parsytec

Surface Quality Yield Management

Annual Report 2005

Key Figures

in € thousands	2005	2004
Bookings Inspection	23,658	22,421
Bookings pdi	2,305	1,981
Total bookings	**25,963**	24,402
Revenues Inspection	26,569	23,042
Revenues pdi	1,993	1,458
Total revenues	**28,562**	24,500
Cost of sales	13,948	10,672
Gross profit	**14,614**	13,828
Operating expenses	**12,367**	13,938
EBIT / Operating income	**2,247**	– 110
Pre-tax income	**2,265**	– 340
Net income	**1,472**	– 100
Earnings per share (basis)	0.12	– 0.01
Earnings per share (diluted)	0.12	– 0.01
Regional revenue split		
Germany	5,871	5,391
Rest of Europe	8,521	5,373
Asia-Pacific	7,923	8,768
America	4,997	3,973
Africa	1,250	995
Cash and cash equivalents (incl. time deposits and restricted cash)	15,851	14,149
Shareholders' equity to total assets in %	**76.2**	72.5
Return on equity in % (before taxes)	**9.7**	– 1.5
Cash flow (changes in cash and cash equivalents)	**1,702**	189
Employees at end of period	97	125

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Letter to the Shareholders 2005

» Falk Kuebler, CEO

Dear shareholders,

In our last letter to the shareholders, we established this net return target for the year 2005. With a net revenue return of 5.2 % for the business year 2005, Parsytec has slightly outperformed this target. In addition, the Company increased its revenue by 17 % compared to the previous year and generated a positive cash flow of EUR +1.7 million after the buyback of approximately 294,000 shares of its own share capital in 2005. This could be achieved although we invested once again in trendsetting development projects in the segments ***Inspection*** and ***production decision intelligence (pdi)*** and not only recorded the harvest of last year's investments.

From the letter to the shareholders 2004:

"For 2005 the Company deems a net profit of 5 % of revenue as well possible,…"

Inspection

The segment ***Inspection*** comprises market-leading products for surface inspection for the target industries steel, aluminum and paper. Here, focus was on the development of the new surface inspection system ***espresso SI***, which is based on the already market- and technology-leading ***espresso*** system. Goal was to improve the quickness and user-friendliness of surface inspection through innovation in the areas software and hardware.

Regarding software, ***espresso SI*** allows to access the inspection results while using a standard internet browser. This accelerates the access to the valuable surface quality information and will enable Parsytec customers to further speed-up important decision-making processes. Furthermore, Parsytec customers will benefit from an unprecedented degree of system pre-settings and commissioning wizards, making the inspection system ready for a "plug & play" usage approach.

Regarding hardware, ***espresso SI*** is the first system worldwide that is based on GBit Ethernet-camera technology. On this basis, Parsytec can double the current maximal inspection speed and is therefore prepared for the continuous modernization of its customers' lines and plants. Employing new generations of computers, in addition, the size of the hardware rack (Junction Box) could be reduced by approximately 75 %, which considerably facilitates the installation at the customer's premises.

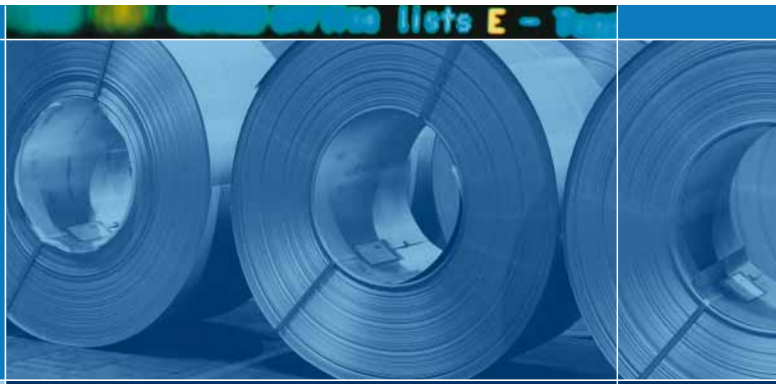
"With *espresso SI*, we are setting new standards: with reference to technology, regarding the ‚total cost of ownership' for our customers and with reference to the scope of applications. That way, for example, we are the first seller worldwide able to present a surface inspection system, which is especially tailored to the tandem lines."

Guenter Lauven, Director Development

The benefits of ***espresso SI*** for our customers were directly mirrored after its market introduction, when the first order was being realized. A worldwide leading seller of quality products made on the basis of recycled paper, after his positive experience with Parsytec ***espresso***, decided in favor of ***espresso SI*** for an additional production line already before the official market introduction. This provides the customer with a doubled detection sensitivity, 99.5 % availability guarantee without the need for storing spare parts and a faster access to all relevant data.

The Dual Sensor™ represents another market success. The Company recently received a number of follow-up orders. The efficient combination of matrix and line scan camera technologie for diffuse and direct light illumination delivers the most precise inspection results possible – even under demanding manufacturing conditions. The camera technologies complement each other and hence guarantee virtually complete defect detection. As such, the Dual Sensor™ bundles the advantages of both technologies and provides inspection without compromises.

The Parsytec AG is convinced that its product innovations strengthened its position as the leader in technology in the surface inspection industry.



production decision intelligence

In addition to classical surface inspection, Parsytec now offers its customers an increasingly expanded portfolio of products and services in order to support them when they improve their processes of turning inspection data into productivity gains.

At the basis, this business consists of software upgrades and services optimizing the inspection results, such as the tuning of classification and defect interpretation and the best possible adaptation to new types of material.

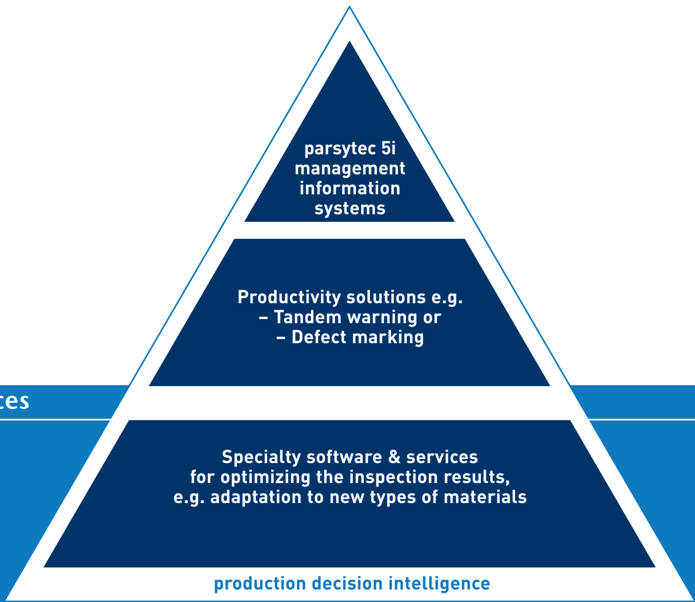
In the middle range, application solutions such as tandem warning for modern integrated production lines or complex project solutions like defect marking are provided. Here, potential defects on steel coils are selected electronically and evaluated while the production process is continuing; thereafter they are marked on the again unwound coil. This technology saves the steel producer costly repairs of the coils and leads to shorter run-through times. Due to the markings, the customer from the steel industry can exclude defect sections from the production process and save costs for material. On the basis of an ***espresso*** inspection system with the ***pdi*** platform ***parsytec 5i***, this defect marking could be successfully implemented at ThyssenKrupp Steel AG.

In the high-end range, upon availability of the new software product ***parsytec 5i***, the Company is now able to support the clients' planning for modern, surface-related yield management optimization. It offers product tools as well as extensive services for the creation of management information systems. With ***parsytec 5i*** release 2.0, substantial product upgrades are available, e.g. the support of standard measuring instruments, the availability of standard computer databases of vendors such as Microsoft, Oracle and IBM and the integration with the Microsoft Office Suite. For the first time, the transfer of information from inspection up to the administration is possible. Even online inspection data can be displayed in dynamic excel worksheets in form of business charts.

"Already during the first year, the level of utilization of *parsytec 5i* by our customers has surpassed our expectations. For a re-allocation of disabled coils, inspection results are compared with the requirements from the open order books position. *parsytec 5i* increasingly becomes an innovation platform for our clients up to the creation of corporate infrastructures."

Friedrich Luecking, Director Marketing

Pyramid of products & services



With this portfolio, the Company now is the sole seller of inspection systems on the market, who supports its customers according to the key added value “surface quality yield“ the whole way upwards the value-added chain.

Market situation in 2005

The year 2005, again, brought important changes in the market. The first changes can be found in the procurement planning: to a great extent, procurement was planned and executed as infrastructure decisions. This can be expressed in corparate structural procurement processes, which means development of surface inspection systems over a couple of years. On the other hand, the actual procurement of a number of systems in a block becomes the rule. More than 50% of the approximately 65 systems bought in the year 2005 by the steel industry worldwide were ordered as blocks of two or more inspection systems.

The second change is to be seen in the renewed opening of big markets in which no orders had been placed with Parsytec during the previous couple of years, namely Japan and Russia. Therefore, for the following years a substantial expansion of the existing market for Parsytec can be seen to emerge.

A third change lies in the completion of the product range in the steel industry after the introduction of the tissue product in the paper industry in 2004. With Dual Sensor™, for the first time an acceptable solution for the inspection of tape-coating machinery could be realized.

Outlook 2006

In the growing market for surface inspection systems, Parsytec is aiming at a constant to slightly rising market share. The ***production decision intelligence*** business is expected to expand considerably in 2006 and is an important catalyst for the medium- and long-term profitability planned. After achieving the first interim goal on the road to a sustainable profitability in 2005, the Company is aiming at growth in earnings in the range of 50 % for 2006. With reference to revenue, at least a moderate growth is expected for the year 2006 as a whole.

The Company regards these targets for 2006 as steps to further ambitions. I would like to thank the employees for their support and the shareholders for their trust.

Parsytec AG, Aachen

Falk Kuebler
CEO

Consolidated Management Report for the Financial Year 2005

1. Business Report

The Company

Parsytec is the world's leading producer of surface inspection systems for strip products such as steel, paper and aluminum. In its biggest and most important target market, the steel industry, Parsytec is market leader. In addition, the Company offers an increasing portfolio of products and services in order to gather productivity information from surface data (*"**production decision intelligence**"*).

Development of Industry

After 2003 and 2004, for the third time subsequently the surface inspection systems market for the steel industry showed a noticeable rise in number of pieces during the past year. The number of systems sold worldwide rose by approximately 20 % from 54 in 2004 to approximately 65 in 2005. The paper industry experienced a decrease of the total market, especially due to a dramatic decline of businesses with new machines in Asia and the strikes of the Scandinavian paper industry. In both target industries, the intensification of the trend towards comprehensive inspection infrastructures at the expense of single inspection systems could be noted.

Research and Development

In 2005, the trend in development towards close cooperation with client's projects led to a decline of the R&D quota from 15 % of the revenue in 2004 to 12 % in 2005, with a renewed increase of the development output at the same time. Therefore, in both segments the technological leadership could be proved:

With the beginning of the year, the second generation of the successful ***espresso*** system could be made marketable in the ***Inspection*** segment, and the greater part of the development of the newest Parsytec product, ***espresso SI***, was realized.

In the ***pdi*** segment, the new release ***parsytec 5i*** 2.0 could be presented towards the end of the year; in addition, ***pdi*** solutions were made marketable, such as the pioneering Defect Marking or the Tandem Warning linked to the Pickle-Tandem-Lines.

Marketing and Sales

During the financial year, the marketing activities of the Company were focused in both business segments: in the ***Inspection*** segment, the Company participated in exhibitions and lectures at the Tissue World, the Tissue Symposium 2005, the Tappi Spring Conference, the Steel Industry Automation International Conference and the Stahltag 2005.

In the *pdi* segment, especially the international customer workshops in Chicago, Buffalo, Shanghai and Aachen are to be highlighted. In sales, the steel industry could pick up the good experiences of the paper industry and the extension of the indirect sales channels could be achieved. Thus, first systems were sold through the system manufacturers and automation companies Danieli (Italy) and Siemens (Germany).

Staff

In the course of the financial year, the headcount decreased from 125 as of December 31, 2004 to 97 as of December 31, 2005 (part-time workers converted correspondingly). Of these 97, 55 were employed in sales, customer service and marketing, 28 in engineering and 14 in administration.

Corporate Law Structure

There were no changes in Company law structure within the Parsytec Group in 2005.

Financial Accounting

In conformity with EU directive, the Company switched its financial accounting from the United States Generally Accepted Accounting Principles (US-GAAP) to the International Financial Reporting Standards (IFRS) with effect from January 1, 2005.

Explanations regarding changes in the financial accounting as well as the IFRS balance of December 31, 2004 were published with the first quarter report 2005 dated May 18, 2005.

2. Earnings, Financial and Liquidity Situation

Orders and Revenues

In the financial year 2005, Parsytec registered order entries of EUR 26.0 million. This shows a rise of 6 %. Order entries in the ***Inspection*** segment amounted to EUR 23.7 million. In addition, Parsytec registered order entries in the ***production decision intelligence (pdi)*** segment in the range of EUR 2.3 million. Reasons for this rise can be found in the clearly increasing demand from the steel industry on the one hand, which especially in the second half of 2005 was not compensated by the decline of the average selling price. On the other hand, reasons for this rise can be found in the increasing success of the ***pdi*** segment, which was especially marked by the successful market introduction of the product ***parsytec 5i*** into its target industries, steel and aluminum. With 35 systems sold, Parsytec's market share therefore increased to scarcely over 50 % (as opposed to 43 % in 2004).

From the revenue point of view, a rise of 17 % compared to the previous year could be achieved. Therefore, revenues of EUR 28.6 million could be realized, compared to EUR 24.5 million in 2004. Beside the increasing order entries, especially the internal improvement of the efficiency regarding the execution of orders contributed to the rise in revenue.

93 % (EUR 26.6 million) of the year 2005 revenue stemmed from the ***Inspection*** segment, 7 % (EUR 2.0 million) from the ***pdi*** segment. 30 % (EUR 8.5 million) stemmed from Europe (excluding Germany), 28 % (EUR 7.9 million) from the Asia-Pacific region, 21 % (EUR 5.9 million) from Germany, 17 % (EUR 5.0 million) from America and 4 % from Africa (EUR 1.3 million). The Company therefore could advance further in regards to the regional diversification of its revenues.

Earnings

The year 2005 showed significant success on the road to a sustainable development in profitability, started in 2003. After two years with a result near the break-even, despite the still high expenditure for product initiation and market introduction, with 5.2 % net profit margin the targeted EAT of 5.0 % could be slightly outperformed. In the course of the individual quarters, in Q4 the net profit margin already reached 6.2 %.

The increase in profit performance is, on the one hand, a result of the rise in revenue compared to the previous year, on the other hand a result of further reduction of the Company's expenditure to EUR 12.4 million (from EUR 13.9 million in 2004). Unsatisfactory remains the development of the gross margin in 2005, which shrank from 56 % to 51 %. Main reason for this especially is the lasting decrease in prices from fall 2004 to summer 2005 in most sub-sections of the ***Inspection*** segment.

In the year under review, the gross margin amounted to 51 %. With EUR 14.6 million, the gross result of the financial year 2005 outperformed the EUR 13.8 million of 2004 by 6 %.

Operating expenses amounted to EUR 12.4 million in the financial year 2005. Compared to the previous year, operating expenses thus could be reduced by 11 % (2004: EUR 13.9 million).

Sales and marketing expenses amounted to EUR 7.4 million (26 % share in revenue) in the reporting year, after EUR 8.4 million (34 % share in revenue) in the financial year 2004. R&D expenses totalled EUR 3.4 million (12 % share in revenue) after EUR 3.7 million (15 % share in revenue) in the financial year 2004. Administrative expenses amounted to EUR 1.6 million (6 % share in revenue) in the reporting period after EUR 1.8 million (7 % share in revenue) in the business year 2004.

The operative result (EBIT) in the financial year 2005 amounted to EUR 2.2 million. Plus interest gains and other income, this results in pre-tax earnings of EUR 2.3 million.

Earnings after tax in the financial year 2005 amounted to EUR 1.5 million.

Investments

Since the focus of the business activity of the Company lies in the software sector, only small investments in the range of EUR 0.2 million were necessary in regard to the balance sheet. These were mostly related to the procurement of fixtures, fittings and equipment. In accordance with the IFRS, the more extensive investments in form of research and development activities are displayed in the profit and loss statement as expenses to 100 % and therefore do not appear under investments.

Finance Measures and Planning

In the year 2005, Parsytec has not carried out any finance measures and is not planning any finance projects.

Financial and Liquidity Situation

In the financial year 2005, the equity ratio could be increased once again from 73 % to 76 % as of December 31, 2005.

Liquid assets and short-term investments amounted to EUR 15.9 million as of December 31, 2005 (compared to EUR 14.2 million as of December 31, 2004). Despite the buyback of approximately 294,000 shares of the Company's own share capital, this corresponds to a significant increase by EUR 1.7 million or 12 %.

In the twelve months of the financial year 2005, Parsytec achieved a net cash flow of EUR +2.4 million from operating activities at just scarcely over earnings before tax. The cash flow from investment activities amounted to EUR –0.2 million, essentially attributable to the acquisition of fixtures, fittings and equipment. Positive cash flow of EUR +0.2 million was primarily achieved from financing activity, resulting from an inflow of EUR +0.9 million from the decrease in the security credits by way of bank guarantees and from an outflow of EUR –0.8 million due to the existing share buyback program. Total cash flow in accordance with IFRS inclusive currency exchange rate effects thus amounted to EUR +2.6 million.

As of December 31, 2005, the inventory amounted to EUR 2.7 million and thus approximately decreased by EUR 3.7 million (or nearly 60 %) compared to December 31, 2004 (EUR 6.4 million). Main reasons for this are the improvement of inefficiencies, which were detected during the IFRS-alteration, and the consequent outsourcing in the areas materials management and logistics.

The liquidity ratio (ratio of liquid assets to short-term liabilities) amounted to 293 % as per December 31, 2005, and increased by 75 % compared to December 31, 2004 (218 %).

The return on equity (before tax) in the financial year 2005 amounted to 9.7 % and thus has reached the highest value since the financial year 1999 / 2000.

3. Supplementary Report

After the end of the financial year, the share buyback program of 500,000 shares, which was decided on November 7, 2005, was completed.

4. Risk Report

Opportunities and Risks

Future developments described in this report (see especially Outlook) can be influenced by the following opportunities and risks:

The general assessment of the market development can be subject to changes due to unexpected events in the buyer industries. Exchange rate fluctuations can modify the profitability of individual countries, but can be restricted by the regional diversification. Valuations, effected in the scope of the financial accounting in accordance with the IFRS, for example the revenue recognition, can be faulty although the valuation is subject to constant double checks and improvements. Due to the increasing concentration of the buyer industries, the dependency on single customers can rise temporarily although the increasing dissemination of surface systems continuously leads to a broader customer structure. Unexpected technological progress of competitors can never be excluded in a high-tech industry, but despite thorough market observation by the Company cannot be seen at the time being.

Risk Management

Having taken effect on May 1, 1998, the KonTraG (Act for Control and Transparency in the Corporate Sector) stipulates in § 91 (2) of the Corporation Act that Executive Boards must take suitable measures to install monitoring systems to detect early on developments jeopardizing the continued existence of companies.

Parsytec has implemented a risk management system which is based on early identification of threats through risk detection, analysis and communication. This system documents whether threats to Parsytec exist and/or which monitoring and early warning systems have been implemented. The Company implements instruments and procedures to take counter-measures in line with the principles of risk detection, analysis and communication.

Risk management is a regular component of the weekly management meetings. In organizational terms, management is thereby supported by the risk manager in the financial division. The Supervisory Board is informed of the status, plausibility and further development of the risk management system directly by the Executive Board and, within the framework of the audit of the annual financial statements, by the commissioned auditor.

5. Outlook

In 2006, the Company is expecting continuing growth like in the previous years, for the surface inspection system market in regard to the number of pieces sold. A small portion of the growth in revenue and order entries will be consumed by the still slightly decreasing average sales price. Parsytec is aiming at an invariable to slightly increasing market share in this growth market. As a result of weak order entries in Q3 2005, revenue for the first half-year in 2006 is only expected to be in the range of the H2 2005, but then is expected to rise considerably in the second half-year and it is expected at least a moderate growth for the year 2006 as a whole. The production decision intelligence business is expected to further expand in 2006 and is an important catalyst for the further planned medium- and long-term profitability growth.

For the coming quarters, also due to the growing portion of the ***production decision intelligence*** business, the Company aims at a further slightly increasing gross margin, also through the increasing share of the ***production decision intelligence***. The operative expenses planned for 2006 are below those quarters in 2005; by means of the tried and tested adaptive budgeting being used for three years now, the Company sees itself able to quickly adapt to the market environment in the scope of its profitability goal, which remains a high priority. After successfully achieving the first profitability target in 2005, the Company strives for a growth of earnings in the range of a good 50 %. The Company sees the yield of 6.2 % achieved in Q4 2005 as a plausible basis for the achievement of an EAT target of 7.5 % for 2006.

The Executive Board and the Supervisory Board are intending to propose the shareholders a dividend payment at the annual meeting.

Aachen, February 2006

Parsytec AG, Aachen
– The Executive Board –

Corporate Governance

In compliance with the German Corporate Governance Codex, clause 3.10, the Executive Board reports as follows (also for the purpose of reporting to the Supervisory Board):

Correspondence Declaration:

Pursuant to paragraph 161 “AktG” (German Companies Act), the Executive Board and the Supervisory Board of a Company quoted on the stock exchange are obliged to declare that the Company complied with the in the electronic part of the “Bundesanzeiger” (Federal Gazette) published recommendations of the Ministry of Justice, the “Regierungskommission Deutscher Corporate Governance Kodex” (German Cabinet Committee on Corporate Governance Codex) and, in case of noncompliance, which recommendations were and will not be implemented. The declaration is to be made accessible to the shareholders permanently.

The German Corporate Governance Codex (»Codex«) comprises rules and regulations of different legal authority. In addition to descriptions of the current stock corporation law, it contains recommendations from which the companies may deviate; in this case, however, they are obliged to declare this every year. Furthermore, the Codex comprises suggestions from which the Company can deviate without disclosure. This declaration can be viewed in the Internet under: www.parsytec.de/tcchart_498.html and has the following wording:

The Executive Board and the Supervisory Board of Parsytec AG declare that the Company complies with the in the electronic part of the “Bundesanzeiger” (Federal Gazette) published recommendations of the Ministry of Justice, published on July 20, 2005, the “Regierungskommission Deutscher Corporate Governance Kodex” (German Cabinet Committee on Corporate Governance Codex) in its version of June 2, 2005, with the following exceptions:

Clause 4.2.1

The Executive Board is comprised of two or more persons and has one chairman or spokesman.

Reason: Due to its size, the Company does not see the necessity for an Executive Board comprised of more than one person.

Clause 5.1.2, Section 2, Sentence 3

An age limit for members of the Executive Board shall be established.

Reason: The Company does not regard the age of an Executive Board member as a key criterion for his or her aptitude.

Clause 5.3.1

Dependent on the specific circumstances of the Company and the number of its members, the Supervisory Board shall build technically qualified committees. …

Reason: The Supervisory Board of Parsytec AG is comprised of three members only; therefore a differentiation into committees is not useful.

Cooperation of Executive Board and Supervisory Board:

The Executive Board reports to the Supervisory Board on a regular basis, in a topical and comprehensive manner regarding all relevant issues of business planning and the strategic development, the course of the operation and the situation of the Company including the risk situation. The strategic orientation of the Company is agreed with the Supervisory Board. The Company holds a third-party insurance (so-called D&O insurance) with a reasonable retention for the members of the Executive Board and the Supervisory Board of the Parsytec AG.

Open and transparent communication:

The claim that all target Groups receive the same information at the same time has a high priority within our Company. Via Internet, private shareholders can inform themselves topically about current developments within the Company, too.

All media and ad-hoc press releases are made accessible for the shareholders on the Company's webpage.

Pursuant to paragraph 15a of the Securities Trade Act (German "WpHG"), all members of the Executive Board and the Supervisory Board of the Parsytec AG are obliged to disclose the purchase and disposal of Parsytec shares and related derivative instruments. In the business year 2005, Parsytec AG has received three notifications during the reporting year. The Chairman of the Executive Board, Mr. Falk Kuebler, purchased options on Parsytec shares effective October 18, 2005; 3,168 options on the Parsytec share at EUR 0.25, 1,936 options on the Parsytec share at EUR 0.37 and 100,000 options on the Parsytec share at EUR 0.38. These were non-listed options at the stock exchange from the stock-options program of Parsytec AG.

Members of the Executive Board and the Supervisory Board held the following number of shares and relating derivative instruments as to the call date:

	Shares			Stock options		
	Dec. 31, 2005	**Dec. 31, 2004**	Change	**Dec. 31, 2005**	**Dec. 31, 2004**	Change
Executive Board						
Falk Kuebler	5,722,925	5,722,925	0	113,904	8,800	+ 105,104
Supervisory Board						
Waldemar Jantz	2,397	2,397	0	0	0	0
Dieter Keller	0	0	0	0	0	0
Friedrich Luecking	39,033	38,661	+ 372*	6,639	6,639	0

*** The increase of shares concerning Friedrich Luecking results from the closing of the Mitarbeiterbeteiligungsgesellschaft MAB I GbR.**

Guenther Tolkmit retired from the Executive Board of Parsytec AG with effect of February 21, 2005. At the time of his retirement, he held 91,500 Parsytec shares and 108,800 options on the Parsytec share.

Remuneration Report:

Remuneration of the Executive Board totaled in KEUR 154 and comprised as follows:

in € thousands	Fixed	Profit-based compensation
Falk Kuebler	91	31
Guenther Tolkmit*	32	—

* Guenther Tolkmit retired from the Executive Board of the Parsytec AG with effect of February 21, 2005. Above numbers correspond to the period from January 1, 2005 to February 21, 2005.

The remuneration of the Supervisory Board consists of a fixed salary and a variable part, depending on the success of the Company for the current business year. For the year 2005, the fixed salary totaled KEUR 27; the variable remuneration totaled KEUR 13. They comprise as follows:

in € thousands	Fixed	Profit-based compensation
Waldemar Jantz (Chairman)	12	6
Dieter Keller	9	4
Friedrich Luecking	6	3

Report of the Supervisory Board

During the reporting period, we performed the duties incumbent upon us in accordance with the law and the bylaws and supervised the management of the Company on an ongoing basis. We moreover had ourselves informed through numerous written and verbal reports from the Executive Board and in many meetings on a regular basis about the Company's business development, its material holdings and all important affairs. The situation and development of the companies as well as all fundamental managerial issues were moreover explained to us in depth in a total of six meetings with the Executive Board. In accordance with the recommendations of the Corporate Governance Code, no member of the Supervisory Board attended less than half of these meetings. The Supervisory Board did not form any committees.

In the past fiscal year, the activities of the Supervisory Board focused on the following:

» analysis and discussion of the financial statements and the consolidated financial statements for the year ended December 31, 2004,

» approval of the corporate plan and the capital expenditure budget for fiscal year 2006 and

» discussion of and decision on the amendment of the rules of internal procedure for the Supervisory Board and the Executive Board, especially with a view to the German Corporate Governance Code.

The Executive Board prepared the commercial law annual financial statements and management report of the Company as well as the consolidated financial statements in accordance with IFRS and the consolidated management report for the financial year ending December 31, 2005.

The Company's independent auditor, Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Cologne, audited the commercial law annual financial statements, management report, consolidated financial statements in accordance with IFRS and consolidated management report for the financial year as of December 31, 2005 and issued an unqualified auditor's opinion.

We have audited the financial statements and management reports presented as well as the auditor's report to our own audit pursuant to § 171 of the Corporation Act. We deliberated conclusively on the findings of our audit in a meeting of this date. Mr. Peter Gockel, auditor and public accountant, and Ms. Silke Erdle, auditor and public accountant, from Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Cologne, attended this meeting and reported on the material findings of their audit.

The Supervisory Board approvingly took note of the findings of the auditor's audit. No objections were to be raised in accordance with the findings of the audit conducted by the Supervisory Board of the annual financial statements, management report, consolidated financial statements and consolidated management report. In particular, we have not become aware of any risks which have not been sufficiently taken into account in the annual financial statements or consolidated financial statements. The Supervisory Board therefore approved the annual and consolidated financial statements of the Company prepared by the Executive Board as of December 31, 2005. The annual financial statement is hereby agreed.

Aachen, March 13, 2006

Waldemar Jantz
Supervisory Board Chairman

Consolidated Income Statement

for the year ending December 31, 2005

in € thousands	2005	2004	Note I Page
Revenue	28,562	24,500	
Cost of revenues	13,948	10,672	
Gross profit	**14,614**	13,828	
Sales and marketing	7,352	8,424	
Research and development	3,430	3,687	4.4 I 27
General and administrative expenses	1,585	1,827	
Earnings before interest and taxes (EBIT)	**2,247**	– 110	
Financial income / expenses	68	27	4.2 I 27
Other income / expenses	– 50	– 257	4.1 I 27
Earnings before tax (EBT)	**2,265**	– 340	
Income taxes	– 793	240	5 I 27
Earnings after tax (EAT)	**1,472**	– 100	

	2005	2004	Note I Page
Earnings per share (EPS) basic – EUR	0.117	– 0.008	6 I 29
Earnings per share (EPS) diluted – EUR	0.116	– 0.008	6 I 29
Weighted average shares outstanding less indirectly held treasury shares (basic)	12,608,259	12,635,866	6 I 29
Weighted average shares outstanding less indirectly held treasury shares (diluted)	12,643,982	12,635,866	6 I 29

Consolidated Balance Sheet

for the year ending December 31, 2005

ASSETS in € thousands	Dec. 31, 2005	Dec. 31, 2004	Note | Page
Current assets			
Cash and cash equivalents	14,266	11,698	12 | 33
Restricted cash	1,585	2,451	
Trade receivables	5,419	2,699	10 | 32
Inventories	2,667	6,392	9 | 32
Prepaid expenses and other assets	1,087	1,192	11 | 32
Current assets – total	**25,024**	24,432	
Non-current assets			
Property, plant and equipment	381	697	7 | 30
Intangible assets	134	299	7 | 30
Goodwill	814	814	7 | 30
Deferred taxes	3,589	3,867	5 | 27
Other assets	572	596	8 | 32
Non-current assets – total	**5,490**	6,273	
Assets – total	**30,514**	30,705	

EQUITY AND LIABILITIES in € thousands	Dec. 31, 2005	Dec. 31, 2004	Note | Page
Current liabilities			
Current portion of finance lease liabilities	1	30	20 | 37
Current portion of non-current loans	1	1	16 | 36
Trade payables	994	2,854	18 | 37
Prepayments received on account	494	1,442	
Provisions	1,135	626	17 | 36
Income tax liabilities	584	9	5 | 27
Other liabilities	2,210	1,519	19 | 37
Current liabilities – total	**5,419**	6,481	
Non-current liabilities			
Finance lease liabilities, net of current portion	0	1	20 | 37
Non-current loans, net of current portion	1,023	1,025	16 | 36
Deferred tax liabilities	0	93	5 | 27
Pension provisions	807	834	15 | 35
Non-current liabilities – total	**1,830**	1,953	
Equity			
Subscribed capital	12,729	12,720	13 | 33
Directly and indirectly held treasury stock	– 1,423	– 668	13 | 33
Capital reserves	6,637	6,626	13 | 33
Loans for Parsytec MAB shares	– 205	– 289	13 | 33
Retained earnings	5,159	3,687	
Adjustment items for exchange rate gains	368	195	13 | 33
Equity – total	**23,265**	22,271	
Total liabilities and equity	**30,514**	30,705	

Consolidated Statement of Cash Flow

for the year ending December 31, 2005

in € thousands	2005	2004	Note I Page
Cash flow from operating activities:			
Net income	1,472	– 100	
Adjustments:			
Depreciation and amortization	690	960	
Loss on sale of fixed assets	0	9	
Deferred income taxes	185	– 257	
Pension provisions	– 27	162	
Changes in operating assets and liabilities:			
Trade receivables	– 2,720	1,639	
Prepaid expenses and other assets	105	– 91	
Inventories	3,725	– 699	
Trade payables	– 1,860	60	
Prepayments received on account	– 948	– 52	
Provisions	509	– 1,210	
Income taxes payables	575	– 32	
Other liabilities	691	76	
Cash flow from operating activities	2,397	465	24 I 39
Cash flow from investing activities:			
Purchase of fixed assets	– 187	– 478	
Purchase of intangible assets	– 29	– 34	
Proceeds from the sale of fixed assets	7	0	
Other non-current assets	24	– 68	
Cash flow from investing activities	– 185	– 580	24 I 39
Cash flow from financing activities:			
Repayments of non-current loans	– 2	– 1	
Payment of finance lease liabilities	– 30	– 119	
Changes in restricted cash	866	1,630	
Proceeds from the exercise of stock options	20	36	
Repurchase of Parsytec shares and MAB shares	– 755	0	
Proceeds from loan repayments from sale of Parsytec and MAB shares	84	193	
Cash flow from financing activities	183	1,739	24 I 39
Effect of exchange rate changes on cash and cash equivalents	173	195	
Increase in cash and cash equivalents	2,568	1,819	
Cash and cash equivalents – beginning of period	11,698	9,879	
Cash and cash equivalents – end of period	14,266	11,698	

Consolidated Statement of Shareholders' Equity

for the year ending December 31, 2005

	Common stock							
in € thousands / 1,000 pcs.	Shares	Amount	Indirectly held own shares	Additional paid-in capital	Loans for Parsytec MAB shares	Retained earnings (deficit)	Adjustment item for exchange rate gains and losses	Total
Balance – January 1, 2004	**12,705**	**12,705**	**– 668**	**25,119**	**– 482**	**– 14,727**	**0**	**21,947**
Foreign currency translation adjustment	0	0	0	0	0	0	195	195
Granted loans, repayments, net	0	0	0	0	193	0	0	193
Usage	0	0	0	– 18,514	0	18,514	0	0
Stock option exercises	15	15	0	21	0	0	0	36
Net income	0	0	0	0	0	– 100	0	– 100
Balance – December 31, 2004	**12,720**	**12,720**	**– 668**	**6,626**	**– 289**	**3,687**	**195**	**22,271**
Foreign currency translation adjustment	0	0	0	0	0	0	173	173
Granted loans, repayments, net	0	0	0	0	84	0	0	84
Purchase of indirectly and directly held treasury stock	0	0	– 755	0	0	0	0	– 755
Stock option exercises	9	9	0	11	0	0	0	20
Net income	0	0	0	0	0	1,472	0	1,472
Balance – December 31, 2005	**12,729**	**12,729**	**– 1,423**	**6,637**	**– 205**	**5,159**	**368**	**23,265**

Notes to the Consolidated Financial Statements

for the fiscal year ending December 31, 2005

1 The Company

Parsytec AG, Auf der Huels 183, 52068 Aachen, Germany, which was founded on September 5, 1985, and the subsidiaries included in the consolidated financial statements (the "Group") develop, manufacture and market surface inspection systems for strip products such as steel, paper and aluminum.

Parsytec is the market leader in its largest and most important market, the steel industry. In addition, the Company offers an increasing portfolio of products and services in order to gather productivity information from surface data ("***production decision intelligence***"). Please refer to the segment reporting for more information.

The Company has been listed on the Prime Standard of the German Stock Exchange (Deutsche Börse AG) in Frankfurt since January 1, 2003.

2 Accounting and measurement principles

As of December 31, 2005, the consolidated financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and will be released for publication by the supervisory board on March 13, 2006. The comparative figures from prior periods have been determined in comparison to IFRS. IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied accordingly. To date, the Company has applied US-GAAP. The transition to IFRS became necessary due to EC Regulation 1602/2002 and Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code]. Please refer to the "Changes in accounting policy" in the notes to the consolidated financial statements. The Group management report has been prepared in accordance with Sec. 315 HGB.

2.1 Basis of presentation

The consolidated financial statements have been prepared in accordance with the historical cost convention. This does not apply to derivative financial instruments and available for sale financial instruments which are carried as investments and measured at fair value. The consolidated financial statements have been prepared in EUR. Unless indicated otherwise, all amounts have been rounded to thousands of EUR (KEUR).

Statement of compliance with IFRS

The consolidated financial statements of Parsytec AG and its subsidiaries were prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of consolidation

The consolidated financial statements include the financial statements of Parsytec AG and its subsidiaries as of December 31 of each fiscal year. The financial statements of the subsidiaries are prepared using the same uniform accounting and measurement policies and on the same balance sheet date as the financial statements of the parent.

All intercompany balances, transactions, income and expenses, profits and losses from intercompany transactions recognized in the carrying amount of assets are eliminated in full.

Subsidiaries are consolidated in full on the date of acquisition, i.e. the date on which the Group obtains control. Subsidiaries are no longer included in the consolidated financial statements as soon as the parent loses control over the subsidiary.

2.2 First-time adoption of International Financial Reporting Standards

International Financial Reporting Standards (IFRS 1) were first applied on December 31, 2005 and to all comparative periods taking accounting of all applicable IFRS/IAS standards passed by the European Union and the applicable IFRS and SIC. The options allowed under IFRS 1.13 were exercised as follows during the first-time adoption of International Financial Reporting Standards (IFRS 1):

a) IFRS 3 "Business combinations" was not applied retrospectively to past combinations.
b) Property, plant and equipment was not measured at fair value at the time of making the transition to IFRS.
c) All accumulated actuarial gains and losses from the periods prior to the transition to IFRS were recognized. The corridor method will be used for later actuarial gains and losses.
d) It is assumed that the cumulative translation differences for all foreign operations is zero at the date of transition to IFRS.
e) The Company does not carry any hybrid (compound) financial instruments.
f) All subsidiaries made the transition to IFRS on the same balance sheet date as the parent.
g) Financial instruments are qualified as available for sale upon initial recognition.
h) IFRS 2 "Share-based payment" was not applied upon first-time adoption.
i) The transitional provisions in IFRS 4 "Insurance contracts" were not applied.
j) The Company did not carry any provisions subject to IFRIC 1 at the time of the transition to IFRS.

No material adjustments are expected from new or amended standards which have already been passed by the board but whose application is not yet obligatory.

2.3 Key judgments and estimates

Exercise of judgment

When applying its accounting and measurement policies, the Company has not made any decisions involving a material degree of judgment.

Use of estimates when preparing the consolidated financial statements

The preparation of financial statements according to IFRS requires management to make estimates and assumptions which affect the presentation of the assets and liabilities disclosed and the disclosures on contingencies at the time of the financial statements as well as the presentation of income and expenses in the reporting periods. Actual results may differ from these estimates.

In these financial statements, estimates have been used especially to measure the outstanding expenses for current projects (output-oriented milestone method), bad debt allowances, the measurement of inventories and impairments thereof, impairment testing of goodwill and the degree to which tax losses can be utilized in future.

The most important assumptions about the future and the most significant sources of doubt with regard to estimates made on balance sheet date are explained in the notes to the respective item of the financial statements.

2.4 Summary of significant accounting and measurement policies

Currency translation

The consolidated financial statements are prepared in EUR, which is both the functional currency and the presentation currency of the Group. The functional currency of subsidiaries is the local currency of the respective country in which the subsidiary has its registered offices. Consequently, all monetary assets and liabilities denominated in foreign currency in the balance sheets of foreign subsidiaries are translated into EUR using the closing rate. Revenue and expenses are translated at the average exchange rate of the respective month. Any translation differences arising are posted to the equity of the Group.

Non-current assets

Property, plant and equipment is stated at cost less accumulated depreciation. Non-current assets are depreciated over their respective useful life which is estimated on an item-by-item basis. The estimated useful life for buildings on third-party land ranges from four to ten years but is never more than the term of the underlying lease. For office and operating equipment it ranges from 18 months to eleven years.

Goodwill arising from a business combination is initially measured at cost, which is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. The existing goodwill is from an earlier business combination and is not amortized systematically (impairment only approach).

Intangible assets (primarily software) are capitalized at acquisition cost and are amortized using the straight-line method over a normal useful life that generally ranges between three and seven years. The Group does not carry any intangible assets with an indefinite useful life.

Expenditure for research and development is charged against income in the period in which it is incurred except for any project development costs which comply strictly with the IFRS recognition criteria.

In the ***Inspection*** segment, it is generally assumed that the product is finished. Consequently, the related costs are allocated to "the cost of maintaining or enhancing the entity's internally generated goodwill or of running its day-to-day operations" (IAS 38.51b). By contrast, the ***parsytec 5i*** product is a new product which was still in development in fiscal year 2004. As of December 31, 2004, it was not possible to meet the criteria of substantiating a future economic benefit or the existence of a future market for the product. At this time the licenses sold were so low (due to the number of licensees) that it was impossible to conclude that a market ensuring a future economic benefit from the ***5i parsytec*** product existed. In fiscal year 2005, all costs incurred for ***parsytec 5i*** were allocated to "the cost of maintaining or enhancing the entity's internally generated goodwill or of running its day-to-day operations".

Property, plant and equipment and intangible assets are subject to an impairment test in case of the indication of impairment. Goodwill is subject to an annual **impairment test**. Impairment losses are recognized at the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its economic life. Recoverable amounts are estimated for individual assets or, if that is not possible, for the cash-generating unit. There were no reversals of impairment losses as none had been recorded in past periods.

Borrowing costs are recognized as an expense in the period in which they are incurred.

Inventories

Inventories are measured at the lower of cost and net realisable value. Merchandise is measured on the moving average price of the goods. The cost of sales include direct material and labor costs as well as an appropriate portion of production overheads, but no borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Appropriate valuation allowances have been made for risks associated with unsalable and technically obsolete products. Work in process is recognized for expenses which, in relation to the total costs budgeted for the contract, exceed the share of accumulated costs actually incurred in relation to the total value of the contract. More information can be found in the disclosures under "Fundamentals of revenue recognition".

Trade receivables

Trade receivables are carried at the face value of the original invoice less any necessary valuation allowances for doubtful receivables. These allowances are based on a review of all outstanding amounts at year end and past experience. Receivables are written off as soon as they are considered to be uncollectible.

Treasury stock

Any treasury stock held indirectly via Parsytec MAB II or directly by the Company is deducted from equity. Any Company stock repurchased from employees who leave the Company is also deducted from equity. Any gain on sale in excess of the carrying amount of the treasury stock is added to the capital reserve.

Cash and cash equivalents

Cash and cash equivalents recorded in the balance sheet include cash, bank deposits and short-term investments with original terms of less than three months. Owing to their short-term nature, the face value of cash and cash equivalents and short-term investments corresponds to their fair value. For the purposes of the consolidated statement of cash flows, cash and cash equivalents include the cash and cash equivalents defined above and short-term capital investments.

Interest bearing borrowings

The initial recognition of a loan is at cost which corresponds to the fair value of the consideration given after deducting any transaction costs needed to take out the loan. After initial recognition, all interest-bearing loans are measured at amortized cost using the effective interest rate method.

Provisions

A provision is to be created when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Group expects at least a partial reimbursement of the expenses for which provision has been made (e.g. from an insurance policy) the reimbursement is only recognized as a separate asset if the reimbursement is practically certain. In the income statement, the expense relating to a provision is presented net of the amount recognized for a reimbursement. If the time factor of money is significant, provisions are discounted using an interest rate before taxes that reflects the specific risks for the obligation. Where discounting applies, the increase in the provision due to the passage of time is recognized as an interest expense.

Pensions

The Company and some of its subsidiaries maintain a Company pension plan for two active and two former members of management. The provisions are valued every year by reputable independent appraisers. The Company uses the projected unit credit method to calculate the obligation. Actuarial gains and losses are amortized using the 10 % corridor method. The corridor was not exceeded as of balance sheet date. When the corridor is exceeded, the gains and losses are amortized over the residual service period of the beneficiary.

The Group pays the premiums to an insurance Company to cover the present value of the expected benefit obligation. The cash surrender value of the reinsurance policies is reported under “other non-current assets”.

The pension obligation and the plan assets under the reinsurance scheme for a former member of management were assigned to the new employer effective December 31, 2005.

Share-based payments

In the past, the employees of the Group received share-based compensation in the form of stock options.

During first-time adoption, use has been made of the option under IFRS 1.25B to not apply IFRS 2. No stock options were granted in 2005.

Leases

Leases of property, plant and equipment, in which substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee, qualify as finance leases. Property, plant and equipment acquired under a finance lease is recognized at the lower of the recoverable value of the leased item and the net present value of the minimum lease payments. The corresponding lease obligation is reported as a liability of the same amount under liabilities. Each lease payment is split into a repayment portion and an interest portion in order to arrive at a constant interest rate over the term of the lease. The interest portion of the lease payments is recognized against income. Property, plant and equipment covered by finance leases and recognized as assets in the balance sheet is depreciated over the useful life of the assets or the term of the lease if shorter, and it is not reasonably certain that title to the asset will pass to the lessee at the end of the lease.

Leases where the risks and rewards incidental to ownership remain with the lessor qualify as operating leases. Lease payments on operating leases are spread over the term of the lease on a straight-line basis and recorded as an expense in the income statement.

Revenue

Fundamentals of revenue recognition

Parsytec makes a basic distinction between the recognition of revenue from the sale of surface inspection systems (system business, combined hardware and software and services) on the one hand and from the sale of merchandise and goods, the rendering of services and license income (follow-up business) on the other. Revenue in the system business is realized related to the percentage of completion. The Company generally recognizes revenue using the percentage of completion method. This involves recognizing the income based on the progress of the respective project. Parsytec uses the output-oriented milestone method for this purpose.

System business

Within its surface inspection business, Parsytec delivers complete surface inspection systems tailored to the respective application and location to its customers in the steel/aluminum and paper industries. Parsytec assumes the task of integrating the system in the existing production environment and, if requested, adjusts the inspection parameters to a range of products manufactured by the customer.

The surface inspection systems represent tailored customer solutions that contain hardware, software and a services portion. The configuration of the hardware ends upon the system successful passing the factory acceptance test. After this stage, all that remains is to integrate the system in the existing manufacturing environment which is why the factory acceptance test represents the stage immediately prior to shipment.

Correspondingly, a portion of revenue is first recognized after the factory acceptance test is passed or upon shipment of the system in accordance with the stage of completion and application of the fair value method. Further recognition of revenue is in accordance with the percentage of completion, which is assured by applying the fair value method. In addition to the accumulated actual costs of work in process, appropriate provisions are made for any outstanding project expenses when determining income.

Follow-up business

The follow-up business of Parsytec can be broken down into the following components:

i) Other hardware, spare parts, accessories
Revenues are recognized upon sale (shipment) of the goods. Costs are recorded accordingly.

ii) Consulting services
Revenue is recognized in the period in which the consulting services are rendered. If necessary, revenue is recognized in accordance with the defined consulting stages agreed upon. The consulting stage does not have to be completed in full. Costs are recorded accordingly.

iii) Maintenance agreements, repairs
Revenue is recognized in the period in which the maintenance services/repairs are rendered. Costs are recorded accordingly.

iv) Hotline support
The end customer acquires the right to contact the hotline for a certain period (usually one year) whenever problems arise. Solutions which can be realized remotely or which the customer can perform himself in accordance with the instructions of the Company are not invoiced separately to the hotline contract, but are considered to be covered by the hotline support service. Recognition of sales revenue is thus on a straight-line basis over the term of the hotline contract. Costs are recorded accordingly.

v) Training
Revenue is recognized in the period in which the training is given. Costs are recorded accordingly.

vi) Software and licenses
License fees resulting from the use of operating assets (software) are recorded on a straight-line basis over the term of the license unless otherwise agreed with the customer.
The transfer of user rights in return for fixed compensation (non-recurring licenses) which give the licensee unrestricted use is a sales transaction from an economic perspective and can be fully recognized as income.

Government grants

Government grants are recognized if there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them. Expense-related subsidies are recognized as revenue over the periods necessary to match them with the related costs they are intended to compensate. If the grant relates to an asset, it is recognized as deferred income and released to income on a straight-line basis over the expected useful life of the asset in question.

Taxes

Current tax reimbursement claims and tax liabilities

Tax reimbursement claims and tax liabilities for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities. Tax assets or liabilities are measured using the tax rates and tax legislation that has been enacted or substantively enacted on balance sheet date.

Deferred taxes

Deferred taxes are recognized using the liability method on any material temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Moreover, deferred tax assets are recognized for tax losses that can be utilized in future. The carrying amount of a deferred tax asset is reviewed every balance sheet date and reduced where it is no longer probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized, even partially. Deferred tax assets are reviewed each balance sheet date and recognized by the amount that reflects the probable realization of the deferred tax assets as a result of future taxable income. Deferred taxes are measured using the tax rates that have been enacted or substantively enacted on balance sheet date. Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Value added tax

The amount of VAT to be reimbursed by the authority or transferred to the taxation authority is recognized in the balance sheet under receivables or liabilities respectively.

Contingent liabilities

Contingent liabilities are not recognized in the financial statements until their utilization is more likely than not. They are stated in the notes to the consolidated financial statements where there is more than a remote chance that they will eventuate and the amount is material.

3 Segment reporting

The business divisions are the basis upon which the Group reports its primary segment information. The segments are distinguished using the risk and reward approach: The Company distinguishes between ***Inspection*** and ***production decision intelligence (pdi)*** business. The "***production decision intelligence***" segment comprises a range of goods and services which go beyond the mere inspection business to the extent that inspection data is supplied to the customers to assist them in achieving productivity gains.

The geographic segments represent the secondary segment information. The business segments are organized and managed independently of each other based on the type of products and services concerned. No transactions are made between the primary segments.

Sales to external customers disclosed in the geographical segments are allocated to the various territories on the basis of the customers' location. The assets of the Group are reported in accordance with the geographical locations of the subsidiaries.

Business segments	Inspection		production decision intelligence		Corporate		Total	
in € thousands	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue	26,569	23,042	1,993	1,458	0	0	28,562	24,500
Earnings before interest and taxes	2,712	2,735	– 465	– 2,845	0	0	2,247	– 110
Assets	10,346	11,881	522	343	19,646	18,481	30,514	30,705
Debt capital	4,803	6,530	304	300	2,142	1,604	7,249	8,434
Capital expenditure	165	324	8	39	43	149	216	512
Depreciation and amortization of segment assets	378	440	36	71	276	449	690	960

There were no significant non-cash transactions in 2005 and 2004.

Geographical segments	Asia-Pacific		Germany		Rest of Europe		America		Africa		Total	
in € thousands	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue	7,923	8,768	5,871	5,391	8,521	5,373	4,997	3,973	1,250	995	28,562	24,500
Assets	2,956	4,026	25,556	24,389	988	998	1,014	1,292	0	0	30,514	30,705
Capital expenditure	32	46	103	436	51	0	30	30	0	0	216	512

4 Other income and expenses

4.1 Other income/expenses

in € thousands	2005	2004
Exchange rate differences (gains)	– 513	– 218
Exchange rate differences (losses)	420	555
Other taxes and contributions	55	– 38
Write-downs of current assets	44	89
Supervisory board remuneration	40	27
Income from the release of provisions	– 1	– 103
Other	5	– 55
	50	257

4.2 Financial income/expenses

in € thousands	2005	2004
Bank interest received	– 266	– 249
Interest expenses paid to silent partners	84	72
Guarantee commission	51	52
Interest cost for pensions	42	44
Incidental costs of monetary transactions	33	20
Other	– 12	34
	– 68	– 27

4.3 Employee benefits

in € thousands	2005	2004
Wages and salaries	6,278	7,863
Social security contributions	957	1,079
Pension expenses	53	208
	7,288	9,150

Employees

In the fiscal year 2005, an average of 107 persons were employed (prior year: 130 employees). Broken down by department, the figures are as follows:

in € thousands	2005	2004
Sales, customer service, marketing	56	61
Engineering	38	53
Administration	13	16

4.4 Research and development expenses

Research and development costs are posted against income on the date they are incurred. The total expenses for research and development amounted to KEUR 3,467 in 2005 (2004: KEUR 4,592).

Government grants have been extended to the Company by two ministries of North-Rhine Westphalia within the framework of the “Technologie und Innovation” project. These are research subsidies that are recognized in the income statement as a deduction of development expenses. Subsidies of KEUR 37 were granted in 2005 (2004: KEUR 905).

5 Income taxes

Income taxes break down as follows:

in € thousands	2005	2004
Taxes relating to other periods	39	0
Current taxes	569	17
Deferred taxes	185	– 257
Income tax income/expenses	793	– 240

German stock corporations are subject to corporate income tax of 25 % on any distributed or undistributed profits and trade tax that is set by the municipality where the permanent establishment is located. Trade tax normally lies between 13 % and 21 % of taxable income. Above and beyond this, German companies are subject to a solidarity surcharge of 5.5 % of their corporate income tax liability.

Due to the introduction of an inter-periodic minimum taxation rule, unused tax losses cannot be utilized in full commencing 2004. Tax losses can now only be deducted in any one year up to an initial limit of KEUR 1,000. Any profit remaining after offsetting this initial limit can only be offset against the remaining unused tax losses by a flat rate of 60 %. The remaining 40 % are subject to taxation.

The tax burden differs from the amount that would be due if the German tax rates for 2005 and 2004 (39 %) were applied to profit before tax as follows:

in € thousands	2005	2004
Income/expenses from income taxes at German tax rates	883	– 133
Losses/gains using a lower foreign tax rate	646	– 260
Adjustment of unused tax losses	– 816	161
Taxes for prior years	39	0
Taxes on non-deductible expenses	22	0
5 % on foreign capital gains	16	0
Other	3	– 5
Income/expenses from income taxes	**793**	– 240

The loss-making situation at a subsidiary and the effects of reversing deferred tax liabilities at the average local tax rate, which is significantly lower than the Group tax rate, led primarily to the adjustment.

Deferred income tax

Deferred income taxes on balance sheet date break down as follows:

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Deferred tax assets		
Deferred taxes on unused tax losses	3,531	3,693
Deferred tax on temporary differences		
Pensions	126	125
Elimination of intercompany profits	6	11
Revenue recognition	– 66	– 27
Leases	– 8	– 28
	58	81
Net deferred tax assets	**3,589**	3,774
of which		
Deferred tax assets	3,589	3,867
Deferred tax liabilities	0	– 93

All changes in deferred taxes have an impact on the income statement.

As of December 31, 2005, the Company disclosed unused tax losses which can be carried forward for an indefinite period of approx. KEUR 17,621 (December 31, 2004: KEUR 19,983). Outside Germany, the unused tax losses can be carried forward for 20 years and amount to KEUR 4,510 (December 31, 2004: KEUR 2,907). The management board considers the forecasts for the years 2006 to 2011 when reviewing the degree to which tax losses can be utilized in future. These are weighted on the basis of their likelihood on grounds of prudence. Deferred taxes on unused tax losses are recognized at the amount of realizable tax savings.

6 Earnings per share

Earnings per share is determined pursuant to IAS 33 (Earnings per share) for all the periods included in this presentation. Earnings per share is calculated on the basis of the weighted average number of vested shares in common stock issued. Diluted earnings per share is calculated on the basis of the weighted average number of issued shares in common stock issued plus the number of unvested shares in common stock issued and the possible number of common shares that could be issued on the basis of rights issued to purchase such shares. The MAB options issued within the framework of the employee stock purchase program relate to shares issued to Parsytec Mitarbeiterbeteiligungs-GbR. The 92,853 shares held by this Company (prior year: 76,104) are not considered in the calculation of vested common stock issued. Nor does the calculation consider the 294,178 treasury stock acquired in the course of the share repurchase program. The options issued pursuant to the 2001 stock option program are by nature considered in the calculation of the diluted earnings per share.

	Profit (numerator) in € thousands	Shares (denominator)	Earnings per share in €	Loss (numerator) in € thousands	Shares (denominator)	Earnings per share in €
in € thousands	For the fiscal year ending December 31, 2005			For the fiscal year ending December 31, 2004		
Earnings per share, basic distributable earnings	1,472	12,608,259	0.117	– 100	12,635,866	– 0.008
Effect of dilutive instruments: Stock options and stock purchase plan		35,723				
Earnings per share, diluted distributable earnings and assumed conversion	1,472	12,643,982	0.116	– 100	12,635,866	– 0.008

In 2006, a further 205,822 shares were acquired in the course of the stock repurchase program.

7 Non-current assets

Movements in non-current assets and accumulated depreciation and amortization are presented in the following statement of changes in non-current assets for fiscal year 2005 and the prior year:

2005	Historical cost			
in € thousands	Jan. 01, 2005	Additions	Disposals	Dec. 31, 2005
Non-current assets				
I. Property, plant and equipment				
1. Buildings on third-party land	793	0	0	793
2. Other equipment, furniture and fixtures	4,426	187	103	4,510
Total property, plant and equipment	**5,219**	**187**	**103**	**5,303**
II. Intangible assets				
1. Software/industrial rights	3,616	29	0	3,645
2. Goodwill	814	0	0	814
Total intangible assets	**5,007**	**29**	**0**	**5,036**
Total non-current assets	**10,226**	**216**	**103**	**10,339**

2004	Historical cost			
in € thousands	Jan. 01, 2004	Additions	Disposals	Dec. 31, 2004
Non-current assets				
I. Property, plant and equipment				
1. Buildings on third-party land	971	61	239	793
2. Other equipment, furniture and fixtures	4,281	417	272	4,426
Total property, plant and equipment	**5,252**	**478**	**511**	**5,219**
II. Intangible assets				
1. Software/industrial rights	3,582	34	0	3,616
2. Goodwill	814	0	0	814
Total intangible assets	**4,973**	**34**	**0**	**5,007**
Total non-current assets	**10,225**	**512**	**511**	**10,226**

Property, plant and equipment as of December 31, 2005 includes leased assets with a historical cost of KEUR 60. These assets comprise leasehold improvements of KEUR 49 and furniture and fixtures of KEUR 11. Accumulated depreciation on the capitalized leased assets amounted to KEUR 38 as of December 31, 2005 (December 31, 2004: KEUR 29). As of December 31, 2004, the interest portion in the leased assets amounted to KEUR 0 (December 31, 2004: KEUR 2).

Intangible assets as of December 31, 2005 contain leased software of KEUR 206 (December 31, 2004: KEUR 206). Accumulated amortization of leased software amounted to KEUR 206 as of December 31, 2005 (December 31, 2004: KEUR 181). As of December 31, 2005, the interest portion in the leased assets amounted to KEUR 3 (December 31, 2004: KEUR 6).

Accumulated depreciation and amortization				Net carrying value	
Jan. 01, 2005	Additions	Disposals	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
573	136	0	709	84	220
3,949	360	96	4,213	297	477
4,522	**496**	**96**	**4,922**	**381**	**697**
3,317	194	0	3,511	134	299
0	0	0	0	814	814
3,894	**194**	**0**	**4,088**	**948**	**1,113**
8,416	**690**	**96**	**9,010**	**1,329**	**1,810**

Accumulated depreciation and amortization				Net carrying value	
Jan. 01, 2004	Additions	Disposals	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
636	171	234	573	220	335
3,794	421	267	3,949	477	487
4,430	**592**	**501**	**4,522**	**697**	**822**
2,950	368	0	3,317	299	632
0	0	0	0	814	814
3,527	**368**	**0**	**3,894**	**1,113**	**1,446**
7,957	**960**	**501**	**8,416**	**1,810**	**2,268**

The goodwill acquired from business combinations is allocated to the cash-generating unit "inspection systems steel/aluminum" within the ***Inspection*** segment for the purposes of testing goodwill.

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

The interest rate is based on the yield of government bonds with a residual term of five to eight years listed on the public markets. After adding the risk premium, the discount rate used for the cash flow forecasts amounts to 9.1 % (2004: 9.2 %). The recoverable value of the "steel/aluminum inspection systems" cash generating unit is based on a calculation of its value in use derived from the cash flow forecasts for the next six years based on the financial planning approved by the management.

Depreciation and amortization of intangible assets and depreciation on property, plant and equipment including leased assets split up as follows:

in € thousands	2005	2004
Costs of revenues	101	75
Sales and marketing	188	234
Research and development	125	202
General administration	276	449
	690	960

8 Other non-current assets

in € thousands	2005	2004
Reinsurance	479	474
Loans to employees	93	122
	572	596

The planned increase in reinsurance was compensated by the transfers to the new employer of a former employee. The loans to employees have terms of up to five years. They are repaid in monthly installments. In 2005 the loans bore interest of 5.0 % (2004: 5.0 %).

9 Inventories

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Finished goods	0	1,216
Work in process	1,083	4,158
Raw materials, consumables and supplies	1,584	1,018
	2,667	6,392

Work in process relates to contracts that have been initiated but which have not reached one of the milestones used for billings. Revenue recognition involves allocating the corresponding costs incurred to date to the accumulated costs of the project. Work in process is recognized for expenses which, in relation to the total costs budgeted for the contract, exceed the share of accumulated costs actually incurred in relation to the total value of the contract.

Write-downs of inventories recorded as expenses in 2005 amounted to KEUR 180 (2004: KEUR 135). This expense is reported under the cost of revenues as "Purchases and costs of converting inventories".

10 Trade receivables

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Trade receivables	5,511	2,710
Bad debt allowances	– 92	– 11
	5,419	2,699

Trade receivables are interest-free and are generally due within 30 days.

11 Prepaid expenses and other current assets

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Tax reimbursement claims	243	575
Payments on account	500	0
Research and development grants	0	106
Deposits	165	124
Prepaid expenses	158	298
Other	21	89
	1,087	1,192

12 Cash and cash equivalents and current investments

Cash and cash equivalents and current investments are generally equipped with variable interest rates for on-call deposits. Current investments bear interest depending on the interest rates for the respective term. Their recoverable value as of balance sheet date is KEUR 14,266 (2004: KEUR 11,698).

13 Subscribed capital and reserves

Share capital

The share capital of the Company is EUR 12,728,604 and is divided into 12,728,604 no-par value shares (2004: EUR 12,720,428 divided into 12,720,428 no-par value shares). The increase is due to the exercise of stock options issued within the framework of the 2001 stock option program (see the related notes).

Authorized capital

The management board is authorized, with the approval of the supervisory board, to increase the share capital to an overall total of EUR 6,360,000.00 in the period up to and including June 6, 2010 by issuing new shares, once or several times, in return for a contribution in cash or kind.

Contingent capital

The Company's share capital can be increased contingently by a maximum amount of EUR 1,229,906 by issue of up to 1,229,906 no-par bearer shares with an imputed share in capital of EUR 1.00 (conditional capital). The contingent increase in capital serves to cover the issue of options under the 2001 stock option program.

Directly and indirectly held treasury stock

As of December 31, 2005, the Company holds 92,853 shares (December 31, 2004: 76,104 shares) amounting to KEUR 701 (December 31, 2004: KEUR 668) in Parsytec MAB II Mitarbeiterbeteiligungs-GbR (Parsytec MAB II), which was founded on August 12, 1997. A share in Parsytec MAB II corresponds to a share in Parsytec AG.

The business objective of Parsytec MAB II is to allow employees of the Parsytec Group to indirectly buy shares in the parent Company.

By resolution of the management board dated November 7, 2005, a stock repurchase program was decided upon in accordance with the authorization of the annual general meeting. By balance sheet date, the Company had purchased 294,178 of its own shares for a total sum of KEUR 722.

Any treasury stock held indirectly via Parsytec MAB II or directly by the Company is deducted from equity. Any treasury stock repurchased from employees who leave the Company is also deducted from equity. Any gain on sale in excess of the carrying amount of the treasury stock is added to the capital reserve.

Capital reserves

In 2004, the capital reserves of Parsytec were used to offset the loss brought forward from the prior year and the net loss for 2004 under HGB (in total KEUR 18,514).

Loans issued to fund the acquisition of shares by employees

As of December 31, 2005, the Company had issued loans of KEUR 205 (December 31, 2004: KEUR 289) to the management and employees of the Group to fund their acquisition of shares in Parsytec MAB. The loans bear interest of 5.0 %. The loans are deducted from equity.

Adjustment items for exchange rate differences

The adjustment item for exchange rate differences serves to record the differences arising from the currency translation of the financial statements of foreign subsidiaries.

14 Share-based payments

Option Plan 2000, Option Plan 2000-II

Two option plans for shares in Parsytec MAB were approved by resolution in fiscal year 1999/2000. Options which had not been exercised expired on June 16, 2004.

Option Plan 2000-III

A further option plan for shares in Parsytec MAB was approved by resolution in fiscal year 2000. 30,792 options which had not been exercised expired on January 1, 2005.

Option Plan 2000-IV

An option plan for shares in Parsytec MAB was approved by resolution in the first quarter of fiscal year 2001. 7,593 options which had not been exercised expired on March 31, 2005.

Stock Option Program 2001 (incl. extension in 2003)

With the approval of the supervisory board, the management board passed a resolution on the Parsytec Stock Option Program 2001. This is based on a resolution of the annual general meeting dated April 24, 2001 and the amendments passed by the annual general meeting held on May 27, 2003 by which the management board was empowered to issue options with a term not exceeding six years from their grant date at any time up to and including April 30, 2005 (thus this stock option program effectively expires on April 30, 2011).

In total, 575,779 options to 575,779 no-par value shares were issued in the period up to and including April 30, 2005. These shares have an imputed face value of EUR 575,779. The employees entitled to participate in the program acquired options entitling them to purchase one no-par share with an imputed share in share capital of EUR 1.00 each.

The options have been granted to current and future employees of the Company and its affiliated companies, current and future members of the management board of the Company and current and future members of the management of affiliated companies (hereinafter referred to as “authorized employees” or simply “employees”). The employees were granted the options upon entering an option agreement.

The minimum holding period prior to exercising the options is two years after the grant date; after two years a first tranche not exceeding 30 % of the options may be exercised. The holding period for the remaining 70 % of the respective options is staggered on a quarterly basis, i. e. a further 7 % of the options may be exercised every three months after expiry of the minimum holding period. The options have a term not exceeding six years measured from their respective grant date. Options not exercised within this period expire without any compensation being necessary. Unvested options are forfeited upon departure of the employee from the Company. Vested options can only be exercised in a period immediately subsequent to departure.

The developments in the options issued by the Company under its option plans break down as follows:

	Number of options issued	Weighted average exercise price	Actual exercise price of the option
		in €	in €
As of December 31, 2003	**494,246**	**5.88**	
Stock options promised	10,000	4.17	
Stock options exercised	– 15,196	2.37	2.70 – 4.28
MAB II options annulled	– 9,129	42.55	
Stock options annulled	– 42,006	2.28	
As of December 31, 2004	**437,915**	**5.51**	
Stock options exercised	– 8,176	2.36	2.64 – 3.00
MAB II options annulled	– 38,385	37.02	
Stock options annulled	– 48,673	2.66	
As of December 31, 2005	**342,681**	**2.45**	

As of December 31, 2005, 308,955 options could be exercised at a weighted average price of EUR 2.48. The options not exercised by December 31, 2005 will expire over the years up to and including 2008.

The following table summarizes the information on options outstanding as of December 31, 2005:

Exercise price in €	Number of options still open	Weighted average residual term in years	Weighted average exercise price in €	Exercisable on Dec. 31, 2005	Weighted average exercise price in €
2.50	110,780	2.4	2.50	110,780	2.50
5.06	1,350	2.5	5.06	1,350	5.06
2.20	129,876	3.25	2.20	96,150	2.20
2.70	100,000	3.75	2.70	100,000	2.70
2.42	675	3.75	2.42	675	2.42
2.20 – 5.06	**342,681**	**3.12**	**2.45**	**308,955**	**2.48**

IFRS 2 "Share-based payment" was not applied upon first-time adoption. No new options were issued in fiscal year 2005.

15 Pension provisions

The pension cost for the Company's fixed pension plan contains the following components:

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Service cost	60	62
Interest expenses for estimated benefit obligations	42	45
Amortization of gains/losses	0	55
Net pension cost for the period	**102**	162

This can be reconciled with the estimated benefit obligation as follows:

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Change in estimated benefit obligation:		
Estimated benefit obligation at the beginning of the period	834	810
Service cost	60	62
Interest expenses for estimated benefit obligations	42	45
Amortization of difference	83	– 83
Transfer of pension obligation of a former employee to his new employer	– 129	0
Estimated benefit obligation at the end of the period/other obligations:	890	834
Unrealized actuarial gains/losses	**– 83**	0
Pension provisions	**807**	834

Actuarial assumptions for 2005: interest of 4.5 % (prior year: 5.0 %), inflation-linked adjustments of benefits paid of 1.0 % (prior year: 1.0 %), retirement age of 65 years (prior year: 65 years). Pension payments are not expected until 2014.

16 Interest-bearing borrowings

The Company has entered into the following long-term loan agreements:

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Silent partnership of Jülicher Kapitalbeteiligungs-gesellschaft mbH	1,023	1,023
Other	1	3
Total balance of outstanding loan liabilities	1,024	1,026
less current portion	– 1	– 1
Non-current loan liabilities	**1,023**	1,025

Jülicher Kapitalbeteiligungsgesellschaft mbH, Jülich, is a silent partner in the Company with a contribution of KEUR 1,023. The participation agreement was made on August 15, 1997. A minimum compensation of 5.5 % p.a. is payable on the paid-in contribution, regardless of the Company's profit or loss. In addition, profit-based compensation of 5 % p.a. of the consolidated net income of the Group has also been agreed on. Total remuneration is capped at 7.5 % p.a. of the respective contribution. The participation is for a limited term and expires on August 1, 2007.

Interest expenses (including profit-based compensation) of KEUR 84 (December 31, 2004: KEUR 72) are included under borrowing costs. Of the interest expenses recorded in 2005, KEUR 6 are allocable to prior years.

As of December 31, 2005, the Company had credit lines for bank guarantees totaling KEUR 10,519 available to it (December 31, 2004: KEUR 9,924). Of this amount, KEUR 4,592 had been availed of as of December 31, 2005 (December 31, 2004: KEUR 5,458). The credit lines are secured to some extent by time deposits (2005: KEUR 1,585; 2004: KEUR 2,451).

The loan liabilities maturing in periods subsequent to December 31, 2005 are shown below:

in € thousands	
Year ending December 31, 2006	1
Year ending December 31, 2007	1,023
	1,024

17 Provisions

Statement of changes in provisions

Name		Utilization	Reversals	Additions	
in € thousands	Jan. 1, 2005				Dec. 31, 2005
Provision for costs to complete	437	0	0	601	1,038
Provision for other expenses	73	0	30	30	73
Provision for operating risks	39	20	0	1	20
Provision for legal counsel	8	7	0	3	4
Provision for contractual penalties	69	0	69	0	0
Total	626	27	99	635	**1,135**

The Company generally records revenue under IFRS using the percentage of completion method. This involves recognizing the income based on the progress of the respective project. The Company uses the output-oriented milestone method for this purpose. Revenue recognition involves allocating the corresponding costs incurred to date to the accumulated costs of the project. Work in process is recognized for expenses which, in relation to the total costs budgeted for the contract, exceed the share of accumulated costs actually incurred in relation to the total value of the contract. If the ratio of the costs booked to date to total budgeted costs falls below the ratio of accumulated actual revenues to the total value of the contract, a provision is recognized of the same amount for costs to complete.

The change is mainly due to the increase in the costs to complete projects.

18 Trade payables

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Trade payables	409	2,267
License fees	259	222
Sales commission	263	189
Outstanding invoices	63	176
	994	2,854

The license fees originate from specific cooperation agreements with two steel producers.

19 Other liabilities

Other liabilities primarily comprise liabilities towards employees of KEUR 969 (December 31, 2004: KEUR 1,048) and deferred income of KEUR 793 (December 31, 2004: KEUR 155).

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Other obligations to employees	969	1,048
G&A obligations	252	225
Remuneration of the supervisory board	40	27
R&D subsidies	0	20
Other	156	44
Deferred income	793	155
	2,210	1,519

The position "other" primarily contains interest liabilities, liabilities to the tax office for VAT and withholding tax as well as liabilities for workmen's compensation and the levy in lieu of employing the severely disabled.

20 Finance lease liabilities

Lease liabilities as of balance sheet date amount to KEUR 1 (2004: KEUR 31). Finance leases will be paid off in 2006.

21 Contingencies and other commitments

Financial commitments

The Company has entered into rental agreements and leases for certain operating assets. Future rent and lease commitments relating to agreements that cannot be terminated are as follows:

in € thousands	2005	2004
Within 1 year	613	765
1 – 5 years	40	53
> 5 years	0	0

As of December 31, 2005, rental expenses recognized in income amounted to KEUR 851 (December 31, 2004: KEUR 894).

There are obligations to purchase a volume of KEUR 600 from a supplier over a period of 18 months provided the supplier meets the terms of the contract.

Legal disputes

In the course of its ordinary operations, the Company can be confronted by legal disputes from time to time. As of December 31, 2005, there was no such litigation pending that the Company and its legal counsel consider to be material in relation to the business of the Company, its financial position or its operating results.

22 Related parties

Consolidated Group

In addition to Parsytec AG, the consolidated financial statements include all German and foreign subsidiaries.

The following affiliated entities have been included in the consolidated financial statements:

Company	Location		
Shareholding %		**Dec. 31, 2005**	**Dec. 31, 2004**
Parsytec Computer GmbH	Aachen	100	100
Parsytec Solutions GmbH	Erkelenz	100	100
Parsytec Inc.	Chicago, USA	100	100
Parsytec Ltd.	Hampshire, United Kingdom	100	100
Parsytec Japan Co Ltd.	Tokio, Japan	100	100
Parsytec Asia-Pacific Co Ltd.	Seoul, South Korea	100	100

There were no changes in the consolidated Group during 2005 and 2004.

Company boards

Management board

Mr. Falk Kuebler is the sole member of the management board after the retirement of Mr. Guenther Tolkmit.

The remuneration of the management board amounted to KEUR 154 and comprises the following elements:

	Fixed	Profit-based compensation	Long-term incentives
in € thousands			
Falk Kuebler	91	31	None
Guenter Tolkmit	32	0	None

Guenther Tolkmit retired on February 21, 2005.

Pension obligations of KEUR 389 have been recognized in favor of Mr. Kuebler.

Supervisory board

As of December 31, 2005, the supervisory board of the Company comprised the following members:

The chairman is Mr. ***Waldemar Jantz*** (Munich), Partner of Target Partners GmbH, Munich. He holds other supervisory board positions at TV Server AG (Munich), Locanis AG (Unterföhring) and CubeOptics AG (Mainz).

The deputy chairman is ***Dieter Keller*** (Monheim am Rhein), Partner at Meisel & Keller (Cologne). He holds another supervisory board position at Ströer Out-of-Home Media AG (Cologne).

Mr. ***Friedrich Luecking*** is employed in the management of the ***parsytec 5i*** business unit at Parsytec Computer GmbH.

There are no business relationships between Parsytec and Target Partners GmbH and Meisel & Keller.

Remuneration paid to the supervisory board can be broken down as follows:

	Remuneration fixed	Remuneration variable
in € thousands		
Waldemar Jantz	12	6
Dieter Keller	9	4
Friedrich Luecking	6	3
	27	13

23 Financial instruments and risk management

The most significant financial instruments of the Company include cash and cash equivalents, short-term investments, trade receivables, liabilities to a silent partner, trade payables, leases and non-current liabilities. These are all generally recognized at fair value. The Company does not trade in financial instruments.

The significant risks related to the financial instruments include foreign exchange risks and bad debts.

The foreign exchange risk is primarily due to invoices written in USD, primarily by the American subsidiary. This risk is compensated by operating expenses at the American subsidiary and purchases of certain components in USD. The balance remains as a foreign currency exposure and is borne by the Company. It is the Group's policy not to carry any foreign currency exposures that go beyond those required for operations.

The Company's exposure to bad debt is primarily inherent in trade receivables. Customers are continuously subject to credit ratings by the Company's credit insurer. Moreover, the risk of bad debt is limited by the fact that the Company has a wide customer base. In fiscal year 2005, the Company had two customers who accounted for 10 % and 7 % of consolidated net revenue respectively. In fiscal year 2004, the Company had two customers who accounted for 11 % and 7 % of consolidated net revenue respectively.

24 Notes on the cash flow statement

The cash flow statement is split into cash flows from operating, investing and financing activities. The cash flow from operating activities amounts to KEUR 2,397 (prior year: KEUR 465).

Cash flow from investing activities of KEUR – 185 (prior year: KEUR – 580) was due primarily to investments in fixtures and fittings. The cash flow from financing activities of KEUR 183 (prior year: KEUR 1,739) is mainly due to changes in "Time deposits used as security" and "Treasury stock".

25 Auditor's fees

The auditor received the following fees for services rendered to the Parsytec Group in fiscal year 2005:

in € thousands	
Statutory audit	71
Other consulting services	20
Tax advice	3

26 German Corporate Governance Code

The Company issued a declaration of compliance with the German Corporate Governance Code on March 3, 2005 and made it available to the shareholders.

Aachen, February 15, 2006

Falk Kuebler
Managing director and CEO

Exhibit to the notes

Transition of the accounting from US-GAAP to IFRS

Reconciliation of the consolidated balance sheet from US-GAAP to IFRS

as of January 1, 2004

	US-GAAP	Reconciliation	IFRS	
ASSETS in € thousands	Jan. 1, 2004	Jan. 1, 2004	Jan. 1, 2004	Notes I Page
Current assets				
Cash and cash equivalents and current investments	9,879	0	9,879	
Restricted cash	4,081	0	4,081	
Trade receivables	4,338	0	4,338	
Recoverable costs and estimated earnings in excess of billings for work in process	5,971	– 5,971	0	01 I 42
Inventories	2,226	3,467	5,693	02 I 42
Deferred taxes – current portion	20	– 20	0	04 I 42
Prepaid expenses and other assets	1,101	0	1,101	
Current assets – total	**27,616**	**– 2,524**	**25,092**	
Property, plant and equipment	1,043	– 221	822	03 I 42
Intangible assets	411	221	632	03 I 42
Goodwill	814	0	814	
Deferred taxes – non-current portion	3,898	– 255	3,643	04 I 42
Other assets	527	0	527	
Non-current assets – total	**6,693**	**– 255**	**6,438**	
Assets – total	**34,309**	**– 2,779**	**31,530**	

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EQUITY AND LIABILITIES in € thousands	US-GAAP Jan. 1, 2004	Reconciliation Jan. 1, 2004	IFRS Jan. 1, 2004	Notes I Page
Current liabilities				
Current portion of finance lease liabilities	119	0	119	
Current portion of non-current loans	1	0	1	
Trade payables	2,091	703	2,794	05 I 42
Prepayments received on account	610	884	1,494	06 I 42
Provisions	2,257	– 421	1,836	07 I 42
Income tax liabilities	41	0	41	
Deferred tax liabilities	401	– 401	0	04 I 42
Other liabilities	492	951	1,443	08 I 42
Current liabilities – total	**6,012**	**1,716**	**7,728**	
Non-current loans less current portion	1,026	0	1,026	
Finance lease liabilities less current portion	31	0	31	
Deferred tax liabilities	0	126	126	04 I 42
Pension provisions	672	0	672	
Non-current liabilities – total	**1,729**	**126**	**1,855**	
Equity				
Subscribed capital	12,705	—	12,705	
Indirectly held treasury stock	– 668	—	– 668	
Capital reserve	25,119	—	25,119	
Loans for Parsytec stock purchase plan	– 482	—	– 482	
Retained earnings/accumulated loss	– 9,441	– 5,286	– 14,727	10 I 42
Adjustment item for exchange rate gains and losses	– 665	665	0	09 I 42
Equity – total	**26,568**	**– 4,621**	**21,947**	
Total equity and liabilities	**34,309**	**– 2,779**	**31,530**	

Explanations to the reconciliation of equity as of January 1, 2004

1. Pursuant to US-GAAP, recoverable costs and estimated earnings in excess of billings are calculated using the POC cost-to-cost input method. This item no longer applies due to the transition to the output-oriented milestone method which recognizes revenue upon the attainment of milestones. The share in capitalizable costs is recognized as “work in process”.

2. The change in inventories relates to work in process. The lower sum compared to note 1 is firstly a result of the lack of a profit margin which cannot be capitalized and secondly from directly allocable subsequent contract costs.

3. Software has been reclassified from property, plant and equipment to intangible assets.

4. Pursuant to IFRS, deferred taxes recognized on unused tax losses are non-current by nature.

5. Pursuant to IFRS, trade payables include license fees payable, sales commission and liabilities for outstanding invoices which were recorded as accruals under the previous accounting policy applied by the Company.

6. Pursuant to the accounting policy applied to date, allocable prepayments were offset against “recoverable costs and estimated earnings in excess of billings” (see Note No. 1).

7. The reduction in provisions is primarily due to the reclassification to other balance sheet items. Provisions for project-related risks and subsequent contract costs, which were previously offset against “recoverable costs and estimated earnings in excess of billings”, counter-balance this effect.

8. The increase in “other liabilities” is exclusively attributable to the reclassification of liabilities which were recognized as accruals under the previous accounting policy adopted by the Company.

9. Exchange rate differences were reclassified to retained earnings during the transition to IFRS 1.

10. The adjustments to the accumulated loss are summarized below:

Recoverable costs and estimated earnings in excess of billings	– 5,971
Work in process pursuant to the milestone method	+ 3,467
Effects from project-related provisions	– 2,117
Reclassification of exchange rate differences	– 665
Total	**– 5,286**

Consolidated Income Statement (IFRS)

Reconciliation from US-GAAP to IFRS for the year ending December 31, 2004

	US-GAAP	Reconciliation	IFRS	
in € thousands	Jan. 1, 2004 – Dec. 31, 2004	Jan. 1, 2004 – Dec. 31, 2004	Jan. 1, 2004 – Dec. 31, 2004	Notes I Page
Revenue	25,032	– 532	24,500	01 I 43
Cost of revenues	11,263	– 591	10,672	02 I 43
Gross profit	**13,769**	**59**	**13,828**	
Sales and marketing	8,299	125	8,424	03 I 43
Research and development	3,685	2	3,687	
General administrative expenses	1,723	104	1,827	04 I 43
Earnings before interest and taxes (EBIT)	**62**	**– 172**	**– 110**	
Interest income and expenses	71	– 44	27	05 I 43
Other income / expenses	– 257	0	– 257	
Earnings before tax (EBT)	**– 124**	**– 216**	**– 340**	
Taxes on income	240	0	240	
Earnings after tax (EAT)	**116**	**– 216**	**– 100**	
Earnings per share (EPS) basic – EUR	0.01	—	– 0.01	
Earnings per share (EPS) diluted – EUR	0.01	—	– 0.01	
Average number of shares outstanding less indirectly held treasury shares (basic) (number of shares)	12,635,866		12,635,866	
Average number of shares outstanding less indirectly held treasury shares (diluted) (number of shares)	12,751,986		12,635,866	

Explanations to the reconciliation of earnings for the fiscal year 2004

1.+2. The change in revenue and the cost of sales is due to the changes in the percentage of completion method. Under the accounting policy applied to date, the cost-to-cost input approach was used. Due to the greater standardization, the Company no longer sees this measurement method which is customarily used for project business as the best reflection of its business. For this reason, the Company took the opportunity in the course of the transition to IFRS to change to the more suitable output-oriented milestone approach under which revenue is realized upon attainment of certain milestones.

3.+4. The increase in the costs of sales and marketing as well as general administrative expenses is primarily due to the recognition of liabilities which were subject to different recognition criteria under US-GAAP.

5 The rise in the interest expense is due to the interest component of pension provisions which was previously recognized as personnel expenses within the respective functions.

Reconciliation of the Consolidated Balance Sheet from US-GAAP to IFRS
as of December 31, 2004

	US-GAAP	Reconciliation	IFRS	
ASSETS in € thousands	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2004	Notes | Page
Current assets				
Cash and cash equivalents and current investments	11,698	0	11,698	
Restricted cash	2,451	0	2,451	
Trade receivables	2,699	0	2,699	
Recoverable costs and estimated earnings in excess of billings for work in process	6,985	– 6,985	0	01 | 46
Inventories	2,241	4,151	6,392	02 | 46
Prepaid expenses and other assets	1,192	0	1,192	
Current assets – total	**27,266**	**– 2,834**	**24,432**	
Property, plant and equipment	794	– 97	697	03 | 46
Intangible assets	202	97	299	03 | 46
Goodwill	814	0	814	
Deferred taxes – non-current portion	4,108	– 241	3,867	04 | 46
Other assets	596	0	596	
Non-current assets – total	**6,514**	**– 241**	**6,273**	
Assets – total	**33,780**	**– 3,075**	**30,705**	

EQUITY AND LIABILITIES in € thousands	US-GAAP Dec. 31, 2004	Reconciliation Dec. 31, 2004	IFRS Dec. 31, 2004	Notes | Page
Current liabilities				
Current portion of finance lease liabilities	30	0	30	
Current portion of non-current loans	1	0	1	
Trade payables	2,279	575	2,854	05 | 46
Prepayments received on account	143	1,299	1,442	06 | 46
Provisions	1,646	– 1,020	626	07 | 46
Income tax liabilities	9	0	9	
Deferred tax liabilities	334	– 334	0	04 | 46
Other liabilities	421	1,098	1,519	08 | 46
Current liabilities – total	**4,863**	**1,618**	**6,481**	
Non-current loans less current portion	1,025	0	1,025	
Finance lease liabilities less current portion	1	0	1	
Deferred tax liabilities	0	93	93	04 | 46
Pension provisions	783	51	834	09 | 46
Non-current liabilities – total	**1,809**	**144**	**1,953**	
Equity				
Subscribed capital	12,720	—	12,720	
Indirectly held treasury stock	– 668	—	– 668	
Capital reserve	6,626	—	6,626	
Loans for Parsytec stock purchase plan	– 289		– 289	
Retained earnings/accumulated loss	9,189	– 5,502	3,687	11 | 46
Adjustment item for exchange rate gains and losses	– 470	665	195	10 | 46
Equity – total	**27,108**	**– 4,837**	**22,271**	
Total equity and liabilities	**33,780**	**– 3,075**	**30,705**	

Explanations to the reconciliation of equity as of December 31, 2004

1. Pursuant to US-GAAP, imputed costs and estimated earnings are calculated using the POC cost-to-cost input method. This item no longer applies due to the transition to the output-oriented milestone method which recognizes revenue upon the attainment of milestones. The share in capitalizable costs is recognized as "work in process".

2. The change in inventories relates to work in process. The lower sum compared to note 1 is firstly a result of the lack of a profit margin which cannot be capitalized and secondly from directly allocable subsequent contract costs.

3. Software has been reclassified from property, plant and equipment to intangible assets.

4. There were some reclassifications of non-current receivables and non-current liabilities under deferred taxes with no effect on earnings.

5. Pursuant to IFRS, trade payables include license fees payable, sales commission and liabilities for outstanding invoices which were recorded as accruals using the previous accounting standards.

6. Pursuant to the accounting policy applied to date, allocable prepayments were offset against "recoverable costs and estimated earnings in excess of billings" (see Note No. 1).

7. The reduction in provisions is primarily due to the reclassification to other balance sheet items. Provisions for project-related risks and subsequent contract costs, which were previously offset against "imputed costs and estimated earnings", counter-balance this effect.

8. The increase in "other liabilities" is mainly attributable to the reclassification of liabilities which were recognized as accruals under the previous accounting policy adopted by the Company.

9. An actuarial report pursuant to IFRS resulted in a higher pension obligation than under the accounting policy used in prior periods.

10. Exchange rate differences were reclassified to retained earnings during the transition to IFRS 1 on January 1, 2004.

11. The adjustments to the accumulated loss are summarized below:

Recoverable costs and estimated earnings in excess of billings	– 6,985
Work in process pursuant to the milestone method	+ 4,151
Effects from project-related provisions	– 1,727
Pension provisions	– 51
Other liabilities	– 225
Reclassification of exchange rate differences	– 665
Total	**– 5,502**

Auditors' report

We have audited the consolidated financial statements prepared by Parsytec AG, Aachen, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Cologne, March 13, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

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