ANNUAL REPORT_ 2005

elexis

vision for automation

elexis at a glance

Summary	2005 € million	2004 € million
Incoming orders	152.7	136.3
Sales (net)	151.7	133.2
of which international in %	67.4	63.1
Gross profit	56.8	43.9
EBITDA	21.8	15.7
EBIT	18.3	11.6
EBIT-margin (in %)	*12.1*	*8.7*
EBT	16.1	9.2
Net income	10.6	7.2
Earnings per share in € (DVFA/SG)	1.15	0.78
Number of shares in circulation (in million)	9.2	9.2
Cash flow from operating activities	11.1	22.6*
Average capital employed	53.6	58.5
Key data as at 31.12.		
Working capital	8.8	4.4
Working capital excluding prepayments received	12.3	21.9
Long term liabilities to banks	13.0	16.2
Net liquidity	16.5	12.3
Shareholders' equity	39.8	29.6
Balance sheet total	116.9	116.1
Equity ratio (in %)	*34.0*	*25.5*
Employees (31.12 excluding apprentices)	763	731
Profitability data		
Return on shareholders' equity after tax (in %)	*26.6*	*24.3*
Return on capital employed (ROCE)	*34.1*	*19.8*

* Cash flow adjusted for the effect of long term financing = € 18.6 million

Annual Report 2005

elexis

vision for automation

Letter to the
SHAREHOLDERS

Dear Shareholders,

Together with you, our customers and our employees we can look back at an extraordinarily successful fiscal year. For the elexis Group, 2005 was a period of strong growth in incoming orders, sales and earnings. Above all, the ever increasing share of innovations and the further extension of the international business supported the organic expansion. In our branch products, which are less than four years old, are considered to be innovative. During the past year 40 % of the incoming orders were achieved with new products at elexis. Our Company has innovative and technologically leading products in all its business units. We are thus continuously expanding our strong and in part leading position in the markets in which we are active. At the same time we are exploiting the advantages of the global market. In 2005 elexis was present around the globe with 16 own service and sales companies as well as with four production facilities abroad. An additional subsidiary, EMG Automation (Beijing) Ltd., was prepared during the period under report and started operations on January 1, 2006 in Beijing. As a result, we were represented on site with our own employees worldwide in all relevant sales markets. In addition, more than 100 independent trading companies sold the products of elexis on a commission basis.

Substantial improvement in all relevant data

The elexis Group succeeded in improving all relevant data during the period under report. Earnings before interest and taxes (EBIT) grew by 58 % to € 18.3 million. During the past year the EBIT margin of 12.1 % exceeded significantly the target of up to ten percent, which had originally been planned for 2006. The net income increased by 47 % to € 10.6 million. On the basis of 9.2 million shares in circulation the earnings per share amounted to € 1.15 (DVFA/SG). The net income resulted in the increase of the equity ratio from 25.5 % in 2004 to 34.0 % as at December 31, 2005. Sales (+14 %) and incoming orders (+12 %) also increased considerably. The return on shareholders' equity after tax improved versus 2004 from 24.3 % to 26.6 %. The return on capital employed also developed positively. It jumped from 19.8 % in 2004 to 34.1 % in 2005. The development described here is attributable to sustainable profitable growth during the past three years.

Product innovations support growth

elexis considers itself to be a customer orientated and technology driven company. This is reflected in the high share of product innovations in incoming orders and sales. On the product side 2005 was characterised by further technical developments as well as by new developments. Our innovations assured attractive margins and increased the market entry barriers for competitors. The new products of elexis are in part subjected to many years of test phases before they are ready for the market and can be released for sale. For example, our customers from the steel industry tested the new quality control systems for three years before these were released at the end of 2004 for regular sale. These long test phases protect us from potential competitors. During the past year we invested € 7.8 million or 5.1 % of sales in research and development. These data also reflect the high value, which is placed on new and further developments at elexis.

With our more mature products, for example the web and strip guiding systems, we have high market shares, which render market entrance difficult for potential competitors. Our strong position in the various markets is, moreover, supported by many years of close relationships with our customers.

elexis is active internationally

elexis places major importance on lean structures with regard to production. We regularly ask the question whether it is more favourable to manufacture parts and components ourselves or to have them produced externally. At the same time we use the world market not only for sales but also produce abroad. elexis owns production facilities in North and South America, in India and in Japan. The Company is also active internationally with regard to purchasing. As a result of increased purchasing activities abroad we succeeded in more than compensating for the substantially increased raw material prices during the past year. These cost savings as well as a systematic working capital management enabled significant increases in productivity.

However, we also appreciate the advantages, which are offered by Germany. We continue to be convinced that our technological leadership can be expanded best from here. The elexis Group is indebted to its employees for the innovative and high technical level of our products. Particularly when equipment is required with a high level of quality on a custom-built basis or in small series, domestic development and production is best suited for international competition. Our employees are flexible, autonomous, extremely qualified and highly motivated. We should therefore like to express our thanks to them at this juncture.

Concentration on core business

elexis sold its subsidiary, AVITEQ GmbH, to the general managers, Mr. Wolfgang Finger and Mr. Achim Eicke, as at January 1, 2006. We wish Mr. Finger, Mr. Eicke and their employees every success in the future. The focussing on the core business sectors was finally concluded with the sale of AVITEQ. The elexis Group now consists only of business units, which are in a position to achieve further growth and an EBIT margin of at least ten percent. However, the basis was also created in 2005 for possible external growth. At the general meeting of shareholders, the shareholders also authorised the Management Board to increase the capital of elexis AG by up to 50 %. A possible repurchase of shares for the financing of an acquisition was also rendered possible by a corresponding global authorisation. Both capital measures are subject to the approval of the Supervisory Board. The solid level of liquid assets, the high operating cash flow (2005: € 11.1 million) and the global authorisations of the general meeting of shareholders put the elexis Group in the position to grow externally at any time, insofar as suitable acquisition possibilities are available. An acquisition must, however, fulfil three essential criteria; it must fit the core business sectors of elexis with regard to product portfolio and corporate culture; it must be able to earn in the medium term an EBIT margin of at least ten percent; and it must be able to be purchased at a reasonable value.

Thanks to our shareholders

We should like to express our profound thanks to our shareholders for the trust, which they have placed in us. As the owners of elexis AG you must have been satisfied with your investment during the past fiscal year. Together with our employees we wish as the Management Board to commit ourselves fully to ensuring that this shall also continue in the future.

Management Board

Siegfried Koepp, Chairman

Edgar M. Schäfer

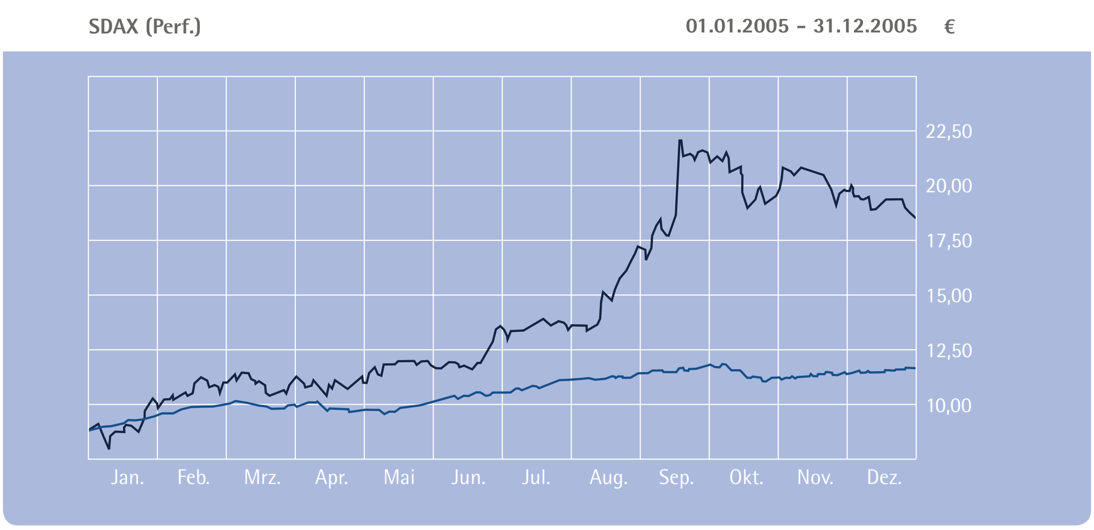
1.0_ The elexis share

Already on the first trading day of the fiscal year 2005 the share of elexis AG (ISIN: DE 000 508 500 5) registered an increase of more than three percent. During the total period under report the share price increased by 123 %. elexis thus held a top position in the SDAX, which increased by almost 36 % during the same period. The market capitalisation of the Group rose from € 76.3 million to € 170.2 million. The value of the elexis share was multiplied for the third year in a row. The above-average increase in the price of the elexis share was based in our opinion on the positive and profitable development of the operating business.

Summary of the elexis share

Stock market price (Xetra closing prices) in €	2005	2004
High	22.20	8.29
Low	7.53	3.11
Beginning of year	8.55	3.20
End of year	18.50	8.29
Number of shares (in million)	9.2	9.2
Market capitalisation 31.12. in € million	170.2	76.3

Shortly after each other the well-known private bank Berenberg as well as HSBC Trinkaus & Burkhardt in Düsseldorf took up the coverage of the elexis share with a buy recommendation in the summer of 2005. Thereafter there was a series of road shows with institutional investors including London, Paris, Zürich and Frankfurt/Main. The Management Board of elexis accompanied these visits with several discussions with influential financial journalists. In addition, the Company also participated in the shareholder's equity forum of Deutsche Börse AG as well as in a smaller analyst and investors' conference also in Frankfurt/Main. A large number of possibilities were thus used to inform both institutional as well as private investors comprehensively and transparently about the business model of the Company and its prospects. In the second half of the year the Landesbank Baden-Württemberg published an additional study on elexis and also gave a buy recommendation for the share.



2.0_Management report

2.1_The economic environment

The general economic conditions developed mainly favourably during the past year. The euro lost approximately twelve percent in value against the US dollar, which constituted a positive support for a predominantly export orientated company like elexis. At the same time the national economies of the most important markets for elexis grew strongly. For example, the gross domestic product in the United States increased by about three percent. The growth rates in Eastern Europe and Asia were substantially higher. The Chinese market, which is important for elexis, increased even by almost ten percent according to official information. The only negative aspect in the economic environment was the continuation of weak domestic growth. A recovery of the domestic economy would have had an additional positive influence on the sales, 80 % of which elexis achieved directly and indirectly abroad.

2.2_The individual divisions

Both the **Factory Automation, Steel and Printing** division as well as the **Factory Automation, Plastics** division achieved substantial growth with regard to all key data.

Factory Automation, Steel and Printing

The business development of Factory Automation, Steel and Printing was supported during 2005 by positive demand. In spite of the overall weak economic development in Germany, incoming orders increased also sharply domestically. In particular, export orientated customers of elexis increased their orders significantly. Substantial increases in demand were registered in the countries of Eastern Europe, in Asia, above all in the People's Republic of China, as well as in the United States.

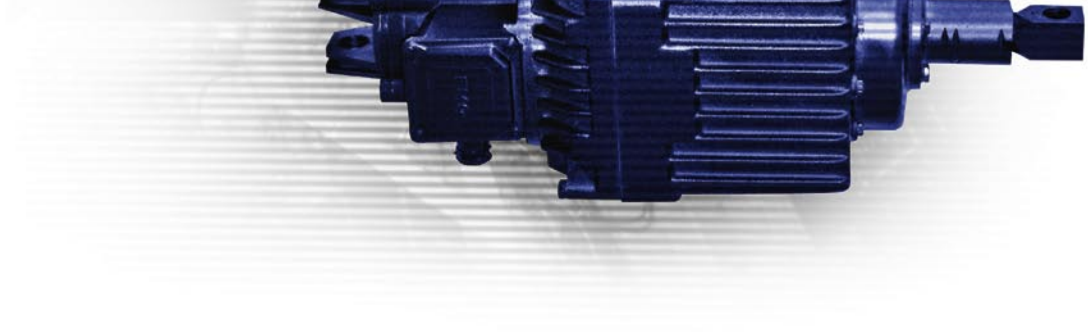
Economic key data for Factory Automation, Steel and Printing

During the period under report the strip guiding systems of Factory Automation, Steel and Printing benefited from their strong position in the market as well as the worldwide booming demand for steel sheet. This basic business, which has grown strongly, formed a solid base for the positive development of this division in 2005.

The introduction of the IMPOC and SORM 3plus quality control systems contributed to the further expansion of our leading position. The two systems for the contactless determination of the tear resistance and roughness of steel sheet have unique characteristics. In order to improve further the competitivity of the quality control systems and to position them even closer to the market, all activities connected with them were concentrated in a separate unit within the servo-technology profit centre. The quality control systems for the steel industry are one of the growth drivers in the product portfolio of the elexis Group.

In the printing sector growth was also supported above all by the quality control systems. The two new fault detection systems, PREMIUS digital with a 3 chip camera technology and the 100 % real-time SHARK system were thus positively accepted by the market.

We also registered extremely high growth in the transport technology business unit with the so-called electro-hydraulic brake thruster equipment ELDRO® and ELHY®. Worldwide approximately 45 % of all large cranes and conveyor systems, for example those used in freight harbours and in mining, are equipped with these systems. They protect the goods transported in the event of a possible power failure against uncontrollable



falling or further transport. The two ELDRO® and ELHY® systems benefited from the increase in world trade and the corresponding expansion of global harbour capacities. The worldwide volume of container freight has increased during the past few years at almost a two-digit rate of growth per annum. Experts are of the opinion that this trend will also continue in 2006.

Overall the Factory Automation, Steel and Printing division was able to increase incoming orders by over 14 % to € 116.3 million. Sales grew by twelve percent to € 111.7 million. With earnings before interest and taxes of € 13.6 million, the EBIT margin amounted to 12.2 %.

Summary of Factory Automation, Steel and Printing

€ million	2005	2004	Change
Incoming orders	116.3	101.7	+ 14 %
Sales (net)	111.7	99.9	+ 12 %
EBITDA	16.3	11.8	+ 38 %
EBIT	13.6	9.8	+ 39 %
EBIT margin (in %)	*12.2*	*9.8*	
Employees*	613	590	+ 4 %

*December 31 excluding apprentices

Future prospects for Factory Automation, Steel and Printing

We consider the prospects for Factory Automation, Steel and Printing to be positive. On the one hand the experts of the Trade Association of German Machinery and Equipment Manufacturers (VDMA) expect attractive growth rates for the markets targeted by us. On the other hand this division has an attractive product portfolio and a high degree of close relationships with the customers. In the steel sector the quality control systems are only at the beginning of their life cycle. In the printing sector we offer in the meantime the total product range from traditional web observation systems up to high-end fault detection systems. In the transport technology business unit we are currently placing emphasis on the development of new products, in order to expand our market leadership further. The high market shares and the technology leadership in particular with regard to new products will assure the elexis Group of respectable margins also in the future. On the purchasing side several projects are being implemented to achieve cost reductions, in order to compensate for the increase in raw material prices. In addition, the employees for strategic purchasing are already included at an early stage in the development of new products, which has a positive effect on the cost of materials.

Factory Automation, Plastics

According to information of VDMA and the Federal Statistics Office the market for injection moulding machinery stagnated in 2005. For this reason the strong growth, which the Factory Automation, Plastics division achieved during the past fiscal year, is all the more remarkable.

Economic key data for Factory Automation, Plastics

Factory Automation, Plastics was able to strengthen further its excellent position as a development partner and supplier of automation systems for injection moulding machinery. In this sector elexis is specialised on equipment, which produces large volumes in very short cycle times of, for example, wet shaving razors and contact lenses made of plastic. In the meantime Factory Automation, Plastics has installed 5,000 systems worldwide. Our comprehensive experience with the automation of injection moulding machinery as well as a high degree of close relationships with the customers contributed essentially to the excellent market positioning of the division. Additional progress was made with the deep draw process technology in particular in combination with in mould labeling through development projects with large manufacturers from the packaging industry.

During the period under report we succeeded in improving further the internal processes and in increasing the standardisation of the products. Rationalisation effects could thereby be achieved, which had a correspondingly positive effect on the earnings figures. Furthermore, the IT-supported inventory management and process management systems were further adjusted and optimised.

The Factory Automation, Plastics division achieved the highest level of incoming orders in its history amounting to € 36.4 million. Sales also reached a record level of € 40.0 million. Earnings before interest and taxes (EBIT) grew strongly to € 5.9 million. The favourable product mix as well as the improvements in the internal processes enabled us to achieve a high EBIT margin of 14.8 %. The increase in the number of personnel was due to the growth in business volume.

Summary of Factory Automation, Plastics

€ million	**2005**	2004	Change
Incoming orders	36.4	34.6	+ 5 %
Sales (net)	40.0	33.4	+ 20 %
EBITDA	6.7	5.2	+ 29 %
EBIT	5.9	3.1	+ 90 %
EBIT-margin (in %)	*14.8*	*9.3*	
Employees*	147	138	+ 7 %

* December 31 excluding apprentices

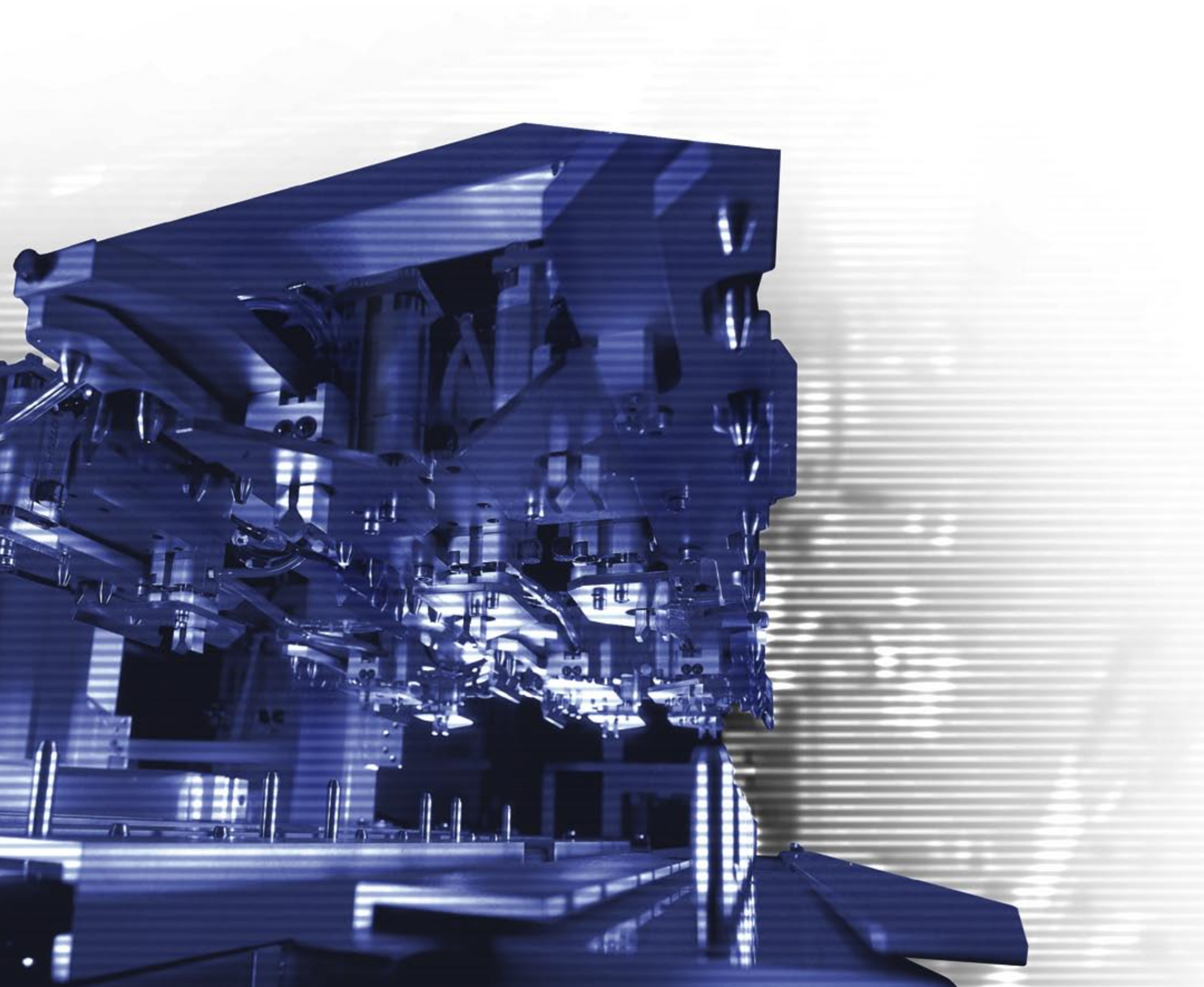
Future prospects for Factory Automation, Plastics

For the United States, which is by far the most important market for Factory Automation, Plastics, most experts expect a slower but nevertheless still substantial growth in the economy. A major customer located there, which is the leading manufacturer of wet shaving razors, made preparations during the past year for a new product generation. In this connection Factory Automation, Plastics undertook a series of development activities for the new production equipment. The new product was introduced on the North American market at the beginning of 2006. We expect that this will ensure additional incoming orders. The high level of sales of contact lenses was maintained throughout the period under report and should continue also in 2006. From these we also expect significant contributions to incoming orders and sales. Finally, the division should benefit from the increasing use of electronics in automobiles. In the meantime, anti-blocking systems (ABS), anti-skidding controls (ASR) and electronic stability programmes (ESP) are frequently part of the serial equipment. In this respect Factory Automation, Plastics has many years of experience with production equipment for plug casings and should thus be able to participate in this trend in the automobile industry. The combination of the deep draw process with in mould labeling will be presented for the first time on the North American market in June 2006 at the NPE in Chicago, the largest plastics trade fair in the USA. As a result of the successful development projects and the increased sales activities we expect substantial demand for the technologically new equipment.

elexis AG

The holding company itself remained at the cost level of the prior year. During the period under report EBIT before results from participations amounted to € -1.2 million. During the fiscal year 2005 the general meeting of shareholders of elexis AG took place for the first time in the premises of our largest subsidiary, EMG Automation GmbH, in Wenden near Olpe. The headquarters of the holding company are also located there. The change of location of the general meeting of shareholders from Frankfurt/Main to Wenden symbolised also the conversion of elexis AG from an over-dimensional financial holding company into a lean and efficient operating holding. The high turnout of the shareholders at the general meeting of shareholders, which was significantly in excess of the prior year, reflected the high interest of the shareholders in the elexis Group.

At the beginning of June 2005 the Supervisory Board extended the appointment of Mr. Siegfried Koepp and Mr. Edgar M. Schäfer to the Management Board up to 2010. Thereby, personal continuity was assured at the top of the elexis Group. Both Mr. Koepp as well as Mr. Schäfer continue to act simultaneously in the operations as general managers of EMG Automation GmbH.



2.3_ Investments

The total additions to fixed assets in the elexis Group amounted to € 2.4 million (prior year: € 2.5 million) during the period under report. Of these an amount of € 1.2 million (prior year: € 0.8 million) was financed through financial leasing contracts. In addition, € 0.2 million was financed through leasing agreements, which must be capitalised by the lessor on the basis of contractual conditions. A significant portion of the funds was allocated to the IT sector. Furthermore, investments were made at all domestic production sites in the increase of operating preparedness and productivity. In this respect new machinery was acquired including, for example, a highly modern five axle milling centre.

2.4_ Research and development

As a technologically driven company the elexis Group places great value on the research and development sector. Many of our development projects were and are carried out in close cooperation with our customers. Currently the most important projects include a high speed version of the IMPOC quality control system for the steel industry, equipment for strip stabilisation, which is also a quality control system for steel, as well as new products for the printing and tyre industries. In the Factory Automation, Plastics division we are proceeding with several development projects with our customers. Moreover, we are placing major emphasis on bringing to serial maturity the combination of in mould labeling with the deep draw process for the packaging industry.

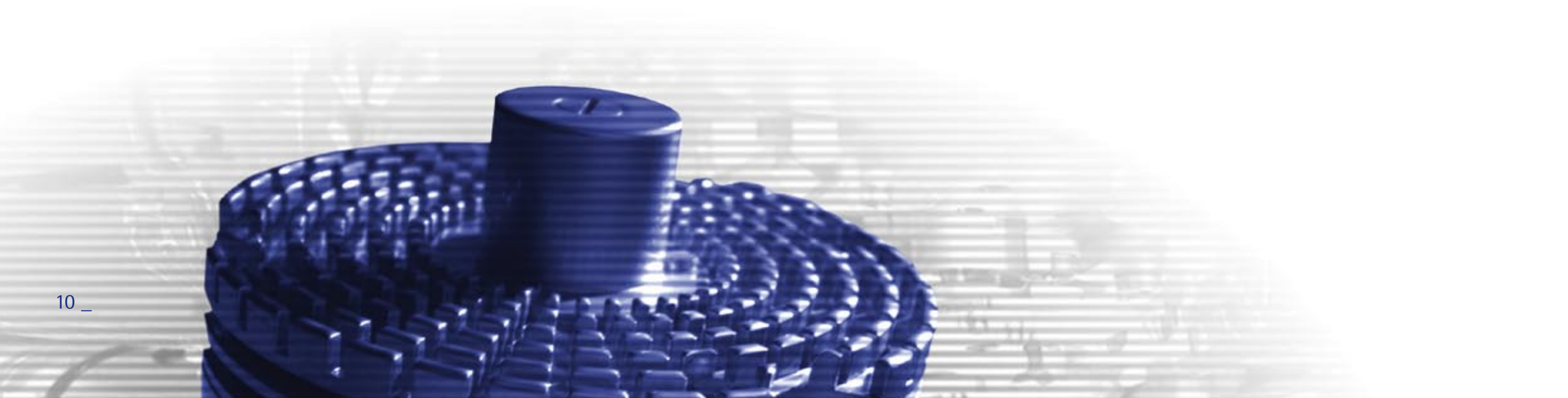
In total the elexis Group invested € 7.8 million in research and development. This represented a share of over five percent of sales and constituted a 50 percent increase versus the prior year.

2.5_ Personnel

During the period under report the number of employees rose by 32 or over four percent to 763 (December 31 excluding apprentices). Our new colleagues were employed in particular in product development and in sales. In spite of the increase in personnel, we succeeded in increasing productivity by more than 14 % on the basis of value added per employee. The number of apprentices, amounting to 68, remained almost constant versus 2004 (66). The apprenticeship ratio of almost nine percent was substantially higher than the overall average of approximately six percent in Germany.

2.6_ Environmental protection

elexis has always placed a high value on the strict observance of all conditions and regulations concerning environmental protection. The environmental management system of the elexis Group assures that all legal requirements are complied with or exceeded. The flexible and autonomous organisation of the individual strategic business units guarantees that we can implement new laws and regulations swiftly. We are always monitoring the high degree of environmental friendliness in the development and manufacture of our products. The managers of the strategic quality management are responsible for environmental protection.



2.7_ Balance sheet situation of the Group

The earnings after interest and taxes of € 10.6 million led to the increase in the equity ratio from 25.5 % to 34.0 %. The increase in shareholders' equity also led to a substantially higher fixed asset coverage. As at December 31, 2005 the shareholders' equity together with the long term liabilities without deferred taxes exceeded the fixed assets by 77,5 %, which also reflected improved balance sheet relationships. At the same time working capital increased by € 8.8 million. The main reason for this was the sharp decline in prepayments received. These fell from € 17.5 million as at 31.12.2004 to € 3.5 million as at 31.12.2005. In spite of the strong increase in sales volume, it was possible to reduce inventory turnover by four days. As a result of our systematic trade receivables management and the payment morale of our customers' days trade receivables were reduced from 59 to 47 days.

€ million	**2005**	**2004**
Balance sheet total	116.9	116.1
Equity ratio	34.0	25.5
Investments incl. financial leasing	2.4	2.5
Investment ratio (in %)	68.6	61.0
Fixed asset coverage (in %)	177.5	156.2
Working capital	8.8	4.4
Working capital excluding prepayments received	12.3	21.9
Inventory turnover (in days)	42	46
Days receivable (in days)	47	59

2.8_ Financial situation of the Group

The cash flow from ordinary activities declined due to the reduction in prepayments received (€ -14.0 million) to € 11.1 million. elexis reduced long term liabilities to banks by € 3.2 million to € 13.0 million on schedule. With an increase in net liquidity to € 16.5 million at the end of the year the elexis Group considers that it has sufficient liquid funds in order to finance further organic growth.

€ million	**2005**	**2004**
Cash flow from ordinary activities	11.1	22.6*
Long term liabilities to banks	13.0	16.2
Net liquidity	16.5	12.3

* Cash flow adjusted for the effect of long term financing = € 18.6 million

2.9_ Profitability of the Group

Incoming orders increased during the fiscal year 2005 by twelve percent to € 152.7 million. Sales registered an increase of 14 % to € 151.7 million. The optimisations on the purchasing side as well as the improvements in the construction of the equipment led to a substantially lower cost of material ratio in spite of the increase in raw material prices. The gross margin thus rose from 33.0 % to 37.4 %. The lower personnel expense ratio was due to the substantial increase in productivity. The value added achieved per employee thus increased by more than 14 %. Together with the productivity increases achieved the organic growth led to a growth in EBIT from € 11.6 million to € 18.3 million (+ 58 %). The tax ratio, which was considerably higher than in 2004, resulted in the increase in net income being 47 % lower than that of EBIT. The tax ratio is influenced to a large extent by the capitalised portion of deferred taxes relating to tax loss carry forwards.

€ million	**2005**	**2004**
Incoming orders	152.7	136.3
Sales (net)	151.7	133.2
Gross profit	56.8	43.9
EBITDA	21.8	15.7
EBIT	18.3	11.6
Financial result	- 2.2	-2.4
EBT	16.1	9.2
Net income	10.6	7.2
Earnings per share in € (DVFA/SG)	1.15	0.78
Selling expense ratio (in % of sales)	18.5	19.3
Administration expense ratio (in % of sales)	6.6	6.6
Cost of materials ratio (in % of sales)	37.0	39.1
Personnel expense ratio (in % of sales)	30.6	33.4

2.10_ Key opportunities and risks of the future development

Within the framework of their business activities the companies of the elexis Group are exposed to risks, which are inseparably linked to their entrepreneurial activities. Risk management is thus an integral part of our business processes and corporate decisions. Following its obligations in accordance with Article 91 Paragraph 2 of the German Stock Corporation Law, the Management Board has complied with the establishment of a corresponding risk management system. The principles of this are in particular the planning system, the reporting system and a special risk monitoring system in which all major risks, which could endanger the continuation of the Company, are identified and evaluated.

Within the context of the risk management system of the elexis Group each of the individual participation companies report in turn on the existing and foreseeable risks. In this respect in particular risks, arising from price changes, losses and liquid funds as well as risks relating to fluctuations in payments are included. Furthermore, risks are evaluated with regard to the likelihood of occurrence and complemented through a continuous schedule and assigned responsibilities. The monitoring of the risks also includes the planning, the implementation and the control of the success of appropriate counter-measures. Extraordinary events of more major importance are reported immediately to the holding company outside the normal scheduled periods.

Viewed globally, the forecasts for the world economy include numerous uncertainties. Considerable economic growth is to be expected in Europe and especially here in Germany in 2006. The rate of the euro, which declined during last year, lowered the price of exports to countries outside the euro zone significantly und thus supported competitivity. A certain number of experts expect in the medium term, however, a renewed increase in the euro vis-à-vis the US dollar, which could have negative effects for the elexis Group as an export orientated company. In the event of a decline in the rate of the US dollar there would be advantages on the purchasing side. On the other hand, a further rising dollar would support exports to the dollar area and make imports from this currency area more expensive.

For 2006 the experts of VDMA expect for the target markets of our products a heterogeneous growth from 1.5 % in the steel industry up to 30 % for steel works and rolling mills. On average, growth of two percent is estimated for the total machinery manufacturing sector. Increasing price competition could also have a corresponding negative effect on the margins. We are counteracting the economic and cyclical threats to our business with permanent cost savings programmes, increasing international procurement activities as well as with several growth initiatives. In this respect we are relying on our additional technological developments and innovations as well as on our global sales activities, particularly in Asia. With regard to our individual divisions we are expecting substantial sales with a stable development of the margins. Nevertheless, with these forecasts we cannot exclude uncertainties in our forecasts, particularly those in respect of economic development. The construction of special equipment for factory automation in the Plastics division is subject to fluctuations and can thus lead to temporary declines.

The raw material prices, which rose in 2005, could be more than compensated for through changes in the construction of the equipment and an optimisation of the strategic purchasing activities. Contributions in this respect, for example, were the increased purchasing activities in Eastern European countries. In some cases we succeeded in postponing price increases from suppliers until 2006. In the case of newly introduced products the value added share of the systems suppliers was in part increased, which also had a positive effect. It is possible that potential further rising raw material costs and price increases from suppliers cannot be fully compensated for or postponed as in 2005 through corresponding measures.

In 2000 the elexis Group made substantial investments for the acquisition of companies and business operations; these concern in particular the subsidiaries HEKUMA GmbH and BST PRO MARK Inc. The remaining book value arising from these acquisitions amounted as at December 31, 2005 in the consolidated financial statements to € 26.6 million (remaining book value as at December 31, 2004: € 27.2 million). The continuing value of this goodwill is subject to an annual impairment test and exists only on the assumption of a going concern basis. This requires that the plans of the above-mentioned companies will be met. According to the budget for the fiscal year 2006 and the medium term planning for the fiscal years 2007 and 2008 continuing sustainable profits can be expected. The same is also true for the participation of 19.5 % (€ 1.9 million) held by elexis beta GmbH in the Israeli company, Optimet. This company also reported a positive result in 2005. The planning for the years 2006 to 2008 is also based on a continuation of this positive development.

At the beginning of December 2005 the receiver of Elotherm GmbH, a former subsidiary, started legal proceedings against elexis AG, which was still the formal Group parent company, for the reimbursement of a payment made from the capital in the amount of up to € 4.6 million.

The accusation is based on the assertion that the value of the former subsidiary of Elotherm GmbH in the USA, Robotron Inc., was not in the years 1999 and 2000 as high, or at least not as high as was reported in the balance sheet of Elotherm GmbH. For that reason the net income of Elotherm GmbH for the fiscal year 1999 should not have been distributed to elexis AG up to the maximum specified in the action due to the lower effective value of the capital.

elexis AG has rejected the claims made against it. After examining the arguments presented as well as on the basis of an external legal opinion, this case is devoid of any basis. Moreover, the financial statements of Elotherm GmbH and Robotron Inc., USA were each given an unqualified opinion for the years 1999, 2000 and 2001 by the auditors, PricewaterhouseCoopers. elexis AG will therefore defend itself fully against this totally unfounded charge.

The existing provisions are sufficient for potential litigation risks. We therefore believe that no charges against the net income of 2006 or of the following years are to be expected.

On the basis of the listing of the risks, the evaluation of the likelihood of their occurrence and the analysis of the effectiveness of the counter-measures, the management is of the opinion that risks do not exist from today's point of view, which could endanger the continuation of the Company.

2.11_ Outlook

The operating business in 2006

Future internal growth will be driven mainly by product innovations and the expansion of the international sales activities.

Steel sheet is produced worldwide on a total of approximately 10,000 production lines for the automobile industry and for the manufacture of so-called white goods such as washing machines and refrigerators. More than 500 of these lines are used for the production of qualitatively very high value steel sheet. These 500 lines constitute our target market in this sector, since our IMPOC and SORM 3plus quality control systems and sheet width measurement systems are products with unique characteristics. The potential of this market can be recognised by the fact that our systems are only installed on approximately 40 lines. The life cycles of these quality control systems from the steel sector are only beginning. At the same time we are currently working on additional quality control systems. On the one hand a high speed version of IMPOC is in development and could easily reach market maturity this year. On the other hand we are currently working intensively on the question of strip stabilisation. This could lead to a completely new quality control system for the steel industry.

With the fault detection systems, PREMIUS digital with 3 chip camera technology and SHARK, the printing business unit also has two product innovations, which have only been offered since 2005. elexis rounded off its product range in the high–end sector with the PREMIUS digital with 3 chip camera technology. With SHARK we succeeded in offering worldwide for the first time a fault detection system, which controls 100 % of the web, instead of monitoring only parts of the web for faults. The market for high value systems is growing annually by more than ten percent. The printing business unit should therefore develop positively.

Currently four prototypes are in test operation in the Factory Automation, Plastics division. They are combining in mould labeling with the deep draw process. The objective is to develop equipment ready for serial production, which manufacture high quality plastic packaging in large volumes at low prices at comparatively low temperatures. This is interesting especially in connection with the fast growing distribution of radio or RFID chips. There are considerations in the food retailing industry to replace the traditional bar codes with RFID chips, since this would enable substantial savings in logistics. With the equipment of elexis it could be possible to integrate the radio chips into the food packaging at acceptable prices. Experts are talking here about a potential new billion euro market within the packaging industry, in which elexis could participate with automation equipment.

At the same time we also consider that external growth is realistic in the two divisions. As a result of the corresponding global authorisations of the general meeting of shareholders of June 24, 2005 there is the possibility of both a capital increase of up to 50 % as well as the repurchase of own shares of up to 10 % of the share capital. Both measures could be used in connection with the liquid assets existing in the Company for the financing of a participation. Nevertheless, due the attractive and overall quite young product portfolio, the elexis Group is under no pressure to grow externally.

The internal planning expects also for the fiscal year 2006 an attractive return on shareholders' equity and on capital employed. We also expect continuing strong demand and a sustainable high profitability. The Management Board and the Supervisory Board plan to propose a dividend distribution for the fiscal year 2005 to the general meeting of shareholders on May 24, 2006.

Effects of the conversion from HGB to IFRS

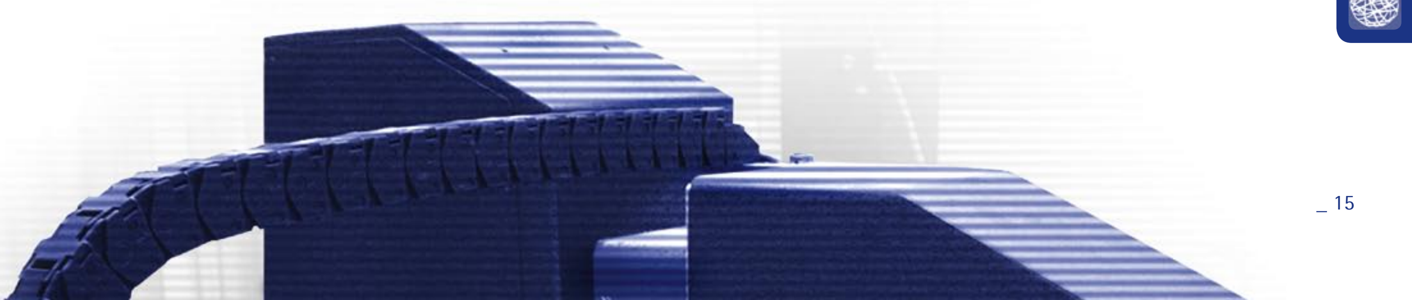
In July 2002 the European Parliament and the European Council resolved a decree concerning the application of International Accounting Standards (IAS decree). In accordance with this companies of the European Union listed on the stock market are obliged to draw up their consolidated financial statements for the fiscal years as from 2005 in accordance with International Financial Reporting Standards (IFRS). The conversion from HGB (German Commercial Code) to IFRS must take place retroactively. This means that the comparative amounts for the prior year must be calculated on the basis of the same accounting and valuation standards.

In order to assure comparability, the effects from the conversion are presented in a transparent and comprehensible manner.

Apart from the divestment of AVITEQ GmbH as at January 1, 2006 there were no significant changes in the legal or economic situation of the Company following the balance sheet date prior to the time of publishing this report.

2.12_ Definition of key data used (selection)

Administration expense ratio	= Administration expenses / sales
Average invested capital	= (Fixed assets + working capital year beginning + fixed assets + working capital year end) / 2
Cost of materials ratio	= Cost of materials / sales
Cover of fixed assets	= Shareholders' equity + long term liabilities without deferred taxes / fixed assets
Days trade receivable (in days)	= Trade receivables / sales x 360 days
Equity ratio	= Shareholders' equity / balance sheet total
Gross margin	= Gross profit / sales
Inventory turnover	= Inventories / sales x 360
Investment ratio	= Investments / depreciation of fixed assets
Net liquid assets	= Liquid assets + securities – short term bank debt
Personnel expense ratio	= Personnel expenses / sales
Return on capital employed (ROCE)	= EBIT / average invested capital
Return on equity	= Net income / shareholders' equity
Selling expense ratio	= Selling expenses / sales



3.0_ Consolidated financial statements as at December 31, 2005

3.1_ Consolidated profit and loss account

	2005 € 000	%	2004 € 000	%	Notes
Sales	**151,688**	**100.0**	**133,211**	**100.0**	(1)
Cost of sales	-94,865	-62.5	-89,276	-67.0	(2)
Gross profit	**56,823**	**37.5**	**43,935**	**33.0**	
Selling expenses	-28,121	-18.5	-25,693	-19.3	(3)
Administration expenses	-9,983	-6.6	-8,810	-6.6	(4)
Other operating income	2,973	2.0	6,182	4.6	(5)
Other operating expenses	-2,791	-1.9	-2,522	-1.9	(6)
	18,901	**12.5**	**13,092**	**9.8**	
Amortisation of goodwill	-600	-0.4	-1,500	-1.1	(7), (15)
Operating result (EBIT)	**18,301**	**12.1**	**11,592**	**8.7**	
Financial result	-2,244	-1.5	-2,346	-1.8	(8)
Result before taxes	**16,057**	**10.6**	**9,246**	**6.9**	
Of which discontinued operations	*524*	*0.3*	*288*	*0.1*	
Taxes	-5,386	-3.6	-2,035	-1.5	(9)
Of which discontinued operations	*-399*	*-0.3*	*147*	*0.1*	
Consolidated net income before minority interests	**10,671**	**7.0**	**7,211**	**5.4**	
Of which discontinued operations	*125*	*0.1*	*374*	*0.3*	
Minority interests	-117	0.0	-44	0.0	(10)
Consolidated net income	**10,554**	**7.0**	**7,167**	**5.4**	
Of which discontinued operations	*125*	*0.1*	*374*	*0.3*	

3.2_ Consolidated balance sheet

Assets	31.12.2005 € 000	%	31.12.2004 € 000	%	Notes
Long term assets	**52.075**	**44,6**	**54.654**	**47,1**	
Goodwill	26.562	22,7	27.162	23,4	(15)
Other intangible assets	1.177	1,0	1.696	1,5	(15)
Property, plant and equipment	13.573	11,7	13.587	11,7	(16)
Financial assets	2.622	2,2	2.622	2,3	(17)
Long term receivables and other assets	421	0,4	234	0,2	(18)
Deferred tax claims	7.720	6,6	9.353	8,0	(9)
Short term assets	**64.807**	**55,4**	**61.404**	**52,9**	
Inventories	17.900	15,3	17.005	14,7	(19)
Receivables from long term production contracts	1.241	1,1	1.665	1,4	(20)
Trade receivables	19.940	17,1	21.927	18,9	(21)
Other short term receivables and other assets	4.003	3,4	3.417	2,9	(22)
Short term cash deposits	7.469	6,4	2.510	2,2	(23)
Securities	3.001	2,6			(24)
Cash on hand and in banks	11.253	9,5	14.880	12,8	(25)
Total assets	**116.882**	**100,0**	**116.058**	**100,0**	
Of which discontinued operations:					
– long term assets	*1.054*	*1,0*	*1.402*	*1,2*	(38)
– short term assets	*5.394*	*4,6*	*4.439*	*3,8*	(38)

Liabilities

	31,12,2005 € 000	%	31,12,2004 € 000	%	Notes
Shareholders' equity	**39,779**	**34.0**	**29,573**	**25.5**	(26)
Share in shareholders' equity attributable to shareholders	**39,340**	**33.7**	**29,335**	**25.3**	
Subscribed capital	23,552	20.2	23,552	20.3	
Capital reserve	3,555	3.0	3,555	3.1	
Retained earnings	12,107	10.4	1,553	1.3	
Valuation changes included directly in shareholders' equity	-818	-0.7	-480	-0.4	
Differences arising from currency conversion	944	0.8	1,155	1.0	
Minority interests	**439**	**0.3**	**238**	**0.2**	
Liabilities	**77,103**	**66.0**	**86,485**	**74.5**	
Long term liabilities	**41,057**	**35.1**	**43,371**	**37.4**	
Provisions for pensions and similar obligations	16,063	13.7	15,452	13.3	(27)
Deferred tax liabilities	2,840	2.4	2,541	2.2	(9)
Financial liabilities	22,154	19.0	25,378	21.9	(29)
Current liabilities	**36,046**	**30.9**	**43,114**	**37.1**	
Other short term provisions	6,040	5.2	6,640	5.7	(28)
Provision for taxes	2,616	2.2	1,055	0.9	(28)
Financial liabilities	6,107	5.2	5,618	4.8	(29)
Trade liabilities	6,178	5.3	7,519	6.5	(30)
Liabilities from long term production contracts	511	0.5	11,976	10.3	(20)
Other liabilities	14,594	12.5	10,306	8.9	(31)
Total liabilities and shareholders' equity	**116,882**	**100.0**	**116,058**	**100.0**	
Of which discontinued operations					
- Liabilities	*5,739*	*4.9*	*5,152*	*4.4*	(38)

3.3_ Development of the consolidated shareholders' equity

€ 000	Subscribed capital	Capital reserve	Retained earnings	Valuation changes included directly in shareholders' equity	Differences arising from currency conversion	Share in shareholders' equity attributable to shareholders	Minority interests	Consolidated shareholders' equity
Status as at 01.01.2004	**23,552**	3,555	**-5,614**		**1,014**	22,507	**202**	22,709
Net income 2004			7,167			7,167		7,167
Minority interests							36	36
Changes in foreign currency					141	141		141
Other changes not charged to profit and loss account				-480		-480		-480
Status as at 31.12.2004	**23,552**	3,555	**1,553**	-480	**1,155**	29,335	**238**	29,573
Net income 2005			10,554			10,554		10,554
Minority interests							201	201
Changes in foreign currency					-211	-211		-211
Other changes not charged to profit and loss account				-338		-338		-338
Status as at 31.12.2005	**23,552**	3,555	**12,107**	-818	**944**	39,340	**439**	39,779
Notes (26)								

3.4_ Consolidated statement of cash flow

	2005	2004
	€ 000	€ 000
EBIT	**18,301**	**11,592**
Amortisation of other intangible assets	952	904
Depreciation of property, plant and equipment	1,961	1,668
Amortisation of goodwill	600	1,500
Change in provision for pensions	-446	-553
(Profit) / loss on disposal of fixed assets	-1	-34
Cash earnings	**21,367**	**15,077**
Change in inventories	-895	-482
Change in short term receivables and other assets	1,825	1,912
Change in short term provisions	-387	-85
Change in short term liabilities	-8,326	6,810
Change in working capital	**-7,783**	**8,155**
Change in long term receivables and other assets	-187	-191
Taxes paid	-2,298	-410
Elimination of non-cash effective income from restructuring of long term financing		-4,000
Inflow of funds from operating activities	**11,099**	**18,631**
Of which from discontinued operations	*109*	*545*
Outflow of funds for investments in intangible assets	-418	-898
Outflow of funds for investments in property, plant and equipment	-785	-897
Outflow of funds for investments in financial assets		-245
Outflow of funds for the acquisition of short term securities	-3,001	
Inflow of finds from disposal of fixed assets	33	636
Changes due to foreign exchange rates	-57	18
Inflow of funds from investment activities	**-4,228**	**-1,386**
Of which from discontinued operations	*-38*	*-23*
Increase in financial liabilities	-	1,467
Repayment of financial liabilities	-4,080	-8,629
Income from interest and participations	262	221
Interest expenses and other financial expenses	-1,384	-1,408
Interest expenses from financial leasing	-407	-406
Changes due to foreign exchange rates	-46	-26
Inflow of funds from financing activities	**-5,655**	**-8,781**
Of which from discontinued operations	*-239*	*-572*
Cash effective changes in liquid assets	**1,216**	**8,464**
Of which from discontinued operations	*-168*	*-50*

	2005	2004
	€ 000	€ 000
Cash effective changes in liquid assets	**1,216**	**8,464**
Liquid assets at the beginning of the period	12,300	3,836
Liquid assets at the end of the period	13,516	12,300
	1,216	**8,464**
The liquid assets at the end of the period are composed as follows:		
Cash on hand and in banks	11,253	14,880
Short term financial investments	7,469	2,510
Short term liabilities to banks	-5,206	-5,090
	13,516	**12,300**
Securities	3,001	-
Net liquidity at the end of the period	**16,517**	**12,300**

3.5_ Consolidated segment report

elexis is active in the **Factory Automation, Steel and Printing** division and in the **Factory Automation, Plastics** division. The divisions are structured in such a way that they correspond to the internal organisation and management structure of the elexis Group.

Transactions between the business units take place at market conditions.

Factory Automation Steel and Printing

The business activity of this segment concentrates on the manufacture and the sale of:

a) Complete web and strip guiding systems which automatically control the exact strip running of fast moving materials (metal, paper, foil, rubber);

b) Systems ensuring the material quality of these webs (for example, tear resistance and roughness of metal strips);

c) Video web guiding systems and also machine vision systems for fault detection and active fault control of printed strips;

d) Electro-hydraulic brake thrusters for material conveyor systems (transport technology);

e) Vibration technology for the conveyor industry.

The consolidated subsidiaries operating in this segment are:

EMG Automation GmbH, Wenden

BST International GmbH, Bielefeld

BST PRO MARK Inc., Elmhurst, USA

EMG USA Inc., Warren, USA

EMH Eletromecânica e Hidraulica Ltda., Belo Horizonte, Brazil

BST Japan Ltd., Osaka, Japan

AViTEQ Vibrationstechnik GmbH, Hattersheim

Vibrotechnique France S.A.R.L., Chantilly, France

Factory Automation, Plastics

HEKUMA GmbH, Munich, is active in this segment, which produces automated handling systems for fast moving production processes with very short production cycles and which ensures the materials flow of moulded plastic components. Moreover, these can be integrated in further automated production steps.

€ 000	Factory Automation, Steel and Printing 2005	2004	Factory Automation, Plastics 2005	2004	Non-operating units / consolidation 2005	2004	elexis Group 2005	2004
Sales	111,675	99,851	40,013	33,360			151,688	133,211
Of which from discontinued operations	*14,785*	*12,363*					*14,785*	*12,363*
Segment result (EBIT)								
Operating result (EBIT)	13,612	9,801	5,915	3,115	-1,226	-1,324	18,301	11,592
Of which from discontinued operations	*704*	*418*					*704*	*418*
Return on sales (EBIT)	12.2%	9.8%	14.8%	9.3%			12.1%	8.7%
Depreciation of property, plant and equipment and amortisation of other intangible assets	2,129	1,992	790	560		20	2,919	2,572
Of which from discontinued operations	*65*	*70*					*65*	*70*
Amortisation of goodwill	600			1,500			600	1,500
Of which from discontinued operations								
Assets								
Segment assets	76,088	65,658	34,283	43,302	3,889	4,476	114,260	113,436
Other participations	385	385			2,237	2,237	2,622	2,622
Total assets	76,473	66,043	34,283	43,302	6,126	6,713	116,882	116,058
Of which from discontinued operations	*6,448*	*5,841*					*6,448*	*5,841*
Investments in long term assets	1,645	1,817	719	974			2,364	2,791
Of which from discontinued operations	*36*	*36*					*36*	*36*
Liabilities								
Segment liabilities	46,716	43,047	21,477	34,293	8,910	9,145	77,103	86,485
Inter-segment liabilities	9,172	5,811	1,232	1,337	-10,404	-7,148		
Total liabilities	55,888	48,858	22,709	35,630	-1,494	1,997	77,103	86,485
Of which from discontinued operations	*5,739*	*5,152*					*5,739*	*5,152*
Employees (31.12 excluding apprentices)	613	590	147	138	3	3	763	731
Of which from discontinued operations	*76*	*75*					*76*	*75*

€ 000	Continuing operations 2005	2004	Discontinued operations 2005	2004	elexis Group 2005	2004
Sales						
Germany	43,220	39,648	6,453	6,114	49,673	45,762
Other European countries	38,971	32,220	7,345	5,556	46,316	37,776
America	43,490	38,186	70	80	43,560	38,266
Asia / Australia	8,883	9,076	917	552	9,800	9,628
Africa	2,339	1,718		61	2,339	1,779
	136,903	**120,848**	**14,785**	**12,363**	**151,688**	**133,211**
Assets						
Germany					104,153	103,482
Of wich discontinued operations					*559*	*599*
Other European countries					1,224	960
Of wich discontinued operations					*21*	*10*
America					9,712	9,313
Asia / Australia					1,793	2,303
					116,882	**116,058**
Of wich discontinued operations					*580*	*609*
Investments in long term assets (incl. financial leasing)						
Germany					2,294	2,393
Of wich discontinued operations					*33*	*17*
Other European countries					16	2
Of wich discontinued operations					*16*	*2*
America					43	95
Asia / Australia					2	56
					2,355	**2, 546**
Of wich discontinued operations					*49*	*19*

4.0_ Notes to the consolidated financial statements

General explanations

Accounting

As from the beginning of the fiscal year 2005 the Group accounting of elexis AG is drawn up in accordance with the International Financial Reporting Standards (IFRS), or International Accounting Standards (IAS), which were adopted and published by the International Accounting Standards Board (IASB), and which are mandatory on that date. The transition from HGB (German Commercial Code) to IFRS is presented in separate reconciliation accounts for the shareholders' equity and the profit and loss account of the comparative period.

Scope of consolidation

The scope of consolidation includes 11 (prior year: 11) companies. With regard to the participation companies included in the scope of consolidation and those, which are not consolidated, please refer to the information regarding shareholdings presented in Note (33).

Within the framework of the application of IFRS sales and production companies located abroad have been included for the first time since January 1, 2004 in the scope of consolidation in accordance with the regulations concerning full consolidation. The extension of the scope of consolidation has the following effects on the consolidated balance sheet as at December 31, 2004, the profit and loss account for 2004 as well as the number of employees in 2004:

Sales	€ 5,422,000
EBIT	€ 281,000
EBT	€ 232,000
Net income	€ 148,000
Shareholders' equity	€ 568,000
Balance sheet total	€ 3,045,000
Employees (Average 2004)	68

Principles of consolidation

Capital consolidation

The financial statements of the Company and the companies controlled by it are included in the consolidated financial statements of elexis AG. Control exists if elexis AG has the possibility of determining the financial and business policy of a company either directly or indirectly through a majority of the voting shares or otherwise. Subsidiaries, whose influence on the asset, financial and earnings situation of the Group is of lesser importance, are not consolidated. The non-consolidated companies together reported sales of € 3,007,000 and have shareholders' equity of € 2,049,000.

The initial consolidation of the companies first included prior to January 1, 2004 was carried out on the basis of the equity value method in accordance with Article 301, Paragraph 1, and No. 1 of the HGB. In this respect the Group's share in the shareholders' equity of the consolidated subsidiary was set off against the acquisition/establishment costs. Additions to goodwill were capitalised within the framework of the previous accounting principles in accordance with HGB and was subject to straight line amortisation over a period of 20 years. The valuation of the goodwill, which was previously capitalised in accordance with HGB accounting principles, was carried out for the fiscal year 2005 as well as for the prior year in accordance with the regulations of IAS 36. Goodwill was thus frozen in the amount of its carrying value at the date of transition from HGB to IFRS/IAS as at January 1, 2004 and is amortised only in the event of actual loss of value. For subsidiaries included in the Group financial statements for the first time after December 31, 2003 the capital consolidation was carried out in accordance with the acquisition method in the form of the equity method.

Currency conversion

The conversion of the financial statements of the subsidiaries, which are drawn up in foreign currency, is carried out in accordance with IAS 21 following the concept of the functional currency. In the elexis Group foreign subsidiaries are considered as economically independent partial units. For this reason the conversion of the balance sheet items takes place in principle at the rates prevailing at the end of the relative period. An exception to this is the shareholders' equity of the subsidiaries included, which are converted at historical rates. Items of expense and income are converted at annual average rates. The conversion differences resulting from the application of different exchange rates for items of the balance sheet and the profit and loss account are booked to the shareholders' equity without any effect on the profit and loss account.

In the individual financial statements of the companies transactions in foreign currency are converted at the exchange rates prevailing at the time of the transaction. Monetary assets and debts, the value of which is indicated in a foreign currency, are valued as at the balance sheet date. Capital gains and losses are booked to the profit and loss account.

The following exchange rates were used for the conversion of currencies:

€ 000		2005	2004	2005	2004
Currency	ISO-code	Average rate in €		Rate at balance sheet date in €	
1 US-dollar	USD	1.2451	1.2434	1.1834	1.3640
1 Brazilian real	BRL	3.0021	3.6330	2.7567	3.6330
1 Japanese yen	JPY	136.9036	134.4086	139.1300	134.4086

Consolidation of liabilities and income

Receivables and liabilities between the consolidated companies as well as internal Group sales, income and expenses are eliminated. In this respect the internal sales have been set off against the cost of goods sold of the work effected to achieve the sales.

Principles of accounting and valuation

Recognition of income and expense

The recognition of sales and other operating income is principally carried out when the event has occured, the risk has been transferred to the customer, the amount of income can be reliably determined and when the economic use will probably accrue to the Group. Operating expenses are charged to the profit and loss account when the expense occurs or at the date of its cause. In accordance with IAS 11 and IAS 18 sales and expenses from long term production contracts are realised on the basis of the percentage of completion method, provided that the amount of the income can be reliably measured, and that it is probable that the economic use from the transaction will accrue to the Group, and provided that the costs incurred for the transaction and the costs to be expected up to its full completion can be established reliably.

Goodwill and other intangible assets

The goodwill from the individual accounts and from the consolidation was capitalised at its acquisition cost and was subject to scheduled amortisation up to December 31, 2003 in compliance with the accounting regulations of the German Commercial Code. The value of the goodwill stated as at December 31, 2003 was locked in as at January 1, 2004 at the date of the transition from HGB to IFRS/IAS. The carrying value of the goodwill in the accounts is reviewed at least once per annum by means of an impairment test. In the event of an indication of reduction in value unscheduled amortisation is charged.

Other purchased intangible assets are initially included at their acquisition cost and are amortised according to the straight line method based on their economic life over a period of at least five years. The amortization of intangible assets (with the exception of goodwill) is allocated to the individual items of the profit and loss accounts in accordance with the use of such assets.

Property, plant and equipment

Property, plant and equipment are valued at acquisition or manufacturing cost less scheduled and unscheduled depreciation. The acquisition costs include the acquisition prices plus the ancillary acquisition expenses less reductions on the acquisition price. Apart from individual specific costs the manufacturing costs include an appropriate share of the allocable material and production overheads. Third party capital costs are not included in the manufacturing costs. Scheduled depreciation is charged in principle in accordance with the straight line method. Office and factory buildings are depreciated over a maximum period of 40 years, technical equipment and machinery over a period of between 10 and 15 years and other equipment, factory and office equipment mainly over a period of 5 years. Items of minor value (< € 410) are depreciated fully in the year of acquisition. Property, plant and equipment are subject to unscheduled depreciation in the event that there are indications of a reduction in value and if the realisable market value is lower than the depreciated acquisition or manufacturing cost.

Leasing

Leasing contracts, which are considered economically to be purchases of equipment with long term financing (financial leasing), are included when booked in the balance sheet at market value in accordance with IAS 17, insofar as the discounted value of the leasing instalments are not lower. The depreciation methods and the economic lives correspond to those of similar acquired assets. The resulting payment liabilities from future leasing instalments are included under short term liabilities. The capitalised items leased include real estate, machinery, fittings and office equipment.

Financial instruments

Financial instruments are contractually based economic transactions, which include claims to liquid funds. In accordance with IAS 32 (Financial Instruments: Disclosure and Presentation) these include original financial instruments such as trade receivables and payables or also financial receivables and financial liabilities such as derivative financial instruments, which, however, are not used in the elexis Group. The total position of financial instruments is described in greater detail in Note (32) to the consolidated financial statements.

a) Financial assets

The financial assets are attributable to the shares of participation companies, which due to their insignificant importance for the assets, financial and earnings situation are not included in the consolidated financial statements. At each balance sheet date the financial assets are reviewed in order to determine whether there may be reasons to reduce their valuation. Should this be the case, the value of the asset is examined with regard to its carrying value and amortised to its realistic value with effect on the profit and loss account, insofar as the book value is higher than the realistic value. The realistic value is defined as the discounted value of the expected future cash flows. Other loans are valued at acquisition cost. Loans at market rates of interest are capitalised at their nominal value.

b) Trade receivables

Trade receivables and other assets are stated at their acquisition cost. If there are doubts with regard to collectibility, these are stated at nominal value less an appropriate specific provision. Deliveries and services charged to the customers are shown under trade receivables. In our opinion the value thus determined of trade receivables corresponds to the value to fair value.

c) Other receivables and other assets

Other receivables and other assets are valued at acquisition cost. Appropriate specific provisions are made if there are objective indications that the receivable may not be fully collectible. The book value corresponds in our opinion to the fair value.

d) Securities

Share units in funds and certificates are included under securities. The initial valuation is effected on the basis of the acquisition cost. Unrealised profits / losses are stated in shareholders's equity under "valuation changes included directly in shareholders's equity" after taking deferred taxes into consideration as at the balance sheet date. When sold, the profits are booked to the profit and loss account. The securities will be included in the category "available for sale".

e) Financial liabilities and other liabilities

Financial liabilities are included at their corresponding repayment amount. The interest rates agreed correspond to market rates with the result that the repayment amount is comparable to the fair value. In the event of changes in the level of market rates an active adjustment if the conditions is undertaken.

Liabilities from financial leasing contracts are shown at the discounted value of the leasing instalments or the lower market value of the capitalised leased item. Leasing payments are divided into interest and repayment portions, so that there is a constant interest rate in respect of the remaining amount of the liability throughout its maturity.

Short term liabilities are included at their repayment amount. The amounts determined for the financial liabilities and other liabilities in our opinion correspond closely to their fair values.

Deferred taxes

Deferred taxes are accounted for in accordance with IAS 12 by applying the balance sheet based liability method with regard to the temporary differences, which may occur from the differing amounts between the book value of the assets and liabilities in the consolidated financial statements and with regard to the calculation of the corresponding tax value to be used for the taxable result. Furthermore, deferred taxes are set up in respect of tax loss carry forwards, insofar as the realisation of the tax loss carry forwards is assured with sufficient certainty. Deferred taxes are taken into consideration both at the level of the individual companies as well as with respect to consolidation events. The establishment of the deferred taxes is based on the application of the tax rates to be expected at the date of realization. Deferred tax claims and tax debts are not discounted. The book value of deferred tax provisions is monitored regularly and adjusted.

Inventories

In principle the inventories are valued at the lower of acquisition or manufacturing cost and net disposal value. The net disposal value represents the estimated sales price less all estimated costs up to completion as well as the costs for marketing, sales and distribution. The average method is applied to determine the acquisition costs. The manufacturing costs include, apart from specific individual costs, appropriate shares of the allocable material and production overheads. General administrative and financing expenses are not included in the manufacturing costs.

Long term production contracts

The receivables and liabilities from long term production contracts are determined in accordance with the percentage of completion method.

Provision for pensions and similar obligations

The valuation of provisions for pensions is carried out in accordance with the actuarial projected unit credit method for performance-linked pension plans as stipulated in IAS 19. In this respect the benefits to be paid after the start of the benefits period are distributed over the service time of the employees from a dynamic point of view. In this respect future income and pension adjustments are also taken into consideration in addition to the pension rights known at the balance sheet date. The provision for pensions is included in the amount of the full rights less or plus profits and losses. The valuation of these obligations is undertaken by independent experts.

elexis AG makes use of the choice stipulated in IAS 19 (employee benefits) to state immediately the actuarial profits and losses from performance-linked pension plans. Thereby the actuarial profits and losses are not amortised gradually and charged to the profit and loss account in accordance with the so-called corridor method, but charged fully against the shareholders' equity. No amortisation of the actuarial profits and losses are included in the result. Deferred taxes are calculated on the changes in the value of the provision for pensions included in the shareholders' equity, which are also charged against the corresponding item of shareholders' equity.

Other provisions

Other provisions have been set up insofar as an obligation towards a third party resulting from a past event may exist, which might indicate an outflow of assets and can be reliably established. These represent uncertain obligations, which are stated at the best possible estimated amount. Provisions with a maturity of more than one year are stated at their discounted value, if the interest effect is significant.

Assumptions and estimates

The drawing up of the consolidated financial statements in accordance with IFRS requires in the case of some items that assumptions and estimates are made, which may have effects on the amount and the presentation of assets, liabilities, income and expenses as well as with regard to the disclosure of contingent liabilities. The actual values can deviate from these assumptions and estimates. The estimates may refer to goodwill, financial assets, unscheduled amortisation, inventory valuation, doubtful accounts, pension obligations as well as contingent liabilities.

Notes to the profit and loss account

(1) Sales

With regard to the composition of sales as per division and geographic region please refer to the explanations in the segment report.

(2) Cost of goods sold

The cost of goods sold includes the costs of the products and services sold as well as the purchase costs of the merchandise sold. They include the directly allocable material and personnel expenses as well as their share of the material and manufacturing overhead costs. The cost of goods sold includes expenses for research and development in the amount of € 7,820,000 in 2005 and € 5,226,000 in 2004.

(3) Selling expenses

€ 000	2005	2004
Personnel expenses	11,954	11,373
Depreciation and amortisation on fixed assets	243	159
Commissions, freight, advertising and other operating expenses	15,924	14,161
Total	**28,121**	**25,693**

(4) Administration expenses

€ 000	2005	2004
Personnel expenses	4,061	3,663
Depreciation and amortisation on fixed assets	367	281
Other operating expenses	5,555	4,866
Total	**9,983**	**8,810**

(5) Other operating income

The other operating income of the Group is composed as follows:

€ 000	2005	2004
Income from the release of non-utilised provisions	1,427	581
Income from the release of write-downs of receivables	215	342
Capital gains	207	40
Income from the restructuring of long term financing		4,000
Others	1,124	1,219
Total	**2,973**	**6,182**

(6) Other operating expenses

The other operating expenses of the Group include:

€ 000	2005	2004
Allocations to other provisions	669	429
Restructuring expenses	854	129
Allocations to individual write-downs on receivables and losses on receivables	762	1,306
Capital losses	97	596
Other	409	62
Total	**2,791**	**2,522**

(7) Amortisation of goodwill

The unscheduled amortisation in 2005 in the amount of € 600,000 concerns the goodwill of BST PRO MARK Inc, USA. In 2004 unscheduled amortisation was undertaken with regard to the goodwill of HEKUMA GmbH in the amount of € 1,500,000.

(8) Financial result

The financial result is composed as follows:

€ 000	2005	2004
Result of participations		
Income from participations	7	5
	7	**5**
Interest result		
Interest income	255	216
Interest expense on bank loans	-1,357	-1,376
Bank and guarantee fees	-27	-32
Interest expense for financial leasing	-407	-406
Interest expense for provisions for pensions	-715	-753
	-2,251	**-2,351**
Financial result	**-2,244**	**-2,346**

The income from participations is attributable to distributions from companies, which are not included within the scope of consolidation.

(9) Taxes

€ 000	2005	2004
Current taxes		
Domestic	-3,083	-1,027
Abroad	-177	-40
	-3,260	**-1,067**
Deferred taxes	**-2,126**	**-968**
Taxes	**-5,386**	**-2,035**

The domestic taxes are calculated on the basis of a rate of approximately 38.72 % (2004: 38.72%) of the estimated taxable profit for the fiscal year and the prior year. Taxation abroad is calculated on the basis of the applicable tax rates in the corresponding country. The current taxes include probable retroactive tax payments in the amount of € 407,000 following the conclusion of a tax audit.

The deferred tax expense of the current fiscal year results primarily from the use of tax loss carry forwards due to the positive development of the results in 2005 (€ 1,418,000). The temporary differences arise as a result of the different valuation of assets and liabilities in the tax and commercial balance sheet (IFRS), which will be set off over time.

The deferred taxes are attributable to the following balance sheet items and tax loss carry forwards:

€ 000	Deferred taxes included under assets 31.12.2005	Deferred taxes included under assets 31.12.2004	Deferred taxes included under liabilities 31.12.2005	Deferred taxes included under liabilities 31.12.2004
Goodwill	235	286	508	
Other intangible assets	5	8		
Property, plant and equipment	84	79	582	599
Inventories		343	756	715
Long term production contracts			493	680
Other receivables and other assets	93	87	57	43
Special tax item			312	354
Provision for pensions and similar obligations	1,855	1,688		
Other provisions	32	60	132	150
Liabilities	395	363		
Tax loss carry forwards	5,021	6,439		
	7,720	**9,353**	**2,840**	**2,541**

Deferred taxes are set up insofar as their realisation can be expected. Deferred taxes on tax loss carry forwards, which are capitalised as assets, are set up only on the amount of the tax loss carry forwards, for which a set-off against positive tax gains can be expected within three years following the balance sheet date. No deferred tax claims were included for corporation tax loss carry forwards in the amount of € 10,738,000 as well as for local commercial tax loss carry forwards in the amount of € 3,070,000 due to the fact that no possibilities of realisation were expected during this three year period. Deferred taxes stated as assets were set up exclusively for domestic tax loss carry forwards, which have an unlimited period of use.

During the fiscal year 2005 € 221,000 was included in the capitalised deferred taxes stated in the shareholders' equity and deferred taxes shown as liabilities in the amount of € 27,000 from consolidation measures were included with no effect on the profit and loss account.

The reconciliation from the expected to the effective tax expense is as follows:

€ 000	2005	2004
Result before taxes	16,057	9,246
Tax rate of elexis AG	38.72%	38.72%
Expected tax expense (-) / -income (+)	**-6,217**	**-3,580**
Effect of different tax rates abroad	11	35
Tax effect of tax-free income	3	2
Tax effect of non-tax deductible expenses	-136	-85
Tax expense / income from prior periods	-484	-51
Change in valuation of capitalised deferred taxes on tax loss carry forwards	1,418	1,953
Other tax expense / income	19	-309
Taxes	**-5,386**	**-2,035**
Effective tax rate	**33.54%**	**22.01%**

The tax effect of 38.72 % for 2005 (prior year: 38.72 %) is based on the German corporation tax rate of 25.0 %, the solidarity surcharge relating thereto in the amount of 5.5 % and an average local commercial tax of 16.7 %.

(10) Minority interests

These are the share in the profits accruing to other shareholders in the subsidiaries in Japan and Brazil.

(11) Cost of materials

€ 000	2005	2004
Raw materials, supplies and purchased merchandise	48,233	44,161
Purchased services	8,013	7,955
Total	**56,246**	**52,116**

(12) Personnel expenses

€ 000	2005	2004
Wages and salaries	40,414	39,202
Social security and benefit expenses	5,716	5,057
Pension expenses	281	243
Total	**46,411**	**44,502**

Expenses for performance-linked pension plans are included in the pension expenses. Financial items, which are shown in the financial result are not included (interest expense for provisions for pensions).

(13) Employees

The number of personnel employed as at the balance sheet date (excluding apprentices and trainees) was as follows:

€ 000	31.12.2005	31.12.2004
Production / development / construction	474	456
Sales	186	179
Purchasing	23	21
Administration	80	75
Total	**763**	**731**

(14) Earnings per share

The undiluted earnings per share is determined by the division of the result for the period accruing to the common share-holders by the average weighted number of shares outstanding during the period under report. elexis AG has only issued common shares.

€ 000	31.12.2005	31.12.2004
Annual result in € 000 accruing to the common shareholders	10,554	7,167
Weighted number of shares issued (undiluted)	9,200,000	9,200,000
Earnings per share (undiluted) in €	**1.15**	**0.78**

As at 31.12.2004 there were 17,228 subscription rights, which were issued in 2000 within the framework of a stock option plan, As a result of a resolution of the general meeting of shareholders of 24.06.2005 this stock option plan has been discontinued. All the beneficiaries have renounced their rights from the stock option plan against compensation in cash. No further items exist which could lead to dilution.

€ 000	31.12.2005	31.12.2004
Annual result in € 000 accruing to the common shareholders	10,554	7,167
Weighted number of shares issued (diluted)	9,200,000	9,217,228
Earnings per share (diluted) in €	**1.15**	**0.78**

Notes to the consolidated balance sheet

(15) Goodwill and other intangible assets

The development of the goodwill and the other intangible assets is presented as follows:

€ 000	Goodwill	Patents, licences and other intangible assets	*Of which from financial leasing*	Total
Acquisition cost				
Status as at 01.01.2004	**37,692**	**5,548**	*263*	**43,240**
Additions		998	*100*	998
Disposals		-95		-95
Changes in foreign currency		0		
Status as at 31.12.2004	**37,692**	**6,451**	*363*	**44,143**
Additions		433	*15*	433
Disposals				
Changes in foreign currency				
Status as at 31.12.2005	**37,692**	**6,884**	*378*	**44,576**
Accumulative amortisation				
Status as at 01.01.2004	**9,030**	**3,943**	*37*	**12,973**
Additions	1,500	904	*105*	2,404
Disposals	0	-92		-92
Changes in foreign currency	0			0
Status as at 31.12.2004	**10,530**	**4,755**	*142*	**15,285**
Additions	600	952	*106*	1,552
Disposals				0
Changes in foreign currency				0
Status as at 31.12.2005	**11,130**	**5,707**	*248*	**16,837**
Book values				
Status as at 31.12.2004	**27,162**	**1,696**	*221*	**28,858**
Status as at 31.12.2005	**26,562**	**1,177**	*130*	**27,739**
Of which from discontinued operations	*360*	*3*		*363*

The goodwill is attributable individually to the following companies:

€ 000	31.12.2005	31.12.2004
	Remaining book value	Remaining book value
HEKUMA GmbH	22,941	22,941
BST PRO MARK Inc.	2,885	3,485
EMH Eletromecânica e Hidraulica Ltda.	376	376
AViTEQ Vibrationstechnik GmbH	360	360
Total	**26,562**	**27,162**

With regard to the unscheduled amortisation of goodwill please refer to the explanations in Note (7).

(16) Property, plant and equipment

Property, plant and equipment have developed as follows:

€ 000	Land, land rights and buildings	*Of which from financial leasing*	Technical equipment and machinery	*Of which from financial leasing*	Other plant, operating and other equipment	*Of which from financial leasing*	Prepayments and plant under construction	Total
Acquisition cost								
Status as at 01.01.2004	**19,168**	*6,543*	**11,673**	*66*	**10,069**	*347*		**40,910**
Additions	66		362	*104*	1,120	*547*		1,548
Disposals			-406		-1,079	*-5*		-1,485
Changes in foreign currency	-16		-35		-44			-95
Status as at 31.12.2004	**19,218**	*6,543*	**11,594**	*170*	**10,066**	*889*	0	**40,878**
Additions	1		244		1,677	*1,137*		1,922
Disposals			-417		-309			-726
Changes in foreign currency	62		136		110			308
Status as at 31.12.2005	**19,281**	*6,543*	**11,557**	*170*	**11,544**	*2,026*	0	**42,382**
Accumulative depreciation								
Status as at 01.01.2004	**7,802**	*806*	**10,465**	*9*	**8,876**	*74*		**27,143**
Additions	636	*237*	324	*33*	708	*179*		1,668
Disposals			-379		-1,064	*-*		-1,443
Changes in foreign currency	-12		-26		-39	*-*		-77
Status as at 31.12.2004	**8,426**	*1,043*	**10,384**	*42*	**8,481**	*253*	0	**27,291**
Additions	635	*237*	341	*36*	985	*478*		1,961
Disposals			-391		-303			-694
Changes in foreign currency	41		109		101			251
Status as at 31.12.2005	**9,102**	*1,280*	**10,443**	*78*	**9,264**	*731*	0	**28,809**
Book values								
Status as at 31.12.2004	**10,792**	*5,500*	**1,210**	*128*	**1,585**	*636*	0	**13,587**
Status as at 31.12.2005	**10,179**	*5,263*	**1,114**	*92*	**2,280**	*1,295*	0	**13,573**
Of which from discontinued operations	*68*		*67*		*82*	*20*		*217*

The financial leasing contract for land and buildings concerns the factory building of BST International GmbH, Bielefeld. The contract has a remaining maturity until 2020. The financial leasing contracts for technical equipment and machinery as well as for other plant, operating and office equipment have an average remaining maturity of between 2 and 4 years. A premature cancellation of these contracts is in principle not possible. A purchase option for the building at the end of the contractual period has been agreed. A lien on land has been assigned as collateral for a bank loan in the amount of € 607,000.

(17) Financial assets

The financial assets have developed as follows:

€ 000	Participations	Total
Acquisition cost status as at 31.12.2004	5,122	5,122
Acquisition cost status as at 31.12.2005	5,122	5,122
Accumulative depreciation status as at 31.12.2004	2,500	2,500
Accumulative depreciation status as at 31.12.2005	2,500	2,500
Book value status as at 31.12.2004	**2,622**	**2,622**
Book value status as at 31.12.2005	**2,622**	**2,622**

The financial assets are attributable primarily to elexis beta GmbH, Wenden with a book value of € 2,236,000.

As in the prior year no unscheduled amortisation or additions were carried out in respect of the financial assets.

(18) Long term receivables and other assets

The long term receivables and other assets are attributable mainly to loans (€ 201,000) and other assets (€ 220,000). .

(19) Inventories

The inventories are composed as follows:

€ 000	31.12.2005	31.12.2004
Raw materials and supplies	9,693	9,049
Work in process	6,439	6,614
Finished goods	1,695	1,295
Prepayments on inventories	73	47
Total	**17,900**	**17,005**

Inventories with a book value of € 887,000 (prior year: € 845,000) were pledged as collateral for an overdraft of the Group (at BST PRO MARK Inc.).

(20) Long term production contracts

Customer specific production contracts, which are not partially of finally invoiced, are taken into consideration with effect on the profit and loss account in accordance with the percentage of completion method in accordance with IAS 11 or IAS 18. The degree of completion corresponds to the portion of the work performed up to the balance sheet date and is established in relation to the probable total expenses with regard to the expenses incurred up to the balance sheet date. In the event that the accumulative work performed (contract costs incurred and the share of the profits) exceeds the prepayments received in any individual case, the balance stated as an asset between accumulative work performed and prepayments received will be included under receivables from long term production contracts. Should a negative balance arise after deduction of prepayments received for a production contract, this will be included under liabilities from long term production contracts. Expected contract losses are taken into consideration during the valuation of the long term production contracts.

€ 000	Balance stated as asset 31.12.2005	Balance stated as asset 31.12.2004	Balance stated as liability 31.12.2005	Balance stated as liabilities 31.12.2004
Costs incurred for long term production contracts	1,885	3,970	313	820
Shares in profit /(loss)	1,125	1,307	184	499
Subtotal	**3,010**	**5,277**	**497**	**1,319**
Less prepayments received	-1,769	-3,612	-1,008	-13,295
Total	**1,241**	**1,665**	**-511**	**-11,976**

The receivables and liabilities from long term production contracts as at December 31, 2005 have a maturity of less than one year as in the prior year.

(21) Trade receivables

As at December 31, 2005 € 55,000 (prior year: € 99,000) of the trade receivables had a maturity in excess of one year.

Provisions in the amount of € 1,226,000 (prior year: 820,000) were set up in respect of probable uncollectible receivables.

(22) Other short term receivables and other assets

The other short term receivables and other assets are composed as follows:

€ 000	31.12.2005	31.12.2004
Receivables from participation companies	1,644	1,467
Tax receivables	399	307
Receivables from employees	93	44
Prepaid expenses	291	351
Other	1,576	1,248
Total	**4,003**	**3,417**

(23) Short term cash deposits

The short term cash deposits in the amount of € 7,469,000 (prior year: € 2,510,000) are in respect of fixed time deposit at domestic banks.

(24) Securities

The securities in the amount of € 3,001,000 (prior year: -) include share units in domestic funds and certificates with a capital guarantee.

(25) Cash on hand and in banks

As at December 31, 2005 the cash at banks include an amount of € 550,000 (prior year: € 550,000) which is deposited as collateral and is therefore not available to the Company.

(26) Shareholders' equity

With regard to the presentation of the development of the shareholders' equity please refer to the statement of consolidated shareholders' equity.

As at December 31, 2005 the share capital of elexis AG amounted to € 23,552,000 and is divided into 9,200,000 no par value bearer shares. Each no par value share has a notional share in the share capital of € 2.56.

The capital reserve of € 3,555,000 results from the premium earned from the capital increase of elexis AG undertaken during the fiscal year 1999.

The general meeting of shareholders of June 24, 2004 made the following resolutions:

1. The current authorisation for the Management Board valid until December 24, 2005 for the purchase of own shares up to a total of ten of one hundred percent of the current capital shall be cancelled. The Management Board was authorised instead to purchase own shares until December 23, 2006 up to a total of ten of one hundred percent of the current share capital.
2. The existing authorisation up to June 24, 2009 for the Management Board was cancelled, which permitted the Management Board with the approval of the Supervisory Board to increase the share capital up to June 24, 2009 in total up to a maximum of € 2,355,200.00 (authorised capital) through the issue of new no par value bearer shares against contribution in cash or in kind. Instead, the Management Board was authorised to increase the share capital on one or on several occasions through the issue of new no par value bearer shares against contribution in cash or in kind, up to a total amount of € 11,776,000.00 (authorised capital). This authorisation is subject to the authorisation of the Supervisory Board and is valid until June 23, 2010.
3. The conditional capital increase of up to € 1,075,200.00, which became effective on August 21, 1998 with the entry into the Commercial Register, as well as the authorisation for the Management Board to grant subscription rights in this connection, was cancelled.

The changes in value included directly in shareholders' equity are attributable mainly to the actuarially calculated profits and losses not charged to the profit and loss account in connection with the valuation of the provisions for pensions and similar obligations less the deferred takes relating thereto (please refer to the corresponding explanations in Note (27) "provision for pensions and similar obligations"). This item is composed of the following:

€ 000	31.12.2005	31.12.2004
Actuarial profit (losses) from performance-linked pension plans and similar obligations	-1,346	-783
Change in the relative value to be included of the securities available for sale	18	
Other changes included directly in the shareholders' equity	-14	
Deferred taxes on changes in value booked directly to shareholders' equity	524	303
Total	**-818**	**-480**

(27) Provisions for pensions and similar obligations

The provisions developed as follows during the period under report:

€ 000	01.01.2005	Use	Release	Additions	Changes in foreign currency	31.12.2005
Provisions for pensions and similar obligations	15,452	-801		1,412		16,063
	15,452	-801		1,412	0	16,063

The elexis Group administers performance-linked plans not covered by funds for employees of their subsidiaries located in Germany, who are entitled thereto. According to these plans employees have a claim to the benefits on reaching the retirement age of 65. This is also the case in the event of invalidity or as a dependents' pension.

The provisions for pensions and other obligations are calculated in accordance with the projected unit credit method. In this process future wage / salary and pension trends are also included.

The valuation of the performance-linked benefit plans is undertaken annually by independent experts.

The discount rate corresponds very closely to the yield from first-class industrial bonds in Germany. The calculation of the obligations from performance-linked benefit plans are based on the following assumptions:

in %	2005	2004
Discount rate	4.60	4.90
Future pension increases	1.75	1.75

The provisions for pensions and other obligations are composed as follows:

€ 000	31.12.2005	31.12.2004
Discount value of the performance-linked obligations	16,063	15,452
Provisions for pensions and similar obligations	**16,063**	**15,452**

The changes in the discount value of the performance-linked obligations of the current fiscal year are presented as follows:

€ 000	2005	2004
Service time expense	105	103
Interest expense	715	753
Total expenses for pensions and similar obligations	**820**	**856**
Actuarial profits and losses	592	783
Payments made	-801	-797
Change in the discounted value of the performance-linked obligations	**611**	**842**

The current service time expense is charged to the operating result. The interest expenses are included in the financial result. The actuarial profit and losses are booked directly to shareholders' equity.

The existing pension plan has been closed since 1997 for newly hired employees. For those covered by the plan the beneficiary status has been frozen since 1999.

The salary trend is therefore not taken into account when determining the provisions for pensions.

Apart from the performance-linked pensions there are also contribution-based retirement plans. In this case the Company pays contributions to state pension schemes in accordance with the legal conditions. Apart from the payment of the contributions there are no further obligations for the Company. The current payments (2005: € 2,893,000) are allocated to the various operating sectors and are thus included in the operating result.

(28) Other short term provisions/ Provision for taxes

The main items in the other provisions developed as follows during the fiscal year:

€ 000	01.01.2005	Use	Release	Additions	Change in foreign currency	31.12.2005
Restructuring	2.766	-315	-1.268	726	-	1.909
Guarantee obligations	1.386	-92	-113	917	3	2.101
Rebates, bonuses, third party commissions	405	-25	-	296	-	676
Other	2.083	-2.037	-46	1.240	114	1.354
Other short term provisions	**6.640**	**-2.469**	**-1.427**	**3.179**	**117**	**6.040**

The release of the provision for restructuring results from the lower level of risk in connection with obligations towards former participation companies. The appropriations are attributable to the expected loss from the divestment of AViTEQ Vibrationstechnik GmbH.

The provisions for guarantee obligations were set up to cover identifiable individual risks.

€ 000	01.01.2005	Use	Release	Additions	Change in foreign currency	31.12.2005
Provision for taxes	1,055	-543		2,104		2,616

The provision for taxes was calculated on the basis of the annual result for 2005 as well as the tax audit, which was concluded for the years 1999 to 2002.

(29) Financial liabilities

As at December 31, 2005 the financial liabilities were composed as follows:

		Remaining maturity		31.12.2005
€ 000	up to 1 year	Between 1 and 5 years	More than 5 years	Total
Bank loans	2,350	9,820	3,151	15,321
Overdrafts	2,856			2,856
Other financial liabilities		2,301		2,301
Liabilities from financial leasing	901	1,780	5,102	7,783
Total	**6,107**	**13,901**	**8,253**	**28,261**

The maturities of the financial liabilities were as follows as at December 31, 2004:

		Remaining maturity		31.12.2004
€ 000	up to 1 year	Between 1 and 5 years	More than 5 years	Total
Bank loans	3,622	11,788	4,410	19,820
Overdrafts	1,468			1,468
Other financial liabilities		2,301		2,301
Liabilities from financial leasing	528	1,538	5,341	7,407
Total	**5,618**	**15,627**	**9,751**	**30,996**

Bank loans

The interest rates on loans drawn down range between 4.1 % and 6.3 %. The domestic Group companies have not drawn down any loans in foreign currency. Loans of the foreign companies are con-verted at the rate on the balance sheet date.

Collateral

The bank loans are secured as follows:

€ 000	31.12.2005	31.12.2004
Loans secured through mortgages	607	867
Loans secured through pledge of assets	1,129	1,282
Loans secured through pledge of shares	13,877	13,877
Total	**15,613**	**16,026**

Financial leasing

In future the following minimum leasing payments will be due from the financial leasing contracts:

€ 000	31.12.2005	31.12.2004
Due within 1 year	1,319	942
Due within 1 – 5 years	2,919	2,741
Due after 5 years	8,630	9,143
Total of the minimum leasing payments	**12,868**	**12,826**
Less interest portion	-5,085	-5,419
Discounted value of the liabilities from financial leasing	**7,783**	**7,407**

The interest paid on the liabilities from financial leasing amounted to between 3.0 % and 7.5 % per annum as in the prior year.

(30) Trade liabilities

This item includes liabilities for goods and deliveries to third parties. The liabilities are due exclusively within one year.

(31) Other liabilities

The other liabilities are composed as follows:

€ 000	31.12.2005	31.12.2004
Tax liabilities	755	589
Liabilities from social security	1,181	1,095
Other liabilities including prepaid income	12,658	8,622
Total	**14,594**	**10,306**

The other liabilities are all due within one year.

The other liabilities are structured as follows:

€ 000	31.12.2005	31.12.2004
Liabilities to personnel	6,437	4,960
Liabilities from commission obligations	1,691	1,418
Obligations from non-invoiced services	1,047	796
Prepayments received	788	538
Liabilities to participation companies	645	586
Interest	245	0
Audit fees	184	245
Other	1,621	79
Total	**12,658**	**8,622**

(32) Financial instruments

The amounts of the original financial instruments are shown in the balance sheet. Financial instruments stated as assets are included in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) in the categories "held for trading purposes", "held until maturity" and "available for sale" and stated according to this allocation at acquisition cost or market value. Changes in market value of the "instruments available for sale" are transferred to the shareholders' equity. Permanent losses ("impairment losses") are written off with effect on the profit and loss account. Financial instruments, which are stated as liabilities, are included at their relative acquisition cost.

The market value of a financial instrument is the price achievable on the market between two independent third parties. For the receivables and liabilities as well as liquid assets there are no significant differences between book and market value due to their short maturity.

There is a risk of creditworthiness or loss with regard to the eventuality that business partners cannot fulfill their obligations from a transaction undertaken with financial instruments and whereby a loss of assets could occur. Since we do not conclude any general netting agreements with our customers, the total amounts stated in the assets represent the maximum risk of loss.

Financial instruments are subject to fluctuations in value due to changes in the market rate of interest. This concerns above all receivables and liabilities with a maturity of over one year. Longer maturities are, however, of insignificant importance in the operating sector.

No derivative financial instruments are used within the elexis Group. For this reason the establishment of a special risk management programme is not required. Risks from the other financial instruments are monitored regularly.

Explanations on the first time application of IFRS

The fiscal year 2005 is the first year in which elexis AG has drawn up its consolidated financial statements in accordance with IFRS. The last consolidated financial statements were drawn up for the fiscal year 2004 in accordance with HGB; January 1, 2004 is thus the time of the transition to IFRS. The first time application of IFRS takes place retrospectively in accordance with IFRS 1. Thereafter the necessary adjustments of the accounting and valuation methods for the first time application of IFRS must be taken retroactively as if the accounting had always been based on IFRS.

These consolidated quarterly financial statements include the following major accounting and valuation methods which differ from HGB:

(1) Goodwill is subjected to a regular impairment test. No scheduled amortisation is charged.

(2) Leasing contracts, with regard to which the lessee is considered to be the economic owner of the leased item, are included in the balance sheet as assets and as leasing liabilities.

(3) Value adjustments and provisions on inventories and receivables are carried out for recognisable individual risks. No general provisions are made.

(4) Sales and expenses from long term production contracts are recognised in accordance with the degree of completion. Insofar as the accumulated work performed at the balance sheet date (manufacturing costs incurred plus related profits or less any losses to be taken into consideration) exceed the value of the prepayments received, the production contracts must be stated as an asset under trade receivables. Should a negative amount remain, they must be stated under the liabilities.

(5) Deferred taxes are calculated in accordance with the liability method based on the balance sheet. Deferred taxes on loss carry forwards are capitalised if it is expected that they can be used.

(6) Provisions for pensions are established in accordance with the projected unit credit method.

(7) Provisions are set up only if obligations exist towards third parties. Medium and long term provisions are stated at their discounted value. No provisions are set up for expenses.

(8) Monetary positions in foreign currencies are valued at the balance sheet date; the exchange rate differences resulting from this are booked to the profit and loss account.

The effects of the conversion of the accounting from HGB to IFRS on the shareholders' equity and the result of the comparative periods of the prior year are shown as follows:

Reconciliation of shareholders' equity as at January 1, 2004

€ 000	Note	HGB	Extension of the scope of consoli-dation	Effect of the transition on IFRS	IFRS
Goodwill	(1)	28,286	376		28,662
Other intangible assets	(2)	1,378	1	226	1,605
Property, plant and equipment	(2)	7,378	322	6,067	13,767
Financial assets		3,628	-651	-43	2,934
Long term receivables and other assets				43	43
Deferred tax claims	(3)			9,640	9,640
Long term assets		**40,670**	**48**	**15,933**	**56,651**
Inventories	(4)	12,575	1,083	2,865	16,523
Receivables from long term production contracts	(5)			1,716	1,716
Trade receivables	(6)	19,628	2,879	335	22,842
Other short term receivables and other assets	(6)	5,782	-1,402	-17	4,363
Cash on hand and in banks		7,873	349		8,222
Current assets		**45,858**	**2,909**	**4,899**	**53,666**
Total assets		**86,528**	**2,957**	**20,832**	**110,317**
Provisions for pensions and other obligations	(7)	11,875		2,897	14,772
Deferred tax liabilities	(3)	655		1,522	2,177
Financial liabilities	(2)	26,205	841	7,129	34,175
Long term liabilities		**38,735**	**841**	**11,548**	**51,124**
Other short term provisions	(8)	8,215	610	-1,945	6,880
Tax provisions		81			81
Financial liabilities		3,675	711		4,386
Trade payables		9,293	428		9,721
Liabilities from long term production contracts	(5)			3,576	3,576
Other liabilities	(9)	11,616	-33	257	11,840
Current liabilities		**32,880**	**1,716**	**1,888**	**36,484**
Total liabilities		**71,615**	**2,557**	**13,436**	**87,608**
Total assets less liabilities (shareholders' equity)		**14,913**	**400**	**7,396**	**22,709**

Reconciliation of shareholders' equity as at December 31, 2004

€ 000	Note	HGB	Extension of the scope of consolidation	Effect on the transition to IFRS	IFRS
Goodwill	(1)	25,060	375	1,727	27,162
Other intangible assets	(2)	1,531	5	160	1,696
Property, plant and equipment	(2)	7,015	304	6,268	13,587
Financial assets		3,307	-650	-35	2,622
Long term receivables and other assets				234	234
Deferred tax claims	(3)			9,353	9,353
Long term assets		**36,913**	**34**	**17,707**	**54,654**
Inventories	(4)	12,636	1,230	3,139	17,005
Receivables from long term production contracts	(5)			1,665	1,665
Trade receivables	(6)	19,087	2,619	221	21,927
Other short term receivables and other assets	(6)	4,700	-1,091	-192	3,417
Short term financial investments				2,510	2,510
Securities					
Cash on hand and in banks		17,137	253	-2,510	14,880
Short term assets		**53,560**	**3,011**	**4,833**	**61,404**
Total assets		**90,473**	**3,045**	**22,540**	**116,058**
Provision for pensions and other obligations	(7)	11,827		3,625	15,452
Deferred tax liabilities	(3)	598		1,943	2,541
Financial liabilities	(2)	15,190	480	9,708	25,378
Long term liabilities		**27,615**	**480**	**15,276**	**43,371**
Other short term provisions	(8)	7,506	675	-1,541	6,640
Tax provisions		276		779	1,055
Financial liabilities		4,873	745		5,618
Trade liabilities		7,078	441		7,519
Liabilities from long term production contracts	(5)			11,976	11,976
Other liabilities	(9)	21,929	136	-11,759	10,306
Short term liabilities		**41,662**	**1,997**	**-545**	**43,114**
Total liabilities		**69,277**	**2,477**	**14,731**	**86,485**
Total assets less liabilities (shareholders' equity)		**21,196**	568	**7,809**	29,573

Reconciliation of the profit and loss account for 2004

€ 000	Note	HGB	Extension of the scope of consoli-dation	Effect of the transition to IFRS	IFRS
Sales	(10)	**125,091**	5,422	**2,698**	133,211
Cost of goods sold	(11)	-83,681	-3,602	-1,993	-89,276
Gross profit		**41,410**	**1,820**	**705**	**43,935**
Selling expenses	(12)	-24,709	-1,294	310	-25,693
Administration expenses	(12)	-9,201	-326	717	-8,810
Other operating income	(13)	6,518	113	-449	6,182
Other operating expenses		-2,548	-32	58	-2,522
		11,470	**281**	**1,341**	**13,092**
Amortisation of goodwill	(1)	-3,227		1,727	-1,500
EBIT		**8,243**	**281**	**3,068**	**11,592**
Financial result	(12)	-1,131	-49	-1,166	-2,346
Result from ordinary peration s		**7,112**	**232**	**1,902**	9,246
Taxes	(14)	-985	-40	-1,010	-2,035
Consolidated net income before minority interests		**6,127**	**192**	**892**	**7,211**
Minority interests			-44		-44
Consolidated net profit		**6,127**	**148**	**892**	**7,167**

Notes on the reconciliation from HGB to IFRS

(1) In application of IFRS 3 the scheduled amortisation on goodwill from the individual accounts and the consolidation was discontinued as from January 1, 2004. In the event of an indication of a lower value of the goodwill, an impairment test will be carried out. Amortisation is undertaken if there is a real loss of value.

(2) Assets from leasing contracts, which are allocable economically to the lessee, are included in the other intangible assets and in property, plant and equipment. The discounted cash value of the future leasing instalments is included in the financial liabilities.

(3) The capitalised deferred taxes are attributable primarily to tax loss carry forwards and provisions. The deferred taxes stated as liabilities are attributable mainly to the discontinuation of the amortisation of goodwill in the individual financial statements and the valuation of long term production contracts in accordance with the percentage of completion method.

(4) The increase in the inventories is attributable primarily to the non-inclusion of general risk provisions.

(5) Due to the application of the percentage of completion method the receivables from long term production contrasts as well as the liabilities from long term production contracts include the partially realised sales including the margin less the prepayments received for the corresponding contracts up to the balance sheet date.

(6) The higher valuation of the receivables and other assets is attributable to the non-inclusion of general provisions on receivables, which are overdue. The increase resulting from this is compensated for partially by the discounting of longer term receivables.

(7) The calculation of the provisions for pensions on the basis of the projected unit credit method in accordance with IAS 19 leads to a higher valuation of the pension obligations in the IFRS statement than in the HGB statements. This is on the one hand attributable to the fact that on establishing the pension obligations in accordance with IFRS/IAS, future payment increases and pension adjustments must be taken into consideration. Moreover, the interest rates applied for the calculation are lower than the interest rate of 6 % to be applied for accounting purposes in Germany.

(8) The non-inclusion of provisions for expenses in the IFRS statements leads to a decline in the other provisions. Moreover, obligations to employees are in particular included in other liabilities rather than as a provision in the IFRS accounts.

(9) The change in other liabilities results mainly from the restructuring of the liabilities from prepayments received into receivables and liabilities from long term production contracts. Furthermore, obligations to employees are shown in the IFRS statements as a liability rather than as a provision (please refer to the explanations in Note 8).

(10) The increase in the sales is the result of the valuation of the long term production contracts according to the partially realised sales up to the balance sheet date.

(11) The increase in the cost of goods sold reflects above all the share of the cost of goods sold relating to the partial sales from long term production contracts.

(12) The interest expenses in connection with the obligations from financial leasing as well as from pension obligations are included in the financial result in the IFRS statements. This results in a decline in selling and administration expenses with a corresponding increase in the financing costs.

(13) The non-inclusion of general write-offs and provisions in the IFRS statements leads to a decline in the income from the release of provisions.

(14) The deferred tax expense results above all from the use of tax loss carry forwards due to the positive development of the business in the fiscal year 2004.

(15) With regard to the transition from HGB to IFRS the following optional rights were used in accordance with IFRS 1:

- Waiver of the retrospective application of IFRS 3
- Waiver of the retrospective determination of differences in foreign currency in accordance with IAS 21
- At the time of the transition the provisions for pensions corresponded to the defined benefit obligation

Supplementary information

(33) Shareholdings

elexis Group, Wenden
List of the scope of consolidation as at 31.12.2005 (IFRS values)

Name, registered office	Share in capital %	Shareholders' equit € 000	Result € 000	Held by
Parent company				
elexis AG, Wenden				
Consolidated companies				
Germany				
1. AViTEQ Vibrationstechnik GmbH, Hattersheim	100	967	96	
2. BST International GmbH, Bielefeld	100	3,778	2,409[1]	3.
3. EMG Automation GmbH, Wenden	100	24,220	11,858[1]	4. (94%)
4. Elexis Beteiligungsgesellschaft mbH, Wenden	100	3,410	11,035[1]	
5. HEKUMA GmbH, Eching	100	11,517	3,903	
Outside Germany				
6. BST Japan Ltd., Osaka/Japan	98	295	41	2. (67%), 3. (31%)
7. BST PRO MARK Inc., Elmhurst/USA	100	411	-157	2. (51%), 8. (49%)
8. EMG USA Inc., Warren/USA	100	1,147	-575	3.
9. EMH Eletromecânica e Hidraulica Ltda., Belo Horizonte/Brazil	52	903	243	3.
10. Vibrotechnique France S.A.R.L., Chantilly/France	100	110	29	1.
Participations				
Germany				
11. elexis beta GmbH, Wenden	100	2,111	-27	
12. ELOTHERM GmbH, Remscheid (in liquidation)				
Outside Germany				
13. AViTEQ Korea Co. Ltd., Seoul/Korea	100	-367	2	1.
14. AViTEQ Triltechniek B.V., Almere/Netherlands	100	-444	4	1.
15. BST France S.A.R.L., Verrieres Le Buisson/France	90	9	91	2.
16. BST Italia S.r.l., Saronno/Italy	100	56	39	2.
17. BST Sayona Automations Private Ltd., Mumbai/India	51	576	153[2]	2.
18. EMG AUTOMATION Ltd., Buckinghamshire/United Kingdom	100	32	9	3.
19. EMG Electromecanica General Ibérica S.L., Madrid/Spain	51	76	8	3.

[1] Before transfer of profit or loss
[2] Financial statements as at March 31, 2005

The information on the above participation companies is based on the fiscal year as at December 31, 2005. The information on the foreign subsidiaries are converted into euro at the balance sheet date (shareholders' equity) or at the annual average rate (net income).

(34) Remuneration of the Management Board and the Supervisory Board

The remuneration of the Management Board amounted to € 676,000 during the fiscal year 2005.

The provision set up for current pensions and rights to future pensions for a prior member of the Management Board and his survivors amounted to EUR 181,000 as at December 31, 2005.

With a resolution of the general meeting of shareholders of June 25, 2004 the regulations concerning the remuneration of the Supervisory Board were reformulated. In accordance with these regulations the Supervisory Board is entitled to a total compensation of € 364,000 for 2005 (fixed and variable portions).

Apart from a fixed annual fee the members of the Supervisory Board also receive a performance-related compensation based on the consolidated net income.

The remuneration is due following the general meeting of shareholders, which has to make a resolution concerning the appropriation of the net profit for the relative fiscal year.

(35) Shareholdings of the Management Board and the Supervisory Board

The number of shares of elexis AG held by members of the Management Board and the Supervisory Board as at December 31 were:

	2005 Number	2004 Number
Management Board	27,940	27,940
Supervisory Board	157,649	567,355
	185,589	595,295

The shareholdings of the Supervisory Board in 2005 include 126,319 shares of Intec Beteiligungsgesellschaft mbH, Bad Homburg, the votes of which are attributable to Mr. Dirk Wolfertz, Bad Homburg v.d.H., as the sole shareholder of Intec Beteiligungsgesellschaft.

(36) Contingent liabilities

As at the balance sheet date the contingent liabilities were attributable to guarantees for rental leasing obligations and other guarantees given in the amount of € 16,366,000.

Due to the divestment of the subsidiary, AVITEQ as at January 1, 2006 the contingent liabilities were reduced by € 2,244,000 at the time when these financial statements were drawn up.

(37) Other financial obligations

The following payment obligations are due under operating lease contracts:

€ 000	31.12.2005	31.12.2004
Within one year	1,543	1,865
Between two and five years	3,702	4,630
More than five years	241	1,079
	5,486	7,574

During the fiscal year 2005 an amount of € 1,853,000 was expended for leasing contracts. The leasing contracts are attributable primarily to a contract for the lease of a building and for other plant, operating and other equipment.

(38) Major events following the balance sheet date

With effect as from January 1, 2006 elexis AG has sold all the shares of AViTEQ Vibrationstechnik GmbH, Hattersheim.

The 2005 profit and loss account and the balance sheet as at December 31, 2005 of this discontinued operation (AViTEQ Vibrationstechnik GmbH and its subsidiary, Vibrotechnique France S. A. R. L.) were as follows:

Profit and loss account	**2005 € 000**	%
Sales	**14,785**	100.0
Cost of goods sold	-9,674	-65.4
Gross profit	5,111	34.6
Selling expenses	-3,012	-20.3
Administration expenses	-1,210	-8.2
Other operating income	242	1.6
Other operating expenses	-427	-2.9
	704	**4.8**
Amortisation of goodwill	0	0.0
Operating result (EBIT)	**704**	**4.8**
Financial result	-180	-1.3
Result before taxes	**524**	**3.5**
Taxes	-399	-2.7
Consolidated net profit before minority interests	**125**	**0.8**
Minority interests	0	0.0
Consolidated net profit	**125**	**0.8**

Assets	31.12.2005 € 000	%
Long term assets	**1,054**	**16.3**
Goodwill	360	5.6
Other intangible assets	3	0.1
Property, plant and equipment	217	3.3
Financial assets	0	0.0
Long term receivables and other assets	0	0.0
Deferred tax claims	474	7.3
Current assets	**5,394**	**83.7**
Inventories	2,476	38.4
Receivables from long term production contracts	0	0.0
Trade receivables	1,516	23.5
Other short term receivables and other assets	1,296	20.1
Short term financial investments	0	0.0
Securities	0	0.0
Cash in hand and in banks	106	1.7
Total assets	**6,448**	**100.0**

Liabilities	31.12.2005 € 000	%
Shareholders' equity	**709**	**11.0**
Share in shareholders' equity attributable to the shareholders	**709**	**11.0**
Subscribed capital	26	0.4
Capital reserve	2,332	36.2
Retained earnings	-1,559	-24.2
Differences arising from currency conversion	0	0.0
Changes in valuation included directly in shareholders' equity	-90	-1.4
Minority interests	**0**	**0.0**
Liabilities	**5,739**	**89.0**
Long term financial liabilities	**2,533**	**39.3**
Provisions for pensions and similar obligations	2,195	34.0
Provisions for deferred taxes	202	3.2
Other long term provisions	13	0.2
Long term financial liabilities	123	1.9
Current liabilities	**3,206**	**49.7**
Other short term provisions	579	9.0
Short term financial liabilities	402	6.2
Trade liabilities	1,145	17.8
Liabilities from long term production contracts	0	0.0
Other liabilities	1,080	16.7
Total liabilities and shareholders' equity	**6,448**	**100.0**

(39) Participations in the share capital of elexis AG

As at the balance sheet date of December 31, 2005 or up to the drawing up of these financial statements, the following announcements were made in accordance with the German Securities Trading Law (WpHG) with regard to reportable shareholdings in the share capital of elexis AG:

Shareholder	**Date of announcement**	**Shareholding in %**
SüdKapitalanlagegesellschaft mbH, Frankfurt/Main	(Announcement of 24.1.2002/7.2.2002)	9.25
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen	(Announcement of 2.4.2002/8.5.2002)	8.61
DWS Investment GmbH	(Announcement of 09.1.2006)	5.20

The remaining 76.94% of the shares are attributable to the free float and are not required to be disclosed.

(40) Management Board

Composition of the Management Board in the year under report:

Siegfried Koepp (Industrial Engineer), Mühltal (Chairman), Edgar Michael Schäfer (Industrial Manager), Wilnsdorf

(41) Supervisory Board

The Supervisory Board of elexis AG was composed as follows during the fiscal year 2005:

Representatives of the shareholders	**Profession**
Dr. Dirk Wolfertz, Bad Homburg (Chairman)	Managing Shareholder of Intec Beteiligungsgesellschaft mbH
Prof. Dr. Michael Wackenhuth, Weilheim/ Teck	Lawyer
Karl Heinz Gorgas, Tettnang	Management Consultant
Heribert Rau, Eschborn	Auditor, Managing Shareholder of Ewp Eschborner WP-GmbH
Dieter Schulze, Pfaffing	Management Consultant
Willi B. Loose, Tervuren/Belgien	Management Consultant

Representatives of the employees	**Profession**
Georg Keppeler, Olpe (Vice-Chairman)	First Representative of IG Metall, administrative office, Olpe
Klaus Kramer, Bielefeld	Electronics Engineer
Stefan Köster, Olpe	Industrial Foreman, electro-mechanics

Mr. Heribert Rau resigned from the Board with effect as from December 31, 2005. A new member of the Supervisory Board will be proposed for election at the next general meeting of shareholders.

The following members of the Supervisory Board are also members of the supervisory boards or other supervisory bodies of the following companies within the meaning of Section 125 Paragraph 1 Sentence 3 of the German Stock Corporation Law:

Member of the Supervisory Board	Other supervisory board appointments
Dr. Dirk Wolfertz	MBB Airbag Systems GmbH
Karl Heinz Gorgas	Harms & Wende Beteiligungs GmbH Harms & Wende QST GmbH PROCON PAS Elektronik GmbH
Georg Keppeler	Treuhandverwaltung IGEMET GmbH Member of the board of directors of AOK Westfalen Lippe

According to Section 264 Paragraph 3 of the HGB the consolidated financial statements represent a **discharge** for the following Group companies:

1. EMG Automation GmbH, Wenden
2. BST International GmbH, Bielefeld
3. Elexis Beteiligungsgesellschaft mbH, Wenden.

The declaration of compliance of elexis AG with the German Corporate Governance Code (in accordance with Section 161 of the German Stock Corporation Law) is published in the internet under www.elexis.de and thus has been made available to the shareholders.

(42) Audit fees

For the fiscal year 2005 fees to the Group auditors are included in other operating expenses in the amount of € 269,000. These consist of € 226,000 for audit and € 43,000 for other services.

(43) Related Party Transactions

During the fiscal year 2005 sales in the amount of € 3,007,000 were realised with non-consolidated subsidiaries of the Group. The transactions were carried out at market conditions. These subsidiaries undertake mainly sales activities and are compensated for in part by commission payments

Wenden, March 10, 2006

elexis AG, Management Board

Siegfried Koepp

Edgar M. Schäfer

5.0_ Auditor's report

"We have audited the consolidated financial statements, consisting of the balance sheet, the profit and loss account, the changes in shareholders' equity, the statement of cash flow as well as the segment report and the notes to the financial statements and also the Group management report of elexis AG, Wenden for the fiscal year from January 1 to December 31, 2005. The presentation of the consolidated financial statements and the Group management report in accordance with the regulations of the International Financial Reporting Standards (IFRS), as they are to be applied in the EU, as well as the supplementary regulations to be applied in accordance with Section 315 a Paragraph 1 of the HGB and the supplementary conditions of the articles of association are the responsibility of the Management Board of the company. It is our responsibility to issue 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 Article 317 HGB (German Commercial Code) and the generally accepted standards for the audit of financial statements issued by the Institute of German Auditors. Those standards require that the audit be planned and performed in such a manner that it can be assessed with reasonable assurance whether the consolidated financial statements prepared in accordance with the generally accepted accounting principles and the Group management report, are free from errors and misstatements materially affecting the presentation of the assets, financial position and results. Knowledge of the company's business activities and its economic and legal environment, together with an evaluation of the incidence of possible misstatements, are taken into account in the determination of the audit procedures. The scope of the audit includes assessing the effectiveness of the internal control system based on the accounting records and the evidence relevant to the amounts and disclosures in the consolidated financial statements and the Group management report, which are mainly examined on a test basis. The audit includes the assessment of the financial statements of the companies included in the consolidated financial statements, the scope of the consolidation, the adequacy of the consolidation and accounting policies used as well as the significant estimates made by the Management Board, together with assessing the overall adequacy of the presentation of the consolidated financial statements and the Group management report. We believe that our audit provides an adequate basis for reaching our opinion.

Our audit did not result in the necessity for any qualification of our opinion.

In our opinion and on the basis of our knowledge gained during the audit, the consolidated financial statements of elexis AG, Wenden correspond to IFRS, as they are to be applied in the EU, as well as the supplementary regulations to be applied in accordance with Section 315 a Paragraph 1 of the HGB and the supplementary conditions of the articles of association and present within the meaning of these regulations a true and fair view of the assets, financial position and results of the Group. The Group management report corresponds to the consolidated financial statements and gives in total an adequate description of the position of the Group and states suitably the opportunities and risks arising from future developments."

Düsseldorf, March 10, 2006

Deloitte & Touche GmbH	**(Ludwig)**	**(Dr. Froese)**
Wirtschaftsprüfungsgesellschaft	Auditor	Auditor

6.0_ elexis AG Financial statements as at December 31, 2005 (drawn up in accordance with HGB)

Profit and loss account for the period from January 1 to December 31, 2005

	2005 € 000	2004 € 000
1. General administration expenses	-2,298	-1,793
2. Other operating income	1,899	857
3. Other operating expenses	-837	-252
4. Income from profit transfer agreements	11,035	7,271
5. Other interest and similar income *of witch from participation companies:* *(€ 878,000) (€ 855,000)*	*878*	*855*
6. Interest and similar expenses *of witch to participation companies:* *(€ 0) (prior year: € 1,000)*	*-78*	*-111*
7. Result from ordinary activities	10,599	6,827
8. Taxes	-2,224	-974
9. Net income	8,375	5,853
10. Profit cary forward (prior year: loss carry forward)	2,446	-3,407
11. Appropriation to capital reserves	2,446	0
12. Net income for the fiscal year	**8,375**	**2,446**

Balance sheet as at December 31, 2005

Assets

Assets	31.12.2005 € 000	31.12.2004 € 000
A. Fixed assets		
I. Financial assets		
Shares in participation companies	13,227	13,227
	13,227	**13,227**
B. Current assets		
I. Receivables and other assets		
1. Receivables from participation companies	35,375	27,530
2. Other assets	541	398
	35,916	**27,928**
II. Cash on hand and in banks	777	290
	36,693	**28,218**
C. Prepaid expenses	15	12
	49,935	**41,457**

Liabilities

Liabilities	31.12.2005 € 000	31.12.2004 € 000
A. Shareholders' equity		
I. Subscribed capital	23,552	23,552
II. Capital reserve	3,555	3,555
III. Other earnings reserves	5,621	3,175
IV. Net income for the year	8,375	2,446
	41,103	**32,728**
B. Provisions		
1. Provisions for pensions	181	164
2. Provision for taxes	1,515	195
3. Other provisions	2,914	3,598
	4,610	**3,957**
C. Liabilities		
1. Liabilities to banks	1,174	1,320
2. Trade liabilities	312	74
3. Liabilities to participation companies	19	0
4. Other liabilities	2,717	3,378
	4,222	4,772
	49,935	**41,457**

Wenden, March 10, 2006 **Management Board**

The financial statements of elexis AG (incl. notes) and management report, which have been audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft and given an unqualified opinion, will be published in the Bundesanzeiger and deposited at the Commercial Register in Siegen. These financial statements can be requested from elexis AG, Industriestrasse 1, 57482 Wenden, Germany.

7.0_ Report of the Supervisory Board for the fiscal year 2005

During the fiscal year 2005 the Supervisory Board discharged its tasks imposed by the law and the articles of association. It was kept informed regularly by the Management Board about the situation and development of the Company and its subsidiaries. In addition, the Supervisory Board supported, advised and monitored the Management Board with regard to all decisions, which were of fundamental importance for the elexis Group and its subsidiaries. Moreover, current individual topics were presented and discussed with the Management Board in regular working meetings. Apart from the Presidium, the Supervisory Board has also established an Audit Committee. The Audit Committee was involved in particular with the requirements of corporate governance, risk management and matters concerning the audit.

In four regular meetings as well as in an additional meeting of the Supervisory Board, in one meeting of the Presidium as well as in two meetings of the Audit Committee, fundamental issues concerning the Company's business, personnel and capital market policy as well as the general economic and strategic position of the Company and the Group were discussed with the Management Board. Transactions subject to the approval of the Supervisory Board for legal reasons or in accordance with the articles of association were assessed, debated and decided in meetings of the Supervisory Board and its committees.

The main emphases of these meetings were the strategic direction of the elexis Group, which the Management Board decided together with the Supervisory Board and subsequently gave regular reports on its implementation. This also concerned the divestment of AVITEC Vibrationstechnik GmbH as at January 1, 2006.

Mr. Heribert Rau resigned from the Supervisory Board as a representative of the shareholders with effect as at December 31, 2005. The Supervisory Board wishes to thank Mr. Rau for his loyal and successful cooperation.

Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, has audited as Auditors the financial statements of elexis AG, the consolidated financial statements as well as the management report of elexis AG and the Group management report for the fiscal year as at December 31, 2005. As part of their audit, the Auditors also had to assess whether or not the Management Board had initiated all legally required measures. This included, for example, the establishment and use of a monitoring system for the early recognition of developments, which could endanger the continuation of the Company and the Group.

The Auditors have confirmed in their audit report the observance of all legal regulations and have given an unqualified opinion on the financial statements of elexis AG, the financial statements of the Group, the management report of elexis AG and the Group management report. Regarding the risk management system, the Auditors have declared that the Management Board has initiated the measures and in particular a risk management system, as required by Article 91, Paragraph 2 of the German Stock Corporation Act (Aktiengesetz) and Article 289 of the German Commercial Code (HGB) and that these are appropriate for recognising developments endangering the continuation of the Company and the Group at an early stage.

The Audit Committee of the Supervisory Board has examined the financial statements of elexis AG and of the Group as well as the management report of elexis AG and the Group management report, which have been combined in one report, as well as the proposal for the appropriation of net profit for the year at its meeting held on March 20, 2006. The Auditors attended this meeting and reported on the main results of their audit. Following the meeting of the Audit Committee, the Supervisory Board at its meeting held on March 21, 2006 also discussed the documents and on the basis of its own independent assessment accepted the recommendations of the Audit Committee and agreed with the result of the Auditors. At this meeting, which was also attended by the Auditors, the Supervisory Board declared that following the final result of their audit no objections were to be made and that it would approve the financial statements and consolidated financial statements as well as the proposal for the appropriation of the net income for the year as submitted by the Management Board. The annual financial statements for the fiscal year as at December 31, 2005 are thus adopted.

The Supervisory Board extends its thanks to the Management Board, the general managers of the affiliated companies and all the employees of the elexis Group for their commitment during the past fiscal year.

Frankfurt/M., March 21, 2006

Supervisory Board

Dr. Dirk Wolfertz

Chairman

Notes:

elexis

Corporate calendar

Interim report 1-3/2006	May 2006
General meeting of shareholders	May 24, 2006
Interim report 1-6/2006	August 2006
Interim report 1-9/2006	November 2006
Analysts' conference	November 2006
Annual report 2006	March 2007

Imprint

Apart from the employees of elexis AG the following
have cooperated in the drawing up of this annual report

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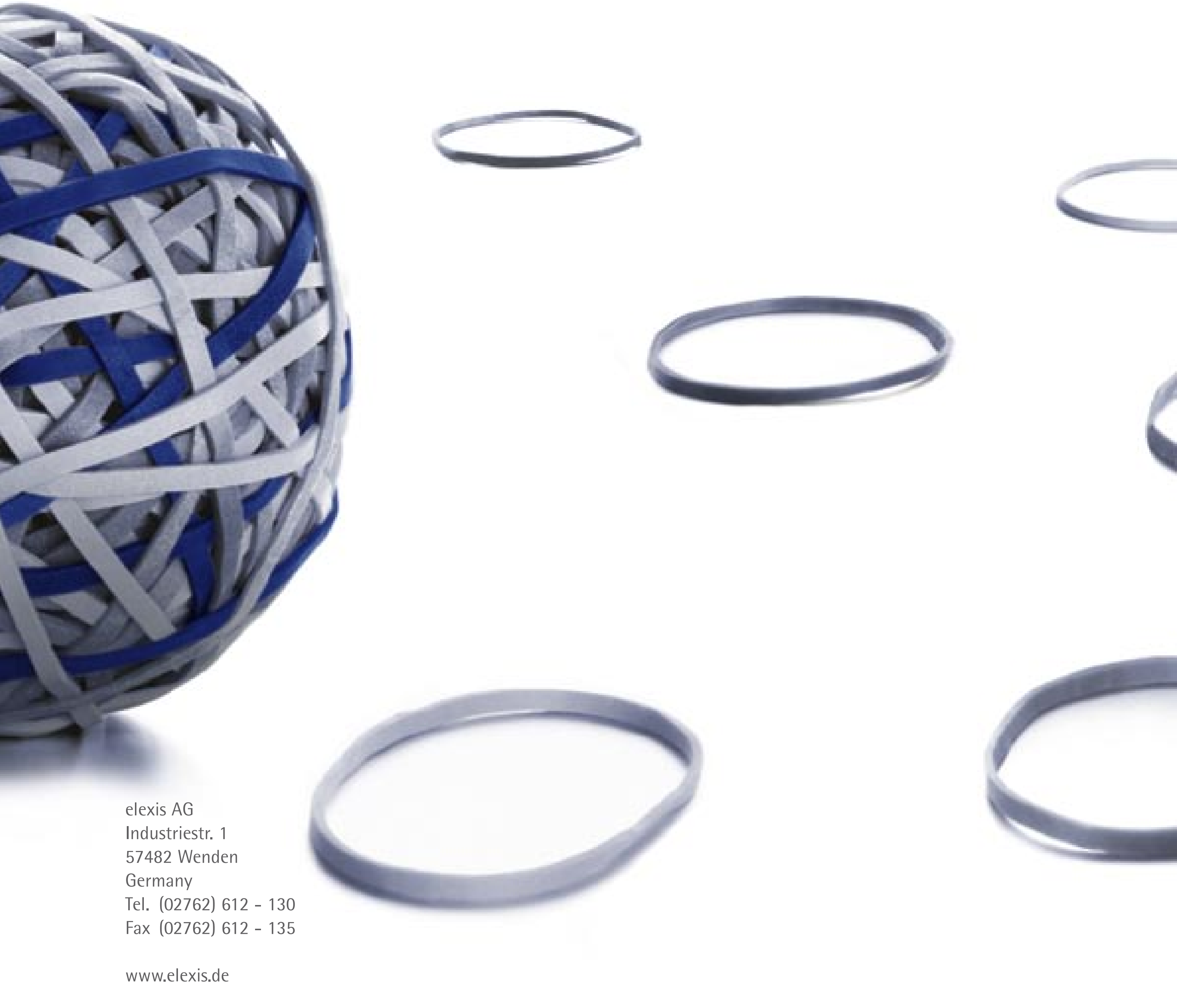

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