Innovative Products for Markets with Potential

InTiCom Systems AG Annual Report 2005

Zukunft durch Innovation

InTiCom Systems

InTiCom Systems AG in figures

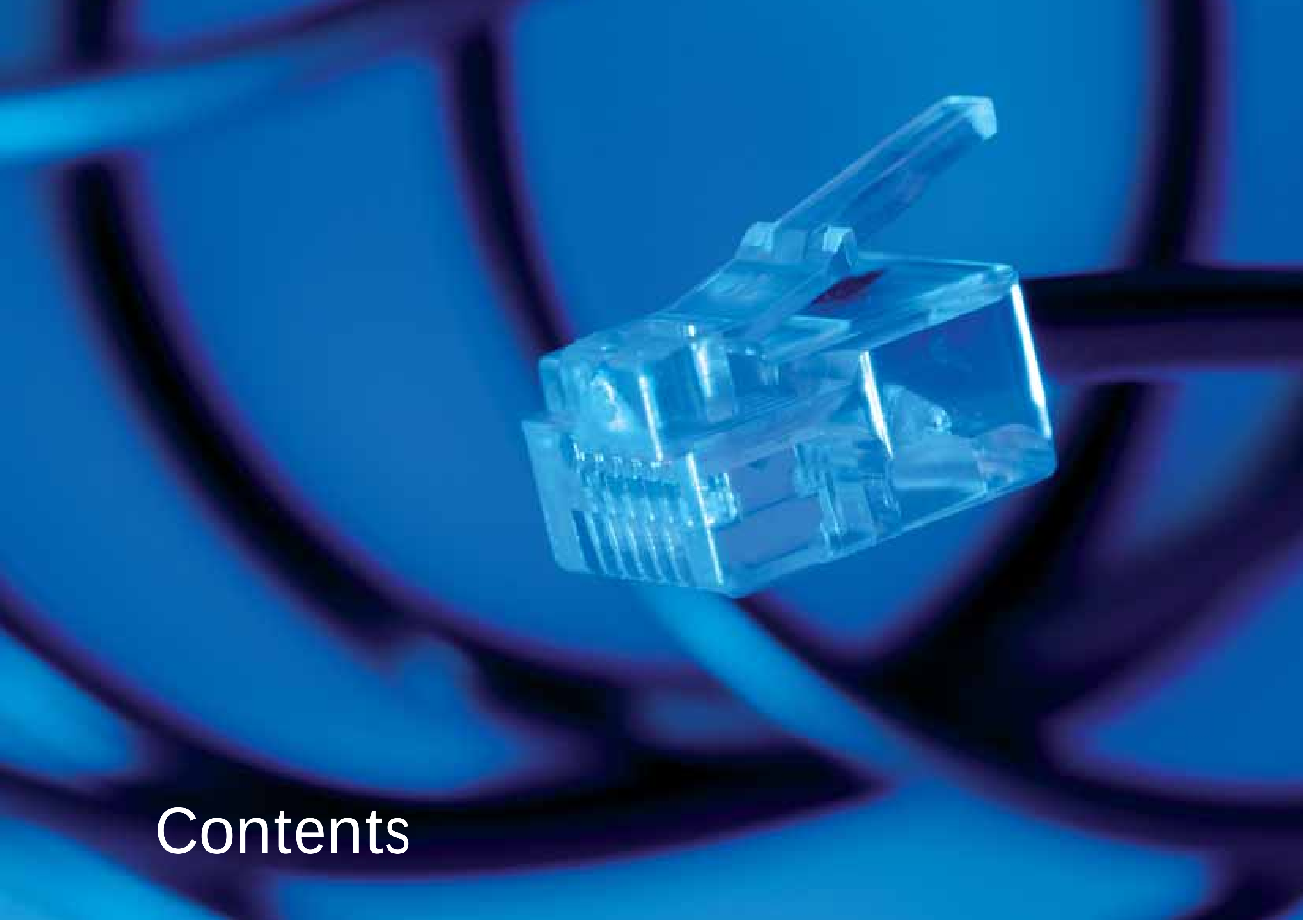
The Group

in EUR (000)	2003	2004	2005	Change in %
Revenues	6,014	19,457	35,034	+ 80.1
Return on sales (net income)	5.3 %	5.2 %	6.3%	
EBITDA	811	1,530	4,120	+169.3
EBIT	596	1,228	3,466	+182.3
EBT	493	1,194	3,584	+200.2
Net income	318	1,010	2,195	+117.3
Earnings per share (in EUR, 1.3 m shares outstanding)	0.24	0.78	1.69	+116.7
Earnings per share (undiluted in EUR)	0.62	1.39	1.69	+21.6
Cash flow from operating activities per share (in EUR)	1.11	1.64	1.04	-36.6
Cash flow from operating activities	1,438	2,132	1,354	-36.5
Investment	878	1,416	5,922	+318.2

in EUR (000)	31.12.2003	31.12.2004	31.12.2005	Change in %
Balance sheet total	3,584	16,417	24,532	+49.4
Liquidity	466	10,335	10,702	+ 3.6
Shareholders’ equity	944	11,139	13,480	+21.0
Equity ratio	26 %	68 %	55%	
Employees	46	65	102	+56.9

The Share

XETRA in EUR	2004	2005	(as of March) 2006
Closing price at year-end	19.90	60.25	82.50
High for the year	21.15	67.60	83.39
Low for the year	18.08	18.00	58.20
Market capitalisation at year-end (in EUR million)	25.9	78.3	107.3
Number of shares outstanding	1,300,000	1,300,000	1,300,000



Contents

The Board of Management (from right to left):
Maria Grohs, Dieter Schopf, Dr. Paul Grohs

Dear Shareholders, Customers, Business Partners, and Employees,

Two important events were decisive for InTiCom Systems AG in the 2005 financial year: The expansion of production capacity in order to keep pace with the boom in xDSL technology, and the build-up of additional production capacity for the promising automotive electronics business.

The unabated boom in the business for xDSL connections in telecommunications is one of the few areas in which private consumption was able to generate growth in 2005.

In 2005, InTiCom Systems benefited directly from this growth. Revenues, which exceeded EUR 35 million, nearly doubled compared to the prior year, and net income of EUR 2.2 million more than doubled in the year under review. Since the company went public at the end of 2004 (issue price: EUR 18), InTiCom's share price has climbed to a peak of EUR 67.60 with earnings per share of EUR 1.69.

This success, which certainly stands out amongst other German companies in 2005, was only possible due to a strong increase in capital expenditure: InTiCom Systems invested some EUR 5.9 million in fully-automated production lines in Greece, as well as in innovative developments with the most current manufacturing technology and state-of-the-art production machinery; this production and development has taken place at InTiCom's development company in Austria since it started operations in May 2005.

In addition to considerably increasing production capacity, this development also permitted the company, as a market and technology leader, to service growing domestic and international demand for xDSL splitters. The company also succeeded in improving its profit margin and increasing the productivity of its 102 employees (prior year: 65): Revenues per employee, which amounted to EUR 299 thousand in 2004, increased to EUR 343 thousand in 2005.

An additional focus for investment activities was on the build-up of series production in the Automotive Electronics division, which will begin production in May 2006 in order to service important existing contracts with international automotive suppliers and OEMs.

Board of Management

Maria Grohs
Kauffrau
Materials Management and Control,
Marketing and Sales
Managing Director of InTiCom Systems Ges.m.b.H.
Neufelden (A)
appointed until 30 June 2011

Dr. Paul Grohs
Graduate in Engineering
Development and Production
Managing Director of InTiCom Components GmbH,
Thessaloniki (GR)
appointed until 30 June 2011

Dieter Schopf
Graduate in Business Administration
Finances, Administration and Personnel
Managing Director of InTiCom Components
Tschechien s.r.o., Prachatice (CZ)
appointed until 31 January 2011

Otto Mayerhofer
Investor Relations, Personnel Management,
Legal, Risk Management and Taxes
resigned effective from 30 June 2005

The entire Board of Management is responsible for participations, public relations and quality management.

Supervisory Board

Karl Kindl, Chairman
Graduate in Business Economics (VWA),
Hauzenberg
Member of the Supervisory Board of DES Data
Empire Systems AG,

Dr. Wulfdieter Braun, Vice-Chairman
Graduate in Physics, Passau

Harald Nöth
Graduate in Engineering, Munich
Board of Management and co-partner at DES
Data Empire Systems AG,

In this division, InTiCom Systems have now developed RFID solutions to the level of series production. Keyless entry, tyre pressure monitoring systems, immobiliser systems and inductive components and filter applications for increasingly complex automotive electronics systems have now become standard equipment for safety and comfort in all car segments. We are convinced that in the medium to long-term, the automotive segment at InTiCom Systems will reach an order of magnitude similar to the xDSL division, thereby forming a second main pillar for the company.

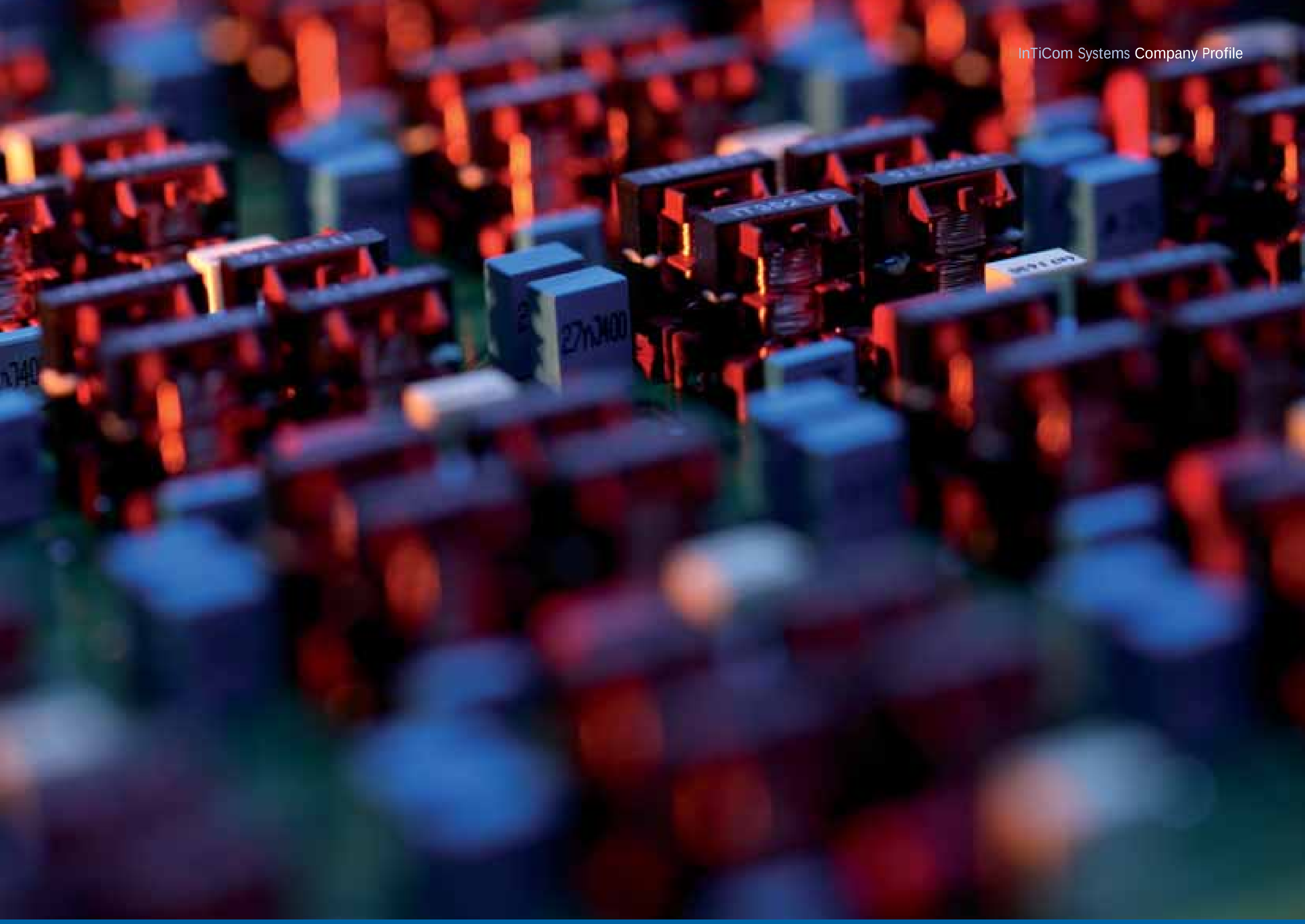
Our strategy to successfully enter dynamic market segments with innovative and sophisticated products would not be possible without our highly motivated employees. We would like to take this opportunity to thank them for their efforts. We would also like to thank our customers and suppliers, and last but not least our shareholders, who have placed their trust in our company. We will endeavour to maintain this trust in the future as well.

Passau, March 2006

Dr. Paul Grohs
Board of Management

Dieter Schopf
Board of Management

Maria Grohs
Board of Management



Our Strategy: Your Advantage

Innovative products, tailor-made customer solutions, the highest level of quality and reliability in delivery – this strategy has enabled InTiCom Systems AG to make the leap from newcomer to technology and market leader in a very short period of time, and it has bestowed the company's shares with an outstanding share price performance.

Super network with a future

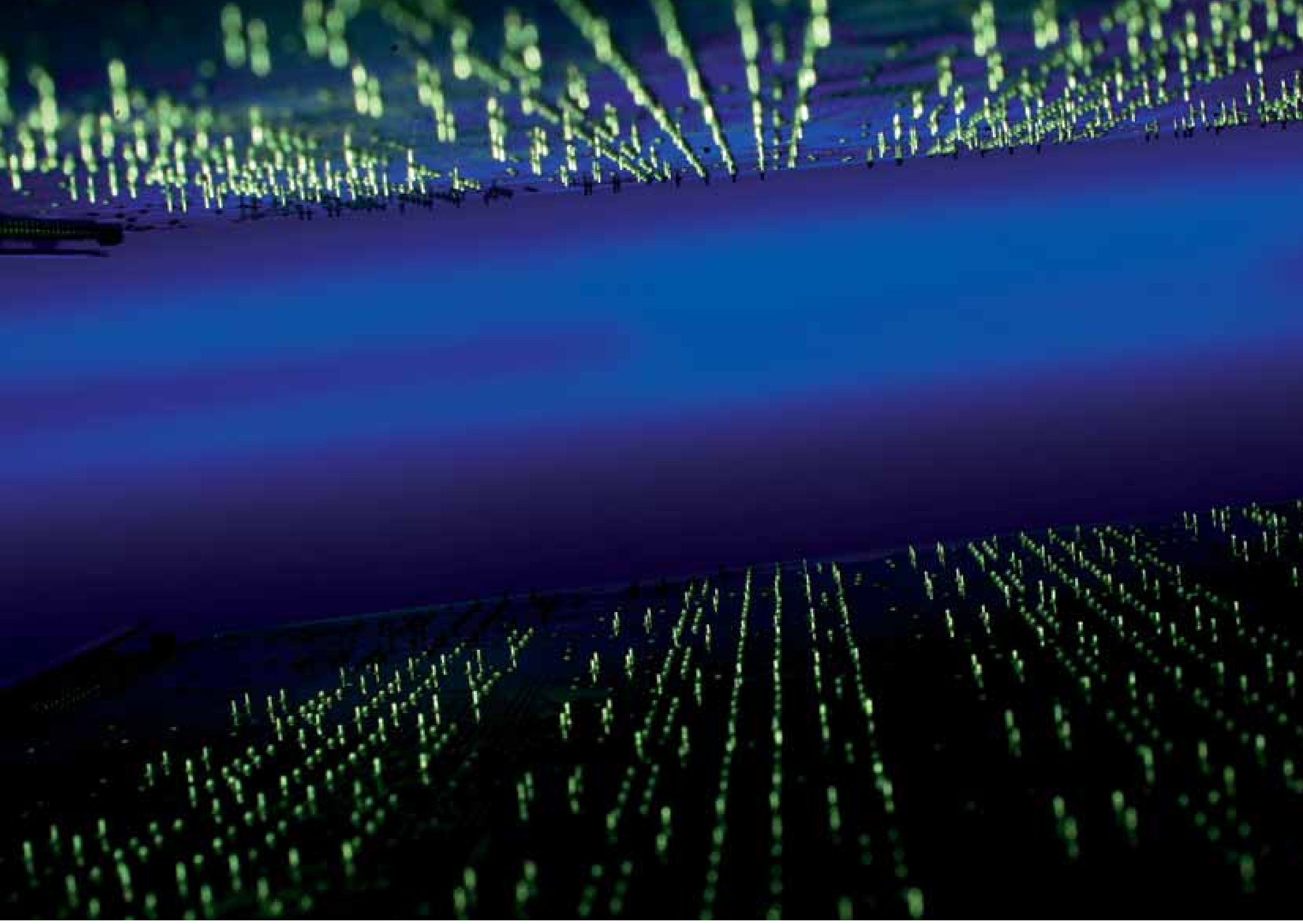
In the coming years billions of euros, dollars or pounds will be invested globally in the expansion of VDSL networks. The tremendous data transmission rates of these networks enable simultaneous use of the telephone, internet, television and a host of other currently unknown, additional services.

Telefónica España plan to spend four billion euros in Spain and to connect some 60 percent of all Spanish households to the VDSL (Very High Data Rate Digital Subscriber Line) network by 2008. In Italy, the privately-run provider, Fastweb, plan to invest three billion euros by 2013 in order to equip some 30 million users for VDSL, whereas the market leader, Telecom Italia, are expanding the data transfer rates of their existing DSL lines from four to over 20 megabits through their subsidiary, Alice. In the US, Verizon plan to spend 7 billion dollars on VDSL technology over the next few years, and their competitor, SBC, which recently purchased AT&T, are expanding their own high-speed network with a five billion dollar investment.

In Germany, network operators are pushing ahead with the start of VDSL, particularly in light of the Football World Cup, in order to form a dense VDSL network; this will initially occur in the largest metropolitan areas and will be followed by other cities. Network operators have indicated that this will require an investment volume exceeding 3 billion euros. Plans are to provide for some one million VDSL connections in Germany by the end of 2006.

The demands on the network stemming from the Football World Cup test case are immense and considered to represent a hardship test for VDSL technology, as some 20 terabytes of data and voice will be transmitted through the network. Internet telephony, video conferences, the accreditation of journalists, guests and spectators, all information services related to the organiser, FIFA, and the connection of several thousand reporters and journalists to their editorial teams will easily generate data figures in the trillions.

It is not surprising that such enthusiasm has emerged for the use of high-speed networks with VDSL technology: The ongoing decline in revenues at the individual domestic fixed line networks, which are decreasing in importance with the advance of internet telephony and the spread of mobile telephones, has forced the network operators to acquire new sources of income with the help of new, highly-efficient infrastructures.



International market observers and telecommunications experts unanimously agree that this strategy will be successful. As witnessed with the development of DSL (with transmission rates of up to 6 megabits per second), all forecasts from the past were too conservative and were surpassed considerably by actual market developments.

The trend in VDSL is currently being overshadowed in Europe in particular with the debate over whether or not the VDSL networks should be subject to regulation. More specifically, the issue concerns whether or not the European telecommunications companies, with their enormous investments in the VDSL network, must provide access to smaller competitors (who are incapable of establishing their own networks) at prices established by the respective domestic market regulators or regulatory authorities.

Despite the still uncertain outcome of the legal situation regarding regulation, all European telecommunications companies are continuing to intensely drive-forward the implementation of their VDSL plans. Market observers are also convinced that the regulation question will be settled with sustainable compromises acceptable to all parties, in order not to endanger the future of VDSL technology and subsequently the opportunities for new economic growth in the domestic economies.

VDSL and InTiCom Systems

InTiCom Systems were selected by Deutsche Telekom as the original equipment manufacturer for VDSL splitters.

However, the company is not relying on Deutsche Telekom alone and is also involved in the global expansion of xDSL networks as a supplier to the five most renowned systems suppliers worldwide. In 2005, InTiCom Systems were already able to generate considerable growth in its xDSL division abroad, and the same is true for the area of VDSL technology.

Automotive Technology: Tremendous growth accompanies advancements in safetys advancements in safety

Just over 20 years ago, keyless entry was solely the domain of the premium segment and was only available as optional equipment, whereas today, over 90 percent of all cars in Western Europe come equipped with keyless entry systems. A similar development is expected for all the safety and comfort systems found in modern automobiles. Advancements in safety features in particular have been rapidly accepted in car models in all segments.

The picture of the modern automobile recently printed in the newspaper, Sonntag aktuell, only appears futuristic at first glance: "Modern cars can smell: A sensor changes the ventilation to recirculate the air when entering a tunnel with contaminated air. Modern cars can see: At dusk or in a tunnel, the car's electronics automatically turn on the headlamps and automatically activate the windscreen wipers when it rains. Cars can feel: Tyre sensors record blocked or spinning wheels and activate ABS or ASR. ESP helps the driver to navigate the curves in the road."

The car's ability to sense, as described in this article, has long since become reality and advancements continue. For instance, a French OEM is already offering models with a lane departure warning system, which uses infrared cameras to detect when the vehicle has unintentionally crossed the lane markers and employs a vibrating seat to alert the driver. A Swedish OEM has a warning system to alert a driver attempting to change lanes if there is a vehicle in the driver's blind spot. Distance measurement devices for vehicles in front of the driver or acoustic and visual park sensors are now nearly standard for the medium-sized car segment of the German premium carmakers.

Two examples indicate the market potential which could accompany such safety and comfort features: In the event that only around 30 percent of total new car registrations in Western Europe, which currently amount to around 16 million vehicles, would be equipped with a remote keyless entry system, this would represent nearly five million systems, each one comprised of numerous antennas and an electronic diagnostic system.

This forecast is somewhat too conservative, as nearly all new car registrations at present, including the compact segment, are now equipped with such keyless entry or immobiliser systems.

The demand for tyre pressure monitoring systems is even greater. In the US, only direct measurement systems, each containing numerous transmitters and antennas and an electronic diagnostic system, are approved for use in cars. Should the EU follow the US guidelines, which is nearly certain, this would

result in yearly European demand for some 16 million tyre pressure monitoring systems, in addition to keyless entry systems. Forecasts are also too conservative in this area, as such safety systems are typically subject to the same legal requirements regardless of the vehicle segment.

InTiCom Systems and Automotive Technology

Starting in May 2006, large-scale production of antennas for keyless entry systems, immobiliser systems, tyre pressure monitoring systems and filter applications will ramp-up in the Czech Republic.

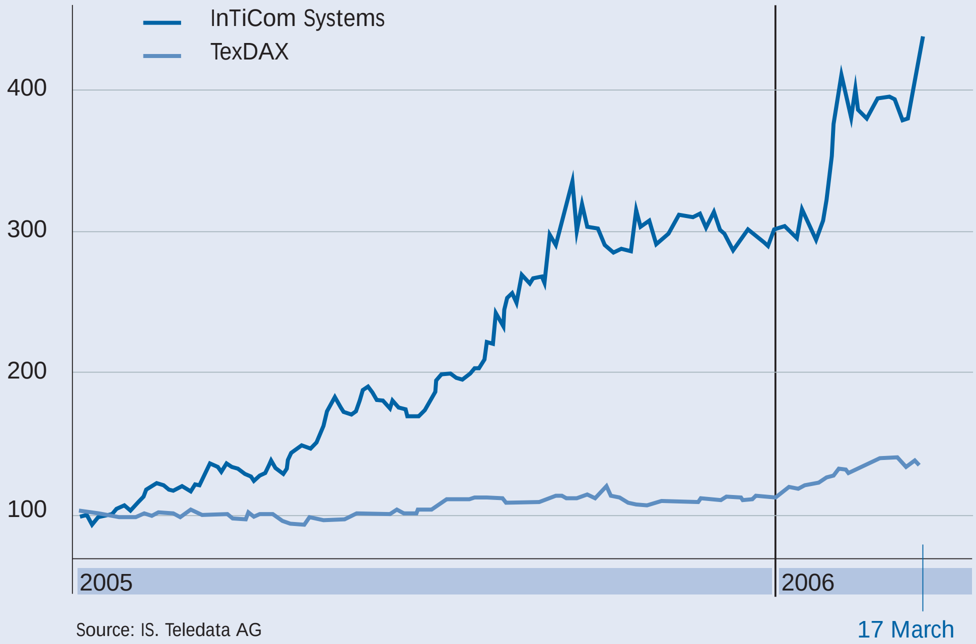
Furthermore, InTiCom Systems have already developed partial solutions for engine management in hybrid vehicles, which depending on the application; can be powered by electric motors, combustion engines (petrol or diesel) or with both solutions at the same time.

Although unit sales expectations for hybrid cars are currently subdued (experts expect some 450,000 cars in Europe through 2010), the efforts of the major carmakers indicates that hybrid technology has a bright future: Nearly all major OEMs are co-operating to develop, or have already developed such two-mode hybrid engines themselves.

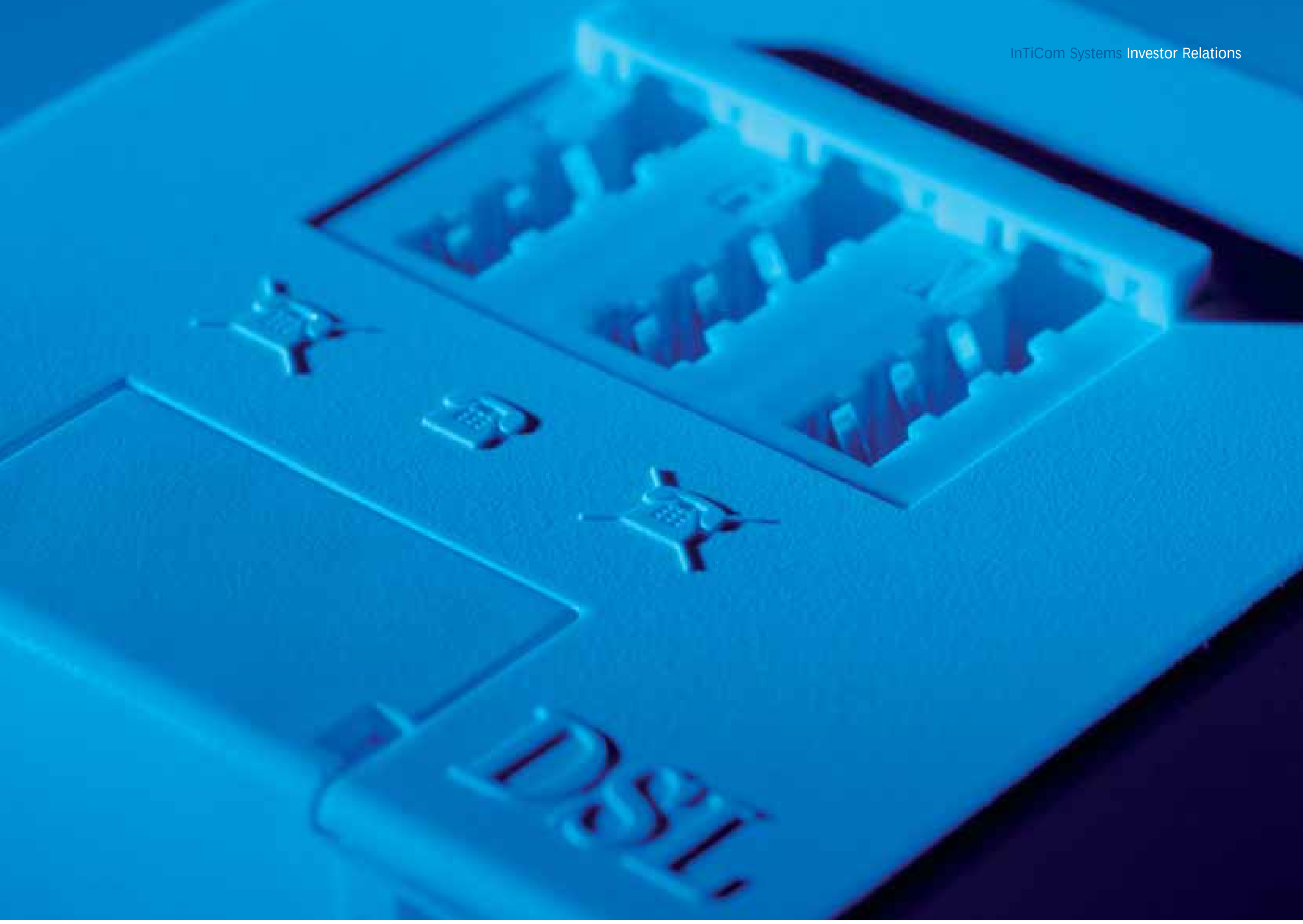
According to InTiCom Systems' projections, the automotive segment is expected to generate some EUR 50-60 million in sales within the next five years, and management expects the segment to contribute some five million euros in sales in the 2006 financial year.

Newcomer and Success Story on the Stock Exchange – the InTiCom Systems share

Share price performance of InTiCom Systems relative to the TecDAX CHART



Source: IS. Teledata AG



Stock markets in the past year only showed modest growth, with an acceleration in the second-half of the year. The continuous upward trend witnessed by all indices, which lead to an interim high at the beginning of October 2005, was followed by a short period of consolidation in autumn. Technology shares lagged behind the rate of acceleration of the year-end rally, which took the large standard shares to year-highs for 2005.

Shares in InTiCom Systems, the share price performance of which was completely decoupled from the restrained performance of the stock markets, climbed steadily for nearly three quarters into autumn 2005. During this period, the share price more than tripled, thereby unequivocally reflecting the company's successful operating performance. For the remainder of the year, the share price continued to trade around this high level, and the closing price at year-end was EUR 60.25 (prior year: EUR 19.90).

Given the positive expectations for the operating business in the coming years and the generally positive tenor on the stock exchange in the course of 2006, the company's share price jumped 37% in the first quarter of 2006 and traded at EUR 82.50 as of 17 March 2006.

Active Investor Relations are also Geared Up

In 2005, the Board of Management increased the frequency and expanded the scope of their contact with shareholders, potential investors, financial analysts and the financial press, both within Germany and abroad. For the first time, the company created opportunities to discuss the activities and growth potential of InTiCom Systems, such as the expansion of the Automotive Electronics division, in the course of numerous one-on-one meetings. The company maintained constant contact with their shareholders through three roadshows at the significant financial centres in Frankfurt am Main, Vienna, and Zurich, as well as through meetings elsewhere on the European continent. A particular emphasis was placed on meetings with analysts and investors focusing on technology shares and small and midcap companies.

Additional appearances at capital markets conferences, an analyst conference in Frankfurt am Main in the spring, and another analyst conference in connection with the German Equity Forum in November served to intensify our close contact with the capital markets in 2006. This active communication, along with regularly scheduled conference calls with analysts and investors in the course of the publishing of quarterly results, is expected to increase demand by institutional investors and result in increased research coverage in the current year.

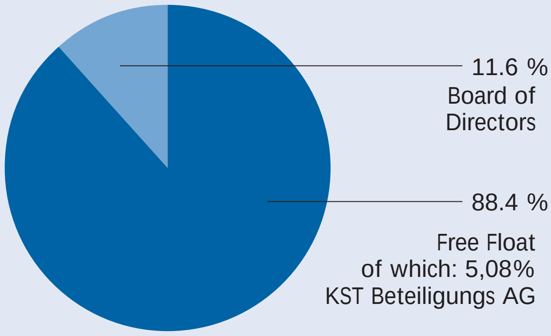
A main forum for personal dialogue with our shareholders is the Annual General Meeting, which takes place at the company's headquarters in Passau. The first ordinary Annual General Meeting following the initial public offering occurred on 12 May 2005 and was attended by around 150 shareholders representing some 49% of the shares outstanding. All resolutions were passed with an overwhelming majority of nearly 100%.

Investor Relations maintains its own page on the InTiCom Systems website on the Internet at www.inticom-systems.de/investor-relations.html, and provides interested parties with the opportunity to access information about all aspects of the InTiCom Systems share, including annual reports, quarterly reports and press releases, which are available for download; the company can also be contacted directly with questions.

Key share data for InTiCom Systems

ISIN	DE0005874846
Ticker	IS7
Market segment	Prime Standard
Key industry	Technology
Industry Group	Communications Technology
Indices	Prime All Share, Tec All Share, CDAX, GEX
Designated sponsor	Concord Effekten AG
Capital stock	EUR 1,300,000
Share class	no-par common shares

InTiCom Systems AG shareholder structure



Key figures for the InTiCom Systems-share

(in EUR)	2004	2005
Closing price (XETRA 30.12.)	19.90	60.25
High for the year	21.15	67.60
Low for the year	18.08	18.00
Market capitalisation in EUR million (XETRA 30.12.)	25.9	78.3
Daily average trading volume (XETRA + floor in units)	20,062	10,228
Price-earnings ratio (P/E ratio) (XETRA 30.12.)	25.5	35.7
Earnings per share (EPS)	0.78	1.69
Cash flow per share (CFPS)	1.64	1.04

Shareholdings subject to reporting requirements

Share of capital stock am 31 December 2005	no. of shares	in %
Board of Management *(incl immediate family))*		
Mari Grohs and Dr. Paul Grohs combined	51,700	4.0
Dieter Schopf	43,600	3.4
Supervisory Board *(incl immediate family)*		
Karl Kindl	50,088	3.9
Dr. Wulfdieter Braun	4,005	0.3
Harald Nöth	1,162	0.1

Compliance Declaration

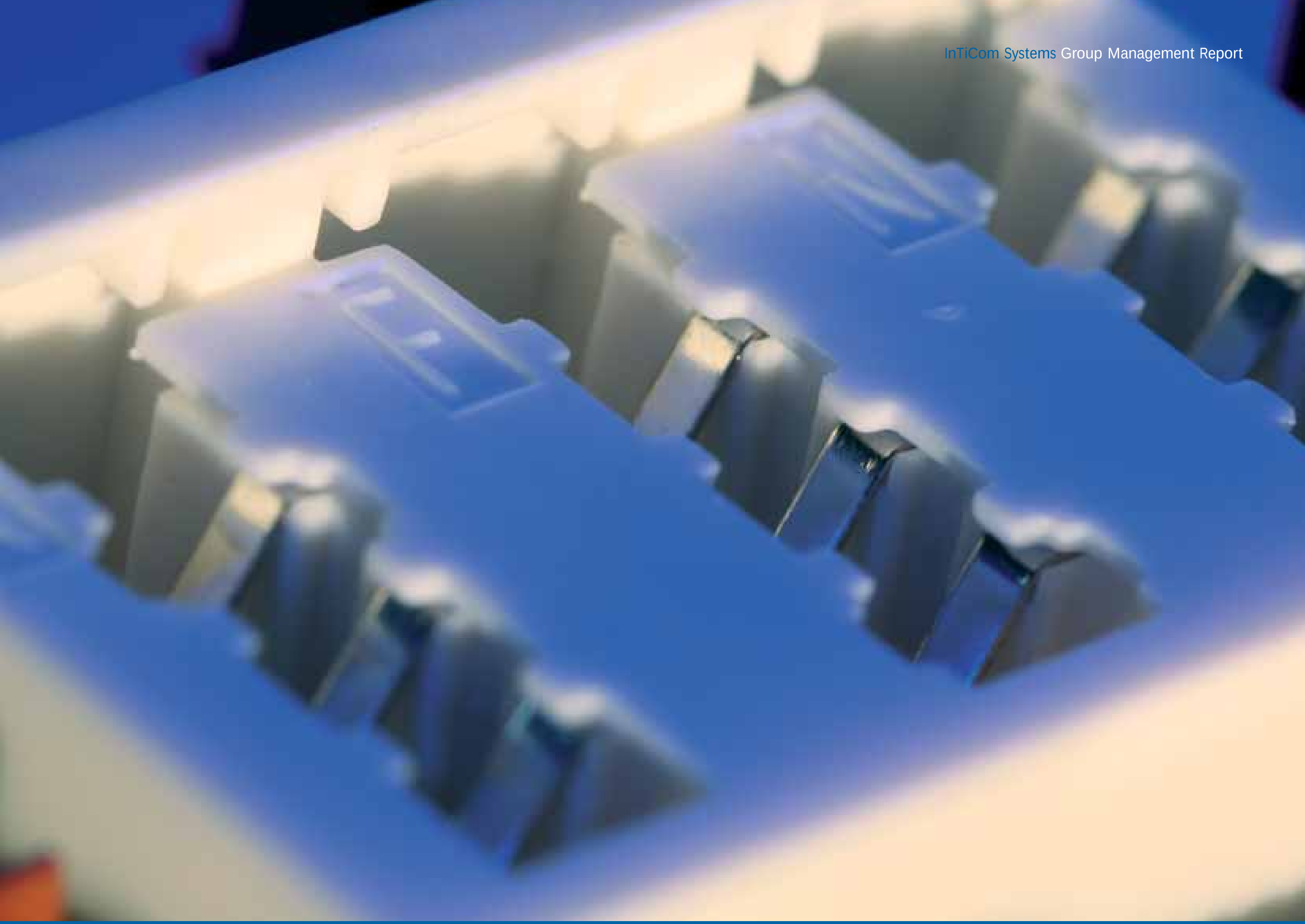
The Board of Management and the Supervisory Board of InTiCom Systems Aktiengesellschaft hereby submit the following statement regarding the recommendations of the "Government Commission for the German Corporate Governance Code" in accordance with Section 161 of German Stock Corporation Law:

The recommendations of the German Corporate Governance Code in the version dated 2 June 2005 have been adhered to until now and will continue to be adhered to until further notice, with the following exceptions:

- The company's Supervisory Board has not nominated a chairperson or spokesperson for the Board of Management (Section 4.2.1 sentence 1).
- The remuneration of the members of the Board of Management does not contain a variable component (Section 4.2.3).
- The Board of Management members' remuneration is not disclosed on an individual basis (Section 4.2.4).
- The company's Supervisory Board, which consists of three members, has not issued rules of internal procedure (Section 5.1.3) and has not formed any committees (Sections 5.3.1, 5.3.2).
- The members of the Supervisory Board do not receive remuneration tied to the company's performance (Section 5.4.7).
- The consolidated financial statements shall be published within a period not to exceed 120 days following the end of the financial year, and interim reports within 60 days following the end of the reporting period (Section 7.1.2).

Passau, March 2006

The Supervisory Board The Board of Management



Group Management Report for the financial year from 1 January 2005 through 31 December 2005

Management Report for the Group and the AG for the financial year from 1 January 2005 through 31 December 2005

Business Activities

InTiCom Systems are among the technological leaders in Europe for the electrical and electronics industries, based on passive, analogue switching technology and the necessary and related inductive components. This technology is used in products for the rapid exchange of telecommunications data (DSL, ADSL, VDSL), for network topologies in automobiles and in the area of sensors and electronics for the automotive industry.

Passive inductive components do not require additional energy sources such as electricity or batteries in order to perform their function in the conduction, filtering, transmission and reception of electrical signals, and they function largely free of wear. InTiCom Systems combine comprehensive theoretical knowledge with specific know-how, which they have acquired through many years of practical experience gained by the very few active experts for this technology worldwide. InTiCom Systems are active in international markets with their development activities and products in the following areas of technology:

xDSL technology

In order to permit broadband Internet access through the existing and future telephone network, InTiCom Systems develop, produce and sells xDSL splitters for the provider (operator) and the Internet user (subscriber). Typically, these splitters are based on widely divergent specifications for current and future customers: These customers include domestic telecommunications companies, who order the splitters for the subscriber side, as well as systems suppliers of these domestic telecom companies, who order the provider side splitters from InTiCom Systems.

Due to market occurrences, which have consistently surpassed all estimates and forecasts in the past (including the market expectations at the time of the IPO in November 2004) in the area of xDSL technology, InTiCom Systems significantly increased the fully-automated production capacity of their wholly-owned subsidiary in Thessaloniki (GR).

Automotive Technology

Until now, InTiCom Systems have developed and validated sub-systems for RFID technology (radio frequency identification) in the area of automotive technology, including vehicle access systems (remote keyless entry) and security and monitoring systems such as those used for tyre pressure monitoring. At the same time, InTiCom Systems have been involved in the collection, transmission and filtering of data in complex automotive network topologies; until now, these topologies have been used to replace the common central computer and monitoring systems for greater reliability, and they will be implemented more frequently in the future.

In 2005, the motor vehicle industry presented products and systems in these areas to select systems suppliers, and InTiCom Systems were successful in winning the trust of well-known suppliers and OEMs in its role as a development partner and supplier.

InTiCom Systems established a new, highly-automated production site in the Czech Republic (located just over an hour's drive from the Development Department in Passau) for this promising business area, which will begin series production in mid-2006. As such, there are already agreements (as of March 2006) for InTiCom Systems in the Czech Republic to start manufacturing keyless go and tyre pressure monitoring systems, which meet the highest quality standards of the automotive industry, for numerous suppliers and OEMs in Asia and Germany.

Inductive Components

In this area, the company is concentrating on the development and production of customer-specific inductive components at low and medium volumes, thereby providing specialty solutions for appliances in the electronics and electrical industries.

Market and Market Environment

xDSL technology

In 2005, InTiCom Systems generated nearly 100 percent of its revenues in the German and European telecommunications market for broadband fixed line connections via DSL (digital subscriber line) technology.

InTiCom Systems are also actively involved in the area of VDSL and VDSL2 technology, which provides for transfer rates of up to 50 Mbit/s in the common copper cable network in combination with the fibre optic network. The proprietary development of the first fully-functional, next generation VDSL splitter with several power stages was completed in 2005. For the 2006 Football World Cup, network operators plan to spend some EUR 3.3 billion for the planned link-up via DSL, and forecasts by telecom companies indicate that at least 24 million German households will be connected to Germany's nation-wide network by 2010.

There is no doubt that InTiCom Systems will be one of the primary beneficiaries of this development. In February 2006, Deutsche Telekom contracted InTiCom Systems to supply their VDSL splitter, initially for the World Cup solutions.

Automotive Technology

Steadily growing demand for increased comfort and safety-related equipment in automobiles, not just for those of the premium segment, but also for the medium-sized and compact segments, creates tremendous potential for automotive electronics. This is particularly the case for radio frequency identification and network products, such as those already successfully developed by InTiCom Systems in 2004/2005, which will be manufactured at the new production site in the Czech Republic and sold in high volumes starting in mid-2006.

The American regulatory framework is also expected to provide a strong impetus for growth and will thus serve as a point of reference for the European Union in the coming years. Due to their higher performance characteristics, OEMs in the area of tyre pressure monitoring systems are expected to only implement dynamic, direct measurement systems in the near-term. The antennas developed by InTiCom are particularly suited for use in such dynamic direct measurement systems. In this regard, each system contains several transmitters, receivers and an electronic analysis unit.

In the medium to long-term, the company also plans to become active in the future market for hybrid cars. Products for monitoring and connecting the various engines and powertrains are already being developed. The extremely conservative forecast up to now of around 450,000 hybrid cars in Europe by 2010, which has been published in industry magazines such as Automobil Produktion, will require considerable patience.

Inductive Components

Demand for standard components is strongly dependent on the overall economic situation of the electrical and electronics industries and is characterized by cut-throat competition, particularly on the part of suppliers in the Far East. It is therefore only possible to profitably develop and sell inductive components for specialised products with low volumes. Due to their wide range of expertise in the areas of ferrite materials, plastics injection moulding technology and winding technology, InTiCom Systems are able to supply this market according to its customer's specifications.

Competition for InTiCom Systems

The development of the xDSL splitter requires specialized know-how in the areas of materials science, passive analogue switching technology and the engineering of inductive components. Relatively few of InTiCom Systems' competitors have access to this knowledge, which the company maintains at a consistently high level through targeted personnel marketing and the intensive continuing education of its employees.

Positioning of InTiCom Systems

In all product areas represented by InTiCom Systems, constant innovation, rapid technical advancement and increasing expectations for performance characteristics can only be fulfilled and achieved with the newest and most modern production engineering and state-of-the-art production machinery.

The company, which also developed and manufactured production machinery in the past, is now even better equipped to accommodate these demands. The newly-established development company responsible for this area has 5 employees and has been in operation in Neufelden, Austria since May 2005; the number of employees is expected to rise to ten by the end of 2006.

In order to more successfully serve and gain share in the rapidly-growing domestic and international markets for xDSL, the company has decisively expanded its production capacity in Greece. Against this background, Germany and the rest of Europe form the main focus of regional expansion. In combination with the new production site for the automotive area in the Czech Republic, InTiCom Systems spent some EUR 5.9 million to expand the degree of automation and to purchase new machinery in 2005.

According to the company's strategy, the automotive area is to be strengthened and expanded to form a second main pillar alongside xDSL.

In all of the company's business areas in 2005, InTiCom Systems adhered to the principle of dual sourcing, as they have done in the past. All significant feed stock is sourced from at least two suppliers certified and approved by the Development Department.

Business Development in 2005

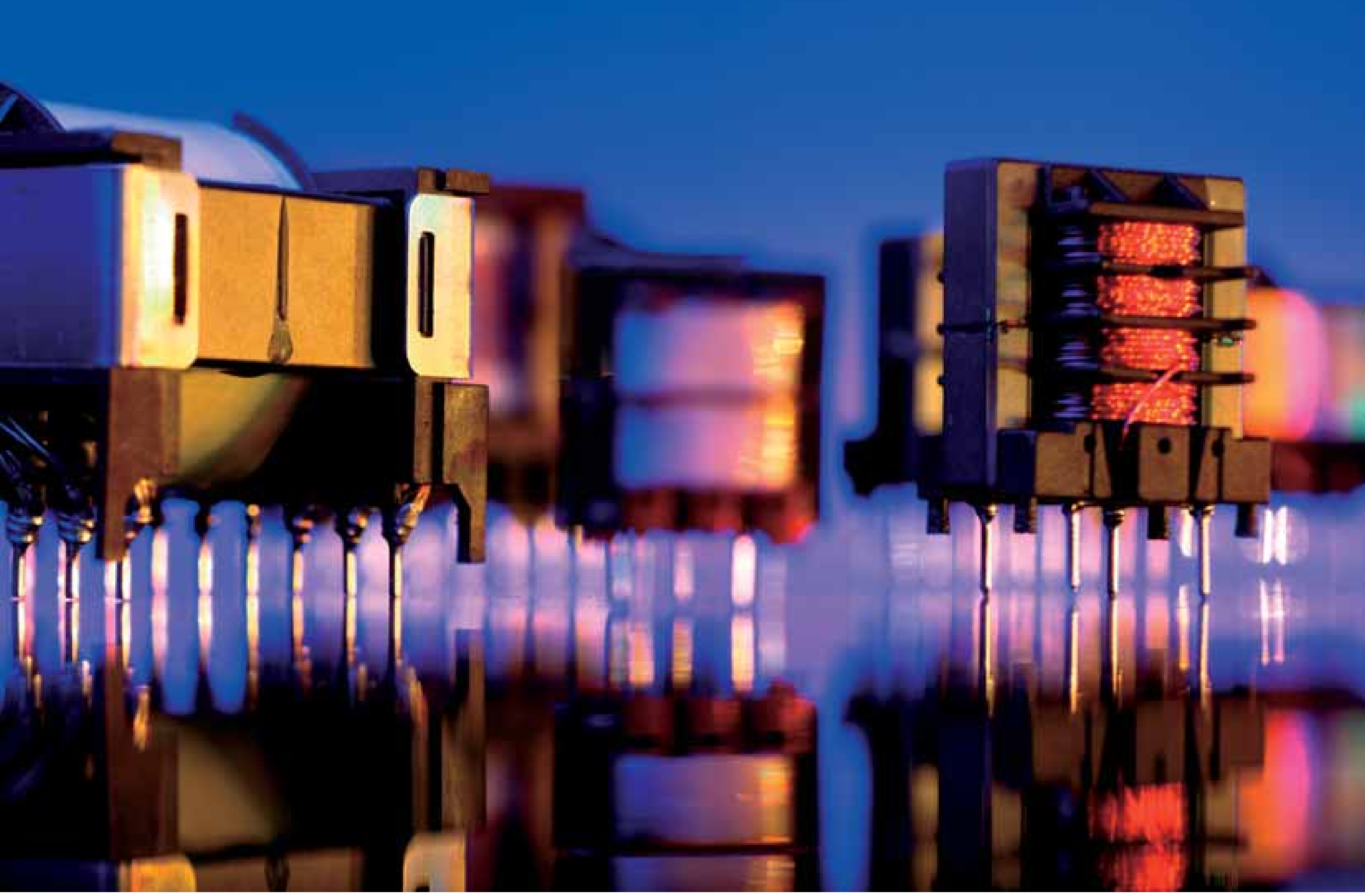
As the most important supplier and market leader in the German telecommunications industry in the area of DSL splitters, InTiCom Systems profited directly in 2005 from the boom in DSL broadband connections. The company was able to participate in the actual market development, which far exceeded prior forecasts. For instance, at the time of InTiCom Systems' IPO (November 2004), market observers were forecasting 6.9 million DSL connections in Germany for 2005; however, this figure actually reached over ten million DSL connections as of the end of 2005.

Group turnover

In 2005, InTiCom Systems were able to nearly double Group revenues, which amounted to EUR 35,034 thousand, compared to the prior year (EUR 19,457 thousand). As such, the main revenues driver was the xDSL splitter business for both subscribers and providers. The Automotive Electronics division generated revenues of some EUR 350 thousand in 2005, with inductive components contributing some EUR 250 thousand to revenues.

Group Earnings

Consolidated net income of EUR 2,195 thousand was generally in-line with the trend in revenues and more than doubled compared to 2004 (EUR 1,010 thousand). Net income thus yielded earnings per share of EUR 1.69 (2004: EUR 0.78), based on 1,300,000 shares outstanding. In this regard, it should be noted that in 2004, virtually no taxes were paid due to the expenses for the IPO. Earnings before taxes (EBT) in 2005 amounted to EUR 3,584 thousand, which was three times the prior year's figure of EUR 1,194 thousand. The net return on sales of 6.3% was above the favourable prior year's level (5.2%), which also received a benefit from tax concessions. despite the strong rise in pre-expenses in the course of the expansion of capacity, the increase in the degree of automation, and the establishment of the production site for automotive technology in the Czech Republic. This was made possible by productivity increases resulting from a higher degree of automation in the individual product areas, from strict cost management based on



revenues, from clearly focused investments and from the company's favourable credit rating.

Research and Development

R&D expenses in 2005 amounted to EUR 1,348 thousand compared to EUR 702 thousand in the prior year. The increase was primarily due to R&D expenditure at the new site established in the spring for the development and manufacture of the company's proprietary and innovative manufacturing technologies. However, proprietary development of VDSL splitters and customer-specific RFID products and applications in the automotive segment also contributed to the near doubling of R&D expenditure.

Employees

Personnel expenses increased compared to the prior year and amounted to EUR 3,111 thousand in 2005 (2004: EUR 1,609 thousand). This was due to the incorporation of the temporary workers employed in Thessaloniki (who were classified under other operating expenses up to 2004), which was completed in 2005, and to the development company in Austria, which has been operational since May 2005 and employed a staff of five as of 31 December 2005. The Group employed a total of 102 employees as of 31 December 2005 (prior year: 65 employees). The increase in the number of personnel was primarily due to capacity expansion in the production and development areas.

Investment

In the year under review, capital expenditure for fixed assets increased compared to 2004 (EUR 1,416 thousand) and amounted to EUR 5,922 thousand. This increase was partially due to the ongoing expansion of production capacity at the subsidiary, InTiCom Components GmbH, based in Thessaloniki, where in 2005, three production lines were added and started production in order to service the considerable demand for DSL splitters. The second major contributor to capital expenditure is the production site for automotive technology in the Czech Republic (land, planning and acquisition costs).

Fixed Assets

In comparison to the prior year (EUR 2,244 thousand), the fixed assets of InTiCom Systems more than tripled to EUR 7,512 thousand in 2005. This was due to the major investments in the production equipment in fixed assets, which were previously described. Intangible assets increased from EUR 272 thousand in 2004 to EUR 1,180 thousand in 2005, primarily as a result of further advancements in xDSL and developments in the area of automotive technology.

Cash Flow and Liquidity

The operating cash flow of EUR 2,886 thousand (prior year: EUR 1,550 thousand) once again reflects the operating strength of InTiCom Systems. Cash flow from operating activities, which amounted to EUR 1,354 thousand, was below the prior year due among other things to the lower utilisation of supplier credits (EUR 2,135 thousand). The high level of capital expenditure for capacity expansion (EUR 4,910 thousand) was financed in part using the operating cash flow, as well as through a sale-and-lease-back transaction. Short-term bank loans in the amount of EUR 2,000 thousand were utilised for interim financing. Investments in intangible assets for the new development and enhancement of proprietary technologies, which amounted to EUR 1,012 thousand, were financed entirely by the company's cash flow (from operating activities).

Group liquidity, which consists of available-for-sale financial securities (EUR 9,156 thousand) and cash and cash equivalents (EUR 1,546 thousand) totalled EUR 10,702 thousand in 2005, compared to the prior year's figure of EUR 10,335 thousand. The difference in reporting on the balance sheet for securities and cash/cash equivalents classified under current assets resulted from changes in the composition of liquid funds. Related to this is a difference in reporting for the Group cash flow statement, which could be falsely interpreted to indicate that a cash outflow has occurred. In reality, only the form of investment was changed due to the reclassification of cash and cash equivalents from timed deposits to financial securities.

Shareholders' Equity

Shareholders' equity amounted to EUR 13,480 thousand (prior year: EUR 11,139 thousand) as of the balance sheet date in 2005, which corresponds to an equity ratio of around 55% (prior year: 68%). As such, the increase in shareholders' equity resulted primarily from the increase in revenue reserves from EUR 1,199 thousand (2004) to EUR 3,394 thousand. The decline in the equity ratio was due to the capital expenditure previously explained, which serves to provide the necessary conditions for future growth. An equity ratio of some 55 percent is above-average for the German industrial landscape and will continue to guarantee that the company's credit rating will remain high.

Risk Report

A significant component of the management and control instruments at InTiCom Systems is the monitoring, analysis and control of risks. This is based on the law to further reform stock corporation and accounting legislation, on transparency and disclosure (Transparency and disclosure law) (TransPuG) of the general conditions on corporate governance. The company maintains a risk monitoring system in accordance with Section 91 para. 2 of Stock Corporation Law.

Risk Management System

The risk management system implemented by InTiCom Systems collects, analyses and values all potential risks in a systematic manner. The information is constantly updated, and the risk report is compiled regularly using the individual data points. This risk report presents potential individual risks, evaluates their probability and determines the potential amount of loss. This process derives the risks emanating from the current business activities of the separate business areas and company targets. Each respective risk report is immediately forwarded to the Board of Management, which addresses it at the next Board of Management meeting.

Technological Risks

xDSL Technology

InTiCom Systems manufacture products including functional units, which allow broadband internet access through DSL splitter technology based on analogue or digital copper-line based telephone connections.

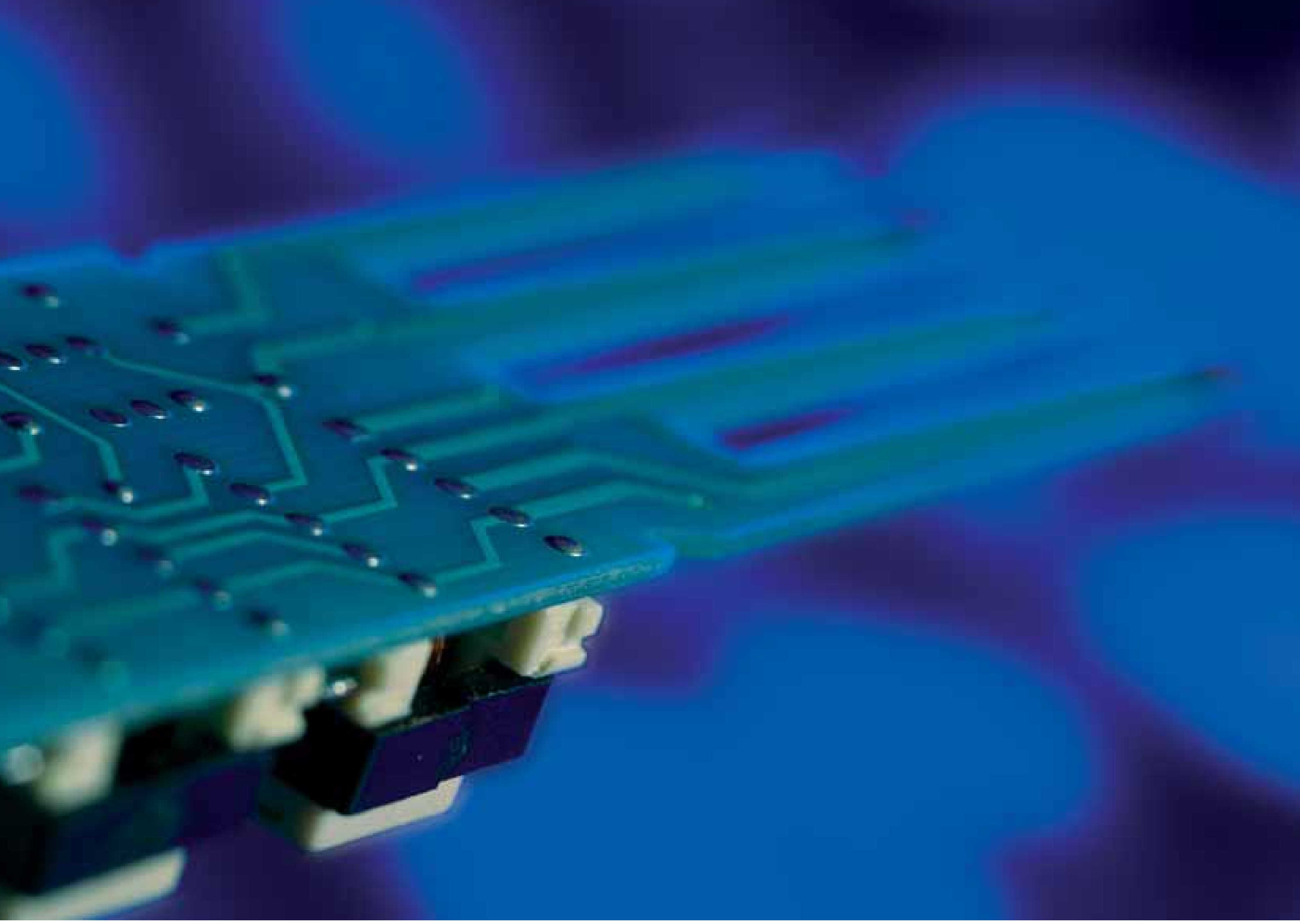
Alternative solutions to this problem, which could threaten the economic performance of InTiCom Systems, are based on either

- the television-cable network via cable modem,
- transmission via satellite, or
- common power supply lines (Powerline)

and

- Fibre optic lines, such as those laid in the former east German states in the course of modernising the communication structures there.

The costs for the ubiquitous installation throughout Germany and for the operation of fibre optic networks, as well as for the technical upgrade of the television-cable network, are considerably higher in the short to medium-term than the technical upgrade of the copper-line based telephone networks through xDSL technology. Powerline technology has attracted very few users up to now.



Even semi-conductor technology, which could be used for the required separation of voice and data signals for xDSL operations in order to replace the passive, analogue switching technology of the InTiCom xDSL splitter, does not currently meet the required electrical specifications, and it requires the use of additional sources of electricity.

VDSL Technology

This future market is subject to a certain degree of risk. The market for VDSL technology, which has received decisive impulses through the prior establishment of individual, less than fully integrated solutions by the network operators, has not yet been clearly defined regarding the emergence of a ubiquitous network structure; several legal issues still require clarification. In the (highly unlikely) event that the individual, less than fully integrated solutions remain in place, this would prevent InTiCom Systems from generating additional revenues from VSDL splitters in Germany.

This is highly unlikely, as it would mean that the German network operators would enable the European competition to assume a leading role with very little resistance. For example, the privately-owned company, Fastweb, are planning to invest three billion euros by 2013 in order to provide a total of 30 million users with access to the Italian VDSL network.

Automotive Electronics

Until now, the products and applications developed by InTiCom Systems in the area of automotive electronics have been based on RFID technology.

Other approaches which could serve as an alternative to radio frequency identification and transmission include Bluetooth or other technologies. These technologies could weaken demand for InTiCom Systems' products or require additional development expenditure.

The company's relatively new automotive segment provides a certain degree of production ramp-up risk for InTiCom Systems. Specifically, ramp-up risk refers to the speed with which the company will be able to reach the necessary level of unit production required for profitable operation, while at the same time assuring the level of quality demanded by the automotive suppliers and OEMs.

Market and Price Risks

Due to significant demand which has considerably exceeded supply for quite some time, it is currently a sellers market for xDSL splitters. However, this could change with increasing penetration and more intense competition, thereby resulting in a deterioration of splitter prices.

This unfavourable price trend could be strengthened by new providers, particularly those stemming from Asia. A further decline in the dollar exchange rate compared to the euro could also provide suppliers of splitters from the Far East with a price advantage.

For this reason, it is highly important for InTiCom Systems to maintain their undisputed position as technological leader, as the company is only somewhat able to fend off competition based purely on price. In light of this, InTiCom Systems' position as an OEM for the German VDSL network has become even more significant.

Customer Dependence

The company generated around 40% of its splitter revenues with one customer on the subscriber side, and around 60% with the five dominant systems suppliers on the provider side.

InTiCom Systems were able to decrease their dependence on these major customers by internationalising their business; in this vein, the company developed provider-side splitters, the series supply of which began in 2005, for telecommunications companies in countries such as France, Norway and Great Britain.

Product Diversification

Despite the growth trend for splitters, which has continued unabated for years, a highly unlikely decline in demand could have a negative impact on the company.

In order to prevent this, InTiCom Systems started early by establishing the Automotive Electronics division, which forms a second main pillar for the company. Initial developments in the area of radio frequency identification and transmission through RFID were started in 2004, and development continued in the past financial year in areas such as vehicle access systems (remote keyless entry) and safety and monitoring systems (tyre pressure monitoring). The strategy of acquiring automotive OEMs and suppliers as customers through RFID has been successful, and InTiCom Systems have now been entrusted with development contracts, even in other areas outside of RFID technology (based on analogue switching technology), by customers in the automotive industry. In this role, the company is involved in the collection, transmission and filtering of data in complex automotive network topologies.

InTiCom Systems have built the new, highly automated production site in the Czech Republic in order to service this product area, and series production for numerous suppliers and several carmakers in Asia and Germany is scheduled to start in May 2006.

Pricing pressure exerted by carmakers on their component suppliers could negatively impact margins at InTiCom Systems and impair the company's economic performance.

Opportunities

Due to the company's growth, there is a permanent exchange of know-how in each technology area, which often involves several but no fewer than two technology experts. This ensures that personnel problems, such as illness or labour transfer, cannot endanger continuity in the company's individual business areas, and it provides a solid foundation for the development and expansion of technological know-how in the future.

The automotive industry has placed increasing importance on the need for strong suppliers with development and production facilities in extended Europe. This is the only way to allow OEMs fast access to the necessary products and solutions, which enables them to react quickly to market changes. Recent experiences by the carmakers involving poor quality from production sites further afield have forced them to concentrate on European sites. InTiCom Systems are able to meet these requirements in an exemplary manner.

Follow-up report on significant events occurring after the end of the 2005 financial year

In February 2006, InTiCom Systems were contracted as the original equipment manufacturer for the planned German VDSL network; starting in April 2006, InTiCom Systems will supply the first VDSL splitters for 10 large German cities, including Berlin, Hamburg and Munich. As such, Germany will once again assume the position as technological leader, and it will take a leading role in the transmission of data in Europe and the rest of the world.

VDSL (please also refer to the glossary) stands for very high data rate digital subscriber line and enables transmission rates of up to 50 megabits per second in combination with fibre optic networks. Although individual applications requiring such high transfer rates are not currently known, such high rates will be required in order to simultaneously watch HDTV, record movies, use the telephone and surf the internet.

As the original equipment manufacturer for the high-speed network, InTiCom Systems are making a significant contribution in enabling Germany to once again assume the role of technological market leader in Europe and among the other significant industrialised countries. The capital markets reacted extremely positively to an order for several million euros, and InTiCom System AG's share price climbed to a high of EUR 83.39 as of 17 March 2006 (issue price in November 2004: EUR 18).

Outlook

In 2006, InTiCom Systems expect moderate growth in revenues and earnings compared to the prior year. This is due in part to the level of revenues the company has now attained. In addition, 2006 will be strongly influenced by the preparation and strengthening of development, production, and not least the organisation, in order to prepare the company for additional growth in the future.

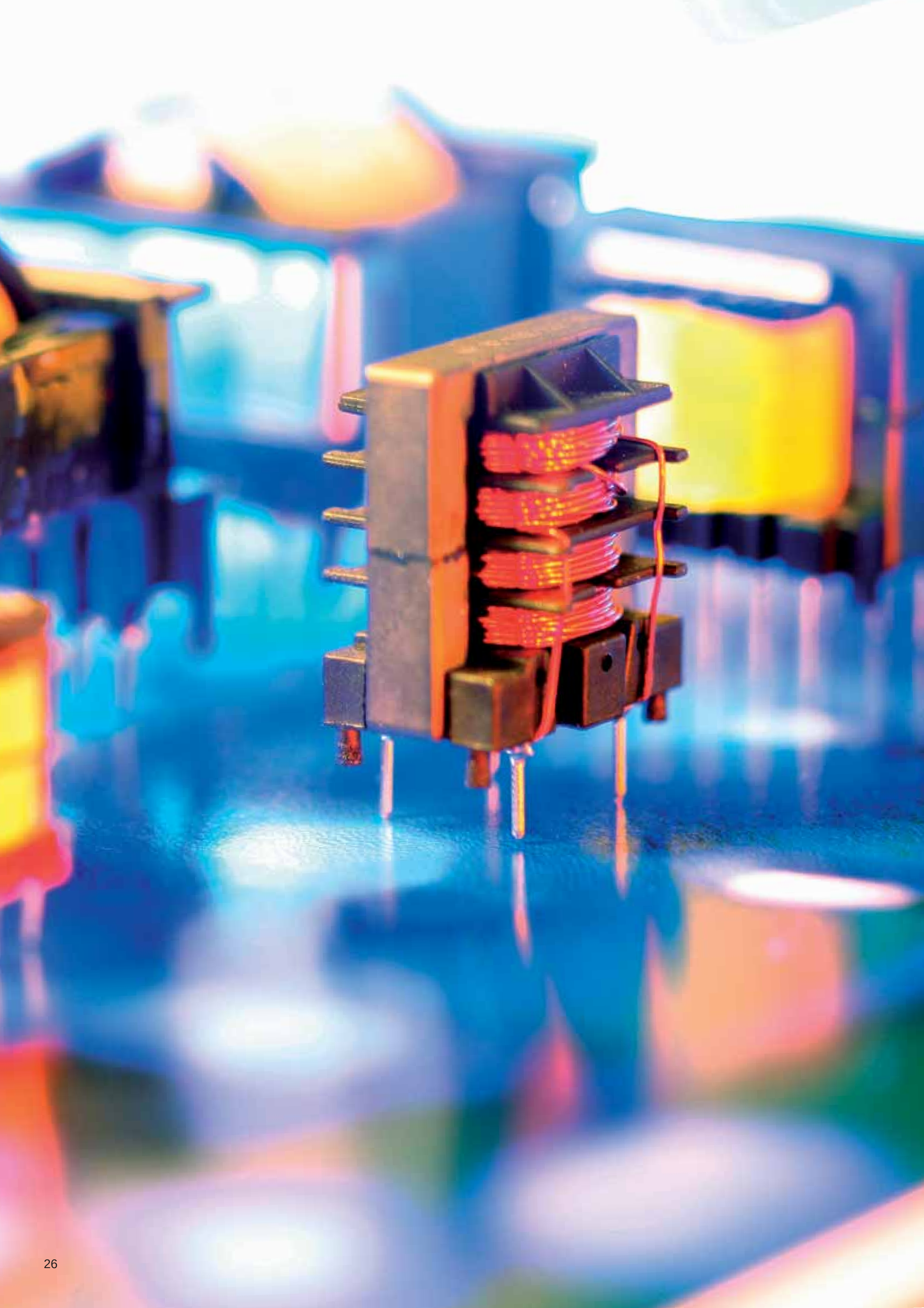
Personnel forecasts indicate that the number of employees is expected to more than double, from 102 at present to 235 by 31 December 2006. Of this figure, some 100 staff will be employed in the automotive electronics area in the Czech Republic, some 80 will be employed in the manufacture of xDSL splitters in Greece, and around 10 will be employed at the development site in Austria; the headquarters in Passau, comprising some 45 employees, will form the organizational superstructure.

Order Book

The order book at InTiCom Systems amounted to EUR 12,554 thousand as of 31 December 2005 (2004: EUR 9,700 thousand) with an order backlog of three months.

The full-year effect from the automotive segment will not be felt until 2007, as production is only scheduled to begin in the middle of 2006.

The VDSL segment holds tremendous potential for InTiCom Systems. This is due to the expansion of the VDSL network in Germany, and particularly to VDSL activities in Europe excluding Germany, which involve numerous systems suppliers. Experts predict that VDSL technology will have growth rates at least as high as those seen for DSL technology. And these forecasts are continuously being revised in terms of both the speed of expansion forecasted and the number of connections.



Consolidated Financial Statements for InTiCom Systems AG for the Financial Year

from 1 January 2005 through 31 December 2005

Consolidated Income Statement

1 January - 31 December 2005

in EUR (000)	Notes	2005	2004
Revenues		35,034	19,457
Other income	5	330	146
Changes in inventory of finished and semi-finished goods		-537	-325
Other capitalised services		1,589	623
Raw materials, factory supplies and goods		27,732	15,880
Personnel expenses		3,111	1,609
Depreciation and amortisation		654	302
Other expenses	5	1,453	914
Operating result		3,466	1,196
Financial expenses		49	39
Other financial income		167	36
Earnings before taxes		3,584	1,193
Taxes on income	6	1,389	183
After-tax earnings from ordinary activities		2,195	1,010
Net income		2,195	1,010
Earnings per share (1,300,000 shares)	7	1.69	0.78

Cash Flow

Consolidated Cash Flow Statement

in EUR (000)		2005	2004
Net income for the year		2,195	1,010
+	Depreciation on fixed assets	654	302
-	Additions to financial assets	0	-11
+	Increase in provisions	37	249
-	Increase / + Decrease in current assets and other assets		
	Inventories	707	-775
	Accounts receivable	-916	-728
	Other assets	-2,271	-336
+	Increase/Decrease in liabilities and other liabilities	-1,227	2,424
	Other liabilities	2,175	0
Cash flow from operating activities		1,354	2,135
-	Payments for investments in intangible assets	-1,012	-342
-	Payments for investments in fixed assets	-4,910	-1,074
-	Increase in funds in the scope of short-term financial planning	-9,156	
Cash flow from investing activities		-15,078	-1,416
+	Deposits from borrowings and the issuance of financing leases	4,918	-31
-	Payments for the repayment of loans and financing leases	0	-186
+	Deposits from new capital injections	0	9,185
Cash flow from financing activities		4,918	8,968
Sum of cash flows		-8,806	9,687
	of which taxes paid	-102	-19
	of which paid interest expenses	-49	-39
	of which interest income and similar income	112	36
Cash at the beginning of the period		10,335	466
Cash at the end of the period*		1,529	10,335

* Group liquidity, consisting of available-for-sale securities (EUR 9,156 thousand) and cash and cash equivalents (see balance sheet: EUR 1,546 thousand / minus the current account of EUR 17 thousand), totalled EUR 10,702 thousand in the 2005 financial year compared to EUR 10,335 thousand in the prior year.

Consolidated Balance Sheet

of InTiCom Systems in accordance with IFRS/IAS

Assets

in EUR (000)	Notes	2005	2004
Fixed assets			
Intangible assets		1,180	272
Tangible assets		6,299	1,939
Financial assets	8	33	33
Deferred taxes	6	412	292
Total fixed assets		7,924	2,536
Current assets			
Financial securities	9	9,156	0
Inventories	10	630	1,337
Trade receivables	11	2,964	2,048
Other current receivables	11	2,312	161
Cash and cash equivalents	12	1,546	10,335
Total current assets		16,608	13,881
Total assets		24,532	16,417

Liabilities and Shareholders' Equity

in EUR (000)	Notes	2005	2004
Shareholders' equity			
Subscribed capital	13	1,300	1,300
Capital reserves		8,640	8,640
Retained earnings	13	3,394	1,199
Translation reserves		146	0
Total shareholders' equity		13,480	11,139
Non-current liabilities			
Other non-current liabilities	14	3,134	205
Deferred taxes		776	278
Total non-current liabilities		3,910	483
Current liabilities			
Other current provisions	15	136	100
Tax liabilities	15	1,045	204
Current interest-bearing debt	15	2,017	10
Trade payables		2,835	4,062
Other current liabilities	15	1,109	419
Total current liabilities		7,142	4,795
Total liabilities and shareholders' equity		24,532	16,417

Schedule of Group Fixed Assets

1 January - 31 December 2005

in EUR (000)	acquisition / manufacturing costs 1.1.2005	additions	disposals	transfers	accumulated depreciation 2005	book value 31.12.2005	31.12.2004	Depreciation in the financial year 2005
I. Intangible assets								
1. Concessions,industrial property rights and similar rights and values as well as licences to such rights and values	362	1,013	0	0	195	1,180	272	105
	362	1,013	0	0	195	1,180	272	105
II. Plant, property and equipment								
1. Office buildings, factory buildings and other construction in progress	0	473	0	0	0	473	0	0
2. Technical equipment and machinery	1,930	2,620	0	715	816	4,449	1,379	415
3. Other equipment, office fixtures and furniture	221	376		15	367	245	138	134
4. Office buildings and factory buildings under construction	0	473	0	0	0	473	0	0
5. Advance payments and plants under construction	422	967	0	-730	0	659	422	0
	2,573	4,909	0	0	1,183	6,299	1,939	549
III. Financial assets								
1. Participations	33	0	0	0	0	33	33	0
	33	0	0	0	0	33	33	0
	2,968	5,922	0	0	1,378	7,512	2,244	654

Consolidated Statements of Changes in Shareholders' Equity in accordance with IFRS/IAS

in EUR (000)	Subscribed capital	Capital outstanding	Capital reserve	Retained earnings	Translation reserve	Total shareholders' equity
As of 1 January 2004	510	-10		444		944
Capital contributions		10				10
Capital stock increase using company funds	255			-255		0
Cash capital increase	535		8,640			9,175
Net income 2004				1,010		1,010
As of 31 December 2004	1,300	0	8,640	1,199	0	11,139
As of 31 December 2005	1,300	0	8,640	1,199	0	11,139
Transfer to retained earnings						0
Capital stock increase using company funds						0
Translation reserve					146	146
Net income 2005				2,195		2,195
As of 31 December 2005	1,300	0	8,640	3,394	146	13,480

Notes to the 2005 Consolidated Financial Statements of InTiCom Systems AG

1. Company Information

The company was established on 16 August 2000 and went public on 8 November 2004. InTiCom Systems are a specialist in the development, production and sale of products for the electrical and the electronics industries based on passive, analogue switching technology. Several functional requirements of new developments, such as in the areas of broadband technology for rapid data transfer (DSL) or RFID technology for use in automotive electronics, are particularly well-served by passive, analogue switching technology.

The company's registered headquarters are in Passau, and their official place of business is Spitalhofstraße 94, 94032 Passau. The company has holdings in subsidiaries in Greece, Austria, Czech Republic and Croatia.

In the financial year under review, InTiCom Systems generated Group revenues of EUR 35,034 thousand and Group net income of EUR 2,195 thousand.

2. Accounting and Valuation Methods

2.1 Basic Accounting Principles

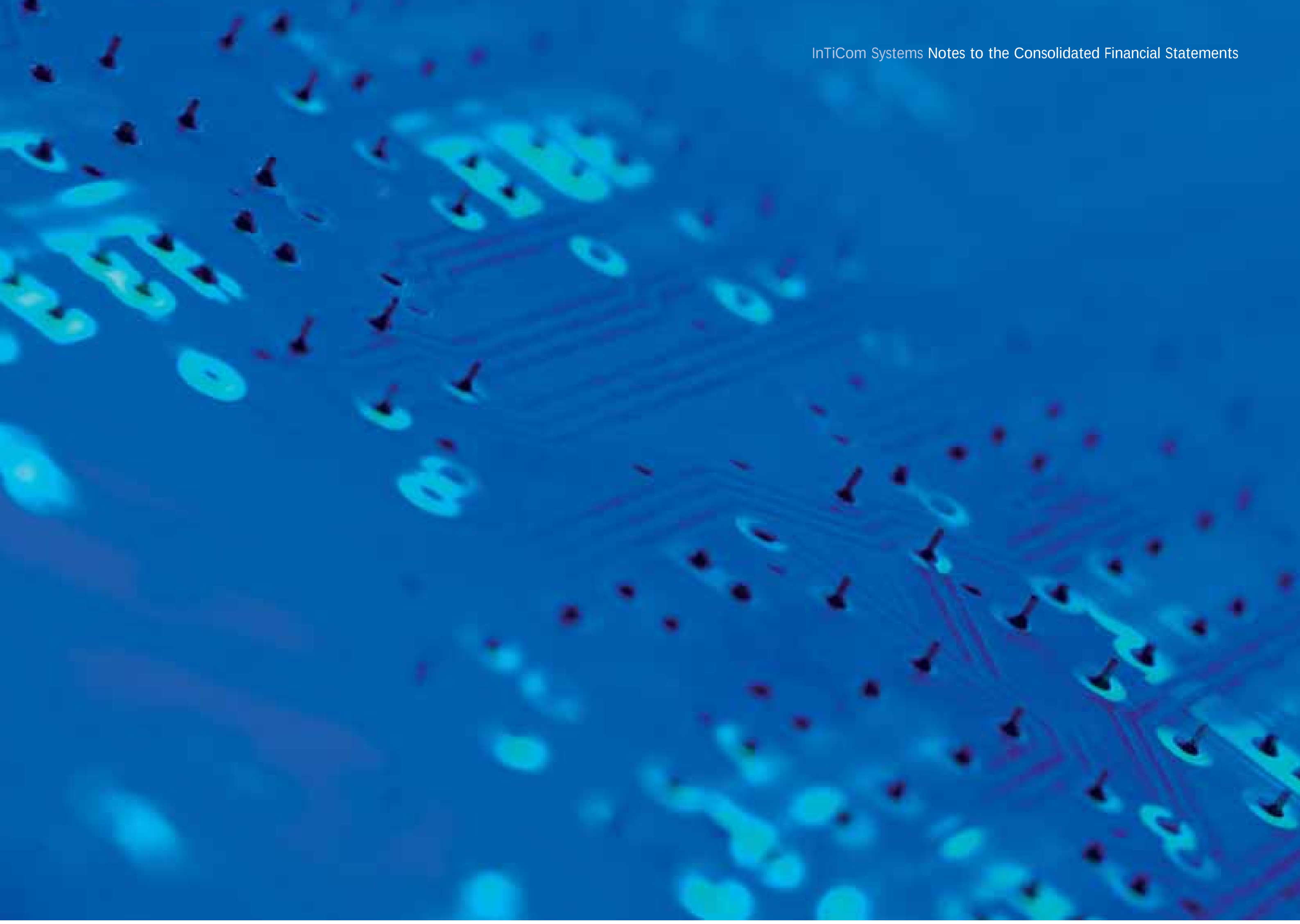
The consolidated financial statements were prepared based on the historical cost concept. This does not include securities classified under current assets (market value), which are valued at fair market value. The consolidated financial statements are denominated in euros. Unless otherwise specified, all figures have been rounded to the nearest thousand EUR (000).

Declaration of Conformity with IFRS

The consolidated financial statements of InTiCom Systems AG and their subsidiaries were prepared in accordance with International Financial Reporting Standards (IFRS), as applicable within the EU, and pursuant to the commercial accounting standards of § 315a paragraph 1 of the German Commercial Code (HGB).

Consolidation principles

The Group consolidated financial statements include the financial statements of InTiCom Systems AG and



their subsidiaries as of 31 December of the respective financial year. The financial statements of the subsidiaries have been prepared using consistent accounting and valuation principles as of the same balance sheet date, as have the financial statements of the parent company.

All intragroup balances, transactions, income, expenses, profits and losses from intragroup transactions contained in asset book values have been fully eliminated.

Subsidiaries have been fully included in the scope of consolidation as of the date of acquisition, meaning from the point in time in which the Group is able to exert a controlling influence.

Inclusion in the scope of consolidation ends as soon as the parent company ceases to maintain control over the subsidiary.

2.2 Changes in Accounting and Valuation Principles

The applied accounting and valuation principles correspond to those of the prior year. Pursuant to IAS 1, the Group balance sheet has been structured based on maturities. These were more clearly defined in the year under review. The prior year's figures have been adjusted for comparability.

The following positions have been combined or separated:

- Receivables from companies which are held as participations have been separated from other assets classified under other current receivables
- Other liabilities have been separated into in other non-current liabilities and other short-term liabilities
- Other taxes and extraordinary expenses have been combined in other operating expenses

Furthermore, in contrast to the prior year, the average number of employees relates exclusively to Group companies excluding associated companies.

2.3 Summary of Significant Accounting and Valuation Principles

Translation of foreign currencies

The consolidated financial statements

have been prepared in euro, which serves as the Group's functional and reporting currency. Each company within the Group is responsible for determining its functional currency. The items contained in the respective company's financial statements are valued using this functional currency. Foreign currency transactions are translated at the applicable spot rate between the functional currency and the foreign currency prevailing on the date of the transaction. Monetary assets and debts in foreign currencies are translated into the functional currency on the balance sheet date. All currency differences are accounted for in the period result. Non-monetary positions in a foreign currency which are valued at fair value are translated at the exchange rate prevailing at the time of the fair value calculation.

The functional currency of the Czech subsidiary is the Czech crown. The assets and liabilities of this subsidiary have been translated for the representation of InTiCom Systems AG (euro) at the closing rate on the balance sheet date. Income and expenses have been translated using the weighted-average exchange rate in the financial year under review. Translation differences arising from translation have been accounted for as a separate component of shareholders' equity. The divestment of foreign subsidiaries results in the release of the cumulative amount accrued as part of the subsidiary's shareholders' equity with effect on the income statement.

Fixed Assets

Fixed assets are accounted for at acquisition or production cost – with the exception of costs for ongoing maintenance - less cumulated scheduled depreciation and cumulated impairment costs. These costs are comprised of costs for the replacement of a portion of such assets at the time the costs are incurred, provided that the valuation criteria have been fulfilled.

The book values of fixed assets are subject to an impairment test as soon as there is an indication that the book value of the asset exceeds its recoverable amount.

Fixed assets are written-down at the time of their disposal, or when the continued use or disposal of the asset is no longer expected to provide an economic benefit. The profit or loss resulting from the write-down or write-up of the asset is calculated as the difference between the net income from the disposal and the book value and is accounted for with effect on the income statement in the period in which the write-up/write-down occurs.

The asset's residual value, useful economic life and method of depreciation are evaluated at the end of each financial year and adjusted as required.

The costs for carrying out significant maintenance are accrued as a substitution in the asset's book value, provided that the accounting criteria have been met.

Borrowing Costs

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

Intangible Assets

Individually acquired intangible assets are valued at the cost of acquisition and production cost for their first-time inclusion. Following their first-time inclusion, intangible assets are accounted for at their cost of acquisition or purchase, less cumulated amortization and all cumulated impairment expenses. Intangible assets generated internally are not capitalised, with the exception of capitalised development costs. The related costs are accounted for with effect on the income statement in the period in which they are incurred.

An initial determination is required as to whether the intangible asset's economic useful life is finite or infinite. Intangible assets with finite economic useful lives are amortised over their respective economic useful lives and are subject to impairment whenever an indication arises that the intangible asset may be impaired. The period of amortization and the amortisation method for intangible assets with finite economic useful lives are evaluated at least once, at the end of each financial year. In the event of changes in the asset's expected useful life or in the expected amortisation schedule, an alternative amortisation period or amortisation method shall be selected. Such changes are treated as a change in accounting.

Research and development costs

Development costs are recognized as an expense in the period in which they occur. An intangible asset which arises from development within the scope of a single project is only accounted for when the Group is able to demonstrate the technical feasibility of the completion of the intangible asset; furthermore, the Group must also be able to demonstrate that they intend to actually complete the intangible asset and that they intend to use it or sell it. In addition, the Group must be able to document the generation of a future, economic use from the asset, the availability of resources required to complete the asset and the ability to reliably calculate the expenses incurred in developing the intangible asset. The first-time accounting of development costs occurs using the historical cost model, which specifies that the asset shall be accounted for at historical cost less cumulated amortisation and cumulated impairment costs. Capitalised amounts are amortised over the period during which revenues from the respective project are expected to be incurred.

Capitalised development costs are subject to an annual impairment test when the asset has not yet been utilised or when indications of impairment arise in the period.

Shares in associated companies

Shares in associated companies are accounted for at-equity. An associated company is a company over which the Group maintains a controlling influence and which is not classified as a subsidiary or joint venture.

According to equity accounting, shares in associated companies are accounted for on the balance sheet at acquisition cost plus changes incurred in the Group's share of the net assets of the associated company following the acquisition. Goodwill tied to an associated company is included in the book value of the share holding and is not subject to scheduled amortisation. An at-equity valuation requires the Group to determine whether or not an additional impairment may be necessary concerning the net investment by the Group in the associated company. The income statement contains the Group's share of profits from the associated company. Changes accounted for directly in the shareholders' equity of the associated company are also accounted for directly in the Group's shareholders' equity, in the amount of the Group's share in the associated company; when applicable, such changes are also included in the statement of changes in shareholders' equity for the Group.

The balance sheet date and the accounting and valuation principles for similar transactions and events at both the associated company and the Group are consistent.

Asset impairment

At each balance sheet date, the Group determines whether indications exist that asset impairment may be necessary. In the event that such an indication exists, or whenever the asset is subject to its annual impairment test, the Group provides an estimate of the recoverable amount. An asset's recoverable amount is equivalent to the greater of the following two amounts: the current market value of an asset, or the value of a cash flow generating unit less the cost of disposal and value in use. The recoverable amount shall be determined for each asset, unless the asset fails to generate a cash flow which is largely independent of that from other assets or other groups of assets. In the event that the asset's book value exceeds its recoverable amount, the asset shall be classified as impaired and will be written-down to its recoverable amount. The calculation of the value in use involves discounting the estimated future cash flows to their present value, based on a pretax discount rate which reflects current market conditions related to the interest effect and specific risks pertaining to the asset.

At each balance sheet date, an evaluation is made as to whether or not an impairment taken in a prior period may no longer be present, or if the impairment value may have declined. In the event of such an indication, the recoverable amount shall be estimated. A previous impairment charge is reversed in the event that changes have occurred in the estimate used to determine the recoverable amount since the last impairment was made. In this case, the asset's book value is written-up to its recoverable amount. This increased book value shall not exceed the book value which would result after taking amortisation into account, in the event that no impairment charges were taken in the prior years. Such write-ups (or restatements to original value) are immediately accounted for in the period result. Following a write-up, the amortisation expense in future reporting periods is adjusted in order to systematically divide-up the restated asset's book value less any residual value over the asset's remaining useful life.

Financial investments and other financial assets

Financial assets in terms of IAS 39 are classified as financial assets, as loans and receivables, as investments held to maturity or as financial assets available-for-sale and are marked-to-market with effect on the income statement. The first-time inclusion of financial assets in the accounts occurs at current market value. The Group establishes the classification of its financial assets at the time of first-inclusion in the accounts and monitors this classification at the end of each financial year, to the extent this is permissible and appropriate.

The accounting of purchases and disposals of financial assets at market rates occurs on the trading date, which is to say, on the day that the company agrees to purchase the respective asset. Purchases or disposals of financial assets at market rates must be delivered within a conventionally-defined time period, or within a period of time defined by market regulations.

Mark-to-market valuation of financial assets with effect on the income statement

Financial assets held as trading securities are contained in the category "mark-to-market valuation of financial assets with effect on the income statement". Financial assets are classified as held for trading purposes when they are acquired with the intent of disposal in the near future.

Inventories

Inventories are carried at the lower of acquisition or historical cost and are valued at their net proceeds on disposal.

Costs incurred in order to transport inventories to their current location in their current condition were accounted for as follows:

- Raw materials: according to actual use
- Work in process and finished goods, direct material costs and personnel expenses as well as an appropriate share of factory overhead costs based on normal production capacity excluding the cost of debt

Net proceeds on disposal are equivalent to the estimated sales proceeds achievable through a normal business transaction less the estimated costs up to completion and the estimated required selling expenses.

Trade receivables and other receivables

Trade receivables, which typically have maturities of 14-30 days, are accounted for at the original invoice value less a write-down for uncollectible receivables. A write-down is taken when there is objective and substantial evidence indicating that the Group will not be in a position to collect on the receivable. Receivables are removed from the books as soon as they are determined to be uncollectible.

Cash and cash equivalents

Cash and short-term deposits on the balance sheet comprise cash, bank balances and short-term deposits with original maturities of less than three months.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the cash and short-term deposits defined above as well as the utilised overdraft facility.

Leasing agreements

The determination about whether or not an agreement constitutes or contains a leasing agreement is made based on the economic compensation of the agreement; this requires an estimate concerning whether or not the fulfilment of the contractual agreement is dependent on the use of a certain asset or assets and whether or not the agreement grants a right to use the asset.

The Group as lessee

Financing leases, in which all significant related risks and opportunities concerning the transferred asset are passed on to the Group, are capitalised at the current market value of the leasing object at the start of the lease or at the present value of the minimum lease instalments, provided this amount is less. Lease instalments are divided into financing charges and repayments of the leasing obligation, and the remaining residual value of the leasing obligation is discounted using a constant rate discount rate. Financing charges are recorded immediately with effect on the income statement.

Lease payments for operating leases are accounted for in a straight-line manner over the term of the leasing agreement and are recorded as an expense on the income statement.

Provisions

Provisions are accrued when the Group possesses a current (statutory or virtual) obligation due to a past occurrence, provided that the fulfilment of this obligation is likely to involve the outflow of resources with an economic benefit, and provided that a reliable estimate can be made concerning the obligation amount. When the Group expects at least a partial reimbursement for a provision liability (for example, in the case of an insurance contract), the reimbursement will only be booked as a separate asset when its payment is certain. The expense for accruing the provision will be reported on the income statement following the deduction of the reimbursement. In the event that the rate of interest effect is significant, provisions will be discounted using a pre-tax discount rate which, when appropriate, reflects the specific risks associated with the obligation. When such discounting occurs, the subsequent increase in the provision over time is accounted for as an interest expense.

Liabilities and short-term interest-bearing debt

Liabilities and short-term interest-bearing debt are valued at their net book value, which means they are accounted for at their repayment amount. Their release occurs in a straight-line manner or commensurate with the provision of the service.

Recognition of income

Income is recognised at the time that it becomes likely that an economic benefit will be accrued by the Group and provided that the income amount can be reliably determined. In addition, the following recognition principles apply to the recognition of income:

Disposal of goods and products

Income is recognized at the time that the primary risks and opportunities associated with the ownership of the sold goods and products have been transferred to the buyer.

Interest income

Income is recognised when interest is accrued.

Dividends

Income is recognised when the legal right of payment accrues to the Group.

Taxes

Actual tax refund claims and tax obligations

The actual tax refund claims and tax obligations for the current period and for earlier periods is valued at the refunded amount expected at the time of payment by or to the tax authorities, respectively. The calculation of this amount is based on tax rates and legal provisions applicable on the balance sheet date or which are scheduled to come into force in the near future.

Deferred taxes

The accrual of deferred taxes occurs on the balance sheet date in accordance with the balance sheet liability method for all existing temporary differences between the stated value of an asset or liability on the balance sheet and the stated tax value.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, for all unused tax-loss carryforwards and for all unused tax credits, based on the likely amount of future taxable income against which the deductible temporary differences, unused tax-loss carryforwards and tax credits can be applied.

The book value of deferred tax assets is monitored at each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable earnings will be available against which the deferred tax asset can be at least partially applied. Unrecognized deferred tax assets are monitored on each balance sheet date and are recognised to the extent that it is likely that sufficient taxable earnings will enable the realisation of the deferred tax asset.

Deferred tax assets and liabilities are subject to valid tax rates applicable for the expected period in which an asset is to be realised or a liability is to be repaid. This is done according to the tax rates (and tax regulations) prevailing, or which are expected to prevail, as of the balance sheet date.

Income taxes related to items directly recognized in shareholders' equity are accounted for under shareholders' equity and not on the income statement.

Deferred tax assets and liabilities are offset against each other, provided that the Group has an enforceable claim for the credit of actual tax refund claims against tax liabilities and that these are based on income taxes of the same tax object from the same tax authority.

Purchase tax

Revenues, expenses and assets are recognised following the deduction of purchase taxes. Exceptions include:

- In the event that purchase taxes incurred when purchasing goods or services cannot be claimed by the tax authorities, the purchase tax is recognized as a component of the asset's cost of production or as a portion of expenses; and
- Receivables and payables are recognised at a value including the relevant purchase tax amount.

The purchase tax amount refunded by or paid to the tax authorities is recognised under receivables and payables on the balance sheet.

3. Segment reporting

The Group is accounted for as a single-segment company. At present, the Group is only active in one segment. The number of business segments can increase when the company introduces new products or services.

4. Changes at the Group

As of the balance sheet date, two additional foreign subsidiaries were included in the consolidated financial statements. These companies refer to newly established entities with a shareholding of 100%.

The subsidiaries and the associated company are listed below:

Subsidiaries and associated companies

Company name and location	Stake in %	Equity in EUR (000)	Net income in EUR (000)
InTiCom Components GmbH, Thessaloniki	100	543	164
InTiCom Systems Ges.m.b.H., Neufelden	100	21	-79
InTiCom Components Tschechien s.r.o.	100	5,238	-14
ITS Components GmbH, Varazdin*	49	66	23

* Data is from 2004, as 2005 figures were not available at the time of the preparation of the 2005 consolidated financial statements

5. Other income and expenses

5.1 Other income

in EUR (000)	2005	2004
Currency gains	248	0
Other operating income	82	146
	330	146

5.2 Other expenses

in EUR (000)	2005	2004
Expenses for office space	154	123
Insurance, contributions, payments	74	18
Repair and maintenance	24	8
Vehicle costs	147	155
Advertising expenses, travel expenses	189	131
Costs of goods delivery	216	84
Other operating costs	649	395
	1,453	914

6. Taxes on income

The main components of the income tax expense for the 2004 and 2005 financial years are as follows:

Taxes on income

in EUR (000)	2005	2004
Actual taxes on income	1,006	-35
Actual taxes on income in the prior year	5	105
Deferred taxes on income Creation and reversal of temporary differences	378	112
	1,389	182

The income tax rate is determined by the company's individual relationships to its subsidiaries. The calculation of an expected weighted-average tax rate is based on the tax rates valid from 1 January 2005. The reconciliation between the income tax expense and the product of the pre-tax result on the income statement and the applicable tax rate for the Group for the 2004 and 2005 financial years is shown below:

Taxes on income

in EUR (000)	2005	2004
Earnings before taxes	3,584	1,193
Theoretical tax expense of 38.89%	1,394	464
Other tax effects	-5	-282
Actual taxes on income	1,389	182

Deferred taxes on income

Deferred taxes on income as of the balance sheet date are comprised of the following:

Deferred taxes on income

in EUR (000)	Consolidated balance sheet 2005	2004	Consolidated P&L 2005	2004
Deferred income tax liabilities from the capitalisation of non-current assets	680	278	402	115
Mark-to-market valuation of available-for-sale financial assets	96	0	96	0
	776	278		
Deferred tax assets from IPO	289	289	0	0
Capital consolidation	3	3	0	-3
Tax-loss carryforwards	31	0	-31	0
from consolidated intragroup profits	89	0	-89	0
	412	292		
Deferred taxes			378	112

7. Earnings per share

The calculation of undiluted earnings per share involves dividing the earnings attributable to each common share of the parent company by the weighted-average number of common shares traded during the year.

Undiluted earnings per share are as follows:

Earnings per share

in EUR (000)	2005	2004
Net income	2,195	1,010
Daily weighted-average of shares outstanding (in 1000's of shares)	1,300	729
Earnings per share (EUR)	1.69	1.39

There were no transactions involving common shares or potential common shares in the period of time between the balance sheet date and the preparation of the annual consolidated financial statements.

8. Shares in associated companies

The Group holds a 49% stake in ITS Components GmbH, Varazdin (Croatia). The company produces, sells and provides services in the area of electronic parts and assembly. In addition to the Group's internal production, a share of production is covered by outsourcing. In the course of this outsourcing, ITS Components GmbH are in direct competition with other suppliers of InTiCom Systems AG. Aside from this, the Group does not have any additional interests in the participation. The classification of the participation as an associated company is based solely on the possibility of exerting a controlling influence as a result of the shareholding. The Group is unable and the possibility does not exist for it to specify the financial and corporate policy at ITS Components GmbH, either based on its own interests or on common interests in conjunction with other parties. The majority of the remaining shares are held by a company independent of the Group. The company is not listed on the stock exchange. There were no intercompany profits to eliminate. The following table contains consolidated financial information on the Group's stake in ITS Components GmbH. At the time the consolidated financial statements were prepared, figures were only available for the 2004 financial year.

Group participation in ITS Components GmbH

in EUR (000)

	2004	2003
Share of the associated company's balance sheet		
Current assets	417	413
Non-current assets	119	83
Current liabilities	-298	-295
Non-current liabilities	-205	-179
Share of net assets	33	22
Share of the associated company's income and earnings		
Income	923	514
Net profit	12	11
Book value of participation	33	22

9. Financial securities classified under current assets

On the balance sheet date, the Group held the following available-for-sale securities:

Financial securities classified under current assets

in EUR (000)

	Market value at acquisition	Unrealised gains	Market value at end of period
Shares	352	57	409
Fixed-interest securities	3,548	5	3,553
Investment funds	5,013	181	5,194
	8,913	243	9,156

In 2005, a profit in the amount of EUR 4 thousand (2004: EUR 0 thousand) was realised. With regard to the realisation of profits, these securities are subject to prevailing market risks.

10. Inventories

Inventories

in EUR (000)

	2005	2004
Raw materials and factory supplies (valued at acquisition cost)	159	329
Unfinished goods and services (valued at production cost)	46	0
Finished goods and services (valued at net disposal value)	425	1,008
Total inventories (valued at lower of acquisition/production cost and net disposal value)	630	1,337

The valuation of inventories did not include any impairment write-downs (2004: EUR 0 thousand).

11. Trade receivables and other short-term receivables

Trade receivables do not accrue interest and no impairments for uncollectible receivables were recognised in the year under review (2004: EUR 0 thousand).

Other current receivables

in EUR (000)	2005	2004
Accruals and deferrals	1	0
Turnover tax	917	0
Receivables from associated companies	1,330	90
Other current receivables	64	71
	2,312	161

12. Cash and cash equivalents

Cash and cash equivalents

in EUR (000)	2005	2004
Bank balances	1,535	10,331
Cash on hand	11	4
	1,546	10,335

Bank balances for deposits which can be withdrawn daily accrue interest at a variable rate. The current market value of cash and cash equivalents amounted to EUR 1,546,145.67 (2004: EUR 10,334,761.06).

On the balance sheet date, the Group maintained unused credit facilities in the amount of EUR 2,265 thousand (2004: EUR 1,525 thousand), which already meet the necessary requirements for utilisation. The effective interest rates are between 5.0 – 7.3% (2004: 4.8 – 7.3 %).

For the purposes of the consolidated cash flow statement, the position of cash and cash equivalents on the balance sheet date was comprised of the following:

in EUR (000)	2005	2004
Bank balances and cash on hand	1,546	10,335
Overdraft facilities	-17	0
	1,529	10,335

Within the scope of the company's short-term financial planning, financial securities amounting to EUR 9,156 thousand were acquired. As a result, liquid funds were reclassified to the "securities" position on the balance sheet.

13. Subscribed capital and retained earnings

The Group's share capital amounted to EUR 1,300 thousand as of the balance sheet date. It is divided into 1,300,000 bearer shares with full dividend privileges. The company did not withhold any of the shares on issue. With a resolution from the Annual Shareholders' Meeting on 6 September 2004, the Board of Management was empowered, with Supervisory Board permission, to increase the capital stock one or more times until 6 June 2009 for cash and / or capital subscribed in kind up to an amount of EUR 600,000.00; as such, shareholders' subscription rights are exempted (approved capital 2004/I).

Other retained earnings contain the following positions:

in EUR (000)	2005	2004
Retained earnings	1,199	189
Net income	2,195	1,010
	3,394	1,199
Translation reserve	146	0
	3,540	1,199

Foreign currency differences

The translation reserves are utilised for the recognition of differences due to the translation of the annual accounts of foreign subsidiaries.

14. Other long-term liabilities

Other long-term liabilities exclusively contain liabilities from financing leases. The effective rate of interest amounted to 4.2% with a term to maturity through 2009.

15. Short-term debt

Provisions and tax liabilities

in EUR (000)	2004	Utilised	Released	Additions	2005
Invoices outstanding	69	69	0	62	62
Personnel expenses	27	27	0	52	52
Other	3	3	0	22	22
Provisions	99	99	0	136	136
Income tax liabilities	204	102	0	943	1,045

Current interest-bearing debt

	Effective interest rate in %	Maturity	2005 in EUR (000)	2004 in EUR (000)
Overdraft facilities	5.0 – 7.3	on demand	17	10
Short-term bank loans	3.0	1 - 4 months	2,000	0
			2,017	10

The overdraft facilities are subject to variable interest rates over the course of the year, whereas short-term loans from banks are characterized by fixed interest rates valid to maturity.

Other current liabilities

in EUR (000)	2005	2004
Accruals and deferrals	10	0
Turnover tax	853	333
Other current liabilities	246	86
	1,109	419

Other short-term liabilities and trade payables do not accrue interest and typically have terms of 10 to 60 days.

16. Obligations from rental and lease contracts and financial obligations

Obligations from operating leases and rental contracts

The Group has concluded leasing or rental contracts for various vehicles, technical equipment and business premises. The agreements have an average term of 3 to 5 years and typically do not contain an extension option. The lessee is not subject to any obligations when concluding these types of leasing agreements. As of the balance sheet date, the following future minimum payment obligations existed due to non-terminable agreements:

Minimum payment obligations

in EUR (000)	of which rents	of which leasing
2006	137	82
2007	0	45
2008	0	13
2009	0	0
	137	140

Obligations from financing leases

The Group has concluded financing leases for technical equipment. The agreements contain a call option or are subject to full amortisation. The future minimum leasing instalments from financing leases can be reconciled with their present value as follows:

in EUR (000)	Minimum lease instalments	Current value of minimum lease instalments
2006	871	748
2007	790	700
2008	790	730
2009	724	697
Minimum lease instalment	3,175	
Less deduction of interest expense due to discounting	-300	
	2,875	2,875

17. Major shareholders and affiliated persons and companies

The following list contains the major shareholders as of the balance sheet date:

Major shareholders

Name	Shareholding in %
KST Beteiligungs AG, Stuttgart	over 5
Otto Mayerhofer	over 5

Shareholdings by Board of Directors*

Name	Number of shares
Dr. Paul und Maria Grohs	51,700
Karl Kindl	50,088
Dieter Schopf	43,600
Harald Nöth	1,162
Dr. Wulfdieter Braun	4,005

*incl. immediate family

Persons and companies affiliated with the Group include members of the Board of Management and the Supervisory Board as well as the consolidated subsidiaries. The business relationships with affiliated persons and companies are determined according to market terms. Transactions with affiliated companies which are valued at-equity in the Group's accounts, primarily result from of the exchange of trade receivables. The transactions occur solely through tender offers and are concluded at market terms.

InTiCom Systems AG have received IT hardware and other services from and paid compensation to DES Data Empire Systems AG for their role as a provider of IT systems support. The acquired goods and services amounted to EUR 130 thousand in the year under review.

18. Financial risk management

The main financial instruments used by the Group include bank loans and credit facilities, financing leases and cash and short-term deposits. The primary purpose of these financing instruments is the financing of the Group's business activities. The Group also maintains various additional financial assets and liabilities, such as trade receivables and payables, which arise as a direct result of its business activities.

The Group has maintained and continues to maintain a policy of refraining from the trading of financial instruments. The Group is engaged in certain activities internationally, which subject it to market risks from exchange rate fluctuations. At present, the Group does not anticipate that these risks could have a material influence on its earnings situation and financial position. Hedging against currency risk did not take place in the year under review due to the limited scope of such risk.
The Group's raw materials price risk is negligible.

The Group aims to maintain a sufficient level of cash and cash equivalents or corresponding irrevocable lines of credit in order to provide for the sustainable fulfilment of its obligations.

Default risks can be eliminated because the Group conducts its transactions exclusively with recognised, creditworthy third parties. New customers are subjected to a credit rating. In addition, the level of receivables is continuously monitored with the consequence that there is no significant default risk at the cut-off date.

19. Supplementary information

Board of Management

Maria Grohs
Materials management and control, marketing and sales

Dr. Paul Grohs
Development and Production

Dieter Schopf
Finances, Administration and Personnel

Otto Mayerhofer
Investor Relations, Personnel management, Legal, Risk management and Taxes
resigned effective from 30 June 2006

Total remuneration of the Board of Management amounted to EUR 645 thousand in the year under review.

Supervisory Board

Karl Kindl
Chairman of the Supervisory Board, Passau
Entrepreneur, Member of the Supervisory Board of DES Data Empire Systems AG, Munich

Dr. Wulfdieter Braun,
Vice-Chairman of the Supervisory Board, Passau, Management consultant

Harald Nöth
Munich;Vorstand der DES Data Empire Systems AG, Munich

The remuneration of the Supervisory Board in 2005 amounted to EUR 1 thousand (2004: EUR 1 thousand) each for a total of EUR 3 thousand (2004: EUR 3 thousand).

Remuneration of the Independent Auditor

The following professional fees have been recognised in the financial year under review in the scope of the independent auditor services for the consolidated financial statements, provided by Nirschl, Grössl & Koll. GmbH Wirtschaftsprüfungsgesellschaft, Eging am See:

Remuneration of the Independent Auditor

in EUR (000)	2005
Audit	19
Tax consultancy and other consulting services	14
	33

The auditor's fees include in particular the audit of the consolidated financial statements as well as the audit of the parent company. Fees for tax consultancy and other consulting services pertain to project-related requests regarding income tax law, tax legislation relating to non-residents and turnover tax law, as well as participation in tax audits.

Personnel

In the year under review, the company employed an average of 89 staff (2004: 50).

Disclosure

The annual financial statements, the consolidation financial statements in accordance with § 315a HGB as well as the consolidated management report and Group management report for InTiCom Systems AG for the 2005 financial year are published in the Federal Gazette and deposited at the Court for the Register of Business Names in Passau.

Corporate Governance Code

The Board of Management and Supervisory Board of InTiCom Systems AG hereby declare the extent to which the company has complied with and will continue to comply with the recommendations of the “German Commission for the Corporate Governance Code”, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette.

The declaration of compliance is permanently available to the shareholders at the company’s website, www.inticom-systems.de, where it can be found as a part of the annual report published on that site.

Passau, 2 March 2006

Board of Management

Independent Auditor's Report

"We have audited the consolidated financial statements prepared by InTiCom Systems AG, comprising the income statement, balance sheet, statements of changes in shareholders' equity and cash flows and the notes to the consolidated financial statements, together with the consolidated group management report, for the business year from 1 January 2005 to 31 December 2005. The preparation of the consolidated financial statements in accordance with the IFRS, as adopted by the E.U., and the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB (German Commercial Code) 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 German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and in supplementary compliance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and earnings situation in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report can be assessed 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 E.U., the additional requirements of German commercial law pursuant to § 315a para. 1 HGB and give a true and fair view of the net assets, financial position and earnings situation of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Eging am See, 3 March 2006

Nirschl, Grössl & Koll. GmbH
Wirtschaftsprüfungsgesellschaft

G. Nirschl
Wirtschaftsprüfer

Report of the Supervisory Board for the 2005 Financial Year

The Supervisory Board of InTiCom Systems AG consists of three members and has therefore refrained from the formation of committees.

The Board of Management comprehensively informed the Supervisory Board during a total of four meetings about the company's economic situation, significant business transactions and about the company's corporate planning.

At the Supervisory Board meeting on 18 March 2005, the 2004 annual accounts were approved and the resolutions for the proposals at the annual general meeting were voted on 12 May 2005.

At the following Supervisory Board meetings on 13 May, 19 August and 25 November 2005, the Supervisory Board discussed the business development and interim results of the preceding quarters with the Board of Management.

Between meetings, the Supervisory Board chairman maintained regular contact with the Board of Management and was consulted on the company's strategy, business development and risk management; furthermore, the Supervisory Board chairman was informed of material events important for the determination of the company's situation and development for its management.

Among the material events in the 2005 financial year, the following are particularly noteworthy:

- At the beginning of March 2005, the Board of Management and the Supervisory Board took note of and signed an insider regulation which recorded all knowledgeable parties within InTiCom Systems in a corresponding insider catalogue.

- On 20 April 2005, the Supervisory Board chairman was authorised to renegotiate the contracts of service for the Board of Management. Against this background, Mr Dieter Schopf was reappointed for the period from 1 February 2006 to 31 December 2011; Ms Maria Grohs and Dr Paul Grohs were each reappointed from 1 July 2006 to 30 June 2011, and an employment termination contract effective from 30 June 2005 was signed with the Board of Management member, Mr Otto Mayerhofer. The Supervisory Board thanked Mr Mayerhofer for his personal dedication and effort in establishing InTiCom Systems, for which he was a co-founder.
- On 26 April, the Board of Management was authorised to establish InTiCom Systems Ges.m.b.H. Austria in Neufelden as an additional development and technology centre for the Group.
- On 27 June, the Board of Management was authorised to establish InTiCom Components Tschechien GmbH in Prachatice (CR). The subsidiary serves to expand capacity in the automotive segment and has built an on-site manufacturing plant with an administrative apparatus.
- In its meeting on 28 November, the Supervisory Board approved the resolution to include the increase in the Supervisory Board's bonus on the agenda at the AGM on 18 May 2006. The resolution proposes the following increase in the Supervisory Board members' bonuses from the current level of EUR 1,000 per annum for each member: The Supervisory Board chairman shall receive a fixed yearly remuneration of EUR 5,000, the vice-chairman of the Supervisory Board shall receive EUR 4,000 and each additional member shall receive EUR 3,000. In addition, the per-meeting remuneration shall amount to EUR 500 per meeting and member.

The auditors, Nirschl, Grössl & Koll GmbH, Eging, have audited the annual financial statements in accordance with HGB for the financial year from 1 January 2005 to 31 December 2005 and the consolidated financial statements in accordance with IFRS/IAS for the same financial year and have issued an unqualified audit opinion.

The results of the audit of the financial statements and the issuance of the audit opinion by the independent auditors were approved by the Supervisory Board, which also noted and endorsed the auditor's findings regarding the annual financial statements and the consolidated financial statements.

The annual accounts and the management report in accordance with HGB for the 2005 financial year were also examined by the Supervisory Board. No objections were stated following the conclusion of this examination.

The Supervisory Board approved the 2005 annual accounts in the meeting on 20 March 2006. The annual accounts have thus been duly approved.

The Supervisory Board has examined the consolidated financial statements and Group management report in accordance with IFRS/IAS for the 2005 financial year. No objections were stated in this regard, following the conclusion of the examination. The consolidated financial statements and Group management report were also approved by the Supervisory Board at its meeting on 20 March 2006.

Passau, 21 March 2006

Karl Kindl
Supervisory Board Chairman

Technical Glossary

ADSL
Asymmetric Digital Subscriber Line; broadband technology based on conventional telephone lines which allows for faster transfer speeds when downloading than when uploading.

A-samples
Laboratory prototypes, not ready for series production.

Analogue switching technology
Targeted bundling of various electrical components (such as coils, condensers, resistances, etc.) into one complete electrical system with defined electrical and physical properties, in which signals are periodic.

Antennas (Aerials)
Antennas in the context of RFID engineering include both transmitters and receivers on the basis of windings (inductive components or coils).

Bit
The smallest digital unit of information or the smallest computer storage unit. It assumes a value of zero or one.

B-samples
A near production-ready prototype up for approval for series production.

CO
Central office; network distribution sites belonging to telecommunications companies.

Coils
See inductive components.

CPE
Customer Premises Equipment is the DSL subscriber component group (splitters for DSL Internet users).

Download
Download refers to the transfer of all types of files from the Internet to a computer.

DSL
Digital Subscriber Line; broadband technology (faster exchange of data over the Internet) based on standard telephone lines; with download transfer speeds of 768 kbps and more, DSL is considerably faster than an analogue modem and ISDN (with one telephone line). The upload transfer speed of 128 kbps is as high as the use of both ISDN lines at the same time.

Filters
Electronic components for separating different signal sources.

Inductive Components
Inductive components typically consist of a ferrite core, plastic winding supports and copper wire for data transfer, filtering and transmission or reception of electrical signals. They can also function without external energy sources.

Inductivity
A physical unit of measurement to characterise an inductive component.

Internet
The name is derived from "interconnecting network", i.e. a network which links up individual networks. The Internet now comprises an immense number of regional and local networks all spanning the globe, which together make up "the network of all networks". The Internet employs a uniform address schema and TCP/IP protocols for the transfer of data. This global, digital network primarily links up the main computers in research centres but is being used increasingly to connect a growing number of companies and individuals.

ISDN
Integrated Services Digital Network. ISDN uses existing telephone lines and transfers data digitally instead of using prior analogue technology. By bundling channels, speeds of 128 kbps can be achieved.

Kbps
Kilobit per second is a unit of data transfer rate or refers to the speed of data transmission.

Keyless entry
A new method of locking and unlocking vehicles; instead of a key, a chip card is used to exchange signals with the car. The car opens automatically as soon as the car is approached or the door handle is touched. The car is started by pressing a pushbutton or starter button.

MDF technology
Main Distribution Frame (MDF) technology; network crosspoints belonging to the telecommunications companies for subscriber connections.

POTS
Plain Old Telephone Systems – the classic analogue telephone system.

Powerline
Powerline technology permits the transfer of data via the Internet through the public electricity network.

Power steering
Electronically-supported steering system in the vehicle.

Remote keyless entry
See keyless entry.

RFID
Radio Frequency Identification; wireless transmission system for object identification.

Splitter
Electronic components which bundle or separate voice and data signals.

VDSL
Very High Data Rate Digital Subscriber Line; see U-ADSL.

U-ADSL
Universal Asymmetric Digital Subscriber Line; VDSL and U-ADSL are enhancements of the current DSL system with the goal of achieving higher data transfer rates – both systems are currently in the development stage.

Upload
Upload refers to data which is transferred from a personal computer to the Internet.

Financial calendar

25 April 2006	Annual press conference in Frankfurt / Main
25 April 2006	Analysts meeting in Frankfurt / Main
18 May 2006	Annual General Meeting in Passau
30 May 2006	Publication of Q1 results
30 August 2006	Publication of Q2/H1 results
30 November 2006	Publication of Q3/9m results

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Zukunft durch Innovation

InTiCom Systems