



ANNUAL REPORT

2005

BUSINESS MISSION

„The BÖWE Group is positioning itself as a one-stop supplier for every aspect of the mailroom. Our position as a global player is secured through decades of experience in the market, combined with progressive development and the expansion of our portfolio.“

A five-year summary of BÖWE SYSTEC

BÖWE SYSTEC Group in million EUR	2005 IFRS	2004 IFRS	2003 HGB	2002 HGB	2001 HGB
Group sales	461.9	307.8	346.4	204.6	220.2
EBITDA	55.8	42.9	46.4	34.1	34.1
Results of ordinary activities	26.0	25.4	21.6	23.8	23.1
Group net income for the year	19.0	10.9	16.2	14.0	15.3
Order intake	471.8	326.4	323.9	193.4	219.5
Order backlog	95.6	57.4	40.0	22.4	33.5
Investments in property, plant and equipment	10.9	6.2	5.9	6.1	7.6
Investments in intangible assets	13.9	7.5	2.9	6.6	0.8
Investments in financial assets	1.3	9.8	0.4	80.4	1.0
Depreciation and amortization	19.7	13.7	15.4	7.5	7.2
Cash flow from ordinary activities	17.8	41.4	26.6	9.5	36.3
Employees without trainees (annual average)	3,578	2,621	2,674	1,847	1,821
Total net assets	605.9	437.6	421.0	295.4	226.2
Fixed assets	344.4	174.0	187.9	151.4	75.9
Current assets incl. prepaid expenses	261.5	263.6	233.1	144.0	150.3
Equity including dividend distribution	143.5	109.1	94.9	82.2	85.3
Accruals	47.0	35.9	65.8	28.9	28.2
Liabilities incl. deferred income	415.4	292.6	260.3	184.3	112.7
Figures per share:	2005 IFRS	2004 IFRS	2003 HGB	2002 HGB	2001 HGB
Weighted number of no par value shares (million)	6.595	6.586	6.098	6.021	6.000
Earnings per share (EUR)	2.88	1.66	2.66	2.33	2.55
Cash flow from ordinary activities (EUR)	2.70	6.29	4.37	1.57	6.05
Dividends * (EUR)	1.35	1.30	1.25	1.25	1.20

* Dividend 2001 excluding anniversary bonus of EUR 0.20

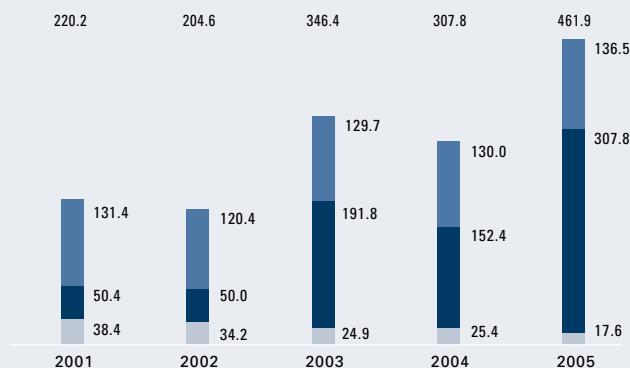
BUSINESS RATIOS

BÖWE SYSTEC GROUP:

Sales development by region

in million EUR

■ EUROPE
■ NORTH AMERICA
■ ASIA AND OTHER

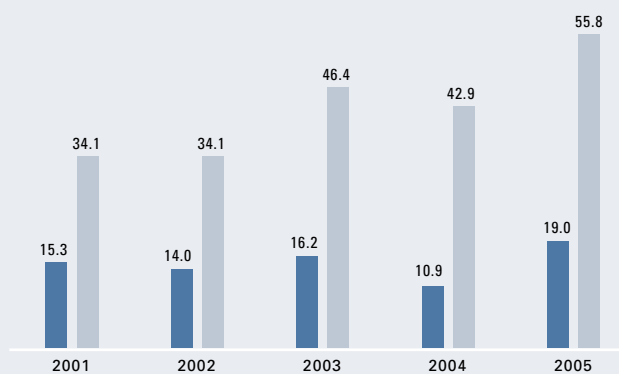


BÖWE SYSTEC GROUP:

Net income for the year and EBITDA

in million EUR

■ NET INCOME FOR THE YEAR
■ EBITDA

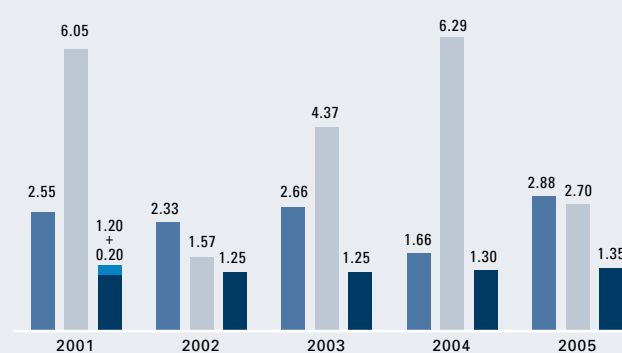


BÖWE SYSTEC GROUP:

Figures per share

in EUR

■ EARNINGS PER SHARE
■ CASH FLOW PER SHARE
■ DIVIDENDS
(2001 dividends excluding anniversary bonus of EUR 0.20)



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FOREWORD BY THE MANAGEMENT BOARD



The management board
of BÖWE SYSTEC:
Dr. Claus Gerckens,
Michael Meyer

Dear Shareholders,

The BÖWE SYSTEC Group can look back over another successful fiscal year. The most important event for the development of the Group in this context was the acquisition of further shares in the US market leader BÖWE BELL + HOWELL. At the start of the year the investment had already been topped up by 10% to 60%, giving the Group a majority stake. Having acquired an additional 10% in July 2005 the Group was finally able to complete the acquisition of the remaining shares in December.

This consequently made it significantly easier to fully integrate the US company into the BÖWE SYSTEC Group. In addition, the Group now has important synergy potential at its disposal, particularly in the sorting area, in product development as well as in the areas of international after-sales and distribution.

From the operating side the acquisition of the majority stake in BÖWE BELL + HOWELL gave rise to a marked increase in the Group values in the income statement as well as in the consolidated balance sheet. At the same time however this acquisition will realize a further step forward in the development of the Group into a total provider for comprehensive mailroom solutions.



In addition to inserting systems the American subsidiary also manufactures and distributes high-performance sorting systems and high-performance scanners. The BÖWE SYSTEC product portfolio also includes card personalization and card dispatch systems, software for the monitoring and interconnection of various mailroom systems and various mailroom locations, systems for paper pre- and post-processing in the printing process as well as all related services.

The ongoing amalgamation of the Group with the future in mind was clearly set out with the establishment of the new BÖWE Group umbrella brand in the middle of the year. With its new market presence the Group is clearly positioning itself as a total provider for one-stop shopping for all mailroom requirements.

The growth of the BÖWE SYSTEC Group is also reflected in the development of the share price. In the 2005 stock exchange year the BÖWE SYSTEC share posted a strong 12-month-performance, successfully increasing its value from EUR 38.80 at the start of the year to EUR 50.84 at the year end. With a 31% rise the share outperformed the DAX, although it slightly underperformed against the SDAX comparison index. By contrast, based on the development over the last five years which has seen the price increase by around 135%, the BÖWE SYSTEC share has clearly outperformed the SDAX comparison index which grew by just 40%.

During the course of the year three institutes initiated coverage of the BÖWE SYSTEC share. The WestLB and the Lampe Bank – both based in Düsseldorf – issued buy recommendations in their first study. At the beginning of the year the firm of CA Cheuvreux had already produced its first analysis of the BÖWE SYSTEC share. In conjunction with Cazenove & Co., London, the share is now subject to regular analysis by five institutes which assess its development potential.

As a result of the full consolidation of BÖWE BELL + HOWELL, in the fiscal year just past BÖWE SYSTEC posted significant growth rates in sales and results. Consequently this only provides for limited comparison with previous years' figures. At the same time, as a result of the differing accounting and valuation regulations, the application of the International Financial Reporting Standards (IFRS) for the very first time produced differences between the consolidated balance sheet, consolidated income statement drawn up in accordance with IFRS for the comparison periods, as well as the consolidated net surplus and the corresponding figures for these periods previously shown in accordance with HGB.

In fiscal year 2005 the BÖWE SYSTEC Group posted sales in the sum of EUR 461.9 million as against EUR 307.8 million in the previous year. The strongest growth in sales was seen in the North America region, attributable to the full consolidation of BÖWE BELL + HOWELL. This area saw an increase from EUR 152.4 million to EUR 307.8 million whilst Europe achieved a rise of EUR 6.5 million to EUR 136.5 million.

The order backlogs, which were 66.5% higher compared with the previous year, hold out the promise of a further, marked improvement in the starting basis for fiscal year 2006. As at the qualifying date December 31, 2005 the Group product order backlog totaled EUR 95.6 million.

With its claim of maintaining a state-of-the-art product portfolio at all times and of simultaneously fulfilling the specific wishes of the customers through innovative new developments, BÖWE SYSTEC has secured a position for itself as a technology leader within the sector. It is through on the basis of conviction that BÖWE SYSTEC invested a 5.1% share of its consolidated sales in research and development in 2005, a figure which is above the sector average.

In the year just past the work of the development engineers in the inserting area was concentrated on expanding the processing range, optimizing the system tooling times and achieving a further improvement in the system logistics. For example, amongst other things, the inserting thickness of the TURBO22 inserting system specially designed for the high output range, was expanded to 16 sheets, the enclosure feeders were modified for the reliable handling of thinner enclosures and the throughput of applications involving large collating volumes significantly improved by optimizing the print flow in the print preparation.

In the card dispatch product area the realization of changing customer requirements resulted in, amongst other things, the development of a card turning module in the input channel of the card mailing systems as well as an integrated labeling module for the dispatch of telephone cards (GSM cards).

In the year just past the Waymark weight verification module was developed in the increasingly important mail verification and sorting systems area. The outstanding features of this module are its precision and efficiency. It enables the weight of the envelope to be calculated at high-speed and at the same time to be precisely assigned to the postage category.

In the year 2005 the Truper 3600 and Spectrum XF were important development projects in the scanner area. Whilst the impressive feature of the Truper 3600 is its superb price-performance ratio in the lower output range, the Spectrum XF scanner delivers superior picture quality, simultaneously increasing the operating speed by 30 percent compared with the predecessor models.

In the year covered by the report the consolidated annual net surplus calculated for the first time in accordance with the international accounting regulations of the IFRS, reached EUR 19.0 million compared with EUR 10.9 million in the previous year. An increased dividend of EUR 1.35 per share will be proposed for the 2005 fiscal year. If this receives shareholder approval the amount distributed will be EUR 8.9 million.





Leading business research institutes also anticipate a continuation of the upturn in economic activity in the industrialized nations in the current year. The sector organization the VDMA also expects an improvement in the business climate of the print and paper technology sector in 2006. Market observers also forecast a further rise in mail traffic volumes. The sector also anticipates a marked increase in demand for mail sorting machines.

In addition to these external, positive signs however the BÖWE SYSTEC Group is also benefiting from the measures taken in the past years to reduce costs and is therefore in an advantageous position for the current year. Consequently, sales of approx. EUR 490 million are planned for the fiscal year, with the result also expected to be higher by comparison with 2005.

As the Management Board of BÖWE SYSTEC we look forward to a continued, regular exchange of information with our shareholders and are happy to take up the challenges and opportunities presented today and in the future so that we can fulfill every aspect of your expectations.

Augsburg, March, 2006



Dr. Claus Gerckens

Michael Meyer

CORPORATE STRATEGY AND OBJECTIVES

The BÖWE SYSTEC Group has clearly positioned itself as a total provider for all aspects of the mailroom. Directed from the Group Headquarters in Augsburg, the Group has expanded on a targeted basis from a European market leader in inserting systems to a total provider for comprehensive mailroom solutions. The change in the corporate structure of the companies that operate under the Group umbrella also brought with it a significantly expanded range of products for the mailroom.

BÖWE SYSTEC offers highly automated products, services and after-sales for the modern mailroom. Over recent years the development and manufacture of intelligent, high-performance inserting systems has been expanded by the addition of the plastic card business, including personalization and inserting, software monitoring in the mailroom, through to the interconnection of several processing locations, systems for pre- and post-paper processing, sorting and mail verification systems plus scanners. The companies that operate under the BÖWE SYSTEC Group umbrella contribute their years of experience in development, distribution and after-sales in the interest of pursuing a distinctive customer oriented approach at all times. As a result of this development, with the exception of digital printing systems, the BÖWE SYSTEC Group today covers all products and services in the modern mailroom. Through close cooperation with all leading printer manufacturers the individual processing areas can be easily interconnected.

There will be no change in the pursuit of the Group's credo of producing both systems as well as software within the framework of a consistent, modular structure, providing for system expansion, securing full protection for investment and adapted to suit the requirements of the customer. The Group companies not only attach importance to production and distribution but also to advice and concept planning in the individual design of the mailroom architecture for each individual customer.

The United States, still the world's most important regional market for mailroom applications, is served by the US company BÖWE BELL + HOWELL. A range of integrative measures led to increased collaboration between the former competing companies BÖWE SYSTEC and BELL + HOWELL in the USA; the product range was successfully amalgamated. The superbly structured North American after-sales network has some 1,350 technicians and extensive, widespread coverage.

The Group's activities, positioned downstream of distribution, themselves play a key role as they not only secure long-term sales but also maintain regular contact with the customers. It is not rare to find the impetus for technological further and new developments coming directly from the field as the result of requested applications and local conditions within the customers' day-to-day production environment. In addition to its own subsidiaries the BÖWE SYSTEC Group maintains numerous branches and general representations worldwide who are directly actively involved in distribution and, in particular, after-sales with the customer in the respective country. The strategy of focusing on local contacts with short communication channels to the customer which has been pursued for many years has proven successful and will be continued in the future. The declared aim of the Group Management remains to continue strengthening its global market presence.

COMPANY BOARDS

The management board of BÖWE SYSTEC Aktiengesellschaft:

Dr. Claus Gerckens Augsburg
Chairman

Michael Meyer Neusäß
Deputy Chairman

The supervisory board of BÖWE SYSTEC Aktiengesellschaft:

Johannes Beelen Solingen
Chairman
Former management board member of
ZWILLING J.A. Henckels AG, Solingen

Dr. Hans-Joachim Röhler Burgwedel
Deputy Chairman
Lawyer

**Prof. Dr. Dres. h.c.
Adolf G. Coenberg** Stadtbergen
Chair of business administration, audit and controlling
at the University of Augsburg

**Prof. Dr. h.c.
Rolf-Dieter Leister** Sursee, Schweiz
Business consultant

Claus-D. Bunk Schwabmünchen
Employee representative
Chairman of the works' council of
BÖWE SYSTEC Aktiengesellschaft, Augsburg

Alfred Seifert Augsburg
Employee representative
Deputy chairman of the works' council of
BÖWE SYSTEC Aktiengesellschaft, Augsburg



THE BÖWE SYSTEC SHARE

The share in figures:	2005 IFRS	2004 IFRS	2003 HGB	2002 HGB	2001 HGB
Capital stock (EUR million)	17.20	17.20	17.10	15.70	15.60
Number of shares with dividend entitlement as of Dec. 31 (million)	6.60	6.60	6.57	6.04	6.00
Earnings (EUR)	2.88	1.66	2.66	2.33	2.55
Cash flow from ordinary activities (EUR)	2.70	6.29	4.37	1.57	6.05
Dividends (EUR)*	1.35	1.30	1.25	1.25	1.20
Share price at year-end (EUR)	50.84	38.80	40.50	21.00	20.50
Annual high of the share (EUR)	51.25	42.95	41.30	26.60	26.30
Annual low of the share (EUR)	35.71	35.40	19.90	17.60	16.30

*2001 dividend excluding anniversary bonus of EUR 0.20

The BÖWE SYSTEC SHARE

In 2005 the German stock market showed a further very pleasing trend. Both the DAX, as the stock exchange index for the heavyweights in the German equities market, as well as the SDAX, as the index for smaller listed companies, reported clear gains during the course of the year. The DAX ended the year at 5,408, representing a rise of 27.1%, with the SDAX 35.2% higher at 4,249 points.

The stockholders of BÖWE SYSTEC can also look back over a strong performance by their investment. The BÖWE SYSTEC share rose from EUR 38.80 at the start of the year to EUR 50.84 at the end of the year, consequently posting a 31% gain.

The share slightly underperformed by comparison with benchmark index the SDAX but outperformed the DAX. The comparison looks even better when viewed over the last five years on the basis of the development in the share price: the BÖWE SYSTEC share achieved an increase of approximately 135% compared with a rise of just 40% in the SDAX. The blue chip index DAX posted a fall of around 16% over the same period.

The foundation for the good performance in 2005 was in fact laid by the share price in the first months of the previous year. Within less than two months the share reached an initial high of just under EUR 49. By the end of July the price had gradually given ground, falling to EUR 40.40 before a renewed rise lifted the listing to EUR 46.60. In mid October the BÖWE SYSTEC share reached a new historic high of EUR 51.25. Following a further period of volatility it closed the year at EUR 50.84, giving a total market capitalization of 335.5 million euros as at the end of 2005.



DEVELOPMENT OF THE BÖWE SYSTEC SHARE 2005 Compared to the SDAX and to the DAX

■ BÖWE SYSTEC SHARE PRICE
 ■ SDAX INDEX
 ■ DAX INDEX

Coverage by five research institutes

At the beginning of October 2005, in an up-to-date study, the Berenberg Bank, Hamburg, issue another ‘buy’ recommendation for the BÖWE SYSTEC share. During the course of the year three other institutes had previously included the BÖWE SYSTEC share in their coverage. Both the WestLB as well as the Lampe Bank – both based in Düsseldorf – issued buy recommendations in their first study. The CA Cheuvreux had already produced its first analysis of the BÖWE SYSTEC share at the start of the year. In conjunction with Cazenove & Co., London, the share is consequently subject to regular analysis by five institutes and assessed in terms of its development potential.

Shareholder structure

There are currently 6.6 million BÖWE SYSTEC shares outstanding. As at the date of the last shareholder survey in the middle of the previous year, 66.9% of these are held by domestic shareholders. This represents an increase of 1.5% over the previous year.

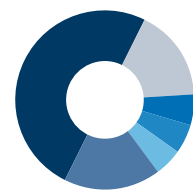
The largest individual shareholder remains WANDERER-WERKE AG with 50.1% of the shares. According to the definition from the Deutsche Börse the free-float is therefore 49.9% of the share capital, representing 3.29 million shares.

Other shareholders included in the free-float, with investment holdings in excess of 5% respectively, are Bestinver Gestion, Spain, Financière de l’Echiquier, France, as well as the US American firm The Capital Group Companies, Inc.

The ratio of shares held by foreign shareholders has altered significantly compared with the previous year, not least as a result of the two new investors from Spain and France. With a 10.6% shareholding in BÖWE SYSTEC AG, French shareholders took over the position of the largest foreign group of shareholders from the US investors. The second largest group of foreign shareholders, as in the previous year, are the British investors whose share of the equity capital totaled 8.7% on the date of the survey.

SHAREHOLDERS STRUCTURE

as of March 2006



■ 50.1% WANDERER-WERKE AG
 ■ 16.8% OTHER DOMESTIC SHAREHOLDERS
 ■ 5.4% BESTINVER GESTION
 ■ 5.2% FINANCIÈRE DE L’ECHIQUIER
 ■ 5.1% THE CAPITAL GROUP
 ■ 17.4% OTHER FOREIGN SHAREHOLDERS

Participation in the Prime Standard Segment, inclusion on the SDAX

BÖWE SYSTEC AG was also permanently listed in the Prime Standard Segment on the Frankfurt Securities Exchange in fiscal year 2005, the segment which has the highest level of disclosure obligations. The BÖWE SYSTEC share has also been a permanent element of the SDAX for many years.

Investor Relations

In the year covered by the report BÖWE SYSTEC continued to maintain active communication on the financial front, focusing on analysts' conferences and roadshows. To this end the company had already given presentations in the first half of the year to numerous investors and analysts at events at the financial centers of Frankfurt, London, Paris and Milan. Another analysts conference in the French capital plus a roadshow in London were also on the agenda during the fourth quarter. Numerous potential investors obtained information on current topics and the future prospects of the BÖWE SYSTEC Group. In parallel with its participation at the above-mentioned events the company also held numerous individual discussions with potential investors and analysts.

CORPORATE GOVERNANCE REPORT



Corporate Governance Report

Management Board and Supervisory Board of BÖWE SYSTEC Aktiengesellschaft both agree that a good and responsible system of corporate management is an important cornerstone of the corporate policy. BÖWE SYSTEC AG is one of the companies in Germany which adheres to virtually every point in the latest version of the German Corporate Governance Code recommendations, dated July 2005. New additions, for an example as a result of the legislation on improving investor protection, are immediately implemented into corresponding rules.

In July 2005 Management Board and Supervisory Board issued the Statement of Compliance in accordance with Sec.161 of the Joint Stock Corporation Act (AktG), the full wording of which can be viewed on the company's Homepage. The Statement of Compliance dated July 2005 contained deviations from four recommendations of the German Corporate Governance Code, in the version dated March 21, 2003. The requirement for consolidated financial statements and interim reports to be prepared in accordance with internationally recognized accounting principles will be adhered to with effect from the consolidated financial statements for the year 2005. Contrary to the recommendation that the consolidated financial statements be published within 90 days after the fiscal year end, the annual financial statements will normally be published at the commencement of the fourth month after the fiscal year end to prevent them being overlooked as just one of the huge number of financial statements issued by major groups. Details on directors' dealings will be published on the company's Internet site for four weeks respectively, immediately after notification. The company will fulfill the obligation to disclose individual details of the remuneration for the Board of Management members from the 2006 reporting year. The recommendation to provide details of shareholdings in the company held indirectly by each member of the Board of Management as well as each member of the Supervisory Board, if this exceeds 1% of the shares issued by the company, was not followed since no corresponding reports have been submitted to the company.

Information in accordance with subsection 5.4.7 of the German Corporate Governance Code

The remuneration for the Supervisory Board is governed by Sec. 14 of the articles of incorporation of BÖWE SYSTEC Aktiengesellschaft and is explained in detail in the Notes on Page 104.

Information in accordance with subsection 6.6 of the German Corporate Governance Code

As at the qualifying date of December 31, 2005 the members of the Supervisory Board held a total of 815 shares. As at the qualifying date of December 31, 2005 the members of the Board of Management of BÖWE SYSTEC Aktiengesellschaft held a total of 5,900 shares.

Further information on share ownership can be found in the Notes under the heading Subscribed Capital on Pages 93 and 94.

Ad hoc announcements

In the 2005 period covered by the report the company published two corporate announcements on an ad hoc basis. The announcements related to the sale of the leasing business of the BÖWE BELL+HOWELL sub-group as well as to the increase in the dividend for fiscal year 2004, based on the increase in profits compared with the previous year. The full wording of the announcements can be called up on the company's Internet site.

REPORT OF THE SUPERVISORY BOARD



Johannes Beelen
Chairman of the
Supervisory Board

Report of the Supervisory Board

In the fiscal year just past the Supervisory Board continually monitored the management of the company and looked closely at the long-term direction of the Group. At a total of five joint meetings held at the company's registered offices in Augsburg, as well as one teleconference, the Supervisory Board discussed the detailed verbal and written reports of the Management Board and consequently was involved in all the key decisions. In addition, the Personnel Committee held one special meeting. At the regular meetings, in addition to presenting details on the development of order intakes and order backlogs, sales and results, existing risks and deviations from the plan, the members also specified and discussed the proposed countermeasures. This gave the Supervisory Board a true picture of the business developments within the Group at all times.

The subject of each fourth meeting during the course of a year is the efficiency of the work carried out by the Supervisory Board. At this meeting an open discussion is held on the possibilities for improvement with regard to the tasks of the Supervisory Board itself, potential conflicts of interest and the cooperation with the Management Board. Preparation for this meeting was made by way of a written questionnaire to the members of the Supervisory Board on the potential for improvement in the activity of the committee.

The members of the Supervisory Board attended all meetings throughout the year. One member of the Supervisory Board gave his apologies for not attending the meetings on February 10, 2005 and on September 29, 2005.

Between the individual meetings the Supervisory Board was also kept informed of developments or decisions of special importance on a monthly basis by the Management Board. As a result of the diversity of the exchange of information and ideas the Supervisory Board was able to perform the duties for which it is responsible under the law, pursuant to the articles of incorporation and the German Corporate Governance Code in a thorough and professional way at all times.

Once again, one of the focal areas for monitoring during the course of the fiscal year just past was the development of the BÖWE BELL + HOWELL Group. To this end the Chairman of the Supervisory Board traveled to the Group's key location in Chicago in order to get his own first hand impression of the progress of the integrative measures and subsequently reported to the other members of the Supervisory Board on the positive information he gained during the visit with regard to the development of the US company, its management and from a client trade fair which he attended at the same time.

The Supervisory Board very closely followed the development of the Lasermax Roll Systems, the newly formed joint venture between BÖWE SYSTEC AG and the Swedish firm of Stralfors AB and welcomed the successful and speedy integration of the joint venture within the BÖWE SYSTEC Group.

The Supervisory Board unanimously approved the recommended total commitment to the acquisition of the remaining 30% of the shares in BÖWE BELL + HOWELL still held by Glencoe Capital. The subsequent sale of the Financial Services business of BÖWE BELL + HOWELL was welcomed as an expression of the Group's concentration on its core areas and approved by the Supervisory Board.

The Supervisory Board was satisfied with the development of the activities in Card Personalization. Following the complete acquisition of the remaining shares in the former Protechno Card GmbH, the company, now operating under the name of BÖWE Cardtec GmbH, achieved the financial turnaround in the fiscal year just past.

In order to secure the long-term financing for the BÖWE SYSTEC Group the Supervisory Board gave its written approval to the take-up of profit participation capital in the sum of EUR 8.0 million.

The consolidated financial statements for the fiscal year just past were drawn up for the first time in accordance with the International Financial Reporting Standards (IFRS). Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Hamburg, who were appointed to audit the financial statements, audited the annual financial statements of BÖWE SYSTEC AG in accordance with HGB, the consolidated financial statements in accordance with IFRS as well as the management report of BÖWE SYSTEC AG and the consolidated management report, including the accounts for fiscal year 2005 upon which these were based and granted an unconditional audit opinion in each case. The auditor granted the following unconditional audit opinion on the report of the Management Board on the relationships with affiliated companies in accordance with Sec. 312 Joint Stock Corporation Act [AktG]:

"Based on our audit and assessment, conducted in accordance with professional standards, we confirm that

1. the actual information in this report is correct,
2. the payments by the company in connection with legal transactions listed in the report were not unreasonably high."

Immediately after they were prepared the financial statements, the management report of BÖWE SYSTEC AG and the consolidated management report, the report on the relationships with affiliated companies as well as the auditor's reports, were made available to all members of the Supervisory Board. The auditors, Ernst & Young AG, reported on the course of the audit of the annual financial statements and on the main results of the audit at the meeting of the Supervisory Board on March 28, 2006, focusing on the consequences of the conversion of the consolidated financial statements from HGB to IFRS. All further questions from the Supervisory Board were answered subsequent to the report. The Chairman of the Supervisory Board had held a prior individual meeting with the auditors to receive a report on the course of the audit and on the assessment of the overall business risk situation. Following the final result of its reviews the Supervisory Board did not raise any objections to the financial statements, the management report of BÖWE SYSTEC AG and the consolidated management report, the report on the relationships with affiliated companies, including the final declaration by the Management Board contained in this report, nor against the audit report by the auditors of the financial statements. The Supervisory Board therefore concurs with the result of the audit of the financial statements and approves the financial statements of BÖWE SYSTEC AG and the consolidated financial statements as at December 31, 2005 prepared by the Management Board; the annual financial statements of BÖWE SYSTEC AG are therefore established. The Supervisory Board concurred with the proposal on the appropriation of profits.

The Supervisory Board would like to thank the members of the Executive Board for their efforts for the benefit of the company during the course of the fiscal year just past.

The Supervisory Board would like to express its special thanks to the many employees who work for the BÖWE SYSTEC Group in Germany and abroad. As a result of their great commitment, their creativity in the wide range of activities and their loyalty to the company, they have made a major contribution towards the positive development of the company in the fiscal year just past.

Augsburg, March 28, 2006

THE SUPERVISORY BOARD



Johannes Beelen

Chairman of the Supervisory Board



THE FINANCIAL YEAR IN PERSPECTIVE



JANUARY:

From January 1, 2005 BÖWE SYSTEC completes its acquisition of a majority holding in the US American subsidiary BÖWE BELL + HOWELL. As agreed, BÖWE SYSTEC AG acquires an additional ten percent of the stock from the US American co-stockholders and now has 60% of BÖWE BELL + HOWELL. This transaction gave BÖWE SYSTEC a majority stake and, consequently, with effect from this date BÖWE BELL + HOWELL is fully consolidated.

MAY:

60 years of BÖWE: from office machines to mailroom management.

The roots of the present day BÖWE SYSTEC AG extend back to the year 1945: immediately after the end of the Second World War Max Böhler and Ferdinand Weber, two former employees of Messerschmitt AG, set up the firm of Böhler und Weber in Augsburg – later renamed BÖWE for short.

A rich vein of inventions and a feeling for the needs of the market are characteristic of BÖWE SYSTEC's successful history. The company is single minded in expanding from being a small business founded in a garage, into a worldwide operating total provider for all aspects of the mailroom. By the mid Fifties the company was already focusing on the expansion of its international structures: the founders themselves fostered contact with business partners during countless foreign trips in order to establish distribution facilities for machinery and equipment abroad and in this way laid the foundation for the international group that now spans the world.

JULY:

BÖWE SYSTEC acquires a further ten percent of the remaining stock in BÖWE BELL + HOWELL and, as a result, increases its stake in the North American subsidiary to a total of 70%.

With immediate effect all group-wide corporate activities are conducted under the unified "BÖWE

Group" brand, the design of which is geared towards the logo of the parent company, BÖWE SYSTEC AG. By establishing the new umbrella brand the Group is clearly positioning itself in the mailroom market as a total provider on a one-stop-shopping basis. Simultaneously a company-wide brand value has been created for the entire BÖWE Group through a targeted use of the Group brand.

The new profile of the Group companies, operating as the BÖWE Group, embodies the ongoing reorganization of the Group, oriented towards the future, and emphasizes the development of BÖWE SYSTEC AG from a European market leader in Inserting systems to a global total provider for integrated total solutions in the mailroom. Thanks to the concentration of the various areas of expertise in the mailroom business as well as the utilization of synergies, the BÖWE Group is ideally equipped to meet the rapidly changing structures in the postal processing market.



SEPTEMBER:

PRINT 05 & CONVERTING 05

At PRINT 05 & CONVERTING 05 in Chicago, USA, the largest and most important international trade fair for commercial, package printing, publishing and converting in 2005, BÖWE SYSTEC, BÖWE BELL + HOWELL and Lasermax Roll Systems AB gave presentations of the latest developments and solutions from the world of the mailroom, at four stands. Amongst other things, BÖWE BELL + HOWELL presented the new, pioneering system management software BÖWEONE as well as the world innovation PSO (Print Stream Optimization), an innovative solution designed to optimize the print flow. PSO is a patented Software concept for the manipulation of the data flow in the provision of the print data, enabling the system throughput to be significantly increased.

OCTOBER:

The canoeists Marcus Becker and Stefan Henze, sponsored by BÖWE SYSTEC, win the bronze

medal in the two-man canoe class on the 2000 Olympics course at the Slalom World Championships in Sydney, Australia.

NOVEMBER:

At the international leading trade fair for chip cards, CARTES 2005 in Paris, France, the BÖWE Group presents a selection of innovative systems for plastic card personalization and cardmailing on a BÖWE SYSTEC AG joint stand, together with its subsidiary BÖWE CARDTEC GmbH. In addition, BÖWE CARDTEC gives a presentation of its modular designed Software platform for the PMP personalization management which takes account of all the requirements of current, security-relevant card applications. As a result of the new record number of client visits, together with the quality of the discussions held at the trade fair stand, BÖWE SYSTEC and BÖWE CARDTEC rate their presence at CARTES 2005 as a total success, underpinning the importance of the card sector within the BÖWE Group's range of services.

DECEMBER:

In December 2005 BÖWE SYSTEC completes the purchase of the remaining stock of BÖWE BELL + HOWELL in North America. This measure provides for the total integration of production, distribution and after-sales service for sorting machines and simplifies the further utilization of potential synergies, particularly in the areas of product development, production as well as international distribution and after-sales service. The aim in this respect in particular is to protect the overall interests of the Group in order to equip the entire BÖWE Group as best possible to meet future developments in the mailroom market and to strengthen its competitiveness.



THE BÖWE GROUP – TRADEMARK FOR WORLDWIDE EXPERTISE IN THE

The BÖWE Group – trademark for worldwide expertise in the mailroom

The companies in the BÖWE Group, leaders in technology and with years of market experience in Inserting Systems, mail verification and sorting systems (Sorting/Postal), Card Personalization and Dispatch Systems, Pre- and Post-Processing as well as intelligent Software Concepts, are setting the standards in the modern mailroom. All BÖWE Group employees apply their creativity, know-how, experience and passion to the reali-



BÖWE SYSTEC AG,

parent company of the BÖWE Group with company headquarters in Augsburg, is one of the worldwide leaders in the manufacture of high-performance Inserting Systems and facilities for Card Mailing Systems. BÖWE SYSTEC also develops specialist software products that control and monitor the systems, connect them together and with external systems, as well as document their jobs.



BÖWE BELL + HOWELL

with headquarters in Durham (North Carolina) and Chicago (Illinois) broadens the BÖWE Group product range through the addition of Sorting/Postal, Print-on-Demand solutions, products for mail dispatch and automated mail distribution, as well as high performance scanners. BÖWE BELL + HOWELL also possesses an extremely well established after-sales service network in North America.



zation of customer-specific requirements worldwide, developing pioneering, innovative mailroom solutions.

With the establishment of the new BÖWE Group umbrella brand the Group is clearly positioning itself as a one-stop supplier for every aspect of the mailroom. In addition to our comprehensive product portfolio we have been working closely together with leading printer manufacturers for many years. This enables us to combine our strengths and take a targeted approach to tackling the individual tasks set by the clients.

MAILROOM

By consistently focusing on the mailroom we have precise knowledge of our customers' requirements in their day-to-day business as well as of their individual needs. The universally modular product structure throughout the Group provides for the implementation of customized systems, offering maximum productivity, reliability and speed. The continuous document tracking during the entire production process plays a key role in the BÖWE Group hardware and software – and represents a key factor in its competitiveness. In the design and connection of their specific mailroom architecture our clients benefit from our expertise in advice and realization.

BÖWE GROUP

BÖWE CARDTEC GmbH,

based in Paderborn, develops and produces systems for plastic card and identity document personalization and dispatch as well as software solutions for a customized security architecture (e.g. for credit cards).



Lasermax Roll Systems AB

with headquarters in the Swedish city of Ljungby and in Burlington (Massachusetts) is the world's leading supplier of pioneering systems in Pre- and Post-Processing as well as of solutions used in data conversion and monitoring for digital printers. The company operates as a joint venture of the BÖWE SYSTEC Group together with the Swedish Stralfors Group and manages the Lasermax and Roll Systems business units.



Our position as a global player is secured through decades of experience in the market, combined with progressive product development and the expansion of our portfolio. BÖWE SYSTEC AG maintains twenty subsidiaries worldwide and serves an additional approx. 50 countries through general agencies. All the Group companies have a dense network of offices and general agents on every continent. In many cases the impetus for continued and new technological developments comes directly from the local markets where they are the result of requested applications and local conditions within the clients' day-to-day production environment. It is the declared aim of the BÖWE Group to continue expanding our successful position as a global market leader.



INTEGRATION OF EMPLOYEES



Company headquarters
of BÖWE SYSTEC AG
in Augsburg

Integration starts with each individual employee

The BÖWE Group employs around 3,600 personnel – people from a wide range of cultural groups who do not all speak the same language, who serve different areas of work and can call on a wide range of personal experience. In order to animate the newly created umbrella brand of the BÖWE Group, the task now, more than ever before, is to press ahead with the integration to create a global group. With this objective in mind the Group Headquarters launched the new employee magazine **B.INSIDE**, the very first issue of which was sent to all employees worldwide in Autumn 2005. Company-related topics form just as much part of the concept as employee portraits and articles which focus on the individual in the Group. The publication appears twice a year, in German and English, for all employees worldwide.

Together having our sights on success

The objective of the emotionalizing of the BÖWE Group brand in order to promote identification with the brand, prompted the Group Management in Autumn 2005 to provide support for two excellent world class sportsmen as the main sponsor. Shortly after the contract was concluded the two whitewater rafting canoeists Marcus Becker and Stefan Henze, Silver Olympic Medal winners in 2004 in Athens and 2002 World Champions in Augsburg, won another world championship medal in Sydney in the two-man canoe. The BÖWE Group and the two athletes have two main qualities in common: their roots are in Augsburg and they are highly successful on the international level. The intention is for the sponsorship activities to be used not only for brand communication but also for the personal interchange between clients, business partners and Group employees.

Fit to meet the needs of the customer

Combining individual parts of the Group to create a uniform market presence, orientation towards common objectives and, last but not least, the active development of a sense of belonging amongst all employees were key integral elements on the list of integrating activities over the course of last year. Education and training represent a promising platform when the task involved is to communicate product expertise and other skills relating to the Group portfolio. At the Augsburg parent company the young trainee employees at BÖWE SYSTEC AG attend a comprehensive program of training



which enables the company to secure qualified personnel for the Group's further expansion. In this context, the forward looking commitment to training qualifications for the next generation of management personnel provides a key contribution towards ensuring that the company is also well equipped to meet the continually changing framework conditions and market requirements.

In addition, at the Training Center of the Augsburg plant the service technicians of the international subsidiaries and general agencies receive detailed practical and theory training in maintenance and after-sales service from a seven strong team of trainers. In addition to training in all the BÖWE SYSTEC product lines special instruction is also given on individual components and system software. Each technician can put together his/her own program of qualification training thanks to the modular structure of the training units, in such a way that he/she is ideally equipped to meet any of his/her clients' requirements. In turn, when maintenance includes fast help in solving problems, repairs, conversions and high quality advice, the global customer base of the BÖWE Group benefits from the expertise gained in the training. Sales-orientated training is aimed at expanding the expertise of the sales teams who operate throughout the world; where necessary, this training is also carried out locally.

In its Corporate University BÖWE BELL + HOWELL also has its own Training Center in Durham, North Carolina. As in Augsburg, the practical element accounts for some 60% of the average two-week training courses in the USA which enables subsequent real-life situations in the everyday work of the service technicians to be simulated and thoroughly practiced. The expert team of trainers comprises eight technical trainers and eight operator trainers. However, the claim of the Corporate University extends even further: management personnel and employees can also attend courses in management technique, teamwork and conflict management, career planning, quality management or user software. Thanks to the mobility of the trainers employees at the Wheeling (Chicago), Bethlehem and Toronto locations are also able to benefit from the training. Specific courses are also available as internet modules.

Issued to all BÖWE employees worldwide:
the employee magazine
B.INSIDE



THE WHOLE WORLD OF THE MAILROOM

The whole world of the mailroom under one roof

Telecom companies, energy providers, banks, insurance companies, mail order firms, mail organizations and, increasingly, mailing companies, have to dispatch their huge volumes of mail quickly and reliably. Several thousand documents and enclosures, such as for example cover letters, invoices and advertising brochures, have to be printed and processed in such a way that they reach their recipient reliably and on time.



This task is performed in ultra-modern mail processing centers, so-called mailrooms, with the help of automated facilities and special software.

In a precisely coordinated process chain personalized documents are digitally printed, processed, plastic cards and/or enclosures added as required, inserted and finally prepared and sorted for the mail handling. A wide range of customer applications with differing formats, diverse enclosures from folded sheet to brochures, through to CDs which have to be completed on one system with rapid changeover, together with the constant pressure of deadlines, are all part of the everyday life in a mailroom. Software solutions that monitor the process, control the systems and provide continuous document tracking ensure that the whole cycle proceeds smoothly and efficiently.



Pre- and Post-Processing

High-performance systems, designed to match the rapid paper flows and universal work processes, are available for digital printing Pre- and Post-Processing. With the help of automated transfer systems paper is turned into the desired shape and then processed. This significantly reduces waiting times and laborious transfers, damage and system downtimes, to the benefit of increased productivity levels.

In all areas of mailroom management the BÖWE Group works together with the main manufacturers of digital printers in order to coordinate the processing of the printed documents perfectly to the actual printing process. The general principle in the mailroom is that the more precise the interconnection between the individual processes, the coordination between hardware and software systems, the higher the level of productivity and performance as well as the processing reliability thanks to the increased level of automation.

Solutions for Card Personalization

Every plastic card is equipped with individual features – customer name, card number, passport photo, a magnetic stripe or chip programmed with personal data – making it unique. Personal data must be treated with the utmost care in order to prevent the risk of mistaken identity or incorrect programming. BÖWE CARDTEC manufactures and distributes systems for the automated personalization of plastic cards.

The BÖWE CARDTEC product portfolio covers modular systems with configuration capability, ranging from the desktop model to devices for medium volumes right up



to the HPPS (High Performance Personalization System), which apply chips, magnetic stripes, laser engraving, embossing as well as thermo, inkjet and laser printing. Micro laser printing, holographic elements or Hidden Image technology can also be applied. The processing of the plastic cards is controlled, monitored and documented according to strict security features using the PMP (Personalization Management Platform) software architecture.

Embossing module
of the PT 9000

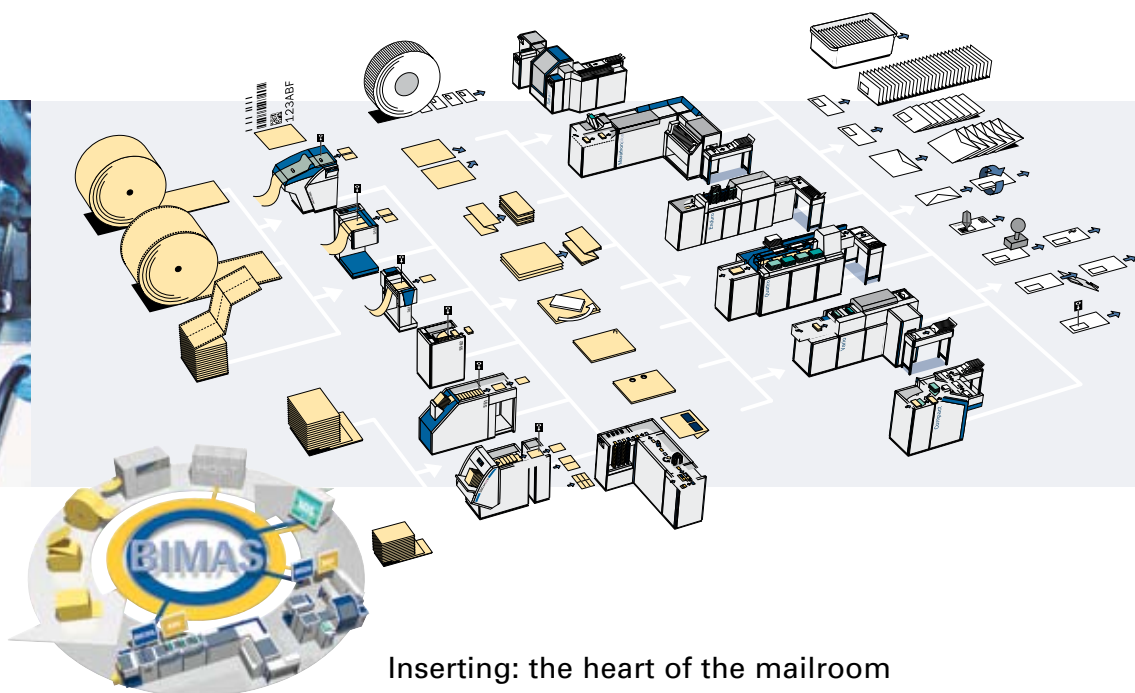
PT 7000 sample Card Mailing System – optimum use of software synergies

The system control software BICOS 2005 (BÖWE Interactive Control and Operating System) used in the BÖWE SYSTEC inserting systems was integrated into BÖWE CARDTEC's PT 7000. In addition to the storage of all the relevant production data both for job requests as well as for statistical analyses, this consequently enables real time reports to be generated for processing on any system. Additional software tools for print data control enable the customer's own specifications, such as format, layout or text variables, to be incorporated into the personalized documents.

PT 9000 sample Card Personalization System – high-speed embossing with new embossing unit

Up to 900 cards an hour can be processed using a newly-developed module. Up to four of the new generation embossing modules can be installed in the system, delivering impressive performances even for complex applications and combination functionalities.





The gripper-arm technology of the Enduro allows vertical transport of the envelopes.

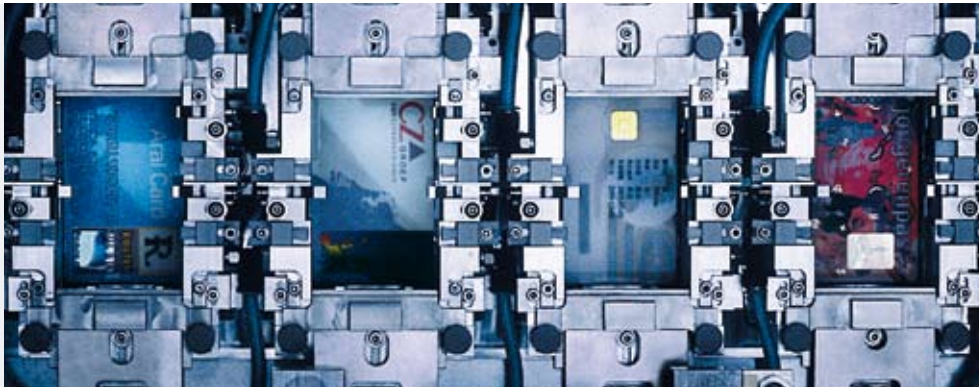
Inserting: the heart of the mailroom

Following a phase of activities aimed at creating integration for a standardized product portfolio in the Inserting area, the Group now has a comprehensive, modular range of inserting systems designed to meet any customer requirement. Internally generated software programs control, monitor and interconnect the systems together. The BÖWE Group also provides its customers with advisory services for the progressive automation of their mailroom architecture and local networks. In this context, continuous document tracking represents one of the prominent features of the systems. Another key competitive advantage lies in the years of experience in the realization of individual customer wishes, particularly for highly complex applications, resulting time and again in the creation of pioneering pilot solutions.

Enduro sample inserting system – the best of two worlds **New development for an important target group**

The Enduro System, developed by BÖWE SYSTEC and BÖWE BELL + HOWELL, combined proven technologies – on the part of BÖWE BELL + HOWELL the tried and tested gripper arm technology, in conjunction with the modular design construction and successful product features on the part of BÖWE SYSTEC. The result is a system that ideally complements the medium performance range with a cycle output of up to 11,000 envelopes an hour and which is particularly suited for use by mailing companies.

Up to 18 enclosure feeders can be integrated into the system which can also be configured as an extremely versatile, multi-channel system. The High Capacity Envelope Loader (HCEL), available as an option, triples the expanded feed capacity to 1,250 envelopes and consequently significantly reduces operating costs. After the inserting process up to 3,000 envelopes can be collated vertically and then immediately transferred into prepared mailboxes.



Plastic card
application module

In the past the BÖWE Group was not vigorous in its approach to the so-called Letter-shop market segment. The Enduro operates with high flexibility and offers an impressive price-performance ratio – tailored precisely to clients who work with numerous enclosures and frequent job changes. Particularly in the USA the Group serves a customer base which is familiar with the gripper arm technology and continues to build on this tried and trusted concept. From 2006 the Enduro inserting system will also be available outside the USA.

Automated solutions for Card Mailing

Today, people and companies use plastic cards for countless transactions in their daily lives. Whether customer card, credit card or the latest generation of ID cards such as for example biometric passports – they all have to be sent to the final recipient, with maximum priority being given to total processing security. The Card Mailing Systems business unit within BÖWE SYSTEC AG works exclusively on these tasks and has its own pool of qualified specialists in development, production, distribution and after-sales service.

For special applications in the card processing area the BÖWE SYSTEC inserting systems are combined with corresponding modules to apply plastic cards. Here again, creating customized solutions.



Sorting/Postal

Mail sorting systems and integrated mail logistics systems are developed and produced at the US main site in Chicago and in the German town of Rosbach near Frankfurt am Main. The customer base includes government and private postal companies, service providers for mail pre-sorting and inserting as well as the mailrooms of large corporations. Corresponding service companies for mail pre-sorting are also increasingly establishing themselves in the European markets. Chicago is also the base for the

The high-performance sorter
"Intellistar" and "Criterion"



Postal business unit which develops mail verification systems which are used by the postal logistics companies to verify whether the discounts granted for the pre-sorting are justified.

US and German employees work hand in hand on the development of new sorting systems and their adaptation to regional market requirements. The Sorting business unit brings over forty years' experience in the manufacture and implementation of high performance sorters and systems for handling mixed post. A US market leading software package for identifying even difficult address labeling is available for interconnecting individual systems to create an automated postal distribution center. In July 2005 the software expertise was strengthened by the acquisition of BCC Software Inc., with registered offices in Rochester (New York). The customer is able to call on a range of comprehensive services from technical support to the modernization of older systems through to advice on and installation of modern Customer Relation Management solutions.

The volume of sorting systems installed to-date in Europe will increase significantly as part of the deregulation of the European postal markets. In Germany there is also expected to be a surge in demand in view of Deutsche Post AG's loss of its monopoly to carry letters under 100 grams from 2007.

TABO sample case – taking a new look at things

Solution for mixed mail developed in close dialogue with clients

In the past the pre-sorting of the incoming post from the emptied postboxes, comprising postcards, standard and compact letters, catalogs and smaller goods consignments in a wide range of shapes and packaging was a task that involved many busy hands. With practiced control the postal items were sorted, stacked in containers and sent to the postal sorting centers for automated further processing. There were no automated solutions available for the so-called 'letter sorters' or these were unreliable and uneconomic.



In conjunction with a working group from Deutsche Post AG, BÖWE BELL + HOWELL formulated an innovative method for the automated pre-sorting and up-righting of the mixed mail, thereby preparing it for the downstream automated sorting. First of all a prototype was created as a template for the development of a family of products ready for mass production for use in letter sorters. The customer can now choose from a range of products which, thanks to their modular configuration, can be adapted to suit any requirements and conditions with regard to through-flow rate and working area in all the German letter centers of Deutsche Post AG.

The TABO systems can also be offered to other users, thanks to flexible hardware and software interfaces the system can be seamlessly incorporated into any letter sorter.

Software expertise under one roof

The BÖWE Group utilizes the synergies of the IT expertise available within the Group with the aim of further increasing the level of intelligent automation in the mailroom and consequently guaranteeing efficiency and productivity whilst maintaining total processing security and reliability. As a result of the research and development carried out across the Group the pioneering BÖWEONE mailroom software package was able to be presented to the enthusiastic trade audience for the very first time at the Print 05 & Converting 05 international trade fair.





The BIMAS software developed at the subsidiary firm of BÖWE SYSTEC Mailroom Communication GmbH and used in countless reference installations worldwide, provides for the intelligent control and monitoring of the inserters, continual document tracking throughout the entire handling process right up to interconnecting multiple systems or processing centers at a click of the mouse. Interactive solutions such as web-MIS (web-based Management Information System) and inter-MIS make full use of the opportunities offered by current Internet technology to the benefit of increased user-friendliness.

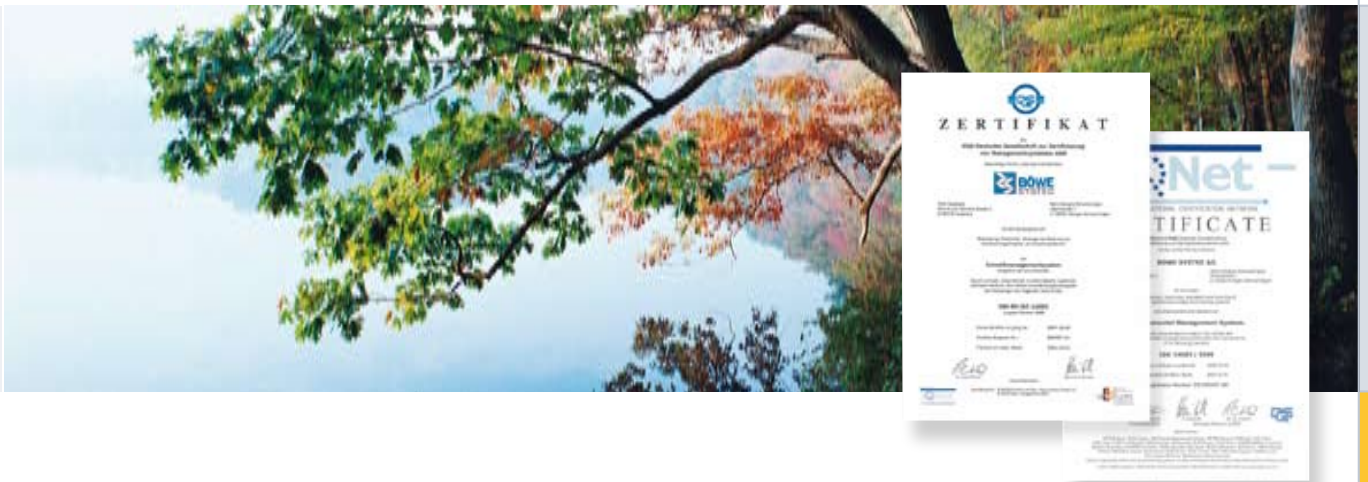
Scanners

The Scanners business unit based in Chicago (Illinois) markets professional devices from the entry level flatbed scanner to scanners for the medium performance segment, right up to very high performance scanners for continual use. The clever ergonomic design, short installation times and discerning image and color quality are what make these products stand out from the rest.

Global presence: after-sales service in the BÖWE Group

Whether for project planning, installation and commissioning of new systems, for maintenance and repairs, spare parts deliveries or round-the-clock hotline – the after-sales personnel of the BÖWE Group are actively engaged in over 70 countries throughout the world.

The Group has always attached prominent importance to an integrated after-sales service. Thanks to their willingness, technical know-how and understanding of the customer's business, our local specialists find solutions for a wide range of requirements and provide advice on process improvements and saving potential for the future. 24 hours a day they pursue the goal of enthusiastically demonstrating the expertise of the BÖWE Group as a partner in the mailroom.



Environmental Statement

With the introduction of an Environmental Management System and the first certification under DIN EN ISO 14001 in 1999, BÖWE SYSTEC firmly embedded operational environmental protection within the company. It was a conscious decision by our company to take key account of the environmental aspects in all the day-to-day tasks and corporate policy decisions so that it can take a responsible approach to doing business today and in the future. In this context, BÖWE SYSTEC sees the task as being to optimize the environmental related aspects both of the products as well as of its production, to include all its diverse processes. The overriding objectives of our environmental management are the improvement in our environmental performances as well as avoiding or reducing environmental pollution. We see the adherence to the legal requirements purely as minimum standards. Where technically possible and economically justifiable, we take further measures and are actively engaged in improving environment, health and safety – to the benefit of our employees and in order to protect our natural bases of life.

A selection of the operational environmental protection measures taken in 2005:

- The assembly workstations were improved from both the logistical as well as ergonomic design aspects and equipped with additional aids and operating materials. Lighting, ambient conditions and dust extraction facilities were improved.
- We were able to reduce gas consumption and consequently energy costs by up to 30% partially through the replacement and partially through the conversion of existing heating systems and through shutting down a gas boiler.
- The use of cleaning materials and hazardous products was reviewed and, where possible, reduced with regard to damage to health. More sustainable alternatives for these processes are continually tested and evaluated.
- The conversion to reusable containers led to a two percent saving in packaging material. Every individual employee – whether in administration or production – is required to ensure that waste and recyclables are consistently separated.





Business and General Conditions

Over recent years the BÖWE SYSTEC Group has developed from being the European market leader in high-performance inserting systems into a global, total provider for the automated mailroom. Today, in addition to high-performance inserting systems, the BÖWE SYSTEC product portfolio also includes card personalization and card dispatch systems, software for monitoring and interconnecting various mailroom systems as well as various mailroom locations, systems for paper pre- and post-processing in the printing process, sorting and postal dispatch systems, high-performance scanners as well as all after-sales services associated with these products.

One of the key steps in the further development of the BÖWE SYSTEC Group in the fiscal year just past, was the full consolidation of BÖWE BELL + HOWELL Holdings Inc., USA, during the course of the planned acquisition of the majority stake in the company. The full consolidation had significant effects on the asset, financial and earnings situation of the BÖWE SYSTEC Group in the consolidated financial statements.

As a result of the strong international orientation of the business activity significant importance is attached to the exchange rates between the euro and foreign currencies, in particular the US \$, the Japanese yen and the British pound sterling. During 2004 and 2005 there were virtually no changes in the average exchange rates for the US \$, consequently there was no impact on the Group income statement. However, the US \$ exchange rate on the qualifying date at the 2005 year end was markedly firmer, causing significant shifts in the balance sheet.

Economic situation

Worldwide economic activity in 2005 was shaped by the sharp rise in oil prices. The higher energy prices had a detrimental effect in particular on economic development in the industrialized nations. Nevertheless, in 2005 the global economy showed a further strong rise. This upturn was driven in particular by the economic activity in China which also reported high growth in the year just past. There was also slight growth in

the economic development of the industrialized nations although this was somewhat weaker by comparison with the previous year. As in the previous year, growth in the industrialized nations was characterized by marked regional differences.

In the euro region weak domestic demand during the first half of the year led to muted economic activity. Signs of an increasing pick-up in the economy were only seen from the middle of the year. The United States succeeded in registering an increase in its real gross domestic product over the full year. Economic activity in Japan, at last, showed a reverse course to that in the euro region. Whilst the strong growth in domestic demand led to a powerful upturn during the first half of the year, economic development during the second half was somewhat more cautious.

Development of the sector and competitive environment

BÖWE SYSTEC continues to benefit from a small, positive rise in letter volumes with a trend towards personalized advertising and marketing. Despite the many fears, the forecast development of the Internet today does not suggest a fall in the actual volumes of paper processed or the number of insertions. The decrease in businessmail such as account statements, invoices and delivery notes, is offset by marked rates of growth in individualized advertising mail (direct mailing). This trend will continue and, in some areas, lead to changes in the client segments and the type of systems in demand. The inserting systems and sorting systems manufactured by BÖWE BELL + HOWELL will be available to the Group worldwide from mid 2006 for the increasingly important, so-called lettershop market.

At the same time an increasing number of companies are centralizing their mail dispatch in one mailroom or outsourcing this task to external mailing centers. The consequence of this is a concentration of larger mail volumes within just a few locations – creating the condition for the efficient use of high-performance systems.

Since the acquisition of the investment in the US firm of BÖWE BELL + HOWELL, BÖWE SYSTEC has held a prominent position in the global mailroom management market. The company occupies a leading position in the key markets of North America, Europe and Japan and is represented in many other countries. In addition to a number of regional providers, the main competitors are two other global companies: a listed US Group whose mailroom management products represent just one of several areas of business, as well as a privately-owned Swiss company.

The print and paper technology sector within the mechanical engineering umbrella organization, which BÖWE SYSTEC sees itself a part of despite the increasing importance of software and electronics in the manufactured systems, posted a 2% rise in order intakes in the year just past. This positive development took place in all markets, with domestic demand reporting a 10% rise.



BUSINESS DEVELOPMENT OF THE BÖWE SYSTEC GROUP

Business development of the BÖWE SYSTEC Group

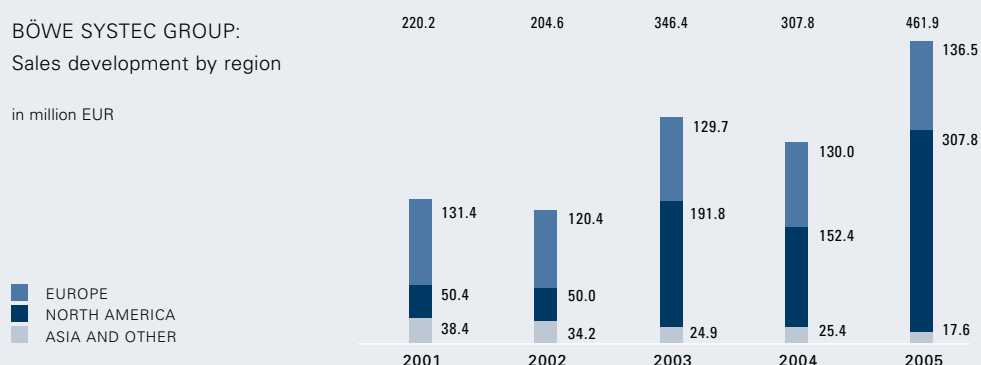
Fiscal year 2005 at BÖWE SYSTEC was characterized by the acquisition of the majority stake in and subsequent full consolidation of BÖWE BELL + HOWELL Holdings Inc., USA. As a result of the first full consolidation the figures for fiscal year 2005 provide only for limited comparison with those of the previous year (previous year 50% quota consolidation).

For the comparison period the application of the International Financial Reporting Standards (IFRS) for the very first time led to differences between the consolidated balance sheet, consolidated income statement as well as the consolidated surplus shown in accordance with IFRS and the corresponding figures for this period shown in accordance with HGB.

Within the framework of the preparation of the consolidated financial statements produced for the first time in accordance with the IFRS, the resultant differences between the balance sheet figures of the consolidated annual financial statements prepared as at December 31, 2003 in accordance with HGB and the opening balance sheet prepared in accordance with IFRS as at January 1, 2004, were included in the reserves without affecting the results.

BÖWE SYSTEC GROUP:
Sales development by region

in million EUR



Sales

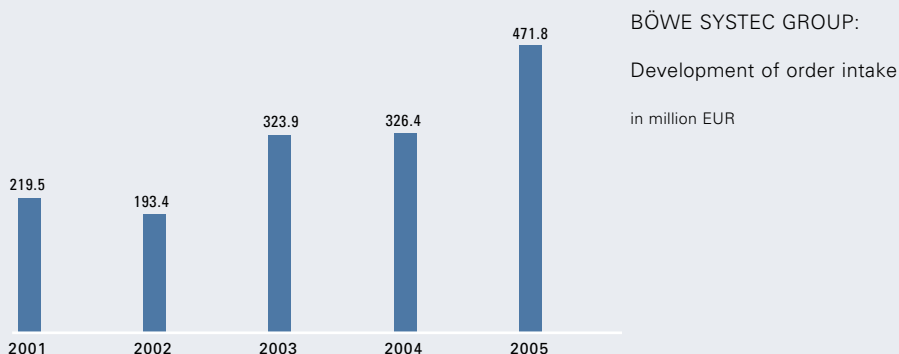
In fiscal year 2005 the BÖWE SYSTEC Group posted sales in the sum of EUR 461.9 million, compared with EUR 307.8 million in the previous year. The increase in the sum of EUR 154.1 million, or 50.1%, compared with the previous year, was primarily the result of the initial full consolidation of BÖWE BELL + HOWELL. A rise of EUR 11.8 million or 2.6% was achieved over the comparable sales for the previous year, in other words including BÖWE BELL + HOWELL in full. A breakdown into regional segments shows that the full consolidation produced the strongest growth in sales to non-Group companies in the USA (EUR 307.8 million compared with EUR 152.4 million). Europe also succeeded in recording an increase (EUR 92.2 million compared with EUR 81.6 million) whilst the figures for Germany (EUR 44.3 million compared with

EUR 48.4 million) and the rest of the world (RoW) (EUR 17.6 million compared with EUR 25.4 million) showed a decrease by comparison with the previous year.

Sales for after-sales services and maintenance activities within the Group totaled EUR 216.2 million or 46.8% of total sales. In the previous year the figure was EUR 148.0 million, representing a 48.1% share.

Order intake

In the year 2005 Group order intakes totaled EUR 471.8 million. Compared with the previous year's figure of EUR 326.4 million this represents an increase of EUR 145.4 million or 44.5%. As with sales, the increase is primarily attributable to the initial full consolidation of the US company. The increase, after adjustment for this effect, totaled EUR 2.0 million. On a regional basis, increased order intakes were recorded in both the domestic market and the USA in fiscal year 2005, whilst orders from the rest of Europe and Asia showed a fall as major individual orders had been recorded from each of these regions respectively in the previous year.



Order backlog

The order backlogs as at the qualifying date December 31, 2005 hold out the promise of a marked improvement in the starting situation for the 2006 fiscal year. Whilst the order backlog as at the end of the 2004 fiscal year was in the total sum of EUR 57.4 million, the order backlog as at the end of the 2005 business year was EUR 95.6 million, consequently showing an increase of 66.5% over the previous year. On the basis of comparable figures the rise compared with the previous year was 11.6%. As a result of the development in the order intake the USA and Germany also accounted for the largest share of the growth in the order backlog.

As in previous years, the after-sales service contracts, which are concluded for a longer period of time, were not included in the order backlog.



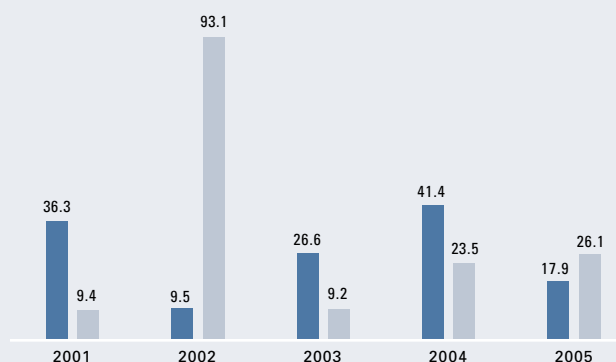


BÖWE SYSTEC GROUP:

Total capital expenditures and cash flow from operating activities

in million EUR

■ CASH FLOW FROM OPERATING ACTIVITIES
 ■ TOTAL CAPITAL EXPENDITURES INCL. FINANCIAL ASSETS



Investments

In the fiscal year 2005 total investment by the companies in the BÖWE SYSTEC Group reached EUR 24.8 million compared with EUR 13.7 million in the previous fiscal year.

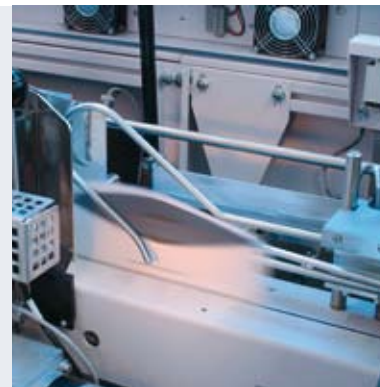
Additions to fixed assets in the total sum of EUR 10.9 million in the Group (in the previous year EUR 6.2 million) primarily related to fixtures and fittings in rented properties as well as rationalization investment in the production area and replacement investment for factory equipment as well as expenses incurred in connection with the introduction of a standardized, Group-wide IT system in the US company. These investments are offset by corresponding depreciation of EUR 11.7 million in the 2005 fiscal year.

The addition in licenses and industrial property rights applies mainly to the inclusion of BÖWE BELL + HOWELL in full, as well as the disclosure of inner reserves for trade marks carried out in this context. The acquisition of the main assets of a US company by BÖWE BELL + HOWELL, also led to an addition for licenses and industrial property rights in the total sum of EUR 6.4 million. This relates to an important manufacturer of software products in the Sorting Systems area.

The addition to capitalized development costs in the sum of EUR 5.8 million mainly applies to development projects in the area of Inserting Systems. The focus in this respect is on development projects in the USA designed to improve the competitiveness of the systems in the medium output range. Another area of emphasis is on in-house developments in the area of system software as well as on new development in the area of Scanners and Sorting Systems, each of which offer high market potential.

The addition to the acquisition costs for goodwill is the result of the acquisition of 50% of the shares in BÖWE BELL + HOWELL by BÖWE SYSTEC INTERNATIONAL GmbH, as well as the acquisition by BÖWE BELL + HOWELL of the US software company in the Sorting area.

The investments are offset by depreciation in the sum of EUR 19.7 million. Depreciation in the previous year totaled EUR 13.7 million.



Research and development

In the competition between providers for Mailroom Management Systems, innovations play a key role. With its claim of maintaining a state-of-the-art product portfolio at all times and simultaneously of fulfilling the specific wishes of its clients through innovative new developments, BÖWE SYSTEC has secured a position for itself as a technology leader within the sector. The high level of importance attached to research and development within the BÖWE SYSTEC Group is underlined by the relatively high level of expenditure in this area compared with others in the sector.

As such, in the year just past 231 employees of the BÖWE Group were engaged in research and development. The level of expenditure in this area, at EUR 12.5 million, corresponded to 5.1% of the product sales by the BÖWE Group. This figure does not include client-specific development costs which are apportioned to the manufacturing costs. Although this represents a fall in the direct expenditure compared with the previous year, there was simultaneously nevertheless an increase in the share of capitalized research and development projects, to EUR 5.8 million. The Inserting Systems area accounted for the largest share of this, with a further considerable proportion coming from the Scanners product line.

Whereas the focus of new and further developments in 2004 was on increasing the performance efficiency of **Inserting Systems**, the development activity by the engineers in the year just past was concentrated on expanding the processing range, optimizing the tooling time of the systems as well as further improvements in system logistics. This is intended to increase the flexibility of the systems, to satisfy the growing demands of clients for processing smaller batch quantities as well as to simplify the handling of the inserting systems.

As such, the inserting thickness of the TURBO22 Inserting System designed for the high output range, was expanded to 16 pages in order to handle thicker envelopes and the enclosure feeders modified for the reliable processing of thinner enclosures. The improvement in the print flow for print preparation provided for a significant increase in the throughput of applications involving large collating volumes.



The expansion of the **BIPS**-compatible (BÖWE Intelligent Productivity System) components enabled the company to fulfill the client's wish for maximum production output with minimal tooling times. With the help of the BIMAS system control software the TURBO22 Inserting System can be very quickly converted to new applications without any mechanical intervention.

In the **Card Dispatch** product area the implementation of changing client requirements led to, amongst other things, the development of a card turning module in the input channel of the Card Mailing Systems. This will enable different types of fold to be processed on one system in future. An integrated labeling module was designed for the dispatch of telephone cards (GSM cards), the processing of which entails covering the PIN number on the telephone card. In addition, a process for packing GSM cards through wrapping was drawn up and integrated into the Card Mailing System.

In the area of **Card Personalization** the increasing complexity of processor chip cards as well as growing data volumes in chip card personalization, call for comprehensive and efficient data management. These requirements are met by the PMP software (Personalization Management Platform) of BÖWE CARDTEC.



To this end, three key modules were added to the software, the warehouse management module, the quality management module as well as the lifecycle management module for GSM cards. The new UMC module (Universal Machine Connector) was developed for the production management, also providing for the integration of machines from non-Group companies.

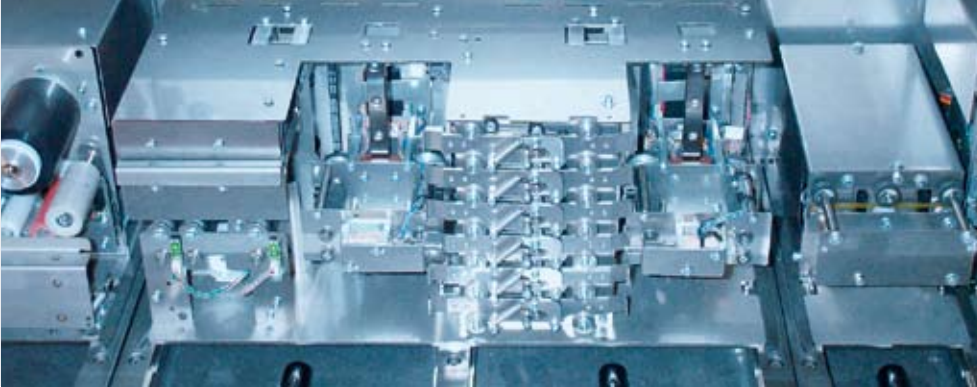
Increasing emphasis is being placed on the use of **Software** throughout the mailroom. The coordination of print preparation, printing, inserting, sorting and dispatch as well as the supply of print materials, enclosures and envelopes are just the basic requirements that have to be met with the help of the software. Over and above meeting these requirements BÖWE SYSTEC continually pursues the objective of interlinking new developments with existing products.

In response to all these requirements, last year saw the development of the BÖWE ONE software package with an interactive web graphic user interface.

The further developed web-MIS enables the client to define the **B**IPS functionalities on a centralized and application-related basis. After an application is called up on BICOS all the necessary data is downloaded from the server and made available to the system for the **B**IPS functions.

During the course of last year the weight testing module Waymark was developed for the increasingly important **Mail Verification and Sorting Systems**. The outstanding features of this module are its precision and efficiency. It enables the weight of the envelope to be calculated at high-speed and simultaneously precisely allocated to the postage category. For the BÖWE Group the product represents a further step in rounding off its product range.

Key development projects in the **Scanner** area in 2005 were the products Truper 3600 and Spectrum XF. The Truper 3600 combines speed with cost efficiency in the lower output range, enabling the client to benefit from a superb price-performance ratio. Its smaller format makes the Scanner an ideal addition to the Truper product family.



Plastic card personalization module.

Left page:
plastic card system
PCS 687 on a Vario base.

Another product in the lower output range is the Spectrum XF Scanner that delivers superior image quality and at the same time up to 140 pages per minutes, around 30 percent faster than the predecessor model.

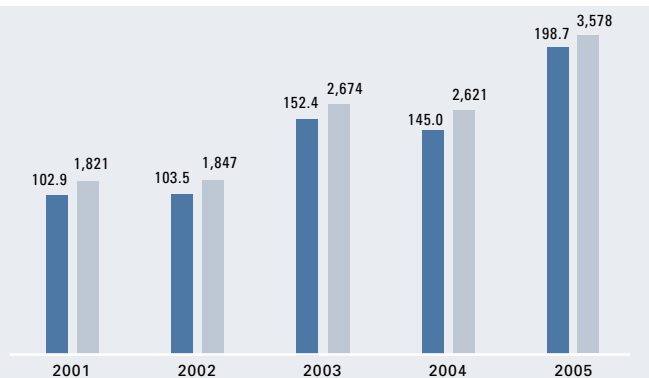




BÖWE SYSTEC GROUP:

Personnel expenses
and employees

■ PERSONNEL EXPENSES
in million EUR
■ EMPLOYEES (annual average)



Employees

As at the end of fiscal year 2005 the BÖWE SYSTEC Group employed 3,652 personnel, 944 of whom worked in Germany. At the end of the previous year the number of employees was 2,589, a figure which only included 50% of the workforce of BÖWE BELL + HOWELL. 926 personnel were employed in Germany. The number of employees as at the year end increased by 49 on a comparable basis. The increase can be fully explained by the strengthening of the activities in Postal Sorting Systems in Germany and the USA. In the year 2005 the average number of permanent employees was 3,578 compared with 2,621 in 2004. This increase is attributable to the inclusion of the US company in full.

Personnel costs in the BÖWE SYSTEC Group in the fiscal year just past totaled EUR 198.7 million compared with EUR 145.0 million in the previous year.

Professional training

As at the end of 2005 there were 41 trainees working at the Augsburg production site. With an average trainee quota of 6.2%, BÖWE SYSTEC AG has for many years pursued a policy of targeted training for qualified technical personnel to meet its own requirements. At the end of the previous year the number of trainees was 37.

Thanks to all employees and employee representatives

We would like to express our thanks to all employees who have made a key contribution towards the success of our company thanks to their commitment, initiative and know-how. Our thanks also go expressly to the employee representatives for helping to create a climate of mutual trust and their understanding in accepting the cuts in the employment conditions in the common interests of our company and required to secure long-term employment. This enables us to respond flexibly to changes in the market and fluctuations in demand.



Earnings situation

For the comparison period the application of the International Financial Reporting Standards (IFRS) for the very first time led to differences between the consolidated balance sheet, consolidated income statement as well as the consolidated surplus shown in accordance with IFRS and the corresponding figures for this period shown in accordance with HGB.

Fiscal year 2005 at BÖWE SYSTEC was characterized by the acquisition of the majority stake in and subsequent full consolidation of BÖWE BELL + HOWELL Holdings Inc., USA. As a result of the first full consolidation the figures for fiscal year 2005 provide only for limited comparison with those of the previous year (previous year 50% quota consolidation).

Earnings before interest and taxes (EBIT)

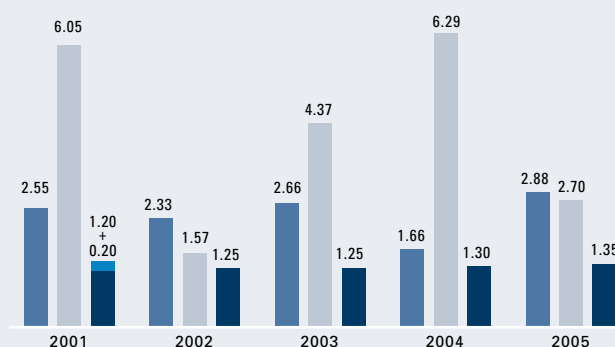
At EUR 36.1 million, earnings before interest and taxes (EBIT) posted a rise of EUR 6.8 million compared with EUR 29.3 million in the previous year. In this context, the EBIT return on sales fell to 7.8% compared with 9.5% in the previous year. This reduction in the return can be explained by the initial full consolidation of the USA segment which had previously performed below average in profit terms and by a simultaneous fall in the margin in this segment from 8.8% to 6.1% in 2005. The EBIT for the USA reached EUR 19.1 million (previous year EUR 13.4 million). In the regional segment of Germany the EBIT was increased to EUR 21.1 million (previous year 14.6 million). The return on sales reached 19.9% (previous year 12.9%). In Europe the EBIT came in at EUR 4.4 million (previous year EUR 4.5 million) and the return on sales at 4.7% (previous year 5.5%). In the rest of the world (ROW) an EBIT of EUR 0.3 million was achieved as in the previous year.

BÖWE SYSTEC GROUP:

Figures per share

in EUR

■ EARNINGS PER SHARE
■ CASH FLOW PER SHARE
■ DIVIDENDS
(2001 dividends excluding anniversary bonus of EUR 0.20)



Expenses / other operating result

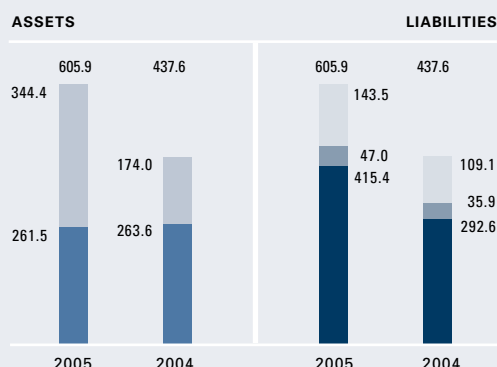
The cost of sales, at approx. 59%, rose disproportionately to sales. This development was primarily caused by BÖWE BELL + HOWELL which was fully consolidated for the first time and in the previous year included at 50% of the figure. This situation led to a reduction in the gross margin on sales of approx. 2.5 percentage points to 34.9%.

A further deterioration in the margin resulted from increased installation costs for new products as well as for complex special systems and the continuing competition on prices. As a result of the fall in 2005 in after-sales service sales as a proportion of total sales, down to 46.8% compared with 48.1% in the previous year, the composition of sales also had an unfavorable effect on the return on sales.

Selling expenses and marketing costs rose to EUR 52.6 million, at 45.9% a disproportionately lower rate than sales. Administration costs showed an increase of 32.7% to EUR 63.8 million, at a clearly disproportionately lower rate to the growth in sales. Research and development costs, at EUR 12.5 million, fell by EUR 1.4 million compared with the previous year. The causes of this, in addition to a sustained reduction in costs through the adjustment of the Group capacities, a process already commenced in previous years, included the capitalization of promising development projects in the individual areas of expertise.

The balance arising from other expenses and other income came to EUR 10.6 million compared with EUR 16.7 million in 2004. In this context, one-off effects accounted for EUR 7.9 million whilst in 2004 the Group posted one-off earnings of EUR 15.4 million. In 2005 this primarily related to the difference between the assumed option price and the actual purchase price for the acquisition of the shares in BÖWE BELL + HOWELL. In 2004 the one-off earnings resulted from the change in the market values of the options for the acquisition of the shares in BÖWE BELL + HOWELL as well as from the dissolution of a provision for risks arising from a long-term lawsuit.

The reduction in value of individual goodwill (impairment) in 2005 resulted in costs in the sum of EUR 0.5 million as against of EUR 4.3 million recorded in 2004.



BÖWE SYSTEC GROUP:

Balance sheet comparison with prior year

in million EUR

■ EQUITY INCL. DIVIDENDS
■ ACCRUALS
■ LIABILITIES INCL. DEFERRED INCOME

Financial result

The contribution to earnings from investments was EUR 1.0 million compared with EUR 1.8 million in the previous year and in 2005 was derived entirely from Lasermax Roll Systems whilst in the previous year the figure still included investment earnings from the disproportional income receipts of BÖWE BELL + HOWELL. The balance of interest income and expenses resulted in an expense of EUR 11.1 million compared with EUR 5.7 million in the previous year. This increase is attributable to the marked rise in financial liabilities incurred as a result of the acquisition of additional shares in BÖWE BELL + HOWELL and its full consolidation within the Group.

Taxes on income and earnings

Tax expenses in the fiscal year 2005, at EUR 7.0 million, were markedly lower than in the previous year (EUR 14.5 million). The tax share consequently fell from around 57% to 27%. The main reason for this lay in the tax exemption for the above-mentioned one-off earnings, whilst in the previous year, in addition to the tax burden on the current result, additional tax burdens arose for previous years.

Net surplus for the year and earnings per share

The consolidated net surplus for the year reached EUR 19.0 million or 4.1% of sales. The comparable figures for the previous year totaled EUR 10.9 million representing 3.5% of sales. The increase in the consolidated net surplus for the year is attributable in particular to the first-time full consolidation of BÖWE BELL + HOWELL. Earnings per share, with a weighted average of 6.6 million shares in fiscal year 2005, came to EUR 2.88 (undiluted and diluted) as against EUR 1.66 in the previous year.

Dividend to be increased to EUR 1.35

Supervisory Board and Management Board of BÖWE SYSTEC AG will propose at the Annual General Meeting to be held on June 1, 2006, that the dividend be increased by EUR 0.05 to EUR 1.35 per share, the total amount distributed will be EUR 8.9 million.



Enclosure feeder of the high-speed inserting system *Marathonplus*



Asset and financial situation

One of the key steps in the further development of the BÖWE SYSTEC Group in the fiscal year just past, following the planned acquisition of a majority stake in BÖWE BELL + HOWELL Holdings Inc., USA, was the full consolidation of this company. This also had an impact on the asset and financial statement of the BÖWE SYSTEC Group. As a result of changes in exchange rates as at the qualifying date for the accounts, in particular between the Euro and the US \$, there was a further increase in the consolidated balance sheet which is drawn up in the Group currency of the Euro.

The BÖWE SYSTEC Group reported an increase in net assets from EUR 437.6 million to EUR 605.9 million. Moreover, the increase is the result of BÖWE BELL + HOWELL being fully consolidated in the past fiscal year, having only been 50% consolidated in the previous year. In the process, this effect was reduced by the disposal of virtually the entire US company's leasing portfolio. Short-term assets rose by 9.3% over the previous year to EUR 235.4 million. The increase related to inventories and receivables from goods and services, whilst receivables from leasing and short-term cash and cash equivalents showed a fall.

Long-term committed assets showed a stronger rise of 66.8% to EUR 370.5 million, in particular as a result of the addition to the goodwill and disclosure of the undisclosed reserves in the intangible assets of the US company within the framework of the consolidation. This was also offset by a marked reduction in receivables from leasing agreements in connection with the sale of the portfolio.

The long-term liabilities of the Group rose by 48.9% to EUR 199.2 million. Long-term liabilities increased by 35.2% as a result of the full consolidation of the US company and the take-up of long-term financing. The equity amounts to EUR 143.5 million compared to EUR 109.1 million in the previous year. The shareholders' equity quota was therefore 23.7% (previous year 24.9%).

Group net financial liabilities increased in line with the total net assets, by 39.0% from EUR 179.3 million to EUR 249.1 million. The figure for the previous year includes liabilities to banks from refinancing of lease transactions of EUR 44.9 million.



Security through code reading

Business relationships with affiliated companies

We hereby declare that BÖWE SYSTEC AG received an appropriate consideration in return for any legal transaction with affiliated companies in accordance with the circumstances known to us at the time the legal transactions were effected.

Risk management

Entrepreneurial responsibility does not just mean availing opportunities but also identifying, assessing and taking countermeasures against risks at an early stage. The task of identifying and actively controlling the entrepreneurial risks within the BÖWE SYSTEC Group is carried out on the basis of a well-established, tried and tested system of planning and controls. The Management Board utilizes this instrument in order to manage the company on a value-oriented basis. The opportunities and risks of the business activities are examined and assessed in terms of their strategic and operational importance, within the framework of a revolving planning process. The risk management system, a stipulated legal requirement, is documented in a risk management manual which is continually updated. The foreign companies are also integrated within the existing risk management system in order to apply uniform standards for countering the strategic and operational business risks in Germany and abroad.

The reporting system is used to keep all decision-makers continually, quickly and comprehensively informed of the extent to which targets are being achieved. As an early warning indicator it highlights for example changes in the market and the competitive environment. This enables mis-developments to be identified at an early stage and prompt countermeasures to be taken. In addition to the planning, production and sales process, the risk analysis also covers the areas of accounting, financing, cash management as well as hedging. Risk audits are conducted at regular intervals and used as a basis for preventative measures and, if necessary, opportunities for minimizing losses.

In the period covered by the report there were no risks that could have jeopardized the continued survival of the BÖWE SYSTEC Group. From today's viewpoint there are also no identifiable risks that might jeopardize the Group's survival in the future.



Opportunities and risks of future development

As a global company BÖWE SYSTEC is faced with numerous potential risks. Despite increasing diversification within the Group the future development of electronic data transfer and the associated areas of application are of fundamental importance to the future growth of BÖWE SYSTEC. In order for the Group to be in a position to identify and actively control the entrepreneurial risk resulting from this area of business, close attention is paid to any changes and development trends. The reductions in the volume of businessmail such as account statements, invoices and delivery notes are offset by marked rates of growth in direct mailing.

A dynamic market and competitive environment call for marketable products and competitive solutions in order to succeed in the marketplace. Through intensive and active dialog with the clients we are able to identify developments and needs in the sector at an early stage. The information gained from this is analyzed in joint projects and realized in the form of competitive and promising product developments depending upon the assessment of the potential.

A potential, increased downward pressure on prices in the sales markets could have a significant effect on the earnings situation. The management counters this risk by taking ongoing measures to achieve further reductions in costs in order to maintain or improve the level of profitability achieved.

Financial risks exist primarily in the form of foreign currency risks and fluctuations in interest rates which can be limited by concluding corresponding hedging transactions. The company has secured the current low level of interest rates by concluding longer term credit agreements and corresponding interest hedging transactions. The risk of changes in interest rates is accordingly minimal. Sufficient bank credit balances or available lines of credit are maintained in order to meet the fluctuating requirement for liquidity arising from the operational business activity. Potential claim default risks are countered by verifying the creditworthiness of the clients or through the standard export credit guarantee instruments.

A reduction in the earnings capacity of the US company which, in sales terms now represents approx. 2/3 of the Group's business volume, would have a markedly detrimental effect on the consolidated earnings and also create a potential impairment risk. Comprehensive measures aimed at improving the sales opportunities for the products in the individual areas, improvements in the cost structures and, last but not least, the expiry of a restriction on the sale to Europe and Asia of inserting and sorting products manufactured in the US, offer corresponding opportunities to increase earnings.

In the medium term, Inserting Systems offer growth opportunities for BÖWE SYSTEC due to an anticipated, rising demand from countries in Asia and Eastern Europe whose economies are increasingly growing. As part of the deregulation of the mailing services in various European countries, significant market potential will be created in the short-term and will be able to be exploited via the existing organization.



Post-balance sheet report

After the end of the fiscal year there have been no events of special importance which will have a major impact on the course of business for the BÖWE SYSTEC Group.

Outlook

Leading economic research institutes also expect to see a continuation of the economic upturn in the industrialized nations during the current year. In this context, on the basis of stabilizing energy prices, the Euro region is expected to see a pick-up in the economy to a similar extent as in the year just past, whilst the forecasts for the United States anticipate a gradual slowdown in economic activity. The Japanese economy is expected to show a slightly weaker rise than in the year just past.

The sector association, the VDMA, forecasts an improvement in the business climate for the print and paper technology sector for 2006. The positive development of business is likely to primarily be driven by exports. For 2006 the VDMA forecasts growth of approx. 5% in the sector.

Market observers also anticipate a further increase in mail traffic volumes. In this context, direct mailing, an area of business relevant to BÖWE SYSTEC, is forecast to grow at a higher rate than the level of the market as a whole.

The sector also expects to see a marked increase in the demand for postal sorting machines. There are increasing signs of this in the deregulation of the postal markets which is proceeding apace in the European markets. There is also expected to be further, significantly rising demand for postal sorting systems over the coming years.

Thanks to the measures taken in recent years to reduce costs, in many areas the BÖWE SYSTEC Group has an advantageous starting platform for the current year. As a result of the increase in financial liabilities as a consequence of the expansion of the investment in BÖWE BELL + HOWELL, financing costs will show a rising trend.

Taking into account the current market position, current exchange rates and the sharp increase in the order backlog at the beginning of the year by comparison with the previous year, the plan for the 2006 fiscal year forecasts sales of approx. EUR 490 million. The Management Board anticipates an increase in the consolidated net surplus for the year by comparison with the 2005 fiscal year.

CONSOLIDATED FINANCIAL STATEMENTS

BÖWE SYSTEC Aktiengesellschaft, Augsburg
Consolidated financial statements as of December 31, 2005

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CASH FLOW STATEMENT

	2005	2004
	KEUR	KEUR
Net income for the period before income taxes, interest expenses and investment income	44,475	34,964
+ Depreciation and amortization of non-current assets	19,683	13,670
+/- Increase/decrease in provisions	382	-8,478
- Other non-cash income and expenses, net	-10,721	-7,839
+/- Loss/gain from disposal of non-current assets and from deconsolidation	-938	-829
-/+ Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities	-15,847	19,590
+/- Increase/decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities	6,228	14,371
+ Investment income	0	924
- Interest expenses	-17,141	-10,557
- Income taxes	-8,334	-14,404
= Cash flow from operating activities	17,787	41,412
+ Cash received from disposals of property, plant and equipment	1,027	6,280
+ Cash received from disposals of intangible assets	114	0
- Cash paid for investments in property, plant and equipment	-10,602	-6,490
- Cash paid for investments in intangible assets	-470	-214
+ Cash received from disposals of financial assets	3,883	140
- Cash paid for investments in financial assets	-358	-5
+ Cash received from the sale of lease receivables	19,370	0
+ Cash received from the sale of consolidated entities and other business units	672	0
- Cash paid for the acquisition of consolidated entities and other business units	-32,460	-44,686
= Cash flow from investing activities	-18,824	-44,975
+ Cash received from capital increases	60	445
+ Cash received from profit participation rights	8,000	28,000
- Dividends paid	-8,570	-8,214
- Change in lease liabilities	-416	-4,878
+/- Sale/acquisition of treasury shares	299	-299
+ Cash received from the issue of bonds and from borrowings	21,425	18,348
- Cash repayment of bonds and borrowings	-39,972	-12,928
= Cash flow from financing activities	-19,174	20,474
Net change in cash and cash equivalents	-20,211	16,911
- Changes in cash and cash equivalents due to exchange rate fluctuations and changes in the consolidated Group	1,676	-306
+ Cash and cash equivalents at the beginning of the period	19,104	2,499
= Cash and cash equivalents at the end of the period	569	19,104
Composition of cash and cash equivalents at the end of the period		
+ Cash and cash equivalents	15,809	38,625
- Liabilities to banks due on demand	-15,240	-19,521
	569	19,104

CONSOLIDATED INCOME STATEMENT

	Notes	2005	2004
		KEUR	KEUR
Sales	(1)	461,851	307,821
Cost of sales		-306,838	-192,862
Gross profit		155,013	114,959
Selling and distribution costs		-52,645	-36,075
Administrative expenses		-63,832	-48,096
Research and development costs		-12,455	-13,884
Other operating income	(2)	17,641	19,448
Other operating expenses	(4)	-7,056	-2,750
Impairment losses Goodwill	(10)	-523	-4,323
Earnings before investment income, interest and taxes (EBIT)		36,143	29,279
Income from joint ventures accounted for at equity		996	890
Other investment income		0	924
Other interest and similar income		1,699	1,702
Interest income from leases		8,333	5,524
Interest and similar expenses	(5)	-17,141	-10,557
Interest expenses from liabilities to banks from refinancing of lease transactions		-4,020	-2,327
Earnings before taxes (EBT)		26,010	25,435
Income taxes	(6)	-7,010	-14,508
Group profit for the year		19,000	10,927
<i>thereof attributable to:</i>			
Minority interests		0	8
Shareholders of BÖWE SYSTEC AG		19,000	10,919
		19,000	10,927
Earnings per share (undiluted and diluted)		2,88	1,66



CONSOLIDATED BALANCE SHEET

		2005	2004
ASSETS	Notes	KEUR	KEUR
A. CURRENT ASSETS			
I. Cash and cash equivalents		15,809	38,625
II. Receivables and other assets			
1. Trade receivables	(13)	86,767	61,494
2. Lease receivables	(14)	4,386	20,613
3. Income tax refund claims		5,782	3,284
4. Derivative financial instruments	(23)	717	11,276
5. Other assets		8,470	9,203
		106,122	105,870
III. Inventories	(12)	113,517	70,983
		235,448	215,478
B. NON-CURRENT ASSETS			
I. Receivables and other assets			
1. Lease receivables	(14)	7,713	35,606
2. Other assets		5,740	3,633
		13,453	39,239
II. Intangible assets			
1. Goodwill	(10)	158,337	66,364
2. Trademarks and patents	(10)	78,297	24,967
3. Client list		23,900	11,340
4. Capitalized development work		7,761	1,791
5. Other intangible assets		5,183	587
		273,478	105,049
III. Property, plant and equipment		37,835	32,700
IV. Investment property	(11)	5,694	6,002
V. Financial assets			
1. Investments accounted for at equity	(8)	13,962	12,987
2. Securities		631	304
3. Loans		13,442	17,325
4. Derivative financial instruments	(23)	1,273	174
		29,308	30,790
VI. Deferred tax assets	(6)	10,724	8,380
		370,492	222,160
		605,940	437,638

		2005	2004
	Notes	KEUR	KEUR
EQUITY AND LIABILITIES			
A. CURRENT LIABILITIES			
I. Financial liabilities	(15)		
1. Liabilities to banks		39,989	32,099
2. Liabilities to banks from refinancing of lease transactions		0	18,249
3. Other financial liabilities		4,043	550
4. Lease liabilities		465	539
		44,497	51,437
II. Trade payables	(13)	43,743	16,437
III. Current income tax liabilities		16,304	6,011
IV. Other liabilities			
1. Deferred revenues		32,698	16,535
2. Accruals		38,884	21,641
3. Other liabilities		8,682	8,874
		80,264	47,050
V. Derivative financial instruments	(23)	4,488	0
VI. Tax provisions		5,303	6,694
VII. Provisions	(17)	4,603	6,172
		199,202	133,801
B. NON-CURRENT LIABILITIES			
I. Financial liabilities	(15)		
1. Liabilities to banks		139,818	94,703
2. Profit participation rights		36,000	28,000
3. Bonds	(16)	290	139
4. Liabilities to banks from refinancing of lease transactions		0	26,610
5. Other financial liabilities		44,041	16,450
6. Lease liabilities		769	1,111
		220,918	167,013
II. Derivative financial instruments	(23)	116	211
III. Other liabilities		0	1,975
IV. Provisions	(17)	37,085	22,994
V. Deferred tax liabilities	(6)	5,166	2,549
		263,285	194,742
C. EQUITY			
I. Subscribed capital	(19)	17,160	17,160
II. Capital reserve	(20)	37,564	37,486
III. Revenue reserves		67,026	59,661
IV. Treasury stock	(21)	0	-299
V. Income and expenses recorded directly in equity	(22)	2,703	-15,845
VI. Group net profit for the year		19,000	10,927
		143,453	109,090
VII. Minority interests		0	5
		143,453	109,095
		605,940	437,638

SEGMENT REPORTING

Geographical segments are the primary format for the segment reporting of the Group as the risks and equity yield of the Group is influenced by differences in the various geographical regions. The Mailroom Management segment represents the secondary segment reporting format.

The geographical segments of the Group are determined according to the location of the Group's assets. The Group is divided into the following geographical segments:

Germany | Europe (Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom) | USA (USA and Canada) | Rest of World (Australia and Japan).

	PRIMARY SEGMENTATION 2005				
	Germany	Europe	USA	RoW	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
External sales	44,263	92,178	307,823	17,587	461,851
Intercompany sales	61,920	313	6,451	0	68,684
Total sales	106,183	92,491	314,274	17,587	530,535
Segment result EBIT	21,083	4,367	19,084	297	44,831
Unallocated expenses					
Unallocated income					
Group EBIT					
Interest expenses including interest expenses from leases					
Interest income including interest income from leases					
Other investments income					
Share of profit of joint ventures accounted for at equity	996	0	0	0	996
Income taxes					
Net profit for the year according to Group P&L					
Segment assets	81,329	71,617	408,401	12,471	573,818
Investment in associates	13,962	0	0	0	13,962
Unallocated assets					
Segment liabilities	26,484	36,743	99,734	2,886	165,847
Unallocated liabilities					
Capital expenditure	2,615	2,036	19,964	217	24,823
Capital expenditure from the enlargement of the consolidated Group	0	0	145,605	0	145,605
Depreciation and amortization	3,009	1,858	15,075	55	19,997

Geographical segments

The tables below present revenue and profit and certain information on assets and liabilities regarding the geographical segments of the Group for the fiscal years ended December 31, 2005 and 2004.

Sales to external customers disclosed in the geographical segments are allocated to the various territories on the basis of the location of the assets.

Business segment

The table aside presents information about the revenue and certain assets in the Mailroom Management segment for the fiscal years ended December 31, 2005 and 2004.

SECONDARY SEGMENTATION MAILROOM MANAGEMENT

	2005	2004
	KEUR	KEUR
External sales	461,851	307,821
Segment assets	605,940	437,638
Capital expenditure	170,437	13,685

		PRIMARY SEGMENTATION 2004						
Consolidation	Consolidated	Germany	Europe	USA	RoW	Total	Consolidation	Consolidated
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
0	461,851	48,429	81,603	152,388	25,401	307,821	0	307,821
-68,684	0	65,402	977	0	0	66,379	-66,379	0
-68,684	461,851	113,831	82,580	152,388	25,401	374,200	-66,379	307,821
-7,107	37,724	14,643	4,512	13,374	266	32,795	-1,476	31,319
	-2,341							-2,803
	760							763
	36,143							29,279
	-21,161							-12,884
	10,032							7,226
		890	0	0	0	890	0	890
0	996	924	0	0	0	924	0	924
	-7,010							-14,508
	19,000							10,927
-44,174	529,644	112,050	75,058	156,509	17,216	360,833	-40,683	320,150
0	13,962	12,987	0	0	0	12,987	0	12,987
	62,334							104,501
	605,940							437,638
-28,246	137,601	23,425	34,514	44,825	5,666	108,430	-30,126	78,304
	324,886							250,239
	462,487							328,543
0	24,832	8,535	1,632	3,393	125	13,685	0	13,685
0	145,605							
-347	19,650	7,633	1,353	4,273	552	13,811	-171	13,640

STATEMENT OF CHANGES IN GROUP EQUITY

	Subscribed capital	Capital reserve	Revenue reserves	Treasury shares	INCOME Change in fair values of financial instruments used for hedging
	KEUR	KEUR	KEUR	KEUR	KEUR
As of January 1, 2004	17,086	37,698	51,416	0	228
Capital increase	74	371	0	0	0
Dividends for the prior year	0	0	0	0	0
Net profit for the year	0	0	0	0	0
Change in income and expenses recorded directly in equity	0	0	0	0	-254
Changes in consolidated Group	0	-555	0	0	0
Changes in reserves	0	-31	8,307	0	0
Purchase of treasury shares	0	0	0	-299	0
Other	0	3	-62	0	0
As of December 31, 2004	17,160	37,486	59,661	-299	-26
As of January 1, 2005	17,160	37,486	59,661	-299	-26
Dividends for the prior year	0	0	0	0	0
Net profit for the year	0	0	0	0	0
Change in income and expenses recorded directly in equity	0	0	0	0	-261
Changes in consolidated Group	0	0	5,026	0	0
Changes in reserves	0	-168	2,525	0	0
Sale of treasury shares	0	0	0	299	0
Stock option program	0	246	-186	0	0
As of December 31, 2005	17,160	37,564	67,026	0	-287

Statement of income and expenses recorded in Group equity for 2005

Changes in fair values of financial instruments used for hedging

Adjustment item from currency translation of foreign subsidiaries

Actuarial gains and losses from defined benefit obligations and other post-employment obligations

Income and expenses recorded directly in equity

Profit after tax

Total of profit of the period and income and expenses of the period recorded directly in equity

AND EXPENSES RECORDED DIRECTLY IN EQUITY

Actuarial gains and losses from defined benefit obligations	Adjustment items from currency translation	Group net profit	Equity without minority interests	Minority interests	Equity with minority interests
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
0	-12,020	16,490	110,898	96	110,994
0	0	0	445	0	445
0	0	-8,214	-8,214	0	-8,214
0	0	10,927	10,927	0	10,927
-550	-3,249	0	-4,053	0	-4,053
0	0	0	-555	-91	-646
0	0	-8,276	0	0	0
0	0	0	-299	0	-299
0	0	0	-59	0	-59
-550	-15,269	10,927	109,090	5	109,095
-550	-15,269	10,927	109,090	5	109,095
0	0	-8,570	-8,570	0	-8,570
0	0	19,000	19,000	0	19,000
-2,156	20,965	0	18,548	0	18,548
0	0	0	5,026	-5	5,021
0	0	-2,357	0	0	0
0	0	0	299	0	299
0	0	0	60	0	60
-2,706	5,696	19,000	143,453	0	143,453

2005			2004		
Before tax effects	Tax effects	After tax effects	Before tax effects	Tax effects	After tax effects
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
-351	90	-261	-351	97	-254
20,965	0	20,965	-3,249	0	-3,249
-2,841	685	-2,156	-795	245	-550
17,773	775	18,548	-4,395	342	-4,053
		19,000			10,919
		37,548			6,866

BÖWE SYSTEC AKTIENGESELLSCHAFT, AUGSBURG – NOTES TO THE

I. Presentation of consolidated financial statements

BÖWE SYSTEC Aktiengesellschaft is headquartered in Augsburg and is registered in the commercial register of the Augsburg district court under HRB 61. The address is Werner-von-Siemens-Straße 1, 86159 Augsburg.

The parent company is WANDERER-WERKE AKTIENGESELLSCHAFT with registered office in Augsburg, Germany, which at the same time is the ultimate parent in the Group.

The purpose of the Company is the development, manufacture and sale of machines and equipment for the automated processing of high volumes of mail and the provision of related services. The most important products are inserting systems, mail verification and mail sorting systems as well as up- and unwinding systems. In most cases, the products are combined to form complex systems and controlled by integrated software. All these products are used in the mailroom and are therefore combined in the Mailroom Management segment.

For the first time, the consolidated financial statements of BÖWE SYSTEC Aktiengesellschaft for the year 2005 are prepared in accordance with International Financial Reporting Standards (IFRS), as required to be applied in the EU, and the provisions of German commercial law to be applied additionally pursuant to Sec. 315a (1) HGB [‘Handelsgesetzbuch’: German Commercial Code]. All pronouncements of the International Accounting Standards Board (IASB) whose adoption is mandatory have been considered.

As a result of various projects, the IASB and the IFRIC have enacted a series of changes to existing Standards and Interpretations and promulgated new standards and interpretations that are generally applicable for fiscal years beginning on or after January 1, 2006.

BÖWE SYSTEC Aktiengesellschaft early adopts IAS 19 (revised) as of January 1, 2004. According to this, actuarial gains and losses are recorded without effect on income directly in equity. Furthermore, additional disclosures are made on the development of assets and liabilities in the defined benefit plans and on the assumptions underlying the components of the costs for defined benefit plans.

All other standards issued by the end of the fiscal year 2005 and revisions of existing standards and interpretations which are mandatory from January 1, 2006 were not applied in the consolidated financial statements as of December 31, 2005.

The consolidated financial statements have been prepared in euro. Unless otherwise specified, all amounts are stated in thousands of euro (KEUR). The income statement has been prepared using the function of expense method.

All assets and liabilities are carried at historical or amortized cost, with the exception of derivative financial instruments that are carried at fair value.

The consolidated financial statements and Group management report prepared by the management board as of December 31, 2005 were approved at the meeting of the management board on March 23, 2006 for submission to the supervisory board.

CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2005

The financial statements of BÖWE SYSTEC Aktiengesellschaft prepared as of December 31, 2005 according to the provisions of HGB and these consolidated financial statements are filed with the commercial register of the Augsburg district court and published in the Federal Gazette (Bundesanzeiger).

II. Consolidation principles

The consolidated financial statements are based on the financial statements of the subsidiaries included in the Group as of December 31, 2005, which have been prepared according to uniform accounting and measurement methods.

From January 1, 2003 capital consolidation for subsidiaries included in the consolidated financial statements for the first time is performed according to the purchase method of accounting pursuant to IFRS 3 (Business Combinations). In the course of initial recognition, the identifiable assets, liabilities and contingent liabilities are measured in full at their fair value at the time of purchase. Consequently, minority interests are carried at the amount of their share in the fair values of assets and liabilities. The purchase costs of the shares acquired are offset against pro rata equity of the subsidiary measured at fair value. Any debit difference remaining after offsetting is disclosed as goodwill under intangible assets.

As a result of the adoption of IFRS 3 and IAS 36 (revised 2003) scheduled amortization of goodwill has been replaced by annual impairment tests for goodwill at the level of the cash-generating unit since January 1, 2003 (unless events take place that make it necessary to examine goodwill more regularly).

If in connection with the inclusion of a subsidiary in the consolidated financial statements not all shares of the new subsidiary were acquired by the BÖWE SYSTEC Group, but the minority shareholders have put options for the shares outstanding, the first-time capital consolidation is carried out based on the premise that these put options have already been exercised at the point in time when control was obtained over the new subsidiary. The assumed exercise price of the put options increases the acquisition cost of the purchased company and is considered in the context of capital consolidation when determining goodwill. As a result, the assumed purchase price obligation is measured at fair value in accordance with IAS 39. Differences between the exercise price assumed at the time of first-time consolidation and the later actual purchase price when the acquisition is carried out are recorded with profit and loss effect in the position "other operating income" or "other operating expenses".

When using proportionate consolidation, the shares in the assets, liabilities, income and expenses of the entity under common control are combined with the corresponding items in the consolidated financial statements.

When using equity consolidation, the shares are shown in the balance sheet at amortized cost rolled forward to reflect changes in the share of the Group in the net assets after the acquisition date and losses for impairments. Losses which exceed the Group share in associates are not recorded unless they represent an obligation.



Intercompany receivables, liabilities and provisions, intercompany profits and losses between Group entities as well as intercompany sales or other income and corresponding expenses are eliminated. The income tax implications are considered in the course of consolidation by recognizing deferred taxes.

III. Consolidated Group

Besides BÖWE SYSTEC Aktiengesellschaft, generally all entities are included in which BÖWE SYSTEC Aktiengesellschaft has the majority of the voting rights, directly or indirectly, and are under uniform control. The entities are included in the consolidated financial statements from the date when the possibility of control was obtained.

Changes in the consolidated Group

In the prior year, the 50% investment in BÖWE BELL + HOWELL Holdings Inc., USA, at that time was included in the consolidated financial statements on a proportionate basis. As of January 5, 2005 BÖWE SYSTEC INTERNATIONAL GmbH acquired a further 10% of the shares in BÖWE BELL + HOWELL Holdings Inc. There were put options for a further 40% of the shares which meant that the purchase of these shares could be already assumed as of January 5, 2005. The assumed acquisition costs are determined on the basis of the rulings of the option agreement and on the basis of the planning available at the time of the acquisition. In addition, the fair value of the call/put options disclosed at the time of acquisition was considered as acquisition cost component. Based on these assumptions, the acquisition costs for the shares in BÖWE BELL + HOWELL Holdings Inc. (100%) came to EUR 163.5 million. Goodwill arising from the acquisition totaled EUR 145.8 million. On the one hand the goodwill reflects the earning power of BÖWE BELL + HOWELL Holdings Inc., and on the other hand the acquisition also creates the basis for selling a much higher volume of products of BÖWE SYSTEC Aktiengesellschaft in the USA, by far the largest single market worldwide, as in the past. Moreover, the activities of BÖWE BELL + HOWELL Holdings Inc. outside the inserter area offer important potential for the future.

In the fiscal year 2005, revenue of BÖWE BELL + HOWELL Holdings Inc. amounted to EUR 307.8 million and in the fiscal year 2004 to EUR 305.5 million, of which 50% was taken into account in the course of proportionate consolidation in the consolidated financial statements for the fiscal year 2004. Around 50% of the Group profit for the fiscal year 2005 stem from the first-time full consolidation of BÖWE BELL + HOWELL Holdings Inc.

At the time of acquisition, the carrying amounts and the fair values of the identifiable assets and liabilities of BÖWE BELL + HOWELL Holdings Inc. break down as follows:

in millions of EUR	Carrying amount	Fair value disclosed
Goodwill	0	145.8
Trademarks and patents	0	66.1
Client base	0	22.7
Other intangible assets	2.2	2.8
Other non-current assets	16.6	16.6
Inventories	47.2	47.2
Receivables from lease transactions	104.6	104.6
Other receivables and other assets	67.4	67.4
Cash and cash equivalents	14.4	14.4
Long-term debt	215,8	215.8
Short-term debt	104.2	104.2

As of July 8, 2005, BÖWE BELL + HOWELL Company acquired 100% of the shares in BCC Software Inc., USA.

In the fiscal year 2005, N.V. BÖWE SYSTEC S.A., Merchtem, Belgium, sold 75% of the shares it held in Secumail N.V., Merchtem, Belgium.

The two last mentioned changes in the consolidated Group do not have any material impact on the comparability of the consolidated financial statements with those of the prior year.



IV. Accounting policies

The financial statements of all consolidated entities are included in line with uniform accounting and measurement principles. The financial statements prepared in accordance with local principles are adjusted to the accounting and measurement policies which are in line with IFRS throughout the Group. The accounting policies used were the same as in the prior year.

The preparation of the consolidated financial statements taking the promulgations of the IASB into account requires assumptions and estimates to be made which have an effect on the carrying amounts of recognized assets and liabilities, income and expenses and contingent liabilities.

Assumptions had to be made in particular for the determination of the fair values of call/put options as well as the future exercise price for put options of minority interests. Other assumptions and estimates relate to fixing useful lives, the recognition and measurement of provisions, the probability of future tax relief being realized as well as the determination of cash flows, growth rates and discount factors in connection with impairment testing.

The actual values may in some cases differ from the assumptions and estimates. Changes are recognized in income as and when better information is available.

Intangible assets

This item contains franchises, industrial rights and similar rights, client base, capitalized development costs as well as goodwill.

Purchased and internally generated intangible assets are only recognized if it is probable that a future economic benefit will flow to the entity from the use of the asset and the cost of the asset can be reliably determined.

Purchased and internally generated intangible assets are initially recognized at cost. For the purpose of subsequent measurement, intangible assets with a finite useful life are measured at cost less accumulated scheduled amortization and impairments and intangible assets with an indefinite useful life (goodwill and trademarks) are measured at cost less impairments.

Development costs are recognized immediately if and when the recognition criteria stipulated in IAS 38 are satisfied and they are developments of significant new components including software. The costs directly attributable to the development were recognized including appropriate development-related overheads. Capitalized development costs are systematically written off when the project concerned is ready for series production. As a rule, a product life cycle of five years is taken as a basis. Research costs and development charges that cannot be capitalized are expensed in the period in which they are incurred. As a rule, the development costs are recognized when what is referred to as the beta version has been prepared.

The net carrying amounts of the assets, useful lives and depreciation methods are revised at the end of each fiscal year and adjusted if necessary.

Intangible assets are amortized over a period of three to eight years. Internally generated and purchase software is assumed to have a customary useful life of three to five years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated scheduled depreciation and impairments in accordance with IAS 16. Depreciation is charged on a straight-line basis over the useful life.

Cost of self-constructed assets contains all costs that are directly attributable to the production process as well as overheads that support the production process. Such assets are, for example, kept for exhibition and demonstration purposes or rented under lease agreements.

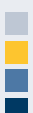
The carrying amounts of property, plant and equipment are tested for impairment as soon as there is any indication that the carrying amount of an asset exceeds its recoverable amount.

An item of property, plant and equipment is either derecognized upon disposal or when no further economic benefit can be expected from the further use or sale of the asset. The gain or loss on derecognition is determined as the difference between the net disposal proceeds and the carrying amount and recognized in profit and loss in the period in which the item is derecognized.

The residual values of the assets, useful lives and depreciation methods are revised at the end of each fiscal year and adjusted if necessary.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

The useful lives for buildings range between 20 and 40 years, for technical equipment and machines between 5 and 10 years. Other equipment, furniture and fixtures are depreciated over 3 to 14 years, leasehold improvements over 10 years.



Borrowing costs

All borrowing costs are recognized in profit and loss both in the fiscal year 2005 and in the comparative period.

Investment property

Investment property is property held to earn rentals or for capital appreciation or both. In the BÖWE SYSTEC Group, two rented properties satisfy these criteria. They are accounted for according to the option in IAS 40 using the alternative allowed method at amortized cost.

The customary useful life of these assets is assumed to be 20 and 40 years respectively. Depreciation is charged on a straight-line basis.

Impairment of intangible assets, property, plant and equipment and investment property

At each balance sheet date it is assessed whether there is an indication that the assets disclosed in the balance sheet may be impaired. If any such indication exists or when annual impairment testing for an asset is required, an estimate is made of the asset's recoverable amount in order to determine the extent of any impairment loss. The asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. To determine the value in use, the estimated future cash flows from this asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects the risks specific to the asset. Impairment losses are recognized in the income statement in those expense categories consistent with the function of the impaired asset. Impairments of goodwill recognized in profit and loss are shown separately in the income statement in the item "Impairment loss, goodwill".

A previously recognized impairment loss (with the exception of goodwill) is reversed with profit and loss effect if there is any indication that the impairment no longer exists or could have decreased. The reversal is recognized in profit and loss. The increase in value or the reduction of an impairment loss of an asset is, however, only recorded to the extent that it does not exceed the carrying amount that would have existed if the regular amortization or depreciation had been recorded and no impairment losses had been recognized. Write-downs on goodwill recorded as a result of impairment tests may not be reversed.

Goodwill and intangible assets with an indefinite useful life (trademarks) are reviewed for impairment at least annually as of December 31 or more frequently if there is any indication that the carrying amount may be impaired. Any impairment loss is immediately recorded as an expense.

Impairment of goodwill and intangible assets with an indefinite useful life is determined by comparing the carrying amount of the cash-generating unit to which the goodwill or the indefinite lived intangible asset is allocated with the recoverable amount of the cash-generating unit.

If a subsidiary is disposed of, the associated goodwill is included when determining the gain or loss on disposal of the subsidiary.

Leases in the BÖWE SYSTEC Group

A lease is classified as a finance lease if essentially all risks and rewards incidental to ownership lie with the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets from finance leases under which all the risks and rewards incidental to ownership of the transferred asset are substantially transferred to the BÖWE SYSTEC Group are recognized at the lower of the fair value of the leased asset or the present value of minimum lease payments at the inception of the lease. The corresponding liability to the lessor is disclosed in the balance sheet as a finance lease obligation.

Lease payments are thus apportioned between the interest expenses and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are charged directly against income.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as lessor

In a number of countries the Group leases products to customers under agreements the terms of which agreement mean that the risks and benefits of ownership are substantially transferred to the customers. In these cases the lease payments payable by the lessees at the inception of the lease are recognized at the present value of the minimum lease payments for the non-cancelable minimum period of the lease. At this point in time, the leased assets are therefore derecognized from Group assets.

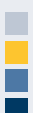
Income from operating leases is recognized in the income statement on a straight-line basis over the term of the lease and disclosed under other operating income.

Financial instruments

Pursuant to IAS 39, financial instruments are classified in the following categories:

- Financial assets held for trading
- Held-to-maturity investments
- Loans and receivables originated by the entity and
- Available-for-sale financial assets

Financial assets with fixed or determinable payments and fixed maturity that the entity intends and has the ability to hold to maturity other than loans and receivables originated by the entity are classified as held-to-maturity financial assets. Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margins are classified as held-for-trading financial assets. Derivative financial instruments are also classified as held for trading unless they are designated as a hedging instrument and are effective as such. Gains or losses from



financial assets held for trading are recognized in profit or loss. All other financial assets apart from loans and receivables originated by the entity are classified as available-for-sale financial assets.

Held-to-maturity investments are disclosed under non-current assets unless they are due within 12 months of the balance sheet date. Held-for-trading financial assets are disclosed under current assets. Available-for-sale financial assets are disclosed under current assets if management intends to sell them within 12 months of balance sheet date.

Purchases and sales of financial assets are recognized according to the accounting method as of the trading date, i.e. the date on which the entity entered into the obligation to purchase or sell the asset.

When a financial asset is recognized initially, they are measured at cost. This comprises the fair value of the consideration and – with the exception of financial assets held for trading – the transaction costs.

Changes in the fair value of held-for-trading financial assets are recorded in the net profit or loss. For this purpose, the fair value of a financial instrument is the amount that can be generated for the asset in an arm's length transaction between knowledgeable and willing parties, under current market conditions. Fair value corresponds to market price provided the financial instruments measured are traded on an active market. If there is no active market for a financial instrument, fair value is calculated using appropriate actuarial methods such as recognized option price models or discounting future cash flows with the market interest rate.

Held-to-maturity investments are measured at amortized cost using the effective interest rate method. If it is likely that the value of financial assets measured at amortized cost is impaired, the impairment is recorded against earnings. If an impairment loss recorded in a prior period decreases and the reversal of the impairment loss (or reduction of impairment loss) can be objectively related to an event occurring after the impairment loss, the write-up is included in net profit and loss. A reversal cannot however exceed the carrying amount that would have been recognized without the impairment.

Loans and receivables originated by an entity and not held for trading are measured at amortized cost or the lower net realizable value on the balance sheet date.

Available-for-sale financial assets are accounted for at market value. Unrealized gains and losses are disclosed under equity in the position "Income and expenses recognized in equity", net of a tax portion. The position "Income and expenses recognized in equity" is released to profit and loss either upon disposal or if it is impaired.



Non-current financial assets

This position mainly includes an investment accounted for at equity. It also contains securities that are classified as available-for-sale financial assets and therefore measured at fair value.

Loans to related parties which do not belong to the BÖWE SYSTEC Aktiengesellschaft consolidated Group but to the consolidated Group of WANDERER-WERKE AKTIENGESELLSCHAFT are also disclosed here. The term of the loans is five years. Valuation is at amortized cost.

Any impairment is recognized in profit and loss by valuation allowances equal to the difference between the carrying amount of the asset and the present value of the estimated future cash flows.

Inventories

Inventories are measured at the lower of cost and net realizable value. Besides direct materials and labor costs, costs of conversion contain a proportion of materials and labor overheads as well as pro rata administrative expenses incurred to support the production process. Borrowing costs are not part of the costs of conversion. Raw materials, consumables and supplies are generally measured using the moving average method. If the estimated net realizable value of the inventories falls below cost, the lower value is stated; valuation allowances are recorded for obsolete or excess stocks. Prepayments received from customers are recorded as liabilities.

Long-term construction contracts

The future amount due from customers for contract work is recognized according to the percentage of completion method. The percentage of completion per contract to be recognized is calculated by comparing the accumulated costs with the total costs expected ("cost-to-cost" method).

If the total of accumulated contract costs and reported profits exceeds payments in advance received, the construction contracts are recognized as an asset as future receivables from long-term construction contracts under trade receivables. Any negative balance is reported under trade payables. The principle of measuring assets at net realizable value is observed.

Receivables and other assets

Receivables and other assets are measured at their amortized cost after forming appropriate valuation allowances, if necessary.

Derivative financial instruments, hedges and financial risk management

The BÖWE SYSTEC Group operates internationally and is therefore exposed to currency risks from exchange rate fluctuations of the transactions entered into in various currencies. Customary market instruments such as forward exchange contracts and currency options are used to hedge these risks. These hedge transactions cover record-

ed, pending and planned deliveries. The USD is the main currency hedged in this way. These agreements generally have a term of up to one year.

Derivative financial instruments such as interest swaps and interest caps are used to hedge risks associated with fluctuations in interest rates. These hedges are only entered into with contractual parties which enjoy impeccable credit ratings in order to reduce the effects of changes in interest rates on the borrowing costs of loans which are subject floating interest rates.

The fair values attributable correspond to the price at which third parties would assume the rights or obligations from the financial instruments. The fair values are determined on the basis of quoted market prices or by means of actuarial calculations based on customary models as of the balance sheet date.

Derivative financial instruments are used exclusively to hedge financial risks and not for speculative purposes. All derivative financial instruments are recognized at fair value. If there is no hedge relationship, changes in fair value are taken to profit or loss.

For purpose of hedge accounting, hedges are classified as follows and, if the strict criteria for hedge accounting are satisfied, accounted for as follows

- **Fair value hedge accounting:**

To hedge the fair value, a gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item, the derivative financial instrument is revalued at its fair value and the resulting gain or loss is recognized immediately in net profit or loss.

- **Cash flow hedge accounting:**

Changes in fair value from a hedge are recognized directly in equity, net of deferred taxes. Amounts that are recognized directly in equity are recognized in profit or loss in the period in which the hedged transaction affects the net profit or loss of the period, e.g. in which the hedged financial income or expenses are recognized or a forecast sale or purchase is carried out.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. Such hedges are considered to be highly effective in offsetting the risks from changes in the fair value or in the cash flow.

Derivative financial instruments are concluded in close cooperation with the management board. The dual control principle is applied to every trade processed. They are monitored in the monthly reporting.



Cash and cash equivalents

Cash and cash equivalents recorded in the balance sheet include cash, bank deposits and short-term investments with original terms of less than 12 months.

Deferred tax

Deferred taxes are accounted for using the balance sheet oriented liability method according to IAS 12 (Income Taxes).

This involves creating deferred tax items for all temporary accounting and measurement differences between the carrying amounts for IFRS purposes and the tax bases of the assets and liabilities. They are not created if the temporary difference arises from goodwill or the initial recognition of other assets and liabilities in a transaction (not a business combination) which affects neither the account profit nor taxable profit or loss. A deferred tax asset is set up for all taxable temporary differences arising from shares in subsidiaries or associates and interests in joint ventures, unless the parent company can control the reversal of the temporary difference and the temporary difference will probably not reverse in the foreseeable future.

Further, deferred tax assets for future economic benefits from unused tax losses and unused tax credits must be taken into account if it is highly probable that they will be used.

The basic prerequisite for any recognition of deferred taxes is that it is probable that taxable profit will be available against which deductible temporary differences and the carry-forward of unused tax losses can be utilized. Allowances on deferred tax assets are recognized if it is more likely than not that the tax benefit will be lost.

Deferred taxes are recognized on the basis of the tax rates applicable in the countries concerned and not discounted.

Deferred tax assets and deferred tax liabilities are only netted in the consolidated balance sheet if, and only if the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied on the same taxable entity by the same taxation authority.

Pensions and other post-employment benefits

The Group operates various pension schemes. BÖWE BELL + HOWELL Holdings Inc. has also agreed to provide certain additional post-employment healthcare benefits to certain employees.

Payments for defined contribution obligations as well as contributions to statutory pension funds are recognized as an expense upon maturity.

The pension provisions for defined benefit plans are determined using the projected unit credit method taking expected pension and salary increases into account. The calculation is based on actuarial opinions taking account of biometric assumptions.

Actuarial gains and losses are offset directly against equity in the year in which they occur.

The amount disclosed is the present value of the defined benefit obligation after offsetting against the fair value of the measured plan assets.

Provisions

Other provisions contain all present obligations resulting from past events towards a third party, provided it is probable that an outflow of funds embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount carried is the best estimate of the probable outflow of funds from the present obligation as of the balance sheet date. Non-current provisions are disclosed at present value, discounted at market interest rates which reflect the risk and period until the obligation is settled.

Liabilities

Liabilities are generally recorded at amortized cost. Liabilities from finance leases are recognized at the inception of the lease at the present value of future lease payments during the non-cancellable minimum period of the lease. Prepayments received from customers are disclosed openly.

Share-based payments

The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is calculated using a binominal model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of BÖWE SYSTEC Aktiengesellschaft of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement of cumulative expense recognized as at the beginning and end of that period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Revenue /revenue recognition

The sale of goods and services is recognized upon delivery or after ownership has been transferred in another way.

Revenue is disclosed at the fair value of the consideration received or yet to be received net of discounts and other sales deductions as well as VAT.

Interest income accrued as revenue is recognized using the effective interest method.

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms.

Earnings per share

Pursuant to IAS 33, basic earnings per share amounts are calculated by dividing net profit of the Group – without profit attributable to minority interests – by the weighted average number of ordinary shares of the parent company outstanding during the year. When determining the average number of shares, the change in the treasury shares held is considered pro rata temporis.

	2005	2004
Earnings	KEUR	KEUR
Basis for the undiluted earnings per share (Net profit attributable to the shareholders of the parent company)	19,000	10,919
Number of shares	No. of shares	No. of shares
Weighted average number of ordinary shares for the basic earnings per share (excluding treasury shares)	6,594,763	6,586,304
Earnings per share	EUR	EUR
Earnings per share (undiluted and diluted)	2.88	1.66

In the reporting year and in the prior year, the convertible bonds issued in connection with the share-based compensation did not have any material effect on the earnings per share; there was no dilutive effect.

There were no transactions with ordinary shares or potential ordinary shares in the period from balance sheet date to preparation of the consolidated financial statements.

V. Foreign currency translation

The consolidated financial statements are prepared in euros, which is both the functional currency and the presentation currency of the Group. Business transactions which are settled in currencies other than the euro are recorded at the current exchange rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rate ruling at the balance sheet date and any resulting exchange gains or losses are posted to profit or loss. These came to KEUR -367 in the year under review (prior year: KEUR 623).

To hedge against certain currency risks, the Group enters into forward exchange or option transactions, the accounting of which is presented in "Derivative financial instruments, hedges and financial risk management".

Financial statements denominated in foreign currency of the subsidiaries included in the consolidation are translated into euros on the basis of the functional currency concept pursuant to IAS 21 ("The Effects of Changes in Foreign Exchange Rates"). The functional currency is the local currency for all foreign subsidiaries of the Group, since these entities operate independently from a financial, economic and organizational viewpoint. According to this concept, assets and liabilities are thus translated at the exchange rate as of balance sheet date, while income and expenses are generally translated at average rates. Any currency translation differences are recorded directly in equity in accumulated other comprehensive income.

The following exchange rates were applied in the consolidated financial statements as of December 31, 2005 and 2004:

Currencies	Closing rates		Average rates	
	Dec. 31, 2005	Dec. 31, 2004	2005	2004
USD	1.18350	1.36390	1.24477	1.24337
GBP	0.68710	0.70610	0.68391	0.69190
AUD	1.61199	1.75000	1.63257	1.68910
JPY	139.0821	139.7233	136.7989	134.4104
PLN	3.85996	4.08000	3.97062	4.54242
SEK	9.39232	9.02087	9.27988	9.12600
CHF	1.55531	1.54350	1.54832	1.54410

VI. Notes to the consolidated income statement

1. Revenue

Revenue contains the amounts charged to customers for goods and services. Sales deductions such as rebates and discounts are deducted from revenues. Detailed explanations of the geographical distribution of sales revenue are contained in the segment reporting.

Revenue contains revenue from long-term construction contracts of KEUR 8,253 (prior year: KEUR 0).

2. Other operating income

Besides the non-recurring effects described below, other operating income mainly comprises license fees, gains on sale, rental income from investment property (2005: KEUR 760, prior year: KEUR 763) and exchange rate gains.

In the fiscal years 2005 and 2004, the following non-recurring effects are included (for non-recurring operating expenses we refer to note 4):

	2005	2004
	KEUR	KEUR
Difference between the assumed exercise price and the actual purchase price for the purchase of minority shares in the BÖWE BELL + HOWELL Holdings Inc.	12,426	0
Change in fair value of the option to purchase shares in Lasermax Roll Systems AB	717	0
Change in fair value of the option to purchase shares in BÖWE BELL + HOWELL Holdings Inc.	0	11,103*)
Reversal of a provision for litigation risks upon the first-time proportionate consolidation of BÖWE BELL + HOWELL Holdings Inc.	0	4,261*)
	13,143	15,364

*) The deferred tax expenses of KEUR 6,145 incurred thereon are contained in the income taxes.

At the time of the first-time consolidation of BÖWE BELL + HOWELL Holdings Inc. (January 5, 2005) the assumed exercised price for the 40% minority shares in BÖWE BELL + HOWELL Holdings Inc. was determined on the basis of the rulings governing the put options. The plans available at the time of the first-time consolidation, the possible exercise dates and the amount of the possible share purchase were used as a basis for the calculation. At the end of the fiscal year 2005, it was agreed with the previous minority shareholder to take over all shares outstanding and a divergent purchase price agreement was reached.

The change in the fair value of the option to purchase the shares in BÖWE BELL + HOWELL Holdings Inc. in the fiscal year 2004 was a result of changed option conditions. In this respect please also see the explanations under “Financial instruments” in note 23.

3. Personnel expenses

The expense positions of the consolidated income statement contain the following employee benefit expenses:

	2005	2004
	KEUR	KEUR
Wages and salaries	165,442	118,121
Expense of share-based payments	60	0
Social security cost and post-employment benefits	32,581	24,648
– of which old-age pensions	(12,338)	(7,463)
Other post-employment benefits	612	2,193
	198,695	144,962

4. Other operating expenses

In the fiscal year 2005 this position contains the following non-recurring effect:

	KEUR
Exchange rate losses in connection with the liability from the purchase of the minority interests in BÖWE BELL + HOWELL Holdings Inc.	5,226

This position also contains operating expenses (including repairs and maintenance) (KEUR 92, prior year: KEUR 105) for investment property with which rental income was generated during the reporting period.

5. Interest and similar expenses

Interest and similar expenses contains KEUR 795 (prior year: KEUR 269) from the amortization of transaction costs from borrowed capital.

6. Income tax

	2005	2004
	KEUR	KEUR
Current taxes:		
German	1,751	3,594
Foreign	7,974	6,104
Total current taxes	9,725	9,698
Deferred taxes:		
German	-1,788	2,079
Foreign	-927	2,731
Total deferred taxes	-2,715	4,810
Actual income tax expense	7,010	14,508

At the German companies, current tax expense consists of corporate income tax plus solidarity surcharge and trade tax. At the foreign companies, the comparable income-based taxes are disclosed.

At the German companies the corporate income tax rate was unchanged at 25%, the solidarity surcharge was unchanged at 5.5%. Taking the trade tax into account, the total tax burden of the German companies was unchanged at 38%.

At the foreign companies, tax rates range between 28% and 41%.

There were no major changes in tax expense due to changes in the respective local tax rates.

In the fiscal year, deferred taxes of KEUR 775 (prior year: KEUR 342) were offset directly against equity.

By using previously unused tax losses or tax credits, the current income taxes were reduced by KEUR 222 (prior year: KEUR 821).

As of the balance sheet date, the Group had unused tax losses of EUR 62 million (prior year: EUR 65 million) for offsetting against future profits. A deferred tax asset of EUR 16 million (prior year: EUR 17 million) was recorded on these losses. A deferred tax asset was not recorded on the remaining EUR 46 million (prior year: EUR 48 million) because future profits were not sufficiently foreseeable. The unused tax losses that have not been considered contain around EUR 2 million which will be forfeited in the next five to nine years. The other losses can be carried forward for an indefinite period of time.

The temporary differences associated with shares in subsidiaries, associates and joint ventures for which no deferred tax liabilities were recognized amount to KEUR 3,642 (prior year: KEUR 3,039).

The tax expense for the fiscal year can be reconciled with the profit according to the consolidated income statement as follows:

	2005	2004
	KEUR	KEUR
Accounting profit before income tax	26,010	25,435
Theoretical tax expense based on the Total German tax rate of 38% (prior year 38%):	9,884	9,665
Variations in tax rates	-104	218
Zero-rated income from the difference between the assumed exercise price and the actual purchase price in the purchase of minority interests in BÖWE BELL + HOWELL Holdings Inc.	-2,736	0
Impairment of goodwill from capital consolidation	199	1,643
Zero-rated investment income	-378	-690
Capitalization of previously unrecognized unused tax losses	-222	-821
Use of tax loss carry-forward	-701	-617
Unrecognized deferred taxes on unused tax losses	749	737
Tax income and expenses for prior years	2	2,585
Non-deductible expenses	815	1,072
Other	-498	716
Income tax	7,010	14,508

Deferred taxes due to measurement differences relate to the following balance sheet positions:

	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	Dec. 31, 2005		Dec. 31, 2004	
	KEUR		KEUR	
Receivables and other assets	1,024	6,807	495	8,337
Inventories	8,729	73	5,830	73
Property, plant and equipment	1,112	568	884	729
Intangible assets	98	25,192	388	7,749
Other assets	316	0	183	0
Liabilities	1,033	632	1,172	358
Pension provisions	7,423	0	5,422	0
Other provisions	15,752	50	5,375	77
	35,487	33,322	19,749	17,323
Shares in subsidiaries, associates and joint ventures	0	570	0	570
Cashflow hedges	100	0	10	0
Tax loss carry-forward	3,863	0	3,965	0
	39,450	33,892	23,724	17,893
Share of losses available for offsetting	-28,726	-28,726	-15,344	-15,344
Deferred taxes	10,724	5,166	8,380	2,549

7. Dividends paid and proposed

	2005	2004
	KEUR	KEUR
Dividends declared and paid during the year		
– Dividend for 2004: EUR 1.30 (2003: EUR 1.25)	8,570*)	8,214
Proposal for approval at AGM		
– Dividend for 2005: EUR 1.35 (2004: EUR 1.30)	8,910	8,580

*) Amount after dividends attributable to treasury shares (KEUR 10).

The proposed dividend is subject to the approval of the shareholders at the annual general meeting and was not recorded as a liability in the financial statements.

VII. Notes to the consolidated balance sheet

8. At-equity investments

BÖWE SYSTEC INTERNATIONAL GmbH holds 50% of the shares in Lasermax Roll Systems AB, Ljungby, Sweden, a jointly controlled operation, which operates in Sweden in the field of pre and post paper handling. The shares are accounted for using the equity method (IAS 31.38).

Based on the shareholding in this company, the following assets, liabilities, income and expenses are attributable to the Group:

	Jan. 1 to Dec. 31 2005	Oct. 1 to Dec. 31 2004
	KEUR	KEUR
Income	23,584	6,104
Expenses	-22,588	-5,723
Earnings after taxes	996	381
Current assets	13,251	12,813
Non-current assets	1,850	1,482
Current liabilities	6,169	4,184
Non-current liabilities	3,328	5,985

9. Proportionate consolidation of joint ventures

As of December 31, 2004, BÖWE SYSTEC INTERNATIONAL GmbH held 50% of the shares in BÖWE BELL + HOWELL Holdings Inc., USA, a jointly controlled operation which operates in the field of mailroom management in the USA. In the fiscal year 2004 the shares were accounted for using proportionate consolidation (IAS 31.30). In the fiscal year 2005, due to the purchase of additional shares there was a transition from proportionate to full consolidation; the figures here therefore relate solely to the fiscal year 2004.

Due to the shareholding in the joint venture, the following assets, liabilities, income and expenses are attributable to the Group:

	2004
	KEUR
Income	163,127
Expenses	-156,121
Earnings after taxes	7,006
Current assets	76,438
Non-current assets	158,669
Current liabilities	52,146
Non-current liabilities	107,859

The Group's share of the contingent liabilities of the joint venture for 2004 amounted to EUR 4.2 million.

10. Impairment of goodwill and indefinite-lived intangible assets

The goodwill and trademarks acquired from business combinations were allocated to the cash-generating unit for impairment testing at country level.

The future realizable amount was defined as the present value of future cashflows (value in use).

To test the impairment of the goodwill and the trademarks of the cash-generating unit USA, which makes up the main part of this balance sheet item, the future cash flows were derived from the detailed plan for the next nine years. A growth rate of 3% was assumed for the following period. The average weighted cost of capital for the discounting of the forecast cash flows is 10%.

Main basic assumptions for the calculation of the value in use of the business units as of December 31, 2005 and December 31, 2004.

a) USA

The planned gross margin - The planned gross margin was determined using the average gross profit margins attained in previous fiscal years and raised to reflect anticipated efficiency gains.

To determine the future cash flows, the expected operating costs are deducted from the thus determined gross profit. Finance costs and taxes are not considered. The remaining amount is the starting point for discounting.

Average weighted cost of capital rate - The equity costs are determined using the Capital Asset Pricing Model (CAPM). Borrowing costs were stated at the interest rate of BAA company bonds.

b) Other

To test the impairment of other goodwill, the future cash flows were derived from detailed plans for the next two years. A growth rate of 1% was assumed for the following period. This reflects a conservative estimate of the future business development in the respective cash-generating unit. The cash flows thus determined were discounted with a country-specific average weighted cost of capital rate of between 7% and 8%.

In the course of the testing as of December 31, 2005, the goodwill attributable to the cash-generating unit Italy was written down by KEUR 523 so that the net carrying amount is equal to the realizable value in use.

Significant carrying amounts of the goodwill and indefinite-lived intangible assets allocated to the respective cash-generating units:

	USA		Germany		Japan		Other		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Carrying amount of goodwill	145,795	53,307	7,382	7,382	3,097	3,085	2,063	2,590	158,337	66,364
Carrying amount of trademarks	73,984	22,759	0	0	0	0	0	0	73,984	22,759

11. Investment property

As in the prior year, the fair value of the two properties amounts to roughly KEUR 7,700. They were both valued by independent valuers and substantiated by relevant market data. In their report, the valuers estimate that the two buildings have a residual useful life of an average of 23 and 55 years. For each building, they estimate the share of capitalized earnings value of the buildings for this period. The resulting capitalized earnings value plus the value of the land is adjusted by appropriate risk mark-downs.

12. Inventories

	Dec. 31, 2005	Dec. 31, 2004
	KEUR	KEUR
Raw materials	27,195	19,462
Work in process	24,753	23,097
Finished goods	61,569	28,424
	<u>113,517</u>	<u>70,983</u>

The methods used in the fiscal year 2005 to determine impairment were the same as in the prior year. The carrying amount of inventories subject to write-downs is KEUR 23,731 (prior year: KEUR 15,761). The write-down recorded on inventories was recorded as an expense of KEUR 2,775 (prior year: KEUR 784). The expense is contained in cost of sales.

13. Receivables/liabilities from long-term construction contracts

Before offsetting against progress billings, the future amount due from customers for contract work comes to KEUR 8,253 (prior year: KEUR 0). After deducting progress billings, the balance which is shown under trade payables is as follows:

	Dec. 31, 2005	Dec. 31, 2004
	TEUR	TEUR
Cost incurred including recognized profits	8,253	0
less progress billings	-8,325	0
	<u>-72</u>	<u>0</u>

14. Finance lease receivables

The Group offers its customers finance lease arrangements for certain mailroom management systems. The average term of the lease agreements entered into is one to five years.

The interest rate of the lease is fixed for the whole term at the inception of the lease. The weighted average effective interest rate for finance lease receivables was 7.88% as of December 31, 2005 (prior year: 8.99%).

The table below shows the reconciliation of the total gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date:

	Minimum lease payments		Present value of minimum lease payments	
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
	KEUR	KEUR	KEUR	KEUR
Finance lease receivables:				
due not later than one year	4,996	24,698	4,386	20,613
due later than one year and not later than five years	8,858	39,732	7,713	35,606
due later than five years	0	1	0	0
	13,854	64,431	12,099	56,219
less:				
Unrealized financial income	-1,755	-8,211	0	0
Present value of receivables from minimum lease payments	12,099	56,219	12,099	56,219

On the balance sheet date, unguaranteed residual values amount to KEUR 1,916 (prior year: KEUR 1,316). The accumulated allowance for uncollectible minimum lease payments receivable amounts to KEUR 1,126 (prior year: KEUR 862).

In December 2005 BÖWE BELL + HOWELL Financial Services Company, USA, (BBHFS) sold a large part of its lease receivables including residual values totaling USD 91.2 million to an American bank. This is the main reason for the decrease in lease receivables and liabilities to banks from the refinancing of lease transactions. The contract precludes the return of the receivables sold. Appropriate mark-downs were agreed for the costs and any bad debts. If risks covered by the mark-downs do not arise at the buyer, the contract provides for an additional payment. The collection of the receivables sold will be continued by BBHFS until April 30, 2006 on behalf of the buyer.

In two other transactions, BBHFS also sold lease receivables totaling USD 13.8 million to another American bank. The credit risks assumed by the buyer were reflected in an appropriate mark-down; again the contract provides for additional payment if the risks covered by the mark-down do not occur. The collection of the receivables sold will be continued by BBHFS until May 31, 2006 on behalf of the buyer.



The disposal of the leasing portfolio of BBHFS resulted in a cash inflow of some EUR 19.4 million, most of which will be used to repay existing bank loans. Without these transactions, total net assets would have been approx. EUR 89 million higher as of December 31, 2005.

The disposal of the leasing portfolio did not lead to any major effects on Group profit as they were largely sold at carrying amounts.

15. Financial liabilities

This item includes profit participation capital, convertible bonds, liabilities to banks, a loan borrowed from an insurance company and seller loans from sales of entities.

The financial liabilities are due as follows and split up by interest arrangement as follows:

As of Dec. 31, 2005	Total	up to 1 year	1 to 5 years	more than 5 years
	KEUR	KEUR	KEUR	KEUR
<i>Fixed interest rate *)</i>				
Profit participation capital	36,000	0	0	36,000
Bonds	290	0	290	0
Liabilities to banks	118,679	11,354	104,488	2,837
Other financial liabilities	21,027	4,043	16,984	0
Lease liabilities	1,234	465	769	0
<i>Floating interest rate **)</i>				
Liabilities to banks	61,128	28,635	32,493	0
Other financial liabilities	27,057	0	27,057	0
	265,415	44,497	182,081	38,837

As of Dec. 31, 2004	Total	up to 1 year	1 to 5 years	more than 5 years
	KEUR	KEUR	KEUR	KEUR
<i>Fixed interest rate *)</i>				
Profit participation capital	28,000	0	0	28,000
Bonds	139	0	139	0
Liabilities to banks	85,673	9,701	41,991	33,981
Other financial liabilities	17,000	550	13,450	3,000
Liabilities to banks from refinancing of lease transactions	44,859	18,249	26,377	233
Lease liabilities	1,650	539	1,111	0
<i>Floating interest rate **)</i>				
Liabilities to banks	41,129	22,398	18,731	0
	218,450	51,437	101,799	65,214

*)

Loan agreement at fixed interest rates or SWAP and/or CAP derivatives concluded in connection with the underlying.

**)

Loan agreements which are subject to an interest rate risk.

Of these financial liabilities, the following liabilities are denominated in foreign currency:

As of Dec. 31, 2005	Total	USD	YEN	AUD	GBP	Other
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Profit participation capital	0	0	0	0	0	0
Bonds	0	0	0	0	0	0
Liabilities to banks	116,906	111,305	2,013	2,113	984	491
Other financial liabilities	33,084	33,084	0	0	0	0
Lease liabilities	1,022	0	1,022	0	0	0
	<u>151,012</u>	<u>144,389</u>	<u>3,035</u>	<u>2,113</u>	<u>984</u>	<u>491</u>

As of Dec. 31, 2004	Total	USD	YEN	AUD	GBP	Other
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Profit participation capital	0	0	0	0	0	0
Bonds	0	0	0	0	0	0
Liabilities to banks	62,227	52,599	3,221	2,800	1,792	1,815
Other financial liabilities	2,000	2,000	0	0	0	0
Liabilities to banks from refinancing of lease transactions	44,859	44,859	0	0	0	0
Lease liabilities	1,000	0	1,000	0	0	0
	<u>110,086</u>	<u>99,458</u>	<u>4,221</u>	<u>2,800</u>	<u>1,792</u>	<u>1,815</u>

Profit participation capital

The profit participation rights mature in 2012 and are generally not cancelable neither by BÖWE SYSTEC Aktiengesellschaft nor by the holder of the profit participation right before that date. Besides a basic return of 7.5% to 7.9%, the holders of the profit participation rights participate in the success of the BÖWE SYSTEC Group if certain threshold values are exceeded, in each case dependent on the higher of the net profit or Group net profit for the year adjusted for special effects in the form of a 0.5% to 2.0% increase in the interest rate. The claims of the holders of the profit participation rights are subordinated to all other creditors of the Company. Profit participation rights are accounted for at nominal value.

Bonds

The bonds are convertible bonds subscribed to by managers in the BÖWE SYSTEC Group as part of an incentive program. In 2004 a tranche of KEUR 139 was subscribed and in 2005 a tranche of KEUR 151. In this respect please also see the explanations under "Share-based payments/ convertible bonds" in note 16.



Liabilities to banks

The interest rates for fixed-interest bearing liabilities to banks range between 4.4% and 8.0%. The Company is exposed to an interest rate risk for the liabilities to banks with floating interest rates. In 2005 the interest rates ranged between 1.5% and 8.0%. The floating interest rates are adjusted at intervals of less than one year. The liabilities to banks have terms until 2012.

KEUR 3,854 (prior year: KEUR 4,797) of liabilities to banks is secured by mortgages and similar rights.

As of December 31, 2005, the Group had unused lines of credit at its disposal of around EUR 87.0 million.

Other financial liabilities

Other financial liabilities contain a long-term loan borrowed from an insurance company in 2000 with a term of 10 years at fixed-interest rate conditions. The loan is repaid in annual installments of EUR 3.0 million from 2006. Other financial liabilities also contain floating-rate seller loans from purchases of entities, most of which have to be repaid at the end of 2009.

For part of the liabilities to banks the BÖWE SYSTEC Group has agreed to certain financial covenants. The financial covenants were observed as of December 31, 2005. Certain covenants at the end of each fiscal year were also agreed for parts of other financial liabilities. Due to the conversion of accounting to IFRS and the full consolidation of BÖWE BELL + HOWELL Holdings Inc., USA, the previously agreed covenants have to be adjusted in fiscal 2005. It was therefore agreed in 2005 with the creditors that this conversion would be carried out on the basis of the final consolidated financial statements as of December 31, 2005.

Lease liabilities

The BÖWE SYSTEC Group has entered into finance leases and hire-purchase agreements for various items of office and factory equipment. The contracts do not contain prolongation options, purchase options or price-adjustment clauses.

The net carrying amounts of the assets from finance leases of KEUR 845 (2004: KEUR 1,220) are wholly attributable to machines and furniture and fixtures.

The future minimum lease payments from finance leases and hire-purchase agreements can be reconciled with their present value as follows:

	Minimum lease payments		Present value of minimum lease payments	
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
	KEUR	KEUR	KEUR	KEUR
Finance lease liabilities:				
due not later than one year	429	355	416	338
due later than one year and not later than five years	875	1,450	818	1,312
due later than five years	0	0	0	0
	1,304	1,805	1,234	1,650
less:				
Future finance costs	-70	-155		
Present value of lease obligations	1,234	1,650		
Amount repayable within twelve months (shown under current liabilities)			465	539
Amount repayable in more than twelve months			769	1,111

16. Share-based payments /convertible bonds

With the authorization of the annual general meeting of the Company on May 19, 2004 and the subsequent approval of the supervisory board, BÖWE SYSTEC Aktiengesellschaft grants certain senior executives of the Group the possibility to subscribe to convertible bonds of the Company. Besides a basic return of 4%, the convertible bonds contain the right to purchase shares of BÖWE SYSTEC Aktiengesellschaft provided the price of the BÖWE SYSTEC share exceeds that of the S-DAX on the basis of two reference periods.

Two tranches of the plan are current at the moment, one with a contractual life from December 2004 to May 2007, the other with a contractual life from October 2005 to May 2008. The plan set up in October 2004 can give rise to a maximum of 53,400 option rights. The plan set up in December 2005 can give rise to a maximum of 58,200 option rights.



The value attributable to the option for the first tranche is EUR 0.00 per share, and for the second tranche EUR 2.42 per share.

The stock options developed as follows:

	2005	2004
As of January 1	53,400	0
Granted	58,200	53,400
As of December 31	111,600	53,400
Exercisable at the end of the year	(0)	(0)

During the fiscal year, personnel expenses totaling KEUR 60 (prior year: KEUR 0) were incurred for the two stock option plans. The capital reserve was increased by this amount.

17. Provisions

The provisions for pensions and other post-employment benefits disclosed in the statement of changes in provisions pursuant to IAS 37 are explained in note 18 below.

	Provisions			
	Warranty	Pensions	Others	Total
	KEUR	KEUR	KEUR	KEUR
As of January 1, 2005	2,887	16,119	10,160	29,166
Arising during the year	2,147	637	1,855	4,639
Unused amounts reversed	-124	-2,459	-345	-2,928
Utilized	-1,929	-994	-1,991	-4,914
Acquisition of a subsidiary	921	1,973	5,284	8,178
Interest effects	0	2,721	0	2,721
Offsetting without effect on income	0	2,901	0	2,901
Exchange adjustment	181	768	976	1,925
As of December 31, 2005	4,083	21,666	15,939	41,688

The provision for warranty obligations recognized for products sold during the fiscal year. Besides known individual risks, it comprises an assessment of possible returns based on past experience. It is expected that most of these costs will be incurred within the next fiscal year. The assumptions underlying the calculations of the warranty provision are based on the current sales level and information currently available on goods returned within a fiscal year.

The tax provisions contain current income taxes as well as other corporate taxes which were set up for past fiscal years and for the fiscal year 2005.

Other provisions mainly contain provisions for potential losses from pending transactions as well as obligations belonging to the personnel area such as phased retirement, severance payments and framework pay agreement.

18. Pension provisions

The pension provisions are recorded for obligations from future and current post-employment benefits to current and former employees of entities in the BÖWE SYSTEC Group as well as their surviving dependants. Depending on the circumstances of the respective country in which the entity making the pension pledge is based there are different forms of post-employment provisioning. The main points of reference of the benefit obligations are generally length of service, the function of the employee and the remuneration. In addition, BÖWE BELL + HOWELL Holdings Inc. has a healthcare plan for pensioners whose obligations are covered by provisions. In addition, BÖWE BELL + HOWELL Holdings Inc. has a 401(k) profit-sharing plan for certain employees.

The BÖWE SYSTEC Group has both defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the obligation of the entity concerned is limited to the payment of the agreed contributions. In the fiscal year 2005 the cost of defined contribution plans amounts to KEUR 41 (prior year: KEUR 43).

With defined benefit plans, the entity's obligation consists of fulfilling the commitments made to current and former employees. Such obligations exist both at German and foreign Group entities. In the BÖWE SYSTEC Group, defined benefit plans are partly financed via provisions, partly via external funds.

The amount of the pension obligations was calculated using the projected unit credit method. In Germany the new R 2005 G mortality tables of Dr. Klaus Heubeck were used. Besides the assumptions about life expectancy in these tables, the principal assumptions used for the actuarial calculations are shown below:

in %	Germany		Europe		USA		RoW	
	2005	2004	2005	2004	2005	2004	2005	2004
Discount rate	4.75	4.75	4.59	4.83	5.75	6.00	1.55	1.55
Future salary increases	2.00	2.00	2.38	2.13	0	4.50	3.55	3.55
Future pension increases	1.50	1.50	2.16	1.91	0	0	3.55	3.55
Healthcare cost increase rate	–	–	–	–	8.50	9.00	–	–
Expected rate of return on plan assets	–	–	4.90	5.40	8.50	8.50	–	–

The assumptions relating to the development of healthcare costs do not have a material affect on the amounts recognized in the income statement.



Pursuant to IAS 19, detailed information is presented below for the pension plans and healthcare plans about how the plans are equipped and how they are considered in the consolidated balance sheet and in the consolidated income statement:

	2005	2004
	KEUR	KEUR
Pension plans	18,853	14,836
Healthcare plans	2,813	1,283
	21,666	16,119

The following table presents further information on these plans:

	Dec. 31, 2005	Dec. 31, 2004
	KEUR	KEUR
Present value of unfunded post-employment benefit obligations	9,976	10,121
Present value of funded post-employment benefit obligations	47,149	25,463
Fair value of plans asset	-35,459	-19,465
Carrying amount as of Dec. 31	21,666	16,119
Present value of the benefit obligation on Jan. 1	35,584	35,652
Enlargement of the consolidated Group	13,019	0
Cost of the fiscal year		
– current service cost	637	668
– interest cost	2,721	1,772
– Change due to plan amendment	0	-748
Benefits paid	-3,027	-1,630
Unrecognized net actuarial gains/losses	3,902	893
Exchange differences	4,289	-1,023
Present value of benefit obligation on Dec. 31	57,125	35,584
Fair value of plan assets on Jan. 1	19,465	19,285
Enlargement of the consolidated Group	11,048	0
return of the fiscal year		
– expected return on plan assets	2,081	1,201
Unrecognized net actuarial gains/losses	999	203
Additions to plan assets	378	566
Benefits paid	-2,033	-897
Exchange differences	3,521	-893
Fair value of plan assets on Dec. 31	35,459	19,465
Net obligations as of Dec. 31	21,666	16,119

The plan assets consist of the following components:

	Dec. 31, 2005	Dec. 31, 2004
	%	%
Equity instruments	48.5	56.9
Debt instruments	41.8	28.1
Other assets	9.7	15.0
	100.0	100.0

The actual return on plan assets amounts to KEUR 3,015 (prior year: KEUR 2,182).

Net periodic pension cost from defined benefit plans breaks down into the following components (contained in the results of operations of the Group):

	2005	2004
	KEUR	KEUR
Current service cost	637	668
Interest cost	2,721	1,772
Expected return on plan assets	-2,081	-1,201
	1,277	1,239

19. Subscribed capital

The share capital of the Company is KEUR 17,160. It is divided into 6,600,000 shares without par value.

The Company only has one category of shares which do not grant a fixed profit entitlement.

In the fiscal year 2004 capital was increased by KEUR 74 by issuing 28,600 new shares in connection with the exercise of conversion rights as part of the incentive program for senior executives. The exercise periods for the program that has since been closed expired in June 2004.

With the approval of the supervisory board, the management board is authorized to increase the Company's share capital once or several times until May 16, 2007 by a maximum amount of KEUR 6,240 in total by issuing up to 2,400,000 new individual bearer shares and/or preference shares without voting rights for contributions in cash (authorized capital I). The shareholders must be granted subscription rights. The management board is authorized, with the approval of the supervisory board, to preclude any fractional amounts arising shareholders' statutory subscription rights.

With the approval of the supervisory board, the management board is authorized to increase the Company's share capital once or several times until May 18, 2009 by a maximum amount of KEUR 1,560 in total by issuing up to 600,000 new individual bearer shares and/or preference shares without voting rights for contributions in cash (authorized capital II). The shareholders must be granted subscription rights.

The management board is, however, authorized, with the approval of the supervisory board, to exclude fractional amounts from the subscription rights. Furthermore, the management board is authorized with the approval of the supervisory board to preclude the shareholders' subscription rights if the issue price of the new shares does not fall materially short of the market price of shares already listed in the same category at the time when issue price is finalized.

The annual general meeting on May 19, 2004 passed a resolution for a conditional increase of share capital by issuing up to 300,000 new ordinary bearer shares without par value and the corresponding addition to the articles of incorporation and bylaws (share capital, conditional capital). Accordingly, the management board is authorized with the approval of the supervisory board to issue interest-bearing convertible bonds, once or several times, up to a total nominal value of KEUR 780 with a maximum contractual life of five years. These entitle the purchaser to acquire shares of BÖWE SYSTEC Aktiengesellschaft in accordance with the bond conditions. The statutory subscription right of the shareholders is precluded.

As of December 31, 2004, BÖWE SYSTEC Aktiengesellschaft held 7,856 treasury shares (KEUR 299) which were all sold during the fiscal year 2005.

Regarding the reporting duty pursuant to Sec. 21 (1) WpHG ['Wertpapierhandelsgesetz': German Securities Trading Act] the Company received the following announcements:

WANDERER-WERKE AKTIENGESELLSCHAFT announced pursuant to Sec. 21 (1) WpHG most recently on April 5, 2002 that it holds 53.52% of the voting capital of BÖWE SYSTEC Aktiengesellschaft.

Capital Research and Management Company, Los Angeles, USA, announced pursuant to Sec. 21 (1) WpHG that on January 22, 2004 its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft exceeded the 5% threshold and now amounts to 5.15% (equivalent to 336,745 votes). All these voting rights are allocated to it pursuant to Sec. 22 (1) Sentence 1 No 6 WpHG in conjunction with Sec. 22 (1) Sentence 2 and Sentence 3 WpHG. Accordingly, The Capital Group Companies, Inc., Los Angeles, USA, ultimate parent of Capital Research and Management Company, Los Angeles, USA, announced pursuant to Sec. 21 (1) WpHG that on January 22, 2004 its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft exceeded the 5% threshold and now amounts to 5.15% (equivalent to 336,745 votes). All these voting rights are allocated to it pursuant to Sec. 22 (1) Sentence 1 No 6 WpHG in conjunction with Sec. 22 (1) Sentence 2 and Sentence 3 WpHG. The Capital Group Companies, Inc., Los Angeles, USA, announced on August 4, 2005 pursuant to Sec. 21 (1) WpHG that its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft fell short of the 5% threshold on July 28, 2005 and now amounts to 4.319%. These voting rights are allocated to it pursuant to Sec. 22 (1) Sentence 1 No 6 WpHG in conjunction with Sentence 2 and Sentence 3 WpHG.

On October 4, 2005 Financiere de L'Echiquier, Paris, France, announced pursuant to Sec. 21 (1) WpHG that on August 12, 2005 its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft exceeded the 5% threshold and now amounts to 5.198%.

On October 5, 2005 Bestinver Gestion, S.A., Madrid, Spain, announced pursuant to Sec. 21 (1) WpHG that on September 26, 2005 its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft exceeded the 5% threshold and now amounts to 5.396%.

20. Capital reserve

The capital reserve primarily contains premiums from the issue of shares. As conversion rights would have arisen from the convertible bonds issued in October 2005 due to the price development of the share of BÖWE SYSTEC Aktiengesellschaft on the one hand and the S-DAX on the other as of December 31, 2005, the imputed value of the conversion rights was accounted for as an equity component.

21. Treasury shares

	KEUR
As of January 1, 2005	299
Sale during the fiscal year	-299
As of December 31, 2005	0

The treasury shares were acquired to exercise part of the authorization of the annual general meeting for the fiscal year 2003 and have since been sold on the stock exchange.

22. Income and expenses recognized directly in equity

The table below shows the development of income and expenses recognized directly in equity and the related tax effect:

	2005			2004		
	before taxes	tax effect	Net	before taxes	tax effect	Net
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Net gains/losses (-) from derivatives, total	-387	100	-287	-36	10	-26
Change in actuarial net gains and losses from pension provisions	-3,636	930	-2,706	-795	245	-550
Exchange rate difference	5,696	0	5,696	-15,269	0	-15,269
Changes in accumulated other comprehensive income	1,673	1,030	2,703	-16,100	255	-15,845



23. Financial instruments

Due to its international operations, the BÖWE SYSTEC Group is generally exposed to currency risks, interest, liquidity and credit risks.

Credit risk

The credit risk of financial assets is taken into account through adequate valuation allowances considering existing collateral. Various hedging measures are taken to reduce the credit risk for primary financial instruments, such as requesting collateral or guarantees.

Currency risk

Currency risks from current receivables, liabilities and debts as well as from highly likely future transactions are generally hedged with forward exchange contracts and currency options. Hedges for value fluctuations in future cash flows from anticipated highly likely transactions mainly relate to planned sales in foreign currency.

Interest risk

To manage the market risk for changes in interest rates of existing and anticipated variable-rate liabilities to banks, the Company entered into interest swaps and interest caps with maturities until 2012.

Liquidity risk

Unused credit lines at the disposition of the Group ensure that it has sufficient funds.

Fair value

The financial instruments of the Group not accounted for at fair value mainly consist of cash equivalents, trade receivables, trade payables and other liabilities, overdraft facilities and long-term loans.

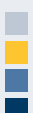
The carrying amount of cash equivalents and the overdraft facilities approximates fair value due to the high liquidity of the instruments. The fair value of receivables and payables based on the customary terms of trade also approximates their carrying amount at historical cost.

The fair value of non-current liabilities is based on the current interest rate for borrowing at similar terms and conditions with the same due date and credit rating. At present the fair value of debt capital corresponds closely to the net carrying amount.

The fair value of the derivative financial instruments was estimated using the following methods and assumptions:

The fair values of currency swaps were estimated as the present value of cash flows on the basis of the difference between the contractually agreed exchange rates and forward rate prevailing on the balance sheet date. The fair values of the interest hedges are estimated as the discounted value of expected future cash flows.

Depending on their fair value on balance sheet date, derivative financial instruments are reported under other assets or other liabilities respectively.



The nominal and market values of derivative financial instruments (hedges) are as follows as of the balance sheet date:

		December 31, 2005			
		Nominal volume Total	Due in more than 1 year	Attributable fair value (other assets)	Attributable fair value (other liabilities)
Currency		KEUR	KEUR	KEUR	KEUR
Forward ex. transactions	USD	14,441	0	0	760
Forward ex. transactions	EUR	14,937	1,240	0	893
Forward ex. transactions	other	3,505	0	0	18
Foreign currency options	USD	13,681	0	0	225
Interest swaps	EUR	6,000	4,000	0	47
Interest swaps	USD	46,453	25,334	1,021	0
CAPs	EUR	8,080	5,760	0	70
CAPs	USD	21,115	8,446	252	0
Call-/Put options				717	0
Embedded derivate				0	2,591
Total				1,990	4,604
- of which short term				717	4,488
- of which long term				1,273	116
				1,990	4,604

The nominal volume is the imputed volume from which the related cash flows. The risk stems therefore not from the nominal values but from the related changes in exchange rates and interest rates.

In the fiscal year 2004 there was a call/put option on the minority interests in BÖWE BELL + HOWELL Holdings Inc., USA. In the fiscal years 2004 and 2005 there were also a call/put option on the minority interests in Lasermax Roll Systems AB, Sweden. The call/put options were measured by comparing the business enterprise value with the exercise price determined on the basis of the rulings of the option agreement; the resulting value of the option is discounted as of the valuation date. The calculation is based on the plans available at the valuation date.

The residual purchase price from the purchase of shares in BÖWE BELL + HOWELL Holdings Inc., USA, will be financed by the previous minority shareholder until 2009.

December 31, 2004

Nominal volume Total	Due in more than 1 year	Attributable fair value (other assets)	Attributable fair value (other liabilities)
KEUR	KEUR	KEUR	KEUR
1,085	0	134	0
0	0	0	0
254	0	39	0
0	0	0	0
8,000	6,000	0	122
21,537	21,537	128	0
10,400	8,080	0	89
10,998	10,998	46	0
		11,103	0
		0	0
		11,450	211
		11,276	0
		174	211
		11,450	211

The seller receives a fixed rate of interest and an additional yield. The additional yield is based on the percentage rate by which the BÖWE SYSTEC share price at the end of the 1st quarter of 2009 exceeds a certain threshold value. Pursuant to IAS 39 the additional yield represents an embedded derivative which is initially measured at market value. Subsequently, the embedded derivative is taken to profit and loss at fair value.

24. Statements of changes in non-current assets

Group non-current assets developed as follows:

STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2005

	ACCUMULATED COST						Dec. 31, 2005
	Jan. 1, 2005	Enlargement consolidated Group	Exchange difference	Additions	Disposals	Re-classifications	
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	
Intangible assets							
Goodwill	78,149	71,876	19,038	1,596	0	0	170,659
Internally generated intangible assets							
Capitalized development costs	1,895	660	202	5,817	154	0	8,420
Other intangible assets							
Trademarks and patents	25,701	41,892	10,303	3,112	0	0	81,008
Client base	15,876	15,876	4,840	3,310	0	0	39,902
Other intangible assets	5,415	2,035	622	94	38	9,819	17,947
	127,036	132,339	35,005	13,929	192	9,819	317,936
Property, plant and equipment							
Land and buildings including buildings on third-party land	19,563	1,193	365	154	0	3,641	24,916
Technical equipment and machines	15,893	3,469	1,059	633	2,321	185	18,918
Leased assets	2,196	0	0	950	274	0	2,872
Other equipment, fixtures and furniture:	28,419	8,004	2,458	1,869	1,205	-8,635	30,910
Payments on account and assets under construction	623	600	183	7,297	0	-5,010	3,693
	66,694	13,266	4,065	10,903	3,800	-9,819	81,309
Investment property	9,507	0	0	0	0	0	9,507
	203,237	145,605	39,070	24,832	3,992	0	408,752

ACCUMULATED DEPRECIATION AND IMPAIRMENTS							CARRYING AMOUNTS	
Jan. 1, 2005	Enlargement consolidated Group	Exchange differences	Additions	Disposals	Re-classifications	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
11,785	0	14	523	0	0	12,322	158,337	66,364
104	0	0	601	46	0	659	7,761	1,791
734	735	224	1,018	0	0	2,711	78,297	24,967
4,536	4,536	1,533	5,397	0	0	16,002	23,900	11,340
4,828	1,594	336	91	33	5,948	12,764	5,183	587
21,987	6,865	2,107	7,630	79	5,948	44,458	273,478	105,049
3,581	555	170	962	0	14	5,282	19,634	15,982
9,468	1,290	394	2,646	1,449	-14	12,335	6,583	6,425
970	0	0	334	265	0	1,039	1,833	1,226
19,975	3,112	967	7,770	1,058	-5,948	24,818	6,092	8,444
0	0	0	0	0	0	0	3,693	623
33,994	4,957	1,531	11,712	2,772	-5,948	43,474	37,835	32,700
3,505	0	0	308	0	0	3,813	5,694	6,002
59,486	11,822	3,638	19,650	2,851	0	91,745	317,007	143,751

STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2004

	ACCUMULATED COST					Dec. 31, 2004 KEUR
	Jan. 1, 2004	Exchange difference	Additions	Disposals	Re-classifications	
	KEUR	KEUR	KEUR	KEUR	KEUR	
Intangible assets						
Goodwill	77,357	-4,520	5,312	0	0	78,149
Internally generated intangible assets						
Capitalized development costs	0	0	1,895	0	0	1,895
Other intangible assets						
Trademarks and patents	27,812	-2,111	0	0	0	25,701
Client base	17,180	-1,304	0	0	0	15,876
Other intangible assets	9,025	-171	274	3,713	0	5,415
	131,374	-8,106	7,481	3,713	0	127,036
Property, plant and equipment						
Land and buildings including buildings on third-party land	22,141	-56	817	3,339	0	19,563
Technical equipment and machines	15,333	-250	1,274	414	-50	15,893
Leased assets	1,654	0	644	102	0	2,196
Other equipment, fixtures and furniture:	31,460	-853	3,198	5,441	55	28,419
Payments on account and assets under construction	386	-29	271	0	-5	623
	70,974	-1,188	6,204	9,296	0	66,694
Investment property	9,507	0	0	0	0	9,507
	211,855	-9,294	13,685	13,009	0	203,237

ACCUMULATED DEPRECIATION AND IMPAIRMENTS						CARRYING AMOUNTS	
Jan. 1, 2004	Exchange differences	Additions	Disposals	Re-classifications	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
7,574	-112	4,323	0	0	11,785	66,364	69,783
0	0	104	0	0	104	1,791	0
397	-30	367	0	0	734	24,967	27,415
2,454	-186	2,268	0	0	4,536	11,340	14,726
8,100	-133	574	3,713	0	4,828	587	925
18,525	-461	7,636	3,713	0	21,987	105,049	112,849
3,620	-3	1,305	1,341	0	3,581	15,982	18,521
7,781	-25	2,116	400	-4	9,468	6,425	7,552
683	0	304	17	0	970	1,226	971
21,118	-339	1,972	2,780	4	19,975	8,444	10,342
0	0	0	0	0	0	623	386
33,202	-367	5,697	4,538	0	33,994	32,700	37,772
3,198	0	307	0	0	3,505	6,002	6,309
54,925	-828	13,640	8,251	0	59,486	143,751	156,930

VIII. Other notes

25. Segment reporting

Geographical segments are the primary format for the segment reporting of the Group as the risks and equity yield of the Group is influenced by differences in the various geographical regions. The Mailroom Management segment represents the secondary segment reporting format.

The geographical segments of the Group are determined according to the location of the Group's assets. The Group is divided into the following geographical segments: Germany | Europe (Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom) | USA (USA and Canada) | Rest of World (Australia and Japan).

Sales to external customers disclosed in the geographical segments are allocated to the various territories on the basis of the location of the assets.

The detailed segment results are available on pages 54/55.

26. Notes to the consolidated cash flow statement

Cash and cash equivalents consist of liquid funds (EUR 15.8 million) as well as overdraft facilities (EUR 15.2 million).

To purchase additional shares in BÖWE BELL + HOWELL Holdings Inc., USA, payments of EUR 37.4 million were made, and to take over a company in the USA (BCC Software Inc.) payments of EUR 3.3 million. For information about the cash and cash equivalents and the purchased assets and liabilities we refer to the explanations in "III. Consolidated Group".

27. Operating leases

The Group as lessor

The Group has entered into rent agreements for the commercial rental of its investment properties. These rental agreements have a non-cancellable residual rental period of one year. All the rent agreements contain a clause according to which the rent can be adjusted annually based on the prevailing market conditions.

In addition, the Group has lease agreements for the commercial lease of BÖWE SYSTEC products. These lease agreements have a non-cancellable residual lease period of between one and five years. There are no price adjustment clauses.

As of the balance sheet date, the receivables from future minimum lease payments on account of non-cancelable operating leases break down as follows:

	2005	2004
	KEUR	KEUR
Within one year	1,371	695
After one year but not more than five years	3,143	3,348
More than five years	0	0
	4,514	4,043

The Group as lessee:

Operating leases relate in particular to rent for certain office properties of the Group. In addition, the Group has entered into leases on various vehicles and technical equipment. The leases expire at various points in time between 2006 and 2016. There are no purchase options upon expiry of the lease neither for the rented buildings nor the leased vehicles and technical equipment.

At balance sheet date obligations from operating leases are as follows:

	2005	2004
	KEUR	KEUR
Within one year	9,853	7,929
After one year but not more than five years	25,938	20,908
More than five years	18,090	18,026
	53,881	46,863

Lease payments of KEUR 12,511 (prior year: KEUR 10,678) were recorded as an expense in fiscal 2005.

28. Other financial obligations

Apart from the obligations from operating leases (Group as lessee) there are no additional material other financial obligations.

29. Contingent liabilities

At balance sheet date contingent liabilities are as follows:

	2005	2004
	KEUR	KEUR
Liabilities on bills accepted and drawn	809	202
Liabilities from guarantees and warranties	192	557
Contingent liabilities from the provision of collateral for third-party liabilities	767	1,023
	1,768	1,782

30. Related party disclosures

For information regarding the financial statements of BÖWE SYSTEC Aktiengesellschaft and its subsidiaries included in the consolidated financial statements we refer to the list of shareholdings.

The parent company of BÖWE SYSTEC Aktiengesellschaft, which prepares the consolidated financial statements for the largest Group of companies, is WANDERER-WERKE AKTIENGESELLSCHAFT, Augsburg.

Goods and service transactions

In the course of the fiscal year, the Group entities carried out the following transactions with related parties which do not belong to the Group:

		Revenue from sales and other income	Purchase of goods and other expenses	Amounts owed by related parties	Amounts owed to related parties
		KEUR	KEUR	KEUR	KEUR
Ultimate parent company					
– WANDERER-WERKE AG	2005	277	3,277 ²⁾	563 ¹⁾	64
	2004	283	3,156 ²⁾	4,559 ¹⁾	0
Joint ventures					
– BÖWE BELL + HOWELL Holdings Inc.	2004	10,125	0	4,290	429
– Lasermax Roll Systems AB	2005	236	0	0	0
	2004	52	52	0	0
Other Transaktions					
– WANDERER-WERKE Beteiligungs- und Verwaltungs GmbH, Augsburg	2005	870	0	12,424 ¹⁾	0
	2004	870	0	12,424 ¹⁾	0
– BÖWE Garment Care Systems (Aust), PTY, Ltd., Sydney, Australia	2005	78	0	827	0
	2004	88	0	914	0

¹⁾ Loans granted at market conditions.

²⁾ This item mainly consists of rent expenses.

Remuneration of management board and supervisory board members:

The members of the **management board** of BÖWE SYSTEC Aktiengesellschaft in fiscal year 2005 were:

Dr. Claus Gerckens Augsburg
Chairman Spokesman of the management board of WANDERER-
WERKE AKTIENGESELLSCHAFT

supervisory board offices or similar offices:

EUROKAI KGaA, Hamburg
Lasermax Roll Systems AB, Ljungby, Sweden,
Chairman

Michael Meyer Neusäß
Deputy Chairman

The remuneration of the management board consists of a basic salary and a variable component linked to profit. Total remuneration for the management board in the fiscal year 2005 amounted to KEUR 807. This contains fixed salaries of KEUR 448, performance-based components of KEUR 350 and incidental payments of KEUR 9. Furthermore, expenses of KEUR 208 for additions to pension provisions were recorded.

Former managers of the legal predecessor of BÖWE SYSTEC Aktiengesellschaft were paid KEUR 37 in 2005 (prior year: KEUR 36). Pension commitments covered by provisions for current and future pension claims of former members of the management board and former general managers of the legal predecessor amounted to KEUR 328 (prior year: KEUR 351) (current value pursuant to Sec. 6a EStG ['Einkommensteuergesetz': German Income Tax Act]).

In the fiscal year 2005 the **supervisory board** of BÖWE SYSTEC Aktiengesellschaft comprised:

Johannes Beelen Solingen
Chairman Former director of ZWILLING J.A. Henckels AG,
Solingen
other supervisory board offices or similar offices:
Jaguar Stahlwarenfabrik GmbH & Co., Solingen
RWL Verwaltungs- und Beteiligungs-AG, Berlin
Rheinische Grundbesitz AG, Mülheim an der Ruhr
Meridio Vermögensverwaltung AG, Cologne
(Chairman)

Dr. Hans-Joachim Röhler Burgwedel
Deputy Chairman Lawyer
other supervisory board offices or similar offices:
EUROKAI KGaA, Hamburg (Chairman)
Waltershof Peute Hafen Betriebs-GmbH, Hamburg
EUROGATE GmbH & Co. KGaA, KG, Bremen
J. Müller GmbH & Co. KG, Brake

Prof. Dr. Dres. h.c. Adolf G. Coenenberg	Stadtbergen Chair of business administration audit and controlling at the University of Augsburg <u>other supervisory board offices or similar offices:</u> Carl Zeiss AG, Oberkochen Forum Verlag Herkert GmbH, Merching (Chairman)
Prof. Dr. h.c. Rolf-Dieter Leister	Sursee, Switzerland Business consultant <u>other supervisory board offices or similar offices:</u> Deutsche Beteiligungs AG, Frankfurt/Main (Deputy Chairman) DaimlerChrysler Services AG, Berlin Südwestdeutsche Medien Holding GmbH, Stuttgart
Claus-D. Bunk Employee representative	Schwabmünchen Chairman of the works' council of BÖWE SYSTEC Aktiengesellschaft, Augsburg <u>other supervisory board offices:</u> WANDERER-WERKE AKTIENGESELLSCHAFT, Augsburg
Alfred Seifert Employee representative	Augsburg Deputy Chairman of the works' council of BÖWE SYSTEC Aktiengesellschaft, Augsburg

The remuneration of the **supervisory board** is regulated in Art. 14 of the articles of incorporation of BÖWE SYSTEC Aktiengesellschaft and contains two components:

- A fixed component of EUR 1,500 annually for all members of the supervisory board,
- a variable component dependent on the net dividend paid out in accordance with the dividend resolution of the annual general meeting and which amounts to EUR 13,800 for each supervisory board member in fiscal 2005. The deputy chairman and chairman receive 1.5 times or 2.0 times the total remuneration described above respectively.

The statutory remuneration of the supervisory board for the past fiscal year thus totaled KEUR 104 (prior year: KEUR 101). In addition, Mr. Beelen received a payment of KEUR 25 for consulting services rendered by him personally.

31. Subsequent events

There were no events after closure of the fiscal year 2005 which would be significant for assessing the net assets, financial position and results of operations of the BÖWE SYSTEC Group.

32. Additional disclosure requirements for German parent companies in the IFRS consolidated financial statements pursuant to Sec. 315a HGB

Average headcount during the year:

	Group	
	2005	2004
Wage earners	1,492	982
Salaried employees	2,063	1,622
Senior executives	23	17
	3,578	2,621

Corporate Governance

The management board and supervisory board of BÖWE SYSTEC Aktiengesellschaft hereby declare that they have issued the declaration required by Sec. 161 AktG ['Aktiengesetz': German Stock Corporation Act] and made it available to the shareholders.

Auditing and advisory expenses

The fee of the Group auditor recorded as an expense for the fiscal year for the audits of the individual and consolidated financial statements amounts to KEUR 268, for tax advisory services KEUR 3 and for other services provided for the parent company or subsidiaries KEUR 6.

33. First-time adoption of IFRS

Due to the adjustments of prior-year figures, the first-time adoption of International Financial Reporting Standards leads to variances between the consolidated equity and Group net profit for the comparative period pursuant to IFRS and the HGB figures disclosed for this period.

The conversion of Group accounting from HGB to IFRS is generally performed retrospectively. When preparing the notes to the consolidated financial statements for the first time pursuant to IFRS, BÖWE SYSTEC used accounting conveniences in the areas business combinations (IFRS 3), employee benefits (IAS 19), valuation of property, plant and equipment (IAS 16) and effects of changes in foreign exchange rates (IAS 21). The rules of IFRS 3 were already adopted voluntarily from January 1, 2003. The resulting differences between the balance sheet figures of the consolidated financial statements prepared pursuant to HGB as of December 31, 2003 and the opening balance sheet prepared according to IFRS as of January 1, 2004 were considered in the reserves directly in equity.

Pursuant to IFRS 1, Group equity and profits pursuant to HGB are reconciled to Group equity and profit pursuant to IFRS.

	Dec. 31. 2004	Jan. 1. 2004
	KEUR	KEUR
Equity including minority interests according to HGB	99,640	94,902
a) Capitalization of development costs	1,791	0
b) Change in depreciation periods and methods for property, plant and equipment	524	1,624
c) Write-up of property, plant and equipment "at deemed cost"	1,866	1,901
d) Recognition of fair value of options	11,103	0
e) Impairment of goodwill	-2,530	-2,197
f) Cancellation of scheduled amortization of goodwill	6,700	0
g) Recognition of amortization of client base	-2,488	0
h) Change in carrying amount of inventories	-49	586
i) Capitalization of transaction costs in connection with borrowing	1,730	616
j) Repurchase of treasury shares by subsidiaries	0	15,869
k) Measurement of receivables and liabilities denominated in foreign currency	1,212	5,663
l) Revaluation of provisions, esp. post-employment and healthcare obligations	-395	-5,325
m) Leases	3,051	1,545
n) Adjustment capital consolidations	-12,227	-12,227
o) Deferred tax effects	1,267	7,960
p) Other adjustments	-2,100	78
Equity including minority interests pursuant to IFRS	109,095	110,994

	2004
	KEUR
Profit according to HGB	17,500
a) Capitalization of development costs	1,791
b) Change in depreciation periods and methods for property, plant and equipment	-1,100
c) Write-up of property, plant and equipment "at deemed cost"	-35
d) Recognition of fair value of options	11,103
e) Impairment of goodwill	-333
f) Cancellation of scheduled amortization of goodwill	6,700
g) Recognition of amortization of client base	-2,488
h) Change in carrying amount of inventories	-635
i) Capitalization of transaction costs for borrowing	1,114
j) Repurchase of treasury shares by subsidiaries	-15,869
k) Measurement of receivables and liabilities denominated in foreign currency	-4,451
l) Revaluation of provisions, esp. pension provisions and healthcare obligations	5,607
m) Leases	1,506
n) Deferred tax effects	-7,157
o) Other adjustments	-2,326
Profit according to IFRS	10,927

Explanation of the items in the reconciliation statement:

- a) As of December 31, 2004, development costs were capitalized for the first time according to IAS 38 while as of January 1, 2004 the criteria pursuant to IAS 38 for the capitalization of development costs were not satisfied.
- b) According to IFRS depreciation of property, plant and equipment is charged using the straight-line method of depreciation. The useful lives were adjusted individually.
- c) As of January 1, 2004 use was made of the option pursuant to IFRS whereby certain items of property, plant and equipment are measured at "deemed cost". The revaluation relates to owner-occupied land of the BÖWE SYSTEC Group.



d) The options to purchase shares in BÖWE BELL + HOWELL Holdings Inc. were accounted for pursuant to IAS at their fair value while according to HGB they were not recognized. We refer to our comments on "Financial instruments".

e) Based on the impairment testing, goodwill was impaired as follows at the time of the conversion:

	Jan 1, 2004
	KEUR
Cash-generating unit:	
Secumail	935
Switzerland	923
Denmark	339

As regards the procedure, we refer to the explanations in "Impairment of goodwill and indefinite lived intangible assets" in the notes above.

f) In accordance with IFRS 3, goodwill was no longer subject to scheduled amortization from January 1, 2003.

g) The "client base" (KEUR 14,726) disclosed under intangible assets following the retrospective adoption of IFRS 3 as of January 1, 2003 is amortized over a period of 6 years. These assets were not disclosed separately in the HGB financial statements.

h) This pertains in particular to the elimination of the LIFO measurement method used previously which is not in line with measurement pursuant to IAS 2.

i) Costs incurred in connection with borrowing are recognized according to IAS 39 as transaction costs. The reversal is made using the effective interest method.

j) The income disclosed in the HGB financial statements in the fiscal year 2004 from the repurchase of preference shares by BÖWE BELL + HOWELL Holdings Inc., USA, made possible by the refinancing of BÖWE BELL + HOWELL Holdings Inc., USA, was already taken into account in the first-time consolidation of BÖWE BELL + HOWELL Holdings Inc., USA, as of January 1, 2003 in accordance with IFRS 3.

k) According to the imparity principle, only unrealized losses were considered in the HGB financial statements while unrealized profits were not carried. In the IFRS financial statements all receivables and liabilities are denominated in foreign currency at the closing rate as of the balance sheet date.

l) The pension obligations and healthcare obligations were calculated for the first time using the projected unit credit method and taking in account future salary and cost developments and a market interest rate, leading to an increase in the provisions at the time of the conversion. As of December 31, 2004, provisions for obligations from healthcare costs of KEUR 4,261 were reversed as the amount likely to be utilized was estimated very conservatively in the commercial financial statements in accordance with the prudence principle of Sec. 252 HGB.

m) An adjustment to the rules of IAS 17 was carried out in particular for lease agreements under which BÖWE SYSTEC Group is lessor of finance leases.

n) Making use of the option of IFRS 1, the rules of IFRS 3 were applied retrospectively as of January 1, 2003. The purchase price allocation in the course of the first-time consolidation of BÖWE BELL + HOWELL Holdings Inc., USA, resulted in a reduction in goodwill because, contrary to the assessment under German commercial law, certain assets are disclosed separately.

o) As of January 1, 2004, deferred tax assets were recorded on unused tax losses and on differences between the tax carrying amounts and the carrying amounts pursuant to IFRS.

Notes on the cash flow statement:

The main adjustments in the cash flow statement relate on the one hand to the composition of cash and cash equivalents. This item contains cash and overdraft facilities. On the other hand, the liabilities from lease agreements were now allocated to the financing activities whereas under HGB they had been included in operating activities.

Augsburg, March 23, 2006

BÖWE SYSTEC Aktiengesellschaft

Management Board



AUDIT OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit opinion

We have issued the following opinion on the consolidated financial statements and the Group management report:

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

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

Our audit has not led to any reservations.

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

Hamburg, March 23, 2006

Ernst & Young AG

Wirtschaftsprüfungsgesellschaft

Ludwig
[German Public Auditor]

Höschen
[German Public Auditor]



BALANCE SHEET OF BÖWE SYSTEC AG ACCORDING TO HGB

	2005	2004
	KEUR	KEUR
ASSETS		
A. FIXED ASSETS		
1. Intangible assets	354	427
2. Property, plant and equipment	10,119	10,438
3. Financial assets	162,118	120,814
	172,591	131,679
B. CURRENT ASSETS		
1. Inventories	23,296	24,290
2. Receivables and other assets	42,767	40,561
3. Securities	0	300
4. Cash	193	19,930
	66,256	85,081
C. PREPAID EXPENSES	201	180
	239,048	216,940

	2005	2004
	KEUR	KEUR
EQUITY AND LIABILITIES		
A. EQUITY		
1. Subscribed capital	17,160	17,160
2. Capital reserve	44,169	44,169
3. Revenue reserves	20,190	20,190
4. Retained earnings	18,774	17,604
	100,293	99,123
B. ACCRUALS		
1. Accruals for pensions and similar obligations	4,286	4,185
2. Other accruals	8,607	7,650
	12,893	11,835
C. LIABILITIES		
1. Bonds	290	139
2. Profit participation rights	36,000	28,000
3. Liabilities to banks	67,291	54,513
4. Other financial liabilities	15,000	15,000
5. Trade payables	1,457	702
6. Other liabilities	5,824	7,628
	125,862	105,982
	239,048	216,940



INCOME STATEMENT 2005 ACCORDING TO HGB

BÖWE SYSTEC AG	2005	2004
	KEUR	KEUR
1. Sales	77,235	79,017
2. Increase or decrease in finished goods and work in process	-746	-1,848
3. Own work capitalized	376	114
4. Other operating income	2,904	2,497
5. Cost of materials	-24,848	-23,554
6. Personnel expenses	-33,033	-36,608
7. Amortization of intangible assets and depreciation of property, plant and equipment	-1,616	-1,952
8. Other operating expenses	-14,090	-15,418
9. Investment result	11,187	14,069
10. Amortization of financial assets	-770	-1,386
11. Interest result	-6,155	-4,605
12. Result from ordinary activities	10,444	10,326
13. Income taxes	-686	-783
14. Other taxes	-18	-23
15. Net income for the year	9,740	9,520
16. Profit carried forward from prior year	9,034	8,084
17. Retained earnings	18,774	17,604



LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2005

Entity, location	Share %	Currency	Nominal capital in LC	Equity as of Dec. 31, 2005 (KEUR 1)
Direct investments				
BÖWE SYSTEC Beteiligungs- und Verwaltungs GmbH, Augsburg	100	EUR	28,121,053.00	28,121 1)
TMF Grundbesitz- und Beteiligungs-Verwaltungs-GmbH, Villingen-Schwenningen	20	EUR	2,045,168.00	2,688 2), 4)
BÖWE SYSTEC INTERNATIONAL GmbH, Augsburg	100	EUR	6,000,000.00	134,289 1)
BÖWE Cardtec GmbH, Paderborn	100	EUR	265,000.00	1,352
BÖWE Systems GmbH, Augsburg	100	EUR	1,000,000.00	858
BÖWE SYSTEC AUSTRALIA PTY, Ltd., Sydney, Australia	100	AUD	5,300,000.00	83
BÖWE SYSTEC BENELUX B.V., Apeldoorn, Netherlands	100	EUR	436,000.00	3,068 1)
BÖWE SYSTEC S.A., Fontenay sous Bois Cedex, France	100	EUR	840,000.00	6,698
BÖWE SYSTEC S.p.A., Rome, Italy	100	EUR	3,300,000.00	3,395
BÖWE SYSTEC JAPAN Ltd., Tokyo, Japan	100	JPY	400,000,000.00	3,843
BÖWE SYSTEC AUSTRIA GmbH, Vienna, Austria	100	EUR	50,000.00	1,056 1)
BÖWE SYSTEC Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw, Poland	1	PLN	50,000.00	385 1), 4)
BÖWE SYSTEC S.A., Madrid, Spain	100	EUR	60,000.00	10,228 1)
BÖWE SYSTEC AB, Sundbyberg, Sweden	100	SEK	15,000,000.00	1,996 6)
Indirect investments				
BÖWE SYSTEC Vertriebs- und Service GmbH, Steinbach/Taunus	100	EUR	4,000,000.00	4,000 2)
TMF Grundbesitz- und Beteiligungs-Verwaltungs-GmbH, Villingen-Schwenningen	80	EUR	2,045,168.00	2,688 2), 4)
BÖWE SYSTEC Mailroom Communication GmbH, Augsburg	100	EUR	25,565.00	26 2)
BÖWE SYSTEC (Schweiz) AG, Volketswil, Switzerland	100	CHF	1,500,000.00	235
BÖWE SYSTEC (U.K.) Ltd., Bracknell, Great Britain	100	GBP	1,200,000.00	-3,212
BÖWE SYSTEC (IR) Ltd., Dublin, Ireland	100	EUR	101.00	-30
BÖWE SYSTEC AS, Oslo, Norway	100	NOK	500,000.00	47
Oy BÖWE SYSTEC AB, Helsinki, Finland	100	EUR	168,200.00	84 5)
BÖWE SYSTEC AS, Herlev, Denmark	100	DKK	600,000.00	111
BÖWE SYSTEC NEDERLAND B.V., Apeldoorn, Netherlands	100	EUR	169,000.00	-28 5)
N.V. BÖWE SYSTEC S.A., Merchtem, Belgium	100	EUR	124,000.00	1,859
Secumail N.V., Merchtem, Belgium	25	EUR	-	- 7)
Secuserv B.V., Apeldoorn, Netherlands	100	EUR	18,000.00	12
BÖWE SYSTEC CATALUNYA S.L., Barcelona, Spain	100	EUR	66,000.00	3,551
BÖWE SYSTEC Comércio de Equipamentos Para Escritório S.A., Lisbon, Portugal	100	EUR	225,000.00	1,443
SAS Action + Mailing Service, Brix, France	49	EUR	250,000.00	350 3), 4)
BÖWE SYSTEC Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw, Poland	99	PLN	50,000.00	385 1), 4)
InHouseService GmbH, Steinbach/Taunus	100	EUR	200,000.00	200 2)

Entity, location	Share %	Currency	Nominal capital in LC	Equity as of Dec. 31, 2005 (KEUR 1)
Sub-group financial statements of				
BÖWE BELL + HOWELL Holdings, Inc., Chicago, USA:	100	USD	1,000.00	179,745
BÖWE BELL + HOWELL, Inc., Chicago, USA				
BÖWE Systec Inc., Hauppauge, USA				
BÖWE Systec Inc., Coquitlam, Canada				
BÖWE BELL + HOWELL Company, Durham, USA				
BÖWE BELL + HOWELL International Ltd., Toronto, Canada				
BÖWE BELL + HOWELL Ltd., London, Great Britain				
BÖWE BELL + HOWELL Scanners LLC, Chicago, USA				
Blue Lake Software Inc., Chicago, USA				
BCC Software Inc., Rochester, USA				
BÖWE BELL + HOWELL Postal Systems Inc., Chicago, USA				
BÖWE BELL + HOWELL GmbH, Rosbach				
BÖWE BELL + HOWELL Mailmobile Company, Chicago, USA				
BÖWE BELL + HOWELL Financial Services Co., Chicago, USA				
BÖWE BELL + HOWELL Asset Placement Three, Inc., Chicago, USA				
BÖWE BELL + HOWELL Asset Placement Four, Inc., Chicago, USA				
Sub-group financial statements of				
Lasermax Roll Systems AB, Ljungby, Sweden:	50	SEK	25,000,000.00	8,607 4)
ROLL SYSTEMS Inc., Burlington, USA				
Lasermax Roll Systems Inc., Chicago, USA				
Lasermax Roll Systems Pte, Ltd., Singapore, Singapore				
Lasermax Roll Systems Ltd., Dorcan, Great Britain				
Lasermax Roll Systems NV, Sint-Niklaas, Belgium				

- 1) After deducting dividend distribution.
- 2) After deducting profit transfer due to profit and loss transfer agreement.
- 3) Cut-off date March 31. 2005.
- 4) In terms of 100% investment quota.
- 5) After profit transfer or loss absorption by the parent company.
- 6) After deducting loss absorbed from one subsidiary.
- 7) Current financial statements are not yet available.

The complete list of shareholdings is lodged at the commercial register of Augsburg.



GLOSSARY

ANV	The Account Number Verification module identifies every single document by means of a barcode, thus allowing every document to be traced from printing, inserting to dispatch.
BICOS	The BÖWE Interactive Control and Operating System is the operating and information system which ensures the smooth running of the whole process, thus guaranteeing that the documents are dispatched securely and reliably.
BIMAS	The BÖWE Integrated Mailingcenter Automation System is the brain of the BÖWE SYSTEC systems. The software enhances the efficiency and transparency of the machines and comprises three modular components: BICOS, ANV and MIS.
EBIT	Earnings Before Interest and Taxes.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
HGB	Handelsgesetzbuch – German Commercial Code.
Mailing Centers	Mailing centers are specialized service providers which use high-performance inserting systems to perform the mailing function for other companies.
Mailroom	The concentration of mail production of a company in a mailroom results in volumes of several thousand letters per hour and allows the use of high-performance BÖWE SYSTEC systems.
Mailroom Management	The umbrella term for all areas of software-supported processing of printed paper starting from the cutting into single sheets and the application of plastic cards via folding, assembling and inserting to the automatic filing of the filled envelopes in mailboxes.
MIS	The Management Information System is the overriding control system: it coordinates the data of all the interconnected BÖWE SYSTEC systems and forms the intelligent interface to upstream networks.
OMR, OCR	The reading technologies Optical Mark Recognition and Optical Character Recognition are based on industry standards and the use of state-of-the-art technologies. They allow the feeding of individual enclosures for the various customers and the process of reading and dispatching the documents recorded with the greatest precision.
Pre- and post-solutions	High-performance paper handling systems such as unwinders and upwinders that are linked before and after a digital printer.
VDMA	Verband Deutscher Maschinen- und Anlagenbau e. V. – German mechanical engineering and plant construction association.

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FINANCIAL CALENDAR

April 5, 2006	Press briefing on annual results in Munich
April 5, 2006	DVFA analysts' conference in Frankfurt am Main
April 6, 2006	Road show in London and Frankfurt
April 11, 2006	Road show in Paris
May 16, 2006	Interim report/2006
June 1, 2006	Annual general meeting, Augsburg
June 2, 2006	Dividend payment for financial year 2005
August 10, 2006	Interim report II/2006 ■
November 14, 2006	Interim report III/2006
April 2007	Press briefing on annual result and Analysts' conference
June 2007	Annual general meeting 2006 in Augsburg

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