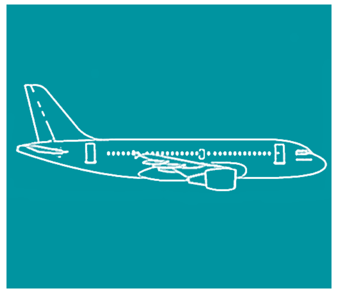

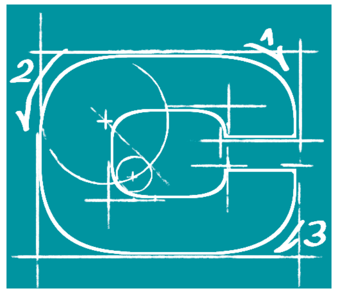

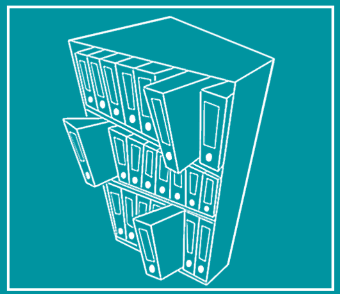

CENIT AG SYSTEMHAUS

# ANNUAL REPORT 2005

ANNUAL REPORT 2005
CENIT AG SYSTEMHAUS

# CENIT Financial Statement 2005

NUMBER OF SHARES: 4,183,879

KEY RATIO

| in Mill. EUR | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|
| Income statement | | |
| Sales | 74.30 | 74.91 |
| Gross Profit | 52.14 | 47.97 |
| EBITDA | 10.23 | 8.19 |
| Operating Returns (EBIT) | 9.41 | *7.53 |
| EBT | 9.08 | 7.63 |
| Netincome of the Group | 6.75 | 3.90 |
| Result per share (basic) in Euro | 1.61 | 0.93 |
| Result per share (diluted) in EURO | 1.61 | 0.93 |
| Number of employees at end of period | 523 | 466 |
| EBIT Margin in % | 12.7 | 10.0 |
| Profit - Margin in % | 9.1 | 5.2 |
| | | |
| Structure of the balance sheet | | |
| Equity in ratio in % | 58.0 | 49.0 |
| Equity | 19.57 | 13.96 |
| Liabilities | 14.34 | 14.52 |
| Balance Sheet total | 33.91 | 28.47 |

*Change in disclosure


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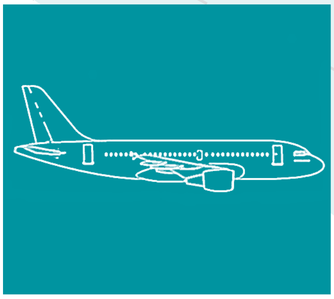
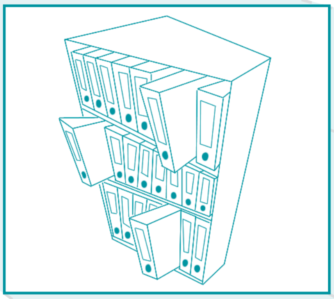
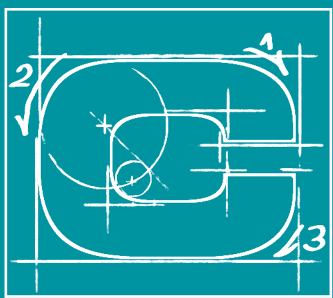
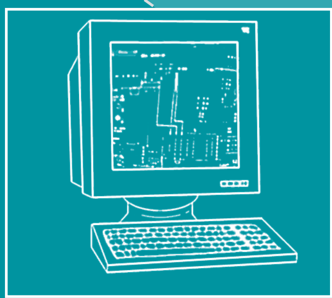
# CONTENT

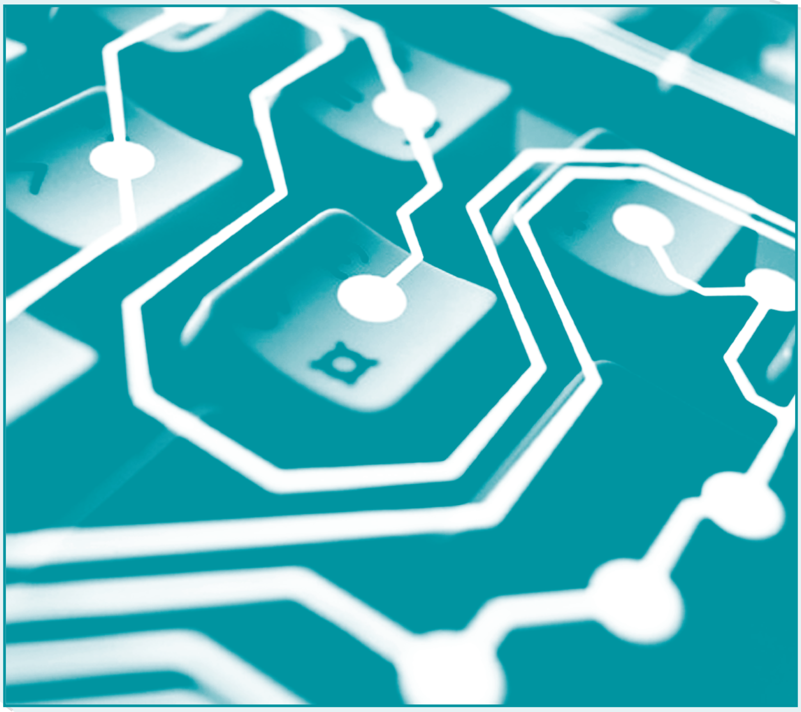








# Preface of the Executive Board



# DEAR SHAREHOLDERS, BUSINESS PARTNERS, CUSTOMERS AND INTERESTED PARTIES,

The figures for the 2005 reporting year show that we have succeeded in transforming our prospects and potential into profit-oriented growth. This is the message from the analysis of the business situation. However, today's success is no guarantee for tomorrow's success. We will thus continue to do everything in our power to safeguard the future of CENIT in the long-term. The Executive Board considers its urgent task to be expanding this profit-oriented growth to secure a long-term increase in the value of the company. The profitable growth of our group is expressed in the good growth rates. This enabled us to increase profitability further.

In 2006, we will continue to move forward with the necessary challenges and investments for CENIT. Innovation is the basis for growth and performance in the future. By focussing on the consultancy business, the targeted marketing of our own software products and the expansion of the US business, we are creating the foundation for future growth. However, innovation is generated by people – thus continued support for our employees plays an important role. For us, this primarily concerns making use of the creative potential of our employees. We will also systematically optimise our portfolio in order to increase the competitiveness and the performance of our business segments further by focussing on the strong core businesses.

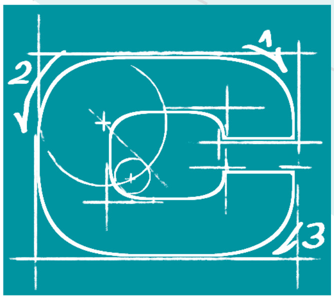
The development of CENIT shares was again pleasing in the 2005 financial year. The CENIT share price rose from EUR 13.33 at the start of 2005 to around EUR 23 at the close of the year. We also anticipate that our vigorous profit-oriented growth strategy will continue to have a positive impact on the share price.

We would like to take this opportunity to extend our particular thanks to you, our shareholders, for the trust that you have shown us.

We would also like to thank our employees for their extraordinary dedication and in particular our customers for placing their trust in our abilities.

Yours sincerely,
The Executive Board

Andreas Schmidt    Hubertus Manthey    Christian Pusch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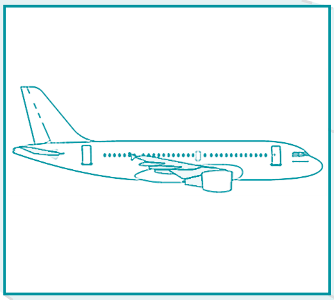
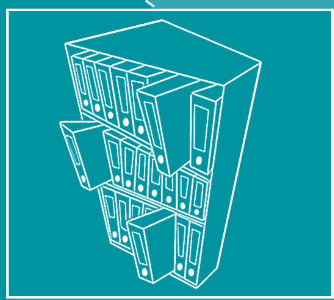




# Combined Management Report

CENIT AKTIENGESELLSCHAFT SYSTEMHAUS, STUTTGART

# COMBINED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT FOR FISCAL YEAR 2005

## DEVELOPMENT OF THE INFORMATION TECHNOLOGY SECTOR AND THE GENERAL ECONOMY IN 2005/2006

Providers of information and telecommunications technology are optimistic about developments in 2006. This is the conclusion of the latest opinion poll undertaken by the German Association for Information Technology, Telecommunications and New Media ("BITKOM"). This survey of business confidence is based on a quarterly questionnaire issued by BITKOM to its member companies. According to the survey, 70% of the companies expect sales to rise in the coming year, 16% expect sales revenue to remain stable and only 14% are planning for a fall in sales. BITKOM confirms its growth forecast of 2.4% to EUR 137.3 billion for the year 2006. As in 2005, the main growth drivers in 2006 will be software providers and IT services providers. 72% of the software companies expect sales and income to rise in 2006 with 43% of the companies planning on hiring additional staff to meet demand. IT services providers will be equally successful. 73% are basing their planning on rising sales and 60% want to recruit new staff. Among manufacturers of IT hardware, 64% of those questioned expect sales to increase in 2006.

There has rarely been such a lack of direction with regard to forecasts for the economy as a whole. This is partly due to the uncertainties regarding the price of oil, which, according to calculations by Deutsches Institut für Wirtschaftsforschung (DIW) [German Institute for Economic Research], could lie anywhere between USD 25 and 70 in five years time, depending on the scenario. It is also due to political uncertainties besetting Germany: will there be a tax reform? What action will be taken to combat unemployment? The answers to these questions could easily have a radical impact on any economic forecast. The Kiel-based Institut für Weltwirtschaft (IfW) [Institute for the World Economy] has confirmed that the year 2005 was affected by a massive rise in the price of crude oil. The burden on economic growth in industrialized countries due to higher energy prices was not as strong as past experience had led the experts to fear, particularly because low interest rates acted as a powerful counterbalance. Similarly, there is not yet any clear increase in underlying inflation although inflation rates have risen significantly in some industrialized nations. The increase of approx. 2.5% in the overall economic output of industrialized countries in 2006 and 2007 will continue the trend observed in recent years. Although monetary policy will be noticeably less encouraging of growth in the forecast period, that will be counteracted by the relief from the burden of rising oil prices experienced in the past as the price of oil now stabilizes. The geopolitical impact will be most noticeable in the United States; the US economy is expected to slow down considerably in the coming year. By contrast, the economic boom in the euro zone will continue unabated, at least initially. Inflation will decline gradually over the course of the coming year with unemployment falling slightly.

In spite of the hike in the price of crude oil, the global economy expanded strongly again in 2005. The increase in global economic output of well above 4% is once again higher than the mid-term trend. China was once again an important driver of the global economy, with its economic growth rate remaining high. Economic growth in industrial countries only slowed down slightly in the course of the year with perceptible regional differences: whereas Japan enjoyed a buoyant economy in the first six months of the year due to a rise in domestic demand, the impetus petered out in the middle of the year. Developments in the euro zone were exactly the opposite. In the first six months of the year, domestic demand stagnated, weakening the economy initially until the first signs of recovery became apparent in summer.  In the United States the gross domestic product increased rapidly over the course of the year, continuing to rise faster than the growth in manufacturing output.

The long-term forecast by the Kiel-based Institut für Weltwirtschaft is unambiguously optimistic: The increase in the overall economic output of industrialized countries in 2006 and 2007 will continue more or less at the same speed as observed in recent years. Given the economic development of industrialized nations and a slight fall in the rate of growth of emerging economies to between 7 and 8%, in China in particular, global trade will continue to grow at roughly the same speed as the long-term trend. Inflation in industrialized nations will decline gradually over the course of the coming year if the effects of the rise in energy prices suffered in the prior year are eliminated. In its outlook, the Kiel Institut für Weltwirtschaft believes that unemployment will continue to decline moderately.

ANNUAL RESULTS

## DEVELOPMENT OF SALES AND EARNINGS

Breakdown by customer segment/industry
Fig. A

## RESULTS OF OPERATIONS FOR THE GROUP

In the fiscal year 2005, CENIT recorded group sales of EUR 74.3 million (2004: EUR 74.9 million, representing a fall of 1%). The services segment once again recorded considerable growth. This was accompanied by an extremely positive development in the sale of CENIT proprietary software. Sales of hardware, by contrast, slumped during the year, falling approx. EUR 7.2 million from EUR 21.6 million in 2004 to approx. EUR 14.4 million in 2005. Gross profit rose once again by 9% to reach EUR 52.1 million to (2004: EUR 48 million). EBITDA[1)] came to EUR 10.2 million (2005: EUR 8.2 million representing a rise of 24%). Earnings before interest and taxes (EBIT[2)]) grew 25% over the reporting period from EUR 7.5 million in 2004 to approx. EUR 9.4 million. With EBT of EUR 9.1 million (2004: EUR 7.6 million, a rise of 20%) and EPS for the Group of EUR 1.61 (2004: EUR 0.93, an increase of 73%), CENIT concluded an extremely successful year.

## RESULTS OF OPERATIONS, GERMANY

In the fiscal year 2005, CENIT AG Systemhaus recorded sales in Germany of EUR 72.1 million (2004: EUR 73.1 million, representing a fall of 1%). Sales in the services segment expanded once again, rising approx. 9% on the prior year. Sales of hardware fell 33%. However, growth in the software and services segments led to a rise of 8% in gross profit to EUR 51.8 million. Personnel expenses amounted to EUR 30.8 million (2004: EUR 28.3 million, an increase of 8.8%). Other operating expenses amounted to EUR 11.4 million (2004: EUR 12 million, a fall of 5%). CENIT AG Systemhaus thus generated EBITDA[1)] of EUR 9.7 million (2005: EUR 7.6 million, an increase of 28%) and EBIT[2)] of EUR 8.9 million (2004: EUR 7.0 million, a rise of 27%). Tax expenses amounted to EUR 2.5 million. After deduction of tax, net income for the year amounts to EUR 6.3 million (2004: EUR 5.1 million, a rise of 24 %).

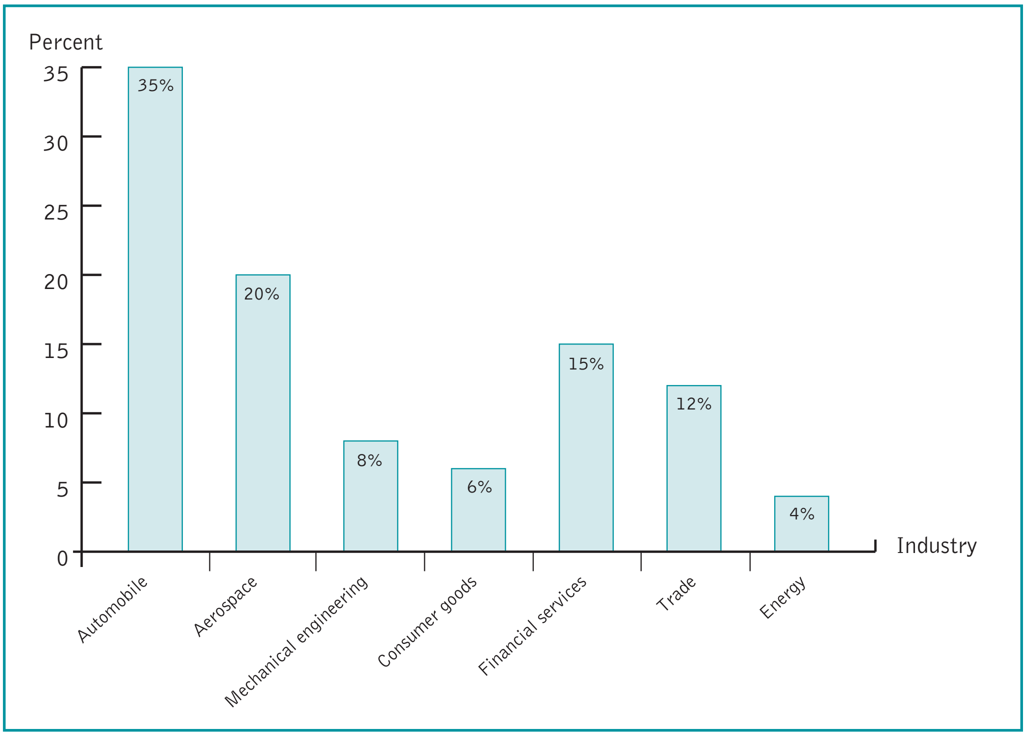
## PROPOSED DIVIDEND AND CAPITAL INCREASE

The management board and the supervisory board will submit a proposal to the annual general meeting to distribute a dividend of 60 cents per share (2004: 30 cents per share) and a special dividend of 30 cents per share to the shareholders as well as to transfer EUR 0.4 million to the statutory

[1)] EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is derived from the net income of the Group or net income for the year before income tax, the interest result and financial result as well as before amortization of intangible assets and depreciation of property, plant and equipment and before the extraordinary result.

[2)] EBIT (Earnings Before Interests and Taxes) is derived from the net income of the Group or net income for the year before income taxes, interest result and financial result as well as before the extraordinary result. Eliminating these factors provides a comparable presentation of a company's actual results of operations, irrespective of the individual capital structure.

Fig. A




reserve and EUR 2.1 million to other revenue reserves. Moreover, the management board and supervisory board will propose to the annual general meeting that EUR 4,183,879 be converted from other revenue reserves to share capital by issue of new shares with a right to dividends for the fiscal year 2006.

## COMPOSITION OF SALES BY BUSINESS SEGMENT

In its e-engineering segment CENIT achieved sales of EUR 48.9 million (2004: EUR 48.9 million). The e-business segment achieved sales of EUR 25.4 million (2004: EUR 26.0 million).

## COMPOSITION OF SALES BY BUSINESS SEGMENTS IN GERMANY

In its e-engineering segment CENIT achieved sales of EUR 46.9 million (2004: EUR 47.4 million). The e-business segment achieved sales of EUR 25.1 million (2004: EUR 25.6 million).

## ORDER INTAKE

The order backlog as of December 31, 2005 amounted to EUR 19.3 million for the Group as a whole (2004: EUR 16.0 million, a rise of 21%) and incoming orders in 2005 totaled approximately EUR 79.6 million in 2005 (2004: EUR 78.0 million (a rise of 2%).

The order intake at CENIT AG Systemhaus Deutschland amounted to EUR 76.1 million in fiscal year 2005 (2004: EUR 75.3 million). The order backlog as of December 31, 2005 amounted to EUR 17.9 million (2004: EUR 15.3 million).

## NET ASSETS AND FINANCIAL POSITION

The equity ratio in the Group rose from 49% in 2004 to 58%. At the end of 2005, equity stood at EUR 19.6 million (2004: EUR 14 million).

The healthy development of business is reflected in the composition of the balance sheet of CENIT AG Systemhaus in Germany as of December 31, 2005. At the close of the year, the Group carried bank balances and securities classified as current assets of approx. EUR 20.8 million (2004: EUR 14.3 million, a rise of 45%). Apart from its cash and cash equivalents, the Company still has sufficient overdraft facilities available to it. Trade receivables as well as payables developed in line with business and did not change significantly compared to the prior year. The equity ratio of CENIT AG Systemhaus in Germany is 50%, which constitutes a clear improvement on the prior year (2004: 39%).

## SHAREHOLDINGS

### *CENIT (SCHWEIZ) AG*

CENIT (Schweiz) AG generated sales of EUR 1.3 million in the past fiscal year (2004: EUR 1.7 million) and EBIT of EUR 56 k (2004: EUR 47 k).

### *CENIT NORTH AMERICA INC.*

CENIT North America Inc. generated sales of EUR 1.7 million (2004: EUR 0.97 million) and an EBIT of EUR 217 k (2004: EUR 65 k).

## VALUE-BASED MANAGEMENT

The management and controlling of CENIT is founded on a system of value-based management. This method strives to constantly increase the sustainable value of the company by concentrating on its business fields. Comprehensive controlling measures are taken to achieve these objectives. These allow targeted management and coordination of the activities of all business fields supported by a central administration and the greatest degree of transparency. For this purpose we use reporting systems which optimize year-to-date calculations and forecasting as well as the internal and external reporting. The most important indicators are gross profit, EBIT and the order intake which are calculated monthly and subject to variance analysis.

## FINANCING

The positive earnings situation allows the Group to fund itself from its own resources. The liabilities to banks carried in the balance sheet relate to the short-term financing of goods deliveries. The available credit lines were availed of to a very small scope in the reporting period. Any cash and cash equivalents not needed to fund day-to-day operations are invested for the short term.

## ASSURING ADEQUATE LIQUIDITY

In addition to the cash flow projections for a planning period extending a number of years into the future, CENIT also makes use of monthly cash flow projections. Surplus cash is used to finance projects, for investments and expanding the activities of the national companies.

## RATING

CENIT has been granted an extremely positive internal rating by its principal banks: Deutsche Bank, Commerzbank and LBBW. No ratings have been made by rating agencies such as Moody's or Standard & Poor's.

## FOREX MANAGEMENT

The business activities of CENIT involve transactions made in USD and SFR.  As a consequence, CENIT is exposed to a certain foreign currency risk. Hedging this exposure is a component of our risk management and our centrally organized foreign exchange management. Hedging the foreign currency exposure is undertaken with the cooperation of our principal banks.

## RISK REPORT

CENIT AG Systemhaus is well positioned in its target markets. The Company has a strong market position in product lifecycle management, enterprise content management and application management outsourcing among medium-sized and large customers. CENIT's risk policy is based on the concept of using existing opportunities to the full and only entering into the risks associated with the business activities if the opportunities for creating corresponding added value outweigh the risks.

The Company implements this concept by regularly and continuously identifying, assessing and monitoring risks in all material business transactions and processes within the Company. The risk management of CENIT is a component of the Group's value-based management and reports directly to the management board.

The risk management is located in the controlling department. A risk inventory is carried out regularly there. The six-month or annual risk reporting documents and assesses any risks identified in this process. An ad-hoc risk report is also available to ensure that action can be taken rapidly and informally. A detailed report on the status of the material risks to be monitored documents the assessment, the action taken and planned as well as the persons responsible. The management board examines the classified risks together with the department heads and the employees responsible in that business unit. The supervisory board is also informed regularly of the Company's risk situation.

The receivables portfolio may bear risks with respect to the recoverability of the receivables. CENIT is dealing with such risks by ensuring strict receivables management, credit ratings and the classification of risks at an early stage. CENIT is not dependent on financing by business banks. The credit lines for 2005 amounted to EUR 2.3 million.

We were able to cover our demand for IT specialists largely via the labor market. CENIT was able to attract specialists with many years of experience in its business units. The risk of losing key staff tends to be lower in economically difficult times. At the same time, the excellent positioning of CENIT makes it easier to attract new, even highly qualified, employees.

There are entrepreneurial risks associated with the expansion of business in the USA. As the expansion is due to organic growth, these risks remain manageable and/or controllable.

Finally it should be noted that the Company uses numerous management and control systems that are continually developed further to measure, monitor and control risks. They include a uniform company-wide strategy, planning and budgeting process dealing mainly with operative opportunities and risks. The risks identified and the risk management measures defined within the strategy, planning and budgeting process are monitored. The monitoring and action taken in response to the risks is beginning to bear fruit, for instance with respect to tailoring the wording of contracts to fit the respective situation. With large projects in particular, the certainty that the contract will be continued is checked. The further growth and thus the economic success are affected not just by the economic risks in the global markets, but to a large extent also by the successful marketing of CENIT solutions and consulting as well as IT services. Among other things, the Company plans to do this by expanding its own selling and consulting know-how and by entering into strategic alliances. Two-thirds of the customers of the CENIT Group are in the manufacturing sector. The economic cycle of the manufacturing sector could have an impact on the business development of CENIT.

The Company has concluded insurance policies to cover potential losses and liability risks and ensure that the financial consequences of any potential risks are limited. The scope is regularly reviewed and adjusted, if necessary. With respect to IT security, CENIT has made extensive risk provisions and develops these constantly.

## RISKS TO FUTURE DEVELOPMENT

A review of the current risk situation shows that there were no risks in the reporting period that jeopardized the continued existence of the Group and that no such risks are foreseeable at present for the future. Furthermore, as of the balance sheet date there were no risks that could have a significant effect on our net assets, financial position, or results of operations. The strategic risk management and early warning system implemented in accordance with the requirements of KonTraG ["Gesetz zur Kontrolle und Transparenz im Unternehmensbereich": German Law on Control and

Transparency in Business] guarantees transparent corporate governance and the early detection of risks.

Due to the fact that practically all purchase and sales contracts are denominated in Euro and in light of the current financial position, use has only been made to a minor extent of financial derivatives to hedge currency risks. To hedge a portion of our future USD receivables we have entered into an option agreement to swap USD and EUR at a fixed exchange rate. We assume the USD will continue to rise against the EUR. An interest swap was used to improve returns. We are acting on the assumption that the relatively flat forward interest rate curve will steepen in future.

## CAPITAL EXPENDITURE

The CENIT Group's capital expenditure in property, plant and equipment and intangible assets amounted to EUR 1.0 million in 2005. Depreciation and amortization increased by EUR 0.1 million to EUR 0.8 million. Of this amount, capital expenditure on property, plant and equipment and intangible assets in Germany amounted to approx. EUR 1.0 million (2004: EUR 0.7 million). The majority of this amount related to replacement investments in the technical infrastructure and equipment, furniture and fixtures. Depreciation and amortization increased by EUR 0.2 million to EUR 0.8 million (2004: EUR 0.6 million).

### CAPITAL EXPENDITURE OF THE CENIT GROUP BY SEGMENT:

| | |
|---|---|
| EB business segment | EUR 201 k |
| EE business segment | EUR 799 k |
| Total | EUR 1,000 k |

### CAPITAL EXPENDITURE OF CENIT GERMANY BY SEGMENT

| | |
|---|---|
| EB business segment | EUR 201 k |
| EE business segment | EUR 756 k |
| Total | EUR 957 k |

### PROCUREMENT STRATEGY AND PURCHASES POLICY

CENIT pursues a procurement strategy that is tailored exactly to the specific needs of a project. Our purchase officers have a lot of experience in sourcing merchandise and services for our customer-projects. For our procurements we cooperate with reputable partners who are market leaders or industry leaders in their particular product line. There are practically no exchange rate risks associated with purchases as most purchases are made on the European market. Expenses for merchandise and purchased services recorded by the Group amounted to EUR 22.7 million in 2005. The value of inventories and the amount of capital tied up in inventories is kept at a low level of approx.

EUR 1.1 million on balance sheet date due to the strategy of only procuring goods and services in relation to projects. This allows us to react flexibly to market needs. The risk of obsolescent inventories is low.

## QUALITY ASSURANCE

The highest priority of CENIT is to provide the very best quality and reliability to our customers in our target markets. Our actions are defined by their expectations. Quality is a duty of all employees in the Company.

The members of the management board of CENIT AG Systemhaus are jointly responsible for the management of the Company. The Head of Quality Management is appointed by a member of the management board. This structure ensures that the management board can directly influence and control the quality management system of the Company and can immediately recognize mismanagement and remove those responsible. The management board defines the corporate policies, strategies and goals and ensures that these are communicated to all levels of the Company and are realized in practice. Moreover, the management board is responsible for defining the organization and individual responsibilities as well as for providing the necessary financial and human resources.

Each year, management work out the detailed goals for the coming year and the next three years to be used as an orientation. The annual goals are broken down into individual goals for each employee. Goals which serve to monitor the continuous improvement of processes and the Company as a whole are laid down in the respective standard operating procedures. The management board reviews whether the agreed goals have been met and to what extent they are over or under target and whether the relevant standard operating procedures, laws and standards have been complied with.

Continuous improvement is an essential component of our quality management system. Each and every employee is required to contribute to it. Our continuous improvement process reveals any potential for improvement, evaluates the costs and benefits, and realizes any suitable changes. Regular internal audits records and documents the progress of the continuous improvement process. The required actions and those responsible for their realization are documented in the report.

CENIT AG Systemhaus has developed rules for its quality management system in its management manual. These comply with ISO 9001:2000. Moreover, CENIT AG Systemhaus has developed and implemented key standard operating procedures which apply throughout the entire company. The standard operating procedures are supplemented by laws and industry standards which the Company must observe and obey.

The employees of CENIT AG Systemhaus are informed about current developments in the Company at quarterly meetings. These events are also used for any required training in the process-based management system across all segments. The information needed for day-to-day business is communicated in regular meetings or in individual discussions. The Company places a high value on open dialog.

A systems audit was conducted in December 2005 by an independent team from Deutsche Gesellschaft zur Zertifizierung von Managementsystemen (DQS). The audit was successful and CENIT AG Systemhaus was awarded the DIN EN ISO 9001:2000 certification.

## EMPLOYEES

As of December 31, 2005, the number of employees within the Group amounted to 523 (2004: 466). Worldwide an annual average of 501 (2004: 461) persons were employed.

The number of employees in Germany stood at 510 as of December 31, 2005 (2004: 455). The annual average headcount in Germany was 488 (2004: 449). Personnel expenses rose by 8.7% compared to the prior year. The average age of staff was 38. More than 75% of the employees have a university degree. Employee turnover stood at 5.5% (4.7% in 2004). We once again recorded a very low number of sick days. In Germany, we offer our employees a company pension plan in the form of a pension fund at a large German insurance company and direct insurance. Approximately 25% of the employees availed themselves of this offer. After raising the number of employees in Germany by about 12% in 2005, we are planning to expand the workforce by a further 10% in 2006. We will reinforce our consulting business and the customized software development in particular.

## RESEARCH AND DEVELOPMENT

CENIT focuses on consulting and implementing standard software from leading manufacturers. Product developments by the Company itself are only made to supplement standard software, e.g. for special customer requirements. Besides adjusting standard software, CENIT develops programs for supplementing and expanding existing standard software as required by its customers.

Software solutions from CENIT are based on IT solutions from SAP, FileNet or Dassault Systèmes. They add important functions to these standard packages which lead to higher productivity or improved quality of data. Some products allow the design of entire business processes, consistent data storage and early simulation of process stages. Overall, CENIT offers 20 solutions in the fields of digital manufacturing, product data management as well as enterprise content and systems management.

## DEVELOPMENT OF THE CENIT SHARE

The CENIT share developed solidly in the past fiscal year 2005. The CENIT share started the year at EUR 13.33 and closed the year at approx. EUR 23. This represents a continuation of the upwards trend experienced in the last three years. The average trading volume over the past 52 weeks was approx. 9,000 shares per day. The average share price for the year was EUR 19.05.

Currently, research reports on CENIT are issued by four different analysts (LBBW Bank, Concord Effekten Bank, Independent Research and SES

Research/MM Warburg). Baden-Württembergische Kapitalanlagegesellschaft in Stuttgart and Merrill Lynch, London, each hold a share package of over 5%, and are thus subject to reporting requirements. Fig. B

## POSITIONING AND STRATEGY OF CENIT

CENIT AG Systemhaus has been operating as a specialist for the optimization of business processes, product lifecycle management and application management since 1988. CENIT's customers include large companies such as Allianz, BMW, DaimlerChrysler, EADS Airbus, LBS, Metro, and VW. Many customers are SMEs, in particular in the fields of automotive industry and mechanical engineering such as SIG, Hettich, Carl Mayer, Hirschmann, ISE, Emil Bucher and Webasto. CENIT has become one of the leading consulting firms for product life cycle management (PLM). Its services include the selection of suitable PLM software, process chain consulting, the introduction of PLM solutions at the customer and comprehensive consulting services. In e-business too, CENIT has won a reputation as a successful FileNet consultant. The portfolio of the Company is supported by the positive development in application management. CENIT has managed to successfully position itself in this market as a service partner for large companies and SMEs.

## E-ENGINEERING SEGMENT

We were able to further expand and fortify our outstanding market position in product lifecycle management in Germany and Europe. The market studies included here also illustrate this. Fig. C Fig. D Fig. E

In Europe, CENIT AG Systemhaus is one of the leading independent PLM consultants. With its range of consulting services, the Company covers the whole process chain for product development – from the initial idea to development and design as well as manufacturing. With the DELMIA digital manufacturing solutions, CENIT additionally offers powerful tools for planning and simulating production systems and processes. The range of consulting services in product data management covers products from ENOVIA, SmarTeam, mySAP PLM and Teamcenter. This business field is rounded off by a comprehensive range of services from the provision of infrastructure to management consulting and the CENIT Akademie. With its broad training program, CENIT makes sure that its customers have the necessary know-how to make efficient use of the solutions implemented. The Company's competencies in PLM are used by renowned SMEs and major customers.

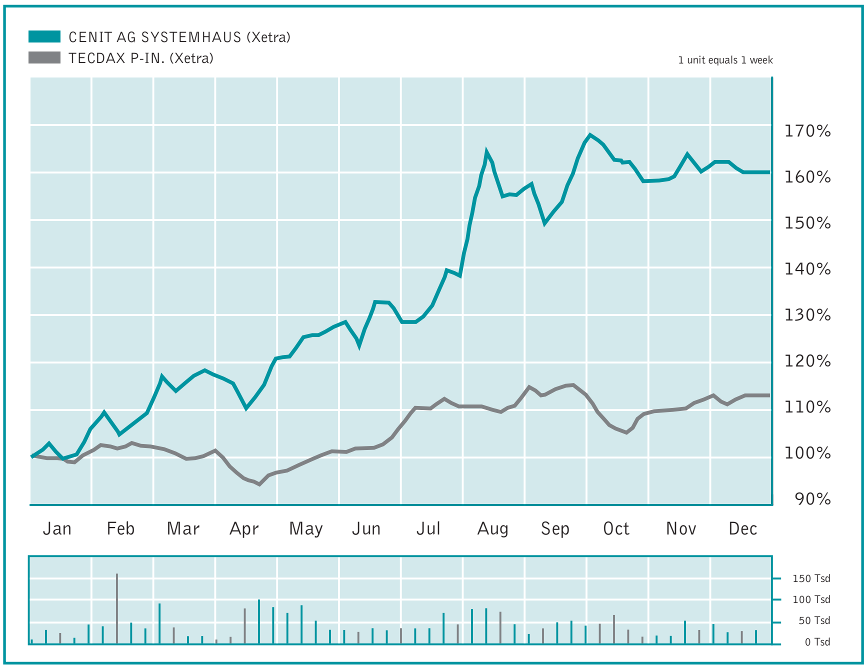
## E-BUSINESS SEGMENT

In the e-business segment, CENIT's focus is on the provision of consulting services for enterprise content management solutions based on the FileNet range of products. In this environment, CENIT is the largest ValueNet partner of FileNet in Europe. A further emphasis of the e-business segment is on application management.

Customized enterprise content management projects for financial service providers, utilities and

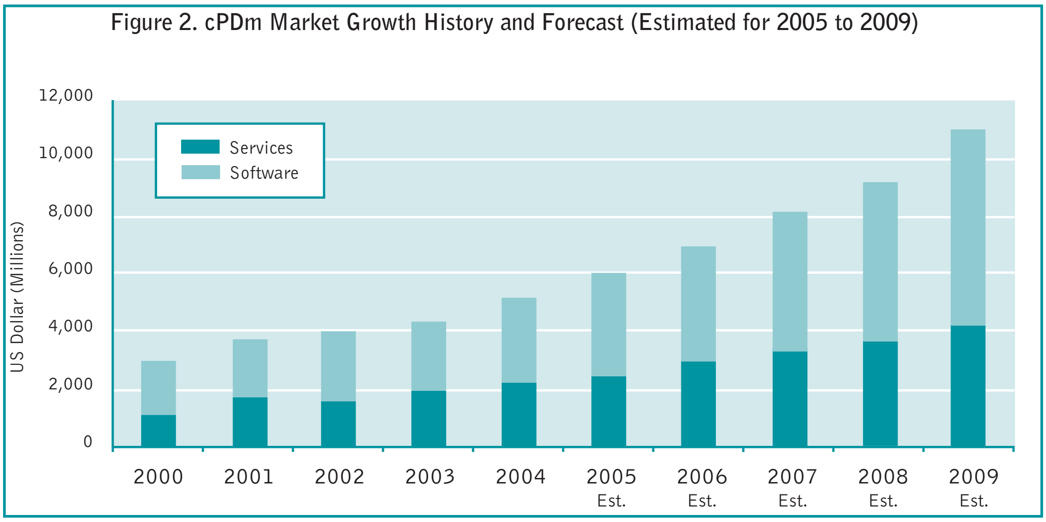
## DEVELOPMENT OF THE SHARE PRICE IN 2005

Source: wallstreet online **Fig. B**




## DEVELOPMENT OF THE PLM MARKET TO 2009

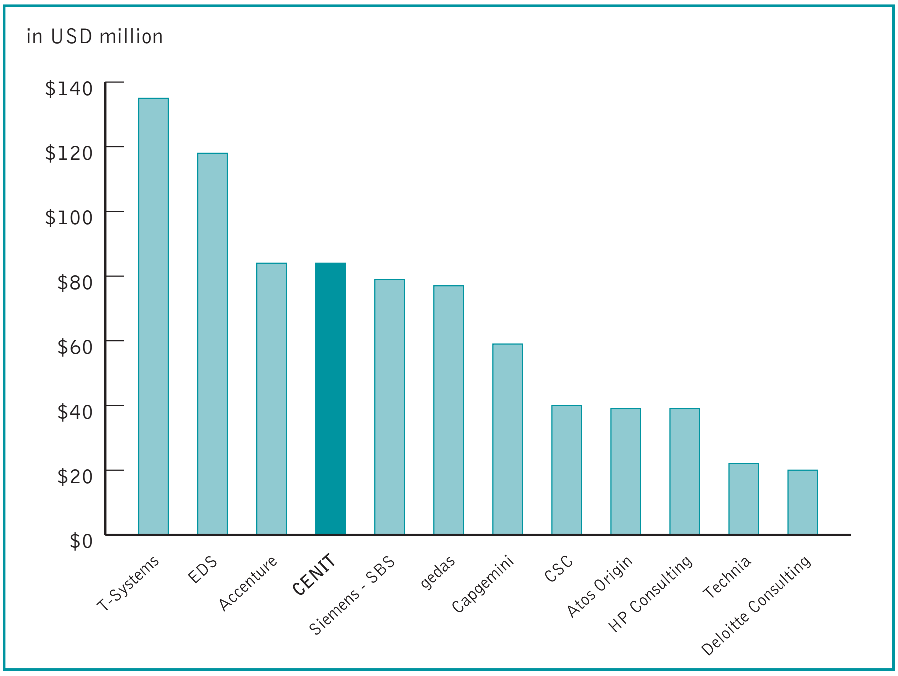
**Fig. C** Source: CIMdata study 2005




CIMdata is forecasting a compound annual growth rate (CAGR) of 15% for the services/consulting market and 4.5% for the software market. According to CIMdata, the total market will grow by 8% p.a..

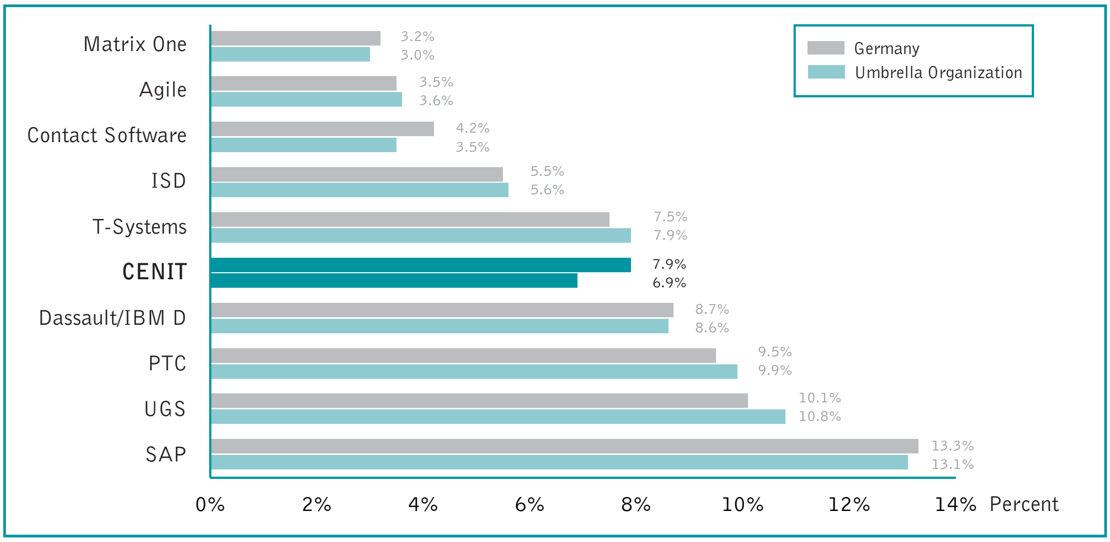
## INDEPENDENT PLM SERVICE PROVIDERS IN EUROPE 2004 - Sales Development

Fig. D Source: CIMdata study 2005



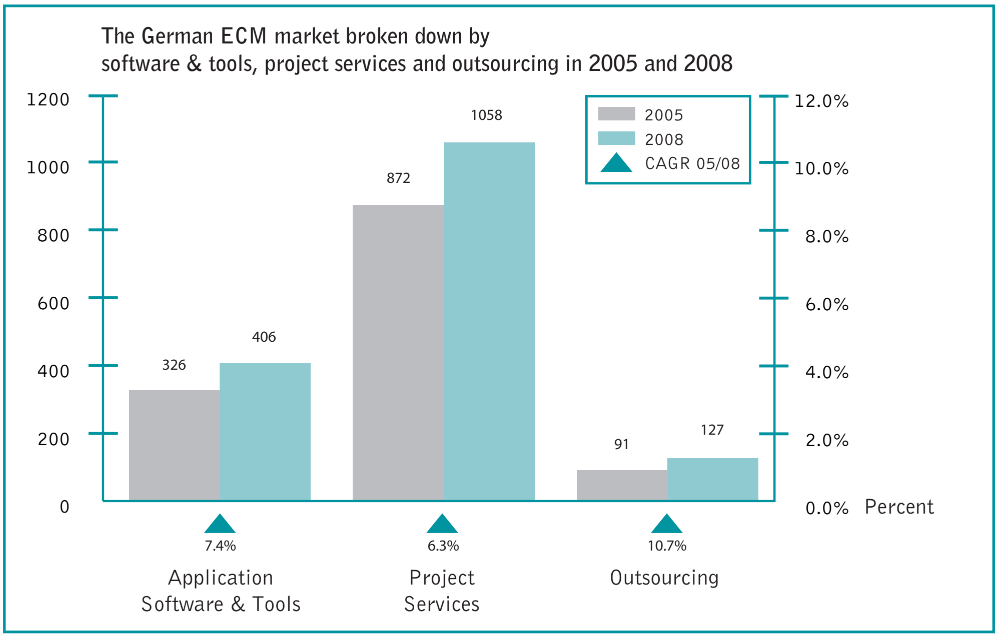

## MARKET SHARE OF COMPANIES IN TOTAL SALES OF PLM SOFTWARE IN 2004

Source: Computer Graphik Markt 2005 Fig. E



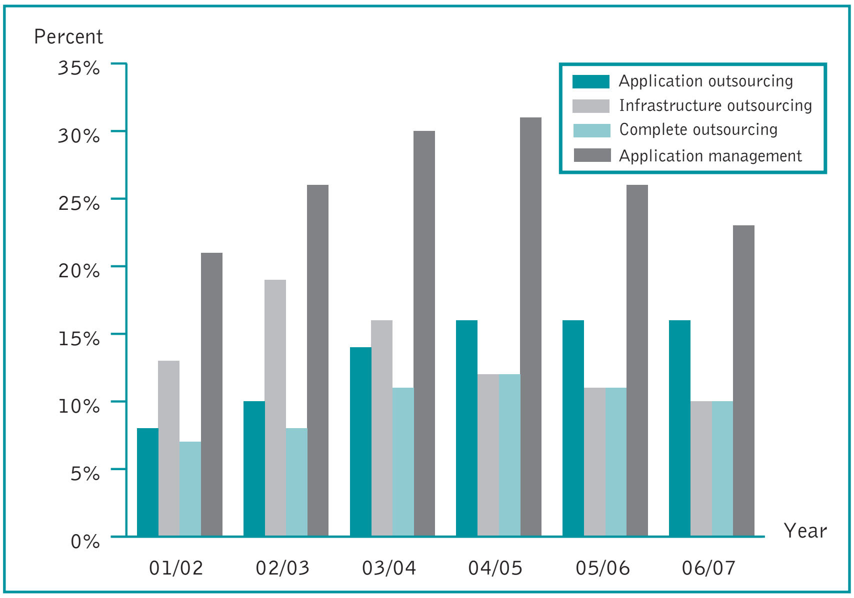
## DEVELOPMENT OF THE ENTERPRISE CONTENT MANAGEMENT MARKET

Source: PAC 2005 (Figures in EUR million or %) Fig. F




## DEVELOPMENT OF THE GERMAN OUTSOURCING MARKET - by Type of Outsourcing in %

Fig. G Source: PAC 2005



trading companies were realized on schedule and with a high degree of efficiency. Our customers include renowned companies such as Allianz, VR Kreditwerk Hamburg-Schwäbisch Hall, Wüstenrot & Württembergische, Metro, REWE, SchäferShop and many others.

This segment offers solutions on the basis of the new FileNet P8 architecture extending to imaging, workflow, document and content management. The combination of content and process management constitutes a flexible and scalable platform for managing content, analyzing, automating and optimizing business processes. In addition, CENIT offers its own software solutions which intelligently round off the FileNet range. Fig. F

## APPLICATION MANAGEMENT OUTSOURCING

The Company's positive development is supported by the successful development of application management outsourcing. These services are provided by CENIT in both its e-engineering and its e-business segments. Here, CENIT has established itself as a reliable partner with well-known customers such as BMW, Allianz, Mann+Hummel, VW, VR Kreditwerk Hamburg- Schwäbisch Hall and DaimlerChrysler. However, we were also able to win new SME customers such as the tool and machine maker Kuhn & Möhrlein and Sidler, an automotive supplier. As required, CENIT also assumes all-round operational responsibility, for instance for software applications, IT infrastructure, data security, and the hotline service through to systems management. Depending on the requirements, we assume the whole IT function (exclusive computing centers) – or support clearly defined and distinct segments ("selective outsourcing"). Fig. G

# FORECAST FOR 2006

## BUSINESS STRATEGY

Due to our strategic orientation towards the attractive markets for product lifecycle management, enterprise content management and application management outsourcing and concentration on our core competencies in the business, CENIT will continue to invest heavily in growing markets and innovative technologies to reinforce its leading role and expand its already strong market position.

## FINANCIAL STRATEGY

Financial management is performed centrally in Stuttgart. The primary goal of financial management is to secure adequate liquidity for the short and mid term, and ensure that a basically conservative financial policy and effective risk management are pursued. The international financial markets relevant for CENIT were either stable or grew strongly over the past year. We do not expect this situation to change in the short term.

As a consequence, our financial strategy will remain on ensuring a healthy degree of liquidity and good long-term credit ratings.

## DEVELOPMENT OF SALES AND EARNINGS

We assume that we will be able to expand the operations of the Group further in 2006 and 2007. We expect growth for the Group to develop in line with the market. The critical element for our earnings forecast is an improvement in our mid-term margins. A risk to our targeted margins lies in a reduction in the hourly rates paid to the services sector. We will counter a fall in the rates by expanding our expertise.

Moreover, we expect the markets in which we operate to continue to develop positively. We will exploit this opportunity to further increase our market share. For this reason, CENIT will once again increase its headcount by 10% and by so doing, create the foundation for future growth. If this trend continues, further expansion of the workforce can be expected in 2007 as well.

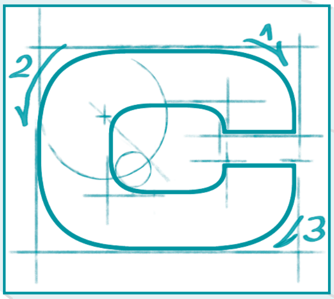
We expect our marketing and selling expenses to increase slightly due to the expansion of US business.

## SUBSEQUENT EVENTS

At the beginning of 2006, CENIT was awarded the largest contract in the history of the Company from AIRBUS. Simultaneously, we signed a "prime supplier" contract with Airbus Germany, which promotes CENIT to the status of a preferred IT supplier.

Stuttgart, February 23, 2006
CENIT Aktiengesellschaft Systemhaus

The management board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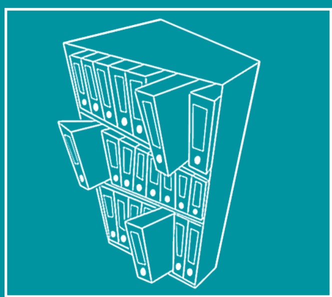
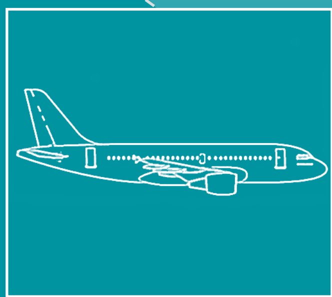




# Report of the Supervisory Board

# REPORT OF THE SUPERVISORY BOARD

This report provides information on the activities of the Supervisory Board during the 2005 financial year, focussing on the topics of its dialogue with the Executive Board, the main discussion topics of its meetings and the audit of the annual and consolidated financial statements.

The Supervisory Board undertook the tasks which it is allocated by law and the Articles of Association throughout the reporting year. We advised the Executive Board on the running of the company on a regular basis and monitored the company management. The Supervisory Board was directly involved in essential company decisions. The Executive Board reported to us both in writing and verbally, promptly and with comprehensive information on all matters relating to company planning, strategic further development, business progress and the situation of the Group, including the risk situation and risk management on a regular basis. Any business deviating from the plans and objectives were explained to us in detail and were then examined by us.

The Supervisory Board received comprehensive and prompt information through five joint meetings, a range of telephone conferences and written and verbal reports by the Executive Board. In addition, the members of the Supervisory Board had regular personal contact with the Executive Board. The Supervisory Board was available at short notice for any urgent matters.

Alongside the ongoing areas of discussion such as the current business situation, deviations from annual planning, liquidity situation, risk situation, business processes, personnel issues and the implementation of the German Corporate Governance Code, the following topics were the main areas of focus in the 2005 financial year:

The March meeting focussed on the 2004 annual financial statements, preparation for the shareholders' meeting, dividend policy, the determination of operative targets for the 2005 financial year and the adaptation of the variable system of remuneration for the Executive Board and CENIT employees.

Multi-year planning, long-term business orientation, the international development of the company and occupying new business areas were at the centre of discussions in summer and autumn 2005. The Executive Board gave a detailed, comprehensive report. The market prospects and the position of the company were discussed for each business area, with external advisors also participating. The Supervisory Board approved the Executive Board's plans in its October meeting.

Resolutions by the shareholders' meeting set the framework for an employee share option programme. In August 2005, the Supervisory Board approved the proposal made by the Executive Board to implement the share option programme for employees and resolved to allocate options to the Executive Board.

Annual planning for the 2006 financial year was the main topic of the meeting in December 2005. On clarification of the important circumstances, the Supervisory Board approved the annual planning at the start of 2006.

The Supervisory Board did not form any committees during the 2005 financial year. However, a member of the Supervisory Board was responsible for following all matters relating to the annual financial statements in 2005. Any questions that arose were reported and discussed in the meetings on a regular basis.

Following a resolution by the shareholders' meeting, Ernst & Young AG Wirtschafts-Prüfungsgesellschaft, Stuttgart, was once again selected as the auditor for the annual financial statements. The present annual financial statements, the consolidated financial statements and the combined management and group management report for the 2005 financial year have been audited, also taking into account the focal points determined by the Supervisory Board.

The annual financial statements of CENIT AG Systemhaus and the consolidated financial statements as per 31 December 2005 along with the combined management and group management report were issued with an unqualified audit statement by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Stuttgart. In its meeting on 10 March 2006, the Supervisory Board dealt with the company's annual financial statements and consolidated financial statements in detail. The Supervisory Board examined the submittals of the Executive Board and discussed these with the Executive Board. The audit reports by Ernst & Young were available to all members of the Supervisory Board. The auditor participated in the balance sheet meeting of the Supervisory Board on 10 March 2006 and reported on the material results of its audit.

The Supervisory Board approved the results of the audit of the financial statements and ratified the annual financial statements and the consolidated financial statements of CENIT AG Systemhaus presented by the Executive Board for the 2005 financial year. The annual financial statements are thus approved.

The Executive and Supervisory Boards have discussed capital measures, the appropriation of net income and retained earnings and will make a joint proposal to the shareholders' meeting.

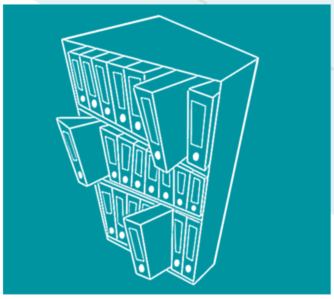
There were no personnel changes to the Executive and Supervisory Boards to report during the 2005 financial year.

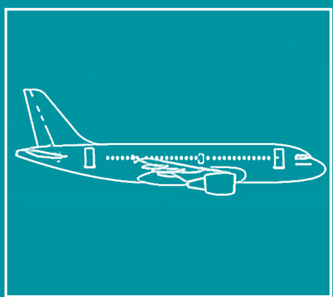
The 2005 financial year was the most successful year for CENIT AG Systemhaus since it was founded.

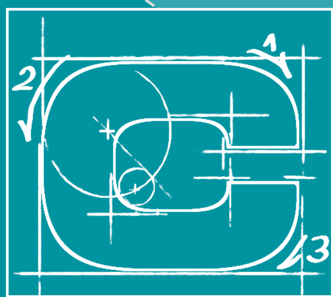
The Supervisory Board expressed its particular thanks to the Executive Board and the employees of CENIT AG for the exceptional success of 2005.

*Stuttgart, March 12, 2006*
The Supervisory Board

Falk Engelmann/Chairman



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# Financial Statement

# Financial Statement

GROUP FINANCIAL STATEMENT ACC. TO IFRS
CENIT AG SYSTEMHAUS FINANCIAL STATEMENT
ACC. TO GERMAN COMMERCIAL CODE (HGB)

CENIT Aktiengesellschaft Systemhaus, Stuttgart

CONSOLIDATED BALANCE SHEET (in accordance with IFRS)

as of December 31, 2005

| in EUR k | Note | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|---|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | F1 | 122 | 124 |
| Property, plant and equipment | F2 | 1,399 | 1,222 |
| | | 1,521 | 1,346 |
| | | | |
| DEFERRED TAX ASSETS | F3 | 87 | 92 |
| | | | |
| NON-CURRENT ASSETS | | 1,608 | 1,438 |
| | | | |
| CURRENT ASSETS | | | |
| Inventories | F4 | 1,057 | 1,595 |
| Trade receivables | F5 | 10,102 | 10,574 |
| Current income tax assets | F8 | 18 | 16 |
| Other receivables | F6 | 164 | 100 |
| Other financial assets at fair value through profit or loss | F7 | 13,021 | 2,988 |
| Cash and cash equivalents | F9 | 7,786 | 11,696 |
| Prepaid expenses | F10 | 153 | 67 |
| CURRENT ASSETS | | 32,301 | 27,036 |
| | | | |
| TOTAL ASSETS | | 33,909 | 28,474 |

| in EUR k | Note | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|---|
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | F11 | 4,184 | 4,184 |
| Capital reserve | F11 | 543 | 418 |
| Currency translation reserve | F11 | -119 | -115 |
| Revenue reserves | F11 | 5,039 | 1,239 |
| Net income of the Group allocable to the shareholders of CENIT AG | F11 | 9,879 | 8,192 |
| Minority interests | F11 | 43 | 37 |
| TOTAL EQUITY | | 19,569 | 13,955 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | F3 | 97 | 312 |
| CURRENT LIABILITIES | | | |
| Current liabilities to banks | F13 | 1,321 | 2,183 |
| Trade payables | F14 | 2,048 | 1,817 |
| Other liabilities | F15 | 8,478 | 7,837 |
| Current income taxes | F12 | 2,256 | 2,101 |
| Other provisions | F12 | 122 | 122 |
| Deferred income | F16 | 18 | 147 |
| | | 14,243 | 14,207 |
| TOTAL EQUITY AND LIABILITIES | | 33,909 | 28,474 |

CENIT Aktiengesellschaft Systemhaus, Stuttgart

CONSOLIDATED INCOME STATEMENT (in accordance with IFRS)

for the period from January 1 to December 31, 2005

| in EUR k | | Note | | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|---|---|---|
| 1. | SALES | E1 | | 74,301 | 74,909 |
| 2. | Decrease in inventories of work in progress | | | -153 | -186 |
| | Total operating performance | | | 74,148 | 74,723 |
| 3. | Other operating income | E2 | | 723 | 723 |
| | Operating performance | | | 74,871 | 75,446 |
| 4. | Cost of materials | E3 | 22,726 | | 27,471 |
| 5. | Personnel expenses | E4 | 31,034 | | 29,116 |
| 6. | Amortization of intangible assets and depreciation of property, plant and equipment | E5 | 825 | | 681 |
| 7. | Other operating expenses | E6 | 10,877 | | *10,651 |
| | | | | 65,462 | 67,919 |
| | NET OPERATING INCOME | | | 9,409 | 7,527 |
| | | | | | |
| 8. | Other interest and similar income | E7 | 226 | | *151 |
| 9. | Interest and similar expenses | E8 | 27 | | *51 |
| 10. | Result from financial instruments at fair value through profit or loss | E9 | -529 | | *3 |
| | | | | -330 | 103 |
| | RESULT FROM ORDINARY ACTIVITIES | | | 9,079 | 7,630 |
| | | | | | |
| 11. | Income taxes | E10 | | 2,331 | 3,738 |
| | | | | | |
| 12. | NET INCOME OF THE GROUP FOR THE YEAR | | | 6,748 | 3,892 |
| 13. | thereof allocable to the shareholders of CENIT AG | | | 6,742 | 3,888 |
| 14. | thereof allocable to minority interests | | | 6 | 4 |
| | Earnings per share in EUR | | | | |
| | Basic earnings | E11 | | 1.61 | 0.93 |
| | Diluted earnings | E11 | | 1.61 | 0.93 |

*) Change in disclosure

CENIT AG Systemhaus, Stuttgart

CONSOLIDATED STATEMENT OF CASH FLOWS (in accordance with IFRS)

as of December 31, 2005

| in EUR k | Notes | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Earnings before tax | | 9,079 | 7,630 |
| Adjusted for: | | | |
| Amortization of intangible assets and depreciation of property, plant and equipment | E5 | 825 | 681 |
| Losses on disposals of non-current assets | | 0 | 13 |
| Gains on disposals of non-current assets | | -3 | 0 |
| Other non-cash expenses and income | | -710 | *-440 |
| Interest income | E7 | -226 | *-151 |
| Interest expenses | E8 | 27 | *51 |
| Net operating income before changes in net working capital | | 8,992 | 7,784 |
| Increase/decrease in trade receivables and other current, non-monetary assets | | 320 | 1,304 |
| Change in other financial assets that are not allocable to cash and cash equivalents | E7 | -2,980 | 0 |
| Decrease in inventories | | 538 | 260 |
| Increase/decrease in current liabilities and provisions | | 674 | -936 |
| Cash flow from ordinary operations | | 7,544 | 8,412 |
| Interest paid | | -27 | -68 |
| Interest received | | 208 | 138 |
| Income taxes paid | | -2,325 | -13 |
| Net cash flow from ordinary activities | | 5,400 | 8,469 |
| Net cash flow from operating activities | | 5,400 | 8,469 |
| Cash flow from investing activities | | | |
| Purchase of property, plant and equipment and intangible assets | F1/F2 | -1,000 | -713 |
| Cash received from the disposal of property, plant and equipment | | 3 | 11 |
| Net cash paid for investing activities | | -997 | -702 |
| Cash flow from financing activities | | | |
| Repayment of longterm bank loans | | 0 | -240 |
| Dividends paid to shareholders | E12 | -1,255 | 0 |
| Change in convertible bond | | 0 | 0 |
| Net cash paid for financing activities | | -1,255 | -240 |
| Net increase/decrease in cash and cash equivalents | | 3,148 | 7,528 |
| Cash and cash equivalents at the beginning of the reporting period | G | 14,679 | 7,152 |
| Cash and cash equivalents at the end of the reporting period | G | 17,827 | 14,679 |

*) Change in disclosure

CENIT Aktiengesellschaft Systemhaus

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IN ACCORDANCE WITH IFRS)

as of December 31, 2005

| in EUR k | Equity allocable to the parent company's shareholders | | | | | Minority interests | Total |
|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserve | Currency translation reserve | Revenue reserves | Group result per share-holder of CENIT AG | | |
| As of January 1, 2004 | 4,184 | 418 | -122 | 1,239 | 4,340 | 0 | 10,059 |
| Minority interests from waiver of receivable | | | 3 | | -36 | 33 | 0 |
| Currency fluctuation | | | 4 | | | | 4 |
| Net income of the Group for the year | | | | | 3,888 | 4 | 3,892 |
| As of December 31, 2005 | 4,184 | 418 | -115 | 1,239 | 8,192 | 37 | 13,955 |
| Allocation to the revenue reserve | | | | 3,800 | -3,800 | | 0 |
| Transfer from stock options | | 125 | | | | | 125 |
| Dividend distribution | | | | | -1,255 | | -1,255 |
| Currency fluctuation | | | -4 | | | | -4 |
| Net income of the Group for the year | | | | | 6,742 | 6 | 6,748 |
| As of December 31, 2005 | 4,184 | 543 | -119 | 5,039 | 9,879 | 43 | 19,569 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2005

## A. Commercial Register and Business Objective of the Company

The parent company, CENIT Aktiengesellschaft Systemhaus, has its registered office at Industriestrasse 52-54, 70565 Stuttgart, Germany, and is filed in the commercial register of the Stuttgart district court, department B, under No. 19117.

The business objective of the group companies is to provide all types of services in the field of installing and operating information technology and to sell and market information technology software and systems. With a focus on product life cycle and document management solutions and IT outsourcing, CENIT's two business segments, e-engineering and e-business, offer tailor-made consulting services and one-stop solutions. CENIT's focus is on business process optimization and computer-aided design and development technologies.

## B. Accounting Policies

The consolidated financial statements of CENIT Aktiengesellschaft Systemhaus, Stuttgart, have been prepared and published in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU and the supplementary commercial law requirements applicable pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] and the management board released them to the supervisory board on March 3, 2006.

The consolidated financial statements have been prepared in euro. To aid clarity, all figures are presented in thousand euros (EUR k) unless otherwise indicated. The balance sheet date is December 31.

The consolidated financial statements have been prepared on the basis of the historical cost convention apart from financial assets held for trading or classified as available for sale. These are reported at fair value.

The financial statements of the companies included in the consolidated financial statements have been prepared as of the balance sheet date of the consolidated financial statements.

The consolidated financial statements are based on uniform accounting policies.

The Group has adopted the following revised standards for the first time in the fiscal year 2005. The comparative figures have been adjusted where necessary. Adoption of the revised standards did not have any effect on equity as of January 1, 2004.

IFRS 2 "*Share-Based Payment*"

The changed accounting and measurement methods for share-based payment transactions are described in the Section on "Accounting Policies". The material effects of IFRS 2 on the Group include recognition of an expense and the corresponding entry under equity for stock options for employees and executives and the recognition of an expense and liability for cash-settled stock options.

The adoption of IFRS 2 led to a reduction of the net income of the Group for the year by EUR 125 k as a result of increased personnel expenses. The associated increase in equity also came to EUR 125 k. The adoption of IFRS 2 led to a decrease in basic and diluted earnings per share of EUR 0.03.

IFRS 5 "*Non-Current Assets Held for Sale and Discontinued Operations*"

In the course of the introduction of IFRS 5, the definition of discontinued operations previously contained in IAS 35 was revised. Non-current assets or groups of assets classified as held for sale must be reported in a separate balance sheet item in accordance with IFRS 5. In addition, scheduled amortization and depreciation must be recorded on these (groups of) assets as long as they are classified as held for sale. Adoption of IFRS 5 did not result in any effects on the accounting. There were no such transactions in the reporting period.

In addition, the Group had to apply IFRIC 2 "*Members' Shares in Co-Operative Entities and Similar Instruments*" and IFRIC 6 "*Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment*" for the first time in fiscal year 2005. Adoption of these interpretations did not result in any effects on the consolidated financial statements.

The Group decided not to early adopt the following standards and IFRIC interpretations which have already been issued but have not entered into force yet:

**IFRSs and IFRIC interpretations adopted by the EU in the comitology procedures, which have not yet entered into force**

*Amendments of IAS 1 "Presentation of Financial Statements"*

The additional disclosure requirements resulting from the amendment of IAS 1 "Presentation of financial statements" were not observed in the consolidated financial statements. The amendments are applicable for fiscal years beginning on or after January 1, 2007. Early adoption is not planned.

*Amendments of IAS 19 "Employee Benefits"*

The amendments are applicable for fiscal years beginning on or after January 1, 2006. This amendment is not expected to have any effect on the consolidated financial statements, as the Group does not have any defined benefit plans as defined by IAS 19.

*Amendments of IAS 39 - Fair Value Option and Cash Flow Hedge Accounting*

The amendments are applicable for fiscal years beginning on or after January 1, 2006. Management had not completed the analysis of the effects of this amendment by the time the consolidated financial statements were prepared.

*Amendments of IAS 39 and IFRS 4 - Financial Guarantee Contracts*

Following the revision of IAS 39 and IFRS 4, financial guarantees fall under the scope of IAS 39 only. In the past, financial guarantees had been subject - depending on their structure - either to IAS 39 or to IFRS 4. The amendments are applicable for fiscal years beginning on or after January 1, 2006. They are not relevant for the business operations of the Group.

IFRS 6 "*Exploration for and Evaluation of Mineral Resources*"

This standard is not relevant for the business operations of the Group.

IFRS 7 *"Financial Instruments: Disclosures"*

IFRS 7 governs the disclosure requirements for financial instruments for industrial entities as well as banks and similar financial institutions. IFRS 7 substitutes IAS 30 *"Disclosures in the financial statements of banks and similar financial institutions"* as well as the disclosure requirements contained in IAS 32 *"Financial instruments: disclosure and presentation"*. IFRS 7 is applicable for fiscal years beginning on or after January 1, 2007. Management had not completed the analysis of the effects of this standard by the time the consolidated financial statements were prepared. Early adoption is not planned.

IFRIC 4 *"Determining whether an Arrangement contains a Lease" and IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"*

These interpretations are applicable for the first time for fiscal years beginning on or after January 1, 2006. They are not expected to have any effects on the consolidated financial statements.

### IFRSs and IFRIC interpretations which have not yet entered into force and have not been adopted by the EU in the comitology procedures.

*Amendments of IAS 21 "The Effects of Changes in Foreign Exchange Rates"*

The amendments are applicable for the first time for fiscal years beginning on or after January 1, 2006. These amendments are not expected to have any effect on the consolidated financial statements.

IFRIC 7 *"Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"*

This interpretation is applicable for the first time for fiscal years beginning on or after January 1, 2007. It is not expected to apply for the consolidated financial statements.

IFRIC 8 *"Scope of IFRS 2"*

The amendments are applicable for the first time for fiscal years beginning on or after May 1, 2006. They are not expected to have any effects on the consolidated financial statements.

### Changes in the Presentation of the Consolidated Financial Statements

Changes in the value of securities, floating rate investments and derivative financial instruments were disclosed in the items "other interest and similar income", "interest and similar expenses" as well as "other operating expenses" in the 2004 consolidated financial statements. In the 2005 consolidated financial statements they were disclosed for the first time in the item "result from financial instruments at fair value through profit or loss". This reclassification reduced the item "other interest and similar income" by EUR 37 k from EUR 188 k to EUR 151 k and the item "interest and similar expenses" by EUR 17 k from EUR 68 k to EUR 51 k for 2004. The item "other operating expenses" for 2004 changed by EUR 17 k from EUR 10,668 k to EUR 10,651 k.

# C. Basis of Consolidation

## 1. Consolidation Group

The consolidated financial statements comprise all affiliated companies in which CENIT AG directly or indirectly holds the majority of the voting rights or has control as defined by IAS 27 due to other rights. Purchase accounting is carried out as of the date at which CENIT AG gains direct or indirect control of the subsidiary. Minority interests are disclosed separately in the consolidated balance sheet and the consolidated income statement under equity or under the net income of the Group for the year.

The following companies have been included in the consolidated financial statements of CENIT AG in accordance with IAS 27: Fig. 1

## 2. Consolidation Methods

The individual financial statements of the companies included in the Group, prepared according to uniform principles as of December 31, 2005 and audited by public auditors, who rendered an unqualified opinion thereon or performed a review, form the basis for these consolidated financial statements.

Capital held in subsidiaries was consolidated by offsetting the acquisition costs against the fair value of the acquired, identified assets less liabilities and contingent liabilities applicable to the parent company at the date of acquisition. In the past, goodwill resulting from capital consolidation was generally amortized over its economic life – regularly estimated at fifteen years in the past – using the straight-line method. Allowances were recorded to write goodwill down to net realizable value whenever the value was impaired. Since January 1, 2004 no goodwill has been recognized in the balance sheet.

Intercompany sales, income and expenses and all intercompany receivables and liabilities are eliminated.

The inventories reported under fixed assets do not contain any assets from intercompany trade.

IAS 27 requires minority interests to be reported in the consolidated balance sheet under equity in a separate item from the parent company's equity. The minority interests disclosed correspond to the shares of CENIT (Schweiz) AG that are not held by the parent company.

## 3. Currency Translation

The presentation currency is the parent company's functional currency. The functional currency concept is applied to translate the financial statements prepared in foreign currency by the subsidiaries included in the consolidated group. The functional currency of the group entities is their respective local currency. The financial statements of financial statements prepared in functional currency are translated to the Group's presentation currency using the modified closing rate method. Assets and liabilities are translated at the closing rate of the balance sheet date, equity at the historic rate and income and expenses at the annual average rate.

The resulting difference is netted against equity without affecting income. When subsidiaries are sold, the currency differences recorded under equity relating to these entities are reversed to income.

Foreign currency transactions are generally translated at the current rate of the transaction date. Monetary assets and liabilities are translated at the end of the fiscal year at the annual closing rate. Non-monetary items that are measured at their historical cost are translated at the rate of the transaction date and non-monetary items that are measured at their fair value are translated at the rate which was current at the time the fair value was derived. Differences arising from currency translations at closing rates are recorded with effect on income.

The following exchange rates were used for currency translation: Fig. 2

## D. Accounting Policies

**Purchased intangible assets** are stated at cost including incidental acquisition cost. They are reduced by scheduled amortization over the expected economic life, usually three years, using the straight-line method. As of the balance sheet date, the balance sheet does not include any intangible assets with an indefinite useful life.

**Internally generated intangible assets** are not recognized due to non-fulfillment of the criteria in IAS 38.57(a-f). The expenditure of EUR 3,076 k (prior year: EUR 2,690 k) incurred in the course of optimizing existing products was recorded as an expense.

**Property, plant and equipment** are recorded at cost less scheduled straight-line depreciation. Maintenance costs are recorded directly as expenses. Property, plant and equipment items are depreciated on the basis of their economic useful lives. The **useful life** of other equipment is three to five years and five to ten years for furniture and fixtures. Buildings on third-party land (leasehold improvements) are depreciated over the terms of the lease agreements. No material residual values had to be considered when determining depreciation.

Residual values, depreciation methods and the useful life of property, plant and equipment are revised annually and adjusted if required.

An impairment test is performed at the end of the fiscal year for all intangible assets and property, plant and equipment if events or changes in cir-

Fig. 1 EQUITY INVESTMENTS

| No. | Company | Currency | Percent % | of | Share capital in LC k | Date of purchase accounting |
|---|---|---|---|---|---|---|
| 1 | CENIT AG Systemhaus, Stuttgart/Germany | EUR | - | - | 4,184 | Parent company |
| 2 | CENIT (Schweiz) AG, Frauenfeld/Switzerland | CHF | 90 | 1 | 500 | Oktober 26, 1999 |
| 3 | CENIT NORTH AMERICA INC., Detroit/USA | USD | 100 | 1 | 25 | November 29, 2001 |

Fig. 2 CURRENCY TRANSLATION IN EUR

| | Closing rate | | Average annual rate | |
|---|---|---|---|---|
| | Dec. 31,2005 | Dec. 31,2004 | 2005 | 2004 |
| CHF | 1.5556 | 1.5455 | 1.5483 | 1.5431 |
| USD | 1.1838 | 1.3669 | 1.2451 | 1.2431 |

cumstances indicate that the carrying value of the assets exceeds their recoverable amount. Whenever the carrying value of an asset exceeds its recoverable amount, an impairment loss is recognized against income for items of property, plant and equipment and intangibles carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is estimated for each individual asset or, if that is not possible, for the cash-generating unit.

A reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is posted as a gain in the income statement.

Intangible assets and property, plant and equipment are derecognized if they are sold or otherwise disposed of or if no benefit is expected from the continued use of the asset or its disposal. Gains or losses from the derecognition of assets are recorded with effect on income as of the date of derecognition.

## Leases

Whether an arrangement is or contains a lease is determined on the basis of the economic content of the arrangement and requires an estimate of whether performance of the contractual arrangement is dependent on the use of a certain asset or certain assets and whether a right to use the asset is granted by the arrangement. Lease payments on operating leases are recorded as an expense in the income statement on a straight-line basis over the term of the lease.

## Financial Investments and Other Financial Assets

Financial assets as defined by IAS 39 are broken down into financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets. Initial recognition of financial assets is at fair value. For financial investments, which are not measured at fair value through profit or loss, any transaction costs that are directly attributable the acquisition of the financial asset are also included. The Group decides on classification of its financial assets upon initial recognition and reviews allocation at the end of each fiscal year if permissible and appropriate.

Regular way purchases and sales of financial assets are recognized as of the trading date, i.e. the date on which the entity entered into the obligation to purchase the asset. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

### Financial Assets at Fair Value through Profit or Loss

Financial assets that qualify as held for trading are included in the "financial assets at fair value through profit or loss" category. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as a hedging instrument and are effective as such. Gains or losses from financial assets held for trading are recognized in profit or loss.

### Held-to-Maturity Investments

Non-derivative financial assets with fixed or at least determinable payments and fixed maturity are classified as financial assets held to maturity if the Group has the intention and ability to hold them to maturity.

Investments that are to be held for an undefined period are not included in this category. Other non-current investments that are to be held to maturity (e.g., bonds) are measured at amortized cost. Amortised cost is the amount at which a financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. This calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. A gain or loss from investments carried at amortized cost is recognized in the net profit or loss for the period when the investment is derecognized or impaired as well as through the amortization process.

### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method. A gain or loss is recognized in the net profit or loss for the period when the loans and receivables are derecognized or impaired as well as through the amortization process.

### Available-for-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as one of the three categories above. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and any gain or loss is recognized in a separate item under equity. On derecognition of the investment or identification of an impairment, any cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

The fair value of investments traded on regulated markets is determined by reference to the bid rate on the stock exchange as of the balance sheet date. The fair value of investments for which there is no active market is determined by the Company's banks using generally accepted measurement models. Such methods are based on recent regular way transactions or on the current market value of another instrument which is essentially the same instrument or an analysis of the discounted cash flows and option price models.

### Derecognition of Financial Assets and Financial Liabilities

Financial assets are derecognized when the entity loses its power to dispose of the contractual rights that make up the financial asset. Financial liabilities are derecognized when the obligations specified in the contract have been discharged, cancelled, or have expired.

### Impairment of Financial Assets

The Group tests financial assets or groups of financial assets for impairment at every balance sheet date.

### Financial Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (with the exception of future credit defaults) discounted at the original effective interest rate of the financial asset (i.e. the interest rate determined upon initial recognition). The asset's carrying amount is reduced either directly or via an allowance account. The loss should be recognized in profit or loss.

First, the Group determines whether objective evidence exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that there is no objective evidence of impairment for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after recognition of the impairment loss, the impairment loss is reversed. The subsequent reversal of an impairment loss is recognized in profit and loss unless the asset's carrying amount exceeds amortized cost at the date of impairment.

### Financial Assets Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### Available-for-Sale Financial Assets

If a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity, the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is recognized in profit or loss. Reversals of impairment losses on equity instruments classified as available for sale are not recognized in the net profit or loss for the period. Reversals of impairment losses on debt instruments are recognized in profit or loss if the increase in the instrument's fair value can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### Trade and Other Receivables

Trade receivables, which generally have a term to maturity of 30-90 days, are recognized at the original amount of the invoice less a bad debt allowance. A bad debt allowance is recognized if there is material objective evidence that the Group will not be able to collect the receivable. Receivables are derecognized as soon as they become uncollectible. Credit risks are taken into account through adequate specific bad debt allowances.

**Derivative financial instruments** are used to raise profitability and for hedging purposes to reduce exchange rate risks. These derivative financial instruments are initially recognized at fair value at the time at which the corresponding contract is signed and subsequently revalued at fair value. Derivative financial instruments are recognized as assets if their fair value is positive, and as liabilities if their fair value is negative.

As the derivative financial instruments do not satisfy the criteria for hedge accounting, any gains or losses from changes in fair value are immediately recognized in profit or loss.

**Inventories** are generally stated at the lower of cost or net realizable value. Cost of conversion is determined on the basis of full production-related costs. Net realizable value is the estimated selling price less the costs necessary to make the sale.

**Finance** charges are not capitalized.

**Provisions** are reported at the best possible estimate of the probable settlement value. They are created for legal or constructive obligations whose origin is in the past when it is probable that the settlement of the obligations will lead to an outflow of resources and the obligations can be reliably estimated. Provisions are discounted where the discount is material. The cost of reversing discounts is recorded as interest expenses.

**Contingent liabilities** are possible or existing obligations which relate to past events and which are not likely to result in an outflow of resources. They are not recorded on the face of the balance sheet. The amounts stated for contingent liabilities correspond to the scope of liability as of the balance sheet date.

**Liabilities** are recorded at amortized cost.

**Deferred taxes** are recorded on temporary differences between the tax balance sheet and the consolidated financial statements according to the balance-sheet-oriented liability method laid out in IAS 12.

Deferred tax liabilities are recognized for all taxable temporary differences. The following exceptions apply:

- No deferred tax liabilities may be recognized from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

- No deferred tax liabilities may be recognized for taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures if the entity controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. The following exceptions apply:

- No deferred tax assets may be recognized from deductible temporary differences arising on initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

- Deferred tax assets may only be recognized for taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilized.

Deferred taxes on temporary differences are calculated at the local tax rates that are expected to apply for the individual group entity when the asset is realized or the liability is settled. Deferred tax assets and deferred tax liabilities are calculated according to the laws and regulations applicable as of the balance sheet date. An asset item for unused tax losses is only capitalized to the extent that it is probable that future taxable income will be available for offsetting. The carrying amount of the deferred tax assets is reviewed for impairment as of every balance sheet date and reduced by the amount for which sufficient tax profits are no longer likely to be available.

Income tax consequences related to the items posted directly to equity are also recorded directly under equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities and these relate to income taxes levied by the same taxation authority on the same taxable entity.

### Value Added Tax

Sales, expenses and assets are recognized net of VAT. The following exceptions apply:

- Where VAT incurred on the purchase of goods or services cannot be claimed back from the tax authorities, the VAT amount is recognized as part of the cost of the asset or as part of the expenses.

- Receivables and liabilities are recognized at amounts including any VAT.

The amount of VAT refunded by or transferred to the tax authorities is recognized under receivables or liabilities in the balance sheet.

### Current Tax Assets and Liabilities

Current tax assets and liabilities for the current and prior periods should be measured at the amount expected to be recovered from or paid to the taxation authorities. Calculation is based on the tax rates and tax laws applicable as of the balance sheet date.

### Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. In addition the following conditions for recognition must be satisfied for revenue recognition:

- *Sale of Merchandise and Goods and Rendering of Services*

*Sales revenues* are reported ex VAT and after deduction of any discount granted. Sales are recognized as revenue on the date of delivery to the customer. Revenue from the rendering of services is recognized using the percentage of completion method. The percentage of completion is determined on the basis of the hours worked until the balance sheet date as a percentage of the total number of hours estimated for the project in question. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is only recognized to the extent that the expenses already recognized are recoverable

- *Royalties*: Revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement.

- *Interest*: Revenue is recognized when the interest has accrued (using the effective interest method, i.e. the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

- *Dividends*: Revenues are recognized when the Group's legal right to receive payment is established.

### Key Judgments and Estimates

According to the opinion of the management board, the following *judgments* had a material effect on the amounts recorded in the consolidated financial statements:

- Research costs may not be recognized as assets. Development costs may only be recognized as an asset if all of the conditions for recognition pursuant to IAS 38.57 are satisfied, if the research phase can be clearly distinguished from the development phase and material expenditure can be allocated to the individual project phases without overlap. On account of numerous interdependencies within development projects and uncertainty about whether some products will reach marketability, some of the conditions for recognition pursuant to IAS 38 are currently not satisfied. Development costs are consequently not capitalized.

- Floating rate investments are classified and measured at fair value through profit or loss. Further explanations are contained in note F 7.

Decisions based on estimates mainly relate to provisions for which the best estimate of the expected amount for settlement of the liability is recognized, to bad debt allowances and to deferred tax assets recognized on unused tax losses. Further explanations are contained in notes F 5, F 12 and F 3.

### Share-Based Payments

Certain employees (including the management board) of the Group are paid share-based compensation under the stock option plan 2002/05. The employees receive equity instruments as compensation for their services ("*equity-settled share-based payments*").

In accordance with IFRS 2 "*Share-based payment*", the total value of the stock options granted to management board members and executives should be determined as of the date of issue by applying an option pricing model. The calculated total value of the stock options as of the date of issue should be distributed as personnel expenses over the period in which the entity receives the counter-performance from the employees in the form of their services. This period usually corresponds to the lock-up period agreed. The counter-entry is posted directly to equity.

## E. Income Statement

The income statement has been prepared using the nature of expense method.

### 1. Sales

The breakdown of sales by division and region is presented in the segment reporting in note H. The sales result from ordinary operations. Sales are essentially composed of the following income items: see Fig. 3

### 2. Other Operating Income

Other operating income consists of: Fig. 4

### 3. Cost of Materials

This item contains the cost of purchased merchandise of EUR 18,906 k (prior year: EUR 23,605 k) and the cost of purchased services of EUR 3,820 k (prior year: EUR 3,866 k).

### 4. Personnel Expenses

The disclosure essentially relates to salaries, voluntary social benefits, allocations to the provision for vacation, profit participations and management bonuses as well as social expenses and pension costs. Fig. 5

The pension costs are essentially the employer's contribution to the statutory pension scheme that is designed as a state defined contribution plan in Germany. Pension costs include EUR 67 k (prior year: EUR 65 k) for contributions to the pension scheme of a large German insurance company.

An annual average of 501 (prior year: 461) persons were employed by the Group.

Fig. 3 REVENUES IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Revenues from services | 42,547 | 38,814 |
| Revenues from goods | 24,409 | 30,633 |
| Royalties | 7,345 | 5,462 |
| Total | 74,301 | 74,909 |

Fig. 4 OPERATING INCOME IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Income from subleases | 246 | 359 |
| Income from insurance indemnification | 95 | 48 |
| Foreign exchange rate gains | 1 | 31 |
| Income from distribution agreements | 100 | 100 |
| Other income | 281 | 185 |
| Total | 723 | 723 |

Fig. 5 PERSONNEL EXPENSES IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Wages and salaries | 26,441 | 25,057 |
| Social security, pension and other benefit costs | 4,479 | 4,027 |
| Other personnel expenses | 114 | 32 |
| Total | 31,034 | 29,116 |

### 5. Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

Amortization and depreciation is broken down in the statement of changes in non-current assets presented in notes F 1 and F 2.

### 6. Other Operating Expenses see Fig. 6

### 7. Other Interest and Similar Income

Interest income breaks down as follows: see Fig. 7

### 8. Interest and Similar Expenses

Finance charges break down as follows: Fig. 8

### 9. Result from Financial Instruments at Fair Value through Profit or Loss Fig. 9

Fig. 6 OTHER OPERATING EXPENSES IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Motor vehicle costs | 1,399 | 1,270 |
| Travel expenses | 1,975 | 1,674 |
| Advertising | 1,301 | 1,156 |
| Telecommunication and office supplies | 716 | 562 |
| Rent and rent incidentals | 462 | 735 |
| Rent and lease expenses | 2,864 | 3,229 |
| Exchange rate losses | 3 | 28 |
| Other | 2,157 | 1,997 |
| Total | 10,877 | 10,651 |

Fig. 7 OTHER INTEREST AND SIMILAR INCOME IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Interest income from bank balances | 132 | 138 |
| Interest accrued from derivative financial instruments | 94 | 13 |
| Total | 226 | 151 |

Fig. 8 INTEREST AND SIMILAR EXPENSES IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Utilization of credit lines and guarantees | 27 | 51 |
| Total | 27 | 51 |

Shares were acquired from a German issuer on May 11, 2005 for EUR 9,999 k. This share package was sold two months later for EUR 10,814 k. This produced income of EUR 815 k that is exempt from corporate income tax in accordance with Sec. 8b (2) No 2 KStG ["Körperschaftsteuergesetz": German Corporate Income Tax Act]. The income from the sale of shares of EUR 10,814 k was used to purchase share certificates from the same German issuer. These certificates were sold for EUR 9,874 k in August. The realized loss of EUR 941 k was claimed for tax purposes. The arithmetic tax relief amounts to EUR 376 k.

This procedure was repeated on August 8, 2005 with the acquisition of shares of EUR 9,999 k from another German issuer. The sale of shares led to income of EUR 561 k in mid-August that is exempt from corporate income tax in accordance with Sec. 8b (2) No 2 KStG. The share certificates acquired for EUR 10,560

Fig. 9 RESULT FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| in EUR k | 2005 | 2004 |
|---|---|---|
| Dividends from securities lending | 373 | 0 |
| Profits from shares | 1,376 | 0 |
| Reversal of impairment losses on investments | 64 | 34 |
| Income from floating rate investments | 4 | 3 |
| Total income | 1,817 | 37 |
| Loss from share certificates | 1,622 | 0 |
| Expense from negative market values of derivative financial instruments | 296 | 17 |
| Compensation payments for securities lending | 373 | 0 |
| Impairment of securities | 23 | 17 |
| Lending fee for shares | 32 | 0 |
| Total expense | 2,346 | 34 |
| Total result | -529 | 3 |

k were sold at the end of September for EUR 9,879 k. The realized exchange rate loss of EUR 681 k was claimed for tax purposes. The arithmetic tax relief amount to EUR 273 k.

The Group entered into a short-term securities lending transaction with a German bank on August 18, 2005. The lending transaction involves the transfer of shares from foreign issuers by the bank to CENIT AG for a period of up to two months. Over the term to maturity, CENIT AG receives dividend income from the securities and has expenses from compensation payments to the contracting party. Dividend income from English shares, usually paid twice a year, is not subject to tax at source or German tax on investment income in Germany pursuant to Sec. 43 EStG ["Einkommensteuergesetz": German Income Tax Act]. In accordance with Sec. 8b (1) and (5) KStG the dividend is 95% exempt from corporate income tax. The compensation payment to the bank, however, is deductible in full for tax purposes. The shares are transferred back to the contracting party upon maturity. CENIT AG does not bear a price risk from this transaction as the condition for transfer upon maturity only involves shares of the same nature and quality and is not dependent on the price of the share in question. The dividend income of EUR 373 k resulting from the transactions is offset by expenses from compensation payments of the same amount and lending rates of EUR 32 k. The securities lending transaction had a positive tax effect of EUR 155 k.

## 10. Income Taxes

Expenses from income taxes break down as follows: Fig. 10

The expense from the reversal of deferred tax assets in fiscal 2005 stems from utilization of a subsidiary's unused tax losses. The prior-year allowance on deferred tax assets was recorded on account of findings from the tax field audit and the resulting reduction of unused tax losses.

The current tax expense includes income relating to other periods of EUR 449 k (prior year: income relating to other periods of EUR 12 k).

We refer to note F 3 with respect to the change in deferred taxes. The expected tax burden on the taxable profit is 39.64% as of the balance sheet date (prior year: 39.72%) and is calculated as follows: Fig. 11

The difference between the current tax expense and the imputed tax expense that would result from a tax rate of 39.64% (prior year: 39.72%) for CENIT AG breaks down as follows: Fig. 12

## 11. Earnings per Share

The number of shares in 2005 was unchanged at 4,183,879. The weighted average number of common shares was 4,183,879. The Group's net income for the year amounted to EUR 6,748 k (prior year: EUR 3,892 k).

When calculating basic earnings per share, the net income allocable to the holders of common shares in the parent company is divided by the weighted average number of common shares outstanding during the year.

When calculating diluted earnings per share, the net income allocable to the holders of common shares in the parent company is divided by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued after converting all rights to common shares with dilutive effect into common shares.

The following table contains the amounts used as a base in the calculation of the basic and diluted earnings per share: Fig. 13

As the average market price of the period does not exceed the issue price calculated pursuant to IAS 33.47A of the stock options issued in the fiscal year, the stock options granted in fiscal 2005 did not have any dilutive effect. Thus, diluted earnings per share correspond to basic earnings per share.

There were no transactions with common shares or potential common shares in the period from balance sheet date to preparation of the consolidated financial statements. Under IAS 33.49, basic and diluted earnings per share total EUR 1.61 (prior year: EUR 0.93).

## 12. Dividends Paid and Proposed

Decided and distributed during the fiscal year: see Fig. 14

Will be proposed to the annual general meeting (not recorded as a liability as of December 31): see Fig. 15

Fig. 10 INCOME TAXES IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Current tax expense | 2,541 | 2,068 |
| Expenses from the reversal of deferred tax assets | 5 | 980 |
| Impairment of deferred tax assets | 0 | 891 |
| Effects of tax rate changes | 0 | 64 |
| Income from the allocation to deferred tax assets | 0 | -76 |
| Recognition of deferred tax assets on unused tax losses | 0 | -92 |
| Income from the reversal of deferred tax liabilities | -215 | -97 |
| Gesamtsumme | 2,331 | 3,738 |

Fig. 11 EXPECTED TAX BURDEN IN %

| | 2005 | 2004 |
|---|---|---|
| Trade tax at a levy rate of 439.685% (prior year: 442.572%) | 18.02 | 18.12 |
| Corporate income tax (25.0% of earnings after trade tax) (prior year: 25.0%) | 20.49 | 20.47 |
| Solidarity surcharge (5.5% of corporate income tax) | 1.13 | 1.13 |
| Statutory tax rate | 39.64 | 39.72 |

Fig. 12 IMPUTED TAX EXPENSE IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Earnings before tax | 9,079 | 7,630 |
| Theoretical tax expense based on a tax rate of 39.64% (prior year: 39.72%) | 3,599 | 3,030 |
| Non-deductible expenses | 32 | 22 |
| Zero-rated income | -666 | 0 |
| Allowances on deferred tax assets | 0 | 891 |
| Reversal of impairment losses on deferred tax assets | 0 | -92 |
| Tax credits/creditable tax | -18 | -16 |
| Effects of different tax rates within the Group and tax rate changes | 35 | -14 |
| Taxes relating to other periods (reversal of income tax liabilities) | -449 | -12 |
| Other | -202 | -71 |
| Income tax expenses according to the consolidated income statement | 2,331 | 3,738 |

Fig. 13 BASIC AND DILUTED EARNINGS PER SHARE IN EUR k

| | 2005 | 2004 |
|---|---|---|
| Net income allocable to holders of common shares in the parent company | 6,748 | 3,892 |
| Weighted average number of common shares for calculation of basic earnings per share | 4,184 | 4,184 |

Fig. 14 DIVIDENDS PAID AND PROPOSED IN EUR k

| Dividends on common shares: | 2005 | 2004 |
|---|---|---|
| Closing dividend for 2004: 0.30 cents (2003: 0.00 cents) | 1,255 | 0 |

Fig. 15 PROPOSED DIVIDENDS IN EUR k

| Dividends on common shares: | 2005 | 2004 |
|---|---|---|
| Closing dividend for 2005: 0.60 cents (2004: 0.30 cents) | 2,510 | 1,255 |
| Special dividend for 2005: 0.30 cents (2004: 0.00 cents) | 1,255 | 0 |

# F. Balance Sheet

## 1. Intangible Assets

Intangible assets developed as follows in 2005: see Fig. 16

Scheduled amortization is reported in the income statement under amortization of intangible assets and depreciation of property, plant and equipment.

## 2. Property, Plant and Equipment

Property, plant and equipment developed as follows in 2005: Fig. 17

## 3. Deferred Taxes

The recognition and measurement differences determined between the earnings in the tax balance-sheets and the local commercial financial statements as well as the adjustments of the local financial statements of the consolidated entities to IFRS led to deferred tax liabilities of the following amounts: Fig. 18

Except for some immaterial currency translation effects, the changes in deferred tax assets and liabilities were posted to income in the reporting year and prior years.

Based on the anticipated development of the Group as stated in the tax planning, it is sufficiently probable that the group entities concerned will be able to realize the accumulated capitalized unused tax losses in the next few fiscal years. Unused tax

Fig. 16 INTANGIBLE ASSETS IN EUR k

| Software and licenses in such rights and assets | EUR k |
|---|---|
| As of January 1, 2005 | 1,007 |
| Currency translation differences | -1 |
| Additions | 78 |
| Disposals | 0 |
| As of December 31, 2005 | 1,084 |
| Accumulated amortization as of January 1, 2005 | 883 |
| Currency translation differences | 1 |
| Additions | 78 |
| Impairment pursuant to IAS 36 | 0 |
| Disposals | 0 |
| As of December 31, 2005 | 962 |
| Residual carrying amount | 122 |
| | |
| | EUR k |
| As of January 1, 2004 | 923 |
| Currency translation differences | 1 |
| Additions | 83 |
| Disposals | 0 |
| As of December 31, 2004 | 1,007 |
| Accumulated amortization as of January 1, 2004 | 810 |
| Currency translation differences | 0 |
| Additions | 73 |
| Impairment pursuant to IAS 36 | 0 |
| Disposals | 0 |
| As of December 31, 2004 | 883 |
| Residual carrying amount | 124 |

losses of EUR 204 k (prior year: EUR 848 k) were not recognized as deferred tax assets, since it is not sufficiently probable that they will be realized by the group entities prior to their expiry between 2008 and 2010.

No deferred income tax liabilities were recorded on non-transferred profits of subsidiaries as of December 31, 2005 because management has decided that the profits of subsidiaries not distributed in the past

Fig. 17 PROPERTY, PLANT AND EQUIPMENT DEVELOPED AS FOLLOWS IN EUR k

| | Buildings on third-party land | Technical equipment, machines | Other equipment, furniture and fixtures | Total |
|---|---|---|---|---|
| | EUR k | EUR k | EUR k | EUR k |
| As of January 1, 2005 | 697 | 6,419 | 673 | 7,789 |
| Currency translation differences | -1 | -1 | 7 | 5 |
| Additions | 14 | 662 | 246 | 922 |
| Disposals | 0 | 200 | 175 | 375 |
| As of December 31, 2005 | 710 | 6,880 | 751 | 8,341 |
| Accumulated depreciation as of January 1, 2005 | 276 | 5,810 | 481 | 6,567 |
| Currency translation differences | -1 | -1 | 1 | -1 |
| Additions | 75 | 449 | 223 | 747 |
| Disposals | 0 | 196 | 175 | 371 |
| As of December 31, 2005 | 350 | 6,062 | 530 | 6,942 |
| Residual carrying amount | 360 | 818 | 221 | 1,399 |
| | | | | |
| | EUR k | EUR k | EUR k | EUR k |
| As of January 1, 2004 | 755 | 6,068 | 642 | 7,465 |
| Currency translation differences | 0 | 2 | -3 | -1 |
| Additions | 45 | 463 | 122 | 630 |
| Disposals | 103 | 114 | 88 | 305 |
| As of December 31, 2004 | 697 | 6,419 | 673 | 7,789 |
| Accumulated depreciation as of January 1, 2005 | 284 | 5,516 | 440 | 6,240 |
| Currency translation differences | 0 | 1 | 0 | 1 |
| Additions | 92 | 400 | 116 | 608 |
| Disposals | 100 | 107 | 75 | 282 |
| As of December 31, 2004 | 276 | 5,810 | 481 | 6,567 |
| Residual carrying amount | 421 | 609 | 192 | 1,222 |

will not be distributed in the foreseeable future.

The temporary differences associated with shares in subsidiaries for which no deferred tax liabilities were recognized amount to EUR 9 k (prior year: EUR 3 k).

The payment of dividends by CENIT AG to the shareholders did not have any income tax implications.

Fig. 18 DEFERRED TAXES IN EUR k

| | Deferred tax assets EUR k | | Deferred tax liabilities EUR k | |
|---|---|---|---|---|
| | Dec. 31, 2005 | Dec. 31, 2004 | Dec. 31, 2005 | Dec. 31, 2004 |
| Unused tax losses | 87 | 92 | 0 | 0 |
| General bad debt allowance | 0 | 0 | 50 | 45 |
| Inventories | 0 | 0 | 231 | 109 |
| Warranty provision | 0 | 0 | 0 | 223 |
| Other provisions | 76 | 69 | 10 | 10 |
| Derivatives | 118 | 7 | 0 | 1 |
| Total | 281 | 168 | 291 | 388 |
| Offsetting | -194 | -76 | -194 | -76 |
| Total | 87 | 92 | 97 | 312 |

Fig. 19 INVENTORIES IN EUR k

| | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|
| Merchandise | 854 | 1,239 |
| Services not yet invoiced | 203 | 356 |
| Total | 1,057 | 1,595 |

## 4. Inventories

Write-downs to net realizable value of EUR 38 k were made in the fiscal year 2005 (prior year: EUR 71 k). Fig. 19

## 5. Trade Receivables

All trade receivables were due within one year. No specific bad debt allowances were recorded in the year under review (prior year: EUR 189 k).

## 6. Other Receivables

Other receivables break down as follows: Fig. 20

## 7. Other Financial Assets at Fair Value through Profit or Loss

Other financial assets break down as follows: see Fig. 21

CENIT has invested EUR 1,000 k in floating rate bearer debenture bonds issued by a bank with an excellent credit rating. The interest rate is the 3-month EURIBOR +0.3%. A further EUR 10,041 k was invested in an investment fund (money market fund: OptiCash) and EUR 1,980 k in floating rate securities. All financial instruments were classified as 'at fair value through profit or loss'. Gains or losses were recognized in the net profit or loss.

Fig. 20 OTHER RECEIVABLES IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| CH social security reimbursement rights | 96 | 9 |
| Receivable from the sale of CSH | 0 | 15 |
| Credit notes | 0 | 16 |
| Interest cut-off | 54 | 43 |
| Other | 14 | 17 |
| Total | 164 | 100 |

Fig. 21 OTHER FINANCIAL ASSETS IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| Securities | 0 | 5 |
| BW Bank securities | 1,000 | 1,000 |
| Shares in investment funds | 10,041 | 0 |
| Bonds | 1,980 | 0 |
| Floating rate investments | 0 | 1,983 |
| Total | 13,021 | 2,988 |

Fig. 22 CURRENT INCOME TAX ASSETS IN EUR k

| | EUR k |
|---|---|
| January 1, 2005 - tax reimbursement claims - | 16 |
| Received | -5 |
| Receivable | 7 |
| As of December 31, 2005 | 18 |

As of the balance sheet date, no material default risks were identifiable.

## 8. Current Income Tax Assets

The tax assets essentially comprise claims from advance payments for trade tax and income tax claims from double taxation treaties. They developed as follows: Fig. 22

## 9. Cash and Cash Equivalents

Cash and cash equivalents break down as follows: see Fig. 23

Fig. 23 CASH AND CASH EQUIVALENTS IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| Bank balances | 7,780 | 11,686 |
| Cash | 6 | 10 |
| Total | 7,786 | 11,696 |

Cash and cash equivalents are a component of the cash flow statement pursuant to IAS 7. The composition of cash and cash equivalents is shown in note G.

## 10. Prepaid Expenses

These mainly include prepaid expenses for licenses and motor vehicle insurance.

## 11. Equity

The Company's share capital has remained unchanged since January 1, 2001 at EUR 4,183,879.00 and is fully paid in. It is divided into 4,183,879 no-par value shares of EUR 1 each. The shares are bearer shares and are common stock only. The number of no-par value shares has not changed in the fiscal year.

### New Authorized Capital

The management board is authorized, with the consent of the supervisory board, to increase the share capital of the Company once or in several installments to a total amount of EUR 2,091,939 (authorized capital) up until June 16, 2009, by issuing up to 2,091,939 new no-par value bearer shares in return for contributions in cash or in kind. The shareholders must be granted subscription rights. The new shares may also be offered to one or several banks as well as one or more enterprises operating pursuant to Sec. 53 (1) Sentence 1 or Sec. 53b (1) Sentence 1 or (7) KWG ["Gesetz über das Kreditwesen": German Banking Act] with the obligation of offering them for sale to the shareholders (indirect subscription right).

The management board is authorized, with the approval of the supervisory board, to preclude the shareholders' statutory subscription rights

- for a part amount totaling EUR 972,800.00 for capital increases in return for contributions in kind for the purpose of acquiring companies or equity investments in companies; companies or equity investments in companies may only be acquired if the business objective of the target company essentially lies within the scope of the Company's business objective pursuant to Art. 2 (1) of the articles of incorporation and bylaws.

- for a part amount totaling EUR 418,387.00 for capital increases in return for contributions in cash to issue the new shares at an issue price not significantly lower than the stock market price (Sec. 186 (3) Sentence 4 AktG ["Aktiengesetz": German Stock Corporation Act]).

If the management board does not make any use of the above authorizations to preclude subscription rights, the shareholders' subscription rights may only be precluded for fractional amounts. The management board is authorized, with the approval of the supervisory board, to determine the other details concerning performance of capital increases from authorized capital, including the further content and terms and conditions of the issue of shares.

After an increase in share capital utilizing the authorized capital in full or in part and, if the authorized capital has not been used or not used in full by the end of June 16, 2009, the supervisory board is authorized to adjust Art. 5 of the articles of incorporation and bylaws accordingly.

## Conditional Capital

The conditional capital comprises the following: see Fig. 24

## Stock Option Plan 2002/2005

By resolution of the shareholders' meeting on June 19, 2002 and effected by the shareholders' resolution of June 10, 2005, the Company increased its share capital by up to EUR 260,000.00 by issuing up to 260,000 individual no-par value bearer shares (common stock). The conditional capital increase is for the sole purpose of granting shares to bearers of options which the management board was authorized to issue on the basis of the resolution by the shareholders' meeting on June 19, 2002 as passed in the shareholders' resolution of June 10, 2005 ("stock option plan 2002"). The conditional capital increase is only to be carried out to the extent that the bearers of the options exercise their rights, which were granted on the basis of authorization by the shareholders' meeting on June 19, 2002 as passed in the shareholders' resolution of June 10, 2005. In each case, the new shares will participate in profits from the beginning of the fiscal year in which they are created by exercising stock options. The management board is authorized to decide on further details of the conditional capital increase and its implementation with the approval of the supervisory board.

## Terms and Conditions of the Stock Option Plan 2002 in the Version Passed in the Shareholders' Resolution on June 10, 2005

The options may only be offered to CENIT Group employees, consisting of members of the management board of CENIT Aktiengesellschaft Systemhaus (group 1), employees of CENIT Aktiengesellschaft Systemhaus (group 2), members of the executive bodies of affiliated companies as defined by Secs. 15 et seq. AktG (group 3), and employees of affiliated companies as defined by Secs. 15 et seq. AktG (group 4). A total of up to 20 % of the options may be issued to group 1, up to 50 % to group 2, up to 10 % to group 3, and up to 20% to group 4. The options may only be exercised in full after expiry of a period of 2 years from the date of issue and be "converted" into shares in return for payment of a subscription price once one of the performance targets has been reached.

Furthermore, options may only be exercised if one of the following criteria is fulfilled:

- Adjusted for possible capital measures taken by the Company in the meantime, the average closing share price of the common stock on the Frankfurt stock exchange on the last five trading days before the beginning of the vesting period amounts to at least 135 percent of the Company's share price on the date of the decision taken by the man-

Fig. 24 CONDITIONAL CAPITAL

| | Units | | EUR | |
|---|---|---|---|---|
| | Dec. 31, 2005 | Dec. 31, 2004 | Dec. 31, 2005 | Dec. 31, 2004 |
| Stock option plan | 260,000 | 260,000 | 260,000 | 260,000 |

Fig. 25 NUMBER AND WEIGHTED AVERAGE EXERCISE PRICE (WAEP) OF STOCK OPTIONS

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Units | WAEP | Units | WAEP |
| Management board | 12,000 | 22.20 | 0 | 0.00 |
| Other executives | 91,500 | 22.20 | 0 | 0.00 |

agement board or the supervisory board to issue the stock options, or:

- Adjusted for any dividend payments, options, and other special rights having occurred in the meantime, the development of the CENIT share between issue of the options and exercise of the options was at least 15% higher than the development of the 'Technology All Share Index' over the same period of time.

After expiry of the waiting period, the options may only be exercised and shares which are purchased by exercise of the stock options may only be sold on the 4th day and the 14 following bank working days following publication of a quarterly report, interim report or financial statements of the Company.

The closing price of the Company's common stock on the Technology All Share Index on the date of the decision taken by the management or the supervisory board to issue stock options shall be the decisive factor for determining the value of the CENIT share on the date the options are issued.

The options are not transferable and can only be exercised by the entitled persons. In the event of death, however, the entitled person's statutory heirs may inherit the stock options.

The options have a term to maturity of six years. If the options cannot be exercised before the end of their term, they automatically expire at the end of their term, without further notice such as a corresponding contract of declaration of expiry from the Company.

In the event of procedures pursuant to Secs. 327a et seq. AktG for stock options not exercised under this stock option plan, the provisions of Secs. 327a et seq. AktG apply to the subscription rights subject to the following condition:

"The stock options are transferred to the majority shareholder upon filing of the transfer resolution with the commercial register. The (previous) beneficiaries have a right to compensation in cash. This right is independent of whether the subscription rights were exercisable or not. The value of the right to compensation is measured based on the

Fig. 26 BLACK-SCHOLES OPTION PRICING MODEL

| | |
|---|---|
| Dividend yield (%) | 1.35 |
| Expected volatility of the share (%) | 38.16 |
| Risk-free interest rate (%) | 2.77 |
| Anticipated term of the option (years) | 4 |
| Weighted average share price (EUR) | 22.20 |

amount of the shareholders' right to compensation in cash pursuant to Secs. 327b, 327f AktG less the subscription or exercise price (no 8)."

The table illustrates the number and weighted average exercise price (WAEP) of the stock options granted during the fiscal year. See Fig. 25

The weighted average remaining contract term for the outstanding stock options as of December 31, 2005 comes to six years as of August 11, 2005 (2004: zero years).

The weighted average fair value of the options granted during the fiscal year amounted to EUR 640 k (2004: EUR 0 k) and is distributed over the waiting period of 2 years as an increase in the capital reserve with an effect on income. In fiscal 2005, EUR 125 k was posted to personnel expenses and the capital reserve.

The fair value of the equity-settled stock options granted is estimated as of the date of granting using the Black-Scholes option pricing model and taking account of the terms under which the options were granted. The calculation was based on the following parameters as of December 31, 2005: Fig. 26

The anticipated term of the options is based on historical data and does not have to be in accordance with the beneficiaries' actual exercise behavior. The expected volatility is based on the assumption that future trends can be derived from historical volatility, although the actual volatility may deviate from the assumptions made.

No other factors that are related to the issue of options were taken into account when determining fair value.

## Notes on the Components of Equity

The capital reserve contains the surplus realized from issuing shares of the parent company in excess of their nominal value. If, pursuant to Sec. 272 (2) No 1 to 3 HGB, the legal reserve and the capital reserve together exceed a tenth of the capital stock or any higher amount stipulated in the articles of incorporation and bylaws, they may only be used in accordance with Sec. 150 AktG to offset a net loss for the year that is not covered by a profit brought forward from the prior year, or to offset a loss brought forward from the prior year that is not covered by net income for the year, and cannot be offset by releasing other revenue reserves. The capital reserve was increased in the fiscal year 2005 by EUR 125 k by pro rata posting

Fig. 27 CURRENT INCOME TAX LIABILITIES AND OTHER PROVISIONS IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| Current income tax liabilities | 2,256 | 2,101 |
| Other provisions | 122 | 122 |
| Total | 2,378 | 2,223 |

Fig. 28 CURRENT INCOME TAX LIABILITIES IN EUR k

| | EUR k |
|---|---|
| As of January 1, 2005 | 2,101 |
| Utilization | -1,109 |
| Reversals | -449 |
| Additions | 1,713 |
| As of December 31, 2005 | 2,256 |

Fig. 29 OTHER INCOME TAX LIABILITIES IN EUR k

| | Shareholders' meeting EUR k | Other EUR k | Total EUR k |
|---|---|---|---|
| As of January 1, 2005 | 80 | 42 | 122 |
| Utilization | 79 | 32 | 111 |
| Reversals | 1 | 0 | 1 |
| Additions | 108 | 4 | 112 |
| As of December 31, 2005 | 108 | 14 | 122 |

of the stock options granted under the stock option plan 2002/2005.

The revenue reserves comprise profits transferred to the reserves.

The currency translation reserve contains the net differences resulting from translation of the subsidiaries' financial statements without affecting income.

The adjustment item for minority interests includes minority interests in the equity of CENIT (Schweiz) AG.

**12. Current Income Tax Liabilities and Other Provisions** see Fig. 27

The current income tax liabilities developed as follows: Fig. 28

The other provisions cover all identifiable obligations to third parties in accordance with IAS 37. They developed as follows: Fig. 29

The provisions will mainly be used in the following reporting period.

## 13. Liabilities to Banks

Liabilities to banks break down as follows: See Fig. 30

The current bank liabilities all relate to short-term credits for goods delivered from IBM GmbH by IBM Deutschland Kreditbank GmbH.

## 14. Trade Payables

Trade payables are subject to customary retentions of title to the delivered goods.

## 15. Other Liabilities

Other liabilities break down as follows: Fig. 31

Accruals cover all identifiable obligations to third parties in accordance with IAS 37. They have been set up at the probable amount and will be utilized during the first months of the following fiscal year.

Accruals developed as follows: Fig. 32

## 16. Deferred Income

The deferred income item is primarily a result of the distribution, license and brand utilization agreement concluded as of April 17, 2003 with the buyers of the former French subsidiaries. The income is being released over the three-year term of the agreement. We also refer to note E. 2.

## 17. Financial Instruments

There are no significant differences between the carrying amount and fair value of receivables and liabilities and for cash and cash equivalents due to their short term.

The Group is exposed to credit and liquidity risks as well as interest and exchange rate fluctuations in the scope of its operations.

The general regulations for a group-wide risk policy are laid out in the group guidelines. The group-wide risk policy also provides for the use of derivative financial instruments. The corresponding financial transactions are only concluded with counterparties with excellent credit ratings.

## Credit Risk

The credit risk results from the danger that business partners may fail to perform their obligation under financial instruments and that financial losses could be incurred as a result.

Credit ratings for new customers are made by Creditreform e.V. The payment behavior of regular customers is analyzed on an ongoing basis.

No credit rating is carried out for contracts won by our contractual partners, since this is already done at contractual partner level.

Fig. 30 LIABILITIES TO BANKS IN EUR k

| | Dec. 31, 2005<br>EUR k | Dec. 31, 2004<br>EUR k |
|---|---|---|
| Current bank liabilities - Due within one year | 1,321 | 2,183 |

Fig. 31 OTHER LIABILITIES IN EUR k

| | Dec. 31, 2005<br>EUR k | Dec. 31, 2004<br>EUR k |
|---|---|---|
| VAT payables | 1,294 | 1,455 |
| Social security liabilities | 684 | 616 |
| Accruals | 5,158 | 4,154 |
| Other | 1,342 | 1,612 |
| Total | 8,478 | 7,837 |

Fig. 32 ACCRUALS DEVELOPED IN EUR k

| | Employer's liability insurance, Levy in lieu of employing, severely disabled persons<br>EUR k | Vacation and bonuses<br>EUR k | Outstanding invoices<br>EUR k | Other<br>EUR k | Total<br>EUR k |
|---|---|---|---|---|---|
| As of January 1, 2005 | 210 | 2,940 | 333 | 671 | 4,154 |
| Utilization | 166 | 2,207 | 333 | 441 | 3,147 |
| Reversals | 44 | 733 | 0 | 75 | 852 |
| Additions | 198 | 3,254 | 670 | 881 | 5,003 |
| As of December 31, 2005 | 198 | 3,254 | 670 | 1,036 | 5,158 |

As we do not conclude any general netting agreements with our customers, the sum of the amounts reported under assets also represents the maximum credit risk. There are no identifiable concentrations of credit risk from business relationships with single debtors or groups of debtors.

**Currency Risk**

The foreign exchange exposure mainly arises where receivables or liabilities exist or will be generated in the ordinary course of business in a currency other than the local currency of the Company.

Foreign currency receivables and liabilities which could produce currency risks are not material.

In addition, there are currency risks from cash de-

Fig. 33 NOMINAL AND MARKET VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

| | | Nominal values | | Market values | |
|---|---|---|---|---|---|
| | | Dec. 31, 2005 | Dec. 31, 2004 | Dec. 31, 2005 | Dec. 31, 2004 |
| Currency options | EUR k | 615 | 1,181 | -13 | -4 |
| | USD k | 750 | 1,500 | | |

nominated in USD. Risks from fluctuation in the USD exchange rate are countered by using derivative financial instruments. Hedging relationships are not created in this respect.

The nominal and market values of derivative financial instruments are as follows as of the balance sheet date: Fig. 33

Exchange rate fluctuations up to USD/EUR 1.41 are secured by these transactions. The currency options entered into have a remaining term of up to one year. There are no transactions with a longer maturity.

The market value of the agreements as of December 31, 2005 was EUR –13 k and is recorded in the balance sheet under other liabilities. Gains and losses from the fluctuation in market value are recognized in the net profit or loss.

## Interest Rate Risk

CENIT entered into an interest swap agreement with a bank of excellent credit rating as of May 3, 2005 for a reference amount of EUR 2,000 k. Under the agreement, CENIT pays the respective current 3-months' EURIBOR interest rate and receives 4% in the first six months of the term and thereafter 4% weighted with the bank working days on which the ten-year swap mid rate is at least 0.95% p.a. above the two-year swap mid rate. The contractual relationship ends in May 2010 at the latest. No hedging relationship has been created on an underlying transaction. With this agreement, CENIT is seeking a higher return than it would currently receive from fixed-interest investments. The market value of the agreement as of December 31, 2005 was EUR –203 k and is recorded in the balance sheet under other liabilities. Gains and losses from the fluctuation in market value are recognized in the net profit or loss.

CENIT entered into an interest swap agreement with a bank of excellent credit rating as of February 3, 2005 for a reference amount of EUR 2,000 k. Under the agreement, CENIT pays the respective current 6-months' EURIBOR interest rate and receives a fixed amount of 4% in the first six months of the term and thereafter the ten-year swap rate less 1.03%. The contractual relationship ends in February 2015 at the latest. No hedging relationship has been created on an underlying transaction. With this agreement, CENIT is seeking a higher return than it would currently receive from fixed-interest investments. The market value of the agreement as of December 31, 2005 was EUR –80 k and is recorded in the balance sheet under other liabilities. Gains and losses from the fluctuation in market value are recognized in the net profit or loss.

## Liquidity Risk

Fig. 34 CASH FLOW STATEMENT IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| Other financial assets | | |
| Floating rate investments | 0 | 1,000 |
| Shares in investment funds | 10,041 | 1,983 |
| Cash and cash equivalents | | |
| Bank balances | 7,780 | 11,686 |
| Cash | 6 | 10 |
| Cash and cash equivalents | 17,827 | 14,679 |

Unused credit lines of EUR 2,350 k at the disposition of the Group ensure that it has sufficient funds.

## G. Cash Flow Statement

The cash flow statement shows how cash and cash equivalents have increased in the course of the reporting year as a result of cash received and paid. In accordance with IAS 7, a distinction is made between cash flows from operating, investing, and financing activities.

The cash flow from operating activities relates primarily to the cash flow generated by sales.

Non-cash income and expenses mainly consist of the reversal of provisions and accruals.

Dividend income from a securities lending transaction did not affect cash and was therefore not stated separately in accordance with IAS 7.31.

Investments in property, plant and equipment and intangible assets are included in the cash flow from investing activities.

Only assets that can be converted into cash without significant deductions and that are subject to minor fluctuations in value are included in cash and cash equivalents.

Cash and cash equivalents comprise the following: see Fig. 34

## H. Segment Reporting

Segment reporting is carried out according to the rules in IAS 14 and breaks the primary reporting format down by business division and the secondary reporting format by region.

The presentation is based on internal reporting.

The **e-engineering** segment focuses on industrial customers and the corresponding technologies. Its industry focus is on the automotive, aerospace, mechanical engineering and shipbuilding industries. Special emphasis is placed on products and services in product lifecycle management, such as CATIA, Dassault or SAP.

The **e-business** segment focuses on the customer

CENIT Aktiengesellschaft Systemhaus

Segment Reporting by Country (in accordance with IFRS) for the period from January 1 to December 31, 2005

| in EUR k | | Germany | Switzerland | North America | Not allocated | Consoli- dation | Group |
|---|---|---|---|---|---|---|---|
| Internal sales | Q1 - Q4 2005 | 760 | 530 | 3 | 0 | -1,293 | 0 |
| | Q1 - Q4 2004 | 617 | 539 | 104 | 0 | 1,260 | 0 |
| External sales | Q1 - Q4 2005 | 71,924 | 716 | 1,661 | 0 | 0 | 74,301 |
| | Q1 - Q4 2004 | 72,915 | 1,105 | 889 | 0 | 0 | 74,909 |
| Segment assets | Dec. 31, 2005 | 12,629 | 247 | 405 | 20,912 | -284 | 33,909 |
| | Dec. 31, 2004 | 13,492 | 186 | 198 | 14,792 | -194 | 28,474 |
| Investments in property, plant & equipment and intangible assets | Dec. 31, 2005 | 957 | 0 | 43 | 0 | 0 | 1,000 |
| | Dec. 31, 2004 | 688 | 8 | 17 | 0 | 0 | 713 |

CENIT Aktiengesellschaft Systemhaus

Segment Reporting by Business Segment (in accordance with IFRS) for the period from January 1 to December 31, 2005

| in EUR k | | EB | EE | Not allocated | Group |
|---|---|---|---|---|---|
| External sales | Q1 - Q4 2005 | 25,406 | 48,895 | 0 | 74,301 |
| | Q1 - Q4 2004 | 26,039 | 48,870 | 0 | 74,909 |
| EBIT | Q1 - Q4 2005 | 3,016 | 6,393 | 0 | 9,409 |
| | Q1 - Q4 2004 | 2,634 | 4,893 | 0 | *7,527 |
| Interest and financial result | Q1 - Q4 2005 | 0 | 0 | -330 | -330 |
| | Q1 - Q4 2004 | 0 | 0 | 103 | *103 |
| Income taxes | Q1 - Q4 2005 | 0 | 0 | -2,331 | -2,331 |
| | Q1 - Q4 2004 | 0 | 0 | -3,738 | -3,738 |
| Net income of the Group for the year | Q1 - Q4 2005 | 3,016 | 6,393 | -2,661 | 6,748 |
| | Q1 - Q4 2004 | 2,634 | 4,893 | -3,635 | *3,892 |
| Segment assets | Dec. 31, 2005 | 3,760 | 9,237 | 20,912 | 33,909 |
| | Dec. 31, 2004 | 4,973 | 8,709 | 14,792 | 28,474 |
| Segment liabilities | Dec. 31, 2005 | 3,214 | 7,452 | 3,674 | 14,340 |
| | Dec. 31, 2004 | 3,215 | 6,708 | 4,596 | 14,519 |
| Investments in property, plant & equipment and intangible assets | Dec. 31, 2005 | 201 | 799 | 0 | 1,000 |
| | Dec. 31, 2004 | 145 | 568 | 0 | 713 |
| Amortization and depreciation | Q1 - Q4 2005 | 172 | 653 | 0 | 825 |
| | Q1 - Q4 2004 | 157 | 524 | 0 | 681 |

EB = e-business; EE = e-engineering

* Change in disclosure

Fig. 35 NON-ALLOCATED SEGMENT ASSETS IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| Deferred tax assets | 87 | 92 |
| Current income tax assets | 18 | 16 |
| Other financial assets | 13,021 | 2,988 |
| Cash and cash equivalents | 7,786 | 11,696 |
| Total | 20,912 | 14,792 |

Fig. 36 NON-ALLOCATED SEGMENT LIABILITIES IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| Deferred tax liabilities | 97 | 312 |
| Short-term liabilities to banks | 1,321 | 2,183 |
| Current income tax liabilities | 2,256 | 2,101 |
| Total | 3,674 | 4,596 |

segment of trade and commerce, banks, insurance firms, utilities and logistics companies. Its range of services covers solutions for imaging, workflow, document and content management with FileNet, Groupware solutions based on Lotus Notes/Domino, effective systems management with TIVOLI and IT outsourcing for IT infrastructures and applications.

In the segmentation by business segment and by region, those financial assets and tax reimbursement rights and liabilities due to banks and deferred income tax liabilities of the segment are disclosed in the "not allocated" column for segment assets and segment liabilities respectively that could not be attributed to the respective business segments.

The non-allocated segment assets break down as follows: Fig. 35

The non-allocated segment liabilities break down as follows: Fig. 36

There were no material non-cash expenses in the reporting year or in the prior year except depreciation and reversals of provisions.

# I. Other Notes

## 1. Contingent Liabilities and Other Financial Obligations

As of the balance sheet date there were no contingent liabilities that would require disclosure on the balance sheet or in the notes.

The Company has other financial obligations in connection with rental and lease agreements. The resulting financial obligations have been taken into account in the table below: Fig. 37

Other financial obligations principally consist of tenancy obligations of EUR 9,500 k (prior year: EUR 10,587 k) entered into for the office building rented

Fig. 37 FINANCIAL OBLIGATIONS IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| Rent and lease obligations | | |
| Due within one year | 2,760 | 2,368 |
| Due in one to five years | 8,131 | 7,045 |
| Due within more than five years | 0 | 2,663 |
| Total | 10,891 | 12,076 |

Fig. 38 INCOME FROM SUB-LETTING AGREEMENTS IN EUR k

| | Dec. 31, 2005 EUR k | Dec. 31, 2004 EUR k |
|---|---|---|
| Income from sub-letting agreements | | |
| Within one year | 190 | 241 |
| One to five years | 712 | 743 |
| Over five years | 0 | 372 |
| Total | 902 | 1,356 |

in Germany.

Income from sub-letting agreements is expected in future periods as follows: Fig. 38

## 2. Related Parties

Transactions with related parties as defined by IAS 24 were conducted by CENIT AG with one member of the supervisory board. This gave rise to consulting expenses of EUR 23 k in the fiscal year 2005 (prior year: EUR 31 k). The business was transacted at arm's length conditions.

As of the balance sheet date, there were liabilities to this supervisory board member of EUR 4 k (prior

year: EUR 6 k).

**The Company's supervisory board members are:**

- Falk Engelmann (Dipl.-Ing., management consultant), Leinfelden-Echterdingen, Chairman
- Hubert Leypoldt (Dipl.-Kfm., German public auditor, tax advisor, legal counsel), Dettingen/Erms, Deputy Chairman

Fig. 39 REMUNERATION OF THE MANAGEMENT BOARD MEMBERS IN EUR k

| | Fixed remuneration EUR k | Performance-related remuneration EUR k | Long-term incentives EUR k | Total TEUR |
|---|---|---|---|---|
| Hubertus Manthey | 195 | 143 | 0 | 338 |
| Andreas Schmidt | 215 | 164 | 0 | 379 |
| Christian Pusch | 190 | 144 | 14 | 348 |
| Total | 600 | 451 | 14 | 1,065 |

- Dr. rer. pol. Dirk Lippold (managing director), Berlin

In the prior year, management board remuneration totaled EUR 949 k.

**The Company's management board members are:**

- Andreas Schmidt (Dipl.-Ing.), Ebersbach (Operations), Spokesman of the Management Board
- Hubertus Manthey (Dipl.-Ing.), Pliezhausen, (Personnel, Marketing, Investor Relations)
- Christian Pusch (Dipl.-Wirt.-Ing.), Waldachtal (Finance, Organization)

Pursuant to the German Law on the Publication of Management Board Remuneration enacted on July 8, 2005, board remuneration must be published for fiscal years beginning after December 31, 2005. The Company has complied with this duty in advance for the reporting year 2005.

In the reporting period, the remuneration of the management board members was as follows: see Fig. 39

The remuneration was primarily for regular services performed during the fiscal year and was due at short notice.

As of the balance sheet date, the management board held 289,004 shares (prior year: 662,854 shares), i.e. 6.9% (prior year: 15.9%) of the Company's share capital. The supervisory board members hold 145,800 shares (prior year: 160,800) in the Company's share capital.

Mr. Christian Pusch was granted 12,000 stock options under the stock option plan. The related expenses came to EUR 14 k in the reporting year.

No pension obligations or benefits were promised in the event of termination of service.

In accordance with Art. 14 of the articles of incorporation and bylaws, the remuneration of the supervisory board was as follows in 2005: Fig. 40

The supervisory board received remuneration for its

Fig. 40 REMUNERATION OF THE SUPERVISORY BOARD IN EUR k

| | Fixed remuneration<br>EUR k | Performance-related remuneration<br>EUR k | Long-term incentives<br>EUR k | Total<br>EUR k |
|---|---|---|---|---|
| Falk Engelmann | 30 | 0 | 0 | 30 |
| Hubert Leypoldt | 23 | 0 | 0 | 23 |
| Dr. Dirk Lippold | 15 | 0 | 0 | 15 |
| Total | 68 | 0 | 0 | 68 |

Fig. 41 THE FOLLOWING BOARD MEMBERS HOLD MORE THAN 1% OF THE COMPANY'S SHARES AS OF DECEMBER 31, 2005:

| | | |
|---|---|---|
| 1. Management board | | |
| Hubertus Manthey (Dipl.-Ing.) | 118,108 | (Vj. 302,008) |
| Andreas Schmidt (Dipl.-Ing.) | 170,896 | (Vj. 358,496) |
| 2. Supervisory board | | |
| Falk Engelmann (Dipl.-Ing.) | 145,000 | (Vj. 160,000) |

activities in the prior year of EUR 68 k in accordance with the articles of incorporation and bylaws.

The following board members hold more than 1% of the Company's shares as of December 31, 2005: Fig. 41

## 3. Changes at Shareholder Level

The Company received several notifications in accordance with Sec. 21 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] from Baden-Württembergische Kapitalanlage¬gesellsch aft mbH in the course of the fiscal year. In its most recent letter dated December 9, 2005, Baden-Württembergische Kapitalanlagegesellschaft announced the following:

"Ladies and Gentlemen,

In accordance with Sec. 21 (1) WpHG, we hereby notify you of the fact that our voting rights in CENIT AG Systemhaus, Industriestrasse 52 - 54, D-70565 Stuttgart, Germany, exceeded the threshold of 5% of our separate trust assets on December 9, 2005 and now amount to 5.08%. Of those, 2.83% are allocable to us pursuant to Sec. 22 (1) Sentence 1 No 6 WpHG.

Sincerely
Baden-Württembergische
Kapitalanlagegesellschaft mbH"

In a letter dated June 30, 2005, Norbert Fink notified the Company of the fact that his voting rights now amount to 4.86%. The notification pursuant to Sec. 41 (2) Sentence 1 WpHG reads as follows:

"Ladies and Gentlemen,
I am writing to notify you in accordance with Sec. 21 (1) WpHG that the share of my voting rights in CENIT AG fell below the threshold of 5% on June 29, 2005 and now amounts to 4.86%. Of those, 0.89% is allocable to me pursuant to Sec. 22 (1) Sentence 1 No 6 WpHG.

Sincerely,
Norbert Fink"

In a letter dated August 29, 2005, Andreas Schmidt notified the Company of the fact that his voting rights now amount to 4.74%. The notification pursuant to Sec. 41 (2) Sentence 1 WpHG reads as follows:

"Ladies and Gentlemen,

I am writing to notify you in accordance with Sec. 21 (1) WpHG that the share of my voting rights in CENIT AG fell below the threshold of 5% on August 10, 2005 and now amounts to 4.74%. Of those, 0.66% is allocable to me pursuant to Sec. 22 (1) Sentence 1 No 1 WpHG.

Sincerely,
Andreas Schmidt"

In a letter dated June 24, 2005, Hubertus Manthey notified the Company of the fact that his voting rights now amount to 4.42%. The notification pursuant to Sec. 41 (2) Sentence 1 WpHG reads as follows:

"Dear Sirs,

I am writing to notify you in accordance with Sec. 21 (1) WpHG that the share of my voting rights in CENIT AG fell below the threshold of 5% on June 24, 2005 and now amounts to 4.42%.

Sincerely,
Hubertus Manthey"

The Company received notification in accordance with Sec. 21 (1) WpHG from Merrill Lynch Investment Managers in the course of the fiscal year. In its most recent letter dated June 21, 2005, Merrill Lynch Investment Managers announced the following:

"Dear Sir,

In accordance with Section 21 paragraph 1 WpHG, we hereby notify that our voting interest in Cenit AG Systemhaus, held on behalf of discretionary investment clients, exceeded the 5% threshold on 20th June 2005. 100% of these voting rights are attributable to us in accordance with section 22 para. 1 sent. 1 No. 6 WpHG

| | |
|---|---|
| Date: | 20th June, 2005 |
| Type of Shares: | NPV |
| No. of Shares: | 215,533 |
| 5 % of Shares: | 5.15 % |
| Shares In Issue: | 4,183,879 |

Yours faithfully
for MERRILL LYNCH INVESTMENT MANAGERS GROUP LIMITED

Eamonn Holland
*Associate*

David Sibbert
*Associate*"

## 5. Audit and Consulting Fees

The auditor's fees recognized in the fiscal year total EUR 78 k for the audit of the financial statements and the consolidated financial statements.

## 6. Corporate Governance

The management board and supervisory board of the Company have issued the declaration for 2004 and 2005 required by Sec. 161 AktG and made it permanently available to the shareholders.

*Andreas Schmidt*   *Hubertus Manthey*   *Christian Pusch*

*Stuttgart, February 23, 2006*
CENIT Aktiengesellschaft Systemhaus

The Management Board

## J. AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of the Company:

"We have audited the consolidated financial statements prepared by CENIT Aktiengesellschaft Systemhaus, Stuttgart, comprising the income statement, the balance sheet, the cash flow statement, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which has been combined with the management report of the Company, for the fiscal year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

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

*Stuttgart, March 7, 2006*

Ernst & Young AG

Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Göhner | Laing |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

CENIT Aktiengesellschaft Systemhaus, Stuttgart
Balance Sheet as of December 31, 2005

| | | Dec. 31, 2005 | | Dec. 31, 2004 |
|---|---|---|---|---|
| **ASSETS** | | EUR | EUR | EUR k |
| **A.** | **Fixed Assets** | | | |
| **I.** | **Intangible assets** | | | |
| | Franchises, industrial rights and similar rights and assets and licenses in such rights and assets | | 121,126.16 | 118 |
| **II.** | **Property, plant and equipment** | | | |
| | 1. Buildings on third-party land | 360,097.93 | | 421 |
| | 2. Technical equipment and machines | 813,794.00 | | 594 |
| | 3. Other equipment, furniture and fixtures | 134,734.61 | | 137 |
| | | | 1,308,626.54 | |
| **III.** | **Financial assets** | | | |
| | Shares in affiliated companies | | 28,081.42 | 28 |
| **B.** | **Current Assets** | | | |
| I. | Inventories | | | |
| | 1. Work in process | 574,390.57 | | 548 |
| | 2. Merchandise | 892,163.36 | | 1,222 |
| | | | 1,466,553.93 | |
| **II.** | **Receivables and other assets** | | | |
| | 1. Trade receivables | 8,618,911.75 | | 9,783 |
| | 2. Receivables from affiliated companies | 194,963.10 | | 126 |
| | 3. Other assets | 83,619.12 | | 103 |
| | | | 8,897,493.97 | |
| **III.** | **Securities** | | | |
| | Other securities | | 12,973,799.80 | 2,988 |
| **IV.** | **Cash on hand, bank balances and checks** | | 6,984,703.78 | 11,339 |
| **C.** | **Prepaid Expenses** | | | |
| | | | 88,238.61 | 37 |
| | | | 31,868,624.21 | 27,444 |

| EQUITY AND LIABILITIES | EUR | Dec. 31, 2005 EUR | Dec. 31, 2004 EUR k |
|---|---|---|---|
| **A. Equity** | | | |
| **I. Subscribed capital** | | 4,183,879.00 | 4,184 |
| Contingent capital EUR 260,000.00 (prior year: EUR 260 k) | | | |
| **II. Capital reserve** | | 542,760.40 | 418 |
| **III. Revenue reserves** | | | |
| Other revenue reserves | | 4,954,834.48 | 1,155 |
| | | | |
| **IV. Retained earnings** | | 6,314,439.88 | 5,075 |
| | | 15,995,913.76 | 10,832 |
| **B. Accruals** | | | |
| 1. Tax accruals | 2,203,839.14 | | 2,101 |
| 2. Other accruals | 7,271,138.52 | | 6,678 |
| | | 9,474,977.66 | |
| **C. Liabilities** | | | |
| 1. Liabilities to banks | 1,321,275.06 | | 2,183 |
| 2. Payments received on account of orders | 673,439.78 | | 1,447 |
| 3. Trade payables | 1,985,093.38 | | 1,786 |
| 4. Liabilities to affiliated companies | 61,304.87 | | 43 |
| 5. Other liabilities | 2,338,351.88 | | 2,227 |
| thereof related to social security: EUR 684,189.10 (prior year: EUR 616 k) | | | |
| thereof from taxes: EUR 1,569,137.01 (prior year: EUR 1,453 k) | | | |
| | | 6,379,464.97 | |
| **D. Deferred Income** | | | |
| | | 18,267.82 | 147 |
| | | | |
| | | 31,868,624.21 | 27,444 |

CENIT Aktiengesellschaft Systemhaus, Stuttgart
Income Statement for Fiscal Year 2005

| | | | 2005 | 2004 |
|---|---|---|---|---|
| | | EUR | EUr | TEUR |
| 1. | Sales | | 72,075,048.59 | 73,064 |
| 2. | Increase in inventories of unbilled services | | 26,925.53 | 8 |
| 3. | Other operating income | | 2,107,680.97 | 2,245 |
| | | | 74,209,655.09 | 75,317 |
| 4. | Cost of materials | | | |
| a. | Cost of raw materials, consumables and supplies and of purchased merchandise | 18,518,817.60 | | 23,393 |
| b. | Cost of purchased services | 3,841,072.95 | | 3,966 |
| | | | 22,359,890.55 | |
| 5. | Personnel expenses | | | |
| a. | Salaries | 26,344,243.98 | | 24,134 |
| b. | Social security | 4,411,063.38 | | 4,169 |
| | | | 30,755,307.36 | |
| 6. | Amortization and depreciation on intangible assets and property, plant and equipment | | 792,408.12 | 615 |
| 7. | Other operating expenses | | 11,413,372.38 | 12,014 |
| | | | 8,888,676.68 | 7,026 |
| 8. | Other interest and similar income thereof from affiliated companies: EUR 0.00 (prior year: EUR 4 k) | | 1,975,687.89 | 184 |
| 9. | Write-downs of financial assets and securities classified as current assets | | 23,000.00 | 0 |
| 10. | Write-ups of financial assets and securities classified as current assets | | 0.00 | 3 |
| 11. | Interest and similar expenses | | 2,054,255.33 | 48 |
| 12. | Result from ordinary activities | | 8,787,109.24 | 7,165 |
| 13. | Income taxes | 2,468,132.92 | | 2,054 |
| 14. | Other taxes | 24,307.00 | | 36 |
| | | | 2,492,439.92 | |
| 15. | Net income for the year | | 6,294,669.32 | 5,075 |

CENIT Aktiengesellschaft Systemhaus, Stuttgart

Statement of Changes in Fixed Assets for Fiscal Year 2005

| in EUR | Acquisition- and production cost | | | | Accumulated amortization/depreciation | | | | Net book values | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. 1, 2005 | Additions | Disposals | Dec. 31, 2005 | Jan. 1, 2005 | Additions | Disposals | Dec. 31, 2005 | Dec. 31, 2005 | Dec. 31, 2004 |
| I. Intangible assets | | | | | | | | | | |
| Franchises, industrial rights and similar rights and assets and licenses in such rights and assets | 976,781.14 | 77,908.15 | 0.00 | 1,054,689.29 | 859,248.84 | 74,314.29 | 0.00 | 933,563.13 | 121,126.16 | 117,532.30 |
| | | | | | | | | | | |
| II. Property, plant and equipment | | | | | | | | | | |
| 1. Buildings on third-party land | 678,858.50 | 14,074.73 | 0.00 | 692,933.23 | 258,304.05 | 74,531.25 | 0.00 | 332,835.30 | 360,097.93 | 420,554.45 |
| 2. TTechnical equipment and machines | 6,232,339.78 | 661,688.47 | 199,393.56 | 6,694,634.69 | 5,637,919.85 | 438,272.50 | 195,350.64 | 5,880,841.71 | 813,792.98 | 594,419.93 |
| 3. Other equipment, furniture and fixtures | 579,422.44 | 203,053.95 | 175,351.72 | 607,124.67 | 442,448.64 | 205,290.08 | 175,349.68 | 472,389.04 | 134,735.63 | 136,973.80 |
| | 7,490,620.72 | 878,817.15 | 374,745.28 | 7,994,692.59 | 6,338,672.54 | 718,093.83 | 370,700.32 | 6,686,066.05 | 1,308,626.54 | 1,151,948.18 |
| | | | | | | | | | | |
| III. Financial assets | | | | | | | | | | |
| Shares in affiliated companies | 4,348,050.60 | 0.00 | 0.00 | 4,348,050.60 | 4,319,969.18 | 0.00 | 0.00 | 4,319,969.18 | 28,081.42 | 28,081.42 |
| | 12,815,452.46 | 956,725.30 | 374,745.28 | 13,397,432.48 | 11,517,890.56 | 792,408.12 | 370,700.32 | 11,939,598.36 | 1,457,834.12 | 1,297,561.90 |

## CENIT AKTIENGESELLSCHAFT SYSTEMHAUS, STUTTGART

# NOTES TO THE FINANCIAL STATEMENTS FOR FISCAL YEAR 2005

## A. General

These financial statements have been prepared in accordance with Secs. 242 et seq. and Secs. 264 et seq. HGB ["Handelsgesetzbuch": German Commercial Code] as well as in accordance with the relevant provisions of the AktG ["Aktiengesetz": German Stock Corporation Act]. The Company is subject to the requirements for large corporations. The standards of the German Accounting Standards Committee e.V., Berlin, (GASC) have been observed to the extent that they are relevant to the financial statements of the Company.

## B. Accounting and Valuation Methods

The following accounting and valuation methods, which remained unchanged in comparison to the prior year, have been used to prepare the financial statements.

Purchased **intangible assets** are capitalized at acquisition cost and, if they have a limited life, are amortized on a straight-line basis over their useful lives. Additions are amortized on a pro rata temporis basis.

**Property, plant and equipment** are capitalized at acquisition or production cost as required by tax law and, if they have a limited life, are reduced by systematic depreciation.

Amortization and depreciation is recorded over the customary useful life using the straightline method. Pursuant to Sec. 6 (2) EStG ["Einkommensteuergesetz": German Income Tax Act], low-value assets with a value not exceeding EUR 410 were fully depreciated in the year of acquisition with their immediate disposal being assumed.

Disposals are recorded at the book value of the date of disposal.

**Financial assets** are recognized at the lower of cost or market.

**Work in process** is valued at production cost or, if third-party services, at acquisition cost. Own work comprises direct labor and proportionate overheads for administration, write-downs and rent. Inventory risks are accounted for by making appropriate allowances where necessary.

**Merchandise** is recognized at the lower of cost or market as of the balance sheet date.

**Receivables and other assets** are stated at their nominal value. All identifiable specific risks were taken into account in the valuation. A general allowance of 1% (prior year: 1%) was established for the general bad debt risk for trade receivables.

**Securities** are valued at the lower of cost or market.

The portfolio of **derivative financial instruments** as of December 31, 2005 and their valuation is as follows: Fig. 42

**Accruals** account for all foreseeable risks and contingent liabilities and are recorded at the amounts required according to prudent business judgment. The accrual for general warranties was set up for the first time in the reporting year at 0.5% of sales. Accruals of EUR 214 k have been recognized to cover individual warranty cases.

**Liabilities** are recorded at the amount repayable.

### Currency Translation

To determine the acquisition cost of affiliated companies, amounts in foreign currencies were translated at the exchange rate of the date of acquisition.

Receivables and liabilities in foreign currency are translated at the exchange rate of their date of inception; if the exchange rate on the balance sheet date is lower for receivables or higher for liabilities, they are valued at the exchange rate prevailing on the balance sheet date.

## C. Notes to the Balance Sheet and Income Statement

### I. Balance Sheet

### *1. Fixed Assets*

The development of the fixed asset items is presented separately in the statement of changes in fixed assets.

Fig. 42 DERIVATIVE FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2005

| Type/category | Nominal amount | Fair value | Book value (where available) | Balance sheet item (if recognized) |
|---|---|---|---|---|
| Interest-related transactions: | | EUR k | EUR k | EUR k |
| Interest swap | 2,000 EUR k | -80 | -80 | Accrual for potential losses |
| Interest swap | 2,000 EUR k | -203 | -203 | Accrual for potential losses |
| Exchange-rate-related transactions: | | | | |
| Single-barrier option | 410 EUR k/500 USD k | -13 | -13 | Accrual for potential losses |
| Single-barrier option | 205 EUR k/250 USD k | 1 | - | - |

The valuation was based on market values stated in the bank confirmations.

Fig. 43 FINANCIAL ASSETS

| No. | Name and Location | Currency | Equity investment in % | Share capital in thousands | Equity in thousands | Net income/loss |
|---|---|---|---|---|---|---|
| 1 | CENIT (Schweiz) AG, Frauenfeld/Switzerland | CHF | 90.00 | 500 | 659 | 87 |
| 2 | CENIT NORTH AMERICA INC., Rochester Hills/USA | USD | 100.00 | 25 | 360 | 182 |

### *2. Financial Assets*

The information on share holdings is shown in the attachment to the notes. Fig. 43

### *3. Inventories*

Own work included in work in process comprises consulting and other services only, which were valued at production cost. In addition to direct costs, it includes allocable overheads and write-downs. General and administrative expenses were capitalized pro rata temporis.

Merchandise essentially comprises hardware acquired for projects. Individual items were written down in the case of slow-moving stock or reduced usability.

### *4. Receivables and Other Assets*

The tax refund claims of EUR 17 k are refund claims under the double taxation treaty.

### *5. Prepaid Expenses*

This mainly concerns prepaid expenses for licenses and motor vehicle insurance.

### *6. Equity*

#### Share Capital

The share capital of the Company is unchanged since January 1, 2001 at EUR 4,183,879.00 and is fully paid in. It is split into 4,183,879 shares of EUR 1 each. The shares are made out to the bearer and are all common shares.

#### New Authorized Capital

The management board is authorized, with the consent of the supervisory board, to increase the share capital of the Company once or in several installments to a total amount of EUR 2,091,939 (authorized capital) up until June 16, 2009, by issuing up to 2,091,939 new no-par value bearer shares in return for contributions in cash or in kind. The shareholders must be granted subscription rights. The new shares may also be offered to one or several banks as well as one or more enterprises operating pursuant to Sec. 53 (1) Sentence 1 or Sec. 53b (1) Sentence 1 or (7) KWG ["Gesetzes über das Kreditwesen": German Banking Act] with the obligation of offering them for sale to the shareholders (indirect subscription right).

The management board is authorized, with the approval of the supervisory board, to preclude the shareholders' statutory subscription rights

- for a part amount totaling EUR 972,800.00 for capital increases in return for contributions in kind for the purpose of acquiring companies or equity investments in companies; companies or equity investments in companies may only be acquired if the business objective of the target company essentially lies within the scope of the Company's business objective pursuant to Art. 2 (1) of the articles of incorporation and bylaws.

- for a part amount totaling EUR 418,387.00 for capital increases in return for contributions in cash to issue the new shares at an issue price not significantly lower than the stock market price (Sec. 186 (3) Sentence 4 AktG).

If the management board does not make any use of the above authorizations to preclude subscription rights, the shareholders' subscription rights may only be precluded for fractional amounts. The management board is authorized, with the approval of the supervisory board, to determine the other details concerning performance of capital increases from authorized capital, including the further content and terms and conditions of the issue of shares.

After an increase in share capital utilizing the authorized capital in full or in part and, if the authorized capital has not been used or not used in full by the end of June 16, 2009, the supervisory board is authorized to adjust Art. 5 of the articles of incorporation and bylaws accordingly.

## Contingent Capital

The conditional capital comprises the following as of the balance sheet date: Fig. 44

## Stock Option Plan 2002/2005

By resolution of the shareholders' meeting on June 19, 2002, the Company increased its share capital by up to EUR 260,000.00 by issuing up to 260,000 individual no-par value bearer shares (common stock). The conditional capital increase is for the sole purpose of granting shares to bearers of options which the management board was authorized to issue on the basis of the resolution by the shareholders' meeting on June 19, 2002 as passed in the shareholders' resolution of June 10, 2005 ("stock option plan 2002"). The conditional capital increase is only to be carried out to the extent that the bearers of the options exercise their rights, which were granted on the basis of authorization by the shareholders' meeting on June 19, 2002 as passed in the shareholders' resolution of June 10, 2005. In each case, the new shares will participate in profits from the beginning of the fiscal year in which they are created by exercising stock options. The management board is authorized to decide on further details of the conditional capital increase and its implementation with the approval of the supervisory board.

## Terms and Conditions of the Stock Option Plan 2002 in the Version Passed in the Shareholders' Resolution on June 10, 2005

The options may only be offered to CENIT Group employees, consisting of members of the management board of CENIT Aktiengesellschaft Systemhaus (group 1), employees of CENIT Aktiengesellschaft Systemhaus (group 2), members of the executive bodies of affiliated companies as defined by Secs. 15 et seq. AktG (group 3), and employees of affiliated companies as defined by Secs. 15 et seq. AktG (group 4). A total of up to 20% of the options may be issued to group 1, up to 50% to group 2, up to 10% to group 3, and up to 20% to group 4. The options may only be exercised in full

Fig. 44 CONTINGENT CAPITAL

| | Dec. 31, 2005 Units | Dec. 31, 2004 Units | Dec. 31, 2005 EUR | Dec. 31, 2004 EUR |
|---|---|---|---|---|
| Stock option plan 2002/2005 | 260,000 | 260,000 | 260,000 | 260,000 |
| | 260,000 | 260,000 | 260,000 | 260,000 |

after expiry of a period of 2 years from the date of issue and be "converted" into shares in return for payment of a subscription price once the performance target has been reached.

Furthermore, options may only be exercised if one of the following criteria is fulfilled:

- After expiry of the waiting period, the options may only be exercised and shares which are purchased by exercise of the stock options may only be sold on the 4th day and the 14 following bank working days following publication of a quarterly report, interim report or financial statements of the Company.

- Adjusted for possible capital measures taken by the Company in the meantime, the average closing share price of the common stock on the Frankfurt stock exchange on the last five trading days before the beginning of the vesting period amounts to at least 135 percent of the Company's share price on the date of the decision taken by the management board or the supervisory board to issue the stock options. Or

- Adjusted for any dividend payments, options, and other special rights having occurred in the meantime, the development of the CENIT share between issue of the options and exercise of the options was at least 15% higher than the development of the 'Technology All Share Index' over the same period of time.

- The closing price of the Company's common stock on the XETRA (Exchange Electronic Trading) platform (or a functionally comparable successor system taking the place of the XETRA system) Technology All Share Index on the date of the decision taken by the management or the supervisory board to issue stock options shall be the decisive factor for determining the value of the CENIT share on the date the options are issued.

- The options are not transferable and can only be exercised by the entitled persons. In the event of death, however, the entitled person's statutory heirs may inherit the stock options.

- The options have a term to maturity of six years. If the options cannot be exercised before the end of their term, they automatically expire at the end of their term, without further notice such as a corresponding contract of declaration of expiry from the Company.

In the event of procedures pursuant to Secs. 327a et seq. AktG for stock options not exercised under this stock option plan, the provisions of Secs. 327a et seq. AktG apply to the subscription rights subject to the following condition:

"The stock options are transferred to the majority shareholder upon filing of the transfer resolution with the commercial register. The (previous) beneficiaries have a right to compensation in cash. This right is independent of whether the subscription rights were exercisable or not. The value of the right to compensation is measured based on the amount of the shareholders' right to compensation in cash pursuant to Secs. 327b, 327f AktG less the subscription or exercise price (no 8)."

The weighted average remaining contract term for the outstanding stock options as of December 31, 2005 comes to six years as of August 11, 2005 (2004: zero years).

THE FOLLOWING TABLE ILLUSTRATES THE NUMBER AND WEIGHTED AVERAGE EXERCISE PRICE (WAEP) OF THE STOCK OPTIONS GRANTED DURING THE FISCAL YEAR 2005.

| | 2005 Units | 2005 WAEP | 2004 Units | 2004 WAEP |
|---|---|---|---|---|
| Management board | 12,000 | 22.20 | 0 | 0.00 |
| Other executives | 91,500 | 22.20 | 0 | 0.00 |

The weighted average fair value of the options granted during the fiscal year amounted to EUR 640 k (2004: EUR 0) and is distributed over the waiting period of 2 years as an increase in the capital reserve.

The fair value of the equity-settled stock options granted is estimated as of the date of granting using the Black-Scholes option pricing model and taking account of the terms under which the options were granted. The calculation was based on the following parameters:

### Black-Scholes Option Pricing Model

| | |
|---|---|
| Dividend yield (%) | 1.35 |
| Expected volatility of the share (%) (=historical volatility (%)) | 38.16 |
| Risk-free interest rate (%) | 2.77 |
| Anticipated term of the option (years) | 4 |
| Weighted average share price (EUR) | 22.20 |

The anticipated term of the options is based on historical data and does not have to be in accordance with the beneficiaries' actual exercise behavior. The expected volatility is based on the assumption that future trends can be derived from historical volatility, although the actual volatility may deviate from the assumptions made.

No other factors that are related to the issue of options were taken into account when determining fair value.

## *7. Capital Reserve*

The capital reserve was increased by EUR 124,372.50 by adding the expense from the stock option plan 2002/2005.

## *8. Revenue Reserves*

Other revenue reserves changed as follows: Fig. 45

## *9. Retained Earnings* see Fig. 46

## *10. Accruals*

**Other accruals** essentially comprise accruals for personnel expenses (EUR 3,571 k), rent for unused office and storage space (EUR 1,318 k), general and specific warranties (EUR 582 k), outstanding supplier invoices (EUR 438 k) and potential losses from derivatives (EUR 296 k).

Fig. 45 REVENUE RESERVES IN EUR

| | EUR |
|---|---|
| January 1, 2005 | 1,154,834.48 |
| Transfer from retained earnings 2004 by the shareholders' meeting | 3,800,000.00 |
| December 31, 2005 | 4,954,834.48 |

Fig. 46 RETAINED EARNINGS IN EUR

| | EUR |
|---|---|
| January 1, 2005 | 5,074,934.26 |
| Distribution of a dividend of EUR 0.30 per share, total | -1,255,163.70 |
| Transfer to revenue reserves to other revenue reserves | -3,800,000.00 |
| Net income for the year 2005 | 6,294,669.32 |
| December 31, 2005 | 6,314,439.88 |

### *11. Liabilities*

The **remaining terms of liabilities due to banks** are as follows: Fig. 47

The current bank liabilities all relate to short-term credits for goods delivered from IBM GmbH by IBM Deutschland Kreditbank GmbH.

All other liabilities are due within one year. **Trade payables** are subject to customary retentions of title to the delivered assets.

**Other liabilities** break down as follows: Fig. 48

## II. Income Statement

### *1. Sales* see Fig. 49

94% of the sales were effected within Germany, 4% in other EU countries and 2% in other countries.

### *2. Other Operating Income*

Other operating income includes income from insurance premium refunds, rental income from subletting, income from a distribution agreement and from the release of accruals (EUR 1,053 k).

### *3. Other Operating Expenses*

Total other operating expenses fell by 5% to EUR 11.4 million compared to the prior year. Other operating expenses are mainly composed of rent and rent incidentals, vehicle costs, travel expenses, commission and marketing expenses.

### *4. Financial and Interest Result*

The financial and interest result breaks down as follows: Fig. 50

Fig. 47 LIABILITIES TO BANKS IN EUR

| | 2005<br>EUR | 2004<br>EUR |
|---|---|---|
| Due within 1 year | 1,321,275.06 | 2,183,464.60 |

Fig. 48 OTHER LIABILITIES IN EUR k

| | Dec. 31, 2005<br>EUR k | Dec. 31, 2004<br>EUR k |
|---|---|---|
| Liabilities from taxes | 1,569 | 1,453 |
| Liabilities related to social security | 684 | 615 |
| Sundry other liabilities | 85 | 159 |
| | 2,338 | 2,227 |

Fig. 49 INCOME STATEMENT

| | 2005 | 2004 | Change | |
|---|---|---|---|---|
| | EUR k | EUR k | EUR k | % |
| Services | 41,860 | 38,536 | 3,324 | 9 |
| Merchandise | 14,517 | 21,541 | -7,024 | -33 |
| Software | 7,514 | 4,730 | 2,784 | 59 |
| License fees | 5,793 | 4,960 | 833 | 17 |
| Commission | 2,391 | 3,297 | -906 | -28 |
| Total | 72,075 | 73,064 | -989 | -1 |

## *5. Proposal for the Appropriation of Profits*

The management board and supervisory board of the Company propose the following appropriation of profits to the shareholders' meeting: Fig. 51

Moreover, the management board and supervisory board will propose to the shareholders' meeting that EUR 4,183,879 be converted from the revenue reserve to share capital by issue of new shares with a right to dividends for the fiscal year 2006.

## *6. Audit and Consulting Fees*

The auditor's fees recognized in the fiscal year total EUR 77.5 k for the audit of the financial statements.

# D. Other Notes

### *1. Personnel*

An average of 488 (prior year: 449) members of staff were employed during the fiscal year, of which 19 (prior year: 16) were trainees.

### *2. Contingent Liabilities and Other Financial Obligations*

There are **obligations** from **rent and lease agreements** amounting to EUR 11 million (prior year: EUR 12 million).

Fig. 50 FINANCIAL AND INTEREST RESULT IN EUR k

| Other interest and similar income: | 2005<br>EUR k | 2004<br>EUR k |
|---|---|---|
| Bank interest | 227 | 180 |
| Dividends from securities lending | 373 | 0 |
| Profits from shares | 1,376 | 0 |
| Interest income from affiliated companies | 0 | 4 |
| Total | 1,976 | 184 |

| | 2005<br>EUR k | 2004<br>EUR k |
|---|---|---|
| Write-down of securities classified as current assets | 23 | 0 |
| Write-up of securities classified as current assets | 0 | 3 |
| Total | -23 | 3 |

| Interest and similar expenses: | 2005<br>EUR k | 2004<br>EUR k |
|---|---|---|
| Bank interest | 3 | 18 |
| Losses from share certificates | 1,622 | 0 |
| Compensation payments for securities lending | 373 | 0 |
| Lending fee for shares | 32 | 0 |
| Commitment fees | 0 | 19 |
| Interest from taxes | 16 | 0 |
| Guarantee commission | 8 | 11 |
| Total | 2,054 | 48 |

Fig. 51 PROPOSAL FOR THE APPROPRIATION OF PROFITS IN EUR

| | EUR |
|---|---|
| Distributable earnings | 6,314,439.88 |
| Dividend distribution (60 cents per 4,183,879 participating shares) | -2,510,327.40 |
| Special dividend distribution (30 cents per 4,183,879 participating shares) | -1,255,163.70 |
| Transfer to reserves | |
| a) Statutory reserves | -418,387.90 |
| b) Other revenue reserves | -2,100,000.00 |
| Profit carryforward | 30,560.88 |

## *3. Company Boards*

The following persons have been appointed **members of the management board**:

- *Andreas Schmidt (Dipl.-Ing.)*, Ebersbach, Spokesman of the Management Board – (Operations)

- *Hubertus Manthey (Dipl.-Ing.)*, Pliezhausen, (Personnel, Marketing, Investor Relations), Deputy Spokesman of the Management Board

- *Christian Pusch (Dipl.-Wirt.-Ing.)*, Waldachtal, (Finance, Organization)

The **supervisory board** members are:

- Falk Engelmann *(Dipl.-Ing., management consultant)*, Leinfelden-Echterdingen, Chairman

Hubert Leypoldt *(Dipl.-Kfm., German public auditor, tax advisor, counsel)*, Dettingen/Erms, Deputy chairman

Dr. rer. pol. Dirk Lippold *(managing director)*, Berlin

Norbert Fink (*Dipl.-Ing., management consultant, Metzingen*) is a substitute member for the supervisory board members Engelmann, Leypoldt and Dr. Lippold pursuant to Art. 10 (3) of the Company's articles of incorporation and bylaws subject to the condition that Mr. Fink is made a member of the supervisory board if one of the supervisory board members elected by the shareholders resigns before the end of the term of office, and that Mr. Fink is again appointed substitute member when the shareholders' meeting appoints a new supervisory board member for the member replaced by Mr. Fink.

Pursuant to the German Law on the Publication of Management Board Remuneration enacted on July 8, 2005, board remuneration must be published for fiscal years beginning after December 31, 2005. The Company has complied with this duty in advance for the reporting year 2005.

In the reporting period, the remuneration of the management board members was as follows: see Fig. 52

Remuneration of the management board totaled EUR 949 k in the prior year.

Mr. Christian Pusch was granted 12,000 stock options under the stock option plan. The related expenses came to EUR 14 k in the reporting year.

No pension obligations or benefits were promised in the event of termination of service.

In accordance with Art. 14 of the articles of incorporation and bylaws, the remuneration of the supervisory board was as follows in 2005: Fig. 53

The supervisory board received remuneration for its activities in the prior year of EUR 68 k in accordance with the articles of incorporation and bylaws.

The D & O insurance was continued in fiscal 2005 for management board members, supervisory board members as well as other executives.

The premiums of EUR 21,750 were borne by the Company.

As of the balance sheet date, the management board held 289,004 shares, i.e. 6.9% of the Company's share capital. Supervisory board members hold 145,800 shares (3.5%).

### *4. Changes at Shareholder Level*

The Company received several notifications in accordance with Sec. 21 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] from Baden-Württembergische Kapital¬anlageg esellschaft mbH in the course of the fiscal year. In its most recent letter dated December 9, 2005, Baden-Württembergische Kapitalanlagegesellschaft announced the following:

"Ladies and Gentlemen,

In accordance with Sec. 21 (1) WpHG, we hereby notify you of the fact that our voting rights in CENIT AG Systemhaus, Industriestrasse 52 - 54, D-70565 Stuttgart, Germany, exceeded the threshold of 5% of our separate trust assets on December 9, 2005 and now amount to 5.08%. Of those, 2.83% are allocable to us pursuant to Sec. 22 (1) Sentence 1 No 6 WpHG.

Sincerely,

Baden-Württembergische

Kapitalanlagegesellschaft mbH"

In a letter dated June 30, 2005, Norbert Fink notified the Company of the fact that his voting rights now amount to 4.86%. The notification pursuant to Sec. 41 (2) Sentence 1 WpHG reads as follows:

"Ladies and Gentlemen,

I am writing to notify you in accordance with Sec. 21 (1) WpHG that the share of my voting rights in CENIT AG fell below the threshold of 5% on June 29, 2005 and now amounts to 4.86%. Of those, 0.89% is allocable to me pursuant to Sec. 22 (1) Sentence 1 No 6 WpHG.

Sincerely,
Norbert Fink"

In a letter dated August 29, 2005, Andreas Schmidt notified the Company of the fact that his voting rights now amount to 4.74%. The notification pursuant to Sec. 41 (2) Sentence 1 WpHG reads as follows:

Fig. 52 REMUNERATION OF THE MANAGEMENT BOARD MEMBERS IN EUR k

| | Fixed remuneration<br><br>EUR k | Performance-related<br>remuneration<br>EUR k |
|---|---|---|
| Hubertus Manthey | 195 | 143 |
| Andreas Schmidt | 215 | 164 |
| Christian Pusch | 190 | 144 |
| | 600 | 451 |

Fig. 53 REMUNERATION OF THE SUPERVISORY BOARD IN EUR k

| | Fixed remuneration<br><br>EUR k | Performance-related<br>remuneration<br>EUR k |
|---|---|---|
| Falk Engelmann | 30 | 0 |
| Hubert Leypoldt | 23 | 0 |
| Dr. Dirk Lippold | 15 | 0 |
| | 68 | 0 |

"Ladies and Gentlemen,

I am writing to notify you in accordance with Sec. 21 (1) WpHG that the share of my voting rights in CENIT AG fell below the threshold of 5% on August 10, 2005 and now amounts to 4.74%. Of those, 0.66% is allocable to me pursuant to Sec. 22 (1) Sentence 1 No 1 WpHG.

Sincerely,
Andreas Schmidt"

In a letter dated June 24, 2005, Hubertus Manthey notified the Company of the fact that his voting rights now amount to 4.42%. The notification pursuant to Sec. 41 (2) Sentence 1 WpHG reads as follows:

"Dear Sirs,

I am writing to notify you in accordance with Sec. 21 (1) WpHG that the share of my voting rights in CENIT AG fell below the threshold of 5% on June 24, 2005 and now amounts to 4.42%.

Sincerely,
Hubertus Manthey"

The Company received notification in accordance with Sec. 21 (1) WpHG from Merrill Lynch Investment Managers in the course of the fiscal year. In its most recent letter dated June 21, 2005, Merrill Lynch Investment Managers announced the following:

"Dear Sir,

In accordance with Section 21 paragraph 1 WpHG, we hereby notify that our voting interest in Cenit AG Systemhaus, held on behalf of discretionary investment clients, exceeded the 5% threshold on 20th June 2005.

100% of these voting rights are attributable to us in accordance with section 22 para. 1 sent. 1 No. 6 WpHG.

| | |
|---|---|
| Date: | 20th June, 2005 |
| Type of Shares: | NPV |
| No. of Shares: | 215.533 |
| 5 % of Shares: | 5.15 % |
| Shares In Issue: | 4,183,879 |

Yours faithfully
for MERRILL LYNCH INVESTMENT MANAGERS GROUP LIMITED

Eamonn Holland, Associate — David Sibbert, Associate"

## E. Group Relationships

In compliance with Sec. 315a (1) HGB, the Company prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS).

## F. Declaration Pursuant to Sec. 161 AktG on the German Corporate Governance Code

The management board and supervisory board of the Company have issued the declaration for 2005 and 2004 required by Sec. 161 AktG and made it permanently available to the shareholders.

*Stuttgart, February 23, 2006*

CENIT Aktiengesellschaft Systemhaus

The Management Board

*Andreas Schmidt* *Hubertus Manthey* *Christian Pusch*

## G. Audit Opinion

We have issued the following opinion on the annual financial statements and the management report, which has been combined with the group management report:

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of CENIT Aktiengesellschaft Systemhaus, Stuttgart, which has been combined with the group management report, for the fiscal year from January 1 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions of the articles of incorporation and bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

*Stuttgart, March 7, 2006*

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Göhner | Laing |
| *Wirtschaftsprüfer* | *Wirtschaftsprüfer* |
| *[German Public Auditor]* | *[German Public Auditor]* |

# CORPORATE GOVERNANCE CODEX

Declaration of the Executive Board and Supervisory Board of CENIT AG Systemhaus in line with Article 161 of the German Stock Corporation Act (AktG)

## I. General comments on the German Corporate Governance Code

The principles of value-oriented and transparent corporate management and controlling have recently become increasingly important for the assessment and valuation of listed companies. The German Federal Minister of Justice tackled this issue in September 2001 with the convening of the Government Commission of the German Corporate Governance Code under the chairmanship of Dr Gerhard Cromme. The Government Commission approved the German Corporate Governance Code on February 26, 2002 and has since adapted it. Through the declaration of conformity in line with Article 161 of the AktG (added as a result of the Transparency and Publicity Act introduced on July 26, 2002, the Code has a legal basis. On the basis of Article 161 of the AktG, all listed companies are obliged to declare conformity with the requirements of the German Corporate Governance Code and explain any deviations from requirements (comply or explain). The particular aim of this is to fulfil the expectations of international investors.

The Executive Board and Supervisory Board of CENIT AG Systemhaus welcome the template for the German Corporate Governance Code and have decided to ensure widespread implementation of, and compliance with, the rules of the Code in the CENIT Group. CENIT AG Systemhaus thus demonstrates that responsible, value-oriented corporate management and controlling thereof are a top priority in the CENIT Group.

## II. Regulation levels of the German Corporate Governance Code

The Code comprises three regulation levels:

1. Statutory regulations pertaining to the valid company law on the management and monitoring of listed companies; they are binding for all public limited companies in Germany and therefore do not form part of the declaration of conformity.

2. Requirements in the form of recommendations which take into account nationally and internationally recognised standards of conduct; they are part of the declaration of conformity as defined in Article 161 of the AktG, i.e. the companies can in essence deviate from the Code, but are obliged to disclose this annually (comply or explain).

3. Suggestions from the Code Commission for good and responsible corporate management and monitoring which are formulated with expressions such as "should" or "can" and for which no disclosure of deviation in line with Article 161 of the AktG is required.

## III. Regulation areas of the German Corporate Governance Code

The German Corporate Governance Code governs the following areas:

- Shareholders and shareholders' meeting
- Interaction of Executive Board and Supervisory Board
- Executive Board
- Supervisory Board
- Transparency
- Accounting and auditing.

As a listed public limited company, CENIT AG Systemhaus is conscious of the fact that the shareholders provide the necessary growth capital and therefore bear an entrepreneurial risk. Extensive transparency, open and prompt communication with investors, efficient risk management, compliance with stock exchange regulations and corporate management which focuses on the creation of value growth are therefore already essential elements of CENIT's corporate philosophy.

CENIT AG Systemhaus already fulfils the high reporting standards required as a result of admission to the Prime Standard of the regulated market. CENIT AG Systemhaus therefore already complies with a number of the recommendations of the German Corporate Governance Code.

## IV. Declaration of conformity in line with Article 161 of the German Stock Corporation Act pertaining to the German Corporate Governance Code in its current version dated June 2nd 2005

The Executive Board and Supervisory Board of CENIT AG Systemhaus declare that the recommendations for a "Government Commission of the German Corporate Governance Code" published by the German Federal Minister of Justice in the official part of the electronic Federal Gazette have been and are complied with, subject to the exceptions outlined below. Current and future deviations from the Code are defined below. The relevant text from the Code is shown in italics.

1. Section 2.3.1, Clause 3 of the Code (publication on the internet of statutory reports and documents required for the shareholders' meeting)

*The Executive Board shall not only publish the reports and documents required by law for the shareholders' meeting, including the Annual Report, and distribute them to shareholders upon request, but shall also publish them on the company's website, together with the agenda.*

CENIT AG Systemhaus has complied with this recommendation since its invitation to the third annual shareholders' meeting of the company on June 20, 2001.

2. Section 2.3.3, first half of Clause 3 of the Code (appointment of a proxy with voting instructions)

*The Executive Board shall ensure the appointment of a proxy so that the voting right of the shareholders is exercised according to instruction;*

CENIT AG Systemhaus has not complied with this recommendation in the past. Provisions were made for the appointment of a proxy with voting instructions from the 2003 shareholders' meeting onwards.

3. Section 3.8, Clause 3 of the Code (deductible for D&O insurance)

*If the company concludes a D&O insurance policy for the Executive Board and Supervisory Board, an appropriate deductible shall be agreed.*

CENIT AG Systemhaus has not complied with this recommendation in the past. The property damage liability insurance for company managers (D&O insurance) concluded for the members of the Executive Board and Supervisory Board of the company and executive bodies of the consolidated majority subsidiaries does not cover any wilful breaches of obligations, but only those committed in negligence. No deductible for negligent breaches of obligations is planned until further notice.

4. Section 3.10 of the Code (report on the Corporate Governance of the company in the annual report)

*The Executive Board and Supervisory Board shall report on the Corporate Governance of the company annually in the annual report. This also includes explaining any deviations from the recommendations of this Code. Opinions can be given on suggestions made in the Code.*

CENIT AG Systemhaus will comply with this recommendation in future.

5. Section 4.2.3, Clause 8 and 9 of the Code (main elements of the remuneration system)

*The main elements of the remuneration system and the specific structure of a stock option plan or similar structures for components with a long-term incentive effect and risk element shall be published on the company's web site in a generally comprehensible form and explained in the annual report. This shall also include information on the value of stock options.*

CENIT AG Systemhaus does not comment on the remuneration system on the web site. There are no stock options.

6. Section 5.3.1, Clause 1 of the Code (formation of committees)

*Regardless of the specific circumstances of the company and the number of employees, the Supervisory Board shall form committees with specialist skills.*

The Supervisory Board does not form committees on a regular basis, but as and when the need arises.

7. Section 5.3.2, first half of Clause 1 of the Code (formation of an audit committee)

*The Supervisory Board shall set up an audit committee,...*

Due to the small number of members, the Supervisory Board does not form a specific audit committee.

8. Section 5.4.5, Clause 4 of the Code (remuneration of members of the Supervisory Board)

*In addition to a fixed remuneration, the members of the Supervisory Board shall receive a performancerelated remuneration.*

CENIT AG Systemhaus complied with this recommendation in the past, to the extent that Article 14, Paragraph 1 of the original memorandum and articles of association included provisions for performancerelated remuneration in addition to the fixed remuneration. The shareholders' meeting of CENIT AG Systemhaus held on May 31, 2000 amended Article 14 Paragraph 1 of the memorandum and articles of association, which since then has only included the fixed remuneration for the members of the Supervisory Board. There are no plans to change this clause of the memorandum and articles of association.

9. Section 7.1.2, second half of Clause 2 of the Code (publication of interim reports)

*..., the interim reports shall be available to the public within 45 days of the end of the reporting period.*

CENIT AG Systemhaus failed to comply with this recommendation twice in 2002 but has complied with it since 2003.

**Report on the share option program and securitiesoriented incentive systems (Figure 7.1.3)**

The CENIT AG option program 2002/2005 grants the right to subscribe to CENIT shares at a fixed subscription price. The subscription is linked to a waiting period that must be adhered to, stipulated exercise periods and performance criteria regarding the development of the value of the CENIT share.

The waiting period is 2 years. The option can be exercised on a quarterly basis at contractually fixed times. The performance criteria are defined as follows:

The value of the CENIT share must be at least EUR 29.97 at the time or exercise (absolute hurdle)

OR

The development of the share value between the

| REPORT ON THE REMUNERATION OF THE SUPERVISORY BOARD (FIGURE 5.4 7. SENTENCE 6) | | |
|---|---|---|
| Member | Fixed remuneration in accordance with the Articles of Association | Total |
| Falk Engelmann, Chairman | 2 x 15,000 EUR | 30,000 EUR |
| Hubert Leypoldt, stellv. Deputy Chairman | 1.5 x 15,000 EUR | 22,500 EUR |
| Dr. Dirk Lippold | 1 x 15,000 EUR | 15,000 EUR |
| Remuneration 2005 | | 67,500 EUR |

### Report on the ownership, acquisition or sale of shares by members of the Executive and Supervisory Boards or persons in management positions who have regular access to insider information (Figure 6.6)

Acquisition or sales of shares by members of the Executive and Supervisory Boards in 2005

| Name | Date | Transaction | Place | Number | Price | Volume |
|---|---|---|---|---|---|---|
| Hubertus Manthey | Feb. 18, 2005 | Sale | Off-floor | 80,000 | 14.96 | 1,196,800 |
| Andreas Schmidt | Mar. 03, 2005 | Sale | Off-floor | 60,000 | 16.00 | 960,000 |
| Hubertus Manthey | May 12, 2005 | Sale | Stock exchange | 4,000 | 17.55 | 70,200 |
| Hubertus Manthey | May 17, 2005 | Sale | Stock exchange | 8,000 | 17.61 | 140,880 |
| Hubertus Manthey | Jun. 24, 2005 | Transfer | Off-floor | 25,000 | 19.00 | 475,000 |
| Andreas Schmidt | Jun. 24, 2005 | Sale | Off-floor | 50,000 | 19.00 | 950,000 |
| Hubertus Manthey | Jun. 24, 2005 | Sale | Off-floor | 30,000 | 19.00 | 570,000 |
| Andreas Schmidt | Aug. 10, 2005 | Sale | Off-floor | 50,000 | 21.00 | 1,050,000 |
| Hubertus Manthey | Aug. 08, 2005 | Sale | Stock exchange | 2,236 | 23.04 | 51,517.44 |
| Hubertus Manthey | Aug. 22, 2005 | Sale | Stock exchange | 2,264 | 23.07 | 52,230.48 |
| Christian Pusch | Nov. 22, 2005 | Sale | Stock exchange | 2,350 | 22.90 | 53,815 |
| Hubertus Manthey | Nov. 24, 2005 | Sale | Off-floor | 20,000 | 22.90 | 458,000 |
| Andreas Schmidt | Nov. 28, 2005 | Sale | Off-floor | 27,600 | 23.30 | 643,080 |
| Hubertus Manthey | Nov. 28, 2005 | Sale | Off-floor | 2,400 | 22.30 | 55,920 |
| Falk Engelmann | Nov. 28, 2005 | Sale | XETRA | 5,000 | 23.30 | 116,500 |
| Falk Engelmann | Nov. 29, 2005 | Sale | XETRA | 5,000 | 23.28 | 116,385 |
| Falk Engelmann | Nov. 30, 2005 | Sale | XETRA | 5,000 | 23.03 | 115,169 |
| Hubertus Manthey | Dec. 08, 2005 | Sale | Off-floor | 10,000 | 23.31 | 233,110 |

| SHARES OF OVER 1% HELD BY MEMBERS OF THE EXECUTIVE BOARD AS AT 31.12.2005 | | |
|---|---|---|
| Name | Number of share | Percent |
| Hubertus Manthey | 118,108 | 2.8 |
| Andreas Schmidt | 170,896 | 4.1 |

| SHARES OF OVER 1% HELD BY MEMBERS OF THE SUPERVISORY BOARD AS AT 31.12.2005 | | |
|---|---|---|
| Name | Number of share | Percent |
| Falk Engelmann | 145,000 | 3.5 |

time of granting and the time of exercising the option rights must exceed the value development of the Technology All Share Index by at least 15% (relative hurdle)

The subscription price was set at the share price amount at the time of granting the option rights (EUR 22.20 per share according to valuation reports). The duration of the option program is 7 years, the waiting period to be adhered to is 2 years.

We also refer to the detailed information on the share option program in the notes to the Annual Report.

*The Executive Board and Supervisory Board of CENIT AG Systemhaus*

*Stuttgart, December 2005*

*Andreas Schmidt,* Chairman of the Executive Board
*Hubertus Manthey,* Member of the Executive Board
*Christian Pusch,* Member of the Executive Board

*Falk Engelmann,* Chairman of the Supervisory Board
*Hubert Leypoldt,* Member of the Supervisory Board
*Dr. Dirk Lippold,* Member of the Supervisory Board