stratec® biomedical systems

ANNUAL REPORT 2005

Group Profile

- The STRATEC Group focuses on the development and production of integrated automation solutions for global diagnostics players. In the 2005 financial year, STRATEC had an average of 191 employees and generated sales of Euro 47.3 million and consolidated net income of Euro 4.4 million. Its earnings per share amounted to Euro 1.30.

  Since 2000, sales at STRATEC have increased by an average of more than 33% per financial year, while its consolidated net income rose by an average of 85% per year over the same period.

  The Group consists of the publicly listed parent company, STRATEC Biomedical Systems AG, Birkenfeld, Germany, and three subsidiaries: STRATEC NewGen GmbH, which is based in Birkenfeld, Germany, and has laboratory operations in Frankfurt am Main, Germany, Robion AG, Neuhausen am Rheinfall, Switzerland, and since March 2006 Sanguin, based in Barton under Needwood, UK, and Hamden, CT, USA.

- STRATEC Biomedical Systems AG designs and manufactures fully automated analyzer systems for its partners in the fields of clinical diagnostics and biotechnology. These partners market such systems, in general together with their own reagents, to laboratories and research institutes around the world. STRATEC develops its products on the basis of its own patented technologies.

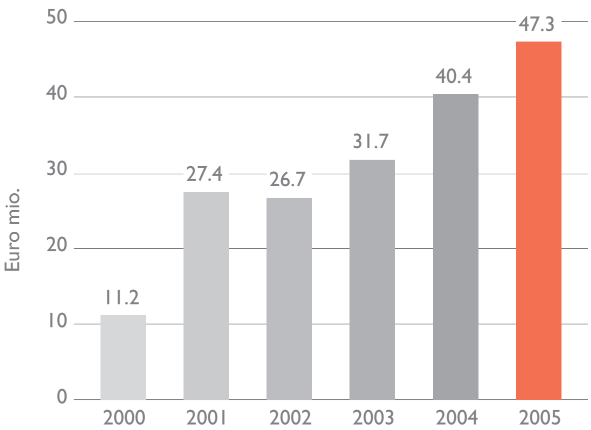
- STRATEC NewGen GmbH holds the exclusive global rights to a patented technology for the stabilization and purification of RNA and DNA from viruses. Within the rapidly developing market for molecular diagnostics, STRATEC NewGen is focusing on the enhancement of this technology for the stabilization of nucleic acids in sample material (such as blood samples). This underlines the competence of the STRATEC Group in the instrumentation of molecular diagnostic methods.

- Robion AG manufactures complex analyzer systems in a laboratory environment for clinical diagnostics applications and is thus helping to expand existing capacities at its parent company in Germany.

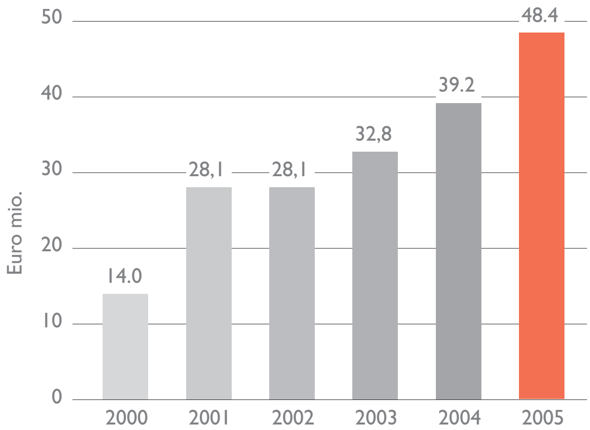
- Sanguin provides FDA-approved software solutions which can be deployed in networks by diagnostics companies around the world, especially in the area of blood bank applications. This Anglo-American company, which was acquired in March 2006, thus ideally complements the Group's product portfolio.

Overview of Key Figures for 2000 to 2005 (IFRS)

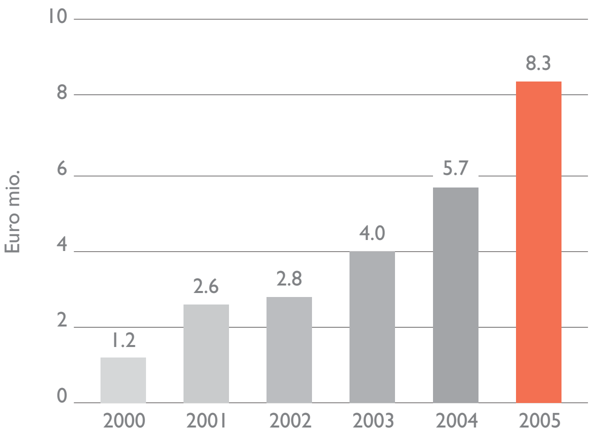
Sales



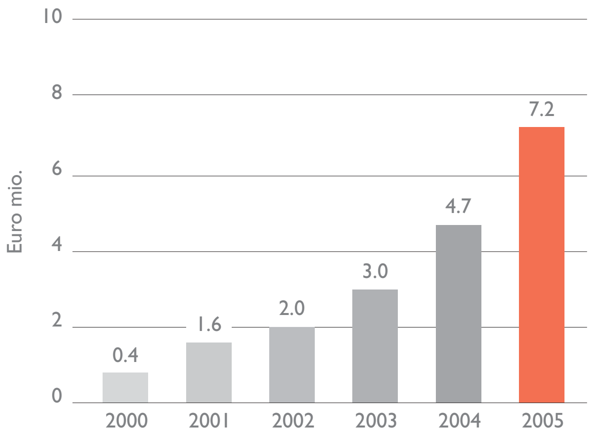
Overall performance



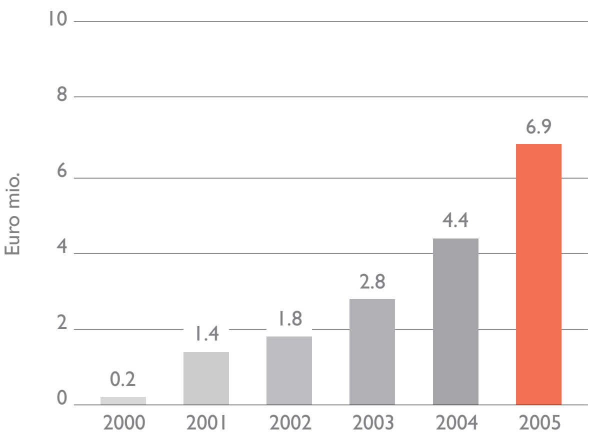
EBITDA



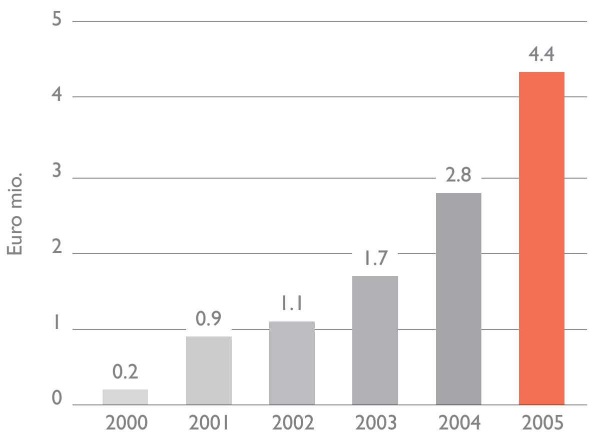
EBIT



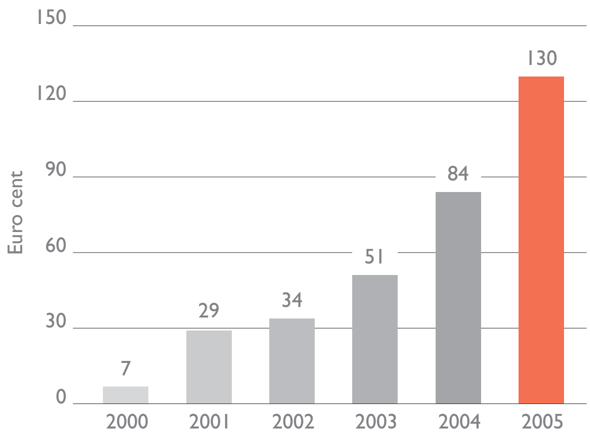
EBT



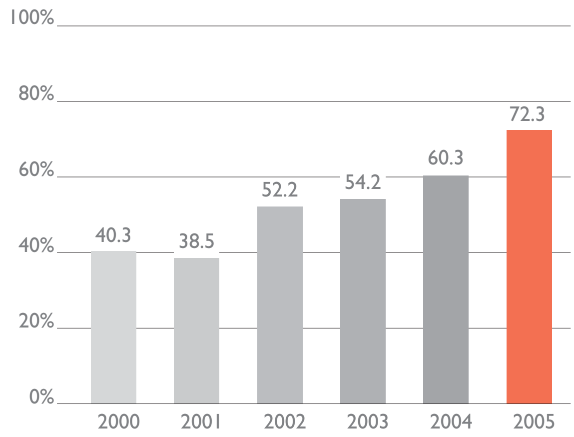
Consolidated net income



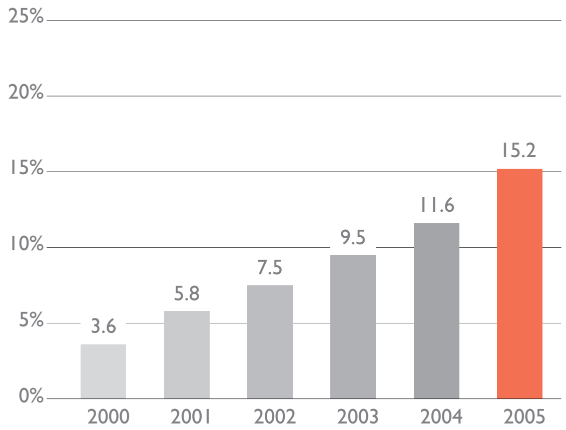
Earnings per share



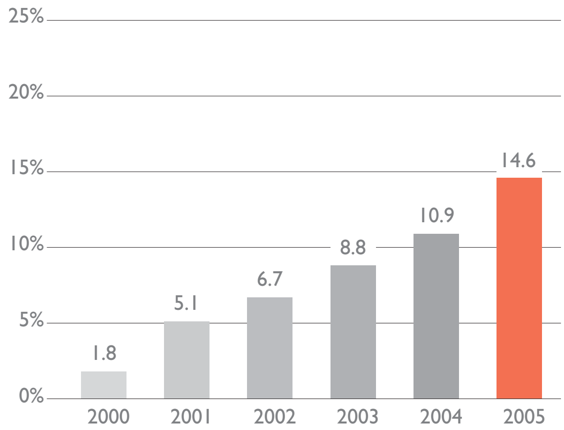
Equity ratio



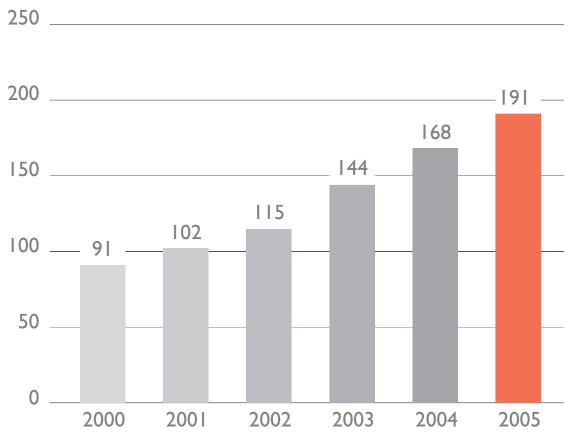
EBIT margin



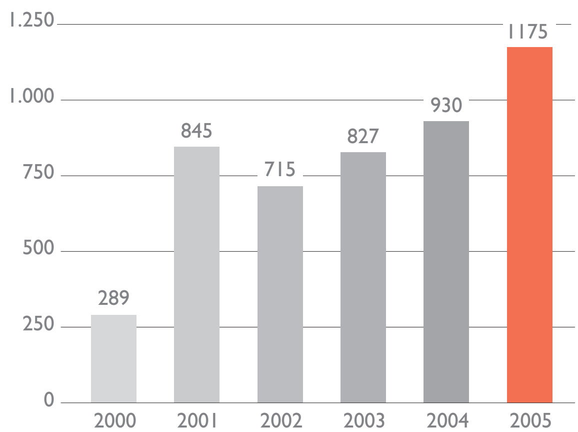
EBT margin



Employees (annual average)



No. of analyzer systems delivered



Dear Shareholders,

You have just started to read the first set of consolidated financial statements compiled in the 27-year history of STRATEC Biomedical Systems AG. This alone should indicate to you that STRATEC maintained its positive course of business once again in 2005.

The 2005 financial year was entirely devoted to our further expansion. We achieved significant progress in our development projects. Some of our customers were granted approval for important sales markets for analyzer system families developed by our company. By considerably increasing the production quantities of our analyzer system families, we succeeded in raising our sales by 17% to Euro 47.3 million. The degression effects seen in our development personnel expenses in particular, coupled with benefits of scale, enabled us to increase our consolidated net income by 57% to Euro 4.4 million.

In view of the rapid growth of our company, we extended our production and logistics capacities once again during the 2005 financial year. Following the completion of our extension in 2003, we commenced work in May 2005 already on the construction of a further production building at our main Birkenfeld location. Since its completion in December 2005, we now have 9,000 m² available for the design, development and production of fully automated analyzer systems.

In order to expand our production capacities, we founded the company Robion AG in Neuhausen am Rheinfall, Switzerland, in February 2005. An assembly line for the production of an analyzer system family has been established there. Serial production began in November 2005, once our customer had approved the analyzer system family we had developed on its behalf for worldwide sale.

Major developments were also seen in 2005 in the other analyzer systems which we design and manufacture for further large diagnostics companies. The „Procleix® Optiva™ RAS“ nucleic acid diagnostics module developed for Chiron Corporation was launched onto the European market at the beginning of 2005 by means of a declaration of conformity with the IVD Directive. Shortly afterwards, Chiron received FDA approval for this system for the North American market.

The fully automated blood analyzer system TANGO®, which we manufacture on behalf of Biotest AG, was already granted approval by the FDA in March 2005 for sale in the USA. In July 2005, Biotest was granted approval for the test reagents for this system. The marketing of the TANGO® system in the USA was initiated at the end of 2005 by „Olympus America Inc.“, a partner of Biotest.

In August 2005, we concluded a major agreement, particularly in terms of our reputation, with DiaSorin S.p.A. concerning an extension of our cooperation in the field of luminescence immunoassay technology. This is already the third generation of immunoassay systems developed by STRATEC for this customer since 1990. Moreover, the agreement also provides for an extension of the existing supply agreement for „LIAISON“, currently our most successful analyzer system family in terms of sales.

We executed a capital increase on September 27, 2005. Within just a few hours, we succeeded in placing a total of 329,989 shares at a favorable price with institutional investors from Germany and abroad in the context of a private placement. The demand from international investors was particularly strong. This private placement generated gross proceeds of around Euro 12.2 million, which will be channeled into the further expansion of the STRATEC Group.

In addition to our activities on behalf of the diagnostics industry, we also focused on the automation of research functions for the first time in the 2005 financial year. With this in mind, we developed the „Robion“ protected trademark. The prototypes developed under this brand were presented for the first time at a laboratory automation fair held in the USA at the beginning of 2005. We succeeded in signing our first sales cooperation agreement for these systems one year later already. CyBio AG will draw on its established international sales network to market the systems around the world under its own name. In view of this development, in January 2006 we raised our existing shareholding in our new sales partner, CyBio, to 11%.

In March 2006, STRATEC took over the software company Sanguin. We see the Anglo-American company Sanguin, whose FDA-approved software solutions can be used by diagnostics companies around the world, especially in the field of blood bank applications, as ideally complementing our product portfolio.

In view of the superb earnings performance of our company in the 2005 financial year, the Supervisory Board has endorsed the proposal which we intend to make to the Annual General Meeting on June 23, 2006 that the distribution to shareholders should be increased by 50%. A dividend of Euro 0.30 is to be paid per STRATEC share with dividend entitlement. We would be very pleased to welcome you to our Annual General Meeting.

We would like to thank all of our employees for their commitment and their reliability. It is their achievement that STRATEC once again broke all records during the 2005 financial year, enabling the value of the company to be increased by more than 190% to Euro 163.6 million as of the reporting date.

Birkenfeld, April 2006

The Board of Management of
STRATEC Biomedical Systems AG

Hermann Leistner

Bernd M. Steidle

Marcus Wolfinger

Report of the Supervisory Board

During the year under report, the Supervisory Board performed its duties in accordance with the law, the articles of incorporation, its code of procedure and the German Corporate Governance Code. It advised the Board of Management on a regular basis and monitored the management of the company.

At the six meetings of the Supervisory Board held in the 2005 financial year, all of which were attended by all of its members, the Supervisory Board discussed the economic situation and strategic development of the company in great detail. Moreover, numerous specific topics were also included in the agenda, and were deliberated and discussed with the Board of Management. The Board of Management provided the Supervisory Board with regular, prompt and comprehensive oral and written information concerning all major topics.

The individual members of the Supervisory Board, and in particular the Chairman, were also available to take part in various individual meetings with the Board of Management outside the framework of the meetings of the Supervisory Board.

The risk handbook, reports on the sales and earnings performance of the company, as well as on its financial situation and the status of the respective development projects, formed a regular component of all meetings of the Supervisory Board, with the exception of the strategy meeting held in November.

The deliberations at the meeting in March focused on the discussion and approval of the results of the audit of the annual financial statements for 2004, the setting of the distribution to shareholders for the 2004 financial year, the details of the Annual General Meeting and the foundation of the Robion AG subsidiary. The October meeting focused on the status of the new building project at the main Birkenfeld location and on the results of the capital increase. The Supervisory Board meeting held in November was entirely dedicated to strategy discussions, with in-depth deliberations concerning the future structure of the company in particular. At its December meeting, the Supervisory Board addressed, among other issues, a whole series of corporate governance matters and in this context also reviewed the effectiveness of its own activities. As a result of this meeting of the Supervisory Board, the Statement of Compliance with the German Corporate Governance Code in its version dated June 2, 2005 was adopted on December 16, 2005 pursuant to Section 161 of the German Stock Corporation Act (AktG) and made permanently accessible to shareholders at the company's internet site.

The annual financial statements of STRATEC Biomedical Systems AG as of December 31, 2005 compiled by the Board of Management, the management report of the company for the 2005 financial year, the consolidated financial statements as of December 31, 2005 and the group management report for the 2005 financial year were provided to the Supervisory Board for its examination.

Moreover, the proposal of the Board of Management with regard to the appropriation of the profits of STRATEC Biomedical Systems AG was also provided to the Supervisory Board.

The annual financial statements were audited by the auditing company elected as auditor by the Annual General Meeting held on May 4, 2005, Wirtschaftstreuhand GmbH, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart.

The separate financial statements of STRATEC Biomedical Systems AG were compiled in accordance with the accounting requirements of German commercial law. The audit of the annual financial statements compiled in accordance with German commercial law as of December 31, 2005 was undertaken in accordance with the requirements of Section 317 of the German Commercial Code (HGB), taking due account of the principles of proper auditing propagated by the German Institute of Auditors (IDW).

The consolidated financial statements of STRATEC Biomedical Systems AG for the 2005 financial year were compiled in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU and with the requirements of Section 315a (1) of the German Commercial Code (HGB). The audit of the consolidated financial statements was undertaken in accordance with the requirements of Section 317 of the German Commercial Code (HGB), taking due account of the principles governing the proper auditing of annual financial statements established by the German Institute of Auditors (IDW).

The annual financial statements of STRATEC Biomedical Systems AG and the consolidated financial statements of STRATEC Biomedical Systems AG were each granted an unqualified audit opinion.

The Supervisory Board examined the annual financial statements provided to it by the Board of Management and the auditor and discussed its findings at its meeting on April 6, 2006. This meeting was also attended by the auditors responsible for the audit, who reported on the principal findings of their audit.

On the basis of its own examination, the Supervisory Board did not raise any objections to the findings of the audit of the annual financial statements by the auditor. The Supervisory Board approved the annual financial statements of STRATEC Biomedical Systems AG and the consolidated financial statements of STRATEC Biomedical Systems AG, which are thus adopted.

The Supervisory Board endorses the proposal made by the Board of Management with regard to the appropriation of earnings.

The Supervisory Board would like to thank all members of the Board of Management and all employees for the commitment and initiative which they contributed to the further successful development of the STRATEC Group in the past year.

Birkenfeld, April 2006

On behalf of the Supervisory Board

Fred K. Brückner
Chairman

Board of Management and Supervisory Board

Bernd M. Steidle (53),
Oberboihingen
Director of Sales and Marketing

Fred K. Brückner (63),
Marburg, Chairman of
the Supervisory Board

Burkhard G. Wollny (56),
Göppingen
Member of the Supervisory Board

Dr. Robert Siegle (38),
Birkenfeld, Deputy Chairman
of the Supervisory Board

Hermann Leistner (60),
Birkenfeld
Chairman of the
Board of Management

Marcus Wolfinger (38),
Remchingen
Chief Financial Officer

Software at STRATEC

In addition to mechanical and electronic development work, the development of software plays a key role in the development of analyzer systems. We would like to take „Software at STRATEC“ as a representative example for all development departments to illustrate the extent of the interrelationships involved in the development of complex system solutions for use in clinical diagnostics laboratories.

The software share of a customary system development amounts to considerably more than 60%. Software not only forms a principal component of new developments, but also constitutes a decisive element contributing to the extension of the lifecycle of our systems and accompanying them through to the end of their cycle. The challenges involved in software development in the field of in-vitro diagnostics have therefore been presented below. Moreover, we also intend to demonstrate that software represents an important factor differentiating STRATEC on the market.

When software began to be used in analyzer systems for clinical diagnostics functions, the clinical laboratory market was still characterized by individual measurement instruments and reagents sold separately. In those days, it was sufficient for software to indicate a physical measurement and possibly „even“ to express such value. The responsibility for the interplay of the components involved and the correct handling of the tests lay with the laboratory technicians.

However, this approach has been radically transformed over the past decades. Today's market is characterized by „system solutions from one source“. For users, this means that once the system has been loaded with samples, such as blood samples, the automation process recedes into the background and that only the reportable results of relevance to the diagnosis are of significance. The software acts as the central user interface for these systems, as well as being responsible for ensuring that all of the necessary processes are handled correctly and using the right components.

The transfer of manual working steps to fully automated processes shifts part of the responsibility to the provider of a diagnostic product. Working steps which contain potential sources of errors and which are handled automatically have to be suitably monitored by the system in order to identify and deal with any problems, such as inadequate sample volumes or clots in the sample, and report these to the user, who can then eliminate such errors before any falsified results are reported.

In practical terms, this means that by interacting with the sensory devices in the system, the software is largely responsible for the security and accuracy of the diagnostic results. As a result, the authorities approving such systems around the world pay particular attention to the system software and set strict requirements for the development and testing of such software. The American FDA approval authority alone distinguishes between three different risk classes for software. It sets clear minimum requirements in the development process, the monitoring and the maintenance of the software during the lifecycle of the systems, depending on their respective classification in one of the risk classes.

Having dealt with such regulations on an ongoing basis over the past 20 years, STRATEC has built up a solid basis of knowledge as to how the various requirements made by the authorities can be implemented in practical terms. This expertise supports an efficient and compact development process, resulting in a high degree of security and reliability in the diagnostics results and not just in more paper and bureaucracy.

As soon as the systems are in a position to handle complex tests without any manual support, the logical next step in the further development of the software is to move towards providing diagnostic findings rather than the results of a mere measurement. For example, on the basis of a complex set of rules, the software could check whether a certain measurement result requires further measurements to be undertaken and then perform these measurements automatically. This leads to further requirements in the software. For example, it has to monitor all work materials necessary for the required tests, so that it can indicate at the beginning of any processing whether the required tests can also be carried out or whether further materials will be required further down the line.

Given that usable findings are based not only on reagents and the measurement of samples, but also require data such as evaluation curves, calibrations and quality control data, the software is increasingly developing into a data management system with a powerful database to store and administer all of the data required to obtain usable findings.

Usually, clinical diagnostics laboratories subject each individual patient sample to various tests on numerous systems, for example at a central laboratory. In order to gain a consistent overall picture from this data, it is necessary to bring the data together on a central basis. This is undertaken by networking the systems with the laboratory's electronic data processing system, which also has to be supported by software.

Whereas it sufficed until recently to facilitate a connection to the laboratory's electronic data processing system in order to transfer test requirements and results, current developments frequently require a link via the internet to remote maintenance systems. This confronts the software with yet another new challenge, given that the connection to the internet and the access by users outside the respective laboratory means that new issues surrounding the protection of personal medical data and general data security on the internet have to be addressed.

The rise in functionality means that users have become increasingly aware of the software, leading our customers to increasingly require the user-computer interface and the user concept for the software to reflect their respective company standards. This has led STRATEC to design the software for the customer on an individual basis in cooperation with designers.

Our challenge does not merely involve implementing the large number of requirements to the satisfaction of our customers, but rather involves meeting these requirements in a way that enables us to modernize and expand the system at reasonable expense over its entire lifecycle. Given that the requirements on the part of the authorities do not merely relate to the initial development process, but extend to include all later versions, it is necessary to select a software architecture which allows the testing expenses for such later versions to be reduced to the areas affected by any changes. It would otherwise not be possible to maintain the software within a reasonable economic framework. This is of particular significance given that it is possible, for example, by adding software functionality to make the system competitive with other newer systems even in an advanced stage of its lifecycle. The ongoing maintenance and extension of the software has thus become a central element in our strategy of extending the lifecycles of our systems. The possibility of profitably selling a system, and thus a paid development service, for a longer period contributes decisively to STRATEC's economic success.

The software for in-vitro diagnostics systems is not a static object, but is rather subject to constant change. The necessity of being able to subject the software to ongoing further change over a product lifecycle of ten years means that the software developer has to be sufficiently farsighted at the beginning of a project to account for the potential to fulfill future requirements in the architecture of the software to be developed.

Close cooperation with our customers and an anticipatory view of forthcoming trends in market and regulatory requirements enables us to achieve further improvements in the high standard of our software development and to further extend our leading position. We expect the global trend involving the evolution from measuring instruments to diagnostic systems seen in recent years to be maintained in future.

This results in an increasingly complex conditioning of the analytical measurement results through to the provision of a diagnostic finding. This in turn involves the requirement that the system should administer and format the results, steps which were previously undertaken on the level of the laboratory information system. The developments outlined above mean that tasks and responsibilities will in future continue to be transferred from the laboratory personnel to the systems and thus also to the providers of such systems. This will lead to a further rise in regulatory hurdles, particularly for the software involved.

Alongside the mechanical and electronic development departments, the software development department at STRATEC is currently superbly placed to develop and implement analyzer systems capable of meeting the growing requirements of the market and of fulfilling the regulatory requirements on the part of the authorities. Moreover, it is able to perform such tasks economically for us and therefore also for our customers.

We hope that this short overview has provided you with some far-reaching insights into our way of thinking and working on the successful implementation of our business model, particularly in the field of software development.

SHARE

2005 on the stock markets

Whereas the first months on the stock markets in 2005 were affected by the sharp rise in the oil price, which led German stock market indices to move sideways, a considerable upturn in the stock markets began in May 2005 and proved to be sustainable. The main reasons driving the revival in the capital market included merger speculations in several sectors, improved export opportunities as a result of declining euro exchange rates and the surprising announcement of a new general election. In September 2005, the DAX passed the psychologically important 5,000 milestone for the first time in three years. All select indices of the German Stock Exchange achieved double-digit growth during the 2005 stock market year. The DAX, for example, rose by 27%, with the TecDAX increasing by 14% and the GEX even rising by 37%.

Performance of STRATEC's share

The increase in the value of STRATEC's share in 2005 was far above average and even outstripped the performance of the company's share in previous years.

Following the increase of 143% reported in the share price in 2003, and that of 101% in 2004, our share price rose by a further total of 162% in 2005. This share price performance is particularly remarkable when viewed in the context of the capital increase executed in September 2005.

Tradability of STRATEC's share and designated sponsoring

The shares in STRATEC are traded on Xetra and in floor trading at the Frankfurt, Stuttgart, Munich, Berlin-Bremen and Düsseldorf Stock Exchanges. As in previous years, the emporia with the highest turnover of shares were the first three of the aforementioned marketplaces.

Since February 1, 2005, Landesbank Baden-Württemberg has acted as our new designated sponsor, with its traders providing binding bid and offer prices on Xetra and thus supplying extra liquidity in order to bridge any temporary imbalances between the supply and demand levels for our share.

In terms of simple order book turnover, an average of 11,452 STRATEC shares were traded on these exchanges together on each day of trading in 2005. For the year as a whole, STRATEC shares with a total value of Euro 90.8 million changed owners, with 84% of this volume being traded on Xetra and in Frankfurt.

Performance Comparison of STRATEC's Share (2005)

STRATEC share (ISIN: DE0007289001)
German Entrepreneurial Index (GEX)
Technology All Share-Index

STRATEC's Share in Figures

Key Figures		2005	2004
Earnings per share	Euro	1.30	0.84
Dividend per share	Euro	0.30	0.20 (1)
Cash flow per share	Euro	1.58	1.15
Share capital	Mio. Euro	3.7	3.3
Market capitalization	Mio. Euro	163.6	56.11

(1) including bonus

Stock Market Prices		2005	2004
Year-end share price	Euro	44.70	17.00
Annual high	Euro	46.90	19.00
Annual low	Euro	16.30	8.30

Issue of bonus shares planned

In order to make STRATEC's share more attractive to investors and to facilitate trading with the share, the Supervisory Board and Board of Management will propose the execution of a capital increase from company funds and the issuing of bonus shares for approval by the Annual General Meeting on June 23, 2006. This should involve increasing the share capital by converting reserves. In the course of this measure, each shareholder should receive two new shares (bonus share) for each existing share.

Should this measure be approved by the Annual General Meeting of STRATEC Biomedical Systems AG, then the volume of STRATEC shares in shareholders' securities accounts will automatically treble following the execution of this measure.

50% increase in distribution to shareholders

The Supervisory Board and Board of Management will propose the distribution of a dividend to shareholders amounting to Euro 0.30 per share with dividend entitlement for the 2005 financial year for approval by the Annual General Meeting on June 23, 2006. Subject to approval by the Annual General Meeting, this corresponds to a distribution of Euro 1.1 million.

The planned increase in the dividend reflects the wish on the part of the Supervisory Board and the Board of Management to allow shareholders to participate in the superb earnings performance of the STRATEC Group in the 2005 financial year.

Number of STRATEC shares increased by cash capital increases

On September 27, 2005, STRATEC executed a capital increase to the exclusion of shareholders' subscription rights. Within a period of only two hours, 329,989 shares were placed at Euro 37.00 per share with institutional investors in Germany and abroad within the framework of a private placement undertaken at a price suitable to protect the market price. This enabled STRATEC to generate net proceeds of around Euro 12 million. The capital increase was registered in the Commercial Register on September 28, 2005. The share capital thus rose by Euro 329,989.00 from Euro 3,299,900.00 to Euro 3,629,889.00, which is divided into 3,629,889 individual bearer shares.

The proceeds from the capital increase are to be channeled into existing and future expansion opportunities. These will focus in particular on the financing of existing and future development partnerships and the further development of the proven platform concept, on which two of STRATEC's most successful analyzer system families are based. Moreover, the measure is intended to serve to access further growth markets and to strengthen the company's liquidity base.

Furthermore, a total of 30,250 option rights were exercised by option holders during the 2005 financial year. The company received a total of Euro 96,240.00 as a result. The capital increase was registered in the Commercial Register on September 28, 2005. The share capital thus rose by Euro 30,250.00 from Euro 3,629,889 to Euro 3,660,139.00, which is divided into 3,660,139 bearer shares.

There were no further changes in the share capital as of December 31, 2005.

International shareholder structure

In order to increase the share of free float and thus the tradability of STRATEC's share on the stock markets in Germany, holders of fixed shareholdings sold 263,992 STRATEC shares from among their holdings to German and international investors at a price close to the market price within the framework of the cash capital increase undertaken on September 27, 2005. Including the shares from the cash capital increase, a total of 593,981 shares changed owners on this day, thus significantly increasing the free float. The level of free float calculated in line with the Deutsche Börse AG definition amounted to 55.5% as of December 31, 2005 (previous year: 42.7%).

Successful investor relations

STRATEC's investor relations activities ensure that investors, analysts and business and financial journalists are provided with continuous, up-to-date information as to the company's business performance and the latest developments. Our open and honest communications policies create transparency and thus enhance the trust placed in our company. We see this as representing our contribution to increasing the value of the company in the long term.

During the 2005 financial year, we published three press releases, nine ad-hoc announcements, an extensive annual report and three interim reports. We sent a total of 16 electronic newsletters with which we drew readers' attention to the press releases and ad-hoc announcements published by the company, to reports newly published on our internet site, and to special events relating to STRATEC.

We presented STRATEC at numerous analysts' conferences, road shows, and meetings with institutional and private investors. We held telephone conferences to comment on the latest developments. At meetings held at the most important financial centers outside Germany, such as Milan, London, Paris and Zurich, we presented STRATEC for the first time to a larger circle of international investors. During the 2005 financial year, we acquired a research institute which publishes analyses of STRATEC and provides regular commentaries on important events at the company.

Our dialog with you is very important to us. Why not register to receive information via our postal or electronic mailing list? In addition, all significant information and important pieces of news are available to you around the clock at our company's homepage: www.stratec-biomedical.de.

In July 2005, the Federal Ministry of Justice formally published the new version of the German Corporate Governance Code in the electronic Federal Gazette. The German Corporate Governance Code is intended to make the rules governing corporate management and supervision in Germany transparent for national and international investors, and thus to increase the confidence placed in the corporate management of German companies.

The German Corporate Governance Code government commission, the so-called Cromme Commission, adopted important resolutions concerning the further development of the Code for the second time in June 2005. The previous amendments had been adopted in May 2003.

On December 16, 2005, the Board of Management and Supervisory Board submitted the following Statement of Compliance for the 2005 financial year in respect of the recommendations of the Code pursuant to Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders at the internet site of the company:

„Statement of Compliance of STRATEC Biomedical Systems AG with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG).

STRATEC Biomedical Systems AG complies with recommendations made by the „German Corporate Governance Code Government Commission" published in its version dated June 2, 2005 by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, with the following exceptions:

Point 3.8 Clause 3
The German Corporate Governance Code recommends that a commensurate level of excess be agreed upon the conclusion of any D&O insurance policy for the members of the Board of Management and the Supervisory Board.

A D&O insurance policy was concluded for the Board of Management and the Supervisory Board for the first time in December 2003. A commensurate level of excess was agreed in this respect.

In December 2004, a new D&O insurance policy was concluded with better conditions and at a more favorable price. The insurance company does not provide for any commensurate level of excess upon the change of the premium. A commensurate level of excess has therefore not been agreed for the D&O insurance policy and will not be agreed in future in the existing form of insurance.

Point 4.2.3 Clause 7
The German Corporate Governance Code recommends that in order to cover against extraordinary unforeseen developments the Supervisory Board should agree a limit (cap) on the stock options and comparable instruments granted to the members of the Board of Management as variable components of their remuneration.

The Supervisory Board has not agreed any limit for the stock options issued to the members of the Board of Management, neither is any such limit foreseen for the future in view of the fact that this would result in the stock options failing to provide the element of risk/opportunity required, especially for variable components of remuneration, and that such a limit would not provide the necessary incentives, particularly when compared with practices in other countries.

Point 4.2.4 Clauses 1 and 2
The German Corporate Governance Code recommends that the remuneration of the members of the Board of Management should be disclosed in the notes to the consolidated financial statements and broken down into its fixed and performance-related components, as well as into any components of a long-term incentive nature. Moreover, the Code recommends that these disclosures be made on an individual basis.

STRATEC Biomedical Systems AG already fulfills the recommendations of the Code with regard to the disclosure of the remuneration of the Board of Management broken down into fixed and performance-related components, as well as components of a long-term incentive nature. The recommendation to publish such disclosures on an individual basis has not yet been complied with and will not be adhered to in future.

It is our opinion that the recipient of such disclosures as to the remuneration of the individual members of the Board of Management is less interested in the incentive for the individual member of the Board than in the incentive for the overall Board as an entirety. Moreover, any disclosure of the remuneration of the Board of Management on an individual basis would in the longer term result in a leveling out of the salaries between the various positions on the Board, thus undermining the desired incentive effect.

Point 5.2 Clause 2, Points 5.3.1 and 5.3.2
The German Corporate Governance Code recommends that the Supervisory Board should form specialist committees (including an audit committee), depending on the number of its members and the specific circumstances of the company.

The Supervisory Board of STRATEC Biomedical Systems AG consists of the minimum legal requirement of three members. Given that a committee has to include at least two members, the establishment of committees would not lead to any increase in the efficiency of the activities of the Supervisory Board. All duties are performed by the Supervisory Board as a whole. No committees of any kind have been or will be established.

Point 5.4.7 Clause 6
The German Corporate Governance Code recommends that the remuneration of the members of the Supervisory Board be disclosed in the Corporate Governance report on an individual basis and broken down into its constituent components.

The transparency requirements of this recommendation in the Code are met by the disclosure of the composition of Supervisory Board remuneration in Section 13 of the company's Articles of Incorporation. The reporting of the remuneration of Supervisory Board members on an individual basis and broken down into its constituent components has therefore not been and is not foreseen.

Point 6.6 Clauses 4, 5 and 6
The German Corporate Governance Code recommends that any ownership of shares in the company or of related financial instruments by members of the Board of Management and the Supervisory Board should be stated in the Corporate Governance report in the event of such direct or indirect shareholdings exceeding 1% of the shares issued by the company. Moreover, the German Corporate Governance Code recommends that the total shareholding held by such members should be stated in the Corporate Governance report broken down into the Board of Management and the Supervisory Board in the event of the total shareholding of all members of the Board of Management and the Supervisory Board exceeding 1% of the shares issued by the company.

The Board of Management and the Supervisory Board are of the opinion that the notification duties set out in the respective legal requirements, which require the company to be notified in the event of the shareholding held by any shareholder (in this case a company board) exceeding certain thresholds, are adequate in this respect. The holdings of shares in the company or of related financial instruments by members of the Board of Management and the Supervisory Board have not been stated in the past and will not be reported in future. This does not apply to the disclosures resulting from legal requirements.

Point 7.1.2 Clause 3
The German Corporate Governance Code recommends that the consolidated financial statements and interim reports should be published within 90 days and 45 days respectively of the expiry of the respective reporting period.

The aforementioned deadlines concerning the publication of the consolidated financial statements and interim reports have not been and are in some cases still not met by the company. STRATEC Biomedical Systems AG does, however, meet the publication deadlines set out in the rules and regulations governing the company's membership of the segment of the regulated market of the Frankfurt Stock Exchange involving additional admission requirements (Prime Standard), namely four months in the case of annual financial statements and two months for interim reports.“

Statements of Compliance with the Code which are no longer up-to-date remain accessible at the internet site of the company for a period of five years.

Remuneration of the Board of Management and Supervisory Board

The remuneration of members of the Board of Management for the 2005 financial year mainly consists of a fixed and a variable component. The fixed component is paid as basic remuneration in twelve equal installments. This is supplemented by variable performance-related remuneration which is paid annually in the form of a bonus and takes particular account of personal achievement and the economic situation of the company. The remuneration model is rounded off by a share-based incentive in the form of a stock option program. Specific disclosures concerning the remuneration of members of the Board of Management in the 2005 financial year, albeit not on an individual basis, can be found in the notes to the consolidated financial statements on Page 65.

Pursuant to Section 13 of the Articles of Incorporation, in addition to the reimbursement of their expenses, the members of the Supervisory Board receive fixed remuneration and a variable, performance-related remuneration component, which is limited in total to the level of fixed remuneration. In accordance with the recommendation of the Code that the remuneration should account for the level of responsibility and scope of activity of the respective member of the Supervisory Board and that the chairmanship of the Supervisory Board should be specially remunerated, the Chairman of the Supervisory Board receives twice and his Deputy one and half times the remuneration of an ordinary member of the Supervisory Board. Each member of the Supervisory Board is paid a meeting allowance to compensate for his personal participation in meetings of the Supervisory Board. This is limited to a maximum of five meetings per financial year. Specific disclosures concerning the remuneration of the members of the Supervisory Board in the 2005 financial year, albeit not on an individual basis, can be found in the notes to the consolidated financial statements on Page 65.

Disclosures on stock option programs

The company has introduced stock option programs for members of the Board of Management, managers and employees. Two stock option models were in place as of December 31, 2005. The programs aim to secure the success of the company by allowing employees to acquire shares in the company. For the members of the Board of Management, the stock options simultaneously serve as variable components of their remuneration with a long-term incentive nature and involving risk. One option entitles its owner to purchase one ordinary bearer share in the company with a nominal value of one euro at a later date in return for payment of an exercise price. The options may be exercised following the expiry of the qualifying periods and once certain performance targets have been met and may only be exercised during fixed exercise windows. The exercise price corresponds to the average closing price of the shares in the company on the five trading days prior to their being granted, and to a minimum of the prorated share of such share in the company's share capital. The first half of the options may be exercised two years and the second half three years following their being granted. All options granted lapse after seven years. The fair values have been calculated on the basis of the Black-Scholes option pricing model. The underlying expected volatility was derived within the framework of the model on the basis of historic volatility figures. Specific disclosures concerning the company's stock option programs can be found in the notes to the consolidated financial statements on Pages 51 - 53.

Further information on the remuneration system for the Board of Management and the Supervisory Board, as well as on the structure and value of the stock option programs, has been made permanently available on the company's internet site.

Directors' Dealings

In respect of the disclosures relating to directors' dealings, reference is made to the announcements and publications required by Section 15a of the German Securities Trading Act (WpHG), which can be downloaded from the internet page of our service provider „Deutsche Gesellschaft

GROUP MANAGEMENT REPORT

Group Management Report of STRATEC Biomedical Systems AG for the 2005 Financial Year

The STRATEC Group has maintained its successful course: sales and earnings growth exceeded expectations.

I. Overview of business performance and earnings

- Consolidated sales increase by 17%
- EBIT rise by 55% to EUR 7.2 million
- Consolidated earnings after taxes increase by EUR 1.6 million to EUR 4.4 million
- Undiluted EPS at EUR 1.30

The STRATEC Group can look back on an extremely successful 2005 financial year. We have once again succeeded in surpassing our ambitious sales and earnings targets. In addition to the strong growth reported by the parent company of the Group, STRATEC Biomedical Systems AG, the positive sales and earnings performance in 2005 was also due to the integration of the Robion AG subsidiary, which was established during the year under report, into STRATEC's successful business model. Robion AG has been fully consolidated into the financial statements of STRATEC Biomedical Systems AG as of December 31, 2005, which have been compiled for the first time in consolidated form.

II. Market and sector

1. Overview

The analyzer systems developed and designed by the STRATEC Group find their primary application in clinical diagnostics laboratories, in blood banks and in research laboratories.

This user structure does not represent the direct customers of the STRATEC Group. Our customers are large companies in the diagnostics industry and the research divisions of pharmaceutical groups. These generally supply the aforementioned end users with reagents (chemicals) together with the automated solutions provided by STRATEC. STRATEC's customers mostly see their core competencies as involving the development and manufacture of testing processes and in the global marketing of system solutions, which consist of proprietary testing methods together with the necessary biochemical components and STRATEC's analyzer systems.

Whereas the growth in the diagnostics market in 2004 had also been partly attributable to companies not among the global top 10 in terms of sales, experts believe that the predominant share of the market growth witnessed in 2005 was generated by the „big players", even though there were no further large-scale company mergers with any massive impact on the diagnostics industry. The growth in the market for diagnostics automation accordingly amounted to around 7% and was thus at the upper end of the range forecast in sector studies. We expect to see growth on this scale in the coming years as well.

Specialists, especially those in the strategy departments of our customers, expect individual sub-segments to generate significantly above-average growth. Worthy of mention in this respect are the market segments of point-of-care diagnostics (near-patient testing) and molecular diagnostics, in which STRATEC began development work several years ago, some of which has now reached the marketing stage. STRATEC and its customers have already been active in these growth segments for several years. A considerable share of STRATEC's growth potential is attributable to these market segments.

2. Key factors for our market success

Economic effectiveness

The scope of the offering provided by STRATEC enables customers to calculate the economic effectiveness of a project in advance. Once the requirements for an automated solution have been determined, fixed prices for the use of STRATEC technology and the price per analyzer system are contractually agreed. Moreover, minimum purchase volumes are set per system family. This approach provides both contractual parties with a high degree of budgeting reliability and a solid basis for costing. The technology pool, established processes, the high degree of expertise, including that in transferring development results into production, the established target cost management system and the vertical integration of the STRATEC Group mean that it is possible to compile highly economic overall package.

Meeting customer requirements

The identification of customers' requirements during the specification stage is a bilateral process. Alongside purely physical requirements, requirements are placed from the very start in the specific features of the analyzer systems, the effects of which only become apparent in the marketing stage. Such features, such as service aspects, extension possibilities and scalability, partly determine the later success of an automated solution. Factors which are not precisely allocable to specific projects, such as development, production or quality management processes, form a fixed component of customer requirements. The business strategy of focusing on a small number of business partners enables STRATEC to respond very closely to its customers' requirements, not least as a result of its high degree of integration into the business processes of its customers.

System reliability

In addition to the quality of the engineering work involved, the reliability of analyzer systems is measured in terms of the complexity of the biochemical processes to be handled. For regulatory reasons, amendments intended to enhance quality in serial production frequently require the customer to undertake a renewed inspection of the analysis process. This inevitably leads to delays in the introduction of the quality enhancement measures into serial production. We believe that we are well-positioned to do justice to requirements such as the speed of reliability enhancements, economic effectiveness and absolute reliability.

Compliance with regulatory requirements

By fulfilling the required norms and processes, STRATEC provides its customers with the possibility of safely and rapidly achieving market approval in an environment characterized by a high level of regulatory requirements for analyzer systems involving a high degree of innovation. In addition to meeting a clear requirement on the part of customers and the authorities, this unique selling point also provides customers with a criterion on which to base their decisions between proprietary, internal development and outsourcing. For example, STRATEC was one of the first companies able to provide its customers with a statement of compliance with the In-Vitro Diagnostics Directive of the European Union for all STRATEC OEM products. STRATEC's competence in this area was confirmed by the US-American health authority FDA (Food & Drug Administration) following an inspection which did not lead to any objections being raised.

3. The market position of the STRATEC Group

STRATEC's very strong competitive position is based on four factors:

Project implementation

The STRATEC Group provides its customers with „everything from one source“. This basically means that a customer of STRATEC can contribute its testing procedures and its market access, including customer services, into the system solution to be marketed. This means that no further project partner is required apart from STRATEC. The primary competence of STRATEC's customers involves the development of diagnostic tests, such as HIV/Aids tests. To facilitate the successful development of analyzer systems, as an automation specialist STRATEC has employees with proven high levels of competence in customers' specialist areas. These employees are thus able to transfer the biochemical processes involved into the automated solution.

The projects therefore incorporate all of the steps required, from the joint generation of product requirements, via the development process and the transition to production through to the serial production and supply of the analyzer systems. In parallel to this, we also provide additional services, such as the further development of the analyzer systems, including all follow-on processes, such as the administration of all development documentation, change and complaints management, as well as service and support for our customers' product specialists. The special scope of our services provides us with an extraordinary competitive advantage.

Customer structure

The STRATEC Group focuses on market and technology-leading companies in the diagnostics and life science sectors. Strategic alliances are forged with these companies, ranging over the complete development and product lifecycle. As well as acquiring new market and technology leaders as customers, STRATEC aims to be able to handle follow-up projects and thus to be able to start developing follow-up systems during the peak stage of the product lifecycle already. This objective was met in 2005, for example, in the case of the development and supply agreement concluded with DiaSorin S.p.A., Saluggia, Italy.

Interfaces between development and production processes

We view the dovetailing of development and production processes as representing one of the key success factors in fulfilling the requirement made by our customers for shorter „times to market“ (speed of market launch of new products). The involvement of production departments, for example in the documentation of prototype production, reduces development times and thus accelerates the respective projects.

Innovation potential

STRATEC's very large technology pool, which is constantly being extended to include current developments, means that it is now in a position to automate a very broad range of diagnostics and research applications. On the basis of this broad and secure foundation, STRATEC promotes innovation and innovation opportunities arising within the company and externally. Alongside economic effectiveness, reliability and safety, innovation and creativity play a key role in the fulfillment of project objectives.

III. Financial situation and investments

Mainly as a result of the strong growth shown by the operating business, the cash flow increased by 53% from EUR 3.8 million to EUR 5.8 million. The marketing launch of new analyzer systems in the 4th quarter of 2005 resulted in an increase in inventories and led to a disproportionate increase in accounts receivable relating to production orders compared with the sales growth reported for the financial year. This meant that the net cash flow declined to EUR 1.3 million. Of the receivables outstanding as of December 31, 2005, around 96% had already been settled by the end of March 2006.

The investment activities resulted in an outflow of funds amounting to EUR 3 million (previous year: EUR 1.1 million). This sum included expenditure on property, plant and equipment amounting to EUR 2.2 million, which mainly related to the construction of a new logistics building at the Birkenfeld location (EUR 1.2 million) and investments in plant and office equipment (EUR 0.8 million).

The outflow of funds for financial assets relates in particular to the expenditure on the acquisition of shares in CyBio AG (EUR 0.7 million).

Financing activities resulted in an inflow of funds totaling EUR 10.4 million in 2005. This sum relates in particular to the inflow of funds amounting to EUR 12.1 million from the capital increase undertaken in September 2005, following deduction of the related expenses.

This inflow was countered by outgoing payments of EUR 1.0 million for the redemption of loans and of EUR 0.7 million for the dividend distributed for the 2004 financial year.

The total of all inflows and outflows of funds during the 2005 financial year led to an increase of EUR 8.7 million in liquid funds to EUR 10.0 million as of December 31, 2005.

IV. Earnings performance

With sales of EUR 47.3 million (previous year: EUR 40.4 million) the STRATEC Group achieved sales growth of 17%. Together with the increase in the volume of unfinished products and unfinished services due in particular to the valuation of development projects, this resulted in a considerable increase in the overall performance from EUR 39.2 million to EUR 48.4 million, equivalent to growth of 23.5%.

The increase in the cost of materials from EUR 20.5 million to EUR 25.1 million is related to the sales growth generated. A further reduction was achieved in the materials input ratio, which is calculated in terms of the overall performance, from 52.4% in the previous year to 51.7%.

The further intensification of development activities and the expansion of production capacity resulted in an increase of around 14% in personnel expenses. Other operating expenses rose in line with the budget by around EUR 0.8 million. There were no major one-off items.

The EBIT for the 2005 financial year amounted to EUR 7.2 million, compared with EUR 4.7 million in 2004. In the first year of the expansion of the Group, we have thus succeeded in generating EBIT growth of 55%.

At EUR -0.3 million, net financial expenses were once again negative in 2005 (previous year EUR -0.2 million). This figure includes an amount of EUR 150k relating to the non-cash negative market value of a derivative interest rate contract.

Taxes on income amounted to EUR 2.5 million in 2005, compared with EUR 1.7 million in the previous year. This figure includes deferred tax expenses amounting to EUR 0.2 million. In addition to temporary differences relating to the operating business, these expenses mainly relate to the tax effect of capital increase expenses offset against the capital reserve (EUR 0.1 million).

Overall, consolidated net income therefore rose by EUR 1.6 million to EUR 4.4 million.

V. Asset and capital structure

Total assets increased by EUR 17,992k compared with the previous year to reach EUR 43,626k. Fixed assets rose by EUR 2,064k to EUR 6,716k.

Intangible assets showed a slight overall decline of EUR 11k compared with the previous year. In this respect, the volume of licenses and software rose by EUR 71k, while capitalized development expenses, by contrast, were reported with a value of EUR 0k following the completion of the amortization period.

Property, plant and equipment increased by EUR 1,309k. The investments amounting to EUR 2,154k were countered by depreciation amounting to EUR 844k. The investment volume in the 2005 financial year mainly related to the construction of a new logistics building at the Birkenfeld location (EUR 1,193k) and to plant and equipment (tools, production testing equipment) amounting to EUR 820k.

Financial assets increased by EUR 771k, principally as a result of the acquisition of shares in CyBio AG.

Current assets rose by EUR 15,867k (76%) to EUR 36,793k. Inventories increased by 17.3% to EUR 12,733k. The increase of EUR 1,016k in raw materials and supplies was attributable to the marketing launch of new analyzer systems in the 4th quarter of 2005.

In addition to the marked sales growth of 17%, the rise of EUR 3,773k in accounts receivable was primarily due to the disproportionate share of sales in the months of November and December 2005 in connection with the marketing launch of the new analyzer systems referred to above.

The increase of EUR 1,194k, or 62%, in future receivables from production orders is also attributable to the marketing launch of systems, with Robion AG already making a notable contribution of EUR 506k in its first year of existence.

Particularly as a result of the capital increase of EUR 11,965k in September 2005 and the consolidated net income of EUR 4,412k, shareholders' equity rose by a total of EUR 16,055k to EUR 31,523k.

The equity ratio amounted to 72.3% as of December 31, 2005, compared with 60.3% at the reporting date in the previous year. Within debt capital, the decline of EUR 628k (22.8%) in long-term debt contrasted with the increase of EUR 2,565k (34.6%) in short-term debt.

The increase in accounts payable (EUR 382k) was attributable to increased output quantities in the 4th quarter of 2005. The rise of EUR 722k in other short-term liabilities to EUR 1,547k is principally due to the increase of EUR 484k in advance payments on orders and of EUR 229k in tax and social security contributions relating to the settlement of wages and salaries.

Balance Sheet (Summary)	12.31.2005 EUR 000s	12.31.2004 EUR 000s
Fixed assets	6,716	4,652
Current assets	36,793	20,926
Accruals and deferrals	117	57
Shareholders' equity	31,523	15,468
Long-term debt	1,730	2,451
Deferred taxes	394	301
Short-term debt	9,980	7,415
Total assets	43,627	25,635

Key profitability figures	Calculation formula	2005	2004
Return on sales (%)	Operating earnings (EBIT) / Sales	15.3	11.6
Return on equity (%)	Consolidated net income / Average shareholders' equity	18.8	19.6
Return on total assets (%)	EBIT / Average total assets	20.9	19.0

Key balance sheet figures	Calculation formula	2005	2004
Intensity of investments (%)	Fixed assets [1] / Total assets	13.5	17.9
Financing ratio (%)	Scheduled depreciation / Investments [1]	44.3	89.0
Receivables turnover rate	Sales / Average accounts receivable	5.5	7.3
Equity ratio (%)	Shareholders' equity / Total assets	72.2	60.3
Equity to fixed assets ratio (%)	Shareholders' equity / Fixed assets [1]	536	338
Debt capital structure (%)	Short-term debt / Debt capital	82.5	72.9

[1] excluding financial assets

VI. Employees

The ongoing expansion of our business operations resulted in the creation of further new jobs in 2005. A total of 21 new employees were taken on at our Birkenfeld location. Five employees were taken on at our Robion AG subsidiary. As of December 31, 2005, the STRATEC Group had 192 employees, compared with 173 at the beginning of the year. The average number of employees rose to 191 (previous year: 168).

Personnel expenses rose by around 13.8% during the year under report to EUR 11,332k (previous year: EUR 9,960k). Of this sum, EUR 9,593k related to wages and salaries (previous year: EUR 8,458k), and EUR 1,739k to social security contributions (previous year: EUR 1,502k). The increase in personnel expenses is principally due to the rise in the number of employees. Personnel totals have been raised in the development departments in particular. The share of the overall performance amounted to EUR 253k per employee in 2005 (previous year: EUR 233k).

Longstanding employees participate in the value they have created for STRATEC AG within the framework of our stock option program.

Our strong growth orientation continues to be reflected in our personnel structure. The largest part of the STRATEC team works in the development departments, constantly enlarging our technology pool and already developing STRATEC's growth drivers of the future.

We should like to take this opportunity of thanking all of our employees for their commitment and their willingness to give of their best.

VII. Development

The supply of complex, specific systems series to our customers is always preceded by a costly development process. The successful completion of such development activities in such a way as to fulfill the requirements jointly defined with the customer remains the key to the success of the company.

The further intensification of the trend observed in the sector in which STRATEC's customers operate towards focusing on their core business, the development of reagents (chemicals), has resulted in such global players outsourcing the development of their instrumentation solutions. STRATEC has implemented its system platform concept in order to do justice to changes in the underlying framework and to the aim of achieving even shorter development cycles. This concept draws on hardware and software designs (modules) which can be flexibly combined.

In addition, the platform concept enables established STRATEC technologies to be diversified into new market segments. The company is focusing in this respect on high-margin key customers within the framework of its successful business-to-business model (OEM).

VIII. Procurement

The combination of comparatively low levels of vertical integration with extremely high complexity in the procurement activities of the STRATEC Group has meant that we have basically focused our procurement on functional modules. These modules are purchased from a small number of suppliers distinguished by their quality management systems and process orientation. In the case of components and modules with special functionalities and of non-variable components, the STRATEC Group has optimized its supply chain by means of comprehensive master agreements.

IX. System assembly and inspection

The focus on complex and high-margin production processes places special requirements in the employee structure and in the available premises. The assembly, quality assurance and inspection processes are therefore undertaken by highly-qualified and excellently trained personnel, in some cases in a laboratory environment. This approach maintains the company's focus on margin optimization, while simultaneously safeguarding the quality thereby produced in an environment which corresponds to the application environments of our analyzer systems.

X. Sales logistics

The analyzer systems manufactured by the STRATEC Group are marketed to the sales and logistics centers of large diagnostics and pharmaceutical groups, which in turn market the systems together with their own reagents as system solutions under their own names.

XI. Risk report

1. Risk management system

The risk management system introduced several years ago as an early warning risk recognition system serves to analyze and assess the risks facing the company and its environment pursuant to Section 91 (2) of the German Stock Corporation Act (AktG). The individuals required to report such risks compile reports on their respective areas of risk at fixed intervals, as well as ad-hoc risk reports if necessary, which are qualified and quantified on the basis of a systematic approach. At the highest level of aggregation, the decision makers and executive and supervisory bodies of the company are provided with a so-called Risk Handbook to serve as a controlling instrument. This enables the conceivable consequences of individual risks presented over the period of their arising to be viewed and evaluated alongside any change in their probability of occurrence.

The opportunities arising for the STRATEC Group on account of its cooperation with new partners, its new technologies, and its increasing sales and earnings in changing markets are to be assessed as being positive on a sustainable basis. Any possible risks should nevertheless be reported, regardless of whether it is considered likely or unlikely that they will actually occur.

Factors such as the speed of development and the fulfillment of regulatory and market requirements have a considerable impact on the growth and success of the STRATEC Group. In contrast to these, other factors, such as the definition of market acceptance criteria and marketing performance, do not lie within the control of the STRATEC Group. Due to our business model, the trials, validation and sales structures are to a certain extent in the hands of our customers.

2. Market and customer-related risks

In line with its business model, the STRATEC Group focuses on a small circle of customers which are market or technology leaders in their respective fields. The resultant potential dependency is mutual and thus constitutes a symbiotic partnership. As a result of its growing position and reputation in the market for laboratory automation, STRATEC is able to focus on those customers who have proven that they have the competencies referred to above.

This automatically leads to a concentration of sales at a low number of key customers.

At its own instigation and in response to impulses received from third parties, the STRATEC Group ensures that no property rights are breached. Moreover, the company has protected its own expertise with numerous international patents and registrations.

The STRATEC Group has reacted to the increase in development expenses by introducing strict project controlling procedures in connection with an effective target cost management system. In particular, the complexity of production processes means that, for reasons of economy, the STRATEC Group focuses on a small number of suppliers. The high cost of supervising logistics activities and of monitoring quality standards renders this focus on a few suppliers absolutely essential.

3. Financial risks

Financial risks can generally arise from currency and interest rate fluctuations and from financial dependency on individual debt capital providers.

Currency risks are currently of subordinate significance for the STRATEC Group, given that the majority of its procurement markets are located within the euro zone and that group companies also mainly denominate their invoices in euros. For these reasons, the company currently does not deploy any derivative hedging instruments to cover currency fluctuations. In view of the group structure and the internationalization of its procurement activities, there has nevertheless been an increase in the risk relating to currency fluctuations. In 2005, there were immaterial special items resulting from exchange rate differences between CHF and EUR in connection with the establishment of the Swiss company Robion AG.

Interest rate risks are countered on the basis of the internal requirements of the risk management system in place at the STRATEC Group. Depending on the internal risk assessment, these also involve covering such risks by means of derivative financial instruments.

A depiction of the hedging instruments deployed during the 2005 financial year can be found under „Financial Instruments (26)“ in the notes to the consolidated financial statements.

XII. Events subsequent to the balance sheet reporting date

STRATEC and CyBio AG, Jena, concluded a cooperation agreement on January 23, 2006. The object of this cooperation involves the non-exclusive sale of systems using the STRATEC brand „Robion“ by CyBio AG. In view of this cooperation, STRATEC AG increased its existing shareholding in CyBio AG by 6.250% from 4.875% to 11.125% on January 20, 2006.

On March 13, 2006, STRATEC took over Sanguin International Limited, Barton under Needwood (UK), including its 75% shareholding in Sanguin International Incorporation, Hamden (CT, USA). The purchase price was largely settled in cash, as well as by issuing 18,206 shares to be created from the authorized capital of STRATEC AG. The STRATEC Group expects the takeover to generate considerable savings in the implementation of analyzer system families currently in the development and planning stages.

Apart from these, we are not aware of any events subsequent to December 31, 2005 which could have a significant influence on the financial and economic situation of the Group.

XIII. Outlook

1. Business strategy

STRATEC is freely positioned as a development company and will continue to focus on market and technology-leading diagnostics and life science customers, as well as on specialist technical solutions in the respective growth segments. This strategic alignment, taking due account of the optimization of our allocation of resources, will enable us to further expand our position as a leading supplier of automated solutions for complex applications in high-growth subsections of the diagnostics and life science markets.

2. Financial strategy

STRATEC's financial management is undertaken at the headquarters of the Group in Birkenfeld. The principal objectives of its financial management involve a basically conservative debt policy, effective risk management and the short and medium-term supply of the required levels of liquidity. These objectives are overarched by the targeted optimization of our financing costs.

The capital increase successfully undertaken at the end of September 2005 was principally driven by the following factors:

- Exploiting any external growth opportunities which arise
- Investing in the development and enhancement of technology for our system platform concept
- Reducing our net indebtedness

Overall, our financial strategy is aimed at achieving a reduction in our net indebtedness, while at the same time safeguarding the supply of the funds required for considerable growth. We will continue to adhere to this strategy.

We will deploy derivative financial instruments in order to cover the operating business. Moreover, we will deploy derivative financial instruments to optimize interest rates in cases where financing necessities render such measures opportune and where they are related to a general transaction, such as a working capital financing requirement on the part of a subsidiary in a foreign country. Within the framework of our Code of Procedure, we accept that this may in certain circumstances result in a conflict of objectives between the hedging context and the accounting guidelines, particularly in cases when the cash flow hedging possibilities set out in IAS 39 do not apply.

3. Objectives for 2006

Our budget assumptions are based on a high and stable level of raw material and component prices and are backed up by long-term agreements with customers and suppliers.

As a result of the outsourcing requirements on the part of our customers, coupled to their simultaneous focus on their core business of reagent development and marketing, we assume that we are in a position to achieve significantly more rapid growth than the market. We continue to reinvest more than 45% of our gross profit into the field of

development. We estimate that only 15% to 20% would be necessary to maintain the substance of the company, i.e. to supply the company with sufficient development results to maintain stable sales and earnings. Our efforts to expand our margins are backed up by product portfolio improvements, a high level of degression in our fixed costs and an ever more widespread basis of STRATEC analyzer systems already installed. The latter factor impacts in particular on the level of sales with consumables. In view of the increasing internationalization of the Group, resulting in part from the acquisition of Sanguin, we expect to see a slight decline in the tax burden.

Our indicators both before and after the balance sheet reporting date, such as further developments in existing projects and the forecasts provided by our customers, show an accelerating positive business performance. The general structure of our contracts and the customer purchase forecast system referred to above provide us with a promising long-term budget horizon in terms of our sales and earnings performance. Although the expenses incurred on increasingly complex developments and regulatory requirements will continue to rise, we expect the 2006 and 2007 financial years to see further significant sales growth and, moreover, to witness further growth in our operating margin.

The market, our customers, our technological possibilities, and the existing development and supply agreements, as well as those currently being initiated, provide us with an excellent foundation for further developing our market position as a leading company in the field of laboratory automation.

Birkenfeld, March 27, 2006

STRATEC Biomedical Systems AG

Hermann Leistner

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FACTS AND FIGURES

Consolidated Balance Sheet of STRATEC Biomedical Systems AG as of December 31, 2005

ASSETS

	Note	12.31.2005 EUR	12.31.2005 EUR	Prev. year[1] EUR 000s
A. FIXED ASSETS				
I. Intangible assets	(1)			
1. Licenses, industrial property rights and similar rights and values, as well as licenses for such rights and values		188,075.00		117
2. Development costs		0.00		82
			188,075.00	199
II. Property, plant and equipment	(2)			
1. Land, leasehold rights and buildings including buildings on third-party land		4,089,627.00		3,000
2. Technical equipment and machinery		197,668.00		93
3. Other equipment, plant and office equipment		1,386,577.00		1,283
4. Prepayments made and assets under construction		13,916.00		3
			5,687,788.00	4,379
III. Financial assets				
1. Shares in affiliated companies	(3)	38,510.89		38
2. Shareholdings	(4)	771,000.00		
3. Other loans	(5)	30,953.99		36
			840,464.88	74
B. CURRENT ASSETS	(6)			
I. Inventories				
1. Raw materials and supplies		4,167,148.91		3,151
2. Unfinished products, unfinished services		8,565,747.74		7,702
			12,732,896.65	10,853
II. Receivables and other assets				
1. Accounts receivable	(7)	10,494,959.02		6,722
2. Future receivables from production orders	(8)	3,115,624.39		1,922
3. Other receivables and other assets	(9)	488,783.04		207
			14,099,366.45	8,851
III. Cash in hand, cash at bank	(10)		9,961,495.64	1,222
C. PREPAYMENTS AND ACCRUED INCOME	(11)		117,336.13	57
			43,627,422.75	25,635

[1] The figures stated for the previous year correspond to those in the balance sheet in the IFRS annual financial statements of STRATEC AG as of December 31, 2004.
The notes to this consolidated balance sheet form an integral component of the consolidated financial statements.

SHAREHOLDERS' EQUITY AND LIABILITIES

	Note	12.31.2005 EUR	12.31.2005 EUR	Prev. year [1] EUR 000s
A. SHAREHOLDERS' EQUITY	(12)			
I. Share capital		3,660,139.00		3,300
II. Capital reserve		15,896,204.03		4,060
III. Revenue reserves		7,567,732.99		5,343
IV. Consolidated net earnings		4,412,559.06		2,778
V. Treasury stock		-13,293.59		-13
			31,523,341.49	15,468
B. DEBT CAPITAL				
I. Long-term debt capital				
1. Long-term financial liabilities	(15)	1,706,120.89		2,395
2. Pension provisions	(13)	23,757.91		56
3. Deferred taxes	(14)	393,753.76		301
			2,123,632.56	2,752
II. Short-term debt capital				
1. Short-term financial liabilities	(15)	1,839,783.65		1,998
2. Accounts payable	(16)	2,462,710.82		2,081
3. Liabilities to affiliated companies	(16)	57,061.00		116
4. Other short-term liabilities	(17)	1,547,388.23		825
5. Short-term provisions	(18)	1,754,161.00		1,455
6. Tax provisions	(18)	2,319,344.00		940
			9,980,448.70	7,415
			43,627,422.75	25,635

Consolidated Income Statement of STRATEC Biomedical Systems AG for the Period from January 1, 2005 to December 31, 2005

	Note	2005 EUR	2005 EUR	Prev. year[1] EUR 000s
1. Sales of which change in future receivables from production orders: EUR 1,193k (previous year: EUR 407k)	(19)		47,297,170.13	40,442
2. Increase (previous year: reduction) in unfinished products and services of which from changes in unfinished and finished products: EUR 158k (previous year: EUR -9k) of which from changes in unfinished services: EUR 706k (previous year: EUR -1,413k)	(20)		864,318.98	-1,422
3. Other capitalized own-account services	(2)		253,602.00	187
Overall performance			**48,415,091.11**	**39,207**
4. Other operating income	(21)		274,520.87	163
5. Cost of income				
a) Cost of raw materials and supplies		24,286,689.79		19,837
b) Cost of services rendered		764,147.07		698
			25,050,836.86	20,535
6. Personnel expenses	(22)			
a) Wages and salaries		9,592,506.64		8,458
b) Social security contributions, pension expenses and other benefits		1,739,329.80		1,502
			11,331,836.44	9,960
7. Depreciation and amortization of property, plant and equipment and intangible assets	(23)		1,032,411.02	1,004
8. Other operating expenses	(24)		4,028,990.79	3,189
9. Income from profit transfer agreements	(3)	214.46		6
10. Other interest and similar income	(10)	64,157.10		0
11. Interest and similar expenses	(15)	267,479.54		249
			-203,107.98	-243
12. Other financial result	(15)		-141,270.54	0
13. Operating result			**6,901,158.35**	**4,439**
14. Taxes on income	(14)			
a) Current tax expenses		2,256,469.92		1,713
b) Deferred tax expenses		232,129.37		-52
			2,488,599.29	1,661
15. Consolidated net income			**4,412,559.06**	**2,778**
Earnings per share in Euro	(25)		1.30	0.84
No. of shares used as basis			3,397,742	3,298,400
Diluted earnings per share in Euro	(25)		1.26	0.83
Diluted no. of shares used as basis			3,508,647	3,356,290

[1] The figures stated for the previous year correspond to those in the income statement in the IFRS annual financial statements of STRATEC AG for the 2004 financial year.
The notes to this consolidated income statement form an integral component of the consolidated financial statements.

Statement of Changes in Group Shareholders' Equity of STRATEC Biomedical Systems AG for the Period from January 1, 2005 to December 31, 2005

The changes in the Group's equity have been depicted in the table below (all figures in EUR 000s).

	Share capital	Capital reserve	Revenue reserves	Consolidated[1] net income	Treasury stock	**Total equity**
December 31, 2002	**3,300**	**3,959**	**2,813**	**1,111**	**-13**	**11,170**
Profit carried forward			1,111	-1,111		**0**
Transfers due to stock option plan		19				**19**
Net surplus in 2003 [1]				1,684		**1,684**
December 31, 2003	**3,300**	**3,978**	**3,924**	**1,684**	**-13**	**12,873**
Dividend payment				-264		**-264**
Profit carried forward			1,420	-1,420		**0**
Transfers due to stock option plan		81				**81**
Net surplus 2004 [1]				2,278		**2,778**
December 31, 2004	**3,300**	**4,059**	**5,344**	**2,278**	**-13**	**15,468**
Transfer to revenue reserves			850	-850		**0**
Dividend payment				-660		**-660**
Profit carried forward			1,268	-1,268		**0**
Capital increase in return for cash contributions by issuing 329,989 shares within the framework of a private placement	330	11,635				**11,965**
Capital increase in return for cash contributions as a result of the exercising of 30,250 stock options	30	66				**96**
Transfers due to stock option plan		136				**136**
Adjustment resulting from the valuation of assets available for sale at fair value			106			**106**
Consolidated net income 2005				4,413		**4,413**
December 31, 2005	**3,660**	15,896	**7,568**	**4,413**	**-13**	**31,524**

[1] In the 2002, 2003 and 2004 financial years, the annual net income (IFRS) stated for STRATEC AG corresponds in economic terms to the consolidated earnings of the STRATEC Group.
The notes to this statement of changes in group shareholders' equity form an integral component of the consolidated financial statements..

Consolidated Cash Flow Statement of STRATEC Biomedical Systems AG for the Period from January 1, 2005 to December 31, 2005

The liquidity situation and financial strength of the company are depicted in the following statement of changes in financial positions. This is based on the change in liquid funds. The consolidated cash flow statement shows the inflows and outflows of funds broken down into the company's operating, investment and financing activities. The computation has been undertaken using the indirect method and by applying IAS 7 (1992 revision).
The liquid funds and equivalents incorporated into the consolidated cash flow statement relate exclusively to the balance sheet item „cash in hand and cash at bank".

		Note	EUR 000s 2005	EUR 000s 2005
I.	**Operations**			
1.	Consolidated net income		4,413	2,778
2.	Depreciation and amortization of fixed assets	(23)	1,032	1,004
3.	Other expenses not affecting payments	(15)	286	82
4.	Decrease in long-term provisions	(13)	-32	-33
5.	Increase (previous year: decrease) in provisions for deferred taxes	(14)	93	-52
6.	**Cash flow**	(10)	**5,792**	**3,779**
7.	Income from the disposal of fixed assets		-19	0
8.	Increase in inventories, accounts receivable and other assets		-7,188	-1,435
9.	Increase in accounts payable and other liabilities		2,723	62
10.	**Inflow of funds from operating activities**		1,308	2,406
II.	**Investments**			
11.	Incoming payments from disposals of fixed assets		24	5
12.	Outgoing payments for investments in fixed assets			
	Intangible assets		-177	-39
	Property, plant and equipment	(1)	-2,154	-1,089
	Financial assets	(2)	-665	0
13.	**Outflow of funds for investment activities**	(4)	-2,972	-1,123
III.	**Financing**			
14.	Outgoing payments for the repayment of (financial) loans	(15)	-997	-699
15.	Incoming payments from the capital increase in return for cash contributions and from the issue of shares for the employee stock option programs	(12)	12,061	0
16.	Dividend payments	(12)	-660	-264
17.	**Inflow (previous year: outflow) of funds from financing activities**		10,404	-963
IV.	**Payment-related change in financial funds (Balance of I - III)**		8,740	320
18.	Financial funds at start of period	(10)	1,222	902
19.	**Financial funds at end of period**		9,962	1,222

[1)] The figures stated for the previous year correspond to those in the cash flow statement of the STRATEC AG parent company for the 2004 financial year.
The notes to this consolidated cash flow statement form an integral component of the consolidated financial statements.

I. Principles and methods

1. General information

STRATEC Biomedical Systems AG (hereinafter „STRATEC AG“) designs and manufactures fully automated systems for its partners in the fields of clinical diagnostics and biotechnology. These partners market such systems, in general together with their own reagents, to laboratories and research institutes around the world. STRATEC AG develops its products on the basis of its own patented technologies.

The legal domicile of STRATEC AG is in Birkenfeld, Germany. The financial year of STRATEC AG corresponds to the calendar year.

The declaration required by Section 161 of the German Stock Corporation Act (AktG) in respect of the German Corporate Governance Code (the so-called „Statement of Compliance“) was submitted by the Board of Management and Supervisory Board of STRATEC AG and was made permanently available to shareholders on December 16, 2005.

Due to its stock market listing in the Prime Standard segment of the regulated market of the Frankfurt Stock Exchange, STRATEC AG is obliged pursuant to Section 315 a (1) of the German Commercial Code (HGB) to compile consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements of STRATEC AG have been compiled in euros. Unless otherwise stated, the amounts reported in the notes have been stated in thousand euros (EUR 000s).

The Board of Management of STRATEC AG approved the consolidated financial statements to be forwarded to the Supervisory Board on March 27, 2006. The Supervisory Board is required to audit the consolidated financial statements and to declare whether it approves such statements.

2. Application of International Financial Reporting Standards (IFRS) and presentation of the implications of the new accounting standards

The consolidated financial statements compiled by STRATEC AG as the topmost parent company have been based on uniform accounting and valuation principles. Pursuant to Section 315 a of the German Commercial Code (HGB), application has been made of the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) valid as of the balance sheet reporting date. These include the IAS, IFRS and corresponding interpretations (SIC / IFRIC) requiring mandatory application as of the balance sheet reporting date (December 31, 2005). The requirements of the aforementioned regulations have been met without exception, so that the consolidated financial statements of STRATEC AG provide a true and fair picture of the net asset, financial and earnings situation, as well as of the cash flows, for the financial year under report.

The following modified / revised standards were published by the IASB within the framework of the so-called „Improvement Projects“ in December 2003:

IAS 1 (Presentation of Financial Statements)
IAS 2 (Inventories)
IAS 8 (Accounting policies, Changes in Accounting Estimates and Errors)
IAS 10 (Events after the Balance Sheet Date)
IAS 16 (Property, Plant and Equipment)
IAS 17 (Leases)
IAS 21 (The Effects of Changes in Foreign Exchange Rates)
IAS 24 (Related Party Disclosures)
IAS 27 (Consolidated and Separate Financial Statements)
IAS 28 (Investments in Associates)
IAS 31 (Interest in Joint Ventures)
IAS 33 (Earnings per Share)
IAS 40 (Investment Property)
IAS 32 (Financial Instruments: Disclosure and Presentation)
IAS 39 (Financial Instruments: Disclosure and Presentation)

The revised standards apply to financial years beginning on or after January 1, 2005. The application of these revised standards in the 2005 financial year has not resulted in any implications for the net asset, financial and earnings situation of the STRATEC Group.

IFRS 2 (Share-based payment), which addresses the accounting treatment of share-based remuneration systems (such as the granting of stock options to employees), was published in February 2004. STRATEC AG already made voluntary application of IFRS 2, which is applicable to financial years beginning on or after January 1, 2005, in the previous year, so that this application has not resulted in any implications for the net asset, financial and earnings situation of the Group in the 2005 financial year.

In March 2004, IFRS 3 (Business Combinations) was issued in order to succeed IAS 22. This standard requires the mandatory presentation of business combinations in accordance with the acquisition method. Any goodwill resulting from the initial consolidation is no longer subject to scheduled amortization but is rather subject to an annual impairment test. IFRS 3 did not have any implications for the net asset, financial and earnings situation of the STRATEC Group.

Furthermore, in connection with the publication of IFRS 3, the IASB published the revised standards for IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets) in March 2004. Accordingly, goodwill and intangible assets with indeterminate useful lives are no longer to be subject to scheduled amortization, but are rather to be reviewed on an annual basis for any possible value impairments. The application of the revised standards did not have any implications for the net asset, financial and earnings situation of the STRATEC Group.

An amendment to IAS 19 (Employee Benefits) was published in December 2004. This amendment provides the option of offsetting actuarial profits and losses relating to defined benefit pension obligations directly and completely against equity without any impact on earnings. This amendment applies to financial years beginning on or after January 1, 2006. No use has been made of the possibility of premature application. The utilization of such option would not have any major impact on the net asset, financial and earnings situation of the Group.

3. Basic principles

The consolidated financial statements have been compiled on the basis of the assumption that the company constitutes a going concern. Up to the conclusion of the compilation of these consolidated financial statements there were no further events with any significant influence on the net asset, financial and earnings situation of the Group.

The financial statements have generally been compiled on the basis of costs of acquisition and manufacture, with the exception of derivative financial instruments and securities available for sale, which have been valued at fair value.

As a result of the subordinate significance of the two subsidiaries in respect of the net asset, financial and earnings situation of STRATEC AG, no consolidated financial statements were compiled in the previous year. The separate financial statements of the parent company compiled in the previous year were equivalent in economic terms to the consolidated financial statements of the STRATEC Group. In these consolidated financial statements, the figures stated for the previous year have therefore been taken from the annual financial statements of STRATEC AG compiled in accordance with IFRS as of December 31, 2004.

The annual financial statements of the companies included have been based on uniform accounting and valuation principles. Values which are based purely on tax regulations have not been included in the consolidated financial statements. The separate financial statements of the companies included have been compiled as of the same reporting date as the consolidated financial statements.

The income statement has been compiled using the total cost method.

In the interests of clarity, individual items have been summarized in the income statement and the balance sheet. These are explained in the notes to the financial statements. Pursuant to IAS 1 (Presentation of Financial Statements), a distinction has been made in the balance sheet between long-term and short-term items. All assets, liabilities and provisions with maturities within the next 12 months are classified as short-term. Assets and liabilities earmarked for realization in the company's usual course of business are also classified as short-term, even when their maturities exceed 12 months. In the case of loan obligations, a distinction has been made between the repayment installments due for payment within the next 12 months (short-term debt) and the long-term portions (long-term debt). Short-term assets are generally stated under current assets.

The compilation of the consolidated financial statements requires the making of a limited number of estimates and assumptions which have implications for the level at which and the manner in which assets, liabilities, expenses, income and contingent liabilities are stated. These assumptions and estimates are subject to continuous review. Assumptions and estimates are required in particular in connection with the valuation at fair value of the stock options granted, the valuation of primary and derivative financial instruments at fair value, the assessment of the useful life of fixed assets and generally in the valuation of provisions. The principal assumptions and parameters relating to the estimates made have been depicted in the notes to the financial statements. The resultant figures may differ from actual figures.

II. Principles of the consolidated financial statements

1. Consolidation methods

The capital consolidation has been undertaken in accordance with IFRS 3 (Business Combinations) by offsetting the book values of the shareholdings against the revalued equity of the subsidiaries at the time of acquisition. Assets and liabilities have been stated at fair value. In the event of the capital consolidation resulting in any remaining differential amount, then this is stated as goodwill and, subject to IFRS 3, is no longer subject to scheduled amortization but is rather subject to an annual impairment test.

Any write-ups or write-downs undertaken in the separate financial statements of shares held in the companies included in the consolidated financial statements have been reversed in the consolidated financial statements.

Intercompany profits and losses, sales, income and expenses, as well as receivables and liabilities between the companies included in the consolidated financial statements, have been eliminated.

The income tax implications of consolidation entries involving an impact on earnings have been accounted for by stating deferred taxes.

The consolidated financial statements include those subsidiaries in which STRATEC AG directly or indirectly holds a majority of the voting rights. Such subsidiaries have been included from the date at which the possibility of control arose.

Subsidiaries whose influence on the net asset, financial and earnings situation is of subordinate significance on an individual basis and in terms of the overall Group have not been consolidated. The shares in these companies have been stated in the consolidated financial statements at cost of acquisition or at their lower fair values.

2. Reporting entity

In addition to STRATEC AG, the consolidated financial statements as of December 31, 2005 include the subsidiary Robion AG, based in Neuhausen am Rheinfall, Switzerland, which was established on February 23, 2005. The share capital of this company amounts to CHF 100,000.00 and is divided into 100 registered shares of CHF 1,000.00 each. STRATEC AG holds 100% of the voting rights in this company.

An amount of EUR 65k was spent in connection with the takeover of share capital as of February 23, 2005. This amount has been converted at the exchange rate as of the acquisition date.

As in the previous years, the two other subsidiaries in which STRATEC AG also holds 100% of the voting rights (STRATEC NewGen GmbH, Birkenfeld, Germany, and STRATEC Biomedical Inc., Aliquippa, PA, USA) have not been included in the reporting entity of the Group in view of their subordinate significance for the net asset, financial and earnings situation of the Group. These have correspondingly been stated under financial assets (c.f. Page 47 „Shares in affiliated companies“).

3. Currency conversion

Receivables and liabilities denominated in foreign currencies in the respective separate financial statements of the group companies have been converted using the exchange rate as of the balance sheet reporting date.

Pursuant to IAS 21, the separate financial statements of group companies outside the European currency union have been converted to euros on the basis of functional currency. In the case of the Swiss subsidiary included in the consolidated financial statements of STRATEC AG, the functional currency is the euro. All transactions of the subsidiary undertaken in local currency were therefore already adjusted as foreign currency transactions pursuant to Paragraph 17 of IAS 21 upon the compilation of the IFRS separate financial statements with a corresponding impact on earnings.

The exchange rates of major currencies as of the reporting date showed the following developments:

1 Euro		2005	2004
USA	USD	1.18	1.36
Switzerland	CHF	1.56	1.54

4. Accounting and valuation principles

Intangible assets

Intangible assets acquired in return for payment have been accounted for at cost of acquisition, less scheduled straight-line amortization. The useful life of the intangible assets is limited and amounts to three years.

Research and development expenses have been recorded as expenses for the period in which they were incurred. Pursuant to IAS 28, any project development expenses which meet all of the following criteria in full have been excepted from such treatment:

- The product or process can be clearly and unambiguously delineated and the corresponding costs can be clearly allocated and reliably determined
- The technical feasibility can be proven
- The product or process is either marketed or put to proprietary use
- The assets will generate future economic benefit (e.g. there is a market for the product or, in the case of proprietary use, the benefit of the product for the company can be proven)
- Sufficient technical, financial and other resources are available to conclude the project.

The capitalization of assets manufactured internally is undertaken at cost of manufacture upon their first complying with the above criteria. The manufacturing costs include all costs directly allocable to the manufacturing process and a commensurate share of production-related overheads. Financing costs are not capitalized. Expenditure recorded as expenses in previous accounting periods may not be capitalized retrospectively.

The amortization of intangible assets is recorded in the income statement under amortization of intangible assets and depreciation of property, plant and equipment.

Property, plant and equipment

Property, plant and equipment have been valued at cost of acquisition or manufacture and, to the extent that they are depreciable, have been subject to scheduled depreciation. Depending on the decline in the utility of the assets, such assets are subject to scheduled depreciation. In this respect, application is made of the straight-line method in most cases.

No statement has been made of purely tax-related depreciation.

The manufacturing costs of assets manufactured internally include all directly allocable individual expenses and a commensurate share of material and production overheads, including depreciation. Interest charges for debt capital have not been capitalized.

On account of their immaterial significance, assets with a value of up to EUR 410.00 have been depreciated in full in the year of their addition and recorded as retirements.

Grants to finance fixed assets have been deducted upon the capitalization of the respective objects of investment. Non-repayable grants received within the framework of project subsidies for development expenses already incurred have been recorded with an impact on earnings. These have been stated under other operating income (gross statement).

Extraordinary depreciation

Any impairment in the value of intangible assets and property, plant and equipment is accounted for in the form of extraordinary depreciation as of the balance sheet reporting date. Pursuant to IAS 36, value impairments exist when the realizable value of the respective asset is lower than its book value. Capitalized development expenses are inspected using quantitative tests for any indications of potential value impairments up to the time at which amortization is commenced. Other assets are subject to quantitative tests at each balance sheet reporting date to ascertain whether there have been any events or changes in circumstances which indicate that the book value of the assets may no longer be realizable.

Financial assets

Financial assets include financial investments, receivables issued, securities, credit balances at banks and cash on hand. Financial assets are capitalized at cost of acquisition on their respective performance date. Subsequent valuations are undertaken at amortized cost of acquisition or the lower realizable value for receivables issued and maturity values. Financial assets available for sale and trading assets have been stated at their fair values as of the balance sheet reporting date. Non-listed equity instruments, however, have only been stated at fair value to the extent that such value can be reliably determined. Where this is not the case, such instruments have been stated at their alternative cost of acquisition.

Non-realized changes in the value of financial assets available for sale have been recorded without any impact on earnings up to time of sale or of a permanent reduction in their fair value. Changes in the value of trading assets have been recorded with an impact on earnings.

In addition to the necessary individual allowances for bad debt, account has also been taken of identifiable risks relating to general credit risks by taking fixed-amount allowances.

Inventories

The inventories item includes raw materials and supplies, unfinished products not relating to particular orders, and unfinished services. Their valuation has been based on the costs of acquisition or manufacture derived using the FiFo method. In addition to directly allocable manufacturing wage and material expenses, the costs of manufacture also include a prorated share of material and production overheads, including depreciation. Rather than being capitalized, administration and sales overhead costs, as well as interest charges for debt capital, have been stated in full in the income statement.

Future receivables from production orders

Pursuant to IAS 11, production orders have been accounted for at their respective percentage of completion. The aggregate amount of the cumulative costs of acquisition and manufacture and the prorated share of realized earnings as of the reporting date have been stated in the balance sheet under the future receivables from production orders item. Changes in the level of future receivables have been recorded in the income statement as part of the sales item.

Provisions

Pension obligations have been valued pursuant to IAS 19 using the projected unit credit method for defined benefit pension plans. On account of its immaterial significance, the interest share of the pension expenses has not been stated as interest expenses in the net interest expenses item.

Asset values relating to plan assets have been netted against their respective liabilities.

Provisions have been taken to cover those obligations to third parties resulting from past events which are likely to lead to an outflow of funds in the future and for which the amount of the obligation can reliably be estimated.

Such obligations have been capitalized as liabilities at their respective current values in those cases where the outflow of funds is expected to occur at a time later than the following year.

The calculation of other provisions generally takes account of all cost components also included in the valuation of the inventories.

Deferred taxes

The calculation of deferred taxes has been based on the liability method (IAS 12). Deferred taxes have been stated on the level of the separate financial statements of the companies included in the Group for deviations between the accounting values of the assets and liabilities in the tax balance sheet and those in the financial statements compiled in line with IFRS, to the extent that such differences are expected to be settled in later financial years (temporary differences).

Moreover, account has also been taken of deferred taxes at the Group level in cases where such result from consolidation entries.

Pursuant to IAS, deferred tax assets and liabilities have been reported on a net basis in cases where they refer to the same taxable entity and the same tax authority. In view of the structuring of the balance sheet in terms of maturities, deferred tax liabilities have been stated as long-term liabilities.

Liabilities

Liabilities have been stated at their respective repayment values. Liabilities denominated in foreign currencies have been valued using the mean exchange rate on the balance sheet reporting date.

Prepayments made have been stated at nominal value.

Sales realization

Sales and other operating income have been reported as such when the contractually agreed delivery has been executed or the service provided. Sales have been reported less cash discounts, price reductions, customer bonuses and rebates. Sales deductions have been reported at the time of the respective sales realization.

In the case of order-related production, sales have been stated using the percentage of completion method in accordance with the progress made.

Operating expenses have been reported in their respective periods at the time at which they are incurred or at which the service is rendered.

Product-related expenses

Provisions for warranties have been taken at the time of completion of the respective product or at which the service has been rendered in full on the basis of historical data for comparable expenses incurred in the past.

Research and development

The 2005 financial year saw a continuation of the trend observed in previous years towards development partners only entering the project development at STRATEC AG in a legally binding manner at a later stage of the overall development. The modular development practiced by STRATEC AG for several years now takes account of the requirements of the market in this respect.

Pursuant to IAS 38 (Intangible Assets), research expenses are not eligible for capitalization and are therefore reported as expenses in the income statement upon their being incurred. Development expenses may be capitalized, but only in cases where they comply with the detailed requirements set out in IAS 38.

Development activities instigated by the company itself have been reported as intangible fixed assets and prototypes as property, plant and equipment. Development projects undertaken at the instigation of third parties have been reported as inventories. The values thereby capitalized have been subject to scheduled amortization on the basis of their expected economic useful lives.

Cash flow statement

The cash flow statement has been compiled in accordance with the provisions of IAS 7. It has been subdivided into three sections: operations, investments and financing. In the case of transactions involving more than one category, the flow of funds has been allocated as appropriate to more than one of the sections. The presentation of the cash flow from operating activities has been based on the indirect method. This involves eliminating those components of the consolidated net income which do not involve a flow of funds from the consolidated net income figure.

The financial funds include liquid funds, which comprise cash holdings and credit balances at banks.

Interest income and expenses, as well as tax payments, have been allocated to the operating activities and outlined in the notes to the financial statements. Dividend payments have been recorded in the cash flow from financing activities.

III. Disclosures relating to the balance sheet

(1) Intangible assets

The composition and development of the fixed assets have been depicted in detail in the fixed asset schedule.

Investments in licenses and similar rights primarily relate to software licenses.

No investments relating to development expenses were capitalized during the year under report. In line with their useful life of three years, amortization amounting to EUR 82k was undertaken for the last time during the financial year under report. This amortization has been reported in the depreciation and amortization item of the income statement.

The research and development expenses which did not meet the criteria for capitalization set out in IAS 38 amounted to EUR 5,120k (previous year: EUR 4,493k). These have been recorded in the income statement, in most cases as personnel expenses.

(2) Property, plant and equipment

For reasons of simplification, assets with costs of acquisition of up to EUR 410.00 have been written down in full upon addition. Such immediate depreciation amounted to EUR 33k (previous year: EUR 50k).

The investments made in property, plant and equipment during the 2005 financial year mainly related to:

	EUR 000s
Construction of a new logistics building	1,151
Internally produced appliances and inspection materials	254
Tools	305
Hardware	84
Plant and office equipment	69

The internally produced appliances and inspection materials item relates to testing instruments and prototypes developed internally by the company. The respective capitalized own services amounting to EUR 254k (previous year: EUR 187k) for the year under report have been subject to scheduled straight-line depreciation in line with their actual decline in use over an expected useful life of three years.

The following average useful lives have been applied for property, plant and equipment:

	U.L. in Years
Buildings	25 - 33
Outdoor facilities	10 - 15
Technical equipment and machinery	3 - 10
Vehicles	3 - 5
Tools	4 - 5
Hardware	3 - 5
Other plant and office equipment	3 - 10

The company land is secured by land charges amounting to EUR 2,000k (previous year: EUR 2,000k) in order to secure liabilities to banks.

Financial assets

(3) Shares in affiliated companies

Of the subsidiaries of STRATEC AG, only Robion AG, Neuhausen am Rheinfall, Switzerland, has been consolidated as of December 31, 2005. As in previous years, the following companies have not been included in the reporting entity on account of their subordinate significance for the net asset, financial and earnings situation of STRATEC AG (c.f. Page 42 „Reporting entity“):

	Share Capital	Shareholding %
STRATEC NewGen GmbH, Birkenfeld	25,000.00 EUR	100.0
STRATEC Biomedical Inc., Aliquippa, USA	15,000.00 USD	100.0

These have been stated in the balance sheet at cost of acquisition.

STRATEC NewGen GmbH was founded on October 2, 2002 with share capital of EUR 25k and during the year under report primarily provided services to STRATEC AG. A subordination and profit transfer agreement has been concluded between STRATEC AG and STRATEC NewGen GmbH. The resultant income of EUR 214.46 from the shareholding for the 2005 financial year has been reported under the income from profit transfer agreements item in the income statement.

The key financial data for STRATEC NewGen GmbH for the 2005 financial year are as follows:

	EUR 000s
Total assets	139.3
Shareholders' equity	23.6
Annual net surplus prior to profit transfer	0.2

STRATEC AG holds 15,000 shares with a nominal value of USD 1.00 each in STRATEC Biomedical Inc. This company, which was established in order to support service and sales-related activities, has been inactive since its foundation.

(4) Shareholdings

This item relates to the shareholding of 4.875% acquired in the share capital of the publicly listed company CyBio AG, Jena, Germany, during the 2005 financial year. These shares constitute financial assets available for sale and have been valued at fair value as of the balance sheet reporting date. Given the high level of volatility in the share price, the fair value has been determined on the basis of investment theory. This involved the application of expected parameters, volatilities and a risk-adjusted interest rate. The fair value calculated in this way amounts to EUR 771k and is thus around EUR 106k higher than the historical cost of acquisition (the market value as of the balance sheet reporting date is around EUR 280k higher than the fair value stated). The difference has been recorded under equity (revenue reserves) without any impact on earnings. The share of EUR 665k with an impact on payments has been recorded in the investment section of the cash flow statement. The valuation at fair value, which does not affect payments, has no impact on the cash flow statement.

(5) Other loans

The other loans item consists of a loan to a former employee. This has been valued at its amortized historic cost.

(6) Inventories

Inventories have been valued at the lower of their attributable cost of acquisition or manufacture on the one hand and of their net selling price as of the balance sheet reporting date, less expenses still to be incurred, on the other. The costs of acquisition or manufacture have been determined using the FiFo method. The valuation of raw materials and supplies as of the reporting date resulted in write-downs amounting to EUR 337k (previous year: EUR 347k).

Unfinished products / unfinished services

Unfinished products and services are structured as follows:

	12.31.2005 EUR 000s	12.31.2004 EUR 000s
Unfinished products	303	146
Unfinished services	8,263	7,556
	8,566	7.702

The unfinished services relate to development projects.

Capitalized development expenses relating to system platforms and other development projects have been amortized over the period of their expected economic useful lives from the time of the delivery of the first serial-produced appliances. This period is generally taken to be five years.

(7) Accounts receivable

Accounts receivable have been stated at their respective face values, less any write-downs.

Credit balances on the part of customers have been reported as other liabilities.

In addition to the individual allowances required for bad debt, account has also been taken of identifiable risks relating to general credit risk in the form of fixed-sum allowances. The necessary allowances amounted to EUR 145k (previous year: EUR 117k). Accounts receivable have terms of less than one year (around 96% of the receivables outstanding as of December 31, 2005 had already been settled by the end of March 2006).

(8) Future receivables from production orders

The future receivables from production orders item relates to production orders stated at their respective percentage of completion. The service relationships involved are based on fixed-price agreements. The degree of completion has been determined in accordance with the so-called cost-to-cost method.

The figures stated include the cumulative costs of acquisition and manufacture of the production orders still underway at the reporting date (EUR 1,841k), as well as a prorated share of the realized earnings (EUR 1,274k).

The prepayments received for production orders did not merit consideration.

Work on the production orders was commenced during the 2005 financial year. Their completion has been scheduled in the respective contractual agreements to take place in 2006.

Sales relating to production orders totaling EUR 44,051k have been reported in the income statement for the 2005 financial year (previous year: EUR 34,961k).

(9) Other receivables and other assets

Other receivables and other assets have been stated at their updated costs of acquisition and have remaining terms of up to one year. They mainly related to tax refund claims.

(10) Liquid funds / cash flow

Financial funds relate to liquid funds, which consist of cash on hand and credit balances at banks. In view of the short terms involved and of the fact that they are predominantly denominated in euros, it has not been necessary to undertake any significant adjustments with regard to fluctuations in interest rates or exchange rates as of the balance sheet reporting date.

The following incoming and outgoing payments have been included in the cash flow from operating activities in the cash flow statement:

	2005 EUR 000s	2004 EUR 000s
Interest paid	267	240
Interest received	64	6
Income tax paid less income tax refunded	1,170	1,523

The reduction in the income taxes paid in 2005 compared with the previous year is attributable to the higher level of prepayments during the 2004 financial year.

(11) Prepayments and accrued income

This item includes expenses for the 2006 financial year paid prior to the reporting date.

(12) Shareholders' equity

The development of the shareholders' equity of the Group has been depicted in the statement of changes in group equity.

At the balance sheet reporting date, the **share capital** of STRATEC AG amounted to EUR 3,660k (previous year: EUR 3,300k). The share capital is divided into 3,660,139 ordinary shares with a nominal value of EUR 1.00 (previous year: 3,299,900 ordinary shares). The shares have been paid in full and are bearer shares. The company has been listed in the Prime Standard of the Frankfurt Stock Exchange since January 2003.

With the consent provided by the Supervisory Board on September 27, 2005, the Board of Management acted on its authorization to undertake a capital increase by partially drawing on the existing authorized capital. Within the framework of this capital increase, a total of 329,989 new bearer shares with a nominal value of EUR 1.00 each were issued in return for cash contributions to the exclusion of shareholders' subscription rights at a price of EUR 37.00. Following the partial utilization of the existing authorized capital, the Board of Management continues to be authorized pursuant to Section 4 (4.5) of the Articles of Incorporation, subject to the consent of the Supervisory Board, to increase the share capital on one or more occasions prior to April 1, 2008 by issuing new shares with a nominal value of EUR 1.00 in return for non-cash or cash contributions, however only to a total of EUR 1,310,011.00 (remaining **Authorized Capital**). In general, the shareholders are to be granted subscription rights. Under certain circumstances outlined in the Articles of Incorporation, however, the Board of Management is entitled to exclude such subscription rights.

Furthermore, Section 4 (4.6) of the Articles of Incorporation provides for conditional capital amounting to EUR 21,500.00 (**Conditional Capital I**). The conditional capital increase serves to grant subscription rights (stock options) up to June 1, 2005 on the basis of the resolution passed by the Annual General Meeting on July 27, 2000. Following the issuing of subscription shares with a nominal value of EUR 10,750.00 as of May 13, 2005, Conditional Capital I amounted to EUR 10,750.00 as of the balance sheet reporting date. Furthermore, Section 4 (4.6) of the Articles of Incorporation also provides for conditional capital amounting to EUR 300,000.00 (**Conditional Capital II**). This conditional capital increase also serves to grant subscription rights (stock options) up to April 1, 2008 on the basis of the resolution passed by the Annual General Meeting on May 28, 2003. Following the issuing of subscription shares with a nominal value of EUR 19,500.00 as of July 28, 2005, Conditional Capital II amounted to EUR 280,500.00 as of the balance sheet reporting date.

The company holds 1,500 **treasury stock** shares. The costs of acquisition for the treasury stock amount to EUR 13k. There were no changes in the volume of treasury stock or in the number of shares in circulation during the period under report. The Annual General Meeting authorized the company on May 14, 2004 to acquire further treasury stock up to a total of ten percent of the company's share capital by November 13, 2005. No use had been made of this authorization. A resolution adopted by the Annual General Meeting on May 4, 2005 authorized the company to acquire further treasury stock up to a total of ten percent of its share capital by November 4, 2006. As of 12.31.2005, no use had been made of this authorization by the company.

The **capital reserve** includes the premium from the issuing of shares less the costs of equity procurement and the benefit accruing from the granting of stock options, which has been reported under personnel expenses.

The increase in the capital reserve by EUR 11,837k from EUR 4,059k as of January 1, 2005 to EUR 15,896k as of December 31, 2005 was structured as follows:

	EUR 000s
Premium from the issuing of shares:	11,880
Less costs of equity procurement	-385
Tax impact of costs of equity procurement	140
	11,635
Premium from the issuing of subscription shares to the Board of Management and employees in connection with the stock option programs	66
Counter entry of the benefit accruing from the granting of stock options to the Board of Management and employees recorded as personnel expenses pursuant to IFRS 2	136
Total	11,837

The **revenue reserves** contain the earnings generated in the past, to the extent that these have not been distributed, as well as the reserve for valuation at fair value, and are structured as follows:

	12.31.2005 EUR 000s	12.31.2005 EUR 000s
Free revenue reserves	1,539	689
Cumulative earnings	5,923	4,655
Reserve for valuation at fair value	106	0
	7,568	5,344

Cumulative earnings showed the following developments during the year under report:

	EUR 000s
Cumulative earnings as of 12.31.2004	4,655
Consolidated income 2004	2,778
Distribution (dividend and bonus for 2004)	-660
Transfer to free revenue reserves	-850
Cumulative earnings as of 12.31.2005	5,923

The reserve for valuation at fair value relates to changes in the value of financial instruments available for sale recorded directly under equity.

Appropriation of earnings

According to the German Stock Corporation Act (AktG), the dividends to be distributed to the shareholders are calculated on the basis of the net earnings reported in the annual financial statements of STRATEC AG compiled in accordance with the German Commercial Code (HGB).

During the 2005 financial year, a dividend of EUR 0.15 per share and a bonus of EUR 0.05 per share (in total: EUR 660k) were paid for the 2004 financial year.

With the consent of the Supervisory Board, the Board of Management proposes that of the net earnings of EUR 9,090k calculated for STRATEC AG in accordance with the German Commercial Code (HGB) an amount of EUR 1,097,591.70 be distributed (EUR 0.30 per share) and that the remaining amount of EUR 7,992k be carried forward. The proposed dividend is dependent on approval by shareholders at the Annual General Meeting and has not been reported as a liability in the consolidated financial statements.

Stock option programs

STRATEC AG has introduced stock option programs for the members of its Board of Management, its managers and its employees. Two stock option models were in place as of December 31, 2005. The programs are aimed at safeguarding the success of the company by enabling employees to acquire shares in the company. For the members of the Board of Management, the stock options simultaneously serve as variable components of their remuneration with a long-term incentive nature and involving risk. An option entitles its owner to subscribe one ordinary bearer share in the company with a nominal value of EUR 1.00 in return for payment of an exercise price at a later date. Following the expiry of qualifying periods and the meeting of certain performance targets, the options may only be exercised during certain exercise windows. The exercise price is equivalent to the average closing price of the shares in STRATEC AG on the five trading days prior to the options being granted. The minimum exercise price in this respect is that of the prorated share of one such share in the share capital. The first half of the options may be exercised two years and the second half three years following their being granted. All options granted lapse following seven years.

The calculations of the fair value have in each case been based on the Black-Scholes option price model. Within the framework of the model, the underlying expected volatility has been derived from historic volatility figures. The following basic conditions and assumptions apply for all stock option programs:

- The exercise and subscription prices are in each case determined at the time of the options being granted (share price at the time of granting).
- The expected term of all stock options so far allocated amounts to between 24 and 36 months from the time of such allocation.
- The exercising of the option rights is in each case dependent on various requirements (compliance with the qualifying period, defined exercise windows, relationship between the closing price upon the expiry of the qualifying period and the subscription price).

The respective stock option programs and the calculation of fair values using the Black-Scholes option pricing model have mainly been based on the following parameters:

Parameter	Stock Option Plans (1)	(2)	(3)	(4)	(5)	(6)
Subscription price per share (EUR)	2.64	3.48	9.84	11.96	26.08	39.53
Expected volatility of the share price (%)	65.0	65.0	50.0	50.0	50.0	50.0
Expected dividend yield (%)	0.00	2.90	1.00	1.00	1.00	0.66
Risk-free interest rate (%)	3.50	2.60	3.15	2.80	2.30	2.60
Assumed turnover of personnel entitled to subscribe	0.00	0.00	3.50	2.00	3.50	3.50
Fair value of options based on Black-Scholes (EUR 000s)	26	49	149	100	60	28

Stock option program I (SOP I)

(1) In line with the contract dated October 25, 2002 based on the resolution passed by the Annual General Meeting held on July 27, 2000, the members of the Board of Management were granted a total of 21,500 option rights for the subscription of shares in STRATEC AG. Following the exercising of option rights, a total of 10,750 shares were issued during the 2005 financial year.

Stock option program II (SOP II)

Stock option program II was adopted by the Annual General Meeting on May 28, 2003. The following option rights were allocated on the basis of this resolution (one option right entitles the bearer in each case to acquire one share in STRATEC AG):

(2) 1st tranche of SOP II: In line with the contract dated May 29, 2003, 37,500 option rights were allocated to members of the Board of Management and 1,500 option rights to employees. Following the exercising of option rights, 18,750 shares were issued to members of the Board of Management and 750 shares to employees during the 2005 financial year.

(3) 2nd tranche of SOP II: In April 2004, a total of 70,000 option rights were issued to employees.

(4) 3rd tranche of SOP II: In August 2004, a total of 37,500 option rights were issued to members of the Board of Management of STRATEC AG.

(5) 4th tranche of SOP II: In July 2005, a total of 11,000 option rights were issued to employees of STRATEC AG.

(6) 5th tranche of SOP II: In October 2005, a total of 3,250 option rights were issued to employees of STRATEC AG.

The total value (intrinsic value plus fair value) of the stock options so far issued to members of the Management Board and employees of STRATEC AG amounts to EUR 412k. The total value of the option rights has been allocated to the agreed qualifying periods as personnel expenses and results in an endowment of the same amount in the capital reserve.

The following options schedule provides an overview of the development of option rights:

	No. of Option Rights	Average Exercise Price
Outstanding on 12.31.2002	**21,500**	**2.64 EUR**
During the 2003 financial year:		
- granted	39,000	3.48 EUR
- exercised	0	--
- lapsed	0	--
Outstanding on 12.31.2003	**60,500**	**3.21 EUR**
During the 2004 financial year:		
- granted	107,500	**10.58 EUR**
- exercised	0	--
- lapsed	0	--
Outstanding on 12.31.2004	**168,000**	**7.93 EUR**
During the 2005 financial year:		
- granted	14,250	29.15 EUR
- exercised	30,250	3.18 EUR
- lapsed	0	--
Outstanding on 12.31.2005	**152,000**	**10.86 EUR**
Exercisable on 12.31.2005	**0**	**--**

This led to personnel expenses of EUR 136k during the 2005 financial year (previous year: EUR 81k). The weighted average share price of the stock options exercised during the reporting period amounted to EUR 26.76.

The range of weighted exercise prices and the weighted average of remaining contractual terms of the stock options outstanding at the end of the reporting period are depicted in the following table:

Number of Stock Options	Weighted Exercise Price (EUR)	Weighted Remaining Contractual Term (months)
30,250	3.18	9.5
107,500	10.58	11.5
14,250	29.15	24.5

Provisions

(13) Provisions for pensions

As of the balance sheet reporting date, there were two undertakings to members of the Board of Management of STRATEC AG with regard to pension and capital allowance commitments. The right to payment of such old-age pensions and capital allowances comes into force upon the respective individuals reaching the age of 65. Reinsurance policies have been concluded in order to cover these pension obligations. Actuarial surveys have been obtained in order to ascertain their asset value as of the balance sheet reporting date.

The obligations have been valued using the projected unit credit method in accordance with the stipulations of IAS 19. The calculation has been based on the 2005G Guidelines published by Heubeck-Richttafeln GmbH, Cologne 2005, using an assumed interest rate of 4.25% (previous year: 5.00%) and a constant level of old-age pension payments. Actuarial profits have been accounted for in accordance with the corridor method.

Pension obligations have been netted against the pledged asset values of the reinsurance policies and reported as such in the balance sheet. The balance sheet statement showed the following developments during the financial year under report:

	12.31.2005 EUR 000s	12.31.2004 EUR 000s
Current value of pension rights at end of financial year	269	222
Fair value of plan assets	-225	-173
	44	49
Cumulative actuarial losses (-) / profits (+) not yet amortized	-20	+7
Net obligation stated in the balance sheet	24	56

The overall personnel and interest expenses reported in the income statement for the financial year under report amounted to EUR 18k. Actuarial profits amounting to EUR 9k have been amortized.

(14) Deferred taxation

The taxes on income include all taxes based on the taxable earnings of the companies included in the consolidated financial statements. Taxes which are not based on the company's earnings have been reported under other operating expenses.

The net balance of the following amounts of deferred income taxes has been reported in the balance sheet:

	12.31.2005 EUR 000s	12.31.2004 EUR 000s
Deferred income tax claims	59	19
Deferred income tax obligations	453	320
Net obligations	394	301

Deferred taxes have been calculated using the liability method, which accounts for the deferred taxation implications on the level of the individual companies of temporary differences between the values of assets and liabilities for tax purposes and the values of the same as reported in the commercial balance sheet (IFRS).

The amount of deferred taxation is calculated taking account of the local tax rates expected to be valid in future, i.e. the tax rates which are applicable upon the tax deferrals being realized. In the case of STRATEC AG, this results in an overall tax rate of 36.3%. The calculation of the tax rates accounts for trade tax, corporate income tax and the solidarity surcharge on corporate income tax. In the case of foreign subsidiaries, the underlying overall tax rate amounts to 14.6%. It was not necessary to undertake any write-downs on the value of deferred taxes taken during the previous year or those taken for the first time during the year under report.

The following table provides a breakdown of income tax expenses in terms of their origin:

	2005 EUR 000s	2004 EUR 000s
Earnings before taxes on income (consolidated)		
- Germany	6,398	4,439
- Other countries	503	0
	6,901	4,439
Actual taxes on income		
- Germany	2,256	1,713
- Other countries	1	0
	2,257	1,713
Deferred taxes		
- Germany	160	-52
- Other countries	72	0
	232	-52
Income tax expenses	2,489	1,661

The temporary differences result from the following items in the balance sheet:

	12.31.2005 EUR 000s	12.31.2004 EUR 000s	Effect on Income Statement EUR 000s
Other provisions	58	18	40
Provisions for pensions	1	1	0
Deferred tax assets	**59**	**19**	**40**
Intangible assets	0	30	-30
Property, plant and equipment	4	0	4
Accounts receivable	29	0	29
Future receivables from production orders	414	260	154
Inventories	6	31	-25
Deferred tax liabilities	**453**	**321**	**132**
Balance (Net tax deferrals)	**394**	**302**	**92**

The increase in net tax deferrals during the 2005 financial year (EUR 92k) has been recorded as deferred tax expenses in the income statement.

The tax effect of EUR 140k resulting from the offsetting of the expenses relating to the increase in equity capital against the capital reserve in the IFRS consolidated financial statements has also been reported as deferred tax expenses in the income statement.

The following table contains a reconciliation between the tax expenses expected and those reported for the respective financial years. An overall Group tax rate of 36.3% has been applied to calculate the expected tax expenses. This corresponds to the overall tax burden of the STRATEC AG parent company.

(-) Expenses (+) Income	2005 EUR 000s	2004 EUR 000s
Consolidated earnings before taxes	6,901	4,439
Expected tax expenses	-2,505	-1,611
Deviations in foreign tax rates	+106	0
Expenses not deductible for tax purposes	-25	-26
Personnel expenses IFRS (stock options)	-49	-30
Other	-16	+6
Total (current and deferred) tax expenses reported in the income statement	-2,489	-1,661

(15) Financial liabilities

These liabilities are primarily due to banks. Short-term financial liabilities amounting to EUR 480k (previous year: EUR 449k) and long-term financial liabilities amounting to EUR 969k (previous year: EUR 263k) were repaid during the 2005 financial year. As in the previous financial year, no long-term financial funds were taken up during the past financial year.

The company had financial liabilities denominated in US dollars (EUR 327k) and Swiss francs (EUR 982k) with a remaining term of less than one year.

Currency differences amounting to EUR 61k were recorded in the income statement. These were countered by income amounting to EUR 15k.

As of December 31, 2005, the company had unutilized short-term credit facilities amounting to EUR 3,722k (previous year: EUR 3,138k).

Interest expenses amounting to EUR 72k for short-term (previous year: EUR 91k) and to EUR 111k for long-term liabilities to banks (EUR 157k) have been reported as interest expenses for the financial year under report.

The repayment terms of the financial liabilities were structured as follows as of December 31, 2005:

Maturity in:	EUR 000s
2006	1,840
- of which: short-term liabilities	
- of which: short-term portion of long-term liabilities	
2007	256
2008	194
2009	195
2010	327
2011 and later	734
	3,546

The company land has been encumbered with a land charge amounting to EUR 2,000k as security for bank loans (previous year: EUR 2,000k).

(16) Accounts payable / liabilities to affiliated companies

Accounts payable mostly relate to goods and services provided in the months of November and December 2005 and are due for payment within one year.

The liabilities to affiliated companies result from the ongoing provision of goods and services and are structured as follows:

	2005 EUR 000s	2004 EUR 000s
Receivables due from STRATEC NewGen GmbH	67	0
Liabilities to STRATEC NewGen GmbH	124	116
	57	116

(17) Other short-term liabilities

These liabilities have been accounted for at their updated cost of acquisition, and are structured as follows:

	2005 EUR 000s	2004 EUR 000s
Wage and salary liabilities	29	0
Tax liabilities	341	137
Social security liabilities	252	227
Prepayments received on orders	925	441
Other liabilities	0	20
	1,547	825

The liabilities have remaining terms of up to one year.

The social security liabilities primarily relate to social security contributions. The tax liabilities relate to the settlement of employee remuneration.

The prepayments received on orders concern milestone payments for contractually agreed development services which have not yet been completed.

(18) Other provisions, tax provisions

Provisions have developed as follows:

	01.01.2005 EUR 000s	Utilized EUR 000s	Released EUR 000s	Added EUR 000s	12.31.2005 EUR 000s
Tax provisions	940	337	0	1,716	2,319
Personnel-related obligations	832	748	7	790	867
Contingent liabilities, outstanding invoices	169	159	2	351	359
Other	454	418	0	492	528
	1,455	1,325	9	1,633	1,754

The tax provisions relate to the company's current income tax obligations.

The personnel-related obligations mainly concern overdue vacation allowances, contributions to social insurance against occupational hazards and employee fees and bonuses.

The other provisions have been taken to cover warranties and year-end and audit costs.

IV. Disclosures relating to the income statement

(19) Breakdown of sales

The breakdown of sales into their respective geographical regions represents the distribution of the STRATEC Group. In view of the fact that the customers of the STRATEC Group generally supply their country outlets and customers from central distribution centers, however, this breakdown of sales does not represent the geographical distribution of the final operating locations of STRATEC analyzer systems. We assume that the overwhelming majority, with a rising tendency, of all analyzer systems ever produced by the STRATEC Group are now located outside Germany.

Sales can be broken down into their respective geographical regions (customer locations) as follows (figures in EUR 000s):

Year	Germany	EU	Other	Total
2005	10,851	29,182	7,264	47,297
2004	8,762	23,573	8,107	40,442
2003	14,929	14,028	2,705	31,662
2002	14,382	11,160	1,154	26,696

The sales during the year under report can be further broken down as follows:

	2005 EUR 000s	2004 EUR 000s
Sales involving analyzer systems and replacement parts	42,858	34,553
Other sales (predominantly relating to the invoicing of development orders, licenses and other services)	3,246	5,482
Increase in volume of future receivables from production orders	1,193	407
	47,297	40,442

Taking due account of the type and structure of our product portfolio, our business model and the specific features of the distribution channels referred to above, any segmental reporting pursuant to IAS 14 would not be not meaningful and would therefore not provide readers of the financial statements with any information of relevance to their decisions. As a result of our business model and of our homogeneous product portfolio (laboratory automation), it is not possible to compile any sector-based segmentation broken down by business division. Any segmentation in terms of geographical regions on the basis of the distribution centers stated by our customers as a result of their internal logistics structures would also not be meaningful.

(20) Increase (previous year: reduction) in unfinished products and unfinished services

This item is structured as follows:

	2005 EUR 000s	2004 EUR 000s
Increase (2004: decrease) in unfinished products	158	-9
Increase (2004: decrease) in unfinished services	706	-1,413
	864	-1,422

The reduction in unfinished services in the previous year included extraordinary write-downs of EUR 424k resulting from the premature dissolution of development agreements. This was offset by prematurely achieved amortization amounting to EUR 52k. No extraordinary write-downs were necessary during the 2005 financial year.

(21) Other operating income

Other operating income primarily relates to income of EUR 36k from exchange rate differences (previous year: EUR 43k) and investment grants amounting to EUR 52k (previous year: EUR 44k). It also includes income of EUR 82k from the affiliated company STRATEC NewGen GmbH.

(22) Personnel expenses / number of employees

The average number of individuals employed by the Group during the financial year was as follows:

	2005 Number	2004 Number
Industrial workers	41	36
Salaried employees	144	127
Trainees	6	5
Total	191	168

Employees in	2005 Number	2004 Number
Germany	186	168
Other countries	5	0
Total	191	168

(23) Depreciation and amortization

Depreciation and amortization were structured as follows:

	2005 EUR 000s	2004 EUR 000s
Intangible assets	188	187
Property, plant and equipment: scheduled depreciation	844	817
	1,032	1,004

(24) Other operating expenses

This item primarily relates to the costs of goods handling and administration and sales-related expenses.

The item is structured as follows:

	2005 EUR 000s	2004 EUR 000s
Advertising, travel and entertainment expenses	349	249
Trade fair expenses, outgoing freight and sales commissions	743	561
External services	1,142	857
Legal and advisory expenses	336	301
Other expenses	1,459	1,221
	4,029	3,189

The other expenses primarily relate to expenses for premises, other personnel expenses, transitory expenses, insurances, contributions, fees, expenses relating to warranty claims and general office and administration expenses. Payments of EUR 122k were made in connection with operating leases during the year under report (previous year: EUR 47k).

(25) Earnings per share

Earnings per share have been calculated pursuant to IAS 33 (Earnings per Share) by dividing the consolidated earnings by the average number of shares in STRATEC AG.

The shares bought back by STRATEC AG in 1998 have been excluded from the calculation of the number of shares in circulation. The increase in the number of shares compared with the previous year is attributable to the issuing of new shares within the framework of a capital increase undertaken in return for cash contributions and to the exercising of stock option programs. Account has been taken of shares issued in the course of the financial year by weighting the respective figures on a prorated basis. The resultant final weighted average number of outstanding shares used for the calculation of (undiluted) earnings per share amounted to 3,397,742 (previous year: 3,298,400).

Pursuant to IAS 33, the annual net income of EUR 4,413k (previous year: EUR 2,778k) reported in the income statement has been used as the unaltered basis for the calculation.

On account of the option rights outstanding as of December 31, 2005, diluted earnings per share have also been calculated. This calculation has been based on the assumption that all outstanding as yet not exercised options are exercised. The number of additional shares to be accounted for is calculated by comparing the proceeds generated by such exercising of options with the proceeds which could theoretically be generated by issuing new shares at market conditions. In the case of employee options, the proceeds also include the current value of the work performed expressed in the valuation of the option. The allocation or exercising of option rights within the financial year has been accounted for using prorated weighting. The resultant weighted average number of outstanding shares with a diluting effect used in the calculation of (diluted) earnings per share amounts to 3,508,647 (previous year: 3,356,290).

(26) Financial instruments / risk management

Financial instruments are contractually regulated financial transactions involving a claim to liquid funds. A distinction is made in this respect between:

- primary financial instruments, such as accounts receivable and payable or financial receivables and liabilities,
- derivative financial instruments not involving a hedging relationship with an underlying transaction,
- derivative financial instruments, such as hedges deployed to cover risks relating to changes in exchange rates and interest rates.

The volume of **primary** financial instruments can be seen in the balance sheet. The financial instruments included on the asset side of the balance sheet have been subdivided pursuant to IAS 39 into various categories and stated in line with their respective classification at cost of acquisition or at fair value. With the exception of shareholdings reported under financial assets, the short-term nature of receivables and liquid funds means that there are no significant variances between the respective book values and fair values.

Changes in the fair value of financial instruments available for sale are recorded under equity up to the realization of the respective financial instrument. If there are permanent reductions in the value of such instruments, however, then these are reported with an impact on earnings.

Financial instruments which constitute financial liabilities have been stated at their updated cost of acquisition.

The fair value of a **primary** instrument is the price at which the instrument can be freely traded between third parties. In the case of securities reported under current and fixed assets, the fair value is generally based on stock market prices. Reference is made to the detailed explanation provided on page 47 „Shareholdings“ in respect of the valuation of the financial shareholding held in CyBio AG.

The financial instruments included in the balance sheet could, in principle, result in the following risks for the company:

- Currency risks:
  These relate to the risk that the value of financial instruments may reduce as a result of changes in exchange rates. Given that the foreign currency positions of the STRATEC Group, particularly in respect of receivables or liabilities, are only of subordinate significance, no hedging measures, such as the use of derivatives, have been taken.
- Default risks:
  These involve contractual partners failing to fulfill their obligations. At STRATEC AG, this risk relates in particular to customer receivables. The risk of default is countered by means of debtor management measures, such as trade credit insurance.
- Interest rate risks:
  Interest rate risks relate to the risk that the value of financial instruments may fluctuate as a result of changes in the market interest rate. In general, this risk relates to financial receivables and liabilities with floating interest rates and terms of more than one year. The risk of interest rate changes may be covered in individual cases by the use of derivative hedging instruments (such as swaps).

Derivative financial instruments not involving a hedging relationship with an underlying transaction are classified as trading financial instruments and valued at fair value as of the balance sheet reporting date. Any differences between the cost of acquisition and the fair value are recorded with an impact on earnings.

Derivative financial instruments involving a hedging relationship to an underlying transaction, such as those deployed to hedge against currency and interest rate risks, are stated with an impact on earnings or under equity depending on whether the hedge in question is intended to secure the fair value or the future cash flow.

During the 2005 financial year an interest swap was deployed in order to secure the supply of working capital to the Swiss subsidiary Robion AG. This involved a so-called „Leveraged-Quanto-CMS-Swap“. The negative fair value of EUR 150k relating to this derivative financial instrument has been reported under long-term financial liabilities. The assumed reference basis (nominal value) of this financial derivative, which does not affect payments and which is used exclusively as a basis for the calculation of interest payments, amounts to EUR 3,000k. Given that the restrictive requirements for the recognition of hedging transactions permitted for accounting purposes were not fulfilled, the aforementioned negative value of the financial derivative has been netted with the income realized from the derivative during the financial year and stated as a liability in the balance sheet under the other financial result with a corresponding impact on earnings. As a result of the lack of any impact on payments on the part of these expenses, this item has been recorded in the cash flow statement under other expenses not affecting payments.

The aims and methods used by the STRATEC Group when dealing with the aforementioned financial risks form the object of the Group's risk management activities. The principles of the risk management policies applied by the Group have been depicted in the „Risk Report“ section of the group management report. The group management report, which has been compiled in accordance with Section 315 of the German Commercial Code (HGB), constitutes an integral component of these consolidated financial statements pursuant to IFRS.

(27) Disclosures concerning the auditor's fee pursuant to Section 314 (1) No. 9 of the German Commercial Code (HGB)

The expenses for the group auditor of the STRATEC Group (Wirtschaftstreuhand GmbH) are structured as follows:

Expenses for:	EUR 000s
a) Auditing of financial statements	59
b) Other confirmation or valuation services	5
c) Tax advisory services	4
d) Other services performed for STRATEC AG or its subsidiaries	26
Total auditor's fee	94

(28) Disclosures relating to closely related companies and individuals

Board of Management and Supervisory Board

The Board of Management of STRATEC AG comprises the following individuals:

- **Hermann Leistner**, Birkenfeld
  (Chairman / Development Division)
  Electrical Engineer
  Managing Director of STRATEC NewGen GmbH, Birkenfeld
- **Marcus Wolfinger**, Remchingen
  (Chief Financial Officer)
  Graduate in Business Administration
- **Bernd M. Steidle**, Oberboihingen
  (Director of Marketing and Sales)
  Businessman

The Chairman of the Board of Management, Hermann Leistner, and the Chief Financial Officer, Marcus Wolfinger, are each authorized to solely represent the company.

There have been no alterations in the composition of the Board of Management between the balance sheet reporting date and the compilation of the consolidated financial statements.

The remuneration of members of the Board of Management consists of fixed annual remuneration (fixed salary) and a variable component dependent on the achievement of individual performance targets. Moreover, members of the Board of Management are entitled to participate in a stock option program. Among other conditions, the exercising of the options requires performance targets determined at the time of their being issued to have been met.

The overall remuneration of the Board of Management during the reporting period amounted to EUR 669k (previous year: EUR 610k). The remuneration is structured as follows:

	2005 EUR 000s	2004 EUR 000s
Fixed salary	504	470
Payments in kind	29	26
Insurance payments	57	8
Performance-related components	79	106
Overall remuneration	669	610

Liabilities of EUR 24k have been stated for pension provisions relating to members of the Board of Management in the consolidated financial statements (previous year: EUR 56k). No stock options were granted to members of the Management Board during the 2005 financial year. In the previous year, the Board of Management had been granted stock options with a total accounting value of EUR 100k in addition to the overall remuneration stated above.

The Supervisory Board consisted of the following individuals at the reporting date:

- **Fred K. Brückner**, Marburg
  (Chairman)
  Chemical Engineer / Self-employed Management Consultant
- **Dr. Robert Siegle**, Birkenfeld
  (Deputy Chairman)
  Self-employed Lawyer
- **Burkhard G. Wollny**, Göppingen
  Banker
- **Dr. Juan Pedro Lorenz**, Heidelberg
  (Substitute Member)

The overall remuneration of the Supervisory Board amounted to EUR 62k during the financial year under report (previous year: EUR 62k). The remuneration can be broken down into the following components:

	2005 EUR 000s	2004 EUR 000s
Fixed compensation	27	27
Performance-related components	27	27
Meeting allowance	8	8
Overall remuneration	62	62

The law firm of Dr. Siegle, a member of the Supervisory Board, „DR.WILLE • DR.SIEGLE • ZINDER“, provided STRATEC AG with legal advisory services amounting to around EUR 29k during the 2005 financial year. These services were invoiced at prices which would also be agreed with third parties.

Apart from this, there were no service relationships between members of the executive and supervisory bodies, or these closely related persons, and the companies included in the consolidated financial statements of STRATEC AG.

Closely related companies

In view of the fact that members of the Leistner family hold a considerable share of the voting rights in both STRATEC AG and in DITABIS Digital Biomedical Imaging Systems AG, the latter company is to be deemed a closely related company pursuant to IAS 24. During the year under report, STRATEC AG provided DITABIS Digital Biomedical Imaging Systems AG with services amounting to EUR 11k (previous year: EUR 33k). These services were invoiced at prices which would also be agreed with third parties.

Subsidiaries

During the 2005 financial year, STRATEC AG generated sales of EUR 82k from transactions with STRATEC NewGen GmbH (previous year: EUR 30k) and received services amounting to EUR 230k (previous year: EUR 310k). These services were invoiced at market prices. The receivables and liabilities relating to this affiliated company as of the reporting date have been noted in the respective balance sheet items.

The transactions undertaken between STRATEC AG and the consolidated subsidiary Robion AG have been eliminated within the framework of the consolidation.

Other closely related individuals

There were no relationships with other closely related individuals.

(29) Contingent liabilities and other financial obligations

The other financial obligations primarily relate to acceptance obligations (basic contracts with suppliers concerning modules), operating leasing contracts and development orders and are structured as in the following table:

	2005 EUR 000s	2004 EUR 000s
Remaining term of up to 3 years	14,035	10,727
of which:		
remaining term up to one year	13,851	7,355

There were no contingent liabilities relating to the provision of security for third-party liabilities.

(30) Events subsequent to the balance sheet reporting date

On January 23, 2006, STRATEC and CyBio AG, Jena, Germany, concluded a cooperation agreement. The object of the cooperation involves the non-exclusive sale by CyBio AG of systems of the STRATEC brand „Robion“. In view of this situation, STRATEC increased its existing shareholding in CyBioAG by 6.250% from 4.875% to 11.125%.

On March 13, 2006, STRATEC took over 100% of the shares in Sanguin International Limited, Barton under Needwood, UK, including its 75% shareholding in Sanguin International Incorporation, Hamden, CT, USA. The purchase price was largely settled in cash, as well as by issuing 18,206 new shares to be created from the authorized capital of STRATEC AG. These shares are subject to an agreed lockup period. The fair value of the STRATEC shares to be issued amounts to EUR 43.94 per share and was determined on the basis of the average price of the share during the ten stock market trading days preceding the transaction. In addition to the shares to be issued, the net transaction volume currently paid (adjusted to account for the liquid funds thereby acquired) amounts to EUR 1,750k. Further as yet not conclusively determined payments will arise and are dependent on the future economic results and the implementation of a software integration project of the company thereby taken over. The expenses already incurred or still to be incurred directly in connection with the acquisition are estimated to amount to around EUR 100k.

The purchase price allocation had not been completed upon these consolidated financial statements being released for publication on March 27, 2006. It is therefore not yet possible at this juncture to make any statements concerning the allocation of the purchase price to the property, plant and equipment and intangible assets thereby acquired or in respect of the reporting of any goodwill. We nevertheless expect virtually the entire value to be allocated to intangible assets. The takeover of Sanguin did not have any major implications for the consolidated income in 2005.

STRATEC AG expects the takeover to lead to considerable savings in the implementation of analyzer systems currently in the development and planning stages. In particular, the combination of Sanguin software with STRATEC technology will enable both companies to benefit from a complementary product portfolio for clinical diagnostic laboratories. Sanguin is currently one of few companies to provide FDA-approved software solutions which can be used by diagnostics companies worldwide, particularly in the field of blood bank applications in networks. Sanguin maintains active business relationships with several of the world's largest diagnostics companies. With customer structures which complement each other ideally, STRATEC now has business relationships with seven of the world's largest diagnostics companies in terms of sales. Furthermore, the takeover of Sanguin and its subsidiary in the USA saves STRATEC the time-consuming and costly process of expanding its representation in the USA.

Birkenfeld, March 27, 2006

STRATEC Biomedical Systems AG

Hermann Leistner

Marcus Wolfinger

Bernd M. Steidle

Group Fixed Asset Schedule of STRATEC Biomedical Systems AG for the Period from January 1, 2005 to December 31, 2005

	Historic Costs EUR					
	01.01.2005	Additions	Disposals	Reclassifications	Increase in Value due to Fair Value	12.31.2005
I. Intangible assets						
Licenses, industrial property rights and similar rights and values, as well as licenses for such rights and values						
1. IT software	517,722.06	177,303.63	0.00	0.00	0.00	695,025.69
2. Development costs	366,401.68	0.00	366,401.68	0.00	0.00	0.00
	884,123.74	**177,303.63**	**366,401.68**	**0.00**	**0.00**	**695,025.69**
II. Property, plant and equipment						
1. Land, leasehold rights and buildings	3,778,854.15	1,192,738.69	0.00	900.00	0.00	4,972,492.84
2. Technical equipment and machinery	284,762.13	127,170.75	0.00	0.00	0.00	411,932.88
3. Other equipment, plant and office equipment	4,082,027.65	820,340.01	175,868.89	2,460.00	0.00	4,728,958.77
4. Prepayments made and assets under construction	3,360.00	13,916.00	0.00	-3,360.00	0.00	13,916.00
	8,149,003.93	**2,154,165.45**	**175,868.89**	**0.00**	**0.00**	**10,127,300.49**
III. Financial assets						
1. Shares in affiliated companies	38,510.89	0.00	0.00	0.00	0.00	38,510.89
2. Shareholdings	0.00	665,250.57	0.00	0.00	105,749.43	771,000.00
3. Other loans	35,746.94	0.00	4,792.95	0.00	0.00	30,953.99
	74,257.83	**665,250.57**	**4,792.95**	**0.00**	**105,749.43**	**840,464.88**
	9,107,385.50	**2,996,719.65**	**547,063.52**	**0.00**	**105,749.43**	**11,662,791.06**

Cumulated Depreciation EUR				Net Book Value EUR	
01.01.2005	Additions	Disposals	12.31.2005	12.31.2005	12.31.2004
400,468.06	106,482.63	0.00	506,950.69	188,075.00	117,254.00
284,267.74	82,133.94	366,401.68	0.00	0.00	82,133.94
684,735.80	**188,616.57**	**366,401.68**	**506,950.69**	**188,075.00**	**199,387.94**
779,176.15	103,689.69	0.00	882,865.84	4,089,627.00	2,999,678.00
191,827.13	22,437.75	0.00	214,264.88	197,668.00	92,935.00
2,799,252.65	717,667.01	174,537.89	3,342,381.77	1,386,577.00	1,282,775.00
0.00	0.00	0.00	0.00	13,916.00	3,360.00
3,770,255.93	**843,794.45**	**174,537.89**	**4,439,512.49**	**5,687,788.00**	**4,378,748.00**
0.00	0.00	0.00	0.00	38,510.89	38,510.89
0.00	0.00	0.00	0.00	771,000.00	0,00
0.00	0.00	0.00	0.00	30,953.99	35,746.94
0.00	**0.00**	**0.00**	**0.00**	**840,464.88**	**74,257.83**
4,454,991.73	**1,032,411.02**	**540,939.57**	**4,946,463.18**	**6,716,327.88**	**4,652,393.77**

Audit Opinion

We have audited the consolidated financial statements compiled by STRATEC Biomedical Systems Aktiengesellschaft, Birkenfeld, whic–h consist of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and the notes to the consolidated financial statements, as well as the group management report, for the financial year from January 1 to December 31, 2005. The responsibility for the compilation of the consolidated financial statements and group management report in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), lies within the responsibility of the board of management of the company. It is our responsibility to submit an opinion on the consolidated financial statements and the group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking due account of the principles governing the proper auditing of financial statements promulgated by the German Institute of Auditors (IDW). These standards require the audit to be planned and executed in such a manner that any inaccuracies and infringements with a material impact on the depiction of the net asset, financial and earnings situation provided by the consolidated financial statements, taking due account of the applicable accounting standards, and by the group management report are identified with reasonable certainty. When determining the audit procedures, account was taken of our knowledge of the business activities and economic and legal environment of the group, as well as of expectations as to any possible errors. The effectiveness of the internal accounting controlling system and the evidence supporting the disclosures made in the consolidated financial statements and the group management report were examined within the framework of the audit, principally on the basis of random samples. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the delineation of the reporting entity and of the principal estimates made by the board of management, as well as an appraisal of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonably secure basis for our opinion.

Our audit did not give rise to any objections.

On the basis of the findings of our audit it is our opinion that the consolidated financial statements are in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), and that they provide a true and fair view of the net asset, financial and earnings situation of the Group, taking due account of the aforementioned requirements. The group management report is in agreement with the consolidated financial statements and provides an accurate overall impression of the situation of the group and adequately presents the opportunities and risks relating to its future development.

Stuttgart, March 27, 2006

Wirtschaftstreuhand GmbH
Chartered Accountants
Tax Consultants

Richter	Ernst
Chartered Accountant	Chartered Accountant

Would you like to be kept regularly informed of developments at STRATEC Biomedical Systems AG in future? We would be very pleased to add your name to our electronic and/or postal mailing lists. Please cross the appropriate box:

❒ Yes, please add me to your electronic mailing list.

Surname ______________________________

First name ______________________________

E-mail ______________________________

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First name ______________________________

Street ______________________________

Zip-code/City ______________________________

Country ______________________________

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Financial Calendar 2006

04.27.2006	Annual Press Conference Call
05.17.2006	Publication of First Quarter Report
06.23.2006	Annual General Meeting, Pforzheim/Germany
08.09.2006	Publication of Second Quarter Report
11.08.2006	Publication of Third Quarter Report
11.27.2006 - 11.29.2006	Deutsches Eigenkapitalforum, Frankfurt am Main/Germany (Analyst Conference)

Subject to amendment.

Imprint

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