ARTICON INTEGRALIS

Annual Report 2005

Contents

Overview Results

		Revenue	EBITDA pre exceptionals	EBITDA	Operating Income	Net Earnings per share (basic and diluted)
		M€	M€	M€	M€	€
FJ 2005		112.8	-1.2	-0.7	-2.2	-0.20
FJ 2004 (restated)		87.1	-2.1	-3.4	-4.0	-0.39
FJ 2003	Continuing Operations	86.2	-3.9	-7.4	-15.7	-1.57
	Discontinued Operations	60.9	2.9	2.9	1.5	-
	Total	**147.1**	**-1.0**	**-4.5**	**-14.2**	**-1.57**

	Revenue	Gross Profit	Gross Margin	Personnel Expenses	Personnel Expenses	Other Operating Expenses	Other Operating Expenses	EBITDA
	M€	M€	%	M€	%	M€	%	M€
Q4 2005	33.5	11.5	34.3	8.1	24.1	3.1	9.3	0.3
Q3 2005	26.6	9.4	35.4	7.3	27.5	2.7	10.2	-1.4
Q2 2005	27.3	9.7	35.5	7.3	26.8	3.0	11.1	0.3
Q1 2005	25.4	9.2	36.1	6.9	27.0	2.5	9.9	0.1
Q4 2004	23.8	9.0	37.7	6.7	28.3	2.2	9.3	-1.0

Letter to the shareholders

Dear shareholders and business associates,

To give you an idea of just what an extraordinary year 2005 was for us, let me use an example from the sailing world: We set off last year in choppy wind force 5 conditions on board a catamaran. During the turn, we not only replaced part of the crew but also the two hulls while at sea and additionally rearranged the sails. Despite these adversities, we managed to remain on course and successfully complete the regatta.

After a three-year consolidation period, during which top priority was given to improving cost structures, Articon-Integralis unleashed new momentum in 2005. With a growth rate of almost 30%, revenues substantially exceeded the € 100 million mark for the first time since the establishment of the Group in its current structure. This increase, which was far in excess of the industry average (approx. 10 - 15%), is the result of aggressive selling activities in tandem with improved utilization of the available resources. The improvement in business and the efficiency gains achieved are also reflected in further progress on the bottom line, with the Group breaking even at the EBITDA level in three quarters. The fact that it failed to enter profit-making territory for the year as a whole is due to provisions of € 2,2 million set aside in Q3 for restructuring. On balance, however, the turnaround continued, with the loss at the EBITDA level shrinking by € 2.7 million to € 0.7 million. The highlight was the final quarter of the year, in which a six-digit post-tax profit of € 0.4 million was achieved for the first time since Q1 2001.

The IT security market continues to be highly competitive, a fact which is clearly demonstrated in margins. Thus, the gross margin has contract by around 10 percentage points since 2003, equivalent to revenues of over € 11 million. Given this dimension, a whole package of measures was necessary. One key step towards improving transparency within our Group involved redefining the individual national companies as profit centres. In line with our strategy, these are divided into three core areas - consulting, services and marketing. This structure implemented across all national countries forms the basis for Group-wide benchmarking. Any deviations from targets are identified quickly, clearly assigned and systematically addressed by taking appropriate measures. Thus, for example, earnings in Switzerland turned the corner in 2005. In the United States, a slight upward trend has now emerged following the replacement of the local top management in Q1.

Despite these initial successes, we still have further work before us to reduce the excessive differences in the performance of the individual companies. Our top performer in the year under review was Swedish company Netsecure, which we had only acquired in May, followed by our French subsidiary, which achieved EBIT margins of 10% and 8%, respectively. This is the course which all other Group members must follow. With operations in the UK, Germany, France, Sweden and Switzerland, Articon-Integralis covers over 70% of the European IT market. At this stage, we do not have any specific plans to widen our presence, although we do think that the Benelux region as well as Central Europe constitute targets worth considering.

With a share of well over 50%, our range of products and services again leant very heavily towards product business in 2005. Although the more favourable purchasing conditions achieved as a result of a change of wholesaler left positive traces in Q4 in particular, our declared aim is to continue our efforts to extend service business with its wider margins on a massive scale. We are also pinning high hopes to our Managed Security Services (MSS). Intensified selling activities and clear targets are already generating preliminary results. In the past few months, we have been able to gain what in some cases have been large-volume contracts from internationally renowned customers. In addition to rising bottom line contributions, these contracts generate recurring revenues and thus heighten our profitability and the capacity utilization of our service centres on a sustained basis. In the wake of our innovation offensive, we have developed new services and enhanced existing ones.

Other aspects of our efforts to strengthen our market position include strategic partnerships with consulting and technology companies. We have already begun to address identity and access management issues in the market place jointly with SUN Microsystems. Further partnerships will continue in 2006 and help to reinforce our market position.

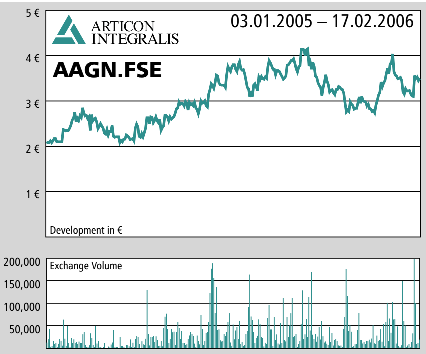
Last year, we were able to substantially strengthen our position as a leading European service provider for IT security. The surge in growth made considerable demands on our "crew". For this reason, we would like to take this opportunity to thank all our staff whose extreme dedication made this performance possible in the first place. We would additionally like to express our gratitude to our shareholders and business associates for the confidence which they showed in us. We are entering 2006 strengthened and have set our course for growth. Our goal is to continue growing and expanding more quickly than the market. To this end, we will be doing everything in our power to achieve net profit for the year for the first time in our Company's history.

Georg Magg

For the Management Board

Articon-Integralis stock outperforming the indices in tandem with heavy volatility

The recovery in the German stock market gained momentum in 2005, with the blue-chip DAX index achieving its second highest gains after three years of erosion coinciding with the dawning of the new millennium. After remaining muted up until May, the DAX rallied on news of early federal elections in Germany, posting a full-year gain of 27%. This broad-based advance was flanked by excellent economic data. Plentiful company earnings attracted national and international institutionals, while the number of private German equity investors also rose again.



As in the previous year, investors preferred small and mid-caps, with trading volumes in this segment widening in tandem with those for blue chips. However, they outperformed the big caps. In fact, the MDAX achieved the greatest gains of an impressive 35%. It was closely followed in second place by the SDAX with gains of 34%, relegating the DAX to third place. Bringing up the rear was the TecDAX, which was up only 18% in 2005. With their sterling performance, small and midcaps easily outshone the blue-chips, with triple—digit gains no rarity in individual cases.

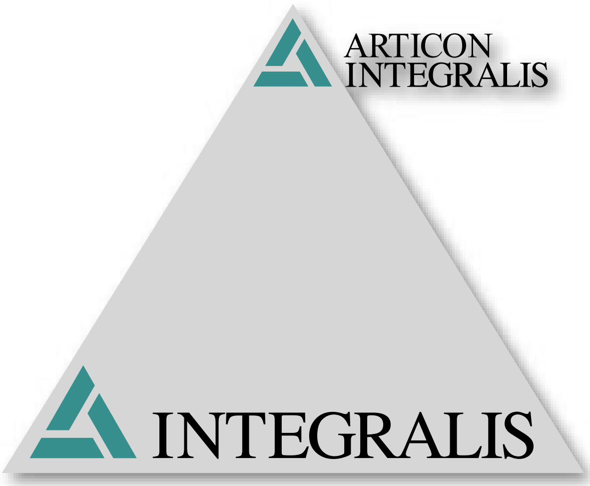
Articon-Integralis stock managed to turn the corner in 2005. After the losses sustained in the previous year, the stock, which is included in the Prime Standard, advanced on balance by around 40%, beating the large indices as well as the Prime All Share Index and Technology All Share Index, of which it is a member. However, this above-average performance cannot conceal the fact that the stock was accompanied by strong volatility. Still, this is typical of a listed company which has turned the corner after years of losses and is on the verge of breaking even. In such times, investors vacillate between hope and worry, something which can cause erratic stock movements. This psychological phenomenon was not affected by reactivated investor and public relations work in the form of analyst conferences and road shows as it takes time to regain lost confidence.

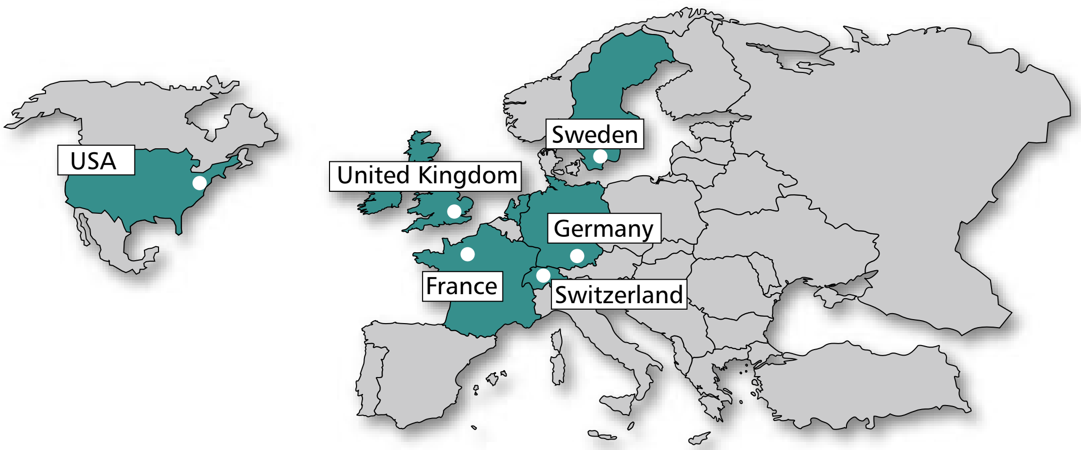
Accompanied by strong volatility and large trading volumes, the stock surged on the announcement of the Q1 figures, which confirmed the improved revenue and earnings guidance, peaking with gains of over 100%. Given this overheated situation, the publication of the figures for the first nine months placed a damper on the stock. Unexpected restructuring charges of € 2.2 million triggered doubts as to the sustainability of the Company's earnings turnaround. As a result, the stock shed more than one third of its gains, stabilizing in a range between € 2.80 and € 3.00 at the end of the year.

Group structure

Articon-Integralis AG (admitted to the Prime Standard, ticker symbol AAGN, ISIN DE0005155030) is a leading European provider of IT security products and services. It has 17 branches in Europe and the United States with around 400 employees. Articon-Integralis offers its customers data security services covering communications, identification, content and integrity. Under its "Integralis" name, the Company integrates security systems and provides comprehensive security solutions comprising the best IT security products and an extensive range of consulting activities, system integration, technical support and managed security services.

Articon-Integralis customers are national and international blue-chip companies as well as public-sector bodies. Further information on Articon-Integralis is available at www.articon-integralis.com.





MSC (Managed Service Centres) in Munich, London and Hartford/CT

Integralis – IT Security Service Provider

Integralis is Europe's leading IT security service provider and a subsidiary of Articon-Integralis AG. National and international FTSE 100 and DAX companies have been placing their trust in Integralis' competence, experience and quality in all matters relating to IT security for many years.

Established in 1988, the Company has some 400 employees around the world today, including more than 200 IT security specialists. IT security by Integralis means strategic and technical advice, planning, implementation as well as operations support and monitoring.

Integralis is characterized by a broad range of security products and services encompassing consulting, service and system integration and configuration of hardware and software from leading IT security vendors. The vendors themselves are subject to ongoing internal qualification and review in the interests of achieving the best possible technical solutions and meeting the highest quality standards.

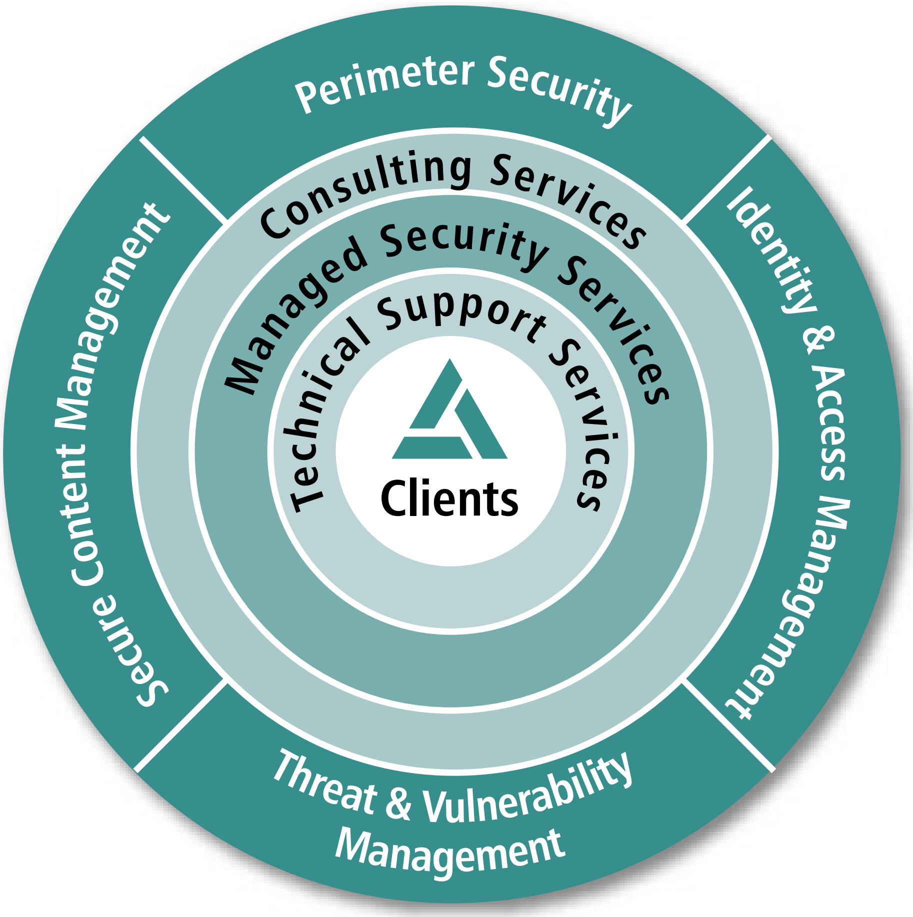
The comprehensive service and support offerings range from the technical support centres (TSC) to security management centres (SMC). The TSCs handle more than 5,000 support contracts on a 24/7 basis and ensure swift and problem-free operation of the installed customer systems. Depending on the terms of the contract, customers' systems are monitored or managed around the clock 365 days a year via the SMCs. With these centres, Integralis maintains a redundant SMC network in Germany, the United Kingdom and the United States currently serving over 1,000 customer systems in 34 countries.

A key basis for IT security is strategic IT security consulting, audits, risk management and the drafting of security policies, which provide the foundations for a comprehensive security solution as this is the only way of ensuring that a solution meeting the customers' requirements can be found.

With its extensive experience and presence, Integralis is able to serve national and international customers on a comprehensive basis and to systematically develop, implement and manage IT security solutions.

Integralis Services

Integralis offers a comprehensive range of security products and services and works closely with leading technology providers



Technical support service
- Integralis® Secure Call
- Software updates
- Hotline support
- Round-the-clock system support

Managed security services
- Firewall management
- Vulnerability management
- E-mail management
- Content and filtering
- Managed intrusion detection
- Managed authentification

Security services
- System tests project management
- System configuration
- Implementation
- Systems integration
- Systems security services (S3)
- Network forensics

Consulting services
- Risk analysis
- Security checks
- Definition of security policies
- Advice on security information
- Penetration test
- ISO 17799 certification

Articon-Integralis AG Group management report for 2005

1 Business performance, underlying conditions and competition

Articon-Integralis is a provider of IT security solutions acting on a global basis. Under the "Integralis" name, it offers security solutions, consulting services, system integration, training, managed security services and packaged services to end users. With 17 branches in five European countries and the United States, Articon-Integralis offers corporate customers extensive security solutions targeted at meeting all security requirements.

The beginning of 2005 saw a recovery in market demand for IT security solutions. Thus, revenues in Q1 2005 were up just on 27% over the year-ago quarter. Adjusted for the acquisition of Netsecure Sweden AB, revenues rose by 22.7% year on year.

The Articon-Integralis Group grew at an above-average rate compared with its key competitors and also in defiance of leading market studies, with double-digit revenues growth achieved in all countries. The Group's management attributes a large part of this above-average expansion to its staff's high expertise, vendor independence and the focus on IT security.

To ensure sustained future growth, the Group invested in additional marketing and technical staff and also restructured its operations in the third and fourth quarters with the aim of additionally boosting efficiency. This resulted in a temporary quarter-on-quarter increase in staff costs as well as exceptionals in the third quarter. This was necessary to respond to the consistently strong competition and pressure on margins.

Articon-Integralis' competitors can be divided into three groups:

- Large international telecommunications companies and IT outsourcers
- International IT network and security companies
- Regional IT network and security companies

The Group's key success factor setting it apart from its competitors is its focus on integrated and vendor-independent IT security solutions together with an extensive range of services available around the clock.

In order to respond appropriately to current trends in IT security as well as to strengthen its competitive position, the Group spent a sum of € 0.9 million in 2005 on extending and developing its Managed Security Services (MSS), equivalent to an increase of just on 30% over 2004 (€ 0.7 million). Of this, € 0.3 million was capitalized in accordance with IAS 38.

Individual development activities were reviewed in Q3 2005, resulting in a greater focus on specific promising development activities. Dependence on external developers was reduced by great deployment of the Group's own staff for development activities.

2 Earnings situation

The figures at a glance:

All figures on € 000s	2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005
Revenues	87,149	25,379	27,269	26,566	33,536	112,750
Gross profit	34,965	9,166	9,678	9,399	11,511	39,754
Gross profit (%)	40.1%	36.1%	35.5%	35.4%	34.3%	35.3%
Personnel expenses	26,897	6,860	7,305	7,309	8,087	29,561
Personnel expenses (%)	30.9%	27.0%	26.8%	27.5%	24.1%	26.2%
Other operating expenses	10,207	2,504	3,020	2,721	3,115	11,360
Other operating expenses (%)	11.7%	9.9%	11.1%	10.2%	9.3%	10.1%
EBITDA before exceptionals	-2,139	-198	-647	-631	309	-1,167
Exceptionals	-1,255	255	951	-702	-	504
EBITDA	-3,394	57	304	-1,333	309	-663
EBITDA margin (%)	-3.9%	0.2%	1.1%	-5.0%	0.9%	-0.6%
Operating Income (EBIT)	-4,126	-377	-151	-1,764	-151	-2,031
Net Loss	-4,019	-338	-357	-2,014	448	-2,261
Net loss after tax (%)	-4.6%	-1.3%	-1.3%	-7.6%	1.3%	-2.0%

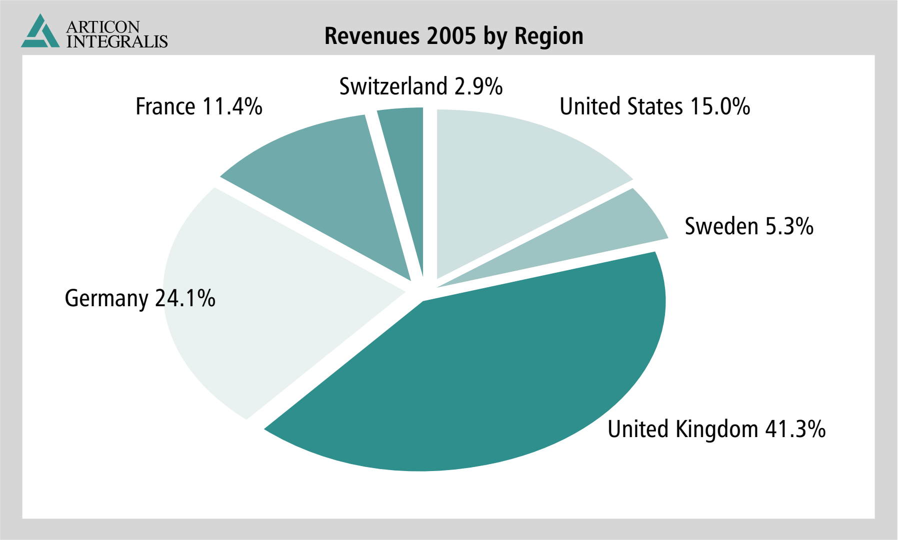
2.1 Revenues by region

The aforementioned recovery in demand resulted in a steady rise in revenues in 2005 to € 112.8 million (2004: € 87.1 million). Adjusted for the acquisition of Netsecure Sweden AB, which was consolidated as of May 1, 2005, revenues climbed by 22.7% to € 106.9 million. This is equivalent to revenues per employee of € 0.286 million in acquisition-adjusted terms on the basis of an average Group headcount of 374 (2004: revenues per employee: € 0.235 million; average headcount 370). The disclosure of proforma revenues for 2004 including Netsecure Sweden AG has been dispensed with as the accounting rules applied in Sweden in 2004 do not permit any meaningful comparison.

An analysis of revenues by country shows that the increase was underpinned by all countries.

The most pronounced increase was in the United States, where two new sales offices - one in New York and the other in Boston - were opened in 2005. Although the bulk of revenues continued to be generated in the United Kingdom and Germany, above-average growth in France and the United States as well as the acquisition in Sweden reduced exposure to these regional markets. Another encouraging factor was the successful merger of the Axipe SA acquisition the French Integralis unit.

	2005		2004		Change
	EUR 000s	%	EUR 000s	%	2005 vs. 2004
UK	46,569	41.3%	38,826	44.6%	19.9%
DE	27,186	24.1%	22,437	25.7%	21.2%
FR	12,849	11.4%	10,020	11.5%	28.2%
CH	3,282	2.9%	2,926	3.4%	12.2%
US	16,960	15.0%	12,940	14.8%	31.1%
SE	5,904	5.3%	-	-	
	112,750	100.0%	87,149	100.0%	29.4%



2.2 Revenues by product and services

	2005		2004		Change
	EUR 000s	%	EUR 000s	%	2005 vs. 2004
Product sales	61,174	54.3%	40,291	46.2%	51.8%
Recurring services	40,748	36.1%	38,184	43.8%	6.7%
Non-recurring services	10,828	9.6%	8,674	10.0%	24.8%
Total revenues	**112,750**	**100.0%**	**87,149**	**100.0%**	**29.4%**
Breakdown of service revenues					
• Technical support contracts	33,575	65.1%	31,026	66.2%	8.2%
• Training	630	1.2%	425	1.0%	48.2%
• Integration and consulting	10,198	19.8%	8,249	17.6%	23.6%
• Managed security services	7,173	13.9%	7,158	15.2%	0.2%

A substantial increase in product revenues is clearly discernible. This was due to a series of major contracts generally involving a greater volume of products. The increase in product revenues caused a reduction in the relative shares of the other segments. Thus, consulting and integration revenues rose by almost 24% accompanied by an increase of only 8% in average headcount in this segment thanks to substantial process improvements and enhanced resource utilization.

Revenues from recurring services were up just under 7% on the previous year and account for 79% (2004: 81%) of total service business. Recurring services primarily entail hardware and software maintenance contracts, contracts for Integralis SecureCall telephone support and MSS contracts.

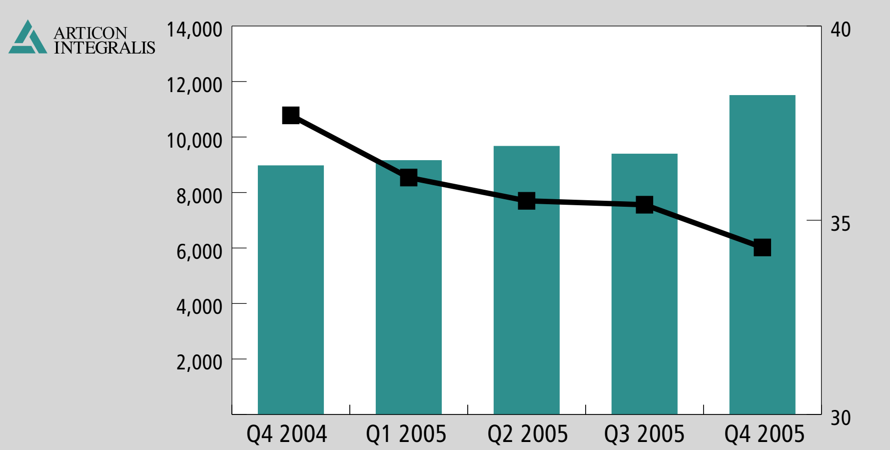
As a large part of the recurring services business is renewed at the end of the calendar year and business volumes widened in the course of the year, the increase in revenues in this segment is not fully reflected in 2005 revenues figure due to the application of deferral accounting to the contracts. On the basis of contract volumes billed and not deferred, revenues were up 17.2% over the previous year, something which is reflected on the face of the balance sheet in higher deferred revenues (2005: € 27.6 million, up 39.3% on the 2004 figure of € 19.8 million).

This is particularly evident in the case of MSS revenues. Although no increase is reflected in reported revenues, the billed contractual volume rose by 11% over 2004, thus providing a favourable indicator of future revenues.

2.3 Gross profit and margins

Gross profit for 2005 as a whole came to € 39.8 million (2004: € 35.0 million), equivalent to an increase of 13.7% or 7.7% in acquisition-adjusted terms. This translates into a gross margin of 35.3%, marking a further decline over the previous year's figure of 40.1% in spite of the substantial increase in revenues. By the same token, however, it also indicates a weakening of margin erosion. Thus, in Q1 2004 a gross margin of 42.8% had been achieved, with this figure shrinking by 5.1 percentage points to 37.7% by Q4 2004. In 2005, the margin contracted again to 34.3% after remaining almost stable from the second to the third quarter.

Margins are primarily determined by sustained heavy competitive pressure as well as the sharp rise in revenues from large projects as margins on this type of business are normally smaller. What is more, a number of these large projects involved conventional technology areas such as firewalls, VPN and IDS, which also generally fetch smaller margins.

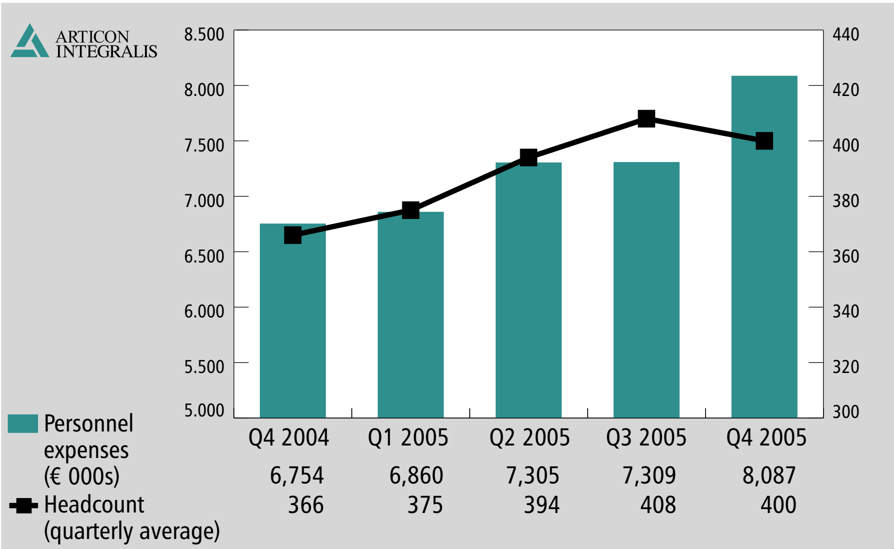


	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Gross profit (€ 000s)	8,978	9,166	9,678	9,399	11,511
Gross margin (%)	37.7	36.1	35.5	35.4	34.3

Notwithstanding this, it was possible to reduce, although not completely recoup, margin erosion by renegotiating purchasing conditions with key suppliers.

2.4 Staff costs and other operating expenses

In the course of the year, the number of employees rose from an average of 375 in Q1 2005 to an average of 400 employees in Q4 2005. Of these, 20 employees came from Swedish company Netsecure, which was acquired in Q2 2005. Average headcount for 2005 as a whole stood at 394 (2004: 370). Staff costs came to € 29.6 million in 2005, up from € 26.9 million in 2004, translating into costs per employee of € 75,000 in 2005 (2004: € 73,000). There are two reasons for this increase: Firstly, there had been no pay increases in many parts of the Company in earlier years, something which potentially threatened Integralis' appeal as an employer of IT security specialists. Secondly, the gross margin targets used as a basis for calculating the variable compensation components were exceeded in some segments.



The staff costs for 2005 as a whole reflect the acquisition of Netsecure Sweden AB in Q2 2005 as well as extensions to and the reorientation of our marketing resources, something which generally caused an increase in personnel numbers as well as temporary duplication of positions. In the fourth quarter, the variable compensation components left particular traces. The particularly strong performance in Q4 2005 necessitated revisions to estimates concerning sales target achievement. As targets were achieved or exceeded, high bonus payments arose in the United Kingdom and the United States in particular, leading to a significant rise in the final quarter of 2005.

Work which had been commenced in Q3 2005 on reorganizing the sales force as well as a number of central units has been largely completed, meaning that there will be no increase in staff costs if targets for 2006 are reached.

Consolidated other operating expenses came to € 11.4 million in 2005 (2004: € 10.2 million) including € 0.4 million attributable to Netsecure Sweden AB. This means that operating expenses (excluding Netsecure) rose by just under 7.8% over 2004. The provision of IT security services results in key elements of operating expenses being related to personnel numbers, which also rose by 6.5% in the same period.

2.5 Expenses before exceptionals, income from the sale of financial assets, interest, tax and net income for the year

In order to improve the Group's efficiency on a sustained basis and to enhance cost structures, management decided to implement various restructuring activities in 2005, implementation of which will continue in 2006 in some cases. Restructuring particularly affected sales, finance and the service centres and necessitated total expenditure of € 2.2 million, of which a large part was paid in 2005.

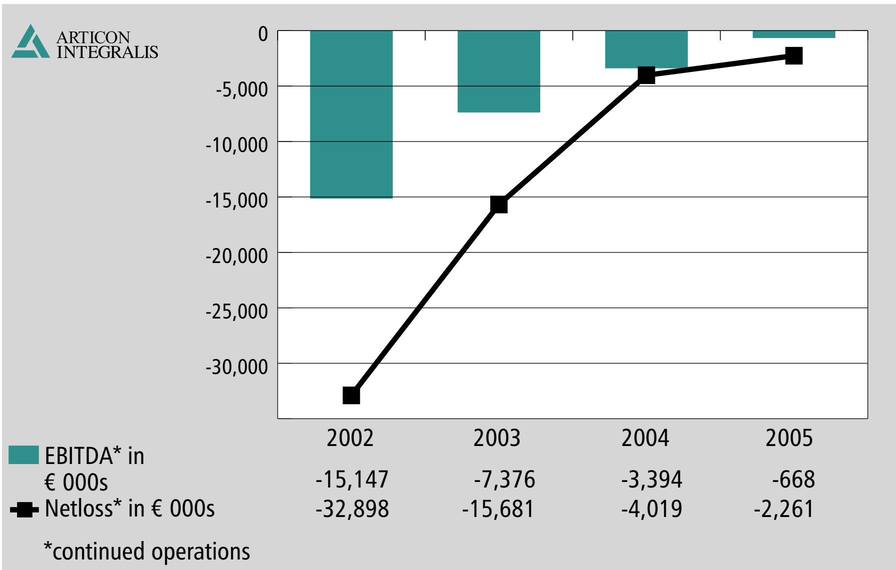
On the other hand, earn-out payments from the sale of the Allasso Group less premiums payable to Allasso's former management were accounted for. These totalled € 2.7 million and were placed on the income statement as exceptional income.

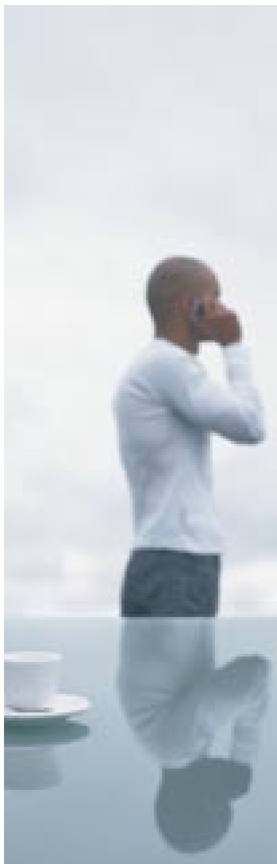
In 2004, the minority interest in Foundstone was sold to McAfee Inc., generating proceeds of € 1.8 million in that year and a further € 0.4 million in 2005 from the dissolution of an escrow account for possible guarantee obligations. The account will be dissolved in 2006 in full, resulting in further income assuming that it is not required to cover any guarantee claims.

The situation at the EBITDA level improved (2005: loss of € 0.7 million; 2004: loss of € 3.4 million), with net loss for the year after tax also shrinking (2005: € 2.3 million; 2004: € 4.0 million). All told, however, the earnings situation was not satisfactory in 2005.

2002 and 2003 were characterized by high operating losses combined with heavy goodwill amortization and depreciation charges on financial assets. Although operating losses were trimmed in 2004 and 2005 due to cost-cutting efforts, they were not completely eliminated as a result of the drastic erosion of margins in product business.

The earnings situation since 2002 is as follows:





3 Net assets

As a result of rising business volumes and the growing number of deferred contracts for technical support, help desk services and MSS, there was an increase in both trade receivables (2005: € 26.3 million; 2004: € 18.9 million) and trade payables (2005: € 16.5 million; 2004: € 11.7 million). As a large proportion of the support and help desk contracts are renewed at the end of the calendar year, this regularly results in an appreciable increase in receivables and liabilities at the end of the year. The substantial rise in prepaid expenses and deferred income is also due to the encouraging growth in contract volumes.

Normally, valuable fixed assets are not required to perform IT security services. The share of current assets in total assets stood at 80% in 2005 (2004: 84%).

This was influenced by two contrary events in 2005: The effects of the growth in contract numbers already described and the acquisition of Netsecure Sweden AB caused current assets to rise by € 12.8 million. On the other hand, goodwill increased by € 5.7 million to € 10.6 million at the end of 2005 also as a result of this acquisition. Intangible assets climbed slightly due to the recognition of internally generated assets (see Section 3.4 of the Group Notes) and the acquisition of the maintenance contract portfolio held by Netsecure Sweden AB (see Section 1.3 of the Group Notes).

4 Financial condition

Payment flows within the Group are largely characterized by matching currencies, i.e. the operative units in the UK buy and sell in Sterling and the US company in US dollars.

As of December 31, 2005, the Group was not using any external sources of finance. During fiscal 2005, UK company Integralis Ltd. engaged in factoring as a source of finance (see Point 3.6 of the Group Notes). No other credit facilities or off-balance-sheet financial instruments were used. Cash and cash equivalents are free of any drawing restrictions save for a sum of € 0.6 million (see Section 6.2 of the Group Notes).

The net cash inflow from operating activities of € 0.7 million (2004: net cash outflow of € 4.2 million) reflects a number of different effects: For one thing, earnings before tax declined by € 1.6 million over 2004. At the same time, the Company's working capital requirements were significantly lower, something which is reflected in the cash flow statement via the change in net current assets from minus € 0.5 million in 2004 to plus € 3.7 million in 2005. This was primarily due to improved receivables management, particularly in Germany, which resulted in a decline in the average age of receivables to 42 days. In addition, payment terms with the Company's main suppliers were renegotiated, thus helping to alleviate the pressure coming from payment terms agreed with its own customers.

Although shareholders' equity contracted by only € 0.4 million year on year in 2005 (2004: € 16.8 million), the equity ratio dropped from 27% in 2004 to 20% in 2005 due to the above-mentioned effects of growth in business volumes as well as the deferral of contracts, which resulted in an increase in the balance sheet total. Whereas the equity ratio normally improves when a break-even situation is reached, our contract business means that net income of at least € 3.2 million must be achieved to ensure that the equity ratio remains stable over the previous year assuming the same volume of business.

Notwithstanding the loss situation, the Group's situation can be considered to be solid at the moment on account of the net cash inflow. However, it will be of strategic importance for profit-making territory to be reached in the coming year.

5 Material events occurring after the balance sheet date

No events of any material importance have occurred since the end of fiscal 2005.

6 Risk report

Articon-Integralis AG's business operations involve both opportunities and risks. The Company endeavours to make optimum use of opportunities while minimizing the risks as far as possible. Risk management plays a key role in ensuring Articon-Integralis AG's success and continued existence. The risk management system identifies and evaluates risks and monitors and limits them by means of a uniform Group-wide management, reporting and controlling system. Group management monitors operating risks in the form of regular reports on business performance and particular occurrences in the individual companies. The parameters of relevance for steering the Group and the national companies are available at short notice and updated on a weekly or monthly basis in line with Group-wide rules. Where necessary, measures required to reduce risk are then taken. The Management Board meets regularly at the offices of the individual national companies.

6.1 Currency risks

As a large part of our business is transacted in US dollars and Pound Sterling, we are exposed to exchange rate risks when these amounts are translated into our Group currency, the Euro. At our national companies, our main suppliers issue their invoices in the local currency, meaning that the currency risk is primarily confined to the translation of the national companies' financial statements.

In 2005, no hedging was engaged in on account of the expected possible effects. However, this may change in the event of any revised risk assessment.

6.2 Market and sector conditions

Whereas the market for IT security products and services was generally muted in 2004, this weakness appeared to have been overcome in 2005. Notwithstanding the upbeat forecasts for the market, it is not possible at this stage to judge how long the current trend will continue.

In addition, the IT security market is subject to ongoing change caused by new security risks and changes in technical hard and software platforms. As a result of these changes, margins in individual segments making a material contribution to revenues may come under further substantial pressure, possibly impairing the Group's profitability.

To avoid this, the Group regularly monitors technological developments as part of its product management activities and invests in extensive testing of other more profitable technologies. Finally, the Group is stepping up investments in extensions to scalable and high-margin services to reduce margin pressure.

Both aspects will allow the Group to harness opportunities arising in new areas of the IT security market, permitting it to strengthen existing growth and reduce possible dependence on products and vendors. By developing its own services, Articon-Integralis will be able to particularly widen the customer and partner potential available to it.

6.3 Agreements in connection with the sale of Allasso

Various binding agreements have been entered into in connection with the sale of Allasso. To date, no facts giving rise to any claims under the guarantees and acceptance of liability for damages governed by the contract have been identified. There are differences of opinion with respect to the achievement of the contractual targets as a basis for determining the outstanding additional payments. This concerns an amount of € 2.3 million less bonus payments of € 0.4 million for the former Allasso management. This risk is being addressed by means of clear and legally enforceable documentation tracking achievement of the agreed targets.

6.4 Threatened losses in connection with vacant buildings

The leases in the United Kingdom entered into under the name of Articon-Integralis Limited have a remaining term of almost 13 years. In 2003, we set aside provisions of € 2.5 million to allow for the remaining risks in connection with the lease after the expiry of the sublease to Allasso. In addition, an additional sum of € 0.4 million was provided for to cover vacant buildings in Germany. Accordingly, total provisions for threatened losses from rental leases are valued at € 2.9 million. As of December 31, 2005, these provisions were valued at € 2.8 million.

6.5 Product portfolio and vendor risks

In addition to the obvious market risks to which the Group is exposed, the Articon-Integralis Group faces the risk of strategic changes on the part of the producers of the products and technologies which it sells. Among other things, producers may implement changes to their price and discount structures, enter into arrangements with our competitors or modify their selling and marketing strategies. In an effort to minimize such risks and to exert influence on producers, we maintain permanent contact with the management of our suppliers on an international and national level.

7 Outlook

Standard studies currently point to growth in the IT security products market of at least 10% until the end of this decade. Articon-Integralis AG's performance in 2005 impressively demonstrated that the Group is able to secure a disproportionately large share of this growth. As a result, we gained market share in 2005 at the expense of our international competitors. Backed by the restructuring activities of the past few years, the reorganization of sales and the service centres, we assume that we are well poised to continue benefiting from this trend in 2006 and 2007. On the basis of sequential quarter-by-quarter performance, we expect margin erosion to continue, albeit to a slightly lesser extent.

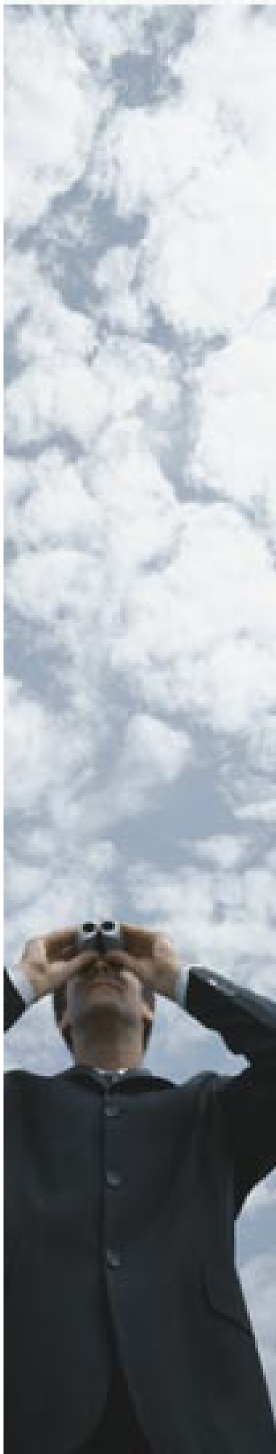
At the end of 2005/beginning of 2006, a profit centre structure was installed for all countries as well as central operating units in order to achieve a clearer allocation of earnings. In addition, efforts were commenced in 2006 to directly assign costs not only for products but also for internally generated services in internal reporting so as to determine margin and earnings contributions within the country units as well as to allow comparisons across countries. The resultant transparency gains will help us to heighten earnings awareness on all levels of the Group and to calculate margins on projects with greater precision.

Cash and cash equivalents are expected to decline in Q1 2006 as the agreed earn-out payments for the acquisition of French company Axipe SA and Netsecure Sweden AB will be falling due in this period. In addition, final payments to Intechnology in connection with the sale of the Allasso Group in 2003 are likely to arise. Finally, a further payment in connection with the restructuring measures launched in 2005 will be required in Q1 2006. All planned activities were placed on the balance sheet in 2005, meaning that no further charges will arise in 2006. There are currently no material capital spending obligations scheduled for the future.

We are looking for at least 10% growth in consolidated revenues for 2006 as a whole compared with 2005, with the breakdown of revenues set to play an important role. In this respect, we will be seeking a greater share of high-margin service business and integration business for fast-growing and profitable technologies (e.g. identity access management, content security). On the basis of the revenues achieved globally and in Germany in 2005, we are optimistic that we are facing not merely a temporary recovery in demand but sustained medium-term growth. With the combination of expected growth in conjunction with restrictive budget management and the introduction of profit centres, we are confident of being able to report net profit for the year in 2006 and 2007.

Ismaning, February 2006

The Management Board



Auditors' report

We have audited the consolidated financial statements comprising the balance sheet, the income statement, the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Articon-Integralis Aktiengesellschaft for the financial year from January 1, 2005 to December 31, 2005. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) required within the EU, and the additional regulations according to Article 315 (1) HGB are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion whether the consolidated financial statements and the group management report are in accordance with International Financial Reporting Standards (IFRS) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in consolidated financial statements 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit, which also extends to the group management report prepared by the Board of Management, has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the financial year in accordance with IFRS required within the EU, and the additional regulations according to Article 315 (1) HGB. The group management report provides a suitable understanding of the Group's position and suitably presents the opprtunities and risks of future development.

Munich, March 6, 2006
AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Chr. Bartelt

G. Wörl
Wirtschaftsprüfer
(German Public Auditor)

ppa. Chr. Bartelt
Wirtschaftsprüferin
(German Public Auditor)

Articon-Integralis AG Consolidated Balance Sheet (IFRS)

Assets			31.12.2005	31.12.2004
		Note No.	€k	€k
A	CURRENT ASSETS			
	I Cash and cash equivalents		19,356	18,626
	II Trade accounts receivable	3.1	26,250	18,928
	III Inventories	3.2	1,183	1,109
	IV Prepaid expenses and other current assets		18,566	13,848
	Total Current Assets		65,355	52,511
B	NON CURRENT ASSETS			
	I Property, plant and equipment (2004 restated)	3.3	3,996	4,416
	II Intangible assets (2004 restated)	3.4	870	296
	III Goodwill	3.5	10,624	4,897
	Total Non Current Assets		15,490	9,609
C	DEFERRED TAXES	4.7	392	242
	TOTAL ASSETS		81,237	62,362

Liabilities and Shareholders' Equity			31.12.2005	31.12.2004
		Note No.	T€	T€
A	CURRENT LIABILITIES			
	I Current capital lease obligations		74	70
	II Short-term debt and current portion of long-term debt		-	449
	III Trade accounts payable		16,453	11,740
	IV Accrued expenses	3.7	8,821	5,286
	V Deferred revenues		27,574	19,791
	VI VIncome tax payable		1,165	1,301
	VII Other current liabilities		2,933	2,419
	VIII KCurrent portion of provisions (2004 restated)	3.8	2,188	287
	Total Current Liabilities		59,208	41,343
B	NON CURRENT LIABILITIES			
	I Long-term capital lease obligations		1,637	1,711
	II Long-term provisions (2004 restated under IFRS 2)	3.8	3,961	2,493
	Total Non Current Liabilities		5,598	4,204
C	SHAREHOLDERS' EQUITY			
	I Share capital	3.9	11,425	10,506
	II Capital reserve		14,252	13,240
	III Share option reserve (2004 restated under IFRS 2)		342	246
	IV Foreign currency translation reserve		815	965
	V Accumulated deficit (2004 restated under IFRS 2)		-10,403	-8,142
	Total Shareholders' Equity		16,431	16,815
	TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		81,237	62,362

Articon-Integralis AG Profit and Loss Statement (IFRS)

		Note	01.01-31.12.2005	01.01-31.12.2004
		No.	€k	€k
1	Revenue		112,750	87,149
2	Cost of purchased materials and services		72,996	52,184
	Gross Profit		**39,754**	**34,965**
3	Personnel expenses (2004 restated under IFRS 2)	4.1	29,561	26,897
4	Other operating expenses (2004 restated under IFRS 2)	4.2	11,360	10,207
	EBITDA pre-exceptionals		**- 1,167**	**- 2,139**
5	Exceptional items	4.4	504	- 1,255
	EBITDA		**- 663**	**- 3,394**
6	Depreciation and amortisation		1,780	1,800
7	Amortisation of goodwill		-	769
8	Profits on the disposal of financial assets	4.5	412	1,837
	Operating income/ (loss)		**- 2,031**	**- 4,126**
9	Interest & other similar income and expense	4.6	- 283	183
	Result before income taxes		**- 2,314**	**- 3,943**
10	Income tax	4.7	- 53	76
	Net income/ (loss)		**- 2,261**	**- 4,019**
	Net earnings per share (basic & diluted) in Euro, (2004 restated under IFRS 2)	4.8	-0.20	- 0.39
	Weighted average shares outstanding (basic & diluted)	4.8	11,055,509	10,385,869

Articon-Integralis AG Consolidated Cash Flow Statement (IFRS)

	01.01-31.12.2005	01.01-31.12.2004
	€k	€k
Cash flows from operating activities:		
Result before tax for the period (2004 restated under IFRS 2)	- 2,314	- 3,943
Adjustments for:		
Increase/(decrease) in long-term provisions	8	- 141
Increase in share option reserves (2004 restated under IFRS 2)	96	204
Depreciation and amortisation	1,780	2,569
Profits on the disposal of financial assets	- 412	- 1,837
Foreign exchange gains/(losses)	- 264	95
Interest & other similar expenses/(income)	283	- 183
Exceptional income/(costs)	- 504	1,256
Operating result before changes to net working capital	**- 1,327**	**- 1,980**
Exceptional payments	- 1,486	- 1,749
Changes in net working capital	3,722	- 452
Cash from operating activities	**909**	**- 4,181**
Taxes received	221	-
Taxes paid	- 666	- 195
Interest received	324	346
Interest paid	- 135	- 163
Net cash from operating activities	**653**	**- 4,193**
Cash flows from investing activities:		
Acquisition of subsidiaries, net of cash acquired	- 1,296	- 1,885
Proceeds from disposal of subsidiaries, net of cash transferred	2,500	406
Purchase of tangible and intangible assets	- 1,425	- 1,614
Proceeds from the sale of financial assets	412	2,320
Net cash provided by/(used in) investing activities	**191**	**- 773**
Cash flows from financing activities:		
Proceeds from issue of share capital	219	97
Proceeds from short or long-term borrowings	61	449
Repayment of short or long-term borrowings	- 510	-
Payment of capital lease liabilities	- 70	- 65
Net cash used in/(provided by) financing activities	**- 300**	**481**
Net effect of currency translation in cash and cash equivalents	186	76
Net increase/(decrease) in cash and cash equivalents	**730**	**- 4,409**
Cash and cash equivalents at beginning of period	**18,626**	**23,035**
Cash and cash equivalents at end of period	**19,356**	**18,626**

Articon-Integralis AG Consolidated Statement of Changes in Shareholders' Equity

Number of shares issued at 31.12.2005: 11,425,145 registered shares	Subscribed Capital	Capital Reserves	Share option Reserve	Foreign currency Translation Reserve	Accumulated Deficit	Total
	€k	€k	€k	€k	€k	€k
01.01.2004	**10,280**	**12,696**	**63**	**889**	**- 4,123**	**19,805**
Increase on grant of share options (restated under IFRS 2)	-	-	183	-	-	183
Increase re Axipe acquisition	109	391	-	-	-	500
Increase re Tercom acquisition	45	129	-	-	-	174
Increase re exercise of share options	72	24	-	-	-	96
Changes arising from currency conversion	-	-	-	76	-	76
Net loss for the period (2004 restated under IFRS 2)	-	-	-	-	- 4,019	- 4,019
31.12.2004	**10,506**	**13,240**	**246**	**965**	**- 8,142**	**16,815**
01.01.2005	**10,506**	**13,240**	**246**	**965**	**-8,142**	**16,815**
Increase re exercise of share options	171	63	-	-	-	234
Increase re Netsecure Sweden AB acquisition	700	904	-	-	-	1,604
Increase re Axipe acquisition	48	45	-	-	-	93
Increase on grant of share options	-	-	96	-	-	96
Changes arising from currency conversion	-	-	-	- 150	-	- 150
Net loss for the period	-	-	-	-	- 2,261	- 2,261
31.12.2005	**11,425**	**14,252**	**342**	**815**	**- 10,403**	**16,431**

Notes to the Consolidated Financial Statements (IFRS) of Articon-Integralis AG

1 General Information

Articon-Integralis AG was formed out of the merger between Articon Information Systems AG and the Integralis Ltd Group on 29 February 2000 and is a global specialist in IT security systems integration and the provision of managed services offering a broad selection of security solutions. At 31 December 2005, the company had seventeen offices across Europe and the US and employed a staff of 389. Articon-Integralis supports companies in setting up secure communication links and E-commerce transactions over both private and public networks. Comprehensive security solutions, consulting, system integrations and also Managed Security Services are offered under the trading name of Integralis.

Articon-Integralis AG has prepared its consolidated financial statements under International Financial Reporting Standards (IFRS), in accordance with § 315 a HGB. The Company is therefore exempt from preparing consolidated financial statements in accordance with the regulations defined in §§ 290 et seqq. HGB.

The consolidated balance sheet, profit and loss account, cash flow statement and segment reporting are drawn up in thousands of Euro.

1.1 Legal Information

Articon-Integralis AG is a public limited company based in 85737 Ismaning, Gutenbergstrasse 1, Germany. The company is registered with the Registry Court in Munich under number HRB 121349.

1.2 Application of International Financial Reporting Standards (IFRS) and Statement of Compliance

Articon-Integralis AG as the holding company of the Group has prepared consolidated financial statements in line with uniform accounting and valuation principles. The standards of the International Accounting Standards Board (IASB) valid on the effective balance sheet date, including the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), were applied.

The financial statements at 31 December 2005 are in accordance with all International Financial Reporting Standards which were valid for the reporting period.

1.3 Companies Included in Consolidation

The consolidated financial statements include the accounts of Articon-Integralis AG and all of its subsidiaries that are directly or indirectly controlled. The Group includes the following companies, all directly or indirectly 100 % subsidiaries of Articon-Integralis AG, at 31 December 2005:

Subsidiary	Registered Office
Activis Inc	Connecticut, USA
Activis Ltd	Reading, UK
Articon U.S. Holdings Inc	Connecticut, USA
Articon-Integralis Ltd	Reading, UK
Articon-Integralis SAS	Paris, France
Integralis Inc	Connecticut, USA
Integralis Ltd	Reading, UK
Integralis SA	Givisiez, Switzerland
Integralis SAS	Paris, France
Integralis GmbH	Ismaning, Germany
Integralis Holdings Ltd	Reading, UK
Integralis Services Ltd	Reading, UK
Integralis Services GmbH	Ismaning, Germany
Netsecure Sweden AB	Stockholm, Sweden
Netip Tonq AB	Stockholm, Sweden
Nocitra AG	Zurich, Switzerland

On 6 May 2005, the Group entered into an agreement to acquire a 100% interest in Netsecure Sweden AB and its 100 % subsidiary, Netip Tonq AB. The total consideration amounted to € 3,113 k settled in cash amounting to € 1,500 k and by the issue of shares amounting to € 1,613 k (700,000 shares at € 2.3045 per share). Deferred consideration is payable in 2006 and 2007 based on the achievement of certain performance criteria. The estimated net present value of the deferred consideration (€ 3,277 k) was included in the purchase costs at the time of acquisition.

The costs of acquiring Netsecure Sweden AB include directly attributable costs of € 150 k for auditors, legal advice and advisors involved in the acquisition.

The acquisition was accounted for in accordance with IFRS 3. Accounting according to the purchase method led to goodwill, capitalised as an intangible asset. The results of Netsecure Sweden AB and Netip Tonq AB have been included in the consolidation from the date of the agreement in May 2005. The net assets acquired were as follows:

Netsecure net assets acquired	€k
Cash and cash equivalents	681
Trade accounts receivable	396
Inventories	166
Prepaid expenses and other current assets	951
Property, plant and equipment	30
Intangible assets	451
Goodwill	5,721
Trade accounts payable	-402
Accrued expenses	-220
Deferred revenues	-1,032
Income taxes payable	-135
Other current liabilities	-67
	6,540

The contribution of Netsecure Sweden AB to the consolidated profit and loss account for the year ended 31 December 2005 is € 468 k.

1.4 Date of the Consolidated Financial Statements

The consolidated financial statements are drawn up as per 31 December 2005. The date of the Group statements is identical with the closing dates of the incorporated companies.

1.5 Principles of Consolidation

Articon-Integralis Ltd (Reading, UK) and its subsidiaries were included in the consolidated financial statements from 1 January 2000 using the Uniting-of-Interest method. In consolidating the investment in subsidiaries, the differences between the amount recorded as share capital issued plus additional cash considerations and the amount recorded for the share capital acquired were adjusted against equity.

For the other incorporated subsidiaries, consolidation was carried out using the purchase method. For acquisitions made prior to 1 January 2005, in line with IAS 22, assets were accounted for using valuations at the time of acquisition and the difference between the aggregate purchase price of the subsidiary and the fair value of the net assets acquired was capitalised as goodwill and amortised. From 1 January 2005, the provisions of IFRS 3 have been adopted and the costs of the business combination allocated to the assets acquired and liabilities and contingent liabilities assumed. With effect from 1 January 2005 and after initial recognition goodwill is measured using the impairment-only approach. If necessary, goodwill was adjusted to a lower fair value by an impairment charge.

The effects of inter-company transactions between consolidated companies have been eliminated in the consolidated financial statements.

1.6 Foreign Currency Translation

The balance sheets of foreign subsidiaries were translated in accordance with IAS 21 at closing rates and the profit and loss accounts at average rates for the period. The resulting translation differences are shown without impact on the result in reserves. Translation differences arising from the consolidation of investments are shown without impact on the result in reserves.

The consolidated financial statements were prepared using the Euro as the functional currency.

2 Accounting Policies

2.1 Cash and Cash Equivalents

For the purposes of the cash flow statement as defined by IAS 7, all liquid assets with an original maturity date of up to three months are treated as cash or cash equivalents. This line item consists of bank balances, cheques, cash-on-hand and shares in money market funds.

2.2 Receivables and Other Assets

Receivables and other assets are valued at fair value. Allowances are made for specific interest and credit risks.

2.3 Inventories

Inventories are valued according to IAS 2 at acquisition cost. Inventories are stated net of provisions for slow-moving and obsolete items. Goods or services for unfinished projects are evaluated by the specific costs incurred up to the balance sheet date. The cost of other inventories is assigned by using the first-in first-out ('FIFO') method.

2.4 Prepaid Expenses

Prepaid expenses principally include payments to suppliers relating to technical support contracts which do not constitute expenses for the year. Prepayments are expensed on a linear basis over the remaining duration of the contracts.

2.5 Property, Plant & Equipment

Property, plant and equipment is recorded according to IAS 16 at acquisition cost less depreciation, calculated on a straight-line basis. Exceptional depreciation is charged where a decline in value is anticipated. Maintenance expenditure is considered as expenditure for the period. The estimated useful life ranges are principally between one and ten years. Assets of minor value are fully depreciated in the year of purchase.

Where the Group leases assets, it is deemed, according to IAS 17, to be the economic owner if it faces all the benefits and risks connected with ownership (finance leasing). Depreciation methods and useful lives are similar to those of corresponding purchased assets. Such assets are generally capitalised at cost at the date of signing the contract. The corresponding lease obligations are shown as liabilities. The interest portion of the leasing obligations is expensed over the duration of the lease. In the case of leases in which the lessor keeps possession (operating leasing), the asset is shown on the lessor's balance sheet; the leasing payments are expensed in full.

2.6 Intangible Assets

Acquired intangible assets are recorded at cost. Software and licences are subject to straight-line depreciation over their expected useful lives of three to four years. Exceptional depreciation is charged where a decline in value other than temporary is anticipated.

Development costs are capitalised as intangible assets in accordance with IAS 38 if the project is technically and economically viable and is expected to generate future economic benefits through use or sale, and the costs can be reliably measured. Such capitalised costs are amortised over a three-year period.

2.7 Goodwill

In accordance with IFRS 3, the Company has ceased to amortise goodwill from 1 January 2005 onwards.

The carrying values of the Group's assets are reviewed at least annually or whenever there is an indication that impairment may exist. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying value of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are separately recognised in the profit and loss account in the position "Amortisation of Goodwill".

2.8 Deferred Taxes

Deferred taxes are calculated in accordance with the balance-sheet based temporary concept (IAS 12). Thus taxes are deferred for all differences in accounting and evaluation between IFRS and local tax regulations. Deferred tax assets are recognised, provided that future realisation is considered probable.

2.9 Liabilities

Liabilities are valued at the fulfilment and/or repayment amount.

2.10 Deferred Income

Deferred income represents payments received from customers for technical support contracts, which will be deferred over the remaining duration of the contracts.

2.11 Provisions and Accrued Expenses

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay).

Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. Provisions account for all identifiable obligations towards third parties in accordance with IAS 37 and are recorded at their most probable amounts.

2.12 Shareholders' Equity

The composition and movements in equity are shown in the Consolidated Statement of Changes in Shareholders' Equity and where applicable in the Notes to the balance sheet.

In the consolidated financial statements, the provisions of IFRS 2 were applied to the granting of equity instruments issued after 7 November 2002 that had not yet vested by 1 January 2005.

2.13 Revenue Recognition

Revenue from sales is recognised in the income statement when goods are shipped and the significant risks and rewards of ownership have been transferred to the buyer or services are provided according to contract. Revenue from technical support contracts is recognised in the income statement on a straight-line basis over the duration of the contract. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

2.14 Borrowing Costs

Borrowing costs are expensed in the period in which they are incurred (IAS 23).

2.15 Income Taxes

Income taxes are calculated in accordance with the tax conditions prevailing in the country in which the Company operates. Deferred tax assets and liabilities are recognised for all temporary differences between the tax-related valuations and the book values of assets and liabilities and also for tax-related losses brought forward where there is reasonable certainty that a future benefit will arise.

3 Notes on the Balance Sheet

3.1 Accounts Receivable and Other Assets

Trade accounts receivable are shown net of allowances for doubtful receivables. Accounts receivable and other assets are due within one year.

3.2 Inventories

The carrying value of inventories is subdivided as follows:

	31.12.2005	31.12.2004
	€k	€k
Finished goods and merchandise	1,222	1,291
Less: provision for slow moving and obsolete inventories	-39	-182
Total inventories	**1,183**	**1,109**

3.3 Fixed Assets

Changes in the book value of fixed assets are disclosed in the fixed asset movement schedule (see Appendix to the Notes). Intangible assets (software) with a book value of € 176 k were restated from computer equipment in 2005. The comparatives for 2004 were adjusted accordingly.

Finance leasing contracts exist to the major extent for two buildings and a plot of land for which purchase options exist in 2010 and 2017 respectively. The leased assets have been capitalised according to IAS 17 at their fair values. They are depreciated at 4 % p.a. The interest expense connected with finance leasing in 2005 was € 114 k (2004: € 117 k), at an interest rate of 6.17 %. The carrying value of assets from finance leasing was € 1,551 k (2004: € 1,622 k).

Lease payments are expected in the future as follows:

	Future Payments	Discount	Net present value
Term	**€k**	**€k**	**€k**
Up to 1 year	183	-109	74
Between 1 and 5 years	830	-474	356
Over 5 years	1,672	-391	1,281
	2,685	**-974**	**1,711**

3.4 Intangible Assets

Besides software and licences, the position comprises development costs capitalised according to IAS 38.

3.5 Goodwill

Since 1 January 2005, subsequent evaluation of goodwill has followed the Impairment-only approach of IFRS 3. The carrying values of goodwill totalling € 10,624 k were verified against fair values. The addition of € 5,721 k to goodwill in the consolidation of investments results from the purchase of the shares of Netsecure Sweden AB.

The fair values of goodwill were examined by comparing the carrying values and the present values of future EBITDA under the following conditions:

- Period of analysis: five years from business year 2006 onwards
- Turnover growth between 7.5 % and 10 %
- Discount rates before tax between 21 % and 25 %

3.6 Short Term Debt

In 2002, the Articon-Integralis Group entered into a confidential invoice discounting agreement with Eurofactor (UK) Ltd with respect to certain UK trade receivables. The agreement was cancelled on 2 December 2005. The Group retained responsibility for collecting the receivables as an agent for Eurofactor and held the monies on trust prior to remitting them to Eurofactor. In accordance with IAS 39, the receivables were recognised in the balance sheet. As per 31 December 2005 there was no balance with Eurofactor (2004: € 449 k).

3.8 Provisions

The development of provisions in 2005 is shown below:

	01.01.2005	Utilised	Released	Additions	Exchange rate effect	31.12.2005
	€k	€k	€k	€k	€k	€k
Provision for onerous leases	2,759	434	-	427	16	2,768
Deferred consideration from acquisition of Netsecure	-	-	-	3,319	-	3,319
STAR programme (restated under IFRS 2)	21	7	-	48	-	62
	2,780	**441**	**-**	**3,794**	**16**	**6,149**

3.7 Accrued Expenses

Accrued expenses cover uncertain risks and recognisable liabilities. It is expected that all of the expenditure will be incurred in the next financial year.

Of these provisions, € 2,188 k will be utilised in the coming year. The remaining € 3,961 k will be utilised between one and five years. The comparable figure for last year was restated to disclose the short-term portion of the onerous lease provision (€ 287 k) separately.

The provision for onerous leases concerns office space in the UK and Germany. UK property leases, which are in the name of Articon-Integralis Ltd, have a remaining term of approximately 13 years. The provision for remaining risks amounted to € 2,646 k at 31 December 2005. The provision for unused office space in Germany stood at € 122 k on 31 December 2005.

During 2005, provisions were created for the deferred consideration relating to the Netsecure Sweden AB acquisition and for rights accruing to the Supervisory Board under the STAR programme (see note 7.4.6).

3.9 Shareholders' Equity

3.9.1 Subscribed Capital, Authorised Capital and Conditional Capital

At 31 December 2005, subscribed capital totalled € 11,425,145 (31 December 2004:

€ 10,506,264) divided into 11,425,145 registered no-par value shares. The movements in subscribed capital are detailed in the Consolidated Statement of Changes in Shareholders' Equity.

At 31 December 2005, authorised and conditional share capital, including the amounts available for future use, were as follows:

- **Authorised Capital I:**

Under a resolution passed at the Annual General Meeting on 29 May 2002, the Management Board, with the Supervisory Board's approval, was authorised to increase the subscribed capital of the Company either once or in several stages before 31 May 2005, by € 4,900 k through issuing a maximum of 4,900,000 new registered shares in exchange for cash or a contribution in kind. The statutory provisions authorise the Management Board (subject to the Supervisory Board's consent) to exclude the shareholders' legal subscription rights to acquire shares, businesses or parts of a business. Up to 31 May 2005, 48,030 shares were issued with respect to deferred consideration for the Axipe acquisition and 700,000 shares were issued relating to the Netsecure Sweden AB acquisition from Authorised Capital I.

The authority granted at the Annual General Meeting on 29 May 2002 to increase the share capital from Authorised Capital I expired at 31 May 2005 and accordingly, at the Annual General Meeting on 9 June 2005, a resolution was passed authorising the Management Board, with the Supervisory Board's approval, to increase the subscribed capital of the Company either once or in several stages before 31 May 2008, by € 5,250 k through issuing a maximum of 5,250,000 new registered shares in exchange for cash or contribution in kind. The statutory provisions authorise the Management Board (subject to the Supervisory Board's consent) to exclude the shareholders' legal subscription rights under certain circumstances.

At 31 December 2005, the balance of Authorised Capital I remaining for future use amounted to € 5,250,000 (31 December 2004: € 4,746,575).

- **Authorised Capital II:**

The Management Board was authorised by a resolution of the Annual General Meeting of Shareholders held on 23 June 2003, and with the approval of the Supervisory Board, to increase the capital stock of the Company, either once or in several stages before 31 May 2005 by a total of € 160 k through issuing a maximum of 160,000 new registered shares against a cash contribution. The Management Board was authorised, with the approval of the Supervisory Board, to exclude the statutory subscription rights of the shareholders insofar as shares are issued to the Management Board members Mark Silver and Philippe Dambrine, at the issue amount of at least € 1.33 per share, whereby in the case of a capital increase from funds of the Company, this issue amount will be changed in corresponding application of § 216 sec. 3 AktG.

Fomer Management Board member Mark Silver was granted 90,000 option rights on the basis of Authorised Capital II; 70,000 option rights existed for former Management Board member Philippe Dambrine. Philippe Dambrine was allowed to exercise his option rights up to 31 July 2005. During 2004, Philippe Dambrine exercised his option rights and subscribed for 70,000 shares at € 1.33 per share. Mark Silver exercised his option rights prior to 31 May 2005 and subscribed for 90,000 shares at € 1.33. Following this subscription, the maximum number of shares allowed under Authorised Capital II had been issued.

- **Authorised Capital III:**

The Management Board is authorised by a resolution of the Annual General Meeting of Shareholders held on 26 May 2004, with the Supervisory Board's approval, to increase the capital stock of the Company either once or in several stages up to

31 May 2006 by a total of € 60 k through issuing a maximum of 60,000 new registered no-par shares in exchange for cash contributions. The Management Board is authorised, with the approval of the Supervisory Board, to exclude the statutory subscription right of the shareholders insofar as shares are issued to Management Board members Joanne Sullivan, Graham Jones and Georg Magg, at the issue amount of at least € 2.70 per share, whereby in the case of a capital increase from funds of the Company, this issue amount will be changed in corresponding application of § 216 sec. 3 AktG. At 31 December 2005 no option rights relating to this authorised capital had been exercised although the option rights awarded to Joanne Sullivan have lapsed. Accordingly, at 31 December 2005 40,000 shares remained available for future use.

- **Conditional Capital I:**

By resolution of the Supervisory Board dated 21 July 2004, registered on 20 August 2004, Conditional Capital I was cancelled.

- **Conditional Capital II:**

At the Annual General Meeting of Shareholders held on 26 May 2004 Conditional Capital II was reduced from € 300 k to € 201 k. Subscribed capital may be increased by € 201 k by issuing up to 201,000 shares. Conditional Capital II will be used to guarantee the option rights to members of the Board and employees of the Company and its associated companies and also management of other organisations associated with the Company (Stock Option Programme II). The new shares shall participate in the profit of the Company from the start of the financial year in which they are issued. At 31 December 2005 no option rights relating to Conditional Capital II had been exercised.

- **Conditional Capital III:**

At the Annual General Meeting of Shareholders held on 26 May 2004, Conditional Capital III was reduced from € 440 k to € 300 k. Subscribed capital may be increased by € 300 k through issuing up to 300,000 shares. Conditional Capital III will be used to guarantee the option rights to members of the Board and employees of the Company and its associated companies and also management of other organisations associated with the Company (Stock Option Programme III). The new shares shall participate in the profit of the Company from the start of the financial year in which they are issued. During 2005, 68,121 option rights relating to this conditional capital were exercised at € 1.33 and 12,500 option rights were exercised at €1.84, resulting in the issue of 80,621 shares. The market price of the shares at the date of exercise lay between € 1.93 and € 3.31.

- **Conditional Capital IV:**

At the Annual General Meeting of Shareholders held on 29 May 2002 the Management Board was authorised, with the approval of the Supervisory Board, to issue, by 29 May 2007, registered convertible bonds and/or bonds with warrants (hereinafter called "Bonds") with a total nominal value of up to € 4,000 k and a maximum term of ten years. For this purpose, Conditional Capital IV was created. The Management Board was also given authority to grant the holders of the Bonds with conversion or option rights for new shares in the Company a pro-rata amount of subscribed capital of up to € 4,000 k in accordance with the terms of the convertible bonds or bonds with warrants.

The subscribed capital may be conditionally increased by up to € 4,000 k through the issue of a maximum of 4,000,000 no-par shares. In the case of conversion or option rights being exercised, the issue price of a share in the Company through the exercise of the conversion or subscription right shall be based on the average of the closing Xetra price of the Company shares for the last 20 trading days prior to the date of the issue of the Bond. The minimum exercise price shall be the pro-rata amount of subscribed capital attributable to one share. The new shares shall participate in profit from the beginning of the fiscal year in which they are established following the exercising of conversion or option rights or fulfilment of conversion obligations. At 31 December 2005 no option rights relating to Conditional Capital IV had been exercised.

- **Conditional Capital V:**

At the Annual General Meeting of Shareholders held on 23 June 2003, Conditional Capital V was created. Subscribed capital is conditionally raised by up to € 270 k through the issue of up to 270,000 shares. Conditional Capital V serves to grant option rights to members of the Management Board and to employees of the Company and affiliated companies as well as to executives of companies affiliated to the Company in accordance with Stock Option Programme V. The new shares shall participate in the profit of the Company from the start of the financial year in which they are issued. At 31 December 2005 no option rights relating to Conditional Capital V had been exercised.

- **Conditional Capital VI:**

At the Annual General Meeting of Shareholders held on 9 June 2005, Conditional Capital VI was created. Subscribed capital is conditionally raised by up to € 225 k through the issue of up to 225,000 shares. Conditional Capital VI serves to grant option rights to members of the Management Board and to employees of the Company and affiliated companies as well as to executives of companies affiliated to the Company in accordance with Stock Option Programme V. The new shares shall participate in the profit of the Company from the start of the financial year in which they are issued. At 31 December 2005 no option rights relating to Conditional Capital VI had been exercised.

3.9.2 Annual Deficit and Surplus/(deficit) Carried Forward

The effect of implementing IFRS 2 was to increase the operating loss in the year to 31 December 2005 by € 137 k. The transitional provisions of IFRS 2 require that comparative information is restated and where applicable, the opening balance of retained earnings for the earliest period presented be adjusted. The opening accumulated deficit at 1 January 2004 and at 1 January 2005 has been increased by € 63 k and € 267 k respectively resulting in a share option reserve amounting to € 246 k at 31 December 2004 and an increase in provisions of € 21 k at 31 December 2004. In the year to 31 December 2004, personnel expenses increased by € 183 k, other operating expenses by € 21 k.

The annual deficit of € 2,261 k for financial year 2005 (2004: € 4,019 k restated according to IFRS 2) shown in the profit and loss account will be carried forward.

4 Notes to the Consolidated Profit and Loss Account

4.1 Personnel Expenses

During the year, wages and salaries totalled € 25,055 k (2004: € 22,825 k, restated). Social security charges of € 4,506 k (2004: € 4,072 k) included pension costs of € 153 k (2004: € 165 k).

4.2 Other Operating Expenses

Other operating expenses comprise the following:

	2005	2004
	€k	€k
Recruitment costs	372	312
Company cars & car allowances	1,827	1,648
Other personnel costs (e.g. travel costs, short-term contractors etc)	2,415	1,449
Facilities costs	2,274	2,204
Marketing	556	1,029
Legal and professional fees	1,413	1,332
Insurance	526	454
Finance charges	-57	32
Sundry operational expenses	2,034	1,747
	11,360	**10,207**

Costs for research and development in the consolidated profit and loss account 2005 amount to € 890 k.

4.3 Exchange Gains and Losses

Net exchange gains of €264 k (2004: net loss of € 95 k) arising from the conversion of monetary items are included in purchased materials and services and other operating expenses. Translation differences of € 150 k were booked without impact on the result in equity.

4.4 Exceptional Items

The exceptional items compare to the previous year as follows:

	2005	2004
	€k	€k
Restructuring costs	2,174	956
Costs relating to the aborted merger with Harrier Group plc	-	536
Bad debt provision	-	169
Allasso deferred consideration	-2,678	-406
	-504	**1,255**

Restructuring costs incurred during 2005 relate principally to reorganisation and restructuring the Integralis business in UK, Germany and USA.

On 10 April 2003 the Group entered into a contract with InTechnology Plc to sell as a whole the Allasso Group, which was a separate division. Through the volume of trade between Articon-Integralis and Allasso deferred consideration was realised which lead to revenue of € 2,678 k (2004: € 406 k), after subtracting bonus payments to the former Allasso management.

4.5 Profit on the Disposal of Financial Assets

In 2004 the Group sold its investment in Foundstone to McAfee Inc. In 2005 a further € 412 k were realised from the Foundstone sale. These are shown in the profit and loss account as profit on the disposal of financial assets (2004: € 1,837 k). In the consolidated cash flow statement the revenue of € 412 k (2004: € 2,320 k) is shown as profit on the disposal of financial assets.

4.6 Interest Income and Expense

Interest income and expense compare as follows:

	2005	2004
	€k	€k
Discount charges	-472	-
Interest receivable	324	346
Interest payable	-135	-163
	-283	**183**

4.7 Income Taxes

Income taxes comprise tax payments and liabilities and the tax deferrals in the individual countries. Deferred tax assets and liabilities are calculated using anticipated tax rates for those years in which the timing differences are expected to reverse. These rates are based on the tax regulations valid or passed by legislation on the balance sheet date. Foreign income taxes are calculated using the tax laws and regulations valid in the individual countries. Tax rates used for foreign companies range from 18 % to 34 %.

The income tax expenses for 2005 and 2004 are as follows:

	2005	2004
	€k	€k
Current tax expense	209	21
(over-)/under-provided in prior years	-117	54
Deferred tax (credit)/charge	-145	1
	-53	**76**

The result before tax reconciles to the income tax charge as follows:

	2005	2004
	€k	€k
Loss before tax (2004 restated)	-2,314	3,943
Income tax credit using the German corporation tax rate	-902	-1,458
Effect of tax rates in foreign jurisdictions	-120	300
Effect of non-deductible business expenses	167	299
Effect of non-deductible goodwill amortisation	0	300
Effect of non-taxable income	-853	-150
Effect of tax losses not provided	2,165	1,868
Utilisation of prior year tax losses	-393	-1,137
(over-)/under-provided in prior years	-117	54
Income tax expense	**-53**	**76**

Deferred tax assets derive from the following timing differences:

	31.12.2005	31.12.2004
	€k	€k
Fixed assets	261	242
Other provisions	131	-
	392	**242**

4.8 Earnings per Share

Earnings per share ("Basic Earnings per share") in accordance with IAS 33, are derived by dividing the consolidated Group result after taxes by the average number of shares outstanding during the year. The average number of shares for the financial year amounted to 11,055,509 (2004: 10,385,869).

Earnings per share in accordance with IAS 33 for 2005 amounted to € -0.20 (2004: € -0.39 restated).

5 Segment Reporting

5.1 Primary Segment Reporting

Articon-Integralis AG is organised into six geographic sectors, Germany, UK, France, USA, Sweden and Switzerland, which are split according to the location of customers. Goods and services supplied between sectors for ultimate delivery to end customers are charged at arm's length. The table on primary segment reporting can be found in the Appendix to the Notes.

5.2 Secondary Segment Reporting

The secondary segment reporting is according to product and service lines. The table is presented in the Appendix to the Notes. Since products and services are usually sold as joint solutions in the course of business, assets and capital expenditure were allocated to the segments according to their proportions of gross margin.

6 Notes to the Consolidated Cash Flow Statement

6.1 Introduction

The cash flow statement has been prepared using the indirect method as allowed under IAS 7, excluding the effects of investing and financing transactions which did not require the use of cash or cash equivalents.

Cash and cash equivalents comprise cash in hand, bank balances, short-term deposits and current marketable securities but exclude bank overdrafts.

6.2 Restrictions

Included in cash is an amount of € 598 k (2004: € 496 k) representing cash held by banks as security for rental obligations and performance obligations, which are not at the Group's free disposal. These are rental deposits and for performance guarantees.

7 Other Disclosures

7.1 Other disclosures according to § 314 sec 1 no. 9 HGB

The following fees due to the auditors of the Group statements were incurred in 2005:

	2005
	€k
Audits of the annual statements	93
Other confirmations and evaluations	14
Tax advice services	2
Other services	-
	109

7.2 Foreign Currency Risk

The Group incurs foreign currency risks on sales, purchases and borrowings that are denominated in currencies other than the Euro. The principal currencies giving rise to this risk are the US dollar and the pound Sterling.

Group companies are active largely in their local currencies, thus the foreign currency risk of the Group is limited.

7.3 Credit Risk

Management has a credit policy in place and the exposure to credit risk is constantly being monitored, with credit evaluations being performed as appropriate.

At the balance sheet date there were no significant concentrations of credit risk that had not been provided for. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

7.4 Stock Option Programmes

The Articon-Integralis Group has implemented stock option programmes with a view to management and employees participating in the success of the company: The existing stock option programmes are described in the following.

7.4.1 Stock Option Programme II ("SOP II")

The second employee stock option programme was approved at the Annual General Meeting of Shareholders on 8 June 2000. As at the balance sheet date, employees and management held 80,210 options, 62,895 issued at € 7.45 on 23 October 2001 and 17,315 issued at € 9.03 on 31 October 2001. The stock options may be exercised in three parts: 50 % after two years (Tranche I), 20 % after three years (Tranche II) and 30 % after four years (Tranche III). Options may be exercised within a three-month period ("exercise window") following the end of the vesting period of each tranche. To exercise an option, the stock market price (Xetra rate) for Articon-Integralis shares must exceed the grant price on at least one trading day within the exercise window by 10 % for Tranche I, 15 % for Tranche II and 20 % for Tranche III. Since these requirements have not been fulfilled up to the end of 2005, no option rights could be exercised.

At 31 December 2005, the value of an option, based on the Xetra key rate on 30 December 2005 of € 2.74, was € 0.00 for all relevant tranches.

The stock options from the second programme developed to 31 December 2005 as follows:

	2005 Amount	2004 Amount
Outstanding options at start of the period	122,220	210,055
Granted options	-	-
Exercised options	-	-
Lapsed options	42,010	87,835
Outstanding options at end of the period	**80,210***	**122,220**
*17,315 at € 9.03 and 62,895 at € 7.45		

The outstanding options are held as follows:

	2005 Amount	2004 Amount
Board and managing directors of subsidiaries	5,900	13,900
Employees	74,310	108,320
	80,210	**122,220**

7.4.2 Stock Option Programme III ("SOP III")

The third employee stock option programme was approved at the Annual General Meeting of Shareholders on 29 May 2002. At the balance sheet date, employees and management held 170,884 options, 133,384 issued at € 1.33 on 10 October 2002 and 37,500 at € 1.84 on 1 April 2003. The stock options can be exercised in three parts within a three-month vesting period: 50 % after two years (Tranche I), 20 % after three years (Tranche II) and 30 % after four years (Tranche III). To exercise an option, the stock market price (Xetra rate) for the Company's shares must exceed the grant price on at least one trading day within the exercise window by 10 % for Tranche I, 15 % for Tranche II and 20 % for Tranche III. In the time period between 10 October 2005 and 10 January 2006, Tranche II could be exercised. During 2005, 68,121 option rights were exercised at € 1.33 and 12,500 at €1.84.

At 31 December 2005, the value of an option, based on the Xetra key rate on 30 December 2005 of € 2.74, was € 1.41 for the options issued on 10 October 2002 and € 0.90 for the options issued on 1 April 2003.

The share options from the third programme developed to 31 December 2005 as follows:

	2005 Amount	2004 Amount
Outstanding options at start of the period	281,425	342,100
Granted options	-	-
Exercised options	80,621	2,625
Lapsed options	29,920	58,050
Outstanding options at end of the period	**170,884***	**281,425**
*133,384 at €1.33 and 37,500 at €1.84		

The outstanding options are held as follows:

	2005 Amount	2004 Amount
Board and managing directors of subsidiaries	148,500	213,500
Employees	22,384	67,925
	170,884	**281,425**

7.4.3 Stock Option Programme IV ("SOP IV")

The fourth employee stock option programme was approved at the Annual General Meeting of Shareholders on 23 June 2003. At the balance sheet date, employees and management held 96,535 options, made up of 30,000 issued on 8 September 2003 at € 2.70, 56,535 issued on 6 October 2003 at € 3.24 and 10,000 issued on 28 January 2005 at € 2.20. The stock options may be exercised in three parts: 50 % after two years (Tranche I), 20 % after three years (Tranche II) and 30 % after four years (Tranche III). Options may be exercised within a three-month period ("exercise window") following the end of the vesting period of each tranche. To exercise an option, the stock market price (Xetra rate) for Articon-Integralis shares must exceed the grant price on at least one trading day within the exercise window by 10 % for Tranche I, 15 % for Tranche II and 20 % for Tranche III. During 2005, 230 option rights were exercised at €3.24.

At 31 December 2005, the value of an option, based on the stock market price (Xetra rate) at 30 December 2005 of € 2.74, was € 0.04 for the options issued on 8 September 2003, € 0.00 for the options issued on 6 October 2003 and € 0.54 for the options issued on 28 January 2005.

The weighted average fair value of options granted from SOP IV during the period was € 1.28. The weighted average fair value of options granted during the year was measured using the Black and Scholes model, using the following inputs:

- Weighted average share price: € 2.20
- Exercise price ranging from € 2.42 to € 2.64
- Expected volatility ranging from 77 % to 109 %
- Option life: two to four years
- Expected dividends: € 0.00
- Risk-free interest rate: 2 %

Volatility was based on historical share-price volatility over the last two to four years.

The share options from the fourth programme developed to 31 December 2005 as follows:

	2005 Amount	2004 Amount
Outstanding options at start of the period	173,020	183,920
Granted options	10,000	-
Exercised options	230	-
Lapsed options	86,255	10,900
Outstanding options at end of the period	**96,535***	**173,020**
*30,000 at €2.70, 56,535 at €3.24 and 10,000 at €2.20		

The outstanding options are held as follows:

	2005 Amount	2004 Amount
Board and managing directors of subsidiaries	36,200	96,200
Employees	60,335	76,820
	96,535	**173,020**

7.4.4 Stock Option Programme V ("SOP V")

The fifth employee stock option programme was approved at the Annual General Meeting of Shareholders on 26 May 2004. At the balance sheet date, employees and management held 60,000 options issued on 10 June 2005 at € 2.80 The stock options may be exercised in three parts: 50 % after two years (Tranche I), 20 % after three years (Tranche II) and 30 % after four years (Tranche III). Options may be exercised within a three-month period ("exercise window") following the end of the vesting period of each tranche. To exercise an option, the stock market price (Xetra rate) for Articon-Integralis shares must exceed the grant price on at least one trading day within the exercise window by 10 % for Tranche I, 15 % for Tranche II and 20 % for Tranche III.

At 31 December 2005, the value of an option, based on the stock market price (Xetra rate) at 30 December 2005 of € 2.74 was € 0.00 for the options issued on 10 June 2005.

The weighted average fair value of options granted from SOP V during the period was € 1.84. The weighted average fair value of options granted during the year was measured using the Black and Scholes model, using the following inputs:

- Weighted average share price: € 2.80
- Exercise price ranging from € 3.08 to € 3.36
- Expected volatility ranging from 77 % to 109 %
- Option life: two to four years
- Expected dividends: € 0.00
- Risk-free interest rate: 2 %

Volatility was based on historical share-price volatility over the last two to four years.

The share options from the fifth programme developed to 31 December 2005 as follows:

	2005 Amount	2004 Amount
Outstanding options at start of the period	-	-
Granted options	60,000	-
Exercised options	-	-
Lapsed options	-	-
Outstanding options at end of the period	**60,000***	**-**
*60,000 at €2.80		

The outstanding options are held as follows:

	2005 Amount	2004 Amount
Board and managing directors of subsidiaries	20,000	-
Employees	40,000	-
	60,000	**-**

7.4.5 Options Granted to the Management Board

At the balance sheet date the following options were held by members of the Management Board:

The condition for the exercising of the stock appreciation rights (exercise hurdle) is that the price of the Articon-Integralis stock on the day of exercise exceeds the basis price by at least 10 %. The rights expire five years after the grant date if not exercised.

Member of the Management Board	Options	Capital	Grant Date	Issue price	Value at 31.12.05
	Amount			€	€
Georg Magg	12,500	Conditional III	01/04/2003	1.84	0.90
	15,000	Conditional V	08/09/2003	2.70	0.04
	20,000	Authorised III	08/09/2003	2.70	0.04
Graham Jones	25,000	Conditional III	01/04/2003	1.84	0.90
	15,000	Conditional V	08/09/2003	2.70	0.04
	20,000	Authorised III	08/09/2003	2.70	0.04
Roger Friederich	5,000	Conditional II	23/10/2001	7.45	0.00
	1,200	Conditional V	06/10/2003	3.24	0.00
	20,000	Conditional IV	10/06/2005	2.80	0.00

7.4.6 Stock Appreciation Rights Programme I (STAR Programme)

At the Annual General Meeting of Shareholders held on 23 June 2003, it was authorised to grant to the members of the Supervisory Board, in addition to the fixed compensation, a variable compensation in accordance with the conditions of the 2003 stock appreciation rights programme No. 1 of the Company. The STAR programme comprises a total of 150,000 stock appreciation rights, 50,000 for each member of the Supervisory Board.

The offer to conclude the participation agreement shall be made in three steps (tranches), in each case on the fifth working day following the release of the interim report of Articon-Integralis AG for the respective period. Each member of the Supervisory Board was offered 25,000 stock appreciation rights in 2003 and a further 12,500 each were offered in 2004 and 2005. The waiting period is one year after the grant. The stock appreciation rights may be exercised only within a period of two weeks following the release of an annual report, an interim report or a quarterly report of Articon-Integralis AG and only on bank working days. The condition for the

At 31 December 2005, a total of 100,000 rights were outstanding (50,000 at € 2.32, 25,000 at € 2.33 and 25,000 at € 3.52).At 31 December 2005, the value of the stock appreciation rights, based on the stock market price (Xetra rate) on 30 December 2005 of € 2.74, was € 0.42 for the rights issued in 2003, € 0.43 for the rights issued in 2004 and € 0.00 for the rights issued in 2005.

The stock appreciation rights developed to 31 December 2005 as follows:

	2005 Amount	2004 Amount
Outstanding rights at start of the period	112,500	75,000
Granted rights	37,500	37,500
Exercised rights	37,500	-
Lapsed rights	12,500	-
Outstanding rights at end of the period	**100,000**	**112,500**

7.5 Contingencies

The operating leases comprise contracts for the leasing of office buildings and company vehicles. The leasing and rental expenditure for 2005 was € 2,687 k (2004: € 2,437 k). Rental expenditure is stated net of € 698 k rent received in 2005 from third parties under sub-lease agreements (2004: € 817 k).

Future lease payments & sublease rental income at 31 December 2005 over the appropriate terms amount to:

Term	Operating leases	Sub-lease rental income
	€k	€k
Up to 1 year	3,352	270
Between 1 and 5 years	8,820	96
Over 5 years	12,097	-
	24,269	**366**

The Group has guarantees in place in favour of banks totalling € 621 k as security for rental obligations and performance guarantees (2004: € 581 k).

7.6 Income Tax Losses

The Group has not recognised deferred tax assets on tax losses incurred in certain jurisdictions due to the uncertainty of being able to utilise these losses.

The structure of unrecognised income tax losses by expiry date is as follows:

Expiry	31.12.2005	31.12.2004
	€k	€k
Up to 1 year	0	216
Between 1 and 5 years	1,064	1,114
Between 6 and 20 years	8,394	8,176
No expiry date	47,384	39,219
	56,842	**48,725**

The comparative was restated to correct an error.

7.7 Employees

The average number of employees during the reporting year was 394 (2004: 370), categorised as follows:

	2005	2004
Sales and marketing	139	130
Technical	195	181
Administration & management	60	59
	394	**370**

7.8 Pension Contributions for Employees

The Company's UK subsidiaries operate a defined contribution pension scheme. All employees in the UK have the option to join the scheme and the Company pays a fixed percentage of their basic salary into a pension fund in the employee's name. The Group's liability is restricted to the fixed percentage contribution; no further obligation exists for the Group. There are no pension liabilities included in the balance sheet. The expense recognised during the year in the profit and loss account amounts to € 153 k (2004: € 165 k). There were no other pension programmes in place for employees elsewhere in the Articon-Integralis Group.

7.9 Related Party Transactions

"Related parties" according to IAS 24 include the Management Board and the Supervisory Board of Articon-Integralis AG, as well as major shareholders.

Management Board members are awarded annual remuneration with both a fixed and a variable element. During the reporting year, the total remuneration received by the Management Board amounted to € 1,413 k, analysed below (2004: € 895 k).

In addition to their activities for the Supervisory Board, James Sanger and Jochen Tschunke provided consultancy services to the Management Board of Articon-Integralis AG, for which they received remuneration of € 49 k and € 14 k respectively in 2005 (2004: € 37 k and € 16 k).

	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
	€ k	€ k	€ k	€ k	€ k	€ k
Georg Magg	263	10	-	-	-	273
Graham Jones	266	5	-	-	-	271
Roger Friederich	55	5	-	-	-	60
Former Management Board members	276	7	-	526	-	809
Total	**860**	**27**	**-**	**526**	**-**	**1,413**

Supervisory Board Members were reimbursed with fixed compensation of € 50 k (2004: € 50 k) and variable compensation resulting from the exercise of rights under the STAR programme of € 30 k.

Members of the Management Board and the Supervisory Board and Managing Directors of subsidiaries held the following Articon-Integralis shares on the balance sheet date:

Name	Number of shares	Percent of nominal capital
Georg Magg	12,500	0.11
Graham Jones	-	-
Roger Friederich	1,700	0.01
Total for Management Board	14,200	0.12
Arnd Wolpers and related parties	672,561	5.89
Jochen Tschunke and related parties	-	-
Duncan Soukup and related parties	1,091,597	9.55
Total for Supervisory Board	1,764,158	15.44
Total	**1,778,358**	**15.56**

7.10 Corporate Board Structure

During the past financial year, Management Board Members included:

- Mark Silver, Richmond, Surrey, UK (Chairman to 6 April 2005)
- Georg Magg, Landsberg am Lech, Germany (Spokesman from 25 April 2005)
- Joanne Sullivan, Oxford, Oxfordshire, UK (to 19 August 2005)
- Graham Jones, Malvern, Worcestershire, UK
- Roger Friederich, Vaterstetten, Germany (from 20 August 2005)

During the past financial year, Supervisory Board Members included:

- Arnd Wolpers (Chairman), Münsing/Ammerland, Germany
- James Gerald Sanger, Oxfordshire, United Kingdom (to 30 September 2005)
- Prof. Dr. Jochen Tschunke, Munich, Germany
- Duncan Soukup, Hamilton, Bermuda (from 5 October 2005)

7.11 Declaration on Compliance with the German Corporate Governance Codex

The Management and the Supervisory Board have declared compliance with the Corporate Governance Codex as required by § 161 AktG (Stock Companies Act). The content of this declaration has been made permanently available on our website.

Ismaning, 24 February 2006

The Management Board

Group Fixed Asset Movements
for the period 1 January to 31 December 2005

Group Fixed Asset Movements
for the period 1 January to 31 December 2005

	COSTS OF ACQUISITION OR PRODUCTION						
	01.01.2005	Additions	Disposals	Reclassi-fications	Acquired assets	Currency conversion	31.12.2005
	k€	k€	k€	T€	k€	k€	k€
I. Property, plant & equipment							
1. Property and leasehold rights including buildings on non-owned land	1,943	-	-	-	-	-	1,943
2. Other equipment, fixtures, fittings and equipment	13,988	1,070	-244	0	30	394	15,238
	15,931	1,070	-244	0	30	394	17,181
II. Intangible Assets							
1. Industrial property rights and simlarrights and licences to such rights	1,520	96	-	0	451	39	2,106
2. Self developed intangible assets	-	259	-	-	-	-1	258
	1,520	355	0	0	451	38	2,364
III. Goodwill							
1. Goodwill	24,789	5,721	-	-	-	34	30,544
	24,789	5,721	0	0	0	34	30,544
	42,240	7,146	-244	0	481	466	50,089

ACCUMULATED DEPRECIATION							Book value	
01.01.2005	Additions	Disposals	Reclassi-fications	Acquired assets	Currency conversion	31.12.2005	31.12.2005	31.12.2004
k€	k€	k€	T€	k€	k€	k€	k€	k€
321	71	-	-	-	-	392	1,551	1,622
11,194	1,471	-183	0	-	311	12,793	2,445	2,794
11,515	1,542	-183	0	0	311	13,185	3,996	4,416
1,224	238	0	0	-	32	1,494	612	296
-	-	-	-	-	-	-	258	-
1,224	238	0	0	0	32	1,494	870	296
19,892	-	-	-	-	28	19,920	10,624	4,897
19,892	0	0	0	0	28	19,920	10,624	4,897
32,631	1,780	-183	0	0	371	34,599	15,490	9,609

Articon-Integralis AG Segment Reporting

Primary Segment	01.01-31.12.2005	01.01-31.12.2004
		(restated under IFRS 2)
	€k	€k
Segment revenue		
UK	46,569	38,826
Germany	27,186	22,437
USA	16,960	12,940
France	12,849	10,020
Sweden	5,904	-
Switzerland	3,282	2,926
Group revenue	**112,750**	**87,149**
Segment gross profit		
UK	15,677	14,878
Germany	10,332	9,709
USA	5,632	5,184
France	4,795	4,052
Sweden	2,015	-
Switzerland	1,303	1,142
Group gross profit	**39,754**	**34,965**
Segment operating income		
UK	- 1,083	- 1,441
Germany	- 1,943	- 2,341
USA	- 1,601	- 802
France	461	- 349
Sweden	468	-
Switzerland	- 152	- 900
Unallocated	1,819	1,707
Group operating income	**- 2,031**	**- 4,126**

Primary Segment	01.01-31.12.2005	01.01-31.12.2004
	€k	€k
Segment assets		
UK	23,579	24,119
Germany	17,588	12,906
USA	7,747	5,202
France	8,497	7,641
Sweden	8,870	-
Switzerland	2,122	1,994
Total segment assets	68,403	51,862
Eliminations	- 6,915	- 8,368
Unallocated	19,749	18,868
Total assets	**81,237**	**62,362**
Segment liabilities		
UK	24,943	19,707
Germany	21,136	12,649
USA	9,503	8,613
France	7,570	7,694
Sweden	2,961	-
Switzerland	2,081	1,721
Total segment liabilities	68,194	50,384
Eliminations	- 6,915	- 8,368
Unallocated	3,527	3,531
Total liabilities	**64,806**	**45,547**
Depreciation & amortisation		
UK	640	997
Germany	469	558
USA	361	334
France	127	424
Sweden	141	-
Switzerland	42	256
Total depreciation & amortisation	**1,780**	**2,569**
Capital expenditure & investments		
UK	811	1,161
Germany	445	340
USA	135	33
France	23	3,326
Sweden	5,725	-
Switzerland	7	44
Total capital expenditure & investments	**7,146**	**4,904**

Articon-Integralis AG Segment Reporting

Secondary Segment	01.01-31.12.2005	01.01-31.12.2004
	€k	€k
Segment revenue		
Technical support contracts	33,575	31,026
Managed security services	7,173	7,158
Implementation, integration, professional services	10,198	8,249
Training	630	425
Total service revenue	51,576	46,858
Product revenue	61,174	40,291
Group revenue	**112,750**	**87,149**
Segment assets		
Technical support contracts	15,966	12,635
Managed security services	10,691	8,679
Implementation, integration, professional services	14,554	9,885
Training	459	340
Product	19,818	11,955
Total segment assets	61,488	43,494
Unallocated	19,749	18,868
Total assets	**81,237**	**62,362**
Capital expenditure & investments		
Technical support contracts	1,857	1,425
Managed security services	1,242	979
Implementation, integration, professional services	1,691	1,115
Training	53	38
Product	2,303	1,347
Total capital expenditure & investments	**7,146**	**4,904**

Report of the Supervisory Board 2005

During the fiscal year, the Supervisory Board performed the duties imposed on it by law and by the Company's articles of incorporation, monitoring and advising the Company's Management Board on an ongoing basis. The Management Board briefed the Supervisory Board in detail on the Company's condition, compliance with the principles of corporate governance, the risk situation and risk management as well as planned business strategies including corporate forecasts in written and oral reports submitted at a total of six meetings as well as numerous telephone conferences. No committees were formed.

In September 2005, Jim Sanger stepped down from the Supervisory Board and was replaced pursuant to a court ruling by Duncan Soukup for a period expiring with the next annual general meeting.

All material investment decisions as well as decisions of fundamental importance were reviewed and approved by the Supervisory Board.

The Management Board and the Supervisory Board worked closely and consulted on the Company's strategic orientation in regular intervals.

The annual financial statements for 2005, the consolidated annual financial statements and the management report and Group management report were audited by auditing company AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft, Munich, which issued an unqualified auditor's report.

In connection with their activities, the auditors were also required to assess whether the Management Board had complied with the statutory requirements and, in particular, had established a monitoring and controlling system for the early detection of any events liable to impair the status of the Company or the Group as a going concern.

The Supervisory Board for its part examined the annual financial statements and the management report of Articon-Integralis AG as well as the results of the audit of AWT Horwath GmbH at its meeting of March 16, 2006. Accordingly, the annual financial statements are duly adopted.

The Supervisory Board wishes to thank all employees of Articon-Integralis AG as well as the members of the Management Board for the work which they have performed.

Arnd Wolpers

Chairman of the Supervisory Board

Corporate Governance Report March 2006

The term "good corporate governance" refers to responsible management and supervision of companies aimed at ensuring sustained growth. Key aspects of good corporate governance include efficient relations between the Management Board and the Supervisory Board, observance of shareholder interests and open and transparent corporate communications.

1 Introduction

Articon-Integralis AG is a listed German stock corporation with the statutory dual-board system comprising the Management Board and the Supervisory Board. Accordingly, it complies with the requirements stipulated by applicable German legislation, particularly the Stock Corporations Act as well as the recommendations set out in the German Corporate Governance Code as last amended on 2 June 2005 (announced in Bundesanzeiger on 20 July 2005).

Articon-Integralis AG attaches key importance to corporate governance. By means of active corporate governance, the Company seeks to encourage the confidence of shareholders, customers, suppliers and employees and create the necessary basis for viable business relations.

Articon-Integralis AG considers corporate governance to comprise the following core areas:

- Fairness: Protection of shareholder rights and equal treatment of all shareholders including protection of minority interests and the interests of foreign shareholders;
- Transparency: Immediate and open information policies particularly with respect to disclosure of shareholdings and related voting rights;
- Responsibility: The Management Board and the Supervisory Board are the statutory representatives of the shareholders and in this capacity are under an obligation to avoid any conflicts with their own interests when making decisions and to act in the interests of shareholders and with commercial prudence at all times.
- Commitment: Ethical activities beyond legal reproach in tandem with observance of all applicable laws and regulations as well as shareholder rights.

Acknowledged as general principles of corporate governance, these requirements form a material part of the non-binding OECD Corporate Governance Guidelines, which were ratified in spring 1999 and incorporated in the German Corporate Governance Code as amended on 2 June 2005.

2 Principles of corporate governance at Articon-Integralis AG

This section describes the principles of corporate governance as practised by the Management Board and Supervisory Board of Articon-Integralis AG.

2.1 How do the Management Board and the Supervisory Board ensure responsible relations with each other?

The Management Board is responsible for the general management of Articon-Integralis AG and performs its duties in accordance with applicable law and the Company's articles of association. It is committed to acting in the interests of the Company and the shareholders and always seeks to enhance the Company's value on a sustained basis. The members of the Management Board are appointed by the Supervisory Board. They keep each informed at all times of all major events and transactions.

As part of its management duties, the Management Board ensures that

- all risks are evaluated and minimized as far as possible,
- the Company pursues the joint goals,
- the Company divisions are clearly positioned,
- the Company reacts swiftly and flexibly to market changes,
- a steady and up-to-date flow of information is assured.

The Supervisory Board monitors the Management Board and the Company's performance without making any operative decisions with respect to the Company. The Management Board and the Supervisory Board work together closely in defining and implementing the Group's strategic orientation.

2.2 Who are the members of the Management Board?

Georg Magg (47) has been a member of the Management Board since September 2003 and spokesman/CEO of Articon-Integralis AG since 25 April 2005. He is responsible for corporate strategy, sales, service, marketing, investor relations for the entire group and the operations in the Germany/Austria/Switzerland region.

Roger Friederich (37) has been CFO at Articon-Integralis AG since 20 August 2005 and is responsible for finance, IT, operating assets, personnel and risk management within the Group.

Graham Jones (47) has been COO at Articon-Integralis AG since January 2003 and is in charge of operations. The branches in the United Kingdom, the United States, France and Sweden as well as the Technical Support Centre and the Service Product Development Team report to him.

2.3 How many shares and option are held by members of the management board and the supervisory board?

Shares and options of the Management Board and Supervisory Board as of 31 December 2005		
Management Board	Shares	Options
Georg Magg	12,500	47,500
Graham Jones	-	60,000
Roger Friederich	1,700	26,200
Supervisory Board	Shares	Options
Arnd Wolpers	672,561	-
Jochen Tschunke	-	-
Duncan Soukup	1,091,597	-

Shares held by Management Board: 0.12%
Shares held by Supervisory Board: 15.26%

2.4 What is the compensation received by the Management Board?

The compensation received by the members of the Management Board is determined by the Supervisory Board as a reasonable amount on the basis of an assessment of their performance and comprises a fixed

	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
	€ k	€ k	€ k	€ k	€ k	€ k
Georg Magg	263	10	-	-	-	273
Graham Jones	266	5	-	-	-	271
Roger Friederich	55	5	-	-	-	60
Former Vorstand members	276	7	-	526	-	809
Total	**860**	**27**	**-**	**526**	**-**	**1,413**

and a variable component: Criteria for compensation include the duties performed by the member in question, his personal performance, the performance of the Management Board and the Company's economic condition, success and outlook for the future in the light of the sector as a whole.

The Supervisory Board reviewed the appropriateness of the amount of compensation for 2005. In addition, the compensation received by the Management Board for 2005 is disclosed in the annual report for 2005.

2.4 Who are the members of the Supervisory Board and what is the duration of their office? Do they hold positions on any other supervisory boards?

The Supervisory Board of Articon-Integralis AG comprises three members. The chairman of the Supervisory Board is Arnd Wolpers. The members of the Supervisory Board are elected for a period of five years. Arnd Wolpers and Jochen Tschunke were elected to the Supervisory Board at the annual general meeting held on 26 May 2004. Jim Anger, who was also elected to the Supervisory Board at the annual general meeting held on 26 May 2004, stepped down from the Supervisory Board of Articon-Integralis AG effective 30 September 2005. He was replaced by Duncan Soukup pursuant to a court ruling.

Brief profiles of the members of the Supervisory Board of Articon-Integralis AG:

Arnd Wolpers, (51) (chariman), businessman, Münsing/Ammerland, Germany

Positions held on other supervisory boards:
- BAVARIA Industriekapital AG (member)

Jochen Tschunke, **(58)** (member), businessman, Munich, Germany.

Positions held on other supervisory boards:
- Sporthouse.de AG (chairman)
- R. Böker Unternehmensberatung AG (member)
- Primion Technology AG (member)
- Lifbridge, Ampfing (member)

Duncan Soukup, (51) (member), businessman, Hamilton, Bermuda

Directorships, which the Company does not consider to constitute positions held on supervisory boards as defined in Section 100 (2) of the German Stock Corporations Act, continuing to exist as of 31 December 2005 comprise:

- Acquisitor Holdings Ltd, deputy chairman, Bermuda
- Baltimore plc, non-executive deputy chairman, UK
- Baltimore (Guernsey) Ltd, director, Guernsey
- Baltimore (Bermuda) Ltd, chairman, Bermuda
- Nettec plc, non-executive director, UK
- New York Holdings Ltd, managing director, Guernsey
- Lionheart Group, Inc., director, USA
- Lionheart Partners, Inc., director, USA

2.6 Does the Group have any procedure or rules for averting any conflict of interests within the Supervisory Board and Management Board?

The Management Board and the Supervisory Board of Articon-Integralis AG have agreed on methods for identifying potential conflicts of interests and adopted ethical guidelines. Members of the Management Board and the Supervisory Board have undertaken to report to each other if there is any possibility of relations which they have leading to a conflict of interests with their position as a member of the Management Board or Supervisory Board. If the Supervisory Board ascertains a conflict of interests, measures are taken to ensure that management acts in the Company's best interests. This may lead to the person concerned stepping down from the Management Board or being relieved of responsibility for certain areas.

2.7 How high is the compensation received by the Supervisory Board?

The compensation received by the members of the Supervisory Board is determined by the shareholders. At the annual general meeting held on 23 June 2003, the shareholders passed a resolution for annual compensation of a total of EUR 50,000 plus VAT for the Supervisory Board as a whole. The Supervisory Board is authorized to split this amount amongst its members. Members who did not belong to the Supervisory Board for a full fiscal year receive a prorated amount in accordance with the duration of their membership.

In addition, the shareholders passed a resolution on 23 June 2003 providing for variable compensation in the form of stock appreciation rights (STAR program). The STAR program entails a total of 150,000 stock appreciation rights, which the Management Board has offered to the members of the Supervisory Board between 2003 and 2005 in accordance with the conditions of the STAR program. Of the total of 150,000 stock appreciation rights, 50,000 each have been assigned to the members of the Supervisory Board.

The total compensation received by the individual members of the Supervisory Board comprising a fixed and a variable component must not exceed a total of EUR 75,000 per year.

2.8 How is the Supervisory Board kept informed of the Group's activities?

During the year, the Supervisory Board performs the duties imposed on it by law and the Company's articles of association. In particular, it monitors and assists the management of Articon-Integralis AG. On the basis of written and oral reports submitted by the Management Board, the Supervisory Board regularly deals in detail with the Company's condition, the planned business policies and corporate planning.

All main investment decisions, particularly those relating to planned and completed acquisitions of other companies, are examined and approved by the Supervisory Board. In addition, the Supervisory Board has approved procedures for the early detection of all events and risks liable to adversely affect the Company's ongoing performance.

2.9 Are the Company's articles of association and bylaws available publicly?

Articon-Integralis AG's articles of association can be examined in the "about us" section of the Company's website.

Details of Articon Integralis AG's current stock option programs as well as the STAR program comprising stock appreciation rights for the supervisory board can be found in the notes to annual financial statements.

3 The Company

3.1 Who are the Company's auditors?

At their annual general meeting on 9 June 2005, the shareholders elected AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft as the financial statement auditors for 2005.

3.2 How does the Company avert conflicts of interest with respect to the auditors?

The annual financial statements, the consolidated annual financial statements as well as the management report and Group management report are audited by the auditors and issued with the necessary auditor's report. The Supervisory Board assesses the objectiveness of the auditor's findings and satisfies itself that the audit has not given rise to any conflicts of interest. The Supervisory Board has received a declaration of independence to this effect issued by the auditors for fiscal 2005.

3.3 How does the Group disclose securities transactions on the part of members of the Supervisory Board and the Management Board?

Articon-Integralis AG is admitted to the Prime Standard and reports securities transactions engaged in by the Supervisory Board or the Management Board in accordance with the applicable laws. The Management Board and the Supervisory Board disclose the purchase or sale of Articon-Integralis AG shares and options to BaFIN in accordance with Section 15a of the Securities Trading Act. In addition, these transactions are disclosed on the Group's website in the interests of maximum transparency. The Management Board and the Supervisory Board support the transparency stipulated in connection with securities transactions and have issued extensive rules to ensure compliance with the applicable rules.

You will find the information on our website: www.articon-integralis.com

3.4 How does the Company protect shareholders' interests as defined in terms of good corporate governance?

The primary goal pursued by the Management Board and the Supervisory Board of Articon-Integralis AG is to maximize shareholder value and to promote and represent shareholders' interests. The Management Board works consistently on enhancing the management reporting system to achieve maximum transparency. Articon-Integralis AG applies the International Financial Reporting Standards (IFRS) and always strives to achieve maximum transparency in its interim and annual reports. Allowance is made for shareholders' interests in all company decisions.

To strengthen shareholders' confidence in the share, Articon-Integralis AG maintains intensive contacts with the national and international capital markets. For this purpose, analysts, current and potential investors and the business press are kept regularly informed of the Company's business performance. Open and active communications form part of the investor relations activities and, as such, constitute a key component of the corporate strategy. In addition, Articon-Integralis AG is working on building up relations with government organizations and other official agencies concerned with the development of security and data privacy legislation in the public and private sector.

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3.5 Are there any rules relating to attendance of the annual general meeting?

Various statutory amendments have made it easier for shareholders to exercise their voting rights at the annual general meeting. In the Investor Relations section of its website, Articon Integralis AG publishes the results of the ballots of its annual general meetings, currently for the annual general meeting held on 9 June 2006, as well as announcements for upcoming meetings.

3.6 What precautions have been taken for ensuring risk management?

Risk management and monitoring form a regular part of discussions at the Management Board meetings. Articon-Integralis AG has established a risk management committee comprising members of the Management Board, representatives of the IT area and the HR department, to minimize risks. This committee meets in regular intervals to discuss and evaluate risks. In this connection, results are presented, strategies developed and persons responsible for individual risks nominated. The result of these processes is that the Company is not only able to ascertain risks with a high degree of precision but also to minimize them.

4 The German Corporate Governance Code

Under Section 161 of the German Stock Corporations Act, the Management Board and Supervisory Board are required to declare once a year whether and to what extent the Company conforms to the recommendations set out in the German Corporate Governance Code. The declaration of conformance for 2006 issued by Articon-Integralis AG effective March 2006 is set out below.

Further information on the German Corporate Governance Code can be found on our website.

Declaration of conformance of Articon-Integralis AG for 2006

I. Introduction

Under Section 161 of the German Stock Corporations Act, the Management Board and Supervisory Board are required to declare once a year whether and to what extent the Company conforms to the recommendations set out in the German Corporate Governance Code and to specify which recommendations have not been applied. This declaration must be made available to the shareholders at all times.

This is a non-authoritative English translation of the original German-language declaration issued by Articon-Integralis AG.

The declaration for 2006 applies to both fiscal 2005 and fiscal 2006.

The Management Board and the Supervisory Board have examined the recommendations contained in the German Corporate Governance Code carefully. At the Company's annual general meetings, the Company's shareholders are regularly informed of individual matters relating to corporate governance.

II. Declaration issued by the Management Board and the Supervisory Board of Articon-Integralis AG pursuant to Section 161 of the German Stock Corporations Act

On the basis of the German Corporate Governance Code (GCGC) as amended on 2 June 2005 (announced in Bundesanzeiger on 20 July 2005) and in accordance with Section 161 of the German Stock Corporations Act, the Management Board and the Supervisory Board of Articon-Integralis AG hereby declare that the Company conformed to the recommendations of the German Corporate Governance Code in the prevailing version for 2005 and will do so for 2006 with the exception of the following:

Article 3.8 of the GCGS

If the company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed.

Comment:

Articon-Integralis AG has had D&O cover for the Management Board and Supervisory Board since 1999. We see the reason for this cover as being to provide full protection from any risks and will therefore not be introducing any deductible for members of the Management Board and Supervisory Board.

Article 5.2 of the GCGS

The Chairman of the Supervisory Board shall also chair the committees that handle contracts with members of the Management Board and prepare the Supervisory Board meetings. He should not be Chairman of the Audit Committee.

Comment:

Given the small number of members on the Supervisory Board, there is currently no need to establish any committees. For this reason, the chairman of the Supervisory Board of Articon-Integralis AG has not performed any of the duties provided for in Article 4.2 of the Code.

Article 5.3.1 of the GCGS

Depending on the specifics of the enterprise and the number of its members, the Supervisory Board shall form committees with sufficient expertise.

Comment:

It is currently not necessary to form any committees due to the reduction in the number of members of the Supervisory Board.

Article 5.3.2 of the GCGS

The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement.

Comment:

On account of its small size, the Supervisory Board in its entirety deals with the aforementioned questions relating to accounting and risk management and performs the necessary checks in connection with the auditor.

Articon-Integralis AG

For the Supervisory Board

Arnd Wolpers

For the Management Board

Georg Magg

Details of corporate governance at Articon-Integralis AG are available at www.articon-integralis.com

Contact persons: Georg Magg, Roger Friederich and Pia Lanig (IR)

Imprint

Management Board
Georg Magg, CEO
Roger Friederich, CFO
Graham Jones, COO

Supervisory Board
Arnd Wolpers, Vorsitzender
Prof. Jochen Tschunke, Mitglied
Duncan Soukup, Mitglied

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The Company is registered with
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number HRB 121349

Ordinary stock

The Company's stock is included
in the Prime Standard.
Ticker symbol AAGN, WKN 515503
ISIN DE0005155030

Our latest financial reports and corporate updates are available on the Internet at www.articon-integralis.com

Calendar of events 2006

Quarterly report 1/2006	22 May 2006
Annual general meeting for 2006	24 May 2006
Quarterly report 2/2006	9 August 2006
Analyst conference 2006	14 November 2006
Quarterly report 3/2006	14 November 2006

Investor relations

You can register by e-mail with
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financial information on Articon-Integralis.

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