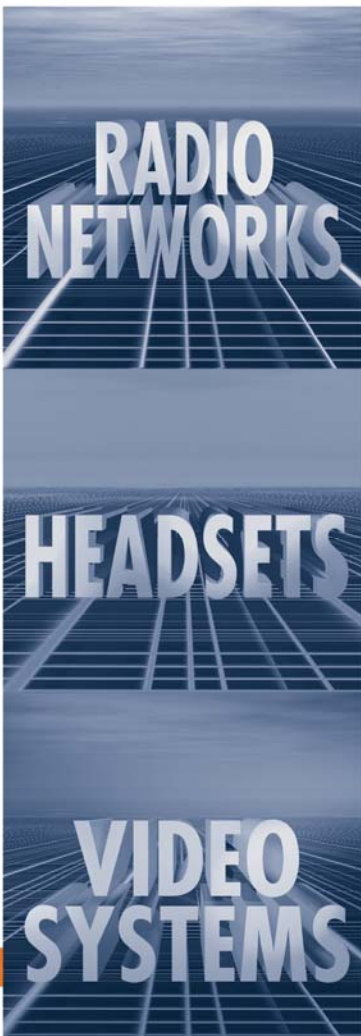




# **CeoTronics Interim Report**



# Q III

# 2005/2006

Consolidated interim report CeoTronics AG for the first three quarters

## 1. Business Report

Ladies and Gentlemen,  
Dear Shareholders,

With revenues of €13,460 thousand after nine months of fiscal year 2005/2006, CeoTronics exceeded the previous year's record level by €505 thousand. In addition to revenue growth of 3.9%, the CeoTronics Group recorded a 97% increase in its order backlog as of February 28, 2006.

The reasons for the Company's encouraging revenue development include the increased investment by German security and law enforcement agencies in audio and video systems for use during the FIFA World Cup 2006, the delivery of a total of 2,900 motorcycle helmets featuring CeoTronics communications systems to the French gendarmerie and police, sales of video/digital communication systems by CT-Video GmbH, and the ongoing switch to digital communication technology by Spain's state security and law enforcement agencies, who have chosen CeoTronics audio systems.

CeoTronics increased its revenues in Germany, Spain, and France as of February 28, 2006, in some cases recording substantial growth. Revenues stabilized in the U.S.A., while euro revenues in Switzerland, the United Kingdom, and Poland fell as against the first nine months of the previous fiscal year.

Business development in the U.S.A. has yet to meet our expectations. The improved cost structure due to our relocation will not be reflected in earnings until fiscal year 2006/2007.

EBITDA (Earnings before Interest, Taxes, Depreciation, and goodwill Amortization/impairment) fell by €58 thousand in comparison with consolidated earnings for the first three quarters of the previous year, from €1,904 thousand to €1,846 thousand. EBIT declined during the same period by €198 thousand from €1,602 thousand to €1,404 thousand, while net income after taxes for the nine months decreased by €223 thousand from €976 thousand in the previous year to €753 thousand.

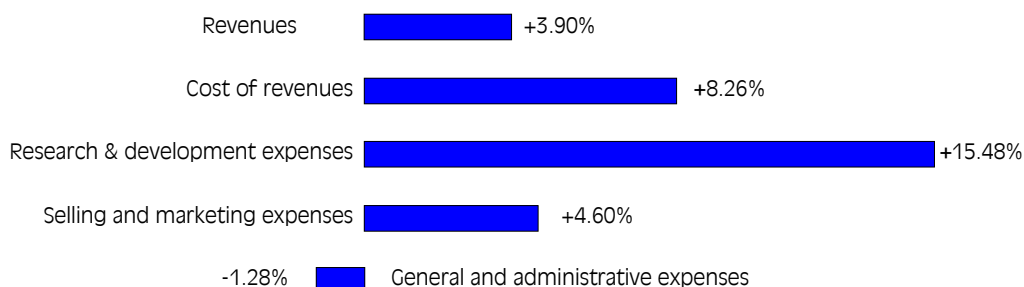
Gross cash flow fell by €83 thousand in the period under review, from €1,278 thousand to €1,195 thousand.

We regard these 9-month earnings figures as an "expected and scheduled normalization" following the "record fiscal year 2004/2005," which featured exceptional quarterly and annual results that are now being compared with the quarterly reports and the financial statements of the current fiscal year 2005/2006.

Revenues as well as EBITDA, EBIT, and income before income taxes and minority interest all developed positively year-on-year in the third quarter. The Company also expects a year-on-year improvement in Q4 2005/2006.

The Group's extremely high equity ratio fell slightly from 75.4% to 74.9%.

The consolidated key figures (U.S. GAAP, unaudited) for the first three quarters of fiscal year 2005/2006 were as follows.



The cost of revenues increased due to write-downs of inventories (€350 thousand in Q3 alone), among other things relating to the conversion of products and production processes to comply with the new RoHS (Restriction of Hazardous Substances) Directive, as well as the revaluation of inventories at CeoTronics U.S.A. and CeoTronics France.

The planned rise in research and development expenses is partly due to greater development expenses, increased staff capacity, and higher materials and testing costs. The proportion of revenues accounted for by selling and marketing expenses remained virtually unchanged. The increase is due to higher market exposure costs for customer advisors, advertising, and participation at trade fairs, among other things. Administrative expenses fell again in comparison with the previous year from their already low level.

The number of employees in the Group increased by 3 from 126 to 129, with all new jobs being created in Germany. The proportion of trainees at the German company CeoTronics AG and at CT-Video GmbH is 4%.

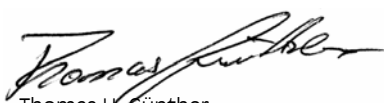
At -7%, CeoTronics' share price performed negatively in the period under review – a development which the Board of Management finds difficult to comprehend. The Board suspects that a number of shareholders expected the Company to simply continue the exceptional revenue and earnings development generated in the record year 2004/2005, which was dominated by the delivery and invoicing of the largest single order received by CeoTronics to date (€1.92 million) and that, due to this overoptimistic assumption, they were disappointed by the Company's six-month figures for 2005/2006 and our traditionally conservative revenue and earnings targets for fiscal year 2005/2006. However, we consistently pointed out the exceptional circumstances surrounding our record fiscal year 2004/2005.

CeoTronics will continue to calculate its revenue and earnings targets carefully, and formulate them conservatively, in future.

The Board of Management is satisfied with the Company's 9-month results, in particular given the difficult budget situation in the public sector in Germany, the depreciations the forward-looking investments being made in

- markets
- technologies
- products
- production processes, and
- jobs.

We have increased our revenue target from €17,000 thousand to around €17,600 thousand and we will therefore probably exceed our earnings target of €800 thousand for the year 2005/2006.



Thomas H. Günther

Chairman and CEO



Berthold Hemer  
Deputy Chairman

Vice-President Research & Development, CTO

Rödermark, April 13, 2006

## 2. Balance Sheet

Assets	Quarterly Report (closing date of current quarter) February 28, 2006	Annual Report (closing date of last annual report) May 31, 2005
	€ thousand	€ thousand
<b>Current assets</b>		
Cash and cash equivalents	2,529	2,243
Marketable securities	0	0
Trade accounts receivable	2,852	1,676
Accounts receivable due from related parties	0	0
Inventories	3,734	3,912
Deferred tax	545	916
Prepaid expenses and other current assets	381	315
<b>Total current assets</b>	<b>10,041</b>	<b>9,062</b>
<b>Non-current assets</b>		
Property, plant, and equipment	3,203	3,245
Intangible assets	123	151
Goodwill	1,431	1,502
Participations	0	0
Investments	10	16
Investments accounted for by the equity method	0	0
Deferred tax	0	0
<b>Total non-current assets</b>	<b>4,767</b>	<b>4,914</b>
<b>Total assets</b>	<b>14,808</b>	<b>13,976</b>

Liabilities and shareholders' equity	Quarterly Report (closing date of current quarter) February 28, 2006	Annual Report (closing date of last annual report) May 31, 2005
	€ thousand	€ thousand
<b>Current liabilities</b>		
Current portion of capital lease obligation	0	0
Short-term debt and current portion of long-term debt	91	289
Trade accounts payable	1,285	436
Accounts payable due to related parties	0	0
Advance payments received	0	29
Accrued expenses	813	851
Deferred revenues	0	0
Income tax payable	205	179
Deferred tax	0	0
Other current liabilities	394	392
<b>Total current liabilities</b>	<b>2,788</b>	<b>2,176</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	885	996
Capital lease obligations, less current portion	0	0
Deferred revenues	0	0
Deferred tax	0	0
Pension accrual	0	0
<b>Total non-current liabilities</b>	<b>885</b>	<b>996</b>
<b>Minority interest</b>	<b>42</b>	<b>48</b>
<b>Shareholders' equity</b>		
Share capital	6,600	6,600
Additional paid-in capital	4,471	4,471
Net retained profit/accumulated losses (incl. retained earnings)	31	-282
Accumulated other comprehensive income/loss	-9	-33
<b>Total shareholders' equity</b>	<b>11,093</b>	<b>10,756</b>
<b>Total liabilities and shareholders' equity</b>	<b>14,808</b>	<b>13,976</b>

### 3. Income Statement

Income Statement	Quarterly Report (current quarter) December 1, 2005 – February 28, 2006	Quarterly Report (comparative quarter of previous year) December 1, 2004 – February 28, 2005	Year-to-date (current fiscal year) June 1, 2005 – February 28, 2006	Year-to-date (comparative period of previous year) June 1, 2004 February 28, 2005
	€ thousand	€ thousand	€ thousand	€ thousand
<b>Revenues</b>	<b>5,349</b>	<b>4,295</b>	<b>13,460</b>	<b>12,955</b>
Cost of revenues	-3,116	-2,064	-7,037	-6,500
<b>Gross profit/loss</b>	<b>2,233</b>	<b>2,231</b>	<b>6,423</b>	<b>6,455</b>
Selling and marketing expenses	-1,119	-1,017	-3,114	-2,976
General and administrative expenses	-357	-365	-1,083	-1,097
Research and development expenses	-342	-242	-873	-756
Other operating income and expenses	258	-21	156	-24
Impairment of goodwill	-3	0	-105	0
<b>Operating profit/loss (E.B.I.T.)</b>	<b>670</b>	<b>586</b>	<b>1,404</b>	<b>1,602</b>
Interest income and expenses	-9	-26	-22	-60
Investment income	0	0	0	
Income/expense from equity accounted investments method	0	0	0	
Foreign currency exchange gains/losses	0	0	0	
Other income/expenses	0	0	0	
<b>Income/loss before income taxes (and minority interest)</b>	<b>661</b>	<b>560</b>	<b>1,382</b>	<b>1,542</b>
Income taxes	-299	-162	-613	-545
Extraordinary income/expenses	0		0	
<b>Income/loss before minority interest</b>	<b>362</b>	<b>398</b>	<b>769</b>	<b>997</b>
Minority interest	-9	-17	-16	-21
<b>Net income/loss</b>	<b>353</b>	<b>381</b>	<b>753</b>	<b>976</b>
Earnings per share (basic, in €)	0.16	0.17	0.34	0.44
Earnings per share (diluted, in €)	0.16	0.17	0.34	0.44
Weighted average shares outstanding (basic)	2,199,998	2,199,998	2,199,998	2,199,998
Weighted average shares outstanding (diluted)	2,199,998	2,199,998	2,199,998	2,199,998

## 4. Cash Flow Statement

Cash Flow Statement	Year-to-date (current fiscal year)	Year-to-date (comparative period of previous year)
	June 1, 2005 – February 28, 2006	June 1, 2004 - February 28, 2005
	€ thousand	€ thousand
<b>Cash flow from operating activities</b>		
Income/loss before income taxes	1,382	1,542
Income taxes	-613	-545
<b>Net income after taxes before minority interest</b>	<b>769</b>	<b>997</b>
Minority interest	-16	-21
<b>Net income after taxes and after minority interest</b>	<b>753</b>	<b>976</b>
Depreciation and amortization	442	302
<b>Gross cash flow</b>	<b>1,195</b>	<b>1,278</b>
<b>Changes in assets and liabilities</b>		
Change in trade accounts receivable	-1,176	1,231
Change in inventories	178	146
Change in prepaid expenses and other current assets	-66	104
Change in trade accounts payable	849	-386
Change in advanced payments received	-29	-2
Change in other accruals	-38	389
Change in income tax payable	26	104
Change in other current liabilities	2	-254
Change in deferred tax assets	371	384
<b>Total change in assets and liabilities</b>	<b>117</b>	<b>1,716</b>
<b>Net cash provided by operating activities</b>	<b>1,312</b>	<b>2,994</b>
<b>Cash flow from investing activities</b>		
Purchase of intangible assets	-11	-47
Purchase of property, plant, and equipment	-256	-247
Change in other loans	6	0
Change in foreign currency differences	-35	86
Disposal of assets (net carrying amounts)	1	0
<b>Net cash used in investing activities</b>	<b>-295</b>	<b>-208</b>
<b>Cash flow from financing activities</b>		
Change in short-term debt and short-term portion of long-term debt	-198	66
Change in minority interest	-6	17
Change in medium- and long-term debt	-111	-706
Dividend	-440	-286
<b>Net cash used in financing activities</b>	<b>-755</b>	<b>-909</b>
<b>Change in cash and cash equivalents</b>	<b>262</b>	<b>1,877</b>
Change in cumulative translation adjustment (comprehensive income)	24	-56
Cash and cash equivalents at beginning of period	2,243	370
Cash and cash equivalents at end of period	2,529	2,191

## 5. Statement of Shareholders' Equity

	Capital stock	Additional paid-in capital	Retained earnings	Net retained profit/accumulated losses	Cumulative currency translation adjustment	Comprehensive income	Shareholders' equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
<b>Current year</b>							
As of May 31, 2005	6,600	4,471	70	-352	-33		10,756
Consolidated net income				753		753	753
Dividend				-440			-440
Currency translation differences in the period					24	24	24
Comprehensive income						777	
As of February 28, 2006	6,600	4,471	70	-39	-9		11,093
<b>Previous year's figures for comparison</b>							
As of May 31, 2004	6,600	4,471	70	-1,067	-14		10,060
Consolidated net income				976		976	976
Dividend				-286			-286
Currency translation differences in the period					-56	-56	-56
Comprehensive income						920	
As of February 28, 2005	6,600	4,471	70	-377	-70		10,694

The equity ratio of the CeoTronics Group was 74.9% as of February 28, 2006 (previous year: 75.4%).

There were no material changes to shareholders' equity and virtual stock options compared with the last annual financial statements.

## 6. Notes to the Consolidated Report of CeoTronics AG on the First Nine Months Ended February 28, 2006

The quarterly report was prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). There were no changes in the accounting, measurement, and consolidation principles compared with the most recent annual financial statements as of May 31, 2005.

Further details can be found in the Annual Report for fiscal year 2004/2005.

## 7. Segment Reporting

The Company measures the success of its subsidiaries by measuring their net income before income tax. The accounting and reporting principles used for regional reporting comply with the group accounting principles. The subsidiaries in the individual countries are legally independent and have their own management teams.

The Company's product groups are comparable in terms of both their production process and the market development methods used. Internal and external reporting follows geographical criteria in the first instance.

The information below is presented by region.

Revenues for Q1-3 2005/2006 and 2004/2005 are broken down by regional subsidiary as follows:

	Q1-3 2005/2006	Q1-3 2004/2005
	€ thousand	€ thousand
<b>Revenues</b>		
Germany	11,685	11,599
Rest of Europe and rest of world	6,832	5,378
Subtotal	18,517	16,977
Elimination of intercompany trade	-5,057	-4,022
External revenues	13,460	12,955

The net income for Q1-3 2005/2006 and 2004/2005 is broken down by regional subsidiary as follows:

	Q1-3 2005/2006	Q1-3 2004/2005
	€ thousand	€ thousand
<b>Net income</b>		
Germany	954	218
Rest of Europe and rest of world	-75	255
Subtotal	879	473
Consolidation entries	-126	503
Consolidated net income	753	976

Total assets as of February 28, 2006 and February 28, 2005 are broken down by regional subsidiary as follows:

	February 28, 2006	February 28, 2005
	€ thousand	€ thousand
<b>Total assets</b>		
Germany	16,796	16,054
Rest of Europe and rest of world	5,508	5,237
Subtotal	22,304	21,291
Consolidation entries	-7,496	-7,100
Consolidated total assets	14,808	14,191

Total non-current assets as of February 28, 2006 and February 28, 2005 are broken down by regional subsidiary as follows:

	February 28, 2006	February 28, 2005
	€ thousand	€ thousand
<b>Non-current assets</b>		
Germany	3,171	3,194
Rest of Europe and rest of world	1,596	1,599
Non-current assets (total)	4,767	4,793

Capital expenditure in Q1-3 2005/2006 and 2004/2005 is broken down by regional subsidiary as follows:

	Three quarters 2005/2006	Three quarters 2004/2005
	€ thousand	€ thousand
<b>Capital expenditure</b>		
Germany	208	197
Rest of Europe and rest of world	59	97
Capital expenditure (total)	267	294

## 8. Reportable Securities Holdings

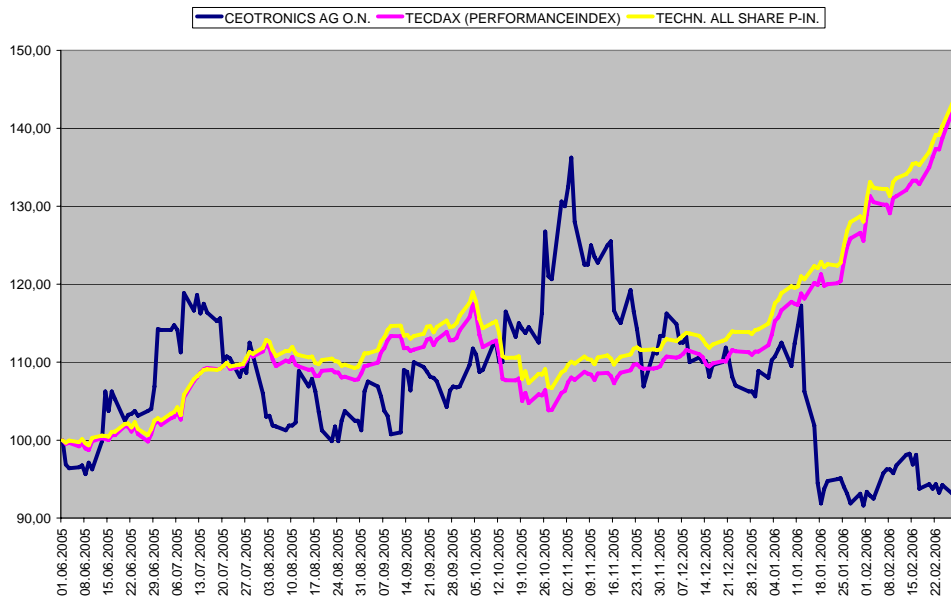
Reportable Securities Holdings as of February 28, 2006		CeoTronics shares (ISIN DE0005407407/WKN 540740) (quantity)	Virtual stock options (quantity)
<b>Board of Management</b>			
Chairman	Thomas Günther	9,498	2,000
Deputy Chairman, Vice President R&D	Berthold Hemer	171,050	2,000
Vice President Operations	Günther Thoma	6,022	2,000
<b>Supervisory Board</b>			
Chairman	Hans-Dieter Günther	371,200	0
Deputy Chairman	Horst Schöppner	219,270	0
Member of Supervisory Board	Stephan Haack	0	0

The total number of CeoTronics AG shares at the reporting date amounted to 2,199,998.

Dividends totaling €439,999.60 were paid during the period under review in accordance with the resolution of the General Meeting on November 4, 2005.



## 9. CeoTronics Shares



CeoTronics shares in comparison with indices from June 1, 2005 (indexed) to February 28, 2006

ISIN DE0005407407/WKN 540740



Source:



At -7%, CeoTronics' share price performed groundlessly negatively in the period under review. In contrast, the performance of the TECDAX and the Technology All Share was extremely positive, at +39.8% and +40.5% respectively.

If business remains strong and the Company reaches its revenue and earnings targets, the Board of Management plans to propose a dividend to the Supervisory Board and the General Meeting.

## 10. Changes in the Scope of Consolidation

The scope of consolidation has not changed and consists of the following companies:

CeoTronics AG (Rotkreuz, Switzerland), CeoTronics Sarl (Pontault-Combault, France), CeoTronics Ltd. (Bestwood Village, Nottingham, United Kingdom), CeoTronics, Inc. (Chesapeake, Virginia, U.S.A.), CeoTronics S.L. (Madrid, Spain), CT-Video GmbH (Lutherstadt Eisleben, Germany), AACOM-CeoTronics Ltd. (Lodz, Poland).

Subsidiaries in which the parent company directly or indirectly holds the majority of shares, and hence of the voting rights, are consolidated in accordance with the principles of U.S. GAAP purchase accounting.

The 25% minority interest in AACOM-CeoTronics Ltd., Lodz, Poland, is accounted for by recognizing the minority interest and its effects on net income/loss in a separate item in the liabilities and shareholders' equity side of the balance sheet, in the income statement, and in the cash flow statement.



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