

# Group Management Report

---

- 54 Fundamentals of the Group
- 63 Economic report
- 78 Postscript report
- 78 Forecast, opportunity and risk report
- 84 Internal control and risk management system
- 86 Corporate Governance Report
- 86 Compensation Report
- 89 Disclosures in accordance with Section 315 (4) HGB  
(German Commercial Code)

# Group Management Report for the fiscal year 2013

from January 1, 2013, to December 31, 2013

## 1. Fundamentals of the Group

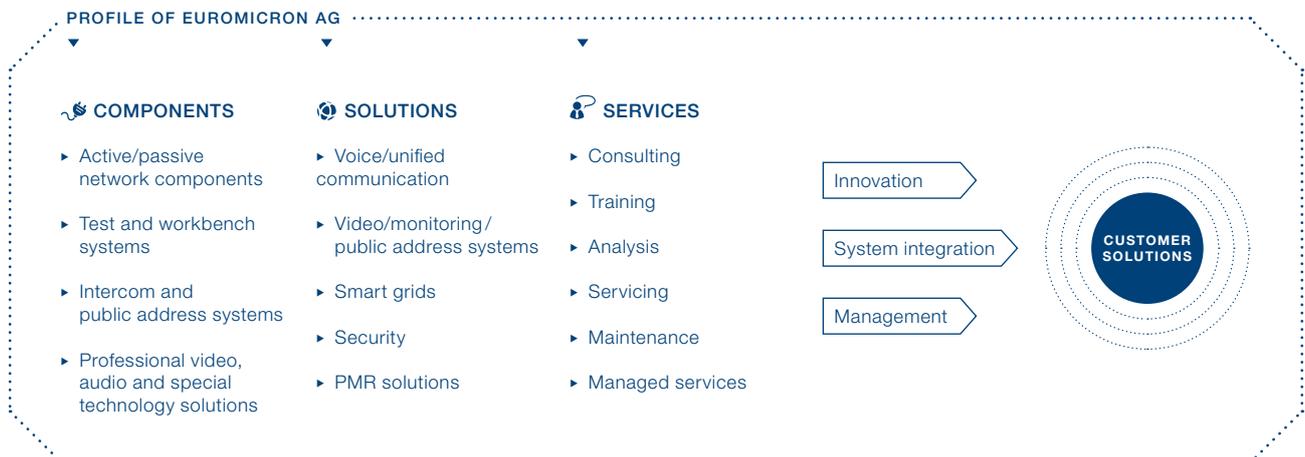
### 1.1 Business model of the Group

euromicron AG 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. In the year under review, euromicron AG geared its structure and organization rigorously to its long-term corporate strategy and the objectives of the Agenda 500.

#### Profile

With its Group companies, euromicron AG 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, assembly and measuring equipment, intercom and public address systems, test and workbench systems and professional video, audio and special technology solutions. The components are used in WANs (wide area networks), MANs (metropolitan area networks) and LANs (local area networks) 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.



**Professionalization and expansion of technological know-how**

Against the backdrop of the Agenda 500, we spent a lot of money and worked hard on further professionalizing, optimizing and expanding our technological skills and expertise in the year under review, with the aim of rounding out our business model further.

In the field of system integration, our goal is to position our company as the technologically leading, independent system integrator in the LAN, MAN and WAN arena by 2016. To enable that, in 2013 we continued to expand our certification and partnerships with leading vendors and pool our expertise so as to keep on driving innovative technologies as part of Competence Centers.

In the field of production, our goal is to further build on our market leadership in profitable niches by 2016. This fiscal year we consequently launched further product innovations, identified profitable niches for us, for example in the field of professional video, audio and special technology solutions, and invested in developing them.

**Certification and strategic partnerships expanded**

An integral part of euromicron AG's business model is a vendor-independent combination of products and solutions to create customized end-to-end systems. In this connection, strategic partnerships with manufacturers from the field of network technology and security, as well as the certification for planning, installing and maintaining their products, are key factors in our success.

In the year under review, euromicron AG continued to deepen and expand collaboration with its strategic partners. One example of this is our certification as a "Silver Certified" partner of Cisco. This enables us to offer and implement Cisco solutions for end customers to a greater extent nationwide. In our integration phase, we are making extensive investments in training and further qualifying our pre-sales and sales staff, technicians and system specialists so as to give them the skills they need for the applications in question.

With this and other certification measures for various manufacturers, we are reaffirming our mission of planning, implementing and maintaining the ideal solution for every customer on a vendor-independent basis.

**Further Competence Centers established**

An important pillar in euromicron's portfolio are Competence Centers. There is stronger demand for certain products or solutions on the market. So as to provide customers with the up-to-date expert knowledge required for these products and solution at all times, euromicron AG pools the know-how available in the Group at Competence Centers.

One example is "Unified Communications and Collaboration" (UCC), currently one of the growth drivers in the telecommunications market. The goal here is to merge the various means of communication and collaboration tools (e.g. voice in the fixed/mobile network, e-mail, conferences, checking of availability, arrangement of appointments) in a single platform and integrate them in the existing network. The Experton Group assumes that more than 30% of expenditure on VoIP solutions in Germany can already be ascribed to the wider UCC market. As carriers continue to migrate toward next-generation networks, a growing number of customers is asking us to integrate these innovative solutions in their network infrastructure.



To cater for this demand comprehensively, euromicron AG established the “UCC” Competence Center in 2013. The same applies to solutions in the field of active network technology, which are served by the “Active Enterprise Networking” Competence Center. Back in 2012, the euromicron Group pooled its know-how in passive cabling for data centers in the URM (YoU aRe Modular) Competence Center.

Following extensive investment since 2013, the Competence Centers have essentially been available to all regions to provide services as internal service units. As a result, all euromicron branches can leverage this special know-how and offer every customer the solution it wants.

### **Project highlights in 2013**

euromicron AG’s increasing professionalization and further expansion of its technological skills enabled us to accompany and support a host of exciting projects for our customers again in 2013.

This selection from our references shows the great diversity of our technological know-how: As part of broadband expansion for NeckarCom Telekommunikation GmbH, a subsidiary of the energy group EnBW, the euromicron subsidiary telent assumed responsibility for planning, delivering and commissioning the passive and active network components and complete after-sales support. The ERDGAS Sport Park Halle relied on the competences of SSM euromicron in planning and networking all the communications and security components and systems, such as IP video cameras and the public address and voice alarm systems. At Vechta Prison, for example, euromicron implemented an IP network structure that enabled connection of a full-coverage DECT telephony solution and a combined DECT/low frequency-based solution for the location transmitters of a personal emergency signaling system to the servers and to the central management system for alerting and locating.

We aim to satisfy all these customers and win them over with our expertise in future as well. That is why we will continue to invest in our professionalization and expanding our technological skills.

### **Legal structure**

euromicron AG, which is based in Frankfurt/Main and is the strategic management holding, assumes responsibility for further central tasks, relating to controlling, finance, human resources, legal affairs, purchasing, IT and public and investor relations. It has a controlling influence in operating business of the individual associated companies. euromicron AG tasks euromicron international services GmbH with providing operational services, for example in the fields of IT, fleet management, insurance or in overarching areas of purchasing.

At the beginning of fiscal year 2013 and with an eye to the company’s future growth, euromicron AG together with euromicron networks GmbH founded a subsidiary whose purpose is essentially to coordinate the activities and skills of the regional subsidiaries in system house business in order to achieve synergies and – such as in purchasing for the system houses – economies of scale, but always in compliance with the overarching regional controlling structure. Initial areas, such as Purchasing, Business Development and Marketing, were assigned appropriate human resources at the level of euromicron networks. They work hand in hand with the operating companies and help pool tasks and activities in order to develop euromicron AG’s business further. We will continue to expand these activities successively as an important component in the further growth of the euromicron Group in 2014.

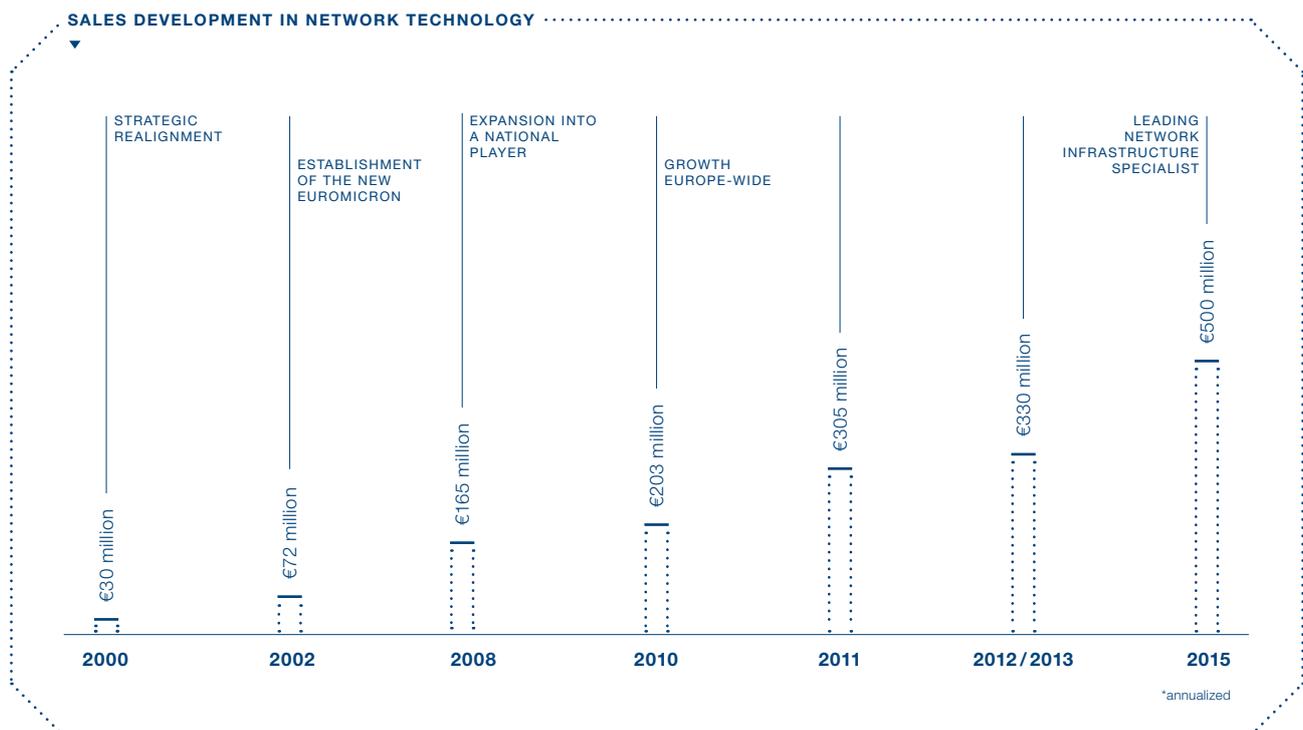
Under the group's umbrella, euromicron AG as the parent company, including euromicron international services GmbH and euromicron networks GmbH, consolidates 27 companies that are included in the consolidated financial statements.

## 1.2 Objectives and strategies

The euromicron Group's development into a leading player in the market for network infrastructures is based on a clearly defined corporate strategy with a time frame of 15 years. In line with this planning, 2013 is the core year integration of euromicron as part of its development. That entails intensive investments in order to gear the Group to sales of €500 million in 2016.

### From a niche provider to a European player

euromicron AG's Executive Board has set itself ambitious growth targets in turning the company from a niche provider to a European player. The Group's goal is to achieve annualized sales of €500 million in 2015, with the company being developed by means of organic growth, acquisitions and integration.



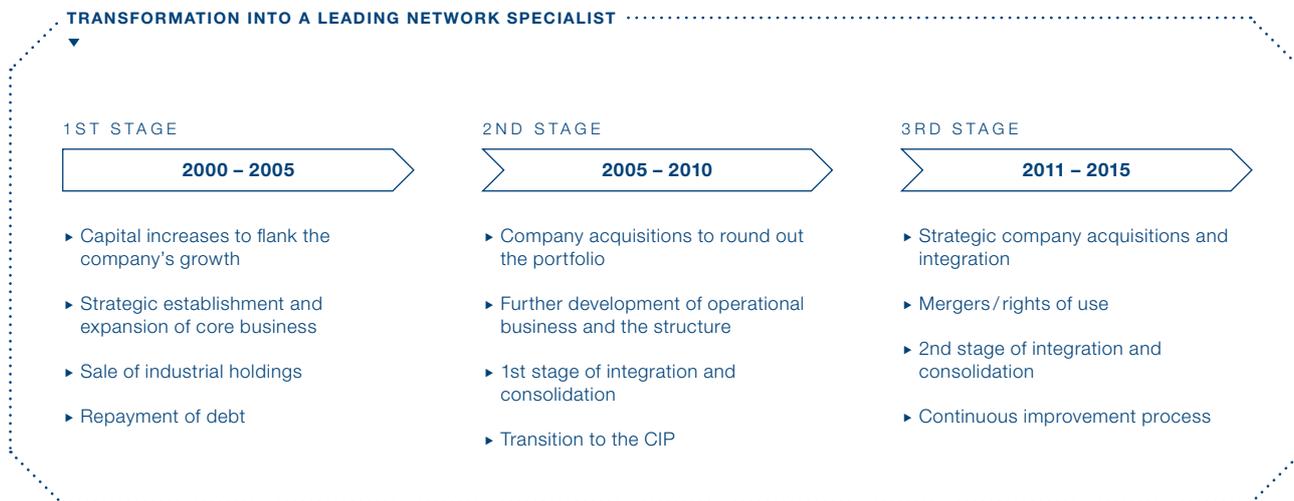
This objective requires average organic growth in revenue of 5% to 10% a year, with an annual EBIT margin of 8% to 11% apart from in the years of consolidation and integration.

Against this backdrop, in 2006 euromicron AG's Executive Board formulated a three-stage corporate strategy to help create a powerful company in the field of network infrastructures which is able to meet every requirement for data transport (voice, video and computer data wirelessly, by copper cable or by fiber optic) in the dynamic market and achieve the planned growth objectives.



**Early start of the final stage of implementation**

On the basis of highly profitable growth in the first two phases of the strategy from 2000 to 2010 and following the earlier than originally planned purchase of telent GmbH in 2011, euromicron is now embarking on what is for the time being the last stage of implementing its long-term corporate strategy.



As part of this, the integration measures that were initiated in 2008/2009 – and suspended due to the early acquisition of telent – were expanded and deepened so as to press ahead more comprehensively with realignment and integration of the euromicron Group in view of the sharp increase in sales volumes as a result of the acquisition.

**Agenda 500**

Under the 2- to 3-year integration phase that was resumed in 2012 on a broader base, the euromicron Group is to be expanded and reorganized, its structures and processes optimized and the financial and personnel requirements created for continued highly profitable growth to sales of €500 million. We have titled this phase, in which we will lay the foundation for preparing euromicron for the last step in implementation of the corporate strategy, "Agenda 500".

The focus of the Agenda 500 is:

- ▶ Reorganization and expansion of management structures
- ▶ Establishment of Competence and Shared Service Centers
- ▶ Acquisition of special skills
- ▶ Optimization of capital commitment
- ▶ Professionalization of the process and IT model
- ▶ Optimization of locations
- ▶ Further adaptation to corporate governance requirements

Annual costs of €3 to €5 million – to be funded from euromicron AG's earnings – have been earmarked in future to implement the measures as part of the Group's integration and structuring phase.

After successful accomplishment of the integration phase and acquisition of a further largish company, the third phase of implementing the corporate strategy will conclude in 2015 with annualized sales of €500 million and in 2016 with sales of €500 million.

#### **Agenda 500 measures expanded in 2013, the core year integration**

In 2013, the core year integration, the Agenda 500 measures were transitioned to a rigorous process and sharply expanded again. Apart from the ongoing measures, particular focus was placed on reducing and restructuring the workforce, reorganization of the divisions and a raft of cost-cutting measures.

Suitable human resources and personnel capacities are vital to euromicron AG's further growth. Consequently, euromicron not only added staff in the year under review. In order to press ahead successfully with the euromicron Group's integration process, the management structures in a large number of companies were modified and management changed. That is because in particular in change processes – such as the Agenda 500 for euromicron – it is important for local management to back the changes and get the workforce on board. In addition, just about all functions in the euromicron Group were scrutinized, their adequacy was examined in terms of quantities and quality, and restructuring was carried out in a number of divisions.

#### **Expansion and further development in 2014**

After streamlining, consolidation and realignment of the company's structures in the core year integration 2013, the Executive Board envisages a phase of expansion and further development of the company as part of integration in 2014.

The Executive Board is convinced that, after 10 years of highly profitable growth, the cost-intensive integration and capital spending measures of 2012 to 2014 are necessary and correct for the further growth of euromicron toward the target of €500 million in sales so as to secure the company's long-term prospects and so shareholder value.



## 1.3 Control system

### Management structure

The euromicron Group's management is headed by two Executive Board members. Operational business is run locally by the subsidiaries, whose Managing Directors report directly to the Executive Board.

As a result, the most important feature of euromicron's SME model remains the hierarchical separation between strategic management of the Group by the Executive Board and management of the operating units. That means the strategic orientation is defined by the Group's Executive Board, whereas implementation of the strategy lies in the hands of the operationally independent local units. Compliance in implementation of the strategy is monitored and reviewed by means of regular reporting and communication between the Executive Board and management.

In this structure, the Managing Directors of the operating system integrators, as well as those at euromicron production companies and distributors, act as independent entrepreneurs with a high degree of responsibility of their own in the respective regional and supraregional markets. A compensation system geared rigorously to performance supports and promotes entrepreneurship on the part of the Managing Directors.

### Regional focus of business operations

The regional focus of the company's business operations is on German-speaking countries, as a result of which intensive support for around 90% of euromicron's customers is enabled.

In particular in the consulting-intensive solution business of euromicron's system house, on-site contact with customers is crucial. That is why euromicron AG has a comprehensive network of branch offices extending over 20 locations in Germany.

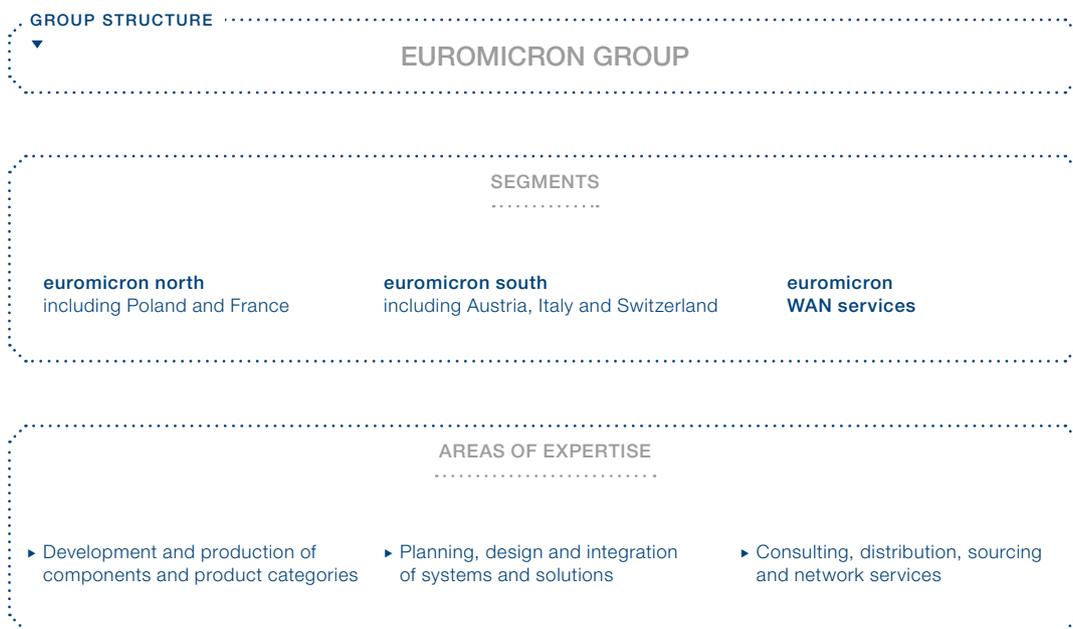
In the year under review, the branch offices of the enterprise system houses were merged into overarching regions as part of a regional strategy. We have given these regions management teams who report to the enterprise system houses. The objective of the regional strategy is to serve our regional customers even more comprehensively with euromicron's entire portfolio of products and solutions so that euromicron's expertise is available comprehensively in all regions and synergy potentials between the individual branch offices can be identified and tapped.

euromicron also has its own locations in other European countries: Italy, Austria, Benelux, France, Poland and – since the acquisition of ATECS AG in December 2013 – in Switzerland. We are based in some non-European countries in the shape of project offices, for example in China and Pakistan, so as to cater for country-specific market requirements there.

Further countries continue to be tapped from our operating business by export and project business, with this largely being controlled from Germany. As part of its internationalization strategy, euromicron AG permanently examines its opportunities for tapping interesting foreign markets by acquiring niche companies as a springboard for the next step in its growth. Unit then, international business will be pursued by euromicron AG with its customary cautious "policy of small steps", even in the phase following integration.

### Business segments

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.



Within these segments, euromicron's subsidiaries jointly cultivate the company's target markets in projects. euromicron North also has representative agencies in Poland and France, while euromicron South also includes companies in Austria, Italy and Switzerland. The WAN services segment groups business relating to planning, installation and maintenance of wide area networks, i.e. supraregional networks.

### Key figures used for internal control purposes

All the euromicron Group's activities are controlled and monitored on a segment-oriented basis. To enable continuous analysis and controlling of the Group's business segments, management uses among other things quarterly forecasts as regards expectations, which are analyzed intensively. 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 supplements 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 are constantly analyzed as regards their effectiveness, 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

	2013 € m.	2012 € m.
Sales	329.4	330.0
Earnings before interest and taxes (EBIT)	5.5	17.1
Earnings before interest, taxes, depreciation and amortization (EBITDA)	14.4	25.0
EBITDA margin	4.4%	7.6%
Order books	126.5	125.2
Consolidated net income for euromicron AG shareholders	-0.9	8.6
Adjusted weighted average number of shares issued (undiluted)	7.18	6.66
<b>Undiluted earnings per share in €</b>	<b>-0.12</b>	<b>1.29</b>

The most important key figures used to control the Group are sales and the EBITDA margin. The EBITDA margin is defined as EBITDA divided by sales. The development in these key figures is explained in sections 2.2. "Business performance" and 2.3. "Net assets, financial position and results of operations".

## 1.4 Research and development

### Innovation initiative continued

In the year under review, euromicron AG continued the innovation initiative it launched in 2012 and developed new and enhanced existing products. At CeBIT 2013, the euromicron subsidiary MICROSENS showcased the "Profi Line Modular" switch for industrial applications. The "Eurolens" lens connector developed by EUROMICRON Werkzeuge was made ready for the market and our subsidiary ELABO presented various mobile versions of its innovative workbench system in the shape of "Primus One mobile" at Hanover Industrial Trade Fair.

The continued investments in innovative and competitive new products are also reflected in the book values of capitalized development costs, which were €10.2 million (previous year: €9.7 million) at December 31, 2013; amortization of capitalized development costs was €2.2 million (previous year: €1.6 million). The new own work capitalized (development costs and other own work) in fiscal 2013 totaled €3.1 million (previous year: €5.6 million). As initial new orders at the beginning of 2014 show, the new products are going down well with our customers.

### Development in the manufacturing division strengthened

In order to strengthen its manufacturing division and position itself even more strongly in the field of development, production and maintenance of security systems and surveillance technology, euromicron AG acquired two assembly businesses in December 2013: SIM Secure Information Management GmbH and ATECS AG Advance-Technology-Solutions, leading producers and vendors of professional video, audio, telecommunications and security technology solutions.

Both of them cooperate closely with industrial companies, but above all national and international ministries and public authorities, and have a good reputation and extensive experience in developing and integrating complex technical systems and in project management. Backed by years of experience, they develop tailored product and system solutions that meet all security requirements. They include laser-based video surveillance systems, automatic sign recognition, mobile mesh networks, tap-proof mobile communications and radiation-shielded building infrastructures for mobile and fixed-line communication via fiber optics.

As a result, euromicron AG is expanding the know-how base of its production operations to include expertise in developing highly professional video and security technology for special applications and markets. At the same time, it is taking a further step toward internationalization of the Group. We also see advantages from the acquisition in expansion of existing customer relationships in the sensitive field of national and international protection, security and defense technology.

## 2. Economic report

### 2.1 General economic and industry-specific conditions

#### 2.1.1 General economic conditions

Global economic growth (GDP) reached at low at 1.8% at the beginning of 2013, but has picked up sharply since then. Global economic growth for the year as a whole stabilized at around 3.0% and so at the level of the previous year. This was aided in particular by economic growth in the U.S. and Japan, a slight recovery in Europe and stabilization of growth in China. The recently published early indicators point to a further economic pickup in 2014. According to the Ifo indicator, the business climate improved in the industrial nations and merging countries alike. The IMF expects economic output to grow by 3.7% in 2014.

#### Trends in the Euro area

Experts believe that the Euro area began to emerge from recession in calendar year 2013. After a first quarter of 2013 where there was a 0.2% decline in economic output, the Euro zone has exhibited sharply positive growth rates again from the spring of 2013 onward. The crisis countries made progress in consolidating their budgets and increasing their competitiveness. Trust in the single currency and creditworthiness of individual crisis nations has grown, which is reflected among other things in the declining yields for Spanish and Italian government bonds. Over the year as a whole, the Euro area still suffered an economic decline of -0.5% compared with -0.7% in 2012 due to the weak start at the beginning of the year and the slowdown in France. The IMF and European Commission expect a continuing economic recovery in 2014 with an increase in GDP of around 1% in real terms.



### **The economic situation in the Federal Republic of Germany**

After a phase of weak economic activity in the winter of 2012/2013, experts believe that the German economy has been back to normal again since the beginning of the second half of 2013. GDP growth in the fourth and third quarters of 2013 was 0.4% and 0.3% respectively compared with the previous quarter. Following GDP growth of 0.7% in the second quarter of 2013, there were signs of a much more dynamic upturn. This was due in part to catching-up processes as a result of the weak start at the beginning of the year. GDP growth for 2013 as a whole was 0.4% compared with 0.7% in the previous year, well above the average for the Euro area for the second year in succession, but still below the growth potential of the German economy.

The trend was mainly underpinned by strong domestic demand in the area of private consumer spending and higher investment in the housing sector. The foreign trade balance fell sharply compared with 2012, which was attributable to stagnating foreign demand.

Experts anticipate a further economic pickup for calendar year 2014, which was already reflected in a stable upward trend in new orders at German industrial companies at the end of 2013. The Ifo Business Climate Index rose at the beginning of 2014 for the third time in a row. Companies' business expectations have never been so optimistic since March 2011. Anticipated economic growth (GDP) for calendar year 2014 is 1.6%, with this growth being generated in particular by domestic demand and investment in plant and equipment.

### **2.1.2 General industry-specific conditions**

#### **German ICT market stagnant overall in 2013**

Demand in the German ICT market was strained in 2013 in particular by drops in sales of consumer electronics, such as TV sets, IT hardware or desktop PCs and laptops. In the fall of 2013, the industry association BITKOM therefore cut back the forecast of 1.4% growth it had made at the beginning of the year.

Overall, the German market for IT and telecommunications generated sales of €152 billion (+0.1%) in 2013, around the level of the previous year, according to EITO (European Information Technology Observatory).

There were again clear differences between and within the segments: Whereas it was above all private expenditure on smartphones, tablet PCs, applications and software that stimulated demand in the field of information technology, there was still strong reluctance to invest on the part of industry as regards expansion of the ICT infrastructure. In the telecommunications segment, the technological shift to unified communications & collaboration (UCC) increased demand, but there were not initially any significant sales.

### Investments in infrastructure expansion in 2013 postponed

After the poor final quarter of 2012, the German economy got off to a very restrained start to 2013. That also had an impact on expansion of ICT infrastructures and in the LAN and MAN arena, but especially in the field of wide area networks. Given the unclear situation in the Euro area, the debate about the energy shift and the upcoming elections, enterprises from the public, power supply and transport network sectors largely put their investment in expansion of the ICT infrastructure on ice at the beginning of the year. The situation eased only slightly in the course of the year, with the result that many companies – despite having well-filled order books – were faced with commissioned projects not being called off or being postponed further.

In the telecommunications industry, the awaited decision on VDSL vectoring ensured up to the end of the second half of the year that broadband expansion in the fixed-network arena almost completely came to a standstill. It was not until the positive decision by the German Federal Network Agency in July that investments slowly picked up again in the third quarter of 2013.

### Outlook for 2014

The latest economic survey by the BITKOM high-tech association in the German information and telecommunications industry (“ICT industry”) indicates positive business prospects for fiscal year 2014. 78% of the companies surveyed from the ICT industry expect their sales to increase in the first half of 2014 – compared with just 11% who expect them to fall. The BITKOM Industry Index thus improved sharply from 55 to 67 points, attesting to a much more positive mood in the ICT industry than in the overall economy. IT service providers and software companies are particularly optimistic.

## 2.2 Business performance

### General statement on the performance of the euromicron Group in fiscal year 2013

The euromicron Group closed fiscal year 2013 with sales of €329.4 million (previous year: €330.0 million) and EBITDA of €14.4 million (previous year: €25.0 million). The EBITDA margin (relative to sales) was 4.4% compared with 7.6% in the previous year. EBIT was €5.5 million (previous year: €17.1 million).

As a result, sales in fiscal 2013 were at the level of the previous year, despite a tough market environment. However, the 2013 budget, which was geared toward growth and anticipated an increase in sales of 5% to 10%, was not able to be achieved. That was due in particular to postponement of sales from call-off orders in the manufacturing segment to the subsequent year and to the fact that projects in system house business were deferred or not awarded.

The planned EBITDA and EBIT margins were not achieved in fiscal 2013. One main cause of that was that the Group companies had geared their cost structures to the budgeted growth, with the result that below-budget sales meant a sharp reduction in EBIT for fiscal 2013.



In 2013, the core year of integration, the Executive Board focused as planned on integration and consolidation of the company's structures as part of its development. In addition to ongoing measures, the particular emphasis was on reducing and restructuring the workforce (to a greater extent in the South segment), reorganizing the divisions, expanding the corporate functions and investing in standardization of the Group's IT environment. Integration costs reduced EBIT in fiscal 2013 by a total of some €5.5 million (previous year: €4.4 million). They are mainly accounted for by personnel costs from implementation of the restructuring measures, IT costs, legal and consulting costs and other expenditures connected to optimizing the organization and structures. The next step envisaged by the Executive Board in 2014 under the Agenda 500 is a phase of expansion and further development of the company as part of integration.

In particular in the South segment, structural and personnel deficits caused special effects in project valuation totaling around €4.9 million. They are due to losses realized from projects completed in the fiscal year, in particular due to employee fluctuation at the management level and among project managers, with the result that lack of management led to inefficiencies and so reduced earnings in project business. Further effects came from the loss-free valuation of projects in progress at the end of the year. We refer to section 5. "Forecast, opportunity and risk report" as regards the optimization measures initiated in this connection.

Apart from the integration measures, further interesting enterprises were added to the portfolio of Group companies in fiscal 2013. With the objective of again generating one-third of consolidated sales in manufacturing and two-thirds in system house business in future, ATECS AG and Secure Information Management GmbH were acquired in December 2013, two highly professional production companies that will enable the euromicron Group to expand its know-how base in the area of assembly to include expertise in the field of highly professional video and security technology for special applications and markets and also take a further step toward internationalization.

The euromicron Group's equity and liquidity was strengthened further as a result of the capital increase in December 2013, which increased equity by €6.8 million and is a key component in the euromicron Group's overall financing concept.

## 2.3 Net assets, financial position and results of operations

### Net assets

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

#### Asset and equity structure

	Dec. 31, 2013		Dec. 31, 2012	
	€ m.	%	€ m.	%
Noncurrent assets	155.1	47.2	146.5	51.6
Current assets	135.0	41.0	132.0	46.5
Cash and cash equivalents	38.8	11.8	5.4	1.9
<b>Assets</b>	<b>328.9</b>	<b>100.0</b>	<b>283.9</b>	<b>100.0</b>
Equity	122.6	37.3	119.0	41.9
Long-term debt	53.4	16.2	57.7	20.3
of which financial liabilities	41.8	12.7	47.8	16.8
Current liabilities	152.9	46.5	107.2	37.8
of which financial liabilities	67.7	20.6	38.4	13.5
<b>Equity and liabilities</b>	<b>328.9</b>	<b>100.0</b>	<b>283.9</b>	<b>100.0</b>

The euromicron Group's total assets at December 31, 2013, increased by 15.8% to €328.9 million compared with €283.9 million in the previous year.

The increase in noncurrent assets is mainly the result of the growth in acquisition-related goodwill. This was €113.5 million at December 31, 2013, compared with €106.4 million in the previous year. The remainder of the rise in noncurrent assets is largely attributable to additions of intangible assets identified as part of first-time consolidation and own work capitalized; intangible assets increased overall in fiscal year 2013 from €21.0 million to €23.7 million. This was counteracted slightly by the reduction in property, plant and equipment from €16.3 million to €14.5 million. This is due to depreciation and disposals at remaining book values, which exceeded the additions in the fiscal year.

Total investments in fiscal year 2013 were €17.7 million; of this, additions totaling €11.3 million were from first-time consolidation of subsidiaries acquired in fiscal 2013. This sum is divided into additions to goodwill (€7.1 million), intangible assets identified as part of purchase price allocation (€4.0 million; essentially customer- and technology-related intangible assets and order books) and in additions to property, plant and equipment (€0.2 million). The remaining investments of €6.4 million are accounted for by capitalized development costs (€2.7 million), other intangible assets (€1.3 million) and property, plant and equipment (€2.3 million; essentially other equipment, operating and office equipment).



The ratio of equity and long-term outside capital to noncurrent assets fell slightly from 120.6% in the previous year to 113.5%.

As part of the current assets, the book values of inventories (€28.0 million; previous year: €27.5 million) and the total for trade accounts receivable and the gross amount due from customers for contract work (€98.4 million; previous year: €96.8 million) were around the level of the previous year.

Working capital (trade accounts receivable, the gross amount due from customers for contract work and inventories minus trade accounts payable and prepayments) were €68.2 million at the balance sheet date (previous year: €77.9 million) and so was reduced sharply in the past fiscal year.

The increase in other financial assets (€2.2 million; previous year: €0.2 million) is essentially due to receivables from factoring monies still to be paid to Group companies (€1.7 million; previous year: €0.0 million).

Cash and cash equivalents increased from €5.4 million in the previous year to €38.8 million at December 31, 2013. The cash and cash equivalents are at the free disposal of the Group. The increase in cash and cash equivalents is due not only to the intensified cash optimization measures in fiscal 2013, but in particular to funds from the capital increase (€6.8 million) and the higher volume of factoring. Other financial liabilities of €21.6 million (previous year: €0.2 million) are carried for the part of the received customer monies that have to be passed on due to factoring in the subsequent period.

Equity increased by €6.8 million as a result of the successful capital increase in December 2013. It was reduced by the dividend payout in fiscal 2013 (€ -2.0 million), recognition of the overall earnings for 2013 and in the minority interest in equity (total: € -1.2 million). As a result, equity at December 31, 2013, was €122.6 million, €3.6 million above the previous year's figure of €119.0 million. The equity ratio was 37.3% (previous year: 41.9%), still at a very stable level given the increase in total assets.

Among the current liabilities, trade accounts payable rose as part of optimization of working capital from €42.9 million to €54.6 million at December 31, 2013. It should be taken into account that project financing is traditionally heavy at the end of the year, which is also reflected in a change in the balance sheet item "Gross amount due from customers for contract work".

The liabilities to banks are divided into long-term liabilities of €32.8 million (previous year: €37.6 million) and short-term liabilities of €30.4 million (previous year: €31.0 million). As a result, we achieved our goal of a financing structure consisting of around 50% plannable medium- and long-term financing and 50% short-term financing for operating business in the year under review.

The other short-term financial liabilities increased by €6.8 million to €36.8 million, in particular due to the liability from customers' monies to be passed on and due to the purchase price liabilities from the company acquisitions made in December 2013.

The Group's net debt (interest-bearing financial debt minus securities and cash) at December 31, 2013, was €33.2 million (previous year: €75.7 million). The sharp improvement is attributable in particular to the increase in the volume of factoring at the end of the fiscal year. The lower net debt is counteracted by an increase in other short-term financial liabilities of €30.0 million.

### Financial position

The Group is in principle financed centrally through euromicron AG. 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 a number of smaller lines of funding, which are however insignificant in terms of volume.

At December 31, 2013, unutilized promised credit lines of €71.7 million were available to the Group (previous year: €57.0 million). The Group thus has the necessary freedom to enable its planned corporate development, quick integration of business and financing of operational growth. The key financial indicators, which were adjusted due to the integration phase effective December 31, 2013, in agreement with the Group's long-term financing partners, were adhered to.

The Group's financial position in fiscal 2013 was as follows:

#### Statement of cash flows of the euromicron Group for the period January 1 to December 31, 2013 (IFRS)

	2013 € thou.	2012 € thou.
<b>Net cash provided by operating activities</b>	<b>39,433</b>	<b>6,958</b>
<b>Net cash used in investing activities</b>	<b>-5,127</b>	<b>-13,289</b>
<b>Net cash used in/provided by financing activities</b>	<b>-890</b>	<b>4,445</b>
Net change in cash and cash equivalents	33,416	-1,886
Cash and cash equivalents at start of period	5,414	7,300
<b>Cash and cash equivalents at end of period</b>	<b>38,830</b>	<b>5,414</b>



Net cash provided by operating activities increased in fiscal 2013 by €32.4 million from €7.0 million to €39.4 million. This effect is mainly due to the increase in the volume of factoring in order to optimize cash holdings and the associated increase in customers' monies that had to be passed on.

The net cash used in investing activities was € –5.1 million, €8.2 million below the previous year's figure of € –13.3 million. This is mainly due to the acquisition of consolidated companies, since the purchase price payments for them in 2013 were lower than the amount of liquid funds acquired. In addition, the money spent on purchasing intangible assets declined as a result of the lower amount of own work capitalized.

The net cash used in financing activities in fiscal 2013 was € –0.9 million (previous year: net cash provided by financing activities of €4.4 million). The proceeds from the capital increase in December 2013 (€6.7 million) were offset by the dividend adopted at the 2013 General Meeting (€ –2.0 million) and the repayment of financial loans of € –5.4 million.

Cash and cash equivalents of the euromicron Group at December 31, 2013, were thus €38.8 million (previous year: €5.4 million). With its funds and free, promised credit lines, the euromicron Group is well positioned to continue pursuing the phase of consolidation as planned and secure its financing needs for its companies' operating business. We aim to maintain the intensive, trusted and fine cooperation with all banks.

## Results of operations

### Income statement of the euromicron Group for the period January 1 to December 31, 2013 (IFRS)

	Note	2013 € thou.	2012 € thou.
<b>Sales</b>	( 11 )	<b>329,370</b>	<b>330,030</b>
Inventory changes		–698	–5,850
Own work capitalized	( 12 )	3,134	5,607
Other operating income	( 13 )	1,901	2,797
Cost of materials	( 14 )	–176,439	–171,002
Personnel costs	( 15 )	–99,181	–93,588
Amortization and depreciation	( 16 )	–8,901	–7,943
Other operating expenses	( 17 )	–43,677	–42,969
<b>Earnings before interest and taxes (EBIT)</b>		<b>5,509</b>	<b>17,082</b>
Interest income	( 18 )	61	175
Interest expenses	( 18 )	–3,869	–4,520
Other financial expenses	( 18 )	0	–511
<b>Income before income taxes</b>		<b>1,701</b>	<b>12,226</b>
Income taxes	( 19 )	–2,465	–3,398
<b>Net loss/net income for the year</b>		<b>–764</b>	<b>8,828</b>
Thereof for euromicron AG shareholders		–888	–8,568
Thereof for non-controlling interests	( 20 )	124	260
<b>(Un)diluted earnings per share in (€)</b>	( 21 )	<b>–0.12</b>	<b>1.29</b>

The euromicron Group generated sales of €329.4 million in fiscal 2013, almost matching the previous year's figure. A breakdown by the various regions shows that most sales were posted within Germany as in previous years: The sales generated in Germany in fiscal 2013 were €291.3 million (previous year: €298.9 million) or a share of 88.4% (previous year: 90.6%). Foreign sales were increased in 2013 from €31.1 million to €38.1 million, with the result that international sales contributed around 11.6% (previous year: 9.4%) to the euromicron Group's total volume of sales.

The euromicron Group's total operating performance (sales plus inventory changes) was €328.7 million, up by 1.4% year on year (€324.2 million).

Own work capitalized fell by €2.5 million from €5.6 million in the previous year to €3.1 million. The higher own work capitalized of the previous year was mainly due to specific product developments in the manufacturing arena and the establishment of a central IT and communications infrastructure in the form of a private cloud on a scale not seen in 2013. However, the euromicron Group continues to invest in developing new products to expand its market position and increase its innovativeness.

As in the previous year, the cost of materials is the largest expense item in the euromicron Group's income statement. The cost of materials in fiscal 2013 was €176.4 million (previous year: €171.0 million); its ratio to total operating performance increased slightly from 52.8% to 53.7%. The increase of €4.9 million in the cost of materials was mainly due to the previously described special effects from project valuation in the year of integration 2013. Adjusted for these special effects, it was 52.2% and so slightly below the figure for the previous year. This effect is essentially attributable to synergies in the area of the newly established central purchasing unit, thanks to which terms and conditions of purchase were optimized; this resulted in savings potential of around €1.8 million in fiscal year 2013.

Personnel costs increased in fiscal 2013 by €5.6 million from €93.6 million to €99.2 million, a rise of 6.0%. €4.4 million of this is due to effects from the change in consolidated companies, since the personnel costs of the RSR Group, which was acquired at the beginning of October 2012, and Stark- und Schwachstrommontage GmbH, which was acquired in mid-December 2012, were included in the consolidated financial statements for an entire fiscal year for the first time in 2013. The average headcount (excluding trainees) in the year under review rose from a total of 1,597 to 1,653 (+3.5%). Personnel costs in 2013 were impacted by the costs of integration and restructuring. They relate in particular to costs for reducing and restructuring staff in the South segment and personnel costs in connection with the establishment of euromicron networks and the Competence Centers, both of which are a key component of the integration process. This was countered by initial savings from the integration and restructuring measures in the area of human resources.

Amortization and depreciation was €8.9 million, as planned above the level of the previous year (€7.9 million). €0.6 million of the increase is mainly due to higher amortization of capitalized development costs. The item includes amortization of hidden reserves disclosed as part of capital consolidation to an amount of €1.8 million (previous year: €2.0 million).



Other operating expenses in the fiscal year were €43.7 million compared with €43.0 million in the previous year. The largest items in the other operating expenses were still vehicle and travel expenses (€13.8 million; previous year: €13.2 million), rent/room costs (€7.0 million; previous year: €6.3 million) and legal and consulting costs (€4.3 million; previous year: €4.1 million). Apart from that, there was also in particular an increase in IT costs from €0.9 million to €1.5 million, which is attributable to higher IT costs as part of integration and larger expenditure on IT security. Because the RSR Group and Stark- und Schwachstrommontage GmbH were included for the whole year for the first time, other operating expenses increased by €1.9 million in fiscal 2013. In addition, the extra costs of integration, which are reflected in various expense items, contributed to the increase in other operating expenses. On the other hand, there were positive effects from the cost-cutting program, which was implemented rigorously at all Group companies in the year under review. As a result, there was only a moderate increase in other operating expenses, despite the special charges.

Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled €14.4 million (previous year: €25.0 million); the EBITDA margin was 4.4% (previous year: 7.6%). Earnings before interest and taxes (EBIT) were €5.5 million (previous year: €17.1 million),

The net financial result improved sharply from € -4.9 million in the previous year to € -3.8 million in 2013. €0.5 million of this decline is due to the elimination of expenses from the impairment of financial assets and of expenses in connection with securities lending transactions. There were also positive effects from permanent optimization of terms of finance given the favorable market environment for raising funds.

The tax ratio in the year under review increased from 27.8% to 144.9%, mainly due to two effects: Changes to tax law meant that no securities lending transactions, which had resulted in positive tax effects in previous years, were able to be carried out in the year under review, which caused an increase in the tax ratio from 2013. In addition, the current loss-making situation in the South segment meant that deferred tax assets on loss carryforwards in 2013 were not recognized in accordance with the regulations of the IFRS, which also increased the tax ratio. We refer in this regard to the tax reconciliation in section 19. of the notes.

The consolidated net loss for shareholders of euromicron AG in 2013 was € -0.9 million compared with consolidated net income of €8.6 million in the previous year. Undiluted earnings per share were € -0.12 following €1.29 in the previous year.

#### **New orders and order books**

New orders at the euromicron Group from January 1 to December 31, 2013, were €327.7 million and so at the good level of the previous year (€327.8 million). Order books were €126.5 million, above the previous year's figure of €125.2 million. As a result, the production companies in particular are embarking on the next fiscal year 2014 with well-filled order books following the postponement of call-of orders in 2013.

**Development of the 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 segment WAN services, in which supraregional business in the field of planning, installing and servicing wide area networks is grouped and presented.

**Segment sales**

	2013 € m.	2012 € m.
euromicron North	116.1	111.7
euromicron South	126.9	131.5
euromicron WAN services	102.2	102.8
Central services and Group consolidations	-15.8	-16.0
<b>Total sales</b>	<b>329.4</b>	<b>330.0</b>

**Segment earnings (EBITDA)**

	2013 € m.	2012 € m.
euromicron North	14.1	17.7
euromicron South	-1.5	2.9
euromicron WAN services	8.1	10.0
<b>Operating EBITDA</b>	<b>20.7</b>	<b>30.6</b>
euromicron AG and consolidations	-6.3	-5.6
<b>Total EBITDA</b>	<b>14.4</b>	<b>25.0</b>

**Segment earnings (EBIT)**

	2013 € m.	2012 € m.
euromicron North	10.7	14.5
euromicron South	-4.9	0.5
euromicron WAN services	6.4	8.0
<b>Operating EBIT</b>	<b>12.2</b>	<b>23.0</b>
euromicron AG and consolidations	-6.7	-5.9
<b>Total EBIT</b>	<b>5.5</b>	<b>17.1</b>



The increase in sales at the North segment by €4.4 million from €111.7 million to €116.1 million is mainly attributable to higher sales in system house business. EBITDA fell by €3.6 million from €17.7 million to €14.1 million. The decline in EBIT by €3.8 million to €10.7 million is of a similar magnitude and results to an amount of €1.2 million from special effects from project valuation the year of integration 2013. It should also be taken into account that actual sales of the production companies in the North segment in 2013 were €5.6 million below the figure for the budgeted growth in 2013, but that they had geared their cost structures to this volume of sales, which led to a reduction in EBIT. In addition, EBIT was impacted by special effects as part of integration. In particular due to realization of the call-off orders in the production arena that were postponed to the next year in fiscal 2013, the planning for 2014 envisages sales growth of around 7% and a moderate increase in the EBITDA margin.

The South segment posted sales of €126.9 million, €4.6 million below the previous year's figure of €131.5 million. This is mainly due to the decline in sales from system house business: Sales of the South system houses were below expectations due to structural deficits and vacancies in fiscal 2013. In 2013, the core year of integration, the company pressed ahead with restructuring and realignment of the South segment. In this connection, many of the management posts – especially in regional and branch office management – were filled with new staff, a Sales Director was added to management of the South system house as of December 1 and personnel was reduced or reorganized by means of extensive restructuring measures.

The South segment's EBITDA fell by €4.4 million from €2.9 million to € –1.5 million. Its EBIT in 2013 fell more sharply than its EBITDA, in particular due to higher amortization of hidden reserves. EBIT declined by €5.5 million from €0.5 million to € –4.9 million. This is attributable to the costs of the integration and restructuring measures. In addition, €3.7 million of the fall in earnings is due to special effects from project valuation in the year of integration 2013. Deficits in management of sub-areas of the South segment were also reflected in project handling, with the result that the quality of earnings was diminished.

It should also be taken into account that actual sales of the production companies in the South segment in 2013 were €3.6 million below the figure for the budgeted growth in 2013, but that they had geared their cost structures to this volume of sales, which led to an additional reduction in EBIT.

Fiscal 2014 will be shaped by continuation of the integration measures in the South segment so as to create the foundation for sustained and positive quality of earnings in subsequent years. Sales in 2014 are to be increased by around 6% as a result of selective sales and marketing activities, whereas EBIT in 2014 is budgeted as being only slightly positive due to the anticipated costs in a first stage of the integration measures. A positive EBITDA margin in the lower single-digit percentage range is expected.

All activities at the euromicron Group with their focus on wide area network services are pooled in the "WAN services" segment, irrespective of the region in which the services are performed. This segment was strengthened in fiscal 2012 not only by telent GmbH, but also by integration of the RSR Group. The segment's sales were €102.2 million, around the level of the previous year (€102.8 million), while EBITDA fell by €1.9 million from €10.0 million to €8.1 million. The EBIT was €6.4 million (previous year: €8.0 million). The fall in EBITDA and EBIT is mainly due to the fact that in particular the cost structures of telent were geared in 2013 to a budgeted growth in sales by around €10.0 million higher than was actually able to be generated in fiscal 2013. In this segment, the planning for 2014 assumes stable development of the market, which is why sales and the EBITDA margin are expected to be around the level of 2013.

Overall, the operating companies of the euromicron Group generated an EBITDA of €14.4 million (previous year: €25.0 million). The EBIT of the operating companies in 2013 was €12.2 million (previous year: €23.0 million).

Costs at this segment rise in the year under review from € -5.9 million to € -6.7 million, in particular as a result of the increase in management requirements and planned expansion of central services at the euromicron Group, including due to the fact that euromicron networks GmbH started its operations. Apart from holding costs, the costs for merger and acquisition activities, other strategic projects and cross-segment expenses as part of Group integration are allocated in this segment. Costs in this segment are anticipated to increase in the coming year due to the expansion of central functions, although this is expected to be compensated for by gains in efficiency at the Group companies.

## 2.4 Non-financial performance indicators

Our efficiency is not only demonstrated in economic key performance indicators, but also in the sustainability of our activities. That requires competent and motivated employees, sparing use of the natural resources available to us, increasing and preserving the value of our brands, our customers' satisfaction and the social responsibility we wish to live up to with our company as a whole.

### Employee development and loyalty

The average headcount (excluding trainees) at the Group in the year under review rose from a total of 1,597 to 1,653. This rise is attributable to acquisitions and new hirings. As a result, we are adding specialized and more highly qualified staff in preparation for the next step in our growth.



Enhancing the loyalty of our employees to the company is of major importance for us, since they and their expertise and dedication are vital to the success of our Group's integration phase. That is why we endeavor to support and encourage euromicron's employees not only with the aid of targeted further training measures in their daily work, but also by offering them interesting prospects for the future and development opportunities.

In order to identify the training needs of our workforce even better and to develop it systematically, we have expanded HR management at our Group to include a department for Organizational and Personnel Development. With this support, we are expanding our Group's further training programs and enriching them in terms of content and methodology in the areas of management, project management and sales.

One main focus is on development of our Group's executives. That is because we increasingly aim to fill strategically important management posts with talented managers from our own ranks. Given the diverse challenges facing our employees in connection with the Agenda 500, we staged extensive information events for the workforce and also designed the "Leadership as part of change" program for euromicron executives. As a result, we are giving our management levels the right "tools of the trade" to help them support this change process, which is so important to the Group, by leading and motivating their teams.

We permanently train our technical staff in new technologies, products and manufacturers. As a result, we ensure that our company keeps pace with technological developments on the market and we have sufficient qualified personal to plan, install and maintain the ideal solution for every customer in every region.

#### **Trainee ratio**

To actively counter the growing shortage of skilled workers and invest in our company's future, we are unswervingly committed to training young people. As in previous years, euromicron AG again had a high trainee ratio of 5.1% in the year under review (previous year: 6.0%).

80% of our 88 trainees at present are learning the professional of electronics technician in information and communications technology. euromicron is also training people as IT systems support specialists, office clerks and dialog marketing specialists. Once again this year, euromicron trainees were some of the best in their year and captured awards. The basis for this success is, apart from the dedication of the trainees themselves, the individual and pinpointed encouragement given to them by the company.

#### **Responsible use of natural resources**

None of euromicron's associated companies is subject to special environmental protection guidelines. euromicron aims to live up to its responsibility for society as a whole and so attaches great importance to complying with environmental protection regulations. Consequently, the Group helps ensure the responsible use of resources voluntarily and to the best of its abilities.

Great importance was deliberately attached to economical and low-CO<sub>2</sub> vehicles in assembling the euromicron fleet and, associated with this, introducing the new business travel policy for the euromicron Group. As part of moving to new locations, we also ensured that the new buildings meet the latest environmental protection guidelines. The existing and new offices and workplaces have been equipped with energy-efficient equipment whose individual components are predominantly recyclable. The same goes for the newly established euromicron IT shopping basket, which among other things reflects a greater availability of hardware that consumes less energy. As a result, euromicron makes its contribution to achieving green IT. The operations of euromicron's production companies are geared to energy-saving processes. This includes, for example, computer-aided control of the standby switches or the permanent review and 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.

#### **Established brands and growing visibility**

Under the umbrella brand "euromicron", the Group and its production companies have corporate brands that in some cases have been established in their specific market segment for more than 40 years, such as EUROMICRON Werkzeuge GmbH, Sinn-Fleisbach, or ELABO GmbH, Crailsheim. These brands have a high visibility and so value in their market segments due to the fact that they have operated so long and successfully in them. We will continue working to preserve and expand the value of our brands by means of continuous investments in product innovations, modern manufacturing methods and appropriate sales and marketing activities.

For our umbrella brand "euromicron", a high visibility and a brand image with positive connotations are of great importance for the company's positioning on the capital market, as well. Consequently, we continuously strive to keep on professionalizing our investor relations work and so increase our brand's value on the capital market. That is why we again presented our company at a large number of investor conferences, revised our Website and held one-on-one talks with potential investors in 2013. In order to promote our company on the capital market, in 2013 we also redesigned our company film, which also captured several awards.

#### **Customers and quality**

Our prime goal is to satisfy our customers with our services and products. That demands high standards as regards the quality of our processes, our products and services and our employees. We gauge our customers' satisfaction at our large system houses by means of standardized customer satisfaction analyses. For example, we actively check our services and derive appropriate potentials for improvement and optimization.

To meet customers' requirements and further demands made of the quality of our products and services, euromicron's products are certified in accordance with ISO 9001. In the production arena, we also hold certification, for example for making and assembling certain products, as well as approvals to supply specific products and solutions.

### 3. Postscript report

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 2013 or require reporting.

## 4. Forecast, opportunity and risk report

### 4.1 Explanation of deviations from the previous year's forecast

The forecast from the previous year envisaged organic growth of 5% to 10% and, as an earnings target, an EBITDA margin between 8% and 11% for fiscal 2013. For the purposes of explaining the deviation between the actual and planned figures for fiscal 2013, the mean range of the forecast values is used as the basis of calculation, corresponding to forecast sales growth of 7.5% and an EBITDA margin of 9.5%. The table below presents the deviations between the planned and actual figures for sales and EBITDA:

#### Deviation from the forecast

Deviation from forecast sales		Deviation from forecast EBITDA	
	€ m.		€ m.
Actual sales in 2012	330.0	Forecast sales in 2013	354.8
Forecast increase	7.5%	Forecast EBITDA margin	9.5%
Forecast sales in 2013	354.8	Forecast EBITDA in 2013	33.7
Actual sales in 2013	329.4	Actual EBITDA in 2013	14.4
Deviation from the forecast	-25.4	Deviation from the forecast	-19.3

The deviation from the sales forecast is due to an amount of €9.2 million from the production companies, of which just €2.1 million relates to acquisition targets that were not achieved and lost orders. The lion's share, i.e. around €7.1 million, is accounted for by the postponement of sales from call-off-orders to the next year.

The second part of the deviation from the forecast totaling €16.2 million results from the system houses and distributors. The failure to achieve acquisition targets, i.e. lack of new orders and lost projects, accounts for €8.0 million. A further portion of €8.2 million as part of the decline in sales relates to traditional postponements or delays in projects, such as are recurrent in system business to various extents, but which are still expected to be commissioned.

The €19.3 million deviation in EBITDA from the forecast is attributable to an amount of €7.9 million to the volume effect from the loss of sales due to order postponements at the production companies, project postponements at the system houses and the share of lost projects or lack of new orders. Integration costs also reduced earnings by €5.5 million. A further effect of €4.9 million results from special effects from project valuation, which are explained in more detail in section 2.2 “Business performance”. The remaining €1.0 million of the deviation from the forecast is attributable to a large number of smaller effects.

We refer to the section “Development of the segments” in 2.3 “Net assets, financial position and results of operations” as regards segment-specific reporting on the forecasts.

## 4.2 Risk report and salient features of the risk management system

### 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; as in the previous year, the German market accounts for around 90% of the company's sales and so is crucial to its success. Germany is also home to most of euromicron's subsidiaries, which benefit from investments in communications, security and data networks. Consequently, the development of the German market is of great significance for the overall Group's earnings; however, given the positive economic forecasts for 2014, the likelihood of potential economic risks occurring in the German market is assessed as being low. According to current assessments, the merely slow recovery in the economies of the Mediterranean region 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 only one customer accounts for more than 10% of total sales (previous year: no customer). The risk of default by large customers is assessed as being low due to their very good creditworthiness. The risk of nonpayment is additionally reduced by factoring of some receivables from customers.

### **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. In order to achieve this ambitious objective, the development units at the production companies have been significantly expanded in the past two years and the quality and quantity of support for them enhanced by enlisting the services of external development partners. As a result, innovativeness is of great importance for the euromicron Group's future economic development. Due to the continued investments in innovative new products and solutions, which is also reflected in the large proportion of capitalized development costs, only low risks to the Group's future earnings performance are seen in this area.

### **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. However, the Group as a whole is large enough to be able to compensate for payment defaults without jeopardizing its existence. Further project risks are errors in costing or inadequate order processing. In order to minimize risks from project business, euromicron AG took extensive further measures in fiscal 2013 relating to all project handling phases. In order to rule out risks from disadvantageous contractual terms and conditions before project orders are accepted, euromicron AG strengthened its Legal department in 2013 by hiring further contract attorneys who examine and assess the terms and conditions of every large project in cooperation with the subsidiary conducting it. In addition, the approval process for accepting project orders was structured further and expanded. Further project controllers were also hired to monitor the profitability of project orders continuously. Moreover, the "Major Projects" Competence Center was established. It is responsible solely for handling large projects and pools expert knowledge in connection with specific questions relating to handling of such projects. As a result of the implemented measures, the impact of risks from project business for subsequent years is expected only to the extent inherent in all project business.

#### **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 the euromicron Group.

Further important 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, which is why the likelihood of this risk occurring is assessed as being low.

As in past years, euromicron's banks again regarded it as a strong and dependable partner in fiscal year 2013. There is keen interest on the part of the financial institutes to keep on intensifying their commitment at euromicron even despite the temporary negative impact on earnings and balance sheet ratios and to actively accompany the company on its path toward its sales target of €500 million in the coming years. The key financial indicators, which were adjusted due to the integration phase effective December 31, 2013, in agreement with the Group's long-term financing partners, were adhered to.

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.

**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 key 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. Due to our extensive measures to ensure employees' loyalty and development, we believe the risk of losing highly qualified staff to be limited.

There are no legal risks from pending legal proceedings above and beyond current business. A tax audit is pending 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.

**4.3 Opportunity report**

A self-contained opportunity management system for the whole Group is currently being established. In fiscal 2014, we expect opportunities for the Group's future development which will improve earnings in particular from further rigorous implementation of the integration and Agenda 500 measures. The main opportunities from that are presented in the following.

By continuing to optimize purchasing activities and processing at euromicron networks, we aim to achieve a further improvement in acquisition prices and delivery terms for our Group. In order to enhance our competitiveness in the international arena in the field of manufacturing and distribution, we will also reorganize and merge purchasing activities in these areas in 2014, along the lines of the activities performed by euromicron networks for the system houses in order to leverage existing potentials, among other things by using global procurement structures.

In 2014 we will also put a further major focus on professionalizing and optimizing our sales activities in line with the growth situation of the individual companies. Expansion of indirect sales through regional and national general contractors will also be a focus of our activities at euromicron networks. In addition, we will continue to expand key account management at our Group for important customers and target industries. In the area of manufacturing, we will in particular strengthen our international sales. The companies acquired in 2013 form an additional springboard for that. Moreover, we will also work in 2014 to expand our product portfolio in profitable niches, such as the harsh environment segment, and further structure our solution portfolio in the service arena and transition it to appropriate marketing concepts.

With an eye to increasing the share of services in our portfolio, we will continue to coordinate, standardize and professionalize our service structures and processes in 2014. As a result, we aim to offer our customer even better service concepts tailored to their specific needs and increase our profitability.

In fiscal 2014 we will also initiate a Group-wide harmonization process in connection with commissioning of consulting services, with the goal of reducing consulting costs by stronger pooling and greater involvement of the Group's internal corporate functions.

A positive earnings potential in the single-digit million range is expected from these opportunities for the entire Group in fiscal 2014.

#### 4.4 Forecast for fiscal 2014

Taking into account the opportunities and risks presented above, sales are expected to grow to €340 to €360 million in 2014 and the EBITDA margin to increase again to around 6% to 8%. This forecast is based on the assumption of a positive economic development in the Federal Republic of Germany and in the general conditions in the ICT industry 2014, as presented in section 2.1 "General economic and industry-specific conditions". 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. We intend to largely complete the phase of consolidation and restructuring of euromicron in 2014 and, on this optimized platform, to press ahead with expanding and enhancing its structures, processes and financial and human resources. That initially comprises completely accomplishing the Agenda 500 projects that have been initiated and leading them to a successful conclusion or transitioning them to a continuous improvement process. We are also working to round out our company here and there in terms of technology, geography or resources and expertise.



## 5. Internal control and risk management system in relation to the consolidated accounting process

### Legal background and definition of an internal accounting control and risk management system (ICS/RMS)

Stock corporations as defined by Section 264d of the German Commercial Code (HGB) are obliged pursuant to Section 315 (2) No. 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 consolidated accounting and compliance with the relevant financial reporting regulations. It is integrated in the risk management system of the overall Group, which is described in detail in section 4. under "Risk report and salient features of the risk management system".

### 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 Group'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 form another main process-independent monitoring step 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 and other assets is the budgeting prepared by the respective subsidiaries in agreement with the Controlling unit of euromicron AG and approved by its Executive Board and Supervisory Board. The Treasury unit provides the data required for reporting derivative 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.

Within the euromicron Group, the segments are assessed 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 by euromicron AG; deviations are identified and countermeasures initiated immediately.

## 6. Corporate Governance Report

In 2013, euromicron AG largely complied with the recommendations of the German Corporate Governance Code in its version dated May 15, 2012, which was published on June 15, 2012, and in its amended version dated May 13, 2013, as of June 10, 2013. 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 in the Corporate Governance Report at <http://www.euromicron.de/en/investor-relations/entsprechenserklaerung-2013>. The 2013 Corporate Governance Report published on this Internet site also contains the corporate governance declaration in accordance with Section 289a HGB (German Commercial Code).

## 7. Compensation Report

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 15, 2012, which was published on June 15, 2012, or as of June 10, 2013, in its amended version dated May 13, 2013, and explains the level and structure of compensation for the respective members of the Executive Board. In addition, it specifies the principles for and level of compensation for the members of the Supervisory Board.

### Salient features of the compensation system for the Executive Board

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 is therefore oriented toward 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 in question. The compensation should be competitive nationally and internationally and so offer incentives for committed and successful work. Overall responsibility for defining the compensation principles for the Group lies with the Supervisory Board, which also regularly reviews them.

## 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 to a considerable extent 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 and a variable component with a long-term incentive effect ("LTI")). The contracts of employment and compensation structure overall are regularly reviewed together with independent external compensation experts and adjusted if necessary.

euromicron AG's compensation strategy also envisages offering remuneration that is fair and transparent and takes the interests of shareholders into consideration. 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 employment 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 or EBITDA and is calculated taking the consolidated business results into account. An upper limit (cap) avoids entitlement to an excessively high bonus in the event of highly positive developments.

In addition, variable components with a multi-year basis of assessment (LTI = long term incentive) have been included in the system for compensation of an Executive Board member. For the contribution made to increases in the company's value, the Executive Board member can receive a long-term compensation component geared to the total EBITDA amounts for the years 2012 to 2015 ("performance period"). Payment of it will be due after the consolidated financial statements for the fiscal year 2015 have been approved; annual payments on account will be set off against this.

In addition, 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. The Supervisory Board did not make use of this option in fiscal 2013.

For their work in fiscal year 2013, the individual members of the Executive Board received the following payments:

The total compensation for all members of the Executive Board was €991 thousand. The performance-unrelated, fixed basic compensation accounted for €771 thousand (including other non-cash compensation of €41 thousand) and the variable, performance-related compensation for €220 thousand.

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

- ▶ Dr. Willibald Späth: €656 thousand (performance-unrelated compensation €528 thousand, including €28 thousand in other remuneration, and performance-related compensation €128 thousand).
- ▶ Thomas Hoffmann: €335 thousand (performance-unrelated compensation €243 thousand, including €13 thousand in other remuneration, performance-related compensation €45 thousand and €47 thousand from the variable component with a long-term incentive effect).

In the event that an Executive Board member's activity is terminated without an important reason, all contracts provide for a payment with which the remaining term of the contract of employment is remunerated. The same applies in the event of premature termination of a board member's activity in the case of a change of control. In both cases, no further payments that necessitate a severance pay cap have been agreed.

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 2013, 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.

### **Salient features of the compensation system for the Supervisory Board**

The compensation of members of the Supervisory Board is governed by the Articles of Association of euromicron AG. Apart from being reimbursed for their outlays, the members of the Supervisory Board receive a fixed annual remuneration of €30 thousand. The Chairman of the Supervisory Board receives double and his/her deputy one-and-a-half times the fixed remuneration. The overall compensation for the Supervisory Board for 2013 in accordance with the Articles of Association was thus €135 thousand, which is broken down as follows:

- ▶ Dr. Franz-Stephan von Gronau: €60 thousand
- ▶ Josef Martin Ortolf: €45 thousand
- ▶ Dr. Andreas de Forestier: €30 thousand

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%.

With one exception, the members of the Supervisory Board did not receive any further payments for services provided in the year under review. The auditing firm LKC Kemper Czarske v. Gronau Berz, for which the Supervisory Board member Dr. Franz-Stephan von Gronau works, was commissioned to prepare expert opinions in connection with legal and accounting matters. A fee totaling €96 thousand was paid for the services.

## 8. Disclosures in accordance with Section 315 (4) HGB (German Commercial Code)

- a.) The subscribed capital of euromicron AG on the balance sheet date comprises 6,663,799 no-par value registered shares. Entry of the capital increase in the commercial register on January 8, 2014, increased the number of shares in euromicron AG in circulation by 512,599 from 6,663,799 to 7,176,398.
- 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, where the disclosures do not have to be made in the notes on the consolidated financial statements.
- d.) There are no holders of shares with special rights that confer controlling powers.
- e.) 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.
- f.) Powers of the Executive Board to issue or buy back shares:

### Authorized capital

The Executive Board and Supervisory Board of euromicron AG decided on December 19, 2013, to carry out a capital increase with partial utilization of the authorized capital. The capital stock was increased by €1,310,537.44 by the issue of 512,599 new registered shares at a nominal value of around €2.56 a share and with full participation in profits as of January 1, 2013. After entry of the capital increase in the commercial register on January 8, 2014, the company's authorized capital is still €1,310,541.28.

The Executive Board is authorized to use the authorized capital to increase the capital stock of euromicron AG, with the approval of the Supervisory Board, until May 31, 2016, by issuing new registered shares on one or more occasions in exchange for cash or non-cash contributions. In accordance with the Articles of Association, there is the possibility, under specific preconditions, to exclude the statutory shareholders' subscription right.



### **Treasury 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 ff. 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.

The Executive Board is further authorized, with the consent of the Supervisory Board, to redeem own shares in the company without the need for a further resolution to be adopted by the General Meeting. As part of the redemption using the simplified process, it is also authorized to redeem no-par value shares without a capital reduction by adjusting the arithmetic pro-rata amount of the other no-par value shares relative to the capital stock. This redemption can be limited to part of the acquired shares. The authorization to redeem shares can be exercised more than once. If no-par value shares are redeemed without a capital reduction using the simplified method, the Executive Board shall also be authorized to adjust the number of shares in the Company in the Articles of Association (Section 237 (3) No. 3 AktG (German Stock Corporation Law)).

The above authorizations can be exercised once or more times, individually or together, in full or in part.

The Executive Board did not make use of the authorization to acquire treasury shares up to December 31, 2013.

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

Frankfurt/Main, March 26, 2014

Dr. Willibald Späth	Thomas Hoffmann
Chairman of the Executive Board	Member of the Executive Board