

GROUP MANAGEMENT REPORT 2011

FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2011

- Sales increase 50% to €305.3 million
- Consolidated EBIT rises 20% to €24.2 million
- Consolidated EBITDA increases 24% to €30.8 million

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1. BUSINESS AND GENERAL CONDITIONS

PROFILE

euromicron is a leading national, Europe-oriented system house for communications, security and data networks and boasts production expertise in the field of fiber optics technology. The company offers customers from all sectors a one-stop shop for tailored, vendor-independent network solutions. Its portfolio comprises planning, implementing and maintaining networks, as well as developing, producing and distributing network components based on copper, fiber optic and wireless technology. The product portfolio includes active network components, connectors and connection technology for optical fiber networks, pre-assembled fiber optic cables and assembly and measuring equipment. The components are used in WANs and LANs for data communication at data centers, and in the field of medical and security technology.

The euromicron Group is an integrated system house that boasts production expertise and unites top-level development, project planning, consulting and distribution know-how.

STRUCTURE AND ORGANIZATION

The euromicron Group comprises the parent company euromicron AG and 18 subsidiaries that are included in its consolidated financial statements. Its regional focus is in the German-speaking market, enabling intensive support for its customers, 85% of whom are German. As part of the company's internationalization, the focus of its operating activities outside Germany is on Italy, Austria, France and Poland. Further countries in Southern Europe, the Benelux states, Scandinavia and Eastern Europe are tapped by export and project business, with this being controlled from Germany. The euromicron Group pursues potential opportunities outside Europe with prudence and by deploying its expertise. The main strategic focus of marketing remains to systematically penetrate the domestic market.

Business segments are identified on the basis of internal organizational and reporting structures which are in principle regionally oriented. The euromicron Group is divided into the three controlling units euromicron North, euromicron South and euromicron WAN services (wide area network services). The euromicron Group's management is headed by two Executive Board members. Operational business is run locally by the subsidiaries, whose General Managers report directly to the Executive Board.

The Group's strategic alignment is defined by the Executive Board and implementation of it is ensured by continuous reporting and communication between the holding and operating companies.

euromicron AG, the strategic management holding for the Group, assumes responsibility for central tasks, relating to controlling, finance, human resources, legal, purchasing, IT and public and investor relations. It has a controlling influence on operating business of the individual associated companies.

INTERNAL CONTROL SYSTEM

Management of the euromicron Group has set itself the objective of securing and expanding the Group's success sustainably as part of a value-oriented growth strategy. Fiscal 2011, like the year before, was dominated by the build-and-integrate phase. The euromicron Group aims to achieve an annual sales volume of €500 million in five years' time, following integration of the business operations of telent GmbH and a phase of organic growth. This objective is supported proactively by the internal control system.

All the euromicron Group's activities are controlled and monitored on a segment-oriented basis as part of this target system. Among other things, management uses monthly reporting to constantly analyze and control the Group companies, the business segments and the Group. The details from the Group companies explained in the notes are consolidated and analyzed as part of this. Moreover, there are quarterly calculations on expectations at the end of the fiscal year, which are likewise analyzed and consolidated. Budget variances are examined to determine their impact on the financial targets and measures to fulfill the budget are initiated. An extensive risk management system is the foundation for current and quarterly reporting and the annual forecast so that potential changes can be identified at an early stage. Proposals for measures to ensure that targets are achieved and to avert risks and their effectiveness are constantly analyzed, discussed and implemented.

Important key figures that are monitored regularly are shown by way of example in the table below:

KEY FIGURES AND CONTROL FACTORS

	2011 € m.	2010 € m.
Sales	305.3	203.6
Earnings before interest and taxes (EBIT)	24.2	20.1
Earnings before interest, taxes, depreciation and amortization (EBITDA)	30.8	24.7
EBIT margin	7.9 %	9.9 %
Order books	127.5	91.1
Consolidated net income for euromicron AG shareholders	12.2	11.5
Average number of shares	5.25	4.82
Undiluted earnings per share	2.33	2.38

2. ECONOMIC ENVIRONMENT

DEVELOPMENT OF THE MARKET AND SECTOR

The powerful upturn in the global economy in 2010 was underpinned by massive government stimulus programs and strong growth in Asia. The world economy continued to recover in 2011, despite the fact the necessary measures to consolidate public finances dampened economic dynamism in some industrialized countries. After global gross domestic product (GDP) increased by around 5% in 2010, the solid growth continues in 2011 at around 4%. Growth in the industrialized countries is around 2%, approximately 0.5 percentage lower than in the previous year, but production was able to attain pre-crisis levels again for the main part and so largely recover from the global economic crisis in the past fiscal year. Alongside this, most newly industrializing countries still recorded a relatively solid pace of growth. Uncertainty on the capital and foreign exchange markets led to high volatility in exchange rates and the price of oil in the course of 2011.

Growth in the Euro zone is perceptibly weaker

GDP in the Euro zone grew by an average of around 1.5% in 2011. Whereas strong investments by companies resulted in a high pace of growth at the beginning of the year, growth weakened considerably in the further course of the year. Against the backdrop of trends in Europe, the German economy grew far more strongly in 2011 at about 3.0%. The main contributing factor to this was the good order situation in industry. However, uncertainty on the financial markets impaired consumption and investment toward the end of the year.

The economic situation in the Federal Republic of Germany

The German economy presented itself in top form and in a buoyant mood in the past year. The ifo Economic Test for trade and industry showed its highest result since German reunification. According to surveys by the Association of German Chambers of Industry and Commerce (DIHK), companies gave top ratings similar to those in the boom period in 2007 in their assessment of their business situation and expectations. The basis for this was the growth in gross domestic product of around 3.0% in real terms in 2011. Domestic demand contributed to more than two thirds of this growth. In particular gross capital expenditure – i.e. investment in equipment, buildings and inventories – increased strongly and capacity utilization came close to its normal levels. The surveys confirmed that companies are also planning to significantly increase investments in 2012 and that expansion investments are gaining in importance. In addition, they are planning to increase their workforce. This is accompanied by a perceptible increase in private consumer spending, which will make a positive contribution to overall economic growth. Measured by developments on the employment market, the upturn has taken root across the whole breadth of the economy. In view of a certain normalization in global economic growth, those are good prerequisites for balanced economic development. However, further growth in the coming years will probably be somewhat more muted than in the past year.

Industry barometer

Companies in the information and communications technology (ICT) industry assess their business prospects very positively overall. The BITKOM Industry Index stood at 60 points in the fourth quarter, with the result that a further increase in sales is assumed for 2012. Providers of IT services and software are particularly optimistic: Up to 80% expect to grow sales in 2012. Technologies such as cloud computing and more widespread use of powerful terminal devices will ensure dynamic development in the ICT sector. The positive overall market trends are also impacting companies' personnel planning. Around 10,000 additional jobs were again created in the industry as a whole, which now numbers a total of some 858,000. The topic of cloud computing is also assessed by around 66% of the surveyed companies as the top market and technology trend in 2012, followed by mobile apps (approximately 53%), IT security (approximately 48%) and social media (approximately 37%). The topics of visualization and IT outsourcing are hardly losing in importance compared with the new megatrends. Smart grids are also recognized as a trend by more and more companies (some 24% of companies surveyed).

A further noteworthy success in 2011 was in broadband expansion in Germany, which is being stepped up in 2012. As a result, regions that are difficult to reach will be supplied with high-speed Internet in the future.

DEVELOPMENT IN FISCAL 2011

As part of the euromicron Group's long-term strategy of careful spending and making all technologies available at all German locations as part of the build-and-integrate strategy to as to be able to provide customers with ideal consulting and support, it was able to expand its operational business further and actively leverage the opportunities offered by a growing market.

The greatest opportunity presented itself with the acquisition of the business operations of telent GmbH by Tango GmbH, which was founded by euromicron AG as sole shareholder with nominal capital of €25 thousand on May 13, 2011. Funding of the acquisition was secured by a long-term loan. On June 7, 2011, the assets of telent GmbH were purchased by Tango GmbH and at the same time Tango GmbH was renamed telent GmbH – ein Unternehmen der euromicron Gruppe. In fiscal 2011, the capital of the "new" telent GmbH was adjusted to the level of the former telent GmbH before the asset deal – €8.0 million – by an increase in the nominal capital and a contribution to the capital reserves. telent GmbH is an independent vendor of solutions relating to networks and systems for enterprise and security-related communication, mainly in the WAN arena. euromicron's strategy of tackling new investments with great caution and focusing on stable operational business has proven itself in particular in this environment, which is founded on a high degree of sustainability and great customer trust. Merging of euromicron Group's activities with those of telent GmbH is proceeding as planned and offers the Group a wealth of cross-selling potentials and access to new, highly promising customer segments.

After the purchase of telent GmbH, the latter acquired the analog radio communications division of Cassidian Communications GmbH via an asset deal under the notarized agreement dated June 30, 2011. telent GmbH, with its EADS technology that has proven its worth over decades in the field of analog radio communications, is excellently equipped to ensure the further expansion, development and supply of related products, as well as repair, servicing, spare parts management and services for existing customers with analog radio communications technology. telent GmbH addresses the needs of customers transitioning to the new digital radio technology through partnerships with leading vendors in this field.

A further component of euromicron's strategy is to acquire companies that have well-trained employees and interesting customer relationships. In this connection, the acquisition of the former ACE Advanced Communication Engineering GmbH by euromicron solutions GmbH, a subsidiary of the euromicron Group, by means of an asset deal pursuant to the notarized purchase agreement dated September 28, 2011, and the acquisition of the former TeraMile GmbH by MICROSENS GmbH & Co. KG, a subsidiary of the euromicron Group, via an asset deal under the notarized purchase agreement dated August 12, 2011, should be mentioned. Both companies help bolster the euromicron Group's technological competence in the highly promising fields of active and IP technology and strengthen the qualifications of its workforce.

As part of strengthening the Group's activities in Austria, euromicron holding GmbH founded the company Qubix distributions GmbH with the notarized agreement dated December 15, 2011, in order to establish the successful business model of Qubix, Italy, there.

As part of the optimization of the euromicron Group's structures, restructuring activities were carried out in the past year in order to enhance its efficiency. Under the notarized purchase and assignment agreement dated June 6, 2011, euromicron AG acquired all the shares in ckt GmbH, Munich, from euromicron austria GmbH. In addition, ckt GmbH was merged with euromicron solutions GmbH – ein Unternehmen der euromicron Gruppe, Frankfurt/Main, effective January 1, 2011, under the notarized agreement dated June 6, 2011. With the notarized purchase and assignment agreement dated June 7, 2011, euromicron AG acquired 96% of the shares in GLT Telecom GmbH, which had been held up to then by Avalan GmbH, effective January 1, 2011. The other 4% of the shares in GLT Telecom GmbH were already held by euromicron AG. On the same date, GLT Telecom GmbH was then merged with Avalan GmbH – ein Unternehmen der euromicron Gruppe – effective January 1, 2011.

The performance of euromicron's companies in Austria and the Netherlands – euromicron austria GmbH, NBG Fiber Optics GmbH und WCS Fiber Optic B. V. – was not able to fulfill expectations in the past fiscal year 2011. Consequently, measures to enable successful implementation of the business model in the Austrian market were taken and will have a positive impact in the coming years. After euromicron austria GmbH obtained all the main certifications for its core fields in the Austrian market in 2010 and 2011, one of the key strategic aspects was to push ahead with establishing and implementing the fields of active network technology and the field of security technology so that the Group can secure and retain business in Austria with its high sales and strong earnings. A further focus was on establishing and expanding distribution operations. Adjusting cost structures to the volume of business, optimizing business processes and expanding the qualifications required by the workforce in terms of quality and quantity will support the measures to secure earnings. Further opportunities are seen in the expansion of assembly and the passive technology range.

Once again this year, the Group was able to cut costs, optimize processes and successfully adjust cost structures to market circumstances. Focusing on untapped potential in process optimization to successfully enhance its earnings strength in the coming years is a key component of its intensive build and integrate strategy. Integration and merging of highly specialized employees and locations to create a homogeneous local presence offering extensive know-how in the entire field of network infrastructure was a key focus in the past year and will also be one of the main focuses in the coming years. The Group remains true to its maxim of expanding technology, market access and market volumes, as well as pressing ahead with entering new, forward-looking markets and business segments.

Four branch offices and the headquarters of euromicron solutions GmbH moved into new operating and office facilities for strategic, market-oriented, logistical, economic and employee-related reasons. As a result, the new locations in Mainz, Karlsruhe, Hanover, Neu-Isenburg and Frankfurt offer ideal conditions for building on our regional presence, as well as a suitable representational ambience.

In 2011, we also launched measures to optimize the IT systems we use as part of our organizational development activities. In addition, the concept for preparatory basic work on standardizing process flows and definitions throughout the Group was largely formulated in the year under review and will be monitored intensively and implemented further in the integration phase.

Our appearance at the CeBIT trade fair in Hanover at the beginning of 2011 under the slogan “next generation solutions” was completely redesigned and was a great success for the whole euromicron Group. The 180 square meter stand went down particularly well among our visitors. The company presented its know-how and IP competence in network structures, solutions and applications in various key and future markets. CeBIT is an important communication and sales platform for the Group and gives it the opportunity to demonstrate to the trade how euromicron continues to develop positively and expand its market presence nationally and internationally.

In addition, euromicron AG achieved a place among the 100 top small and medium-sized German companies in 2011 for the second time in a row and advanced further in the rankings. It was noted that euromicron is distinguished in particular by its continuity in development of the company, excellent performance in corporate governance, stable sales growth at a high level and a strategic vision in its segments and regions.

The euromicron Group was able to increase its sales and earnings further in fiscal 2011. In this regard, its companies benefit from the fact that there is still a need for large carriers to make big investments in expanding high-speed networks, from industry modernizing its data transmission systems to remain competitive, and from the public sector, which likewise is making considerable investments in its network infrastructures.

The euromicron Group’s internationally based companies and units in Italy, Poland and France were able to surpass their sales and earnings targets significantly in some cases.

The prudent and proactive cost consciousness at the Group in the past, as well as permanent process adjustments and ongoing optimization, have enabled it to exceed its own targets against the backdrop of the market's good development. This trend confirms us in our goal of further intensifying our efforts to establish efficient and flexible cost structures as the basis for the euromicron Group's successful performance at a high level.

SHARE PRICE AND INVESTOR RELATIONS

euromicron AG's share, which was traded in the Prime Standard in 2011, started the fiscal year at a price of €22.40 and peaked at €23.29 in the first quarter. After a very good performance in the first and second quarters, the share of euromicron AG was not fully able to buck the general trend on the financial markets, but proved extremely robust in relation to general price trends on the stock market and displayed a clear upward tendency despite the volatile market. In the fourth quarter, the fine performance of the share up to then was impacted by the capital increase and an issue price of €16.00 per share and closed 2011 at €15.93. On December 31, the share's market capitalization was thus €106 million (previous year: €110 million). The steady upward trend at the beginning of 2012, i.e. just six weeks after the capital increase, with large trading volumes and prices above the €20 mark once again confirm the share's fine overall performance. The company's sustained and positive performance, solid results from operational business, coupled with its relatively crisis-proof share (as proven by its performance during the year) and the still promising prospect of a rise in its price in fiscal 2012, continue to make euromicron AG an extremely attractive investment on the Prime Standard, according to the vast majority capital market experts.

At the recommendation of the Working Committee for Equity Indices, the Executive Board of Deutsche Börse decided on March 5, 2012, to admit euromicron's shares to the TecDAX. They have been traded on the TecDAX since March 19, 2012.

The General Meeting of euromicron AG on June 9, 2011, also decided to convert the company's bearer shares into registered shares, with retention of the existing denomination. The conversion proceeded smoothly and will give management and the shareholders of euromicron AG a far greater degree of transparency on the composition of our company's shareholders.

euromicron AG conducted a capital increase on November 7, 2011, to strengthen its equity ratio and give it economic flexibility. A total of 1,537,800 new shares were placed on the market at a price of €16.00, increasing the number of shares to 6,663,799. The company obtained liquid funds of around €24.6 million and its capital stock rose by just over €3.9 million to €17.0 million as a result of the capital increase. The proceeds from the capital increase of around €24.6 million are part of the framework for financing the company's growth and innovation program for new products and systems. At the same time, the capital increase largely served to bolster the capital structure, strengthen the equity ratio and reduce borrowings. As a result, euromicron was able to boost its financial flexibility for the next stage of its corporate strategy.

The weighted average number of euromicron shares was increased sharply by the issue of new stock in fiscal years 2010 and 2011. Thanks to the excellent fundamentals of the euromicron Group, undiluted earnings per share were therefore able to be kept largely constant at €2.33 despite one-off effects in fiscal 2011.

The growing attractiveness and increased visibility of euromicron's share on the capital market were again confirmed by the trading volumes. The number of traded shares in 2011 was approximately 5.7 million, slightly up on the figure of around 6.2 million for fiscal 2010 and so its aggregate turnover was some €108.7 million (previous year: around €115.8 million). The share's good performance was underpinned by the company's far greater presence in the media, strengthening of active investor relations work and a large number of talks with investors and roadshows where the Executive Board of euromicron AG nurtures personal contacts with lenders and investors.

The response of the capital market made it clear that investors value in particular the reliability and long-term management strategy of euromicron AG. In fiscal 2011, just over 70% of the net retained profits reported in the single-entity HGB financial statements of euromicron AG at December 31, 2010, were distributed, corresponding to a dividend of €1.10 a share and a total payout of €5.6 million. In the past fiscal year, some 50% of the euromicron Group's consolidated net income was thus distributed to shareholders in continuation of euromicron AG's tried-and-tested dividend policy. As a medium-sized high-tech company, euromicron AG benefits from the trust of national and international investors in the German stock market, where excellent returns can be earned at comparatively little risk. euromicron's share price will also profit from that in the coming fiscal year.

Overall, the recommendation to buy our share issued by the analysts from Close Brothers Seydler, Dr. Kalliwoda Research, Bankhaus Lampe, GBC AG and equinet AG confirm the existing capital market approach of euromicron's Executive Board; once again, euromicron's share has lived up to its mission to be an attractive investment in the small cap segment.

3. NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

ASSETS AND EQUITY

The table below presents the asset and equity structure of the euromicron Group:

ASSET AND EQUITY STRUCTURE

	2011		2010	
	€ m.	%	€ m.	%
Noncurrent assets	139.0	52.3	109.6	55.9
Current assets	119.4	44.9	78.0	39.8
Securities and cash	7.3	2.8	8.6	4.3
Assets	265.7	100.0	196.2	100.0
Equity	120.2	45.2	89.3	45.5
Long-term debt	46.1	17.4	25.5	13.0
of which: Financial debt	36.9	13.9	16.0	8.2
Current liabilities	99.4	37.4	81.4	41.5
of which: Financial debt	33.0	12.4	48.0	24.5
Equity and debts	265.7	100.0	196.2	100.0

As a result of the additions to the consolidated companies and dynamic organic growth at the euromicron Group, total assets at December 31, 2011, increased year on year by 35.4% to €265.7 million.

The increase in noncurrent assets is mainly the result of the growth in acquisition-related goodwill. This was €104.2 million at December 31, 2011, compared with €81.9 million in the previous year. The remainder of the rise in noncurrent assets is largely attributable to additions of other fixed assets as part of the company acquisitions, in particular of telent GmbH. The ratio of equity and long-term outside capital to noncurrent assets rose sharply and is 119.6% (previous year: 104.7%).

As regards current assets, inventories increased year on year by €7.9 million to €25.1 million, mainly due to the divisions acquired in fiscal 2011. Trade accounts receivable were €88.1 million, €33.3 million up on the previous year. This increase is due not only to consolidation of the newly acquired companies and divisions, but also in particular the company's strong organic growth and the resultant increase in the volume of business. In addition, because of their business model, the system houses above all have the largest volume of sales and invoicing in the final quarter of a fiscal year. As a result, trade accounts receivable at the euromicron Group inevitably rise at December 31 of each fiscal year. In the first months of the new fiscal year, the companies accordingly expect a large inflow of liquidity.

Working capital (trade accounts receivable and inventories minus trade accounts payable and pre-payments) were €76.8 million at the balance sheet date (previous year: €48.5 million). As a result, working capital grew by around 58%, in line with the rise in sales, against the backdrop of the sharp growth in the euromicron Group in the past fiscal year.

Equity at December 31, 2011, was €120.2 million (previous year: €89.3 million), a year-on-year increase of 34.6%. Contributory factors in the increase in equity were the net income for 2011 and the capital increase in November 2011. Consequently, the equity ratio at December 31, 2011, remained stable at 45.2%, on a par with the good level of the previous year (45.5%), against the backdrop of the sharp rise in total assets.

The seasonal course of business at the project and system companies means that the equity ratio on the reporting date is not an objective measure. Since the lion's share of the work that the project and system companies invoice at the end of the year is financed by interim outside capital, total assets always rise sharply at the end of the year, resulting in a reduction in the equity ratio. In the subsequent months, total assets usually fall sharply again and so increase the equity ratio.

Raising of a borrower's note loan of €24.5 million significantly improved the ratio between short- and long-term financial debt and so enabled further optimization of the euromicron Group's financing structure. Whereas long-term financial debt in 2010 was just 8.2% of total assets in 2010, it was 13.9% at the end of 2011. The improvement in short-term financial debt was even more visible. It was just 12.4% of total assets at December 31, 2011, well below the previous year's figure of 24.5%. The Group's net debt (financial debt minus securities and cash) at December 31, 2011, was €57.4 million (previous year: €50.6 million). The moderate increase in net debt in fiscal 2011 was below-proportionate relative to the sharp increase in the volume of business.

Among the current liabilities, trade accounts payable also rose by €9.2 million to €31.6 million, likewise due to the higher volume of business. It should be taken into account that project financing is traditionally heavy at the end of the year. Net debt fell again sharply up to February 2012 as a result of a large level of payments by customers.

RESULTS OF OPERATIONS

Overview of the results of operations:

RESULTS OF OPERATIONS

	2011 € thou.	2010 € thou.
Sales	305,306	203,643
Inventory changes	-7,443	1,211
Own work capitalized	1,948	1,521
Other operating income	2,724	4,476
Cost of materials	-159,619	-107,317
Personnel expenses	-76,876	-54,247
Amortization and depreciation	-6,563	-4,601
Other operating expenses	-35,261	-24,561
Earnings before interest and taxes (EBIT)	24,216	20,125
Interest income	77	103
Interest expenses	-5,407	-3,009
Other financial expenses	-1,034	0
Income before income taxes	17,852	17,219
Income taxes	-4,953	-5,088
Consolidated net income for the period	12,899	12,131
Thereof for euromicron AG shareholders	12,229	11,462
Thereof for non-controlling interests	670	669
(Un)diluted earnings per share in (€)	2.33	2.38

In fiscal 2011, the euromicron Group achieved consolidated sales of €305.3 million, an increase of 50.0% on the previous year (€203.6 million). This is attributable to the strong organic growth of the euromicron Group's companies; in addition, the divisions acquired in 2011 contributed €70.0 million to consolidated sales.

A breakdown by the various regions shows that most sales were generated within Germany as in previous years: €267.8 million at the end of fiscal 2011 (previous year: €174.0 million). Foreign sales also grew from €29.6 million in the previous year to €37.5 million. International sales contributed a total of some 12.3% to the volume of sales at the euromicron Group.

The total operating performance of the euromicron Group was €299.8 million, like sales around 45% above the figure of €206.4 million for the previous year.

The largest expense item in the income statement of the euromicron Group was cost of materials at €159.6 million (previous year: €107.3 million). This increase is mainly due to changes in the consolidated companies. The ratio of cost of materials to consolidated sales improved slightly from 52.7% in 2010 to 52.3% in the year under review. This improvement as a result of the leveraging of synergy potentials in purchasing and tight project and cost management is partly countered by influences due to consolidation of the newly acquired companies.

After the cost of materials, personnel costs are the second largest expense item. They were €76.9 million in the past fiscal year 2011 compared with €54.2 million in the previous year. In relation to sales, they fell to 25.2% (previous year: 26.6%). Given an average workforce of 1,354 in 2011 (excluding trainees), average sales per employee were an excellent €225.5 thousand, surpassing the previous year's figure of €201.4 thousand.

Amortization and depreciation were €6.6 million, up on the previous year's level of €4.6 million. This increase is mainly due to amortization of hidden reserves as part of capital consolidation, as well as of development expenses.

Other operating expenses in 2011 were €35.3 million compared with €24.6 million in the previous year. Vehicle and travel expenses (€10.0 million), rent/room costs (€4.9 million) and legal and consulting costs (€4.3 million) are the largest items within the other operating expenses. The other operating expenses relative to sales were around 11.5%, again below the comparable level of the previous year's level of 12.1%.

Earnings before interest and taxes (EBIT) were €24.2 million, an increase of more than 20.4% over the previous year (€20.1 million). The EBIT margin relative to sales was as anticipated 7.9% (previous year: 9.9%) following the huge growth in system business. The decline in the average EBIT margin is planned for two to three years in connection with the acquisition of telent and reasonable in the context of the euromicron Group's strategic growth associated with the acquisition. The intention is to increase the EBIT margin in the coming years by implementing a raft of integration and optimization measures and return it to the Group's target range of 8–11%. This positive trend in the quality of earnings will be ensured by permanent monitoring of cost structures and focused leveraging of synergy potentials in all areas of the company.

The net financial result was € –2.9 million compared with € –6.4 million in 2011. The increasing in financing costs was mainly due to the growth in the euromicron Group's size. In addition, a market-related increase in the cost of financing and restructuring of around €25 million of short-term debt to long-term debt by raising of a borrower's note loan led to an increase in interest expenses.

The tax ratio is around 27.7% (previous year: 29.5%). The higher figure for the previous year is attributable to one-off tax effects.

The improvement in operating performance, coupled with permanent monitoring of cost management, meant that net income for the year for shareholders of euromicron AG was €12.2 million, compared with €11.5 million the year before. Undiluted earnings per share were €2.33, despite the issue of more than 2 million new shares in 2010 and 2011.

FINANCIAL POSITION

The Group is in principle financed centrally through euromicron AG. euromicron AG is responsible for providing its Group companies with liquidity. This is done through a central cash pooling system to which all Group companies are linked in principle. Internal financial equalization as part of a cash management system of the individual companies reduces the volume of outside funding at the Group. Centralization of financing strengthens the Group's position vis-à-vis banks and other market players and so makes an important contribution to optimizing the opportunities for obtaining and investing capital. Apart from financing through euromicron AG, individual Group companies have – for historical reasons – a number of smallish lines of funding, which are however insignificant in terms of volume.

At December 31, 2011, unutilized promised credit lines of €51.4 million were available to the Group. As expected, these lines increased again sharply in January and February 2012 as a result of the traditionally high cash flow in the first two months of the new fiscal year. The Group thus has sufficient liquidity reserves for its development and current business.

The Group's financial position in fiscal 2011 was as follows:

CASH FLOW ANALYSIS

	2011 € thou.	2010 € thou.
Net cash provided by operating activities	473	8,479
Net cash used in investing activities	-20,397	-5,980
Net cash provided by/used in financing activities	18,651	-2,555
Net change in cash and cash equivalents	-1,272	-56
Cash and cash equivalents at start of period	8,572	8,628
Cash and cash equivalents at end of period	7,300	8,572

The net cash provided by operating activities was €0.5 million, €8.0 million down on the previous year's figure of €8.5 million. This is mainly due to organic growth in euromicron's traditional business, as reflected in a sharp increase in trade accounts receivable toward the end of the year.

This effect is further bolstered by sharper shifts in the project mix toward larger and longer-term projects. Given the focused use of cash discounts to optimize the earnings situation, trade payables increased below-proportionately.

Net cash used in investing activities was €20.4 million, a year-on-year increase of €14.4 million. Apart from the sharp increase in investments in our operating assets, this rise is mainly impacted by our acquisition activity, in particular the purchase of the business operations of telent GmbH.

Investments in noncurrent assets and the acquisitions were compensated for by the net cash from financing activities of €18.7 million. There were extensive repayments of financial loans, which approximately matched the financial loans that were raised, among other things by the issue of the borrower's note loan of €24.5 million, after costs. In addition, there were proceeds of €24.2 million after costs from the capital increase in fiscal 2011, while €5.6 million was paid out in dividends.

The net cash and cash equivalents of the euromicron Group at December 31, 2011, were €7.3 million, on a par with the previous year, and allow the Group, together with unutilized promised credit lines, to continue its phase of consolidation in a sound position and underpin the Group companies' business financially. Further diversification in financing and restructuring of short-term debt to long-term debt also created greater independence from the capital markets and a high degree of financial stability in fiscal 2011. We aim to maintain the intensive, trusted and fine cooperation with all banks.

NEW ORDERS AND ORDER BOOKS

New orders at the euromicron Group as of December 31, 2011, were €309.2 million, 50.4% above the level of €205.6 million in the previous year. Order books were €127.5 million, well up on the previous year's €91.1 million. As a result, euromicron's system houses in particular enter 2012 with well-filled order books.

SEGMENTS

Within the euromicron Group, a regional division of business dominates in accordance with the Group's internal management structure. In addition, there is the new segment WAN services, in which for the first time supraregional business in the field of planning, installing and servicing **wide area networks** is grouped and presented.

SEGMENT SALES

	2011	2010
	€ m.	€ m.
euromicron North	116.8	103.6
euromicron South	137.6	109.0
euromicron WAN services	66.8	0.0
euromicron AG and consolidations	-15.9	-9.0
Total sales	305.3	203.6

SEGMENT EARNINGS (EBIT)

	2011	2010
	€ m.	€ m.
euromicron North	18.9	16.8
euromicron South	6.9	9.1
euromicron WAN services	4.2	0
Operating EBIT	30.0	25.9
euromicron AG and consolidations	-5.8	-5.8
Total EBIT	24.2	20.1

The North segment was able to benefit from the good general economic conditions in the past fiscal year and increase its sales and EBIT year on year. Sales at the North segment were grown by 12.7% to €116.8 million. Its EBIT improved by 12.5% to €18.9 million.

The South segment increased its sales by around 26.2% from €109.0 million to €137.6 million. Its EBIT fell year on year by €2.2 million to €6.9 million, due mainly to difficult business in Austria and far higher amortization of hidden reserves as part of capital consolidation.

After the purchase of the business operations of telent GmbH, which mainly focuses on the new area for euromicron of planning, construction and servicing of supraregional network structures, a decision was taken to pool all the activities focused on wide area network services in the new segment "WAN services" as of 2011, regardless of the region where the services are provided. Sales at this segment in 2011 were €66.8 million and its EBIT was €4.2 million.

With its operating companies, the euromicron Group posted further sharp operational growth in its EBIT overall. Operating EBIT was 30.0 million, 15.8% up year-on-year.

Despite the increase in management requirements and strong growth in 2011, costs in the euromicron AG and consolidations segment were kept stable at €5.8 million. Apart from holding costs, merger and acquisition costs, other non-recurring expenses and cross-segment expenses are allocated to this segment.

SUMMARY

The net assets, financial position and results of operations show that the euromicron Group was in a good and solid economic position when the management report was prepared. Existing residual risks relating to the term of bank funding are permanently examined.

4. EMPLOYEES

STICKING TO OUR COURSE.

There are interesting posts to fill again and again at our Group. That, too, is one of the positive effects of our successful growth strategy. A lot is changing at euromicron – employees who wish to develop themselves are provided time and again with career opportunities. Our Group numbered 1,565 employees and 102 trainees at December 31. 400 of them were contributed by telent alone in the past year. In addition, we added a further 11 from TeraMile and 30 from ACE.

That means the workforce has mainly grown as a result of acquisitions. Hiring new staff has become more complex and costly as a result of the continuing shortage of skilled workers. That not only affects technical fields, but applies across all areas of work. Nevertheless, we are still sticking by our motto of not making any compromises in personnel recruiting. We look until we are certain we have found the right person for a post. Only in that way can we ensure the quality we need to develop our business. Our human resources policy is assisted by the growing awareness of euromicron: We now receive far more unsolicited applications than we did a few years ago. We also enlist the services of HR consultants to enable efficient selection of qualified employees. We also use social networks to find staff within very narrow and selective confines.

FURTHER QUALIFICATION FOR SALES AND JUNIOR EXECUTIVES

At least just as important as finding new and well-trained employees is to increase the professional qualifications of our existing crew. Our focus here is on executives, sales and certification. Particularly in sales, we have increased the number of participant days in training and further education by 74 percent. Our sales trainee program entered its second round in the past fiscal year, with the focus now on training in presentation, sales control and solution-oriented sales. We also staged refresher days for the euromicron Sales Method (EVM). Our training for junior executives embarked on its fourth round in 2011. In the current fiscal year, we will devote greater attention to established managerial staff by offering training programs and further education. In this respect, too, we provide exciting opportunities for development which only a growing company can offer its employees.

The foundation for a successful working relationship is always laid in the familiarization period for new employees. We have therefore scrutinized this initial phase, structured it and defined a familiarization plan for every function. This commitment significantly reduces fluctuation in this phase.

We were again able to continue our long-lasting success story in the field of training and education at our group in 2011. euromicron still has a very good trainee ratio of 7.5%. Our new company talent has also begun giving junior staff vocational training under the roof of euromicron. Trainees from our company repeatedly enjoy exceptional success: In 2011, Reza Vaghef from euromicron systems obtained his certification of qualification as an electronics technician for information and telecommunication technology as the best student in his college. euromicron systems in Hanover is training our first junior staff as IT systems support specialists. These experts handle business administration, technical and organizational aspects in IT and telecommunications projects.

SUCCESSFUL TOGETHER

Agreeing on objectives and expectations is the basis for joint success. That is why we introduced performance and career reviews throughout the Group in 2011 and are developing a culture of very constructive and open feedback. Even though preparing and conducting such reviews may seem a burden in our day-to-day work which is already overfilled as it is: The time is well spent.

As in every year, we honored employees who have helped our Group advance with their especially good results at our 2011 Sales Conference. We were especially delighted that some of the best now also include junior staff from our own trainee programs. That speaks for the quality of these programs – we are on the right path here.

Ensuring that we and such a large and independently operating company as talent can grow together was and is a challenge for all of us. Our first verdict: We can all learn from each other and that is precisely what is happening. We are now working together on various orders and benefiting mutually from our competencies and commitment.

A company's success is always the success of the whole team. In this spirit, we would like to thank everyone who has made the outstanding results of 2011 possible with their dedication and effort. You can rest assured that we will continue to stick to our path of success.

5. MARKET AND TECHNOLOGY

GERMAN ICT MARKET DEFIES THE INTERNATIONAL CRISIS

Despite the disaster in Japan, intensification of the debt crisis in Europe and the floods in Thailand, the German ICT industry generated estimated sales of €145.5 billion in a positive economic climate and proved to be very robust in 2011 in the face of tough international conditions.

With this further growth in sales, the ICT industry demonstrated that it is still the growth engine driving the German economy. According to BITKOM, around 10,000 additional jobs were created in 2011, following an increase of some 8,000 in the previous year. As a result, the ICT sector is the second-largest industrial employer in Germany behind mechanical engineering, but ahead of the automotive, electrical or chemical industry.

This positive trend is also reflected in the mood in the high-tech sector: After an all-time high of 72 points in the BITKOM Index at the beginning of the year, there was a slight dampener in the second quarter of 2011, but then the figure rose again and was still above the long-term average.

IT SECTOR DRIVES GROWTH

Within the market as a whole, it is the IT sector that is driving the economy. Sales of information technology (IT hardware, software, IT services) increased in 2011 by 4.3% to €68.8 billion according to forecasts by the BITKOM association. In this connection, the strongest growth was achieved by hardware products, above all tablet PCs, whose sales volume doubled in the course of the year according to BITKOM's estimates. Demand for software also rose strongly thanks to the recent meteoric trend in the app market. IT services also grew thanks to outsourcing and cloud computing.

MOBILE INTERNET INVIGORATES THE TELECOMMUNICATIONS SECTOR

In the telecommunications market, mobile Internet will become established across the board. This also invigorated the entire telecommunications industry in 2011, despite the fact that sales of voice services in fixed-network and mobile communications continue to decline. This was compensated for by a rise in revenue, in particular from mobile data services, accompanied by more widespread use of smartphones and tablet PCs. In 2011, mobile communications providers again invested massively in expanding their networks so as to be able to cope with the explosive rise in data volumes in future. For its part, broadband expansion in mobile communications with the new LTE technology and in the fixed-line network with fiber optics is generating growth in network technology.

euromicron was also able to participate directly in that trend in 2011 – be it in installing, servicing or maintaining the new LTE radio masts in the field of mobile communications or networking the first cities, municipalities and industrial areas in the fixed-network arena with state-of-the-art FTTH solutions and components.

INTELLIGENT NETWORKS PAVE THE WAY TO THE GIGABIT SOCIETY

The creation of smart grids is perhaps the greatest infrastructure project in the history of the Federal Republic of Germany thus far. Experts forecast that creating and expanding them will entail investments of some €130 billion in Germany alone.

With the Internet entering all areas of the economy and society, 2011 saw an increase in the pace of digitization of the most important infrastructures. Among other things, smart grids enable local generation and distribution of wind and solar power. In healthcare, introduction of the electronic health card can be followed by concrete applications such as the digital patient file or electronic prescription. Intelligent traffic management can also prevent tailbacks and accidents costing billions every year. There is also a great need to modernize in education and at public agencies.

Solving the great challenges facing us in the future is not conceivable without smart grids. Smart grids will relate to all major challenges in the coming decades, from demographic change, modernization of education, ensuring medical care to eco- and climate-friendly power generation.

A key role in creating intelligent networking solutions will be played by the future broadband network; expansion of it was commenced in 2011 – and euromicron is one of the specialist in Germany for planning, installing and maintaining it. In Offenburg, one of the first ten cities in Germany where Telekom is expanding its fiber-optic network, euromicron was one of the companies commissioned and has also positioned itself as a partner to the State Government of Hesse in the initiative “Electricity Moves – Electromobility in Hesse” in supporting secure and networked electromobility in future with information and communications technology.

Against the backdrop of modernization of traditional infrastructures and creation of intelligent networking solutions, we made various acquisitions in the course of 2011 to complement and round out our technology and competence profile so as to be able to cater for the future needs of our customers even more effectively and comprehensively.

EXPANSION OF THE TECHNOLOGICAL COMPETENCE PROFILE OF EUROMICRON

With the acquisition of the business operations of telent GmbH on June 7, 2011, for instance, we also succeeded in expanding our technological know-how in the field of transmission technology, wireless communication and IP migration and deepening it in the area of wide area networks (WANs).

The largest customers of telent GmbH apart from Colt Telekom include Toll Collect, on behalf of which telent is responsible for service and maintenance for the around 300 control bridges and 3,700 toll terminals in Germany. To enable that, telent is connected with Toll Collect 24 hours a day, 7 days a week, 365 days a year, in order to keep response times to problems extremely short. From fleet management, maintenance of the toll terminals, repair work to the control bridges, spare parts logistics to servicing of the technical units in the vehicles of the Bundesautobahngesellschaft (BAG), the company responsible for federal autobahns – telent carries out all service work for the customer Toll Collect.

As a result of growing requirements demanded of voice and data services and integrating them into application-specific all-round solutions, many companies, public authorities and private institutions also face the challenge of migrating their existing network infrastructures to modern IP technology.

Here, too, telent can make a major contribution, such as in standardization of the enterprise network of the Federal Water and Shipping Authority (WSV) on the basis of IP technology with radio relay. Of the total of 90 planned radio relay links, some are already in service and are administered by means of a central management system.

At the end of June, the company also won a contract to continue the existing activities of Cassidian Communications GmbH, a subsidiary of EADS, in the field of analog radio communications. As a result, euromicron's subsidiaries will support customer installations of Cassidian in the field of analog private mobile radio and assume responsibility for further developing and supplying related products and for repair, maintenance, spare parts management and services.

ROUNDING OUT THE TECHNOLOGICAL COMPETENCE PROFILE OF EUROMICRON

By acquiring the assets of ACE Advanced Engineering GmbH, the euromicron Group was able to expand its network activities in the fields of active and IP technology even further. Purchase of the assets of the former TeraMile GmbH will also help strengthen the expertise and development activities of euromicron's subsidiary MICROSENS GmbH & Co. KG, above all in CWDM/DWDM technology.

The technological focus of the ACE team is mainly on active infrastructure (switching, routing and wireless LAN), security (including firewalls, network and client security, content and antivirus protection), IP telecommunications technology, virtualization of server systems and the creation of client/server solutions, and passive infrastructure for data centers and all types of cabling in buildings. The team offers its customers competent technical support, as well as providing equipment around-the-clock. With its highly qualified employees, ACE supports and complements the existing activities of the euromicron Group and so contributes to enhancing the product and service portfolio of euromicron's system houses.

The TeraMile team develops and produces optical systems for access, regional and wide area networks. Based on DWDM, CWDM and TDM technology, TeraMile's solutions meet the very highest standards that can be demanded of network solutions in terms of investment protection, modularity and reliability. As a result, TeraMile's development team not only perfectly complements the technological portfolio of MICROSENS GmbH & Co. KG, but thanks to its development capacities also makes a major contribution to positioning euromicron's subsidiary in this innovation-driven environment.

In 2011, euromicron thus achieved a setup where we as a Group boast all the competencies and technologies now required for state-of-the-art data transmission in data centers, LANs and WANs.

euomicron SUPPORTS THE MOVE TO THE GIGABIT AGE WITH NEXT GENERATION SOLUTIONS

As a reliable and future-oriented partner, euomicron can help tackle all major challenges our customers will have to face in the future. On the basis of powerful broadband network infrastructures, we ensure top-class communication, control and monitoring for our customers in the Gigabit age.

This is made possible by powerful components and integrated modules, some of which have been developed by our own production subsidiaries or come from the Group's network of partners, and thanks to our broad-ranging application know-how that enables us day after day to create innovative solutions for customers which are also future-proof and offer a high degree of investment protection – in all areas of daily life and work.

Broadband communication is a modern information technology that offers great advantages for all inhabitants: Lightning fast Internet, disruption-free telephony and TV in high-definition quality. However, that means high investment costs for the public utilities that usually assume this task. An improvement in ROI can be achieved among other things by flexible expansion of components, since the expansion costs are only incurred with the FTTH connection at the end customer. As part of developing the communities Bismünde, Heiligenstedten, Heiligenstedtenerkamp, Hodorf/Ortsteil Herfart and Oldendorf on behalf of the public utility Stadtwerke Itzehoe GmbH, euomicron's subsidiary SKM Skyline GmbH solved this challenge to the customer's satisfaction by means of a homogeneous, yet flexible network and component structure that enables simple installation for public utilities and connects inhabitants to a high-tech fiber-optic network.

One thing is clear, especially in healthcare: Technology must serve people. That was also the case in Cannes Hospital in Southern France, which – thanks to support from euomicron's subsidiary MICROSENS GmbH & Co. KG – is Europe's first hospital where virtually end-to-end optical cabling and ideal use of IP data transmission – from medical activities, administration, patients' rooms to the building itself. The solution is based on MICROSENS' FTTO concept, in which the optical fibers are led as closely as possible to the user. The latest generation of installation switches developed in-house are used in the chosen structure. Thanks to the technological know-how of euomicron's subsidiary, the conversion work covering dozens of applications proceeded successfully.

In view of the cases of attacks by young offenders highlighted in the media, central monitoring and control of all security and communication systems is growing in importance at Deutsche Bahn. The basis for this was laid by euomicron's subsidiary telent GmbH, which will create a single management platform for the control center at Leipzig Central Station by the beginning of 2012. Employees at five workplaces in the control station will be able to monitor and control all security and communications systems centrally. This is made possible by the modular information, communications and application platform (Mica) which has been developed by telent and pools all security and communications systems in an integrated management system and so enables Deutsche Bahn to rapidly provide information for and coordinate passengers, service and security staff or emergency forces.

All these projects are impressive proof that euomicron has an ideal setup for catering for growing demand in the market for high-quality, sophisticated ICT and moving toward the gigabit age together with its customers.

6. COMPENSATION REPORT OF THE EXECUTIVE BOARD

SALIENT FEATURES OF THE COMPENSATION SYSTEM FOR THE EXECUTIVE BOARD

This Compensation Report is an integrated part of the management report, summarizes the principles governing how the compensation of the Executive Board and Supervisory Board of euromicron AG is set, follows the recommendations of the German Corporate Governance Code in the version dated May 26, 2010, and explains the level and structure of the specific compensation. Overall responsibility for defining the compensation principles for the Group lies with the Supervisory Board, which also regularly reviews them.

euromicron's future success depends on the company's ability to acquire, motivate and retain good personnel. The compensation system for euromicron AG's Executive Board therefore aims to provide performance incentives for long-term corporate governance geared to sustainability. The Executive Board's compensation is also part of an end-to-end system for executives at the euromicron Group and is intended to reflect the size and strategic alignment of the company, its economic situation and future prospects and the personal performance of the board member. The compensation should be competitive nationally and internationally and so offer incentives for committed and successful work.

COMPENSATION OF THE EXECUTIVE BOARD

The total compensation of the Executive Board is based on Section 87 AktG (German Stock Corporation Law), is performance-based and takes into account the Group's earnings targets. It is currently made up of performance-unrelated components (salary, other remuneration) and performance-related components (earnings-related bonus). As of 2012, the compensation is also to include a component with a long-term incentive effect. The contracts of service and compensation structure overall are regularly reviewed together with independent external compensation experts and adjusted if necessary.

The following criteria apply to the individual components of the Executive Board's compensation:

The performance-unrelated compensation is paid as a monthly salary, along with non-cash compensation. The fixed compensation of the Chairman of the Executive Board is higher than that of its other members. The other remuneration relates to use of company cars, premiums for a group accident insurance policy and a direct company insurance policy, contributions to health and nursing care insurance, and reimbursement of business-related travel and entertainment expenses. The Executive Board members pay tax on the respective benefit in money's worth of these non-cash benefits.

The company maintains an insurance policy for board members of the euromicron Group, what is termed a directors' and officers' (D&O) policy. This insurance covers personal liability if claims for financial loss are made against Executive Board members as part of their work. In accordance with the applicable arrangement in the contracts of service with Executive Board members, a deductible of 10% is provided for in accordance with statutory provisions (deductible within the meaning of Section 93 (2) AktG (German Stock Corporation Law) in conjunction with Section 23 (1) EGAktG (Introductory Act to the German Stock Corporation Law)).

The variable, performance-related elements of the compensation for Executive Board members are geared to the company's sustainable development and consist of the following, mutually independent components:

First, there is an earnings-related bonus in the form of a variable cash payment which is geared to the Group's EBIT and is calculated taking the business results into account. An upper limit (cap) avoids entitlement to an excessively high bonus in the event of unexpectedly positive developments.

Second, as part of the compensation structure, the Supervisory Board can decide – in compliance with statutory provisions – to grant a discretionary bonus to reflect exceptional achievements and especially significant contributions to the company's development and increases in its value.

For their work in fiscal year 2011, the individual members of the Executive Board received the following payments:

The total compensation for all members of the Executive Board was €2,029 thousand. The performance-unrelated, fixed basic compensation accounted for €600 thousand (plus other non-cash compensation of €44 thousand) and the variable, performance-related compensation for €1,385 thousand.

The following amounts were paid to the individual members of the Executive Board:

- Dr. Willibald Späth:
€1,595 thousand (performance-unrelated compensation €431 thousand, including €31 thousand in other remuneration, and performance-related compensation €1,164 thousand).
- Thomas Hoffmann:
€434 thousand (performance-unrelated compensation €213 thousand, including €13 thousand in other remuneration, and performance-related compensation €221 thousand).

In 2011, the Supervisory Board made use of its option of granting a discretionary bonus to the members of the Executive Board. In this regard, the Supervisory Board assessed the personal performance and economic success of the members of the Executive Board in acquisition of the company's biggest target to date, telent GmbH, and accordingly set a bonus totaling €500 thousand, which is contained on a pro-rata basis in the variable compensation of the Executive Board members.

There are contractual arrangements with Dr. Späth relating to a change of control. If Dr. Späth loses his position on the Executive Board as a result of a change of control, he is entitled to payment of his compensation for the time up to when his contract of service would normally end, but at most to said compensation for a total of three years.

Above and beyond this provision, the contracts of service with the members of the Executive Board do not contain any promise of severance pay if their employment relationship is terminated prematurely.

No loans or advances were granted to the members of the Executive Board in the year under review. Apart from the stated compensation components, the members of the Executive Board did not receive any fringe benefits. In fiscal 2011, the members of the Executive Board did not receive any benefits from third parties that have been promised or granted in relation to their work as board members. Activities in or for subsidiaries are not remunerated separately.

COMPENSATION OF THE SUPERVISORY BOARD

The fundamentals of compensation for the Supervisory Board are defined by the General Meeting at the proposal of the Executive Board and Supervisory Board and are part of the Articles of Association. The compensation of the Supervisory Board is geared to the Group's size and international orientation, the tasks and responsibilities of the members of the Supervisory Board and the Group's economic situation. It comprises a fixed payment and a performance-related payment based on the dividend.

In accordance with the provisions of the German Corporate Governance Code, the Chairman and Deputy Chairman at euromicron AG receive additional remuneration as part of the compensation components. The compensation system for the Supervisory Board is consequently specified by Section 13 of euromicron AG's Articles of Association as follows:

In addition to reimbursement of their expenses for the respective past fiscal year and the value-added tax to be paid on their compensation, the members of the Supervisory Board shall receive:

- An annual fixed payment of €10 thousand
- A variable payment of €150.00 for each cent of the dividend distributed per share above and beyond 4 cents per share.

The Chairman of the Supervisory Board shall receive double and his deputy one-and-a-half times the fixed and variable payments. There are no committees.

On the basis of the distribution from the net retained profits of euromicron AG in 2011 as proposed to the General Meeting (dividend of €1.15 per share), the payment is as follows:

In total, the members of the Supervisory Board received compensation of €120 thousand in accordance with the Articles of Association: fixed payments of €45 thousand and performance-related payments of €75 thousand.

- Dr. Franz-Stephan von Gronau:
€53 thousand (€20 thousand performance-unrelated and €33 thousand performance-related);
- Josef Martin Ortolf:
€40 thousand (€15 thousand performance-unrelated and €25 thousand performance-related);
- Dr. Andreas de Forestier:
€27 thousand (€10 thousand performance-unrelated and €17 thousand performance-related);

Members of the Supervisory Board who were not members for the entire fiscal year receive compensation on a pro rata temporis basis. In its own interests, the company maintains a directors' and officers' (D&O) insurance policy that also covers the members of the Supervisory Board. Its deductible is 10%.

No loans have been granted to the members of the Supervisory Board and no liabilities have been entered into for them. There are no pension promises to members of the Supervisory Board. There is no severance pay for members of the Supervisory Board if they leave the board.

7. CORPORATE GOVERNANCE

In fiscal 2011, euromicron AG largely complied with the recommendations of the German Corporate Governance Code in its version dated May 26, 2010, which was published on July 2, 2010. The exceptions, which are mainly due to the Company's size and business model and to preparations for future adaptations, are listed on the company's homepage at <http://www.euromicron.net/investor-relations/corporate-governance-11> and can be read in the annual financial statements.

8. DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) HGB (GERMAN COMMERCIAL CODE)

- a.) The company's subscribed capital comprises 6,663,799 no-par value registered shares.
- b.) The company's Executive Board is not aware of restrictions on voting rights or transfer of shares, even if they may be defined under agreements between shareholders.
- c.) There are no direct or indirect capital stakes exceeding 10% of the voting rights.
- d.) The Executive Board is appointed and removed by the Supervisory Board in accordance with the Articles of Association in compliance with Section 84 AktG (German Stock Corporation Law). Amendments to the Articles of Association require the consent of the General Meeting.
- e.) Powers of the Executive Board to issue or buy back shares:

The Company was authorized with effect from June 10, 2011, to acquire its own shares up to June 9, 2016, at a maximum proportional amount of the capital stock of €1,310,539.74 for these shares. This is 10% of the Company's capital stock at the time of the General Meeting. The acquired shares – together with other shares that the Company has already acquired or still holds or can be ascribed to it pursuant to Sections 71 a et seq. AktG (German Stock Corporation Law) – must at no time exceed 10% of the Company's capital stock.

The authorization may not be used for the purpose of trading in the Company's own shares. The authorization can be exercised in full or in partial amounts, once or more times, in the pursuit of one or more purposes by the Company or by third parties for the Company's account.

- f.) There are no significant agreements by the company as defined by Section 289 (4) Nos. 8 and 9 HGB (German Commercial Code).

9. ENVIRONMENT

euromicron not only attaches the very highest importance to compliance with all environmental regulations, but also voluntarily sets self-imposed standards throughout the Group. As part of its fleet, euromicron deliberately attaches importance to economical vehicles that meet the latest EU exhaust emission standards. Offices and workplaces have been equipped with energy-efficient equipment whose individual components are predominantly recyclable. As a result, the Group makes its contribution to achieving green IT. Production at the manufacturing operations is based on energy-saving processes, which includes for example computer-aided control of the standby switches or rollout of electric motors with higher efficiency classes. Consequently, euromicron's corporate philosophy, which is geared toward sustainability, is not only applied in its commercial operations, but also reflected in sparing use of natural resources.

None of euromicron's associated companies is subject to special environmental protection guidelines.

10. POSTSCRIPT REPORT / MISCELLANEOUS

After the balance sheet date, there were no significant operational or structural changes at the euromicron Group, nor any business events, that might necessitate a change to the disclosures made in the consolidated financial statements for 2011 or require reporting.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

LEGAL BACKGROUND AND DEFINITION OF AN INTERNAL ACCOUNTING CONTROL AND RISK MANAGEMENT SYSTEM (ICS/RMS)

Stock corporations as defined by Section 264d HGB (German Commercial Code) are obliged pursuant to Section 289 (5) of that code to present the salient features of the ICS/RMS in relation to the consolidated accounting process in the group management report. The ICS/RMS comprises all principles, procedures and measures to ensure effective, cost-efficient and proper accounting and compliance with the relevant financial reporting regulations.

FUNDAMENTAL REGULATORY AND CONTROL ACTIVITIES TO ENSURE PROPER AND RELIABLE CONSOLIDATED ACCOUNTING

The measures in the ICS at euromicron AG and the euromicron Group are geared to proper and reliable consolidated accounting and ensure that business transactions are recorded fully, promptly and in compliance with statutory provisions. They also ensure that stocktakes are carried out properly and assets and liabilities are carried, measured and reported accurately in the consolidated financial statements. The regulatory activities also ensure that reliable and transparent evidence relating to business transactions is available in the form of accounting documents.

Process-integrated and process-independent control measures form the main elements of the ICS at the euromicron Group. Apart from manual process controls – such as the “extra pair of eyes principle” –, automated IT process checks are also a key part of the process-integrated controls. This ensures that Financial Accounting is informed promptly of the status of all documents, which significantly reduces the risk of matters not being completely or correctly reported in accounting. The separation of functions and extra pair of eyes principle are prescribed in work instructions or have been implemented in some cases in the systems used. Strict compliance with these measures also reduces the possibility of acts of criminal intent.

Regular training courses make sure that employees at Accounting are informed of changes to the law that may have an impact on preparation of the consolidated financial statements. In addition, the text of laws and commentaries on them are available to an adequate extent.

Other control bodies, such as the Supervisory Board and independent auditor, are integrated in the company's control environment with their process-independent auditing and monitoring activities. In particular, auditing of the consolidated financial statements and of the accounts presented by the Group companies included in the consolidated financial statements by our independent auditor forms another main process-independent monitoring measure in relation to the consolidated accounting procedure.

SPECIFIC ACCOUNTING-RELATED RISKS

A particular risk in relation to consolidated accounting is that the consolidated financial statements to be published contain errors that may have a significant influence on the Group's financial position, net assets and results of operations. This risk exists in reporting unusual or particularly complex business transactions or other business transactions that are not routine and so have a relatively high inherent risk.

OTHER ASPECTS

In preparation of the consolidated financial statements, Accounting is also dependent in part on data and information from other organizational units of the euromicron Group. Of particular importance in examining the intrinsic value of goodwill of investments and other assets is the budgeting prepared by the respective subsidiaries in agreement with the Controlling unit of euromicron AG and approved by Executive Board. The Treasury unit provides the data required for reporting derivate financial instruments in the balance sheet. The data, which is provided by other organizational units, is subjected to a plausibility check in Accounting and discussed with the affected units before being further processed as part of preparation of the consolidated financial statements.

euromicron AG assesses its associated companies on the basis of their earnings from operational activities and cash flow-based targets, among other things. The course of business is assessed during the year with reference to various key indicators, such as liquidity, profitability and comparison with budgeting. In the course of a fiscal year, three calculations on expectations with forecasts for the end of the year are conducted. However, far more criteria than pure key indicators are required as a basis for investment and business decisions in fast-moving technology markets and these are obtained through permanent monitoring and reviews. This is underpinned and assisted by the operational independence and responsibility of the Group companies. The company's management also bases its decisions on analyses by the specialists and persons responsible who are involved in the process and have extensive market, product and sector know-how. A wide range of different evaluation criteria are used, tailored to the specific case. The companies are accompanied permanently by Investment Controlling at euromicron AG; deviations are identified and countermeasures initiated immediately.

RISK STRATEGY AND GENERAL RISK MANAGEMENT

euromicron AG and its subsidiaries have an established risk management system based on statutory stipulations. The risk management system identifies and documents the main risks in accordance with their risk categories and assesses them as regards the probability of their occurring and the level of damage. The Group's management is notified directly if defined thresholds are exceeded. The risk management system is applied in standardized form at all associated companies and is an integral part of their extensive ongoing planning, controlling and reporting processes. This ensures that the Executive Board is informed promptly of all major risks and can respond suitably. The risk management system also examines the validity of the consolidated accounting processes. It is supported in this by a centrally controlled management information system that is used throughout the Group. Group-wide policies are in place to ensure compliance with consistent standards in the risk management system and consolidated accounting.

The risks that may have a significant influence on the financial position, net assets and results of the euromicron Group are classified in the following categories in accordance with the risk management system:

- Markets
- Technology/R&D
- Products/projects
- Finances/liquidity
- Procurement
- Corporate

MARKETS

In principle, euromicron is dependent on positive economic trends in the Euro zone; the German market accounts for 90% of the company's sales and so is crucial to its success. Germany is also home to most of euromicron's subsidiaries, which are benefiting from current investments in communications, security and data networks. As far as can be assessed at present, the poor economic data in the Mediterranean countries will not have any direct impact on the company.

There are only very few business relationships outside the European economies, which is why distortions there should not have any direct effect on euromicron.

Apart from economic risks, euromicron is subject to the fundamental risks relating to other market players and pressure on prices. euromicron tackles these challenges by nurturing intensive contacts with customers so as to be able to offer top-quality products and services at competitive prices. Individual subsidiaries have a low degree of dependence on individual large accounts. This risk at the Group level is relativized, since no one customer accounts for more than 7.9% of total sales. The risk of nonpayment is reduced by factoring of some receivables from customers.

In order to enhance awareness of euromicron in the ICT market, both the Group and its individual subsidiaries attend trade shows throughout Europe to demonstrate their specialist know-how. Implementation of the integration phase at the system houses, especially after the acquisition of the business operations of telent GmbH, harbors a not inconsiderable opportunity. This process has a time frame of several years and holds out the prospect of an enormous increase in value added, since end-to-end planning, consulting and implementation of complex network solutions is something that only few market players master. Integration will produce competitive units which can then cope better with market risks, yet be flexible enough to take up and implement market trends. The competitive advantage is clearly in short information and decision-making channels, as well as the possibility of constantly leveraging the development departments of euromicron Group's production operations. euromicron thus unites the flexibility of a medium-sized enterprise with the merits of a group.

TECHNOLOGY/R & D

Technology- / R&D risks exist to the extent that leaps in technology may mean the loss of technological leadership. However, that applies to the Group only to a limited extent: euromicron's system houses and distributors can keep up with technological innovations without any problems because they have access to their own products and a diversified product portfolio from a wide range of different vendors (philosophy of vendor independence) for delivering customer solutions.

euromicron's customers demand that the production operations deliver top-quality, tailored solutions. To meet this requirement, euromicron's development departments endeavor not only to respond to technological trends, but also to occupy a pioneering role in research and development.

PRODUCTS/PROJECTS

The market success of products goes hand in hand with the technology leadership described in the previous section. Constant orientation toward customers' needs reduces the risk of producing solutions that ignore market requirements.

There are other types of risk in project business. Projects are initially funded up-front by the system houses. If a customer does not meet its payment obligations when a project is completed, the result may be significant financial losses, depending on the size of the project. The Group as a whole is large enough to be able to compensate for payment defaults on a wide scale without jeopardizing its existence. Further project risks are errors in costing or inadequate order processing. That is why euromicron attaches extremely great importance to employing experienced, well-tuned project teams. This avoids a situation where errors in rough planning are made and are difficult to rectify later.

FINANCES/LIQUIDITY

The Group's focus on Germany and the Euro zone minimizes risks relating to the exchange rate between the US dollar and Euro. Goods paid for in US dollars are purchased on the basis of short-term, foreign currency-based sales lists, which means that the currency risk can be controlled. Other currencies have as good as no relevance to euromicron.

Further financial risks of euromicron AG are the intrinsic value and earnings strength of the associated companies. All associated companies have access to the cash pool and so sufficient liquidity. Consequently, euromicron AG must ensure that financing of the associated companies through the cash pool also retains value. This is achieved by a permanent and standardized management information system that constantly monitors and assesses the subsidiaries' activities and assigns measures to them.

Results-oriented targets were set for all associated companies for fiscal 2011. By regular comparison of the planned and actual figures during the year and using three calculations on expectations for each period in relation to the final results for the year, we have been able in the past to make reliable forecasts for the current fiscal year. If it is discovered that one of the companies is in financial troubles, euromicron's lean structures enable quick and efficient countermeasures to be taken.

As in past years, euromicron's banks again regarded it as a strong and dependable partner in fiscal year 2011. None of the financial institutes stated that it intended to end or restrict its commitment at euromicron. On the contrary, euromicron AG had new opportunities to improve its financing structure.

The reasons for this good working relationship are the solid business results and the dependability of euromicron's Executive Board, and this is reflected in an excellent rating (investment grade). Of particular importance is the statement by all of the financing partners that euromicron AG in its entirety is graded as a risk-free commitment. However, if one of the banks should withdraw from euromicron in future, the dense network of its banks gives it excellent prerequisites to compensate for that. At present, this means that euromicron AG's financing appears secure and represents a manageable risk.

euromicron's debt was also suitably restructured and further optimized in 2011 so as to diminish the company's risk in terms of outside financing. This move has gradually further restricted the latent risk potential as regards financing compared with the previous year.

In principle, the company wants to convert short-term lines into medium- and long-term ones and possibilities to do so are constantly examined. The company is not actively pursuing a restructuring in favor of long-term lines at present given the far poorer conditions for long-term loans and also the fact that a low-interest policy for short-term lines can be expected for the coming periods.

PROCUREMENT

euromicron is still a vendor-independent system house that has cooperation agreements and nurtures active collaboration with various suppliers. In addition, goods are resold within the Group by manufacturers and distributors to the system houses. Consequently, there is only a limited risk in relation to procurement.

CORPORATE

The departure of qualified personnel is a latent risk at a company with a broad technological lineup like euromicron. That is why the Group offers regular further training and development measures for its executives, experts and other staff. By gaining further qualifications, employees are motivated to assume more responsibility in their departments and demanding, varied tasks in their function. euromicron believes that professional and personal further development is a means of enhancing employee loyalty and key to a successful HR policy.

There are no legal risks from pending legal proceedings above and beyond current business. A tax audit for the years 2002 to 2005 was completed in fiscal 2010. The effects were fully taken into account in the balance sheet in the previous year. A tax audit has been ordered for the fiscal years 2006 to 2009. As far as is known at present, this will not result in any material financial risks.

In summary, it can be stated that, in the estimate of the Executive Board, the currently known risks will probably not have a significant influence on the Group's financial position, net assets and results of operations and so probably also no negative impact on euromicron's share price.

12. OUTLOOK

In fiscal 2011, we succeeded as planned in rigorously continuing the profitable growth of past years. Against the backdrop of the current phase of the “build-and-integrate” strategy, the past year was mainly characterized by the early acquisition and subsequent careful integration of telent GmbH, company mergers and exceptionally strong organic growth. Apart from permanent improvement in the general conditions for our operational business, there was particular focus in the past year on optimizing the corporate and financing structures. The stable data from the German economy, good forecasts for euromicron’s traditional markets and our high order books are an excellent springboard for 2012.

In the next two fiscal years, we intend to focus on organic growth and further optimization of the company’s structures as part of integration. In this, not only value-adding processes, but also sales and administration processes will be reviewed with a view to enhancing their efficiency and again achieving and maintaining an EBIT return within the target the Group has set itself of between eight and eleven percent on the basis of the sharp increase and continuing growth in sales.

Particular opportunities for the future enterprise as a whole will arise thanks to the combination of the advantages of telent GmbH and its strong structures with the strengths of euromicron’s existing SME-oriented and customer-centric companies. The emphasis in the coming phase of development will be on improving profitability after the Group’s sharp growth, securing its liquidity by enhanced cash and receivables management and so extending and fortifying the company’s financial stability. This extensive optimization process will take up the years 2012 and 2013 in accordance with our plans, as well as a large part of the company’s attention.

Further opportunities as part of the extensive integration program are seen in the establishment of Shared Service units and the expansion of existing Competence Centers as service providers for all parts of the company. The existing portfolio of products and services will be systematically analyzed to determine its contribution to the company’s success and future viability, optimized to that end and extended to include new and innovative products and solutions. Investments in developing new product lines, in production processes and in our sales team will open up further chances for the future. All the measures are integrated in the company’s overall Continuous Improvement Process (CIP) to ensure the ambitious earnings and financing targets are achieved.

Apart from profitable organic growth, euromicron will specifically assess opportunities to acquire smaller companies that sensibly complement its product portfolio or improve its market position further as part of the “build-and-integrate” phase. We have a product portfolio that is geared strictly toward customer benefit and so believe we are well positioned to win contracts from more and more customers as the preferred partner from the small and medium-sized sector. Also subordinate to that objective is the expansion and continuous development of our sales organization so that we can support our customers with our technology and industry expertise, on-site, competently and in a spirit of partnership.

Apart from expansion and qualification of our sales team, we have always been committed to developing our entire workforce, above all in terms of quality. In this, we were mainly guided by the objective of “becoming better” in all areas. With these qualification programs at the employee and managerial levels, we have successfully countered the effects of the shortage of skilled staff and executives. The foundation of high qualification and motivation of our employees will enable us to secure success in the future, which is why we will again significantly increase investment in our staff in 2012 and 2013. Apart from practical training in their professional, supplementary and continuation programs to qualify them in the field of sales, technology, project and process control and for executives and junior staff will be held so that the growing requirements can be met.

In our core markets, we expect a further increase in new orders over the past fiscal year. Shifts in individual sectors are possible, but are largely offset thanks to the broad setup of euromicron in terms of its customers, industries and technologies. Continuously growing demand for powerful networks for voice, data and video transport shows just how vital it is to have a network infrastructure that protects investments; without its functionality, the performance and competitiveness of companies would be severely restricted and the current and future volume of communication in the social, public and private sphere would no longer be able to be ensured.

Relevant future market trends in digital communication are clearly visible for us. Use of the mobile Internet and the possibilities offered by cloud computing mean there is growing pressure to create high-performance infrastructures. At the same time, ICT performance is continuously improving, which in turn is influencing new patterns of behavior in use of digital communication, such as the exponential increase in use of apps and social networks, as the driver of efficiency and productivity in the network.

In addition, the importance of network infrastructures as an influential competitive factor for cities, carriers and enterprises and the newly emerging business models in the growing e-markets is surging in importance. There is also a continuous increase in the requirements for security, surveillance and alarm networks so as to offer better protection against external attacks and address the security needs of individual target groups.

By investing in profitable niche markets, we constantly position the Group to be ready for changes in markets and enable it to participate promptly in these markets when they pick up. As part of this, euromicron sets store by a philosophy of offering customers a solution-oriented overall concept based on integrated quality, service and reliability. As a result, euromicron clearly and specifically sets itself apart from the competition. The respect we gain from our customers and our earnings performance over the past years show that our strategy is pointing in the right direction.

Our financing partners have confirmed their commitment in the past fiscal year and also in 2012 and further expanded it on the back of our good rating. Our partners are actively accompanying the company's move to a new dimension with annual sales of well above €300 million, which will also entail the need for higher financing for current business. So that our company can continue to advance, there are sufficient free credit lines and promises of finance for the next steps in our growth and integration given the capital increase toward the end of 2011, a constantly optimized and balanced financing structure and a good and stable cash flow within the Group.

Our further focal objective for fiscal 2012 is to establish the "euromicron" brand further as a byword for quality, solution-oriented expertise and know-how in the market in all areas relating to network-based information, communications and security needs. In the past fiscal year, we significantly expanded our active public relations and investor relations work and so actively supported our share's performance, above all as part of the capital increase. As a result, we succeeded above all in inspiring a broad and acknowledged circle of institutional investors about the opportunities for development of the euromicron Group and persuading them to invest in our stock.

The EBIT return target at the Group level for the coming years remains 8% to 11%. We plan organic growth of five to ten percent a year for 2012 and 2013. Following completion of the consolidation phase of build-and-integrate in 2013, the Group aims to achieve the €500 million mark for subsequent years. In addition to organic growth, larger strategic investments like in 2011 or mutual stakes in companies are to contribute to that.

We feel certain that this path also reflects the interests of our growing circle of shareholders and of the company as best possible. We will be continue to be guided by these interests in future and work in a focused way to fulfill them. We intend to explain our business model even more intensively to potential investors so that management retains the assistance necessary to keep on developing the Group commercially and providing it with the resources required for that.

With our business model, a secure basis for financing and a stable cash flow in conjunction with our still strong equity ratio, the company is well equipped to secure its long-term development and also give our shareholders promising perspectives.

SUMMARY

The Executive Board's overall statement is that it is optimistic of sustainably achieving the objectives set for euromicron Aktiengesellschaft and the euromicron Group in the coming years.

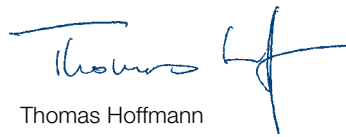
We have used diverse opportunities in the past to gear the group to a secure future and believe we will be able to skillfully master future challenges in the markets. Future strategic investments will be pinpointed at responsible and continuous growth that supports a sustained increase in the value of euromicron AG and means the company remains attractive to new investors.

Nevertheless, the actual results may deviate significantly from the expectations and forecasts if one of the above, or other, uncertainties arise or the assumptions on which the statements were based should prove to be inaccurate.

Frankfurt/Main, March 23, 2012



Dr. Willibald Späth
Chairman of the Executive Board



Thomas Hoffmann
Executive Board

