of $15,397,382 and $15,440,258, respectively)	**$ 1,183,341,313**	**$ 920,617,494**

Other Information		
Class A		
Shares outstanding at beginning of period	58,564,793	59,052,129
Shares sold	2,833,575	3,118,474
Shares issued in tax-free reorganization	9,458,080	—
Shares issued to shareholders in reinvestment of distributions	3,653,359	1,067,766
Shares redeemed	(8,426,610)	(4,673,576)
Net increase (decrease) in Class A shares	7,518,404	(487,336)
Shares outstanding at end of period	**66,083,197**	**58,564,793**
Class B		
Shares outstanding at beginning of period	10,109,241	9,286,484
Shares sold	3,689,964	1,454,485
Shares issued in tax-free reorganization	3,256,256	—
Shares issued to shareholders in reinvestment of distributions	620,552	132,624
Shares redeemed	(4,962,337)	(764,352)
Net increase (decrease) in Class B shares	2,604,435	822,757
Shares outstanding at end of period	**12,713,676**	**10,109,241**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$13.41**	**$12.65**	**$11.29**	**$ 8.76**	**$10.81**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.27	.24	.23	.20	.21
Net realized and unrealized gain (loss) on investment transactions	2.21	.75	1.32	2.53	(2.13)
Total from investment operations	2.48	.99	1.55	2.73	(1.92)
Less distributions from:					
Net investment income	(.28)	(.23)	(.19)	(.20)	(.09)
Net realized gain on investment transactions	(.59)	—	—	—	(.04)
Total distributions	(.87)	(.23)	(.19)	(.20)	(.13)
Net asset value, end of period	**$15.02**	**$13.41**	**$12.65**	**$11.29**	**$ 8.76**
Total Return (%)	18.74	7.92	13.95	32.04	(18.03)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	992	785	747	672	510
Ratio of expenses (%)	.77	.78	.78	.79	.79
Ratio of net investment income (%)	1.87	1.84	1.96	2.14	2.21
Portfolio turnover rate (%)	20	10	9	18	17

a *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$13.39**	**$12.63**	**$11.27**	**$ 8.75**	**$ 9.57**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.22	.19	.18	.16	.18
Net realized and unrealized gain (loss) on investment transactions	2.19	.75	1.33	2.53	(1.00)
Total from investment operations	2.41	.94	1.51	2.69	(.82)
Less distributions from:					
Net investment income	(.19)	(.18)	(.15)	(.17)	—
Net realized gain on investment transactions	(.59)	—	—	—	—
Total distributions	(.78)	(.18)	(.15)	(.17)	—
Net asset value, end of period	**$15.02**	**$13.39**	**$12.63**	**$11.27**	**$ 8.75**
Total Return (%)	18.21[c]	7.51	13.53	31.60	(8.57)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	191	135	117	66	2
Ratio of expenses before expense reduction (%)	1.16	1.17	1.16	1.18	1.05*
Ratio of expenses after expense reduction (%)	1.16	1.17	1.16	1.18	1.05*
Ratio of net investment income (%)	1.48	1.45	1.58	1.75	4.30*
Portfolio turnover rate (%)	20	10	9	18	17

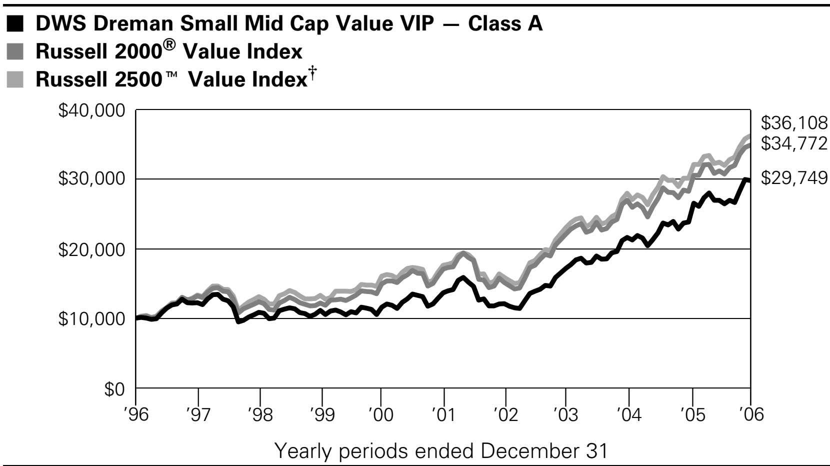
a *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
b *Based on average shares outstanding during the period.*
c *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

DWS Dreman Small Mid Cap Value VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

This Portfolio is subject to stock market risk. Stocks of small and medium-sized companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be exposed to more erratic and abrupt market movements. Mid-cap company stocks tend to experience steeper price fluctuations — down as well as up — than stocks of larger companies. Mid-cap company stocks are typically less liquid than large company stocks. The Portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political, or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS Dreman Small Mid Cap Value VIP



The Russell 2000® Value Index is an unmanaged index which measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2500 ™ Value Index is an unmanaged Index of those securities in the Russell 3000® Index with a lower price-to-book and lower forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Dreman Small Mid Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$12,506	$17,376	$21,878	$29,749
	Average annual total return	25.06%	20.22%	16.95%	11.52%
Russell 2500 Value Index†	Growth of $10,000	$12,018	$15,742	$20,562	$36,108
	Average annual total return	20.18%	16.33%	15.51%	13.70%
Russell 2000 Value Index	Growth of $10,000	$12,348	$15,805	$20,443	$34,772
	Average annual total return	23.48%	16.48%	15.37%	13.27%

DWS Dreman Small Mid Cap Value VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$12,459	$17,169	$20,441
	Average annual total return	24.59%	19.74%	17.24%
Russell 2500 Value Index†	Growth of $10,000	$12,018	$15,742	$19,635
	Average annual total return	20.18%	16.33%	16.18%
Russell 2000 Value Index	Growth of $10,000	$12,348	$15,805	$19,060
	Average annual total return	23.48%	16.48%	15.41%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

† *On November 3, 2006, the Russell 2500 Value Index replaced the Russell 2000 Value Index as the Portfolio's benchmark index because the Advisor believes it is more appropriate to measure the portfolio's performance against the Russell 2500 Value as it more accurately reflects the portfolio's new investment strategy. Prior to November 3, 2006, the Portfolio was named DWS Dreman Small Cap Value VIP and operated with a different investment strategy.*

Information About Your Portfolio's Expenses

DWS Dreman Small Mid Cap Value VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,106.70	$1,104.20
Expenses Paid per $1,000*	$ 4.14	$ 6.21

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,021.27	$1,019.31
Expenses Paid per $1,000*	$ 3.97	$ 5.96

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Dreman Small Mid Cap Value VIP	.78%	1.17%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Dreman Small Mid Cap Value VIP

The US economy posted positive growth for all four quarters of 2006, although growth slowed somewhat in the last half of the year. Returns of all major asset classes — equities, bonds and cash — were positive for the year, and most equity indexes had double digit returns. Within the equity market, small-cap stocks (as measured by the Russell 2000® Index) performed better than large-cap stocks (as measured by the Russell 1000® Index), as they have for several years. Comparison of Russell Growth and Russell Value indexes reveals that value stocks performed better than growth stocks in all size categories.

The DWS Dreman Small Mid Cap VIP (Class A shares, unadjusted for contract charges) had a return of 25.06% for the year, outperforming its benchmark, the Russell 2500™ Value Index, which had a return of 20.18%. Overweights and stock selection in the industrials and materials sectors were major factors in the Portfolio's strong performance, as many of these companies benefited from positive trends in business investment.[1] Holdings that performed especially well include General Cable Corp., a producer of electrical and data cable; Oregon Steel Mills, Inc., which makes steel pipe for energy and water infrastructure; RTI International Metals, Inc., a titanium processor; EMCOR Group, Inc., which produces systems for mechanical and electrical construction and energy infrastructure; and Terex Corp., which manufactures trucks, farm machinery and mining equipment.

The biggest detractor from performance was stock selection in health care. Health care holdings that performed poorly included Odyssey HealthCare, Inc., Kinetic Concepts, Inc. and Allied Healthcare International, Inc.* Positioning in the energy sector also hurt performance, as many of these stocks were hurt by falling oil prices, which we regard as a temporary phenomenon.

David N. Dreman   Mark Roach

Co-Lead Portfolio Managers
Dreman Value Management, L.L.C., Subadvisor to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk. Stocks of small and medium-sized companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be exposed to more erratic and abrupt market movements. Mid-cap company stocks tend to experience steeper price fluctuations — down as well as up — than stocks of larger companies. Mid-cap company stocks are typically less liquid than large company stocks. The Portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

The Russell 2500 Value Index is an unmanaged Index of those securities in the Russell 3000 index with a lower price-to-book and lower forecasted growth values.

The unmanaged Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.

* *As of December 31, 2006, the positions were sold.*

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Dreman Small Mid Cap Value VIP

Asset Allocation	12/31/06	12/31/05
Common Stocks	95%	96%
Cash Equivalents	4%	2%
Closed-End Investment Company	1%	1%
Corporate Bonds	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	12/31/06	12/31/05
Industrials	26%	25%
Financials	22%	20%
Information Technology	11%	8%
Energy	10%	16%
Health Care	9%	9%
Materials	8%	8%
Utilities	5%	8%
Consumer Discretionary	5%	3%
Consumer Staples	3%	3%
Telecommunications Services	1%	—
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 68. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Dreman Small Mid Cap Value VIP

	Shares	Value ($)
Common Stocks 95.0%		
Consumer Discretionary 4.5%		
Diversified Consumer Services 0.2%		
Nobel Learning Communities, Inc.*	121,300	**1,389,491**
Hotels Restaurants & Leisure 1.1%		
Bally Technologies, Inc.*	123,300	2,303,244
Penn National Gaming, Inc.*	92,500	3,849,850
Pinnacle Entertainment, Inc.*	20,500	679,370
Shuffle Master, Inc.*	16,300	427,060
		7,259,524
Media 0.5%		
Lakes Entertainment, Inc.*	308,700	**3,330,873**
Multiline Retail 0.3%		
Conn's, Inc.*	71,900	**1,673,113**
Specialty Retail 1.1%		
bebe stores, inc.	68,800	1,361,552
Payless ShoeSource, Inc.*	169,600	5,566,272
		6,927,824
Textiles, Apparel & Luxury Goods 1.3%		
Phillips-Van Heusen Corp.	81,100	4,068,787
Wolverine World Wide, Inc.	153,450	4,376,394
		8,445,181
Consumer Staples 3.3%		
Food & Staples Retailing 0.4%		
Nash Finch Co.	86,700	**2,366,910**
Food Products 2.5%		
Chiquita Brands International, Inc.	235,400	3,759,338
Ralcorp Holdings, Inc.*	118,600	6,035,554
The J.M. Smucker Co.	136,100	6,596,767
		16,391,659
Household Products 0.4%		
Church & Dwight Co., Inc.	57,600	**2,456,640**
Tobacco 0.0%		
Vector Group Ltd.	1	**18**
Energy 9.2%		
Energy Equipment & Services 4.4%		
Atwood Oceanics, Inc.*	146,600	7,179,002
Grant Prideco, Inc.*	108,500	4,315,045
Hercules Offshore, Inc.*	69,300	2,002,770
Matrix Service Co.*	139,500	2,245,950
Oil States International, Inc.*	81,600	2,629,968
Superior Energy Services, Inc.*	136,400	4,457,552
Todco*	87,900	3,003,543
Willbros Group, Inc.*	140,000	2,646,000
		28,479,830
Oil, Gas & Consumable Fuels 4.8%		
Carrizo Oil & Gas, Inc.*	37,300	1,082,446
Delta Petroleum Corp.*	44,200	1,023,672
Energy Metals Corp.*	520,000	4,503,709
Helix Energy Solutions Group, Inc.*	112,400	3,525,988
NGP Capital Resources Co.	52,975	887,331
Parallel Petroleum Corp.*	211,200	3,710,784
Petrohawk Energy Corp.*	314,500	3,616,750

	Shares	Value ($)
Pinnacle Gas Resources, Inc. 144A*	241,000	2,615,332
Rosetta Resources, Inc. 144A*	68,400	1,277,028
Uranium Resources, Inc.*	1,622,125	9,408,325
		31,651,365
Financials 21.2%		
Capital Markets 1.3%		
Apollo Investment Corp.	246,500	5,521,600
Hercules Technology Growth Capital, Inc.	110,667	1,577,005
Waddell & Reed Financial, Inc. "A"	56,700	1,551,312
		8,649,917
Commercial Banks 2.1%		
AmericanWest Bancorp.	86,200	2,087,764
Centennial Bank Holdings, Inc.	400,000	3,784,000
MB Financial, Inc.	4,600	173,006
Patriot National Bancorp, Inc.	29,300	769,125
Sterling Financial Corp.	73,773	2,494,265
UCBH Holdings, Inc.	236,600	4,154,696
		13,462,856
Consumer Finance 0.1%		
ASTA Funding, Inc.	31,200	**949,728**
Diversified Financial Services 0.2%		
CMET Finance Holdings, Inc.	7,200	113,760
Prospect Energy Corp.	80,256	1,374,785
		1,488,545
Insurance 6.7%		
Allied World Assurance Holdings Ltd.	7,700	335,951
AmCOMP, Inc.*	88,700	974,813
Amerisafe, Inc.*	241,500	3,733,590
Arch Capital Group Ltd.*	124,200	8,397,162
CastlePoint Holdings Ltd. 144A	436,100	4,797,100
Endurance Specialty Holdings Ltd.	103,100	3,771,398
KMG America Corp.*	35,800	343,322
Odyssey Re Holdings Corp.	180,500	6,732,650
Platinum Underwriters Holdings Ltd.	82,100	2,540,174
ProCentury Corp.	192,800	3,566,800
Selective Insurance Group, Inc.	68,100	3,901,449
Tower Group, Inc.	151,600	4,710,212
		43,804,621
Real Estate Investment Trusts 8.9%		
Annaly Capital Management, Inc. (REIT)	278,100	3,868,371
Capital Lease Funding, Inc. (REIT)	324,100	3,759,560
CBRE Realty Finance, Inc. (REIT)	36,600	574,986
CBRE Realty Finance, Inc. (REIT) 144A	200,000	3,142,000
FBR Capital Markets Corp. (REIT) 144A*	95,600	1,434,000
Friedman, Billings, Ramsey Group, Inc. "A" (REIT)	27,800	222,400
Jer Investors Trust, Inc. (REIT)	320,100	6,616,467
KKR Financial Corp. (REIT)	491,150	13,157,909
MFA Mortgage Investments, Inc. (REIT)	498,000	3,829,620

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
MortgageIT Holdings, Inc. (REIT)	287,800	4,245,050
Newcastle Investment Corp. (REIT)	238,300	7,463,556
NovaStar Financial, Inc. (REIT)	302,200	8,053,630
Vintage Wine Trust, Inc. (REIT) 144A	280,700	1,684,200
		58,051,749
Real Estate Management & Development 0.6%		
Thomas Properties Group, Inc.	229,100	**3,658,727**
Thrifts & Mortgage Finance 1.3%		
BankUnited Financial Corp. "A"	64,900	1,814,604
NewAlliance Bancshares, Inc.	255,200	4,185,280
PFF Bancorp., Inc.	63,500	2,191,385
		8,191,269
Health Care 8.3%		
Health Care Equipment & Supplies 2.0%		
Adeza Biomedical Corp.*	117,000	1,744,470
Kinetic Concepts, Inc.*	162,300	6,418,965
The Cooper Companies, Inc.	104,500	4,650,250
		12,813,685
Health Care Providers & Services 4.6%		
Centene Corp.*	121,100	2,975,427
Healthspring, Inc.*	266,700	5,427,345
Kindred Healthcare, Inc.*	80,500	2,032,625
LifePoint Hospitals, Inc.*	188,568	6,354,742
Odyssey HealthCare, Inc.*	255,200	3,383,952
Option Care, Inc.	237,500	3,384,375
Pediatrix Medical Group, Inc.*	133,300	6,518,370
		30,076,836
Life Sciences Tools & Services 1.3%		
Charles River Laboratories International, Inc.*	111,400	4,818,050
PerkinElmer, Inc.	172,400	3,832,452
		8,650,502
Pharmaceuticals 0.4%		
Perrigo Co.	129,400	**2,238,620**
Industrials 24.5%		
Aerospace & Defense 4.7%		
Argon ST, Inc.*	105,900	2,281,086
BE Aerospace, Inc.*	189,400	4,863,792
CAE, Inc.	628,800	5,772,384
DRS Technologies, Inc.	104,800	5,520,864
EDO Corp.	142,500	3,382,950
Herley Industries, Inc.*	61,800	1,000,542
K&F Industries Holdings, Inc.*	213,400	4,846,314
Triumph Group, Inc.	49,700	2,605,771
		30,273,703
Air Freight & Logistics 0.5%		
ABX Air, Inc.*	507,900	**3,519,747**
Building Products 0.2%		
NCI Building Systems, Inc.*	28,600	**1,480,050**
Commercial Services & Supplies 2.0%		
Administaff, Inc.	46,800	2,001,636
American Ecology Corp.	151,900	2,811,669
Clean Harbors, Inc.*	51,800	2,507,638
Covanta Holding Corp.*	93,100	2,051,924
WCA Waste Corp.*	471,300	3,784,539
		13,157,406

	Shares	Value ($)
Construction & Engineering 8.1%		
Chicago Bridge & Iron Co., NV (New York Shares)	204,400	5,588,296
EMCOR Group, Inc.*	136,800	7,777,080
Foster Wheeler Ltd.*	223,950	12,348,603
Granite Construction, Inc.	76,300	3,839,416
Insituform Technologies, Inc. "A"*	186,100	4,812,546
Perini Corp.*	139,100	4,281,498
Shaw Group, Inc.*	127,600	4,274,600
Sterling Construction Co., Inc.*	112,000	2,437,120
Washington Group International, Inc.*	119,300	7,132,947
		52,492,106
Electrical Equipment 3.6%		
General Cable Corp.*	382,500	16,719,075
Genlyte Group, Inc.*	52,000	4,061,720
Thomas & Betts Corp.*	52,600	2,486,928
		23,267,723
Industrial Conglomerates 0.4%		
Walter Industries, Inc.	102,300	**2,767,215**
Machinery 3.6%		
ESCO Technologies, Inc.*	24,200	1,099,648
Harsco Corp.	61,300	4,664,930
Mueller Water Products, Inc. "A"	168,600	2,507,082
Mueller Water Products, Inc. "B"*	169,044	2,518,755
Terex Corp.*	89,100	5,754,078
Valmont Industries, Inc.	48,500	2,691,265
Watts Water Technologies, Inc. "A"	108,300	4,452,213
		23,687,971
Road & Rail 0.8%		
Genesee & Wyoming, Inc.*	193,325	**5,072,848**
Trading Companies & Distributors 0.6%		
WESCO International, Inc.*	67,600	**3,975,556**
Information Technology 10.3%		
Communications Equipment 2.8%		
Black Box Corp.	129,100	5,420,909
Coleman Cable, Inc.*	117,000	1,872,000
CommScope, Inc.*	354,800	10,814,304
		18,107,213
Computers & Peripherals 1.2%		
Avid Technology, Inc.*	88,100	3,282,606
Hypercom Corp.*	397,000	2,520,950
Komag, Inc.*	60,700	2,299,316
		8,102,872
Electronic Equipment & Instruments 3.2%		
Aeroflex, Inc.*	361,000	4,230,920
Anixter International, Inc.*	151,800	8,242,740
Mettler-Toledo International, Inc.*	71,400	5,629,890
Scansource, Inc.*	95,400	2,900,160
		21,003,710
Internet Software & Services 0.5%		
Corillian Corp.*	163,100	614,887
Openwave Systems, Inc.*	267,800	2,471,794
		3,086,681
IT Services 1.4%		
CACI International, Inc. "A"*	77,300	4,367,450
Covansys Corp.*	199,700	4,583,115
		8,950,565

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Semiconductors & Semiconductor Equipment 0.8%		
Exar Corp.*	209,100	2,718,300
MKS Instruments, Inc.*	105,300	2,377,674
		5,095,974
Software 0.4%		
Secure Computing Corp.*	214,600	1,407,776
Sonic Solutions*	87,300	1,422,990
		2,830,766
Materials 8.0%		
Chemicals 1.1%		
Agrium, Inc.	130,500	4,109,445
CF Industries Holdings, Inc.	43,600	1,117,904
Terra Industries, Inc.*	180,300	2,159,994
		7,387,343
Construction Materials 0.9%		
Headwaters, Inc.*	98,800	2,367,248
Texas Industries, Inc.	48,700	3,128,001
		5,495,249
Metals & Mining 6.0%		
Century Aluminum Co.*	79,300	3,540,745
Goldcorp, Inc.	91,950	2,615,058
Metal Management, Inc.	38,500	1,457,225
Northern Orion Resources, Inc.*	655,400	2,398,764
Northwest Pipe Co.*	86,200	2,898,044
Oregon Steel Mills, Inc.*	120,900	7,545,369
Pan American Silver Corp.*	174,700	4,397,199
RTI International Metals, Inc.*	148,300	11,600,026
Stillwater Mining Co.*	92,800	1,159,072
Worthington Industries, Inc.	94,100	1,667,452
		39,278,954
Telecommunication Services 0.5%		
Diversified Telecommunication Services		
Alaska Communications Systems Group, Inc.	133,400	2,026,346
DataPath, Inc. 144A*	161,700	1,536,150
		3,562,496

	Shares	Value ($)
Utilities 5.2%		
Electric Utilities 0.8%		
Allegheny Energy, Inc.*	64,000	2,938,240
Sierra Pacific Resources*	145,600	2,450,448
		5,388,688
Gas Utilities 1.8%		
ONEOK, Inc.	112,400	4,846,688
Southern Union Co.	232,091	6,486,943
		11,333,631
Independent Power Producers & Energy Traders 1.5%		
Dynegy, Inc. "A"*	792,100	5,734,804
Mirant Corp.*	122,338	3,862,211
		9,597,015
Multi-Utilities 1.1%		
CMS Energy Corp.*	106,200	1,773,540
TECO Energy, Inc.	132,900	2,289,867
WPS Resources Corp.	60,700	3,279,621
		7,343,028
Total Common Stocks (Cost $452,995,362)		**618,667,993**

Closed End Investment Company 0.7%

	Shares	Value ($)
Tortoise Energy Infrastructure Corp. (Cost $3,307,184)	131,100	**4,560,969**

Cash Equivalents 4.3%

	Shares	Value ($)
Cash Management QP Trust, 5.46% (a) (Cost $28,165,850)	28,165,850	**28,165,850**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $484,468,396)†	100.0	**651,394,812**
Other Assets and Liabilities, Net	0.0	**299,749**
Net Assets	100.0	**651,694,561**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $486,447,876. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $164,946,936. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $177,034,639 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $12,087,703.*

(a) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

REIT: Real Estate Investment Trust

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $456,302,546)	$	623,228,962
Investment in Cash Management QP Trust (cost $28,165,850)		28,165,850
Total investments in securities, at value (cost $484,468,396)		651,394,812
Cash		30,903
Receivable for investments sold		2,482,732
Dividends receivable		703,230
Interest receivable		109,817
Receivable for Portfolio shares sold		20,740
Foreign taxes recoverable		1,288
Other assets		18,024
Total assets		654,761,546
Liabilities		
Payable for investments purchased		1,777,073
Payable for Portfolio shares redeemed		705,290
Accrued management fee		393,752
Other accrued expenses and payables		190,870
Total liabilities		3,066,985
Net assets, at value	**$**	**651,694,561**
Net Assets		
Net assets consist of:		
Undistributed net investment income		3,855,010
Net unrealized appreciation (depreciation) on:		
Investments		166,926,416
Foreign currency related transactions		(46)
Accumulated net realized gain (loss)		91,530,662
Paid-in capital		389,382,519
Net assets, at value	**$**	**651,694,561**
Class A		
Net Asset Value, offering and redemption price per share ($561,813,420 ÷ 24,500,577 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**22.93**
Class B		
Net Asset Value, offering and redemption price per share ($89,881,141 ÷ 3,927,983 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**22.88**

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $11,307)	$	8,471,891
Interest — Cash Management QP Trust		852,624
Total Income		9,324,515
Expenses:		
Management fee		4,646,491
Custodian fees		26,587
Distribution service fees (Class B)		222,240
Record keeping fees (Class B)		121,190
Auditing		50,587
Legal		14,913
Trustees' fees and expenses		42,849
Reports to shareholders		93,589
Other		36,535
Total expenses before expense reductions		5,254,981
Expense reductions		(9,352)
Total expenses after expense reductions		5,245,629
Net investment income (loss)		**4,078,886**
Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from:		
Investments		91,467,640
Foreign currency related transactions		(4,973)
		91,462,667
Net unrealized appreciation (depreciation) during the period on:		
Investments		42,123,168
Foreign currency related transactions		(4)
		42,123,164
Net gain (loss) on investment transactions		**133,585,831**
Net increase (decrease) in net assets resulting from operations	**$**	**137,664,717**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 4,078,886	$ 4,907,111
Net realized gain (loss) on investment transactions	91,462,667	48,534,771
Net unrealized appreciation (depreciation) during the period on investment transactions	42,123,164	198,792
Net increase (decrease) in net assets resulting from operations	137,664,717	53,640,674
Distributions to shareholders from:		
Net investment income:		
Class A	(4,273,776)	(3,388,867)
Class B	(345,890)	(268,871)
Distributions to shareholders from:		
Net realized gains:		
Class A	(41,452,231)	(41,035,260)
Class B	(7,012,173)	(6,476,182)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	35,405,526	48,442,270
Reinvestment of distributions	45,726,007	44,424,127
Cost of shares redeemed	(84,469,976)	(69,095,690)
Net increase (decrease) in net assets from Class A share transactions	(3,338,443)	23,770,707
Class B		
Proceeds from shares sold	5,496,550	12,290,754
Reinvestment of distributions	7,358,063	6,745,052
Cost of shares redeemed	(17,725,542)	(7,563,486)
Net increase (decrease) in net assets from Class B share transactions	(4,870,929)	11,472,320
Increase (decrease) in net assets	76,371,275	37,714,521
Net assets at beginning of period	575,323,286	537,608,765
Net assets at end of period (including undistributed net investment income of $3,855,010 and $4,399,454, respectively)	**$ 651,694,561**	**$ 575,323,286**

Other Information		
Class A		
Shares outstanding at beginning of period	24,658,095	23,288,245
Shares sold	1,671,537	2,554,460
Shares issued to shareholders in reinvestment of distributions	2,176,393	2,463,900
Shares redeemed	(4,005,448)	(3,648,510)
Net increase (decrease) in Class A shares	(157,518)	1,369,850
Shares outstanding at end of period	**24,500,577**	**24,658,095**
Class B		
Shares outstanding at beginning of period	4,153,458	3,531,644
Shares sold	258,137	641,746
Shares issued to shareholders in reinvestment of distributions	349,884	373,894
Shares redeemed	(833,496)	(393,826)
Net increase (decrease) in Class B shares	(225,475)	621,814
Shares outstanding at end of period	**3,927,983**	**4,153,458**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$19.98**	**$20.05**	**$16.06**	**$11.66**	**$13.21**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.15	.19	.17	.19	.17
Net realized and unrealized gain (loss) on investment transactions	4.69	1.67	3.98	4.55	(1.67)
Total from investment operations	4.84	1.86	4.15	4.74	(1.50)
Less distributions from:					
Net investment income	(.18)	(.15)	(.16)	(.15)	(.05)
Net realized gain on investment transactions	(1.71)	(1.78)	—	(.19)	—
Total distributions	(1.89)	(1.93)	(.16)	(.34)	(.05)
Net asset value, end of period	**$22.93**	**$19.98**	**$20.05**	**$16.06**	**$11.66**
Total Return (%)	25.06	10.25	26.03	42.15	(11.43)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	562	493	467	354	250
Ratio of expenses (%)	.79	.79	.79	.80	.81
Ratio of net investment income (%)	.71	.96	.96	1.46	1.28
Portfolio turnover rate (%)	52	61	73	71	86

a *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$19.93**	**$20.01**	**$16.03**	**$11.65**	**$13.86**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.07	.11	.10	.13	.17
Net realized and unrealized gain (loss) on investment transactions	4.67	1.66	3.97	4.56	(2.38)
Total from investment operations	4.74	1.77	4.07	4.69	(2.21)
Less distributions from:					
Net investment income	(.08)	(.07)	(.09)	(.12)	—
Net realized gain on investment transactions	(1.71)	(1.78)	—	(.19)	—
Total distributions	(1.79)	(1.85)	(.09)	(.31)	—
Net asset value, end of period	**$22.88**	**$19.93**	**$20.01**	**$16.03**	**$11.65**
Total Return (%)	24.59	9.78	25.52	41.65	(15.95)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	90	83	71	32	1
Ratio of expenses (%)	1.17	1.19	1.16	1.19	1.06*
Ratio of net investment income (%)	.33	.56	.59	1.07	3.01*
Portfolio turnover rate (%)	52	61	73	71	86

a *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
b *Based on average shares outstanding during the period.*
* *Annualized*
** *Not annualized*

DWS Global Thematic VIP

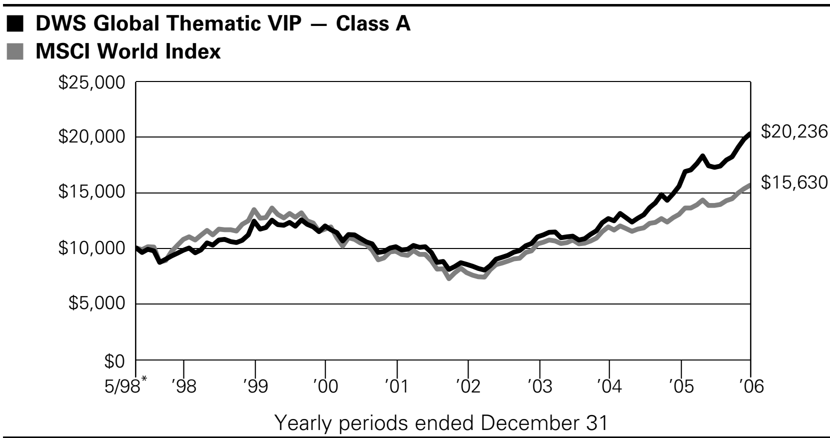
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Please keep in mind that high double-digit returns were primarily achieved during favorable market conditions. Investors should not expect that such favorable returns can be consistently achieved. A Portfolio's performance, especially for very short time periods, should not be the sole factor in making your investment decision.

Growth of an Assumed $10,000 Investment in DWS Global Thematic VIP from 5/5/1998 to 12/31/2006



The Morgan Stanley Capital International (MSCI) World Index is an unmanaged capitalization weighted measure of global stock markets including the US, Canada, Europe, Australia and the Far East. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Global Thematic VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$13,014	$18,362	$19,972	$20,236
	Average annual total return	30.14%	22.45%	14.84%	8.49%
MSCI World Index	Growth of $10,000	$12,007	$15,081	$16,082	$15,630
	Average annual total return	20.07%	14.68%	9.97%	5.29%

DWS Global Thematic VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$12,965	$18,158	$21,018
	Average annual total return	29.65%	22.00%	17.97%
MSCI World Index	Growth of $10,000	$12,007	$15,081	$17,636
	Average annual total return	20.07%	14.68%	13.44%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 5, 1998. Index returns began on April 30, 1998.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Global Thematic VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,173.40	$1,171.20
Expenses Paid per $1,000*	$ 5.70	$ 7.83
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,019.96	$1,018.00
Expenses Paid per $1,000*	$ 5.30	$ 7.27

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Global Thematic VIP	1.04%	1.43%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Global Thematic VIP

The Class A shares of DWS Global Thematic VIP returned 30.14% for the 12 months ended December 31, 2006 (unadjusted for contract charges), outperforming the MSCI World Index.

We continue to look for long-term themes in the global economy, then invest in fundamentally sound companies that stand to benefit as these themes unfold. There are currently 12 themes in the Portfolio, and most contributed positively to performance during the year. The top-performing theme was Disequilibria, which invests in companies that are experiencing, or about to experience, a material shift in their competitive dynamics. Among the top performers here were Italy's Capitalia SpA*, Germany's Commerzbank AG and Hungary's OTP Bank Nyrt. The next best performing theme was Ultimate Subcontractors, where a number of commodity-related companies — including ExxonMobil Corp., Aracruz Cellulose SA*, Total SA, and Petroleo Brasileiro SA (ADR) — led the way. Lastly, the Talent & Ingenuity theme was driven by robust returns from automaker Porsche AG; and Stada Arzneimittel AG, a German producer of generic drugs. The only meaningful drag on performance came from the Distressed Companies theme. Other underperforming holdings included Thai banks, most notably Kasikornbank PCL; and Turkish equities, particularly Turkcell Iletisim Hizmetleri AS (ADR)*.

Instead of focusing on economic or market cycles, we will continue to look for the largest inefficiencies and changes affecting the world. In an environment of potentially higher market volatility, we believe our approach — which seeks to spread out the Portfolio risk exposure via the highly diversified nature of its investments — will hold the Portfolio in good stead.

Oliver Kratz

Lead Portfolio Manager

Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization-weighted measure of global stock markets around the world, including North America, Europe, Australia and the Far East. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

* *As of December 31, 2006, the positions were sold.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Global Thematic VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	93%	91%
Cash Equivalents	2%	5%
Exchange Traded Funds	3%	2%
Preferred Stocks	2%	2%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/06**	**12/31/05**
Financials	23%	28%
Industrials	16%	9%
Information Technology	15%	10%
Energy	11%	12%
Health Care	10%	9%
Consumer Discretionary	9%	7%
Materials	7%	11%
Consumer Staples	5%	8%
Telecommunication Services	3%	4%
Utilities	1%	2%
	100%	100%

Geographical Diversification (As a % of Common and Preferred Stocks)	**12/31/06**	**12/31/05**
Continental Europe	31%	27%
United States	28%	22%
Asia (excluding Japan)	14%	21%
Japan	8%	9%
United Kingdom	7%	7%
Latin America	6%	4%
Bermuda	2%	2%
Africa	2%	2%
Canada	1%	3%
Middle East	1%	2%
Australia	—	1%
	100%	100%

Asset allocation, sector and geographical diversifications are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 78. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Global Thematic VIP

	Shares	Value ($)
Common Stocks 92.8%		
Australia 0.1%		
Australian Agricultural Co., Ltd. (Cost $88,425)	72,900	**106,468**
Austria 1.5%		
Erste Bank der oesterreichischen Sparkassen AG	10,917	833,984
OMV AG	8,700	491,642
Wienerberger AG	20,282	1,204,666
(Cost $1,914,762)		**2,530,292**
Bermuda 2.0%		
Marvell Technology Group Ltd.*	52,100	999,799
Tyco International Ltd.	78,725	2,393,240
(Cost $3,509,276)		**3,393,039**
Brazil 5.2%		
Diagnosticos da America SA*	41,600	887,936
Gol-Linhas Aereas Inteligentes SA (ADR) (Preferred) (a)	77,800	2,230,526
Petroleo Brasileiro SA (ADR)	34,200	3,522,258
Santos-Brasil SA (Units)*	120,900	1,525,827
Tim Participacoes SA (ADR)	14,400	498,528
(Cost $8,030,806)		**8,665,075**
Canada 1.0%		
Goldcorp, Inc.	43,100	1,223,720
Meridian Gold, Inc.*	16,800	467,199
(Cost $876,882)		**1,690,919**
China 1.5%		
Shanghai Electric Group Co., Ltd. "H"	4,059,800	1,697,878
Xinao Gas Holdings Ltd.	743,100	840,827
(Cost $2,096,725)		**2,538,705**
Egypt 0.3%		
Orascom Construction Industries (GDR) (REG S) (Cost $356,500)	5,468	**526,492**
France 2.5%		
PPR	5,478	818,218
Total SA	45,411	3,274,555
(Cost $2,971,613)		**4,092,773**
Germany 11.2%		
Adidas AG	23,085	1,149,418
Axel Springer AG	5,200	935,679
BASF AG (a)	8,888	865,053
Bayer AG (a)	13,401	718,952
Commerzbank AG (a)	49,857	1,892,086
DaimlerChrysler AG (a)	13,400	822,894
Deutsche Post AG (Registered)	87,971	2,650,613
Deutsche Telekom AG (Registered) (a)	84,220	1,538,034
GEA Group AG	41,395	932,260
GfK AG (a)	17,344	751,652
Hypo Real Estate Holding AG (a)	22,400	1,407,159
Siemens AG (Registered) (a)	17,558	1,740,511
Stada Arzneimittel AG (a)	30,962	1,775,537
TUI AG (a)	81,132	1,620,812
(Cost $15,791,770)		**18,800,660**
Hong Kong 1.4%		
Great Eagle Holdings Ltd.	264,000	756,274
Hongkong & Shanghai Hotels Ltd.	596,857	1,006,479
Industrial & Commercial Bank of China (Asia) Ltd.	322,200	619,547
(Cost $1,915,799)		**2,382,300**
Hungary 1.2%		
MOL Hungarian Oil and Gas Nyrt.	10,200	1,149,598
OTP Bank Nyrt.	19,300	878,700
(Cost $1,499,304)		**2,028,298**
India 0.5%		
Infosys Technologies Ltd. (Cost $359,572)	16,200	**817,862**
Israel 1.1%		
NICE Systems Ltd. (ADR)*	24,000	738,720
Teva Pharmaceutical Industries Ltd. (ADR)	36,400	1,131,312
(Cost $1,792,517)		**1,870,032**
Italy 1.0%		
Assicurazioni Generali SpA	14,000	613,010
ERG SpA	42,900	983,531
(Cost $1,341,905)		**1,596,541**
Japan 7.2%		
FANUC Ltd.	13,800	1,353,377
Komatsu Ltd.	58,000	1,168,322
Mitsui Fudosan Co., Ltd.	98,000	2,396,963
Mizuho Financial Group, Inc.	420	3,004,197
Nomura Holdings, Inc.	67,900	1,284,717
Shinsei Bank Ltd.	499,000	2,923,600
(Cost $9,139,788)		**12,131,176**
Kazakhstan 0.6%		
KazMunaiGas Exploration Production (GDR)* (Cost $600,240)	41,000	**1,002,860**
Korea 5.9%		
CDNetworks Co., Ltd.*	12,187	445,401
Hyundai Motor Co.	15,170	1,101,670
Kookmin Bank	24,000	1,934,407
Kookmin Bank (ADR)	7,100	572,544
LG Chem Ltd.	16,900	780,644
NHN Corp.*	7,100	866,901
Samsung Electronics Co., Ltd.	6,400	4,191,538
(Cost $9,271,186)		**9,893,105**
Malaysia 1.4%		
AMMB Holdings Bhd.	454,300	408,783
IOI Corp. Bhd.	99,000	516,279
Resorts World Bhd.	285,600	1,180,505
Steppe Cement Ltd.*	60,159	270,920
(Cost $1,796,538)		**2,376,487**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Mexico 1.1%		
America Movil SAB de CV "L" (ADR)	20,700	936,054
Fomento Economico Mexicano SA de CV (ADR)	7,450	862,412
(Cost $1,271,992)		**1,798,466**
Netherlands 1.9%		
ABN AMRO Holding NV	68,684	2,203,459
Koninklijke DSM NV	20,994	1,036,473
(Cost $2,690,169)		**3,239,932**
Pakistan 0.2%		
MCB Bank Ltd. (GDR) 144A* (Cost $362,694)	21,005	**378,090**
Russia 1.1%		
Golden Telecom, Inc.	19,200	899,328
Surgutneftegaz (ADR) (a)	11,700	900,900
(Cost $1,606,077)		**1,800,228**
Singapore 0.3%		
DBS Group Holdings Ltd. (Cost $237,592)	37,000	**545,054**
South Africa 1.6%		
ABSA Group Ltd.	64,000	1,141,324
Lewis Group Ltd.	101,900	852,535
Naspers Ltd."N"	28,300	670,929
(Cost $2,133,084)		**2,664,788**
Sweden 2.2%		
OMX AB	44,700	819,085
Rezidor Hotel Group AB*	103,900	895,434
Telefonaktiebolaget LM Ericsson"B"	493,800	1,989,882
(Cost $3,366,690)		**3,704,401**
Switzerland 2.2%		
Credit Suisse Group (Registered)	21,807	1,521,488
Julius Baer Holding Ltd. (Registered)	11,343	1,243,303
Novartis AG (Registered)	16,411	943,091
(Cost $2,445,937)		**3,707,882**
Taiwan 1.4%		
Asustek Computer, Inc.	529,200	1,441,688
High Tech Computer Corp.	43,000	846,715
(Cost $2,341,211)		**2,288,403**
Thailand 0.9%		
Bangkok Bank PCL (Foreign Registered)	148,800	479,787
Kasikornbank PCL (Foreign Registered)	165,900	290,205
Krung Thai Bank PCL (Foreign Registered)	130,900	43,804
Siam City Bank PCL (Foreign Registered)	372,200	184,807
Thai Oil PCL (Foreign Registered)	355,800	526,925
TMB Bank Public Co., Ltd.*	103,500	7,555
(Cost $1,411,836)		**1,533,083**
Turkey 1.8%		
Tupras-Turkiye Petrol Rafinerileri AS	49,700	847,264
Turkiye Garanti Bankasi AS	243,000	800,334
Turkiye Is Bankasi (Isbank) "C"	304,640	1,388,556
(Cost $2,775,108)		**3,036,154**
United Kingdom 6.2%		
Anglo American PLC	16,536	806,124
BHP Billiton PLC	78,881	1,457,314
GlaxoSmithKline PLC	130,569	3,441,404
Kingfisher PLC	241,888	1,127,624
Royal Bank of Scotland Group PLC	47,490	1,845,665
Standard Chartered PLC	58,048	1,687,177
(Cost $8,936,403)		**10,365,308**
United States 26.3%		
3Com Corp.*	171,500	704,865
Apple Computer, Inc.*	14,600	1,238,664
Archer-Daniels-Midland Co.	36,700	1,172,932
BJ's Wholesale Club, Inc.*	19,800	615,978
BMB Munai, Inc.* (a)	48,500	240,075
Briggs & Stratton Corp.	19,900	536,305
Bunge Ltd.	12,900	935,379
Caterpillar, Inc.	36,200	2,220,146
Cisco Systems, Inc.*	102,775	2,808,841
Coca-Cola Co.	39,000	1,881,750
eBay, Inc.*	25,800	775,806
ExxonMobil Corp.	34,700	2,659,061
Foundry Networks, Inc.*	109,700	1,643,306
General Electric Co.	83,575	3,109,826
General Mills, Inc.	31,650	1,823,040
Intel Corp.	133,300	2,699,325
Johnson & Johnson	21,950	1,449,139
KKR Private Equity Investors LP	32,200	735,786
Lennox International, Inc.	23,700	725,457
Medtronic, Inc.	14,950	799,975
MetLife, Inc.	26,175	1,544,587
Monsanto Co.	30,700	1,612,671
Newmont Mining Corp.	12,900	582,435
Oracle Corp.*	38,675	662,890
Pantry, Inc.*	15,400	721,336
Pfizer, Inc.	52,975	1,372,052
Schlumberger Ltd.	33,425	2,111,123
St. Jude Medical, Inc.*	57,000	2,083,920
Symantec Corp.*	46,350	966,397
Walter Industries, Inc.	42,300	1,144,215
Wyeth	27,375	1,393,935
Zimmer Holdings, Inc.*	13,275	1,040,494
(Cost $37,260,692)		**44,011,711**
Total Common Stocks (Cost $130,193,093)		**155,516,584**

Preferred Stocks 1.5%

	Shares	Value ($)
Brazil 0.6%		
Net Servicos de Comunicacao SA* (Cost $978,690)	89,700	**1,071,230**
Germany 0.9%		
Porsche AG (a) (Cost $848,421)	1,158	**1,472,819**
Total Preferred Stocks (Cost $1,827,111)		**2,544,049**

Exchange Traded Funds 2.8%

	Shares	Value ($)
Biotech HOLDRs Trust (a)	7,500	1,378,800
iShares Nasdaq Biotechnology Index Fund* (a)	41,825	3,252,312
Total Exchange Traded Funds (Cost $4,345,085)		**4,631,112**

The accompanying notes are an integral part of the financial statements.

	Contracts	Value ($)
Call Options Purchased 0.1%		
Wal Mart Stores, Inc. Expiration Date 6/16/2007, Strike Price $50.0 (Cost $215,956)	1,594	**176,935**

	Shares	Value ($)
Securities Lending Collateral 10.3%		
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $17,195,771)	17,195,771	**17,195,771**

	Shares	Value ($)
Cash Equivalents 2.3%		
Cash Management QP Trust, 5.46% (d) (Cost $3,918,844)	3,918,844	**3,918,844**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $157,695,860)†	109.8	**183,983,295**
Other Assets and Liabilities, Net	(9.8)	**(16,368,964)**
Net Assets	100.0	**167,614,331**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $158,636,946. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $25,346,349. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $26,746,875 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,400,526.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions exempt from registration, normally to qualified institutional buyers.

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $16,525,083 which is 9.9% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $136,581,245) — including $16,525,083 of securities loaned	$	162,868,680
Investment in Daily Assets Fund Institutional (cost $17,195,771)*		17,195,771
Investment in Cash Management QP Trust (cost $3,918,844)		3,918,844
Total investments in securities, at value (cost $157,695,860)		183,983,295
Cash		5,408
Foreign currency, at value (cost $1,162,347)		1,164,278
Dividends receivable		201,931
Interest receivable		22,397
Receivable for investments sold		2,997,257
Receivable for Portfolio shares sold		106,025
Foreign taxes recoverable		12,623
Other assets		4,506
Total assets		188,497,720
Liabilities		
Payable for investments purchased		3,296,123
Accrued management fee		134,748
Payable upon return of securities loaned		17,195,771
Payable for Portfolio shares redeemed		65,215
Deferred foreign taxes payable		72,433
Other accrued expenses and payables		119,099
Total liabilities		20,883,389
Net assets, at value	**$**	**167,614,331**
Net Assets		
Net assets consist of: Undistributed net investment income		963,505
Net unrealized appreciation (depreciation) on: Investments (net of foreign taxes of $72,433)		26,215,002
Foreign currency related transactions		3,527
Accumulated net realized gain (loss)		25,372,148
Paid-in capital		115,060,149
Net assets, at value	**$**	**167,614,331**
Class A		
Net Asset Value, offering and redemption price per share ($142,529,008 ÷ 8,197,243 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**17.39**
Class B		
Net Asset Value, offering and redemption price per share ($25,085,323 ÷ 1,443,479 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**17.38**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $188,395)	$	2,252,692
Interest		1,358
Interest — Cash Management QP Trust		244,408
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		92,756
Other income**		37,541
Total Income		2,628,755
Expenses:		
Management fee		1,342,622
Custodian and accounting fees		351,337
Distribution service fees (Class B)		56,266
Record keeping fees (Class B)		31,431
Auditing		62,495
Legal		20,851
Trustees' fees and expenses		19,952
Reports to shareholders		29,362
Other		20,899
Total expenses before expense reductions		1,935,215
Expense reductions		(446,194)
Total expenses after expense reductions		1,489,021
Net investment income (loss)		**1,139,734**
Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from: Investments (net of foreign taxes of $12,146)		25,609,069
Foreign currency related transactions		(106,475)
		25,502,594
Net unrealized appreciation (depreciation) during the period on: Investments (net of deferred foreign taxes of $29,305)		8,971,636
Foreign currency related transactions		2,402
		8,974,038
Net gain (loss) on investment transactions		**34,476,632**
Net increase (decrease) in net assets resulting from operations	**$**	**35,616,366**

** *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note J).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 1,139,734	$ 772,300
Net realized gain (loss) on investment transactions	25,502,594	13,242,108
Net unrealized appreciation (depreciation) during the period on investment transactions	8,974,038	4,296,970
Net increase (decrease) in net assets resulting from operations	35,616,366	18,311,378
Distributions to shareholders from:		
Net investment income:		
Class A	(572,746)	(188,888)
Class B	(42,929)	—
Net realized gains:		
Class A	(7,184,784)	—
Class B	(1,620,965)	—
Portfolio share transactions:		
Class A		
Proceeds from shares sold	39,340,554	15,806,082
Reinvestment of distributions	7,757,530	188,888
Cost of shares redeemed	(11,647,602)	(8,739,580)
Net increase (decrease) in net assets from Class A share transactions	35,450,482	7,255,390
Class B		
Proceeds from shares sold	5,266,200	5,152,763
Reinvestment of distributions	1,663,894	—
Cost of shares redeemed	(5,607,559)	(1,457,434)
Net increase (decrease) in net assets from Class B share transactions	1,322,535	3,695,329
Increase (decrease) in net assets	62,967,959	29,073,209
Net assets at beginning of period	104,646,372	75,573,163
Net assets at end of period (including undistributed net investment income of $963,505 and $558,067, respectively)	**$ 167,614,331**	**$ 104,646,372**

Other Information		
Class A		
Shares outstanding at beginning of period	5,887,898	5,350,985
Shares sold	2,556,665	1,229,117
Shares issued to shareholders in reinvestment of distributions	513,064	15,980
Shares redeemed	(760,384)	(708,184)
Net increase (decrease) in Class A shares	2,309,345	536,913
Shares outstanding at end of period	**8,197,243**	**5,887,898**
Class B		
Shares outstanding at beginning of period	1,359,840	1,064,827
Shares sold	334,421	406,987
Shares issued to shareholders in reinvestment of distributions	109,756	—
Shares redeemed	(360,538)	(111,974)
Net increase (decrease) in Class B shares	83,639	295,013
Shares outstanding at end of period	**1,443,479**	**1,359,840**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$14.44**	**$11.78**	**$10.39**	**$ 8.08**	**$ 9.64**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.15[c]	.12	.04	.09	.07
Net realized and unrealized gain (loss) on investment transactions	4.02	2.58	1.48	2.25	(1.57)
Total from investment operations	4.17	2.70	1.52	2.34	(1.50)
Less distributions from:					
Net investment income	(.09)	(.04)	(.13)	(.03)	(.06)
Net realized gain on investment transactions	(1.13)	—	—	—	—
Total distributions	(1.22)	(.04)	(.13)	(.03)	(.06)
Net asset value, end of period	**$17.39**	**$14.44**	**$11.78**	**$10.39**	**$ 8.08**
Total Return (%)	30.14[b,c]	22.94[b]	14.76[b]	29.13[b]	(15.77)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	143	85	63	55	43
Ratio of expenses before expense reductions (%)	1.38	1.41	1.44	1.48	1.32
Ratio of expenses after expense reductions (%)	1.04	1.28	1.43	1.17	1.32
Ratio of net investment income (%)	.92[c]	.98	.38	1.02	.79
Portfolio turnover rate (%)	136	95	81	65	41

[a] *Based on average shares outstanding during the period.*

[b] *Total return would have been lower had certain expenses not been reduced.*

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.004 per share and an increase in the ratio of net investment income of 0.03%. Excluding this non-recurring income, total return would have been 0.02% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$14.43**	**$11.78**	**$10.38**	**$ 8.06**	**$ 8.98**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.09[d]	.07	.00[e]	.04	.02
Net realized and unrealized gain (loss) on investment transactions	4.02	2.58	1.48	2.29	(.94)
Total from investment operations	4.11	2.65	1.48	2.33	(.92)
Less distributions from:					
Net investment income	(.03)	—	(.08)	(.01)	—
Net realized gain on investment transactions	(1.13)	—	—	—	—
Total distributions	(1.16)	—	(.08)	(.01)	—
Net asset value, end of period	**$17.38**	**$14.43**	**$11.78**	**$10.38**	**$ 8.06**
Total Return (%)	29.65[c,d]	22.50[c]	14.33[c]	28.96[c]	(10.24)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	25	20	13	6	.2
Ratio of expenses before expense reductions (%)	1.76	1.79	1.84	1.87	1.60*
Ratio of expenses after expense reductions (%)	1.43	1.65	1.83	1.64	1.60*
Ratio of net investment income (%)	.53[d]	.61	.02	.55	.49*
Portfolio turnover rate (%)	136	95	81	65	41

[a] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[b] *Based on average shares outstanding during the period.*

[c] *Total return would have been lower had certain expenses not been reduced.*

[d] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.004 per share and an increase in the ratio of net investment income of 0.03%. Excluding this non-recurring income, total return would have been 0.02% lower.*

[e] *Amount is less than $.005 per share.*

* *Annualized*

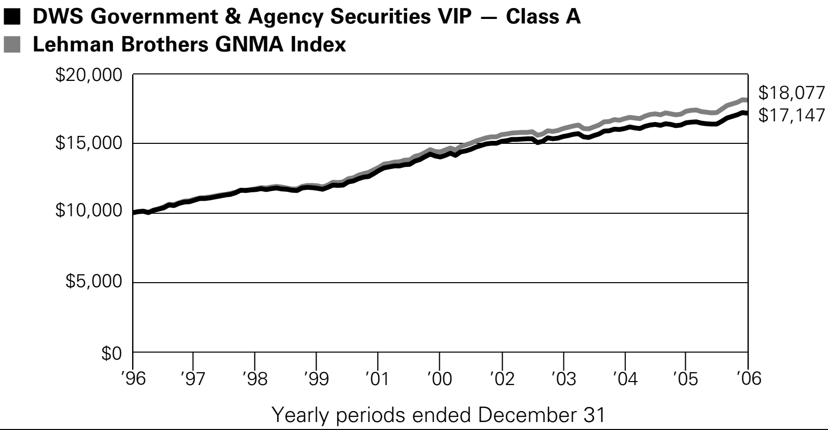
** *Not annualized*

DWS Government & Agency Securities VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The government guarantee relates only to the prompt payment of principal and interest and does not remove market risks. Additionally, yields will fluctuate in response to changing interest rates and may be affected by the prepayment of mortgage-backed securities. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS Government & Agency Securities VIP



The Lehman Brothers GNMA Index is an unmanaged market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Government & Agency Securities VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,416	$11,085	$12,248	$17,147
	Average annual total return	4.16%	3.49%	4.14%	5.54%
Lehman Brothers GNMA Index	Growth of $10,000	$10,461	$11,266	$12,594	$18,077
	Average annual total return	4.61%	4.05%	4.72%	6.10%

DWS Government & Agency Securities VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$10,374	$10,963	$11,579
	Average annual total return	3.74%	3.11%	3.31%
Lehman Brothers GNMA Index	Growth of $10,000	$10,461	$11,266	$12,069
	Average annual total return	4.61%	4.05%	4.26%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Government & Agency Securities VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,048.70	$1,046.10
Expenses Paid per $1,000*	$ 3.56	$ 5.72

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,021.73	$1,019.76
Expenses Paid per $1,000*	$ 3.52	$ 5.65

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Government & Agency Securities VIP	.69%	1.11%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Government & Agency Securities VIP

The first half of the period saw the US economy continue to display solid economic growth. New Federal Reserve chairman Bernanke indicated that future rate changes would depend on incoming economic data, creating increased uncertainty with respect to inflation and Fed policy. This led to a more volatile interest rate environment and an overall upward trend for rates. As the period progressed economic growth showed some signs of moderating. In particular, market participants focused heavily on softening in the housing sector. Despite this area of weakness, core inflation remained generally stable rather than easing. After 17 consecutive quarter point increases in the fed funds rate, the US Federal Reserve Board (the Fed) paused in August, leaving the benchmark rate at its current 5.25%. As the period closed, the yield curve was inverted, with short term rates higher than long term rates. While conventional wisdom has it that this is a predictor of recession; there were signs of economic strength including a tight labor market.

During the 12-month period ended December 31, 2006, the portfolio provided a total return of 4.16% (Class A shares, unadjusted for contract charges) compared with the 4.61% return of its benchmark, the Lehman Brothers GNMA Index. The portfolio's return slightly lagged the 4.39% return of the average peer in its Lipper category.

During the period, we focused largely on seasoned mortgages and mortgage pools with smaller loan sizes or specific geographic profiles that we believed would provide predictable cash flows in a wide variety of interest rate scenarios. This strategy generally worked well for the portfolio. In addition, we shifted the fund's relative focus between GNMA I and less homogenous GNMA II mortgage pools with good results. Our significant exposure to conventional mortgages did not pay off in an environment where GNMAs outperformed. Our limited exposure to 15-year GNMAs contributed positively to performance. Going forward, we will be monitoring the housing market and interest rate environment closely as we seek to maintain an attractive dividend for investors.

William Chepolis, CFA
Matthew F. MacDonald
Co-Managers

Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

The government guarantee relates only to the prompt payment of principal and interest and does not remove market risks. Additionally, yields will fluctuate in response to changing interest rates and may be affected by the prepayment of mortgage-backed securities. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Lehman Brothers GNMA Index is an unmanaged, market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Government & Agency Securities VIP

Asset Allocation	12/31/06	12/31/05
Agencies Backed by the Full Faith and Credit of the US Government (GNMA)	53%	58%
Agencies Not Backed by the Full Faith and Credit of the US Government (FNMA, FHLMC)	32%	32%
Cash Equivalents	10%	5%
US Treasury Obligations	5%	5%
	100%	100%

Quality	12/31/06	12/31/05
AAA*	100%	100%

* *Includes cash equivalents*

Interest Rate Sensitivity	12/31/06	12/31/05
Average Maturity	5.6 years	5.9 years
Average Duration	3.4 years	4.0 years

Asset allocation, quality and interest rate sensitivity are subject to change.

The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Portfolio's quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 88. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Government & Agency Securities VIP

	Principal Amount ($)	Value ($)
Agencies Backed by the Full Faith and Credit of the US Government 55.3%		
Government National Mortgage Association:		
5.0%, with various maturities from 9/1/2032 until 6/20/2036	18,897,249	18,398,943
5.5%, with various maturities from 9/1/2032 until 11/15/2035 (c)	51,916,927	51,662,192
6.0%, with various maturities from 4/15/2013 until 4/15/2036 (c)	36,498,040	36,986,545
6.5%, with various maturities from 3/15/2014 until 10/15/2036	20,448,490	20,958,297
7.0%, with various maturities from 6/20/2017 until 7/15/2036	3,489,603	3,602,508
7.5%, with various maturities from 4/15/2026 until 7/15/2032	2,335,675	2,437,547
8.0%, with various maturities from 12/15/2026 until 11/15/2031	756,535	802,201
8.5%, with various maturities from 5/15/2016 until 12/15/2030	104,088	111,614
9.5%, with various maturities from 6/15/2013 until 12/15/2022	56,798	61,786
10.0%, with various maturities from 2/15/2016 until 3/15/2016	21,380	23,568
Total Agencies Backed by the Full Faith and Credit of the US Government (Cost $137,191,631)		**135,045,201**
Agencies Not Backed by the Full Faith and Credit of the US Government 34.8%		
Federal Home Loan Bank, Series 679, 5.375%, 8/19/2011	25,000,000	25,429,687
Federal Home Loan Mortgage Corp.:		
4.5%, 5/1/2019	65,986	63,666
4.612%*, 2/1/2035	714,001	707,430
5.25%, 7/18/2011	25,000,000	25,296,875
5.5%, 2/1/2017	62,216	62,356
6.5%, 9/1/2032	182,284	186,380
7.0%, with various maturities from 5/1/2029 until 8/1/2035	3,727,447	3,822,078
7.5%, with various maturities from 1/1/2027 until 5/1/2032	150,762	156,758
8.0%, 11/1/2030	3,015	3,169
8.5%, 7/1/2030	4,023	4,310
Federal National Mortgage Association:		
4.585%*, 1/1/2035	1,367,449	1,351,615
4.625%, 12/15/2009	13,750,000	13,625,391
4.673%*, 2/1/2035	1,096,470	1,086,831
4.738%*, 5/1/2035	1,769,343	1,748,526
5.0%, 10/1/2033	708,411	685,266
5.5%, with various maturities from 2/1/2033 until 6/1/2034	3,947,043	3,904,827
6.0%, 9/1/2035	6,065,924	6,097,164
7.0%, with various maturities from 9/1/2013 until 7/1/2034	647,123	664,873
8.0%, 12/1/2024	14,426	15,229
Total Agencies Not Backed by the Full Faith and Credit of the US Government (Cost $85,331,059)		**84,912,431**
Collateralized Mortgage Obligations 7.9%		
Federal National Mortgage Association, "LO", Series 2005-50, Principal Only, 6/25/2035	1,178,178	883,025
Government National Mortgage Association:		
"DA", Series 2005-45, 5.5%*, 6/16/2035	8,377,288	8,352,513
"ZA", Series 2006-7, 5.5%, 2/20/2036	1,771,424	1,628,610
"FH", Series 1999-18, 5.60%*, 5/16/2029	2,422,481	2,428,979
"FE", Series 2003-57, 5.65%*, 3/16/2033	202,146	202,151
"FA", Series 2006-25, 5.65%*, 5/20/2036	4,774,177	4,781,129
"FB", Series 2001-28, 5.85%*, 6/16/2031	962,960	969,640
Total Collateralized Mortgage Obligations (Cost $19,497,078)		**19,246,047**
US Treasury Obligations 5.1%		
US Treasury Bill, 5.238%**, 1/18/2007 (a)	190,000	189,556
US Treasury Notes:		
3.0%, 11/15/2007	4,000,000	3,931,408
4.625%, 10/31/2011	2,300,000	2,291,644
4.875%, 8/31/2008	6,000,000	5,999,532
Total US Treasury Obligations (Cost $12,424,873)		**12,412,140**

	Shares	Value ($)
Cash Equivalents 11.0%		
Cash Management QP Trust, 5.46% (b) (Cost $26,800,420)	26,800,420	**26,800,420**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $281,245,061)†	114.1	**278,416,239**
Other Assets and Liabilities, Net	(14.1)	**(34,360,028)**
Net Assets	100.0	**244,056,211**

The accompanying notes are an integral part of the financial statements.

* Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of December 31, 2006.

** Annualized yield at time of purchase; not a coupon rate.

† The cost for federal income tax purposes was $281,275,518. At December 31, 2006, net unrealized depreciation for all securities based on tax cost was $2,859,279. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $510,379 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,369,658.

(a) At December 31, 2006, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(b) Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Mortgage dollar rolls included.

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

At December 31, 2006, open futures contracts purchased were as follows:

Futures	**Expiration Date**	**Contracts**	**Aggregate Face Value ($)**	**Value ($)**	**Unrealized Depreciation ($)**
10-Year US Treasury Note	3/21/2007	47	5,066,424	5,051,031	**(15,393)**

At December 31, 2006, open futures contracts sold were as follows:

Futures	**Expiration Date**	**Contracts**	**Aggregate Face Value ($)**	**Value ($)**	**Unrealized Appreciation ($)**
10 Year Interest Rate Swap	3/19/2007	24	2,579,927	2,551,875	**28,052**

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal Home Loan Mortgage Corp., Federal National Mortgage Association and Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments	
Investments in securities, at value (cost $254,444,641)	$ 251,615,819
Investments in Cash Management QP Trust, (cost $26,800,420)	26,800,420
Total investments in securities at value (Cost $281,245,061)	278,416,239
Receivable for investments sold	64,537,266
Interest receivable	2,254,157
Receivable for daily variation margin on open futures contracts	580
Receivable for Portfolio shares sold	178,960
Other assets	7,543
Total assets	345,394,745
Liabilities	
Payable for investments purchased	65,458,376
Payable for investments purchased — mortgage dollar rolls	35,434,470
Payable for Portfolio shares redeemed	123,973
Accrued management fee	118,032
Other accrued expenses and payables	203,683
Total liabilities	101,338,534
Net assets, at value	**$ 244,056,211**
Net Assets	
Net assets consist of:	
Undistributed net investment income	11,470,474
Net unrealized appreciation (depreciation) on:	
Investments	(2,828,822)
Futures	12,659
Accumulated net realized gain (loss)	(1,394,729)
Paid-in capital	236,796,629
Net assets, at value	**$ 244,056,211**
Class A	
Net Asset Value, offering and redemption price per share ($210,908,916 ÷ 17,174,275 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.28**
Class B	
Net Asset Value, offering and redemption price per share ($33,147,295 ÷ 2,706,547 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.25**

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Interest	$ 12,195,141
Interest — Cash Management QP Trust	1,395,538
Total Income	13,590,679
Expenses:	
Management fee	1,427,977
Custodian fees	16,054
Distribution service fees (Class B)	94,226
Record keeping fees (Class B)	56,574
Auditing	56,748
Legal	13,218
Trustees' fees and expenses	24,745
Reports to shareholders	147,700
Other	68,150
Total expenses before expense reductions	1,905,392
Expense reductions	(5,855)
Total expenses after expense reductions	1,899,537
Net investment income	**11,691,142**
Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	(1,338,144)
Futures	59,735
Net increase from payments by affiliates and net losses realized on the disposal of investments in violation of restrictions	—
	(1,278,409)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(514,774)
Futures	(46,159)
	(560,933)
Net gain (loss) on investment transactions	**(1,839,342)**
Net increase (decrease) in net assets resulting from operations	**$ 9,851,800**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income	$ 11,691,142	$ 12,794,240
Net realized gain (loss) on investment transactions	(1,278,409)	(786,212)
Net unrealized appreciation (depreciation) during the period on investment transactions	(560,933)	(4,324,240)
Net increase (decrease) in net assets resulting from operations	9,851,800	7,683,788
Distributions to shareholders from:		
Net investment income:		
Class A	(8,821,928)	(10,824,223)
Class B	(1,559,664)	(1,736,774)
Net realized gains:		
Class A	—	(2,099,899)
Class B	—	(374,454)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	9,888,675	24,046,411
Reinvestment of distributions	8,821,928	12,924,122
Cost of shares redeemed	(51,098,907)	(67,354,142)
Net increase (decrease) in net assets from Class A share transactions	(32,388,304)	(30,383,609)
Class B		
Proceeds from shares sold	2,370,667	3,998,526
Reinvestment of distributions	1,559,664	2,111,228
Cost of shares redeemed	(17,355,673)	(7,544,629)
Net increase (decrease) in net assets from Class B share transactions	(13,425,342)	(1,434,875)
Increase (decrease) in net assets	(46,343,438)	(39,170,046)
Net assets at beginning of period	290,399,649	329,569,695
Net assets at end of period (including undistributed net investment income of $11,470,474 and $10,160,924, respectively)	**$ 244,056,211**	**$ 290,399,649**

Other Information

	2006	2005
Class A		
Shares outstanding at beginning of period	19,851,802	22,309,252
Shares sold	824,144	1,970,071
Shares issued to shareholders in reinvestment of distributions	749,527	1,082,422
Shares redeemed	(4,251,198)	(5,509,943)
Net increase (decrease) in Class A shares	(2,677,527)	(2,457,450)
Shares outstanding at end of period	**17,174,275**	**19,851,802**
Class B		
Shares outstanding at beginning of period	3,838,802	3,952,379
Shares sold	196,489	326,302
Shares issued to shareholders in reinvestment of distributions	132,399	176,820
Shares redeemed	(1,461,143)	(616,699)
Net increase (decrease) in Class B shares	(1,132,255)	(113,577)
Shares outstanding at end of period	**2,706,547**	**3,838,802**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$12.26**	**$12.55**	**$12.54**	**$12.84**	**$12.32**
Income (loss) from investment operations:					
Net investment income[a]	.55	.51	.44	.31	.62
Net realized and unrealized gain (loss) on investment transactions	(.06)	(.20)	.03	(.04)	.35
Total from investment operations	.49	.31	.47	.27	.97
Less distributions from:					
Net investment income	(.47)	(.50)	(.35)	(.35)	(.45)
Net realized gain on investment transactions	—	(.10)	(.11)	(.22)	—
Total distributions	(.47)	(.60)	(.46)	(.57)	(.45)
Net asset value, end of period	**$12.28**	**$12.26**	**$12.55**	**$12.54**	**$12.84**
Total Return (%)	4.16	2.57	3.75[c]	2.26	8.05
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	211	243	280	347	551
Ratio of expenses (%)	.67	.63	.61	.61	.59
Ratio of net investment income (%)	4.56	4.17	3.59	2.50	4.96
Portfolio turnover rate (%)[b]	241	191	226	511	534

a *Based on average shares outstanding during the period.*

b *The portfolio turnover rate including mortgage dollar roll transactions was 403%, 325%, 391%, 536% and 651% for the periods ended December 31, 2006, December 31, 2005, December 31, 2004, December 31, 2003 and December 31, 2002, respectively.*

c *Reimbursement of $2,420 due to disposal of investments in violation of restrictions had no effect on total return.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$12.23**	**$12.52**	**$12.51**	**$12.82**	**$12.36**
Income (loss) from investment operations:					
Net investment income[b]	.50	.47	.40	.27	.31
Net realized and unrealized gain (loss) on investment transactions	(.06)	(.21)	.02	(.04)	.15
Total from investment operations	.44	.26	.42	.23	.46
Less distributions from:					
Net investment income	(.42)	(.45)	(.30)	(.32)	—
Net realized gain on investment transactions	—	(.10)	(.11)	(.22)	—
Total distributions	(.42)	(.55)	(.41)	(.54)	—
Net asset value, end of period	**$12.25**	**$12.23**	**$12.52**	**$12.51**	**$12.82**
Total Return (%)	3.74	2.24	3.36[d]	1.83	3.72**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	33	47	49	38	3
Ratio of expenses (%)	1.07	1.02	1.00	.98	.84*
Ratio of net investment income (%)	4.16	3.78	3.21	2.13	4.95*
Portfolio turnover rate (%)[c]	241	191	226	511	534

a *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *The portfolio turnover rate including mortgage dollar roll transactions was 403%, 325%, 391%, 536% and 651% for the periods ended December 31, 2006, December 30, 2005, December 31, 2004, December 31, 2003 and December 31, 2002, respectively.*

d *Reimbursement of $2,420 due to disposal of investments in violation of restrictions had no effect on total return.*

* *Annualized*

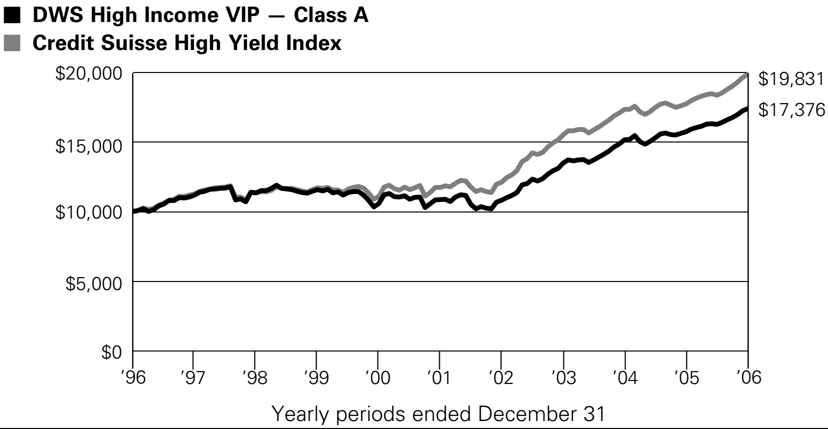
** *Not annualized*

DWS High Income VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Additionally, the Portfolio may invest in lower-quality and nonrated securities which present greater risk of loss of principal and interest than higher-quality securities. All of these factors may result in greater share price volatility. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS High Income VIP



The Credit Suisse High Yield Index is an unmanaged index that is market-weighted, including publicly traded bonds having a rating below BBB by Standard & Poor's and Moody's.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS High Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,047	$12,901	$16,029	$17,376
	Average annual total return	10.47%	8.86%	9.90%	5.68%
Credit Suisse High Yield Index	Growth of $10,000	$11,192	$12,813	$16,901	$19,831
	Average annual total return	11.92%	8.61%	11.07%	7.09%

DWS High Income VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$11,011	$12,762	$16,239
	Average annual total return	10.11%	8.47%	11.39%
Credit Suisse High Yield Index	Growth of $10,000	$11,192	$12,813	$16,874
	Average annual total return	11.92%	8.61%	12.32%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS High Income VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,068.90	$1,066.20
Expenses Paid per $1,000*	$ 3.70	$ 5.78

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,021.63	$1,019.61
Expenses Paid per $1,000*	$ 3.62	$ 5.65

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS High Income VIP	.71%	1.11%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS High Income VIP

High yield was one of the best-performing areas of the bond market during 2006. Although bouts of volatility periodically affected the performance of the high-yield market, the investment backdrop remained broadly positive. Economic growth, while appearing to moderate throughout the course of the year, remained on a solid footing. High-yield companies were able to maintain their sound financial positions as a result, and this was reflected in a continuation of the low default rate. In addition, the market remained supported by the overall low level of supply at a time when demand remained firm.

DWS High Income VIP posted a 10.47% total return for the 12-month period ending December 31, 2006 (Class A shares, unadjusted for contract charges) and outpaced the 9.89% average return of the 104 portfolios in its Lipper peer group, High Current Yield Variable Annuity Funds category. The Portfolio's benchmark, the Credit Suisse High Yield Index, returned 11.92%. We remained focused on adding value by conducting fundamental research rather than making broad predictions about sector performance or interest rates. The Portfolio's overweight positions in General Motors Acceptance Corporation (GMAC), Ford Motor Credit Company, North Atlantic Trading Co. and emerging-market securities such as Republic of Argentina were positive contributors to relative return.[1] However, the Portfolio's overweight in more defensive securities, along with its underweight in the aerospace/airlines industry, detracted from relative performance. In addition, an underweight in Calpine* — which outperformed during the year — dampened results.

The high-yield market continues to exhibit stable fundamentals. Nevertheless, we believe low default rates will not last forever, meaning that good security selection is paramount at this point in the cycle.

Gary Sullivan, CFA

Portfolio Manager
Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Additionally, the Portfolio may invest in lower-quality and nonrated securities which present greater risk of loss of principal and interest than higher-quality securities. All of these factors may result in greater share price volatility. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Lipper's High Current Yield Variable Annuity Funds category represents funds that aim at a high (relative) current yield from fixed-income securities, have no quality or maturity restrictions and tend to invest in lower-grade debt issues. It is not possible to invest directly into a Lipper category.

The Credit Suisse High Yield Index is an unmanaged index that is market-weighted, including publicly traded bonds having a rating below BBB by Standard & Poor's and Moody's. Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

* *As of December 31, 2006, the position was sold.*

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS High Income VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Corporate Bonds	84%	80%
Foreign Bonds — US$ Denominated	12%	13%
Foreign Bonds — Non US$ Denominated	2%	1%
Cash Equivalents	1%	2%
Other Investments	1%	—
Loan Participations	—	1%
Asset Backed	—	1%
Convertible Bonds	—	1%
Stocks	—	1%
	100%	100%

Corporate and Foreign Bonds Diversification (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/06**	**12/31/05**
Consumer Discretionary	25%	24%
Financials	16%	15%
Materials	15%	14%
Industrials	10%	14%
Utilities	9%	6%
Telecommunication Services	8%	9%
Energy	8%	8%
Information Technology	4%	3%
Health Care	2%	3%
Consumer Staples	2%	3%
Sovereign Bonds	1%	1%
	100%	100%

Quality	**12/31/06**	**12/31/05**
Cash Equivalents	1%	2%
A	—	2%
BBB	3%	4%
BB	30%	28%
B	50%	51%
CCC	16%	13%
	100%	100%

Asset allocation, corporate and foreign bonds diversification and quality are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 97. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com as of each calendar quarter-end on or after the last day of the following month.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS High Income VIP

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 81.9%		
Consumer Discretionary 21.6%		
AAC Group Holding Corp., 12.75%, 10/1/2012 (PIK) (b)	519,302	553,057
Affinia Group, Inc., 9.0%, 11/30/2014 (b)	995,000	975,100
AMC Entertainment, Inc., 8.0%, 3/1/2014	1,480,000	1,468,900
American Achievement Corp., 8.25%, 4/1/2012	100,000	102,375
American Media Operations, Inc., Series B, 10.25%, 5/1/2009 (b)	400,000	387,500
Buffets, Inc., 144A, 12.5%, 11/1/2014	400,000	403,000
Burlington Coat Factory Warehouse Corp., 144A, 11.125%, 4/15/2014 (b)	605,000	589,875
Cablevision Systems Corp., Series B, 9.87%**, 4/1/2009	350,000	369,250
Caesars Entertainment, Inc., 8.875%, 9/15/2008	725,000	755,812
Charter Communications Holdings LLC:		
8.625%, 4/1/2009	45,000	43,650
9.625%, 11/15/2009	50,000	48,500
Series B, 10.25%, 9/15/2010	975,000	1,017,656
10.25%, 9/15/2010	3,080,000	3,222,450
11.0%, 10/1/2015	2,782,000	2,855,027
Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014 (b)	735,000	578,813
CSC Holdings, Inc.:		
7.25%, 7/15/2008	560,000	564,900
7.875%, 12/15/2007	1,694,000	1,715,175
Series B, 8.125%, 7/15/2009	190,000	196,888
Series B, 8.125%, 8/15/2009	200,000	207,250
Denny's Corp. Holdings, Inc., 10.0%, 10/1/2012	195,000	205,725
Dex Media East LLC/Financial, 12.125%, 11/15/2012	5,197,000	5,723,196
EchoStar DBS Corp.:		
6.625%, 10/1/2014	870,000	848,250
7.125%, 2/1/2016	675,000	675,000
Foot Locker, Inc., 8.5%, 1/15/2022	205,000	201,413
Ford Motor Co., 7.45%, 7/16/2031 (b)	580,000	455,300
French Lick Resorts & Casinos, 144A, 10.75%, 4/15/2014	2,200,000	2,057,000
General Motors Corp.:		
7.4%, 9/1/2025 (b)	550,000	464,750
8.375%, 7/15/2033 (b)	2,010,000	1,859,250
Goodyear Tire & Rubber Co., 11.25%, 3/1/2011	3,430,000	3,790,150
Gregg Appliances, Inc., 9.0%, 2/1/2013	365,000	348,575
Hanesbrands, Inc., 144A, 8.735%**, 12/15/2014	500,000	508,750
Hertz Corp.:		
144A, 8.875%, 1/1/2014	1,445,000	1,513,637
144A, 10.5%, 1/1/2016 (b)	320,000	352,000
ION Media Networks, Inc., 144A, 11.624%**, 1/15/2013	595,000	602,438

		Principal Amount ($)(a)	Value ($)
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014		2,065,000	2,054,675
Jacobs Entertainment, Inc., 9.75%, 6/15/2014		1,035,000	1,050,525
Lear Corp.:			
Series B, 5.75%, 8/1/2014		35,000	29,400
144A, 8.75%, 12/1/2016		495,000	478,294
Levi Strauss & Co., 10.122%**, 4/1/2012		45,000	46,181
Liberty Media Corp.:			
5.7%, 5/15/2013		95,000	89,503
8.25%, 2/1/2030		795,000	779,281
8.5%, 7/15/2029		965,000	970,265
Majestic Star Casino LLC, 9.5%, 10/15/2010		110,000	115,500
Mediacom Broadband LLC, 8.5%, 10/15/2015		50,000	50,625
Medimedia USA, Inc., 144A, 11.375%, 11/15/2014		300,000	314,250
Metaldyne Corp.:			
10.0%, 11/1/2013 (b)		470,000	502,900
11.0%, 6/15/2012 (b)		210,000	215,250
MGM MIRAGE:			
6.75%, 9/1/2012		245,000	241,325
8.375%, 2/1/2011 (b)		545,000	565,438
9.75%, 6/1/2007		950,000	961,875
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010		980,000	1,033,900
NCL Corp., 10.625%, 7/15/2014		200,000	200,000
Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012 (b)		1,670,000	1,411,150
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013 (b)		620,000	657,200
Pokagon Gaming Authority, 144A, 10.375%, 6/15/2014		275,000	301,125
Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012		3,698,000	3,808,940
PRIMEDIA, Inc.:			
8.875%, 5/15/2011		585,000	596,700
10.749%**, 5/15/2010 (b)		1,565,000	1,627,600
Resorts International Hotel & Casino, Inc., 11.5%, 3/15/2009		3,740,000	3,856,875
Sinclair Broadcast Group, Inc.:			
8.0%, 3/15/2012		705,000	727,912
8.75%, 12/15/2011		2,025,000	2,113,594
Sirius Satellite Radio, Inc., 9.625%, 8/1/2013 (b)		1,345,000	1,323,144
Six Flags, Inc., 9.75%, 4/15/2013 (b)		1,790,000	1,680,362
Station Casinos, Inc., 6.5%, 2/1/2014		795,000	706,556
The Bon-Ton Department Stores, Inc., 10.25%, 3/15/2014 (b)		585,000	598,163
Travelport, Inc., 144A, 9.994%**, 9/1/2014		500,000	487,500
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015 (b)		2,570,000	2,557,150
TRW Automotive, Inc.:			
11.0%, 2/15/2013 (b)		2,720,000	2,981,800
11.75%, 2/15/2013	EUR	485,000	717,852

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
United Auto Group, Inc.:		
144A, 7.75%, 12/15/2016	495,000	497,475
9.625%, 3/15/2012	2,540,000	2,670,175
Wheeling Island Gaming, Inc., 10.125%, 12/15/2009	395,000	402,406
XM Satellite Radio, Inc., 9.75%, 5/1/2014 (b)	2,640,000	2,640,000
Young Broadcasting, Inc., 8.75%, 1/15/2014 (b)	3,620,000	3,135,825
		80,859,303
Consumer Staples 2.5%		
Del Laboratories, Inc., 8.0%, 2/1/2012	515,000	482,813
Delhaize America, Inc.:		
8.05%, 4/15/2027	190,000	205,454
9.0%, 4/15/2031	2,680,000	3,181,977
GNC Parent Corp., 144A, 12.114%**, 12/1/2011 (PIK)	700,000	700,000
Harry & David Holdings, Inc., 10.369%**, 3/1/2012	600,000	597,000
North Atlantic Trading Co., 9.25%, 3/1/2012	1,365,000	1,190,963
Viskase Co., Inc., 11.5%, 6/15/2011	3,100,000	3,100,000
		9,458,207
Energy 7.3%		
Belden & Blake Corp., 8.75%, 7/15/2012	2,585,000	2,649,625
Chaparral Energy, Inc., 8.5%, 12/1/2015	1,405,000	1,397,975
Chesapeake Energy Corp.:		
6.25%, 1/15/2018	620,000	596,750
6.875%, 1/15/2016	1,925,000	1,941,844
7.75%, 1/15/2015 (b)	255,000	265,519
Complete Production Services, Inc., 144A, 8.0%, 12/15/2016	895,000	917,375
Delta Petroleum Corp., 7.0%, 4/1/2015	1,640,000	1,517,000
Dynegy Holdings, Inc.:		
7.625%, 10/15/2026	1,635,000	1,585,950
8.375%, 5/1/2016	1,305,000	1,370,250
El Paso Production Holding Corp., 7.75%, 6/1/2013	1,075,000	1,124,719
Encore Acquisition Co., 6.0%, 7/15/2015	290,000	264,625
Frontier Oil Corp., 6.625%, 10/1/2011	435,000	433,912
NGC Corp. Capital Trust I, Series B, 8.316%, 6/1/2027 (b)	560,000	529,200
Peabody Energy Corp., 7.375%, 11/1/2016	400,000	426,000
Quicksilver Resources, Inc., 7.125%, 4/1/2016	385,000	376,337
Sabine Pass LNG LP:		
144A, 7.25%, 11/30/2013	150,000	149,063
144A, 7.5%, 11/30/2016	475,000	473,219
Southern Natural Gas, 8.875%, 3/15/2010	2,345,000	2,460,116
Stone Energy Corp.:		
6.75%, 12/15/2014	1,715,000	1,637,825
144A, 8.124%**, 7/15/2010	480,000	475,200
Transmeridian Exploration, Inc., 12.0%, 12/15/2010 (b)	970,000	933,625
Williams Companies, Inc.:		
8.125%, 3/15/2012	3,685,000	3,989,012
8.75%, 3/15/2032	1,665,000	1,881,450
		27,396,591
Financials 12.0%		
Alamosa Delaware, Inc., 11.0%, 7/31/2010	810,000	875,274
Ashton Woods USA LLC, 9.5%, 10/1/2015	1,495,000	1,360,450
BCP Crystal Holdings Corp., 9.625%, 6/15/2014	200,000	221,000
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014	295,000	299,425
E*TRADE Financial Corp.:		
7.375%, 9/15/2013	550,000	572,000
7.875%, 12/1/2015	410,000	435,625
8.0%, 6/15/2011	890,000	930,050
Ford Motor Credit Co.:		
7.25%, 10/25/2011	3,820,000	3,740,819
7.375%, 10/28/2009	7,390,000	7,405,741
7.875%, 6/15/2010	1,860,000	1,875,449
8.0%, 12/15/2016	265,000	261,860
8.11%**, 1/13/2012	475,000	470,686
GMAC LLC:		
6.875%, 9/15/2011	8,555,000	8,774,846
8.0%, 11/1/2031	3,538,000	4,061,865
Hexion US Finance Corp., 144A, 9.75%, 11/15/2014	395,000	400,431
Idearc, Inc., 144A, 8.0%, 11/15/2016	2,285,000	2,319,275
iPayment, Inc., 9.75%, 5/15/2014	510,000	524,025
Poster Financial Group, Inc., 8.75%, 12/1/2011 (b)	1,800,000	1,867,500
R.H. Donnelly Finance Corp., 10.875%, 12/15/2012	2,280,000	2,485,200
Sally Holdings LLC, 144A, 9.25%, 11/15/2014	995,000	1,013,656
Triad Acquisition Corp., Series B, 11.125%, 5/1/2013	850,000	807,500
UCI Holding Co., Inc., 144A, 12.365%**, 12/15/2013 (PIK)	600,000	582,000
Universal City Development, 11.75%, 4/1/2010	2,540,000	2,720,975
Wimar Opco LLC, 144A, 9.625%, 12/15/2014	1,000,000	990,000
		44,995,652
Health Care 1.9%		
HCA, Inc.:		
6.5%, 2/15/2016 (b)	530,000	446,525
144A, 9.125%, 11/15/2014	790,000	844,313
144A, 9.25%, 11/15/2016	1,750,000	1,874,687
HEALTHSOUTH Corp.:		
144A, 10.75%, 6/15/2016 (b)	1,225,000	1,318,406
144A, 11.354%**, 6/15/2014 (b)	190,000	202,350
Tenet Healthcare Corp., 9.25%, 2/1/2015	2,510,000	2,510,000
		7,196,281
Industrials 8.4%		
Aleris International, Inc., 144A, 9.0%, 12/15/2014	495,000	497,475
Allied Security Escrow Corp., 11.375%, 7/15/2011	819,000	839,475
Allied Waste North America, Inc., Series B, 9.25%, 9/1/2012	1,985,000	2,109,062

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
American Color Graphics, 10.0%, 6/15/2010 (b)	945,000	670,950
Browning-Ferris Industries:		
7.4%, 9/15/2035	1,560,000	1,458,600
9.25%, 5/1/2021	920,000	975,200
Case New Holland, Inc., 9.25%, 8/1/2011	2,190,000	2,318,662
Cenveo Corp., 7.875%, 12/1/2013	1,257,000	1,206,720
Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010 (b)	1,705,000	1,743,362
Congoleum Corp., 8.625%, 8/1/2008*	1,200,000	1,140,000
DRS Technologies, Inc.:		
6.625%, 2/1/2016	195,000	196,463
7.625%, 2/1/2018	1,205,000	1,241,150
Education Management LLC, 144A, 8.75%, 6/1/2014	480,000	496,800
Esco Corp.:		
144A, 8.625%, 12/15/2013 (b)	995,000	1,022,363
144A, 9.235%**, 12/15/2013 (b)	445,000	451,675
Iron Mountain, Inc., 8.75%, 7/15/2018 (b)	375,000	397,500
K. Hovnanian Enterprises, Inc.:		
6.25%, 1/15/2016	1,660,000	1,568,700
8.875%, 4/1/2012 (b)	1,865,000	1,892,975
Kansas City Southern:		
7.5%, 6/15/2009	395,000	398,456
9.5%, 10/1/2008	3,420,000	3,573,900
Millennium America, Inc., 9.25%, 6/15/2008	810,000	836,325
Mobile Services Group, Inc., 144A, 9.75%, 8/1/2014	915,000	956,175
Panolam Industries International, Inc., 144A, 10.75%, 10/1/2013	295,000	310,488
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014	180,000	200,025
Riverdeep Bank, 11.063%, 12/15/2007	1,095,000	1,096,369
Ship Finance International Ltd., 8.5%, 12/15/2013	460,000	459,425
The Brickman Group Ltd., Series B, 11.75%, 12/15/2009	1,420,000	1,508,750
Titan International, Inc., 144A, 8.0%, 1/15/2012	995,000	1,001,219
Williams Partners LP, 144A, 7.25%, 2/1/2017	495,000	504,900
Xerox Capital Trust I, 8.0%, 2/1/2027	335,000	342,119
		31,415,283
Information Technology 3.8%		
Freescale Semiconductor, Inc., 144A, 8.875%, 12/15/2014	495,000	493,144
L-3 Communications Corp.:		
5.875%, 1/15/2015	2,205,000	2,127,825
Series B, 6.375%, 10/15/2015	730,000	722,700
Lucent Technologies, Inc., 6.45%, 3/15/2029	3,290,000	3,035,025
Sanmina-SCI Corp., 8.125%, 3/1/2016 (b)	1,370,000	1,325,475
SunGard Data Systems, Inc., 10.25%, 8/15/2015 (b)	1,710,000	1,825,425
UGS Corp., 10.0%, 6/1/2012	1,610,000	1,754,900
Unisys Corp., 7.875%, 4/1/2008	2,890,000	2,882,775
		14,167,269

	Principal Amount ($)(a)	Value ($)
Materials 11.2%		
ARCO Chemical Co., 9.8%, 2/1/2020	4,940,000	5,705,700
Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014	485,000	327,375
Chemtura Corp., 6.875%, 6/1/2016	975,000	938,437
Constar International, Inc., 11.0%, 12/1/2012 (b)	255,000	235,875
CPG International I, Inc.:		
10.5%, 7/1/2013	1,510,000	1,538,312
12.39%**, 7/1/2012	645,000	657,900
Crystal US Holdings:		
Series A, Step-up Coupon, 0% to 10/1/2009, 10% to 10/1/2014	1,945,000	1,662,975
Series B, Step-up Coupon, 0% to 10/1/2009, 10.5% to 10/1/2014 (b)	545,000	468,700
Equistar Chemical Funding, 10.625%, 5/1/2011	1,215,000	1,293,975
Exopac Holding Corp., 144A, 11.25%, 2/1/2014	1,550,000	1,631,375
GEO Specialty Chemicals, Inc., 144A, 13.36%**, 12/31/2009	3,044,000	2,511,300
Georgia-Pacific Corp., 144A, 7.125%, 1/15/2017	345,000	344,138
Greif, Inc., 8.875%, 8/1/2012	830,000	871,500
Hexcel Corp., 6.75%, 2/1/2015	1,895,000	1,866,575
Huntsman LLC, 11.625%, 10/15/2010	2,422,000	2,646,035
International Coal Group, Inc., 10.25%, 7/15/2014	650,000	650,000
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014	1,170,000	936,000
Lyondell Chemical Co., 10.5%, 6/1/2013	335,000	368,500
Massey Energy Co.:		
6.625%, 11/15/2010	1,375,000	1,375,000
6.875%, 12/15/2013	720,000	676,800
Metals USA Holding Corp., 144A, 11.365%**, 1/15/2012	700,000	672,000
Momentive Performance, 144A, 9.75%, 12/1/2014	495,000	495,000
Mueller Holdings, Inc., Step-up Coupon, 0% to 4/15/2009, 14.75% to 4/15/2014	2,441,000	2,196,900
Neenah Foundry Co.:		
144A, 9.5%, 1/1/2017	695,000	698,475
144A, 13.0%, 9/30/2013	732,460	732,460
NewMarket Corp., 144A, 7.125%, 12/15/2016	1,190,000	1,190,000
OM Group, Inc., 9.25%, 12/15/2011 (b)	675,000	706,219
Omnova Solutions, Inc., 11.25%, 6/1/2010	2,785,000	2,993,875
Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010*	1,962,795	29,442
Pliant Corp., 11.625%, 6/15/2009 (PIK)	11	12
Radnor Holdings Corp., 11.0%, 3/15/2010*	265,000	663
Rockwood Specialties Group, Inc., 10.625%, 5/15/2011	420,000	447,300
The Mosaic Co.:		
144A, 7.375%, 12/1/2014	1,195,000	1,226,369
144A, 7.625%, 12/1/2016	400,000	414,500

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
TriMas Corp., 9.875%, 6/15/2012	1,371,000	1,326,442
United States Steel Corp., 9.75%, 5/15/2010	979,000	1,041,411
Witco Corp., 6.875%, 2/1/2026	390,000	341,250
Wolverine Tube, Inc., 10.5%, 4/1/2009 (b)	850,000	688,500
		41,907,290
Telecommunication Services 4.8%		
American Cellular Corp., Series B, 10.0%, 8/1/2011	750,000	793,125
Centennial Communications Corp., 10.0%, 1/1/2013 (b)	780,000	829,725
Cincinnati Bell, Inc.:		
7.25%, 7/15/2013	2,290,000	2,370,150
8.375%, 1/15/2014 (b)	1,575,000	1,618,312
Dobson Cellular Systems, 9.875%, 11/1/2012	780,000	850,200
Dobson Communications Corp., 8.875%, 10/1/2013	700,000	713,125
Insight Midwest LP, 9.75%, 10/1/2009	319,000	324,184
Intelsat Corp., 144A, 9.0%, 6/15/2016	345,000	365,269
MetroPCS Wireless, Inc., 144A, 9.25%, 11/1/2014	745,000	778,525
Nextel Communications, Inc., Series D, 7.375%, 8/1/2015	4,095,000	4,199,115
Qwest Corp., 7.25%, 9/15/2025	1,395,000	1,433,362
Rural Cellular Corp., 9.875%, 2/1/2010 (b)	925,000	983,969
SunCom Wireless Holdings, Inc., 8.5%, 6/1/2013 (b)	1,075,000	1,029,313
Ubiquitel Operating Co., 9.875%, 3/1/2011	615,000	664,200
US Unwired, Inc., Series B, 10.0%, 6/15/2012	1,075,000	1,182,500
Windstream Corp., 144A, 8.625%, 8/1/2016	45,000	49,275
		18,184,349
Utilities 8.4%		
AES Corp., 144A, 8.75%, 5/15/2013	5,790,000	6,202,537
Allegheny Energy Supply Co. LLC, 144A, 8.25%, 4/15/2012	3,885,000	4,263,787
CMS Energy Corp., 8.5%, 4/15/2011	3,270,000	3,556,125
Mirant Americas Generation LLC, 8.3%, 5/1/2011	365,000	374,125
Mirant North America LLC, 7.375%, 12/31/2013	360,000	365,400
Mission Energy Holding Co., 13.5%, 7/15/2008	4,680,000	5,159,700
NRG Energy, Inc.:		
7.25%, 2/1/2014	1,560,000	1,571,700
7.375%, 2/1/2016	3,155,000	3,170,775
PSE&G Energy Holdings LLC, 10.0%, 10/1/2009	4,095,000	4,484,025
Regency Energy Partners LP, 144A, 8.375%, 12/15/2013	1,040,000	1,042,600
Sierra Pacific Resources:		
6.75%, 8/15/2017	1,160,000	1,137,740
8.625%, 3/15/2014 (b)	200,000	214,732
		31,543,246
Total Corporate Bonds (Cost $306,754,613)		**307,123,471**

Foreign Bonds — US$ Denominated 11.7%

	Principal Amount ($)(a)	Value ($)
Consumer Discretionary 2.0%		
Dollarama Group Holdings LP, 144A, 11.12%**, 8/15/2012	495,000	491,288
Jafra Cosmetics International, Inc., 10.75%, 5/15/2011	2,825,000	3,019,219
Quebecor World, Inc., 144A, 9.75%, 1/15/2015	495,000	498,094
Shaw Communications, Inc., 8.25%, 4/11/2010	655,000	695,937
Telenet Group Holding NV, 144A, Step-up Coupon, 0% to 12/15/2008, 11.5% to 6/15/2014	2,482,000	2,236,902
Unity Media GmbH, 144A, 10.375%, 2/15/2015 (b)	410,000	398,213
Vitro, SA de CV, Series A, 11.75%, 11/1/2013	225,000	246,375
		7,586,028
Energy 0.4%		
OPTI Canada, Inc., 144A, 8.25%, 12/15/2014	595,000	611,363
Secunda International Ltd., 13.374%**, 9/1/2012	890,000	920,037
		1,531,400
Financials 1.6%		
Conproca SA de CV, Series REG S, 12.0%, 6/16/2010	2,685,000	3,101,175
Doral Financial Corp., 6.204%**, 7/20/2007 (b)	2,115,000	1,922,015
Inmarsat Finance II PLC, Step-up Coupon, 0% to 11/15/2008, 10.375% to 11/15/2012	590,000	543,537
New ASAT (Finance) Ltd., 9.25%, 2/1/2011	575,000	477,250
		6,043,977
Health Care 0.4%		
Biovail Corp., 7.875%, 4/1/2010	1,535,000	**1,567,619**
Industrials 1.4%		
Bombardier, Inc., 144A, 8.0%, 11/15/2014	280,000	287,000
Kansas City Southern de Mexico:		
144A, 7.625%, 12/1/2013	1,345,000	1,345,000
9.375%, 5/1/2012	1,220,000	1,302,350
12.5%, 6/15/2012	1,026,000	1,108,080
Navios Maritime Holdings, 144A, 9.5%, 12/15/2014	695,000	684,742
Stena AB, 9.625%, 12/1/2012	480,000	511,200
Supercanal Holding SA, Series REG S, 11.5%, 5/15/2005*	100,000	15,000
		5,253,372
Information Technology 0.3%		
Seagate Technology HDD Holdings, 6.8%, 10/1/2016	950,000	**954,750**
Materials 2.0%		
Cascades, Inc., 7.25%, 2/15/2013	1,471,000	1,467,322
ISPAT Inland ULC, 9.75%, 4/1/2014	1,820,000	2,033,850
Novelis, Inc., Step-up Coupon, 8.25% to 1/4/2007, 7.25% to 2/15/2015	2,430,000	2,351,025
Rhodia SA:		
8.875%, 6/1/2011	581,000	612,955
10.25%, 6/1/2010	640,000	729,600

The accompanying notes are an integral part of the financial statements.

		Principal Amount ($)(a)	Value ($)
Tembec Industries, Inc., 8.625%, 6/30/2009		690,000	472,650
			7,667,402
Sovereign Bonds 0.4%			
Federative Republic of Brazil, 8.875%, 10/14/2019 (b)		605,000	738,100
Republic of Argentina, 5.59%**, 8/3/2012 (PIK)		1,200,000	850,387
			1,588,487
Telecommunication Services 3.2%			
Cell C Property Ltd., 144A, 11.0%, 7/1/2015		1,950,000	1,828,125
Embratel, Series B, 11.0%, 12/15/2008 (b)		212,000	232,670
Grupo Iusacell SA de CV, Series B, 10.0%, 7/15/2004*		285,000	282,150
Intelsat Bermuda Ltd., 144A, 11.25%, 6/15/2016		895,000	982,262
Intelsat Ltd., 5.25%, 11/1/2008		895,000	870,388
Millicom International Cellular SA, 10.0%, 12/1/2013		465,000	506,850
Mobifon Holdings BV, 12.5%, 7/31/2010		2,251,000	2,487,387
Nortel Networks Ltd.:			
144A, 9.624%**, 7/15/2011		1,790,000	1,886,212
144A, 10.125%, 7/15/2013		820,000	885,600
144A, 10.75%, 7/15/2016		695,000	760,156
Stratos Global Corp., 9.875%, 2/15/2013		1,135,000	1,095,275
			11,817,075
Total Foreign Bonds — US$ Denominated (Cost $43,829,020)			**44,010,110**

Foreign Bonds — Non US$ Denominated 1.5%

		Principal Amount ($)(a)	Value ($)
Consumer Discretionary 0.4%			
Cirsa Capital Luxembourg, 144A, 7.875%, 7/15/2012	EUR	385,000	485,553
Unity Media GmbH, 144A, 8.75%, 2/15/2015	EUR	905,000	1,161,792
			1,647,345
Financials 0.6%			
Codere Finance Luxembourg SA, 144A, 8.25%, 6/15/2015	EUR	445,000	621,199
Louis No. 1 PLC:			
144A, 8.5%, 12/1/2014	EUR	500,000	660,025
144A, 10.0%, 12/1/2016	EUR	295,000	391,362
Ono Finance II, 144A, 8.0%, 5/16/2014	EUR	435,000	591,448
			2,264,034
Materials 0.2%			
Rhodia SA, 144A, 6.242%**, 10/15/2013	EUR	640,000	**844,410**
Sovereign Bonds 0.3%			
Republic of Argentina, 7.82%, 12/31/2033 (PIK)	EUR	706,205	**979,304**
Total Foreign Bonds — Non US$ Denominated (Cost $5,428,771)			**5,735,093**

	Shares	Value ($)
Preferred Stocks 0.0%		
ION Media Networks, Inc. 14.25%, (PIK) (Cost $9,006)	1	**7,450**

	Principal Amount ($)(a)	Value ($)
Loan Participation 0.2%		
Alliance Mortgage Cycle Loan, LIBOR plus 7.25%, 12.65%**, 6/4/2010 (Cost $712,500)	712,500	**712,500**

	Shares	Value ($)
Warrants 0.0%		
Dayton Superior Corp. 144A, Expiration 6/15/2009*	95	0
DeCrane Aircraft Holdings, Inc. 144A, Expiration 9/30/2008*	1,350	0
TravelCenters of America, Inc., Expiration 5/1/2009*	345	8,625
Total Warrants (Cost $1,409)		**8,625**

	Units	Value ($)
Other Investments 0.6%		
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029	1,100,000	940,500
IdleAire Technologies Corp. (Bond Unit), 144A, Step-up Coupon, 0% to 6/15/2008, 13.0% to 12/15/2012	1,735,000	1,301,250
Total Other Investments (Cost $2,251,365)		**2,241,750**

	Shares	Value ($)
Common Stocks 0.0%		
GEO Specialty Chemicals, Inc.*	24,225	20,591
GEO Specialty Chemicals, Inc. 144A*	2,206	1,875
IMPSAT Fiber Networks, Inc.*	13,327	123,075
Total Common Stocks (Cost $1,058,657)		**145,541**
Convertible Preferred Stocks 0.1%		
ION Media Networks, Inc.:		
144A, 9.75% (PIK)	60	274,993
Series AI, 144A, 9.75% (PIK)	6	27,300
Total Convertible Preferred Stocks (Cost $455,025)		**302,293**
Securities Lending Collateral 10.6%		
Daily Assets Fund Institutional, 5.34% (c) (d) (Cost $39,617,550)	39,617,550	**39,617,550**
Cash Equivalents 1.1%		
Cash Management QP Trust, 5.46% (e) (Cost $4,049,599)	4,049,599	**4,049,599**

The accompanying notes are an integral part of the financial statements.

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $404,167,515)†	107.8	**403,953,982**
Other Assets and Liabilities, Net	(7.8)	**(29,138,892)**
Net Assets	100.0	**374,815,090**

† *The cost for federal income tax purposes was $404,356,452. At December 31, 2006, net unrealized depreciation for all securities based on tax cost was $402,470. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,330,191 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,732,661.*

* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or the interest or has filed for bankruptcy. The following table represents bonds that are in default:*

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Congoleum Corp.	8.625%	8/1/2008	1,200,000	USD	1,114,956	1,140,000
Grupo Iusacell SA de CV	10.0%	7/15/2004	285,000	USD	182,087	282,150
Oxford Automotive, Inc.	12.0%	10/15/2010	1,962,795	USD	1,574,274	29,442
Radnor Holdings Corp.	11.0%	3/15/2010	265,000	USD	242,395	663
Supercanal Holding SA	11.5%	5/15/2005	100,000	USD	10,000	15,000
					3,123,712	**1,467,255**

** *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury Bill rate. These securities are shown at their current rate as of December 31, 2006.*

(a) *Principal amount stated in US dollars unless otherwise noted.*

(b) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $38,814,439 which is 10.4% of net assets.*

(c) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

LIBOR: Represents the London InterBank Offered Rate.

PIK: Denotes that all or a portion of the income is paid in-kind.

At December 31, 2006, the open credit default swap contract purchased was as follows:

Effective/ Expiration Date	Notional Amount ($)	Cash Flows Paid by the Portfolio	Underlying Debt Obligation	Unrealized Appreciation ($)
9/27/2006 12/20/2011	3,500,000†	Fixed — 3.25%	Dow Jones CDX High Yield	**103,778**

Counterparty:

† *JPMorgan Chase*

As of December 31, 2006, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
EUR	795,000	USD	1,062,812	2/12/2007	11,227
EUR	2,451,000	USD	3,253,541	2/12/2007	11,486
Total unrealized appreciation					**22,713**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
EUR	640,000	USD	816,576	1/5/2007	(28,472)
EUR	100,000	USD	126,119	1/12/2007	(5,968)
EUR	490,000	USD	625,394	2/5/2007	(22,561)
EUR	305,000	USD	389,607	2/9/2007	(13,780)
EUR	93,000	USD	119,631	2/12/2007	(3,385)
Total unrealized depreciation					**(74,166)**

Currency Abbreviations

EUR	Euro	USD	US Dollar

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $360,500,366) — including $38,814,439 of securities loaned	$ 360,286,833
Investment in Daily Assets Fund Institutional (cost $39,617,550)*	39,617,550
Investment in Cash Management QP Trust (cost $4,049,599)	4,049,599
Total investments in securities, at value (cost $404,167,515)	403,953,982
Cash	3,431,545
Foreign currency, at value (cost $47,034)	47,278
Interest receivable	7,599,766
Receivable for Portfolio shares sold	21,450
Foreign taxes recoverable	779
Unrealized appreciation on forward foreign currency exchange contracts	22,713
Unrealized appreciation on credit default swap contracts	103,778
Other assets	10,843
Total assets	415,192,134

Liabilities	
Payable for Portfolio shares redeemed	234,457
Payable upon return of securities loaned	39,617,550
Accrued management fee	188,848
Unrealized depreciation on forward foreign currency exchange contracts	74,166
Other accrued expenses and payables	262,023
Total liabilities	40,377,044
Net assets, at value	**$ 374,815,090**

Net Assets	
Net assets consist of:	
Undistributed net investment income	28,104,439
Net unrealized appreciation (depreciation) on:	
Investments	(213,533)
Credit default swaps	103,778
Foreign currency related transactions	(46,802)
Accumulated net realized gain (loss)	(116,011,566)
Paid-in capital	462,878,774
Net assets, at value	**$ 374,815,090**
Class A	
Net Asset Value, offering and redemption price per share ($321,548,895 ÷ 38,357,993 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 8.38**
Class B	
Net Asset Value, offering and redemption price per share ($53,266,195 ÷ 6,354,214 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 8.38**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income	
Dividends	$ 14,868
Interest (net of foreign taxes withheld of $618)	31,393,163
Interest — Cash Management QP Trust	451,180
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	122,029
Total Income	31,981,240
Expenses:	
Management fee	2,263,303
Custodian fees	30,922
Distribution service fees (Class B)	133,627
Record keeping fees (Class B)	75,618
Auditing	59,873
Legal	16,648
Trustees' fees and expenses	30,652
Reports to shareholders	190,761
Other	116,209
Total expenses before expense reductions	2,917,613
Expense reductions	(9,582)
Total expenses after expense reductions	2,908,031
Net investment income	**29,073,209**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	(3,844,246)
Credit default swaps	73,879
Foreign currency related transactions	(470,784)
	(4,241,151)
Net unrealized appreciation (depreciation) during the period on:	
Investments	12,731,846
Credit default swaps	103,778
Foreign currency related transactions	(1,659)
	12,833,965
Net gain (loss) on investment transactions	**8,592,814**
Net increase (decrease) in net assets resulting from operations	**$ 37,666,023**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income	$ 29,073,209	$ 33,801,550
Net realized gain (loss) on investment transactions	(4,241,151)	1,281,093
Net unrealized appreciation (depreciation) on investment transactions during the period	12,833,965	(19,453,613)
Net increase (decrease) in net assets resulting from operations	37,666,023	15,629,030
Distributions to shareholders from:		
Net investment income:		
Class A	(26,233,542)	(33,565,659)
Class B	(4,096,501)	(5,270,980)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	42,074,123	75,871,095
Reinvestment of distributions	26,233,542	33,565,659
Cost of shares redeemed	(96,640,530)	(139,459,552)
Net increase (decrease) in net assets from Class A share transactions	(28,332,865)	(30,022,798)
Class B		
Proceeds from shares sold	8,449,167	14,544,739
Reinvestment of distributions	4,096,501	5,270,980
Cost of shares redeemed	(15,970,978)	(17,547,469)
Net increase (decrease) in net assets from Class B share transactions	(3,425,310)	2,268,250
Increase (decrease) in net assets	(24,422,195)	(50,962,157)
Net assets at beginning of period	399,237,285	450,199,442
Net assets at end of period (including undistributed net investment income of $28,104,439 and $29,781,622, respectively)	**$ 374,815,090**	**$ 399,237,285**

Other Information		
Class A		
Shares outstanding at beginning of period	41,769,600	44,826,321
Shares sold	5,241,451	9,379,235
Shares issued to shareholders in reinvestment of distributions	3,376,260	4,275,880
Shares redeemed	(12,029,318)	(16,711,836)
Net increase (decrease) in Class A shares	(3,411,607)	(3,056,721)
Shares outstanding at end of period	**38,357,993**	**41,769,600**
Class B		
Shares outstanding at beginning of period	6,770,189	6,474,194
Shares sold	1,037,633	1,758,405
Shares issued to shareholders in reinvestment of distributions	525,192	669,756
Shares redeemed	(1,978,800)	(2,132,166)
Net increase (decrease) in Class B shares	(415,975)	295,995
Shares outstanding at end of period	**6,354,214**	**6,770,189**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$ 8.23**	**$ 8.78**	**$ 8.43**	**$ 7.40**	**$ 8.13**
Income (loss) from investment operations:					
Net investment income[a]	.62	.68	.67	.67	.75
Net realized and unrealized gain (loss) on investment transactions	.19	(.38)	.31	1.03	(.74)
Total from investment operations	.81	.30	.98	1.70	.01
Less distributions from:					
Net investment income	(.66)	(.85)	(.63)	(.67)	(.74)
Net asset value, end of period	**$ 8.38**	**$ 8.23**	**$ 8.78**	**$ 8.43**	**$ 7.40**
Total Return (%)	10.47	3.89	12.42	24.62	(.30)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	322	344	393	413	329
Ratio of expenses (%)	.71	.70	.66	.67	.66
Ratio of net investment income (%)	7.73	8.27	8.11	8.62	10.07
Portfolio turnover rate (%)	93	100	162	165	138

a *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$ 8.22**	**$ 8.77**	**$ 8.41**	**$ 7.39**	**$ 7.21**
Income (loss) from investment operations:					
Net investment income[b]	.59	.65	.64	.64	.31
Net realized and unrealized gain (loss) on investment transactions	.20	(.39)	.32	1.03	(.13)
Total from investment operations	.79	.26	.96	1.67	.18
Less distributions from:					
Net investment income	(.63)	(.81)	(.60)	(.65)	—
Net asset value, end of period	**$ 8.38**	**$ 8.22**	**$ 8.77**	**$ 8.41**	**$ 7.39**
Total Return (%)	10.11	3.41	12.08	24.14	2.50**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	53	56	57	37	1
Ratio of expenses (%)	1.10	1.10	1.06	1.06	.92*
Ratio of net investment income (%)	7.34	7.87	7.71	8.23	8.78*
Portfolio turnover rate (%)	93	100	162	165	138

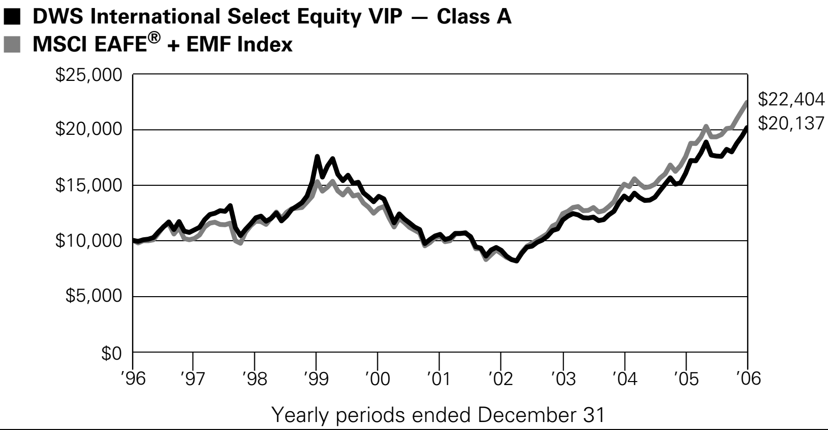
a *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
b *Based on average shares outstanding during the period.*
* *Annualized*
** *Not annualized*

DWS International Select Equity VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS International Select Equity VIP



The MSCI EAFE® + EMF Index (Morgan Stanley Capital International Europe, Australasia, Far East and Emerging Markets Free Index) is an unmanaged index generally accepted as a benchmark for major overseas markets plus emerging markets. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS International Select Equity VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$12,556	$17,002	$19,097	$20,137
	Average annual total return	25.56%	19.35%	13.81%	7.25%
MSCI EAFE + EMF Index	Growth of $10,000	$12,776	$18,034	$21,630	$22,404
	Average annual total return	27.76%	21.72%	16.68%	8.40%

DWS International Select Equity VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$12,506	$16,799	$19,224
	Average annual total return	25.06%	18.88%	15.65%
MSCI EAFE + EMF Index	Growth of $10,000	$12,776	$18,034	$21,843
	Average annual total return	27.76%	21.72%	18.96%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS International Select Equity VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,145.40	$1,143.50
Expenses Paid per $1,000*	$ 4.97	$ 7.02

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.57	$1,018.65
Expenses Paid per $1,000*	$ 4.69	$ 6.61

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS International Select Equity VIP	.92%	1.30%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS International Select Equity VIP

An environment characterized by strong corporate earnings, robust global growth and a high level of merger and acquisition activity helped propel the MSCI EAFE® + EMF Index to a US dollar return of 27.76% during 2006. For the 12 months ended December 31, 2006, the Portfolio had a return of 25.56% (Class A shares, unadjusted for contract charges), lagging the return of the index.

The largest contribution to the Portfolio's return came from stock selection in the telecommunications, consumer discretionary and health care sectors. Within telecommunications, the Portfolio benefited from the strong performance of Luxembourg-based Millicom International Cellular SA, which operates under the brand Tigo in 17 developing countries. In consumer discretionary, shares of Whitbread PLC — a U.K. operator of budget lodging, restaurants and fitness clubs — climbed to an all-time high. Also aiding performance was Greene King PLC, a U.K. brewer of beer and operator of tenanted pub houses. The company reported a strong increase in its first half profits as a warm U.K. summer spurred increased lager sales. Within health care, top contributors were Fresenius Medical Care AG & Co., a dialysis treatment provider based in Germany, and Denmark's Novo Nordisk AS, a world leader in diabetes treatments.

These contributions were offset by the Portfolio's underperformance in the industrials and financials sectors. With respect to the former, relative performance was hurt by mediocre results from Japan's Mitsubishi Corp.* and Brazil's Gol-Linhas Aereas Inteligentes SA, (ADR). With regard to the latter, the Portfolio's holdings in Japanese banks, including Mitsubishi UFJ Financial Group Inc.*, Nishi-Nippon City Bank Ltd.* and Credit Saison Co., Ltd.,* underperformed.

Matthias Knerr, CFA

Portfolio Manager
Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio's is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The MSCI EAFE® + EMF Index (Morgan Stanley Capital International Europe, Australasia, Far East and Emerging Markets Free Index) is an unmanaged index generally accepted as a benchmark for major overseas markets plus emerging markets. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

* *As of December 31, 2006, the positions were sold.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS International Select Equity VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	94%	99%
Preferred Stocks	3%	1%
Cash Equivalents	3%	—
	100%	100%

Geographical Diversification (As a % of Common and Preferred Stocks)	**12/31/06**	**12/31/05**
Continental Europe	56%	48%
Japan	20%	23%
United Kingdom	15%	17%
Latin America	6%	3%
Asia (excluding Japan)	3%	6%
Australia	—	3%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/06**	**12/31/05**
Financials	30%	30%
Consumer Discretionary	17%	17%
Health Care	12%	9%
Industrials	9%	10%
Information Technology	8%	6%
Energy	6%	11%
Telecommunications Services	6%	1%
Materials	5%	8%
Consumer Staples	5%	6%
Utilities	2%	2%
	100%	100%

Asset allocation, geographical and sector diversifications are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 110. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS International Select Equity VIP

	Shares	Value ($)
Common Stocks 93.9%		
Austria 1.5%		
Erste Bank der oesterreichischen Sparkassen AG (Cost $3,538,796)	58,900	**4,499,555**
Belgium 2.0%		
KBC Groep NV (Cost $5,880,363)	47,900	**5,863,366**
Brazil 3.1%		
Gol-Linhas Aereas Inteligentes SA (ADR) (Preferred) (a)	131,200	3,761,504
Petroleo Brasileiro SA (ADR)	51,000	5,252,490
(Cost $6,631,368)		**9,013,994**
China 1.0%		
Shanghai Electric Group Co., Ltd. "H" (Cost $3,043,128)	7,397,600	**3,093,804**
Denmark 1.9%		
Novo Nordisk AS "B" (Cost $4,171,149)	66,400	**5,528,130**
Finland 3.3%		
Nokia Oyj	282,800	5,751,508
Nokian Renkaat Oyj (a)	199,500	4,086,562
(Cost $7,832,165)		**9,838,070**
France 4.3%		
Societe Generale	42,361	7,167,184
Total SA	77,341	5,577,004
(Cost $8,282,245)		**12,744,188**
Germany 10.7%		
Bayer AG	103,221	5,537,718
Commerzbank AG	81,279	3,084,560
E.ON AG	38,677	5,247,420
Fresenius Medical Care AG & Co.	35,653	4,737,333
Hypo Real Estate Holding AG	139,125	8,739,778
Merck KGaA	40,064	4,152,147
(Cost $20,197,946)		**31,498,956**
Greece 1.8%		
National Bank of Greece SA (Cost $4,518,907)	114,000	**5,235,996**
Ireland 1.5%		
Anglo Irish Bank Corp. PLC (Cost $2,784,801)	213,741	**4,431,698**
Italy 4.7%		
Banca Italease	113,500	6,594,632
UniCredito Italiano SpA	820,900	7,175,423
(Cost $10,803,066)		**13,770,055**
Japan 19.1%		
Canon, Inc.	164,500	9,316,898
Casio Computer Co., Ltd.	216,000	4,906,721
Daito Trust Construction Co., Ltd.	95,500	4,369,400
Eisai Co., Ltd.	93,000	5,114,225
Komatsu Ltd.	232,000	4,673,287
Mitsui Fudosan Co., Ltd.	286,000	6,995,218
ORIX Corp.	21,400	6,209,700
Sumitomo Corp.	313,000	4,666,810
Suzuki Motor Corp.	194,000	5,484,779
Yamaha Motor Co., Ltd.	145,800	4,589,846
(Cost $44,729,285)		**56,326,884**
Kazakhstan 0.6%		
KazMunaiGas Exploration Production (GDR)* (Cost $1,115,568)	76,200	**1,863,852**
Korea 1.6%		
Samsung Electronics Co., Ltd. (GDR), 144A (Cost $3,282,029)	14,690	**4,833,010**
Luxembourg 1.6%		
Millicom International Cellular SA* (a) (Cost $2,728,825)	78,000	**4,807,920**
Mexico 2.9%		
Fomento Economico Mexicano SA de CV (ADR)	41,300	4,780,888
Grupo Financiero Banorte SA de CV "O"	976,800	3,819,312
(Cost $6,583,386)		**8,600,200**
Norway 1.7%		
Statoil ASA (a) (Cost $5,176,501)	190,600	**5,024,961**
Pakistan 0.5%		
MCB Bank Ltd. (GDR) 144A (Cost $1,422,133)	79,387	**1,428,966**
Spain 2.8%		
Telefonica SA (Cost $7,147,350)	387,645	**8,226,367**
Sweden 7.9%		
Atlas Copco AB "B"	174,900	5,645,590
Rezidor Hotel Group AB*	621,500	5,356,232
Swedish Match AB	248,700	4,647,549
Tele2 AB "B"	215,800	3,142,599
Telefonaktiebolaget LM Ericsson "B"	1,100,700	4,435,526
(Cost $19,650,628)		**23,227,496**
Switzerland 4.6%		
Compagnie Financiere Richemont AG "A" (Unit)	85,559	4,969,524
Lonza Group AG (Registered)	33,360	2,875,498
Roche Holding AG (Genusschein)	32,671	5,845,532
(Cost $9,565,392)		**13,690,554**
United Kingdom 14.8%		
Aviva PLC	286,738	4,603,615
BHP Billiton PLC	328,559	6,070,075
Capita Group PLC	453,601	5,389,648
Greene King PLC	230,123	5,098,382
Hammerson PLC	102,221	3,147,796
Shire PLC	230,282	4,756,958
Standard Chartered PLC	189,991	5,522,127
Tesco PLC	510,397	4,033,262
Whitbread PLC	157,078	5,149,076
(Cost $38,138,420)		**43,770,939**
Total Common Stocks (Cost $217,223,451)		**277,318,961**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Preferred Stocks 3.1%		
Germany		
Fresenius AG	22,257	4,783,100
Porsche AG	3,473	4,417,185
Total Preferred Stocks (Cost $6,640,561)		**9,200,285**

	Shares	Value ($)
Securities Lending Collateral 2.8%		
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $8,370,138)	8,370,138	**8,370,138**

	Shares	Value ($)
Cash Equivalents 2.6%		
Cash Management QP Trust, 5.46% (d) (Cost $7,611,107)	7,611,107	**7,611,107**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $239,845,257)†	102.4	**302,500,491**
Other Assets and Liabilities, Net	(2.4)	**(7,049,293)**
Net Assets	100.0	**295,451,198**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $246,522,161. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $55,978,330. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $62,051,478 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,073,148.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $8,172,045 which is 2.8% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $223,864,012) — including $8,172,045 of securities loaned	$	286,519,246
Investment in Daily Assets Fund Institutional (cost $8,370,138)*		8,370,138
Investment in Cash Management QP Trust (cost $7,611,107)		7,611,107
Total investments in securities, at value (cost $239,845,257)		302,500,491
Foreign currency, at value (cost $821,133)		820,658
Receivable for investments sold		870,195
Dividends receivable		363,221
Interest receivable		31,481
Receivable for Portfolio shares sold		61,151
Foreign taxes recoverable		124,869
Other assets		8,149
Total assets		304,780,215
Liabilities		
Payable for investments purchased		138,611
Payable for Portfolio shares redeemed		469,618
Payable upon return of securities loaned		8,370,138
Accrued management fee		200,847
Other accrued expenses and payables		149,803
Total liabilities		9,329,017
Net assets, at value	**$**	**295,451,198**
Net Assets		
Net assets consist of:		
Undistributed net investment income		1,329,997
Net unrealized appreciation (depreciation) on:		
Investments		62,655,234
Foreign currency related transactions		17,908
Accumulated net realized gain (loss)		27,670,053
Paid-in capital		203,778,006
Net assets, at value	**$**	**295,451,198**
Class A		
Net Asset Value, offering and redemption price per share ($222,667,768 ÷ 13,653,834 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**16.31**
Class B		
Net Asset Value, offering and redemption price per share ($72,783,430 ÷ 4,475,081 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**16.26**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $632,837)	$	6,560,131
Interest		12,602
Interest — Cash Management QP Trust		172,503
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		319,681
Total Income		7,064,917
Expenses:		
Management fee		2,094,158
Custodian fees		157,859
Distribution service fees (Class B)		171,003
Record keeping fees (Class B)		86,025
Auditing		60,243
Legal		12,954
Trustees' fees and expenses		25,105
Reports to shareholders		81,147
Other		43,141
Total expenses before expense reductions		2,731,635
Expense reductions		(4,122)
Total expenses after expense reductions		2,727,513
Net investment income (loss)		**4,337,404**
Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from:		
Investments (net of foreign taxes of $5,994)		51,886,972
Foreign currency related transactions		(158,457)
Net increase from payments by affiliates and net losses realized on trades executed incorrectly		—
		51,728,515
Net unrealized appreciation (depreciation) during the period on:		
Investments		6,799,480
Foreign currency related transactions		11,456
		6,810,936
Net gain (loss) on investment transactions		**58,539,451**
Net increase (decrease) in net assets resulting from operations	**$**	**62,876,855**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 4,337,404	$ 3,609,139
Net realized gain (loss) on investment transactions	51,728,515	26,472,017
Net unrealized appreciation (depreciation) during the period on investment transactions	6,810,936	3,296,964
Net increase (decrease) in net assets resulting from operations	62,876,855	33,378,120
Distributions to shareholders from:		
Net investment income:		
Class A	(4,319,400)	(5,238,343)
Class B	(1,106,261)	(1,218,036)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	19,462,653	24,909,113
Reinvestment of distributions	4,319,400	5,238,343
Cost of shares redeemed	(40,279,711)	(38,838,821)
Net increase (decrease) in net assets from Class A share transactions	(16,497,658)	(8,691,365)
Class B		
Proceeds from shares sold	6,691,885	13,931,982
Reinvestment of distributions	1,106,261	1,218,036
Cost of shares redeemed	(11,527,517)	(5,723,561)
Net increase (decrease) in net assets from Class B share transactions	(3,729,371)	9,426,457
Increase (decrease) in net assets	37,224,165	27,656,833
Net assets at beginning of period	258,227,033	230,570,200
Net assets at end of period (including undistributed net investment income of $1,329,997 and $1,038,108, respectively)	**$ 295,451,198**	**$ 258,227,033**

Other Information		
Class A		
Shares outstanding at beginning of period	14,778,650	15,442,740
Shares sold	1,353,025	2,084,048
Shares issued to shareholders in reinvestment of distributions	298,301	457,897
Shares redeemed	(2,776,142)	(3,206,035)
Net increase (decrease) in Class A shares	(1,124,816)	(664,090)
Shares outstanding at end of period	**13,653,834**	**14,778,650**
Class B		
Shares outstanding at beginning of period	4,725,198	3,923,204
Shares sold	460,794	1,162,087
Shares issued to shareholders in reinvestment of distributions	76,399	106,471
Shares redeemed	(787,310)	(466,564)
Net increase (decrease) in Class B shares	(250,117)	801,994
Shares outstanding at end of period	**4,475,081**	**4,725,198**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$13.25**	**$11.91**	**$10.18**	**$ 7.96**	**$ 9.24**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.24[b]	.20	.17	.10	.12
Net realized and unrealized gain (loss) on investment transactions	3.11	1.48	1.67	2.23	(1.36)
Total from investment operations	3.35	1.68	1.84	2.33	(1.24)
Less distributions from:					
Net investment income	(.29)	(.34)	(.11)	(.11)	(.04)
Net asset value, end of period	**$16.31**	**$13.25**	**$11.91**	**$10.18**	**$ 7.96**
Total Return (%)	25.56	14.51	18.25	29.83	(13.48)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	223	196	184	147	120
Ratio of expenses (%)	.88	.87	.89	.94	.85
Ratio of net investment income (%)	1.65[b]	1.59	1.58	1.17	1.46
Portfolio turnover rate (%)	122	93	88	139	190

a *Based on average shares outstanding during the period.*

b *Net investment income per share and the ratio of net investment income without non-recurring dividend income amounting to $0.20 per share and 1.39% of average daily net assets, respectively.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$13.21**	**$11.88**	**$10.15**	**$ 7.94**	**$ 8.98**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.19[c]	.15	.13	.06	.02
Net realized and unrealized gain (loss) on investment transactions	3.09	1.47	1.67	2.24	(1.06)
Total from investment operations	3.28	1.62	1.80	2.30	(1.04)
Less distributions from:					
Net investment income	(.23)	(.29)	(.07)	(.09)	—
Net asset value, end of period	**$16.26**	**$13.21**	**$11.88**	**$10.15**	**$ 7.94**
Total Return (%)	25.06	14.00	17.84	29.42	(11.58)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	73	62	47	18	.4
Ratio of expenses (%)	1.26	1.26	1.28	1.33	1.11*
Ratio of net investment income (%)	1.27[c]	1.20	1.19	.78	.54*
Portfolio turnover rate (%)	122	93	88	139	190

a *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *Net investment income per share and the ratio of net investment income without non-recurring dividend income amounting to $0.15 per share and 1.01% of average daily net assets, respectively.*

* *Annualized*

** *Not annualized*

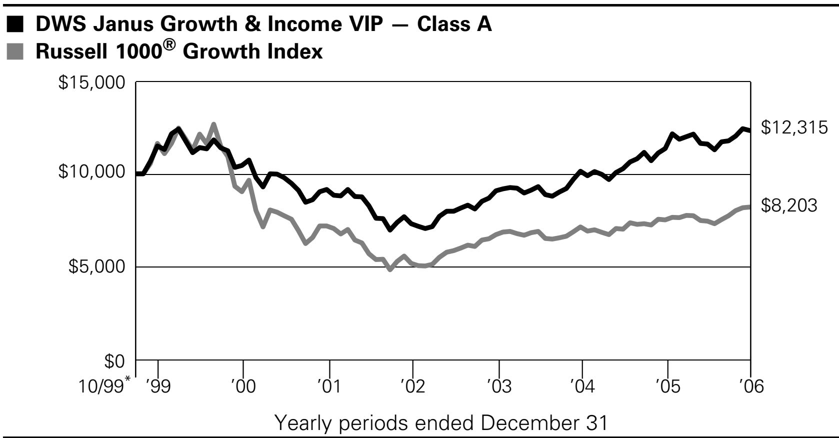
DWS Janus Growth & Income VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The Portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the Portfolio, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for the 3-year and Life of Class periods for Class B shares reflect a waiver and/or expense reimbursement. Without this waiver/reimbursement, returns for Class B shares would have been lower.

Growth of an Assumed $10,000 Investment in DWS Janus Growth & Income VIP from 10/29/1999 to 12/31/2006



The Russell 1000® Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values.

Index returns assume reinvestment dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Janus Growth & Income VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,843	$13,556	$13,450	$12,315
	Average annual total return	8.43%	10.67%	6.11%	2.95%
Russell 1000 Growth Index	Growth of $10,000	$10,907	$12,205	$11,420	$8,203
	Average annual total return	9.07%	6.87%	2.69%	–2.73%

DWS Janus Growth & Income VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$10,798	$13,400	$14,960
	Average annual total return	7.98%	10.25%	9.37%
Russell 1000 Growth Index	Growth of $10,000	$10,907	$12,205	$14,415
	Average annual total return	9.07%	6.87%	8.47%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations October 29, 1999. Index returns began on October 31, 1999. Total returns would have been lower for the Life of Portfolio period for Class A shares if the Portfolio's expenses were not maintained.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

cInformation About Your Portfolio's Expenses

DWS Janus Growth & Income VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,062.40	$1,061.00
Expenses Paid per $1,000*	$ 4.42	$ 6.44
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.92	$1,018.95
Expenses Paid per $1,000*	$ 4.33	$ 6.31

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Janus Growth & Income VIP	.85%	1.24%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Janus Growth & Income VIP

The broad-market rally continued for much of the fourth quarter amid strong earnings reports, a plethora of merger and acquisition activity, and hope that the Federal Reserve's next monetary policy action could be easing. Despite some signs of moderating inflationary pressures and a steady labor market, concerns over the still-elevated level of inflation and worries about a housing-induced economic slowdown remained. DWS Janus Growth & Income VIP produced a total return of 8.43% for the 12-month period ending December 31, 2006 (Class A shares unadjusted for contract charges), slightly underperforming the 9.07% return of its benchmark, the Russell 1000® Growth Index.

Holdings within the information technology sector detracted the most from relative performance during the time period. An overweight position in the consumer discretionary sector contributed positively to the Portfolio during the period.[1] Certain industrials picks also aided returns. Overweight exposure to energy and our underweighting within the consumer staples group helped to offset poor performance of some of our selections within those groups.

As challenges persist, the Portfolio Manager relies on in-depth, company-focused research in his efforts to attempt to generate favorable long-term results for shareholders.

Minyoung Sohn
Portfolio Manager

Janus Capital Management LLC, Subadvisor to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Risk Considerations

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The Portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the Portfolio, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Janus Growth & Income VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	98%	89%
Cash Equivalents	2%	3%
Preferred Stocks	—	2%
Convertible Preferred Stocks	—	6%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/06**	**12/31/05**
Information Technology	25%	28%
Energy	18%	18%
Consumer Discretionary	17%	11%
Financials	12%	13%
Health Care	11%	15%
Industrials	9%	8%
Consumer Staples	8%	7%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 119. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Janus Growth & Income VIP

	Shares	Value ($)
Common Stocks 97.3%		
Consumer Discretionary 16.5%		
Hotels Restaurants & Leisure 3.5%		
Boyd Gaming Corp. (a)	50,645	2,294,725
Four Seasons Hotels Ltd.	32,680	2,679,433
Harrah's Entertainment, Inc.	33,685	2,786,423
		7,760,581
Household Durables 0.6%		
NVR, Inc.*	2,245	**1,448,025**
Internet & Catalog Retail 0.8%		
Amazon.com, Inc.* (a)	46,315	**1,827,590**
Leisure Equipment & Products 1.7%		
Marvel Entertainment, Inc.* (a)	141,887	**3,818,179**
Media 5.0%		
British Sky Broadcasting Group PLC	444,341	4,540,079
Clear Channel Outdoor Holdings, Inc. "A"*	20,000	558,200
Lamar Advertising Co. "A"*	49,205	3,217,515
XM Satellite Radio Holdings, Inc. "A"* (a)	200,000	2,890,000
		11,205,794
Multiline Retail 1.0%		
Nordstrom, Inc.	45,850	**2,262,239**
Specialty Retail 3.9%		
Best Buy Co., Inc.	57,130	2,810,224
PETsMART, Inc.	90,380	2,608,367
Tiffany & Co.	84,170	3,302,831
		8,721,422
Consumer Staples 7.4%		
Food & Staples Retailing 3.1%		
CVS Corp.	152,905	4,726,293
Whole Foods Market, Inc.	50,000	2,346,500
		7,072,793
Food Products 0.3%		
Archer-Daniels-Midland Co.	23,835	**761,767**
Household Products 2.6%		
Procter & Gamble Co.	90,710	**5,829,932**
Tobacco 1.4%		
Altria Group, Inc.	35,300	**3,029,446**
Energy 17.0%		
Energy Equipment & Services 1.3%		
Halliburton Co.	96,310	**2,990,425**
Oil, Gas & Consumable Fuels 15.7%		
Apache Corp.	20,495	1,363,123
EnCana Corp.	116,118	5,335,622
EOG Resources, Inc.	18,040	1,126,598
ExxonMobil Corp.	73,395	5,624,259
Hess Corp.	120,739	5,985,032
Peabody Energy Corp.	42,410	1,713,788
Petro-Canada	82,744	3,388,094
Suncor Energy, Inc.	95,343	7,504,638
Valero Energy Corp.	64,890	3,319,773
		35,360,927

	Shares	Value ($)
Financials 11.4%		
Commercial Banks 3.1%		
Commerce Bancorp, Inc. (a)	81,535	2,875,739
US Bancorp.	112,657	4,077,057
		6,952,796
Diversified Financial Services 5.9%		
Citigroup, Inc.	139,708	7,781,736
JPMorgan Chase & Co.	114,180	5,514,894
		13,296,630
Thrifts & Mortgage Finance 2.4%		
Fannie Mae	92,065	**5,467,740**
Health Care 11.1%		
Biotechnology 3.3%		
Amylin Pharmaceuticals, Inc.* (a)	80,000	2,885,600
Celgene Corp.*	29,955	1,723,311
Genentech, Inc.*	30,000	2,433,900
Neurocrine Biosciences, Inc.* (a)	32,180	335,316
		7,378,127
Health Care Equipment & Supplies 0.7%		
Align Technology, Inc.* (a)	120,340	**1,681,150**
Health Care Providers & Services 2.3%		
Coventry Health Care, Inc.*	102,685	**5,139,384**
Pharmaceuticals 4.8%		
Roche Holding AG (Genusschein)	35,806	6,406,449
Sanofi-Aventis (a)	46,777	4,307,385
		10,713,834
Industrials 9.2%		
Aerospace & Defense 1.4%		
Boeing Co.	34,845	**3,095,630**
Air Freight & Logistics 1.0%		
United Parcel Service, Inc. "B"	31,630	**2,371,617**
Electrical Equipment 3.2%		
Rockwell Automation, Inc.	63,155	3,857,508
Suntech Power Holdings Co., Ltd. (ADR)* (a)	100,000	3,401,000
		7,258,508
Industrial Conglomerates 3.4%		
General Electric Co.	204,105	**7,594,747**
Road & Rail 0.2%		
Canadian National Railway Co.	11,275	**485,163**
Information Technology 24.7%		
Communications Equipment 2.1%		
Nokia Oyj (ADR)	119,320	2,424,582
QUALCOMM, Inc.	60,000	2,267,400
		4,691,982
Computers & Peripherals 6.0%		
Apple Computer, Inc.*	5,420	459,833
Dell, Inc.*	138,315	3,470,323
EMC Corp.*	494,245	6,524,034
Rackable Systems, Inc.* (a)	100,000	3,097,000
		13,551,190

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Internet Software & Services 4.9%		
Google, Inc. "A"*	10,500	4,835,040
Yahoo!, Inc.*	240,985	6,154,757
		10,989,797
Semiconductors & Semiconductor Equipment 10.1%		
Advanced Micro Devices, Inc.*	343,330	6,986,766
NVIDIA Corp.*	111,494	4,126,393
Samsung Electronics Co., Ltd. (GDR), 144A	20,000	6,580,000
Spansion, Inc. "A"*	138,840	2,063,162
Texas Instruments, Inc.	104,300	3,003,840
		22,760,161
Software 1.6%		
Electronic Arts, Inc.*	**70,480**	**3,549,373**
Total Common Stocks (Cost $171,290,919)		**219,066,949**

	Shares	Value ($)
Preferred Stocks 0.8%		
Financials 0.8%		
Diversified 0.8%		
Allegro Invest Corp., SA, Series APPL, 144A, 9.08% (Cost $1,811,918)	22,453	**1,850,826**
Securities Lending Collateral 11.2%		
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $25,288,674)	25,288,674	**25,288,674**
Cash Equivalents 1.6%		
Cash Management QP Trust, 5.46% (d) (Cost $3,492,359)	3,492,359	**3,492,359**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $201,883,870)†	110.9	**249,698,808**
Other Assets and Liabilities, Net	(10.9)	**(24,610,045)**
Net Assets	100.0	**225,088,763**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $202,144,695. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $47,554,113. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $52,138,256 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,584,143.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $24,437,431 which is 10.86% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

As of December 31, 2006, the Portfolio had the following open foreign forward currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized (Depreciation) ($)
CHF	1,355,000	USD	1,112,936	1/11/2007	(262)
EUR	1,115,000	USD	1,421,625	1/11/2007	(51,060)
CHF	925,000	USD	756,553	3/14/2007	(7,616)
EUR	200,000	USD	252,710	3/15/2007	(12,200)
Total net unrealized depreciation					**(71,138)**

Currency Abbreviations

CHF	Swiss Franc	USD	United States Dollar
EUR	Euro		

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $173,102,837) — including $24,437,431 of securities loaned	$ 220,917,775
Investments in Daily Asset Fund Institutional, (cost $25,288,674)*	25,288,674
Investment in Cash Management QP Trust (cost $3,492,359)	3,492,359
Total investments in securities, at value (cost $201,883,870)	249,698,808
Cash	30,852
Receivable for investments sold	783,120
Dividends receivable	237,125
Interest receivable	1,160
Receivable for Portfolio shares sold	10,276
Foreign taxes recoverable	838
Other assets	6,652
Total assets	250,768,831
Liabilities	
Unrealized depreciation on forward foreign currency exchange contracts	71,138
Payable upon return of securities loaned	25,288,674
Payable for Portfolio shares redeemed	98,884
Accrued management fee	139,168
Other accrued expenses and payables	82,204
Total liabilities	25,680,068
Net assets, at value	**$ 225,088,763**
Net Assets	
Net assets consist of:	
Undistributed net investment income	1,186,939
Net unrealized appreciation (depreciation) on:	
Investments	47,814,938
Foreign currency related transactions	(71,383)
Accumulated net realized gain (loss)	(15,915,558)
Paid-in capital	192,073,827
Net assets, at value	**$ 225,088,763**
Class A	
Net Asset Value, offering and redemption price per share ($193,435,557 ÷ 16,236,105 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 11.91**
Class B	
Net Asset Value, offering and redemption price per share ($31,653,206 ÷ 2,676,871 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 11.82**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $65,650)	$ 3,325,544
Interest — Cash Management QP Trust	140,124
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	32,611
Total Income	3,498,279
Expenses:	
Management fee	1,719,994
Custodian and accounting fees	90,845
Distribution service fees (Class B)	81,050
Record keeping fees (Class B)	46,333
Auditing	46,252
Legal	8,324
Trustees' fees and expenses	23,010
Reports to shareholders	34,370
Other	26,252
Total expenses before expense reductions	2,076,430
Expense reductions	(4,833)
Total expenses after expense reductions	2,071,597
Net investment income (loss)	**1,426,682**
Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	26,055,434
Foreign currency related transactions	(11,174)
	26,044,260
Net unrealized appreciation (depreciation) during the period on:	
Investments	(9,178,903)
Foreign currency related transactions	(206,407)
	(9,385,310)
Net gain (loss) on investment transactions	**16,658,950**
Net increase (decrease) in net assets resulting from operations	**$ 18,085,632**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 1,426,682	$ 828,820
Net realized gain (loss) on investment transactions	26,044,260	9,144,683
Net unrealized appreciation (depreciation) during the period on investment transactions	(9,385,310)	14,101,550
Net increase (decrease) in net assets resulting from operations	18,085,632	24,075,053
Distributions to shareholders from:		
Net investment income:		
Class A	(1,244,972)	(419,512)
Class B	(74,570)	—
Portfolio share transactions:		
Class A		
Proceeds from shares sold	11,754,230	11,053,339
Reinvestment of distributions	1,244,972	419,512
Cost of shares redeemed	(28,913,722)	(23,499,483)
Net increase (decrease) in net assets from Class A share transactions	(15,914,520)	(12,026,632)
Class B		
Proceeds from shares sold	2,861,992	5,186,158
Reinvestment of distributions	74,570	—
Cost of shares redeemed	(6,002,097)	(3,183,678)
Net increase (decrease) in net assets from Class B share transactions	(3,065,535)	2,002,480
Increase (decrease) in net assets	(2,213,965)	13,631,389
Net assets at beginning of period	227,302,728	213,671,339
Net assets at end of period (including undistributed net investment income of $1,186,939 and $1,090,973, respectively)	**$ 225,088,763**	**$ 227,302,728**

Other Information		
Class A		
Shares outstanding at beginning of period	17,645,394	18,888,001
Shares sold	1,022,138	1,050,942
Shares issued to shareholders in reinvestment of distributions	107,325	43,249
Shares redeemed	(2,538,752)	(2,336,798)
Net increase (decrease) in Class A shares	(1,409,289)	(1,242,607)
Shares outstanding at end of period	**16,236,105**	**17,645,394**
Class B		
Shares outstanding at beginning of period	2,946,169	2,758,937
Shares sold	250,333	500,557
Shares issued to shareholders in reinvestment of distributions	6,456	—
Shares redeemed	(526,087)	(313,325)
Net increase (decrease) in Class B shares	(269,298)	187,232
Shares outstanding at end of period	**2,676,871**	**2,946,169**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002*
Selected Per Share Data					**(Restated)**
Net asset value, beginning of period	**$11.05**	**$ 9.88**	**$ 8.86**	**$ 7.18**	**$ 9.05**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.07	.05	.03	.03	.04
Net realized and unrealized gain (loss) on investment transactions	.86	1.14	.99	1.71	(1.86)
Total from investment operations	.93	1.19	1.02	1.74	(1.82)
Less distributions from:					
Net investment income	(.07)	(.02)	—	(.06)	(.05)
Net asset value, end of period	**$11.91**	**$11.05**	**$ 9.88**	**$ 8.86**	**$ 7.18**
Total Return (%)	8.43	12.11	11.51	24.37	(20.22)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	193	195	187	189	167
Ratio of expenses (%)	.85	.92	1.06	1.07	1.04
Ratio of net investment income (loss) (%)	.68	.45	.34	.40	.54
Portfolio turnover rate (%)	44	32	52	46	57

a *Based on average shares outstanding during the period.*

* *Subsequent to December 31, 2002, these numbers have been restated to reflect an adjustment to the value of a security as of December 31, 2002. The effect of this adjustment for the year ended December 31, 2002 was to increase the net asset value per share by $0.03. The total return was also adjusted from –20.56% to –20.22% in accordance with this change.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]***
Selected Per Share Data					**(Restated)**
Net asset value, beginning of period	**$10.97**	**$ 9.82**	**$ 8.84**	**$ 7.17**	**$ 7.96**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.03	.01	(.01)	.00[c]	.02
Net realized and unrealized gain (loss) on investment transactions	.85	1.14	.99	1.71	(.81)
Total from investment operations	.88	1.15	.98	1.71	(.79)
Less distributions from:					
Net investment income	(.03)	—	—	(.04)	—
Net asset value, end of period	**$11.82**	**$10.97**	**$ 9.82**	**$ 8.84**	**$ 7.17**
Total Return (%)	7.98	11.71[d]	11.09	23.94	(9.92)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	32	32	27	15	.4
Ratio of expenses before expense reductions (%)	1.24	1.32	1.44	1.47	1.29*
Ratio of expenses after expense reductions (%)	1.24	1.30	1.44	1.47	1.29*
Ratio of net investment income (loss) (%)	.29	.07	(.04)	(.01)	.48*
Portfolio turnover rate (%)	44	32	52	46	57

a *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *Amount is less than $.005 per share.*

d *Total return would have been lower had certain expenses not been reduced.*

* *Annualized*

** *Not annualized*

*** *Subsequent to December 31, 2002, these numbers have been restated to reflect an adjustment to the value of a security as of December 31, 2002. The effect of this adjustment for the year ended December 31, 2002 was to increase the net asset value per share by $0.03. The total return was also adjusted from –10.30% to –9.92% in accordance with this change.*

Performance Summary

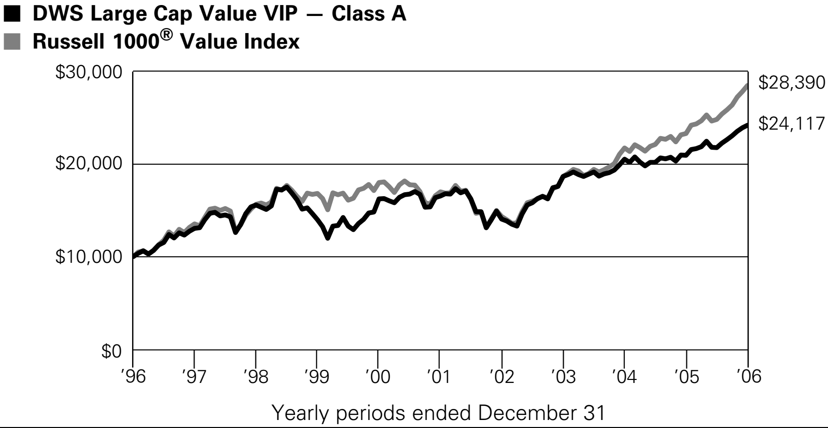
DWS Large Cap Value VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The Portfolio is subject to stock market risk. It focuses its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns during 3-, 5- and 10-year period shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Large Cap Value VIP



The Russell 1000® Value Index is an unmanaged index, which consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted-growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Large Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,541	$12,953	$14,602	$24,117
	Average annual total return	15.41%	9.01%	7.87%	9.20%
Russell 1000 Value Index	Growth of $10,000	$12,225	$15,245	$16,746	$28,390
	Average annual total return	22.25%	15.09%	10.86%	11.00%

DWS Large Cap Value VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$11,496	$12,804	$14,884
	Average annual total return	14.96%	8.59%	9.25%
Russell 1000 Value Index	Growth of $10,000	$12,225	$15,245	$17,586
	Average annual total return	22.25%	15.09%	13.37%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Large Cap Value VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,110.70	$1,108.10
Expenses Paid per $1,000*	$ 4.52	$ 6.59

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.92	$1,018.95
Expenses Paid per $1,000*	$ 4.33	$ 6.31

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Large Cap Value VIP	.85%	1.24%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Large Cap Value VIP

During 2006, the US equity markets were strong with most posting double digit returns. Small-cap stocks (as measured by the Russell 2000® Index) performed better than large-cap stocks (as measured by the Russell 1000® Index), as they have for several years. Comparison of Russell Growth and Russell Value indexes reveals that value stocks performed better than growth stocks in all size categories.

With a return of 15.41% (Class A shares, unadjusted for contract charges), the Portfolio performed in line with the S&P 500® Index, which returned 15.79%, but underperformed its other benchmark, the Russell 1000® Value Index, which posted a return of 22.25%. The significantly higher return of the Russell 1000 Value Index resulted from the benchmark's mid cap bias and outsized weights of selected mega caps which did well.

All 10 industry sectors within the S&P 500 Index and the Russell 1000 Value Index had positive performance. In both indexes, the strongest sector was telecommunication services, while the weakest was health care. Several of the holdings that contributed most to the Portfolio's performance were in the energy sector; these include Marathon Oil Corp.*, Chevron Corp. and Baker Hughes, Inc. Also positive was the Portfolio's position in the financials sector where holdings that performed particularly well include Morgan Stanley, Bear Stearns Cos.*, JPMorgan Chase & Co. and US Bancorp. In the health care sector, the Portfolio's performance relative to its benchmarks benefited from not owning some of the weakest stocks. The Portfolio's positioning in information technology detracted from performance, particularly an overweight in Intel Corp., which dropped on disappointing earnings and investor concerns regarding increased competition in semiconductors.[1] Also negative was a position in Analog Devices Inc.*, which has been sold on fundamental concerns.

The following person will handle the day-to-day management of the portfolio through February 4, 2007.

David Hone, CFA
Portfolio Manager

Effective February 5, 2007, the following individual will handle the day-to-day management of the portfolio.

Thomas Schuessler, PhD
Portfolio Manager

Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

The Portfolio is subject to stock market risk. It focuses its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Value Index is an unmanaged index that consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth values.

The Standard & Poor's 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

* *As of December 31, 2006, the positions were sold.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Large Cap Value VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	96%	95%
Cash Equivalents	4%	5%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Financials	33%	25%
Energy	19%	16%
Information Technology	10%	20%
Industrials	9%	9%
Health Care	8%	7%
Consumer Discretionary	7%	7%
Consumer Staples	5%	6%
Telecommunication Services	4%	3%
Materials	4%	3%
Utilities	1%	4%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 128. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Large Cap Value VIP

	Shares	Value ($)
Common Stocks 96.2%		
Consumer Discretionary 7.1%		
Media 0.1%		
Idearc, Inc.*	7,185	**205,850**
Multiline Retail 2.2%		
Federated Department Stores, Inc.	112,300	4,281,999
Target Corp.	46,600	2,658,530
		6,940,529
Specialty Retail 4.8%		
Best Buy Co., Inc.	77,200	3,797,468
Lowe's Companies, Inc.	152,200	4,741,030
Staples, Inc.	160,100	4,274,670
TJX Companies, Inc.	91,600	2,612,432
		15,425,600
Consumer Staples 5.0%		
Beverages 1.7%		
Coca-Cola Co.	108,700	**5,244,775**
Food Products 1.5%		
General Mills, Inc.	81,100	**4,671,360**
Household Products 1.8%		
Colgate-Palmolive Co.	88,200	**5,754,168**
Energy 17.8%		
Energy Equipment & Services 6.3%		
Baker Hughes, Inc.	65,300	4,875,298
BJ Services Co.	161,800	4,743,976
ENSCO International, Inc.	101,300	5,071,078
Schlumberger Ltd.	81,300	5,134,908
		19,825,260
Oil, Gas & Consumable Fuels 11.5%		
Anadarko Petroleum Corp.	104,800	4,560,896
Apache Corp.	23,700	1,576,287
BP PLC (ADR)	65,900	4,421,890
Chevron Corp.	85,200	6,264,756
ConocoPhillips	75,000	5,396,250
Devon Energy Corp.	67,700	4,541,316
ExxonMobil Corp.	123,000	9,425,490
		36,186,885
Financials 31.3%		
Capital Markets 3.9%		
Lehman Brothers Holdings, Inc.	71,000	5,546,520
Morgan Stanley	43,000	3,501,490
The Goldman Sachs Group, Inc.	16,100	3,209,535
		12,257,545
Commercial Banks 10.2%		
National City Corp.	163,900	5,992,184
Regions Financial Corp.	63,901	2,389,898
SunTrust Banks, Inc.	24,200	2,043,690
US Bancorp.	167,500	6,061,825
Wachovia Corp.	170,100	9,687,195
Wells Fargo & Co.	169,000	6,009,640
		32,184,432
Diversified Financial Services 10.6%		
Bank of America Corp.	213,926	11,421,509
Citigroup, Inc.	224,500	12,504,650
JPMorgan Chase & Co.	195,200	9,428,160
		33,354,319
Insurance 4.9%		
Aflac, Inc.	70,700	3,252,200
American International Group, Inc.	118,100	8,463,046
Hartford Financial Services Group, Inc.	41,200	3,844,372
		15,559,618
Thrifts & Mortgage Finance 1.7%		
Washington Mutual, Inc.	113,700	**5,172,213**
Health Care 7.6%		
Health Care Equipment & Supplies 2.0%		
Baxter International, Inc.	133,800	**6,206,981**
Pharmaceuticals 5.6%		
Abbott Laboratories	85,300	4,154,963
Johnson & Johnson	67,300	4,443,146
Pfizer, Inc.	202,800	5,252,520
Wyeth	74,700	3,803,724
		17,654,353
Industrials 9.0%		
Aerospace & Defense 3.0%		
Honeywell International, Inc.	65,800	2,976,792
L-3 Communications Holdings, Inc.	42,700	3,492,006
United Technologies Corp.	49,400	3,088,488
		9,557,286
Industrial Conglomerates 1.1%		
General Electric Co.	90,500	**3,367,505**
Machinery 3.7%		
Dover Corp.	32,500	1,593,150
Illinois Tool Works, Inc.	103,000	4,757,570
Ingersoll-Rand Co., Ltd. "A"	133,400	5,219,942
		11,570,662
Road & Rail 1.2%		
Burlington Northern Santa Fe Corp.	51,000	**3,764,310**
Information Technology 9.2%		
Communications Equipment 2.9%		
Cisco Systems, Inc.*	118,000	3,224,940
Harris Corp.	52,800	2,421,408
Nokia Oyj (ADR)	175,600	3,568,192
		9,214,540
Computers & Peripherals 1.1%		
Hewlett-Packard Co.	82,697	**3,406,289**
Semiconductors & Semiconductor Equipment 3.3%		
Applied Materials, Inc.	173,900	3,208,455
Intel Corp.	256,700	5,198,175
Texas Instruments, Inc.	71,800	2,067,840
		10,474,470
Software 1.9%		
Symantec Corp.*	282,500	**5,890,125**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Materials 3.8%		
Chemicals 2.6%		
Dow Chemical Co.	115,300	4,605,082
E.I. du Pont de Nemours & Co.	73,700	3,589,927
		8,195,009
Containers & Packaging 1.2%		
Sonoco Products Co.	104,500	**3,977,270**
Telecommunication Services 4.2%		
Diversified Telecommunication Services		
AT&T, Inc.	158,600	5,669,950
Verizon Communications, Inc.	206,500	7,690,060
		13,360,010
Utilities 1.2%		
Electric Utilities		
FPL Group, Inc.	68,100	**3,706,003**
Total Common Stocks (Cost $248,831,677)		**303,127,367**
Cash Equivalents 3.9%		
Cash Management QP Trust, 5.46% (a) (Cost $12,210,507)	12,210,507	**12,210,507**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $261,042,184)†	100.1	**315,337,874**
Other Assets and Liabilities, Net	(0.1)	**(426,256)**
Net Assets	100.0	**314,911,618**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $262,783,940. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $52,553,934. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $56,434,606 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,880,672.*

(a) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $248,831,677)	$	303,127,367
Investment in Cash Management QP Trust (cost $12,210,507)		12,210,507
Total investments in securities, at value (cost $261,042,184)		315,337,874
Receivable for investments sold		487,162
Dividends receivable		350,094
Interest receivable		45,006
Receivable for Portfolio shares sold		53,257
Foreign taxes recoverable		114
Other assets		6,548
Total assets		316,280,055

Liabilities		
Payable for Portfolio shares redeemed		62,905
Payable for investments purchased		471,491
Due to custodian		487,315
Accrued management fee		200,884
Other accrued expenses and payables		145,842
Total liabilities		1,368,437
Net assets, at value	**$**	**314,911,618**

Net Assets		
Net assets consist of:		
Undistributed net investment income		5,231,439
Net unrealized appreciation (depreciation) on investments		54,295,690
Accumulated net realized gain (loss)		9,489,671
Paid-in capital		245,894,818
Net assets, at value	**$**	**314,911,618**
Class A		
Net Asset Value, offering and redemption price per share ($274,866,571 ÷ 15,303,964 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**17.96**
Class B		
Net Asset Value, offering and redemption price per share ($40,045,047 ÷ 2,232,310 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**17.94**

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $41,515)	$	7,100,161
Interest — Cash Management QP Trust		712,367
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		16,879
Other income**		139,707
Total Income		7,969,114
Expenses:		
Management fee		2,335,628
Custodian fees		18,323
Distribution service fees (Class B)		100,296
Record keeping fees (Class B)		55,116
Auditing		49,475
Legal		12,732
Trustees' fees and expenses		25,235
Reports to shareholders		118,105
Other		21,070
Total expenses before expense reductions		2,735,980
Expense reductions		(4,673)
Total expenses after expense reductions		2,731,307
Net investment income (loss)		**5,237,807**

Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from investments		25,014,587
Net unrealized appreciation (depreciation) during the period on investments		14,129,866
Net gain (loss) on investment transactions		**39,144,453**
Net increase (decrease) in net assets resulting from operations	**$**	**44,382,260**

** *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note J).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ 5,237,807	$ 4,890,927
Net realized gain (loss) on investment transactions	25,014,587	11,041,062
Net unrealized appreciation (depreciation) during the period on investment transactions	14,129,866	(10,143,924)
Net increase (decrease) in net assets resulting from operations	44,382,260	5,788,065
Distributions to shareholders from:		
Net investment income:		
Class A	(4,273,682)	(4,761,672)
Class B	(482,902)	(575,737)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	20,402,810	36,091,471
Reinvestment of distributions	4,273,682	4,761,672
Cost of shares redeemed	(52,316,305)	(47,266,915)
Net increase (decrease) in net assets from Class A share transactions	(27,639,813)	(6,413,772)
Class B		
Proceeds from shares sold	1,368,796	4,068,880
Reinvestment of distributions	482,902	575,737
Cost of shares redeemed	(7,365,382)	(4,564,820)
Net increase (decrease) in net assets from Class B share transactions	(5,513,684)	79,797
Increase (decrease) in net assets	6,472,179	(5,883,319)
Net assets at beginning of period	308,439,439	314,322,758
Net assets at end of period (including undistributed net investment income of $5,231,439 and $4,759,802, respectively)	**$ 314,911,618**	**$ 308,439,439**

Other Information		
Class A		
Shares outstanding at beginning of period	16,949,748	17,350,180
Shares sold	1,230,380	2,330,962
Shares issued to shareholders in reinvestment of distributions	263,158	312,241
Shares redeemed	(3,139,322)	(3,043,635)
Net increase (decrease) in Class A shares	(1,645,784)	(400,432)
Shares outstanding at end of period	**15,303,964**	**16,949,748**
Class B		
Shares outstanding at beginning of period	2,564,460	2,560,016
Shares sold	81,671	261,484
Shares issued to shareholders in reinvestment of distributions	29,681	37,679
Shares redeemed	(443,502)	(294,719)
Net increase (decrease) in Class B shares	(332,150)	4,444
Shares outstanding at end of period	**2,232,310**	**2,564,460**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$15.81**	**$15.79**	**$14.57**	**$11.24**	**$13.40**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.29[c]	.26	.27	.24	.23
Net realized and unrealized gain (loss) on investment transactions	2.12	.04	1.18	3.33	(2.20)
Total from investment operations	2.41	.30	1.45	3.57	(1.97)
Less distributions from:					
Net investment income	(.26)	(.28)	(.23)	(.24)	(.19)
Net asset value, end of period	**$17.96**	**$15.81**	**$15.79**	**$14.57**	**$11.24**
Total Return (%)	15.41[c]	1.97[b]	10.07	32.60	(14.98)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	275	268	274	263	215
Ratio of expenses before expense reductions (%)	.83	.80	.80	.80	.79
Ratio of expenses after expense reductions (%)	.83	.80	.80	.80	.79
Ratio of net investment income (loss) (%)	1.73[c]	1.64	1.84	1.94	1.84
Portfolio turnover rate (%)	76	64	40	58	84

a *Based on average shares outstanding during the period.*

b *Total return would have been lower had certain expenses not been reduced.*

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.008 per share and an increase in the ratio of net investment income of 0.04%. Excluding this non-recurring income, total return would have been 0.04% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$15.79**	**$15.77**	**$14.55**	**$11.23**	**$12.77**
Income (loss) from investment operations:					
Net investment income (loss)[b]	.23[d]	.19	.22	.18	.15
Net realized and unrealized gain (loss) on investment transactions	2.11	.05	1.17	3.35	(1.69)
Total from investment operations	2.34	.24	1.39	3.53	(1.54)
Less distributions from:					
Net investment income	(.19)	(.22)	(.17)	(.21)	—
Net asset value, end of period	**$17.94**	**$15.79**	**$15.77**	**$14.55**	**$11.23**
Total Return (%)	14.96[d]	1.58[c]	9.65	32.19	(12.06)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	40	40	40	18	.5
Ratio of expenses before expense reductions (%)	1.21	1.21	1.18	1.19	1.04*
Ratio of expenses after expense reductions (%)	1.21	1.20	1.18	1.19	1.04*
Ratio of net investment income (loss) %)	1.35[d]	1.24	1.46	1.55	2.74*
Portfolio turnover rate (%)	76	64	40	58	84

a *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *Total return would have been lower had certain expenses not been reduced.*

d *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.008 per share and an increase in the ratio of net investment income of 0.04%. Excluding this non-recurring income, total return would have been 0.04% lower.*

* *Annualized*

** *Not annualized*

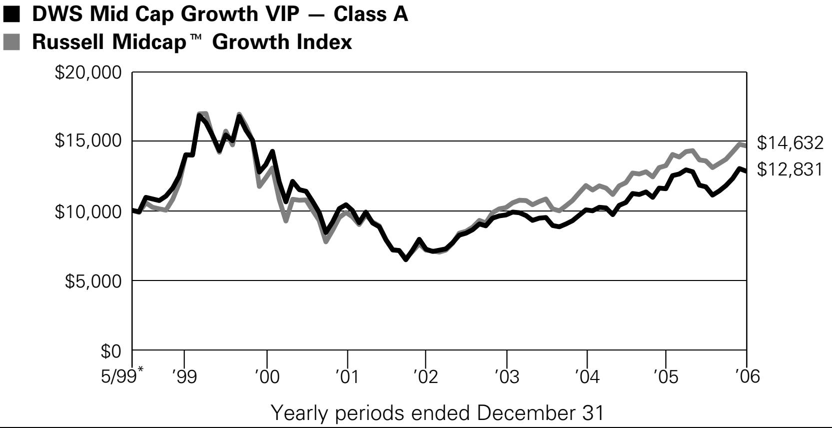
DWS Mid Cap Growth VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. It is nondiversified and can take larger positions in fewer companies, increasing its overall potential risk. Stocks of medium-sized companies involve greater risk than securities of larger, more established companies, as they often have limited product lines, markets or financial resources and may be subject to more-erratic and more-abrupt market movements. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Mid Cap Growth VIP from 5/1/1999 to 12/31/2006



Russell Midcap ™ Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth Index.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Mid Cap Growth VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$11,095	$13,263	$12,335	$12,831
	Average annual total return	10.95%	9.87%	4.29%	3.31%
Russell Midcap Growth Index	Growth of $10,000	$11,066	$14,325	$14,840	$14,632
	Average annual total return	10.66%	12.73%	8.22%	5.09%

DWS Mid Cap Growth VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$11,055	$13,132	$16,649
	Average annual total return	10.55%	9.51%	12.01%
Russell Midcap Growth Index	Growth of $10,000	$11,066	$14,325	$18,482
	Average annual total return	10.66%	12.73%	14.62%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 1999. Index returns began on April 30, 1999.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Mid Cap Growth VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,096.90	$1,094.70
Expenses Paid per $1,000*	$ 4.76	$ 6.76
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.67	$1,018.75
Expenses Paid per $1,000*	$ 4.58	$ 6.51

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Mid Cap Growth VIP	.90%	1.28%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio of any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Mid Cap Growth VIP

For the 12 months ended December 31, 2006, stocks posted mixed performance in the first half of the year, then ended the period strongly. The second quarter witnessed the 17th straight short-term interest rate hike by the US Federal Reserve Board (the Fed) to 5.25%, as well as a reversal of fortune in the equity markets, a stark contrast from strength during the first quarter. Economic activity was moderating, consumer spending had downshifted and some measures of inflation had edged up slightly. At its August meeting, the Fed decided to pause in raising short-term rates, as it felt that the lagged effects of its credit tightening and the ongoing contraction in the housing market would slow economic activity and ease strains on key economic resources. In the third quarter, stocks rallied based on receding commodity prices and declining long-term rates, then a fourth quarter rally led to double-digit equity market gains for the year. Energy prices remained low, inflation concerns were tame and the consensus of a soft landing paved the way for 2007.

For the annual period ending December 31, 2006, the Portfolio returned 10.95% (Class A shares, unadjusted for contract charges), outperforming the 10.66% return of the Russell Midcap™ Growth Index.

During the period, detractors from performance included stock selection in the consumer discretionary and financials sectors as well as underweights to materials and information technology and an overweight to energy relative to the Portfolio benchmark.[1] Positive contributors to performance included stock selection in the health care, industrials, and information technology sectors. We continue to maintain our long-term perspective, investing in quality mid-cap growth stocks.

Robert S. Janis	Joseph Axtell
Lead Portfolio Manager	*Portfolio Manager*

Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. It is nondiversified and can take larger positions in fewer companies, increasing its overall potential risk. Stocks of medium-sized companies involve greater risk than securities of larger, more established companies, as they often have limited product lines, markets or financial resources and may be subject to more-erratic and more-abrupt market movements. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell Midcap Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Mid Cap Growth VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	98%	97%
Cash Equivalents	2%	2%
Exchange Traded Funds	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Consumer Discretionary	24%	22%
Information Technology	18%	21%
Health Care	16%	22%
Industrials	14%	10%
Financials	12%	10%
Energy	11%	11%
Consumer Staples	2%	3%
Telecommunication Services	2%	1%
Materials	1%	—
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 137. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Mid Cap Growth VIP

	Shares	Value ($)
Common Stocks 97.6%		
Consumer Discretionary 23.1%		
Hotels Restaurants & Leisure 1.1%		
Melco PBL Entertainment (Macau) Ltd. (ADR)* (a)	31,300	**665,438**
Internet & Catalog Retail 4.7%		
Coldwater Creek, Inc.* (a)	43,200	1,059,264
Nutri/System, Inc.* (a)	28,300	1,793,937
		2,853,201
Media 1.1%		
XM Satellite Radio Holdings, Inc. "A"* (a)	45,200	**653,140**
Specialty Retail 6.9%		
Abercrombie & Fitch Co. "A"	10,800	752,004
Guess?, Inc.*	20,400	1,293,972
Urban Outfitters, Inc.* (a)	94,200	2,169,426
		4,215,402
Textiles, Apparel & Luxury Goods 9.3%		
Coach, Inc.*	63,900	2,745,144
Polo Ralph Lauren Corp.	37,940	2,946,420
		5,691,564
Consumer Staples 2.3%		
Personal Products		
Herbalife Ltd.*	35,100	**1,409,616**
Energy 10.7%		
Energy Equipment & Services 4.3%		
BJ Services Co.	19,250	564,410
Noble Corp.	17,470	1,330,340
Rowan Companies, Inc.	23,050	765,260
		2,660,010
Oil, Gas & Consumable Fuels 6.4%		
Peabody Energy Corp.	29,940	1,209,875
Southwestern Energy Co.*	37,300	1,307,365
Ultra Petroleum Corp.*	28,830	1,376,633
		3,893,873
Financials 11.8%		
Capital Markets 9.7%		
Affiliated Managers Group, Inc.* (a)	22,310	2,345,451
E*TRADE Financial Corp.*	48,610	1,089,836
Jefferies Group, Inc.	46,500	1,247,130
Nuveen Investments "A"	23,900	1,239,932
		5,922,349
Diversified Financial Services 2.0%		
Nasdaq Stock Market, Inc.* (a)	39,600	**1,219,284**
Real Estate Investment Trusts 0.1%		
DCT Industrial Trust, Inc. (REIT)*	6,400	**75,520**
Health Care 16.1%		
Biotechnology 1.3%		
Celgene Corp.*	14,280	**821,528**
Health Care Equipment & Supplies 3.2%		
Hologic, Inc.*	15,100	713,928
Mentor Corp. (a)	25,300	1,236,411
		1,950,339
Health Care Providers & Services 6.5%		
AMERIGROUP Corp.*	37,580	1,348,746
DaVita, Inc.*	22,960	1,305,965
Pediatrix Medical Group, Inc.*	26,200	1,281,180
		3,935,891
Health Care Technology 2.2%		
Cerner Corp.* (a)	30,000	**1,365,000**
Life Sciences Tools & Services 2.9%		
Thermo Fisher Scientific, Inc.*	38,820	**1,758,158**
Industrials 13.3%		
Electrical Equipment 2.9%		
Roper Industries, Inc. (a)	34,850	**1,750,864**
Machinery 9.1%		
Joy Global, Inc.	29,590	1,430,381
Oshkosh Truck Corp.	36,780	1,780,888
Terex Corp.*	35,880	2,317,130
		5,528,399
Trading Companies & Distributors 1.3%		
WESCO International, Inc.*	13,800	**811,578**
Information Technology 18.1%		
Communications Equipment 5.9%		
Comverse Technologies, Inc.* (a)	87,290	1,842,692
F5 Networks, Inc.*	23,500	1,743,935
		3,586,627
Computers & Peripherals 2.5%		
Network Appliance, Inc.*	38,800	**1,524,064**
Internet Software & Services 4.9%		
Akamai Technologies, Inc.* (a)	45,700	2,427,584
Digital River, Inc.* (a)	10,300	574,638
		3,002,222
IT Services 1.6%		
Cognizant Technology Solutions Corp. "A"*	12,650	**976,074**
Semiconductors & Semiconductor Equipment 3.2%		
MEMC Electronic Materials, Inc.*	50,000	**1,957,000**
Materials 0.5%		
Metals & Mining		
Allegheny Technologies, Inc.	3,300	**299,244**
Telecommunication Services 1.7%		
Wireless Telecommunication Services		
NII Holdings, Inc.* (a)	15,860	**1,022,017**
Total Common Stocks (Cost $44,609,557)		**59,548,402**
Securities Lending Collateral 26.8%		
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $16,364,610)	16,364,610	**16,364,610**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Cash Equivalents 2.5%		
Cash Management QP Trust, 5.46% (d) (Cost $1,509,632)	1,509,632	**1,509,632**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $62,483,799)†	126.9	**77,422,644**
Other Assets and Liabilities, Net	(26.9)	**(16,433,326)**
Net Assets	100.0	**60,989,318**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $62,525,621. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $14,897,023. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $15,397,684 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $500,661.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $15,835,868 which is 26.0% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $44,609,557) — including $15,835,868 of securities loaned	$	59,548,402
Investment in Daily Assets Fund Institutional (cost $16,364,610)*		16,364,610
Investment in Cash Management QP Trust (cost $1,509,632)		1,509,632
Total investments in securities, at value (cost $62,483,799)		77,422,644
Receivable for investments sold		19,959
Dividends receivable		8,813
Interest receivable		10,586
Other assets		1,770
Total assets		77,463,772

Liabilities		
Payable for Portfolio shares redeemed		15,067
Payable upon return of securities loaned		16,364,610
Accrued management fee		3,059
Other accrued expenses and payables		91,718
Total liabilities		16,474,454
Net assets, at value	**$**	**60,989,318**

Net Assets		
Net assets consist of:		
Accumulated net investment loss		(5,750)
Net unrealized appreciation (depreciation) on investments		14,938,845
Accumulated net realized gain (loss)		(28,575,530)
Paid-in capital		74,631,753
Net assets, at value	**$**	**60,989,318**
Class A		
Net Asset Value, offering and redemption price per share ($53,071,342 ÷ 4,226,008 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.56**
Class B		
Net Asset Value, offering and redemption price per share ($7,917,976 ÷ 640,328 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.37**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends	$	158,328
Interest — Cash Management QP Trust		77,264
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		14,989
Other income**		16,995
Total Income		267,576
Expenses:		
Management fee		473,444
Custodian and accounting fees		67,937
Distribution service fees (Class B)		18,895
Record keeping fees (Class B)		10,269
Auditing		45,574
Legal		9,920
Trustees' fees and expenses		16,446
Reports to shareholders		34,160
Other		4,626
Total expenses before expense reductions		681,271
Expense reductions		(69,215)
Total expenses after expense reductions		612,056
Net investment income (loss)		**(344,480)**

Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from investments		4,409,781
Net unrealized appreciation (depreciation) during the period on investments		2,176,003
Net gain (loss) on investment transactions		**6,585,784**
Net increase (decrease) in net assets resulting from operations	**$**	**6,241,304**

** *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note J).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ (344,480)	$ (292,729)
Net realized gain (loss) on investment transactions	4,409,781	6,195,328
Net unrealized appreciation (depreciation) during the period on investment transactions	2,176,003	2,483,401
Net increase (decrease) in net assets resulting from operations	6,241,304	8,386,000
Portfolio share transactions:		
Class A		
Proceeds from shares sold	5,059,680	10,629,646
Cost of shares redeemed	(14,794,831)	(14,069,195)
Net increase (decrease) in net assets from Class A share transactions	(9,735,151)	(3,439,549)
Class B		
Proceeds from shares sold	1,920,284	1,213,427
Cost of shares redeemed	(1,540,560)	(1,408,796)
Net increase (decrease) in net assets from Class B share transactions	379,724	(195,369)
Increase (decrease) in net assets	(3,114,123)	4,751,082
Net assets at beginning of period	64,103,441	59,352,359
Net assets at end of period (including accumulated net investment loss of $5,750 and $4,048, respectively)	**$ 60,989,318**	**$ 64,103,441**

Other Information		
Class A		
Shares outstanding at beginning of period	5,056,911	5,401,258
Shares sold	418,748	1,010,050
Shares redeemed	(1,249,651)	(1,354,397)
Net increase (decrease) in Class A shares	(830,903)	(344,347)
Shares outstanding at end of period	**4,226,008**	**5,056,911**
Class B		
Shares outstanding at beginning of period	612,639	634,195
Shares sold	159,745	115,791
Shares redeemed	(132,056)	(137,347)
Net increase (decrease) in Class B shares	27,689	(21,556)
Shares outstanding at end of period	**640,328**	**612,639**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$11.32**	**$ 9.84**	**$ 9.46**	**$ 7.06**	**$10.22**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.06)[c]	(.05)	(.01)	(.05)	(.01)
Net realized and unrealized gain (loss) on investment transactions	1.30	1.53	.39	2.45	(3.11)
Total from investment operations	1.24	1.48	.38	2.40	(3.12)
Less distributions from:					
Net investment income	—	—	—	—	(.04)
Net asset value, end of period	**$12.56**	**$11.32**	**$ 9.84**	**$ 9.46**	**$ 7.06**
Total Return (%)	10.95[b,c]	15.04[b]	4.02[b]	33.99[b]	(30.66)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	53	57	53	56	44
Ratio of expenses before expense reductions (%)	1.03	1.01	1.02	.98	.81
Ratio of expenses after expense reductions (%)	.93	.95	.95	.95	.81
Ratio of net investment income (loss) (%)	(.51)[c]	(.45)	(.11)	(.57)	(.19)
Portfolio turnover rate (%)	46	104	103	91	71

a *Based on average shares outstanding during the period.*

b *Total return would have been lower had certain expenses not been reduced.*

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.03%. Excluding this non-recurring income, total return would have been 0.03% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$11.19**	**$ 9.76**	**$ 9.42**	**$ 7.06**	**$ 7.43**
Income (loss) from investment operations:					
Net investment income (loss)[b]	(.10)[d]	(.09)	(.05)	(.09)	(.02)
Net realized and unrealized gain (loss) on investment transactions	1.28	1.52	.39	2.45	(.35)
Total from investment operations	1.18	1.43	.34	2.36	(.37)
Net asset value, end of period	**$12.37**	**$11.19**	**$ 9.76**	**$ 9.42**	**$ 7.06**
Total Return (%)	10.55[c,d]	14.65[c]	3.61[c]	33.43[c]	(4.98)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	8	7	6	4	.1
Ratio of expenses before expense reductions (%)	1.42	1.40	1.41	1.37	1.06*
Ratio of expenses after expense reductions (%)	1.29	1.32	1.34	1.34	1.06*
Ratio of net investment income (loss) (%)	(.87)[d]	(.82)	(.50)	(.96)	(.47)*
Portfolio turnover rate (%)	46	104	103	91	71

a *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *Total return would have been lower had certain expenses not been reduced.*

d *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.03%. Excluding this non-recurring income, total return would have been 0.03% lower.*

* *Annualized*

** *Not annualized*

DWS Money Market VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ. The yield quotation more closely reflects the current earnings of the Portfolio than the total return quotation.

Risk Considerations

An investment in this Portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or by any other government agency. Although the Portfolio seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Portfolio. Please read this Portfolio's prospectus for specific details regarding its investment and risk profile.

Portfolio's Class A Shares Yield	7-day current yield	7-day compounded effective yield
December 31, 2006	4.95%*	5.07%*
December 31, 2005	3.74%	3.81%

* *The investment advisor has agreed to waive fees/reimburse expenses. Without such fee waivers/expense reimbursements the 7-day current yield would have been 4.92% and the 7-day compounded effective yield would have been 5.04% as of December 31, 2006.*

Portfolio's Class B Shares Yield	7-day current yield	7-day compounded effective yield
December 31, 2006	4.55%	4.65%
December 31, 2005	3.38%	3.43%

Yields are historical, will fluctuate and do not guarantee future performance. The 7-day current yield refers to the income paid by the Portfolio over a 7-day period expressed as an annual percentage rate of the Portfolio's shares outstanding. The 7-day compounded effective yield is the annualized yield based on the most recent 7 days of interest earnings with all income reinvested.

Information About Your Portfolio's Expenses

DWS Money Market VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had they not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,024.90	$1,022.90
Expenses Paid per $1,000*	$ 2.91	$ 4.38
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,022.33	$1,020.87
Expenses Paid per $1,000*	$ 2.91	$ 4.38

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Money Market VIP	.57%	.86%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Money Market VIP

At its first four meetings of 2006, the US Federal Reserve Board (the Fed) raised the federal funds rate in an attempt to head off any increases in inflation. The Fed then paused from rate increases at its August meeting, citing a moderation in growth resulting from a cooling housing market and higher energy costs. During the second half of the year, the US economy continued to grow, but at a rate below the market's expectations. At the end of 2006, the one-year LIBOR rate, an industry standard for measuring one-year money market rates, stood at 5.32%.

During the 12-month period ended December 31, 2006, the Portfolio provided a total return of 4.65% (Class A shares, unadjusted for contract charges) compared with the 4.54% average return for the 109 funds in the Lipper Money Market Variable Annuity Funds category for the same period, according to Lipper Inc. Please see page 142 for standardized performance as of December 31, 2006.

Up until the Fed paused its rate increases in August, our strategy was to keep the Portfolio's average maturity very short, in order to maintain portfolio flexibility given the Fed's dependence on economic data from month to month. Once it became apparent to us that the Fed would most likely remain "on hold" for an extended period, we lengthened maturity by purchasing three- to six-month issues. For the 12-month period, we maintained a significant allocation in floating-rate securities, which benefited performance. Going forward, we will continue our insistence on the highest credit quality within the Portfolio and maintain our conservative investment strategies and standards.

A group of investment professionals is responsible for the day-to-day management of the Portfolio. These investment professionals have a broad range of experience managing money market funds.

Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. The yield quotation more closely reflects the current earnings of the Portfolio than the total return quotation.

Yields fluctuate and are not guaranteed. Money Market seven-day current yield is the annualized net investment income per share for the period owned.

Risk Considerations

An investment in this Portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or by any other government agency. Although the Portfolio seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Portfolio. Please read this Portfolio's prospectus for specific details regarding its investment and risk profile.

The Lipper Money Market Variable Annuity Funds category includes funds that invest in high-quality financial instruments rated in the top two grades with dollar-weighted average maturities of less than 90 days and that intend to keep a constant net asset value. It is not possible to invest directly in a Lipper category.

LIBOR, or the London Interbank Offered Rate, is the most widely used benchmark or reference rate for short-term interest rates. LIBOR is the rate of interest at which banks borrow funds from other banks, in large volume, in the international market.

Federal funds rate — the overnight rate charged by banks when they borrow money from each other. Set by the Federal Open Market Committee (FOMC), the fed funds rate is the most sensitive — and closely watched — indicator concerning the direction of short-term interest rates. The FOMC is a key committee within the US Federal Reserve System, and meets every six weeks to review Fed policy on short-term rates. Based on current Fed policy, the FOMC may choose to raise or lower the fed funds rate to either add liquidity to the economy or remove it.

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Money Market VIP

Asset Allocation	12/31/06	12/31/05
Short-Term Notes	37%	30%
Commercial Paper	32%	32%
Certificates of Deposit and Bank Notes	19%	25%
Repurchase Agreements	6%	7%
Funding Agreement	3%	4%
Promissory Notes	2%	—
Asset Backed	1%	—
US Government Sponsored Agencies	—	2%
	100%	100%

Weighted Average Maturity*		
DWS Variable Series II — DWS Money Market VIP	35 days	35 days
First Tier Retail Money Fund Average	42 days	38 days

* *The Fund is compared to its respective iMoneyNet Category: First Tier Retail Money Fund Average — Category includes a widely-recognized composite of money market funds that invest in only first tier (highest rating) securities. Portfolio Holdings of First Tier funds include US Treasury, US Other, Repos, Time Deposits, Domestic Bank Obligations, Foreign Bank Obligations, First Tier Commercial Paper, Floating Rate Notes and Asset Backed Commercial Paper.*

Asset allocation and weighted average maturity are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 146. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Money Market VIP

	Principal Amount ($)	Value ($)
Certificates of Deposit and Bank Notes 18.9%		
Banco Bilbao Vizcaya Argentaria SA, 5.325%, 2/5/2007	4,000,000	4,000,000
Bank of Tokyo-Mitsubishi-UFJ, Ltd., 5.36%, 4/23/2007	3,500,000	3,500,000
Canadian Imperial Bank of Commerce, 5.31%, 1/5/2007	3,000,000	3,000,000
CIT Group, Inc., 7.375%, 4/2/2007	5,350,000	5,375,603
HSH Nordbank AG, 5.35%, 4/13/2007	3,500,000	3,500,000
Mizuho Corporate Bank:		
5.33%, 1/4/2007	6,000,000	6,000,000
5.34%, 2/8/2007	8,000,000	8,000,000
5.34%, 2/13/2007	4,000,000	4,000,000
Nationwide Building Society, 5.32%,1/4/2007	7,000,000	7,000,000
Natixis SA, 5.0%, 2/8/2007	4,700,000	4,700,000
Norinchukin Bank:		
5.35%, 2/15/2007	5,000,000	5,000,000
5.405%, 3/15/2007	10,000,000	10,000,000
Toronto Dominion Bank, 5.45%, 10/25/2007	1,600,000	1,600,000
UniCredito Italiano SpA, 5.385%, 2/15/2007	750,000	749,992
Total Certificates of Deposit and Bank Notes (Cost $66,425,595)		**66,425,595**
Commercial Paper 31.8%**		
Cancara Asset Securitization LLC, 5.26%, 1/19/2007	13,712,000	13,675,937
CC (USA), Inc., 5.23%, 3/9/2007	1,500,000	1,485,400
Cedar Springs Capital Co., LLC:		
5.28%, 1/9/2007	1,000,000	998,827
5.28%, 1/12/2007	800,000	798,709
5.31%, 1/5/2007	9,000,000	8,994,690
Giro Funding US Corp., 5.29%, 1/22/2007	18,500,000	18,442,912
Greyhawk Funding LLC, 5.27%, 1/19/2007	17,500,000	17,453,887
K2 (USA) LLC, 5.26%, 2/13/2007	9,000,000	8,943,455
KBC Financial Products International Ltd., 5.2%, 5/14/2007	4,000,000	3,923,156
Perry Global Funding LLC:		
Series A, 5.25%, 1/18/2007	1,000,000	997,521
Series A, 5.26%, 2/14/2007	16,000,000	15,897,138
Simba Funding Corp., 5.27%, 3/21/2007	11,000,000	10,872,788
Tango Finance Corp., 5.25%, 1/25/2007	9,500,000	9,466,750
Total Commercial Paper (Cost $111,951,170)		**111,951,170**
Funding Agreement 3.4%		
New York Life Insurance Co., 5.425% *, 9/18/2007 (Cost $12,000,000)	12,000,000	**12,000,000**
Asset Backed 0.8%		
Steers Mercury III Trust, 144A, 5.37% *, 5/27/2048 (Cost $3,000,000)	3,000,000	**3,000,000**
Promissory Notes 2.3%		
The Goldman Sachs Group, Inc., 5.433% *, 3/20/2007 (Cost $8,000,000)	8,000,000	**8,000,000**
Short-Term Notes 36.6%		
American Express Bank FSB, 5.32%*, 11/8/2007	8,000,000	7,999,332
American Express Credit Corp., 5.31%*, 1/9/2007	7,000,000	6,999,984
American Honda Finance Corp.:		
5.346%*, 11/9/2007	4,000,000	4,000,000
5.473%*, 4/13/2007	500,000	500,132
Beta Finance, Inc., 5.36%*, 2/26/2007	6,000,000	6,000,350
BNP Paribas:		
5.31%*, 10/3/2007	10,000,000	9,997,225
5.34%*, 10/26/2010	3,000,000	3,000,000
Caja de Ahorros y Monte de Piedad de Madrid, 5.368%*, 10/19/2007	1,000,000	1,000,000
Canadian Imperial Bank of Commerce, 5.39%*, 10/26/2007	3,000,000	2,999,411
Carrera Capital Finance LLC, 144A, 5.34%*, 2/26/2007	500,000	500,000
CIT Group, Inc., 5.573%*, 2/15/2007	10,500,000	10,502,569
Credit Suisse, 5.375%*, 4/24/2007	6,000,000	6,000,021
DNB NOR Bank ASA, 5.34%*, 5/25/2011	9,500,000	9,500,000
Five Finance, Inc., 144A, 3.5%, 7/3/2007	3,500,000	3,500,000
General Electric Capital Corp., 5.31%*, 8/19/2011	10,000,000	10,000,000
International Business Machine Corp., 5.36%*, 11/8/2007	3,000,000	3,000,000
Intesa Bank Ireland PLC, 5.35%*, 7/25/2011	500,000	500,000
JPMorgan Chase & Co., 5.44%*, 6/14/2007	1,500,000	1,500,637
M&I Marshall & Ilsley Bank, 5.33%*, 11/15/2007	4,000,000	4,000,000
Merrill Lynch & Co., Inc.:		
5.495%*, 2/27/2007	1,000,000	1,000,227
5.52%*, 4/20/2007	1,500,000	1,500,792
Morgan Stanley, 5.382%*, 2/5/2007	18,500,000	18,500,000
Natixis SA, 5.42%*, 8/31/2007	3,000,000	3,000,000
Northern Rock PLC, 5.35%*, 11/5/2007	3,500,000	3,500,000
Skandinaviska Enskilda Banken, 5.35%*, 11/16/2007	4,000,000	4,000,000
The Goldman Sachs Group, Inc., 5.51%*, 1/9/2007	1,000,000	1,000,029

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)	Value ($)
UniCredito Italiano Bank (Ireland) PLC:		
5.36%*, 11/9/2007	4,000,000	4,000,000
5.36%*, 11/15/2007	1,000,000	1,000,000
Total Short-Term Notes (Cost $129,000,709)		**129,000,709**

Repurchase Agreements 6.0%

	Principal Amount ($)	Value ($)
BNP Paribas, 5.31%, dated 12/29/2006, to be repurchased at $18,013,275 on 1/3/2007 (a)	18,000,000	18,000,000
JPMorgan Securities, Inc., 5.33%, dated 12/29/2006, to be repurchased at $3,001,777 on 1/2/2007 (b)	3,000,000	3,000,000
State Street Bank & Trust Co., 4.4%, dated 12/29/2006, to be repurchased at $89,044 on 1/2/2007 (c)	89,000	89,000
Total Repurchase Agreements (Cost $21,089,000)		**21,089,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $351,466,474)†	99.8	**351,466,474**
Other Assets and Liabilities, Net	0.2	**660,484**
Net Assets	100.0	**352,126,958**

* *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury Bill rate. These securities are shown at their current rate as of December 31, 2006.*

** *Annualized yield at time of purchase; not a coupon rate.*

† *The cost for federal income tax purposes was $351,466,474.*

(a) *Collateralized by:*

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
4,162,896	Federal Home Loan Mortgage Corp.	6.5	11/1/2036	4,259,998
14,191,998	Federal National Mortgage Association	5.5	1/1/2036	14,100,002
Total Collateral Value				**18,360,000**

(b) *Collateralized by $3,115,000, Government National Mortgage Association, 5.146%, maturing on 12/16/2040 with a value of $3,062,046.*

(c) *Collateralized by $95,000 US Treasury Note, 5.0%, maturing on 7/31/2008 with a value of $95,238.*

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, valued at amortized cost (cost $351,466,474)	$	351,466,474
Total investments in securities, valued at amortized cost (cost $351,466,474)		351,466,474
Cash		14,324
Interest receivable		1,762,095
Receivable for Portfolio shares sold		151,448
Due from Advisor		50,730
Other assets		8,340
Total assets		353,453,411
Liabilities		
Payable for Portfolio shares redeemed		397,338
Distributions payable		660,902
Accrued management fee		107,962
Other accrued expenses and payables		160,251
Total liabilities		1,326,453
Net assets, at value	**$**	**352,126,958**
Net Assets		
Net assets consist of:		
Accumulated distributions in excess of net investment income		(34,790)
Accumulated net realized gain (loss)		(1,813)
Paid-in capital		352,163,561
Net assets, at value	**$**	**352,126,958**
Class A **Net Asset Value,** offering and redemption price per share ($293,752,906 ÷ 293,774,884 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**1.00**
Class B **Net Asset Value,** offering and redemption price per share ($58,374,052 ÷ 58,376,359 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Interest	$	16,438,772
Expenses:		
Management fee		1,444,203
Custodian fees		26,163
Distribution service fees (Class B)		150,122
Record keeping fees (Class B)		76,851
Auditing		43,079
Legal		12,089
Trustees' fee and expenses		27,915
Reports to shareholders		103,852
Other		19,153
Total expenses, before expense reductions		1,903,427
Expense reductions		(22,732)
Total expenses, after expense reductions		1,880,695
Net investment income		**14,558,077**
Net realized gain (loss) on investment transactions		**5,373**
Net increase (decrease) in net assets resulting from operations	**$**	**14,563,450**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income	$ 14,558,077	$ 8,462,304
Net realized gain (loss) on investment transactions	5,373	1,179
Net increase (decrease) in net assets resulting from operations	14,563,450	8,463,483
Distributions to shareholders from:		
Net investment income:		
Class A	(12,054,423)	(7,099,842)
Class B	(2,502,064)	(1,362,462)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	168,824,740	227,608,429
Net assets acquired in tax-free reorganization	56,965,779	—
Reinvestment of distributions	11,880,927	6,884,287
Cost of shares redeemed	(178,891,004)	(240,799,854)
Net increase (decrease) in net assets from Class A share transactions	58,780,442	(6,307,138)
Class B		
Proceeds from shares sold	63,581,378	83,177,262
Reinvestment of distributions	2,487,387	1,303,053
Cost of shares redeemed	(65,942,247)	(78,947,805)
Net increase (decrease) in net assets from Class B share transactions	126,518	5,532,510
Increase (decrease) in net assets	58,913,923	(773,449)
Net assets at beginning of period	293,213,035	293,986,484
Net assets at end of period (including accumulated distributions in excess of net investment income of $34,790 and $40,899, respectively)	**$ 352,126,958**	**$ 293,213,035**

Other Information		
Class A		
Shares outstanding at beginning of period	235,000,612	241,307,750
Shares sold	168,824,740	227,608,429
Shares acquired in tax-free reorganization	56,959,609	—
Shares issued to shareholders in reinvestment of distributions	11,880,927	6,884,287
Shares redeemed	(178,891,004)	(240,799,854)
Net increase (decrease) in Class A shares	58,774,272	(6,307,138)
Shares outstanding at end of period	**293,774,884**	**235,000,612**
Class B		
Shares outstanding at beginning of period	58,249,841	52,717,331
Shares sold	63,581,378	83,177,262
Shares issued to shareholders in reinvestment of distributions	2,487,387	1,303,053
Shares redeemed	(65,942,247)	(78,947,805)
Net increase (decrease) in Class B shares	126,518	5,532,510
Shares outstanding at end of period	**58,376,359**	**58,249,841**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Income from investment operations:					
Net investment income	.046	.028	.009	.007	.013
Total from investment operations	.046	.028	.009	.007	.013
Less distributions from:					
Net investment income	(.046)	(.028)	(.009)	(.007)	(.013)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	4.65[a]	2.80	.91	.72	1.35
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	294	235	241	326	570
Ratio of expenses before expense reductions (%)	.52	.52	.53	.54	.54
Ratio of expenses after expense reductions (%)	.51	.52	.53	.54	.54
Ratio of net investment income (%)	4.58	2.77	.88	.73	1.35

a *Total return would have been lower had certain expenses not been reduced.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Income from investment operations:					
Net investment income	.042	.024	.005	.004	.007
Total from investment operations	.042	.024	.005	.004	.007
Less distributions from:					
Net investment income	(.042)	(.024)	(.005)	(.004)	(.007)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	4.25[b]	2.42	.52	.42	.67**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	58	58	53	66	3
Ratio of expenses before expense reductions (%)	.90	.89	.91	.93	.79*
Ratio of expenses after expense reductions (%)	.89	.89	.91	.92	.64*
Ratio of net investment income (%)	4.20	2.40	.50	.35	1.11*

a *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
b *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

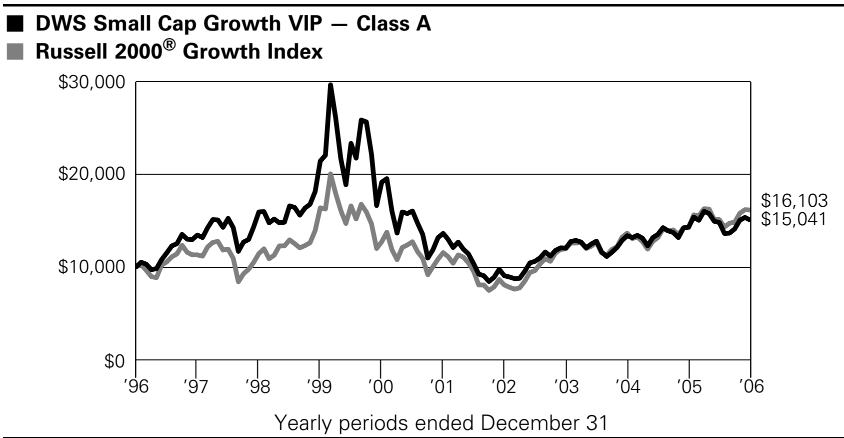
DWS Small Cap Growth VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, stocks of small companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be subject to more erratic and abrupt market movements. Finally, derivatives may be more volatile and less liquid than traditional securities and the Portfolio could suffer losses on its derivatives positions. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

Portfolio returns during the period reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Small Cap Growth VIP



The Russell 2000® Growth Index is an unmanaged, capitalization-weighted index of those securities in the Russell 2000 Index with a higher price-to-book ratio and higher forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Small Cap Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,527	$12,513	$11,069	$15,041
	Average annual total return	5.27%	7.76%	2.05%	4.17%
Russell 2000 Growth Index	Growth of $10,000	$11,335	$13,494	$13,979	$16,103
	Average annual total return	13.35%	10.51%	6.93%	4.88%

DWS Small Cap Growth VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$10,480	$12,365	$14,867
	Average annual total return	4.80%	7.33%	9.22%
Russell 2000 Growth Index	Growth of $10,000	$11,335	$13,494	$16,913
	Average annual total return	13.35%	10.51%	12.39%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Small Cap Growth VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,017.90	$1,015.30
Expenses Paid per $1,000*	$ 3.71	$ 5.54

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,021.53	$1,019.71
Expenses Paid per $1,000*	$ 3.72	$ 5.55

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Small Cap Growth VIP	.73%	1.09%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Small Cap Growth VIP

For the 12 months ended December 31, 2006, stocks posted mixed performance in the first half of the year, then ended the period strongly. The second quarter witnessed the 17th straight short-term interest rate hike by the US Federal Reserve Board (the Fed) to 5.25%, as well as a reversal of fortune in the equity markets, a stark contrast from strength during the first quarter. Economic activity was moderating, consumer spending had downshifted and some measures of inflation had edged up slightly. At its August meeting, the Fed decided to pause in raising short-term rates, as it felt that the lagged effects of its credit tightening and the ongoing contraction in the housing market would slow economic activity and ease strains on key economic resources. In the third quarter, stocks rallied based on receding commodity prices and declining long-term rates, then a fourth quarter rally led to double-digit equity market gains for the year. Energy prices remained low, inflation concerns were tame, and the consensus of a soft landing paved the way for 2007.

During the annual period ended December 31, 2006, the Portfolio returned 5.27% (Class A shares, unadjusted for contract charges), underperforming the 13.35% return of the Russell 2000® Growth Index.

During the period, detractors from performance included stock selection in the information technology, financials and industrials sectors, and underweights to industrials and materials, and an overweight to health care relative to the benchmark.[1] Positive contributors to performance included stock selection in the health care and consumer discretionary sectors. We continue to maintain a long-term perspective, investing in quality small-cap growth stocks.

Robert S. Janis
Joseph Axtell
Portfolio Managers
Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, stocks of small companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be subject to more erratic and abrupt market movements. Finally, derivatives may be more volatile and less liquid than traditional securities and the Portfolio could suffer losses on its derivatives positions. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

The Russell 2000® Growth Index is an unmanaged, capitalization-weighted measure of 2,000 of the smallest capitalized US companies with a greater-than-average growth orientation and whose common stocks trade on the NYSE, AMEX and Nasdaq.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the fund holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Small Cap Growth VIP

Asset Allocation (Excludes Security Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	97%	99%
Cash Equivalent	3%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Information Technology	26%	23%
Health Care	23%	30%
Consumer Discretionary	22%	17%
Energy	12%	9%
Financials	8%	12%
Industrials	4%	4%
Consumer Staples	3%	4%
Telecommunication Services	2%	1%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 155. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

Investment Portfolio

December 31, 2006

DWS Small Cap Growth VIP

	Shares	Value ($)
Common Stocks 96.9%		
Consumer Discretionary 20.9%		
Hotels Restaurants & Leisure 10.1%		
Buffalo Wild Wings, Inc.* (a)	86,400	4,596,480
Chipotle Mexican Grill, Inc. "A"* (a)	104,300	5,945,100
McCormick & Schmick's Seafood Restaurants, Inc.*	164,200	3,947,368
Orient-Express Hotels Ltd. "A"	137,700	6,515,964
Texas Roadhouse, Inc. "A"* (a)	284,000	3,765,840
		24,770,752
Leisure Equipment & Products 0.5%		
MarineMax, Inc.*	46,500	**1,205,745**
Media 0.3%		
RRSat Global Communications Network Ltd.*	66,100	**857,978**
Specialty Retail 7.5%		
bebe stores, Inc.	253,400	5,014,786
Guess?, Inc.*	210,500	13,352,015
		18,366,801
Textiles, Apparel & Luxury Goods 2.5%		
Under Armour, Inc. "A"*	119,500	**6,028,775**
Consumer Staples 2.7%		
Personal Products		
Herbalife Ltd.*	166,500	**6,686,640**
Energy 11.3%		
Energy Equipment & Services 4.3%		
Atwood Oceanics, Inc.*	109,000	5,337,730
Complete Production Services, Inc.*	109,600	2,323,520
Hornbeck Offshore Services, Inc.*	81,500	2,909,550
		10,570,800
Oil, Gas & Consumable Fuels 7.0%		
Carrizo Oil & Gas, Inc.* (a)	231,000	6,703,620
EXCO Resources, Inc.*	206,900	3,498,679
Parallel Petroleum Corp.*	133,900	2,352,623
US BioEnergy Corp.*	89,800	1,526,600
Western Refining, Inc.	120,400	3,065,384
		17,146,906
Financials 7.4%		
Capital Markets 1.1%		
Thomas Weisel Partners Group, Inc.* (a)	123,000	**2,595,300**
Commercial Banks 4.0%		
PrivateBancorp, Inc. (a)	103,800	4,321,194
Signature Bank*	178,300	5,523,734
		9,844,928
Diversified Financial Services 1.8%		
Kohlberg Capital Corp.*	97,300	1,683,290
Portfolio Recovery Associates, Inc.* (a)	59,870	2,795,330
		4,478,620
Real Estate Investment Trusts 0.5%		
DCT Industrial Trust, Inc. (REIT)	101,600	**1,198,880**

	Shares	Value ($)
Health Care 22.7%		
Health Care Equipment & Supplies 5.8%		
Hologic, Inc.*	118,400	5,597,952
Orthofix International NV*	43,300	2,165,000
Viasys Healthcare, Inc.*	137,200	3,816,904
West Pharmaceutical Services, Inc.	51,800	2,653,714
		14,233,570
Health Care Providers & Services 12.9%		
Amedisys, Inc.*	107,167	3,522,569
AMERIGROUP Corp.*	157,900	5,667,031
Centene Corp.* (a)	338,300	8,312,031
inVentiv Health, Inc.*	155,500	5,496,925
Nighthawk Radiology Holdings, Inc.* (a)	144,700	3,689,850
Providence Service Corp.* (a)	201,500	5,063,695
		31,752,101
Health Care Technology 3.6%		
Allscripts Healthcare Solutions, Inc.* (a)	159,100	4,294,109
Eclipsys Corp.*	214,700	4,414,232
		8,708,341
Pharmaceuticals 0.4%		
Obagi Medical Products, Inc.*	86,600	**892,846**
Industrials 4.4%		
Aerospace & Defense 1.2%		
BE Aerospace, Inc.*	111,300	**2,858,184**
Electrical Equipment 2.1%		
Energy Conversion Devices, Inc.* (a)	144,800	4,920,304
Solarfun Power Holdings Co., Ltd. (ADR)*	20,000	233,800
		5,154,104
Trading Companies & Distributors 1.1%		
H&E Equipment Services, Inc.*	109,200	**2,704,884**
Information Technology 25.2%		
Communications Equipment 2.0%		
Avocent Corp.*	145,000	**4,908,250**
Computers & Peripherals 2.3%		
Rackable Systems, Inc.* (a)	182,600	**5,655,122**
Electronic Equipment & Instruments 2.0%		
Itron, Inc.*	94,900	**4,919,616**
Internet Software & Services 7.5%		
Digital River, Inc.*	190,900	10,650,311
j2 Global Communications, Inc.* (a)	235,800	6,425,550
Perficient, Inc.*	81,400	1,335,774
		18,411,635
IT Services 2.9%		
Euronet Worldwide, Inc.* (a)	239,400	**7,107,786**
Semiconductors & Semiconductor Equipment 6.6%		
FEI Co.*	167,500	4,416,975
FormFactor, Inc.*	188,200	7,010,450
Standard Microsystems Corp.*	85,000	2,378,300
Trident Microsystems, Inc.*	128,600	2,337,948
		16,143,673

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Software 1.9%		
THQ, Inc.*	143,250	**4,658,490**
Telecommunication Services 2.3%		
Diversified Telecommunication Services 0.9%		
Globalstar, Inc.* (a)	168,800	**2,348,008**
Wireless Telecommunication Services 1.4%		
SBA Communications Corp. "A"*	123,800	**3,404,500**
Total Common Stocks (Cost $192,717,566)		**237,613,235**

	Shares	Value ($)
Securities Lending Collateral 21.5%		
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $52,652,325)	52,652,325	**52,652,325**
Cash Equivalents 3.0%		
Cash Management QP Trust, 5.46% (d) (Cost $7,424,236)	7,424,236	**7,424,236**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $252,794,127)†	121.4	**297,689,796**
Other Assets and Liabilities, Net	(21.4)	**(52,484,387)**
Net Assets	100.0	**245,205,409**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $252,966,536. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $44,723,260. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $51,482,047 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,758,787.*

(a) *All or a portion of these securities were on loan amounting to $50,587,312. In addition, included in other assets and liabilities is a pending sale, amounting to $206,160 that is also on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $50,793,472 which is 20.7% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $192,717,566) — including $50,587,312 of securities loaned	$	237,613,235
Investment in Daily Assets Fund Institutional (cost $52,652,325)*		52,652,325
Investment in Cash Management QP Trust (cost $7,424,236)		7,424,236
Total investments in securities, at value (cost $252,794,127)		297,689,796
Receivable for investments sold		1,545,084
Dividends receivable		48,726
Interest receivable		46,092
Receivable for Portfolio shares sold		116,428
Other assets		7,351
Total assets		299,453,477

Liabilities		
Due to custodian		454,557
Payable for Portfolio shares redeemed		70,990
Payable for investments purchased		816,908
Payable upon return of securities loaned		52,652,325
Accrued management fee		112,409
Other accrued expenses and payables		140,879
Total liabilities		54,248,068
Net assets, at value	**$**	**245,205,409**

Net Assets		
Net assets consist of:		
Accumulated net investment loss		(9,528)
Net unrealized appreciation (depreciation) on investments		44,895,669
Accumulated net realized gain (loss)		(117,289,710)
Paid-in capital		317,608,978
Net assets, at value	**$**	**245,205,409**
Class A		
Net Asset Value, offering and redemption price per share ($208,387,628 ÷ 14,686,087 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**14.19**
Class B		
Net Asset Value, offering and redemption price per share ($36,817,781 ÷ 2,636,495 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.96**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Dividends	$	564,056
Interest — Cash Management QP Trust		190,095
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		156,163
Other income**		155,225
Total Income		1,065,539
Expenses:		
Management fee		1,738,224
Custodian fees		16,211
Distribution service fees (Class B)		95,565
Record keeping fees (Class B)		52,687
Auditing		56,465
Legal		13,339
Trustees' fees and expenses		24,775
Reports to shareholders		104,590
Other		17,144
Total expenses before expense reductions		2,119,000
Expense reductions		(53,911)
Total expenses after expense reductions		2,065,089
Net investment income (loss)		**(999,550)**

Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from investments		18,324,595
Net unrealized appreciation (depreciation) during the period on investments		(3,666,288)
Net gain (loss) on investment transactions		**14,658,307**
Net increase (decrease) in net assets resulting from operations	**$**	**13,658,757**

** *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note J).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ (999,550)	$ (1,349,056)
Net realized gain (loss) on investment transactions	18,324,595	24,013,018
Net realized gains on investments not meeting investment guidelines of the Portfolio	—	49,496
Net unrealized appreciation (depreciation) during the period on investment transactions	(3,666,288)	(117,156)
Net increase (decrease) in net assets resulting from operations	13,658,757	22,596,302
Portfolio share transactions:		
Class A		
Proceeds from shares sold	11,831,161	24,384,647
Net assets acquired in tax free reorganization	—	37,649,364
Cost of shares redeemed	(58,380,185)	(48,722,289)
Net increase (decrease) in net assets from Class A share transactions	(46,549,024)	13,311,722
Class B		
Proceeds from shares sold	2,945,973	11,204,648
Net assets acquired in tax free reorganization	—	7,786,470
Cost of shares redeemed	(6,685,805)	(11,469,498)
Net increase (decrease) in net assets from Class B share transactions	(3,739,832)	7,521,620
Increase (decrease) in net assets	(36,630,099)	43,429,644
Net assets at beginning of period	281,835,508	238,405,864
Net assets at end of period (including accumulated net investment loss of $9,528 and $11,255, respectively)	**$ 245,205,409**	**$ 281,835,508**

Other Information	2006	2005
Class A		
Shares outstanding at beginning of period	18,035,147	16,708,714
Shares sold	837,139	1,926,487
Shares issued in tax free reorganization	—	3,256,621
Shares redeemed	(4,186,199)	(3,856,675)
Net increase (decrease) in Class A shares	(3,349,060)	1,326,433
Shares outstanding at end of period	**14,686,087**	**18,035,147**
Class B		
Shares outstanding at beginning of period	2,908,589	2,250,352
Shares sold	216,737	951,158
Shares issued in tax free reorganization	—	680,062
Shares redeemed	(488,831)	(972,983)
Net increase (decrease) in Class B shares	(272,094)	658,237
Shares outstanding at end of period	**2,636,495**	**2,908,589**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$13.48**	**$12.59**	**$11.34**	**$ 8.53**	**$12.80**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.04)[c]	(.06)	(.05)	(.04)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.75	.95	1.30	2.85	(4.25)
Total from investment operations	.71	.89	1.25	2.81	(4.27)
Net asset value, end of period	**$14.19**	**$13.48**	**$12.59**	**$11.34**	**$ 8.53**
Total Return (%)	5.27[c,d]	7.07[b]	11.02	32.94	(33.36)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	208	243	210	210	154
Ratio of expenses before expense reductions (%)	.73	.72	.71	.69	.71
Ratio of expenses after expense reductions (%)	.72	.72	.71	.69	.71
Ratio of net investment income (loss) (%)	(.32)[c]	(.47)	(.47)	(.41)	(.24)
Portfolio turnover rate (%)	73	94	117	123	68

[a] *Based on average shares outstanding during the period.*

[b] *In 2005, the Portfolio realized a gain of $49,496 on the disposal of an investment not meeting the Portfolio's investment restrictions. This violation had no negative impact on the total return.*

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.008 per share and an increase in the ratio of net investment income of 0.06%. Excluding this non-recurring income, total return would have been 0.06% lower.*

[d] *Total return would have been lower had certain expenses been reduced.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$13.32**	**$12.48**	**$11.29**	**$ 8.52**	**$ 9.39**
Income (loss) from investment operations:					
Net investment income (loss)[b]	(.09)[e]	(.11)	(.10)	(.09)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.73	.95	1.29	2.86	(.85)
Total from investment operations	.64	.84	1.19	2.77	(.87)
Net asset value, end of period	**$13.96**	**$13.32**	**$12.48**	**$11.29**	**$ 8.52**
Total Return (%)	4.80[c,e]	6.73[c,d]	10.54[c]	32.51	(9.27)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	37	39	28	15	.5
Ratio of expenses before expense reductions (%)	1.12	1.12	1.10	1.08	.96*
Ratio of expenses after expense reductions (%)	1.09	1.09	1.09	1.08	.96*
Ratio of net investment income (loss) (%)	(.69)[e]	(.84)	(.85)	(.80)	(.39)*
Portfolio turnover rate (%)	73	94	117	123	68

[a] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[b] *Based on average shares outstanding during the period.*

[c] *Total return would have been lower had certain expenses not been reduced.*

[d] *In 2005, the Portfolio realized a gain of $49,496 on the disposal of an investment not meeting the Portfolio's investment restrictions. This violation had no negative impact on the total return.*

[e] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.008 per share and an increase in the ratio of net investment income of 0.06%. Excluding this non-recurring income, total return would have been 0.06% lower.*

* *Annualized*

** *Not annualized*

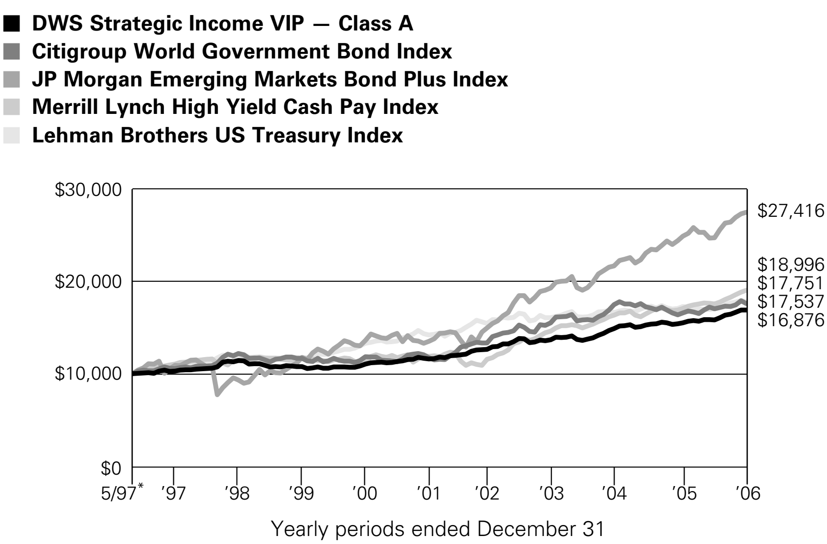
DWS Strategic Income VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The Portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond investment, can decline and the investor can lose principal value. Additionally, investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. Finally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for all periods for Class B shares reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Strategic Income VIP from 5/1/1997 to 12/31/2006



The Citigroup World Government Bond Index (formerly known as Salomon Smith Barney World Government Bond Index) is an unmanaged index comprised of government bonds from 22 developed countries (including the US) with maturities greater than one year. JP Morgan Emerging Markets Bond Plus Index is an unmanaged foreign securities index of US dollar- and other external-currency-denominated Brady bonds, loans, Eurobonds and local market debt instruments traded in emerging markets. The Merrill Lynch High Yield Cash Pay Index is an unmanaged index which tracks the performance of below investment grade US dollar- denominated corporate bonds publicly issued in the US domestic market. Lehman Brothers US Treasury Index is an unmanaged index reflecting the performance of all public obligations and does not focus on one particular segment of the Treasury market.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Strategic Income VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,898	$12,117	$14,545	$16,876
	Average annual total return	8.98%	6.61%	7.78%	5.57%
Citigroup World Government Bond Index	Growth of $10,000	$10,612	$10,905	$14,974	$17,537
	Average annual total return	6.12%	2.93%	8.41%	5.98%
JP Morgan Emerging Markets Bond Plus Index	Growth of $10,000	$11,049	$13,814	$20,330	$27,416
	Average annual total return	10.49%	11.37%	15.25%	11.00%
Merrill Lynch High Yield Cash Pay Index	Growth of $10,000	$11,164	$12,716	$15,993	$18,996
	Average annual total return	11.64%	8.34%	9.85%	6.86%
Lehman Brothers US Treasury Index	Growth of $10,000	$10,308	$10,971	$12,539	$17,751
	Average annual total return	3.08%	3.14%	4.63%	6.12%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 1997. Index returns began on April 30, 1997.*

Comparative Results

DWS Strategic Income VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$10,875	$12,001	$12,357
	Average annual total return	8.75%	6.27%	5.95%
Citigroup World Government Bond Index	Growth of $10,000	$10,612	$10,905	$12,009
	Average annual total return	6.12%	2.93%	5.12%
JP Morgan Emerging Markets Bond Plus Index	Growth of $10,000	$11,049	$13,814	$15,569
	Average annual total return	10.49%	11.37%	12.83%
Merrill Lynch High Yield Cash Pay Index	Growth of $10,000	$11,164	$12,716	$14,329
	Average annual total return	11.64%	8.34%	10.31%
Lehman Brothers US Treasury Index	Growth of $10,000	$10,308	$10,971	$11,055
	Average annual total return	3.08%	3.14%	2.77%

The growth of $10,000 is cumulative.

** *The Portfolio commenced offering Class B shares on May 1, 2003. Index returns began on April 30, 2003.*

Information About Your Portfolio's Expenses

DWS Strategic Income VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses for Class B shares; had it not done so, expenses for Class B shares would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,068.80	$1,067.30
Expenses Paid per $1,000*	$ 4.33	$ 6.10
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,021.02	$1,019.31
Expenses Paid per $1,000*	$ 4.23	$ 5.96

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Strategic Income VIP	.83%	1.17%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Strategic Income VIP

The past year was somewhat mixed for fixed income investors as the US Federal Reserve Board (the Fed) started the period on a tightening course, and then appeared to take a respite. The Fed raised interest rates four times during the period for a total of 1.00%. At the close of the year, the overnight federal funds rate stood at 5.25%. US Treasury yields started the year at approximately 4.40% and peaked close to 5.25% mid-way through the period. However, Treasury yields decreased in the second half of the year on investors' outlook that the Fed was taking a pause on, or possibly nearing the end of, its rate increases.

Although bouts of volatility periodically affected the performance of the high-yield and emerging markets debt markets, the investment backdrop remained broadly positive for both of these asset classes. Both high-yield and emerging-markets debt were among the top-performing asset classes within the broad bond market.

The Portfolio posted an 8.98% total return for the period ending December 31, 2006 (Class A shares, unadjusted for contract charges). This compares with the Portfolio benchmarks' returns of 10.49% for the JP Morgan Emerging Markets Bond Plus Index, 11.64% for the Merrill Lynch High Yield Cash Pay Index, 3.08% for the Lehman Brothers US Treasury Index, and 6.12% for the Citigroup World Government Bond Index (US dollar terms — unhedged). (Please see the page 160 for standardized performance as of December 31, 2006.)

We maintained overweight exposures in both high-yield and emerging-markets bonds throughout the year, and this positioning was a positive contributor to returns during the period.[1] In the middle of the year, we tactically decreased our exposure to these sectors as spreads tightened, and then added back to our exposure on our opinion that fundamentals in both high-yield and emerging markets debt remained sound. The Portfolio was also invested in high quality sovereign, agency and provincial bonds including US Treasuries and debt issues from the European Union, the UK and Japan. Our resulting euro and pound currency exposures helped returns as these currencies appreciated against the US dollar for the period.

Gary Sullivan, CFA, William Chepolis, CFA and Matthew F. MacDonald *Portfolio Managers*

Effective January 23, 2007, Portfolio Manager Thomas Picciochi will join the portfolio management team.

Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

The Portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond investment, can decline and the investor can lose principal value. Additionally, investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. Finally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The JP Morgan Emerging Markets Bond Plus Index is an unmanaged foreign securities index of US dollar and other external-currency-denominated Brady bonds, loans, Eurobonds and local market debt instruments traded in emerging markets.

The Merrill Lynch High Yield Cash Pay Index is an unmanaged index which tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

The Lehman Brothers US Treasury Index is an unmanaged index reflecting the performance of all public obligations and does not focus on one particular segment of the Treasury market.

The Citigroup World Government Bond Index (formerly known as Salomon Smith Barney World Government Bond Index) is an unmanaged index comprised of government bonds from 18 developed countries, including the US, with maturities greater than one year.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the fund holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Strategic Income VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Corporate Bonds	30%	35%
Foreign Bonds — US$ Denominated	28%	24%
Foreign Bonds — Non US$ Denominated	17%	18%
US Treasury Obligations	16%	15%
Cash Equivalents	7%	5%
US Government Sponsored Agencies	1%	2%
Other	1%	1%
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
AAA*	30%	31%
AA	1%	1%
A	6%	4%
BBB	5%	6%
BB	25%	20%
B	20%	25%
CCC	5%	5%
Not Rated	8%	8%
	100%	100%

* *Includes cash equivalents*

Interest Rate Sensitivity	**12/31/06**	**12/31/05**
Average maturity	7.6 years	7.6 years
Average duration	5.4 years	5.0 years

Asset allocation, quality and interest rate sensitivity are subject to change.

The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Portfolio's credit quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 165. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Strategic Income VIP

		Principal Amount ($)(a)	Value ($)
Corporate Bonds 29.5%			
Consumer Discretionary 7.6%			
Affinia Group, Inc., 9.0%, 11/30/2014		90,000	88,200
AMC Entertainment, Inc., 8.0%, 3/1/2014		145,000	143,912
American Achievement Corp., 8.25%, 4/1/2012		10,000	10,238
American Media Operations, Inc., Series B, 10.25%, 5/1/2009		45,000	43,594
Buffets, Inc., 144A, 12.5%, 11/1/2014		45,000	45,338
Burlington Coat Factory Warehouse Corp., 144A, 11.125%, 4/15/2014 (b)		65,000	63,375
Cablevision Systems Corp., Series B, 9.87%**, 4/1/2009		25,000	26,375
Caesars Entertainment, Inc., 8.875%, 9/15/2008		75,000	78,187
Charter Communications Holdings LLC:			
8.625%, 4/1/2009		10,000	9,700
9.625%, 11/15/2009 (b)		10,000	9,700
10.25%, 9/15/2010		325,000	340,031
Series B, 10.25%, 9/15/2010		80,000	83,500
11.0%, 10/1/2015 (b)		306,000	314,032
Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014 (b)		75,000	59,063
CSC Holdings, Inc.:			
7.25%, 7/15/2008		50,000	50,438
7.875%, 12/15/2007		180,000	182,250
Series B, 8.125%, 7/15/2009 (b)		20,000	20,725
Series B, 8.125%, 8/15/2009		25,000	25,906
Denny's Corp. Holdings, Inc., 10.0%, 10/1/2012 (b)		20,000	21,100
Dex Media East LLC/Financial, 12.125%, 11/15/2012 (b)		561,000	617,801
EchoStar DBS Corp.:			
6.625%, 10/1/2014		100,000	97,500
7.125%, 2/1/2016		80,000	80,000
Foot Locker, Inc., 8.5%, 1/15/2022		25,000	24,563
Ford Motor Co., 7.45%, 7/16/2031 (b)		65,000	51,025
French Lick Resorts & Casinos, 144A, 10.75%, 4/15/2014		235,000	219,725
General Motors Corp.:			
7.4%, 9/1/2025 (b)		60,000	50,700
8.375%, 7/15/2033 (b)		215,000	198,875
Goodyear Tire & Rubber Co., 11.25%, 3/1/2011		380,000	419,900
Gregg Appliances, Inc., 9.0%, 2/1/2013		25,000	23,875
Hanesbrands, Inc., 144A, 8.735%**, 12/15/2014		55,000	55,963
Hertz Corp.:			
144A, 8.875%, 1/1/2014		130,000	136,175
144A, 10.5%, 1/1/2016		35,000	38,500
ION Media Networks, Inc., 144A, 11.624%**, 1/15/2013		60,000	60,750
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014		235,000	233,825
Jacobs Entertainment, Inc., 9.75%, 6/15/2014		110,000	111,650
Lear Corp.:			
Series B, 5.75%, 8/1/2014 (b)		10,000	8,400
144A, 8.75%, 12/1/2016		55,000	53,144
Levi Strauss & Co., 10.122%**, 4/1/2012		10,000	10,263
Liberty Media Corp.:			
5.7%, 5/15/2013		10,000	9,421
8.25%, 2/1/2030		50,000	49,011
8.5%, 7/15/2029		95,000	95,518
Majestic Star Casino LLC, 9.5%, 10/15/2010		15,000	15,750
Medimedia USA, Inc., 144A, 11.375%, 11/15/2014		35,000	36,663
Metaldyne Corp.:			
10.0%, 11/1/2013 (b)		45,000	48,150
11.0%, 6/15/2012 (b)		25,000	25,625
MGM MIRAGE:			
6.75%, 9/1/2012		25,000	24,625
8.375%, 2/1/2011 (b)		55,000	57,063
9.75%, 6/1/2007		70,000	70,875
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010		95,000	100,225
NCL Corp., 10.625%, 7/15/2014		25,000	25,000
Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012		160,000	135,200
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013 (b)		65,000	68,900
Pokagon Gaming Authority, 144A, 10.375%, 6/15/2014		30,000	32,850
Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012		380,000	391,400
PRIMEDIA, Inc.:			
8.875%, 5/15/2011 (b)		65,000	66,300
10.749%**, 5/15/2010 (b)		115,000	119,600
Resorts International Hotel & Casino, Inc., 11.5%, 3/15/2009 (b)		425,000	438,281
Sinclair Broadcast Group, Inc.:			
8.0%, 3/15/2012		75,000	77,437
8.75%, 12/15/2011		205,000	213,969
Sirius Satellite Radio, Inc., 9.625%, 8/1/2013 (b)		150,000	147,562
Six Flags, Inc., 9.75%, 4/15/2013 (b)		185,000	173,669
Station Casinos, Inc., 6.5%, 2/1/2014		85,000	75,544
The Bon-Ton Department Stores, Inc., 10.25%, 3/15/2014 (b)		65,000	66,462
Travelport, Inc., 144A, 9.994%**, 9/1/2014		55,000	53,625
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015 (b)		295,000	293,525
TRW Automotive, Inc.:			
11.0%, 2/15/2013 (b)		280,000	306,950
11.75%, 2/15/2013	EUR	40,000	59,204
United Auto Group, Inc.:			
144A, 7.75%, 12/15/2016		55,000	55,275
9.625%, 3/15/2012		260,000	273,325

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
Wheeling Island Gaming, Inc., 10.125%, 12/15/2009	45,000	45,844
XM Satellite Radio, Inc., 9.75%, 5/1/2014 (b)	295,000	295,000
Young Broadcasting, Inc., 8.75%, 1/15/2014 (b)	390,000	337,837
		8,393,983
Consumer Staples 0.7%		
Del Laboratories, Inc., 8.0%, 2/1/2012	60,000	56,250
Delhaize America, Inc.:		
8.05%, 4/15/2027	20,000	21,627
9.0%, 4/15/2031	285,000	338,382
Harry & David Holdings, Inc., 10.369%**, 3/1/2012	55,000	54,725
North Atlantic Trading Co., 9.25%, 3/1/2012	140,000	122,150
Viskase Co., Inc., 11.5%, 6/15/2011	225,000	225,000
		818,134
Energy 2.8%		
Belden & Blake Corp., 8.75%, 7/15/2012	270,000	276,750
Chaparral Energy, Inc., 8.5%, 12/1/2015	145,000	144,275
Chesapeake Energy Corp.:		
6.25%, 1/15/2018	70,000	67,375
6.875%, 1/15/2016	170,000	171,487
7.75%, 1/15/2015 (b)	30,000	31,238
Complete Production Services, Inc., 144A, 8.0%, 12/15/2016	95,000	97,375
Delta Petroleum Corp., 7.0%, 4/1/2015	185,000	171,125
Dynegy Holdings, Inc.:		
7.625%, 10/15/2026	165,000	160,050
8.375%, 5/1/2016	150,000	157,500
El Paso Production Holding Corp., 7.75%, 6/1/2013	100,000	104,625
Encore Acquisition Co., 6.0%, 7/15/2015	35,000	31,938
Frontier Oil Corp., 6.625%, 10/1/2011	50,000	49,875
Peabody Energy Corp., 7.375%, 11/1/2016	45,000	47,925
Quicksilver Resources, Inc., 7.125%, 4/1/2016	45,000	43,988
Sabine Pass LNG LP:		
144A, 7.25%, 11/30/2013	100,000	99,375
144A, 7.5%, 11/30/2016 (b)	100,000	99,625
Southern Natural Gas, 8.875%, 3/15/2010	205,000	215,063
Stone Energy Corp.:		
6.75%, 12/15/2014	180,000	171,900
144A, 8.124%**, 7/15/2010	185,000	183,150
Transmeridian Exploration, Inc., 12.0%, 12/15/2010 (b)	115,000	110,687
Williams Companies, Inc.:		
8.125%, 3/15/2012 (b)	415,000	449,237
8.75%, 3/15/2032	180,000	203,400
		3,087,963
Financials 4.7%		
AAC Group Holding Corp., 12.75%, 10/1/2012 (PIK) (b)	41,544	44,244
Alamosa Delaware, Inc., 11.0%, 7/31/2010	75,000	81,044
Ashton Woods USA LLC, 9.5%, 10/1/2015	155,000	141,050
BCP Crystal Holdings Corp., 9.625%, 6/15/2014	20,000	22,100
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014	30,000	30,450
E*TRADE Financial Corp.:		
7.375%, 9/15/2013	35,000	36,400
7.875%, 12/1/2015	30,000	31,875
8.0%, 6/15/2011	75,000	78,375
Ford Motor Credit Co.:		
7.25%, 10/25/2011	420,000	411,294
7.375%, 10/28/2009	815,000	816,736
7.875%, 6/15/2010	205,000	206,703
8.0%, 12/15/2016	100,000	98,815
8.11%**, 1/13/2012	100,000	99,092
GMAC LLC:		
6.875%, 9/15/2011	960,000	984,670
8.0%, 11/1/2031	391,000	448,895
GNC Parent Corp., 144A, Zero Coupon**, 12/1/2011	75,000	75,000
Hexion US Finance Corp., 144A, 9.75%, 11/15/2014	45,000	45,619
Idearc, Inc., 144A, 8.0%, 11/15/2016	240,000	243,600
iPayment, Inc., 9.75%, 5/15/2014	45,000	46,238
Poster Financial Group, Inc., 8.75%, 12/1/2011	190,000	197,125
R.H. Donnelly Finance Corp., 10.875%, 12/15/2012	190,000	207,100
Sally Holdings LLC, 144A, 9.25%, 11/15/2014	115,000	117,156
Titan International, Inc., 144A, 8.0%, 1/15/2012 (b)	105,000	105,656
Triad Acquisition Corp., Series B, 11.125%, 5/1/2013	85,000	80,750
UCI Holding Co., Inc., 144A, 12.365%**, 12/15/2013 (PIK)	65,000	63,050
Universal City Development, 11.75%, 4/1/2010	290,000	310,662
Wimar Opco LLC, 144A, 9.625%, 12/15/2014	105,000	103,950
		5,127,649
Health Care 0.7%		
HCA, Inc.:		
6.5%, 2/15/2016 (b)	60,000	50,550
144A, 9.125%, 11/15/2014	95,000	101,531
144A, 9.25%, 11/15/2016	185,000	198,182
HEALTHSOUTH Corp.:		
144A, 10.75%, 6/15/2016	125,000	134,531
144A, 11.354%**, 6/15/2014 (b)	20,000	21,300
Tenet Healthcare Corp., 9.25%, 2/1/2015	290,000	290,000
		796,094
Industrials 2.7%		
Aleris International, Inc., 144A, 9.0%, 12/15/2014	55,000	55,275
Allied Security Escrow Corp., 11.375%, 7/15/2011	90,000	92,250
Allied Waste North America, Inc., Series B, 9.25%, 9/1/2012	222,000	235,875
American Color Graphics, 10.0%, 6/15/2010 (b)	80,000	56,800

The accompanying notes are an integral part of the financial statements.

	Principal Amount ($)(a)	Value ($)
Browning-Ferris Industries:		
7.4%, 9/15/2035	165,000	154,275
9.25%, 5/1/2021	65,000	68,900
Case New Holland, Inc., 9.25%, 8/1/2011	240,000	254,100
Cenveo Corp., 7.875%, 12/1/2013	135,000	129,600
Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010 (b)	169,000	172,802
Congoleum Corp., 8.625%, 8/1/2008*	125,000	118,750
DRS Technologies, Inc.:		
6.625%, 2/1/2016	25,000	25,188
7.625%, 2/1/2018	140,000	144,200
Education Management LLC, 144A, 8.75%, 6/1/2014	45,000	46,575
Esco Corp., 144A, 8.625%, 12/15/2013 (b)	105,000	107,887
Iron Mountain, Inc., 8.75%, 7/15/2018 (b)	40,000	42,400
K. Hovnanian Enterprises, Inc.:		
6.25%, 1/15/2016 (b)	175,000	165,375
8.875%, 4/1/2012 (b)	200,000	203,000
Kansas City Southern:		
7.5%, 6/15/2009	30,000	30,263
9.5%, 10/1/2008	365,000	381,425
Millennium America, Inc., 9.25%, 6/15/2008	85,000	87,762
Mobile Services Group, Inc., 144A, 9.75%, 8/1/2014	105,000	109,725
Panolam Industries International, Inc., 144A, 10.75%, 10/1/2013	35,000	36,838
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014	20,000	22,225
Ship Finance International Ltd., 8.5%, 12/15/2013 (b)	50,000	49,937
The Brickman Group Ltd., Series B, 11.75%, 12/15/2009	110,000	116,875
Williams Partners LP, 144A, 7.25%, 2/1/2017	55,000	56,100
Xerox Capital Trust I, 8.0%, 2/1/2027 (b)	35,000	35,744
		3,000,146

Information Technology 1.4%

	Principal Amount ($)(a)	Value ($)
Freescale Semiconductor, Inc., 144A, 8.875%, 12/15/2014	55,000	54,794
L-3 Communications Corp.:		
5.875%, 1/15/2015	250,000	241,250
Series B, 6.375%, 10/15/2015	80,000	79,200
Lucent Technologies, Inc., 6.45%, 3/15/2029	375,000	345,937
Sanmina-SCI Corp., 8.125%, 3/1/2016 (b)	145,000	140,288
SunGard Data Systems, Inc., 10.25%, 8/15/2015 (b)	190,000	202,825
UGS Corp., 10.0%, 6/1/2012	180,000	196,200
Unisys Corp., 7.875%, 4/1/2008	310,000	309,225
		1,569,719

Materials 4.1%

	Principal Amount ($)(a)	Value ($)
ARCO Chemical Co., 9.8%, 2/1/2020	560,000	646,800
Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014 (b)	45,000	30,375
Chemtura Corp., 6.875%, 6/1/2016	110,000	105,875
Constar International, Inc., 11.0%, 12/1/2012 (b)	20,000	18,500
CPG International I, Inc.:		
10.5%, 7/1/2013	195,000	198,656
12.39%**, 7/1/2012	45,000	45,900
Crystal US Holdings:		
Series A, Step-up Coupon, 0% to 10/1/2009, 10% to 10/1/2014	205,000	175,275
Series B, Step-up Coupon, 0% to 10/1/2009, 10.5% to 10/1/2014 (b)	60,000	51,600
Equistar Chemical Funding, 10.625%, 5/1/2011	120,000	127,800
Exopac Holding Corp., 144A, 11.25%, 2/1/2014	170,000	178,925
GEO Specialty Chemicals, Inc., 144A, 13.999%**, 12/31/2009	283,000	233,475
Georgia-Pacific Corp., 144A, 7.125%, 1/15/2017	40,000	39,900
Greif, Inc., 8.875%, 8/1/2012	75,000	78,750
Hexcel Corp., 6.75%, 2/1/2015	220,000	216,700
Huntsman LLC, 11.625%, 10/15/2010	268,000	292,790
International Coal Group, Inc., 10.25%, 7/15/2014	70,000	70,000
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014	120,000	96,000
Lyondell Chemical Co., 10.5%, 6/1/2013	40,000	44,000
Massey Energy Co.:		
6.625%, 11/15/2010	145,000	145,000
6.875%, 12/15/2013 (b)	75,000	70,500
Metals USA Holding Corp., 144A, 11.365%**, 1/15/2012	75,000	72,000
Momentive Performance, 144A, 9.75%, 12/1/2014	55,000	55,000
Mueller Holdings, Inc., Step-up Coupon, 0% to 4/15/2009, 14.75% to 4/15/2014	274,000	246,600
Neenah Foundry Co.:		
144A, 9.5%, 1/1/2017	75,000	75,375
144A, 13.0%, 9/30/2013	94,000	94,000
NewMarket Corp., 144A, 7.125%, 12/15/2016	125,000	125,000
OM Group, Inc., 9.25%, 12/15/2011 (b)	80,000	83,700
Omnova Solutions, Inc., 11.25%, 6/1/2010	275,000	295,625
Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010*	157,024	2,355
Pliant Corp., 11.625%, 6/15/2009 (PIK)	10	11
Radnor Holdings Corp., 11.0%, 3/15/2010*	25,000	63
Rockwood Specialties Group, Inc., 10.625%, 5/15/2011	33,000	35,145
The Mosaic Co.:		
144A, 7.375%, 12/1/2014	125,000	128,281
144A, 7.625%, 12/1/2016	45,000	46,631
TriMas Corp., 9.875%, 6/15/2012	155,000	149,963
United States Steel Corp., 9.75%, 5/15/2010	105,000	111,694
Witco Corp., 6.875%, 2/1/2026	35,000	30,625
Wolverine Tube, Inc., 10.5%, 4/1/2009 (b)	90,000	72,900
		4,491,789

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	Principal Amount ($)(a)	Value ($)
Telecommunication Services 1.7%		
American Cellular Corp., Series B, 10.0%, 8/1/2011	80,000	84,600
Centennial Communications Corp., 10.0%, 1/1/2013 (b)	90,000	95,737
Cincinnati Bell, Inc.:		
7.25%, 7/15/2013	230,000	238,050
8.375%, 1/15/2014 (b)	160,000	164,400
Dobson Cellular Systems, 9.875%, 11/1/2012	90,000	98,100
Dobson Communications Corp., 8.875%, 10/1/2013 (b)	75,000	76,406
Insight Midwest LP, 9.75%, 10/1/2009	26,000	26,423
Intelsat Corp., 144A, 9.0%, 6/15/2016	40,000	42,350
MetroPCS Wireless, Inc., 144A, 9.25%, 11/1/2014	85,000	88,825
Nextel Communications, Inc., Series D, 7.375%, 8/1/2015	400,000	410,170
Qwest Corp., 7.25%, 9/15/2025	150,000	154,125
Rural Cellular Corp., 9.875%, 2/1/2010 (b)	105,000	111,694
SunCom Wireless Holdings, Inc., 8.5%, 6/1/2013 (b)	125,000	119,687
Ubiquitel Operating Co., 9.875%, 3/1/2011	60,000	64,800
US Unwired, Inc., Series B, 10.0%, 6/15/2012	120,000	132,000
Windstream Corp., 144A, 8.625%, 8/1/2016	10,000	10,950
		1,918,317
Utilities 3.1%		
AES Corp., 144A, 8.75%, 5/15/2013	645,000	690,956
Allegheny Energy Supply Co. LLC, 144A, 8.25%, 4/15/2012	390,000	428,025
CMS Energy Corp., 8.5%, 4/15/2011	335,000	364,313
Mirant Americas Generation LLC, 8.3%, 5/1/2011	40,000	41,000
Mirant North America LLC, 7.375%, 12/31/2013	40,000	40,600
Mission Energy Holding Co., 13.5%, 7/15/2008	490,000	540,225
NRG Energy, Inc.:		
7.25%, 2/1/2014	165,000	166,238
7.375%, 2/1/2016	370,000	371,850
PSE&G Energy Holdings LLC, 10.0%, 10/1/2009	460,000	503,700
Regency Energy Partners LP, 144A, 8.375%, 12/15/2013	110,000	110,275
Sierra Pacific Resources:		
6.75%, 8/15/2017	130,000	127,505
8.625%, 3/15/2014 (b)	25,000	26,841
		3,411,528
Total Corporate Bonds (Cost $31,836,630)		**32,615,322**

Foreign Bonds — US$ Denominated 27.2%

	Principal Amount ($)(a)	Value ($)
Consumer Discretionary 0.7%		
Dollarama Group Holdings LP, 144A, 11.12%**, 8/15/2012	55,000	54,588
Jafra Cosmetics International, Inc., 10.75%, 5/15/2011	280,000	299,250
Quebecor World, Inc., 144A, 9.75%, 1/15/2015	55,000	55,344
Shaw Communications, Inc., 8.25%, 4/11/2010	65,000	69,062
Telenet Group Holding NV, 144A, Step-up Coupon, 0% to 12/15/2008, 11.5% to 6/15/2014	268,000	241,535
Vitro, SA de CV, Series A, 11.75%, 11/1/2013	25,000	27,375
		747,154
Energy 1.0%		
OPTI Canada, Inc., 144A, 8.25%, 12/15/2014	65,000	66,787
Pemex Project Funding Master Trust:		
8.0%, 11/15/2011	530,000	583,000
9.5%, 9/15/2027	205,000	275,520
Petronas Capital Ltd., Series REG S, 7.875%, 5/22/2022	115,000	142,736
Secunda International Ltd., 13.374%**, 9/1/2012	75,000	77,531
		1,145,574
Financials 0.6%		
Conproca SA de CV, Series REG S, 12.0%, 6/16/2010	300,000	346,500
Doral Financial Corp., 6.204%**, 7/20/2007 (b)	240,000	218,101
Inmarsat Finance II PLC, Step-up Coupon, 0% to 11/15/2008, 10.375% to 11/15/2012	70,000	64,487
New ASAT (Finance) Ltd., 9.25%, 2/1/2011	60,000	49,800
		678,888
Health Care 0.2%		
Biovail Corp., 7.875%, 4/1/2010	165,000	**168,506**
Industrials 0.5%		
Bombardier, Inc., 144A, 8.0%, 11/15/2014 (b)	75,000	76,875
Kansas City Southern de Mexico:		
144A, 7.625%, 12/1/2013	155,000	155,000
9.375%, 5/1/2012	115,000	122,763
12.5%, 6/15/2012	95,000	102,600
Navios Maritime Holdings, 144A, 9.5%, 12/15/2014	75,000	73,893
Stena AB, 9.625%, 12/1/2012	50,000	53,250
		584,381
Information Technology 0.1%		
Seagate Technology HDD Holdings, 6.8%, 10/1/2016	110,000	**110,550**
Materials 0.8%		
Cascades, Inc., 7.25%, 2/15/2013	155,000	154,613
ISPAT Inland ULC, 9.75%, 4/1/2014	197,000	220,148
Novelis, Inc., 144A, 8.25%, 2/15/2015	275,000	266,062
Rhodia SA:		
8.875%, 6/1/2011	60,000	63,300
10.25%, 6/1/2010	70,000	79,800
Tembec Industries, Inc., 8.625%, 6/30/2009	80,000	54,800
		838,723

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	Principal Amount ($)(a)	Value ($)
Sovereign Bonds 21.8%		
Aries Vermogensverwaltung GmbH, Series C REG S, 9.6%, 10/25/2014	500,000	640,995
Dominican Republic, Series REG S, 9.5%, 9/27/2011	329,354	354,056
Egypt Governemnt AID Bonds, 4.45%, 9/15/2015	5,050,000	4,879,865
Federative Republic of Brazil:		
7.125%, 1/20/2037 (b)	310,000	333,095
7.875%, 3/7/2015	310,000	345,340
8.75%, 2/4/2025	260,000	321,100
8.875%, 10/14/2019 (b)	675,000	823,500
11.0%, 1/11/2012	460,000	565,800
11.0%, 8/17/2040 (b)	655,000	867,875
14.5%, 10/15/2009	220,000	273,350
Government of Ukraine, Series REG S, 7.65%, 6/11/2013	250,000	269,100
Province of Ontario, 3.5%, 9/17/2007	1,500,000	1,480,885
Republic of Argentina:		
Step-up Coupon, 1.33% to 3/31/2009, 2.5% to 3/31/2019, 3.75% to 3/31/2029, 5.25% to 12/31/2038	240,000	129,600
5.59%**, 8/3/2012 (PIK)	1,210,000	857,475
Republic of Colombia:		
8.25%, 12/22/2014 (b)	145,000	164,575
10.0%, 1/23/2012	315,000	370,125
10.75%, 1/15/2013	45,000	55,688
Republic of El Salvador, 144A, 7.65%, 6/15/2035	670,000	760,450
Republic of Indonesia, 144A, 6.875%, 3/9/2017	440,000	467,500
Republic of Panama:		
7.125%, 1/29/2026	241,000	260,280
9.375%, 1/16/2023	570,000	738,150
Republic of Peru, 7.35%, 7/21/2025 (b)	1,135,000	1,282,550
Republic of Philippines:		
7.75%, 1/14/2031	100,000	113,500
8.0%, 1/15/2016	540,000	614,250
8.375%, 2/15/2011	170,000	186,150
9.375%, 1/18/2017	150,000	184,875
Republic of Serbia, 144A, Series REG S, Step-up Coupon, 3.75% to 11/1/2009, 6.75% to 11/1/2024	115,000	106,375
Republic of Turkey:		
6.875%, 3/17/2036 (b)	470,000	448,850
7.25%, 3/15/2015	70,000	72,363
7.375%, 2/5/2025	125,000	128,125
11.75%, 6/15/2010	405,000	477,900
12.375%, 6/15/2009	300,000	345,750
Republic of Uruguay:		
7.625%, 3/21/2036	185,000	203,500
8.0%, 11/18/2022	265,000	300,775
9.25%, 5/17/2017	105,000	128,362
Republic of Venezuela:		
7.65%, 4/21/2025	50,000	54,200
9.375%, 1/13/2034	300,000	396,000
10.75%, 9/19/2013	855,000	1,062,337
Russian Federation, Series REG S, Step-up Coupon, 5.0% to 3/31/2007, 7.5% to 3/31/2030	1,530,000	1,727,217
Russian Ministry of Finance, Series VII, 3.0%, 5/14/2011	250,000	225,545
Socialist Republic of Vietnam, 144A, 6.875%, 1/15/2016 (b)	440,000	475,200
United Mexican States:		
5.625%, 1/15/2017	510,000	510,510
8.3%, 8/15/2031	85,000	108,673
		24,111,811
Telecommunication Services 1.1%		
Cell C Property Ltd., 144A, 11.0%, 7/1/2015	220,000	206,250
Embratel, Series B, 11.0%, 12/15/2008 (b)	20,000	21,950
Grupo Iusacell SA de CV, Series B, 10.0%, 7/15/2004*	30,000	29,700
Intelsat Bermuda Ltd., 144A, 11.25%, 6/15/2016	95,000	104,262
Intelsat Ltd., 5.25%, 11/1/2008	95,000	92,388
Millicom International Cellular SA, 10.0%, 12/1/2013	55,000	59,950
Mobifon Holdings BV, 12.5%, 7/31/2010	195,000	215,478
Nortel Networks Ltd.:		
144A, 9.624%**, 7/15/2011	200,000	210,750
144A, 10.125%, 7/15/2013	100,000	108,000
144A, 10.75%, 7/15/2016	75,000	82,031
Stratos Global Corp., 9.875%, 2/15/2013	130,000	125,450
		1,256,209
Utilities 0.4%		
Intergas Finance BV, Series REG S, 6.875%, 11/4/2011	375,000	**384,626**
Total Foreign Bonds — US$ Denominated (Cost $28,417,899)		**30,026,422**

Foreign Bonds — Non US$ Denominated 16.3%

		Principal Amount ($)(a)	Value ($)
Consumer Discretionary 0.2%			
Cirsa Capital Luxembourg, 144A, 7.875%, 7/15/2012	EUR	50,000	63,059
Unity Media GmbH, 144A, 8.75%, 2/15/2015	EUR	100,000	128,375
			191,434
Financials 0.2%			
Codere Finance Luxembourg SA, 144A, 8.25%, 6/15/2015	EUR	50,000	69,798
Louis No. 1 PLC:			
144A, 8.5%, 12/1/2014	EUR	55,000	72,603
144A, 10.0%, 12/1/2016	EUR	50,000	66,332
Ono Finance II, 144A, 8.0%, 5/16/2014	EUR	50,000	67,982
			276,715
Materials 0.1%			
Rhodia SA, 144A, 6.242%**, 10/15/2013	EUR	85,000	**112,148**
Sovereign Bonds 15.8%			
Bundesrepublic Deutschland, Series 06, 4.0%, 7/4/2016	EUR	1,800,000	2,382,981

The accompanying notes are an integral part of the financial statements.

		Principal Amount ($)(a)	Value ($)
Federative Republic of Brazil, 12.5%, 1/5/2016	BRL	250,000	125,660
Government of Malaysia, Series 1/04, 4.305%, 2/27/2009	MYR	1,650,000	474,416
Government of Ukraine, Series REG S, 4.95%, 10/13/2015	EUR	130,000	164,433
Hellenic Republic, 2.9%, 6/21/2008	EUR	3,100,000	4,031,264
Kingdom of Spain, 3.15%, 1/31/2016	EUR	1,900,000	2,353,020
Republic of Argentina:			
5.83%, 12/31/2033 (PIK)	ARS	375	179
7.82%, 12/31/2033 (PIK)	EUR	746,534	1,035,229
Republic of Greece, 4.5%, 9/20/2037	EUR	1,800,000	2,383,123
Republic of Turkey, 20.0%, 10/17/2007	TRY	35	25
United Kingdom Treasury Bond, 5.0%, 3/7/2008	GBP	2,300,000	4,493,945
			17,444,275
Total Foreign Bonds — Non US$ Denominated (Cost $17,723,522)			**18,024,572**

US Government Sponsored Agencies 1.5%

Tennessee Valley Authority, Series A, 6.79%, 5/23/2012 (Cost $1,685,458)	1,500,000	**1,627,164**

Loan Participation 0.2%

CSFB International (Exim Ukraine), 6.8%, 10/4/2012 (Cost $199,745)	205,000	**200,224**

Warrants 0.0%

	Shares	Value ($)
Dayton Superior Corp. 144A, Expiration 6/15/2009*	10	0
TravelCenters of America, Inc., Expiration 5/1/2009*	25	625
Total Warrants (Cost $101)		**625**

Other Investments 0.2%

	Units	Value ($)
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029	85,000	72,675

	Shares	Value ($)
IdleAire Technologies Corp. (Bond Unit), 144A, Step-up Coupon, 0% to 6/15/2008, 13.0% to 12/15/2012	160,000	120,000
Total Other Investments (Cost $197,240)		**192,675**

Common Stocks 0.0%

GEO Specialty Chemicals, Inc.* (Cost $19,822)	2,058	**1,749**

Convertible Preferred Stock 0.0%

Consumer Discretionary

ION Media Networks, Inc.:		
144A, 9.75% (PIK)	2	9,100
Series AI, 144A, 9.75% (PIK)	4	18,200
Total Convertible Preferred Stocks (Cost $41,950)		**27,300**

US Treasury Obligations 15.5%

	Principal Amount ($)(a)	Value ($)
US Treasury Bill, 5.005%***, 1/18/2007 (c)	536,000	534,747
US Treasury Bonds:		
5.375%, 2/15/2031	1,700,000	1,820,993
6.25%, 8/15/2023	5,200,000	5,985,283
US Treasury Note, 6.125%, 8/15/2007	8,735,000	8,790,275
Total US Treasury Obligations (Cost $17,002,869)		**17,131,298**

Securities Lending Collateral 7.6%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.34% (d) (e) (Cost $8,409,765)	8,409,765	**8,409,765**

Cash Equivalents 7.4%

Cash Management QP Trust, 5.46% (f) (Cost $8,156,731)	8,156,731	**8,156,731**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $113,691,731)†	105.4	**116,413,847**
Other Assets and Liabilities, Net	(5.4)	**(5,947,573)**
Net Assets	100.0	**110,466,274**

The accompanying notes are an integral part of the financial statements.

† The cost for federal income tax purposes was $113,904,184. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $2,509,663. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,127,408 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $617,745.

* Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest. The following table represents bonds that are in default.

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Congoleum Corp.	8.625%	8/1/2008	125,000	USD	105,994	118,750
Grupo Iusacell SA de CV	10.0%	7/15/2004	30,000	USD	21,475	29,700
Oxford Automotive, Inc.	12.0%	10/15/2010	157,024	USD	14,689	2,355
Radnor Holdings Corp.	11.0%	3/15/2010	25,000	USD	17,152	63
					159,310	**150,868**

** Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of December 31, 2006.

*** Annualized yield at time of purchase; not a coupon rate.

(a) Principal amount stated in US dollars unless otherwise noted.

(b) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $8,247,392 which is 7.5% of net assets.

(c) At December 31, 2006, this security, in part or in whole, has been segregated to cover initial margin requirements for open future contracts.

(d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(e) Represents collateral held in connection with securities lending.

(f) Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

PIK: Denotes that all or a portion of the income is paid in-kind.

At December 31, 2006, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Depreciation ($)
10 Year Federal Republic of Germany Bond	3/8/2007	24	3,765,359	3,675,970	(89,389)
10 Year Japanese Government Bond	3/9/2007	5	5,638,956	5,632,116	(6,840)
10 Year US Treasury Note	3/21/2007	28	3,048,366	3,009,125	(39,241)
Total net unrealized depreciation					**(135,470)**

At December 31, 2006, open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation ($)
10 Year Canada Government Bond	3/21/2007	4	394,204	390,413	3,791
2 Year Federal Republic of Germany Bond	3/8/2007	40	5,491,857	5,463,159	28,698
2 Year US Treasury Note	3/30/2007	20	4,095,564	4,080,625	14,939
10 Year Australian Bond	3/15/2007	40	3,249,329	3,186,930	62,399
United Kingdom Treasury Bond	3/28/2007	14	3,002,130	2,964,062	38,068
Total net unrealized appreciation					**147,895**

At December 31, 2006, the open credit default swap contract purchased was as follows:

Effective/Expiration Date	Notional Amount ($)	Cash Flows Paid by the Portfolio	Underlying Debt Obligation	Unrealized Appreciation ($)
9/27/2006–12/20/2011	2,100,000†	Fixed — 3.25%	Dow Jones CDX High Yield	**62,267**

Counterparty:

† JPMorgan Chase

The accompanying notes are an integral part of the financial statements.

At December 31, 2006, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
USD	733,218	AUD	967,000	1/29/2007	28,405
USD	1,769,276	EUR	1,398,698	1/29/2007	79,109
USD	2,344,218	GBP	1,248,000	1/29/2007	100,649
USD	202,449	GBP	106,000	1/29/2007	5,208
JPY	464,513,100	USD	3,950,210	1/29/2007	32,331
JPY	44,978,000	USD	388,319	1/29/2007	8,957
USD	569,966	SEK	4,074,000	1/29/2007	27,048
USD	2,483,221	SGD	3,885,000	1/29/2007	53,153
EUR	105,000	USD	140,371	2/12/2007	1,483
EUR	267,450	USD	355,022	2/12/2007	1,253
EUR	798,300	USD	1,059,691	2/12/2007	3,741
EUR	1,350,000	USD	1,806,476	3/6/2007	19,612
GBP	750,000	USD	1,486,200	3/6/2007	16,812
USD	115,476	IDR	1,050,836	3/13/2007	1,368
Total unrealized appreciation					**379,129**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
EUR	85,000	USD	108,452	1/5/2007	(3,781)
NOK	5,941,000	USD	901,517	1/29/2007	(53,720)
USD	452,110	CAD	508,000	1/29/2007	(15,841)
CHF	3,694,000	USD	2,945,774	1/29/2007	(91,152)
CHF	961,000	USD	777,709	1/29/2007	(12,352)
EUR	663,000	USD	850,483	1/29/2007	(25,674)
EUR	55,000	USD	70,197	2/5/2007	(2,532)
EUR	50,000	USD	63,870	2/9/2007	(2,259)
USD	9,918,458	JPY	1,130,000,000	3/6/2007	(342,534)
Total unrealized depreciation					**(549,845)**

Currency Abbreviations

ARS	Argentine Peso	EUR	Euro	MYR	Malaysian Ringgit
AUD	Austrian Dollar	GBP	Great British Pound	SEK	Swedish Krona
BRL	Brazilian Dollar	IDR	Indonesian Rupiah	SGD	Singapore Dollar
CAD	Canadian Dollars	JPY	Japanese Yen	TRY	Turkish Lira
CHF	Swiss Franc	NOK	Norwegian Krone	USD	United States Dollar

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets		
Investments:		
Investments in securities, at value (cost $97,125,235) — including $8,247,392 of securities loaned	$	99,847,351
Investment in Daily Assets Fund Institutional (cost $8,409,765)*		8,409,765
Investment in Cash Management QP Trust (cost $8,156,731)		8,156,731
Total investments in securities, at value (cost $113,691,731)		116,413,847
Cash		338,309
Foreign currency, at value (cost $377,779)		375,518
Interest receivable		2,011,807
Receivable for Portfolio shares sold		40,822
Foreign taxes recoverable		2,498
Unrealized appreciation on forward foreign currency exchange contracts		379,129
Unrealized appreciation on credit default swap contracts		62,267
Other assets		3,261
Total assets		119,627,458
Liabilities		
Payable upon return of securities loaned		8,409,765
Payable for Portfolio shares redeemed		4,613
Unrealized depreciation on forward foreign currency exchange contracts		549,845
Payable for daily variation margin on open futures contracts		19,628
Accrued management fee		53,940
Net payable on closed forward foreign currency exchange contracts		12,447
Other accrued expenses and payables		110,946
Total liabilities		9,161,184
Net assets, at value	**$**	**110,466,274**
Net Assets		
Net assets consist of:		
Undistributed net investment income		6,991,143
Net unrealized appreciation (depreciation) on:		
Investments		2,722,116
Credit default swaps		62,267
Futures		12,425
Foreign currency related transactions		(179,391)
Accumulated net realized gain (loss)		(215,945)
Paid-in capital		101,073,659
Net assets, at value	**$**	**110,466,274**
Class A		
Net Asset Value, offering and redemption price per share ($85,766,556 ÷ 7,267,545 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.80**
Class B		
Net Asset Value, offering and redemption price per share ($24,699,718 ÷ 2,104,567 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.74**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $88)	$	6,000,129
Interest — Cash Management QP Trust		419,063
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		24,528
Total Income		6,443,720
Expenses:		
Management fee		662,490
Custodian fees		38,875
Distribution service fees (Class B)		61,574
Record keeping fees (Class B)		31,717
Auditing		57,050
Legal		10,785
Trustees' fees and expenses		15,610
Reports to shareholders		42,048
Registration fees		277
Other		48,963
Total expenses before expense reductions		969,389
Expense reductions		(17,598)
Total expenses after expense reductions		951,791
Net investment income		**5,491,929**
Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from:		
Investments		1,526,104
Credit default swaps		(157,354)
Futures		47,043
Foreign currency related transactions		200,740
Net increase from payments by affiliates and net losses realized on trades executed incorrectly and the disposal of investments in violation of restrictions		—
		1,616,533
Net unrealized appreciation (depreciation) during the period on:		
Investments		1,514,128
Credit default swaps		197,123
Futures		79,925
Foreign currency related transactions		(49,418)
		1,741,758
Net gain (loss) on investment transactions		**3,358,291**
Net increase (decrease) in net assets resulting from operations	**$**	**8,850,220**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income	$ 5,491,929	$ 4,985,394
Net realized gain (loss) on investment transactions	1,616,533	355,060
Net unrealized appreciation (depreciation) during the period on investment transactions	1,741,758	(3,288,846)
Net increase (decrease) in net assets resulting from operations	8,850,220	2,051,608
Distributions to shareholders from:		
Net investment income:		
Class A	(3,447,308)	(5,064,114)
Class B	(1,139,329)	(1,726,009)
Net realized gains:		
Class A	(665,270)	(149,856)
Class B	(235,620)	(53,955)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	23,655,231	19,392,981
Reinvestment of distributions	4,112,578	5,213,970
Cost of shares redeemed	(15,500,783)	(12,247,000)
Net increase (decrease) in net assets from Class A share transactions	12,267,026	12,359,951
Class B		
Proceeds from shares sold	3,743,282	7,141,190
Reinvestment of distributions	1,374,949	1,779,964
Cost of shares redeemed	(7,442,604)	(2,685,538)
Net increase (decrease) in net assets from Class B share transactions	(2,324,373)	6,235,616
Increase (decrease) in net assets	13,305,346	13,653,241
Net assets at beginning of period	97,160,928	83,507,687
Net assets at end of period (including undistributed net investment income of $6,991,143 and $4,603,670, respectively)	**$ 110,466,274**	**$ 97,160,928**

Other Information		
Class A		
Shares outstanding at beginning of period	6,158,201	5,069,464
Shares sold	2,099,310	1,677,930
Shares issued to shareholders in reinvestment of distributions	375,578	468,040
Shares redeemed	(1,365,544)	(1,057,233)
Net increase (decrease) in Class A shares	1,109,344	1,088,737
Shares outstanding at end of period	**7,267,545**	**6,158,201**
Class B		
Shares outstanding at beginning of period	2,304,696	1,758,421
Shares sold	329,869	619,274
Shares issued to shareholders in reinvestment of distributions	125,911	160,213
Shares redeemed	(655,909)	(233,212)
Net increase (decrease) in Class B shares	(200,129)	546,275
Shares outstanding at end of period	**2,104,567**	**2,304,696**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$11.50**	**$12.25**	**$11.82**	**$11.10**	**$10.27**
Income (loss) from investment operations:					
Net investment income[a]	.62	.65	.58	.41	.45
Net realized and unrealized gain (loss) on investment transactions	.36	(.39)	.39	.47	.68
Total from investment operations	.98	.26	.97	.88	1.13
Less distributions from:					
Net investment income	(.57)	(.98)	—	(.15)	(.30)
Net realized gain on investment transactions	(.11)	(.03)	(.54)	(.01)	—
Total distributions	(.68)	(1.01)	(.54)	(.16)	(.30)
Net asset value, end of period	**$11.80**	**$11.50**	**$12.25**	**$11.82**	**$11.10**
Total Return (%)	8.98	2.38	8.60	7.85	11.30
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	86	71	62	62	60
Ratio of expenses (%)	.85	.88	.84	.83	.73
Ratio of net investment income (%)	5.47	5.61	4.99	3.60	4.26
Portfolio turnover rate (%)	143	120	210	160	65

a *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2006	2005	2004	2003[a]
Selected Per Share Data				
Net asset value, beginning of period	**$11.44**	**$12.17**	**$11.78**	**$11.44**
Income (loss) from investment operations:				
Net investment income[b]	.59	.61	.53	.17
Net realized and unrealized gain (loss) on investment transactions	.35	(.38)	.40	.17
Total from investment operations	.94	.23	.93	.34
Less distributions from:				
Net investment income	(.53)	(.93)	—	—
Net realized gain on investment transactions	(.11)	(.03)	(.54)	—
Total distributions	(.64)	(.96)	(.54)	—
Net asset value, end of period	**$11.74**	**$11.44**	**$12.17**	**$11.78**
Total Return (%)	8.75[c]	1.92[c]	8.27	2.97**
Ratios to Average Net Assets and Supplemental Data				
Net assets, end of period ($ millions)	25	26	21	8
Ratio of expenses before expense reductions (%)	1.24	1.25	1.22	1.26*
Ratio of expenses after expense reductions (%)	1.18	1.21	1.22	1.26*
Ratio of net investment income (%)	5.14	5.28	4.61	1.80*
Portfolio turnover rate (%)	143	120	210	160

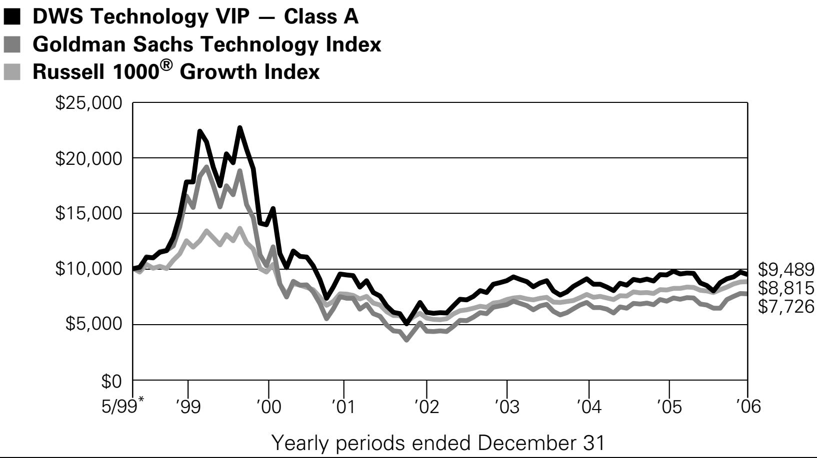
a *For the period from May 1, 2003 (commencement of operations of Class B shares) to December 31, 2003.*
b *Based on average shares outstanding during the period.*
c *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

DWS Technology VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Investments by the Portfolio in small companies present greater risk of loss than investments in larger, more established companies. Concentration of the Portfolio's investment in technology stocks may present a greater risk than investments in a more diversified portfolio. Investments by the Portfolio in emerging technology companies present greater risk than investments in more established technology companies. This Portfolio is non-diversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS Technology VIP from 5/1/1999 to 12/31/2006



The Goldman Sachs Technology Index is an unmanaged capitalization-weighted index based on a universe of technology-related stocks.

The Russell 1000® Growth Index is an unmanaged index that consists of those stocks in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Technology VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,075	$10,653	$10,070	$9,489
	Average annual total return	.75%	2.13%	.14%	–.68%
Goldman Sachs Technology Index	Growth of $10,000	$10,898	$11,443	$10,537	$7,726
	Average annual total return	8.98%	4.59%	1.05%	–3.31%
Russell 1000 Growth Index	Growth of $10,000	$10,907	$12,205	$11,420	$8,815
	Average annual total return	9.07%	6.87%	2.69%	–1.63%

DWS Technology VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$10,043	$10,525	$14,655
	Average annual total return	.43%	1.72%	8.87%
Goldman Sachs Technology Index	Growth of $10,000	$10,898	$11,443	$15,726
	Average annual total return	8.98%	4.59%	10.58%
Russell 1000 Growth Index	Growth of $10,000	$10,907	$12,205	$14,415
	Average annual total return	9.07%	6.87%	8.47%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 1999. Index returns began on April 30, 1999.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Technology VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,118.10	$1,117.10
Expenses Paid per $1,000*	$ 4.80	$ 6.88

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.67	$1,018.70
Expenses Paid per $1,000*	$ 4.58	$ 6.56

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Technology VIP	.90%	1.29%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

DWS Technology VIP

Technology stocks delivered a positive absolute return during 2006, but the sector underperformed the broader market. A strong second half rally was not enough to make up for tech's weakness in the second quarter, during which the options backdating scandal weighed heavily on the sector. DWS Technology VIP (Class A shares, unadjusted for contract charges) returned 0.75% for the year, trailing the 8.98% return of its benchmark, the Goldman Sachs Technology Index.

We have made an effort to invest in what we believe are faster-growing companies since taking over the Portfolio's management duties in April, an approach that is reflected in increased weightings in overseas and mid-cap companies. While we believe that this positioning will pay off in the long-term, it detracted from returns during the second half of the year due to the substantial outperformance of large-cap techs.

Software was our most significant area of underperformance, largely as a result of the Portfolio's underweights in Microsoft Corp. and Oracle Corp.[1] Also hurting performance was our stock selection in the semiconductors, internet and hardware sectors. On the plus side, the Portfolio benefited from our decision to not own any US-based electronics equipment companies and to invest instead in foreign stocks such as Hon Hai Precision Industry Co., Ltd. and Inotera Memories, Inc., both of which are based in Taiwan. In terms of individual companies, notable winners included Apple Computer, Inc., Akamai Technologies, Inc., and a non-holding in Dell.

In an environment likely to be characterized by a large dispersion in the performance of individual stocks, our focus in 2007 will be on investing in companies that we believe are demonstrating solid growth and strong product cycles.

Kelly P. Davis, CFA	Brian S. Peters, CFA
Lead Portfolio Manager	*Portfolio Manager*

Deutsche Investment Management Americas Inc.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Risk Considerations

Investments by the Portfolio in small companies present greater risk of loss than investments in larger, more established companies. Concentration of the Portfolio's investment in technology stocks may present a greater risk than investments in a more diversified portfolio. Investments by the Portfolio in emerging technology companies present greater risk than investments in more established technology companies. This Portfolio is non-diversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

The Goldman Sachs Technology Index is an unmanaged capitalization-weighted index based on a universe of technology-related stocks.

Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the fund holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Technology VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	99%	95%
Cash Equivalents	1%	5%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Information Technology:		
Software	23%	15%
Computers & Peripherals	19%	22%
Semiconductors & Semiconductor Equipment	18%	25%
Communications Equipment	16%	16%
Internet Software & Services	13%	9%
IT Services	6%	7%
Electronic Equipment & Instruments	2%	1%
Electronic Equipment	1%	—
Industrials	2%	—
Consumer Discretionary	—	5%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 180. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

Investment Portfolio

December 31, 2006

DWS Technology VIP

	Shares	Value ($)
Common Stocks 97.9%		
Industrials 1.6%		
Commercial Services & Supplies 0.6%		
SAIC, Inc.* (a)	59,800	**1,063,842**
Electrical Equipment 1.0%		
Cheng Uei Precision Industry Co., Ltd.	516,071	**1,836,668**
Information Technology 96.0%		
Communications Equipment 16.0%		
Cisco Systems, Inc.*	373,800	10,215,954
Corning, Inc.*	283,700	5,308,027
Foundry Networks, Inc.*	180,500	2,703,890
Motorola, Inc.	155,584	3,198,807
QUALCOMM, Inc.	186,816	7,059,777
Riverbed Technology, Inc.* (a)	4,100	125,870
		28,612,325
Computers & Peripherals 19.0%		
Apple Computer, Inc.*	103,900	8,814,876
Asustek Computer, Inc.	750,000	2,043,208
EMC Corp.*	447,200	5,903,040
Hewlett-Packard Co.	210,900	8,686,971
Network Appliance, Inc.*	70,700	2,777,096
QLogic Corp.*	112,420	2,464,247
Rackable Systems, Inc.* (a)	60,100	1,861,297
SanDisk Corp.* (a)	32,700	1,407,081
		33,957,816
Electronic Equipment & Instruments 2.2%		
Hon Hai Precision Industry Co., Ltd.	535,200	**3,821,955**
Internet Software & Services 12.5%		
Akamai Technologies, Inc.*	30,300	1,609,536
eBay, Inc.*	210,600	6,332,742
Google, Inc. "A"*	18,300	8,426,784
Yahoo!, Inc.*	235,700	6,019,778
		22,388,840
IT Services 5.8%		
Automatic Data Processing, Inc.	150,530	7,413,602
BearingPoint, Inc.* (a)	110,500	869,635
Paychex, Inc.	51,900	2,052,126
		10,335,363
Semiconductors & Semiconductor Equipment 17.5%		
Advanced Micro Devices, Inc.*	114,700	2,334,145
Applied Materials, Inc.	234,200	4,320,990
ASML Holding NV (NY Registered Shares)* (a)	102,500	2,524,575
Broadcom Corp. "A"*	31,287	1,010,883
Inotera Memories, Inc.*	1,492,000	1,780,426
Intel Corp.	245,389	4,969,127
Marvell Technology Group Ltd.*	103,000	1,976,570
Maxim Integrated Products, Inc.	106,834	3,271,257
MKS Instruments, Inc.*	49,600	1,119,968
PMC-Sierra, Inc.* (a)	113,800	763,598
SiRF Technology Holdings, Inc.* (a)	86,100	2,197,272
Spansion, Inc. "A"* (a)	133,000	1,976,380
Texas Instruments, Inc.	104,500	3,009,600
		31,254,791
Software 23.0%		
Adobe Systems, Inc.*	206,600	8,495,392
Autodesk, Inc.*	103,800	4,199,748
Cadence Design Systems, Inc.*	110,200	1,973,682
Electronic Arts, Inc.*	99,600	5,015,856
Microsoft Corp.	314,346	9,386,372
Oracle Corp.*	200,000	3,428,000
Symantec Corp.*	312,077	6,506,805
Take-Two Interactive Software, Inc.* (a)	122,100	2,168,496
		41,174,351
Materials 0.3%		
Chemicals		
SODIFF Advanced Materials Co., Ltd.	28,944	**525,097**
Total Common Stocks (Cost $149,175,395)		**174,971,048**
Call Options Purchased 0.1%		
Microsoft Corp. Expiring 4/21/2007, Strike Price, $30.0 (Cost $215,824)	1,927	**279,415**
Securities Lending Collateral 7.0%		
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $12,467,311)	12,467,311	**12,467,311**
Cash Equivalents 1.2%		
Cash Management QP Trust, 5.46% (d) (Cost $2,194,811)	2,194,811	**2,194,811**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $164,053,341)†	106.2	**189,912,585**
Other Assets and Liabilities, Net	(6.2)	**(11,115,742)**
Net Assets	100.0	**178,796,843**

The accompanying notes are an integral part of the financial statements.

* *Non-income producing security.*

† *The cost for federal income tax purposes was $177,677,616. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $12,234,969. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $31,588,147 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $19,353,178.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $12,094,384 which is 6.8% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

At December 31, 2006, open written options were as follows:

Written Options	**Number of Contracts**	**Expiration Date**	**Strike Price ($)**	**Value ($)**
Call Options				
Take Two Interactive Software (premiums received ($100,465)	536	1/20/2007	17.5	**(54,136)**

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $149,391,219) — including $12,094,384 of securities loaned	$ 175,250,463
Investment in Daily Assets Fund Institutional (cost $12,467,311)*	12,467,311
Investment in Cash Management QP Trust (cost $2,194,811)	2,194,811
Total investments in securities, at value (cost $164,053,341)	189,912,585
Foreign currency, at value (cost $1,377,304)	1,377,959
Receivable for Portfolio shares sold	186,808
Dividends receivable	82,990
Interest receivable	15,544
Foreign taxes recoverable	274
Other assets	5,671
Total assets	191,581,831
Liabilities	
Payable for Portfolio shares redeemed	31,119
Payable upon return of securities loaned	12,467,311
Written options, at value (premium received $100,465)	54,136
Accrued management fee	115,837
Other accrued expenses and payables	116,585
Total liabilities	12,784,988
Net assets, at value	**$ 178,796,843**
Net Assets	
Net assets consist of:	
Accumulated net investment loss	(2,464)
Net unrealized appreciation (depreciation) on:	
Investments	25,859,244
Written options	46,329
Foreign currency related transactions	654
Accumulated net realized gain (loss)	(265,490,735)
Paid-in capital	418,383,815
Net assets, at value	**$ 178,796,843**
Class A	
Net Asset Value, offering and redemption price per share ($164,694,094 ÷ 17,575,288 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 9.37**
Class B	
Net Asset Value, offering and redemption price per share ($14,102,749 ÷ 1,525,054 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 9.25**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $27,951)	$ 828,209
Interest	2,220
Interest — Cash Management QP Trust	280,064
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	23,020
Other income**	338,842
Total Income	1,472,355
Expenses:	
Management fee	1,436,929
Custodian and accounting fees	89,890
Distribution service fees (Class B)	37,465
Record keeping fees (Class B)	20,308
Auditing	47,016
Legal	17,823
Trustees' fees and expenses	22,214
Reports to shareholders	78,048
Other	20,928
Total expenses before expense reductions	1,770,621
Expense reductions	(3,493)
Total expenses after expense reductions	1,767,128
Net investment income (loss)	**(294,773)**
Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	6,086,166
Written options	60,573
Foreign currency related transactions	(33,849)
	6,112,890
Net unrealized appreciation (depreciation) during the period on:	
Investments	(5,948,927)
Written options	(5,655)
Foreign currency related transactions	(539)
	(5,955,121)
Net gain (loss) on investment transactions	**157,769**
Net increase (decrease) in net assets resulting from operations	**$ (137,004)**

** *Non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with the sales of DWS Scudder Funds (see Note J).*

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ (294,773)	$ (837,802)
Net realized gain (loss)	6,112,890	13,020,687
Net unrealized appreciation (depreciation) during the period on investment transactions	(5,955,121)	(6,202,419)
Net increase (decrease) in net assets resulting from operations	(137,004)	5,980,466
Distributions to shareholders from:		
Net investment income:		
Class A	—	(979,061)
Class B	—	(18,255)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	6,300,268	13,734,734
Reinvestment of distributions	—	979,061
Cost of shares redeemed	(40,707,874)	(50,111,493)
Net increase (decrease) in net assets from Class A share transactions	(34,407,606)	(35,397,698)
Class B		
Proceeds from shares sold	2,069,789	2,549,674
Reinvestment of distributions	—	18,255
Cost of shares redeemed	(4,331,077)	(2,984,180)
Net increase (decrease) in net assets from Class B share transactions	(2,261,288)	(416,251)
Increase (decrease) in net assets	(36,805,898)	(30,830,799)
Net assets at beginning of period	215,602,741	246,433,540
Net assets at end of period (including accumulated net investment loss and accumulated distributions in excess of net investment income of $2,464 and $402, respectively)	**$ 178,796,843**	**$ 215,602,741**

Other Information		
Class A		
Shares outstanding at beginning of period	21,420,473	25,536,462
Shares sold	695,699	1,583,343
Shares issued to shareholders in reinvestment of distributions	—	119,107
Shares redeemed	(4,540,884)	(5,818,439)
Net increase (decrease) in Class A shares	(3,845,185)	(4,115,989)
Shares outstanding at end of period	**17,575,288**	**21,420,473**
Class B		
Shares outstanding at beginning of period	1,782,726	1,832,122
Shares sold	234,259	296,780
Shares issued to shareholders in reinvestment of distributions	—	2,234
Shares redeemed	(491,931)	(348,410)
Net increase (decrease) in Class B shares	(257,672)	(49,396)
Shares outstanding at end of period	**1,525,054**	**1,782,726**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.30**	**$ 9.01**	**$ 8.84**	**$ 6.02**	**$ 9.36**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.01)[b]	(.03)	.04	(.04)	(.03)
Net realized and unrealized gain (loss) on investment transactions	.08	.36	.13	2.86	(3.30)
Total from investment operations	.07	.33	.17	2.82	(3.33)
Less distributions from:					
Net investment income	—	(.04)	—	—	(.01)
Net asset value, end of period	**$ 9.37**	**$ 9.30**	**$ 9.01**	**$ 8.84**	**$ 6.02**
Total Return (%)	.75[b]	3.74	1.92	46.84	(35.52)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	165	199	230	257	219
Ratio of expenses (%)	.89	.86	.83	.86	.80
Ratio of net investment income (%)	(.12)[b]	(.36)	.43	(.50)	(.37)
Portfolio turnover rate (%)	49	135	112	66	64

a *Based on average shares outstanding during the period.*

b *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.017 per share and an increase in the ratio of net investment income of 0.18%. Excluding this non-recurring income, total return would have been 0.19% lower.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.21**	**$ 8.93**	**$ 8.80**	**$ 6.01**	**$ 6.32**
Income (loss) from investment operations:					
Net investment income (loss)[b]	(.04)[d]	(.07)	.01	(.07)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.08	.36	.12	2.86	(.29)
Total from investment operations	.04	.29	.13	2.79	(.31)
Less distributions from:					
Net investment income	—	(.01)	—	—	—
Net asset value, end of period	**$ 9.25**	**$ 9.21**	**$ 8.93**	**$ 8.80**	**$ 6.01**
Total Return (%)	.43[d]	3.27	1.48[c]	46.42	(4.75)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	14	16	16	11	.3
Ratio of expenses before expense reductions (%)	1.28	1.26	1.22	1.25	1.06*
Ratio of expenses after expense reductions (%)	1.28	1.26	1.21	1.25	1.06*
Ratio of net investment income (%)	(.51)[d]	(.76)	.05	(.89)	(.79)*
Portfolio turnover rate (%)	49	135	112	66	64

a *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

b *Based on average shares outstanding during the period.*

c *Total return would have been lower had certain expenses not been reduced.*

d *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds (see Note J). The non-recurring income resulted in an increase in net investment income of $0.017 per share and an increase in the ratio of net investment income of 0.18%. Excluding this non-recurring income, total return would have been 0.19% lower.*

* *Annualized*

** *Not annualized*

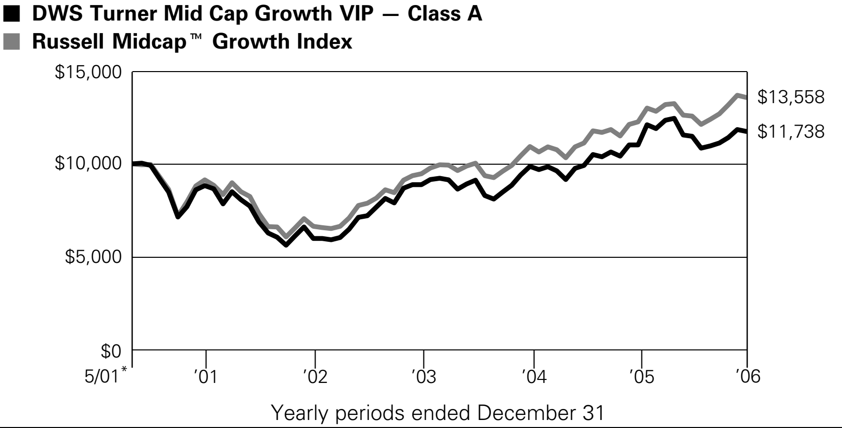
DWS Turner Mid Cap Growth VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Stocks of medium-sized companies involve greater risk than securities of larger, more established companies, as they often have limited product lines, markets or financial resources and may be subject to more-erratic and more-abrupt market movements. Additionally, it is nondiversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

Portfolio returns shown for life of portfolio period for Class A shares and for all periods shown for Class B shares reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Turner Mid Cap Growth VIP from 5/1/2001 to 12/31/2006



The Russell Midcap ™ Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.

Index returns assume reinvestment of dividends and unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.

Comparative Results

DWS Turner Mid Cap Growth VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,652	$13,219	$13,293	$11,738
	Average annual total return	6.52%	9.75%	5.86%	2.87%
Russell Midcap Growth Index	Growth of $10,000	$11,066	$14,325	$14,840	$13,558
	Average annual total return	10.66%	12.73%	8.22%	5.52%

DWS Turner Mid Cap Growth VIP		1-Year	3-Year	Life of Class**
Class B	Growth of $10,000	$10,621	$13,072	$17,509
	Average annual total return	6.21%	9.34%	13.27%
Russell Midcap Growth Index	Growth of $10,000	$11,066	$14,325	$18,482
	Average annual total return	10.66%	12.73%	14.62%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 2001. Index returns began on April 30, 2001.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Turner Mid Cap Growth VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses for Class B shares; had it not done so, expenses for Class B shares would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2006 to December 31, 2006).

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2006

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,022.50	$1,021.90
Expenses Paid per $1,000*	$ 5.10	$ 7.19
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/06	$1,000.00	$1,000.00
Ending Account Value 12/31/06	$1,020.16	$1,018.10
Expenses Paid per $1,000*	$ 5.09	$ 7.17

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Turner Mid Cap Growth VIP	1.00%	1.41%

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option.

Management Summary

December 31, 2006

DWS Turner Mid Cap Growth VIP

For the year, the DWS Turner Mid Cap Growth VIP recorded a return of 6.52% (Class A shares, unadjusted for contract charges), underperforming the 10.66% return posted by the Portfolio's benchmark, the Russell Midcap Growth™ Index. Three of the Portfolio's sector positions beat their corresponding index sectors. Contributing the most to performance were growth-oriented holdings in the producer durables and materials/processing sectors. Industries that added value included telecommunications equipment, trucks/construction/farm equipment, steel, and aerospace and defense stocks. Detracting the most from performance were our weightings in the health care and technology sectors.

After four straight up years, Wall Street pundits are sharply divided as to whether the aging bull has any more life in it. We think it does. We remain optimistic that over the next 12 months a recession will be avoided, although the economy should continue to slow. As the economy slows, the profitability of some companies is likely to falter and the stocks of companies able to keep achieving above-average growth (i.e., growth stocks) should do well, in our estimation. In short, we anticipate that investors may be willing to pay a premium for superior earnings growth and bona fide growth stocks.

We believe two catalysts could thwart the continuation of the bull market. One, the latest annualized core inflation rate is more than 2% — above the level that the US Federal Reserve Board (the Fed) considers acceptable. Fed Chairman Ben Bernanke hinted in late November that the threat of inflation is still worrisome enough to possibly warrant another rate hike. Two, the yield curve remains inverted, with the three-month US Treasury rate higher than its 10-year counterpart. An inverted yield curve has been a reliable predictor of a recession in modern times. A combination of accelerating inflation and rising rates could blunt corporate earnings and precipitate a recession — and in the process bring the bull market to a halt. But we don't think that will happen. As we see it, the economy should grow at a solid pace, inflation should be subdued, corporate earnings growth should reach the high single digits at least, and the stock market should have more gains in store for 2007.

	Tara Hedlund
Christopher K. McHugh	Jason Schrotberger
Lead Manager	*Portfolio Managers*

Turner Investment Partners, Inc., Subadvisor to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

Risk Considerations

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Stocks of medium-sized companies involve greater risk than securities of larger, more established companies, as they often have limited product lines, markets or financial resources and may be subject to more-erratic and more-abrupt market movements. Additionally, it is nondiversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio management market commentary is as of December 31, 2006, and may not come to pass. This information is subject to change at any time based on market and other conditions.

Portfolio Summary

DWS Turner Mid Cap Growth VIP

Asset Allocation (Excludes Securities Lending Collateral)	**12/31/06**	**12/31/05**
Common Stocks	99%	96%
Cash Equivalents	1%	4%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/06**	**12/31/05**
Information Technology	23%	25%
Consumer Discretionary	21%	17%
Health Care	16%	17%
Industrials	11%	14%
Financials	10%	10%
Energy	7%	10%
Telecommunication Services	6%	2%
Consumer Staples	3%	2%
Materials	2%	3%
Utilities	1%	—
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 189. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

DWS Turner Mid Cap Growth VIP

	Shares	Value ($)
Common Stocks 99.6%		
Consumer Discretionary 20.8%		
Hotels Restaurants & Leisure 8.1%		
Ctrip.com International Ltd. (ADR) (a)	11,460	716,021
Hilton Hotels Corp.	74,260	2,591,674
International Game Technology	80,380	3,713,556
Pinnacle Entertainment, Inc.*	21,300	705,882
WMS Industries, Inc.* (a)	40,510	1,412,178
Wynn Resorts Ltd. (a)	26,200	2,458,870
		11,598,181
Household Durables 1.3%		
Harman International Industries, Inc.	17,790	**1,777,399**
Internet & Catalog Retail 2.5%		
Nutri/System, Inc.* (a)	37,410	2,371,420
VistaPrint Ltd.* (a)	36,910	1,222,090
		3,593,510
Multiline Retail 1.3%		
J.C. Penney Co., Inc.	24,680	**1,909,245**
Specialty Retail 2.6%		
GameStop Corp. "A"* (a)	16,740	922,541
Guess?, Inc.*	28,760	1,824,247
The Children's Place Retail Stores, Inc.*	13,890	882,293
		3,629,081
Textiles, Apparel & Luxury Goods 5.0%		
Coach, Inc.*	84,930	3,648,593
Polo Ralph Lauren Corp.	25,340	1,967,904
Under Armour, Inc. "A"* (a)	31,050	1,566,473
		7,182,970
Consumer Staples 3.0%		
Beverages 0.5%		
Hansen Natural Corp.* (a)	23,940	**806,299**
Food Products 2.5%		
Bunge Ltd.	12,450	902,750
McCormick & Co., Inc.	22,990	886,494
Wm. Wrigley Jr. Co.	33,960	1,756,411
		3,545,655
Energy 7.2%		
Energy Equipment & Services 3.9%		
Cameron International Corp.*	31,530	1,672,667
National-Oilwell Varco, Inc.*	20,930	1,280,497
Smith International, Inc.	41,120	1,688,798
Superior Energy Services, Inc.*	29,260	956,217
		5,598,179
Oil, Gas & Consumable Fuels 3.3%		
Quicksilver Resources, Inc.* (a)	21,300	779,367
Range Resources Corp.	74,884	2,056,315
Southwestern Energy Co.*	17,360	608,468
Williams Companies, Inc.	49,980	1,305,477
		4,749,627

	Shares	Value ($)
Financials 10.4%		
Capital Markets 5.5%		
Affiliated Managers Group, Inc.* (a)	17,274	1,816,016
Greenhill & Co., Inc. (a)	13,920	1,027,296
Northern Trust Corp.	24,550	1,489,939
T. Rowe Price Group, Inc.	60,560	2,650,711
TD Ameritrade Holding Corp. (a)	55,200	893,136
		7,877,098
Commercial Banks 0.2%		
Synovus Financial Corp.	8,770	**270,379**
Diversified Financial Services 2.1%		
IntercontinentalExchange, Inc.*	17,890	1,930,331
Nasdaq Stock Market, Inc.* (a)	34,040	1,048,092
		2,978,423
Insurance 0.5%		
Arch Capital Group Ltd.*	9,880	**667,987**
Real Estate Investment Trusts 0.9%		
The Macerich Co. (REIT)	15,560	**1,347,029**
Real Estate Management & Development 1.2%		
CB Richard Ellis Group, Inc. "A"*	52,350	**1,738,020**
Health Care 15.6%		
Biotechnology 3.2%		
Alexion Pharmaceuticals, Inc.* (a)	22,880	924,123
Celgene Corp.*	44,550	2,562,961
MedImmune, Inc.*	32,940	1,066,268
		4,553,352
Health Care Equipment & Supplies 1.8%		
Intuitive Surgical, Inc.* (a)	13,840	1,327,256
St. Jude Medical, Inc.*	32,780	1,198,437
		2,525,693
Health Care Providers & Services 2.1%		
DaVita, Inc.*	16,640	946,483
Henry Schein, Inc.*	14,550	712,659
Psychiatric Solutions, Inc.*	35,770	1,342,090
		3,001,232
Life Sciences Tools & Services 3.1%		
Applera Corp. — Applied Biosystems Group	32,200	1,181,418
Pharmaceutical Product Development, Inc.	43,700	1,408,014
Thermo Fisher Scientific, Inc.*	40,430	1,831,075
		4,420,507
Pharmaceuticals 5.4%		
Allergan, Inc.	18,550	2,221,177
Forest Laboratories, Inc.*	27,450	1,388,970
Medicis Pharmaceutical Corp. "A" (a)	19,810	695,925
New River Pharmaceuticals, Inc.* (a)	13,540	740,774
Sepracor, Inc.* (a)	17,640	1,086,271
Shire PLC (ADR) (a)	26,230	1,619,965
		7,753,082
Industrials 11.2%		
Aerospace & Defense 1.8%		
Precision Castparts Corp.	32,910	**2,576,195**

The accompanying notes are an integral part of the financial statements.

	Shares	Value ($)
Air Freight & Logistics 0.8%		
C.H. Robinson Worldwide, Inc.	27,350	**1,118,341**
Airlines 1.9%		
Continental Airlines, Inc. "B"* (a)	35,970	1,483,762
US Airways Group, Inc.* (a)	21,560	1,161,006
		2,644,768
Commercial Services & Supplies 1.2%		
Monster Worldwide, Inc.*	34,830	**1,624,471**
Electrical Equipment 3.1%		
AMETEK, Inc.	45,990	1,464,322
Energy Conversion Devices, Inc.* (a)	19,610	666,348
General Cable Corp.*	25,650	1,121,161
Roper Industries, Inc.	23,720	1,191,693
		4,443,524
Industrial Conglomerates 1.0%		
McDermott International, Inc.*	28,595	**1,454,342**
Machinery 0.7%		
Harsco Corp.	13,820	**1,051,702**
Road & Rail 0.7%		
CSX Corp.	29,220	**1,006,045**
Information Technology 23.4%		
Communications Equipment 3.8%		
F5 Networks, Inc.*	33,540	2,489,003
JDS Uniphase Corp.*	62,814	1,046,481
Polycom, Inc.*	60,860	1,881,183
		5,416,667
Computers & Peripherals 1.5%		
QLogic Corp.*	66,920	1,466,887
SanDisk Corp.*	16,710	719,031
		2,185,918
Internet Software & Services 3.6%		
Akamai Technologies, Inc.* (a)	39,380	2,091,866
aQuantive, Inc.*	37,900	934,614
Digital River, Inc.* (a)	16,860	940,619
VeriSign, Inc.*	49,520	1,190,956
		5,158,055
IT Services 2.7%		
Fiserv, Inc.*	35,290	1,849,902
Isilon Systems, Inc.* (a)	18,900	521,640
Paychex, Inc.	36,480	1,442,419
		3,813,961
Semiconductors & Semiconductor Equipment 8.5%		
Altera Corp.*	67,090	1,320,331
Cymer, Inc.* (a)	29,000	1,274,550
Integrated Device Technology, Inc.*	75,840	1,174,003
KLA-Tencor Corp.	53,270	2,650,182
MEMC Electronic Materials, Inc.*	33,250	1,301,405
NVIDIA Corp.*	68,150	2,522,232
Varian Semiconductor Equipment Associates, Inc.*	40,780	1,856,306
		12,099,009
Software 3.3%		
Activision, Inc.*	79,020	1,362,305
Electronic Arts, Inc.*	27,560	1,387,921
Salesforce.com, Inc.* (a)	52,500	1,913,625
		4,663,851
Materials 1.9%		
Chemicals 0.5%		
Agrium, Inc.	23,450	**738,440**
Containers & Packaging 0.5%		
Owens-Illinois, Inc.*	38,790	**715,676**
Metals & Mining 0.9%		
Allegheny Technologies, Inc.	13,580	**1,231,434**
Telecommunication Services 5.6%		
Wireless Telecommunication Services		
American Tower Corp. "A"*	58,530	2,181,999
Crown Castle International Corp.*	38,610	1,247,103
Leap Wireless International, Inc.*	14,020	833,769
NII Holdings, Inc.* (a)	58,440	3,765,875
		8,028,746
Utilities 0.5%		
Gas Utilities		
Questar Corp.	8,450	**701,773**
Total Common Stocks (Cost $114,991,397)		**142,195,866**
Securities Lending Collateral 18.0%		
Daily Assets Fund Institutional, 5.34% (b) (c) (Cost $25,631,553)	25,631,553	**25,631,553**
Cash Equivalents 0.6%		
Cash Management QP Trust, 5.46% (d) (Cost $882,604)	882,604	**882,604**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $141,505,554)†	118.2	**168,710,023**
Other Assets and Liabilities, Net	(18.2)	**(25,997,066)**
Net Assets	100.0	**142,712,957**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $141,607,757. At December 31, 2006, net unrealized appreciation for all securities based on tax cost was $27,102,266. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $28,726,844 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,624,578.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2006 amounted to $24,937,749 which is 17.5% of net assets.*

(b) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Represents collateral held in connection with securities lending.*

(d) *Cash Management QP Trust, an affiliated fund, is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2006

Assets	
Investments:	
Investments in securities, at value (cost $114,991,397) — including $24,937,749 of securities loaned	$ 142,195,866
Investment in Daily Assets Fund Institutional (cost $25,631,553)*	25,631,553
Investment in Cash Management QP Trust (cost $882,604)	882,604
Total investments in securities, at value (cost $141,505,554)	168,710,023
Receivable for investments sold	400,603
Dividends receivable	46,739
Interest receivable	10,615
Other assets	4,239
Total assets	169,172,219

Liabilities	
Payable upon return of securities loaned	25,631,553
Payable for investments purchased	452,779
Payable for Portfolio shares redeemed	156,431
Accrued management fee	102,739
Other accrued expenses and payables	115,760
Total liabilities	26,459,262
Net assets, at value	**$ 142,712,957**

Net Assets	
Net assets consist of:	
Accumulated net investment loss	(2,089)
Net unrealized appreciation (depreciation) on investments	27,204,469
Accumulated net realized gain (loss)	11,823,325
Paid-in capital	103,687,252
Net assets, at value	**$ 142,712,957**
Class A	
Net Asset Value, offering and redemption price per share ($116,844,362 ÷ 10,696,292 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 10.92**
Class B	
Net Asset Value, offering and redemption price per share ($25,868,595 ÷ 2,410,110 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 10.73**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2006

Investment Income	
Income:	
Dividends	$ 1,200,593
Interest — Cash Management QP Trust	99,670
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	81,071
Total Income	1,381,334
Expenses:	
Management fee	1,209,780
Custodian and accounting fees	116,746
Distribution service fees (Class B)	67,940
Record keeping fees (Class B)	40,984
Auditing	45,655
Legal	20,093
Trustees' fees and expenses	18,476
Reports to shareholders	45,166
Other	9,698
Total expenses before expense reductions	1,574,538
Expense reductions	(3,604)
Total expenses after expense reductions	1,570,934
Net investment income (loss)	**(189,600)**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from investments	11,845,281
Net unrealized appreciation (depreciation) during the period on investments	(2,726,806)
Net gain (loss) on investment transactions	**9,118,475**
Net increase (decrease) in net assets resulting from operations	**$ 8,928,875**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2006	2005
Operations:		
Net investment income (loss)	$ (189,600)	$ (848,873)
Net realized gain (loss) on investment transactions	11,845,281	15,832,516
Net unrealized appreciation (depreciation) during the period on investment transactions	(2,726,806)	(148,045)
Net increase (decrease) in net assets resulting from operations	8,928,875	14,835,598
Distributions to shareholders from:		
Net realized gains:		
Class A	(9,522,910)	—
Class B	(2,156,952)	—
Portfolio share transactions:		
Class A		
Proceeds from shares sold	8,775,738	10,529,915
Reinvestment of distributions	9,522,910	—
Cost of shares redeemed	(20,986,374)	(18,562,756)
Net increase (decrease) in net assets from Class A share transactions	(2,687,726)	(8,032,841)
Class B		
Proceeds from shares sold	3,506,164	6,985,137
Reinvestment of distributions	2,156,952	—
Cost of shares redeemed	(6,329,936)	(5,854,761)
Net increase (decrease) in net assets from Class B share transactions	(666,820)	1,130,376
Increase (decrease) in net assets	(6,105,533)	7,933,133
Net assets at beginning of period	148,818,490	140,885,357
Net assets at end of period (including accumulated net investment loss of $2,089 and $86, respectively)	**$ 142,712,957**	**$ 148,818,490**

Other Information		
Class A		
Shares outstanding at beginning of period	11,034,621	11,918,058
Shares sold	775,698	997,835
Shares issued to shareholders in reinvestment of distributions	829,522	—
Shares redeemed	(1,943,549)	(1,881,272)
Net increase (decrease) in Class A shares	(338,329)	(883,437)
Shares outstanding at end of period	**10,696,292**	**11,034,621**
Class B		
Shares outstanding at beginning of period	2,497,836	2,386,654
Shares sold	324,988	684,539
Shares issued to shareholders in reinvestment of distributions	190,543	—
Shares redeemed	(603,257)	(573,357)
Net increase (decrease) in Class B shares	(87,726)	111,182
Shares outstanding at end of period	**2,410,110**	**2,497,836**

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Class A

Years Ended December 31,	2006	2005	2004	2003	2002
Selected Per Share Data					
Net asset value, beginning of period	**$11.02**	**$ 9.86**	**$ 8.88**	**$ 5.98**	**$ 8.82**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.01)	(.05)	(.07)	(.06)	(.06)
Net realized and unrealized gain (loss) on investment transactions	.77	1.21	1.05	2.96	(2.78)
Total from investment operations	.76	1.16	.98	2.90	(2.84)
Less distributions from:					
Net realized gain on investment transactions	(.86)	—	—	—	—
Net asset value, end of period	**$10.92**	**$11.02**	**$ 9.86**	**$ 8.88**	**$ 5.98**
Total Return (%)	6.52	11.76	11.04	48.49	(32.20)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	117	122	118	110	61
Ratio of expenses (%)	.97	1.11	1.19	1.18	1.13
Ratio of net investment income (loss) (%)	(.06)	(.56)	(.82)	(.90)	(.82)
Portfolio turnover rate (%)	148	151	174	155	225

a *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2006	2005	2004	2003	2002[a]
Selected Per Share Data					
Net asset value, beginning of period	**$10.88**	**$ 9.78**	**$ 8.84**	**$ 5.97**	**$ 6.60**
Income (loss) from investment operations:					
Net investment income (loss)[b]	(.05)	(.09)	(.10)	(.09)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.76	1.19	1.04	2.96	(.61)
Total from investment operations	.71	1.10	.94	2.87	(.63)
Less distributions from:					
Net realized gain on investment transactions	(.86)	—	—	—	—
Net asset value, end of period	**$10.73**	**$10.88**	**$ 9.78**	**$ 8.84**	**$ 5.97**
Total Return (%)	6.21	11.25[c]	10.63	48.07	(9.55)**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	26	27	23	13	.6
Ratio of expenses before expense reductions (%)	1.37	1.51	1.56	1.57	1.38*
Ratio of expenses after expense reductions (%)	1.37	1.48	1.56	1.57	1.38*
Ratio of net investment income (loss) (%)	(.46)	(.93)	(1.19)	(1.29)	(.81)*
Portfolio turnover rate (%)	148	151	174	155	225

a *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
b *Based on an average shares outstanding during the period.*
c *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

Notes to Financial Statements

A. Significant Accounting Policies

DWS Variable Series II (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, diversified management investment company organized as a Massachusetts business trust. The Trust offers twenty-one portfolios (individually or collectively hereinafter referred to as a "Portfolio" or the "Portfolios").

Effective November 3, 2006, DWS Dreman Small Cap Value VIP changed its name to DWS Dreman Small Mid Cap Value VIP.

Multiple Classes of Shares of Beneficial Interest. The Trust offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to record keeping fees up to 0.15% and Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25%, of the average daily net assets of the Class B shares of the applicable Portfolio. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain portfolio-level expenses and expense reductions, if any, are borne pro rata on the basis of relative net assets by the holders of all classes of shares except that each class bears certain expenses unique to that class (including the applicable 12b-1 fee and record keeping fee). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Trust's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Trust in the preparation of its financial statements.

Security Valuation. DWS Money Market VIP values all securities utilizing the amortized cost method permitted in accordance with Rule 2a-7 under the 1940 Act and certain conditions therein. Under this method, which does not take into account unrealized capital gains or losses on securities, an instrument is initially valued at its cost and thereafter assumes a constant accretion/amortization rate to maturity of any discount or premium.

Investments in securities are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Equity securities are valued at the most recent sale price or official closing price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

Debt securities are valued by independent pricing services approved by the Trustees of the Portfolios. If the pricing services are unable to provide valuations, the securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from a broker-dealer. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Cash Management QP Trust are valued at their net asset value each business day.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees. The Portfolios may use a fair valuation model to value international equity securities in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange.

In September 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2006, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

Foreign Currency Translations. The books and records of the Trust are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the disposition of forward foreign currency exchange contracts and foreign currencies and the difference between the amount of net investment income accrued and the US dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gains and losses on investment securities.

Repurchase Agreements. The Portfolios may enter into repurchase agreements with certain banks and broker/dealers whereby the Portfolios, through their custodian or sub-custodian bank, receive delivery of the underlying securities, the amount of which at the time of purchase and each subsequent business day is required to be maintained at such a level that the value is equal to at least the principal amount of the repurchase price plus accrued interest. The custodian bank holds the collateral in a separate account until the agreement matures. If the value of the securities falls below the principal amount of the repurchase agreement plus accrued interest, the financial institution deposits additional collateral by the following business day. If the financial institution either fails to deposit the required additional collateral or fails to repurchase the securities as agreed, the Portfolios have the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the Portfolios' claims on the collateral may be subject to legal proceedings.

Securities Lending. All Portfolios, except DWS Money Market VIP, may lend securities to financial institutions. The Portfolios retain beneficial ownership of the securities they have loaned and continue to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Portfolios require the borrowers of the securities to maintain collateral with the Portfolios consisting of liquid, unencumbered assets having a value at least equal to the value of the securities loaned. The Portfolios may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. The Portfolios receive compensation for lending their securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Portfolios or the borrower may terminate the loan. The Portfolios are subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Credit Default Swap Contracts. A credit default swap is a contract between a buyer and a seller of protection against a pre-defined credit event. The DWS Balanced VIP, DWS High Income VIP and DWS Strategic Income VIP may buy or sell credit default swap contracts to seek to increase each Portfolio's income, to add leverage to each Portfolio, or to hedge the risk of default on portfolio securities. As a seller in the credit default swap contract, each Portfolio would be required to pay the par (or other agreed-upon) value of the referenced debt obligation to the counterparty in the event of a default by a third party, such as a US or foreign corporate issuer, on the debt obligation, which would likely result in a loss to each Portfolio. In return, each Portfolio would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, each Portfolio would keep the stream of payments and would have no payment obligations. Each Portfolio may also buy credit default swap contracts in order to hedge against the risk of default of debt securities, in which case each Portfolio would function as the counterparty referenced above. This would involve the risk that the contract may expire worthless. It would also involve credit risk — that the seller may fail to satisfy its payment obligations to each Portfolio in the event of a default. When each Portfolio sells a credit default swap contract it will "cover" its commitment. This may be achieved by, among other methods, maintaining cash or liquid assets equal to the aggregate notional value of the underlying debt obligations for all outstanding credit default swap contracts sold by each Portfolio.

Credit default swap contracts are marked to market daily based upon quotations from the counterparty and the change in value, if any, is recorded daily as unrealized gain or loss. An upfront payment made by each Portfolio is recorded as an asset on the statement of assets and liabilities. An upfront payment received by each Portfolio is recorded as a liability on the statement of assets and liabilities. Under the terms of the credit default swap contracts, each Portfolio receives or makes payments semi-annually based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss on the statement of operations. Payments received or made as a result of a credit event or termination of the contract are recognized, net of a proportional amount of the upfront payment, as realized gains or losses.

Options. An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the Portfolios if the option is exercised. The Portfolios, except for DWS Money Market VIP, may enter into option contracts in order to hedge against potential adverse price movements in the value of portfolio assets; as a temporary substitute for selling selected investments; to lock in the purchase price of a security or currency which it expects to purchase in the near future; as a temporary substitute for purchasing selected investments; and to enhance potential gain.

The liability representing the Portfolios' obligation under an exchange traded written option or investment in a purchased option is valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked prices or at the most recent asked price (bid for purchased options) if no bid and asked price are available. Over-the-counter written or purchased options are valued using dealer-supplied quotations. Gain or loss is recognized when the option contract expires or is closed.

If the Portfolios write a covered call option, the Portfolios forego, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Portfolios write a put option it accepts the risk of a decline in the value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Portfolios' maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Portfolios' ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). The Portfolios, except for DWS Money Market VIP, may enter into futures contracts as a hedge against anticipated interest rate, currency or equity market changes and for duration management, risk management and return enhancement purposes.

Upon entering into a futures contract, the Portfolios are required to deposit with a financial intermediary an amount ("initial margin") equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Portfolios dependent upon the daily fluctuations in the value of the underlying security and are recorded for financial reporting purposes as unrealized gains or losses by the Portfolios. When entering into a closing transaction, the Portfolios will realize a gain or loss equal to the difference between the value of the futures contract to sell and the futures contract to buy. Futures contracts are valued at the most recent settlement price.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid secondary market will limit the Portfolios' ability to close out a futures contract prior to the settlement date and that a change in the value of a futures contract may not correlate exactly with the changes in the value of the securities or currencies hedged. When utilizing futures contracts to hedge, the Portfolios give up the opportunity to profit from favorable price movements in the hedged positions during the term of the contract.

Forward Foreign Currency Exchange Contracts. A forward foreign currency exchange contract (forward currency contract) is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. The Portfolios, except for DWS Money Market VIP, may enter into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings and to facilitate transactions in foreign currency denominated securities.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. Sales and purchases of forward currency contracts having the same settlement date and broker are offset and any gain (loss) is realized on the date of offset; otherwise, gain (loss) is realized on settlement date. Realized and unrealized gains and losses which represent the difference between the value of a forward currency contract to buy and a forward currency contract to sell are included in net realized and unrealized gain (loss) from foreign currency related transactions.

Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. Additionally, when utilizing forward currency contracts to hedge, the Portfolios give up the opportunity to profit from favorable exchange rate movements during the term of the contract.

Loan Participations/Assignments. DWS Balanced VIP, DWS High Income VIP and DWS Strategic Income VIP may invest in US dollar-denominated fixed and floating rate loans ("Loans") arranged through private negotiations between a foreign sovereign entity and one or more financial institutions ("Lenders"). Each Portfolio invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of loans from third parties ("Assignments"). Participations typically result in each Portfolio having a contractual relationship only with the Lender, not with the sovereign borrower. Each Portfolio has the right to receive payments of principal, interest and any fees to which they are entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, each Portfolio generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, nor any rights of set-off against the borrower, and each Portfolio will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, each Portfolio assumes the credit risk of both the borrower and the Lender that is selling the Participation.

Mortgage Dollar Rolls. DWS Core Fixed Income VIP, DWS Government & Agency Securities VIP and DWS Balanced VIP may enter into mortgage dollar rolls in which each Portfolio sells to a bank or broker/dealer (the "counterparty") mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase similar, but not identical, securities on a fixed date. The counterparty receives all principal and interest payments, including prepayments, made on the security while it is the holder. Each Portfolio receives compensation as consideration for entering into the commitment to repurchase. The compensation is paid in the form of a lower price for the security upon its repurchase, or alternatively, a fee. Mortgage dollar rolls may be renewed with a new sale and repurchase price and a cash settlement made at each renewal without physical delivery of the securities subject to the contract.

Certain risks may arise upon entering into mortgage dollar rolls from the potential inability of counterparties to meet the terms of their commitments. Additionally, the value of such securities may change adversely before each Portfolio is able to repurchase them. There can be no assurance that each Portfolio's use of the cash that it receives from a mortgage dollar roll will provide a return that exceeds its costs.

When-Issued/Delayed Delivery Securities. Several of the Portfolios may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Portfolios enter into a commitment to purchase a security, the transaction is recorded and the value of the security is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. No interest accrues to the Portfolios until payment takes place. At the time the Portfolios enter into this type of transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery securities from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

Federal Income Taxes. The Portfolios' policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Accordingly, the Portfolios paid no federal income taxes and no federal income tax provision was required.

At December 31, 2006, the following Portfolios had an approximate net tax basis capital loss carryforward which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until the following expiration dates, whichever occurs first:

Portfolio	Capital Loss Carryforward ($)	Expiration Date	Capital Loss Carryforwards Utilized ($)
DWS Balanced VIP*	6,757,000	12/31/2010	25,842,000
	43,407,000	12/31/2011	
DWS Core Fixed Income VIP	3,813,000	12/31/2014	—
DWS Davis Venture Value VIP	—	—	6,051,240
DWS Dreman High Return Equity VIP	—	—	6,617,309
DWS Government & Agency Securities VIP	14,000	12/31/2013	
	1,337,000	12/31/2014	—
DWS High Income VIP	3,945,000	12/31/2007	—
	16,114,000	12/31/2008	
	22,935,000	12/31/2009	
	55,108,000	12/31/2010	
	13,877,000	12/31/2011	
	3,843,000	12/31/2014	
DWS International Select Equity VIP**	—	—	21,875,648
DWS Janus Growth & Income VIP	8,721,000	12/31/2010	24,668,000
	6,934,000	12/31/2011	
DWS Large Cap Value VIP	—	—	13,785,000
DWS Mid Cap Growth VIP	4,535,000	12/31/2010	4,358,000
	23,999,000	12/31/2011	
DWS Money Market VIP	1,800	12/31/2009–12/31/2014	900
DWS Small Cap Growth VIP	41,074,200	12/31/2009	18,412,000
	71,888,400	12/31/2010	
	4,154,700	12/31/2011	
DWS Strategic Income VIP	23,340	12/31/2014	—

Portfolio	Capital Loss Carryforward ($)	Expiration Date	Capital Loss Carryforwards Utilized ($)
DWS Technology VIP	86,694,000	12/31/2009	565,000
	93,499,000	12/31/2010	
	71,516,000	12/31/2011	

* *Certain of these losses may be subject to limitations under Sections 381–384 of the Internal Revenue Code.*

** *Certain of these losses may be subject to limitations under Sections 381–383 of the Internal Revenue Code.*

In July 2006, FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for the Portfolios a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether the Portfolios are taxable in certain jurisdictions), and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006. On December 22, 2006, the SEC indicated that they would not object if a Portfolio implements FIN 48 in the first required financial statement reporting period for its fiscal year beginning after December 15, 2006. Management has begun to evaluate the application of the Interpretation to the Portfolios and is not in a position at this time to estimate the significance of its impact, if any, on the Portfolios' financial statements.

Distribution of Income and Gains. Distributions of net investment income, if any, for all Portfolios except the DWS Money Market VIP, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Portfolios if not distributed and, therefore, will be distributed to shareholders at least annually. All of the net investment income of the DWS Money Market VIP is declared as a daily dividend and is distributed to shareholders monthly.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to net operating losses, investments in foreign denominated investments, investments in forward foreign currency exchange contracts, income received from Passive Foreign Investment Companies and Real Estate Investment Trusts and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Portfolios may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Portfolios.

At December 31, 2006, the Portfolios' components of distributable earnings on a tax basis were as follows:

Portfolio	Undistributed Ordinary Income ($)	Undistributed Net Long-Term Capital Gains ($)	Capital Loss Carryforwards ($)	Unrealized Appreciation (Depreciation) on Investments ($)
DWS Balanced VIP	19,517,239	—	(50,164,000)	84,379,613
DWS Blue Chip VIP	28,893,894	14,481,878	—	35,433,566
DWS Core Fixed Income VIP	15,366,952	—	(3,813,000)	(1,236,657)
DWS Davis Venture Value VIP	2,750,371	5,232,000	—	136,664,221
DWS Dreman High Return Equity VIP	15,406,882	9,331,395	—	303,827,221
DWS Dreman Small Mid Cap Value VIP	28,733,821	68,643,225	—	164,946,936
DWS Global Thematic VIP	14,779,129	12,499,803	—	25,346,349
DWS Government & Agency Securities VIP	11,482,463	—	(1,351,000)	(2,859,279)
DWS High Income VIP	28,079,663	—	(115,822,000)	(402,470)
DWS International Select Equity VIP	11,604,617	24,061,355	—	55,978,330
DWS Janus Growth & Income VIP	1,115,543	—	(15,655,000)	47,554,113
DWS Large Cap Value VIP	7,773,968	8,696,781	—	52,553,934
DWS Mid Cap Growth VIP	—	—	(28,534,000)	14,897,023
DWS Money Market VIP	—	—	(1,800)	—
DWS Small Cap Growth VIP	—	—	(117,117,300)	44,723,260
DWS Strategic Income VIP	6,753,367	—	(23,340)	2,509,663
DWS Technology VIP	—	—	(251,709,000)	12,234,969
DWS Turner Mid Cap Growth VIP	—	11,925,528	—	27,102,266

In addition, the tax character of distributions paid by the Portfolios is summarized as follows:

Portfolio	Distributions from ordinary income ($)*		Distributions from long-term capital gains ($)	
	Years Ended December 31,		Years Ended December 31,	
	2006	2005	2006	2005
DWS Balanced VIP	16,639,374	15,182,335	—	—
DWS Blue Chip VIP	11,866,416	2,905,214	8,865,566	—
DWS Core Fixed Income VIP	12,044,592	11,142,235	54,870	1,635,169
DWS Davis Venture Value VIP	2,297,497	2,352,085	—	—
DWS Dreman High Return Equity VIP	18,038,346	15,007,524	44,395,610	—
DWS Dreman Small Mid Cap Value VIP	5,725,641	3,657,738	47,358,429	47,511,442
DWS Global Thematic VIP	1,387,851	188,888	8,033,573	—
DWS Government & Agency Securities VIP	10,381,592	15,012,462	—	22,888
DWS High Income VIP	30,330,043	38,836,639	—	—
DWS International Select Equity VIP	5,425,661	6,456,379	—	—
DWS Janus Growth & Income VIP	1,319,542	419,512	—	—
DWS Large Cap Value VIP	4,756,584	5,337,409	—	—
DWS Money Market VIP	14,556,487	8,462,304	—	—
DWS Strategic Income VIP	5,462,385	6,790,122	25,142	203,812
DWS Technology VIP	—	997,316	—	—
DWS Turner Mid Cap Growth VIP	—	—	11,679,862	—

* *For tax purposes, short-term capital gain distributions are considered ordinary income distributions.*

Expenses. Expenses arising in connection with a specific Portfolio are allocated to that Portfolio. Trust expenses are allocated between the Portfolios in proportion to their relative net assets.

Contingencies. In the normal course of business, the Portfolios may enter into contracts with service providers that contain general indemnification clauses. The Portfolios' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Portfolios that have not yet been made. However, based on experience, the Portfolios expect the risk of loss to be remote.

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Portfolios are informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for all Portfolios, with the exception of securities in default of principal.

B. Purchases and Sales of Securities

During the year ended December 31, 2006, purchases and sales of investment transactions (excluding short-term investments) were as follows:

Portfolio	Purchases ($)	Sales ($)
DWS Balanced VIP excluding US Treasury Obligations	509,169,575	595,900,747
US Treasury Obligations	167,881,246	171,040,315
DWS Blue Chip VIP	763,188,026	786,487,376
DWS Core Fixed Income VIP excluding US Treasury Obligations and mortgage dollar roll transactions	265,225,781	197,726,584
US Treasury Obligations	428,133,082	439,983,098
mortgage dollar roll transactions	51,991,982	51,516,648
DWS Davis Venture Value VIP	64,116,452	80,212,869
DWS Dreman High Return Equity VIP	197,856,617	231,471,093
DWS Dreman Small Mid Cap Value VIP	316,369,120	382,628,349
DWS Global Thematic VIP	205,656,390	177,002,668

Portfolio	Purchases ($)	Sales ($)
DWS Government & Agency Securities VIP excluding US Treasury Obligations and mortgage dollar roll transactions	560,420,978	631,157,476
US Treasury Obligations	91,821,533	94,471,699
mortgage dollar roll transactions	439,493,917	419,760,244
DWS High Income VIP excluding US Treasury Obligations	337,289,672	366,761,433
US Treasury Obligations	2,023,721	1,953,002
DWS International Select Equity VIP	334,794,521	364,226,577
DWS Janus Growth & Income VIP	100,353,524	115,273,798
DWS Large Cap Value VIP	227,586,400	256,949,796
DWS Mid Cap Growth VIP	28,462,811	38,608,202
DWS Small Cap Growth VIP	192,972,824	249,417,968
DWS Strategic Income VIP excluding US Treasury Securities	105,704,020	102,070,175
US Treasury Securities	32,817,517	29,805,538
DWS Technology VIP	90,691,363	120,330,753
DWS Turner Mid Cap Growth VIP	220,396,977	229,547,955

For the year ended December 31, 2006, transactions for written options on securities were as follows for the DWS Technology VIP:

	Number of Contracts	Premium
Outstanding, beginning of period	403	$ 69,716
Options written	3,440	658,208
Options closed	(1,042)	(100,767)
Options exercised	(1,862)	(456,976)
Options expired	(403)	(69,716)
Outstanding, end of period	**536**	**$ 100,465**

C. Related Parties

Management Agreement. Under the Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Portfolios in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Portfolios. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Management Agreement. Accordingly, for the year ended December 31, 2006, the fees pursuant to the Management Agreement were equivalent to the annual rates shown below of the Portfolios' average daily net assets, accrued daily and payable monthly:

Portfolio	Annual Management Fee Rate
DWS Balanced VIP $0–$250 million	.470%
next $750 million	.445%
over $1 billion	.410%
DWS Davis Venture Value VIP $0–$250 million	.950%
next $250 million	.925%
next $500 million	.900%
next $1.5 billion	.875%
over $2.5 billion	.850%

Portfolio	Annual Management Fee Rate
DWS Dreman High Return Equity VIP	
$0–$250 million	.750%
next $750 million	.720%
next $1.5 billion	.700%
next $2.5 billion	.680%
next $2.5 billion	.650%
next $2.5 billion	.640%
next $2.5 billion	.630%
over $12.5 billion	.620%
DWS Global Thematic VIP	
$0–$250 million	1.000%
next $500 million	.950%
next $750 million	.900%
next $1.5 billion	.850%
over $3 billion	.800%
DWS Janus Growth & Income VIP	
$0–$250 million	.750%
next $750 million	.725%
next $1.5 billion	.700%
over $2.5 billion	.675%
DWS Mid Cap Growth VIP	
$0–$250 million	.750%
next $750 million	.720%
next $1.5 billion	.700%
next $2.5 billion	.680%
next $2.5 billion	.650%
next $2.5 billion	.640%
next $2.5 billion	.630%
over $12.5 billion	.620%
DWS Small Cap Growth VIP	
$0–$250 million	.650%
next $750 million	.625%
over $1 billion	.600%
DWS Technology VIP	
$0–$250 million	.750%
next $750 million	.720%
next $1.5 billion	.700%
next $2.5 billion	.680%
next $2.5 billion	.650%
next $2.5 billion	.640%
next $2.5 billion	.630%
over $12.5 billion	.620%
DWS Turner Mid Cap Growth VIP	
$0–$250 million	.800%
next $250 million	.785%
next $500 million	.770%
over $1 billion	.755%

In addition, for the period from January 1, 2006 through September 30, 2006, the fees pursuant to the Management Agreement were equivalent to the annual rates shown below of the Portfolios' average daily net assets, accrued daily and payable monthly:

Portfolio	Annual Management Fee Rate
DWS Blue Chip VIP	.650%
DWS Core Fixed Income VIP	.600%
DWS Dreman Small Mid Cap Value VIP	.750%
DWS Government & Agency Securities VIP	.550%
DWS High Income VIP	.600%
DWS International Select Equity VIP	.750%
DWS Large Cap Value VIP	.750%
DWS Strategic Income VIP	.650%

Effective October 1, 2006, the fees pursuant to the Management Agreement were equivalent to the annual rates shown below of the Portfolios' average daily net assets, accrued daily and payable monthly:

Portfolio	Annual Management Fee Rate
DWS Blue Chip VIP	
$0–$250 million	.650%
next $750 million	.620%
next $1.5 billion	.600%
next $2.5 billion	.580%
next $2.5 billion	.550%
next $2.5 billion	.530%
next $2.5 billion	.510%
over $12.5 billion	.490%
DWS Core Fixed Income VIP	
$0–$250 million	.600%
next $750 million	.570%
next $1.5 billion	.550%
next $2.5 billion	.530%
next $2.5 billion	.500%
next $2.5 billion	.480%
next $2.5 billion	.460%
over $12.5 billion	.440%
DWS Dreman Small Mid Cap Value VIP	
$0–$250 million	.750%
next $750 million	.720%
next $1.5 billion	.700%
next $2.5 billion	.680%
next $2.5 billion	.650%
next $2.5 billion	.640%
next $2.5 billion	.630%
over $12.5 billion	.620%
DWS Government & Agency Securities VIP	
$0–$250 million	.550%
next $750 million	.530%
next $1.5 billion	.510%
next $2.5 billion	.500%
next $2.5 billion	.480%
next $2.5 billion	.460%
next $2.5 billion	.440%
over $12.5 billion	.420%

Portfolio	Annual Management Fee Rate
DWS High Income VIP	
$0–$250 million	.600%
next $750 million	.570%
next $1.5 billion	.550%
next $2.5 billion	.530%
next $2.5 billion	.500%
next $2.5 billion	.480%
next $2.5 billion	.460%
over $12.5 billion	.440%
DWS International Select Equity VIP	
$0–$1.5 billion	.750%
next $1.75 billion	.735%
next $1.75 billion	.720%
over $5 billion	.705%
DWS Large Cap Value VIP	
$0–$250 million	.750%
next $750 million	.725%
next $1.5 billion	.700%
next $2.5 billion	.675%
next $2.5 billion	.650%
next $2.5 billion	.625%
next $2.5 billion	.600%
over $12.5 billion	.575%
DWS Strategic Income VIP	
$0–$250 million	.650%
next $750 million	.620%
next $1.5 billion	.600%
next $2.5 billion	.580%
next $2.5 billion	.550%
next $2.5 billion	.530%
next $2.5 billion	.510%
over $12.5 billion	.490%

For the period from January 1, 2006 through November 5, 2006, the fee pursuant to the Management Agreement was equivalent to the annual rates shown below of the Portfolio's average daily net assets, accrued daily and payable monthly:

Portfolio	Annual Management Fee Rate
DWS Money Market VIP	
$0–$215 million	.500%
next $335 million	.375%
next $250 million	.300%
over $800 million	.250%

Effective November 6, 2006, the fee pursuant to the Management Agreement was equivalent to the annual rates shown below of the Portfolio's average daily net assets, accrued daily and payable monthly:

Portfolio	Annual Management Fee Rate
DWS Money Market VIP	
$0–$500 million	.385%
next $500 million	.370%
next $1.0 billion	.355%
over $2.0 billion	.340%

Aberdeen Asset Management PLC serves as subadvisor to DWS Core Fixed Income VIP and is paid by the Advisor for its services.

Dreman Value Management, L.L.C. serves as sub-advisor to the DWS Dreman High Return Equity VIP and DWS Dreman Small Mid Cap Value VIP and is paid by the Advisor for its services.

Janus Capital Management, L.L.C., serves as sub-advisor to the DWS Janus Growth & Income VIP and is paid by the Advisor for its services.

Turner Investment Partners, Inc. serves as sub-advisor to the DWS Turner Mid Cap Growth VIP and is paid by the Advisor for its services.

Davis Selected Advisers, L.P., serves as sub-advisor to the DWS Davis Venture Value VIP and is paid by the Advisor for its services.

Effective February 5, 2007, Deutsche Asset Management International GmbH ("DeAMI") will serve as subadvisor to the DWS Large Cap Value VIP and will be paid by the Advisor for its services.

The Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2006 through April 30, 2006 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Blue Chip VIP	
Class A	.95%
Class B	1.35%
DWS Core Fixed Income VIP	
Class A	.80%
Class B	1.20%
DWS Dreman Small Mid Cap Value VIP	
Class A	.84%
Class B	1.24%
DWS Janus Growth & Income VIP	
Class A	.95%
DWS Large Cap Value VIP	
Class A	.80%
Class B	1.20%
DWS Technology VIP	
Class A	.95%
Class B	1.35%

The Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2006 through September 30, 2006 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Global Thematic VIP	
Class A	1.04%
Class B	1.44%

Portfolio	Annual Rate
DWS Janus Growth & Income VIP	
Class B	1.25%
DWS Mid Cap Growth VIP	
Class A	.95%
Class B	1.31%
DWS Strategic Income VIP	
Class A	1.05%
Class B	1.20%
DWS Turner Mid Cap Growth VIP	
Class A	1.30%
Class B	1.34%

Effective October 1, 2006 through September 30, 2007, the Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Global Thematic VIP	
Class A	1.05%
Class B	1.49%
DWS Mid Cap Growth VIP	
Class A	.86%
Class B	1.26%

The Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2006 through September 17, 2006 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Dreman High Return Equity VIP	
Class A	.87%
Class B	1.27%

Effective September 18, 2006 through September 30, 2007, the Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Dreman High Return Equity VIP	
Class A	.78%
Class B	1.15%

The Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2006 through September 30, 2007 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Davis Venture Value VIP	
Class A	.85%
Class B	1.25%

The Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2006 through April 30, 2008 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Balanced VIP	
Class A	.51%
Class B	.89%
DWS Small Cap Growth VIP	
Class A	.72%
Class B	1.09%

Effective November 6, 2006 through April 30, 2010, the Advisor, the underwriter and accounting agent contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Money Market VIP	
Class A	.44%

Accordingly, for the year ended December 31, 2006, the total management fees charged, management fees waived and effective management fees are as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Annual Effective Rate
DWS Balanced VIP	2,967,510	247,957	.42%
DWS Blue Chip VIP	2,228,613	—	.65%
DWS Core Fixed Income VIP	2,124,452	—	.60%
DWS Davis Venture Value VIP	3,764,933	665,621	.77%
DWS Dreman High Return Equity VIP	7,237,569	—	73%
DWS Dreman Small Mid Cap Value VIP	4,646,491	—	.75%
DWS Global Thematic VIP	1,342,622	443,811	.67%
DWS Government & Agency Securities VIP	1,427,977	—	.55%
DWS High Income VIP	2,263,303	—	.60%
DWS International Select Equity VIP	2,094,158	—	.75%
DWS Janus Growth & Income VIP	1,719,994	—	.75%
DWS Large Cap Value VIP	2,335,628	—	.75%
DWS Mid Cap Growth VIP	473,444	64,954	.65%
DWS Money Market VIP	1,444,203	18,025	.44%
DWS Small Cap Growth VIP	1,738,224	45,376	.63%
DWS Strategic Income VIP	662,490	—	.65%
DWS Technology VIP	1,436,929	—	.75%
DWS Turner Mid Cap Growth VIP	1,209,780	—	.80%

In addition, for the year ended December 31, 2006, the Advisor waived record keeping expenses of Class B shares of the Portfolios as follows:

Portfolio	Waived ($)
DWS Dreman High Return Equity VIP	9,001
DWS Mid Cap Growth VIP	2,088
DWS Small Cap Growth VIP	3,729
DWS Strategic Income VIP	13,068
DWS Turner Mid Cap Growth VIP	535

Service Provider Fees. DWS Scudder Fund Accounting Corporation ("DWS-SFAC"), a subsidiary of the Advisor, is responsible for determining the daily net asset value per share and maintaining the portfolio and general accounting records of each Portfolio. In turn, DWS-SFAC has delegated certain fund accounting functions to a third-party service provider. For the year ended December 31, 2006, DWS-SFAC received a fee for its services as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2006 ($)
DWS Davis Venture Value VIP	94,006	8,874
DWS Dreman High Return Equity VIP	153,345	17,864
DWS Global Thematic VIP	175,325	14,682
DWS Janus Growth & Income VIP	69,130	5,518
DWS Mid Cap Growth VIP	59,257	5,050
DWS Technology VIP	66,562	9,413
DWS Turner Mid Cap Growth VIP	94,442	6,203

Distribution Service Agreement. Under the Distribution Service Agreement, in accordance with Rule 12b-1 under the 1940 Act, DWS Scudder Distributors, Inc. ("DWS-SDI") receives a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2006, the Distribution Service Fee was as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2006 ($)
DWS Balanced VIP	80,542	6,333
DWS Blue Chip VIP	112,577	9,383
DWS Core Fixed Income VIP	212,516	15,655
DWS Davis Venture Value VIP	195,529	16,404
DWS Dreman High Return Equity VIP	380,314	39,873
DWS Dreman Small Mid Cap Value VIP	222,240	18,284
DWS Global Thematic VIP	56,266	5,153
DWS Government & Agency Securities VIP	94,226	7,088
DWS High Income VIP	133,627	10,998
DWS International Select Equity VIP	171,003	14,864
DWS Janus Growth & Income VIP	81,050	6,596
DWS Large Cap Value VIP	100,296	8,279
DWS Mid Cap Growth VIP	18,895	1,754
DWS Money Market VIP	150,122	13,091
DWS Small Cap Growth VIP	95,565	7,697
DWS Strategic Income VIP	61,574	4,591
DWS Technology VIP	37,464	2,968
DWS Turner Mid Cap Growth VIP	67,940	5,361

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Portfolios. For the year ended December 31, 2006, the amounts charged to the Portfolios by DIMA included in the Statement of Operations under "reports to shareholders" were as follows:

Portfolio	Amount ($)	Unpaid at December 31, 2006 ($)
DWS Balanced VIP	3,625	1,150
DWS Blue Chip VIP	3,625	1,150
DWS Core Fixed Income VIP	3,625	1,150
DWS Davis Venture Value VIP	3,625	1,150
DWS Dreman High Return Equity VIP	3,625	1,150
DWS Dreman Small Mid Cap Value VIP	3,625	1,150
DWS Global Thematic VIP	3,625	1,150
DWS Government & Agency Securities VIP	3,625	1,150
DWS High Income VIP	3,625	1,150
DWS International Select Equity VIP	3,625	1,150

Portfolio	Amount ($)	Unpaid at December 31, 2006 ($)
DWS Janus Growth & Income VIP	3,625	1,150
DWS Large Cap Value VIP	3,625	1,150
DWS Mid Cap Growth VIP	3,625	1,150
DWS Money Market VIP	3,625	1,150
DWS Small Cap Growth VIP	3,625	1,150
DWS Strategic Income VIP	3,625	1,150
DWS Technology VIP	3,625	1,150
DWS Turner Mid Cap Growth VIP	3,625	1,150

Trustees' Fees and Expenses. The Portfolios paid each Trustee not affiliated with the Advisor retainer fees plus specified amounts for various committee services and for the Board Chairman.

Cash Management QP Trust. Pursuant to an Exemptive Order issued by the SEC, the Portfolios may invest in the Cash Management QP Trust (the "QP Trust") and other affiliated funds managed by the Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Advisor a management fee for the affiliated funds' investments in the QP Trust.

D. Investing in High Yield Securities

Investing in high yield securities may involve greater risks and considerations not typically associated with investing in US Government bonds and other high quality fixed-income securities. These securities are non-investment grade securities, often referred to as "junk bonds." Economic downturns may disrupt the high yield market and impair the ability of issuers to repay principal and pay interest. Also, an increase in interest rates would likely have an adverse impact on the value of such obligations. Moreover, high yield securities may be less liquid due to the extent that there is no established retail secondary market and because of a decline in the value of such securities.

E. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in the United States of America. These risks include revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls or delayed settlements and may have prices more volatile than those of comparable securities of issuers in the United States of America.

F. Expense Reductions

For the year ended December 31, 2006, the Advisor agreed to reimburse the Portfolios which represents a portion of the fee savings expected to be realized by the Advisor related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider in the following amounts:

Portfolio	Amount ($)
DWS Balanced VIP	8,437
DWS Blue Chip VIP	4,714
DWS Core Fixed Income VIP	4,665
DWS Davis Venture Value VIP	5,260
DWS Dreman High Return Equity VIP	11,250
DWS Dreman Small Mid Cap Value VIP	7,870
DWS Global Thematic VIP	2,383
DWS Government & Agency Securities VIP	4,245
DWS High Income VIP	5,521
DWS International Select Equity VIP	4,122
DWS Janus Growth & Income VIP	3,843
DWS Large Cap Value VIP	4,567
DWS Mid Cap Growth VIP	2,110
DWS Money Market VIP	4,395

Portfolio	Amount ($)
DWS Small Cap Growth VIP	4,321
DWS Strategic Income VIP	2,340
DWS Technology VIP	3,426
DWS Turner Mid Cap Growth VIP	2,794

In addition, the Portfolios have entered into arrangements with their custodian whereby credits realized as a result of uninvested cash balances were used to reduce a portion of the Portfolios' expenses. During the year ended December 31, 2006, the Portfolios' custodian fees were reduced under these arrangements as follows:

Portfolio	Amount ($)
DWS Balanced VIP	1,081
DWS Blue Chip VIP	96
DWS Core Fixed Income VIP	295
DWS Davis Venture Value VIP	460
DWS Dreman High Return Equity VIP	1,439
DWS Dreman Small Mid Cap Value VIP	1,482
DWS Government & Agency Securities VIP	1,610
DWS High Income VIP	4,061
DWS Janus Growth & Income VIP	990
DWS Large Cap Value VIP	106
DWS Mid Cap Growth VIP	63
DWS Money Market VIP	312
DWS Small Cap Growth VIP	485
DWS Strategic Income VIP	2,190
DWS Technology VIP	67
DWS Turner Mid Cap Growth VIP	275

G. Ownership of the Portfolios

At December 31, 2006, the beneficial ownership in the Portfolios was as follows:

DWS Balanced VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 40%, 25% and 18%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 75 and 24%.

DWS Blue Chip VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 55% and 30%. Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 74%, 13% and 12%.

DWS Core Fixed Income VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 40%, 28% and 24%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 82 and 18%.

DWS Davis Venture Value VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 72% and 19%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 71% and 29%.

DWS Dreman High Return Equity VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 65% and 25%. Two Participating Insurance Companies were the owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 79% and 19%.

DWS Dreman Small Mid Cap Value VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 56%, 22% and 15%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 71% and 23%.

DWS Global Thematic VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 66% and 33%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 66% and 34%.

DWS Government & Agency Securities VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 41%, 36% and 18%. Two Participating Insurance Companies were the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 84% and 15%.

DWS High Income VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 35%, 33% and 26%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 77% and 23%.

DWS International Select Equity VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 50%, 27% and 23%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 54% and 46%.

DWS Janus Growth & Income VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 73% and 26%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 83% and 16%.

DWS Large Cap Value VIP: Four Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 38%, 28%, 16% and 15%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 80% and 20%.

DWS Mid Cap Growth VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 67% and 31%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 75% and 24%.

DWS Money Market VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 36%, 24% and 20%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 60% and 40%.

DWS Small Cap Growth VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 49%, 23% and 21%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 81% and 19%.

DWS Strategic Income VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 59% and 35%. Two Participating Insurance Companies were owners of record of 10% or more of the outstanding Class B shares of the Portfolio, each owning 63% and 36%.

DWS Technology VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 65% and 31%. Two Participating Insurance Companies were owners of record of 10% or more of the outstanding Class B shares of the Portfolio, each owning 78% and 20%.

DWS Turner Mid Cap Growth VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 81% and 19%. Two Participating Insurance Companies were the owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 82% and 18%.

H. Line of Credit

The Trust and several other affiliated funds (the "Participants") share in a $750 million revolving credit facility administered by JPMorgan Chase Bank N.A. for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated, based upon net assets, among each of the Participants.

Interest is calculated at the Federal Funds Rate plus 0.5 percent. The facility borrowing limit for each Portfolio as a percent of net assets is as follows:

Portfolio	Facility Borrowing Limit
DWS Balanced VIP	33%
DWS Blue Chip VIP	33%
DWS Core Fixed Income VIP	33%
DWS Davis Venture Value VIP	33%
DWS Dreman High Return Equity VIP	33%
DWS Dreman Small Mid Cap Value VIP	33%
DWS Global Thematic VIP	33%
DWS Government & Agency Securities VIP	33%
DWS High Income VIP	33%
DWS International Select Equity VIP	33%
DWS Janus Growth & Income VIP	33%
DWS Large Cap Value VIP	33%
DWS Mid Cap Growth VIP	33%
DWS Money Market VIP	33%
DWS Small Cap Growth VIP	33%
DWS Strategic Income VIP	33%
DWS Technology VIP	5%
DWS Turner Mid Cap Growth VIP	33%

I. Payments Made by Affiliates

During the year ended December 31, 2006, the Advisor fully reimbursed DWS Balanced VIP, DWS High Income VIP, DWS International Select Equity VIP and DWS Strategic Income VIP $14,837, $463, $101 and $25, respectively, for losses incurred on trades executed incorrectly.

In addition, the Advisor fully reimbursed DWS Balanced VIP, DWS Dreman High Return Equity VIP, DWS Government & Agency VIP, and DWS Strategic Income VIP $2,228, $273, $566 and 2,531, respectively, for losses incurred in violation of investment restrictions.

The amounts of the losses were less than 0.01% of each Portfolio's average net assets, thus having no impact on each Portfolio's total return.

J. Regulatory Matters and Litigation

Regulatory Settlements. On December 21, 2006, Deutsche Asset Management ("DeAM") settled proceedings with the Securities and Exchange Commission ("SEC") and the New York Attorney General on behalf of Deutsche Asset Management, Inc. ("DAMI") and Deutsche Investment Management Americas Inc. ("DIMA"), the investment advisors to many of the DWS Scudder funds, regarding allegations of improper trading at DeAM and at the legacy Scudder and Kemper organizations prior to their acquisition by DeAM in April 2002. These regulators alleged that although the prospectuses for certain funds in the regulators' view indicated that the funds did not permit market timing, DAMI and DIMA breached their fiduciary duty to those funds in that their efforts to limit trading activity in the funds were not effective at certain times. The regulators also alleged that DAMI and DIMA breached their fiduciary duty to certain funds by entering into certain market timing arrangements with investors. These trading arrangements originated in businesses that existed prior to the currently constituted DeAM organization, which came together as a result of various mergers of the legacy Scudder, Kemper and Deutsche fund groups, and all of the arrangements were terminated prior to the start of the regulatory investigations that began in the summer of 2003. No current DeAM employee approved these trading arrangements. Under the terms of the settlements, DAMI and DIMA neither admit nor deny any wrongdoing.

The terms of the SEC settlement, which identified improper trading in the legacy Deutsche and Kemper mutual funds only, provide for payment of disgorgement in the amount of $17.2 million. The terms of the settlement with the New York Attorney General provide for payment of disgorgement in the amount of $102.3 million, which is inclusive of the amount payable under the SEC settlement, plus a civil penalty in the amount of $20 million. The total amount payable by DeAM, approximately $122.3 million, would be distributed to funds in accordance with a distribution plan to be developed by a distribution consultant. The funds' investment advisors do not believe these amounts will have a material adverse financial impact on them or materially affect their ability to perform under their investment management agreements with the DWS funds. The above-described amounts are not material to Deutsche Bank, and have already been reserved.

Among the terms of the settled orders, DeAM is subject to certain undertakings regarding the conduct of its business in the future, including: formation of a Code of Ethics Oversight Committee to oversee all matters relating to issues arising under the advisors' Code of Ethics; establishment of an Internal Compliance Controls Committee having overall compliance oversight responsibility of the advisors; engagement of an Independent Compliance Consultant to conduct a comprehensive review of the advisors' supervisory compliance and other policies and procedures designed to prevent and detect breaches of fiduciary duty, breaches of the Code of Ethics and federal securities law violations by the advisors and their employees; and commencing in 2008, the advisors shall undergo a compliance review by an independent third party.

In addition, DeAM is subject to certain further undertakings relating to the governance of the mutual funds, including that: at least 75% of the members of the Boards of Trustees/Directors overseeing the DWS Funds continue to be independent of DeAM; the Chairmen of the DWS Funds' Boards of Trustees/Directors continue to be independent of DeAM; DeAM maintain existing management fee reductions for certain funds for a period of five years and not increase management fees for certain funds during this period; the funds retain a senior officer (or independent consultants) responsible for assisting in the review of fee arrangements and monitoring compliance by the funds and the investment advisors with securities laws, fiduciary duties, codes of ethics and other compliance policies, the expense of which shall be borne by DeAM; and periodic account statements, fund prospectuses and the mutual funds' web site contain additional disclosure and/or tools that assist investors in understanding the fees and costs associated with an investment in the funds and the impact of fees and expenses on fund returns.

DeAM has also settled proceedings with the Illinois Secretary of State regarding market timing matters. The terms of the Illinois settlement provide for investor education contributions totaling approximately $4 million and a payment in the amount of $2 million to the Securities Audit and Enforcement Fund.

On September 28, 2006, the SEC and the National Association of Securities Dealers ("NASD") announced final agreements in which Deutsche Investment Management Americas Inc. ("DIMA"), Deutsche Asset Management, Inc. ("DAMI") and Scudder Distributors, Inc. ("SDI") (now known as DWS Scudder Distributors, Inc.) settled administrative proceedings regarding disclosure of brokerage allocation practices in connection with sales of the Scudder Funds' (now known as the DWS Scudder Funds) shares during 2001–2003. The agreements with the SEC and NASD are reflected in orders which state, among other things, that DIMA and DAMI failed to disclose potential conflicts of interest to the fund Boards and to shareholders relating to SDI's use of certain funds' brokerage commissions to reduce revenue sharing costs to broker-dealer firms with whom it had arrangements to market and distribute Scudder Fund shares. These directed brokerage practices were discontinued in October 2003.

Under the terms of the settlements, in which DIMA, DeAM, Inc. and SDI neither admitted nor denied any of the regulators' findings, DIMA, DeAM, Inc. and SDI agreed to pay disgorgement, prejudgment interest and civil penalties in the total amount of $19.3 million. The portion of the settlements distributed to the funds was approximately $17.8 million and was paid to the funds as prescribed by the settlement orders based upon the amount of brokerage commissions from each fund used to satisfy revenue sharing agreements with broker-dealers who sold fund shares. Accordingly, in October 2006, the Portfolios received from the Advisor for their settlement portion as follows:

Portfolio	**Total Settlement ($)**	**Per Share ($)**
DWS Balanced VIP	651,306	.024
DWS Blue Chip VIP	73,817	.003
DWS Global Thematic VIP	37,541	.004
DWS Large Cap Value VIP	139,707	.008
DWS Mid Cap Growth VIP	16,995	.003
DWS Small Cap Growth VIP	155,225	.008
DWS Technology VIP	338,842	.017

As part of the settlements, DIMA, DAMI and SDI also agreed to implement certain measures and undertakings relating to revenue sharing payments including making additional disclosures in the fund Prospectuses or Statements of Additional Information, adopting or modifying relevant policies and procedures and providing regular reporting to the fund Boards.

Private Litigation Matters. The matters alleged in the regulatory settlements described above also serve as the general basis of a number of private class action lawsuits involving the DWS funds. These lawsuits name as defendants various persons, including certain DWS funds, the funds' investment advisors and their affiliates, and certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each DWS fund's investment advisor has agreed to indemnify the applicable DWS funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making similar allegations.

Based on currently available information, the funds' investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a DWS fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the DWS funds.

K. Acquisition of Assets

On April 29, 2005, the DWS Small Cap Growth VIP acquired all of the net assets of Scudder Variable Series I 21st Century Growth Portfolio pursuant to a plan of reorganization approved by shareholders on April 20, 2005. The acquisition was accomplished by a tax-free exchange of 7,739,831 Class A shares and 1,627,657 Class B shares of the Scudder Variable Series I 21st Century Growth Portfolio for 3,256,621 Class A shares and 680,062 Class B shares of the DWS Small Cap Growth VIP outstanding on April 29, 2005. Scudder Variable Series I 21st Century Growth Portfolio's net assets at that date of $45,435,834, including $4,404,910 of net unrealized appreciation, were combined with those of the DWS Small Cap Growth VIP. The aggregate net assets of the DWS Small Cap Growth VIP immediately before the acquisition were $209,671,733. The combined net assets of the DWS Small Cap Growth VIP immediately following the acquisitions were $255,107,567.

On April 29, 2005, the DWS Balanced VIP acquired all of the net assets of Scudder Variable Series I Balanced Portfolio pursuant to a plan of reorganization approved by shareholders on April 20, 2005. The acquisition was accomplished by a tax-free exchange of 10,773,456 Class A shares of the Scudder Variable Series I Balanced Portfolio for 5,591,767 Class A shares of the DWS Balanced VIP outstanding on April 29, 2005. Scudder Variable Series I Balanced Portfolio's net assets at that date of $118,997,707, including $9,126,657 of net unrealized appreciation, were combined with those of the DWS Balanced VIP. The aggregate net assets of the DWS Balanced VIP immediately before the acquisition were $598,273,318. The combined net assets of the DWS Balanced VIP immediately following the acquisitions were $717,271,025.

On September 15, 2006, DWS Dreman High Return Equity VIP acquired all of the net assets of DWS Dreman Financial Services VIP and DWS MFS Strategic Value VIP pursuant to a plan of reorganization approved by shareholders on August 24, 2006. The acquisition was accomplished by a tax-free exchange of 9,878,311 Class A shares and 1,552,231 Class B shares of DWS Dreman Financial Services VIP and 2,714,688 Class A shares and 2,857,615 Class B shares of DWS MFS Strategic Value VIP, respectively, for 7,492,130 Class A shares and 1,180,445 Class B shares and 1,965,950 Class A shares and 2,075,811 Class B shares of DWS Dreman High Return Equity VIP, respectively, outstanding on September 15, 2006. DWS Dreman Financial Services VIP and DWS MFS Strategic Value VIP's net assets at that date of $125,823,288 and $58,623,028, respectively, including $13,177,547 and $2,482,671, respectively, of net unrealized appreciation, were combined with those of DWS Dreman High Return Equity VIP. The aggregate net assets of DWS Dreman High Return Equity VIP immediately before the acquisition were $950,803,547. The combined net assets of DWS Dreman High Return Equity VIP immediately following the acquisition were $1,135,249,863.

On November 3, 2006, DWS Money Market VIP acquired all of the net assets of Money Market VIP pursuant to a plan of reorganization approved by shareholders on October 19, 2006. The acquisition was accomplished by a tax-free exchange of 56,959,609 Class A shares of the Money Market VIP for 56,959,609 Class A shares of DWS Money Market VIP outstanding on November 3, 2006. Money Market VIP's net assets at that date of $56,965,779 were combined with those of DWS Money Market VIP. The aggregate net assets of DWS Money Market VIP immediately before the acquisition were $317,440,879. The combined net assets of DWS Money Market VIP immediately following the acquisition were $374,406,658.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of DWS Variable Series II:

We have audited the accompanying statements of assets and liabilities of the DWS Balanced VIP, DWS Blue Chip VIP, DWS Core Fixed Income VIP, DWS Davis Venture Value VIP, DWS Dreman High Return Equity VIP, DWS Dreman Small Mid Cap Value VIP (formerly DWS Dreman Small Cap Value VIP), DWS Global Thematic VIP, DWS Government & Agency Securities VIP, DWS High Income VIP, DWS International Select Equity VIP, DWS Janus Growth & Income VIP, DWS Large Cap Value VIP, DWS Mid Cap Growth VIP, DWS Money Market VIP, DWS Small Cap Growth VIP, DWS Strategic Income VIP, DWS Technology VIP and DWS Turner Mid Cap Growth VIP, eighteen of the portfolios constituting the DWS Variable Series II (the "Trust"), including the investment portfolios, as of December 31, 2006, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Trust's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the aforementioned portfolios of the DWS Variable Series II at December 31, 2006, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts
February 14, 2007

Ernst + Young LLP

Tax Information

(Unaudited)

The following Portfolios paid distributions from net long-term capital gains during the year ended December 31, 2006 as follows:

Portfolio	Distribution Per Share ($)	% Representing 15% Rate Gains
DWS Blue Chip VIP	.402	100
DWS Core Fixed Income VIP	.002	100
DWS Dreman High Return Equity VIP	.586	100
DWS Dreman Small Mid Cap Value VIP	1.670	100
DWS Global Thematic VIP	1.030	100
DWS Strategic Income VIP	.005	100
DWS Turner Mid Cap Growth VIP	.860	100

The following Portfolios designated as capital gain dividends for their year ended December 31, 2006:

Portfolio	Capital Gain ($)	% Representing 15% Rate Gains
DWS Blue Chip VIP	15,930,000	100
DWS Davis Venture Value VIP	5,500,000	100
DWS Dreman High Return Equity VIP	59,100,000	100
DWS Dreman Small Mid Cap Value VIP	75,558,000	100
DWS Global Thematic VIP	13,145,000	100
DWS International Select Equity VIP	25,265,000	100
DWS Large Cap Value VIP	9,132,000	100
DWS Turner Mid Cap Growth VIP	12,525,000	100

For corporate shareholders, the following percentage of income dividends paid during the following Portfolios' fiscal year ended December 31, 2006 qualified for the dividends received deduction:

Portfolio	Dividends Received %
DWS Balanced VIP	39
DWS Blue Chip VIP	100
DWS Davis Venture Value VIP	100
DWS Dreman High Return Equity VIP	100
DWS Dreman Small Mid Cap Value VIP	100
DWS Global Thematic VIP	18
DWS Janus Growth & Income VIP	100
DWS Large Cap Value VIP	94

For federal income tax purposes, the following Portfolios designated as qualified dividend income during the year ended December 31, 2006 as follows or the maximum amount allowable under tax law:

Portfolio	Qualified Dividend Income ($)
DWS Balanced VIP	7,155,000
DWS Blue Chip VIP	6,559,000
DWS Davis Venture Value VIP	6,875,000
DWS Dreman High Return Equity VIP	27,539,000
DWS Janus Growth & Income VIP	3,731,000
DWS Large Cap Value VIP	8,000,000

DWS Global Thematic VIP paid foreign taxes of $167,027 and earned $651,021 of foreign source income during the year ended December 31, 2006. Pursuant to section 853 of the Internal Revenue Code, the Portfolio designates $0.02 per share as foreign taxes paid and $0.07 per share as income earned from foreign sources for the year ended December 31, 2006.

DWS International Select Equity VIP paid foreign taxes of $499,267 and earned $7,354,807 of foreign source income during the year ended December 31, 2006. Pursuant to Section 853 of the Internal Revenue Code, the Portfolio designates $0.03 per share as foreign taxes paid and $0.41 per share as income earned from foreign sources for the year ended December 31, 2006.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please call (800) 621-1048.

Proxy Voting

A description of the Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — www.dws-scudder.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — www.sec.gov. To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

Shareholder Meeting Results

A Special Meeting of Shareholders (the "Meeting") of DWS Dreman Financial Services VIP (the "Portfolio") was held on August 24, 2006 at the offices of Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, NY 10154. At the Meeting, the following matter was voted upon by the shareholders (the resulting votes are presented below).

1. To approve an Agreement and Plan of Reorganization:

Number of Votes:		
Affirmative	**Against**	**Abstain**
8,828,830.679	252,426.591	658,232.920

A Special Meeting of Shareholders (the "Meeting") of DWS MFS Strategic Value VIP (the "Portfolio") was held on August 24, 2006 at the offices of Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, NY 10154. At the Meeting, the following matter was voted upon by the shareholders (the resulting votes are presented below).

1. To approve an Agreement and Plan of Reorganization:

Number of Votes:		
Affirmative	**Against**	**Abstain**
5,121,720.424	94,898.955	154,084.645

A Special Meeting of Shareholders (the "Meeting") of DWS Money Market VIP (the "Portfolio") was held on October 19, 2006 at the offices of Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, NY 10154. At the Meeting, the following matter was voted upon by the shareholders (the resulting votes are presented below).

1. To approve an Agreement and Plan of Reorganization:

Number of Votes:		
Affirmative	**Against**	**Abstain**
48,059,440.623	2,769,355.205	7,230,710.389

Investment Management Agreement Approval

The Board of Trustees, including the Independent Trustees, approved the renewal of each Portfolio's investment management agreement (each an "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor") in September 2006. As part of its review process, the Board requested and evaluated all information it deemed reasonably necessary to evaluate the Agreements. Over the course of several months, the Contract Review Committee, in coordination with the Equity Oversight Committee and the Fixed-Income Oversight Committee, as applicable, and the Operations Committee of the Board, reviewed comprehensive materials received from the Advisor, independent third parties and independent counsel. These materials included an analysis of each Portfolio's performance, fees and expenses, and profitability compiled by an independent fee consultant. The Board also received extensive information throughout the year regarding performance and operating results of each Portfolio. Based on their evaluation of the information provided, the Committees presented their findings and recommendations to the Independent Trustees as a group. The Independent Trustees then reviewed the Committees' findings and recommendations and presented their recommendations to the full Board. Throughout their consideration of the Agreements, the Independent Trustees were advised by their independent legal counsel and by an independent fee consultant.

In connection with the contract review process, the various Committees and the Board considered the factors discussed below, among others. The Board also considered that the Advisor and its predecessors have managed each Portfolio since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of each of the Portfolios. The Board considered, generally, that shareholders invested in a Portfolio, or approved the investment management agreement for a Portfolio, knowing that the Advisor managed the Portfolio and knowing the investment management fee schedule. In connection with recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business, which resulted in turnover of senior management and other personnel of the Advisor, the Board considered Deutsche Bank's commitment that it will devote to the Advisor and its affiliates all attention and resources that are necessary to provide the Portfolios with top-quality investment management and shareholder, administrative and product distribution services.

Nature, Quality and Extent of Services. The Board considered the nature, extent and quality of services provided under the Agreements, including portfolio management services and administrative services. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of the Advisor to attract and retain high-quality personnel, and the organizational depth and stability of the Advisor. For certain Portfolios, the Board considered the delegation of day-to-day portfolio management responsibility to a sub-advisor. The Board reviewed each Portfolio's performance over short-term and, as applicable, long-term periods, and compared those returns to various agreed-upon performance measures, including market indices and peer universes compiled by Lipper Inc. ("Lipper"). The Board considered whether investment results were consistent with a Portfolio's investment objective and policies. The Board also noted that it has put a process into place of identifying "Focus Funds" (e.g., funds performing poorly relative to their peer group), and receives more frequent reporting and information from the Advisor regarding such funds, along with the Advisor's remedial plans to address underperformance. The Board believes this process is an effective manner of addressing poorly performing funds at this time.

On the basis of this evaluation and the ongoing review of investment results by the Equity Oversight Committee and the Fixed-Income Oversight Committee, as applicable, the Board concluded that the nature, quality and extent of services provided by the Advisor historically have been and continue to be satisfactory and unless otherwise noted below, each Portfolio's performance over time was satisfactory.

Fees and Expenses. The Board considered each Portfolio's management fee rate, operating expenses and total expense ratios, and compared management fees to a peer group and total expenses to a broader peer universe based on information and data supplied by Lipper. The information provided to the Board is discussed in greater detail below for each Portfolio. The Board also considered each Portfolio's management fee rate as compared to fees charged by the Advisor and certain of its affiliates for comparable mutual funds and, as applicable, for similarly managed institutional accounts. With respect to institutional accounts, the Board noted that (i) both the mix of services provided and the level of responsibility required under an Agreement were significantly greater as compared to the Advisor's obligations for similarly managed institutional accounts; and (ii) the management fees of institutional accounts are less relevant to the Board's consideration because they reflect significantly different competitive forces from those in the mutual fund marketplace. With respect to the other comparable DWS Funds, the Board considered differences in fund and fee structures among the DWS Funds. When applicable, the Board took into account the Advisor's commitment to cap total expenses for certain classes through specified periods.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by the Advisor.

Profitability. The Board reviewed detailed information regarding revenues received by the Advisor under each Agreement. The Board considered the estimated costs and pre-tax profits realized by the Advisor from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing each Portfolio in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Scudder organization with respect to all fund services in totality and by fund. The Board reviewed DIMA's methodology in allocating its costs to the management of each Portfolio. Although the Board noted the inherently subjective nature of any allocation methodology, the Board received an attestation report from an accounting firm affirming that the allocation methods were consistently applied and were based upon practices commonly used in the investment management industry. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of each Portfolio were not unreasonable. For DWS Mid Cap Growth VIP, the Board noted that, based on the information provided, the Advisor operated the Portfolio at a loss.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of each Portfolio and whether each Portfolio benefits from any economies of scale. The Board considered whether the management fee schedule under each Agreement is reasonable in relation to the asset size of the Portfolio. The Board noted that the management fee schedule for each Portfolio included breakpoints designed to share economies of scale with the shareholders. The Board noted that for DWS Blue Chip VIP, DWS Dreman Small Mid Cap Value VIP (formerly DWS Dreman Small Cap Value VIP), DWS International Select Equity VIP, DWS Large Cap Value VIP, DWS Core Fixed Income VIP, DWS Government & Agency VIP, DWS High Income VIP and DWS Strategic Income VIP, the Advisor, at the request of the Independent Trustees, added breakpoints to each Portfolio's management fee schedule effective October 1, 2006. The Board concluded that each management fee schedule reflects an appropriate level of sharing of any economies of scale.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including fees received by the Advisor for administrative services provided to each Portfolio and any fees received by an affiliate of the Advisor for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, which pertain primarily to funds investing in equity securities. The Board considered that the Advisor has recently proposed and the Board is evaluating a change in the Advisor's policies to permit the allocation of brokerage to acquire research services from third-party service providers. The Advisor had voluntarily discontinued this practice in 2004. The Board concluded that management fees were reasonable in light of these fallout benefits.

Regulatory Matters. The Board also considered information regarding pending regulatory actions against the Advisor and its affiliates related to allegations of market timing, revenue sharing, directed brokerage and other matters. The Board considered that the Advisor informed the Board that it expects to pay approximately $134 million in connection with final settlement agreements with various federal and state regulators regarding allegations of market timing in the DWS Funds. The Board also considered that the Advisor agreed to pay approximately $19 million in connection with a final settlement agreement with the Securities and Exchange Commission regarding allegations of directed brokerage. The Board considered the Advisor's representation that such regulatory actions will not materially impact its ability to perform under the Agreements or materially impact the Portfolios and that no current DAMI employee approved the trading arrangements. The Board also noted the private lawsuits brought against the DWS Funds in connection with the above allegations and considered the Advisor's commitment to indemnify the DWS Funds against any liability arising from these lawsuits.

In connection with the factors described above, the Board considered factors specific to a particular Portfolio, as discussed below.

DWS Mid Cap Growth VIP

Nature, Quality and Extent of Services. The Board noted that, effective October 28, 2005, the Portfolio adopted a new investment objective and strategy and changed its name to Scudder (now DWS) Mid Cap Growth Portfolio.

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap that expires on December 1, 2006, showed that the Portfolio's management fee rate was at the 38^{th} percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 81^{st} percentile for Class A shares and the 81^{st} percentile for Class B shares.

In light of the expense rankings, the Board recommended caps on total expenses through September 30, 2007 as follows: 0.864% for Class A shares and 1.264% for Class B shares. The Board noted that although the Portfolio's total expense ratios for Class A and Class B shares were above the median for the peer universe, such ratios (after the recommended expense caps) were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Blue Chip VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 14^{th} percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 27^{th} percentile for Class A shares and the 27^{th} percentile for Class B shares. The Board considered that, at the request of the Independent Trustees, the Advisor agreed to add seven breakpoints to the Fund's management fee schedule, effective October 1, 2006.

DWS Davis Venture Value VIP

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap that expired on October 1, 2006, showed that the Portfolio's management fee rate was at the 96^{th} percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 85^{th} percentile for Class A shares and the 85^{th} percentile for Class B shares.

In light of the expense rankings, the Board recommended caps on total expenses through September 30, 2007 as follows: 0.853% for Class A shares and 1.253% for Class B shares. The Board noted that although the Portfolio's management fee rate was above the median for the peer group and the total expense ratios for Class A and Class B shares were above the median of the peer universe, such expenses (after the recommended expense caps) were within an acceptable range of the peer group and peer universe, respectively, and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor, including the favorable performance of the Portfolio.

DWS Dreman High Return Equity VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 40^{th} percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 46^{th} percentile for Class A shares and the 46^{th} percentile for Class B shares. The Board took into account the Advisor's commitment to cap total expenses through at least November 30, 2006.

DWS Dreman Small Mid Cap Value VIP (formerly DWS Dreman Small Cap Value VIP)

Nature, Quality and Extent of Services. The Board considered that it approved a change, which is expected to take effect in November 2006, in the Portfolio's investment policies to invest in small and mid-size US companies.

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 13^{th} percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 6^{th} percentile for Class A shares and the 7^{th} percentile for Class B shares. The Board considered that, at the request of the Independent Trustees, the Advisor agreed to add seven breakpoints to the Portfolio's management fee schedule, effective October 1, 2006.

DWS Global Thematic VIP

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap that expired on October 1, 2006, showed that the Portfolio's management fee rate was at the 50th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 96th percentile for Class A shares and the 96th percentile for Class B shares.

In light of the expense rankings, the Board recommended caps on total expenses through September 30, 2007 as follows: 1.046% for Class A shares and 1.488% for Class B shares. The Board noted that although the Portfolio's total expense ratios for Class A and Class B shares were above the median for the peer universe, such expenses (after the recommended expense caps) were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS International Select Equity VIP

Nature, Quality and Extent of Services. The Board noted the relative underperformance of the Portfolio, and took into account the factors contributing to such performance and steps being taken by the Advisor to improve performance.

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 14th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 19th percentile for Class A shares and the 19th percentile for Class B shares. The Board considered that, at the request of the Independent Trustees, the Advisor agreed to add three breakpoints to the Fund's management fee schedule, effective October 1, 2006.

DWS Janus Growth & Income VIP

Fees and Expenses. The Board noted that, in connection with its annual review process in 2004, the Advisor agreed to reduce the Portfolio's management fee rate, effective May 1, 2005. The information provided to the Board, which included the effect of an expense cap for Class B shares that expired on October 1, 2006, showed that the Portfolio's management fee rate was at the 50th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 64th percentile for Class A shares and the 64th percentile for Class B shares.

The Board noted that although the Portfolio's total expense ratios were above the median for Class A and Class B shares, such expenses were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Large Cap Value VIP

Nature, Quality and Extent of Services. The Board noted the short-term relative underperformance of the Portfolio, and took into account the factors contributing to such performance, the Portfolio's favorable long-term performance, and steps being taken by the Advisor to improve performance.

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap that expired on April 30, 2006, showed that the Portfolio's management fee rate was at the 53rd percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 49th percentile for Class A shares and the 49th percentile for Class B shares. The Board considered that, at the request of the Independent Trustees, the Advisor agreed to add seven breakpoints to the Fund's management fee schedule, effective October 1, 2006.

The Board noted that although the Portfolio's management fees were above the median of the peer group, the management fees were within an acceptable range of the peer group and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Small Cap Growth VIP

Nature, Quality and Extent of Services. The Board concluded that the Portfolio's short-term performance was satisfactory. The Board noted the long-term relative underperformance of the Portfolio, and took into account the factors contributing to such performance and steps being taken by the Advisor to improve performance, including recent changes in investment personnel.

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap for Class B shares which expires May 1, 2008, showed that the Portfolio's management fee rate was at the 5th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 12th percentile for Class A shares and the 12th percentile for Class B shares. The Board took into account the Advisor's commitment to cap total expenses through April 30, 2008.

DWS Technology VIP

Nature, Quality and Extent of Services. The Board noted the relative underperformance of the Portfolio, and took into account the factors contributing such performance and steps being taken by the Advisor to improve performance, including the new lead portfolio manager and the shift in the Portfolio's investment focus.

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 22nd percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 31st percentile for Class A shares and the 31st percentile for Class B shares.

DWS Balanced VIP

Nature, Quality and Extent of Services. The Board noted the relative underperformance of the Portfolio, and took into account the factors contributing to such performance, including the Portfolio's lower exposure to international equities relative to its peers, and steps being taken by the Advisor to improve performance, including the use of a global asset allocation strategy.

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap for Class A and Class B shares that expires on May 1, 2008, showed that the Portfolio's management fee rate was at the 21st percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 9th percentile for Class A shares and the 9th percentile for Class B shares. The Board took into account the Advisor's commitment to cap total expenses through April 30, 2008.

DWS Turner Mid Cap Growth VIP

Fees and Expenses. The Board noted that, in connection with its annual review process in 2005, the Advisor agreed to reduce the Portfolio's management fee rate, effective October 1, 2005. The information provided to the Board, which included the effect of an expense cap for Class B shares that expires on December 1, 2006, showed that the Portfolio's management fee rate was at the 32nd percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 73rd percentile for Class A shares and the 73rd percentile for Class B shares.

The Board noted that although the Portfolio's total expense ratios for Class A and Class B shares were above the median for the peer universe, such expenses were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Core Fixed Income VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 42nd percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 57th percentile for Class A shares and the 57th percentile for Class B shares. The Board considered that, at the request of the Independent Trustees, the Advisor agreed to add seven breakpoints to the Portfolio's management fee schedule, effective October 1, 2006.

The Board noted that, although the total expense ratio for each share class was above the median of the peer universe, such total expense ratios were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Government & Agency Securities VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 60^{th} percentile for the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 69^{th} percentile for Class A shares and the 69^{th} percentile for Class B shares. The Board considered that, at the request of the Independent Trustees, the Advisor agreed to add seven breakpoints to the Portfolio's management fee schedule, effective October 1, 2006.

The Board noted that, although the Fund's management fee rate was above the median of the peer group and the total expense ratio for each share class was above the median of the peer universe, such management fee rate and total expense ratios were within an acceptable range of the peer group and peer universe, respectively, and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS High Income VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 29^{th} percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 37^{th} percentile for Class A shares and the 37^{th} percentile for Class B shares. The Board considered that, at the request of the Independent Trustees, the Advisor agreed to add seven breakpoints to the Portfolio's management fee schedule, effective October 1, 2006.

DWS Strategic Income VIP

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap for Class B shares that expires on October 1, 2006, showed that the Portfolio's management fee rate was at the 38^{th} percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 73^{rd} percentile for Class A shares and the 73^{rd} percentile for Class B shares. The Board took into account the Advisor's commitment to cap total expenses through September 30, 2006. The Board considered that, at the request of the Independent Trustees, the Advisor agreed to add seven breakpoints to the Portfolio's management fee schedule, effective October 1, 2006.

The Board noted that, although the Portfolio's total expense ratio for each share class was above the median of the peer universe, such total expense ratios were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Money Market VIP

Nature, Quality and Extent of Services. The Board reviewed the Portfolio's gross and net performance over short-term and long-term periods and compared those returns to various agreed-upon peer universe performance measures, focusing, for this purpose, primarily on gross performance. The Board concluded that the Portfolio's gross performance over time was satisfactory.

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 70^{th} percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 47^{th} percentile for Class A shares and the 47^{th} percentile for Class B shares.

The Board noted that although the Portfolio's management fee rate was above the median of the peer group such management fee rate was within an acceptable range of the peer group and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

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Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the terms of each Agreement continue to be fair and reasonable and that the continuation of each Agreement is in the best interests of each Portfolio. No single factor was determinative in the Board's analysis.

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Board Considerations in Connection with the Annual Review of the Sub-Advisory Agreement for each of the following Portfolios:

DWS Davis Venture Value VIP
DWS Dreman High Return Equity VIP
DWS Dreman Small Mid Cap Value VIP (formerly DWS Dreman Small Cap Value VIP)
DWS Core Fixed Income VIP
DWS Janus Growth & Income VIP
DWS Turner Mid Cap Growth VIP

The Board of Trustees, including the Independent Trustees, approved the renewal of each Portfolio's sub-advisory agreement (the "Sub-Advisory Agreement") between Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor") and each Portfolio's sub-advisor (each a "Sub-Advisor") in September 2006. As part of its review process, the Board requested and evaluated all information it deemed reasonably necessary to evaluate each Sub-Advisory Agreement. The review process followed by the Board is described in detail above. In connection with the renewal of the Sub-Advisory Agreements, the various Committees and the Board considered the factors described below, among others.

Nature, Quality and Extent of Services. The Board considered the nature, extent and quality of services provided under each Sub-Advisory Agreement. The Board considered the reputation, qualifications and background of each Sub-Advisor, investment approach of each Sub-Advisor, the experience and skills of investment personnel responsible for the day-to-day management of each Portfolio, and the resources made available to such personnel. The Board considered short-term and longer-term performance of each Portfolio (as described above).

On the basis of this evaluation and the ongoing review of investment results by the Equity Oversight Committee and the Fixed-Income Oversight Committee, as applicable, the Board concluded that the nature, quality and extent of services provided by each Sub-Advisor historically have been and continue to be satisfactory and that, except as discussed below, each Portfolio's performance during the tenure of the Sub-Advisor was satisfactory.

With respect to DWS Janus Growth & Income VIP, the Board considered the Sub-Advisor's representation that it had reached a settlement with regulators in August 2004 with respect to regulatory actions arising from market timing allegations affecting the Sub-Advisor. With respect to DWS Dreman Small Mid Cap Value VIP (formerly DWS Dreman Small Cap Value VIP), the Board considered that it approved a change, which is expected to take effect in November 2006, in the Portfolio's investment policies to invest in small and mid-size US companies.

Fees; Profitability and Economies of Scale. The Board considered the sub-advisory fee rate under each Sub-Advisory Agreement and how it related to the overall management fee structure of the Portfolio. With respect to DWS Janus Growth & Income VIP, the Board noted that in connection with the annual review process in 2004, the Sub-Advisor agreed to reduce its sub-advisory fees, effective May 1, 2005. With respect to DWS Dreman High Return Equity VIP, the Board considered the terms of a relationship agreement between the Advisor and Sub-Advisor. With respect to DWS Turner Mid Cap Growth VIP, the Board noted that, in connection with its annual review process in 2005, the Sub-Advisor agreed to reduce its sub-advisory fee, effective October 1, 2005.

The Board considered that each sub-advisory fee rate was negotiated at arm's length between the Advisor and Sub-Advisor, an unaffiliated third party, and that the Advisor compensates each Sub-Advisor from its fees. With respect to DWS Davis Venture Value VIP, DWS Dreman High Return Equity VIP, DWS Dreman Small Mid Cap

Value VIP (formerly Dreman Small Cap Value VIP), DWS Janus Growth & Income VIP and DWS Turner Mid Cap Growth VIP, the Board also considered the estimated profitability of the Sub-Advisor based on revenues and expenses, as provided by the Sub-Advisor, and concluded that the estimated profitability realized by the Sub-Advisor in connection with the management of the Portfolio was not unreasonable. With respect to DWS Core Fixed Income VIP, the Board noted that the Sub-Advisor did not provide an estimate of profitability in connection with the management of the Portfolio. The Board noted its consideration of the estimated profitability of the Advisor for this Portfolio.

As part of its review of the investment management agreement with DIMA, the Board considered whether there will be economies of scale with respect to the overall fee structure of each Portfolio and whether the Portfolio will benefit from any economies of scale. With respect to DWS Turner Mid Cap Growth VIP and DWS Janus Growth & Income VIP, the Board noted that the Sub-Advisor agreed to reduce the Portfolio's sub-advisory fee, effective October 1, 2005 for DWS Turner Mid Cap Growth VIP, and May 1, 2005 for DWS Janus Growth & Income VIP. The Board noted that each investment management agreement with DIMA included breakpoints and concluded that the overall structure was designed to share economies of scale with shareholders. For DWS Dreman Small Mid Cap VIP (formerly DWS Dreman Small Cap Value VIP) and DWS Core Fixed Income VIP, the Board noted that, at the request of the Independent Trustees, DIMA agreed to add seven breakpoints to its investment management fee schedule, effective October 1, 2006.

Other Benefits to the Sub-Advisor. The Board also considered the character and amount of other incidental benefits received by each Sub-Advisor and their affiliates. The Board noted that each Sub-Advisor agreed to adhere to DIMA's Soft Dollar Policy for the Portfolios, which includes an agreement not to use Portfolio brokerage transactions to pay for research services generated by parties other than the executing broker-dealer. The Board noted that DIMA has recently proposed and the Board is evaluating a change in its policies to permit the allocation of brokerage to acquire research services generated by parties other than the executing broker-dealer. The Board concluded that the sub-advisory fees were reasonable in light of these fallout benefits.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the terms of each Sub-Advisory Agreement continue to be fair and reasonable and that the continuation of each Sub-Advisory Agreement is in the best interests of each Portfolio. No single factor was determinative in the Board's analysis.

Trustees and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2006. Each individual's year of birth is set forth in parentheses after his or her name. Unless otherwise noted; (i) each individual has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity, and (ii) the address of each individual is c/o Deutsche Asset Management, 222 South Riverside Plaza, Chicago, Illinois 60606. Each Board Member's term of office extends until the next shareholders' meeting called for the purpose of electing such Board Members and until the election and qualification of a successor, or until such Board Member sooner dies, retires, resigns or is removed as provided in the governing documents of the Trust.

Independent Board Members

Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
Shirley D. Peterson (1941) Chairperson, 2004–present Board Member, 1995–present	Retired; formerly, President, Hood College (1995–2000); prior thereto, Partner, Steptoe & Johnson (law firm); Commissioner, Internal Revenue Service; Assistant Attorney General (Tax), US Department of Justice. Directorships: Federal Mogul Corp. (supplier of automotive components and subsystems); AK Steel (steel production); Goodyear Tire & Rubber Co. (April 2004–present); Champion Enterprises, Inc. (manufactured home building); Wolverine World Wide, Inc. (designer, manufacturer and marketer of footwear) (April 2005–present); Trustee, Bryn Mawr College. Former Directorship: Bethlehem Steel Corp.	63
Paul K. Freeman[2] (1950) Board Member, 2002–present	President, Cook Street Holdings (consulting); Consultant, World Bank/Inter-American Development Bank; formerly, Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	63
John W. Ballantine (1946) Board Member, 1999–present	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996). Directorships: Healthways, Inc. (provider of disease and care management services); Portland General Electric (utility company). Former Directorships: First Oak Brook Bancshares, Inc. and Oak Brook Bank	63
Donald L. Dunaway (1937) Board Member, 1980–present	Retired; formerly, Executive Vice President, A.O. Smith Corporation (diversified manufacturer) (1963–1994)	63
James R. Edgar (1946) Board Member, 1999–present	Distinguished Fellow, University of Illinois, Institute of Government and Public Affairs (1999–present); formerly, Governor, State of Illinois (1991–1999). Directorships: Kemper Insurance Companies; John B. Sanfilippo & Son, Inc. (processor/packager/marketer of nuts, snacks and candy products); Horizon Group Properties, Inc.; Youbet.com (online wagering platform); Alberto-Culver Company (manufactures, distributes and markets health and beauty care products)	63
Robert B. Hoffman (1936) Board Member, 1981–present	Retired; formerly, Chairman, Harnischfeger Industries, Inc. (machinery for the mining and paper industries) (1999–2000); prior thereto, Vice Chairman and Chief Financial Officer, Monsanto Company (agricultural, pharmaceutical and nutritional/food products) (1994–1999). Directorships: RCP Advisors, LLC (a private equity investment advisory firm)	63
William McClayton (1944) Board Member, 2004–present	Managing Director of Finance and Administration, Diamond Management & Technology Consultants, Inc. (global management consulting firm) (2001-present); formerly, Partner, Arthur Andersen LLP (accounting) (1986-2001). Formerly: Trustee, Ravinia Festival; Board of Managers, YMCA of Metropolitan Chicago	63
Robert H. Wadsworth (1940) Board Member, 2004–present	President, Robert H. Wadsworth & Associates, Inc. (consulting firm) (1983 to present). Formerly, Trustee of New York Board DWS Funds; President and Trustee, Trust for Investment Managers (registered investment company) (1999–2002). President, Investment Company Administration, L.L.C. (1992*–2001); President, Treasurer and Director, First Fund Distributors, Inc. (June 1990–January 2002); Vice President, Professionally Managed Portfolios (May 1991–January 2002) and Advisors Series Trust (October 1996–January 2002) (registered investment companies) *Inception date of the corporation which was the predecessor to the L.L.C.	66

Officers[3]

Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
Michael G. Clark[5] (1965) President, 2006–present	Managing Director[4], Deutsche Asset Management (2006–present); President of DWS family of funds; formerly, Director of Fund Board Relations (2004–2006) and Director of Product Development (2000–2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999–2000)	n/a

Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
Philip J. Collora (1945) Vice President and Assistant Secretary, 1986–present	Director[4], Deutsche Asset Management	n/a
Paul H. Schubert[5] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[4], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)	n/a
John Millette[6] (1962) Secretary, 2001–present	Director[4], Deutsche Asset Management	n/a
Patricia DeFilippis[5] (1963) Assistant Secretary, 2005–present	Vice President, Deutsche Asset Management (since June 2005); formerly, Counsel, New York Life Investment Management LLC (2003–2005); legal associate, Lord, Abbett & Co. LLC (1998–2003)	n/a
Elisa D. Metzger[5,] (1962) Assistant Secretary 2005–present	Director[4], Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999–2005)	n/a
Caroline Pearson[6] (1962) Assistant Secretary, 1998–present	Managing Director[4], Deutsche Asset Management	n/a
Scott M. McHugh[6] (1971) Assistant Treasurer, 2005–present	Director[4], Deutsche Asset Management	n/a
Kathleen Sullivan D'Eramo[6] (1957) Assistant Treasurer, 2003–present	Director[4], Deutsche Asset Management	n/a
John Robbins[5] (1966) Anti-Money Laundering Compliance Officer, 2005–present	Managing Director[4], Deutsche Asset Management (since 2005); formerly, Chief Compliance Officer and Anti-Money Laundering Compliance Officer for GE Asset Management (1999–2005)	n/a
Robert Kloby[5] (1962) Chief Compliance Officer, 2006–present	Managing Director[4], Deutsche Asset Management (2004–present); formerly, Chief Compliance Officer/Chief Risk Officer, Robeco USA (2000–2004); Vice President, The Prudential Insurance Company of America (1988–2000); E.F. Hutton and Company (1984–1988)	n/a

1 *Length of time served represents the date that each Board Member was first elected to the common board of Board Members which oversees a number of investment companies, including the fund, managed by the Advisor. For the Officers of the fund, the length of time served represents the date that each officer was first elected to serve as an officer of any fund overseen by the aforementioned common board of Board Members.*

2 *Appointed Chairman of the Board, effective January 1, 2007.*

3 *As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the fund.*

4 *Executive title, not a board directorship.*

5 *Address: 345 Park Avenue, New York, New York 10154.*

6 *Address: Two International Place, Boston, Massachusetts 02110.*

The Trust's Statement of Additional Information ("SAI") includes additional information about the Board Members. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: 1-800-621-1048.

About the Portfolios' Advisor

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

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The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.

This information must be preceded or accompanied by a current prospectus.

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DWS Scudder Distributors, Inc.
222 South Riverside Plaza
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(800) 778-1482

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Administrative office:
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