

Group Management Report

For the fiscal year
from January 1 to December 31, 2010

- Sales increase 13% to €203.6 million
- Consolidated EBIT rises 23% to €20.1 million
- Consolidated EBITDA increases 24% to €24.7 million
- Earnings per share (undiluted) grow by 10% to €2.38

1. Business and general conditions

Profile

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

Structure and organization

The euromicron Group comprises the parent company euromicron AG and 18 subsidiaries that are included in its consolidated financial statements. Its regional lineup focuses on German-speaking countries and enables intensive care and support of its predominantly German customers. As part of its internationalization, further group companies were acquired in Austria and Italy and branch offices established in Poland, Portugal and France.

The euromicron Group is divided into the two report segments euromicron North and euromicron South, which represent the controlling units within the euromicron Group.

The euromicron Group's management is headed by two Executive Board members. Operational business is run by the subsidiaries and their locations, whose General Managers report directly to the Executive Board.

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

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

Internal control system

Management of the euromicron Group has set itself the objective of securing and expanding the Group's success sustainably as part of a value-oriented growth strategy. Fiscal 2010 was dominated by the build-and-integrate phase. For the years following 2011, the euromicron Group aims to generate annual sales of €300 million. This objective is supported proactively by the internal control system.

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

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

KEY FIGURES AND CONTROL FACTORS

	2010 € m.	2009* € m.
Sales revenue	203.6	179.6
Earnings before interest and taxes (EBIT)	20.1	16.4
Earnings before interest, taxes, depreciation and amortization (EBITDA)	24.7	19.9
EBIT margin	9.9%	9.1%
Order books	91.1	69.8

* Previous year's figure corrected acc. to IAS 8

2. General economic conditions

Development of the market and sector

In mid-2009 the global economy began to recover from the financial crisis and successfully continued this trend in 2010, with the volume of world trade growing by 12% to reach levels similar to those prior to the crisis. GDP rose by 4.8%, with developing and newly industrializing countries (7.1%) clearly outpacing industrialized nations (2.7%) and so delivering the strongest economic boosts. In particular, the BRIC states (Brazil, Russia, India and China) profited from stronger international trade and, as expected, posted the highest increases in GDP. As a hub of global trade, China occupied a prominent position in this regard. It supplied worldwide markets with mass goods, while exporting nations like Germany or Japan profited from its demand for capital goods, as did countries whose commodities are necessary to keep the economy with its billion-strong population moving ahead. China also succeeded in compensating for the discontinued economic stimulus programs by means of growing demand from private households. However, there are increasing initial signs that growth in China will decline in the coming year. In particular the real estate market shows first indications of overheating, which is why a revaluation of the yuan against the US dollar is expected in the medium term to counter further bubbles.

That would help the USA reduce its trade deficit with and so growing dependence on China. Apart from that, the USA was still not able to remedy its structural problems, such as the fall in prices in the real estate market, high unemployment and weak private consumption. Far-reaching public funding measures resulted in a higher propensity to invest, but economic growth was below expectations at 2.6%. The US government is planning tax breaks for the coming period to stimulate the economy. It remains to be seen whether this is a suitable recipe given the enormous national debt.

Japan has an even bigger national debt and problems with a strong currency. However, most creditors are domestic and so the country's dependence on other nations is low. Moreover, despite the flagging dynamism in its target markets of Southeast Asia, Japan posted surprisingly good growth of just under 3%. Economic growth is expected to slacken in 2011 since the government has largely exhausted its financial and fiscal policy instruments.

The economic situation in the Euro zone varied greatly in the past twelve months. Germany was the frontrunner, growing at 3.6% and so well above the EU average of 1.7%. Apart from Germany, countries like Finland or Slovakia were able to share in the upturn. In contrast, Italy and France disappointed with growth figures of 1.0% and 1.6% respectively. The current economic situation in Greece, Ireland, Spain and Portugal continues to be worrying. Some of these countries were near to insolvency at the beginning of 2010 and had triggered the Euro crisis. Impending bankruptcy was only averted by massive intervention by the EU, with the affected countries being supported by financial aid packages and obligated to make deep budget cuts. One of the most urgent tasks in the coming periods will be to stop the economies in the Euro zone from drifting apart and to coordinate fiscal policy decisions better. There is also the need to stabilize the European banking systems, large parts of which are still reliant on government assistance. To judge by recent experience, the risk of attacks by speculators on the single currency will remain one of the challenges moving ahead. However, France and Germany in particular made it clear that the Euro will stay as a common currency. The issue of Euro bonds will make it far more difficult for speculators in future to bet against the Euro.

The fact that the economic mood in the Euro zone overall is rated as positive is largely attributable to the continuing upturn in Germany. The German economy closed 2010 with growth of 3.6% and was almost back at the level before the crisis. As usual, German goods were in great demand abroad and again made Germany one of the biggest exporters. However, the crucial economic boost came from strong domestic demand: Gross fixed capital formation rose by 5.5% and public expenditure by 2.2%, while private households consumed 0.5% more than in the previous year. The business climate for trade and industry, which was already optimistic in the third quarter of 2010, improved further by the end of the year and makes German entrepreneurs look positively to the future. On the labor market, that meant only few firms used the instrument of short-time work and new hirings are planned for service and industrial companies. At the end of the year, the total number of people in employment was just under 40.5 million – an all-time record. The positive employment forecasts across the board indicate that consumption by private households will continue to ensure economic stability. The boom in the domestic economy also resulted in a relaxation of lending policy, making it easier for German enterprises to obtain financing for projects and investments from banks. The only exception was the construction industry.

Things went far better for the information and telecommunications (ITC) industry in 2010 than the year before. In the third quarter, the BITKOM Index, which is a good indicator for the ITC sector, stood at 67 points or a 10-year high. This mark was again surpassed in the fourth quarter, which is why most enterprises assume their sales will increase year-on-year in 2010 and expect growth opportunities for the fiscal year thereafter. Overall, sales in the ITC industry in 2010 rose by 1.4% to €142 billion, compared with a forecast of zero growth in the spring of 2010. In 2011, too, 84% of ITC companies anticipate rising sales and only 6% a decline.

In view of this good business trend, two-thirds of companies intend to increase their headcount. In this connection, the problem of a shortage of skilled workers is becoming more and more apparent. It is already an impediment for 52% of companies and will only be able to be solved permanently by a more long-term training policy at enterprises. In contrast, no problems are seen in relation to domestic and export demand, as well as financing conditions. Their influence as a market impediment fell steadily in 2010 and is generally regarded as being of minor importance for the first quarter of 2011.

Course of fiscal year 2010 for the euromicron Group

euromicron's long-term strategy of careful spending and at the same time making all technologies available at all German locations as part of the build-and-integrate phase so as to provide customers with the very best advice and support means that the company can actively leverage the recovery in the national economy and further expand its operational business.

We have succeeded in further reducing cost structures at the euromicron Group and optimizing its processes. Focusing on potential, some of which has only been partially tapped, to successfully enhance our earnings strength in the coming years is a key component of our intensive build-and-integrate phase. Integrating and bringing together highly specialized employees and locations to give a homogeneous local presence with extensive know-how in the entire field of network infrastructure was the key emphasis in the past fiscal year.

We remain true to the maxim of increasing expansion of technology, market access and market volume, as well as entering new, forward-looking markets and business segments, for example by addressing the growing requirements in the field of health and care.

To round out its integrated portfolio, euromicron AG acquired Avalan GmbH, Spiesen-Elversberg, along with its subsidiary GLT GmbH, Spiesen-Elversberg, under the notarized agreement dated December 28, 2010. This strengthens euromicron's presence in Saarland and gives it access to the Luxembourg market. Avalan is a system house that has expertise in ITC networks and communications solutions.

With the notarized agreement dated December 9, 2010, euromicron Holding GmbH acquired LEONI NBG Fiber Optics GmbH, Gmünd, Austria, which was renamed euromicron NBG Fiber Optics GmbH in December 2010, in order to strengthen euromicron in Austria and prepare for entry into the Eastern European market. euromicron NBG Fiber Optics GmbH is a full-line vendor in the FTTH market – from production, distribution to implementation of complex all-round systems – and has a presence in the Austrian and German market.

With the notarized agreement dated December 9, 2010, euromicron Holding GmbH acquired Leoni WCS Benelux B.V., SV Amersfoort, Netherlands, which was renamed WCS Fiber Optic B.V. in December 2010. WCS Fiber Optic B.V., like euromicron NBG Fiber Optics, strengthens euromicron's expertise as a developer and producer in the field of fiber optics and operates in the Benelux countries.

With the notarized agreement dated January 12, 2010, internal consolidation was continued with acquisition of the remaining 20% of shares in NetWays Netzwerk Consulting GmbH, Ettlingen. With the notarized agreement dated August 17, 2010, NetWays Netzwerk Consulting GmbH, Ettlingen, was merged with euromicron solutions GmbH – a euromicron Group company, Mainz – effective January 1, 2010. With the notarized agreement dated March 29, 2010, FED Gesellschaft für Fernmeldetechnik, Elektrotechnik und Datentechnik mit beschränkter Haftung, Darmstadt, was also merged with euromicron solutions GmbH – a euromicron Group company, Mainz, – effective January 1, 2010. By taking these steps, we have managed to implement within euromicron South a powerful system house unit that masters all technologies based on fiber optics or copper and can offer customers ideal service from a single source.

With the notarized agreement dated August 17, 2010, SSM Service Gesellschaft mbH, Hamburg, was merged with euromicron systems GmbH – a euromicron Group company, Essen – effective January 1, 2010. With the notarized agreement dated March 23, 2010, Engel Technik GmbH and Engel Vermietungs- und Servicegesellschaft mbH, both with registered offices in Haan, were also merged with euromicron systems GmbH effective January 1, 2010.

With the notarized agreement dated June 10, 2010, Skyline Communication Systems GmbH, Hamburg, and a branch office in Kaarst were merged with SKM Delwave GmbH – a euromicron Group company, Munich – effective January 1, 2010. The name of SKM Delwave GmbH – a euromicron Group company – was changed to SKM Skyline GmbH pursuant to the resolution adopted by the General Meeting on August 17, 2010; its registered offices are still in Munich.

As part of the acquisition of 80% of the shares in Microsens GmbH & Co. KG, Hamm, in 2006, the minority shareholders obtained a preemptive right to tender the remaining 20% and euromicron AG an option to purchase them. The period for exercising these rights was contractually redefined in fiscal 2010 as being January 1 to December 31, 2012.

In 2010, we launched measures to optimize the IT systems we use as part of our organizational development activities.

The preparatory basic work on standardizing process flows and definitions throughout the Group was largely completed in the year under review and will be implemented further in the integration phase.

Sales and earnings strength improved further in both the report segments North and South in 2010. The companies are profiting from the still great need for large carriers to invest in expanding high-speed networks and for industry to modernize its data transmission systems so as to remain competitive.

Our prudent and foresighted cost awareness, permanent process adjustments and constant optimization in the past enabled this success. A proactive cost-cutting program was launched at the start of the past fiscal year to secure our forecast results and had a positive impact on safeguarding our positive earnings performance.

euomicron's internationally based companies and units in Italy, Poland and France were able to confirm their sales and earnings targets.

euomicron austria completed its restructuring process in 2010 and obtained all the certification necessary for its network business. As a result, the company has laid the foundation for a successful future. Penetration among key accounts in the Austrian market was achieved in the past fiscal year, but the sales generated were not yet able to cover the cost structure.

We have specifically strengthened our operations in Austria by acquiring euomicron NBG Fiber Optics GmbH in Gmünd and can now offer customers competent consulting and support in all matters relating to copper and fiber-optic networks.

To enable the euomicron Group to keep on developing successfully, we will – as in the past – ensure lean cost structures and counteract potential critical economic developments at an early stage by means of rationalization and cost flexibilization.

Share price and investor relations

euomicron's shares, which are traded in the Prime Standard, began fiscal 2010 at a price of €15.66, sharply up on the previous year (€9.98). Following a moderate showing in the first quarter, the share performed strongly as of the second quarter, and this was also not impaired by the capital increase in 2010. Instead, the share grew in stability over the year, was constantly above €20.00 as of the fourth quarter and closed the year at €21.60, almost 40% higher than the previous year (€15.60). As a result, euomicron AG's market capitalization was more than €110 million (previous year: €73 million).

euomicron conducted a capital increase on May 7, 2010, to strengthen its equity ratio and give it economic flexibility. A total of 465,999 new shares were placed on the market at a price of €16.50 and the number of shares increased to 5,125,999. As a result, the company acquired liquid funds of around €7.7 million and its capital stock increased by just under €1.2 million to €13.1 million. This issue did not impact earnings per share. Thanks to the excellent fundamentals of euomicron AG, EPS rose by 10% to €2.38. On the basis of the number of share in 2009, that would be equivalent to an EPS of €2.55, a year-on-year increase of 17%.

The growing attractiveness and increased awareness of euomicron's shares on the capital market was also reflected in the increased volume of trading in them. Whereas the volume of traded shares in 2009 was 1.9 million, it soared to more than 6.2 million in 2020, with total turnover of €115.8 million. This development was underpinned by talks with investors and roadshows where the Executive Board of euomicron nurtured intensive contacts with lenders. Direct contact with the capital market also enabled smooth placement of our treasury shares in November 2010, when the remaining 157,234 shares were sold on the stock market at an average price of €21.00. The gross proceeds of €3.3 million from the issue were used among other things to fund the company acquisitions at the end of the year. Around 30% of the traded shares held last year by Wysser Pratte, AvW and Nord LB were also replaced inconspicuously and beneficially to the share price.

The response of the capital market made it clear that investors value in particular the reliability and long-term management strategy of euromicron. Continuing our unbroken dividend record, we distributed half of the profits generated in fiscal 2009. The other income was used to drive operational issues.

As a medium-sized high-tech company, euromicron AG benefits from the trust of national and international investors in the German stock market, where excellent returns can be earned at comparatively little risk. euromicron's share price should also profit from that in the coming fiscal year.

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

3. Net assets, financial position and results of operations

Due to the change in consolidated companies and the corrections in accordance with IAS 8, the following data is comparable to a limited extent only and in some cases differs from the figures reported for the previous year. The main effects from the changes in consolidated companies are additionally stated in the following. Reference is made to the explanations in the notes to the consolidated financial statements.

Assets and equity

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

ASSET AND EQUITY STRUCTURE

	2010		2009*	
	€ m.	%	€ m.	%
Noncurrent assets	108.7	55.5	103.9	57.3
Current assets	78.7	40.2	68.9	38.0
Securities and cash	8.6	4.4	8.6	4.7
Assets	196.0	100.0	181.4	100.0
Equity	89.3	45.6	71.4	39.4
Long-term debt	25.5	13.0	28.8	15.9
of which: Financial debt	15.2	7.8	18.2	10.0
Current liabilities	81.2	41.4	81.2	44.8
of which: Financial debt	45.3	23.1	49.8	27.5
Equity and debts	196.0	100.0	181.4	100.0

* Previous year's figures corrected acc. to IAS 8

The euromicron Group's total assets at December 31, 2010, were €196.0 million, up 8.0% year-on-year. This increase is mainly the result of additions to the consolidated companies.

The increase in noncurrent assets is mainly the result of the growth in acquisition-related goodwill. This was €80.9 million at December 31, 2010, compared with €76.6 million in the previous year. The remainder of the increase in noncurrent assets is largely due to capitalization of development costs and the acquisition of machines at the production operations. The ratio of equity and long-term outside capital to assets is 105.6% (previous year: 96.4%).

As part of the current assets, inventories increased year-on-year by €3.9 million. This is mainly due to various projects that were not able to be completed in the past fiscal year. The increase among current assets in relation to trade accounts receivable is €5.4 million and results from the newly acquired companies. Since the business model of these companies means that they always record the largest volume of sales and invoicing in the final quarter of a fiscal year, trade accounts receivable inevitably increase at December 31 of every fiscal year. In the first months of the new fiscal year, the companies accordingly expect a large inflow of liquidity.

Working capital (current assets excluding securities and cash, minus current non-interest-bearing liabilities) was €42.8 million (previous year: €37.5 million) at the reporting date.

Equity at December 31, 2010, was €89.3 million (previous year: €71.4 million), a year-on-year increase of 25.0%. Key contributing factors to this were not only the net income for 2010, but also the issue of new shares and sale of treasury shares, which had previously been deducted from equity. Despite the higher total assets, the equity ratio at December 31, 2010, rose to 45.5%.

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

Long-term debt is below the level of the previous year due to the repayment of loans as planned. Among the current liabilities, trade accounts payable rose slightly as a result of the increase in business volume, while short-term credit lines at banks were able to be reduced.

The Group's net debt (financial debt minus securities and cash) at December 31, 2009, is €50.6 million, a sharp improvement over the previous year's figure of €58.2 million. In relation to this analysis at the balance sheet date, it should generally be taken into account that project financing is traditionally heavy at the end of the year. Payments by customers then mean a sharp reduction in net debt in January and February 2011.

Results of operations

In fiscal 2010, the euromicron Group achieved consolidated sales of €203.6 million, an increase of 13% on the previous year (€179.6 million). This is all the more pleasing because the growth we anticipated in the Austrian market did not materialize as a result of the very far-reaching and ongoing consolidation of the mobile communications market there.

Sales outside the German market were €29.6 million (previous year: €25.1 million), a share of 14.5% in relation to total sales.

As a result of its pleasing development and sharply expanded market footprint, the euromicron Group is growing in interest for strategic supplier alliances. As a result, grants of €3.0 million were obtained in the past fiscal year 2010. This item, which is reported under "Other operating income", compensated almost fully for the special costs of integration from the build-and-integrate phase.

The euromicron Group's total operating performance was €206.4 million, around 18% up on the comparable figure for the previous year of €174.4 million.

The largest expense item in the income statement of the euromicron Group was cost of materials at €107.3 million (of which from changes in the consolidated companies: €8.2 million). The ratio of cost of materials to total operating performance was 52% compared with 49% in the previous year. This increase is attributable to rigorous flexibilization of assembly cost structures, with a shift towards qualified subcontractors.

After cost of materials, personnel costs are the second largest expense item. Personnel costs in the past fiscal year 2010 were €54.2 million compared with €48.1 million in the previous year (of which from changes in the consolidated companies: €0.2 million). The main factor in this increase were the company acquisitions at the end of 2009, which were only included on a pro-rata basis in the cost structure of the previous year. In relation to sales, personnel costs fell to 26.6% (previous year: 26.8%). Given an average workforce of 1,011 in the year under review (excluding trainees), average sales per employee were €201.4 thousand.

Depreciation and amortization were €4.6 million, above the level of the previous year (€3.5 million). This increase is due to amortization of hidden reserves of newly acquired companies, as well as of development expenses.

Other operating expenses in 2010 were €24.6 million compared with €22.6 million in the previous year (of which from changes in the consolidated companies: €0.3 million). Vehicle and travel expenses (€6.7 million), rent/room costs (€3.5 million) and legal and consulting costs (€2.8 million) are the largest items within the other operating expenses. The other operating expenses relative to sales are around 12%, slightly below the comparable level of the previous year.

Earnings before interest and taxes (EBIT) were €20.1 million, an increase of around 23% over the previous year (€16.4 million). The EBIT margin relative to sales was increased to a pleasing level of 9.9% (previous year: 9.1%) and is at the middle of our long-term EBIT margin corridor of between 8–11%. Earnings strength is underpinned by permanent monitoring of cost structures.

Net financing costs were reduced from EUR € –3.0 million in the previous year to € –2.9 million as a result of improvements in cash management and despite rising market interest rates. With the exception of funding of the purchase price, changes in the consolidated companies did not have any significant impact on net financing costs.

The tax ratio is around 29.5% (previous year: 23.4%). The change is mainly attributable to non-recurring tax effects in the previous year.

The improvement in operating performance, coupled with permanent monitoring of cost management, meant that net income for the year was approximately €11.5 million, compared with €9.8 million the year before. Undiluted earnings per share increased from €2.17 to €2.38, despite the issue of new shares and sale of our treasury shares.

Overview of the results of operations:

RESULTS OF OPERATIONS

	2010 € thou.	2009 € thou.
Net sales	203,643	179,605
Inventory changes	1,211	–6,882
Own work capitalized	1,521	1,702
Other operating income	4,476	2,101
Cost of materials	–107,317	–85,975
Personnel costs	–54,247	–48,103
Amortization and depreciation expense	–4,601	–3,526
Other operating expenses	–24,561	–22,554
Operating profit	20,125	16,368
Interest income	103	103
Interest expenses	–3,009	–3,056
Income before income taxes	17,219	13,415
Income taxes	–5,088	–3,139
Consolidated net income for the period, before minority interests	12,131	10,276
Minority interests	–669	–499
Consolidated net profit	11,462	9,777
(Un)diluted earnings per share in (€)	2.38	2.17

Previous year's figures partly adjusted (corrections acc. to IAS 8)

Financial position

The Group is in principle financed centrally through euromicron AG. euromicron AG is responsible for providing all its Group companies with liquidity. This is done through a central cash pooling system to which all Group companies are linked and in which the newly acquired companies are to be integrated. Internal financial equalization as part of a cash management system reduces the volume of outside funding. 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 small lines of funding, which are however insignificant in terms of volume.

At December 31, 2010, unutilized promised credit lines of €36.5million were available to the Group. These lines usually increase sharply as a result of the traditionally high cash flow in the first two months of the new fiscal year. The Group thus has sufficient liquidity reserves.

The Group's financial position for fiscal 2010 is as follows:

CASH FLOW ANALYSIS

	2010 € thou.	2009 € thou.
Net cash provided by operating activities	8,479	14,225
Net cash used in investing activities	-5,980	-9,872
Net cash used in financing activities	-2,555	-5,891
Net change in cash and cash equivalents	-56	-1,538
Cash and cash equivalents at start of period	8,628	10,166
Cash and cash equivalents at end of period	8,572	8,628

The net cash flow from operating activities was €8.5 million at the end of the year (previous year: €14.2 million). The net cash provided by operating activities fell year-on-year by €5.7 million, mainly driven by rigorous utilization of cash discount payments to optimize our results of operations. In addition, inventories for orders to be supplied in 2011 increased, underscoring euromicron's steady growth.

In contrast, the net cash used in investing activities fell by €3.9 million to € -6.0 million and the net cash used in financing activities by €3.3 million to € -2.6 million. The reduction in net cash used in financing activities is explicable among other things by lower purchase price payments for company acquisitions. The net cash used in financing activities fell despite extensive repayments of liabilities from the capital increase and sale of treasury shares.

The net cash and cash equivalents of the euromicron Group at December 31, 2010, were €8.6 million, i.e. at the same level of the previous year. The net cash and cash equivalents at the end of the period of €8.6 million allow the Group, together with unutilized promised credit lines, to continue its phase of consolidation in a sound position. As a result, the operational business of the Group companies is financially secure. Diversification in financing ensures that we retain a reasonable independence from the capital markets. We aim to maintain and intensify the trusted and fine cooperation with all banks.

New orders and order books

euromicron's new orders at December 31, 2010, were €205.6 million, around 10.3% up on the previous year (€186.5 million). Order books were €91.1 million, well above the figure of the past year (69.8 million). As a result, the system houses of euromicron in particular enter 2011 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.

SEGMENT SALES

	2010 € m.	2009 € m.
euromicron North	103.6	88.1
euromicron South	109.0	99.2
euromicron AG and consolidations	-9.0	-7.7
Total sales	203.6	179.6

SEGMENT EARNINGS

	2010 € m.	2009 € m.
euromicron North	16.8	14.6
euromicron South	9.1	6.2
Operating EBIT	25.9	20.8
euromicron AG and consolidations	-5.8	-4.4
Total EBIT	20.1	16.4

The North segment was able to benefit from the good general economic conditions in the past fiscal year and increase its sales and EBIT year-on-year. Apart from the general economic situation, special topics – such as continuing expansion by Deutsche Telekom of its high-speed network – again contributed to this success. Demand from Deutsche Telekom in 2010 exceeded that in euromicron's top year 2009. Sales at the North segment were grown by 17.6% to €103.6 million. Its EBIT rose by some 15.1%.

The South segment increased its sales by around 9.9%, despite the continuing weakness of the foreign market. Its EBIT rose above-proportionately in relation to sales by 46.8%. This is mainly due to successful reorganization of the cost structure in Austria and Italy, as well as the successful acquisition of further companies.

With its operating companies, the euromicron Group posted further sharp operational growth in its EBIT. Operating EBIT was €25.9 million, some 24.5% up year-on-year.

In the remaining segment – euromicron AG and consolidations (central costs) –, the EBIT was € –5.8 million, compared with € –4.4 million in the year before. Apart from holding costs, merger and acquisition costs, merger costs and other non-recurring expenses and cross-segment expenses are allocated in this segment.

Summary

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

4. Employees

“An exceptional business needs exceptional employees”

We are committed to this belief and united in living up to the high standards of quality the euromicron Group demands of its products and services. Consequently, we are also fully aware that our company's success depends on highly qualified and motivated employees. We see ourselves as an employer who can offer its staff interesting challenges and tasks, as well as safe jobs and future-oriented opportunities to develop their abilities.

In fiscal 2010, the Group employed an average of 1,081 people (including 70 trainees), a reduction of 1.0% over the previous year (1,149 employees). The workforce at the “old companies” only changed slightly in absolute terms in the period under review. The main focus of personnel development at the euromicron Group is to qualify existing employees further through selective measures, as well as to prepare them for extensive activities. New staff is hired where additional expertise and know-how is required quickly and cannot be catered for by existing personnel.

As a network specialist with system house and production expertise, we need sales professionals who can deal with customers competently and confidently, but also boast high technical expertise. euromicron's existing portfolio, which is virtually a unique selling point on the market, makes very high demands in this regard, especially on the sales team.

In this respect, a sales trainee program launched in 2009 was successfully concluded in 2010. We have given 14 young and extremely motivated employees the chance to get to know euromicron's fields of competence and encouraged them to contribute their skills actively. In addition, we strengthened the members of our sales team for key account, as well as in regional and product sales, so as to position euromicron as a brand that stands for competence even more strongly in the market. The good economic situation in the past fiscal year also allowed our companies to continue to make selective new hirings and changes in the qualification structure.

As the euromicron Group steadily grows, so do the requirements demanded of our experts and managers. In order to give young employees the chance to grow into activities with management responsibility and give our tried-and-proven employees the opportunity to hone their managerial skills, we offer a special series of seminars that is intensively devoted to this topic and runs for a period of two years.

In order to strike a balance at our company between the competence of experienced employees and the high motivation of young people who want to learn, we give 84 young people the chance of practical vocational training at the euromicron Group. We regard this as part of our duty to shoulder social responsibility for training up-and-coming generations. In addition, the Group will satisfy growing demand for highly specialized experts not only by buying in services and knowledge, but also through its own qualification programs.

5. Market and Technology

“We develop the solutions needed tomorrow today.”

The race to catch up in past years has been successful: The German market for information and telecommunications technology (ITC) picked up sharply in the second half of 2010 – and so achieved the turnaround. As a result, the association for this high-tech industry, BITKOM, revised its forecast from the spring upwards by 2% and put the volume of sales in the ITC market in Germany – the euromicron’s Group’s main market – at around €142 billion.

Consequently, in 2010 ITC maintained its key importance as an economic factor and innovation driver in Germany and internationally. The ICT industry is the most important source of growth in productivity in the European Union, accounting for around 40% in this area. According to the OECD, it generates some 10% of the EU’s gross domestic product and is one of the largest sectors in terms of sales volume. 840,000 people work in ITC throughout the EU, plus around a further 650,000 ITC specialists in users’ sectors.

The leverage effects are thus considerable, since ITC technologies do not only drive growth and employment in the German and European economy, but also innovation in other sectors, such as the automotive or metal industry. That is evidenced, among other things, by rising ITC exports and applications at the European Patent Office: A quarter of all patents now come from the ITC sector.

Good mood in all IT areas

The positive market trend in the past fiscal year is also reflected in the mood in the high-tech industry: The BITKOM Index rose in the fourth quarter of 2010 to 69 points, the highest mark since this measure of industry sentiment was launched in 2001.

Following a 4.4% drop in the previous year, the market for software and IT services (outsourcing, IT consulting and maintenance) increased in 2010 by 1.7% to €46.7. In this connection, the strongest boosts came from the introduction of new operating systems and cloud computing.

In cloud computing, IT applications, storage or computing power are used in real time over data networks (in the “cloud”) instead of on local systems. Experts assume that cloud computing will trigger considerable additional investment in the coming years, since it will give rise to completely new business models and services that in turn will significantly bolster the presence of IT and IT-based services in professional and private life. The BITKOM association estimated the market for cloud computing in 2010 at €1.1 billion and estimates annual growth rates of 48%. As a result, this technology will account for around 10% of total IT expenditure in Germany in five years’ time.

Sales in the telecommunications market were €63.6 billion, virtually at the same level of the previous year. Following a sharp decline in the previous year, sales of mobile phones and other terminal devices increased to €4.6 billion in 2010. In particular this market was boosted by high-end smartphones, which now account for a quarter of all mobile phones sold and 40% of sales revenue.

At the same time, the market for mobile data services grew, by 14% to €6.3 billion. The forecast in the spring of 2010 was just plus 8%. Sales from mobile phones calls remained under pressure, in particular due to the fact that the German Federal Network Agency reduced termination fees. The decline was 2.2% to €16.3 billion.

Business in entertainment electronics was surprisingly pleasing. Thanks to the World Cup and technical innovations like hybrid TV and 3D television, there was greater demand than anticipated, above all for flat-screen TVs. Consequently, BITKOM was able to revise its forecast for this market segment upwards for the second time. Sales of digital entertainment electronics thus rose in 2010 by 3.4% to €12.7 billion.

In the IT hardware segment, companies also profited from the general positive trend. Manufacturers of high-tech equipments have faced huge pressure on prices for years. In 2010, sales volumes of innovative devices like tablet PCs and all-in-one computers increased and so contributed to the good mood.

The foundation: Expansion of the fiber-optic network

Fiber-optic and broadband connections are essential so that many of these devices and related services can be used. In 2010, however, Germany lagged behind the European trend in fiber-to-the-home (FTTH). Consequently, Deutsche Telekom is now planning FTTH network coverage for more than 4 million households in the 50 largest cities for 2012. The euromicron Group is one of the pioneers in this market and is already cooperating closely with towns, cities and municipalities, utilities and private investors. Among other things, it was involved in planning and setting up the largest FTTH networks in Germany.

The importance of information technology is undergoing a rapid change and it already influences – visibly or invisibly – all areas of our life. Power distribution networks and the water supply, traffic guidance systems or healthcare, food supply or most of the world's financial transactions are hardly conceivable without information technologies.

In 1984, 1,000 devices were connected to the Internet – and by 2015 the number will be 15 billion, which will place extremely high demands on the IT systems and network infrastructures used worldwide. The euromicron Group has continuously built its expertise in this area over the past few years so as to be able to develop and establish solutions and applications in the various markets.

euromicron stands for next generation solutions

Our solutions and applications from the technological fields of communication, security, monitoring, testing and data centers aim to make everyone's life more secure and convenient and to make work more efficient and faster. They are founded on IP-based network infrastructures; some of them have been developed by the euromicron Group's own manufacturing companies or come from its partner network. All the products, services and solutions are either marketed by our distribution division or are implemented directly by euromicron's system houses.

The best e-solution is only as good as its underlying network infrastructure. That is our special strength: We deliver complex solutions assembled from a wide range of different areas of technology with the necessary infrastructure from a single source (next generation solutions) and so underscore our solution expertise and innovativeness, including in markets with a highly promising future, such as e-energy, e-home & office, e-health & care, e-security or e-mobility.

Solutions for specialized markets

E-energy (or the smart grid) denotes the optimization of electricity flows in grids of virtual combined power plants. New ways of flexibly controlling power consumption and integrated power storage units by means of state-of-the-art information networks open up opportunities for new online services and electronic marketplaces relating to the subject of energy.

The euromicron Group now supports suppliers of regenerative energy with extensive digital networking and optimization of power distribution systems by means of state-of-the-art information and communication technologies. As a result, the existing supply structure can be leveraged better, the use of renewable energies expanded and CO₂ emissions reduced.

For example, in 2010 we cooperated with vendors and operators of wind energy plants to develop customized concepts and solutions for operating the entire communications structure of wind parks. Further services, such as Video over IP or Voice over IP, access control and fire alarm systems or meteorological services, also increasingly use this data network for communication on the basis of euromicron solutions. Our range of products and services in the area of e-energy also comprises active and passive components, setup and maintenance of complex data networks, as well as support as part of reliable, effective wind park management.

The future market of e-home & office defines extensive digital networking and optimization of life and work through the use of state-of-the-art information and communications technologies. As a result, for example, everyday tasks are made easier, living becomes more secure and work becomes faster and more efficient. Unified communication solutions are just one of many offerings from the euromicron Group in this market.

As part of digital networking and in the wake of greater demand for bandwidth in the private and professional spheres, fiber-optic networks are increasingly being expanded right up to the actual user. FTTH (fiber-to-the-home) and FTTO (fiber-to-the-office) are synonyms for various endpoints (e.g. up to the office, cellar, distributing box or residential unit) in a fiber-optic network.

Pooling of euromicron's broadband network expertise means we can offer customers a one-stop shop for tailored solutions – from planning, construction to complete project management. In 2010, this extensive broadband expertise was complemented by an end-to-end product line around the central office system eFOS (euromicron Fiber Optical System) for FTTH.

The euromicron Group planned the expansion of high-performance fiber-optic networks for various public utilities in 2010. Establishment of technical rooms with passive technology in the various parts of towns and cities and blowing in further fiber-optic cables into the existing empty pipes can also create flexible prerequisites for fulfilling a wide range of different customer requirements. By creating a full-coverage fiber-optic network, public utilities thus ensure modern, future-proof broadband delivery that gives all households and companies access to cutting-edge means of information and communications, such as triple play offerings over broadband. The extensive FTTH expertise we have as a system integrator and manufacturer paid off here in particular.

Apart from cooperating with public utilities, the euromicron Group also implemented a broadband expansion project on behalf of one of the largest private fiber-optic network operators in Germany. It related to supplying 100 residential and industrial units with fiber-optic broadband connections, where data download and upload rates of 100 Mbit/s are now normal. The euromicron Group was responsible for all the planning and consulting work in this project.

Solutions for extensive digital networking and optimization of the health and care system thanks to the use of state-of-the-art information and communications technologies are grouped under the term "e-health & care". Such solutions will enable the existing health and care infrastructure to be used better and more efficiently. Patients and people who need care will thus be able to remain as long as possible in their own home. Important information is made available to doctors and nurses on demand.

Ambient assisted living subsumes in this connection electronic ITC systems that assist elderly people or people in specific situations and help enhance their quality of life or safety and security. The market and demand in this arena are still being defined. Pilot projects still predominate and the introduction of new business models is still to come. The euromicron Group is playing an active role in these developments with its solution "mobile care center" and is one of the pioneers.

We are operating successfully in a large number of different ITC projects in the healthcare market. Our range of products and services is broad: For example, our subsidiary ELABO® equipped the central workshop for medical equipment at a university clinic with state-of-the-art networked workplaces. We supply patients' beds and rooms with cutting-edge entertainment solutions and integrate voice, data and light call systems in flexible overall solutions for hospitals or nursing homes. That also includes linking the operating theaters and patients' rooms to highly modern fiber-optic networks. Our subsidiary MICROSENS® connects the terminal devices, such as PCs or IP telephones, to such fiber-optic networks using its miniaturized switches, among other things in special clinics.

E-security denotes the extensive digital networking and optimization of electronic security systems by means of state-of-the-art information and communication technologies to create integrated and also mobile security solutions.

Thanks to mobile access to the network, alarm lists can be viewed, operating states monitoring, posting lists of employees and visitors shown and security-related videos played. Decentralized control of sensors and actuators, such as for opening local doors, turning on video cameras or activating and deactivating individual access terminals, is possible by means of IP communication.

The euromicron Group is a leading expert for security systems and applications and, in combination with its FTTX expertise, is also excellently prepared to cope with these new requirements in the market for security technology. For example, in 2010 we supplied one of our biggest customers, Fraport AG, with a leading-edge security concept as a model example of alerting technology at the new A380 terminal at Frankfurt Airport. In particular, the completely freely programmable access control and escape door control systems are innovations that give the airport maximum flexibility in managing its security systems. euromicron optimized the processes and application areas, ensuring smooth integration of the new facilities in the airport's existing security infrastructure.

E-mobility and on-board services essentially relate to creating end-to-end data transfer systems for traffic control, intelligent control rooms and battery recharging and replacement stations that communicate with them, for example. In order to ensure acceptance of future electromobility concepts, the aim is also to develop and test customer-friendly billing and roaming models, onboard devices for providing information for drivers, and integrated navigation and car-2-car communications services.

Communication and monitoring solutions from euromicron and its subsidiary ELABO® are already in use today at control centers. An innovation for the e-mobility market from 2010 is the prototype of a testing system for charging columns for e-cars. Such solutions accounted for a major part of the drive innovations on display at the last Paris Motor Show.

On the way to the markets of tomorrow

In line with tomorrow's market requirements, we constantly review our portfolio of products and services. Consequently, development expenditure was increased significantly in both the North and South segments so as to specifically develop individual components into complete solutions for use in highly promising national and international markets. For example, switches, converters and CWDM/DWDM components are being developed under the MICROSENS® brand and put to dedicated use in the fields of transport, mining, military, industry and healthcare, as well as for carriers and data centers.

We continued to pursue our strategy unswervingly in 2010: On the basis of growth, innovation and specialization, we are developing cutting-edge integrated solutions with our own and third-party products. We achieve that on our own, by acquisitions, obtaining licenses or with the support of partner companies. On the basis of these principles, we are able to participate in the forefront of market trends at all times.

Outside Germany, euromicron stuck to its strategy of small and secure steps and positioned its portfolio successfully in various foreign markets.

In many individual projects, interaction between the different competences within euromicron produces a synergy effect for our customers, as solutions are able to deliver greater convenience, security and cost-effectiveness for them in their life and work. Many of the technologies we offer our customers in the individual future markets have been deployed in a "Store of the Future" set up by a major retailing company. The intelligent IP-based analysis and alerting system installed there by euromicron offers store operators, employees and customers many benefits when it comes to secure and quick shopping.

We already supply solutions for professional network infrastructures that are required in tomorrow's markets. As part of these "next generation solutions", the euromicron Group demonstrates its enormous solution expertise in the ITC market.

6. Compensation Report of the Executive Board

The General Meeting of euromicron AG decided on June 23, 2006, with a three-quarter majority that the details demanded in Section 285 Sentence 1 No. 9 lit. a) Sentences 5 to 9 and Section 314 (1) Sentence 1 No. 6 lit. a) Sentences 5 to 8 of the German Commercial Code (HGB) and relating to individualized disclosure of the remuneration of the Executive Board do not have to be provided for a period of five years. In the view of the company, individualization and a breakdown of the details does not provide investors with any substantial information due to the existing remuneration structure.

The compensation system for members of the Executive Board is defined by the Supervisory Board. The Executive Board's compensation consists of a non-performance-related component (fixed salary) and a performance-related component (earnings-related bonus). The variable components of the remuneration of Executive Board members are calculated on the basis of the euromicron Group's result from ordinary activities. A cap has been agreed to limit their total compensation.

There are no commitments to provide benefits that have been granted to a member of the Executive Board if he ends his work as a member of the Executive Board prematurely or at the normal time or that have been changed during the fiscal year.

7. Corporate Governance

In 2010, euromicron AG largely complied with the recommendations of the German Corporate Governance Code (2009 and 2010 versions). 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-10> and can be read in the annual financial statements.

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

- a.) euromicron AG partially used its authorization to issue authorized capital to place shares with German and international institutional investors by way of the accelerated bookbuilding method. 465,999 shares with an entitlement to a share in profits as of fiscal year 2010 were placed at a price of €16.50 per share. As a result the subscribed capital now consists of 5,125,999 no-par value shares. The gross proceeds for the company were €7,688,983.50. As a result, the company's subscribed capital has increased by €1,191,397.47 to €13,105,397.47.
- b.) Capital stakes that exceed 10% of the voting rights had not been reported to the company by the balance sheet date of December 31, 2010.
- c.) 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.

d.) Powers of the Executive Board to issue or buy back shares:

The authorization to acquire treasury shares in accordance with Section 71 (1) No. 8 of the German Stock Corporation Law (AktG) expired on December 18, 2010. In December 2010, the remaining 157,234 treasury shares were sold, meaning that euromicron AG no longer held any of its own shares at the end of fiscal 2010.

e.) There are no significant agreements by the company as defined by Section 315 (4) Nos. 8 and 9 of the German Commercial Code (HGB).

9. Environment

euromicron not only attaches the very highest importance to compliance with all environmental regulations, but also voluntarily sets self-imposed standards throughout the Group. As part of its fleet, euromicron deliberately attached 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

No events that require reporting in accordance with IAS 10 (Events after the Balance Sheet Date) occurred after December 31, 2010.

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 the same code to present the salient features of the ICS/RMS in relation to the consolidated accounting process in their 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 company's control environment with their process-independent auditing and monitoring activities. In particular, auditing of the consolidated financial statements and of the accounts presented by the Group companies included in the consolidated financial statements by our independent auditor 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 Executive Board. The treasury provides the data required for reporting derivative financial instruments in the balance sheet. The data, which is provided by other organizational units, is subjected to a plausibility check in Accounting and discussed with the affected units before being further processed as part of preparation of the consolidated financial statements.

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

The companies are accompanied permanently by Investment Controlling at euromicron AG; deviations are identified and countermeasures initiated immediately.

Risk strategy and general risk management

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

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

Markets

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

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

Apart from economic risks, euromicron is subject to the fundamental risks relating to other market players and pressure on prices. euromicron tackles these challenges by nurturing intensive contacts with customers so as to be able to offer top-quality products and services at competitive prices. Individual subsidiaries have a low degree of dependence on individual large accounts. This risk at the Group level is relativized, since no one customer accounts for more than 6% 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 ITC 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 also harbors a not inconsiderable opportunity. This process has a time frame of several years and holds out the prospect of an enormous increase in value added, since end-to-end planning, consulting and implementation of complex network solutions is something that only few market players master. Integration will produce competitive units in the North and South segments, which can then cope better with market risks, yet be flexible enough to take up and implement market trends. The competitive advantage is clearly in short information and decision-making channels, as well as the possibility of constantly leveraging the development departments of euromicron Group's production operations. euromicron thus unites the flexibility of a medium-sized enterprise with the merits of a group.

Technology/R&D

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

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

Products/projects

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

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

Finances/liquidity

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

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

Results-oriented targets were set for all associated companies for fiscal 2010. By regular comparison of the planned and actual figures during the year and using three calculations on expectations for each period in relation to the final results for the year, we have been able in the past to make reliable forecasts for the current fiscal year. If it is discovered that one of the companies is in financial troubles, euromicron's lean structures enable quick and efficient countermeasures to be taken.

As in past years, euromicron's banks again regarded it as a strong and dependable partner in fiscal year 2010. None of the financial institutes stated that it intended to end or restrict its commitment at euromicron. On the contrary, euromicron AG had new opportunities to improve its financing structure.

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

euromicron's debt will also be suitably reduced, restructured and further optimized in 2011 so as to diminish the company's risk in terms of outside financing. This step ensures that the latent risk potential as regards financing remains limited.

In principle, the company wants to convert short-term lines into medium- and long-term ones. However, given that the conditions for long-term loans are currently far poorer, only limited debt restructuring is planned. The possibility of issuing a borrower's note loan has been examined since the fourth quarter of 2010.

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 company 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 key to a successful HR policy.

There are no legal risks from pending legal proceedings above and beyond current business. A tax audit for the years 2002 to 2005 was completed in fiscal 2010. The effects of it have been taken into account fully in the present financial statements. As far as the Executive Board is aware at present, this does not entail any financial risks for subsequent years.

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

As a result of the good economic data for Germany and rising demand in the exporting production sector, we expect to share in the further pickup in the market. We assume that the main economic drivers in Germany will invest even more in data transmission infrastructures after ramping up production capacities in 2010 in order to withstand the growing pressure to cut costs and fiercer competition.

As a result of the company mergers in 2010 as part of the build-and-integrate phase, we have now created the necessary general conditions, especially at the system houses, to provide customers with optimal consulting in all matters relating to solutions based on fiber-optic or copper networks and successfully accomplish projects.

Apart from permanent cost-cutting projects, we have invested in our employee structure with targeted personnel development measures in order to counter the impending shortage of experts and managers in Germany.

In our core markets, we expect a further increase in new orders over the past fiscal year. Shifts in individual sectors are possible, but are largely offset thanks to the broad setup of the euromicron Group in terms of its customers, industries and technologies.

Implementation of powerful networks for voice, data and video is not a luxury nowadays, but a necessity if enterprises do not wish to suffer sharp impairments in their performance and competitiveness.

We therefore expect that requirements for security, surveillance and alarm networks will increase significantly, since the focus is on protecting against attacks from the outside and the security needs of individual target groups. By moving into profitable niche markets, for example relating to enabling people to live with dignity in their familiar domestic environment and surveillance of criminals outside jails as part of the humane enforcement of sentences, we are positioning the Group for new and changing markets. As a result, we will be able to promptly detect changes in individual segments proactively and share in the growth of these markets from the outset.

euromicron does not generally compete with cut-price vendors from the Far East, but sets store by integrated quality, service and reliability and its philosophy of offering an overall concept geared toward solving customers' problems for all regional locations. The performance of past years show that our strategy is the right path and that customers appreciate this and are increasingly critical of the quality of low-cost vendors where security-related, cost-intensive or vital aspects of data networks of all types are concerned. We are confident that this perspective will continue to win through, even in difficult times.

Rigorous implementation of the build-and-integrate phase in the Group's strategy since 2009 will be continued in future with the goal of further value-oriented optimization of structures and costs.

A further positive effect apart from increased efficiency is greater organic growth, since one focus is to offer pinpointed, comprehensive customer care and support in euromicron's complete solution portfolio. We are pursuing this process and measure it in principle against the needs of the market and improved service delivery for our customers.

The strategic new acquisition in Germany in 2010 now gives us better market access in Saarland and the region in and around Luxembourg.

The strengthening of our commitment in Austria by the acquisition of NBG should enable us to achieve the turnaround in the whole region in the short term and to share in potential growth in the market in Eastern and Southeastern Europe.

In order to develop the company further, we have a balanced financing structure and improved balance sheet ratios, as well as sufficient free lines from our partner banks to press ahead with the next operational growth steps with working capital. In order to retain our solid equity base, the Executive Board is also planning to fund further expansion through a capital increase.

Among our existing financing partners, individual banks realigned their commitment to a future partnership in the past fiscal year and so increased our good rating considerably. All of them regard the greater financing needed for current business as a result of the company's new size and the possibility of assisting euromicron with other financial services and flanking us with professional financial support in our next strategic steps as an interesting challenge.

The euromicron Group is now regarded as an established company among the leading network specialists in the market and as an all-round provider of communications and security solutions with its own products or ones from well-known vendors. The value chain extends from planning, project planning, and execution to turnkey handover, as well as maintenance and service. We have the blanket coverage to offer customers any desired solution tailored to their needs. In addition, we are continuously examining new and lucrative market potentials so as to identify and leverage opportunities in the nursing, care and health market and in surveillance of persons by mobile communications. The focus here is on merging technology and the defined solution. We will also continue to actively review our portfolio, as well as take up innovative ideas and, where of commercial interest, develop them to market maturity.

Our objective for fiscal 2011 is in particular to establish the euromicron brand further in the market as a byword for high-quality services and high-tech products and for quality, solution-oriented expertise and know-how in all areas relating to network-based information, communications and security needs.

As in the past fiscal year, we will continue to carry out strong PR and investor relations work to support the share actively and give institutional investors opportunities for interesting investments that will be influential in the future of the company.

We assume that we will exceed the €220 million sales mark in the coming fiscal year as a result of systematic organic growth.

The acquisitions at the end of 2010 will be able to make an additional contribution if things go positively.

The EBIT return target at the Group level remains 8 to 11%. Following completion of the consolidation phase of build-and-integrate, the Group aims to achieve the €300 million mark for the years following 2011. This is to be assisted not only by organic growth, but above all by largish strategic investments or mutual investments in companies, as well as cooperation deals and partnerships.

We assume that, following successful completion of this development phase, the new companies can be expected to make only a slight contribution to earnings due to high non-recurring expenses and the costs of integration. Our goal is to consolidate our solidified EBIT return at a higher level of sales as of 2013. We assume that, provided the financial markets remain stable, a slight increase in interest rates will be offset by the planned repayment of loans. Consequently, we expect a net interest loss of between €2.5 million and €3.0 million.

In order to achieve its goals, the euromicron Group has promises of finance from the banks. As a result, the Group not only has a good and stable cash flow of its own, but an adequate financial framework to be able to achieve its objectives. We are in permanent contact with our partner banks and assume that the existing financial framework for the company will remain stable.

We feel certain that this path also reflects the interests of our shareholders and company as best possible. We will continue to work towards this goal in future.

If investors in euromicron AG indicate that they wish to replace a large number of our shares, our objective will be to find investors who accompany us for the medium to long term and do not seek short-term success. Crucial factors in our eyes will be for the investors to understand our business model, give management support in developing the group commercially and provide the company with the resources required for this.

With our business model, a secure basis for financing and a stable cash flow in conjunction with our still comfortable equity ratio, we are convinced that we are well equipped to secure the company's long-term development and also give our shareholders promising perspectives.

Summary

The Executive Board's overall statement is that it is optimistic of achieving the objectives set for euromicron AG and the euromicron Group in 2011.

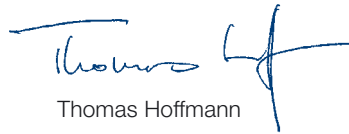
We have used a number of opportunities in the past to gear the group to a secure future and believe we will be able to skillfully master the challenges in the market ahead of us. Future strategic investments will be pinpointed at responsible and continuous growth that supports a sustained increase in 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, April 20, 2011



Dr. Willibald Späth
Chairman of the Executive Board



Thomas Hoffmann
Executive Board