

Annual Report 2005

euromicron
Aktiengesellschaft

The euromicron Group – Key figures

Key figures

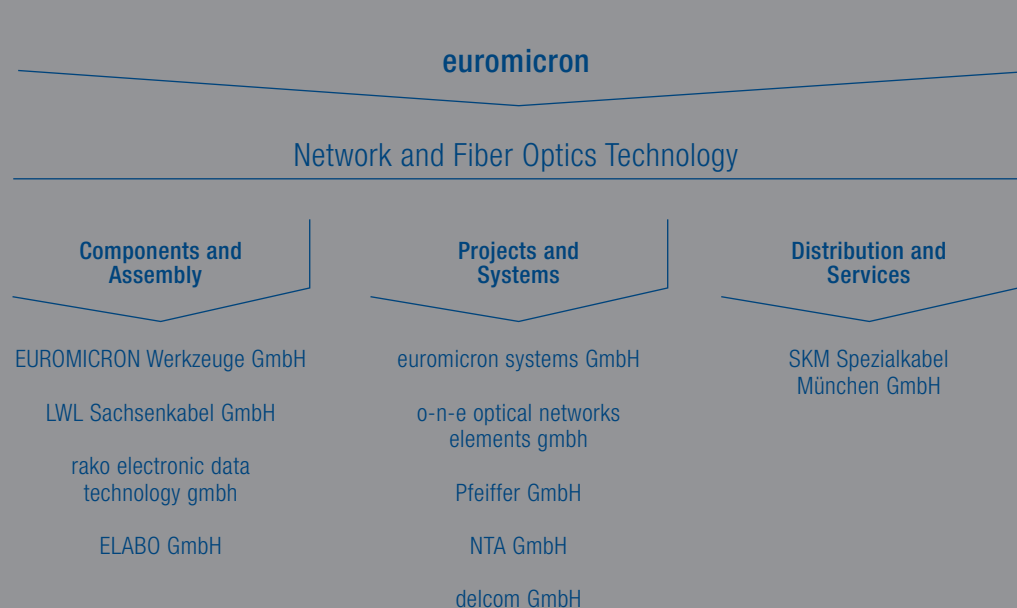
	2005 EUR m.	2004 EUR m.
Consolidated sales	114.1	110.0
Sales by division		
– Network and Fiber Optics Technology	76.1	71.8
– Industrial Holdings	38.0	38.2
Sales by region		
– Germany	100.9	96.5
– Euro zone	7.9	7.1
– Rest of World	5.3	6.4
EBIT (consolidated)	8.3*	10.1
EBIT by division		
– Network and Fiber Optics Technology	4.1	6.9
– Industrial Holdings	4.0	3.7
– euromicron AG and consolidation	0.2	–0.5
Consolidated net profit	5.6	4.5
Cash flow	4.2	1.3
Number of shares (thousands)	4,660	4,660
Earnings per share (in EUR)	1.21	0.97
Cash flow/share (in EUR)	0.91	0.28
Total assets	100.8	107.7
Equity ratio	66.0%	59.2%
Employees (number as an average for the year)	805	765

* after restructuring expenses of approximately EUR 3 million

Company profile and structure

The euromicron Group with its around 800 employees at present is excellently positioned as a system house in the future market of network and communications technology. Our clearly oriented strategic growth segments form the framework for our actions: qualified, efficient development and production operations, professional project and system companies, and interdisciplinary procurement, distribution and consulting teams. We offer our customers innovative products, solutions and services in the field of network technology with a broad-ranging network of branch offices.

Our aim is to further bolster our leading position in the national market, expand our position in the European market and operate with sustained profitability on the back of a strong **euromicron** brand. euromicron's successes are for every single member of the Group a challenge and motivation to advance the company in future and continuously increase its value.



Highlights in 2005

- January 2005** **Independent Research: buy euromicron**
The independent financial market analysis company Independent Research again issued a recommendation to buy shares in euromicron AG, which are listed on the Geregelter Markt, due to the figures for the 3rd quarter of 2004. The analysts confirm their "buy" vote with an upside price target of EUR 21.70.
- February 2005** **University Clinic of Frankfurt awards euromicron order for fire alarm technology**
The NTA Group, Mainz, a subsidiary of euromicron, won an order for expanding the fire alarm technology on the grounds of the University Clinic of Frankfurt. This project is regarded as one of the most extensive and expensive clinic conversion measures in Germany at present.
- March 2005** **euromicron at CeBIT**
The euromicron Group presents itself at CeBIT for the fourth time. Under the slogan "Quality with Security", euromicron offers high-quality solutions for network security.
- April 2005** **euromicron wins order from Mürwik Marine College**
Mürwik Marine College placed its trust in euromicron systems GmbH to implement the data and information network in its building, which is listed as a historical monument. The company installed state-of-the-art transmission technology based on fiber optics with very exacting project management.
- June 2005** **Further development of the Group structure**
euromicron AG acquires a 12% stake in rako GmbH and now holds 100% of the shares.
- June 2005** **Independent Research: buy euromicron**
The analysts from Independent Research issued a recommendation to buy at a slightly higher upside price target of EUR 21.80 on the basis of the financial statements for 2004 and the 1st quarter of 2005.
- June 2005** **General Meeting in Frankfurt/Main**
Consolidated sales and return on sales reach the level of the previous year. euromicron closes fiscal 2005 successfully at the General Meeting in Frankfurt and decides to pay a dividend of EUR 0.60 a share. In addition, AdCapital AG announces at the same time as the General Meeting of euromicron that it now intends a complete takeover or possible independence of euromicron AG through the partial or complete disposal of its share block in euromicron.
- July 2005** **Mainz State Museum trusts in euromicron service**
The Mainz State Museum, which is listed as a historical monument, is equipped by the euromicron Group with cutting-edge communications and security technology as part of its renovation.
- September 2005** **euromicron at GITEX in Dubai for the third time**
euromicron presents itself successfully for the third time at the German pavilion at GITEX, establishes its representative agency in Dubai Internet City, United Arab Emirates, with d-solutions, and signs an official cooperation agreement.
- October 2005** **Data center solutions from euromicron**
euromicron's subsidiary delcom GmbH, Essen, creates a new data center to accommodate the central servers for the Handelsblatt Publishing Group.
- December 2005** **AdCapital sells share in euromicron**
The major shareholder AdCapital AG sold its euromicron stake of 80.22%. The broad spread of shares with an international shareholder structure means that the free float increased to over 90%.
- December 2005** **euromicron now operates only in its core business of network technology**
euromicron AG successfully completes its divestment strategy with the sale of FRAKO GmbH and transfers ELABO GmbH to its Components and Assembly subdivision effective January 1, 2006.

euromicron

Synthesis of Competences

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Dr. Willibald Späth

Chairman of the Executive
Board

Dr. Edgar Bernardi

Member of the Executive

Foreword

Dear Shareholders and Readers,

We have taken changes in our shareholder structure at the end of the fiscal year to, among other things, give our Annual Report a new face and to ensure the information reflects the development of our company more precisely. As always, the report informs you extensively of euromicron's business development, its financial situation and our company as a whole.

We, the Executive Board, are delighted to report a successful fiscal year despite no change in the overall economic situation. If we compare our performance excluding expenses for restructuring, we have been able to grow sales, earnings and net profit sharply.

Following the fact that – due to the planned replacement of the 80 percent share block – the year was characterized by a very restrained acquisition policy and that no decisions to purchase companies were adopted, we have invested parts of our good operating income and profits from the sale of FRAKO GmbH in realigning individual Group companies.

At the same time, we have brought forward our annual ongoing change process and focused the impending restructuring at some of our companies on this one period. In some cases, far-reaching, cost-intensive change processes were implemented to ensure the company's future competitiveness and so we can operate unshackled by restructuring measures during our expansion phase.

Despite these large restructuring expenses and the time that employees and executives had to devote to these measures, we have grown sales by just under 4% to around EUR 114 million and achieved a consolidated EBIT of EUR 8.3 million. The company and its structures are now excellently lined up for the coming growth phase in 2006 to 2008.

This development and the change in shareholder structure are also reflected in the company's stock price. In the year under review, the shares rose by around 33% – outperforming the most important German stock indexes. Consequently, the Executive Board will again propose to the General Meeting a dividend of EUR 0.60 a share for fiscal 2005. We have also achieved our debt repayment targets for 2005. We reduced our net financial debt again by more than EUR 5 million. Our equity structure has improved once more as a result. The equity ratio was increased by around 10%, both at the Group level with stockholders' equity of 66% and at the single entity level with stockholders' equity of around 87%.

The net profit has grown by almost 25 percent year-on-year to EUR 5.6 million, meaning our free cash flow has been increased further. Earnings per share improved by around 25% to EUR 1.21. Our rating among banks on the basis of their internal scheme is BBB to A, which on the IFD (IFD = Rating Initiative Finanzplatz Deutschland) scale corresponds to a classification in level I, i.e. good to very good creditworthiness.

euromicron's executives have intensively addressed the recommendations of the Corporate Governance Code in the year under review and developed it further for euromicron AG in accordance with the new stipulations.

euromicron AG is at the beginning of a new era. After four years of restructuring at the Group, the increase in free float at the end of the year to more than 90%, completion of the divestment strategy with the sale of FRAKO effective the end of the year and the further increase in the company's capital base means that the buy-and-build strategy and in particular our acquisition policy will be able to be implemented more rapidly. Following the investment in restructuring in 2005, we will channel our funds in 2006 to expanding

the Group so as to grow powerfully through acquisitions and organically. The positive trend in communications and security technology also opens up many added potentials for us in the coming years. Within our three strategic growth segments, we are uniting the evolved competences to deliver innovative solutions and aim to make our sales markets even more international. euromicron will strengthen its market penetration and advance into new markets through strategic acquisitions, joint ventures and alliances.

The contacts at CeBIT 2006 have shown us that systematic development of our structures into competence centers has significantly enhanced the recognition of euromicron in the market and boosted demand for our products and services. Under the slogan "Competence goes Solution", we will continue more strongly on this path so that we can offer all our customers the solution they want. Our committed employees are a guarantee for this. The work with great motivation and personal dedication, and the Executive Board thanks them most warmly for this

Dear Shareholders, the euromicron Group thanks you for your trust. In the new fiscal year, we will keep on doing all we can to ensure that we continue our yield-oriented growth course and increase your company's value so that you can profit from the euromicron Group's success with your investment.

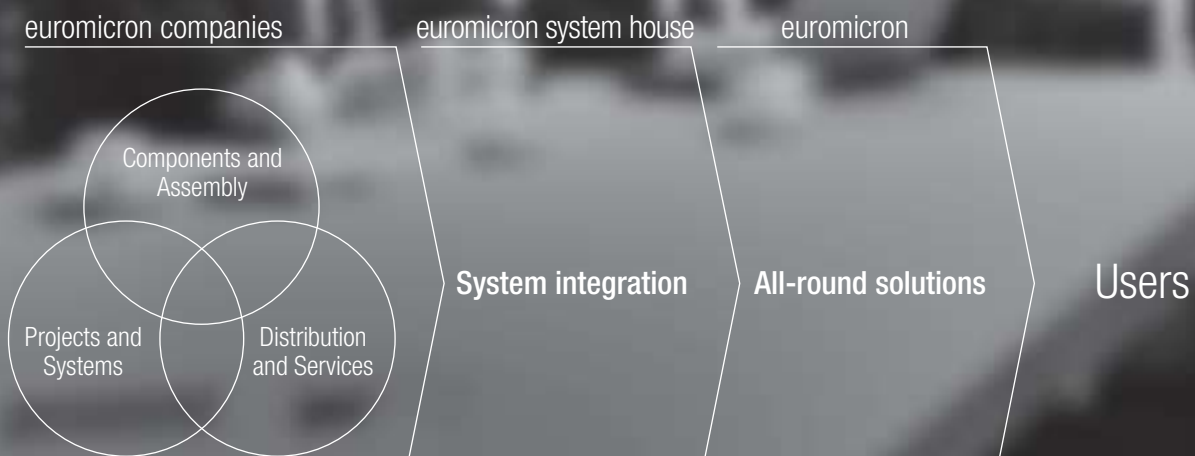


Dr. Willibald Späth
Chairman of the Executive Board



Dr. Edgar Bernardi
Member of the Executive Board

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The euromicron Group:
 A synthesis of the competences of our employees, companies, products and services

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EM-RJ

New connector generation from EUROMICRON
 Werkzeuge GmbH for fiber-optic connections



The euromicron Group delivers preassembled components just in time to suit the construction site and assembly. Example: the company Sachsenkabel is a certified supplier of optical waveguide connection cables and components in the German telecommunications industry. The products are used in national and international networks.

Components and Assembly

euromicron AG develops and produces high-quality components for optical transmission technology with the smallest tolerances. It is one of the leading manufacturers in this field. These components are used in data, communications, laser, measurement and automation technology.

Apart from optical connection elements, euromicron develops and produces tools such as grinding machines and dies for the very highest demands in the cable and wire industry. Assembly of data network components, copper cables and in particular fiber optic cables from leading European vendors forms a further element of our portfolio.

Preassembled test, assembly and laboratory workplaces round off the range and our competence as a quality manufacturer. The company's strict quality management system relates to and shapes cooperation within the euromicron Group, the choice of certified partners and every single employee at the company.



One example of euromicron's gearing toward sophisticated system technology is the expansion of the data center for the Handelsblatt Publishing Group, Düsseldorf. The complete data center solution, with a data network, emergency power supply, UPS system and air-conditioning technology, was implemented by delcom GmbH in Essen. Around 45 km of copper, 5 km of fiber optic and 2,000 patch cables were laid.

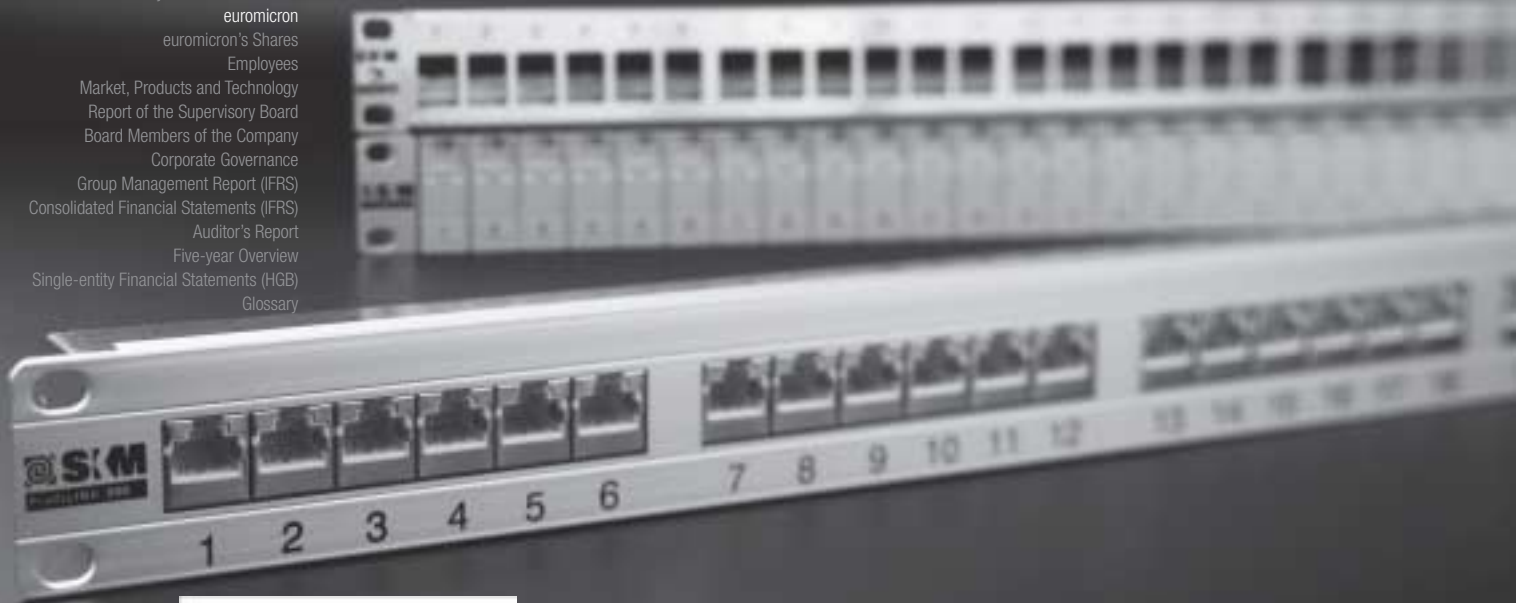
Projects and Systems

The euromicron Group is the competence center for security, communications and data technology as part of project and system business. It offers customer-specific, cross-systems solutions to address the technical and economic requirements for communications and security applications in this high-tech sector.

The chain comprises: planning, installation, system integration, project management, maintenance and support for data centers, mobile applications and applications for home and security.

Experience, competence and strong customer focus combine to deliver cross-vendor design and planning of hardware and software, as well as installation and commissioning of active and passive network technology. Service and maintenance with short response times for all systems and networks, 24-hour service, body leasing agreements and fine technical and practical training reflect its customer orientation.

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As a distributor, euromicron offers its in-house cabling system ProfiLINK, a vendor-independent system solution that is certified by the Gesellschaft für Hochfrequenzmesstechnik AG (GHMT) and has its own test protocol. It is installed by certified partner firms. End customers therefore obtain a high-quality, optimally tuned network solution with competent support, at acceptable prices and with a 15-year system guarantee as investment protection.

Distribution and Services

euromicron knows the international procurement market like hardly any other company. The procurement, distribution and consulting team bases its successful work on reliable and long-term partnerships with leading suppliers of active and passive network products.

The euromicron Group has focused its sourcing activities at SKM Spezialkabel München, where central procurement is carried out. That ensures that customers and its own companies are given the very best technology and optimum terms.

Customers value the qualified, vendor-independent consulting in all network matters, the company's own certified cabling system, a qualified range of training and partner certification in the field of assembly and just-in-time delivery.

The locations and structure of the euromicron Group

euromicron systems – Hanover

Branch offices in Berlin, Hamburg, Burkhardtsdorf and Herdecke

delcom – Essen

Branch offices in Berlin, Stuttgart and Frankfurt/Main

EUROMICRON – Mittenaar

SACHSENKABEL – Gornsdorf

NTA – Mainz

Branch offices in Erfurt, Mannheim and Langen

rako – Grünstadt

o-n-e – Grünstadt

Pfeiffer – Ettlingen

Branch offices in Stuttgart and Munich

ELABO – Crailsheim

SKM – München

Branch offices in Hanover and Leipzig

euromicron AG
Head office – Frankfurt/Main

Growth with substance

Thanks to divisions, products and services that build on each other, the euromicron Group is able to cater for the entire value chain. The focus is on sales and earnings strength. euromicron AG is a financially strong company with great technological potential. Its strategy is to penetrate the market further and to advance into new markets with innovative products and solutions.

Strategic acquisitions, joint ventures and alliances will be leveraged to strength the company's core competences and grow its market shares. Earnings will be sustained through organic growth and constant optimization of structures.

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euromicron on the stock market

euromicron AG
(XETRA)
in EUR



This trend points to the fact that, due to the high degree of internationalization at German companies, global economic factors are increasingly determining the performance of German stock markets. The weaker euro and a greater number of mergers and takeovers also had a positive impact on share prices in 2005.

In 2005, euromicron AG was again listed on the General Standard of the Geregelter Markt of Deutsche Börse AG. Despite the low level of attention that the financial market pays to this listing segment, euromicron's shares performed far better than the two selective indexes DAX und TecDax. That bears out our commercial actions, as well as our commitment to good communication with the financial market and in particular with our shareholders.

euromicron's shares began 2005 at a price of EUR 13.41 and closed the year at EUR 17.92, a rise of 33% and well above the performance of the DAX and TecDAX. The 52-week high in 2005 was even EUR 19.40 in December. That meant that euromicron's share price showed a clear response to good corporate news.

euromicron's shares were again analyzed and assessed in 2005 by Independent Research, an independent financial market analysis institute. The experts created a study for each quarter in fiscal 2005 and four times they issued a recommendation to buy our stock. Alongside our clear, future-oriented strategy, Independent Research attests among other things that euromicron AG has a good quality of earnings, a high level of profitability, a solid capital structure, an attractive dividend yield and an interesting pricing level.

After our long-standing major shareholder AdCapital AG sold its euromicron stake of 80.22% in mid-December 2005, Independent Research conducted a fifth study. In this, the analysts also assessed the broad spread within an international investor structure and the free float of more than 90% as extremely positive, noting that euromicron's shares had been given a good boost for active trading thanks to their availability on the market. The upside price target was increased again.

Following the sale of AdCapital's share block, we engaged Commerzbank and Gebhard Wertpapierhandelsbank as designated sponsors of euromicron's stock and are preparing to switch to the Prime Standard.

The Executive Board and Supervisory Board of euromicron AG will propose to this year's General Meeting on June 23, 2006, to pay out a dividend of EUR 0.60 a share for fiscal 2005.

The annual financial statements of euromicron AG at December 31, 2005, disclose net retained profits of EUR 3,379,548.75, an increase of some 19% year-on-year. It is proposed to the General Meeting to appropriate the net retained profits as follows:

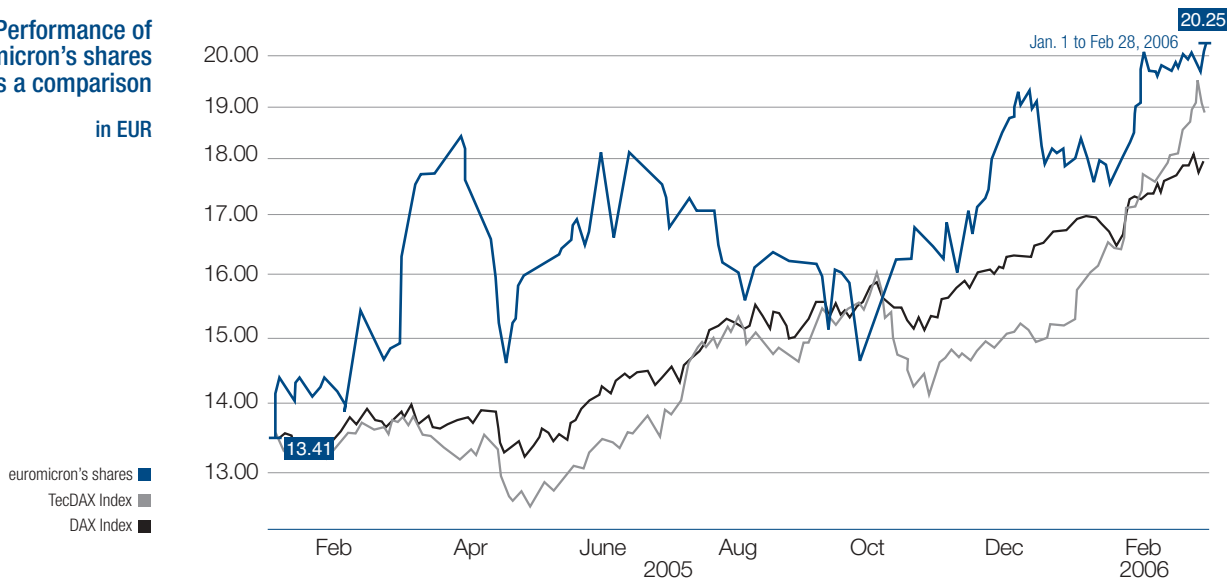
Dividend of EUR 0.60 for 4,660,000 shares
EUR 2,796,000.00

Carryforward to a new account
EUR 583,548.75

The dividend yield for an investor who bought the shares at EUR 13.41 at the beginning of the year is 4.5%. The yield relative to the price on December 31, 2005, of EUR 17.92 is 3.3%. Earnings per share were increased to EUR 1.21, a rise of almost 25%.

Performance of euromicron's shares as a comparison

in EUR



Share ratios

	2005*	2004**
Number of shares	4,660,000	4,660,000
Net income for the period (EUR thou.)	5,647	4,529
Earnings per share (EPS) (EUR)	1.21	0.97
EBIT per share (EUR)	1.78	2.18
Cash flow per share (EUR)	0.91	0.28

* IFRS

** US-GAAP

Performance of euromicron's shares

	2005 EUR	2004 EUR
52-week high	19.40	16.00
52-week low	13.41	12.50
Closing price at year-end (Xetra)	17.92	13.41
Market capitalization at year-end (in EUR million)	83.51	62.49
Closing price on February 28, 2006	20.25	18.04*
Market capitalization on February 28, 2006 (in EUR million)	94.37	84.07*

* March 30, 2005

Shares held by members of the Executive Board and Supervisory Board

	Number of shares
Executive Board	
Dr. Willibald Späth	200
Dr. Edgar Bernardi	–
Supervisory Board	
Dr. Franz-Stephan von Gronau, Josef Martin Ortoft, Dr. Max Hirschberger	–
Dieter Jeschke*, Günther Leibinger*, Dietmar Hermle* (* until Jan. 16, 2006)	–

As of March 17, 2006

Research and Press Summary

1st quarter 2005

Effecten-Spiegel:

Favorites for speculative investors:
euromicron interesting.

finanzen.net:

euromicron a "buy": The shares are still recommended as a "buy" in Helaba's January study. The upside price target is put at EUR 21.70.

Der Aktionär:

euromicron: High order books and above-average margins for the industry speak in favor of the network specialist's quality.

Effecten-Spiegel:

euromicron under the 10 best domestic favorites in 2005.

Der Aktionär:

euromicron: Only a question of time – the shares of the network specialists have wrongly been neglected. The return to the limelight could boost their price.

Börsen-Zeitung:

euromicron increases dividend.

Elektroniknet:

Core business flourishing: euromicron grows by double digits.

GSC:

euromicron: sales in core business in 2004 increase by 20% to EUR 73 million.

Der Aktionär:

euromicron has the potential to catch up.

EUR URO:

The finest of the smallest: euromicron's share classified as a TOP security. Around 200 companies qualify for the second-line stock test.

Apotheker-Zeitung:

euromicron recommended as a buy.

Markt & Technik:

Core business flourishing:
euromicron grows by double digits.

Effecten-Spiegel:

The 10 best domestic favorites from 2005:
euromicron ranks 8th.

WERTPAPIER:

Watch list: 532 companies in a stock check;
euromicron ranks number 210.

Independent Research:

Euromicron a "buy". On March 15, 2005, Independent Research recommends still buying shares in euromicron AG. The upside price target is EUR 21.70.

2nd quarter 2005

Der Aktionär:

euromicron: Dividend rises to EUR 0.60.

Aktiencheck:

euromicron a "buy": Independent Research recommends still buying shares in euromicron at an upside price target of EUR 21.70.

Börsen-Zeitung:

euromicron hopes for larger free float: major shareholder AdCapital changes its strategy – price increases.

Euro am Sonntag:

euromicron – takeover? Ad Capital is considering whether to offload euromicron completely or take over the whole of the company. Neither would be bad for the shares, so investors should hold them.

Der Aktionär:

euromicron – on the road to growth.

Der Aktionär:

euromicron – Farewell from the stock market? Assessment by Der Aktionär: the shares will outperform the overall market in the coming twelve months.

Platow Börse:

euromicron battles against technical resistance at around EUR 18.40. Platow Börse expects the share to break out. Hold down to EUR 13.50.

Effekten-Spiegel:

euromicron – Hold. The stock is regarded as having good prospects despite the rise in price.

Independent Research:

euromicron a "buy". On June 13, 2005, Independent Research still recommends buying shares in euromicron AG.

3rd quarter 2005:

Allgemeine Mainzer Zeitung:

euromicron grows sales and earnings – subsidiary NTA, Mainz, also expands business.

Funkschau:

A one-stop shop – the euromicron Group offers customized, cross-system solutions for voice and data networks.

elektroniknet / Markt & Technik:

euromicron increases sales by 22%.

Markt & Technik:

The minnows are doing well: A number of small German semiconductor specialists show that size is not necessary to achieve growth. euromicron increases sales by 22% year-on-year to EUR 50.1 million.

aktienresearch:

euromicron a "buy": Independent Research sees the current upside potential as 21%, i.e. the target price at EUR 19.80.

Effecten-Spiegel:

euromicron: Shares in the system house euromicron are an interesting small cap with a "dash" of speculative interest due to the possible sales of AdCapital's stake. Classified as a stock market favorite.

Draht:

euromicron AG also successful in 2005.

Independent Research:

euromicron a "buy". On September 30, 2005, Independent Research still rates shares in euromicron AG as a "buy".

4th quarter 2005:

GSC-Research:

Euromicron subsidiary delcom wins an order from the Handelsblatt Publishing Group. The project comprises a complete data center solution with a data network, emergency power supply, UPS system and air-conditioning technology.

Börse Online:

Stock market whisper: The decision is nigh – complete takeover or partial or complete sale of euromicron?

Effecten-Spiegel:

euromicron a hold after a handsome 4% gain on the week.

Börse Online:

euromicron: Ready for acquisitions
AdCapital has sold its block of around 80% in euromicron.

Platow Börse:

euromicron sets store by 2006.

Euro am Sonntag:

Strategy change as a result of sale:
AdCapital has offloaded its 80.22 percent stake in euromicron. Without the major shareholder AdCapital, euromicron aims to return to an aggressive buy-and-build strategy.
Recommendation: Hold.

Der Aktionär:

euromicron: AdCapital exits, free float of euromicron shares now 90%.

Börsen-Zeitung:

AdCapital sells euromicron block.

aktienresearch:

euromicron a "buy": The analysts from Independent Research confirm their vote with a "buy" recommendation. The upside target price is EUR 22.50.

Spiegel Online:

euromicron completes four-year divestment plan; the last industrial holding has been sold.

Independent Research:

euromicron a "buy". On December 21, 2005, Independent Research recommends still buying shares in euromicron AG. The upside price target is EUR 22.50.

Investor Relations

euromicron AG continued its active and prompt investor relations work in 2005 at its customary high standard, communicated with the financial market and in particular its shareholders above and beyond the extent required by the General Standard, and was guided in this by the international reporting standard.

Apart from detailed information on the euromicron Group's business development in the Half-yearly Report and Annual Report, we also published the company's performance after the end of the first and third quarters of 2005 on the basis of the international US GAAP standards and explained it to financial and business analysts in a series of telephone conferences and interviews. Other matters of relevance to the company and share price were disclosed to the broad public in ad-hoc communications and press releases. As a result, euromicron AG fulfills the strict international requirements for transparency and clarity in corporate communication by listed companies. Our principle is to provide all target groups on the financial market with identical information at the same time. That means our investor relations activities contribute to transparency and fairness

All information and publications can be called up at our Internet site www.euromicron.de and more and more shareholders and interested persons are using our shareholder mailing list as a means of obtaining up-to-date information directly via e-mail. You can also send a message to the e-mail address IR-PR@euromicron.de to contact the company at any time or leave your own e-mail address.

Once again in fiscal 2005, the Ordinary General Meeting on June 23, 2005 at the premises of the Chamber of Industry and Commerce (old Frankfurt Stock Exchange) was a highlight of our investor relations activities. More than 200 shareholders, business partners, bank representatives, analysts, journalists and guests were provided with information by the Executive Board of euromicron AG on the course of the past and current fiscal year and were given an insight into the company's strategy, short- and medium-term forecasts and the objectives of the euromicron Group.

This intensive dialog with the capital market was complemented by extensive technical and product communication. For example, detailed information on the operational successes of the companies in the euromicron Group was provided in press releases and ad-hoc communications in fiscal 2005. Successful appearances at the trade fairs CeBIT in Hanover and GITEX in Dubai also enhanced the awareness and image of euromicron as a system house for communications technology and data transmission and as one of the leading producers and solution providers in network and fiber optics technology.

Studies by the independent financial analysis institute Independent Research in 2005 gave institutional and other investors, journalists, private investors and banks the chance to obtain a neutral opinion of the euromicron Group's business development and future prospects. Each of the total of five studies issued a recommendation to buy euromicron's shares. Their upside target price after the sale of AdCapital's 80.22 percent majority stake was again sharply increased in December to EUR 22.50.

The replacement and so new shareholder structure meant that investor relations activities were increased and the dialog with institutional and private investors, shareholders and stockholders was intensified. The company is preparing to switch to the Prime Standard of Deutsche Börse AG in the 2nd quarter of 2006. Apart from the engagement of Commerzbank and Gebhard Wertpapierhandelsbank as designated sponsors for euromicron's shares, euromicron's Executive Board explained the Group's business model, strategy and prospects to institutional investors in December at 14 roadshows in Germany, the UK, Austria, Switzerland and other European countries.

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The team of euromicron AG in Frankfurt/Main stands for organization, integration and public relations work.

Teamwork as a success factor

The common values of trust, commitment, teamwork, innovation and performance are entrenched in our corporate identity. Thanks to its strong identification with the company and orientation toward the Group's success, the euromicron team in Frankfurt, together with the Executive Board and the persons in charge at the Group companies, have helped the euromicron Group make positive advances. euromicron's success would be unconceivable without the willingness of every single member of the Group to achieve.

The team's work in 2005 was defined among other things by supporting the growth of the individual companies, integration measures, the conversion in reporting from US GAAP to IFRS together with the persons responsible at the subsidiaries, organizing trade fair appearances in Germany and abroad, and the increased requirements for IR and PR activities as a result of the sale of the around 80% share block.

Our human resources policy focuses on personnel development, which is being built up at the euromicron Group – from sales training for employees, courses in communication to programs for potential junior staff aimed at promoting entrepreneurial thinking and personal responsibility. Our personnel development activities will be expanded further in fiscal 2006.

At the start of fiscal 2005, an employee was integrated for “central procurement at the euromicron Group” in Frankfurt/Main with the task of achieving savings potentials throughout the Group.

The group tasks assumed by everyone in the team were again discharged with diligence and expertise in the past fiscal year. The company's continuous evolution will also demand flexibility in mind and deed in future and offer everyone a chance to advance themselves. The willingness of our employees to turn in top-class performances is additionally backed by the incentive of variable income components and variable compensation systems.

In 2005 an average of around 742 people were employed at the euromicron Group, together with 63 trainees. This means that the euromicron Group's workforce has risen by 5%. The company in Frankfurt/Main employs seven people.

The competent and focused cooperation of all employees at the company and the subsidiaries underpins the firm desire of the workforce to bolster euromicron's long-term success.

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The euromicron Group presented its latest product lines at CeBIT 2006 and impressed with its service concept "Competence goes Solution".

The information and telecommunications industry is increasingly dominated by the growth drivers of high-speed Internet access for triple play applications, mobile applications using mobile phones with a camera, laptops, smartphones and BlackBerries, as well as reliability and security for all data processing and storage in data centers and server farms. Consumer electronics, with user end devices such as flat screen televisions, DVD recorders, digital cameras and games consoles, is a further market driver and generates growing demand for transferring data volumes and the speed of this in conjunction with the convergence of data, voice and video.

The German IT and communications industry grew at a rate of 2.4% in 2005 and generated sales totaling some EUR 134 billion according to the BITKOM association. That means this sector has once again far exceeded growth in Germany's economy as a whole. In 2005, ITC was thus in third place in terms of its economic significance, behind the construction and energy industries. Information technology contributed most to this growth rate (+ 2.8%) compared with the + 2.0% from telecommunications technology. Data and network infrastructure, in which the euromicron Group mainly participates with its product portfolio, was again a significant growth segment (+ 2.0%). The sustainability of the growth figures – for what is now the second year in a row – bears witness to the clear recovery in the ITC sector after the 3- to 4-year depression since 2001. This trend is also being sustained in 2006, with further growth in Germany's ITC market of 2.4% to a total volume of EUR 137 billion being predicted.

The users of information and telecommunications technology and so existing and potential customers are not only in the private sphere, but also in industries such as mechanical engineering and plant construction, automotive construction, medical engineering, domestic appliances, printing technology, component manufacturing and financial services, which almost exclusively base their business processes on information processing.

Use of ITC technology in industry is trending sharply upward. A midrange car, for example, today contains around 80 processors, some 10 million program steps and approximately 100 MB of program code that runs on the processors. The share of a car's value attributable to ITC is already about 20% and is increasing sharply. The ratios are similar for domestic appliances or other series-manufactured industrial products.

Accordingly, the industrial production process increasingly consists of individual sub-assemblies and intermediate steps, in which sub-functions are tested and measurement and quality results are evaluated, transferred and stored. This has induced euromicron AG to integrate its subsidiary ELABO GmbH, which has been established for many years as a high-quality manufacturer of test and measurement production lines and appropriate assembly workplaces, in the core division of the euromicron Group.

The battle for orders and in some case ruinous price dumping reaped the first consequences in 2005 in the form of a market clear-out in the form of insolvencies, profit warnings and price corrections. Many companies have had to again realize the correctness of the familiar truism that discount wars and consequently pressure on costs and cheap labor have a significant impact on their balance sheet, the quality of products and the reliability of services. Even large groups have shed large divisions – Siemens has sold off its mobile phone unit; it is also having to further optimize its Com Group – since the return targets could not longer be or were not fulfilled.

Charges for mobile telephony or using DSL have fallen further; however, this is resulting in a huge increase in the number of users and the duration and volume of data transfer and storage and so necessitates further capital spending.

Although attempts are made to pass on this reduction in charges to suppliers and service providers for installing the infrastructure, this has its limits in the reliability and quality of the products and services, in particular if the technology and systems are more complex and so there are far greater requirements for employee qualification and system know-how. Carriers cannot afford such restrictions in the availability, reliability and quality of the applications they offer customers and so – despite the pressure on costs – fall back on reliable, high-quality suppliers and service providers like euromicron.

The euromicron Group has also adapted itself to these new market conditions and further optimized its internal structure in 2005 in line with its corporate policy of responding cost-effectively, quickly and flexibly at all times. For example, we have given added flexibility to our assembly capacity through outsourcing and only employed our own employees in key positions for controlling the building sites. At the same time, we have investment more in further training, manufacturer certification and so employee qualification, with the result that we now have our own know-how for all key qualifications in the Group in the field of applications and active components, as well as for all forms of communications and security networks.

That means the euromicron Group is able to plan, install and maintain the right solution for all communications and security demands of our customers by tapping its competence in developing and producing fiber optic components, consulting, qualified knowledge of the procurement market and expert know-how specifically acquired for this purpose.

Consequently, the euromicron Group stands clearly apart from its competitors, as a solution provider that not only controls complex project on schedule and within budget, but also implements the individual types of operation and work in a project reliably and in high quality with the competence of a medium-sized manufacturer.

Report of the Supervisory Board



Dr. Franz-Stephan von Gronau,
Chairman of the Supervisory Board

During the fiscal year 2005, the Supervisory Board performed the duties required of it by law and the Articles of Association, advised the Executive Board of euromicron AG and constantly supervised management of the company. As part of its examination and monitoring activities, it requested written and oral reports by the Executive Board, in joint meetings, regular discussions and telephone calls, and examined in detail the intended corporate policy, fundamental questions of corporate planning, the course and business and business transactions that may be of significant importance for the profitability or liquidity of the company and the Group companies.

The Supervisory Board held six meetings in the year under review, at which it questioned the Executive Board on the submitted reports, the situation and prospects of euromicron AG and its associated companies, current developments and impending decisions.

In addition to current business developments of euromicron AG and the Group, the topics regularly discussed at the meetings of the Supervisory Board were the course of business of the Group companies and their market environment, the ongoing restructuring measures at parts of the Group, risk management, basic questions of corporate planning and the Company's corporate policy. As part of corporate planning, the further implementation of the strategy adopted in 2000, including the investment and human resources plans and earnings projections, and the Company's financing, were discussed extensively. In addition, the Supervisory Board kept itself informed of euromicron's AG focus on network and fiber optics technology, the associated divestment actions, acquisitions and alliances, strengthening of organic growth and the costs required for this, as well as the development of liquidity and the key financial indicators in regular discussions with the Executive Board. The Supervisory Board satisfied itself that the Executive Board has conducted business correctly and has taken all necessary measures in good time.

The Supervisory Board and Executive Board have again analyzed the recommendations and suggestions of the German Corporate Governance Code and issued an updated declaration on conformance in accordance with Section 161 of the German Stock Corporation Law. The explanations to the declaration on conformance are contained in the Annual Report 2005. The Supervisory Board conducted the efficiency review of the Supervisory Board as intended by the code on the basis of a detailed examination catalog.

The annual financial statements of euromicron AG and the Management Report as of December 31, 2005, as well as the IFRS consolidated financial statements including the Group Management Report as of December 31, 2005, were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, and each issued with an unqualified audit opinion. The audit reports of the Company and the Group were available to the Supervisory Board in good time before the balance sheet meeting on March 29, 2006. It examined the financial statements and the management report, as well as the consolidated financial statements and Group Management Report of euromicron AG and the auditor's reports and concurs with the auditor's findings following detailed discussion with the Executive Board. The auditors who signed the annual financial statements took part in the balance sheet meeting of the Supervisory Board, reported on the main results of their audit of the annual and consolidated financial statements and answered supplementary questions by the Supervisory Board.

Upon conclusion of its examination, the Supervisory Board raises no objections.

The Supervisory Board therefore approved the financial statements of euromicron AG and the euromicron Group prepared by the Executive Board at its meeting on March 29, 2006, which are thus adopted.

The Supervisory Board examined the Executive Board's proposal to pay a dividend of EUR 0.60 a share (i.e. a total of EUR 2,796,000.00) and to carry the remaining net income of EUR 583,548.75 forward to a new account, and endorses this proposal of the Executive Board.

The Supervisory Board also examined the Dependent Companies Report and raised no objections to the statement of the Executive Board at the end of this report. It concurs with the findings of the auditors, who issued the following confirmation: "On completion of our audit and assessment in accordance with professional standards, we confirm that the factual information contained in the report is correct and that the consideration paid by the company in the course of the legal transactions listed in the report was not inappropriately high or any disadvantages were compensated for."

There were no changes to the Company's boards in the course of fiscal 2005. Dieter Jeschke, Günther Leibinger und Dietmar Hermle retired from the Supervisory Board effective January 16, 2006. Dr. Franz-Stephan von Gronau, Josef M. Ortolf and Dr. Max Hirschberger were appointed members of the Supervisory Board with the registration dated January 20, 2006, by Frankfurt/Main Local Court. The newly composed Supervisory Board elected Dr. Franz-Stephan von Gronau as its Chairman and elected Josef M. Ortolf as its Deputy Chairman.

The Supervisory Board wishes to express its thanks to the Executive Board, the General Managers and all employees of euromicron's Group companies for their work.

Frankfurt/Main, March 29, 2006

The Supervisory Board



Dr. Franz-Stephan von Gronau
Chairman of the Supervisory Board

Board Members of the Company

Executive Board

Dr. Willibald Späth

Chairman

Strategy, Acquisitions, Finance,
Public Relations and Investor Relations

Dr. Edgar Bernardi

Member of the Executive Board

Products, Market, Technology
and Operations

Supervisory Board

Dr. Franz-Stephan von Gronau

Chairman of the Supervisory Board
(since January 20, 2006)

Certified public accountant

Josef Martin Ortolf

Deputy Chairman of the Supervisory Board
(since January 20, 2006)

Managing partner of
CONMOTO Consulting Group GmbH

Dr. Max Hirschberger

Member of the Supervisory Board
(since January 20, 2006)

Lawyer

Dieter Jeschke

Chairman of the Supervisory Board
(until January 16, 2006)

Chairman of the Executive Board
of AdCapital AG
Chairman of the Supervisory Board of
– AdCapital Beteiligungs AG
– Maschinenfabrik Hermle AG
Member of the Supervisory Board of
Schaltbau Holding

Günther Leibinger

Deputy Chairman
(until January 16, 2006)

General Manager of
Paul Leibinger GmbH & Co. KG
Deputy Chairman of the Supervisory Board
of Maschinenfabrik Berthold Hermle AG,
Deputy Chairman of the Supervisory Board
of AdCapital AG

Dietmar Hermle

Spokesman for the Executive Board of
Berthold Hermle AG (until January 16, 2006)

Corporate Governance

Report by the Executive Board and Supervisory Board of euromicron AG for 2005

On February 26, 2002, the government commission "German Corporate Governance Code" submitted a code of conduct for Executive Boards and Supervisory Boards of listed companies.

A listed company is obliged to issue an annual declaration of whether the company complies with the code or what recommendations in the code it does not observe. euromicron AG is firmly convinced that it has been practicing a series of principles and recommendations for a long time and has fully satisfied the statutory demands and expectations of its shareholders with its understanding of corporate governance to date and has also fulfilled the vast majority of recommendations in the code.

The Company will also acknowledge the "German Corporate Governance Code" in the version dated June 2 / July 20, 2005, as binding on it in future and comply with it with the exception of the following deviations. These deviations are due to the Company's size and business model; in addition, future adjustments are still in preparation.

The Executive Board and Supervisory Board of euromicron AG hereby declare that the Company is to comply with the German Corporate Governance Code, with the exception of the following recommendations:

Re Section 3.8 of the code:

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

Reason:

euromicron AG does not follow this recommendation. The D&O policy does not envisage any deductible for the board members. It is a group insurance policy for a large number of executive employees in which a differentiation by board members and other executives does not appear appropriate.

Re Section 4.2.3 of the code:

"... The salient points of the compensation system and the concrete form of a stock options scheme or comparable instruments for components with long-term incentive effect and risk elements shall be published on the company's website in plainly understandable form and be detailed in the annual report. This shall include information on the value of stock options.

The Chairman of the Supervisory Board shall outline the salient points of the compensation system and any changes thereto to the General Meeting."

Reason:

euromicron AG does not follow this recommendation in that the compensation system for the Executive Board does not envisage granting any stock options. The compensation of the Executive Board consists of a fixed salary plus an earnings-related bonus. Consequently, publishing the remuneration system is not regarded as providing investors with any substantial information.

Re Section 4.2.4 of the code:

"Compensation of the members of the Management Board shall be reported in the Notes of the Consolidated Financial Statements subdivided according to fixed, performance-related and long-term incentive components. The figures shall be individualized."

Reason:

euromicron AG does not follow this suggestion from the code. Compensation for members of the Executive Board is not disclosed, since the Company believes that, due to the existing remuneration structure, individualization and breaking down the details does not provide the investors with significant information.

Re Section 5.3 of the code:

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

Reason:

Since the General Meeting on June 24, 2004, the Supervisory Board of euromicron AG consists only of three persons in accordance with the Articles of Association. The formation of committees is therefore not expedient, especially since the Supervisory Board constitutes a quorum in accordance with Section 108 Paragraph 2 Sentence 3 AktG (German Stock Corporation Law) only if there are at least three members.

Re Section 5.3 of the code:

"Elections to the Supervisory Board shall be made on an individual basis. ... Proposed candidates for the Supervisory Board chair shall be announced to the shareholders."

Reason:

euromicron AG does not follow this recommendation. Elections to the Supervisory Board can be held on an individual basis or as en-bloc elections pursuant to the provisions of the Stock Corporation Law. The Supervisory Board will decide this individually for elections. We consider the publication of candidates proposed for the chair of the Supervisory Board before an election as not being expedient, since the election of the Chairman lies in the sphere of responsibility of the members of the Supervisory Board in its current composition.

Re Section 5.4.7 of the code:

"... Members of the Supervisory Board shall receive fixed as well as performance-related compensation. ..."

The compensation of the members of the Supervisory Board shall be reported in the Notes of the Consolidated Financial Statements, subdivided according to components."

Reason:

In accordance with the Articles of Association, apart from reimbursement of their proven expenses, the members of the Supervisory Board only receive a fixed compensation that is regulated in the Articles of Association. In addition, the overall compensation is published in the Annual Report, with the result that no further disclosure is envisaged. Introduction of additional performance-related compensation requires a resolution to be adopted by the General Meeting.

Re Section 7.1.2 of the code:

"... The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period."

Reason:

euromicron AG follows the recommendation of the code in that the consolidated financial statements are prepared within 90 days and made accessible to the public after a final examination by the auditor. In current practice, interim reports are made publicly accessible within 60 days of the end of the reporting period. We are planning to speed up preparation of the interim reports and ensure publication of them within the recommended period of 45 days.

Re Section 7.1.4 of the code:

“The company shall publish a list of third party companies in which it has a shareholding that is not of minor importance for the enterprise. ... The following shall be provided: name and headquarters of the company, the amount of the shareholding, the amount of equity and the operating result of the past financial year.”

Reason:

euromicron AG follows the recommendation of the code in that it presents a list of holdings in the form of clear charts of the company structure. In addition, extensive details of the purpose and role in the Group of the companies that are not of minor importance to the existence and development of euromicron AG and the Group are given. More detailed publication is dispensed with in order to avoid competitive disadvantages as a result of disclosure of details on valuations and the earnings power of individual holdings.

Apart from this, the Company now already complies in many parts with the additional suggestions of the German Corporate Governance Code.

Reporting and Audit of the Annual Financial Statements: In fiscal 2005, the interim reports by euromicron were prepared in compliance with US GAAP. The consolidated financial statements as of December 31, 2005, were prepared for the first time in compliance with the International Financial Reporting Standards (IFRS). The annual financial statements of euromicron AG are prepared in compliance with the German Commercial Code (HGB). The international standard creates a high degree of transparency and comparability as regards the company's development (code section 7.1). The Annual Report with the annual financial statements is publicly accessible within 90 days of the end of the fiscal year.

Insider rules: euromicron has created an internal list of insiders. It is available to the German Financial Supervisory Authority (BaFin) upon request. Corporate governance is for euromicron not a fixed state, but a continuous process that is integrated actively in the company's development.

Frankfurt/Main, March 2006

euromicron AG

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Group Management Report 2005

Like the years before, fiscal 2005 was characterized by continuing difficult economic conditions, especially in the domestic market. The impetus expected from the public sector and in particular the private sector towards the end of 2004 was below expectations. This, together with the still strong pressure on prices, meant that the euromicron Group had to face a further year in a tough environment.

Given these general economic conditions, the euromicron Group has nevertheless performed well. As it emerged that the forecast turnaround in the telecommunications market would not materialize to the extent hoped, the euromicron group was prompt to focus on securing its operating earnings and restructure individual associated companies. This objective was achieved successfully by the end of the year.

In the area of acquisition policy, it was not possible to drive ahead with further expanding the Group into a future-oriented, clearly structured technology group as planned in 2005. Given the planned disposal of all its shares in euromicron AG by the major shareholder AdCapital AG, something that was accomplished toward the end of the year, no decision to make further acquisitions was adopted, with the result that only the stake in one company was increased to 100% as part of optimizing the investment structure. A further focus was on expanding organic growth and structural alignment of the existing portfolio to the future.

The restructuring process that was begun in 2001 and the divestment policy in the euromicron Group were completed with the sale of all the shares in FRAKO GmbH toward the end of the year and integration of the last industrial holding ELABO GmbH in core business at the beginning of 2006. Since replacement of the share block, all activities have been geared to growth and the acquisition strategy is being driven actively. To enable this, the euromicron Group has free internal liquidity of some EUR 20 million, as well as around EUR 21 million in unused credit lines.

Apart from resumption of the acquisition strategy toward the end of 2005, systematic steps were also taken to promote cooperation between the Group companies in the core business segment. Focal areas were initial measures to create a Group-wide key account management system and train employees, with the aim in future of being able to offer customers nationwide the entire range of euromicron's products and services with every company. In addition, the "DC Solutions" unit was founded in order to pool activities in data center business and establish a central Group procurement unit to optimize purchasing terms.

Due to the emerging tendency in the past fiscal year in favor of organic development of the euromicron Group – and against a forward-looking acquisition policy based on growth –, the focus was not only on securing operating earnings, but also – alternatively to acquisitions – on restructuring the existing companies. Extensive investments from our operating income were made to achieve this. Significant individual measures at the associated companies were the closure of a paint shop, outsourcing of a metal parts production unit and the conversion of assembly structures, affecting a total of some 70 jobs, as well as re-qualification of and hiring of new employees.

The operating income of our investments is approximately EUR 11.5 million as of December 31, 2005, before the mentioned restructuring costs and non-recurring expenses. The actions initiated were designed strictly as precautionary measures for the Group's future and in some cases mean radical changes for the associated companies. In view of the further year-on-year decline in market volume in the field of network technology, the euromicron Group can look back on a stable performance, having grown sales by around 4% over the previous year.

We countered the fierce competitive situation promptly and continuously by means of extensive cost-cutting and rationalization programs. The results of the past years attest impressively to this. We will keep up these efforts and intensify them, in order to remain an efficient, calculable and reliable partner for our customers and retain a profitable and strongly growing company for our shareholders. Apart from that, following replacement of the shares held by AdCapital AG toward the end of 2005 and the change in the Supervisory Board's composition, we intend – increasingly and as planned – to advance into lucrative and future-oriented niche markets by means of acquisitions and organic development of the company in order to achieve our market, growth, internationalization and profit objectives in future, too.

Net assets, financial position and results of operations

Sales

In fiscal 2005, the euromicron Group posted consolidated sales of EUR 114.1 million, a year-on-year increase of around 4%.

Sales

	2005 EUR thou.	2004 EUR thou.
Network and Fiber Optics Technology	76,158	71,801
Industrial Holdings	37,987	38,223
Group consolidations	-40	0
	114,105	110,024

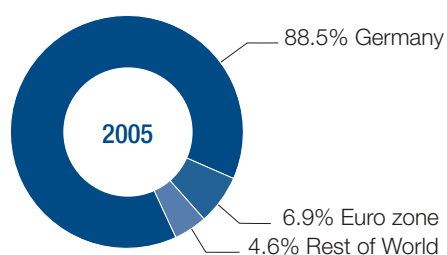
The increase in sales was achieved solely in the core division of Network and Fiber Optics Technology; Industrial Holdings performed on a par with the previous year.

This increase in our core business segment is all the more pleasing given that general economic conditions in our traditional markets have not improved significantly and 2005 was again characterized by projects being deferred. We compensate the pressure on prices and margins, as well as the increasingly shorter-term commissions by our customers, thanks to our great flexibility.

Sales by region

	2005 EUR thou.	2004 EUR thou.
Germany	100,927	96,556
Euro zone	7,899	7,065
Rest of World	5,279	6,403
	114,105	110,024

Sales by region



We were able to grow our sales in Germany by 4.5%, an increase achieved mainly by our core division of Network and Fiber Optics Technology. The companies in this segment do not have a high proportion of exports of their own, but are predominantly suppliers to strongly exporting companies.

Exports to countries in the Euro zone fell 11.8% year-on-year. The largest purchasers are Austria, Italy, France and the Scandinavian countries.

Exports to other countries fell by 17.6%, essentially due to continuing political tensions in the Middle East. Nevertheless, alongside Malaysia, the countries in the Middle East were the main purchasers of our products.

Earnings

In fiscal 2005, the euromicron Group achieved earnings before interest and taxes (EBIT) of EUR 8.3 million on sales of EUR 114.1 million; this figure includes all one-off effects as part of the restructuring. Before these non-recurring expenditures, the EBIT is around EUR 11.5 million. The return on sales relative to earnings before interest and taxes is 7.3%, which testifies to the excellent earnings strength of euromicron AG.

The fall in earnings is mainly due to the decision in 2005 to secure the Group's performance not through acquisitions, but by far-reaching restructuring measures at individual associated companies in order to create the foundation for long-term, stable development of operational business.

In addition, in particular our companies that operate in project and system business are still exposed to long-continuing pressure on prices and margins. Both resulted in an increase in the ratio of cost of materials on the basis of sales revenues by 2.3 percent to 47.7% (previous year: 45.4%) and in an increase in personnel costs of 0.6 percent to give a ratio of 31.4% (previous year: 30.8%).

Selling expenses account for the largest share of the other operating expenses. Only slight research and development costs were incurred, since our companies do not conduct basic research, but usually application-oriented development. There is no proper assignment of costs to individual products, with the result that these costs are not carried as intangible assets. The other operating expenses include fees for auditing of the financial statements of EUR 185 thousand.

Net financing costs improved again by 13.5% due to the continued repayment of financial loans and an optimized investment strategy.

We remain true to our principle of 100 percent security for cash investments.

Income statement

	2005 EUR thou.	2004 EUR thou.
Net sales	114,105	110,024
Inventory changes	-3,405	-3,377
Other operating income	5,405	3,677
Cost of materials	-54,443	-49,941
Personnel costs	-35,925	-33,933
Depreciation and amortization expense	-2,133	-2,150
Other operating expenses	-15,304	-14,158
Earnings before interest and taxes (EBIT)	8,300	10,142
Net financing costs	-637	-736
Income before taxes (EBT)	7,663	9,406
Income taxes	-1,843	-4,626
Minority interests	-173	-251
Consolidated net profit	5,647	4,529
Earnings per share (EPS) in EUR	1.21	0.97

The Group achieved a consolidated net profit of EUR 5.6 million, a year-on-year increase of around 25%. Earnings per share rose from EUR 0.97 to EUR 1.21.

New orders and order books

New orders as of December 31, 2005, developed in line with our expectations in view of the difficult general economic conditions and were EUR 114.3 million, slightly below the previous year's level. Large projects that were firmly anticipated were no longer commissioned toward the end of the year, but deferred to 2006.

New orders

	2005 EUR thou.	2004 EUR thou.
Network and Fiber Optics Technology	76,395	80,339
Industrial Holdings	37,944	38,123
	114,339	118,462

New orders in our core business division of Network and Fiber Optics Technology were EUR 76.4 million, EUR 3.9 million below the very good figure for the previous year.

The companies are performing very diversely. Our high-specialized holdings in the field of component production and assembly, which operate in niche markets, were able to repeat the level of new orders of the previous year overall. These companies do not need to compete with the cheap-price competition from Southeast Asia thanks to their high quality and unique selling points for a large number of products and services. The years-long halt in investment in carrier business was largely abandoned toward the end of the year, meaning our production companies were able to record a sharp pickup in new orders in the second half. In this respect, customers value quality, precise and rapid delivery logistics and – something that is repeatedly demanded – technological competence. The trough of past years seems to be over in this market segment.

Our system houses were not able to profit from the initial revival in willingness to invest in the telecommunications industry, but are expected to do so in the following year. Overall, new orders declined slightly at these companies in the fiscal year. Our past decision to sacrifice order volumes in favor of quality of earnings and not to acquire any loss-making projects was again a major premise of our corporate policy in the year under review. Despite the funds available to it, the euromicron Group continues not to pursue the strategy of displacing competitors from the market with cut-rate prices, but to offer customers all-round solutions with its competence and unique selling points.

The Industrial Holdings division posted new orders on a par with the previous year. The industrial holdings are able to offset fluctuations in domestic business, which likewise showed signs of recovery toward the end of the year, by exports. Due to broad geographical diversification, declines in new orders in individual regions due to general political conditions and tensions are able to be compensated for quickly by increased exports to other countries.

Order books at December 31, 2005, were EUR 50.2 million, on a par with the previous year. The decline results exclusively from changes to the consolidated companies.

Order books

	2005 EUR thou.	2004 EUR thou.
Network and Fiber Optics Technology	47,029	46,166
Industrial Holdings	3,124	4,797
	50,153	50,963

Order books at the core division of Network and Fiber Optics Technology were increased by around 2%. Just about all the companies posted figures on a par with the previous year; in particular the Component and Assembly companies were able to grow their order books sharply.

With these order books, which are to be processed largely in 2006, our core division already has a not insignificant part of its planned sales for 2006 on its books.

Allowing for changes to the consolidated companies, the order books at Industrial Holdings are also at the previous year's level, meaning we are embarking expectantly on the new year in this division.

Balance sheet

The total assets of the euromicron Group falls in fiscal 2005 by 6.4% to EUR 100.8 million. This is mainly due to a reduction in current assets and changes in the consolidated companies.

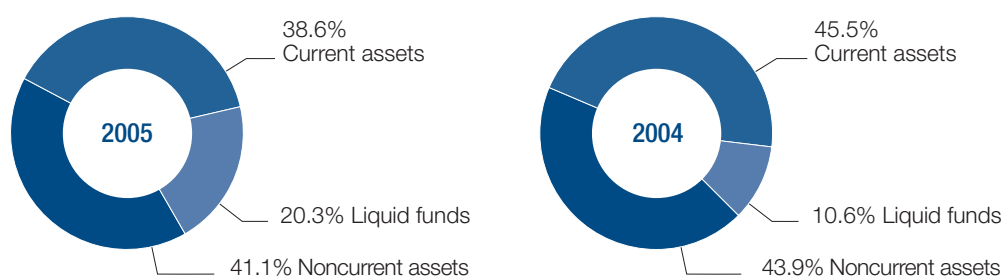
Consolidated balance sheet structure

	2005 EUR thou.	%	2004 EUR thou.	%
Noncurrent assets	41,415	41.1	47,263	43.9
Current assets	38,903	38.6	49,059	45.5
Liquid funds	20,466	20.3	11,377	10.6
Assets	100,784	100.0	107,699	100.0
Stockholders' equity	66,475	66.0	63,764	59.2
Long-term debt	7,780	7.7	13,644	12.7
Current liabilities	26,529	26.3	30,291	28.1
Liabilities	100,784	100.0	107,699	100.0

The fall in noncurrent assets is mainly due to the disposal of the last industrial holding. The ratio of equity and long-term outside capital to assets is 179.3% (previous year: 163.8%). The ratio of fixed assets to total assets is 41.1% (previous year: 43.9%).

Current assets fell not only due to the changes in consolidated companies, but to a major extent as a result of the reduction in inventories because of greater application of the POC method and the first-time open deduction of payments on account for production contracts. The increase in liquid funds is attributable to the disposal of FRAKO GmbH at the end of fiscal 2005 and settlement of the outstanding accounts receivable by the former major shareholder. Working capital as of December 31, 2005, is EUR 32.8 million (previous year: EUR 30.1 million).

Assets

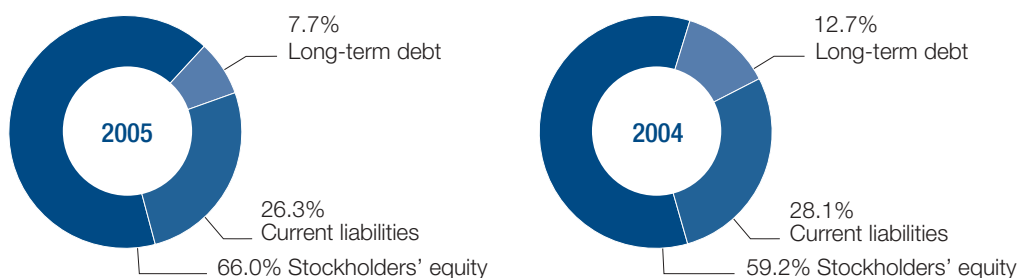


Further repayment of Group loans of EUR 5.1 million again reduced outside capital. The net debts of the euromicron Group relative to the entire outside capital is EUR 13.8 million (40%). In terms of financing debt (remaining industry loan and debts owned to banks) and its high liquidity, the euromicron Group no longer has any net debt, but instead a positive balance of around EUR 10 million.

The Group's financing continues to be geared to the long term. euromicron AG finances all of its associated companies fully from a cash pool system, with the exception of insignificant individual cases where traditional ties with house banks are retained for reasons of corporate policy. The instrument of central cash pooling permits local individual loans in individual cases.

Unused credit lines of more than EUR 21 million ensure the companies' financing and in particular the acquisition strategy for the future.

Liabilities



The equity ratio improved from 59.2% to 66.0%. This increase is due to the net profit for 2005 and much lower total assets. The return on equity grew by around 20% and is 8.7% (previous year: 7.2%). The return on total capital employed is 5.4% (previous year: 4.2%), an increase of 33%.

Statement of cash flows

The sale of FRAKO Kondensatoren- und Anlagenbau GmbH at the end of fiscal 2005 and the internal financing strength from the cash flow of euromicron's companies mean that cash and cash equivalents have increased to over EUR 20 million, despite further loan repayments, payments of an attractive dividend for our shareholders, the acquisition of remaining shares and non-recurring expenses.

The increase in net cash provided by operating activities is mainly attributable to the higher net profit for 2005. The net cash provided by investing activities is EUR 7.5 million after netting out the disposal of a company and acquisition of the remaining shares in an investment. There was a high level of net cash used in investing activities as a result of the acquisition of two companies.

The net cash used in financing activities results from the dividend payment and continued repayment of our financial debts.

Statement of cash flows

	2005 EUR thou.	2004 EUR thou.
Net cash provided by operating activities	9,731	7,968
Net cash provided by (used in) investing activities	7,547	- 10,739
Net cash used in financing activities	- 8,189	- 19,702
Currency translation difference and gain/loss on the valuation of securities	0	252
Change in cash and cash equivalents	9,089	- 22,473
Cash and cash equivalents at beginning of period	11,377	33,598
Cash and cash equivalents at end of period	20,466	11,377

The planned and actually achieved net cash and cash equivalents at the end of the year of more than EUR 20 million allows us to keep on pursuing our growth strategy in our core division aggressively, make the desired and planned acquisitions and yet retain a high degree of independence from the capital markets. At the same time, we aim to maintain the trusted and fine cooperation with our banks, in particular to leverage these more greatly in niche business to the benefit of the Group and if applicable to include a reasonable component of outside capital in financing acquisitions.

Derivate financial instruments

Financial instruments include derivatives as defined by Section (2) No. 3 WpHG (German Securities Trading Law). These are forward transactions endowed as fixed-term deals or option deals, the price of which depends directly or indirectly on the rate of interest or other yields.

In fiscal 2004, euromicron AG had acquired a "leveraged EURIBOR in Arreas Swap with part-time cap", whose parameters – volume, interest rate and term – were tailored to the existing industry loan.

The purchase sum for the period March 1, 2004, to September 1, 2005, was EUR 15,452 and is reduced analogously to repayment of the loan. From September 2, 2005, to December 31, 2005, the purchase sum was EUR 10,131.

The marking-to-market valuation at the balance sheet date is EUR - 71 thousand and is mainly the result of differing payment flows. euromicron AG makes annual payments from the derivative, whereas interest is received quarterly. The payments not yet made by euromicron AG essentially reflect the negative market value; the expenses from this are included in the interest result and reported in the balance sheet under other liabilities. Over the term of the interest rate swap to date until the balance sheet date, euromicron AG has earned income from this hedging transaction of EUR 121 thousand.

The divisions

Network and Fiber Optics Technology

euromicron AG is a leading manufacturer and service provider in the area of optical components, and a provider of turnkey data network systems. Its range of services covers the development, implementation and maintenance of optical fiber-, copper- and plastic-based data networks, the manufacture of optical components and tools, assembly of fiber optic and all other types of cable, as well as distribution of network equipment and components.

The product portfolio includes connectors and connection technology for optical fiber networks, pre-assembled fiber optic cables and assembly and measuring equipment. These are integrated components of WANs and LANs used for data communication at data centers, and in the field of medical and security technology.

In the past fiscal year, the focus was on integrating the companies acquired in the previous year, streamlining the Group's structures through the acquisition of further shares in investments, and restructuring measures in project and system business in order to secure the earnings base for planned future growth. To achieve this, large non-recurring expenditures were approved for our core division. They affected earnings in the periods and represent investments in the future for us.

The acquisition policy was resumed only at the end of the year and so the time remaining in the fiscal year was too short to conclude any deal. At the beginning of 2006, our associated company NTA GmbH acquired KRUMM Telekom GmbH in Langen near Frankfurt and is thus rounding off its presence in the Rhine/Main region as well as its product and service portfolio.

The fiscal year was again defined by the continuing difficult economic conditions and mood in the IT and telecommunications sector. The hopes for a moderate upturn that there were at the start of 2005 were not fulfilled for a long time. It was not until the middle of the second half of 2005 that the trends became stringer and the halt on investment of past years was slackened. In particular, industry began again to channel capital spending into new IT structures that are not only intended to optimize their processes and cut costs, but also to help them increasingly tap new business segments. In contrast, there was no boost in 2005 from the public sector due to the strained budget situation of central government, the federal states and municipalities. Public authorities are compelled to give more weight to price than quality or productivity. In this tough climate, the development of the Network and Fiber Optics Technology segment must be assessed as extremely positive.

Network and Fiber Optics Technology

	2005 EUR thou.	2004 EUR thou.
Sales	76,158	71,801
Earnings before interest and taxes (EBIT)	4,148	6,938
Earnings before taxes (EBT)	3,897	6,535

Sales were EUR 76.2 million, some 6% up year-on-year. Despite a generally declining market trend, the companies in the euromicron Group were able to increase their sales volume. Whereas the companies in Components and Assembly posted a total on a par with the previous year, the holdings in systems and project business pleasingly grew their sales, among only things through greater application of the percentage of completion method. In addition, only pro-rata sales from companies that were consolidated for the first time were included in the figures for the previous year. This growth was achieved despite retention of our strategy of accepting projects without any contribution margin only in exceptional strategic cases.

A clear revival in demand was felt at the end of the year in Components and Assembly, but did not result in any significant increase for the past fiscal year. However, we enter 2006 very positively, since this pickup has continued and strengthened in the first two months.

Distribution and Services (formerly Trade and Services) continued to suffer from the difficult general conditions due to expansion of direct business by manufacturers with their customers. In 2005 we therefore strengthened our efforts to build up our trading companies in addition to our Group's central procurement company and strengthen distribution coupled with consulting, and general services.

Earnings before interest and taxes (EBIT) and earnings before taxes (EBT) fell sharply year-on-year. This is mainly due to the high non-recurring expenses for restructuring measures at individual system companies. These one-off expenditures were deliberately made in 2005, where no acquisitions were decided on, in order to bolster our core division in this field for the future and secure our customary earnings potentials. The division's earnings before these non-recurring expenses are about the level of the previous year.

Industrial Holdings

The two companies in the Industrial Holdings division developed pleasingly in 2005. Earnings before income taxes were increased by 10% on sales at the level of the previous year.

Industrial Holdings

	2005 EUR thou.	2004 EUR thou.
Sales	37,987	38,223
Earnings before interest and taxes (EBIT)	4,007	3,671
Earnings before taxes (EBT)	4,038	3,672

The distribution of sales remained constant year-on-year, despite the strained general economic conditions in domestic markets. This segment generated around 70% of its sales in Germany. The main export markets are the countries of the European Union and Malaysia. Political tensions in the Middle East resulted in a decline in exports there.

Sales in Germany are mainly borne by industry and less so by the public sector.

Earnings were increased in absolute terms and relative to sales. The year 2005 closed with a return on sales based on earnings before interest and taxes (EBIT) of 10.5% (previous year: 9.6%). We were able to more than offset falling margins and the pressure on prices that also prevails in this segment by further restructuring measures and cost cutting. Deferred projects, as in the year before, were largely compensated for again this time around, with the result that sales were at the level planned.

We embark on the new fiscal year with positive expectations on the back of order books of EUR 3.1 million, which are attributable only to the last company in this division.

Employees

The high motivation and fine education of our employees were a foundation for our success in the difficult past fiscal year. The euromicron Group makes high demands on the quality of its products and services and offers attractive jobs offering great challenges and interesting opportunities for development.

In fiscal 2005, an average of 742 people (excluding trainees) were employed at the euromicron Group, a year-on-year increase of around 5%. This is mainly due to changes in the consolidated companies in the previous year at our core division.

The euromicron Group ensures a supply of qualified employees for the future through practical vocational training. In fiscal 2005, the Group companies had an average of 63 trainees, 10% more than in the previous year. As a result, we not only give young people prospects for the future, but also live up to our social responsibility in securing the future of our country.

In addition, the Group will ensure its growing need for highly specialized skilled workers not only externally by buying in services and knowledge, but also by internal qualification programs and internal and external further training and development programs. We are fully aware that our employees' know-how is crucial to the Group's future. That is why fostering our employees and qualifying them systematically in line with requirements is a core element of our corporate policy.

In particular, the identification and advancement of junior employees with young, motivated and well-trained staff and their permanent further qualification is intended to secure our competence in the future.

Investment, research and development

As a high-tech company with a high level of quality and reliability, the euromicron Group faces constant challenges when it comes to developing new products and systems further, as well as permanently optimizing production and control processes, as a result of changes in market conditions and in particular demands from our customers.

In fiscal 2005, the particular focus was on qualification of our employees and strengthening our specialist knowledge in active system technology and the products planned and integrated by us in projects. The increasing complexity of information and communications technology and technical systems requires expert employees who have to be kept trained in the state of the art of system technology so as to be able to offer our customers a competent, cutting-edge solution at all times.

Leading-edge server technologies, the latest developments in VoIP and telephone systems, developments in iris recognition and material airlocks, as well as video surveillance, video management and generally in security technology – all of these mean ongoing investments in further training and development for a solution provider. In this regard, as broad a possible qualification in different makes of active or passive system or security technology is required so that the right solution – one that is where possible vendor-independent – can first be elaborated before the suitable product for it can be chosen. In particular, system configuration and maintenance always demand excellently trained system engineers and service technicians so as to give our customers quick and comprehensive consulting and service.

Components and Assembly at euromicron Group continues to focus on developing high-quality niche products, whose purchasers value their high quality and reliability. That makes us virtually unrivalled by manufacturers of mass products and secures our earnings power long-term, enabling us to invest in new products to meet market and customer requirements.

The forerunner for these product developments in 2005 was EUROMICRON Werkzeuge GmbH, which has created the EM-RJ system, a new generation of connectors that is fully compatible with the copper connector based on the RJ-45 standard. The EM-RJ can be used as a glass fiber or plastic fiber connector. Moreover, this system offers a wide range of possible uses in commercial communications technology and industry as a hybrid connector with RJ-45 contacts for category 6 data transport, power supply via Ethernet or data encoding.

At the same time, we are working on the fundamentals and technological requirements for producing new connector families with a high packing density. The work on this “ProFam” project is being sponsored by the German Ministry of Education and Research.

In order to ensure the quality and reliability of our own products, it goes without saying that we continue to invest in measurement technology for precision production and quality assurance.

The euromicron Group has again demonstrated its sustained strength when it comes to investment and innovation and has been able to achieve significant competitive advantages.

Risk report of the euromicron Group

The euromicron group’s risk policy is oriented toward its strategy of increasing the company’s value in the medium and long term. As part of this group strategy and statutory obligations, euromicron AG has maintained an extensive risk management system since 2000 for itself and at its associated companies. Risk management at the euromicron Group is geared to ensuring that management can recognize significant risks at an early stage and take prompt measures to counter them.

The risk management system is an integral part of the entire planning, control and reporting process at all German associated companies.

The aim is to identify, assess, control and document risks systematically. Taking into account defined risk categories, the main risks are assessed as regards the probability of their occurring and the level of damage; communication and reporting on relevant risks is controlled by defined thresholds. The risks are reviewed at regular intervals as part of risk monitoring to determine their applicability. A Group-wide policy is in place to ensure compliance with consistent standards in the risk management system.

Risks at euromicron's associates essentially relate – as in previous year – to the general economic data, in particular the continuing structural problems in the German market and the euro zone.

In 2005, private and public households stuck by their restrictive investment and spending policy. In our core division, Network and Fiber Optics Technology, there was only a partial end to the long-lasting halt to investment by carriers toward the end of 2005, yet the decline in prices and margins mainly continued. The extensive restructuring, cost-cutting and rationalization measures of the previous and current years were the reason why the quality of earnings at our companies did not deteriorate under these conditions. Further measures were taken this year to ensure that we achieve our income targets in the future. In particular, we intensified outsourcing of activities that are not key qualifications for our business to subcontractors and suppliers, enabling us to flexibilize main components of our manufacturing expenses. In the area of purchasing, we focused more strictly and systematically throughout the Group on a smaller number of suppliers in the past fiscal year so as to obtain far better terms. Initial successes have been reaped, as reflected not least in the growth in intra-group sales of SKM GmbH with its fellow subsidiaries. The previous year's merger of Multimedia Montage GmbH with euromicron systems GmbH means that duplicate corporate functions were able to be eliminated and a good operating EBIT posted. All these measures enabled the euromicron Group to maintain the quality of its operating results in core business against the backdrop of a tough environment.

The risks to the euromicron Group from normal economic fluctuations can be well compensated for by these optimization measures. When the economy picks up again, we will be able to provide the capacities required for handling orders quickly and flexibly, but keep fixed costs at a low level. We therefore expect to increase income additionally.

Exchange rate risks from the price of the dollar against the euro and negative effects from the political instability in the Middle East impacted the earnings situation of individual associates to a slight extent only in the past fiscal year. The predominant share of the Group's sales is conducted in euros in Europe; the possibility of currency hedges for the other transactions are constantly examined and they are concluded if required.

Risks of euromicron AG lie solely in the long-term preservation of the value and earnings power of its associates, and to financing of these as part of cash pooling. These risks, which are directly related to the risks of the associates, are constantly monitored, assessed and assigned measures as a result of our permanent, standardized management information system. The flat hierarchies at the Group, short information channels and constant communication at all levels of the companies mean that the risks can be recognized and counteracted promptly.

Risks from investments in new companies are countered by extensive due diligence processes and long-term accompaniment of prospective acquisitions.

The financing of euromicron AG and the euromicron Group does not harbor any risks as far as can be seen at present. Despite the extensive loan repayments of past years, both at euromicron AG and the associated companies, the Group has sufficient liquid funds. Just about all associates obtain funding from the cash pool and do not have any external debt. In addition, euromicron AG has large credit lines that are not used at present. The Group's further development and continuation of restructuring are not exposed to any risks or restrictions in terms of liquidity.

We do not see any risks due to pending legal proceedings. The current tax audit for the years 1997 to 2000 was largely completed by December 31, 2005, and the information known at present has been included in the financial statements as of December 31, 2005.

In the current assessment of the Executive Board, all the known risks will have no significant impact on the financial position, net assets and results of operations of the euromicron Group.

Environment

The euromicron Group with its associated companies does not own any large production sites that are subject to strict environmental protection guidelines. Nevertheless, the protection of people, the air, soil and water and sparing use of natural resources have high priority at the euromicron Group. Consequently, compliance with all pertinent regulations in all environment-related areas is order to ensure that products and services are produced and delivered in an ecologically friendly way as possible.

Declaration according to Section 312 Aktiengesetz (German Stock Corporation Law)

The Executive Board of euromicron AG has issued a Dependent Companies Report for fiscal 2005 in compliance with Section 312 AktG (German Stock Corporation Law), which closes with the following declaration:

“We declare that euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main, has received a reasonable consideration for every legal transaction in those legal transactions listed in this report, on the basis of the circumstances that were known to us at the times at which legal transactions were conducted with dependent companies.”

Significant events after the balance sheet date

As part of optimization of the investment structures, euromicron AG acquired the remaining 20% stake in NTA GmbH in February 2006, and now holds all the shares in that associated company. In February 2006, the first acquisition of a new company was made. NTA GmbH purchased KRUMM Telekom GmbH in order to round off our presence in the Rhine/Main region.

Outlook for 2006

euromicron AG has positioned itself excellently as a full-line provider for network technology in what continues to be a tough market, yet one with the highly promising future. The goal in future is to communicate our competence and efficiency even more intensively in the market, persuade our customers of our skills in planning and implementing end-to-end solutions and increasingly place the euromicron brand as an all-round vendor of these solutions. We will continuously translate our strategic strengths into operational successes.

In 2006 we intend to drive and expand integration and deeper cooperation between the existing investments in our core division. As part of this, we are also examining whether mergers of associated companies into more powerful, larger units is expedient. The sale of FRAKO GmbH and integration of ELABO GmbH in our core business at the beginning of 2006 completed the divestment phase of euromicron AG's strategic realignment.

Following the changes to the shareholder structure and new composition of the Supervisory Board, the regional and content-specific development of the euromicron Group will be resumed intensively through acquisitions. An initial investment to round out our presence in the Rhine/Main region was taken back at the beginning of 2006 (NTA GmbH); other companies are being scrutinized as regards their potentials and whether they fit euromicron's strategy.

Despite increasingly positive economic news and trends, we assume overall that the general industry-specific conditions will still not be easy, meaning that it will still be necessary in future to leverage rationalization and cost-cutting potentials and increase our competences, efficiency and performance. We intend to pursue our investment strategy systematically and significantly push ahead with expanding the Group. In doing so, we will proceed with the necessary care and subject the business models and sustainable future prospects of possible investments to a critical examination. Our acquisition efforts will no longer be confined to the German market, but increasingly focus on neighboring European markets, initially Switzerland and Austria. Far-reaching alliances and joint ventures in other countries will complement our company's development.

We assume that the investment restraint in industry that has lasted for more than four years will not continue in the short and medium term. In past years, there has been greater investment in optimizing existing systems; new investments in IT and telecommunications plant and equipment have repeatedly been deferred. The ever growing volume of data and the need to make it available at an ever greater speed means that the phase of optimizing existing systems is slowly coming to an end. New, more powerful networks are required to address future requirements for a functioning IT and telecommunications environment. We are convinced that we are on the brink of a phase of extensive new investment in the industry. Initial clear signs of this can be seen in the level of new orders at individual associated companies at the end of 2005 and the beginning of the new fiscal year.

The ITC industry also assumes growth of 2.4% this year. Studies indicate an end to the pent-up investment of past years. There is growing willingness to invest again in new projects that not only aim to cut costs, but also enable new business segments to be tapped. Analysts still see a far greater growth potential for the ITC industry than for many other sectors of the economy. Annual growth rates of up to 5.5% are expected worldwide in the telecommunications sector.

Our earnings of the past year show that our strategy is the right path. The euromicron Group does not regard itself as competing with low-price vendors, but instead continues to set store by the quality, performance and reliability of its products and services and is being borne out in this by the market. The past year illustrated more clearly that customers are increasingly regarding the quality of low-price vendors critically and that there is a growing realization that quality, technological competence and professional 24-hour logistics has its price. We feel confident that quality will win through in the long run, despite times of pressure on prices and margins. Longstanding partnerships and cooperation agreements prove this success. The growing acceptance of euromicron AG as an acknowledged system house underscores our pleasing and forward-looking business development.

We assume that we can further grow our earnings power despite a difficult market situation and if no incalculable external events occur. Further company acquisitions will further strengthen our position in the market. Measures aimed at internal structural change are constantly examined and implemented if required.

With our clear and convincing business model, solid liquidity in conjunction with a constantly growing cash flow and our comfortable equity ratio, we are excellently equipped to continue our company's successful development, one that opens up long-term prospects for our shareholders, too.

The Executive Board looks to the future of the euromicron Group with optimism. Future investments will be geared specifically to continuous growth that promotes the sustained increase in the value of euromicron AG and makes the company increasingly attractive to new investors.

Frankfurt/Main, March 17, 2006



Dr. Willibald Späth
Chairman of the Executive Board



Dr. Edgar Bernardi
Member of the Executive Board

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Consolidated Financial Statements (IFRS)

Consolidated balance sheet of the euromicron Group

as of December 31, 2005 (IFRS)

Assets

	Note	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Noncurrent assets			
Intangible assets	(1)	37,841	41,127
Property, plant and equipment	(1)	3,331	5,639
Financial assets	(1)	243	497
Other receivables and assets	(2)	0	746
Deferred tax assets	(3)	2,324	2,059
		43,739	50,068
Current assets			
Inventories	(4)	15,837	21,497
Trade accounts receivable	(5)	17,031	19,452
Receivables from affiliates	(5)	0	1,351
Other receivables and other assets	(5)	3,711	3,954
Marketable securities and cash	(6)	20,466	11,377
		57,045	57,631
		100,784	107,699

**LIABILITIES AND
STOCKHOLDERS'
EQUITY**

	Note	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Stockholders' equity (66.0% / 59.2%)	(7)		
Subscribed capital (composed of 4,660,000 no-par value shares, authorized capital EUR 5,957 thousand)		11,914	11,914
Additional paid-in capital		61,781	61,781
Consolidated retained earnings		- 13,101	- 14,834
Net income for the period		5,647	4,529
Minority interests		234	374
		66,475	63,764
Long-term debt			
Accrued liabilities	(8)	670	1,604
Liabilities	(9)	5,276	10,559
Deferred taxes	(10)	1,834	1,481
		7,780	13,644
Current liabilities			
Accrued liabilities	(8)	2,618	5,030
Trade accounts payable	(9)	8,044	6,044
Other liabilities	(9)	15,867	19,217
		26,529	30,291
		100,784	107,699

Consolidated income statement

of the euromicron Group for the period January 1 to December 31, 2005 (IFRS)

Income statement

	Note	2005 EUR thou.	2004 EUR thou.
Net sales	(11)	114,105	110,024
Inventory changes		-3,405	-3,377
Other operating income	(12)	5,405	3,677
Cost of materials	(13)	-54,443	-49,941
Personnel costs	(14)	-35,925	-33,933
Depreciation and amortization expense		-2,133	-2,150
Other operating expenses	(15)	-15,304	-14,158
Profit from operating activities		8,300	10,142
Net financing costs	(16)	-637	-736
Income before income taxes		7,663	9,406
Income taxes	(17)	-1,843	-4,626
Consolidated net income for the period, before minority interests		5,820	4,780
Minority interests	(18)	-173	-251
Consolidated net profit		5,647	4,529
Earnings per share (EPS) in EUR		1.21	0.97

Statement of cash flows

of the euromicron Group for the period January 1 to December 31, 2005 (IFRS)

Statement of cash flow

	2005 EUR thou.	2004 EUR thou.
Consolidated net profit for the period	5,647	4,529
Depreciation and amortization of noncurrent assets	2,133	2,150
Disposal of assets, net	-2,860	-1,543
Change in accrued liabilities	-702	-3,835
Cash flow	4,218	1,301
Change in deferred taxes	-114	-300
Changes in other short- and long-term assets and liabilities::		
- Inventories	-2,208	6,355
- Trade accounts receivable	58	-886
- Trade accounts payable	2,560	231
- Other operating assets and liabilities	5,217	1,267
Cash provided by operating activities	9,731	7,968
Proceeds from noncurrent assets	72	172
Cash paid to acquire noncurrent assets	-1,460	-7,854
Changes in intangible assets and property, plant and equipment from additions to consolidation	0	-3,626
Changes in goodwill due to additions to consolidation	0	8,593
Contributions due to sale of companies	9,000	1,650
Disbursements due to acquisition of companies	0	-9,079
Decrease in fund resources	-65	-595
Net cash provided by (used in) investment activities	7,547	-10,739
Dividends paid	-2,796	-2,330
Change in financial debt	-5,253	-17,413
Change in minority interests	-140	41
Net cash used in financing activities	-8,189	-19,702
Currency translation difference	0	252
Net change in cash and cash equivalents	9,089	-22,473
Cash and cash equivalents at start of period	11,377	33,598
Cash and cash equivalents at end of period	20,466	11,377
Cash and cash equivalents are composed of:		
Cash	18,265	7,148
Securities	2,201	4,229
	20,466	11,377

Statement of changes in stockholders' equity

of the euromicron Group up to December 31, 2005 (IFRS)

Statement of changes in stockholders' equity

				Gain/loss on the		Minority interests EUR thou.	Total EUR thou.
	Subscribed capital EUR thou.	Addi-tional capital EUR thou.	Consol-idated retained earnings EUR thou.	Currency trans-lation differ-ence EUR thou.	Valua-tion of deriva-tives and se-curities EUR thou.		
Balance at January 1, 2004	11,914	61,781	-12,504	-252	0	333	61,272
Dividend for 2003			-2,330				-2,330
Consolidated net income for 2004			4,529				4,529
Currency translation							
– difference				252			252
– Gain on the valuation of derivatives and securities							0
Profit share for interests						41	41
Balance at December 31, 2004	11,914	61,781	-10,305	0	0	374	63,764
Dividend for 2004			-2,796				-2,796
Consolidated net income for 2005			5,647				5,647
Currency translation							
– difference							0
– Gain on the valuation of derivatives and securities							0
Profit share for interests						-140	-140
Balance at December 31, 2005	11,914	61,781	-7,454	0	0	234	66,475

Notes to the IFS consolidated financial statements for fiscal year 2005

of euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

General information

1. Description of business activities

euromicron AG (hereinafter referred to as the Company) is a registered company under German law with headquarters in Frankfurt and is mainly active in the areas of network and fiber optics technology. The Company specializes in the development, implementation and maintenance of data networks based on fiber optics. Its key products are optical components, tools and fiber optic cable assembly, as well as system business, distribution and services. The Company focuses on niche markets which require highly specialized products and customized solutions and which large system providers usually find too small. The Company is the European leader in some of these sectors. In addition, the Company has a further industrial holding that operates in the areas of technical laboratory furniture and equipment.

2. Accounting principles

euromicron AG is a first-time adopter as defined by IFRS 1 and has prepared its consolidated financial statements as of December 31, 2005, for the first time in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) in the valid version at December 31, 2005. The first-time use of the standards is retrospective, i.e. IFRS are applied as if euromicron AG had always reported in compliance with IFRS. Accordingly, euromicron AG is obliged to adapt the consolidated financial statements prepared for the fiscal year to December 31, 2004, in accordance with the US Generally Accepted Accounting Principles (US GAAP) to the valid IFRS. On the basis of this, the balances in the opening IFRS balance sheets relate to January 1, 2004, with the cumulative effects of the adjustments from the change in standards at this time being directly offset with stockholders' equity. An explanation of the main differences as regards the reporting, measurement and consolidation methods according to IFRS and the previously applied accounting principles, as well as the reconciliation in accordance with IFRS 1, is given under "Other details".

The options permissible under IFRS and the regulations on exemptions for their first-time application have been applied in such a way as to retain the accounting principles used up to now as far as possible. Exemption options as defined by IFRS 1 in relation to a retrospective analysis were utilized as follows:

a) Company acquisitions (IFRS 3)

euromicron AG does not apply IFRS 3 for business combinations before the time of transition. The measurements resulting from first-time consolidation and the subsequent effects in accordance with US GAAP are continued as of January 1, 2004.

b) Provisions for pensions

The first-time adoption of IFRS in accordance with IFRS 1 results in conjunction with IAS 19 (Employee Benefits) in a change in measurement. euromicron AG fully includes the actuarial gains and losses from the time up to the date of conversion in the opening IFRS balance sheet as of January 1, 2004.

3. Other details

The consolidated financial statements of euromicron AG are presented in thousands of euros, unless stated otherwise.

Reconciliations

Compared with the reporting and measurement methods used in the consolidated US GAAP financial statements, adoption of IFRS entails the following main differences in reporting:

Balance sheet presentation:

The balance sheet according to IFRS has been presented according to noncurrent and current assets and liabilities. The noncurrent assets and liabilities reported are items that are not due within a year.

The income statement has been prepared in accordance with IAS 1.94 using the type of expenditure format.

Benefit obligations:

Provisions for pensions are determined in accordance with the IAS taking into account anticipated wage and salary increases. An interest rate at matching maturities in compliance with IFRS is used to calculate this and is derived from first-rank, fixed-income corporate bonds on the financial markets. The resultant discount factor was reduced in accordance with IFRS from 5.5% to 4.25% effective January 1, 2004. This results in a reduction in stockholders' equity of EUR 443 thousand.

Other provisions:

Other provisions are recognized if a legal or constructive obligation from past events to third parties has accrued on the balance sheet date, where their utilization is probable and the expected amount of them be measured reliably. The provisions are measured in compliance with IAS 37 with the best estimate of the expenditure required to settle them.

Since formation of a provision under IFRS demands less likelihood of the provision being utilized than under US GAAP, provisions for risks from company sales of EUR 700 thousand were carried as liabilities.

Inventories:

As part of conversion to IFRS, the requirements for applying the percentage of completion (POC) method at the level of the individual companies were again examined.

In cases where there was no full compliance with the IFRS guidelines, the POC reported was corrected so as to reduce stockholders' equity. Shareholders' capital fell by EUR 858 thousand as a result of this measure.

Deferred taxes:

euromicron AG uses income taxes in accordance with IAS 12. Under the temporary concept of IAS 12, deferred tax assets and deferred tax liabilities are formed for all temporary differences between the tax balance sheet and the consolidated balance sheet and for tax loss carryforwards. The rates of tax to be used are those that will apply in future on the basis of the current valid or adopted legal situation when the differences will probably narrow again. In connection with the above-stated effects, there were new temporary differences or changes in temporary differences that resulted in a net amount of deferred tax assets. The deferred taxes increased stockholders' equity by EUR 493 euros.

Minority interests:

Under IFRS, minority interests are disclosed as part of stockholders' equity in accordance with the entity point of view.

In accordance with the parent company point of view, minority interests are not recognized as a part of stockholders' equity under US GAAP, but as a separate item before stockholders' equity. Consequently, EUR 333 thousand are reclassified to stockholders' equity instead of being disclosed separately.

The main effects of conversion of financial reporting from US GAAP to IFRS on the net assets, financial position and results of operations in the opening balance sheet as of January 1, 2004, are summarized with reference to the reconciliation below.

Reconciliation of stockholders' equity

	EUR thou.
Stockholders' equity at January 1, 2004 (US GAAP)	62,539
Provisions for pensions	-443
Provisions for sales for companies	-700
Inventories	-858
Deferred taxes	493
Minority interests	333
Other	-92
Stockholders' equity at January 1, 2004 (IFRS)	61,272

Adjustment to the comparative figures for the previous year

Compared with the accounting and measurement methods used in the consolidated US GAAP financial statements as of December 31, 2004, the application of IFRS entails differences in measurement and estimation in IFRS for the following balance sheet items. The presentation corresponds to the scheme used in IFRS.

- a) Unlike under the provisions of US GAAP, the assets of reinsurance policies fulfill the definition of "plan assets" under IFRS. The difference results mainly from setting off the surrender value of reinsurance policy that used to be included in this item with the provisions for pensions.
- b) Unlike in US GAAP, under IFRS the current deferred tax assets are not offset with the current deferred tax liabilities and recognized as liabilities. The current deferred tax assets are reported together with the noncurrent deferred tax assets under the noncurrent deferred taxes in accordance with IAS 1.70.
- c) The inventories were reduced due to correction in POC reporting in compliance with IFRS.
- d) The trade accounts receivable have increased due to corrections in POC reporting in compliance with IFRS.

	US GAAP Dec. 31, 2004 EUR thou.	IFRS adjustments EUR thou.	IFRS Dec. 12, 2004 EUR thou.
Assets			
Noncurrent assets			
Intangible assets	41,142	- 15	41,127
Property, plant and equipment and financial assets	6,136	0	6,136
Other receivables and assets	1,469	- 723 ^{a)}	746
Deferred tax assets	605	1,454 ^{b)}	2,059
Total noncurrent assets	49,352	716	50,068
Current assets			
Inventories	22,678	- 1,181 ^{c)}	21,497
Trade accounts receivable	19,100	352 ^{d)}	19,452
Receivables from affiliates	1,351	0	1,351
Other receivables and other assets	3,994	- 40	3,954
Marketable securities and cash	11,377	0	11,377
Total current assets	58,500	- 869	57,631
Total assets	107,852	- 153	107,699
Liabilities and stockholders' equity			
Stockholders' equity			
Subscribed capital and additional paid-in capital	73,695	0	73,695
Consolidated retained earnings	- 13,234	- 1,600 ^{e)}	- 14,834
Net income for the period	4,008	521 ^{f)}	4,529
Minority interests	374	0	374
Total stockholders' equity	64,843	- 1,079	63,764
Long-term debt			
Accrued liabilities	2,052	- 448 ^{g)}	1,604
Liabilities	10,559	1,481 ^{h)}	12,040
Total long-term debt	12,611	1,033	13,644
Current liabilities			
Accrued liabilities	7,967	- 2,937 ⁱ⁾	5,030
Trade accounts payable	4,961	1,083 ^{j)}	6,044
Other liabilities	16,961	2,256 ^{k)}	19,217
Deferred taxes	509	- 509 ^{l)}	0
Total current liabilities	30,398	- 107	30,291
Total liabilities	107,852	- 153	107,699

Income statement

	US GAAP 2004 EUR thou.	IFRS adjustments EUR thou.	IFRS 2004 EUR thou.
Net sales	110,832	- 808^{m)}	110,024
Inventory changes	-3,377		-3,377
Other operating income	3,677		3,677
Cost of materials	-50,778	837 ⁿ⁾	-49,941
Personnel costs	-33,604	-329 ^{o)}	-33,933
Depreciation and amortization expense	-2,150		-2,150
Other operating expenses	-14,863	705 ^{p)}	-14,158
Profit from operating activities	9,737	405	10,142
Net financing costs	-736		-736
Income before income taxes	9,001	405	9,406
Income taxes	-4,742	116	-4,626
Consolidated net income for the period, before minority interests	4,259	521	4,780
Minority interests	-251		-251
Consolidated net profit	4,008	521	4,529

e) The reduction in consolidated retained earnings is the result of changes to the opening IFRS balance sheet as of January 1, 2004, compared with the US GAAP balance sheet.

f) The net income for the period increased mainly due to posting of the provision from company sales as of December 31, 2003, due to a greater likelihood of its utilization under IFRS compared with US GAAP. In accordance with US GAAP, such risks were included for the first time in the consolidated financial statements as of December 31, 2004.

g) The reduction in provisions for pensions results from offsetting of the surrender value of reinsurance policies. The increased expense from adjusting the discount factor from 5.5% to 4.25% cannot compensate for this. The expense for first-time adjustment of the interest rate is mainly included in the opening balance sheet and is EUR 443 thousand.

h) Under US GAAP, noncurrent deferred tax liabilities were offset with the noncurrent deferred tax assets and recognized as assets. They are not offset under IFRS.

i) Reclassifications from the provisions to the trade accounts payable and to the other liabilities due to the reporting regulations of IAS 37. These mainly involve personnel obligations and obligations for outstanding purchase invoices.

j) and k) Essentially the contra items from the change in reporting regulations explained under b) and g).

l) Current deferred tax liabilities are carried under IFRS together with the noncurrent deferred tax liabilities. In the above table, they are contained in the item "Deferred taxes" under long-term debt.

m) and n) These relate essentially to corrections in POC reporting in accordance with IFRS.

o) Expense for posting personnel provisions due to the different way in which they are analyzed (due to the likelihood of their utilization) under US GAAP and IFRS.

p) Expense for reposting the provision for company sales due to the greater likelihood it will be utilized under IFRS than under US GAAP.

Consolidated companies and consolidation principles

a) Consolidated companies

Apart from euromicron AG, the consolidated financial statements include eleven companies in which euromicron AG directly or indirectly holds the majority of voting rights. They are all German companies. The included financial statements of the companies were audited by independent auditors and each granted an unqualified audit opinion or awarded a positive opinion relating to their inspection.

A list of consolidated and unconsolidated companies is provided at the end of the notes. Three companies that no longer perform any or only perform insignificant operational activities were not included in the consolidated financial statements due to their secondary importance for the net assets, financial position and results of operations.

b) Significant changes in fiscal year 2005

FRAKO Kondensatoren- und Anlagenbau GmbH was sold effective December 21, 2005. The company was deconsolidated as of December 31, 2005.

c) Significant acquisitions in fiscal year 2005

Effective June 6, 2005, euromicron AG acquired the remaining 12% of the shares in rako electronic data technology gmbh. euromicron AG now holds all the shares in this company. euromicron AG is fully entitled to the rights to participate in profits for fiscal 2005.

d) Consolidation principles

The assets and liabilities included in the consolidated financial statements are carried in accordance with the consistent accounting and measurement principles of euromicron AG in compliance with IAS 27.

Company acquisitions are carried using the purchase method of accounting. Under this, the costs of acquisition of euromicron AG are as a matter of principle offset with the pro rata stockholders' equity of the individual subsidiaries at the time the stake was acquired.

The difference from capital consolidation (first-time consolidation) is in principle analyzed to determine its cause. If it is due to the fact that individual items in the commercial balance sheet II of the subsidiary have to be carried at another value than it should have as part of the value of the shares at the key date for first-time consolidation, the difference – after allowing for deferred taxes against the stockholders'

equity – is assigned to the items in the consolidated balance sheet as a result of appropriate corrections. The amount above and beyond this is carried as goodwill under the intangible assets. Existing and acquired goodwill is not written off using the regular method of depreciation, in accordance with IFRS 3, but examined for impairment at least once a year using a single-level testing method in accordance with the regulations of IAS 36.

As a matter of principle, the Group dispenses with the routine determination and elimination of intercompany profits for reasons of materiality. If significant intragroup deliveries and services are performed, the intercompany profits are eliminated.

If valuation adjustments for shares of consolidated companies or intragroup receivables are carried in individual financial statements, they are reversed as part of consolidation.

Receivables and payables between the companies included in the consolidated financial statements are offset against each other. Any differences resulting from this are recognized as income and carried in the income statement items of other operating income and expenses.

As part of consolidation of revenue and expenditure, intercompany sales between the included subsidiaries are offset with the material and other expenses incurred on them.

There are no companies in which euromicron AG either directly or indirectly holds more than 20% but less than 50% of the voting rights, with the result that consolidation using the at equity method has not been carried out.

Accounting principles and methods

The balance sheet is presented by noncurrent and current assets and liabilities in accordance with IAS 1. Current assets and liabilities are items that are due within a year. Depending on when they are due, inventories, trade accounts receivable and trade accounts payable are regarded as current assets or liabilities if they are not sold, consumed or due within a year, but are sold, consumed or due within the normal course of the business cycle.

a) Intangible assets

Intangible assets comprise software, licenses, industrial rights and goodwill. Development costs are not carried as intangible assets if the requirements of IAS 38 are not met, but recognized as income. Purchased intangible assets, with the exception of goodwill, are capitalized at their cost of acquisition and written down over their useful life of 3 to 15 years. As a rule, extraordinary write-downs are charged if it is necessary to carry intangible assets at a lower fair value at the balance sheet date. Calculation of the fair value is based on the capitalized earnings value of assets.

Intangible assets with an unlimited useful life, such as goodwill from company acquisitions, are not written off in accordance with IFRS in conjunction with IAS 36 and IAS 38, but are tested for impairment once a year in compliance with the regulations of IAS 36. In this, goodwill is tested at the level of the cash generating units to which it is assigned, by comparing the book value of the cash generating unit with its recoverable amount. If the book value exceeds the recoverable amount, there is value impairment and the recoverable amount is to be written down.

b) Property, plant and equipment

Property, plant and equipment is carried at its acquisition or manufacturing cost less regular depreciation. Depreciation is straight-line. The following useful lives are used to calculate depreciation: buildings 10 to 50 years, technical equipment and machinery 5 to 15 years, and other equipment, operating and office equipment 4 to 15 years. Minor assets with a procurement cost of up to EUR 410 are depreciated in full in the year of their acquisition. Extraordinary write-downs are charged if it is necessary to carry property, plant and equipment at a lower fair value at the balance sheet date.

c) Leases

The Company has leased property, plant and equipment which it uses. The criteria of IAS 17.8 are used to examine whether the benefits and risks of ownership have been transferred to the lessee (finance leases). If the criteria are met, the assets and liabilities are recognized at the inception of the lease to the same amount in the balance sheet, at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Capitalized leased objects are written down using the straight line method over their scheduled useful lives. The future payment obligations from leasing agreements are carried under the other liabilities.

All other lease agreement in which euromicron AG is the lessee are recognized as operating leases. The leasing payments are charged to expenditure

d) Financial assets

Additions of financial assets are measured in principle at their cost of acquisition, including transaction costs.

The financial assets are subsequently measured at their cost of acquisition less write-downs for permanent impairment.

e) Inventories

Inventories are carried in principle at the lower of acquisition/historical cost or net realizable value on the balance sheet. The historical cost includes production materials and labor costs, as well as allocable material and production and administrative overheads.

The Group's focus on the Network and Fiber Optics Technology division is increasingly resulting in project and installation services running beyond the key date. In the case of significant services that run beyond the key date and whose costs and pro-rata profit realization can be clearly identified, the Group applies the percentage of completion (POC). The stage of completion is determined as part of the POC method in principle on the basis of the costs incurred in relation to the total anticipated costs.

f) Accounts receivable

Accounts receivable are measured at their continued acquisition cost. Individual value adjustments are made if the accounts receivable are not recoverable or cannot probably be recovered; the amount of the value adjustments must, however, be able to be determined with sufficient accuracy.

g) Marketable securities

Securities are exclusively qualified as available for sale in accordance with IAS 39. They are measured at their fair value.

h) Accrued liabilities

The company maintains a company pension scheme for certain active and retired employees. Provisions for pensions and similar obligations are calculated using the projected unit credit method prescribed in IAS 19. The resultant obligation is recognized in the balance sheet as an accrued liability.

The 10% band rule of IAS 19 is not applied at euromicron AG in measuring the pension obligations and determining personnel costs. euromicron AG uses the method of immediate and complete payment, in which actuarial gains and losses are recognized in income, in particular if the calculation parameters change. The option of recognizing these actuarial gains and losses without any affect on income using the statement of recognized income and expense (SORIE) was not utilized.

If pension obligations were reinsured with insurance companies, the surrender values are offset with the pension obligations.

Tax accruals and other accrued liabilities are recognized in the case of legal or constructive obligations to third parties where utilization is probable and the expected amount of the necessary accrued liability can be measured reliably. The accrued liabilities are measured in compliance with IAS 37 at the best estimate of the expenditure required to settle the obligation. Long-term accrued liabilities are measured at their cash value on the balance sheet date. They include in particular accrued liabilities for anniversaries and pensions.

i) Liabilities

Current liabilities are measured at their repayment amount or amount required to discharge them. Long-term debt is measured at its continued acquisition cost.

j) Deferred taxes

Deferred taxes are recognized for differences in carrying values between the IFRS balance sheet and tax balance sheet (time differences) and for accumulated losses brought forward using the liabilities method taxes in accordance with IAS 12, if these differences are temporary ones.

In this, deferred taxes at the level of the individual companies and consolidated entities are taken into account. In principle, deferred tax debts are recorded for all temporary differences on which tax is to be paid and reported separately as deferred tax liabilities. Deferred tax claims are recognized to the extent that it is probable that in future there will be a taxable result against which the deductible temporary differences or the carryforward of unused tax losses can be used. The tax rates that are enacted or can be expected to be enacted on the balance sheet at the time of realization are used to calculate deferred taxes.

k) Share options

No share options were granted at euromicron AG in 2005.

l) Financial instruments

As a matter of principle, euromicron AG only uses derivative financial instruments for hedging. In these cases, the hedged item and the hedging transaction (interest rate swap) are aggregated to form a closed position.

In 2004, euromicron conducted an interest rate swap effective March 1, 2004, that was concluded with its basic parameters, term and level on the existing Allianz loan and so can be regarded as a hedging transaction. euromicron AG exchanges the fixed rate of interest on the loan against a variable rate of interests calculated on the basis of the 12-month EURIBOR. As of September 1, 2005, the variable rate of interest is capped.

The marking-to-market valuation at the balance sheet date is EUR –71 thousand and is mainly the result of differing payment flows. euromicron AG makes annual payments, where interest is received quarterly. The payments not yet made by euromicron AG essentially reflect the negative market value, which has been charged as expenditure and reported in the balance sheet under other liabilities.

Over the term of the interest rate swap up to the balance sheet date, euromicron AG has earned income from this hedging transaction of EUR 121 thousand.

m) Impairment of long-lived assets

Property, plant and equipment and intangible assets are tested for impairment if, due to events or changes in circumstances, there are indications that the book value of the objects can no longer be recovered. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties. Value in use is the present value of the future cash flow expected to be derived from continued use of an asset and its retirement at the end of its useful life. If the reasons for the earlier write-off no longer exist, the assets are written up again.

n) Currency translation

In past years, financial statements of subsidiaries prepared in a currency other than euros were translated using the exchange rates which applied at the time of preparation of the balance sheet or – in the case of the income statements – at a weighted middle rate for the reporting period. Foreign exchange differences were taken directly to equity. In the year under review, there was no subsidiary whose financial statements were prepared in a currency other than euros.

o) Research and development

Research and development expenses are charged to expenditure, since the requirements for carrying them as intangible assets in accordance with IAS 38 are not fulfilled.

p) Revenue recognition

In accordance with IAS 18, sales revenues are recognized on transfer of risk or performance of the service, and are stated net of discounts, customer bonuses and rebates.

Sales and earnings from the main projects running beyond the key date were recognized in compliance with IAS 11 on a pro rata basis using the percentage of completion method. The stage of completion of the contracts is derived from the ratio of the costs incurred to date and the estimated total costs of the contract. The POC sales revenues recognized using this method correspond to the production costs for the contract plus a pro-rata profit based on the stage of completion at the balance sheet date. Pro-rata profits from the POC method are realized only for projects whose outcome can be estimated reliably. The effect on earnings in the year under review compared with the single-entity financial statements (HGB) is EUR 574 thousand (previous year: EUR 457 thousand).

q) Estimates

Estimates and assumptions must be made to a certain extent in the consolidated financial statements; the value of assets, liabilities and contingent liabilities, as well as expenses and income in the reporting period, depend on these. The actual figures reported may differ from the estimates.

Explanations on the balance sheet and income statement

1. Noncurrent assets

A fixed asset movement schedule can be found on pages 88 and 89 of these notes.

a) Intangible assets

Intangible assets are carried at acquisition costs and written down using the straight line method. The goodwill created as part of first-time consolidation is disclosed under the intangible assets. Goodwill is not amortized. There are also no write-offs from the impairment test.

Goodwill developed as follows in the fiscal year:

Goodwill

	2005 EUR thou.	2004 EUR thou.
Goodwill as of January 1	38,338	29,109
Additions	501	9,237
Retirements	-3,286	-8
Goodwill as of December 31	35,553	38,338

The additions relate to the increase in shares in rako electronic data technology GmbH and the retirements to FRAKO Kondensatoren- und Anlagenbau GmbH. The Network and Fiber Optics Technology division accounts for goodwill of EUR 30,015 thousand and the Industrial Holdings division for goodwill of EUR 5,538 thousand.

b) Property plant and equipment

Property, plant and equipment is carried at its acquisition or manufacturing cost. The manufacturing costs of self-generated plant and equipment contains not only the cost of materials and personnel expenses, but also pro-rata overheads. Allowances from third parties (government grants) reduce the acquisition cost.

Property, plant and equipment also contains leased technical equipment and operating and office equipment totaling EUR 218 thousand (previous year: EUR 540 thousand). These are classified as a finance lease on the books of the company pursuant to the leasing agreements.

The fixed asset movement schedule contains a detailed breakdown of property, plant and equipment.

c) Financial assets

The decrease in financial assets to EUR 243 thousand (previous year: EUR 497 thousand) is mainly attributable to the change in consolidated companies.

2. Other noncurrent assets

This item contains in the previous year values from trade accounts receivable as part of a long-term production order.

3. Noncurrent deferred tax

Noncurrent deferred tax assets are calculated on the basis of measurement differences in the following balance sheet items:

Deferred tax assets	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Noncurrent deferred tax assets for:		
– Accrued liabilities	144	290
– Tax loss carryforwards	1,830	1,550
– Finance lease	47	98
– Noncurrent assets	8	11
Noncurrent deferred tax assets	2,029	1,949
Current deferred tax for:		
– Accrued liabilities	260	0
– Finance lease	35	110
Current deferred tax assets	295	110
Deferred tax assets	2,324	2,059

As of December 31, 2005, there were tax loss carryforwards in the Group totaling EUR 4,872 thousand (previous year: EUR 4,821 thousand). Apart from euromicron AG, the loss carryforwards relate to three further domestic holdings. These losses may be carried forward indefinitely in accordance with the current legal position. The deferred tax rates are 17.01% and 37.87% respectively if trade tax and corporation income tax are incurred.

The Executive Board is of the opinion that deferred tax assets that have not been written down will most probably be realized.

4. Inventories

Inventories	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Raw materials and supplies	3,844	5,574
Work in progress	8,559	10,835
Finished goods and merchandise	3,434	5,088
	15,837	21,497

EUR 13,292 thousand of inventories (previous year: EUR 17,767 thousand) are attributable to the Network and Fiber Optics Technology division and EUR 2,545 thousand (previous year: EUR 3,730

thousand) to the Industrial Holdings division. Inventories fell by EUR 1,734 thousand, mainly due to changes in the consolidated companies.

5. Other noncurrent receivables and other assets

Receivables and other assets

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Trade accounts receivable	17,342	19,863
Allowances for doubtful accounts	-311	-411
	17,031	19,452
Receivables from affiliates	0	1,351
Other assets	3,711	3,954
	20,742	24,757

As in the previous year, none of the trade accounts receivables and other assets has a term of more than one year. The allowances for doubtful accounts comprise individual adjustments for receivables. Changes in the consolidated companies resulted in a reduction in trade account receivables of EUR 2,183 thousand.

The trade accounts receivables also include receivables from production contracts in accordance with the percentage of completion method. The costs associated with the contracts, including a pro-rata profit corresponding to the stage of completion, is recognized as income as the cumulative outcome from production contracts. The production contracts are recognized in income as receivables from production contracts if the cumulative result exceeds the payment on account received from the customer. The amount from these receivables is EUR 9,148 thousand (previous year: EUR 1,811 thousand) and is carried under trade accounts receivable. Received payments on account of EUR 5,415 (previous year: EUR 0 thousand) were offset against these receivables from production contracts.

Receivables from affiliates from the previous year were due from the major shareholder at the time, AdCapital AG, which sold its shares in euromicron AG toward the end of 2005.

Other assets mainly comprise prepaid capital gains tax and solidarity surcharge, as well as creditable taxes from dividend payments of the euromicron Group companies.

6. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in banking accounts, as well as marketable securities. The cash and cash equivalents are as follows:

Cash and cash equivalents

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Cash	18,265	7,148
Marketable securities	2,201	4,229
	20,466	11,377

The securities are classified as available for sale and measured at their market value.

7. Stockholders' equity

a) Subscribed capital

euromicron AG's subscribed capital comprises 4,660,000 issued no-par value bearer shares. A resolution of the General Meeting on June 23, 2005, rescinded the authorization for the Executive Board to increase the capital stock by up to EUR 5,957,000 on one or several occasions by issuing new shares against cash or non-cash contributions. The Executive Board was authorized to increase the capital stock by up to EUR 5,957,000 on one or several occasions with the approval of the Supervisory Board by issuing new shares against cash or non-cash contributions (authorized capital) by June 20, 2010.

b) Additional paid-in capital

As in the previous year, additional paid-in capital amounts to EUR 61,781 thousand.

c) Consolidated retained earnings

Consolidated retained earnings of EUR –13,101 thousand (previous year: EUR –14,834 thousand) are composed of the retained earnings brought forward by the consolidated companies, the effects of capital consolidation, former amortization of goodwill and hidden reserves and other consolidation measures.

d) Currency translation difference

There were no currency translation differences in fiscal 2005, since all the consolidated associated companies of euromicron AG are based in Germany.

e) Minority interests

The minority interests in stockholders' equity of the consolidated subsidiaries relate to one company.

8. Accrued liabilities

The accrued liabilities are composed as follows:

Accrued liabilities

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Taxes	1,507	1,989
Other accrued liabilities	1,111	3,041
Short-term accrued liabilities	2,618	5,030
Accrued benefit liabilities	663	1,485
Accrued liabilities for anniversaries	7	119
Long-term accrued liabilities	670	1,604
Total accrued liabilities	3,288	6,634

a) Other accrued liabilities

The other accrued liabilities are composed as follows:

Other accrued liabilities

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Obligations from company sales	337	974
Warranty commitments	148	393
Restructuring	0	237
Other	626	1,437
	1,111	3,041

The other accrued liabilities fell by EUR 1,031 thousand essentially due to changes in the consolidated companies.

The accrued liabilities developed as follows in the fiscal year:

Development of accrued liabilities

	Jan. 1, 2005 EUR thou.	Utilization EUR thou.	Reversal EUR thou.	Deconsoli- dation EUR thou.	Transfer EUR thou.	Dec. 31, 2005 EUR thou.
Noncurrent						
Accrued benefit liabilities	1,604	6	0	1,029	101	670
Current						
Tax provisions	1,989	1,555	0	0	1,073	1,507
Company sales	974	286	351	0	0	337
Warranties	393	11	193	41	0	148
Restructuring	237	237	0	0	0	0
Other	1,437	1,229	0	990	1,408	626
	6,634	3,324	544	2,060	2,582	3,288

b) Accrued benefit liabilities

euromicron AG and a number of subsidiaries have pension obligations toward employees. The designated payments made towards pensions may be based either on the wage or salary received in the last year of employment or on the average of the last five years.

The following table provides information on the change in the projected benefit obligation in the fiscal year.

Pension provisions

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Present value of benefit obligation at the beginning of the period under report	2,377	3,330
Service cost	62	47
Interest cost	39	96
Pension payments	-6	-60
Retirements from company disposals	-1,442	-1,036
Present value of benefit obligation at the end of the period under report	1,030	2,377
Balance of the surrender value of reinsurance policies	-367	-892
Value carried in balance sheet	663	1,485

The following table provides information on the assumptions made in the calculation of benefit obligations.

Average measurement factors	2005 %	2004 %
Discount rate	4.25	4.25
Rates of increase in compensation levels	2.5	2.5
Future pension indexation	1.5	1.5

The surrender value of reinsurance policies were offset with the pension provisions. The decline in pension provisions mainly results from the changes to the consolidated companies.

9. Liabilities

Liabilities

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Bank loans and overdrafts	918	1,207
Liabilities from finance lease	217	540
Trade accounts payable	8,044	6,044
Other liabilities	20,008	28,029
	29,187	35,820

The liabilities have the following terms:

Terms of the liabilities

	Total Amount EUR thou.	Due in					Thereof collateralized amounts EUR thou.
		2006 EUR thou.	2007 EUR thou.	2008 EUR thou.	2009 EUR thou.	2010 EUR thou.	
Bank loans and overdrafts	918	918	0	0	0	0	0
Liabilities from finance lease	217	92	88	37	0	0	0
Trade accounts payable	8,044	8,044	0	0	0	0	0
Other liabilities	20,008	14,857	5,151	0	0	0	0
	29,187	23,911	5,239	37	0	0	0
(Previous year)	(35,820)	(25,240)	(5,308)	(5,228)	(41)	(3)	

The interest rates for bank loans and overdrafts range from 3.49% to 9.75%.

Short-term credit lines of EUR 21,183 thousand (previous year: EUR 19,563 thousand) were unused at the year-end.

The other liabilities are composed as follows:

Other liabilities

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Industry loans	10,302	15,452
Tax liabilities	2,264	2,670
Personnel obligations	1,222	2,185
Payments on account	4,270	6,134
Other	1,950	1,588
	20,008	28,029

The payments on account received do not include those that can be directly assigned to production contracts on the basis of the percentage of completion method and can be offset.

10. Noncurrent deferred tax liabilities

The noncurrent deferred tax liabilities result from measurement differences in the following balance sheet items:

Deferred tax liabilities	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
Noncurrent deferred tax liabilities for:		
Inventories	– 881	– 166
Accrued liabilities	550	146
Other assets	1,210	325
Noncurrent deferred tax liabilities	879	305
Current deferred tax liabilities for:		
Noncurrent assets	343	448
Dormant reserves from capital consolidation	612	728
Current deferred tax liabilities	955	1,176
Deferred tax liabilities	1,834	1,481

11. Sales

Sales are broken down by region as follows:

Sales by region	2005 EUR thou.	2004 EUR thou.
Germany	100,927	96,556
Euro zone	7,899	7,065
Rest of World	5,279	6,403
	114,105	110,024

The sales include amounts totaling EUR 7,337 thousand (previous year: EUR 1,811 thousand) from application of the percentage of completion method.

Sales are broken down by division as follows:

Sales by division	2005 EUR thou.	2004 EUR thou.
Network and Fiber Optics Technology	76,158	71,801
Industrial Holdings	37,987	38,223
euromicron AG and Consolidation	- 40	0
	114,105	110,024

12. Other operating income

a) Other operating income is composed as follows:

Other operating income	2005 EUR thou.	2004 EUR thou.
Deconsolidation income	2,860	1,528
Reversal of accrued liabilities	544	47
Income from vehicle use	571	409
Income from retirement of noncurrent assets	74	15
Income from property and rent	64	66
Exchange rate gains	49	20
Income from derivatives	0	165
Compensation payments	0	1,336
Other	1,243	91
	5,405	3,677

The changes in other operating income primarily results from the higher deconsolidation gains in the current fiscal year. FRAKO Kondensatoren- und Anlagenbau was deconsolidated this year. In the previous year, they related to the disposals of the companies in the elkosta group.

13. Cost of materials

The cost of materials is composed as follows:

Cost of materials

	2005 EUR thou.	2004 EUR thou.
Cost of raw materials and supplies and goods purchased	41,099	41,853
Cost of purchased services	13,344	8,088
	54,443	49,941

14. The personnel costs are composed as follows:

Personnel costs

	2005 EUR thou.	2004 EUR thou.
Wages and salaries	29,755	28,355
Social security	6,170	5,578
	35,925	33,933

Average number of employees per year:

Employees

	2005	2004
Hourly-paid employees	407	374
Salaried employees	335	334
Trainees	63	57
	805	765

15. Other operating expenses are composed as follows:

Other operating expenses	2005 EUR thou.	2004 EUR thou.
Vehicle and travel expenses	3,880	3,581
Rent/room costs	2,556	2,266
Legal and consulting costs	1,494	1,690
Cost of shipping goods	1,164	1,233
Trade fair and advertising costs	803	505
Communication expenses	797	765
Commission	765	1,061
Insurance / charges / contributions	569	507
Maintenance and repair	559	510
Obligation from tax audit	0	274
Other	2,717	1,766
	15,304	14,158

16. Net financing costs

Net financing costs	2005 EUR thou.	2004 EUR thou.
Other interest and similar income	179	688
Income from securities and loans	0	5
Interest and similar expenses	-816	-1,429
	-637	-736

17. Income taxes

Income taxes

	2005 EUR thou.	2004 EUR thou.
Current taxes		
– Germany	1,510	3,442
Deferred taxes		
– Germany	333	1,184
	1,843	4,626

The following table presents a reconciliation of the tax expense expected in each fiscal year to the tax expense actually disclosed. The expected tax expense is calculated from a total tax rate of 37.87% and the income before taxes. The total tax rate is calculated from a corporation income tax rate, including solidarity surcharge, of 26.38% and the effective trade tax rate of 11.49%.

Tax reconciliation

	2005 EUR thou.	2004 EUR thou.
Expected tax expense	2,902	3,562
Deconsolidation profit	– 1,083	– 579
Effect of consolidation measures	158	56
Effect of loss carryforwards and from collection of profit and loss transfer agreements	– 279	463
Effect of other measurement differences	84	305
Tax arrears/refunds	– 155	819
Other	216	0
Actual tax expense	1,843	4,626
Effective tax rate	24.1 %	49.2 %

The “Other” item essentially results from the difference between the actual tax rates in the individual financial statements and the assumed average total tax rate in the Group.

18. Minority interests in net income for the period

Minority interests in the net income for the period of the consolidated subsidiaries relate to only one company.

19. Earnings per share

The number of no-par value shares issued in 2005 remained constant at 4,660,000.

Earnings per share are calculated as follows:

Profit and dividend

	2005 EUR thou.	2004 EUR thou.
Consolidated net income for the period	5,647	4,529
Issued shares (in thousand)	4,660	4,660
Earnings per share in EUR	1.21	0.97
Dividend per share in EUR	0.60	0.60

20. Contingencies and commitments

a) Contingent liabilities

euromicron AG has extended letters of subordination issued to SKM Spezialkabel München GmbH (EUR 1,500 thousand), euromicron systems GmbH (EUR 1,500 thousand) and Pfeiffer GmbH (EUR 600 thousand).

b) Other financial obligations

The liabilities from rental and leasing agreements as of December 31, 2005, amount to EUR 4,527 thousand (previous year: EUR 7,754 thousand). There are also obligations from purchase obligations of EUR 340 thousand and other obligations of EUR 60 thousand.

euromicron AG's structure by divisions is as follows:

Network and Fiber Optics Technology:

This division covers the project-based and systems business, the development, installation and maintenance of data networks based on fiber optics, the production of optical components and tools, the assembly of fiber optic cables, and distribution of network components and network material.

Industrial Holdings:

This division is responsible for the development, production, implementation and maintenance of components, generating sets, and energy management systems and customer-oriented design and manufacture of technical laboratory furniture and equipment.

Management measures the divisions' success on the basis of income before income taxes. This report contains income statements for the two divisions ending at the 'income before income taxes' item and provides an overview of assets, liabilities, investments in property, plant and equipment, and depreciation and amortization. No significant cross-unit, internal Group sales were recorded.

Information on the divisions by region is presented in the disclosure of sales on page 78. Further Information on the divisions by region cannot be shown since all associated companies are based in Germany.

Segment reporting

of the euromicron Group for the period January 1 to December 31, 2005 (IFRS)

	Network and Fiber Optics Technology EUR thou.	Industrial Holdings EUR thou.	euromicron AG and eliminations EUR thou.	euromicron Group EUR thou.
2005				
External sales	76,158	37,987	-40	114,105
Income before income taxes	3,897	4,038	-272	7,663
Assets	41,817	8,552	50,415	100,784
Liabilities	34,994	5,034	-5,719	34,309
Investments	575	276	609	1,460
Amortization/depreciation	1,202	811	120	2,133
2004				
External sales	71,801	38,223	0	110,024
Income before income taxes	6,535	3,672	-801	9,406
Assets	45,216	16,400	46,083	107,699
Liabilities	35,894	10,524	-2,484	43,934
Investments	733	589	9,860	11,182
Amortization/depreciation	1,301	743	106	2,150
2003*				
External sales	51,553	82,990	0	134,543
Income before income taxes	5,381	5,226	2,902	13,509
Assets	35,267	30,648	58,148	124,063
Investments	672	1,185	35	1,892
Amortization/depreciation	1,375	1,714	38	3,127

* US GAAP figures

21. Related parties

There are business relations for the entire fiscal year with the Executive Board and the Supervisory Board and with the companies in the list of those included in the consolidated financial statements, in which euromicron AG has a direct or indirect participating interest. In addition there were business relations until December 13, 2005, with the affiliates of AdCapital AG, which held a 80.22% interest in euromicron AG until December 13, 2005.

a) euromicron Group cash pool management

The Group-wide cash pool management allows the companies of the euromicron Group to obtain a short-term source of finance at favorable conditions. The interest earned and paid is based on market conditions, taking into account availability and collateral, with the result that euromicron AG's participation in this system does not place it at a disadvantage. The standard interest earned amounted to 4.0% p.a. and the standard interest paid 6.0% p.a. as of December 31, 2005.

b) Relations with Companies of the AdCapital AG Group

Relations with companies of the AdCapital AG Group relate exclusively to goods and services supplied for manufacturing and service processes. Thus, sales revenues of EUR 6 thousand were generated with affiliates in 2005 (previous year: EUR 15 thousand) and there were other expenses of EUR 2 thousand (previous year: EUR 154 thousand).

The goods and services were calculated on an arm's length basis.

c) Relations with related persons

Apart from the compensation for the Executive Board and Supervisory Board, there are no significant relations with related persons.

22. Auditors' fees

The item "Other operating expenses" contains fees for the group auditor, BDO Deutsche Warentreuhand AG, of EUR 155 thousand. These fees relate solely to the audits of the financial statements of the companies.

23. Significant events after the balance sheet date

NTA GmbH acquired a 100% stake in KRUMM Telekom GmbH effective February 1, 2006.

euromicron AG acquired a further 20% stake in NTA GmbH effective February 15, 2006, and now holds all the shares in that company.

24. Publication of the consolidated financial statements

The consolidated financial statements were released for publication on March 29, 2006, by the Supervisory Board following their submission by the Executive Board.

25. Supervisory Board und Executive Board

a) Executive Board

The members of the Executive Board of euromicron AG are:

Dr. Willibald Späth

Chairman

Board member responsible for Strategy, Acquisitions, Finance, Public Relations and Investor Relations

Dr. Edgar Bernardi

Board member responsible for Products, Market, Technology and Operations

b) Supervisory Board

The members of the Executive Board on December 31, 2005, were:

Dieter Jeschke

Chairman

Chairman of the Executive Board of AdCapital AG
 Chairman of the Supervisory Board of AdCapital Beteiligungs AG
 Maschinenfabrik Berthold Hermle AG

Member of the Supervisory Board of Schaltbau Holding AG (until September 30, 2005)

Günter Leibinger

Deputy Chairman

General Manager of Paul Leibinger GmbH & Co. KG

Deputy Chairman of the Supervisory Board of Maschinenfabrik Berthold Hermle AG
 AdCapital AG

Dietmar Hermle

Spokesman for the Executive Board of Berthold Hermle AG

The members of the Supervisory Board laid down their office effective January 16, 2006. The following new members of the Supervisory Board were appointed pursuant to the order of Frankfurt/Main Local Court:

Dr. Franz-Stephan von Gronau

Chairman of the Supervisory Board

Certified public accountant

Josef Martin Ortolf

Deputy Chairman of the Supervisory Board

Managing partner of ConMoto Consulting Group GmbH

Dr. Max Hirschberger

Lawyer

The term of office of the new members of the Supervisory Board commences with the date of the order by Frankfurt/Main Local Court and terminates at the end of the next ordinary General Meeting of euromicron AG at which new members of the Supervisory Board can be elected by the shareholders.

c) Remuneration of the board members

In 2005, the Executive Board received a total remuneration of EUR 587 thousand and the Supervisory Board of the Company EUR 27 thousand.

List of companies included in the consolidated financial statements

Parent company

euromicron Aktiengesellschaft
communication & control technology
Frankfurt/Main, Germany

Included subsidiaries

a) Network and Fiber Optics Technology division

delcom
daten- elektro- communicationstechnik GmbH
Essen, Germany

euromicron systems GmbH
– A euromicron Group company –
Langenhagen, Germany

EUROMICRON Werkzeuge GmbH
Mittenaar, Germany

LWL Sachsenkabel GmbH
Special cables and networking technology
Gornsdorf, Germany

NTA GmbH
– A euromicron Group company –
Mainz, Germany

o-n-e optical network elements gmbh
Grünstadt, Germany

Pfeiffer GmbH
– A euromicron Group company –
Ettlingen, Germany

rako electronic data technology gmbh
Grünstadt, Germany

SKM Spezialkabel München GmbH
Cable and connection technology
Computer networks
Garching-Hochbrück, Germany

b) Industrial Holdings division

ELABO GmbH
Crailsheim, Germany

FRAKO Kondensatoren- und Anlagenbau GmbH
Teningen, Germany
(deconsolidated as of December 31, 2005)

List of affiliated companies and holdings not included in the consolidated financial statements

Joulepower OY
Lahti, Finland

Jiangsu Euromicron Technology Co., Ltd. (JET), in liquidation
Shanghai, P.R. China

SEB System Elektronik GmbH Berlin, in liquidation
Braunschweig, Germany

Fixed-asset movement schedule 2005

of euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

Fixed-asset movement schedule 2005

	Acquisition costs				Dec. 31, 2005 EUR thou.
	Jan. 1, 2005 EUR thou.	Additions EUR thou.	Retirements EUR thou.	Change in decon- solidation EUR thou.	
Intangible assets					
Goodwill	45,654	501	0	-5,860	40,295
Concessions, industrial and similar rights	13,186	40	-49	-928	12,249
	58,840	541	-49	-6,788	52,544
Tangible assets					
Land and buildings	2,739	5	0	0	2,744
Plant and machinery	6,820	233	-273	-1,469	5,311
Other fixtures and fitting, tools and equipment	8,816	633	-590	-2,501	6,358
	18,375	871	-863	-3,970	14,413
Financial assets					
Other loans and investments	6,147	48	-3	-5,923	269
	83,362	1,460	-915	-16,681	67,226

Depreciation and amortization				Book value		
Jan. 1, 2005 EUR thou.	Additions EUR thou.	Retirements EUR thou.	Change in decon- solidation EUR thou.	Dec. 31, 2005 EUR thou.	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
-7,316	0	0	2,574	-4,742	35,553	38,338
-10,397	-347	49	734	-9,961	2,288	2,789
-17,713	-347	49	3,308	-14,703	37,841	41,127
-1,363	-144	0	0	-1,507	1,237	1,376
-5,043	-711	253	923	-4,578	733	1,777
-6,330	-931	541	1,723	-4,997	1,361	2,486
-12,736	-1,786	794	2,646	-11,082	3,331	5,639
-5,650	0	0	5,624	-26	243	497
-36,099	-2,133	843	11,578	-25,811	41,415	47,263

Auditor's Report

to euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

We have granted the unqualified audit opinion, signed on March 17, 2006, in Frankfurt/Main, to the consolidated financial statements and group management report of **euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main**, for the fiscal year from January 1, 2005 to December 31, 2005 in the versions enclosed with this report as annex I (consolidated financial statements) and annex II (group management report) as follows: "We have audited the consolidated financial statements – consisting of the balance sheet, the income statement, the statement of changes in stockholders' equity, the statements of cash flows and the notes – prepared by euromicron AG and the group management report for the fiscal year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and group management report in accordance with IFRS, as are to be applied in the EU, and in addition the commercial law regulations to be applied pursuant to Section 315a (1) of the HGB (Handelsgesetzbuch – German Commercial Code) is the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit. We conducted our audit of the consolidated financial statements in accordance with Section 317 of the HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the picture of the net assets, financial position and results of operations conveyed by the consolidated financial statements, taking into account the principles of orderly accounting, and by the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the consolidated financial statements and group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the definition of the companies consolidated, the accounting and consolidation principles used, and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion pursuant to the findings gained during the audit, the consolidated financial statements comply with the IFRS, as are to be applied in the EU, and in addition to the commercial law regulations to be applied pursuant to Section 315a (1) of the HGB (German Commercial Code) and give a true and fair view of the net assets, financial position and results of operations of the Group, taking into account these regulations. The group management report accords with the consolidated financial statements, conveys overall an accurate picture of the Group's position and accurately presents the opportunities and risks of future development." We have issued the above report on the audit of the consolidated financial statements and group management report for the fiscal year from January 1, 2005, to December 31, 2005, of euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main, in compliance with statutory provisions and the principles of proper reporting in auditing of financial statements.

Frankfurt/Main, March 17, 2006

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Simon-Heckroth
Wirtschaftsprüfer



Braun
Wirtschaftsprüfer

Five-year Overview of the Group

Five-year Overview of the euromicron Group

Values from the income statement

	2005 EUR m.	2004 EUR m.	2003* EUR m.	2002* EUR m.	2001* EUR m.
Consolidated sales	114.1	110.0	134.5	147.2	184.6
Germany	100.9	96.5	104.3	118.2	138.7
Euro zone	7.9	7.1	10.4	10.5	26.9
Rest of World	5.3	6.4	19.8	18.5	19.0
EBIT	8.3	10.1	15.6	17.1	16.0
EBT	7.7	9.4	13.5	13.9	12.7
Consolidated net income/ loss for the period	5.6	4.5	12.1	11.7	5.7
Cash flow	4.2	1.3	8.6	8.1	11.8

From the balance sheet

	2005 EUR m.	2004 EUR m.	2003* EUR m.	2002* EUR m.	2001* EUR m.
Current assets	57.1	57.6	79.8	81.5	82.2
Noncurrent assets	43.7	50.1	44.3	49.2	60.8
Current liabilities	26.5	30.3	40.6	42.1	58.6
Long-term debt	7.8	13.6	20.7	37.4	41.5
Minority interests	–	–	0.3	0.3	1.4
Stockholders' equity	66.5	63.8	62.5	50.9	41.5
Total assets	100.8	107.7	124.1	130.7	143.0
Equity ratio	66.0	59.2	50.4	39.0	29.0

Miscellaneous

	2005 EUR m.	2004 EUR m.	2003* EUR m.	2002* EUR m.	2001* EUR m.
Investments in intangible assets and in property, plant and equipment	1.5	7.7	1.9	2.4	6.5
Employees (annual average)	805	765	997	1,179	1,349

* US GAAP

Single-entity Financial Statements (HGB)

Balance sheet as of December 31, 2005

euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

Assets

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
A. Assets		
I. Intangible assets		
Concessions, industrial and similar rights	46	43
II. Tangible assets		
Other equipment, operating and office equipment	96	125
III. Financial assets		
1. Shares in affiliated companies	61,501	68,983
2. Loans to affiliated companies	4,000	5,000
	65,643	74,151
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	13,142	18,568
2. Other assets	2,373	2,752
II. Securities	1,970	3,975
III. Cash-in-hand, bank balances	14,612	3,884
	32,097	29,179
C. Prepayments and accrued income	35	33
	97,775	103,363

Equity and liabilities

	Dec. 31, 2005 EUR thou.	Dec. 31, 2004 EUR thou.
A. Equity		
I. Subscribed capital	11,914	11,914
II. Capital reserves	62,847	62,847
III. Revenue reserves	6,704	6,704
IV. Retained profits	3,379	2,846
	84,844	84,311
B. Provisions		
1. Provisions for pensions and similar obligations	168	133
2. Provisions for taxes	310	863
3. Other provisions	740	1,359
	1,218	2,355
C. Liabilities		
1. Liabilities to banks	111	223
2. Trade payables	134	112
3. Liabilities to affiliated companies	1,003	646
4. Other liabilities	10,465	15,716
	11,713	16,697
	97,775	103,363

Income Statement for the period January 1 to December 31, 2005

of euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

Income statement

	2005 EUR thou.	2004 EUR thou.
1. Income from investments	1,332	2,119
2. Income from profit and loss transfer agreements	5,368	3,227
3. Other operating income	683	3,111
4. Personnel expenses		
a) Salaries	-1,107	-1,117
b) Social security and other pension costs	-97	-87
– thereof pension costs EUR 35 thousand (previous year: EUR 31 thousand) –		
5. Amortization of intangible assets and depreciation of tangible assets	-63	-41
6. Other operating expenses	-2,044	-2,459
7. Income from long-term loans	148	150
– thereof from affiliated companies EUR 148 thousand (previous year: EUR 150 thousand) –		
8. Other interest and similar income	295	968
– thereof from affiliated companies EUR 75 thousand (previous year: EUR 191 thousand) –		
9. Amortization of financial assets	0	-684
10. Interest and similar expenses	-821	-1,451
– thereof to affiliated companies EUR 154 thousand (previous year: EUR 108 thousand) –		
11. Result from ordinary activities	3,694	3,736
12. Income taxes	-364	-889
13. Other taxes	-1	-1
14. Net profit for the year	3,329	2,846
15. Accumulated profit	50	0
16. Net retained profits	3,379	2,846

Proposal on the appropriation of profits

The annual financial statements of euromicron AG at December 31, 2005, disclose net retained profits of EUR 3,379,548.75. It is proposed to the General Meeting to appropriate the net retained profits as follows:

Dividend of EUR 0.60 for 4,660,000 shares	EUR	2,796,000.00
Carryforward to a new account	EUR	583,548.75

The annual financial statements of euromicron Aktiengesellschaft communication & control technology as of December 31, 2005, were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, and granted an unqualified audit opinion. The annual financial statements have been filed with the Frankfurt/Main Local Court.

Glossary

ADSL (Asymmetric Digital Subscriber Line)

A modulation method for transferring data on the analog two-wire copper line that has been used to date only as a simple telephone line for connecting an analog phone. This method has been specially adapted to the needs of Internet use, in which a small quantity of data (query command) with low speed (upload) is required for the query, whereas a large quantity of data (files) has to be transferred at high speed (download) for the response.

Assembling fiber optic cables

Fiber optic cables are connected to one another by various methods using connectors and couplings so that the light signal is transported with practically none of the signal being lost. This creates network components that are suitable for assembly, have the right length and the right connectors and that are supplied directly to the construction site or as a spare part for storage along with the associated measurement protocol.

Attenuation

Factor by which the quality of a signal deteriorates between the beginning of a cable and the end of a cable.

Backbone

The part of a network that connects the various components and subnetworks of a large network with each other. Since backbones bear the brunt of the data load, they are mostly constructed with a large bandwidth.

Bandwidth

This denotes the transmission capacity of a voice or data connection, i.e. the volume and speed of transmission. It is therefore specified in bit/s. The greater the bandwidth, the more information can be transferred per unit of time.

BITKOM

Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V. (German Association for Information Technology, Telecommunications and New Media); it represents around 1,300 companies from the IT and communications industry that generate more than EUR 120 billion in sales and employ some 700,000 people. They include in particular equipment manufacturers and providers of software, telecommunications services and content.

BOS wireless communication (public authorities and organizations that perform security tasks)

Separate wireless systems for public authorities and organizations that perform security tasks, such as the police, fire brigade and emergency services. These mobile systems have to be expanded in particular in tunnels, garages, etc., due to the increased requirements for security in these areas and to ensure that emergency forces can be reached there.

Carriers

Operators of communications networks that install, provide and maintain a network infrastructure for transporting various information, such as telephony, fax, e-mails, Internet data, TV programs, etc. Service providers lease these network capacities and provide their content to end customers with it. Before global deregulation in the telecommunications sector, network operation and related services were the responsibility of a single body and were the tasks of the national telecommunications companies. Today, these are also private wireless, metropolitan and cable network operators or providers, as well as radio and television companies.

Category 5, 6, 7, etc.

The transmission qualities of copper cable are defined by their shielding and quality. The requirements placed on the cable and so the maximum possible transfer rates are classified into categories in accordance with the relevant standards. The higher the category, the higher the transmission speed and capacity.

Coating

Optically transparent fiber optic material that protects the glass core from mechanical damage.

Color

General name for the tiny section of the entire electromagnetic spectrum (from approximately 400 nm to 780 nm) visible to the naked human eye, commonly termed light. Light colors can be filtered, meaning that information can be transferred in different colors (wavelengths), thus multiplying the capacity of a fiber optic cable.

Connector

Mechanically detachable element for connecting two fiber optic cables, or connecting a fiber optic cable to a transmitter/receiver element.

Core

The central, actual transmission medium of an optical fiber. The core diameter of a mono-mode fiber optic cable is only 9 μm . The entire optical fiber, including its coating, has a diameter of 245 μm , which is about the thickness of a human hair.

DSL (digital subscriber line)

General description for high-speed access based on the two-wire copper line (phone line) to the end customer (see also "Last mile"). Different variants of the transmission method are also called ADSL, SDSL, VDSL, etc.

EM-RJ

A new connector generation from EUROMICRON Werkzeuge GmbH for fiber optic connections that is fully compatible with the RJ-45 connector for copper connections. The EM-RJ can be used as a duplex connector for optical fibers and polymer optical fibers (POFs). At the same time, the standard-RJ-45 copper connections can be used to transmit data up to category 6, provide a power supply (e.g. power over Ethernet) and define encodings. As a result, the EM-RJ can be used for a very wide range of applications.

Ethernet

A medium-independent standard (IEEE 802.3) in packet transmission. It denotes a protocol for coordinating simultaneous access to a transmission medium by different users. The term Ethernet denotes both the type of cabling and transmission methods or frameworks. Ethernet can be operated at 10, 100, 1,000 and, more recently, 10,000 megabits a second.

Fiber optic cable (optical waveguide)

Fiber optic cable is a glass or plastic fiber for transferring modulated light. It is distinguished among other things by its extremely high transmission capacity, which can be several terabits per second. Fiber optic cable is not sensitive to electromagnetic disturbances, is more or less interception-proof, and has extremely low attenuation values.

Fiber-to-the-Desk (FTTD)

Terminal device cabling in fiber optics technology in which the end system on the desktop is connected directly to an optical data network. Optical-electrical conversion of the signals is carried out in the end system.

Fiber-to-the-Home (FTTH)

External cabling in fiber optics technology in which, instead of copper lines, fiber optic connections are established between the optical wide area network and the building cabling.

Fiber-to-the-Office (FTTO)

Building cabling in which a fiber optic connection is led right to the cable duct directly near the office or workplace. A mini installation switch is usually placed in the cable duct, where optical-electrical conversion is carried out, and the end systems are connected with inexpensive copper patch cables.

Firewall

A "protective wall" that is established by a special active network component between the worldwide and generally accessible Internet and a connected terminal device, such as a PC, router, switch, etc., or the local area network (LAN) connected behind it. A firewall is configured so that only information from password-protected permitted users can enter the Internet from the "inside" to the "outside", but not the other way round. A firewall therefore acts like a controlled valve.

GSM (Global System for Mobile Communication)

Initially a Europe-wide and now a globally established standard for a digital wireless system (termed D network in Germany in emulation of the analog C network) which works in the frequency range of 900 MHz (Germany: T-Mobile (D1), Vodafone (D2)) and 1800 MHz (Germany: e plus, O2). Also termed 2nd generation (2G). Apart from telephony, fax applications and data transfer are also possible, albeit at low speed (9,600 Kbits/sec.).

IT (information technology)

A general term for the entire field of electronic data processing. This includes the sector of hardware and software for small computers (servers, PCs, notebooks, palmtops, etc.), large computers (mainframes, storage components, server farms, etc.) and relevant network components (servers, routers, etc.).

LAN (Local Area Network)

Local network, mainly for transferring data, but also voice and other electronic information. LANs are usually to be found in office buildings or industrial plants, but also as on-board networks on vehicles, aircraft and ships.

LASER (Light Amplification by Stimulated Emission Radiation)

A laser is a light source that emits coherent (light waves that oscillate in the same phase) and quasi-monochromatic and focused light. Today, lasers are the most important high-performance sources of light for the optical transfer of data using fiber optic cables. The data information is modulated onto the light signal of the laser and fed into the fiber optic cable at high power. An optical receiver at the other end of the fiber optic cable converts the modulated data information back into signals.

Last mile

The point of telecommunication access to the end customer, i.e. the last part of the route in the telephone, data or radio network that is located between the last network node of the carrier and the socket within the end user's house. This is the two-wire phone line for the telephone network, the coaxial cable connection or satellite reception unit for the radio and television network, and modulation on the telephone line in accordance with the ADSL method (DSL connection) for the Internet.

MAN (Metropolitan Area Network)

A communications network typically set up within towns, cities and municipalities, for transmitting data, voice, TV programs and other electronic information.

Mode

The individual colors or wavelengths of a white light beam are called light modes. They can be sent great distances through fiber optic cable. Some fiber optic cable has a very small diameter large enough for only a single wave of light. Such fiber optic cables are called mono-mode or single-mode fibers, in contrast to multi-mode fibers.

Multi-mode fiber

Fiber optic cable with a core diameter that is larger than the wavelength of the light. In multi-mode fibers, the different colors or wavelengths, also termed modes, spread out, traveling different distances along the fiber. Multi-mode fibers have a lower transmission range and so are used preferentially for local area networks (LANs) for networks in buildings.

Multiplexer

Multiplexers concentrate several data streams or channels on one connection line. The data streams are distributed statically, i.e. in accordance with the firmly set connection, unlike with switches or routers, where the data streams are distributed dynamically. Electrical or optical multiplexing technologies are available.

Optical components

Components in a fiber optic data network, with the terms applying analogously to copper or wireless networks. A distinction is made between active and passive components. Connectors and coupling cables transfer the signal without direct or active influence, i.e. they merely attenuate the signal, but do not amplify or distribute it. Active components, such as routers or switches, amplify or distribute the signal and require a dedicated power supply and additional control signals for this.

Optical fiber

Physical basis in the form of a fiber for transferring digital information using light as the carrier medium.

Optical free space transmission

A transmission technique of a communications system in which the optical signals are transferred in free space (air) by means of infrared or laser transmitters and receivers over a distance of up to some kilometers. A free line of sight is required for this.

Optical multiplexer

An active optical component of a fiber optic network that simultaneously distributes the different wavelengths of a beam of light according to a prescribed setting.

Optical switches

Active optical components for controlling light used as a means of transmission, for example at junctions in the transfer of optical data. Unlike the multiplexer, where the control is specified statically, the control can be changed dynamically with switches.

Patch cable

A pluggable, flexible connecting cable between network distributors or transmission systems and between sockets and end systems. Patch cables can be produced using fiber optics or copper. They are used for flexibly bridging two cable ends and so "patch" these gaps in the connection. The first patch cable was used at the telephone exchange in manually setting up a connection (by the xchange operator).

Pigtail

A connecting cable that is preassembled at one end, is ready to connect up and can be attached to the other end of a single glass fiber or a multiple cable by means of a splice in order to avoid the need to mount fiber optic connectors on site.

POF

Polymer optical fiber. Fiber optic cables made of plastic that are easier to process and cheaper than glass fiber, but less pure and so can bridge shorter distances in lightwave transmission. POF is mainly used in industry and the automotive sector.

ProfiLIGHT family

A cabling system based on fiber optics for maximum performance requirements, analogously to the copper-based ProfiLINK family.

ProfiLINK family

A fully screened cabling system based on copper for various performance requirements from 1 Gbit/s to 10 Gbit/s (ProfiLINK Design, ProfiLINK Modul and ProfiLINK multimedia) with a system guarantee of up to 15 years. Selection of the high-quality components of the system, systems tests and certification of installers for the system are conducted by the euromicron subsidiary SKM Spezialkabel München GmbH.

Providers

Companies that provide telecommunications services such as telephony (wireline and mobile), fax, Internet, TV programs, video on demand, etc. Such service providers usually do not have their own telecommunications network, but instead lease network capacities for transporting their services from carriers.

Quantum

Light consists of a large number of light quanta that transport information. The total reflection of the light quanta in fiber optic cables is used to transport information over hundreds of kilometers.

Quartz glass (silica)

Silicon dioxide in non-crystalline form. The basic material for the core of fiber optic cable.

Router

An active component of a data network that distributes the information which is split into individual data packets and does not necessarily follow in sequence, dynamically (i.e. by control signals) within the network by means of route finding, forwarding and delivery. Switches in a voice network have a similar function.

SAN (Storage Area Network)

A communications network, typically within data centers and computer centers, that connects storage media, large computer systems and server farms with each other. It is often termed Fiber Channel, since it involves high-capacity, rapid "data channels" based on fiber optic connections.

Security networks

A general term for the network system that is used physically and logically for protection and surveillance of a room, building, grounds or a communications network and its critical components. Physical protection and surveillance denotes protection against fire, intrusion, unauthorized access, theft, vandalism and manipulation, as well as surveillance by means of fire alarms, video cameras, access codes, etc. Logical protection and surveillance denotes protection against hackers, viruses, unauthorized dial-in attempts, spams, etc., and the surveillance of data and control signals in a communications networks by means of monitoring, log files, etc.

SFF (small form factor)

This denotes the design of optical components, specifically fiber optic connectors. A general designation for a low size.

Single-mode fibers

Fiber optic cables with a core diameter so small that only one color or wavelength, also termed mode, is able to pass through it. Their manufacture is more complex and so single-mode fibers are more expensive than multi-mode fibers. Single-mode fibers have a higher transmission range than multi-mode fibers and so are used in wide area networks (WANs) to transport large volumes of data.

Smartphones

Mobile end devices with multiple functions, such as telephone, e-mail, Internet browser, alphanumeric keypad, etc. Such a device is now familiar under the brand name BlackBerry; all well-known mobile phone manufacturers offer such smartphones.

Splice

Arcs of light and precision technology are used to splice together extremely fine fiber optic cables to ensure a permanent connection with no loss of data. This spliced transition point is generally termed a splice.

Splicing

Permanent connection between two fiber optic cables achieved by either fusing, gluing, or mechanically joining the cables together.

Switch

An active component in a voice network that establishes the permanent switched connection for transporting voice dynamically, i.e. in accordance with the dialing signal, within the network by means of route finding and forwarding. Large exchanges and small telephone systems have such a switching function and so are generally termed switches. Routers have a similar function in a data network.

Telecommunications technology

A general term for the entire field of communications transmission. Historically, this sector initially included only transfer of voice and documents (telephony, telegraphy, fax). Increasing digitization has resulted in the transfer of data in the form of software files, e-mails, music, video, etc.

Triple play

High-speed data transfer over the Internet, partly based on fiber optic cable, for the simultaneous transport of the three applications telephony, surfing in the Internet and video or TV.

UMTS (Universal Mobile Telecommunications Systems)

A further development of the GSM standard, also termed 3rd generation (3G), in which the main focus is on mobile data communication (internet use and image transfer). Transfer rates of up to two Mbit/second are possible with this system.

URM®

Short name for an innovative fiber optic cable connector produced by EUROMICRON Werkzeuge GmbH: YOU ARE Modular. Duplex fiber optic cable connectors built as modules; max. up to 8 fibers; small form factor (SFF) design connector.

Video over IP

Integrated transfer of video signals and voice and data information in digital form via the Internet Protocol (IP). Video over IP technology packages the analog video signals from the camera in small digital data packets that, like normal data, are then transferred over data networks by means of the Internet Protocol. As a result, video signals can be transmitted over one and the same cabling system alongside telephony and data.

Voice over IP

Integrated transfer of voice and data in digital form via the Internet Protocol (IP). VoIP technology packages voice in small digital packets that, like normal data, are then transferred over data networks by means of the Internet Protocol, dispensing with the need for a second cabling for pure telephony.

VPN (virtual private network)

In the worldwide and generally accessible Internet, a logical separated subnetwork can be established by means of special active components so that it acts like a virtual private network (VPN) within the entire Internet. This virtual private network can then be protected so as to prevent external intrusion by unauthorized persons outside the VPN. The security zone created in this way within the generally accessible Internet is termed a "VPN tunnel".

WAN (Wide Area Network)

A wide network that connects together several small networks (LAN, MAN), for example from different countries, cities or locations, over large distances by means of cable, fiber optics or satellite.

WLAN (wireless LAN)

A radio-based transmission method that is usually operated in the license-free microwave band. Wireless LANs consist of radio cells in which users can log on in order to access the networks behind them. Several standards are currently new on the market, for example 802.11b (max. 11 Mbit/s), 802.11a (54 Mbit/s) or Bluetooth. All users of a radio cell share the bandwidth.

10GE (10 Gigabit Ethernet)

A high-speed data transfer protocol based on the Ethernet standard. 10GE (IEEE 802.3ae), the 10Gbit/s Ethernet variant, has been standardized since 2002 and is the first Ethernet standard exclusively for fiber optic transmission.

Financial Calendar 2006:

March 30, 2006	Annual Report 2005
May 29, 2006	Publication of the business figures for the 1st quarter of 2006
June 23, 2006	General Meeting
August 29, 2006	Half-yearly Report 2006
November 28, 2006	Publication of the business figures for the 3rd quarter of 2006

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