

Group Management Report

48	Business and general conditions
50	General economic conditions
54	Net assets, financial position and results of operations
61	Employees
62	Market and technology
65	Compensation Report
67	Corporate governance
67	Disclosures in accordance with Section 315 (4) HGB , (German Commercial Code)
69	Environment
69	Postscript report / miscellaneous
69	Internal control and risk management system
74	Outlook

- ▶ Sales grown to €330.0 million
- ▶ Structural and integration measures implemented
- ▶ euromicron on the way to the “Agenda 500”



01. Business and general conditions

Profile

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

Structure and organization

The euromicron Group comprises the parent company euromicron AG and 23 subsidiaries that are included in its consolidated financial statements. Its regional focus is the German-speaking market, enabling intensive support for its customers, 90% of whom are German. As part of the company's internationalization, the focus of its operating activities outside Germany remains on Italy, Austria, France and Poland. Further countries in Southern Europe, the Benelux states, Scandinavia and Eastern Europe are still tapped by export and project business, with this being controlled from Germany. As in previous years, the euromicron Group pursues potential opportunities outside Europe with prudence and by deploying its expertise. The main strategic focus of marketing remains to systematically penetrate the domestic market.

Business segments are identified on the basis of internal organizational and reporting structures which are in principle regionally oriented. The euromicron Group is divided into the three controlling units euromicron North, euromicron South and euromicron WAN services. The euromicron Group's management is headed

by two Executive Board members. Operational business is run locally by the subsidiaries, whose General Managers report directly to the Executive Board.

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

euromicron AG, the strategic management holding for the Group, 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 commissions euromicron international services GmbH with providing operational services such as purchasing and IT.

Internal control system

Management of the euromicron Group has issued the objective of securing and expanding the Group's success sustainably as part of a value-oriented growth strategy. Following completion of the buy and build strategy and the acquisition of the business operations of telent GmbH, fiscal year 2012 was mainly shaped by the first stage of the integration phase, which comprises restructuring of operational business and structures. After completing the integration phase in 2014, the euromicron Group aims to embark on the next growth phase with an annualized sales volume of €500 million in 2015. This goal is proactively supported by the internal control system.

All the euromicron Group's activities are controlled and monitored on a segment-oriented basis as part of this target system. Among other things, management uses differentiated reporting to constantly analyze and control the Group's business segments. Moreover, there are quarterly forecasts as regards expectations at the end of the fiscal year, 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 their effectiveness are constantly analyzed, discussed and implemented.

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

Key figures and control factors

	2012 € m.	2011 € m.
Sales	330.0	305.3
Earnings before interest and taxes (EBIT)	17.1	24.2
Earnings before interest, taxes, depreciation and amortization (EBITDA)	25.0	30.7*
EBIT margin	5.2 %	7.9 %
Order books	125.2	127.5
Consolidated net income for euromicron AG shareholders	8.6	12.2
Average number of shares	6.66	5.25
Undiluted earnings per share in €	1.29	2.32*

* Change to the previous year's figures due to adjustment acc. to IAS 8.19b)

02. General economic conditions

Global economic trends

The global economy ran out of steam in the first half of 2012 and trended sluggishly toward the end of the year. Experts essentially attributed this to the renewed flare-up of the financial and economic crisis in the Euro area, which created a great degree of uncertainty for the global economy. Consequently, the ifo World Economic Climate Indicator again fell slightly in the fourth quarter of 2012. In the view of experts, the prospects for the global economy for 2013 are pointing slightly upward.

Trends in the Euro area

The crisis in the European Monetary Union intensified initially in 2012, resulting in a further downturn in the economic situation in Italy, Portugal, Spain and Greece. Despite the fact that austerity programs were enacted, public debt in the countries of Southern Europe increased further. Alongside that, economic output in the Euro area fell by a total of 0.6% quarter on quarter in the last three months of 2012. As a result, gross domestic product (GDP) contracted for the third time in a row. Economic policy in Europe is still confronted with the difficult task of having to define stabilizing measures and enforce them in the face of growing public resistance.

The economic situation in the Federal Republic of Germany

Economic momentum in the Federal Republic of Germany declined continuously in the course of the past year and slumped toward the end of the year. In 2012, the German economy suffered its worst final quarter since the financial and economic crisis broke out in 2008, with economic output contracting by 0.6%, far more sharply than anticipated by analysts and than compared with most neighboring European countries. Overall, the German economy closed 2012 with average GDP growth of 0.7%, a positive aspect given that demand from the Euro area was weak. There is still a high degree of uncertainty in the German and European economy, which had a major impact on the investment climate. A clear majority of companies expects business to remain about constant in the future, but fears additional burdens as a result of rising energy and raw material prices and setbacks as regards domestic demand.

Nevertheless, the latest publications as part of the survey by the Association of German Chambers of Industry and Commerce (DIHK) shows that the business situation of companies stabilized at the beginning of 2013. Moreover, optimism is returning as regards export expectations. Although companies still do not anticipate any positive boosts from the Euro zone, they no longer see foreign demand as a risk to their business performance. Consequently, there also appears to be a stabilization as regards investment intentions among companies in Germany. Apart from making replacement investments, companies are planning to spend to a greater extent on product innovations and rationalization. Additional effects come from construction investment and private consumption, which is benefiting from a still stable labor market and optimism on the wages front.

Industry barometer

The latest economic survey by the BITKOM high-tech association in the German information and telecommunications industry ("ICT industry") indicates positive business prospects for the fiscal year ahead. 75% of surveyed companies from the IT and telecommunications industry expect higher sales in the first half of 2013, 14% assume their sales will remain on a par with the previous year, and just 11% anticipate worse sales. The BITKOM Industry Index was approximately 41 points in the fourth quarter of 2012 and improved significantly to 64 points in the first quarter of 2013. IT service providers and software companies are particularly optimistic: Above all, the continuing boom in smartphones and tablets, along with increasing demand for mobile solutions and high demand for cloud computing, is resulting in growing sales. On top of this, there is optimism about general economic conditions. The positive overall market trends are also impacting companies' personnel planning. 57% of the surveyed companies intend to hire new staff in the course of 2013, while just 9% fear they will have to cut their workforce.

Performance of the euromicron Group in fiscal year 2012

euromicron embarked on the fiscal year in a strong position, with solid order books of just under €130 million. The strong business performance of the previous year continued virtually unabated in the first half of 2012. The bandwidths in the seasonal spread of business, whose widening was already clear to see in the previous year, expanded sharply in 2012 and in future will pose a far greater challenge as regards controlling resources and capacities within a fiscal year. In the third quarter, euromicron did not manage to completely evade the downturn in the economic climate in Germany and Europe. To compound matters, there was a great reluctance to invest on the part of the telecommunications sector due to the fact that a decision still has to be taken by public authorities in relation to expansion of the fiber-optic network in Germany. As a result of political uncertainties, far-reaching technical decisions relating to development of the fixed network, such as in relation to the "vectoring" for optimizing existing infrastructures over the last mile, were postponed, which meant that euromicron suffered falls in this important business segment. Due to the unexpected decline in willingness to invest in telecommunications, an important sector for euromicron, and restrained demand from the energy industry, the automotive sector, mechanical engineering and construction in the final quarter, the company strengthened and focused further on its emerging markets of healthcare, transportation and logistics, as well as the data center arena. As a result, the envisaged minimum growth target in fiscal year 2012 was able to be achieved in the second half of the year, with consolidated sales coming in at around €330 million. The target EBIT margin, which had been adjusted to a maximum of 7% after the acquisition of telent, was not able to be adhered to given the unavoidable adjustment of the sector and business mix as part of the integration phase.

At the same time, the Executive Board placed the focus of the company's development, as planned, on integration and consolidation of corporate structures as of the beginning of fiscal 2012. After intensive deliberation, the speed of implementing the measures planned for 2012 was not reduced, even against the backdrop of the weak business performance in the third quarter. Seen for the year as a whole, the planned integration and non-recurring costs and an increase in amortization of hidden reserves as part of capital consolidation had a significant impact on the earnings reported. Despite the fact that other burdens can be expected to weigh on earnings, the Executive Board plans to retain the speed of consolidation to enable the company's sustainable development. The framework of measures will be extended further in fiscal 2013 so as to get euromicron ready for its next strategic growth stage, the "Agenda 500". The "Agenda 500" comprises all measures that have to be implemented so that the company can achieve its growth target of an annualized sales volume of €500 million in 2015 and an EBIT margin of between 8% and 11%.

Apart from the focus on optimizing Group structures, operational business was expanded further as part of the euromicron Group's long-term strategy of making all technologies available at all German locations so as to be able to provide customers with ideal consulting and support and to actively leverage operational and strategic market opportunities that arise.

A first strategic opportunity was seized in the year under review with the acquisition of the business operations of the ANS Group by euromicron solutions GmbH on March 1, 2012, by way of an asset deal. With its substantial campus business, focus on the Rhine-Main region and well-qualified employees, ANS strengthens activities of importance for euromicron in this region in the areas of expertise of building automation and network and security technology.

Effective October 4, 2012, euromicron AG also acquired all the business and limited partner's shares in RSR Datacom GmbH & Co. KG, Essen, and in its unlimited general partner and indirectly all the shares in ProCom Professional Communication & Service GmbH, a subsidiary of RSR. RSR and ProCom operate in the fields of public address and dispatcher control systems, cable and alarm technology and radio relay and multiplexer systems and strengthen the euromicron Group's expertise with their portfolio.

As part of euromicron's strategy of gaining access to well-qualified employees and rounding out its competences in the regions by acquiring companies, euromicron AG purchased all the shares in Stark- und

Schwachstrom Montage GmbH, Hamburg, under the agreement December 14, 2012. SSM Hamburg operates in the fields of electrical engineering and communication and security technology and rounds out the euromicron Group's activities in Greater Hamburg from a technical perspective.

As part of optimization of the Group's structures, Avalan GmbH purchased the remaining 90% of the shares in Avalan Consulting AG, Luxembourg, in two partial acquisitions last fiscal year and so, effective July 23, 2012, is the sole shareholder of the company, which has since been renamed euromicron benelux S.A. and whose purpose is essentially to pool and expand euromicron's activities in Luxembourg.

Under the agreement dated December 2012, euromicron AG also exercised its option to acquire the remaining half of the shares in MICROSENS GmbH & Co. KG that were still held by the minority shareholders after acquisition of the company in 2006. An extension to the deadline for exercising the option and preemptive right to tender for the remaining share totaling 10% still held by the minority shareholders was agreed for the period from January 1 to December 31, 2014. Apart from rounding out of the company's services and regional presence, vigorous steps were taken to reduce costs and optimize structures throughout the Group in the past fiscal year.

Despite the greater efforts to improve service delivery, structures and the cost situation as part of integration, the course of business in the South Segment, in particular in the area of system integration, was not able to live up to expectations in the first year of integration 2012. Apart from the planned expenditures on integrating business activities, deficits in management of sub-areas of the South Segment became apparent and were rectified immediately. Market cultivation and project handling were not carried out with sufficient force in parts of the Segment, with the result that certain business volumes and the quality of earnings from them fell significantly in some cases, which had an impact in particular in the second half of the year. Consequently, far-reaching measures to reorganize the structures were taken and implemented and will have a highly positive effect in the coming years. Apart from more vigorous and greater professionalization of market cultivation and project handling, a focus is also on flexibilization of cost structures and development of the high-margin business segments of communications, security and active network technology.

The course of business of euromicron's companies in Austria and the Netherlands – euromicron austria GmbH, euromicron NBG Fiber Optics GmbH and WCS Benelux B.V. – improved in 2012 over the previous year, but was not quite able to fully meet expectations. An extensive package of measures as part of implementation of euromicron's business model in the Austrian market was put into action rigorously and reaped initial successes. In addition, expansion of sales, pinpointed adjustment of cost structures to the business volume, optimization of business processes and qualification of the workforce were stepped up.

Optimization of processes and adjustment of cost structures to market circumstances to enable sustainable profitability is an integral component of euromicron's strategy and ongoing integration of the company. Integration and merging of highly specialized employees and locations to create a homogeneous local presence offering extensive know-how in the entire field of network infrastructure was a key focus in the past year and will also be cornerstones of the strategy and integration in the coming years. Two branch offices in the Group, as well as the headquarters of euromicron Aktiengesellschaft, moved into new operating and office facilities for strategic, market-oriented, logistical, economic and employee-related reasons. The new locations of Bamberg and Erfurt offer ideal conditions for enhancing our regional presence and ensuring suitable representation. The new premises of euromicron Aktiengesellschaft mean that staff, which used to work at two locations, will now be under one roof, will help slash rental costs and will create the framework for strategic growth at the Group. An examination of the integration potentials of the locations in Hamburg, Hannover and Berlin was commenced toward the end of 2012 so that the company can profit from potential synergy effects in 2013.

A further focus of integration in the year under review 2012 was on optimizing euromicron's IT structure. Apart from connection of all euromicron locations, including telent GmbH, to a powerful MPLS (Multiprotocol Label Switching) network to permit secure data communication in the Group, standardized processes and IT structures were pooled in euromicron's own private cloud to enable efficient and highly secure data processing. Two outsourced redundant data centers ensure maximum data security and protection against downtimes. As a result, euromicron will be able to meet the high standards of mobile communications providers, who for years have trusted euromicron's quality.

At the CeBIT trade show in March 2012, euromicron demonstrated that, following the takeover of telent, the Group has all the competences and technologies required to deliver state-of-the-art, forward-looking data transfer in data centers, LANs, MANs (metropolitan area networks) and WANs. Once again in 2012, euromicron presented itself in Hanover under the slogan "next generation solutions", showcasing tailored products, solutions and applications for key markets of today and tomorrow. As a result, euromicron once more underscored at CeBIT 2012 that it has leveraged its competences in the field of network infrastructures in the past years to develop and create intelligent solutions and applications for various application areas in daily work and life. CeBIT is an important communication, sales and image platform for the euromicron Group and gives it the opportunity to demonstrate to the trade how euromicron continues to develop and increase its market presence and acceptance nationally and internationally.

In addition, euromicron again proved its powerful growth and earnings strength in the TOP 100 ranking of German medium-sized enterprises in 2012, climbing from 61st to 32nd. As a result, euromicron is one of the 100 most successful German SMEs for the third time in succession.

As part of the continued strategy growing cautiously in the international arena as well, various companies were looked at with a view to possible cooperation or acquisition of a stake in them. Following intensive deliberations and examinations, the Executive Board and Supervisory Board decided to set store by organic growth for the time being and to stabilize and integrate existing activities. As a result, the euromicron Group's internationally based companies and units in Italy, Poland and France were again able to surpass their sales and earnings targets, significantly in some cases. Strong results were posted above all in the Southern European market given the general economic conditions.

Overall, euromicron achieved its growth target in the past fiscal year, generating consolidated sales of €330.0 million despite the contracting economy in Europe and above all in Germany in the fourth quarter. The prudent and foresighted cost awareness practiced at the Group in the past and stronger adjustments relating to integration and processes and intensified ongoing optimization have proven their value against the backdrop of difficult market trends.

Close coordination with our financing partners and a financing policy geared toward sustainability have resulted in long-term funding accounting for a greater share of debt and so strengthening of the Group's financing situation. This trend confirms us in our goal of further intensifying our efforts to integrate the company and establish efficient and flexible cost structures as the basis for the euromicron Group's successful performance at a high level.

03. Net assets, financial position and results of operations

Assets and equity

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

Asset and equity structure

	Dec. 31, 2012 € m.	%	Dec. 31, 2011 € m.	%
Noncurrent assets	146.5	51.6	138.4	52.2
Current assets	132.0	46.5	119.5	45.0
Cash and cash equivalents	5.4	1.9	7.3	2.8
Assets	283.9	100.0	265.2	100.0
Equity	119.0	41.9	120.0	45.3
Long-term debt	57.7	20.3	46.0	17.3
of which: Financial debt	47.8	16.8	36.9	13.9
Current liabilities	107.2	37.8	99.2	37.4
of which: Financial debt	38.4	13.5	33.0	12.5
Equity and liabilities	283.9	100.0	265.2	100.0

The euromicron Group's total assets at December 31, 2012, were €283.9 million compared with €265.2 million in the previous year, or a 7.1% increase.

The increase in noncurrent assets is mainly the result of the growth in acquisition-related goodwill. This was €106.4 million at December 31, 2012, compared with €103.6 million in the previous year. The remainder of the increase in noncurrent assets is largely due to additions as part of the first-time consolidation of identified intangible assets and own work capitalized. The ratio of equity and long-term outside capital to noncurrent assets rose slightly and is 120.6% (previous year: 120.0%).

As part of the current assets, inventories rose year-on-year by €2.4 million from €25.1 million to €27.5 million, mainly due to increased stocking of raw materials and supplies and finished goods and merchandise so as to ensure better deliverability. Trade accounts receivable were €40.8 million, down on the previous year's figure of €44.3 million, whereas the gross amount due from customers for contract work rose from €43.8 million in the previous year to €56.0 million. This increase is due not only to consolidation of the newly acquired companies, but also in particular to the strong organic growth of the company's divisions and the resultant increase in the volume of business. In addition, because of their business model, the system houses above all have the largest volume of sales and invoicing in the final quarter of a fiscal year. As a result, trade accounts receivables and the gross amount due from customers for contract work increases at December 31 of each fiscal year at the euromicron Group due to seasonal reasons. In the first months of the new fiscal year, the companies accordingly obtain a large inflow of liquidity.

Working capital (trade accounts receivable, the gross amount due from customers for contract work and inventories minus trade accounts payable and payments on account) was €77.9 million at the balance sheet date (previous year: €76.8 million) and was largely kept constant by means of an extensive optimization program in the past fiscal year despite the further growth in the euromicron Group's volume of business.

Equity at December 31, 2012, was €119.0 million and so at the level of the previous year (€120.0 million). The equity ratio at December 31, 2012, was around 42%, still at a very stable level against the backdrop of the further increase in total assets and well above the average for the German small and medium-sized sector, which was 27% in 2012.

The raising of long-term loans means that the ratio between short- and long-term financial debt after the raising of a borrower's note loan of €24.5 million last year improved again and the euromicron Group's structure of financing was further optimized. Whereas long-term financial debt in 2010 accounted for only 8.2% of total equity and liabilities, that figure was 13.9% at the end of 2011 and 16.8% at the end of 2012, a further increase of around 3 percentage points. At the same time, short-term debt at December 31, 2012, was 13.5% of total equity and liabilities, slightly above the good level of the previous year (12.5%). The target of a financing structure consisting of around 50% medium- and long-term financing that can be planned and 50% short-term for operational business was thus surpassed again in the past year. The Group's net debt (interest-bearing financial debt minus securities and cash) at December 31, 2012, was €75.7 million (previous year: €57.4 million). Net debt grew further in particular as a result of up-front financing of projects and the company acquisitions in 2012.

Short-term trade accounts payable as of the balance sheet date rose from €31.6 million to €42.9 million in fiscal 2012 as a result of consolidation effects. It should be taken into account that project financing is traditionally heavy at the end of the year.

Results of operations

Income statement of the euromicron Group for the period January 1 to December 31, 2012 (IFRS)

	Note	2012 € thou.	2011 € thou.
Sales	(11)	330,030	305,306
Inventory changes		-5,850	-7,443
Own work capitalized	(12)	5,607	1,948
Other operating income	(13)	2,797	2,724
Cost of materials	(14)	-171,002	-159,619
Personnel costs	(15)	-93,588	-76,930*
Amortization and depreciation	(16)	-7,943	-6,563
Other operating expenses	(17)	-42,969	-35,261
Earnings before interest and taxes (EBIT)		17,082	24,162
Interest income	(18)	175	77
Interest expenses	(18)	-4,520	-5,407
Other financial expenses	(18)	-511	-1,034
Income before income taxes		12,226	17,798
Income taxes	(19)	-3,398	-4,938*
Consolidated net income for the period		8,828	12,860
Thereof for euromicron AG shareholders		8,568	12,190
Thereof for non-controlling interests	(20)	260	670
(Un)diluted earnings per share in (€)	(21)	1.29	2.32

* Adjustment of the previous year's figures in acc. with IAS 8.19 b) reference to the notes on the consolidated financial statements, section 4 *Adjustment in accordance with IAS 8 due to early application of IAS 19 in the version dated June 16, 2011"

In fiscal 2012, the euromicron Group achieved sales of €330.0 million, an increase of 8.1% on the previous year (€305.3 million).

A breakdown by the various regions shows that most sales were generated within Germany as in previous years: €298.9 million at the end of fiscal 2012 (previous year: €267.8 million). Foreign sales in 2011, which were at a record €37.5 million, were mainly impacted by a major order from the Middle East. Sales totaling €31.1 million were invoiced in fiscal 2012 against the backdrop of a difficult economic climate, especially in Southern Europe. Foreign sales are thus around 5% above the essentially comparable figure for fiscal 2010 (29.6 million). Sales generated internationally contributed a total of around 9.4% (previous year: 12.3%) to the euromicron Group's sales volume.

The total operating performance (sales, inventory changes and own work capitalized) of the euromicron Group was €329.8 million, largely like sales around 10% above the figure of €299.8 million for the previous year.

Own work capitalized of €5.6 million grew by €3.7 million over the previous year's figure of €1.9 million and reflects the company's significantly greater efforts in connection with the development of new products to secure its market position and increase its innovativeness. Moreover, the inclusion of the companies acquired in the previous year for the first time for the year as a whole resulted in an increase in own work capitalized. In addition, euromicron has established a central IT and communications infrastructure in the form of a private cloud. That means that all the Group's data will be processed and stored in future at two redundant data centers so as to ensure protection against failures. All voice and data traffic is transferred via an MPLS network that is secured in compliance with the very highest standards.

The largest expense item in the income statement of the euromicron Group was cost of materials at €171.0 million (previous year: €159.6 million). This increase is mainly due to the higher volume of business. The ratio of cost of materials on the basis of total operating performance improved from 53.2% in 2011 to 51.8% in the year under review 2012. Apart from effects from the consolidation of new divisions, the improvement in the

ratio of cost of materials is attributable to leveraging of synergy potentials in purchasing and streamlined project and cost management.

After the cost of materials, personnel costs are the second largest expense item. They were €93.6 million in the past fiscal year 2012 compared with €76.9 million in the previous year. This increase is mainly due to consolidation effects. Personnel costs increased to 28.4% relative to total operating performance (previous year: 25.7%), reflecting the increased share of system business in the Group's total operating performance. The average headcount rose from 1,354 in the previous year to 1,597 (excluding trainees) in the year under review 2012.

Amortization and depreciation was €7.9 million, as planned above the previous year's €6.6 million. This increase is mainly due to changes to the consolidated companies. Moreover, the item is substantially impacted by amortization of hidden reserves disclosed as part of capital consolidation to an amount of €2.0 million (previous year: €1.7 million).

Other operating expenses in 2012 were €43.0 million compared with €35.3 million in the previous year. The largest items in the other operating expenses were vehicle and travel expenses (€13.2 million; previous year: €10.0 million), rent/room costs (€6.3 million; previous year: €4.9 million) and legal and consulting costs (€4.1 million; previous year: €4.3 million). The other operating expenses rose in absolute terms and relative to sales essentially as a result of changes in the consolidated companies and due to integration and non-recurring effects after the acquisition of telent.

Earnings before interest and taxes (EBIT) were €17.1 million (previous year: €24.2 million). The consolidated EBIT margin relative to sales was 5.2% (compared with 7.9% in the previous year) following the strong growth in the previous year and the impact of the consolidation effects. The decline in the average EBIT margin is attributable on the one hand to the extensive postponement of telecommunications infrastructure projects in the second half of 2012. In addition, implementation of the integration and optimization measures, above all in South Segment, coupled with the general economic conditions, resulted in an additional decline in 2012 not expected on such a scale.

Whereas integration costs in the previous year were €1.8 million, they increased in 2012 by €2.6 million to a total of €4.4 million. This is mainly due to expenditures on adapting the workforce to future qualification needs, non-recurring expenses as part of the rollout of new IT and software structures, costs in connection with optimization of the real estate structure and the costs of a large number of smaller integration measures and non-recurring expenses. After the acquisition of telent and for the period of implementation of the planned integration and optimization measures up to mid-2014, the Executive Board assumes that the EBIT margin will be 7% at most. In the following years and in connection with expansion of production operations, the aim is to achieve a margin of 8–11% for the Group again. The planned improvement in the quality of earnings is flanked by an extensive cost-cutting program that includes permanent monitoring and rigorous controlling of the cost structures.

The net financial result sharply improved as planned from € –6.4 million in the previous year to € –4.9 million in 2012. The moderate increase in financing costs due to restructuring of debt toward long-term funding and the greater need for financing in operational business as a result of the euromicron Group's growth are countered by permanent optimization of terms of finance given the favorable market environment for raising funds and income from interest on the plan assets.

The tax ratio was around 27.8% and so at the good level of the previous year (27.7%).

Consolidated net income for shareholders of euromicron AG was €8.6 million in 2012 compared with €12.2 million in the previous year. After the issue of more than 2 million new shares in the years 2010 and 2011, undiluted earnings per share were €1.29 following €2.32 in the previous year.ahr.

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, 2012, unutilized promised credit lines of €50.3 million were available to the Group, virtually unchanged over the previous year (€51.4 million), following a 10% increase in sales. The Group thus has the necessary freedom to enable its planned corporate development, quick integration of business and financing of operational growth.

The Group's financial position in fiscal 2012 was as follows:

Statement of cash flows of the euromicron Group for the period January 1 to December 31, 2012 (IFRS)

	2012 € thou.	2011 € thou.
Net cash provided by operating activities	6,958	473
Net cash used in investing activities	-13,289	-20,397
Net cash provided by financing activities	4,445	18,651
Net change in cash and cash equivalents	-1,886	-1,272
Cash and cash equivalents at start of period	7,300	8,572
Cash and cash equivalents at end of period	5,414	7,300

The net cash provided by operating activities was €7.0 million, a sharp rise of €6.5 million on the previous year's figure of €0.5 million). This is mainly attributable to the smaller increase in receivables against the backdrop of the higher volume of business following integration of the company acquisitions from the previous year in fiscal 2012. Optimization of cash management bolstered this effect.

The net cash used in investing activities of €20.4 million in the previous year fell sharply by €7.1 million to €13.3 million due to consolidation effects. Total capital spending was essentially impacted by greater investments in development of new products and an increase in fixed assets. Investments relating to acquisition activity declined significantly from €12.4 in the previous year following the purchase of telent's business operations by €9.8 million to €2.6 million, a "normal" level in the current phase of the company's strategy.

Whereas around half of the investments were covered by net cash provided by operating activities, the other investments were financed by net funds provided by financial loans to an amount of €12.2 million. Financial loans were repaid to an amount of €10.2 million, while new financial loans totaling €22.4 million were raised. The payout of the dividend adopted at the 2012 General Meeting resulted in an outflow of €7.7 million. All in all, the net cash provided by financing activities was €4.4 million (previous year: €18.7 million). Cash and cash equivalents of the euromicron Group at December 31, 2012, were €5.4 million and as planned were reduced slightly from the previous year's figure of €7.3 million in order to avoid paying interest for maintaining non-interest-bearing bank credit balances. With its funds and free, promised credit lines, the euromicron Group is well positioned to continue pursuing the phase of consolidation at undiminished speed and secure its financing needs for its companies' operating business. Continued diversification in financing and restructuring of financial liabilities from short-term to long-term debt created a high degree of financial stability in fiscal 2012. The company aims to maintain the intensive, trusted and fine cooperation with all banks.

New orders and order books

New orders at the euromicron Group from January 1 to December 31, 2012, were €327.8 million and so around 6% above the previous year (€309.2 million), despite the tough economic conditions. Order books were €125.2 million and so around the good level of the previous year (€127.5 million). That means that euromicron's system houses in particular enter fiscal 2013 with well-filled order books.

Segments

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

Segment sales

	2012 € m.	2011 € m.
euromicron North	111.7	116.8
euromicron South	131.5	137.6
euromicron WAN services	102.8	66.8
Central services and Group consolidations	-16.0	-15.9
Total sales	330.0	305.3

Segment earnings (EBIT)

	2012 € m.	2011 € m.
euromicron North	14.5	18.9
euromicron South	0.5	6.9
euromicron WAN services	8.0	4.2
Operating EBIT	23.0	30.0
Central services and Group consolidations	-5.9	-5.8
Total EBIT	17.1	24.2

The deterioration in general economic conditions in the past fiscal year impacted sales and income (EBIT) in the North Segment. Extensive postponements of telecommunications infrastructure projects in the second half of 2012 necessitated capacity adjustment measures which, along with the decline in volume, had an effect on the results of operations. Thanks to the large number of flexibilization measures implemented in previous years, the decline in earnings has been curbed significantly. Sales at the North Segment were €111.7 million following the strong figure for the previous year of €116.8 million. The EBIT was €14.5 million after an excellent €18.9 million the year before. In fiscal years 2013 and 2014, it is expected that the postponement of investments in the telecommunications sector will come to an end, at least to some extent, meaning that growth in sales is expected. In addition, boosts to growth are anticipated from the extensive investment program in new products in 2011 and 2012, which is why a rise in EBIT is expected overall.

With sales of €131.5 million, the South Segment was not quite able to achieve the previous year's figure of €137.6 million. Apart from the pretty tough market trend in fiscal 2012, the main focus in the South Segment was on integration and restructuring of its business fields and activities. In addition, deficits in management of sub-areas of the South Segment became apparent in relation to market cultivation and project handling, with the result that certain business volumes and the quality of earnings from them fell significantly in some cases. That had an impact in particular on earnings in the second half of 2012. Consequently, an extensive

package of measures to reorganize the structures was instigated and will have a highly positive effect in the coming years. The EBIT fell from €6.9 million in the previous year to €0.5 million in fiscal 2012. Fiscal year 2013 will be shaped by continuation of the extensive restructuring and integration measures so as to create the foundations for positive development as regards the quality of earnings in subsequent years. Alongside this, moderate growth in sales and income is anticipated for 2013 and 2014 from the marketing of new products.

After the acquisition of telent's business operations in 2011, all activities at the euromicron Group with their focus on wide area network services were pooled in the "WAN services" Segment, irrespective of the region in which the services are performed. This Segment was bolstered in 2012 through the integration of the RSR Group. As a result, its sales were able to be grown sharply to €102.8 million (previous year: €66.8 million). Parts of this increase of €36.0 million are due to consolidation effects following the pro-rata inclusion of telent as of June 7, 2011, and the companies acquired in the year under review. Organic growth was therefore around 10%. The WAN services Segment was able to benefit significantly after restructuring and pooling of euromicron's WAN activities and post an outstanding EBIT of €8.0 million, an increase of €3.8 million over the previous year's good figure of €4.2 million. Stable market trends are expected for the next two fiscal years and so will enable appropriate organic growth. Further growth effects are expected following the acquisition of RSR Datacom.

With its operating companies, the euromicron Group generated an EBIT totaling €23.0 million (previous year: €30.0 million); a large part of the integration and non-recurring effects of 2012 and the amortization of hidden reserves disclosed as part of capital consolidation are already included in that figure.

Despite the increase in management requirements and planned expansion of central services at the euromicron Group, the costs of the euromicron AG and the effects of Group consolidation totaling €5.9 million were largely maintained at a constant level (previous year: €5.8 million). Apart from holding costs, the costs of M&A activities, merger costs and other strategic projects and cross-segment expenses are allocated here. A comparable cost level is anticipated for the next two years.

04. Employees

Sticking to our course

As in previous years, our Group also posted a high trainee ratio of 6% in fiscal 2012. 80% of our around 100 trainees at present are learning the professional of electronics technician in information and communications technology. We are also training people as IT systems support specialists, office clerks and dialog marketing specialists. euromicron's companies repeatedly make a name for themselves as especially successful providers of training. In 2012, for example, Leipzig Chamber of Handicrafts bestowed the award of "a tried-and-proven provider of handicraft training" on SSM euromicron GmbH in praise of the continuity and quality of its training.

We employed an average of 1,699 people in 2012, 244 more than in the previous year. This increase is mainly due to our acquisitions: The employees of RSR Datacom GmbH & Co. KG, its subsidiary ProCom Professional Communication & Service GmbH, SSM Stark- und Schwachstrom Montage GmbH and the ANS Group were added to euromicron's existing workforce in the course of fiscal 2012. In addition, this average figure now also includes the employees of telent GmbH, who were included as of June 7 in the previous year, for the entire fiscal year.

Also an effect of our successful human resources strategy: We repeatedly have new and interesting job vacancies at our Group. Our company is therefore attractive to employees who wish to develop themselves and advance – new career opportunities keep on opening up for them.

We now receive an increasing number of unsolicited applications. euromicron is becoming more well-known and in particular our inclusion in the TecDAX has made us even more interesting to many applicants. However, the shortage of skilled workers means that new hirings come at a price. Nevertheless, we do not make any compromises when it comes to recruitment: We intend to continue to ensure the quality that we believe as being crucial to our development.

Qualification

In August 2012, a second batch of sales trainees successfully completed their training as “certified sales professionals”. We kept all ten trainees on as sales representatives. The training comprises a theoretical part and a practical part at one of euromicron’s companies. The focus is on the breadth of the product portfolio, with the result that that participants’ consulting skills are boosted. We regard this employee training tailored to euromicron’s particular needs as a key component in the success of our sales activities.

We also launched an extensive further training program for our sales employees. It essentially imparts know-how on the systematic selling of solutions, cross-selling potentials and specific customer support. We offer new sales employees a start-up seminar specifically to assist them in the familiarization process.

Development of managerial staff is vital to every company. We therefore offer pinpointed training for executives: from the Managing Directors, first-level management to junior executives. In October we launched a development program for junior executives for the fourth time. It has been our experience that junior staff often contributes leadership skills which it pays to enhance further for the employees themselves and for the Group’s success.

05. Market and technology

Growth in the ICT sector not reflected in expansion of infrastructure

According to the industry association BITKOM, the global ICT market remains stable, despite the European financial and banking crisis. Global sales are expected to increase in 2013 by 5.1% to €2.7 trillion.

Nevertheless, the association notes that there are very great differences regionally in how markets are developing. According to BITKOM, Western Europe is the region with the lowest growth. The German ICT market is a positive exception here, with growth forecast at 1.4% in 2013.

With regard to the German ICT market, however, it can be seen that growth was mainly driven by consumer electronics and software, whereas investments in information and telecommunications infrastructures were deferred by many companies due to weak general economic conditions and the resultant uncertainty as to how the year would turn out. Consequently, Germany experienced the worst final quarter since the end of 2008. That made itself felt as of the second half of the year in the shape of delays in expansion of the ICT infrastructure.

Reluctance to invest in the telecommunications industry

The telecommunications industry was mainly hit by this reluctance to invest. The decision by public authorities on the issue of "vectoring" has been awaited since July 2012, ensuring that investment projects in broadband expansion by means of fiber optics in the fixed-network arena have virtually been completely shelved as a result. In the field of mobile communication, expansion of new LTE (Long Term Evolution) base stations came to a virtual standstill due to the backlog in approval.

In the information technology sector, the difficult economic conditions, which reached the German economy midway through the year, made themselves felt in the shape of project postponements. The willingness to invest on the part of key industries slackened and already commissioned projects were deferred.

euromicron prepares for further growth

In this tough economic climate, euromicron continued to implement the structural and integration measures it commenced and prepared itself technologically for further growth.

Some of the highlights in 2012 included development of a large number of product innovations, implementation of technologically outstanding projects, initiation of pooling of the company's technological know-how at Competence Centers and rounding out its technological expertise by the acquisition of smallish specialist companies.

Innovation initiative launched

In April 2012, euromicron continued the start of its innovation initiative with the latest generation of the Gigabit Ethernet installation switch from its subsidiary MICROSENS. As a result, a further milestone in the field of FTTO in-house networking was showcased at CeBIT.

This product innovation from MICROSENS was the first result of increased investment by euromicron in developing new products and solutions and in updating its existing portfolio. The initiative was continued the same month with the new SFP transceiver. It has been certified in compliance with the ATEX Product Directive 94/9/EC for use in potentially explosive atmospheres.

Right on time for the Hanover Trade Fair, euromicron's subsidiary ELABO presented three innovations: the revolutionary workbench Primus One, the innovative Elabo power supply unit and the new Elabo Elution Suite software. As a result, euromicron's subsidiary Elabo again underscored its position as the leader in de-

veloping and manufacturing intelligent measurement and testing technology for the electrical and electronic industry and related professions.

In the fall of 2012, euromicron's subsidiary SKM Skyline complemented its ProfiLINK system family with a new K6A module as part of the Group's innovation initiative. Named SKM Pro-fiLINK, it is an entire cabling system that offers generous performance reserves and is based on tried-and-tested, high-quality cables and components made in Germany. The cabling system has been tested in the link and certified by GHMT AG, a company that specializes in high-frequency measurement technology. The new K6A module from the SKM ProfiLINK modul series can be assembled without the need for special tools and so significantly simplifies assembly.

As an all-round provider of network infrastructures, our mission is to offer products and services that are of the very highest technological standard. The successes of our product innovations in their markets show that we achieve just that.

Technology from euromicron in use everywhere

We penetrate our markets with a broad range of products and services and have a comprehensive footprint. Once again in 2012, this can be seen from a large number of impressive reference projects. Whether in the "countryside" or in large cities, nationally or internationally, at enterprises or major sporting events: euromicron is the powerful partner customers rely on when it comes to technologically demanding projects.

One such challenge was faced, for example, by our customer mr. net services in creating the broadband citizens' network fiete.net for a total of 28 communities in northeastern Schleswig-Holstein. We were able to persuade the customer with the specialist know-how we had already successfully proven in several broadband projects. euromicron systems was responsible for constructing the passive infrastructure – excluding the empty pipe network – and the more than 60 multifunctional cabinets, including the active DSLAM components. Once more, we were able to demonstrate our leading position in relation to broadband technology.

Further customers who set store by euromicron's technological know-how are E.ON Mitte AG and E.ON Hanse AG. They commissioned our subsidiary telent to equip their radio networks with DMR (digital mobile radio) technology. With more than 70 base stations for supplying the federal states of Hesse and Schleswig-Holstein, euromicron is thus implementing the two widest DMR networks in Germany at present, confirming its role as a forerunner in DMR technology.

We were also able to prove our know-how internationally. In the Miejski Stadium in Wrocław, a multi-purpose facility for sport and recuperation that holds more than 42,000 people, active technology from euromicron ensures that large sporting events can be held safely. A large part of the network infrastructure of the surveillance and access control system installed there was implemented on the basis of robust industrial switches from our subsidiary MICROSENS.

Our system house euromicron solutions provided the WLAN connection and remote maintenance access for the cable car over the Thames in London, which was opened in the summer of 2012. As a result, live television broadcasts in HD and with stable bandwidths of six to eight megabits a second are possible. Similar projects had already been accomplished in Koblenz, Singapore and the Lenzerheide skiing region in Switzerland.

Technological expertise pooled

For us, integration means creating the structures and general conditions required for our organization's further growth. In 2012, we therefore pooled our existing technological know-how and launched Competence Centers for products and solutions that are of strategic importance throughout the Group.

Such a solution is our fiber-optic cabling system URM® (YoU aRe Modular) for data centers. The high-quality connector components are produced at the EUROMICRON Werkzeuge plant using cutting-edge technologies. The connectors are assembled by LWL Sachsenkabel and subjected to a full quality inspection. Finally, our system houses euromicron solutions and euromicron systems assume responsibility for all the steps from planning, installation to maintenance of the data center infrastructure.

The URM® Competence Center now pools all the Group's expertise relating to URM® and, as a service provider, makes the existing technological know-how available to our own companies and our customers.

This model is a prime example of the large number of solutions for which our Group has extensive know-how. As a result, we can cater for a full line of services: from planning, consulting, installation, maintenance and service, including manufacture of high-quality, innovative products. Our customers benefit from such complete solution chains. We will therefore continue to drive these cross-Group products vigorously as part of our integration measures.

Rounding out of technological competences

In 2012, we continued to seize opportunities to take over qualified teams, technologies and market access or patents and integrate them in our Group.

At the beginning of 2012, we acquired the business operations of the ANS Group, thereby gaining a host of highly qualified employees and integrating them in our Group's system business. The technological focus of ANS' experts is on building automation, as well as network and security technology. The highly qualified and certified employees are an ideal complement to our system companies when it comes to the development, installation and maintenance of reliable, cutting-edge alerting technology.

In October 2012, we broadened our company's expert workforce with the acquisition of RSR Datacom GmbH & Co. KG. RSR Datacom is a vendor-independent system integrator based in Essen. The company specializes in communications technology in the fields of public address and dispatcher control systems, cable and alarm technology and radio relay and multiplexer systems. It offers its customers consulting, planning and project planning, assembly, commissioning, documentation and round-the-clock maintenance. Under the brand name ProCom® and with its subsidiary ProCom Professional Communication & Service GmbH, RSR Datacom also develops, produces and distributes rugged and innovative public address systems that are used nationally and internationally in industry, at rail and transport companies, for tunnel systems in the transport sector and in the process industry. With this specialization we have acquired in the field of integration of acoustic and public address systems and with the related vendor know-how, we are underscoring our mission to offer our customers comprehensive consulting and support.

Overall, we further expanded our company's technological expertise and sharpened its profile in 2012. We will also maintain a setup in future that ensures we can enable our customers to continue coping with the technological challenges in their business.

06. 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, and explains the level and structure of compensation for the respective members of the Supervisory 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 geared to 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 2012.

For their work in fiscal year 2012, the individual members of the Executive Board received the following payments:

The total compensation for all members of the Executive Board was €1,533 thousand. The performance-unrelated, fixed basic compensation accounted for €758 thousand (including other non-cash compensation of €44 thousand) and the variable, performance-related compensation for €775 thousand.

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

- ▶ Dr. Willibald Späth:
€1,143 thousand (performance-unrelated compensation €531 thousand, including €31 thousand in other remuneration, TEUR €180 erfolgsabhängig and performance-related compensation €612 thousand).
- ▶ Thomas Hoffmann:
€390 thousand (performance-unrelated compensation €227 thousand, including €13 thousand in other remuneration, TEUR €108 erfolgsabhängig and €55 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 2012, 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 for Supervisory Board members defined in the Articles of Association of euromicron AG reflects the responsibility and range of activities of the members and the Group's economic situation and success.

The remuneration is composed of a fixed and performance-related component. Apart from being reimbursed for their outlays, the members of the Supervisory Board receive a fixed annual remuneration of €10 thousand and an annual performance-related payment of €150.00 for each cent of dividend distributed per share that

exceeds four cents per share. The Chairman of the Supervisory Board receives double and his/her deputy one-and-a-half times the fixed and variable remuneration.

On the basis of the distribution from the net retained profits of euromicron AG in 2012 as proposed to the General Meeting (dividend of €0.30 per share), the payment is as follows:

In total, the members of the Supervisory Board received compensation of €63 thousand in accordance with the Articles of Association: performance-unrelated payments of €45 thousand and performance-related payments of €18 thousand.

- ▶ Dr. Franz-Stephan von Gronau:
€28 thousand (€20 thousand performance-unrelated and €8 thousand performance-related);
- ▶ Josef Martin Ortoff:
€21 thousand (€15 thousand performance-unrelated and €6 thousand performance-related);
- ▶ Dr. Andreas de Forestier:
€14 thousand (€10 thousand performance-unrelated and €4 thousand performance-related);

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 €54 thousand was paid for the services.

07. Corporate Governance

In fiscal 2012, euromicron AG largely complied with the recommendations of the German Corporate Governance Code in its version dated May 15, 2012, which was published in the Federal Official Gazette on June 15, 2012. The exceptions, which are mainly due to the company's size and business model and to preparations for future adaptations, are listed on the company's homepage at <http://www.euromicron.net/investor-relations/corporate-governance-12> and can be read in the annual financial statements.

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

- a.) The company's subscribed capital comprises 6,663,799 no-par value registered shares.
- b.) The company's Executive Board is not aware of restrictions on voting rights or transfer of shares, even if they may be defined under agreements between shareholders.
- c.) There are no direct or indirect capital stakes exceeding 10% of the voting rights, 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

After the equity increase last year using part of the authorized capital, the authorized capital remaining at December 31, 2012, is €2,621,078.72; this can be used by the Executive Board, with the consent of the Supervisory Board, to increase the capital stock of euromicron AG by issuing new registered shares against cash or non-cash contributions on one or more occasions by May 31, 2016. 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 is also 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, 2012.

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).

09. Environment

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

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

10. Postscript report / miscellaneous

After the balance sheet date, there were no significant operational or structural changes at the euromicron Group, nor any business events, that might necessitate a change to the disclosures made in the consolidated financial statements for 2012 or require reporting.

11. Internal control and risk management system

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

Stock corporations as defined by Section 264d 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.

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 derivate financial instruments in the balance sheet. The data, which is provided by other organizational units, is subjected to a plausibility check in Accounting and discussed with the affected units before being further processed as part of preparation of the consolidated financial statements.

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.

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. As far as can be assessed at present, the poor economic data in the Mediterranean countries will not have any direct impact on the company. There are only very few business relationships outside the European economies, which is why distortions there should not have any direct effect on euromicron.

Apart from economic risks, euromicron is subject to the fundamental risks relating to other market players and pressure on prices. euromicron tackles these challenges by nurturing intensive contacts with customers so as to be able to offer top-quality products and services at competitive prices. Individual subsidiaries have a low degree of dependence on individual large accounts. This risk at the Group level is relativized, since no one customer accounts for more than 8.0% (previous year: 7.9%) of total sales. The risk of nonpayment is reduced by factoring of some receivables from customers.

In order to enhance awareness of euromicron in the ICT market, both the Group and its individual subsidiaries attend trade shows throughout Europe to demonstrate their specialist know-how. Implementation of the integration phase at the system houses, especially after the acquisition of the business operations of telent GmbH in 2011, harbors a not inconsiderable opportunity. This process has a time frame of several years and holds out the prospect of a sharp increase in value added, since end-to-end planning, consulting and implementation of complex network solutions is something that only few market players master. Integration will produce competitive units which can then cope better with market risks, yet be flexible enough to take up and implement market trends. The competitive advantage is clearly in short information and decision-making channels, as well as the possibility of constantly leveraging the development departments of euromicron Group's production companies. euromicron thus unites the flexibility of a medium-sized enterprise with the merits of a group.

Technology/R&D

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

euromicron's customers demand that the production companies 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.

Products/projects

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

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

Finances/liquidity

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

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

Results-oriented targets are set for all activities of the euromicron Group. Among other things, management uses differentiated reporting to constantly analyze and control the Group's business segments. Moreover, there are quarterly forecasts as regards expectations at the end of the fiscal year, which are analyzed intensively. Budget variances are examined to determine their impact on the financial targets and measures to fulfill the budget are initiated.

As in past years, euromicron's banks again regarded it as a strong and dependable partner in fiscal year 2012. All of the financial institutes expressed their interest in further strengthening their commitment at euromicron, even in the two integration years 2012 and 2013 despite the temporary impact on profitability and balance sheet ratios and to actively flank the company in the coming years as it moves toward its sales

target of €500 million. The key financial indicators adjusted in agreement with the long-term financing partners for the integration years 2012 to 2014 were fulfilled.

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

euromicron's debt was also restructured further in favor of long-term borrowings and further optimized in 2012 so as to diminish the company's risk in terms of outside financing. This move has further restricted the latent risk potential as regards financing compared with the previous year.

Procurement

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

Corporate

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

There are no legal risks from pending legal proceedings above and beyond current business. A tax audit has been ordered for the fiscal years 2006 to 2009. As far as is known at present, this will not result in any material financial risks.

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

12. Outlook

Following the company's sharp growth in the previous year, the focus of the Group's development in fiscal 2012 as part of the current phase of its "build and integrate" strategy is mainly on optimizing the organization, processes and corporate and financing structures. On the basis of the stable economic data for the German economy, good forecasts for euromicron's traditional markets and its high order books, euromicron embarked on 2012 with an extensive optimization program and in the fiscal year did not slacken its pace in implementing the initiated change process, even after the downturn in the economic climate in the second half of the year, in order to ensure the springboard for the Group's further growth.

In the next two fiscal years, a focus will be on organically developing our business and rounding out our regional activities strategically. Apart from profitable organic growth, euromicron will specifically assess opportunities to acquire smaller companies that sensibly complement its product portfolio or improve its market position further as part of the "build and integrate" phase. We have a product portfolio that is geared strictly toward customer benefit and so believe we are well positioned to win contracts from more and more customers as the preferred partner from the small and medium-sized sector. Also subordinate to that objective is the expansion and continuous development of our sales organization so that we can support our customers with our technology and industry expertise, on-site, competently and in a spirit of partnership. Apart from expansion and qualification of our sales team, we are driving development of our entire workforce, above all in terms of quality. In this, we are guided by the objective of "becoming even better" in all areas.

As a second focus, we will again extensively examine programs aimed at optimizing corporate structures as part of integration and strengthen them further in terms of scope and speed. Our prime goal is to create formal flexible structures that preserve and evolve our SME model with decentralized responsibility in order to enhance agility and customer benefit. Apart from that, persons with local responsibility will be enabled to focus primarily on their operational responsibility and developing business thanks to professional central services and support functions. That means all organizational, responsibility and cost structures, including all processes, will be reviewed critically as part of strategic Group integration so that the opportunities of the current phase of change can be fully tapped before the Group grows further. To flank that, cost-cutting programs will secure the quality of earnings of the operational units. In the spirit of our forward-looking orientation, we intend to drive future topics, such as optimization of locations, strengthening and optimization of sales, and gearing our activities to the customer and development of solution-oriented approaches, in the current fiscal year 2013.

As part of integration of the euromicron Group, the sharp increase in seasonal fluctuations in the spread of business during the year will also be addressed proactively. The seasonal spread of business is basically not a new challenge for the euromicron Group, but the bandwidths in these fluctuations have again widened considerably compared with previous years and so greater flexibility and attention is required when it comes to controlling resources and capacities within a fiscal year.

As integration of talent progresses, the anticipated opportunities for the future overall enterprise from the combination of the advantages of a unit with strong structures with the strengths of the customer-centric SME model are, as expected, now clearly identifiable. So as to optimize and leverage synergies, concrete measures were therefore initiated at the beginning of 2013 with the creation of a management team under the name "euromicron networks" aimed at establishing coordinated, efficient and purposeful management at euromicron's system houses. The emphasis in the coming phase of development of the euromicron Group will be on improving economic controlling and profitability after the Group's sharp growth in 2011, securing its liquidity by enhanced cash and receivables management and so extending and fortifying the company's financial stability. This extensive optimization process was continued as planned in fiscal years 2012 and will probably extend over the year 2013 and into 2014 and so take up a large part of the company's attention.

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

In our core markets, we expect an increase in new orders in the course of fiscal 2013 following the weak final quarter of 2012. The postponement of investments to fiscal 2013 should also enable the Group to perform well. The customary shifts between individual sectors have been factored in and can be cushioned thanks to euromicron's broad lineup in terms of customers, sectors and technologies. Continuously growing demand for powerful networks for voice, data and video transport makes it vital to have a network infrastructure that protects investments; without its functionality, the performance and competitiveness of companies would be severely restricted and the current and future volume of communication in the social, public and private sphere would no longer be able to be ensured.

Relevant future market trends in digital communication are clearly visible for us. Use of the mobile Internet and the possibilities offered by cloud computing and IT sharing mean there is growing pressure to create high-performance infrastructures. At the same time, the required performance demanded of ICT is continuously increasing as a result of the intensive use of digital communication. In addition, the importance of network infrastructures as an influential competitive factor for cities, carriers and enterprises and the newly emerging business models in the growing e-markets is surging in importance. This is accompanied by a continuous increase in the requirements for security, surveillance and alarm networks so as to offer better protection against external attacks and address the security needs of individual target groups.

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

Both in the past fiscal year and for 2013, our financing partners have confirmed their commitment and repeatedly offered to accompany euromicron actively and to a greater extent on its path to achieving consolidated sales of €500 million. So that our company can continue to advance, euromicron has sufficient free credit lines and promises of finance for the next steps in our growth and integration on the basis of a constantly optimized and balanced financing structure and a good and stable cash flow within the Group.

Apart from integration and consolidation, a further focal objective for fiscal 2013 is to establish the "euromicron" brand further as a byword for quality, solution-oriented expertise and know-how in the market in all areas relating to network-based information, communications and security needs. In the past fiscal year, we again sharply expanded our active public relations and investor relations work after the admission of euromicron's share to the TecDAX and so actively bolstered its performance. As a result, we succeeded above all in inspiring a broad and acknowledged circle of institutional investors about the opportunities for development of the euromicron Group and winning them to invest in our stock.



The consolidated EBITDA return, which euromicron will focus its reporting on to a greater extent in future as its grows further, is expected to be between 8% and 11% for the integration phase into the year 2014. We plan organic growth of 5% to 10% a year for 2013 and 2014. After completion of the integration and consolidation phase in 2014, the Group aims in subsequent years to achieve the €500 million sales mark and sustain an operational EBITDA return of 10% to 13%. In addition to organic growth, larger strategic investments like in 2011 or mutual stakes in companies are to contribute to that.

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

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

Summary

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

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

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

Frankfurt/Main, March 25, 2013

Dr. Willibald Späth
Chairman of the Executive Board

Thomas Hoffmann
Member of the Executive Board



Consolidated financial statements (IFRS)

81	Audit opinion
82	Balance sheet
84	Income statement
85	Statement of comprehensive income
86	Statement of changes in equity
88	Statement of cash flows
89	Notes on the IFRS consolidated financial statements
154	Declaration by the legal representatives

